



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

*Montana State
University*

For the Year Ended June 30, 2008

DECEMBER 2008

LEGISLATIVE AUDIT
DIVISION

07-11A

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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, was issued January 23, 2008. The Single Audit Report for the two fiscal years ended June 30, 2009, will be issued by March 31, 2010. Copies of the Single Audit Report can be obtained by contacting:

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

December 2008

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, 2008, and June 30, 2007. 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, 2008. 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, 2007, is based on a separate audit report we issued in November of 2007 (07-11).

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 master's 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's 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. Montana State University Northern offers associate, bachelor, and master's 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 ii.

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/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Board of Regents of Higher Education

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 Lynn Morrison-Hamilton, Regent
 Janine Pease, Regent
 Lila Taylor, Regent
 Mitch Jessen, Student Regent
 Brian Schweitzer, Governor*
 Linda McCulloch, Superintendent of Public Instruction*

*Ex officio member of the Board of Regents of Higher Education

Office of the Commissioner of Higher Education

Sheila Stearns*	Commissioner of Higher Education
Sylvia Moore	Deputy Commissioner for Academic and Student Affairs
Mary Sheehy Moe	Deputy Commissioner of Two-Year Education
Mick Robinson	Associate Commissioner for Fiscal Affairs
Tyler Trevor	Associate Commissioner for Research, Technology and Communication
Frieda Houser	Director of Accounting and Budget
Cathy Swift	Chief Legal Counsel

Montana State University- All Campuses

Geoffrey Gamble	President
Rolf Groseth	Vice President for Intercampus Affairs
Leslie Taylor	Legal Counsel
Daniel Adams	Director of Internal Audit

Montana State University-Bozeman

David Dooley	Provost and Vice President for Academic Affairs
Craig Roloff	Vice President for Administration and Finance
Thomas McCoy	Vice President for Research, Creativity and Technology Transfer

Montana State University- Bozeman <i>(continued)</i>	Leslie Schmidt	Assistant Vice President for Research, Creativity, and Technology Transfer
	Allen Yarnell	Vice President of Student Affairs
	Laura Humberger	Assistant Vice President for Financial Services
	Kathy Attebury	Budget Director
Montana State University- Billings	Ronald P. Sexton	Chancellor
	D'Ann Campbell	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
	Liz Tooley	Budget Director
Montana State University-Northern	Rolf Groseth	Interim Chancellor
	Joseph Callahan	Interim Provost and Vice Chancellor
	Sue Ost	Director of Business Services
	Chris Wendland	Accountant/Budget Officer
Montana State University College of Technology- Great Falls	Joe Schaffer	Interim Dean and CEO
	Mary Ellen Baukol	Associate Dean for Administration and Finance
	Heidi Pasek	Associate Dean/CAO
	Judy Hay	Assistant Dean of Student Services
	Vicki Orazem	Assistant Dean, College of Technology in Bozeman
	Ed Binkley	Controller
	Deby Gunter	Budget/Purchasing Officer

**Montana Agricultural
Experiment Stations**Jeffrey Jacobsen
Jody BarneyDirector
Budget Fiscal Director**Montana Extension
Service**Douglas Steele
Sandra Rahn-GibsonVice Provost and Extension Director
Budget and Fiscal Director

For additional information concerning the Montana State University,
(all campuses) contact:

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Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

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, 2008, and 2007, 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, 2008, and 2007, and the related University Component Units-Combined Statements 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 Bobcat Club. 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, 2008, and 2007, 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-13 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-50 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 20, 2008

**Montana State University
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 Two Years Ended June 30, 2008

Montana State University (the "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 957,861.

The University and its students are in a unique position. The number of high school graduates in Eastern Montana continues to decline, which requires that the University ensure diligent recruiting of in-state students, while modifying its mix of traditional in-state, out-of-state, and out-of-area students to ensure a diverse, growing student population.

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 the University focuses on accountability and the wise stewardship of resources.

OPERATIONS

Condensed Statements of Revenues, Expenses and Changes in Net Assets

(in millions)

	2008	2007 (restated)	2006
Operating revenues	\$ 302.9	\$ 302.3	\$ 297.6
Operating expenses	421.8	396.0	383.0
Operating loss	(118.9)	(93.7)	(85.4)
Non-operating revenues and expenses (net)	114.1	102.0	97.3
Income before capital & other items	(4.8)	8.3	11.9
Capital & other items	22.5	14.8	5.0
Change in net assets	\$ 17.7	\$ 23.1	\$ 16.9

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 gifts and state aid, 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 2008 and 2007 Results of Operations

The University's net assets increased \$17.7 million during 2008, resulting largely from \$19.3 million in assets provided by the State of Montana ("State") through its long-range building program, including \$8.3 million related to the MSU Great Falls College of Technology's new instructional building, and \$7.4 million provided to MSU Billings for a new College of Technology instructional building. In addition, capital gifts and grants of \$3.3 million contributed to the increase. Offsetting these increases was \$9.0 million of expense recorded upon the implementation of Governmental Accounting Standards Board Statement Number 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which required that a liability be recorded for the first year's amortization of an actuarially-determined amount of future costs related to retiree healthcare (called the OPEB Annual Required Contribution). See Note 15 to the financial statements for further discussion.

Operating revenues contain the majority of the University's income, and increased \$0.7 million from 2007 to 2008. Tuition and fee revenues increased approximately \$2.0 million, or 1.8%. While the number of full-time equivalent students decreased 1.0% compared with 2007, the primary reason for increased tuition and fee revenue was an approximate 2.9% average tuition increase for non-resident students. Resident tuition was not increased, because the State increased funding to the University to offset costs as part of the governor's College Affordability Plan.

Montana State University

(a component unit of the State of Montana)

Management's Discussion and Analysis

As of and For Each of the Two Years Ended June 30, 2008

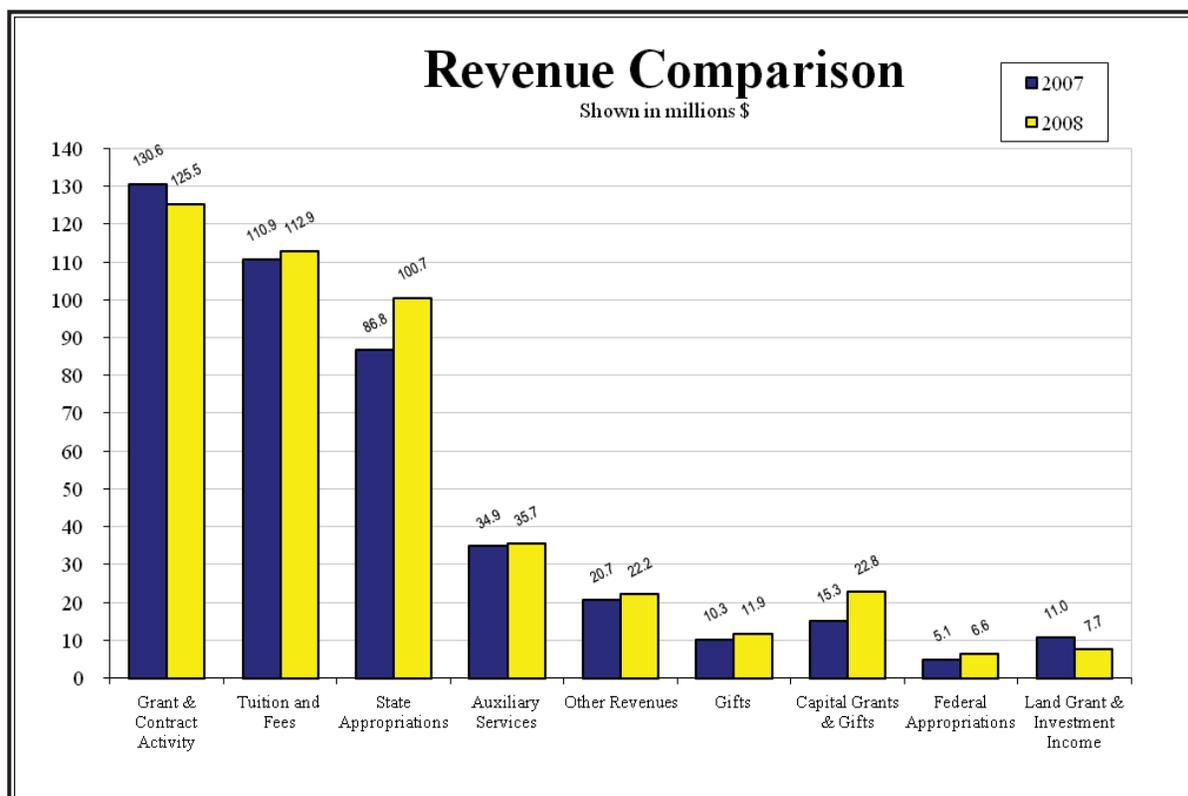
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The Agricultural Experiment Stations received \$1.5 million in one-time only supplemental appropriations from the federal government during 2008. This increased federal appropriations to \$6.6 million or 30.0% over 2007 levels.

The University maintains a vibrant Research and Creative Activities function that contributed \$106.0 million in 2008, which represents a 4.9% decrease from 2007 revenues of \$111.2 million. Research grant funding decreased \$2.7 million, while public service grant revenue decreased \$2.6 million. This was due to a decrease in federal research spending for federal government grants nationwide.

Net non-operating revenue increased \$12.1 million from 2007 to 2008. State appropriations revenue increased \$13.8 million, from \$86.8 million to \$100.6 million. For the 2008 – 2009 Montana Biennial budget, the Governor established the College Affordability Plan, in which approximately \$50 million in additional funding was directed toward the state's universities to enable a freeze on resident tuition.

Investment income decreased \$3.3 million, or 38.0%. The primary vehicle for investing is the State's Short-Term Investment Pool (STIP). STIP rates averaged 5.35% in 2007 and 4.21% in 2008. The University's endowments, which are primarily managed by the MSU Foundation, performed poorly due to the general economic climate, generating less in spendable earnings than in recent years. Additionally, investment income that had been earned in the recent past from invested bond proceeds decreased significantly because the funds were expended on the projects for which they were intended.

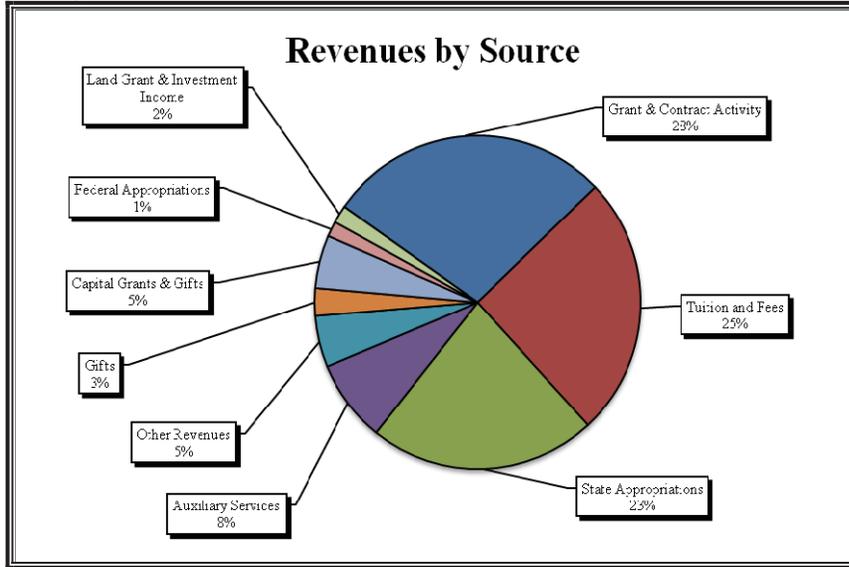


Montana State University
 (a component unit of the State of Montana)
Management's Discussion and Analysis
 As of and For Each of the Two Years Ended June 30, 2008

(continued)

During 2008, revenues were derived as follows:

(in millions)

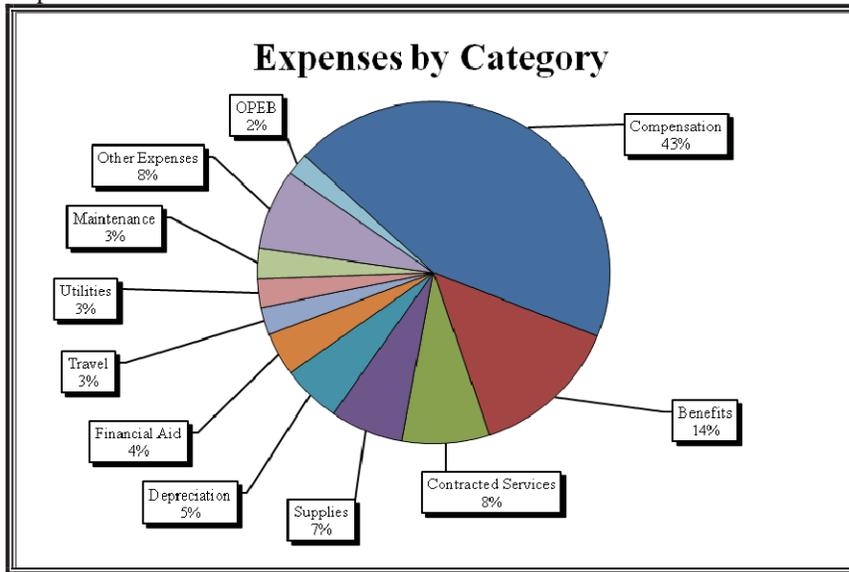


Source	Amount
Grant & Contract Activity	\$ 125.5
Tuition and Fees	112.9
State Appropriations	100.7
Auxiliary Services	35.7
Capital Grants & Gifts	22.8
Educational, Public Service, and Outreach	20.9
Gifts	11.9
Land Grant & Investment Income	7.7
Federal Appropriations	6.6
Other Revenues	1.3
Total Revenues	\$ 446.0

Sources of recurring revenues are expected to remain strong and generally in proportions similar to those in 2008.

Expenses were incurred as follows:

(in millions)



Category	Amount
Compensation	\$ 188.7
Benefits	59.0
Contracted Services	34.6
Supplies	28.6
Depreciation	23.4
Financial Aid	17.4
Travel	11.1
Utilities	11.7
Maintenance	12.1
OPEB ARC	9.0
Other Expenses	
Interest Expense	6.2
Cost of Sales	6.0
Communication	4.5
Rent	4.3
Other	11.3
Total expenses	\$ 427.9

Proportions of revenues and expenses have generally remained consistent 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.

Montana State University

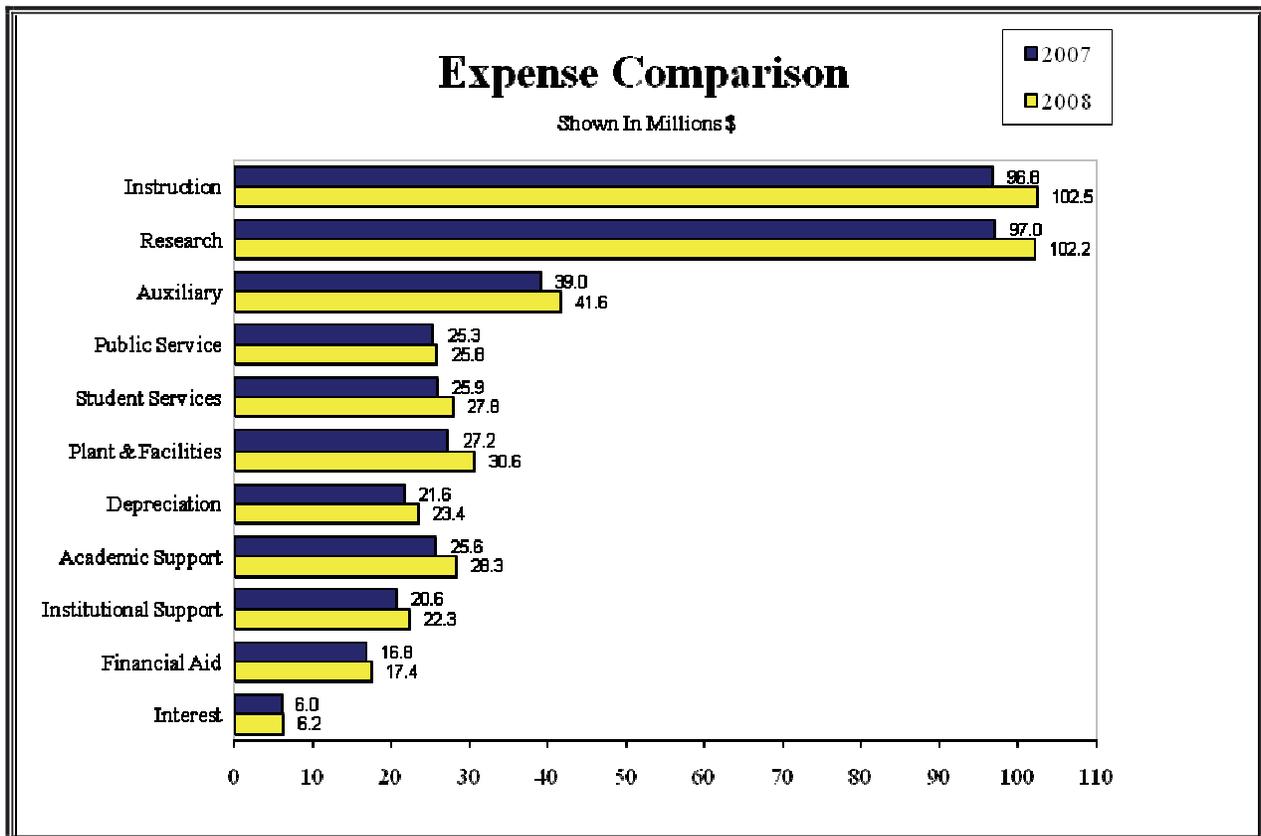
(a component unit of the State of Montana)

Management's Discussion and Analysis

As of and For Each of the Two Years Ended June 30, 2008

(continued)

- **Operating expenses** increased \$25.8 million from 2007 to 2008. Instruction expenses increased \$5.7 million, or 5.9%, primarily due to increased compensation costs and \$2.7 million in Other Post Employment Benefit (OPEB) expenses. Research expenses increased \$5.2 million, also due to an increase in compensation costs, as well as \$1.8 million in OPEB expense. Because grant revenue decreased, the increase in research expense was funded from unrestricted sources to a greater extent than in 2007. Approximately \$0.5 million was funded from restricted gifts, \$1.0 million from the Agricultural Experiment Station designated revenues, and the balance came largely from MSU-Bozeman's research related facility and administrative cost recovery revenues. Student services expenses increased \$1.9 million, primarily due to increased compensation and benefits expenses, including \$0.8 million in OPEB expense. Plant and facilities costs increased \$3.4 million due to \$0.6 million OPEB expense, \$0.8 million increase in utilities and \$1.0 million increase in maintenance expenses. During 2008, more funds were expended on maintenance, and less on capitalized renovations, than in 2007. Academic support and institutional support expenses increased, again primarily due to increased compensation and benefits costs. Interest expense increased due to slightly higher rates on the University's variable rate debt, and because additional loans were taken out through the State of Montana Intercap Loan program.



Montana State University

(a component unit of the State of Montana)

Management's Discussion and Analysis

As of and For Each of the Two Years Ended June 30, 2008

(continued)

Comparison of 2007 and 2006 Results of Operations

The University's net assets increased \$23.1 million during 2007, resulting largely from \$13.0 million in assets provided by the State through its long-range building program. Included in the \$13.0 million provided by the State were \$5.7 million related to the MSU Great Falls College of Technology's new instructional building, and \$3.7 million provided to MSU Billings for a new College of Technology instructional building. An additional \$2.3 million in capital gifts, grants and contributions, were received from outside sources, and excesses of revenue over expense totaling \$7.9 million, discussed below, contributed to the overall increase.

- **Operating revenues** increased \$4.7 million from 2006 to 2007. Tuition and fee revenues increased approximately \$4.4 million, or 4.1%. While the number of full-time equivalent students decreased 1.1% compared with 2006, the primary reason for increased tuition and fee revenue was an approximate 7.7% average tuition increase, coupled with a slight increase in non-resident students, who pay more than the full cost of education.

Operating revenues from auxiliary services, including housing and dining revenues, increased \$1.6 million, or 4.7%. Price increases were implemented to ensure coverage of increased costs, including food and utilities. Financial aid revenues total over \$19.8 million, which was consistent with 2006 revenues of \$19.5 million.

The University maintains a vibrant Research and Creative Activities function that contributed \$111.2 million in 2007, comparable to 2006 revenues of \$111.9 million.

- **Non-operating revenue** increased \$4.7 million from 2006 to 2007. State appropriations revenue increased \$1.2 million, from \$85.6 million to \$86.8 million. Included in the 2006 appropriations were one-time state appropriations of \$1.4 million earmarked for equipment purchases and program development. Investment income increased \$2.3 million, or 35.6%. The primary vehicle for investing is the State's Short-Term Investment Pool (STIP). STIP rates averaged 4.25% in 2006 and 5.35% in 2007. In addition, the University's endowments, which are managed by the MSU Foundation, performed well, generating significant spendable earnings.
- **Operating expenses** increased \$13.0 million. Instruction expenses increased \$4.8 million, or 5.2%, primarily due to increased compensation costs. Research expenses showed a slight decline, due to curtailed spending on certain federal grant programs. Auxiliary services expenses increased \$1.7 million, primarily due to increased compensation costs. Student services expenses increased \$1.2 million, primarily due to increased compensation and benefits expenses. Plant, facilities, and depreciation costs did not increase significantly, because a lower percentage of these costs are compensation-related, and because utility costs remained steady. Academic support and institutional support expenses increased, again primarily due to increased compensation and benefits costs. Additionally, costs of on-line library subscriptions increased.
- **Interest expense** decreased slightly due to the retirement of the University's series F debt, and because in July, 2006, the University refunded its remaining Series D and a significant portion of its Series E debt to take advantage of attractive interest rates.

Montana State University*(a component unit of the State of Montana)***Management's Discussion and Analysis****As of and For Each of the Two Years Ended June 30, 2008****(continued)****ASSETS, LIABILITIES AND NET ASSETS****Condensed Statements of Net Assets***(in millions)*

ASSETS	2008	2007	2006
		(restated)	(restated)
Current assets	\$ 149.0	\$ 138.1	\$ 127.7
Capital assets, net	317.5	286.6	249.2
Other noncurrent assets	50.2	59.7	84.8
Total assets	\$ 516.7	\$ 484.4	\$ 461.7
LIABILITIES			
Current liabilities	\$ 62.8	\$ 56.8	\$ 55.1
Noncurrent liabilities	174.4	165.8	168.0
Total liabilities	\$ 237.2	\$ 222.6	\$ 223.1
NET ASSETS			
Invested in capital assets, net	\$ 187.7	\$ 169.8	\$ 157.1
Restricted, expendable	12.0	13.4	11.8
Restricted, non-expendable	10.1	12.2	11.7
Unrestricted	69.7	66.4	58.0
Total net assets	\$ 279.5	\$ 261.8	\$ 238.6

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 \$17.7 million from the prior year. During 2008, the University implemented a new accounting pronouncement, which resulted in an expense of approximately \$9.0 million, to reflect the calculated cost of allowing retirees to remain on the University's health insurance plan. See Note 15 to the financial statements.

Comparison of 2008 and 2007 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 \$10.9 million in current assets resulted primarily from an increase of \$9.9 million in current cash and equivalents, which is discussed in detail in conjunction with the Statement of Cash Flows, as well as less significant fluctuations in several other current asset categories.
- **Capital assets, net** increased \$30.9 million, resulting from asset additions of \$54.4 million, offset by depreciation expense of \$23.0 million and \$0.5 million in net book value of asset retirements, as summarized in Note 7 to the financial statements.

Asset additions included nearly \$41.8 million in construction projects. The MSU Great Falls College of Technology completed the construction of a new classroom building costing approximately \$11.0 million. In addition, a new trades training building is under construction. Occupancy is scheduled for fall 2008 and the estimated cost is \$3.0 million. \$8.4 million in construction costs on these projects were added during 2008. MSU-Bozeman's chemistry/biochemistry research facility totaled approximately \$24.0 million upon completion and added \$2.2 million in final construction during 2008. Additionally, two Bio Safety Laboratories were completed during 2008 in Bozeman totaling \$5.7 million. Also in Bozeman, construction continued on a \$30 million student facilities enhancement project, contributing \$13.8 million in capital assets during 2008. Three student facilities were improved during the project, including renovation of the student union building and fitness center complex, and construction of a new theater. MSU Billings added a academic facility at the College of Technology costing \$6.7 million. A number of smaller projects makes up the remaining increase they include a major electrical distribution upgrade, a fire sprinkler system and several smaller utilitarian buildings.

Montana State University

(a component unit of the State of Montana)

Management's Discussion and Analysis

As of and For Each of the Two Years Ended June 30, 2008

(continued)

Equipment additions totaled \$9.6 million during 2008. Research and instruction in the sciences require a substantial equipment investment. In 2008, MSU invested in significant scientific equipment, including many grant-funded and donated items. Approximately \$1.7 million in library materials were acquired in 2008. In addition, \$1.1 million was spent on building and land improvements.

- **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 decreased \$6.9 million, because \$14.7 million in invested bond proceeds that were held at June 30, 2007 for the Bozeman campus construction projects were expended during 2008. This was offset by an increase of \$5.2 million due to reclassification of investments from cash and cash equivalents to long term due changes in the liquidity status of the 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, securities lending liability, and debt principal payments due within one year. The balance increased \$5.9 million from 2007 to 2008, due to a \$2.6 million increase in securities lending liability, an increase of \$1.7 million in deferred revenues and due to other, less significant, increases and decreases.
- **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 \$8.6 million, resulting primarily from the addition of an OPEB liability, which is an actuarially-determined amount related to the participation of retirees on the University's health insurance plan. An actuarially-determined liability of approximately \$91.5 million was calculated, of which the first year of a 30-year amortization was recorded during 2008, resulting in \$9.0 million in additional noncurrent liability (See note 15 to the financial statements).
- 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 \$17.9 million due to asset additions and debt repayment, offset by depreciation expense and additional debt incurred.
- **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 and for scholarships. Approximately \$3.4 million is held by trustees in accordance with bond covenants, compared with \$3.2 million in 2007, and may only be expended for the renewal and replacement of assets whose revenues are pledged as security for the repayment of debt or for debt service. In June 2007, \$2.9 million was held on the University's behalf by the MSU Foundation, which was to be expended for the construction of an agricultural research facility. During 2008, those funds were deposited in the University's plant fund to pay for building-related expenditures. Debt retirement funds account for \$1.8 million of the restricted balance, consistent with \$1.8 million in 2007. Expendable scholarship amounts totaled \$1.8 million, compared with \$2.6 million in 2007; such amounts decreased due to reduced earnings on endowment funds.
- **Restricted, non-expendable** balances must be held in perpetuity, and include endowment principal as well as balances in student loan funds. Balances did not fluctuate significantly during 2008.

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

Montana State University*(a component unit of the State of Montana)***Management's Discussion and Analysis****As of and For Each of the Two Years Ended June 30, 2008****(continued)**

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 2007 and 2006 Assets, Liabilities and Net

- **Current assets** increased by \$10.4 million from 2006 to 2007, resulting primarily from an increase of \$13.2 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 other current asset categories.
- **Capital assets, net** increased \$37.4 million, resulting from asset additions of \$59.3 million, offset by depreciation expense of \$21.3 million and \$0.6 million in net book value of asset retirements.

Asset additions included nearly \$50 million in construction projects. The MSU Great Falls College of Technology classroom building project added value of \$5.7 million during 2007. MSU- Billings' new College of Technology instructional building added \$3.7 million during 2007. MSU- Northern expended approximately \$0.8 million on a campus improvement project, which included improved landscaping, pedestrian walkways, and relocation of a parking lot.

MSU- Bozeman's chemistry/biochemistry research facility added \$13.4 million in construction progress during 2007. Also in Bozeman, construction continued on a \$30 million student facilities enhancement project, contributing \$14.2 million in capital assets during 2007. Three student facilities were 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 \$8.5 million during 2007. MSU invested in significant scientific equipment, including many grant-funded and donated items. Additionally, approximately \$1.6 million in library materials were acquired in 2007.

- **Other noncurrent assets** decreased \$25.1 million, primarily because bond proceeds that were held at June 30, 2006 for the Bozeman campus construction projects were expended during 2007.
- **Current liabilities** increased \$1.8 million from 2006 to 2007, due to a \$0.9 million increase compensated absences balances, an increase of \$0.7 million in the current portion of debt, and other, less significant, increases and decreases.
- **Noncurrent liabilities** decreased \$2.2 million, resulting primarily from the repayment of long term debt obligations.
- Amounts **invested in capital assets, net of related debt**, increased \$12.6 million due to asset additions and debt repayment, offset by depreciation expense, as summarized in Note 7 to the financial statements.
- **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 and for scholarships. Approximately \$3.2 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 or for debt service. An additional \$2.9 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 \$1.8 million of the restricted

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As of and For Each of the Two Years Ended June 30, 2008

(continued)

balance. Expendable scholarship amounts totaled \$2.6 million, which increased significantly due to earnings on endowment funds.

- **Restricted, non-expendable** balances must be held in perpetuity, and include endowment principal as well as balances in student loan funds. Balances did not fluctuate significantly during 2007.

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)

	2008	2007	2006
Cash provided/(used) by:			
Operating activities, net	\$ (84.8)	\$ (70.0)	\$ (64.1)
Noncapital financing activities, net	115.1	100.2	95.9
Capital and related financing activities, net	(39.5)	(51.6)	(7.8)
Investing activities, net	18.8	35.9	(16.8)
Net increase (decrease) in cash	9.6	14.5	7.2
Cash, beginning of year	106.8	92.3	85.1
Cash, end of year	\$ 116.4	\$ 106.8	\$ 92.3

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 2008 and 2007 Cash Flows

Current and restricted cash and cash equivalents increased \$9.6 million during 2008, as discussed below.

- **Operating activities** used \$84.8 million in cash, resulting primarily from an operating loss of \$118.9 million. The operating loss was offset by non-cash expenses of \$32.7 million, primarily depreciation and amortization. Additionally, \$9.0 million in non-cash expense resulted from the amortization of the Annual Required Contribution to the OPEB liability. (See note 15 to the financial statements.) Other, less significant, increases and decreases also contributed to the change. In 2007, operating activities used \$70.0 million in cash, with an operating loss of \$93.7 million offset by non-cash expenses of \$22.2 million.
- **Noncapital financing activities** provided \$115.1 million in cash, resulting from \$100.7 million in state appropriations, \$2.3 million of land grant income, and \$11.9 million in expendable gifts. In 2007, noncapital financing activities provided \$100.2 million in cash, resulting from \$88.0 million in state appropriations, \$2.2 million of land grant income, and \$10.2 million in expendable gifts. Gifts were received primarily from foundations and other support organizations.

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As of and For Each of the Two Years Ended June 30, 2008

(continued)

- **Capital and related financing activities** used \$39.5 million in cash. Uses included \$34.7 million expended on capital assets, including building construction as discussed above. Debt interest, principal payments and related payments totaled \$12.4 million, not including refunded debt of \$17.6 million. Borrowings from the State's InterCap lending program, provided \$4.7 million in cash and cash contributions restricted to capital purchases provided and additional \$2.8 million. Proceeds from the sale of fixed assets constitutes the balance. In 2007, these activities used \$51.6 million in cash. Uses included \$44.3 million expended on capital assets, including building construction as discussed above. Debt interest and principal payments totaled \$10.8 million, not including refunded debt of \$13.2 million. Borrowings, primarily from the State's InterCap lending program, provided \$3.2 million in cash, not including proceeds from the issuance of refunding bonds.
- **Investing activities** provided \$18.8 million in cash, resulting largely from the liquidation of \$18.1 million in bond proceeds and other cash that had been invested until needed to cover construction and other expenses. Investment purchases used \$5.2 million. Investment income provided \$5.7 million. In 2007, investing activities provided \$35.9 million in cash, primarily due to the liquidation of \$27.3 million in bond proceeds that had been held in a long-term investment until needed to pay construction costs, as well as \$8.6 million in investment income.

Comparison of 2007 and 2006 Cash Flows

Cash and equivalents increased \$14.5 million during 2007, as discussed below.

- **Operating activities** used \$70.0 million in cash, resulting primarily from an operating loss of \$93.7 million. The operating loss was offset by non-cash expenses of \$22.2 million, primarily depreciation and amortization. Other, less significant, increases and decreases also contributed to the change. As discussed above, compensation expenses were the primary reason for increased costs in 2007 as compared with 2006. In 2006, operating activities used \$64.1 million in cash, resulting from an operating loss of \$85.4 million, offset by non-cash expenses of \$21.2 million.
- **Noncapital financing activities** provided \$100.2 million in cash, resulting from \$88.0 million in state appropriations, \$2.2 million of land grant income, and \$10.2 million in expendable gifts. In 2006, 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. Gifts were received primarily from foundations and other support organizations.
- **Capital and related financing activities** used \$51.6 million in cash, which is a significant increase from 2006. Uses included \$45.7 million expended on capital assets, including building construction as discussed above. Debt interest and principal payments totaled \$10.8 million, not including refunded debt of \$13.2 million. Borrowings, primarily from the State's InterCap lending program, provided \$3.2 million in cash, not including proceeds from the issuance of refunding bonds. In 2006, these 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.
- **Investing activities** provided \$35.9 million in cash, resulting primarily from the liquidation of \$27.3 million in bond proceeds that had been held in a long-term investment until needed to pay construction costs. Investment income provided \$8.6 million. In the prior year, investing activities used \$16.8 million, resulting from the purchase of \$32.0 million in investments that had been generated from the issuance of bonds, offset by proceeds from sales of investments of \$8.6 million and investment income of \$6.7 million. In 2006, unexpended bond proceeds of \$24.3 million from the Series J 2005 issuance were invested until their use was required for the project. In addition, the University invested an additional \$5.0 million in the State of Montana's Trust Fund Bond Pool.

BONDS, NOTES, AND CAPITAL LEASES

As of June 30, 2008, the University had approximately \$123.7 million in outstanding bond, note, and capital lease principal, a slight decrease compared with \$127.5 million at June 30, 2007 (see note 10 to the financial statements).

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During 2008, the University issued Series L refunding bonds at a fixed rate, to refund the outstanding Series G bonds, which had been issued at a variable rate. The University's debt is rated A1 by Moody's Investor Services, and A+ by Standard and Poor's.

The University's Series J debt, representing \$25.25 million of principal, remains at a variable rate, and its outstanding balance serves as the notional amount for two interest rate swap agreements. A discussion of such agreements is contained in Note 10 to the financial statements. Subsequent to June 30, 2008, the Series J debt was remarketed, because the Municipal Auction Rate market suffered from liquidity problems. See Note 19 to the financial statements, Subsequent Events, for a description of the transaction.

ECONOMIC OUTLOOK

The U.S. Census Bureau projects that, over the next decade, the population of Montanans aged 18 – 24 will decrease, affecting the University through a decreased number of high-school graduates. The trend is more pronounced in eastern Montana, which contains the University's largest base of students. As a result, this trend may affect the University more than other institutions in the state. As expected, resident enrollment in 2008 decreased by 207 full-time-equivalent students as compared with 2007, while non-resident enrollment increased by 28 full-time-equivalent students. 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.

In recent years, like many other institutions, the University steadily increased its tuition rates to keep pace with increasing costs. Tuition rates are slightly higher than our geographic peer group, although still very affordable compared with national rates. Unlike many institutions, though, the University has recently benefitted from increased State funding. The State 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. For the 2008-2009 biennium, the Governor's budget included funding sufficient to enable all Montana University System campuses to freeze in-state tuition for both the 2007-2008 and 2008-2009 academic years. Additions were also made in terms of the proportion of state funding for certain fixed costs and employee pay raises, including both regular compensation and retirement payouts.

Other recent revenue increases had been achieved through the growth of grant and contract activity; however, decreased federal funding on a national level has led to a decrease of approximately \$5 million from 2007 to 2008. Certain grant-funded projects have been canceled or scaled back, to balance the decreased revenues.

As the University moves forward in uncertain economic times, demand for higher education may increase as citizens look toward upgrading job skills and education. It will be increasingly important to balance revenues with expenses to assure that access to those who wish to obtain an education is achieved, consistent with our land grant mission.

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

	2008	2007 (restated)
ASSETS		
Current assets:		
Cash and cash equivalents (see note 2)	\$ 115,396,992	\$ 105,438,245
Securities lending collateral	3,286,192	638,593
Accounts and grants receivable, net	6,898,571	7,009,945
Amounts receivable from Federal government	13,951,087	14,441,538
Amounts receivable from primary government	1,534,090	1,652,121
Amounts receivable from other State of Montana component units	20,056	38,678
Loans receivable, net	2,977,322	4,509,539
Inventories	2,939,852	2,774,906
Prepaid expenses and other current assets	2,026,566	1,641,810
Total current assets	149,030,728	138,145,375
Noncurrent assets:		
Restricted cash and cash equivalents	1,035,003	1,388,768
Restricted investments	6,866,974	23,909,325
Loans receivable, net	20,538,452	17,332,822
Investments	19,956,775	15,913,870
Other assets	1,801,081	1,115,950
Capital assets, net (see note 7)	317,502,164	286,592,135
Total noncurrent assets	367,700,449	346,252,870
Total assets	\$ 516,731,177	\$ 484,398,245
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 25,568,928	\$ 24,967,465
Amounts payable to primary government	4,379,412	3,666,425
Amounts payable to other State of Montana component units	295,768	392,099
Securities lending liability	3,286,192	638,593
Property held in trust for others	1,369,894	1,102,342
Deferred revenues	9,677,938	8,024,887
Compensated absences	13,180,745	13,035,293
Current portion debt and capital lease obligations (see note 10)	5,005,908	5,020,761
Total current liabilities	62,764,785	56,847,865
Noncurrent liabilities:		
Advances from primary government	12,122,148	8,830,319
Debt and capital lease obligations (see note 10)	118,684,876	122,523,840
Compensated absences	13,053,381	13,029,384
OPEB implicit rate subsidy	8,970,186	-
Amounts payable to Federal government	21,625,334	21,371,431
Total noncurrent liabilities	174,455,925	165,754,974
Total liabilities	237,220,710	222,602,839
NET ASSETS		
Invested in capital assets, net of related debt	187,654,017	169,764,355
Restricted - nonexpendable:		
Endowments	7,749,017	7,719,442
Loans	4,279,005	4,483,119
Restricted - expendable:		
Scholarships	1,848,986	2,639,053
Research and other	2,502,538	2,611,387
Loans	396,993	110,321
Construction and renewal of plant facilities	3,479,769	6,201,264
Debt retirement	1,856,193	1,833,456
Unrestricted (see note 13)	69,743,949	66,433,009
Total net assets	279,510,467	261,795,406
Total liabilities and net assets	\$ 516,731,177	\$ 484,398,245

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)

	2008	2007 (restated)
Assets:		
Cash and cash equivalents	\$ 7,601,845	\$ 5,577,577
Accrued dividends and interest	176,146	205,831
Investments	150,679,041	157,396,020
Amounts due from the institution or other MSU component units	2,005,169	2,005,169
Contributions receivable, net of allowance	5,673,662	5,848,090
Contracts, notes and other receivables	5,160,693	4,226,471
Non-depreciable capital assets	125,204	1,088,053
Depreciable capital assets, net	10,722,255	8,958,844
Other assets	1,444,644	2,421,044
Total assets	\$ 183,588,659	\$ 187,727,099
Liabilities and net assets:		
Liabilities		
Accounts payable	\$ 846,774	\$ 420,438
Accrued expenses and other liabilities	960,033	885,645
Compensated absences	292,703	282,277
Notes and bonds payable	2,419,120	2,440,401
Amounts due to the institution or other MSU component units	917,643	890,106
Liabilities to external beneficiaries	5,955,871	3,669,550
Custodial funds	12,285,733	16,168,852
Total liabilities	23,677,877	24,757,269
Unrestricted net assets	17,358,373	16,444,195
Temporarily restricted net assets	55,502,159	65,840,896
Permanently restricted net assets	87,050,250	80,684,739
Total net assets	159,910,782	162,969,830
Total liabilities and net assets	\$ 183,588,659	\$ 187,727,099

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

	2008	2007 (restated)
OPERATING REVENUES		
Tuition and fees (net of \$ 20,770,494 and \$19,678,672 scholarship discount)	\$ 112,884,714	\$ 110,866,530
Federal appropriations	6,629,910	5,096,812
Federal grants and contracts	92,445,083	97,548,689
State grants and contracts	6,763,228	6,988,071
Non-governmental grants and contracts	9,871,232	9,270,780
Grant and contract facilities and administrative cost recoveries	16,396,341	16,835,562
Educational, public service and outreach revenues	20,873,791	19,476,487
Auxiliary revenues:		
Housing (net of \$1,701,230 and \$1,575,605 scholarship discount)	13,547,875	13,340,590
Food services (net of \$1,786,362 and \$1,669,635 scholarship discount)	13,152,454	12,787,681
Other auxiliary sales and services (net of \$601,569 and \$614,767 scholarship discount)	9,013,031	8,805,140
Interest earned on loans	124,288	127,297
Other operating revenues	1,221,269	1,116,027
Total operating revenues	302,923,216	302,259,666
OPERATING EXPENSES		
Compensation and benefits	247,733,634	237,494,073
Annual Required Contribution to OPEB (see note 15)	8,970,186	-
Operating expenses (see note 14)	124,348,065	120,051,434
Scholarships and fellowships (net of \$24,859,655 and \$23,538,679 scholarship discount)	17,386,848	16,804,447
Depreciation and amortization	23,351,424	21,611,002
Total operating expenses	421,790,157	395,960,956
Operating loss	(118,866,941)	(93,701,290)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	100,651,040	86,806,429
Land grant income (pledged as security for repayment of bonds)	2,303,335	2,219,068
Gifts (expendable)	11,932,674	10,253,107
Investment income	5,417,225	8,740,024
Interest expense	(6,175,545)	(5,984,200)
Net nonoperating revenues (expenses)	114,128,729	102,034,428
Income before other revenues, expenses, gains and losses	(4,738,212)	8,333,138
Loss on disposals of capital assets	(382,968)	(479,382)
Additions to permanent endowment	8,815	-
Capital gifts, grants and contributions	22,827,426	15,257,279
Change in net assets	17,715,061	23,111,035
Net assets, beginning of year	261,795,406	238,684,371
Net assets, end of year	\$ 279,510,467	\$ 261,795,406

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, 2008 or December 31, 2007 (see Note 20)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions	\$ 2,151,327	\$ 9,900,435	\$ 6,649,856	\$ 18,701,618
Investment, interest and dividend income	349,128	(4,471,113)	(50,776)	(4,172,761)
Net realized and unrealized gain (loss) on investments	(55,113)	(1,438,430)	(3,303)	(1,496,846)
Contract support and contributions from University	270,488	-	-	270,488
Special events	1,481,295	38,736	-	1,520,031
Other income	5,649,649	292,229	1,050	5,942,928
Net assets released from restrictions	14,641,281	(14,653,564)	12,283	-
Total revenues	24,488,055	(10,331,707)	6,609,110	20,765,458
Expenses:				
Program services				
University support	9,855,821	-	-	9,855,821
Academic and institutional	1,907,128	-	-	1,907,128
Scholarships and awards	4,251,079	-	-	4,251,079
Total program services expense	16,014,028	-	-	16,014,028
Operating expenses				
Fundraising efforts	3,939,692	-	-	3,939,692
General and administrative	2,238,309	-	-	2,238,309
Investment management costs	895,084	-	-	895,084
Other miscellaneous	474,152	-	-	474,152
Total operating expenses	7,547,237	-	-	7,547,237
Change in net assets before nonoperating items	926,790	(10,331,707)	6,609,110	(2,795,807)
Non-operating expenses				
Payments to beneficiaries and change in liabilities to external beneficiaries	(12,613)	(7,029)	(243,599)	(263,241)
Change in net assets	914,177	(10,338,736)	6,365,511	(3,059,048)
Net assets, beginning of fiscal year	16,444,195	65,840,896	80,684,739	162,969,830
Net assets, end of fiscal year	\$ 17,358,372	\$ 55,502,160	\$ 87,050,250	\$ 159,910,782

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, 2007 or December 31, 2006 As Restated (see Note 20)***

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions	\$ 299,810	\$ 14,387,175	\$ 3,564,717	\$ 18,251,702
Investment, interest and dividend income	2,804,289	15,327,509	514,921	18,646,719
Net realized and unrealized gain (loss) on investments	(12,083)	1,261,266	66,537	1,315,720
Contract support and contributions from University	519,666	-	-	519,666
Special events	1,317,579	39,250	-	1,356,829
Other income	4,938,551	386,428	650	5,325,629
Net assets released from restrictions	12,175,985	(12,170,030)	(5,955)	-
Total revenues	22,043,797	19,231,598	4,140,870	45,416,265
Expenses:				
Program services				
University support	7,769,377	-	-	7,769,377
Academic and institutional	1,863,291	-	-	1,863,291
Scholarships and awards	3,810,593	-	-	3,810,593
Total program services expense	13,443,261	-	-	13,443,261
Operating expenses				
Fundraising efforts	2,652,066	-	-	2,652,066
General and administrative	1,813,713	-	-	1,813,713
Investment management costs	868,102	-	-	868,102
Other miscellaneous	457,939	7,223	127,062	592,224
Total operating expenses	5,791,820	7,223	127,062	5,926,105
Change in net assets before nonoperating items	2,808,716	19,224,375	4,013,808	26,046,899
Nonoperating expenses-				
Payments to beneficiaries and change in liabilities due to external beneficiaries	(16,888)	-	-	(16,888)
Change in net assets	2,791,828	19,224,375	4,013,808	26,030,011
Net assets, beginning of fiscal year	13,652,367	46,616,521	76,670,931	136,939,819
Net assets, end of fiscal year	\$16,444,195	\$65,840,896	\$ 80,684,739	\$162,969,830

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

	2008	2007 (restated)
Cash flows from operating activities:		
Operating revenues:		
Tuition and fees	\$ 112,707,034	\$ 110,754,702
Federal appropriations	6,903,258	3,143,880
Federal grants and contracts	93,714,065	99,308,271
State grants and contracts	7,278,943	6,951,573
Private grants and contracts	10,451,476	10,076,977
Grant and contract facilities and administrative cost recoveries	16,366,062	16,692,834
Educational, public service and outreach revenues	20,522,089	19,334,481
Sales and services of auxiliary enterprises	35,685,815	34,839,743
Interest on loans receivable	378,191	338,964
Other operating receipts	1,221,269	1,116,026
Operating expenses:		
Compensation and benefits	(246,134,449)	(236,398,864)
Operating expenses	(124,871,299)	(119,208,062)
Scholarships and fellowships	(17,386,848)	(16,804,447)
Loans made to students	(5,945,576)	(5,227,009)
Loan payments received	4,272,162	5,080,845
Net cash used in operating activities	(84,837,808)	(70,000,086)
Cash flows from noncapital financing activities:		
Disbursements of funds held in trust for others	551,300	(198,533)
State appropriations	100,409,638	88,041,652
Gifts and contributions (expendable)	11,932,677	10,248,281
Land grant income (note 2)	2,303,334	2,219,067
Repayment of long-term advance from primary government	(48,098)	(96,204)
Additions to permanent endowment	8,815	-
Net cash provided by noncapital financing activities	115,157,666	100,214,263
Cash flows from capital financing activities:		
Purchase of capital assets	(34,736,347)	(45,731,267)
Proceeds from sale of capital assets	90,094	147,882
Gifts restricted for capital purchase	2,829,256	1,425,782
Other capital financing activities	(797,250)	(70,000)
Proceeds from borrowings	18,126,057	15,108,127
Debt principal repayment	(22,254,981)	(17,508,278)
Interest paid	(5,790,712)	(5,119,978)
Payment of debt issue costs	(313,871)	(248,718)
Advances from primary government	4,713,307	1,818,937
Repayment of advances from primary government	(1,349,886)	(1,366,671)
Net cash used in capital financing activities	(39,484,333)	(51,544,184)
Cash flows from investing activities:		
Purchase of investments	(5,204,831)	(20,421)
Proceeds from sale of investments	18,287,547	27,312,810
Investment income	5,686,741	8,574,280
Net cash provided by (used in) investing activities	18,769,457	35,866,669
Net change in cash and cash equivalents	9,604,982	14,536,662
Cash and equivalents at beginning of year	106,827,013	92,290,351
Cash and equivalents at end of year	\$ 116,431,995	\$ 106,827,013

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

Montana State University
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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

	2008	2007
		(restated)
Operating loss	\$ (118,866,941)	\$ (93,701,290)
Non-cash income and expense:		
Depreciation and amortization on capital assets	23,351,423	21,611,002
Provision for uncollectible accounts	364,454	621,127
Amortization of OPEB liability	8,970,186	-
Changes in operating assets and liabilities:		
Accounts and grants receivable	323,044	(1,105,584)
Loans receivable	(1,673,413)	(146,163)
Inventories	(164,945)	(46,350)
Prepaid expenses	(273,456)	496,489
Accounts payable and other accrued liabilities	1,055,438	1,226,437
Deferred revenue	1,653,050	233,667
Compensated absences	169,449	598,912
Amounts due to federal government	253,903	211,667
Net cash used in operations	\$ (84,837,808)	\$ (70,000,086)

Schedule of noncash financing and investing activities

	2008	2007
Capital assets contributed to the University	\$ 19,659,382	\$ 13,595,303
Capital assets acquired through issuance of capital lease obligations	\$ -	\$ 36,931
Bond issue costs, discounts, premiums and deferred loss on refunding amortized to interest expense	\$ 541,693	\$ 716,791
Change in fair value of investments	\$ 83,270	\$ 53,124

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

	2008	2007
Cash and cash equivalents classified as current assets	\$ 115,396,992	\$ 105,438,245
Cash and cash equivalents classified as non-current assets	1,035,003	1,388,768
Total cash and cash equivalents as reported on the Statements of Cash Flows	\$ 116,431,995	\$ 106,827,013

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

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Notes to Consolidated Financial Statements
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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 the State’s land grant university, serving the state, national and international communities by providing its students with academic instruction, conducting a high level of research activity, 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

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(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. Certain funds on deposit with trustees, as well as funds invested in the Short Term Investment Pool with the Montana Board of Investments are considered cash equivalents, unless the Montana Board of Investments management determines that a portion of its portfolio is sufficiently illiquid and should be considered investments. In such cases, each participant in the pool is allocated its pro-rata share of illiquid funds.

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 unrealized gains and losses on the carrying value of investments, is reported as a component of investment income.

Accounts and grants receivable – Accounts receivable include 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 for purchased or constructed assets, and at estimated fair value for donated assets. Renovations to buildings, infrastructure, and land improvements that significantly increase the value, change the use, 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.

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Other Post-Employment Benefits (OPEB) – During the year ended June 30, 2008, the University adopted Governmental Accounting Standards Board Statement Number 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.” The University allows retirees to participate in the Montana University System’s self-funded health insurance plan by paying an amount considered by the University to cover their full costs (as calculated using the pooled risk of retirees and active employees). An actuarial study determined that this blended rate structure results in an implicit rate subsidy to retirees, who are considered to be a higher-cost pool of participants. The State of Montana and its component units will amortize the calculated OPEB liability resulting from this implicit rate subsidy over a period of 30 years. The state has not mandated funding of the liability. See note 15.

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

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, depending on relevant law and other restrictions. 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.

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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.

Accounting policies not yet implemented – Certain accounting policies adopted by the Governmental Accounting Standards Board (“GASB”) have not yet become effective. GASB issued Statement No. 49 which establishes standards for accounting and financial reporting for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2007. The University does not believe that adoption will have a material effect on its results of operations, cash flows or net assets. GASB Statement No. 50 establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB). GASB Statement No. 51 was issued to provide users of financial statements with more complete and comparable/consistent information about intangible assets. Management has not yet determined the effect this Statement will have on the University's financial condition or results of operations. In November, 2007, GASB issued Statement No. 52 which requires assets held by permanent and term endowments to be reported at fair value. As a result, the reporting of real estate investments held by public sector endowments will be consistent with the reporting of similar investments held by private sector endowments that report ‘other investments’ at fair value. Management has determined that adoption of this Statement will affect the University's financial position and results of operations. In June, 2008 GASB issued Statement No. 53 which will require governments to measure most derivative instruments at fair value as assets or liabilities. This is intended to provide a more complete picture of a government's finances, allowing users to make better informed decisions about those finances. Statement No. 53 goes into effect in fiscal year 2010. Management has determined that the adoption of this statement will affect the University's financial position and results of operations.

Restatement of prior year amounts – Certain expenses and revenues were previously recorded in the year paid rather than in the year that expense was incurred or revenue was earned. Although amounts were not considered material in relation to the University's financial statements taken as a whole, management chose to restate the prior year balances. The restatement resulted in the following effect on the June 30, 2007, financial statements: an increase in expenses and current liabilities of \$0.7 million, an increase in revenue and accounts and grants receivable of \$0.3 million, and a corresponding decrease in unrestricted net assets of \$0.4 million.

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 \$60,247,908 at June 30, 2008 and \$40,010,246 at June 30, 2007.

Cash equivalents – These amounts consist of cash held by trustees as well as \$50,552,524 of the amount invested in the Short Term Investment Pool (STIP) with the Montana Board of Investments.

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 or book value rather than fair value to report net assets to compute unit values. As described in the notes to the Montana Board of Investments Consolidated Unified Investment Program Financial Statements, investments must have a maximum maturity of 397 or fewer days unless they have reset dates.

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

Securities lending transactions –The Board of Investments is authorized by law to lend its securities, and has contracted with its custodial bank, State Street Bank and Trust, to lend the Board’s securities to broker-dealers and other entities. The custodial bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. The Board and the bank split the earnings on security lending activities. The University’s allocated portion of security lending cash collateral was \$3,286,192 at June 30, 2008, and \$638,593 at June 30, 2007.

Investment risks – The University’s investments are concentrated primarily with the State of Montana; therefore, discussion of the risks of the applicable State investment products is summarized below. 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 TFBP fixed income instruments have credit risk as measured by major credit rating services.

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.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of an entity’s investment in a single issuer. Because the University is limited to investing in certain funds and with certain entities by state statute, it does not maintain its own credit risk policy.

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, 2008. 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.

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Cash equivalents and investments are categorized as follows at June 30, 2008:

Security Type	Fair Value		Moody's Credit Quality Rating at June 30, 2008	Effective Duration at June 30, 2008
	2008	2007		
State of Montana Short Term Investment Pool	\$ 55,757,355	\$ 62,830,865	NR	N/A
U. S. Bank Money Market Funds (collateralized by U.S. Bank pool, not in the University's name)	4,129,199	1,711,658	P-1	N/A
State of Montana Trust Fund Bond Pool*	14,490,747	14,422,154	NR	4.66
Foundation Pooled Cash Equivalents and Investments*	8,089,326	11,695,488	NR	N/A**
U.S. Treasury Notes (non-collateralized, not in the University's name)	352,286	491,716	NR	0.56
U. S. Bank Certificates of Deposit (collateralized by U. S. Bank pool, not in the University's name)	-	1,000,000	N/A	N/A
U. S. Bank Guaranteed Investment Contracts (non-collateralized)	-	14,230,590	N/A	N/A
Total Cash Equivalents & Investments	<u>\$ 82,818,913</u>	<u>\$ 106,382,471</u>		
Securities Lending Collateral Investment Pool	\$ 3,286,192	\$ 638,593	NR	N/A

* TFBP and Foundation investments are intended to be permanent investments.

** The Foundation investment pool does not publish an effective duration.

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.

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; after satisfying the liens of the indenture, the University may expend the funds for any lawful purpose.

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:

	2008	2007 (restated)
Accounts receivable	\$ 6,159,156	\$ 6,314,364
Other receivables, including private grants and contracts	2,973,902	3,014,586
Gross accounts and grants receivable	9,133,058	9,328,950
Less allowance for uncollectible accounts	(2,234,487)	(2,319,005)
Net accounts and grants receivable	<u>\$ 6,898,571</u>	<u>\$ 7,009,945</u>

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NOTE 4 – INVENTORIES

Inventories consisted of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Bookstore	\$ 1,111,220	\$ 1,056,183
Food services	343,091	311,489
Facilities services	243,626	242,268
Livestock	623,390	595,770
Other	618,525	569,196
Total inventories	<u>\$ 2,939,852</u>	<u>\$ 2,774,906</u>

NOTE 5 – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses consisted of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Leases	\$ 370,300	\$ 70,000
Library subscriptions	854,000	887,000
Other	802,266	684,810
Total prepaid expenses	<u>\$ 2,026,566</u>	<u>\$ 1,641,810</u>

NOTE 6 – LOANS RECEIVABLE

Total loans receivable balances at June 30, 2008 and 2007 were \$23,515,774 and \$21,842,361, 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, 2008 and 2007 are \$21,625,334 and \$21,371,431 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.

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NOTE 7 – CAPITAL ASSETS

Following are the changes in capital assets for the years ended June 30, 2008 and 2007:

	Year Ended June 30, 2008				
	Balance	Additions	Retirements	Transfers	Balance
	July 1, 2007				June 30, 2008
Capital assets not being depreciated:					
Land	\$ 6,623,535	\$ 309,846	\$ -	\$ -	\$ 6,933,381
Museum and fine art	4,365,653	-	-	-	4,365,653
Library special collections	3,460,950	97,329	-	-	3,558,279
Livestock for educational purposes	3,011,173	30,794	-	-	3,041,967
Construction work-in-progress	59,148,941	34,769,261	(172,328)	(81,336,742)	12,409,132
Total capital assets not being depreciated	76,610,252	35,207,230	(172,328)	(81,336,742)	30,308,412
Other capital assets:					
Furniture and equipment	102,374,307	9,651,148	(2,935,813)	-	109,089,642
Library materials	60,069,168	1,692,117	(978,663)	-	60,782,622
Buildings	174,680,132	6,775,254	-	51,521,428	232,976,814
Building improvements	136,104,618	158,010	-	28,077,404	164,340,032
Land improvements	13,606,365	946,004	-	544,635	15,097,004
Infrastructure	32,128,077	-	-	1,193,275	33,321,352
Total other capital assets	518,962,667	19,222,533	(3,914,476)	81,336,742	615,607,466
Accumulated depreciation	(310,415,075)	(22,934,623)	3,613,745	-	(329,735,953)
Other capital assets, net	208,547,592	(3,712,090)	(300,731)	81,336,742	285,871,513
Intangible assets, net	1,434,291	(112,052)	-	-	1,322,239
Capital Assets, net	\$ 286,592,135	\$ 31,383,088	\$ (473,059)	\$ -	\$ 317,502,164

	Year Ended June 30, 2007				
	Balance	Additions	Retirements	Transfers	Balance
	July 1, 2006				June 30, 2007
Capital assets not being depreciated:					
Land	\$ 6,508,370	\$ 115,165	\$ -	\$ -	\$ 6,623,535
Museum and fine art	4,365,653	-	-	-	4,365,653
Library special collections	3,460,950	-	-	-	3,460,950
Livestock for educational purposes	2,999,661	11,512	-	-	3,011,173
Construction work-in-progress	15,996,790	47,489,535	(413,177)	(3,924,207)	59,148,941
Total capital assets not being depreciated	33,331,424	47,616,212	(413,177)	(3,924,207)	76,610,252
Other capital assets:					
Furniture and equipment	96,214,238	8,481,859	(2,612,790)	291,000	102,374,307
Library materials	59,331,307	1,622,843	(884,982)	-	60,069,168
Buildings	174,427,448	185,251	-	67,433	174,680,132
Building improvements	132,137,785	401,059	-	3,565,774	136,104,618
Land improvements	13,606,365	-	-	-	13,606,365
Infrastructure	32,128,077	-	-	-	32,128,077
Total other capital assets	507,845,220	10,691,012	(3,497,772)	3,924,207	518,962,667
Accumulated depreciation	(292,438,491)	(21,260,270)	3,283,686	-	(310,415,075)
Other capital assets, net	215,406,729	(10,569,258)	(214,086)	3,924,207	208,547,592
Intangible assets, net	492,553	941,738	-	-	1,434,291
Capital Assets, net	\$ 249,230,706	\$ 37,988,692	\$ (627,263)	-	\$ 286,592,135

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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.

NOTE 8 – DEFERRED REVENUES

Deferred revenues consisted of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Grant and contract funds received in advance	\$ 5,736,227	\$ 4,092,601
Summer session payments received in advance	3,477,393	3,529,977
Other deferred revenues	464,318	402,309
Total	<u>\$ 9,677,938</u>	<u>\$ 8,024,887</u>

NOTE 9 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	<u>2008</u>	<u>2007</u> (restated)
Compensation, benefits and related liabilities	\$ 17,458,249	\$ 16,763,516
Accrued interest expense	442,226	399,472
Accounts payable and other accrued liabilities	7,668,453	7,804,477
Total	<u>\$ 25,568,928</u>	<u>\$ 24,967,465</u>

NOTE 10 – NON-CURRENT LIABILITIES

Following are the changes in non-current liabilities for the years ended June 30, 2008 and 2007:

	<u>Year Ended June 30, 2008</u>				
	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Amounts due within one year
Bonds and notes payable, and capital lease obligations					
Bonds payable, net of discount	\$ 124,489,312	\$ 17,844,479	\$ (21,529,700)	\$ 120,804,091	\$ 4,805,000
Notes and other debt	2,996,900	114,256	(255,679)	2,855,477	178,325
Capital lease obligations	58,389	-	(27,173)	31,216	22,583
Total bonds, notes and capital lease obligations	<u>\$ 127,544,601</u>	<u>\$ 17,958,735</u>	<u>\$ (21,812,552)</u>	<u>\$ 123,690,784</u>	<u>\$ 5,005,908</u>
Compensated absence liability	<u>\$ 26,064,677</u>	<u>\$ 12,726,542</u>	<u>\$ (12,557,093)</u>	<u>\$ 26,234,126</u>	<u>\$ 13,180,745</u>
Advances from primary government	<u>\$ 10,216,187</u>	<u>\$ 4,713,306</u>	<u>\$ (1,397,987)</u>	<u>\$ 13,531,506</u>	<u>\$ 1,409,358</u>
Amounts payable to Federal government	<u>\$ 21,371,431</u>	<u>\$ 253,903</u>	<u>\$ -</u>	<u>\$ 21,625,334</u>	<u>\$ -</u>
OPEB liability— implicit rate subsidy for retiree health insurance	<u>\$ -</u>	<u>\$ 8,970,186</u>	<u>\$ -</u>	<u>\$ 8,970,186</u>	<u>\$ -</u>

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, 2008, include \$118,684,876 in bonds, notes and capital lease obligations, \$12,122,148 in advances from primary government and \$13,053,381 in compensated absence liabilities.

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	Year Ended June 30, 2007					
	Balance				Balance	Amounts due within one year
	July 1, 2006	Additions	Reductions	June 30, 2007		
Bonds and notes payable, and capital lease obligations						
Bonds payable, net of discount	\$ 127,769,684	\$ 13,407,525	\$ (16,687,897)	\$ 124,489,312	\$ 4,720,000	
Notes and other debt	1,468,702	1,700,603	(172,405)	2,996,900	273,588	
Capital lease obligations	60,257	36,930	(38,798)	58,389	27,173	
Total bonds, notes and capital lease obligations	\$ 129,298,643	\$ 15,145,058	\$ (16,899,100)	\$ 127,544,601	\$ 5,020,761	
Compensated absence liability	\$ 25,465,768	\$ 12,782,401	\$ (12,183,492)	\$ 26,064,677	\$ 13,035,293	
Advances from primary government	\$ 9,810,850	\$ 1,818,937	\$ (1,413,600)	\$ 10,216,187	\$ 1,385,868	
Amounts payable to Federal government	\$ 21,159,764	\$ 214,107	\$ (2,440)	\$ 21,371,431	\$ -	

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, 2007, include \$122,523,840 in bonds, notes and capital lease obligations, \$8,830,319 advances from primary government and \$13,029,384 in compensated absence liabilities.

Interest rate exchange agreements related to long-term debt –

Interest rate swap – In March 2005, the University entered into a forward-starting interest rate swap agreement with Deutsche Bank AG (“DBAG”). The notional amount of the swap as of June 30, 2008, is \$25,250,000, and equals the University’s Series J 2005 Bond principal outstanding. The instrument was intended to synthetically fix the Series J 2005 bonds, issued July 21, 2005, from a variable rate to an intended rate of 3.953%.

DBAG 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 Series J bonds are the only bond issuance with variable rate exposure. A discussions of the risks associated with interest rate swap arrangement follows.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a financial instrument. At June 30, 2008 and 2007, the fair value of the swap was (\$1,608,366) and (\$127,014). Such value was provided to the University by an independent valuation firm, and is calculated using mid-market levels as of the close of business on June 30 (or the last business day prior to June 30, if June 30 was not a business day) of each year.

Basis risk is a risk that results when amounts received and amounts paid are computed using different indexes and/or rates. At June 30, 2008, the University was subject to basis risk because the interest rate which the University paid to bondholders was based on the Municipal Auction Rate Securities (“MARS”) rate, while the interest rate the University received from DBAG was based on the Securities Industry and Financial Markets Association (“SIFMA”) weekly index. Because of general market conditions related to subprime mortgage concerns and more specifically, because the insurer of the Series J Bonds, Ambac, was downgraded, many auctions of municipal bonds began to fail, including those of the Series J bonds, resulting in the application of a “penalty rate” (as opposed to a market rate) which, as June 30, 2008, was 2.767%. Because the SIFMA rate received from DBAG was 2.005%, a negative basis difference of 0.762% resulted, increasing the University’s interest cost above its intended synthetic fixed rate of 3.953%. On September 11, 2008, the University remarketed its Series J bonds in the Variable Rate Demand market, in an effort to reduce the basis difference and restore liquidity to its bondholders. The swap with DBAG remained unchanged, with the rate received from DBAG at the SIFMA weekly index; however, the rate paid to bondholders is now at the SIFMA daily rate. This arrangement still contains basis risk, although now based on weekly vs. daily rates of the same variable rate demand market.

One day after the University remarketed its Series J debt, market conditions further deteriorated due to major credit concerns and the failure of Lehman Brothers bank. See Subsequent Events discussed in Note 19.

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Credit risk is dependent upon the credit quality rating of DBAG. At June 30, 2008 and 2007, 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 agreement requires DBAG to 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 DBAG 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, 2008, netted 1.948%, which is the difference between the fixed rate of 3.953% paid to DBAG and 2.005% received from DBAG at the SIFMA weekly rate. Repayment schedules using interest rates in effect as of June 30, 2008, are included in Note 11, below.

Constant maturity swap – In July 2006, the University entered into a forward-starting basis swap agreement ("Constant maturity swap") with Morgan Stanley Capital Services, Inc. ("Morgan Stanley"). The agreement took effect November 15, 2007, at a notional amount of \$25,250,000, decreasing to \$1,550,000 by November 15, 2034, at which time the instrument expires. The instrument was executed to take advantage of the flat interest rate yield curve in effect at the transaction date. Each month beginning November 15, 2007, a net settlement payment is made. As of each settlement date, the University pays that date's 7-day SIFMA rate on the then-outstanding notional amount, and receives 86.8% of that date's 10-year SIFMA rate on the then-outstanding notional amount.

At June 30, 2008 and 2007, the fair value of the constant maturity swap was (\$65,445) and (\$340,218). Such value was provided to the University by an independent valuation firm, and was calculated using mid-market levels as of the close of business on June 30 (or the last business day prior to June 30, if June 30 was not a business day) of each year.

The University is subject to basis risk, because the interest rate which the University pays to Morgan Stanley (86.8% of the 10 year SIFMA rate) does not equal the SIFMA weekly rate. As of June 30, 2008, the net basis difference was a positive 1.27%. As discussed above, subsequent to June 30, significant credit concerns arose, and the short-term SIFMA interest rates increased significantly. See a discussion of subsequent events in note 19.

Credit risk is dependent upon the credit quality rating of Morgan Stanley. To mitigate credit risk, the agreement requires Morgan Stanley to maintain at least "BBB-" category rating from S&P and "Baa3" from Moody's. The University or Morgan Stanley may terminate the constant maturity swap if the other party fails to perform under the terms of the contract. In addition, the University may be required to pay an amount equal to the swap's fair value, if negative.

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NOTE 11 – BONDS, NOTES AND ADVANCES PAYABLE

Revenue bonds payable at June 30, 2008 were as follows:

Series 1993 A

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2009	5.050%	\$ 1,314,579	\$ 1,465,421	\$ 2,780,000
2010	5.100%	1,240,881	1,539,119	2,780,000
2011	5.150%	1,170,185	1,609,815	2,780,000
2012	5.200%	1,102,465	1,677,535	2,780,000
Total cash requirements		\$ 4,828,110	\$ 6,291,890	\$ 11,120,000
Accreted discount on capital appreciation bonds		5,303,391		
Accreted balance		\$ 10,131,501		

* Effective rate calculated on deep discount bonds

Series 1998 E

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2009	4.400%	\$ 315,000	\$ 6,930	\$ 321,930
Total cash requirements		\$ 315,000	\$ 6,930	\$ 321,930

Series 2004H

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2009	4.000%	\$ 450,000	\$ 1,064,953	\$ 1,514,953
2010	4.000%	470,000	1,046,553	1,516,553
2011	3.000%	485,000	1,029,878	1,514,878
2012	5.500%	505,000	1,008,715	1,513,715
2013	5.500%	535,000	980,115	1,515,115
2014-2018	3.600-5.500%	3,120,000	4,462,934	7,582,934
2019-2023	4.000-5.000%	3,885,000	3,694,794	7,579,794
2024-2028	4.300-4.625%	4,815,000	2,763,083	7,578,083
2029-2033	4.625-5.000%	6,080,000	1,502,691	7,582,691
2034-2035	5.000%	2,885,000	146,125	3,031,125
Total cash requirements		23,230,000	\$ 17,699,841	\$ 40,929,841
Unamortized premium discount (net)		463,844		
Total		\$ 23,693,844		

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Series 2004I

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2009	2.500%	\$ 610,000	\$ 1,402,619	\$ 2,012,619
2010	3.000%	615,000	1,385,769	2,000,769
2011	3.000%	640,000	1,366,944	2,006,944
2012	3.250%	650,000	1,346,781	1,996,781
2013	5.250%	690,000	1,318,106	2,008,106
2014-2018	3.625-5.250%	6,900,000	6,018,769	12,918,769
2019-2023	4.000-5.000%	18,005,000	2,414,969	20,419,969
2024-2028	4.300-4.500%	2,360,000	159,998	2,519,998
Total cash requirements		30,470,000	\$ 15,413,955	\$ 45,883,955
Deferred loss on refunding		(1,204,091)		
Unamortized premium discount (net)		1,260,025		
Total		\$ 30,525,934		

Series 2005J

Payable during the year ending June 30,	Auction Interest Rate in Effect June 30, 2008*	Principal	Auction Rate Interest*	Net Swap Interest	Total
2009	2.767%	\$ 275,000	\$ 694,894	\$ 489,188	\$ 1,459,082
2010	2.767%	450,000	684,884	482,141	1,617,025
2011	2.767%	375,000	673,461	474,100	1,522,561
2012	2.767%	550,000	660,684	465,105	1,675,789
2013	2.767%	575,000	645,122	454,150	1,674,272
2014-2018	2.767%	3,225,000	2,971,087	2,091,572	8,287,659
2019-2023	2.767%	4,075,000	2,464,131	1,734,688	8,273,819
2024-2028	2.767%	5,050,000	1,839,246	1,294,784	8,184,030
2029-2033	2.767%	6,250,000	1,061,163	747,033	8,058,196
2034-2036	2.767%	4,425,000	188,313	132,568	4,745,881
Total cash requirements		\$ 25,250,000	\$ 11,882,985	\$ 8,365,329	\$ 45,498,314

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

Series 2006K

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2009	4.000%	\$ 125,000	\$ 567,998	\$ 692,998
2010	4.000%	530,000	554,898	1,084,898
2011	3.750%	550,000	533,985	1,083,985
2012	4.000%	570,000	512,273	1,082,273
2013	4.000%	590,000	489,073	1,079,073
2014-2018	4.000-4.125%	4,065,000	2,044,846	6,109,846
2019-2023	4.250-4.500%	6,530,000	743,863	7,273,863
2024-2026		590,000	40,500	630,500
Total cash requirements		13,550,000	\$ 5,487,436	\$ 19,037,436
Deferred loss on refunding		(211,725)		
Unamortized premium discount (net)		(49,712)		
Total		\$ 13,288,563		

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Series 2008L

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2009	4.000%	\$ 250,000	\$ 583,743	\$ 833,743
2010	3.500%	200,000	650,913	850,913
2011	3.500%	200,000	643,913	843,913
2012	3.500%	200,000	636,913	836,913
2013	3.500%	3,110,000	578,988	3,688,988
2014-2016	3.500%-5.000%	13,630,000	1,084,819	14,714,819
Total cash requirements		17,590,000	\$ 4,179,289	\$ 21,769,289
Deferred loss on refunding		(431,635)		
Unamortized premium discount (net)		440,883		
		\$ 17,599,248		

Total, all series

Payable during the year ending June 30,	Principal	Interest	Net Swap Interest	Total
2009	\$ 3,339,579	\$ 5,786,558	\$ 489,188	\$ 9,615,325
2010	3,505,881	5,862,136	482,141	9,850,158
2011	3,420,185	5,857,996	474,100	9,752,281
2012	3,577,465	5,842,901	465,105	9,885,471
2013	5,500,000	4,011,404	454,150	9,965,554
2014-2018	30,940,000	16,582,455	2,091,572	49,614,027
2019-2023	32,495,000	9,317,757	1,734,688	43,547,445
2024-2028	12,815,000	4,802,827	1,294,784	18,912,611
2029-2033	12,330,000	2,563,854	747,033	15,640,887
2034-2036	7,310,000	334,438	132,568	7,777,006
Total cash requirements	115,233,110	\$ 60,962,326	\$ 8,365,329	\$ 184,560,765
Deferred loss on refunding	(1,847,451)			
Unamortized premium discount (net)	2,115,041			
Accreted discount on capital appreciation bonds	5,303,391			
	\$ 120,804,091			

Description of bonded indebtedness—

Series A 1993 Bonds, November 9, 1993 – The University issued \$24,911,720 of bonds dated November 9, 1993, consisting of \$3,055,000 of Current Interest Serial Bonds, plus \$6,036,720 (discounted value) of Capital Appreciation Bonds, and the remainder in 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 used 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. Final maturity of the Capital Appreciation Bonds is November, 2011.

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. Such bonds were paid off according to their maturity schedule in November of 2007.

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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. With the issuance of Series K debt in July 2006, a significant portion of the bonds were refunded. Final maturity of the remaining Series E bonds is in November of 2008.

Series G 2003, October 15, 2003 – The Series G bonds were refunded on June 26, 2008, upon issuance of the Series L 2008 bonds, and as of June 30, 2008, were considered to be legally defeased. The bonds were subsequently called in July, 2008 and are no longer outstanding.

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. Payment is 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 legally 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 to fund the majority of a student facilities enhancement project on the Bozeman campus. The proceeds, together with University funds, were used to renovate the student fitness center, construct a theater, and renovate portions of the Strand Union Building. As of June 30, 2008, work was substantially complete. The bonds are being repaid with a combination of student fees and auxiliary operations revenues. Principal payments began during the fiscal year ended June 30, 2007 and continue each May and November through November, 2035. The bonds were remarketed in the Variable Rate mode on September 11, 2008; see Note 19 regarding subsequent events.

Series K 2006, July 26, 2006 - 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 Bonds 2006 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 were 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. The refunded Series D 1996 Bonds and Series E 1998 Bonds are no longer 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 were not refunded with the proceeds of the Series K 2006 Bonds, and are being retired in accordance with original repayment schedules.

Series L 2008, June 26, 2008- In June 2008, the University refunded its Series G 2003 Auction Rate bonds through the issuance of fixed rate Series L 2008 bonds in the amount of \$17.59 million. Series L bond proceeds were sufficient to legally defease the Series 2003 G bonds. The Series L debt will be repaid beginning November 15,

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2008, with final maturity in November of 2016, the same maturity date as the Series G debt had been. Repayment is guaranteed by Assured Guaranty. The refunded debt was considered defeased, and is not reported in the University's financial statements as of June 20, 2008. Such bonds were subsequently called in July, 2008 and are no longer outstanding. The Series G debt had been used for a \$16,745,000 current refunding of the serial portion of the Series 1993-A bonds, and \$2,015,000 had been used for an advance refunding of the Series 1994 C bonds.

In-Substance 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, 2008 and 2007, \$1,535,000 and \$2,520,000 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	2008	2007
<i>DeLage Landen Public Finance</i>				
College of Engineering Computers	5.80%	08/03/10	\$ 46,451	\$ -
<i>Dell Financial Services</i>				
Center for Computational Biology Computers	7.33%	07/01/10	10,148	-
<i>GE Capital</i>				
Information Technology Wiring Project	4.18%	09/01/07	-	86,556
<i>Independence Bank</i>				
Admissions Auto Loan	6.00%	10/01/12	15,900	-
MSU Northern Admissions Auto Loan	0.00%	09/01/07	-	4,572
<i>Subtotal, Independence Bank</i>			15,900	4,572
<i>CNH Capital:</i>				
Lawn Tractor Loan	6.75%	07/07/11	16,470	-
Lawn Tractor Attachments Loan	6.75%	07/07/11	7,959	-
<i>Subtotal, CNH Capital</i>			24,429	-
<i>Koch Financial Corporation</i>				
Information Technology Oracle Site License	4.24%	04/01/14	753,380	900,603
<i>MSU-Northern Foundation:</i>				
Consolidated Foundation Loan*	6.00%	10/01/19	2,005,169	-
MacKenzie Hall Wiring	5.00%	10/01/17*	-	124,263
Campus Backbone Wiring	5.00%	10/01/17*	-	225,243
Digital Phone System	5.00%	10/01/17*	-	133,901
Brockman Wiring	5.00%	10/01/17*	-	46,062
ITS Electronics	5.00%	10/01/17*	-	275,700
Equipment	5.00%	10/01/17*	-	400,000
Campus Improvements	5.00%	10/01/17*	-	800,000
<i>Subtotal, MSU-Northern Foundation</i>			2,005,169	2,005,169
Total note principal outstanding			\$ 2,855,477	\$ 2,996,900

*MSU Northern Foundation loans were restructured in May, 2008.

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Scheduled maturities of notes payable are as follows:

Payable during the year ending June 30,	Principal	Interest	Total
2009	\$ 178,325	\$ 149,010	\$ 327,335
2010	253,590	147,245	400,835
2011	290,804	133,973	424,777
2012	271,077	118,606	389,683
2013	276,985	104,598	381,583
2014-2018	1,159,528	324,316	1,483,844
2019-2023	425,168	37,820	462,988
Total	\$ 2,855,477	\$ 1,015,568	\$ 3,871,045

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, 2008 was 4.25%.

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
2009	\$ 1,360,055	\$ 297,965	\$ 1,658,020	\$ 49,303	\$ 130,697	\$ 180,000
2010	1,263,636	281,118	1,544,754	50,534	129,466	180,000
2011	1,034,961	229,879	1,264,840	51,796	128,204	180,000
2012	907,048	187,464	1,094,512	53,090	126,910	180,000
2013	852,083	148,649	1,000,732	54,416	125,584	180,000
2014-2018	2,688,000	325,604	3,013,604	293,156	606,844	900,000
2019-2023	192,406	4,452	196,858	331,637	568,363	900,000
2024-2028	-	-	-	375,169	524,831	900,000
2029-2033	-	-	-	424,415	475,585	900,000
2034-2038	-	-	-	480,126	419,874	900,000
2039-2043	-	-	-	543,150	356,850	900,000
2044-2048	-	-	-	614,446	285,554	900,000
2049-2053	-	-	-	695,101	204,899	900,000
2054-2058	-	-	-	786,343	113,657	900,000
2059-2061	-	-	-	430,637	19,363	450,000
Total	\$ 8,298,189	\$ 1,475,131	\$ 9,773,320	\$ 5,233,319	\$ 4,216,681	\$ 9,450,000

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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, 2008:

Payable during the year ending June 30,	Principal and Interest
2009	\$ 24,765
2010	8,708
2011	315
Total payments	33,788
Less amount representing interest	(2,572)
Principal balance outstanding	<u>\$ 31,216</u>

Assets acquired under capital leases consist mainly of photocopiers. Such assets are carried at \$93,905 with accumulated depreciation of \$38,177 as of June 30, 2008.

NOTE 13 – UNRESTRICTED NET ASSETS

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

	2008	2007 (restated)
General operating	\$ (16,323,993)	\$ (14,751,504)
OPEB liability	(8,867,901)	-
Facility renewal and replacement	19,386,081	17,525,710
Student services and auxiliary department reserves, including inventories	12,754,622	12,210,913
Instruction, academic support and public service	12,624,263	11,391,047
Indirect cost recoveries and research	11,121,811	11,693,639
Unexpended plant uses	12,704,429	7,012,034
Retirement of indebtedness	6,510,734	6,012,060
Facilities services reserves, including inventories	2,942,302	2,638,397
Employer-provided benefits	1,473,144	1,543,333
Agricultural Experiment Station and Extension Services; including livestock inventories	5,104,401	2,871,460
Administration and finance	4,877,870	3,735,361
Student organizations	1,174,090	1,025,340
Livestock inventories	623,990	595,770
President's office	3,638,106	2,929,449
Total unrestricted net assets	<u>\$ 69,743,949</u>	<u>\$ 66,433,009</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 \$16.3 million and \$14.8 million as of June 30, 2008 and 2007, respectively, in general operating funds. As discussed in note 15, a liability for Other Post Retirement Benefits impacted Unrestricted Net Assets by \$8.9 million. 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.

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NOTE 14 – MATRIX OF NATURAL AND FUNCTIONAL OPERATING EXPENSES

Type and Classification of Operating Expenses:

Year Ended June 30, 2008	Instruction	Organized Research	Public Service	Academic Support	Student Services	Institutional Support	Plant-related Expenses	Auxiliary Enterprises	Other Classifications	Total
Compensation and Benefits	\$ 89,139,074	\$ 61,771,707	\$ 18,014,120	\$ 18,316,084	\$ 17,417,732	\$ 15,826,672	\$ 7,738,053	\$ 19,510,192	\$ -	\$ 247,733,634
OPEB	2,728,489	1,785,965	669,564	765,406	791,005	734,675	630,785	864,297	-	8,970,186
Supplies and Services	7,298,835	28,629,096	3,876,995	5,430,557	5,114,990	2,025,216	6,217,439	9,208,475	-	67,801,603
Travel	1,439,365	4,666,958	916,377	728,952	2,594,561	509,740	66,144	132,123	-	11,054,220
Utilities	31,824	712,497	32,579	7,292	76,831	29,473	7,339,586	3,447,522	-	11,677,604
Other Operating Expenses	1,900,355	4,604,742	2,279,835	3,042,743	1,795,231	3,125,449	8,615,402	8,450,881	-	33,814,638
Scholarships and Fellowships	-	-	-	-	-	-	-	-	17,386,848	17,386,848
Depreciation and Amortization	-	-	-	-	-	-	-	-	23,351,424	23,351,424
Total	\$ 102,537,942	\$ 102,170,965	\$ 25,789,470	\$ 28,291,034	\$ 27,790,350	\$ 22,251,225	\$ 30,607,409	\$ 41,613,490	\$ 40,738,272	\$ 421,790,157

Year Ended June 30, 2007 as restated	Instruction	Organized Research	Public Service	Academic Support	Student Services	Institutional Support	Plant-related Expenses	Auxiliary Enterprises	Other Classifications	Total
Compensation and Benefits	\$ 86,183,514	\$ 60,069,714	\$ 17,412,417	\$ 16,581,270	\$ 16,636,947	\$ 15,100,879	\$ 7,422,403	\$ 18,086,929	\$ -	\$ 237,494,073
OPEB	-	-	-	-	-	-	-	-	-	-
Supplies and Services	7,143,033	27,787,008	4,801,942	5,408,326	4,934,228	2,081,145	5,615,296	9,123,543	-	66,894,521
Travel	1,693,479	4,566,422	884,067	803,986	2,638,785	420,736	44,829	150,226	-	11,202,530
Utilities	27,447	511,111	25,973	2,346	67,321	43	6,495,005	3,165,894	-	10,295,140
Other Operating Expenses	1,752,288	4,062,506	2,156,458	2,825,140	1,646,482	3,042,508	7,653,296	8,520,565	-	31,659,243
Scholarships and Fellowships	-	-	-	-	-	-	-	-	16,804,447	16,804,447
Depreciation and Amortization	-	-	-	-	-	-	-	-	21,611,002	21,611,002
Total	\$ 96,799,761	\$ 96,996,761	\$ 25,280,857	\$ 25,621,068	\$ 25,923,763	\$ 20,645,311	\$ 27,230,829	\$ 39,047,157	\$ 38,415,449	\$ 395,960,956

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NOTE 15 – RETIREMENT PLANS AND OTHER POST-EMPLOYMENT BENEFITS

Retirement plans–

University employees eligible to participate in retirement programs are members of either the Montana Public Employees' Retirement System (PERS), the Game Wardens' and Peace Officers' Retirement System (GWPORS), Montana Teachers' 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 PERS and TRS 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. Combined contributions cannot exceed 13% of the participants compensation (MCA §19-21-203). 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. The active participant and employer contribution rates are statutorily determined (MCA §19-20-602 and §19-20-605). 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. The required contribution rates for active participants and employers are statutorily determined (MCA §19-3-315 and MCA §19-3-316). 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. The required contribution rates for active participants and employers are statutorily determined

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(MCA §19-8-502 and MCA §19-8-504). 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.

FERS - This plan commenced in 1986 and is available to Federal employees joining the Extension Service staff that either had no prior covered service under CSRS or had 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. The formula changes slightly if over 62 and over 20 years of service. At age 62, retirees are eligible for cost of living adjustments on retirement benefits. The employer is required to make at least a 1% contribution to the TSP. The TSP benefits at retirement depend upon the amount of employer contributions, employee voluntary contributions and investment gains and losses. Further information regarding the Federal Employees Retirement System can be obtained from the U.S. Office of Personnel management, 1900 E Street NW, Washington, DC 20415.

CSRS - This retirement plan is authorized under the Smith-Lever Act of 1914 as amended and is available to Federal employees who first entered covered service before January 1, 1987 and who are 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. Further information regarding the Civil Service Retirement System can be obtained from the U.S. Office of Personnel management, 1900 E Street NW, Washington, DC 20415.

Pension data for the year ended June 30, 2008:

	PERS	TRS	ORP	CSRS	FERS	GWPORS
Covered payroll	\$ 45,143,084	\$ 19,657,664	\$ 103,393,570	\$ 1,173,166	\$ 654,724	\$ 640,900
Total Payroll	\$ 196,147,254	\$ 196,147,254	\$ 196,147,254	\$ 154,288,623	\$ 154,288,623	\$ 179,943,796
Employer contributions*	\$ 3,008,931	\$ 1,685,828	\$ 5,802,922	\$ 104,498	\$ 66,885	\$ 57,681
% of covered payroll	7.035%	9.470%	4.49%-5.96%	3.82%-7.54%	1.00%-10.00%	9.000%
Employee contributions	\$ 3,115,323	\$ 1,405,524	\$ 7,272,710	\$ 132,223	\$ 88,293	\$ 67,679
% of covered payroll	6.935%	7.150%	7.044%	0.10%-5.25%	0.10%-8.50%	10.560%
ORP contribution to TRS		\$ 4,537,113				
% of covered payroll		4.720%				
ORP contributions to PERS	\$ 179,687					
% of covered payroll	2.545%					

*Includes TRS Option 1 payments of \$733,173.

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
2006	\$ 5,929,370	\$ 7,353,411	\$ 10,864,950	\$ 228,510	\$ 146,824	\$ 93,007
2007	\$ 6,151,248	\$ 7,994,744	\$ 11,691,891	\$ 228,573	\$ 161,343	\$ 126,018
2008	\$ 6,303,941	\$ 7,628,465	\$ 13,075,632	\$ 236,721	\$ 155,178	\$ 125,360

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Pension data for the year ended June 30, 2007:

	PERS	TRS	ORP	CSRS	FERS	GWPORS
Covered payroll	\$ 43,340,380	\$ 21,027,028	\$ 97,641,695	\$ 1,512,753	\$ 694,707	\$ 644,267
Total Payroll	\$ 190,391,213	\$ 190,391,213	\$ 190,391,213	\$ 149,025,729	\$ 149,025,729	\$ 174,306,1994
Employer contributions*	\$ 3,005,051	\$ 2,256,431	\$ 4,809,014	\$ 110,326	\$ 76,534	\$ 57,984
% of covered payroll	6.900%	7.470%	4.490%-4.960%	7.770%-7.940%	11.360%	9.000%
Employee contributions	\$ 2,990,486	\$ 2,054,615	\$ 6,882,877	\$ 118,247	\$ 84,809	\$ 68,034
% of covered payroll	6.900%	7.15%	6.900%-7.044%	0.100%-5.250%	0.100%-12.200%	10.560%
ORP contribution to TRS		\$3,683,698				
% of covered payroll to TRS		4.040%				
ORP contribution to PERS	\$ 155,711					
% of covered payroll to PERS	2.410%					

*Includes TRS Option 1 payments of \$ 410,236.

Other Post-Employment Benefits (OPEB) —

Authorization— Montana State law requires state agencies to provide access to health insurance benefits to eligible retirees up to Medicare – eligible age (65) (§2-18-704(1)(a), MCA). The Board of Regents of the Montana University System (MUS), having broad authority to act in the best interests of the MUS, has directed the Office of the Commissioner of Higher Education (OCHE) to provide access to health insurance benefits beyond age 65. Eligible University retirees may participate in the health insurance plan, provided that they contribute to the cost of the plan.

Eligibility— Retirees who are eligible to receive retirement benefits from Teachers Retirement System (TRS) or the Public Employees Retirement System (PERS) at the time employment ceases may participate in the plan. Retirees who are in the Optional Retirement Plan (ORP) (through TIAA-CREF) or any other defined contribution plan associated with the MUS must have worked five or more years and be age 50, or have worked 25 years with the MUS to be eligible for retiree insurance benefits. The MUS's Interunit Benefits Committee, at the direction of the OCHE, sets the premiums for such participation. Until a retiree reaches age 65, individual retiree participation premiums range from \$405— \$483 per month, depending on the level of deductible and other selected plan features. Upon reaching age 65 (Medicare eligibility), monthly participation premiums range from \$210— \$247 for an individual retiree. Coverage is also extended to dependents and surviving dependents of the employee.

Financial and plan information— The MUS Group Benefits Plan does not issue a standalone financial report, but is subject to audit as part of the State of Montana's Comprehensive Annual Financial Report (CAFR). A copy of the most recent CAFR can be obtained online at <http://afsd.mt.gov/CAFR/CAFR.asp> or by contacting the Montana Department of Administration, PO Box 200102, Helena, MT 59620-0102.

The plan is considered to be a multi-employer agent plan. All units of the MUS fund the post-employment benefits on a pay-as-you-go basis from general assets. The University's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that is projected to cover normal cost each year and amortize any unfunded actuarial liability over a period of 30 years. For the fiscal year ended June 30, 2008, MSU's annual OPEB cost (expense) of \$8,970,186 was equal to the ARC. The actuarial determination was based on plan information as of July 1, 2007. At that time, the number of active University participants in the health insurance plan was 3,646. The total number of inactive (retiree and dependent) participants was 1,361. During the year ended June 30, 2008, the University contributed \$25,476,371 for actively employed

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participants, whose covered payroll totaled \$180,287,302. The University does not contribute to the plan for retirees or their dependents.

As of June 30, 2008, the actuarial accrued liability for retiree health benefits was \$95,164,100, all of which was unfunded. The percentage of annual OPEB cost contributed to the plan was 0%, and the net OPEB obligation was \$8,970,186. The funded status of the plan as of June 30, 2008 was 0%.

Actuarial methods and assumptions—The actuarial funding method used to determine the cost of the MUS System Employee Group Benefits Plan was the projected unit credit funding method. This method’s objective is to fund each participant’s benefits under the plan as they accrue. The total benefit to which each participant is expected to become entitled at retirement is categorized into units, each associated with a year of past or future credited service. The actuarial assumptions included, in addition to marital status at retirement, mortality rates and retirement age:

Interest/Discount rate	4.25%
Projected payroll increases	3.00%
Participation	45% of future retirees are assumed to elect coverage at the time of retirement, 59% of future eligible spouses of future retirees are assumed to elect coverage

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Such events include assumptions about future employment, mortality rates, and healthcare cost trends. Amounts are subject to continual review and revision as actual results are compared with past expectations and new estimates are made.

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.

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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.

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 utilizes an OCHE employee as an in-house administrator. 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:

Minimum rental payments for operating leases are due in the years ending June 30,	Amount
2009	\$ 2,391,526
2010	2,526,551
2011	1,941,942
2012	1,814,949
2013	1,793,762
2014-2018	9,097,957
2019-2020	1,012,983
Total	<u>\$20,579,670</u>

Payments made under operating leases during the years ended June 2008 and 2007 totaled \$ 2,453,952 and \$2,266,539 respectively.

Other commitments :

Encumbrances – As of June 30, 2008, the University had issued purchase orders committing the expenditure of \$2,748,560 for equipment which had not yet been received.

Agreement with Primary Government– The University has committed to repay the State Building Energy Program Bond Fund for the cost of energy conservation measures performed at its various campuses, pursuant to a Memorandum of Understanding with the State of Montana Department of Environmental Quality. The annual payment amount varies depending on when the conservation measures were completed and when actual energy savings begin.

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 in excess of what has already been accrued in the accompanying financial statements.

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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 is currently responding to a federal audit in which questioned costs of approximately \$200,000 were noted. The University does not expect any material adjustments or repayments to result from such audits.

Pledged revenues – The University’s bonded indebtedness, as described in Note 11, is 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) lease rentals from the Museum of the Rockies; 5) all Land Grant income; 6) certain student athletic fees; 7) certain Health & Physical Education fees; 8) MSU- Bozeman Fieldhouse fees; 9) capitalized interest and earnings on certain funds created under the Indenture; 10) certain Grant-related Facilities & Administrative Costs with respect to the Series H 2004 debt; 11) revenue generated from the student facility enhancement fee; 12) lease income generated from the University’s lease with the ASMSU Bookstore; and 13) student fees 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, the MSU Extension Service, the Montana Agricultural Experiment Station, or the Fire Services Training School.

All of the above revenues are cross-pledged to repay any and all of the secured debt. The remaining cash requirements to repay bonds, including principal and interest, total \$184,560,761 from July 1, 2008 through June 30, 2036. Amounts of pledged revenue were as follows in the years ended June 30:

Description	2008			2007		
	Pledged Revenue	Total Similar Revenue	% Pledged	Pledged Revenue	Total Similar Revenue	% Pledged
Student fees (no tuition is pledged)	\$ 6,460,008	\$ 28,683,370	23%	\$ 6,456,153	\$ 27,897,047	23%
Housing and residence hall dining revenues, net of related expenses	5,405,312	5,405,312	100%	5,945,966	5,945,966	100%
Grant and contract facility and administrative cost recoveries	1,468,573	16,396,341	9%	2,534,269	16,835,562	15%
Bozeman campus athletic events revenue	1,756,941	1,774,103	99%	1,481,987	1,545,118	96%
Bozeman campus parking revenues	1,698,751	1,698,751	100%	1,737,045	1,737,045	100%
Bozeman bookstore and Museum lease income	664,412	664,412	100%	656,756	656,756	100%
Land grant income	2,303,335	2,303,335	100%	2,219,068	2,219,068	100%
Investment income	1,551,517	5,417,225	29%	2,447,878	8,740,024	28%
Total	<u>21,308,849</u>			<u>23,479,122</u>		
Debt service requirements	<u>9,704,577</u>			<u>8,997,665</u>		
Excess of pledged revenue over debt service requirements	<u>\$ 11,604,272</u>			<u>\$ 14,481,457</u>		

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The University has initiated construction or is authorized to do so, on the following major capital and maintenance projects:

Description	Amount Expended through June 2008	Remaining Amount Authorized	Total Expected Project Cost
Billings College of Technology*	\$ -	\$ 451,885	\$ 451,885
Renovate McMullen Hall *	796,674	2,431,713	3,228,387
Animal Bioscience Facility	900,357	14,956,643	15,857,000
Bozeman Area AES Improvements*	15,586	484,414	500,000
Campus Duckpond Reconstruction	250,000	100,000	350,000
Campus Street Maintenance	169,382	80,618	250,000
Chemistry/Biochemistry Facility	23,272,501	745,499	24,018,000
Cleveland 8th Street Overlay	54,836	595,164	650,000
Cobleigh Sub Zero Lab	1,034,258	932,652	1,966,910
Cooley Renovation	677,981	4,322,019	5,000,000
Culbertson Window Replacement	181,780	43,220	225,000
Gaines Hall Renovation*	4,010,879	27,901,834	31,912,713
Hamilton Hall Restoration*	203,700	659,000	862,700
Irrigation System Replacement	40,000	384,113	424,113
Lab and Seed Process Building*	744	658,459	659,203
Lewistown WTI Snow Making Facility	17,456	1,164,843	1,182,299
Library Freeze Protection Upgrade	4,980	95,020	100,000
Library ITC Electrical System Upgrade	285,411	65,589	351,000
Museum of the Rockies Drain Modification	229,942	23,319	253,261
Museum of the Rockies Expansion Plan	308,766	184,412	493,178
Museum of the Rockies Renovation	388,085	6,415	394,500
North Central AES Improvements*	-	1,805,600	1,805,600
Office/Lab Classroom Building*	106,059	1,493,941	1,600,000
Outdoor Track Bobcat Plaza	66,573	61,589	128,162
Plew Office Remodel	410,063	198,730	608,793
Residence Halls Shower Replace	134,418	17,553	151,971
Stabilize Masonry*	49,764	2,550,236	2,600,000
Student Facilities Enhancement	30,851,937	963,925	31,815,862
Taylor Basement Renovation	173,200	30,000	203,200
Visual Communications Building Reroof*	266,312	15,888	282,200
Visual Communications Window Repair*	3,440	246,560	250,000
Water/Sewer System Improvements*	67,028	431,722	498,750
Great Falls COT Skilled Trades Building	1,979,297	347,149	2,326,446
Hagner Science Cooling Upgrade*	32,267	220,029	252,296
Library/PE Boiler Upgrade*	7,454	392,546	400,000
Renovate Auto Tech Center*	-	800,000	800,000
Pershing Hall Exterior Renovation*	193,793	15,207	209,000
Totals	\$ 67,184,923	\$ 65,877,506	\$ 133,062,429

* 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.

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NOTE 18 – RELATED PARTIES

Private nonprofit organizations affiliated with the University include the MSU Foundation, the MSU-Billings Foundation (including the Sting Athletic Association and the Alumni Association), the MSU-Northern Foundation, the MSU-Bozeman Alumni Association, the MSU Bobcat Club, the MSU-Bozeman Bookstore, Friends of KUSM, 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, 2008 and 2007, respectively, the Foundations provided \$9,342,049 and \$7,536,294 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 \$1,330,172 and \$1,258,151 during the years ended 2008 and 2007, respectively, which included payments for contracted services, capital campaign support, and operating leases.

MSU- Bozeman leased certain office space from Grubb & Ellis Company and the MSU Foundation's wholly owned subsidiary, Advanced Technology Inc. (ATI). Grubb & Ellis Company is a property management firm affiliated with the MSU Foundation through ATI. Rental and other payments to Grubb & Ellis and ATI totaled \$136,943 during 2008 and \$166,906 during 2007. In June 2008, the University entered into a space lease agreement with the MSU Foundation in which a total of \$350,000 in rent was paid over a period of five months, in exchange for a 20-year space rental agreement. The unamortized prepaid rent amount is included in the accompanying Statement of Net Assets as a prepaid expense (current portion) and as an other asset (long-term portion).

Friends of Montana Public Television provided \$709,902 during 2008 and \$704,234 during 2007, and Friends of KEMC Public Radio provided \$560,302 during 2008 and \$480,676 during 2007 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 \$1,787,399 and \$1,557,266 during the fiscal years ended June 2008 and 2007, respectively, in support of the University, primarily as reimbursement for Museum staff salaries and benefits as well as improvements to the leased facility. The Museum of the Rockies lease continues at a rate of \$300,000 per year through 2016.

The MSU Bobcat Club provided \$692,755 and \$626,500 in support of athletic programs during the years ended June 30, 2008 and 2007.

NOTE 19 – SUBSEQUENT EVENTS

On September 12, 2008, United States and global financial markets saw a severe downturn, as one of the nation's major banks was notified that the federal government was not expected to participate in a bail-out. Several other banks have experienced financial stress as well. On October 3, 2008, the United States Congress approved the Emergency Economic Stabilization Act of 2008. The previously-established President's Working Group on Financial Markets has worked closely with the Secretary of the Treasury to implement the provisions of the Act in an effort to stabilize the nation's economy.

Series J 2005 Bonds—

On September 11, 2008, the University remarketed its Series J 2005 bonds as Variable Rate Demand Bonds in the Daily Mode, whereas they had previously been marketed as Municipal Auction Rate Securities in the weekly mode. The bonds were remarketed without bond insurance, because variable rate instruments backed by a direct-pay letter of credit were trading at more attractive rates from the bond issuer's perspective, which is a result of the insurer's downgrading and general market conditions. The University entered into a Letter of Credit and Reimbursement Agreement with Wachovia Bank, NA ("Wachovia"), for a term of two years, in which Wachovia assumes a direct-pay responsibility for the bonds. Wachovia is currently in the process of a takeover.

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Due to turbulent market conditions, the daily rate on the Series J bonds since their restructuring on September 11th has seen a wide range of rates, from 9.0% on September 23rd and 24th to 0.75% on November 19th. Because the University has an intended synthetic fixed rate of 3.953% through its interest rate agreement with DBAG (see note 10), the wide fluctuations in rates have been somewhat tempered. However, increases in short-term SIFMA rates without a corresponding increase in long-term rates resulted in a payment of approximately \$52,000 in connection with the University's constant maturity swap in October of 2008. As of November 19th, the weekly SIFMA rate had decreased to 1.12%, putting the University into a cash-receiving position on its constant maturity swap (see note 10).

Cash Equivalents and Investments—

As of June 30, 2008 MSU had \$55,757,355 invested in the State of Montana STIP, or 2.40% of the total pool balance of \$2,322,008,128. The University had \$14,490,747 invested in the State's TFBP, or 0.94% of the \$1,545,945,703 TFBP balance.

On September 7, 2008, the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation were put into conservatorship. Together, the STIP and the TFBP had \$1,061,557,482 invested in these securities at June 30, 2008.

On September 14, 2008, Lehman Brothers filed for Chapter 11 bankruptcy. The TFBP held a \$5,000,000 position in Lehman Brothers. As of September 30, 2008, the book value of these bonds was written down to 80% of par.

On September 16, 2008, the U.S. Government acquired 80% of AGI stock and extended \$85 billion in financing to the company. The loan will be repaid by the sale of AIG assets. The loan is collateralized by all the company's assets, valued at \$1.05 trillion as of June, 20, 2008. The two STIP AIG securities matured on July 21, 2008 and July 30, 2008.

On September 26, 2008, Washington Mutual filed for Chapter 11 bankruptcy. The bonds are now in default following the seizure of the bank by the Office of Thrift Supervision on September 25, 2008. The state investment pools held a \$20 million dollar position in Washington Mutual, Inc. 4.2%, 01/15/2010. The investment pools in which the university participates held a \$10,400,000 position in Washington Mutual, Inc. On September 26, 2008, the Board sold \$10 million par, at a price of \$38, with an October 1, 2008 settlement date. This sale generated a loss of \$6.2 million. As of September 30, 2008, the book value of the remaining \$10 million bond position was written down to 85% of par.

Asset values in the University's endowment funds, as well as in the separate 501(c)(3) endowments of the component units, saw a decline during the year ended June 30, 2008, as well as in the months subsequent to June 30, 2008. Management is in the process of assessing the impact on the University's financial condition.

NOTE 20 – COMPONENT UNITS

Entities included as component units of the University 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 Bobcat Club (406-994-3741), and the Museum of the Rockies, Inc (406-994-3466).

Condensed financial information for each of the University's component units follows. Certain of the component units restated their prior year financial statements after discovering minor errors, primarily related to the classification of expenses between unrestricted and temporarily restricted net asset classifications. In addition, the

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value of assets contributed to a trust and classification of certain life insurance contributions were corrected. The information presented below has been restated to reflect the corrected data.

Montana State University
Condensed Combining Schedule of Component Unit Statements of Financial Position
As of June 30, 2008 or December 31, 2007*

	Montana State University Foundation	Montana State University- Billings Foundation	Montana State University- Northern Foundation	Museum of the Rockies, Inc.	Montana State University Bobcat Club	Combined
Assets:						
Cash and investments	\$ 125,657,354	\$ 17,843,909	\$ 2,662,038	\$ 10,097,296	\$ 2,196,435	\$158,457,032
Amounts due from MSU	-	-	2,005,169	-	-	2,005,169
Other receivables, net	6,321,495	1,542,500	1,018,793	1,924,489	27,078	10,834,355
Capital assets, net	4,467,179	2,015,362	457	4,233,638	5,619	10,722,255
Other assets	130,480	195,729	61,230	1,178,625	3,784	1,569,848
Total assets	\$ 136,576,508	\$ 21,597,500	\$ 5,747,687	\$ 17,434,048	\$ 2,232,916	\$183,588,659
Liabilities:						
Accounts payable and other liabilities	\$ 950,860	\$ 702,586	\$ 10,608	\$ 378,883	\$ 56,573	\$2,099,510
Amounts due to MSU	-	-	-	555,143	362,500	917,643
Notes, bonds and debt obligations	2,324,281	-	-	94,839	-	2,419,120
Liabilities to external parties	3,370,945	257,657	2,327,269	-	-	5,955,871
Custodial funds	10,740,062	1,457,545	-	-	88,126	12,285,733
Total liabilities	17,386,148	2,417,788	2,337,877	1,028,865	507,199	23,677,877
Net assets:						
Unrestricted	5,434,381	4,652,878	(783,306)	7,930,472	123,948	17,358,373
Temporarily restricted	41,721,581	4,804,451	1,074,134	7,655,917	246,076	55,502,159
Permanently restricted	72,034,398	9,722,383	3,118,982	818,794	1,355,693	87,050,250
Total net assets	119,190,360	19,179,712	3,409,810	16,405,183	1,725,717	159,910,782
Total liabilities and net assets	\$ 136,576,508	\$ 21,597,500	\$ 5,747,687	\$ 17,434,048	\$ 2,232,916	\$183,588,659

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

	2008	2007 (restated)
Pooled investments:		
Equity securities	\$ 60,528,922	\$ 81,028,505
Debt securities	27,334,204	24,821,715
Alternative investments	34,704,780	27,949,090
Cash equivalents and other	2,703,089	801,053
Real Estate	6,246,790	6,246,790
US Treasuries	721,994	905,315
Other real estate	1,222,151	1,092,015
Other investments	12,153,096	12,577,093
Investments held in trust	5,064,015	1,974,444
Total	\$ 150,679,041	\$ 157,396,020

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

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Montana State University
Condensed Combining Schedule of Component Unit Statements of Activities
For the Year Ended June 30, 2008 or December 31, 2007*

	Montana State University Foundation	Montana State University- Billings Foundation	Montana State University- Northern Foundation	Museum of the Rockies, Inc.	Montana State University Bobcat Club	Combined
Revenues:						
Contributions	\$ 12,447,964	\$ 2,502,801	\$ 980,057	\$ 2,133,824	\$ 636,972	\$ 18,701,618
Investment income (loss) and unrealized gain (loss) on investments	(5,354,714)	(665,443)	(398,260)	647,179	101,631	(5,669,607)
Support from University	-	128,488	142,000	-	-	270,488
Other income	3,001,019	750,826	29,814	2,871,365	809,935	7,462,959
Total revenues	10,094,269	2,716,672	753,611	5,652,368	1,548,538	20,765,458
Expenses:						
University support	7,115,973	873,797	405,306	1,460,745	-	9,855,821
Scholarships and other program expenses	1,989,483	1,557,712	269,105	1,613,451	728,456	6,158,207
Supporting services	3,770,222	677,393	279,912	2,037,676	782,034	7,547,237
Total expenses	12,875,678	3,108,902	954,323	5,111,872	1,510,490	23,561,265
Change in net assets before nonoperating items	(2,781,409)	(392,230)	(200,712)	540,496	38,048	(2,795,807)
Nonoperating expenses	(263,241)	-	-	-	-	(263,241)
Change in net assets	(3,044,650)	(392,230)	(200,712)	540,496	38,048	(3,059,048)
Net assets, beginning of fiscal year	122,235,010	19,571,942	3,610,522	15,864,687	1,687,669	162,969,830
Net assets, end of fiscal year	\$ 119,190,360	\$ 19,179,712	\$ 3,409,810	\$ 16,405,183	\$ 1,725,717	\$159,910,782

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

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Montana State University
Condensed Combining Schedule of Component Unit Statements of Financial Position
As of June 30, 2007 or December 31, 2006* as restated

	Montana State University Foundation	Montana State University- Billings Foundation	Montana State University- Northern Foundation	Museum of the Rockies, Inc.	Montana State University Bobcat Club	Combined
Assets:						
Cash and investments	\$ 131,036,631	\$ 18,167,568	\$ 2,780,401	\$ 8,888,290	\$ 2,306,538	\$ 163,179,428
Amounts due from MSU	-	-	2,005,169	-	-	2,005,169
Other receivables, net	5,317,709	1,650,400	1,152,733	1,925,516	28,203	10,074,561
Capital assets, net	3,660,433	2,058,881	3,438	3,226,908	9,184	8,958,844
Other assets	495,164	170,905	61,230	2,776,398	5,400	3,509,097
Total assets	\$ 140,509,937	\$ 22,047,754	\$ 6,002,971	\$ 16,817,112	\$ 2,349,325	\$ 187,727,099
Liabilities:						
Accounts payable and other liabilities	\$ 548,070	\$ 632,164	\$ 3,149	\$ 337,115	\$ 67,862	\$ 1,588,360
Amounts due to MSU	-	-	-	505,356	384,750	890,106
Notes, bonds and debt obligations	2,226,244	-	-	109,954	104,203	2,440,401
Liabilities to external parties	1,037,637	242,613	2,389,300	-	-	3,669,550
Custodial funds	14,462,976	1,601,035	-	-	104,841	16,168,852
Total liabilities	18,274,927	2,475,812	2,392,449	952,425	661,656	24,757,269
Net assets:						
Unrestricted	4,818,972	4,806,417	(677,964)	7,400,020	96,750	16,444,195
Temporarily restricted	50,967,664	5,587,649	1,394,734	7,646,123	244,726	65,840,896
Permanently restricted	66,448,374	9,177,876	2,893,752	818,544	1,346,193	80,684,739
Total net assets	122,235,010	19,571,942	3,610,522	15,864,687	1,687,669	162,969,830
Total liabilities and net assets	\$ 140,509,937	\$ 22,047,754	\$ 6,002,971	\$ 16,817,112	\$ 2,349,325	\$ 187,727,099

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

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Montana State University
Condensed Combining Schedule of Component Unit Statements of Activities
For the Year Ended June 30, 20067 or December 31, 2006 as restated

	Montana State University Foundation	Montana State University- Billings Foundation	Montana State University- Northern Foundation	Museum of the Rockies, Inc.	Montana State University Bobcat Club	Combined
Revenues:						
Contributions	\$ 12,107,693	\$ 2,184,645	\$ 781,150	\$ 2,579,188	\$ 599,026	\$ 18,251,702
Investment income and unrealized gain on investments	16,596,505	2,264,354	314,963	697,647	88,970	19,962,439
Support from University	-	383,166	136,500	-	-	519,666
Other income	2,783,671	935,899	4,540	2,188,940	769,408	6,682,458
Total revenues	31,487,869	5,768,064	1,237,153	5,465,775	1,457,404	45,416,265
Expenses:						
University support	5,375,579	841,238	317,863	1,234,697	-	7,769,377
Scholarships and other program expenses	1,825,366	1,423,358	175,765	1,508,390	741,005	5,673,884
Supporting services	3,024,420	596,713	316,749	1,123,225	864,998	5,926,105
Total expenses	10,225,365	2,861,309	810,377	3,866,312	1,606,003	19,369,366
Change in net assets before nonoperating items	21,262,504	2,906,755	426,776	1,599,463	(148,599)	26,046,899
Nonoperating expenses	(16,888)	-	-	-	-	(16,888)
Change in net assets	21,245,616	2,906,755	426,776	1,599,463	(148,599)	26,030,011
Net assets, beginning of fiscal year	100,989,394	16,665,187	3,183,746	14,265,224	1,836,268	136,939,819
Net assets, end of fiscal year	\$ 122,235,010	\$ 19,571,942	\$ 3,610,522	\$ 15,864,687	\$ 1,687,669	\$ 162,969,830

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Unaudited Supplemental Information

Montana State University
 Unaudited Consolidating Statements of Net Assets
 June 30, 2008

ASSETS	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	MSU - Great Falls College of Technology	Intercampus Eliminations	Total
Current assets:									
Cash and cash equivalents	\$ 78,997,455	\$ 5,567,629	\$ 3,050,061	\$ 171,609	\$ 21,552,591	\$ 1,672,600	\$ 4,385,047	\$ -	\$ 115,396,992
Securities lending collateral	2,720,113	-	-	-	536,554	-	29,525	-	3,286,192
Accounts and grants receivable, net	4,160,402	341,325	77,734	930	1,397,749	673,791	246,640	-	6,898,571
Amounts receivable from Federal government	13,756,632	-	69,293	-	101,369	-	23,793	-	13,951,087
Amounts receivable from primary government	1,107,394	163,876	51,576	150	115,155	55,521	40,418	-	1,534,090
Amounts receivable from Montana component units	1,132	-	-	-	13,580	5,344	-	-	20,056
Amounts receivable from MSU campuses	747,981	-	-	-	613,920	8,672	17,017	(1,387,590)	-
Loans receivable, net	2,379,218	-	-	-	313,604	284,500	-	-	2,977,322
Inventories	895,317	623,390	-	3,668	950,681	261,516	205,280	-	2,939,852
Prepaid expenses and other current assets	1,818,033	3,543	18,027	-	98,344	74,041	14,578	-	2,026,566
Total current assets	106,583,677	6,699,763	3,266,691	176,357	25,693,547	3,035,985	4,962,298	(1,387,590)	149,030,728
Noncurrent assets:									
Restricted cash and cash equivalents	998,245	-	-	-	11,243	15,270	10,245	-	1,035,003
Restricted investments	6,767,230	-	-	-	1,157	97,532	1,055	-	6,866,974
Loans receivable, net	16,143,113	-	-	-	3,076,130	1,319,209	-	-	20,538,452
Investments	17,848,207	370,703	176,708	7,001	1,492,411	-	61,745	-	19,956,775
Capital assets	216,734,308	11,246,666	145,222	173,227	49,975,207	17,932,469	21,295,065	-	317,502,164
Other noncurrent assets	2,007,110	-	-	-	39,715	14,256	-	(260,000)	1,801,081
Total noncurrent assets	260,498,213	11,617,369	321,930	180,228	54,595,863	19,378,736	21,368,110	(260,000)	367,700,449
Total assets	\$ 367,081,890	\$ 18,317,132	\$ 3,588,621	\$ 356,585	\$ 80,289,410	\$ 22,414,721	\$ 26,330,408	\$ (1,647,590)	\$ 516,731,177
LIABILITIES									
Current liabilities:									
Accounts payable and accrued liabilities	\$ 18,248,228	\$ 1,128,065	\$ 1,102,186	\$ 75,634	\$ 2,669,027	\$ 1,290,317	\$ 1,055,471	\$ -	\$ 25,568,928
Amounts payable to primary government	3,137,752	-	577	-	756,641	403,698	80,744	-	4,379,412
Amounts payable to Montana component units	269,269	-	321	-	26,178	-	-	-	295,768
Amounts payable to MSU campuses	248,520	583	-	1,054	1,080,246	46,160	11,027	(1,387,590)	-
Securities Lending Liability	2,720,113	-	-	-	536,554	-	29,525	-	3,286,192
Property held in trust for others	1,108,944	-	-	-	114,236	36,054	110,660	-	1,369,894
Deferred revenues	7,415,395	-	14,934	-	1,571,170	463,863	212,576	-	9,677,938
Compensated absences	8,362,986	1,054,728	875,750	51,446	1,745,387	781,975	308,473	-	13,180,745
Current portion debt and capital lease obligations	4,280,096	-	-	-	465,000	260,812	-	-	5,005,908
Total current liabilities	45,791,303	2,183,376	1,993,768	128,134	8,964,439	3,282,879	1,808,476	(1,387,590)	62,764,785
Noncurrent liabilities:									
Advances from primary government	9,998,448	-	-	-	1,246,910	1,009,991	126,799	(260,000)	12,122,148
Debt and capital lease obligations	103,462,189	-	-	-	12,168,745	3,053,942	-	-	118,684,876
Compensated absences	8,427,096	1,062,812	882,464	62,186	1,732,031	472,441	414,351	-	13,053,381
OPEB	5,920,506	433,146	368,534	17,928	1,328,039	587,571	314,462	-	8,970,186
Due to Federal government	17,067,794	-	-	-	3,065,375	1,492,165	-	-	21,625,334
Total noncurrent liabilities	144,876,033	1,495,958	1,250,998	80,114	19,541,100	6,616,110	855,612	(260,000)	174,455,925
Total liabilities	190,667,336	3,679,334	3,244,766	208,248	28,505,539	9,898,989	2,664,088	(1,647,590)	237,220,710
NET ASSETS									
Invested in capital assets, net of related debt	105,361,009	11,246,066	145,222	173,227	35,917,350	13,702,796	21,108,347	-	187,654,017
Restricted - nonexpendable	11,009,634	-	-	-	651,724	355,364	11,300	-	12,028,022
Restricted - expendable	8,162,171	452,521	164,068	-	843,924	354,232	107,563	-	10,084,479
Unrestricted	51,881,740	2,939,211	34,565	(24,890)	14,370,873	(1,896,660)	2,439,110	-	69,743,949
Total net assets	176,414,554	14,637,798	343,855	148,337	51,783,871	12,515,732	23,666,320	-	279,510,467
Total liabilities and net assets	\$ 367,081,890	\$ 18,317,132	\$ 3,588,621	\$ 356,585	\$ 80,289,410	\$ 22,414,721	\$ 26,330,408	\$ (1,647,590)	\$ 516,731,177

Montana State University
Unaudited Consolidating Statements Revenues, Expenses and Changes in Net Assts
For the year ended June 30, 2008

	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	MSU - Great Falls College of Technology	Intercampus Eliminations	Total
Operating revenues:									
Tuition and fees	\$ 82,424,849	\$ -	\$ -	\$ -	\$ 21,614,428	\$ 4,934,414	\$ 3,911,023	\$ -	\$ 112,884,714
Federal appropriations	-	3,544,549	3,085,361	-	-	-	-	-	6,629,910
Federal grants and contracts	76,715,611	-	500,689	-	9,754,771	4,036,957	2,236,636	(799,581)	92,445,083
State grants and contracts	5,364,767	-	68,384	-	575,199	394,472	360,406	-	6,763,228
Non-governmental grants and contracts	9,057,348	-	145,025	-	517,718	17,187	133,954	-	9,871,232
Indirect cost recoveries	15,864,888	-	-	-	351,730	178,572	1,151	-	16,396,341
Educational, public service and outreach revenues	14,624,954	2,058,281	3,451,635	173,763	1,819,862	524,486	64,633	(1,843,823)	20,873,791
Auxiliary - housing	11,697,348	-	-	-	1,421,351	429,176	-	-	13,547,875
Auxiliary - food service	11,638,342	-	-	-	873,328	579,062	61,722	-	13,152,454
Auxiliary - other auxiliary sales and services	3,424,980	-	-	-	3,979,528	681,360	1,023,291	(96,128)	9,013,031
Interest earned on loans	39,571	-	-	-	79,336	5,381	-	-	124,288
Other operating revenues	975,128	39,357	5,863	523	149,095	37,962	13,341	-	1,221,269
Total operating revenues	231,827,786	5,642,187	7,256,957	174,286	41,136,346	11,819,029	7,806,157	(2,739,532)	302,923,216
Operating expenses:									
Compensation and benefits	169,336,952	12,981,909	11,117,718	576,153	32,454,321	12,970,704	8,295,877	-	247,733,634
Annual Required Contribution OPEB	5,920,506	433,146	368,534	17,928	1,328,039	587,571	314,462	-	8,970,186
Operating expenses	91,038,718	2,920,705	2,328,218	306,482	21,269,039	5,591,383	3,875,832	(2,982,312)	124,348,065
Scholarships and fellowships	10,937,999	11,423	4,703	-	3,798,776	1,375,757	1,258,190	-	17,386,848
Depreciation and amortization	18,332,909	762,805	41,690	55,785	2,777,138	799,722	581,375	-	23,351,424
Total operating expenses	295,567,084	17,109,988	13,860,863	956,348	61,627,313	21,325,137	14,325,736	(2,982,312)	421,790,157
Operating loss	(63,739,298)	(11,467,801)	(6,603,906)	(782,062)	(20,490,967)	(9,506,108)	(6,519,579)	242,780	(118,866,941)
Nonoperating revenues (expenses):									
State appropriations	48,013,114	12,705,274	5,961,807	777,460	18,338,285	9,251,282	5,603,818	-	100,651,040
Land grant and timber sales income	2,015,346	-	-	-	287,989	-	-	-	2,303,335
Gifts	9,159,138	48,195	57,682	-	1,844,887	772,431	50,341	-	11,932,674
Investment Income	3,947,235	244,735	108,032	7,579	897,052	32,744	179,848	-	5,417,225
Interest expense	(5,240,749)	(82,680)	-	-	(620,024)	(222,351)	(9,741)	-	(6,175,545)
Net nonoperating revenues (expenses)	57,894,084	12,915,524	6,127,521	785,039	20,748,189	9,834,106	5,824,266	-	114,128,729
Income before other revenues, expenses, gains and losses	(5,845,214)	1,447,723	(476,385)	2,977	257,222	327,998	(695,313)	242,780	(4,738,212)
Transfers in (out)	(93,793)	(310,012)	213,573	(283)	(25,907)	150,338	66,084	-	-
Gain or loss on sale of fixed assets	(359,137)	(15,004)	823	2,000	15,335	(26,847)	(138)	-	(382,968)
Additions to permanent endowments	8,815	-	-	-	-	-	-	-	8,815
Gifts, capital grants and contributions	6,721,018	196,228	-	-	7,673,635	199,197	8,280,128	(242,780)	22,827,426
Change in net assets	431,689	1,318,935	(261,989)	4,694	7,920,285	650,686	7,650,761	-	17,715,061
Net assets, beginning of year	175,982,865	13,318,863	605,844	143,643	43,863,586	11,865,046	16,015,559	-	261,795,406
Net assets, end of year	\$ 176,414,554	\$ 14,637,798	\$ 343,855	\$ 148,337	\$ 51,783,871	\$ 12,515,732	\$ 23,666,320	\$ -	\$ 279,510,467

Montana State University
 Unaudited Selected Cash Flow Information
 For the year ended June 30, 2008

	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	MSU - Great Falls College of Technology	Inter-campus Eliminations	MSU Consolidated
Cash flows from operating activities:									
Operating revenues:									
Tuition and fees	\$ 82,731,393	\$ -	\$ -	\$ -	\$ 21,435,313	\$ 4,583,640	\$ 3,956,688	\$ -	\$ 112,707,034
Federal appropriations	-	3,544,549	3,358,709	-	-	-	-	-	6,903,258
Federal grants and contracts	77,942,750	-	512,707	-	9,757,498	4,038,806	2,261,885	(799,581)	93,714,065
State grants and contracts	5,674,120	-	68,384	-	699,739	494,856	341,844	-	7,278,943
Private grants and contracts	9,770,347	-	145,025	-	378,329	23,821	133,954	-	10,451,476
Indirect cost recoveries	15,834,609	-	-	-	351,730	178,572	1,151	-	16,366,062
Educational, public service and outreach revenues	14,643,269	1,729,931	3,431,768	173,610	1,791,709	530,991	64,633	(1,843,822)	20,522,089
Sales and services of auxiliary enterprises	26,783,217	-	-	15,909	6,229,253	1,668,551	1,085,013	(96,128)	35,685,815
Interest on loans receivable	283,803	-	-	-	79,336	15,052	-	-	378,191
Other operating receipts	975,128	39,357	5,863	523	149,095	37,962	13,341	-	1,221,269
Operating expenses:									
Compensation and benefits	(168,229,691)	(12,794,379)	(10,739,387)	(562,025)	(32,363,742)	(13,151,632)	(8,293,593)	-	(246,134,449)
Operating expenses	(91,268,776)	(3,428,672)	(2,685,926)	(324,623)	(20,899,260)	(5,520,583)	(3,725,770)	2,982,311	(124,871,299)
Scholarships and fellowships	(10,937,999)	(11,423)	(4,703)	-	(3,798,776)	(1,375,757)	(1,258,190)	-	(17,386,848)
Loans made to students	(5,104,680)	-	-	-	(552,970)	(287,926)	-	-	(5,945,576)
Loan payments received	3,617,485	-	-	-	322,879	331,798	-	-	4,272,162
Inter-campus due to/from	(545,634)	132,839	124,704	20,669	88,448	164,966	14,008	-	-
Net cash used in operating activities	(37,830,659)	(10,787,798)	(5,782,856)	(675,937)	(16,331,419)	(8,266,883)	(5,405,036)	242,780	(84,837,808)
Cash flows from noncapital financing activities:									
Receipts (disbursements) of funds held in trust for others	399,721	-	-	-	(19,928)	158,570	12,937	-	551,300
State appropriations	48,013,114	12,548,703	5,961,807	777,460	18,253,454	9,251,282	5,603,818	-	100,409,638
Gifts and contributions (expendable)	9,159,141	48,195	57,682	-	1,844,887	772,431	50,341	-	11,932,677
Land grant income	2,015,345	-	-	-	287,989	-	-	-	2,303,334
Repayment of long-term advance from primary government	(48,098)	-	-	-	-	-	-	-	(48,098)
Additions to permanent endowments	8,815	-	-	-	-	-	-	-	8,815
Transfers between campuses and agencies	(93,793)	(310,012)	213,573	(283)	(25,907)	150,338	66,084	-	-
Net cash flows from noncapital financing activities	59,454,245	12,286,886	6,233,062	777,177	20,340,495	10,332,621	5,733,180	-	115,157,666
Cash flows from capital financing activities:									
Purchase of capital assets	(28,850,749)	(1,419,810)	(87,602)	(82,927)	(2,947,623)	(661,093)	(443,763)	(242,780)	(34,736,347)
Proceeds from sale of capital assets	64,156	21	5,532	2,000	17,985	-	400	-	90,094
Gifts -restricted for capital purchase	2,829,256	-	-	-	-	-	-	-	2,829,256
Other capital financing activities	(797,250)	-	-	-	-	-	-	-	(797,250)
Proceeds from borrowings	16,741,472	-	-	-	-	1,384,585	-	-	18,126,057
Debt retirement	(20,610,410)	-	-	-	(390,000)	(1,254,571)	-	-	(22,254,981)
Payment of debt issue costs	(299,615)	-	-	-	-	(14,256)	-	-	(313,871)
Advances from primary government	3,964,337	-	-	-	725,000	23,970	-	-	4,713,307
Repayment of advances from primary government	(883,404)	-	-	-	(191,120)	(217,655)	(57,707)	-	(1,349,886)
Interest paid	(4,891,829)	(82,681)	-	-	(598,804)	(207,657)	(9,741)	-	(5,790,712)
Net cash change from capital financing activities	(32,734,036)	(1,502,470)	(82,070)	(80,927)	(3,384,562)	(946,677)	(510,811)	(242,780)	(39,484,333)
Cash flows from investing activities:									
Purchase of investments	(3,446,337)	(370,703)	(176,708)	(7,001)	(1,141,282)	-	(62,800)	-	(5,204,831)
Proceeds from sale of investments	18,133,440	-	-	-	154,107	-	-	-	18,287,547
Investment income	4,177,399	244,735	108,032	7,579	928,386	32,454	188,156	-	5,686,741
Net cash change from investing activities	18,864,502	(125,968)	(68,676)	578	(58,789)	32,454	125,356	-	18,769,457
Net change in cash and cash equivalents	7,754,052	(129,350)	299,460	20,891	565,725	1,151,515	(57,311)	-	9,604,982
Balances at beginning of year	72,241,648	5,696,979	2,750,601	150,718	20,998,109	536,355	4,452,603	-	106,827,013
Balances at end of year	\$ 79,995,700	\$ 5,567,629	\$ 3,050,061	\$ 171,609	\$ 21,563,834	\$ 1,687,870	\$ 4,395,292	\$ -	\$ 116,431,995

Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2008

(continued)

Montana State University

Overview

The University is 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**

	2008	2007	2006
Montana residents			
Undergraduate	12,735	12,988	13,217
Graduate	1,002	956	991
Non-residents			
Undergraduate	2,293	2,200	2,064
Graduate	272	284	291
Western Undergraduate Exchange	626	679	740
Total	16,928	17,107	17,303

Tuition and Fees

Tuition and fees vary from campus to campus, and on each campus differ for residents and nonresidents and for undergraduate students and graduate students. The ranges of tuition and fees charged for full-time students during the 2007-2008 academic year, on a per-semester basis, were as follows:

	Resident	Non-Resident
	Undergraduate—Graduate	Undergraduate—Graduate
Bozeman Campus	\$2,874—\$3,330	\$4,057—\$8,593
Billings Campus	\$2,566—\$2,965	\$3,616—\$7,252
Northern Campus ⁽¹⁾	\$2,178—\$3,043	\$3,019—\$7,867
Great Falls Campus ⁽²⁾	\$1,491—N/A	\$2,115—N/A

(1) Average of lower and upper divisions.

(2) Undergraduate program only.

Employees

As of December 31, 2007, the University employed 5,292 people (head count) as follows:

	Bozeman	Billings	Northern	Great Falls	Total
Faculty/Professional	1,841	436	185	163	2,625
State classified system	1,095	214	68	48	1,425
Temporary hourly	251	375	20	20	666
Graduate students	558	18	-	-	576
Total	3,745	1,043	273	231	5,292

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.

Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2008

(continued)

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.

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 full-service library, nine residence halls, three cafeterias, a six-story engineering building, a recently renovated health and fitness complex, the Museum of the Rockies, the Strand Union Building and numerous other classroom buildings and special laboratories. Construction of a new chemistry/biochemistry research facility, financed with facility & administrative cost recoveries, was completed in fall 2007. The State's Long Range Building Program recently approved funding for and began the renovation of the University's 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 Extended University provides educational opportunities 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,

	2008	2007	2006	2005	2004
Resident					
Undergraduate	7,166	7,315	7,456	7,367	7,504
Graduate	685	629	633	634	634
Total resident	7,851	7,944	8,089	8,001	8,138
Non-resident					
Undergraduate	2,086	2,000	1,869	1,876	1,790
Graduate	230	251	263	257	253
Total non-resident	2,316	2,251	2,132	2,133	2,043
Western Undergraduate Exchange	299	360	421	394	484
Total	10,466	10,555	10,642	10,528	10,665

Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2008

(continued)

	Degrees Granted - Fiscal Years Ended June 30,				
	2008	2007	2006	2005	2004
Undergraduate	1,809	1,837	1,821	1,805	1,821
Graduate	487	523	480	482	417
TOTAL:	2,296	2,360	2,301	2,287	2,238

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 in-state, out-of-state, and out-of-area students to maintain a healthy and diverse 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 State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2008**

(continued)

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 and outreach, formalized a contract for maintaining viable agricultural and natural resource industries 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 and amendments through the authority of the MAES Director. 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 MAES faculty are located on the MSU-Bozeman campus, with split appointments between research, teaching and some Extension Service, which provides unique and high quality educational opportunities on- and off-campus 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. Through 2006--2008, the College of Agriculture, which is predominantly funded by MAES, remains the highest-ranking college in terms of sponsored program expenditures, between \$23 and \$29 million annually. The College/MAES have three departments that rank in the top ten 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 critical to compete for external funding to fund and maintain quality research programs to meet the needs of the state and add value to Montana's agricultural and natural resources, in light of flat federal appropriations (18% total) and the many demands statewide for state appropriations (82%). 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 continued difficulty competing in terms of salaries, equipment, infrastructure and facilities offered or available, and will reduce the size of the operation if needed to fund increased costs.

**Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2008**

(continued)

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 23,332 Montana youth, ages 6-19. About 49 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 4,551 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.

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(continued)

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 2008 fiscal year 3,301 emergency responders from 44 counties received 2,085.5 course hours of instruction from FSTS. The school issued a total of 56 professional training certifications and made 773 resource center loans of equipment and training materials

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(continued)

MSU- Billings**Campus Overview**

Montana State University 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. The Athletic Training Program is certified by the Commission on Accreditation of Allied Health Education Programs. College of Technology programs include accreditation by 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 and continues progress toward 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,				
	2008	2007	2006	2005	2004
Resident					
Undergraduate	2,844	2,845	2,910	2,890	2,937
College of Technology	666	665	634	638	638
Graduate	254	252	287	288	298
Total Resident	3,764	3,762	3,831	3,816	3,873
Non-resident					
Undergraduate	86	92	102	85	75
College of Technology	4	6	7	12	8
Graduate	42	33	28	31	24
Total non-resident	132	131	137	128	107
Western Undergraduate Exchange					
Main Campus	222	211	225	189	169
College of Technology	36	29	26	18	14
Total Western Undergraduate Exchange	258	240	251	207	183
Total	4,154	4,133	4,219	4,151	4,163

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	Degrees Granted - Fiscal Years Ended June 30,				
	2008	2007	2006	2005	2004
College of Technology	263	224	186	183	185
Undergraduate	550	513	524	525	517
Graduate	121	110	99	115	136
Total	934	847	809	823	838

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. Base budgets have been reallocated to develop a student-centered learning environment using Continuous Quality Improvement to ensure assessment of learner growth and student outcomes; and increased academic student support services.

Program innovations include Health Care Pathways 2+2 pilot programs to address affordability, transferability and adult learning needs; and applied technologies to expand distance learning opportunities. MSU Billings has seen growth in undergraduate programs with more than 100 fields of study in business, arts and sciences, allied health and education. New degree programs were added in biological sciences, general science and criminal justice. The College of Arts and Sciences continues growth in enrollments and graduations.

Grants and research production continues. MDU techs received training because of applied fuel cell research work taking place at MSU Billings. The work of two science faculty members on unique fungal research has led to the application for MSU Billings' first patent. This project is being done in collaboration with INBRE and MSU Bozeman.

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 has 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 ninth 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 2008".

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 and program capacity and demand is increasing. 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. The new \$11 million state-of-the-art Health Sciences Building at the College of Technology was approved by the Legislature and opened for classes in the spring of 2008. The Murdock Charitable Trust awarded \$251,000 for equipment to complete science labs in the

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new building. A new Construction Trades Training Program was developed in partnership with the Montana Contractors' Association, Inc. A new Associate of Science degree in nursing was started in January of 2008.

The College of Business has a new specialized state-of-the-art and collaborative learning Management Information Systems lab that opened in the spring of 2008. This \$300,000 lab was made possible by a grant from the Office of the Commissioner of Higher Education and matching funds donated from local businesses.

The MSU Billings Foundation completed the People, Pride & Promise Campaign for Excellence at Montana State University-Billings in December of 2006. This five-year effort had an initial goal to raise \$21 million for scholarships, academic programs, faculty and facilities. This goal was far exceeded, ending with over \$30 million in gifts and pledges raised to date. The Foundation distributed over \$1 million in scholarships in FY08.

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(continued)

MSU- Northern

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. 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 and the American Design Drafting Association.

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,				
	2008	2007	2006	2005	2004
Resident					
Undergraduate	916	1,010	1,071	1,113	1,216
Graduate	63	75	71	95	113
Total resident	979	1,085	1,142	1,208	1,329
Non-resident					
Undergraduate	51	43	46	50	46
Graduate	0	0	0	0	0
Total non-resident	51	43	46	50	46
Western Undergraduate Exchange	66	79	67	61	56
Total	1,096	1,207	1,255	1,319	1,431

	Degrees Granted - Fiscal Years Ended June 30,				
	2008	2007	2006	2005	2004
Undergraduate	267	311	306	304	368
Graduate	13	33	14	54	31
Total:	280	344	320	358	399

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Campus Outlook

MSU-Northern is located in the rural, northern region of Montana. With decreasing populations across the State, MSU-Northern has adapted to its decreasing enrollment through careful monitoring of expenses and strategic investments in areas that will help attract and retain students. Student enrollment drives a large portion of operating revenues, and also affects the University's level of State funding. 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.

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MSU- Great Falls College of Technology

Campus Overview

Montana State University-Great Falls College of Technology (MSU-GF) is a stand-alone affiliate of Montana State University primarily serving north-central Montana. MSU-GF offers one- and two-year applied programs (Certificate and Associate of Applied Science), general education (Associate of Arts, Associate of Science, and the Montana University System Core) offerings and specialized training in the Allied Health, Business Trades, and Technology disciplines. Several of the Allied Health programs are unique to the State and the region. The College has a full complement of student, academic and administrative services reflective of a larger campus.

MSU-GF is also the designated site for the Great Falls Higher Education Center for the Great Falls region representing the Montana University System. The Higher Education Center is designed to bring specific instruction from all campuses of the Montana 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 MSU-GF is to prepare students for immediate employment or for transfer to another higher education institution.

MSU-GF is accredited by the Northwest Commission on Colleges and Universities (NWCCU). 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.

MSU-GF student population has grown dramatically over the last five years with a cumulative increase in excess of 10%. Nearly all our students are Montana residents.

Annual Enrollment Data (FTE)

	Student FTE for Fiscal Years Ended June 30,				
	2008	2007	2006	2005	2004
Resident					
Undergraduate	1,143	1,153	1,155	1,078	1,085
Non-resident					
Undergraduate	66	58	30	14	13
Western Undergraduate Exchange	3	1	1	0	0
Total	1,212	1,212	1,186	1,092	1,098

The numbers of degrees and certificates granted have increased nearly 18% during the past five years.

	Degrees and Certificates Granted				
	2008	2007	2006	2005	2004
Certificates	61	40	52	36	65
Associate of Science	53	30	35	41	29
Associate of Applied Science	117	131	98	99	102
Total	231	201	185	176	196

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(continued)

Highlights

As a result of the growth mentioned above, MSU-GF has experienced significant challenges involving inadequate space for a number of years. In early 2005, the Montana State Legislature approved \$11 million for campus expansion. A 45,000 square foot two-story building west of the original facility in Great Falls was completed and occupied in January 2008. The expansion includes an expanded library and student computer lab, health science classrooms, additional meeting rooms, science laboratory space and faculty offices.

The 2007 Montana State Legislature appropriated \$3million for a separate Construction and Industrial Trades building. Groundbreaking took place in August 2007 and the facility was put in use fall of 2008. This building addresses the extreme need in north-central Montana for trained skilled-trades workers entering the workforce. Currently, carpentry and welding programs are housed in this building with the potential for a third trade program to be developed.

MSU-GF has expanded course offerings to the Bozeman area and has a physical location on the campus of Montana State University. MSU-GF provides specialized instruction and workforce development to the Gallatin Valley. Bozeman area residents are also able to enroll in MSU-GF programs including aviation, interior design and welding technology in which students can attain a Certificate of Applied Science in Welding Technology, an Associate of Applied Science in Aviation or an Associate of Applied Science in Interior Design.

In addition, MSU-GF offers specialized training in Technical Centers located in Great Falls and Bozeman. These Centers address specific training needs of the local business communities.

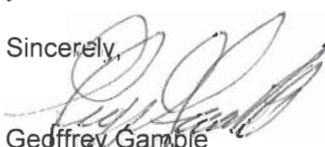
November 24, 2008

Ms. Tori Hunthausen
Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705

Dear Ms. Hunthausen:

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, 2008. 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

cc: Daniel Adams

RECEIVED

NOV 25 2008

LEGISLATIVE AUDIT DIV.

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