



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

*Montana State
University*

For the Year Ended June 30, 2009

DECEMBER 2009

LEGISLATIVE AUDIT
DIVISION

09-11A

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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 2009

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, 2009, and June 30, 2008. 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, 2009. 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, 2008, is based on a separate audit report we issued in December 2008 (07-11A).

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, 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 the Colleges of Arts and Sciences, Business, Education, Allied Health Professions, Technology, and 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

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Stephen Barrett, Chair
 Clayton Christian, Vice Chair
 Todd Buchanan, Regent
 Robert Barnosky, Student Regent
 Lynn Morrison-Hamilton, Regent
 Janine Pease, Regent
 Sheila Stearns, Commissioner of Higher Education*
 Brian Schweitzer, Governor*
 Denise Juneau, Superintendent of Public Instruction*

*Ex officio members

Office of the Commissioner of Higher Education

Sheila Stearns	Commissioner of Higher Education
Mick Robinson	Deputy Commissioner for Fiscal Affairs/Chief of Staff
Sylvia Moore	Deputy Commissioner for Academic and Student Affairs
Mary Sheehy Moe	Deputy Commissioner for Two-Year Education
Tyler Trevor	Associate Commissioner for Planning, 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

Joseph Fedock	Interim Provost and Vice President for Academic Affairs
Craig Roloff	Vice President for Administration and Finance

Montana State University–Bozeman <i>(continued)</i>	Thomas McCoy	Vice President for Research, Creativity, and Technology Transfer
	Allen Yarnell	Vice President of Student Affairs
	Cathy Conover	Vice President for Communications and Public Affairs
	Jim Rimpau	Vice President for Planning and Chief Information Officer
	Laura Humberger	Assistant Vice President for Financial Affairs
	Leslie Schmidt	Assistant Vice President for Research, Creativity, and Technology Transfer
	Kathy Attebury	Budget Director
Montana State University–Billings	Ronald P. Sexton	Chancellor
	D’Ann Campbell	Provost and Academic Vice Chancellor
	Stacy Klippenstein	Vice Chancellor of 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	Frank Trocki	Chancellor
	Joseph Callahan	Provost and Vice Chancellor for Academic Affairs
	Sue Ost	Director of Business Services
	Chris Wendland	Accountant/Budget Officer
Montana State University–Great Falls-College of Technology	Joe Schaffer	Dean and CEO
	Mary Ellen Baukol	Associate Dean of Administration and Finance
	Heidi Pasek	Associate Dean and Chief Academic Officer
	Judy Hay	Assistant Dean of Student Services
	Robert Hietala	Assistant Dean, College of Technology in Bozeman
	Ed Binkley	Controller
	Deby Gunter	Budget and Purchasing Officer

**Montana Agricultural
Experiment Station**

Jeffrey Jacobsen

Director

Jody Barney

Budget and Fiscal Director

MSU Extension Services

Douglas Steele

Vice Provost and Extension Director

Sandra Rahn-Gibson

Budget and Fiscal Director

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

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Suite 7, Hamilton Hall
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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, 2009, and 2008, 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, 2009, and 2008, 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, is based on the reports of, and communications with, 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, the reports of other auditors, and communications with 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, 2009, and 2008, 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-54 through A-70 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

December 8, 2009

**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, 2009

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 a population of nearly 1 million.

The University is proud to deliver 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. As the number of high school graduates in Eastern Montana continues to decline, the University continues to 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.

OPERATIONS

Condensed Statements of Revenues, Expenses and Changes in Net Assets
(in millions)

	2009	2008 (restated)	2007 (restated)
Operating revenues	\$ 300.6	\$ 287.6	\$ 287.4
Operating expenses	442.4	421.8	396.0
Operating loss	(141.8)	(134.2)	(108.6)
Non-operating revenues and expenses (net)	133.1	129.4	116.9
Income before capital & other items	(8.7)	(4.8)	8.3
Capital & other items	26.1	22.5	14.8
Change in net assets	<u>\$ 17.4</u>	<u>\$ 17.7</u>	<u>\$ 23.1</u>

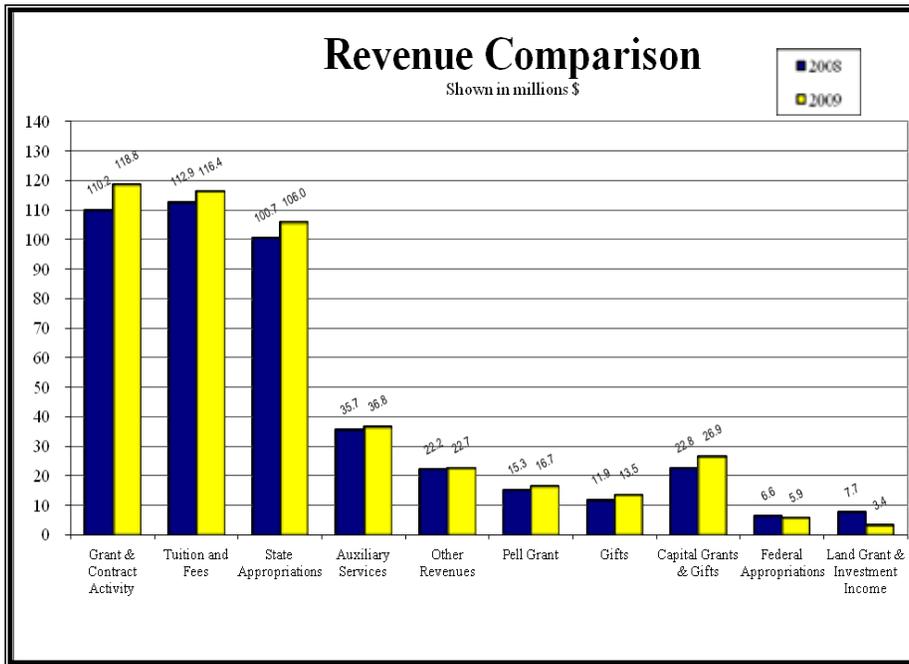
The *Statement of Revenues, Expenses and Changes in Net Assets* presents the revenues earned and expenses incurred during the year on a full accrual basis, and classifies activities as either "operating" or "non-operating". This distinction results in operating deficits for those institutions that depend 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 2009 and 2008 Results of Operations

The University's net assets increased \$17.4 million during 2009, resulting largely from \$25.8 million in assets provided by the State of Montana ("State") through its long-range building program, including \$20.0 million related to the renovation of Gaines Hall, a classroom, lecture and laboratory building on the Bozeman campus. Offsetting this increase was \$9.4 million of expense recorded to amortize costs under Governmental Accounting Standards Board Statement Number 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which requires that a liability be recorded for the 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.

A-4 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, 2009

(continued)



Operating revenues, contain the majority of the University's income, and increased \$13.0 million from 2008 to 2009. Tuition and fee revenues increased approximately \$3.5 million, or 3.1%. While the number of full-time equivalent students did not fluctuate significantly compared with 2008, the primary reason for increased tuition and fee revenue was an approximate 4.2% average tuition increase for non-resident students. During 2008 and 2009, 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.

Federal Appropriations revenue decreased slightly from 2008 to 2009.

During 2008, the Agricultural Experiment Stations received \$1.5 million in one-time only supplemental appropriations from the federal government, resulting in total federal appropriations of \$6.6 million in 2008. In 2009, federal appropriation revenues decreased to \$5.9 million due primarily to the lack of one-time funding.

Federal grant and contract revenues increased \$8.6 million, or 7.8%, compared with 2008 revenues of \$110.2 million. These amounts include certain federal student aid, but the majority of revenue is contributed by the University's Research and Creative Activities function. Research grant funding increased largely due to significant revenues related to the Big Sky Carbon Sequestration grant, which furthers the study of reducing greenhouse gases by storing CO₂ underground.

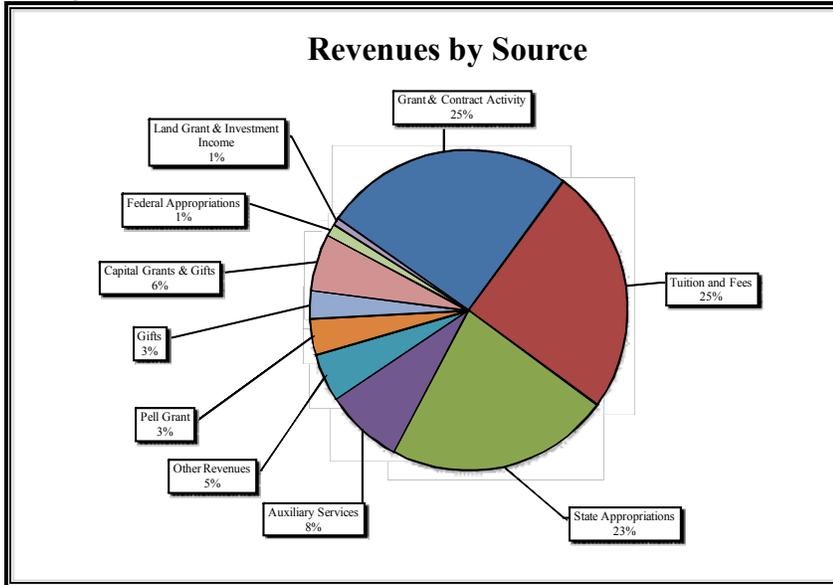
Revenues from auxiliary enterprises increased slightly, to \$36.8 million, from \$35.7 million in 2008. Occupancy did not fluctuate significantly, but rather slight price increases were implemented.

Net non-operating revenue increased \$3.6 million from 2008 to 2009. State appropriations revenue increased \$5.4 million, from \$100.6 million to \$106.0 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 of resident tuition. Pell grant revenue increased \$1.4 million, or 9.25%, due to an increase in the maximum allowable Pell award. Expendable gift revenue also increased \$1.5 million, due to an increase of \$0.5 million in scholarship gifts, \$0.6 million in matching gifts for various building projects and \$0.4 million in gifts from the television and radio stations support organizations. Offsetting these increases was a decrease in investment income (net) of \$4.0 million. The primary vehicle for investing is the State's Short-Term Investment Pool (STIP). STIP rates averaged 1.74% in 2009, and 4.21% in 2008. Contributing to the decrease was an unrealized loss of approximately \$1.0 million on the University's endowments, which are primarily managed by the MSU Foundation. The loss occurred due to the generally unfavorable economic climate. 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.

(continued)

During 2009, revenues were derived as follows:

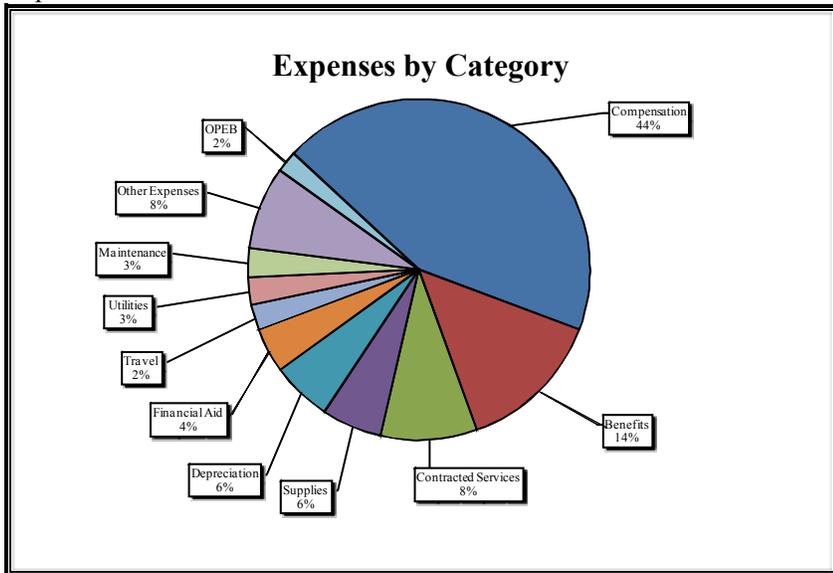
(in millions)



Source	Amount
Grant & Contract Activity	\$ 118.8
Tuition and Fees	116.4
State Appropriations	106.0
Auxiliary Services	36.8
Capital Grants & Gifts	26.9
Educational, Public Service, Outreach, and Other Revenues	22.7
Federal Pell Grants	16.7
Gifts	13.5
Land Grant & Investment Income	3.4
Federal Appropriations	5.9
Total Revenues	\$ 467.1

Expenses were incurred as follows:

(in millions)

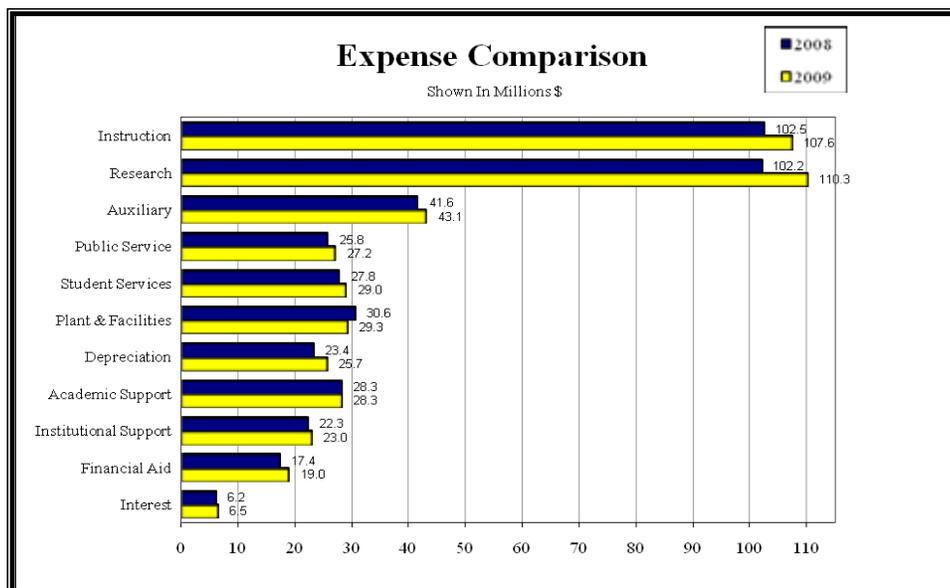


Category	Amount
Compensation	\$ 196.7
Benefits	62.3
Contracted Services	40.8
Supplies	25.6
Depreciation	25.7
Financial Aid	19.0
Travel	10.9
Utilities	11.7
Maintenance	12.3
OPEB ARC	9.4
Other Expenses	
Interest Expense	6.1
Cost of Sales	6.5
Communication	4.5
Rent	4.8
Other	13.4
Total expenses	\$ 449.7

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.

A-6 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, 2009

(continued)



Operating expenses increased \$20.6 million, or 4.9%, from 2008 to 2009. Instruction expenses increased \$5.0 million, or 4.9%, primarily due to increased compensation costs. Research expenses increased \$8.1 million, or 7.9%, due to an increase in compensation costs of \$2.2 million and an increase of \$5.6 million in contracted services. One grant in particular, the Big Sky Carbon Sequestration grant, contained significant subcontract expenses, accounting for the majority of the increase. Public Service expenses increased \$1.4 million, or 5.3%, due primarily to increased

compensation costs. Compensation costs increased due to cost-of-living increases as well as an increase of the University's contribution toward health insurance. Student services expenses increased \$1.2 million, or 4.5%, again as a result of increased compensation and benefits expenses. Plant and facilities costs decreased \$1.4 million, or 4.4%, due to a slight increase in compensation costs, offset by a significant decrease in costs for supplies and services. The supplies and services costs decreased because in 2008, significant funds were expended for new computer and other equipment at the Billings campus. Due to uncertain economic conditions, similar expenditures were halted during 2009.

Depreciation expense increased \$2.3 million due to the recognition of a full year's depreciation on 2008 building and building improvement additions. Academic support and institutional support expenses did not fluctuate significantly in comparison with 2008. Due to uncertain economic conditions, many departments left staff vacancies open or otherwise attempted to conserve funding. Financial aid expense increased \$1.6 million or 9.1%, largely due to increased Pell grant awards. Interest expense increased due to costs of the University's letter of credit and other costs associated with variable rate debt, primarily relating to the remarketing of existing debt, as discussed in the notes to the financial statements.

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 \$0.2 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.

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 \$12.5 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.

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.

ASSETS, LIABILITIES AND NET ASSETS

Condensed Statements of Net Assets
(in millions)

ASSETS	2009	2008	2007
Current assets	\$ 159.1	\$ 149.0	\$ 138.1
Capital assets, net	339.6	317.5	286.6
Other noncurrent assets	52.3	50.2	59.7
Total assets	\$ 551.0	\$ 516.7	\$ 484.4
LIABILITIES			
Current liabilities	\$ 75.4	\$ 62.8	\$ 56.8
Noncurrent liabilities	178.6	174.4	165.8
Total liabilities	\$ 254.0	\$ 237.2	\$ 222.6
NET ASSETS			
Invested in capital assets, net	\$ 214.5	\$ 187.7	\$ 169.8
Restricted, expendable	10.3	12.0	13.4
Restricted, non-expendable	11.3	10.1	12.2
Unrestricted	60.9	69.7	66.4
Total net assets	\$ 297.0	\$ 279.5	\$ 261.8

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 \$17.4 million from the prior year. During 2008, the University implemented a new accounting pronouncement, which results in an annual 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 2009 and 2008 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 \$10.1 million in current assets resulted primarily from an increase of \$4.1 million in securities lending collateral, which occurs due to the timing of the State Board of Investments' lending activity, as well as a \$5.4 million increase in amounts receivable from the federal government. This increase occurred because of June activity of a subcontractor affiliated with the Big Sky Carbon Sequestration grant.
- **Capital assets, net** increased \$22.1 million, resulting from asset additions of \$48.6 million, offset by depreciation expense of \$25.7 million and \$1.5 million in net book value of asset retirements, as summarized in Note 7 to the financial statements.

Asset additions included nearly \$35.8 million in construction projects. The MSU Great Falls College of Technology completed the construction of a new trades training building, adding \$2.6 million to completed construction. MSU Billings added construction costs of \$3.3 million for the renovation of McMullen Hall, the main administration building. MSU Bozeman continued construction on the renovation of Gaines Hall at a cost of \$20 million, the Animal BioSciences building at a cost of \$6.5 million, and the Lewistown Snow-Making Facility at a cost of \$1.1 million. A number of smaller projects make up the remaining increase, and include office renovations, lab renovations and building restoration projects.

Equipment additions totaled \$10.0 million during 2009. Research and instruction in the sciences require a substantial equipment investment. In 2009, MSU invested in significant scientific equipment, including many grant-funded and donated items. Approximately \$2.1 million in library materials were acquired in 2009. In addition, \$2.7 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 increased \$2.1 million, or 4.1%, due to a \$2.1 million increase in the noncurrent portion of student loans receivable. Collection of Perkins loans has slowed, and more is classified as noncurrent than in 2008. Other, less significant, changes in investment and other balances contributed to the change.
 - **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 \$12.6 million from 2008 to 2009, due primarily to a \$4.1 million increase in securities lending liability, and a \$5.5 million increase in accounts payable and accrued liabilities. The significant change in securities lending resulted from the timing of lending near year-end, and the increase in accounts payable resulted from a handful of large invoices payable to a subcontractor of the Big Sky Carbon Sequestration grant. Such invoices were paid shortly after year-end.
 - **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 \$4.2 million, resulting primarily from the addition of \$9.4 million to the University's 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 second year of a 30-year amortization, plus interest, was recorded during 2009 (see note 15 to the financial statements). This increase was offset by decreases of \$5.9 million in debt and advances payable, as the University continued to pay down its debt obligations, without incurring significant new debt.
 - 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 due to asset additions and debt repayment (discussed above), and were offset by depreciation expense and small amounts of 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. Total balances did not fluctuate significantly as compared with 2008, although balances available for scholarships decreased due to difficult economic conditions. To offset the effect of fewer restricted scholarship funds, the University has designated certain of its unrestricted balances for use in scholarship funding. The decrease in restricted scholarship funds was offset by an increase in restricted balances available for the construction and renewal of plant facilities, primarily attributable to the Animal Bioscience Facility.
 - **Restricted, non-expendable** balances must be held in perpetuity, and include endowment principal as well as balances in student loan funds. Balances decreased \$0.8 million, primarily due to an unrealized loss of approximately \$1.0 million in endowment principal value.

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, scholarships, 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 2008 and 2007 Assets, Liabilities and Net Assets

- **Current assets** increased \$10.9 million, resulting 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 an 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.

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** 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** balances 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** 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**, increased \$17.9 million due to asset additions and debt repayment, offset by depreciation expense and additional debt incurred.
- **Restricted, expendable net assets** decreased \$3.3 million. 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 are earmarked by management for specific uses, and are discussed in Note 13 to the audited financial statements.

CASH FLOWS

Condensed Statements of Cash Flows

(in millions)

	2009	2008 (restated)	2007 (restated)
Cash provided/(used) by:			
Operating activities, net	\$ (105.3)	\$ (100.2)	\$ (84.9)
Noncapital financing activities, net	138.6	130.5	115.1
Capital and related financing activities, net	(33.2)	(39.5)	(51.6)
Investing activities, net	0.3	18.8	35.9
Net increase (decrease) in cash	0.4	9.6	14.5
Cash, beginning of year	116.4	106.8	92.3
Cash, end of year	\$ 116.8	\$ 116.4	\$ 106.8

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 2009 and 2008 Cash Flows

- **Operating activities** used \$105.3 million in cash, resulting primarily from an operating loss of \$141.8 million. The operating loss was offset by non-cash expenses of \$35.8 million, primarily depreciation and amortization. Additionally, \$9.4 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 2008, operating activities used \$100.2 million in cash, with an operating loss of \$134.2 million, offset by non-cash expenses of \$32.7 million.
- **Noncapital financing activities** provided \$138.6 million in cash, resulting from \$106.2 million in state appropriations, \$16.7 million in federal Pell grant revenue, \$2.0 million of land grant income, and \$13.5 million in expendable gifts. In 2008, noncapital financing activities provided \$130.5 million in cash, resulting from \$100.4 million in state appropriations, \$2.3 million of land grant income, \$15.3 million in Pell grants, and \$11.9 million in expendable gifts. Gifts were received primarily from foundations and other support organizations.
- **Capital and related financing activities** used \$33.2 million in cash. Uses included \$22.0 million expended on capital assets, including building construction as discussed above. Debt interest, principal payments and related payments totaled \$12.4 million. Borrowings from the State's Intercap lending program provided \$0.3 million in cash. In 2008, these activities used \$39.5 million in cash. Uses included \$34.7 million expended on capital assets, including building construction as discussed above. Debt interest and principal payments totaled \$12.4 million, not including refunded debt of \$17.6 million. Borrowings, primarily from the State's Intercap lending program, provided \$4.7 million in cash, not including proceeds from the issuance of refunding bonds, and cash contributions restricted to capital purchases provided an additional \$2.8 million.

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 \$100.2 million in cash, resulting primarily from an operating loss of \$134.2 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. Other, less significant, increases and decreases also contributed to the change. In 2007, operating activities used \$84.9 million in cash, with an operating loss of \$108.6 million offset by non-cash expenses of \$22.2 million.
- **Noncapital financing activities** provided \$130.5 million in cash, resulting from \$100.7 million in state appropriations, \$15.3 million in federal Pell grants, \$2.3 million of land grant income, and \$11.9 million in expendable gifts. In 2007, noncapital financing activities provided \$115.1 million in cash, resulting from \$88.0 million in state appropriations, \$14.9 million in federal Pell grants, \$2.2 million of land grant income, and \$10.2 million in expendable gifts. Gifts were received primarily from foundations and other support organizations.
- **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 Inter-cap 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 Inter-cap 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.

BONDS, NOTES AND CAPITAL LEASES

As of June 30, 2009, the University had approximately \$119.0 million in outstanding bond, note, and capital lease principal, a slight decrease compared with \$123.7 million at June 30, 2008 (see note 10 to the financial statements). The majority of debt bears interest at fixed rates, except for \$25.3 million in bonds which are in the Variable Rate Demand market, with rates reset daily. A fixed-payer swap and a constant maturity swap are associated with the debt, as described in the notes to the financial statements. The University's debt is rated A1 by Moody's Investor Services, and A+ by Standard and Poor's.

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. Full-time equivalent enrollment during the year ended June 30, 2009, was 16,976, up slightly as compared with 16,928 in the year ended June 30, 2008. In 2009, resident enrollment decreased by 70 students, while non-resident enrollment increased by 118 students. Resident enrollment in 2008 had decreased by 207 full-time-equivalent students as compared with 2007, while non-resident enrollment had 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.

As the University moves forward in uncertain economic times, demand for higher education has increased as citizens look toward upgrading job skills and education. Enrollment for the fall 2009 semester has increased as compared with the prior fall, which is consistent with increases in enrollment reported by many public institutions. While optimistic as to the future, management realizes that the upswing in enrollment may be temporary, and may settle to its former levels as the economy recovers.

For the academic years 2009-2010 and 2010-2011, resident tuition rates will be raised 3% at the state's Bozeman campus, but were held constant at the Billings, Great Falls, and Northern campuses. State funding remained relatively flat as compared with the 2008-2009 year. The University had recently benefitted from increased State funding. The State 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.

A portion of the state funding budgeted for the 2010 and 2011 academic years will be derived from federal funds as a result of the American Recovery and Reinvestment Act ("ARRA"), which was enacted in February, 2009. As noted on the www.recovery.gov website, the ARRA was a direct response to the economic crisis, and had three immediate goals: (1) Create new jobs as well as save existing ones; (2) Spur economic activity and invest in long-term economic growth; and (3) Foster unprecedented levels of accountability and transparency in government spending.

ARRA intended to achieve those goals by: (1) Providing \$288 billion in tax cuts and benefits for millions of working families and businesses; (2) Increasing federal funds for education and health care as well as entitlement programs by \$224 billion; (3) Making \$275 billion available for federal contracts, grants and loans; and (4) Requiring recipients of Recovery funds to report quarterly. In addition, ARRA is targeted at infrastructure development and enhancement. For instance, ARRA plans investment in the domestic renewable energy industry and the weatherizing of 75 percent of federal buildings as well as more than one million private homes around the country.

Certain of the University's base budget commitments in the current biennium (fiscal years 2009-2010 and 2010-2011) will be funded with ARRA money. Depending on the ability of the State of Montana to replace that funding once the ARRA funds are expended, the University may face an approximate \$3 million annual funding gap. If necessary, management will close that gap through a combination of increased revenue and targeted decreases in costs.

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.

A-14 **Montana State University**
a component unit of the State of Montana
Consolidated Statements of Net Assets
As of June 30

ASSETS	2009	2008
Current assets:		
Cash and cash equivalents (see note 2)	\$ 115,726,712	\$ 115,396,992
Short term investments	800,000	-
Securities lending collateral	7,405,802	3,286,192
Accounts and grants receivable, net	7,106,043	6,898,571
Amounts receivable from Federal government	19,361,472	13,951,087
Amounts receivable from primary government	1,822,134	1,534,090
Amounts receivable from other State of Montana component units	29,318	20,056
Loans receivable, net	2,173,656	2,977,322
Inventories	3,129,098	2,939,852
Prepaid expenses and other current assets	1,529,285	2,026,566
Total current assets	159,083,520	149,030,728
Noncurrent assets:		
Restricted cash and cash equivalents	1,126,526	1,035,003
Restricted investments	5,946,691	6,866,974
Loans receivable, net	22,594,953	20,538,452
Investments	21,291,498	19,956,775
Other assets	1,295,024	1,801,081
Capital assets, net (see note 7)	339,614,105	317,502,164
Total noncurrent assets	391,868,797	367,700,449
Total assets	\$ 550,952,317	\$ 516,731,177
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 31,067,032	\$ 25,568,928
Amounts payable to primary government	4,947,167	4,379,412
Amounts payable to other State of Montana component units	601,778	295,768
Securities lending liability	7,405,802	3,286,192
Property held in trust for others	1,523,970	1,369,894
Deferred revenues	9,700,500	9,677,938
Compensated absences	14,884,860	13,180,745
Current portion debt and capital lease obligations (see note 10)	5,269,784	5,005,908
Total current liabilities	75,400,893	62,764,785
Noncurrent liabilities:		
Advances from primary government	11,081,612	12,122,148
Debt and capital lease obligations (see note 10)	113,778,562	118,684,876
Compensated absences	13,598,286	13,053,381
OPEB implicit rate subsidy	18,321,610	8,970,186
Amounts payable to Federal government	21,825,930	21,625,334
Total noncurrent liabilities	178,606,000	174,455,925
Total liabilities	254,006,893	237,220,710
NET ASSETS		
Invested in capital assets, net of related debt	214,474,722	187,654,017
Restricted - nonexpendable:		
Endowments	6,858,483	7,749,017
Loans	4,408,831	4,279,005
Restricted - expendable:		
Scholarships	1,181,505	1,848,986
Research and other	2,181,627	2,502,538
Loans	459,467	396,993
Construction and renewal of plant facilities	4,341,331	3,479,769
Debt retirement	2,116,759	1,856,193
Unrestricted (see note 13)	60,922,699	69,743,949
Total net assets	296,945,424	279,510,467
Total liabilities and net assets	\$ 550,952,317	\$ 516,731,177

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)

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	2009	2008 (restated)
Assets:		
Cash and cash equivalents	\$ 6,243,278	\$ 7,601,845
Accrued dividends and interest	175,677	176,146
Investments	119,158,298	144,432,251
Amounts due from the institution or other MSU component units	1,926,711	2,005,169
Contributions receivable, net of allowance	4,902,587	5,673,662
Contracts, notes and other receivables	3,767,437	5,160,693
Non-depreciable capital assets	2,436,680	2,134,848
Depreciable capital assets, net	9,003,297	9,554,836
Other assets	1,527,669	1,641,338
Total assets	\$ 149,141,634	\$ 178,380,788
Liabilities and net assets:		
Liabilities		
Accounts payable	\$ 279,746	\$ 846,774
Accrued expenses and other liabilities	1,312,355	974,829
Compensated absences	374,686	292,703
Notes and bonds payable	2,281,232	2,419,120
Amounts due to the institution or other MSU component units	576,035	917,643
Liabilities to external beneficiaries	6,157,502	5,955,871
Custodial funds	9,641,528	12,197,607
Total liabilities	20,623,084	23,604,547
Unrestricted net assets	7,533,362	17,015,457
Temporarily restricted net assets	31,029,851	50,640,569
Permanently restricted net assets	89,955,337	87,120,215
Total net assets	128,518,550	154,776,241
Total liabilities and net assets	\$ 149,141,634	\$ 178,380,788

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

A-16 **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

	2009	2008
OPERATING REVENUES		(restated)
Tuition and fees (net of \$21,489,209 and \$20,770,494 scholarship discount)	\$ 116,392,334	\$ 112,884,714
Federal appropriations	5,936,339	6,629,910
Federal grants and contracts	85,025,942	77,121,196
State grants and contracts	6,168,457	6,763,228
Non-governmental grants and contracts	10,894,144	9,871,232
Grant and contract facilities and administrative cost recoveries	16,692,184	16,396,341
Educational, public service and outreach revenues	21,436,676	20,873,791
Auxiliary revenues:		
Housing (net of \$1,701,450 and \$1,701,230 scholarship discount)	14,263,275	13,547,875
Food services (net of \$2,013,453 and \$1,786,362 scholarship discount)	13,792,710	13,152,454
Other auxiliary sales and services (net of \$587,972 and \$601,569 scholarship discount)	8,732,354	9,013,031
Interest earned on loans	122,714	124,288
Other operating revenues	1,140,466	1,221,269
Total operating revenues	300,597,595	287,599,329
OPERATING EXPENSES		
Compensation and benefits	258,973,436	247,733,634
Annual Required Contribution to OPEB (see note 15)	9,351,424	8,970,186
Operating expenses (see note 14)	129,388,811	124,348,065
Scholarships and fellowships (net of \$25,792,084 and \$24,859,655 scholarship discount)	18,973,122	17,386,848
Depreciation and amortization	25,716,871	23,351,424
Total operating expenses	442,403,664	421,790,157
Operating loss	(141,806,069)	(134,190,828)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	106,022,816	100,651,040
Federal Pell grant revenue	16,741,289	15,323,887
Land grant income (pledged as security for repayment of bonds)	2,000,527	2,303,335
Gifts (expendable)	13,470,587	11,932,674
Investment income	1,401,963	5,417,225
Interest expense	(6,545,815)	(6,175,545)
Net non operating revenues (expenses)	133,091,367	129,452,616
Income before other revenues, expenses, gains and losses	(8,714,702)	(4,738,212)
Loss on disposals of capital assets	(752,294)	(382,968)
Additions to permanent endowment	39,862	8,815
Capital gifts, grants and contributions	26,862,091	22,827,426
Change in net assets	17,434,957	17,715,061
Net assets, beginning of year	279,510,467	261,795,406
Net assets, end of year	\$ 296,945,424	\$ 279,510,467

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

Montana State University
a component unit of the State of Montana

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UNIVERSITY COMPONENT UNITS-- Combined Statement of Activities
*As of and for the Year or Eighteen Months Ended June 30, 2009 or the Year Ended
 December 31, 2008 (see Note 20)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions	\$ 513,864	\$ 9,599,195	\$ 4,227,307	\$ 14,340,366
Investment, interest and dividend income	(8,450,838)	(11,594,088)	(128,745)	(20,173,671)
Net realized and unrealized gain (loss) on investments	(73,123)	(2,381,448)	(90,894)	(2,545,465)
Contract support and contributions from University	480,636	-	-	480,636
Special events	1,894,466	45,500	-	1,939,966
Other income	5,021,103	(567,190)	1,294	4,455,207
Net assets released from restrictions	14,067,070	(14,080,365)	13,295	
Total revenues	13,453,178	(18,978,396)	4,022,257	(1,502,961)
Expenses:				
Program services				
University support	7,723,291	502,698	100,000	8,325,989
Academic and institutional	2,633,152	-	-	2,633,152
Scholarships and awards	5,001,056	40,939	-	5,041,995
Total program services expense	15,357,499	543,637	100,000	16,001,136
Operating expenses				
Fundraising efforts	4,187,127	-	-	4,187,127
General and administrative	2,244,818	-	-	2,244,818
Investment management costs	744,209	-	-	744,209
Other miscellaneous	381,770	-	-	381,770
Total operating expenses	7,557,924	-	-	7,557,924
Change in net assets before				
Nonoperating items	(9,462,245)	(19,522,033)	3,922,257	(25,062,021)
Nonoperating expenses				
Payments to beneficiaries and change in liabilities to external beneficiaries	(14,608)	(80,831)	(781,796)	(877,235)
Change in net assets	(9,476,853)	(19,602,864)	3,140,461	(25,939,256)
Net assets, beginning of fiscal year, as previously presented	17,015,457	50,640,569	87,120,215	154,776,241
Cumulative effect of change in accounting principle	(5,242)	(7,854)	(305,339)	(318,435)
Net assets, beginning of year, as restated	17,010,215	50,632,715	86,814,876	154,457,806
Net assets, end of fiscal year	\$ 7,533,362	\$ 31,029,851	\$ 89,955,337	\$ 128,518,550

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

A-18 **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 As Restated (see Note 20)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	339,184	1,050	5,989,883
Net assets released from restrictions	14,641,281	(14,653,564)	12,283	-
Total revenues	24,488,055	(10,284,752)	6,609,110	20,812,413
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	(10,284,752)	6,609,110	(2,748,852)
Nonoperating expenses-				
Payments to beneficiaries and change in liabilities due to external beneficiaries	(12,613)	(7,029)	(243,599)	(263,241)
Change in net assets	914,177	(10,291,781)	6,365,511	(3,012,093)
Net assets, beginning of fiscal year	16,444,195	60,659,400	80,684,739	157,788,334
Endowment asset reclassification	(342,915)	272,950	69,965	-
Net assets, end of fiscal year	\$ 17,015,457	\$50,640,569	\$ 87,120,215	\$154,776,241

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

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	2009	2008 (restated)
Cash flows from operating activities:		
Operating revenues:		
Tuition and fees	\$ 115,950,382	\$ 112,707,034
Federal appropriations	5,815,662	6,903,258
Federal grants and contracts	79,352,890	78,390,177
State grants and contracts	5,689,773	7,278,943
Private grants and contracts	10,596,568	10,451,476
Grant and contract facilities and administrative cost recoveries	16,773,961	16,366,062
Educational, public service and outreach revenues	21,663,948	20,522,089
Sales and services of auxiliary enterprises	36,647,215	35,685,815
Interest on loans receivable	323,309	378,191
Other operating receipts	1,140,466	1,221,269
Operating expenses:		
Compensation and benefits	(254,220,789)	(246,134,449)
Operating expenses	(124,770,243)	(124,871,299)
Scholarships and fellowships	(18,973,123)	(17,386,848)
Loans made to students	(4,381,962)	(5,945,576)
Loan payments received	3,129,128	4,272,162
Net cash used in operating activities	(105,262,815)	(100,161,696)
Cash flows from noncapital financing activities:		
Disbursements of funds held in trust for others	222,901	551,300
State appropriations	106,203,531	100,409,638
Federal Pell grant funds received	16,741,289	15,323,888
Gifts and contributions (expendable)	13,464,614	11,932,677
Land grant income (see note 2)	2,000,527	2,303,334
Repayment of long-term advance from primary government	(49,307)	(48,098)
Additions to permanent endowment	39,862	8,815
Net cash provided by noncapital financing activities	138,623,417	130,481,554
Cash flows from capital financing activities:		
Purchase of capital assets	(21,951,525)	(34,736,347)
Proceeds from sale of capital assets	87,940	90,094
Gifts restricted for capital purchase	150,542	2,829,256
Other capital financing activities	461,881	(797,250)
Proceeds from borrowings	95,086	18,126,057
Debt principal repayment	(5,154,399)	(22,254,981)
Interest paid	(5,744,104)	(5,790,712)
Payment of debt issue costs	(90,331)	(313,871)
Advances from primary government	303,150	4,713,307
Repayment of advances from primary government	(1,363,140)	(1,349,886)
Net cash used in capital financing activities	(33,204,900)	(39,484,333)
Cash flows from investing activities:		
Purchase of investments	(2,589,365)	(5,204,831)
Proceeds from sale of investments	256,451	18,287,547
Investment income	2,598,455	5,686,741
Net cash provided by investing activities	265,541	18,769,457
Net change in cash and cash equivalents	421,243	9,604,982
Cash and equivalents at beginning of year	116,431,995	106,827,013
Cash and equivalents at end of year	\$ 116,853,238	\$ 116,431,995

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

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

Reconciliation of Operating Loss to Net Cash Used in Operations

	2009	2008 (restated)
Operating loss	\$ (141,806,069)	\$ (134,190,828)
Noncash income and expense:		
Depreciation and amortization on capital assets	25,716,871	23,351,423
Provision for uncollectible accounts	683,067	364,454
Amortization of OPEB liability	9,351,424	8,970,186
Changes in operating assets and liabilities:		
Accounts and grants receivable	(7,160,653)	323,044
Loans receivable	(1,252,835)	(1,673,413)
Inventories	(189,247)	(164,945)
Prepaid expenses	355,496	(273,456)
Accounts payable and other accrued liabilities	6,566,953	1,055,437
Deferred revenue	22,564	1,653,050
Compensated absences	2,249,018	169,449
Amounts due to Federal government	200,596	253,903
Net cash used in operations	\$ (105,262,815)	\$ (100,161,696)

Schedule of noncash financing and investing activities

	2009	2008
Capital assets contributed to the University	\$ 26,717,522	\$ 19,659,382
Capital assets acquired through issuance of capital lease obligations or through trade -in	\$ 1,000	\$ -
Bond issue costs, discounts, premiums and deferred loss on refunding amortized or written off as interest expense	\$ 500,736	\$ 541,693
Change in fair value of investments	\$ (1,118,474)	\$ 83,270

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

	2009	2008
Cash and cash equivalents classified as current assets	\$ 115,726,712	\$ 115,396,992
Cash and cash equivalents classified as noncurrent assets	1,126,526	1,035,003
Total cash and cash equivalents as reported on the Statements of Cash Flows	\$ 116,853,238	\$ 116,431,995

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

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 statement requires that a legally tax exempt organization 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. Component units and other related organizations are evaluated annually to determine whether inclusion under GASB Statement No. 39 is required. 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*. 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 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.

Noncurrent cash and investments – Cash and investments that are externally restricted as to use are classified as noncurrent 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.

Other Post-Employment Benefits (OPEB) – During the year ended June 30, 2008, the University adopted GASB Statement No. 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 nonoperating 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.

Nonoperating revenues – include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating 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. 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 are recorded as operating revenues in the University’s financial statements. To the

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Notes to Consolidated Financial Statements
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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 GASB have not yet become effective. GASB Statement No. 51, which will be effective for the fiscal year ending June 30, 2010, was intended 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 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 also becomes effective for the fiscal year ending June 30, 2010. Management has determined that the adoption of this statement will affect the University’s financial position and results of operations; however, a specific dollar amount has not yet been calculated. In February, 2009 GASB issued Statement No. 54, which will enhance the usefulness of fund balance information by assigning clearer distinctions based upon the relative strength of the constraints that control how specific amounts can be spent. This statement goes into effect for the fiscal year ending June 30, 2011. Management has determined that the adoption of this statement will not affect the University’s financial position or results of operations.

Reclassification of prior year amounts – Based on recent guidance contained in the GASB Comprehensive Implementation Guide and on clarification contained in the National Association of College and University Business Officers’ Financial Accounting and Reporting Manual, revenue from Pell grants has been reclassified as non-operating revenue rather than operating revenue. This resulted in a restatement of previously reported federal grant revenue of \$15,323,887 and a corresponding change to nonoperating revenue in the accompanying Statement of Revenues, Expenses and Changes in Net Assets. Similarly, the Statement of Cash Flows now reflects federal Pell revenue as a noncapital financing activity, rather than an operating activity. Additionally, certain capital asset balances as reported as of June 30, 2008, have been reclassified to better reflect the nature of the assets.

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 \$47,197,779 at June 30, 2009 and \$60,247,908 at June 30, 2008.

Cash equivalents – These amounts consist of cash held by trustees as well as \$67,103,578 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.

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. Except for funds held in the Montana Board of Investments STIP, as discussed above, investments are recorded at fair value. The MSU Bozeman Foundation’s investment pool, totaling \$93.6 million, includes \$6.2 million in real estate, which is accounted for at fair value based on periodic appraisals. Of the pool, the University owns \$5.8 million, or 6.2%. Foundation investment pools are not subject to regulatory oversight.

Endowment spending policy – The State of Montana has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), including the provision that the appropriation for expenditure of an amount greater than 7% of the fair market value of an endowment fund (calculated on the basis of market values averaged over a period of not less than

three preceding years) creates a rebuttable presumption of imprudence. See Montana Code Annotated Section 72.30.101. The majority of the University's endowment funds are managed by the MSU Bozeman Foundation, and are managed in accord with their spending policy, which conforms to UPMIFA.

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 \$7,405,802 at June 30, 2009, and \$3,286,192 at June 30, 2008.

The Board did not impose any restrictions during fiscal years 2009 and 2008 on the amount of the loans that State Street Bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2009 and 2008. Moreover, there were no losses during fiscal years 2009 and 2008 resulting from a default of the borrowers or State Street Bank and Trust.

During fiscal years 2009 and 2008, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust, which has a weighted average maturity of 31 and 41 days, respectively as of June 30, 2009 and 2008. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. At year-end, the University had no credit risk exposure to borrowers because the amounts the Board owes the borrowers exceed the amounts receivable from the borrowers.

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. The securities in the State of Montana Short Term Investment Pool and the State of Montana Trust Fund Bond Pool are held in name of the Montana Board of Investments (BOI) or were registered in the nominee name for the BOI and held in possession of the BOI custodial bank.

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, 2009. 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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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.

Cash equivalents and investments are categorized as follows at June 30, 2009 and 2008:

Security Type	Fair Value		Moody's Credit Quality Rating at June 30, 2009	Effective Duration at June 30, 2009
	2009	2008		
State of Montana Short Term Investment Pool	\$ 73,192,976	\$ 55,757,355	A1	N/A
U. S. Bank Money Market Funds (collateralized by U.S. Bank pool, not in the University's name)	1,886,474	4,129,199	P-1	N/A
State of Montana Trust Fund Bond Pool*	14,333,298	14,490,747	AA	4.14
Foundation Pooled Cash Equivalents and Investments*	6,392,669	8,089,326	NR	N/A**
U.S. Treasury Notes (noncollateralized, not in the University's name)	150,603	352,286	NR	.13
U. S. Bank Certificates of Deposit (collateralized by U. S. Bank pool, not in the University's name)	1,600,000	-	Aa1	.29
Total Cash Equivalents & Investments	<u>\$ 97,556,020</u>	<u>\$ 82,818,913</u>		

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

** The Foundation investment pool is not considered a debt pool, and as such, a duration calculation is not applicable.

NOTE 3 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts receivable consisted of the following as of June 30:

	2009	2008
Accounts receivable	\$ 7,283,479	\$ 6,159,156
Other receivables, including private grants and contracts	2,368,428	2,973,902
Gross accounts and grants receivable	9,651,907	9,133,058
Less allowance for uncollectible accounts	(2,545,864)	(2,234,487)
Net accounts and grants receivable	<u>\$ 7,106,043</u>	<u>\$ 6,898,571</u>

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NOTE 4 – INVENTORIES

Inventories consisted of the following as of June 30:

	<u>2009</u>	<u>2008</u>
Bookstore	\$ 1,256,328	\$ 1,111,220
Food services	340,719	343,091
Facilities services	235,025	243,626
Livestock	675,292	623,390
Other	621,734	618,525
Total inventories	<u>\$ 3,129,098</u>	<u>\$ 2,939,852</u>

NOTE 5 – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses consisted of the following as of June 30:

	<u>2009</u>	<u>2008</u>
Leases	\$ 315,000	\$ 370,300
Library subscriptions	697,020	854,000
Other	517,265	802,266
Total prepaid expenses	<u>\$ 1,529,285</u>	<u>\$ 2,026,566</u>

NOTE 6 – LOANS RECEIVABLE

Total loans receivable balances at June 30, 2009 and 2008 were \$24,768,609 and \$23,515,774, respectively. Student loans made under the Federal Perkins Loan Program constitute the majority of the University's loan balances. Included in noncurrent liabilities as of June 30, 2009 and 2008 are \$21,825,930 and \$21,625,334 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.

Included within loans receivable in the accompanying statement of net assets are loans made to certain employees who, upon the lapse of a specified period of time, will be forgiven of their repayment responsibilities. Such balances will then be recorded as expense. If such employees terminate their employment prior to the lapse of the specified time period, repayment will be required. Such balances totaled \$20,000 as of 2009 and \$30,000 as of 2008.

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NOTE 7 – CAPITAL ASSETS

Following are the changes in capital assets during the years ended June 30, 2009 and 2008:

	Year Ended June 30, 2009				
	Balance	Additions	Retirements	Transfers	Balance
	July 1, 2008				June 30, 2009
Capital assets not being depreciated:					
Land	\$ 6,933,381	\$ -	\$ -	\$ -	\$ 6,933,381
Museum and fine art	4,715,653	353,850	-	-	5,069,503
Library special collections	3,208,279	-	-	-	3,208,279
Livestock for educational purposes	3,041,967	31,401	(2,000)	-	3,071,368
Construction work-in-progress	12,409,132	33,082,836	(96,304)	(12,470,278)	32,925,386
Total capital assets not being depreciated	30,308,412	33,468,087	(98,304)	(12,470,278)	51,207,917
Other capital assets:					
Furniture and equipment	109,089,642	10,029,644	(2,990,849)	-	116,128,437
Library materials	60,782,622	2,108,806	(741,443)	-	62,149,985
Buildings	232,976,814	57,844	(927,625)	2,887,872	234,994,905
Building improvements	164,340,032	2,715,432	(3,157,502)	7,562,953	171,460,915
Land improvements	15,097,004	-	-	539,011	15,636,015
Infrastructure	33,321,352	-	-	1,480,442	34,801,794
Total other capital assets	615,607,466	14,911,726	(7,817,419)	12,470,278	635,172,051
Accumulated depreciation	(329,735,953)	(25,072,982)	7,074,489	-	(347,734,446)
Other capital assets, net	285,871,513	(10,161,256)	(742,930)	12,470,278	287,437,605
Intangible assets, net	1,322,239	290,233	(643,889)	-	968,583
Capital Assets, net	\$ 317,502,164	\$ 23,597,064	\$ (1,485,123)	\$ -	\$ 339,614,105

	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	4,715,653	-	-	-	4,715,653
Library special collections	3,110,950	97,329	-	-	3,208,279
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	270,980	(383,032)	-	1,322,239
Capital Assets, net	\$ 286,592,135	\$ 31,766,120	\$ (856,091)	\$ -	\$ 317,502,164

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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:

	2009	2008
Grant and contract funds received in advance	\$ 5,247,287	\$ 5,736,227
Summer session payments received in advance	4,116,232	3,477,393
Other deferred revenues	336,981	464,318
Total	<u>\$ 9,700,500</u>	<u>\$ 9,677,938</u>

NOTE 9 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	2009	2008
Compensation, benefits and related liabilities	\$ 16,805,538	\$ 17,458,249
Accrued interest expense	453,682	442,226
Accounts payable and other accrued liabilities	13,807,812	7,668,453
Total	<u>\$ 31,067,032</u>	<u>\$ 25,568,928</u>

NOTE 10 – NON-CURRENT LIABILITIES

Following are the changes in noncurrent liabilities for the years ended June 30, 2009 and 2008:

	Year Ended June 30, 2009				
	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Amounts due within one year
	Bonds and notes payable, and capital lease obligations				
Bonds payable, net of discount	\$ 120,804,091	\$ -	\$ (4,433,126)	\$ 116,370,965	\$ 5,045,000
Notes and other debt	2,855,477	95,086	(281,814)	2,668,749	216,462
Capital lease obligations	31,216	-	(22,584)	8,632	8,322
Total bonds, notes and capital lease obligations	<u>\$ 123,690,784</u>	<u>\$ 95,086</u>	<u>\$ (4,737,524)</u>	<u>\$ 119,048,346</u>	<u>\$ 5,269,784</u>
Compensated absence liability	<u>\$ 26,234,126</u>	<u>\$ 15,527,672</u>	<u>\$ (13,278,652)</u>	<u>\$ 28,483,146</u>	<u>\$ 14,884,860</u>
Advances from primary government	<u>\$ 13,531,506</u>	<u>\$ 303,151</u>	<u>\$ (1,412,441)</u>	<u>\$ 12,422,216</u>	<u>\$ 1,340,604</u>
Amounts payable to Federal government	<u>\$ 21,625,334</u>	<u>\$ 200,596</u>	<u>\$ -</u>	<u>\$ 21,825,930</u>	<u>\$ -</u>
OPEB liability— implicit rate subsidy for retiree health insurance	<u>\$ 8,970,186</u>	<u>\$ 9,351,424</u>	<u>\$ -</u>	<u>\$ 18,321,610</u>	<u>\$ -</u>

Amounts not due within one year are reflected in the noncurrent liabilities section of the accompanying Statement of Net Assets, and as of June 30, 2009, include \$113,778,562 in bonds, notes and capital lease obligations, \$11,081,612 in advances from primary government and \$13,598,286 in compensated absence liabilities.

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	Year Ended June 30, 2008					
	Balance				Balance	Amounts due within one year
	July 1, 2007	Additions	Reductions	June 30, 2008		
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	\$ 127,544,601	\$ 17,958,735	\$ (21,812,552)	\$ 123,690,784	\$ 5,005,908	
Compensated absence liability	\$ 26,064,677	\$ 12,726,542	\$ (12,557,093)	\$ 26,234,126	\$ 13,180,745	
Advances from primary government	\$ 10,216,187	\$ 4,713,306	\$ (1,397,987)	\$ 13,531,506	\$ 1,409,358	
Amounts payable to Federal government	\$ 21,371,431	\$ 253,903	\$ -	\$ 21,625,334	\$ -	
OPEB liability— implicit rate subsidy for retiree health insurance		\$ 8,970,186	\$ -	\$ 8,970,186	\$ -	

Amounts not due within one year are reflected in the noncurrent 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 advances from primary government and \$13,053,381 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, 2009, is \$24,975,000, and is equal to the University’s Series J 2005 Bond principal outstanding. In entering into this agreement, the University intended to synthetically fix the rate paid on its Series J 2005 bonds, issued July 21, 2005, at an intended rate of 3.953%.

The Series J bonds are the only bond issuance with variable rate exposure. Because of general market conditions related to subprime mortgage concerns and more specifically, because the insurer of the Series J Bonds, Ambac, was downgraded, auctions of the University’s Series J bonds began to fail during the year ended June 30, 2008, resulting in the application of a “penalty rate” (as opposed to a market rate).

On September 11, 2008, the University remarketed its Series J bonds in the Variable Rate Demand market, to reduce the then-negative 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 daily reset rate. This arrangement still contains basis risk, although now based on weekly versus daily rates of the same variable rate demand market.

A discussions of the risks associated with interest rate swap arrangement follows.

Rollover Risk - 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.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a financial instrument. At June 30, 2009 and 2008, the fair value of the swap was (\$2,743,679) and (\$1,608,366). 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, 2009, the University was subject to basis risk because the interest rate which the University paid to bondholders was based on the daily reset variable demand bond rate, while the interest rate the University received from DBAG was based on the Securities Industry and Financial Markets Association (“SIFMA”) weekly index. Because the SIFMA rate received from DBAG was 0.35%, a positive basis difference of .03% resulted, decreasing the University’s interest cost compared with its intended synthetic fixed rate of 3.953%.

Credit risk is dependent upon the credit quality rating of DBAG. At June 30, 2009 and 2008, 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.

Termination risk exists because, in the event that there is a forced unwind of the swap, the University would be required to pay market prices to unwind. 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. As of June 30, 2009, the negative mark to market on the DBAG swap was \$(2,743,679).

Swap interest as of June 30, 2009, netted 3.603%, which is the difference between the fixed rate of 3.953% paid to DBAG and 0.35% received from DBAG at the SIFMA weekly rate. Repayment schedules using interest rates in effect as of June 30, 2009, 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 calculated 10-year SIFMA rate on the then-outstanding notional amount.

At June 30, 2009 and 2008, the fair value of the constant maturity swap was \$870,319 and (\$65,445). 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, 2009, the net basis difference was a positive 1.99%, which is the difference between 2.34% received and 0.35% paid.

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, 2009 were as follows:

Series 1993 A

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2010	5.10%	\$ 1,240,881	\$ 1,539,119	\$ 2,780,000
2011	5.15%	1,170,185	1,609,815	2,780,000
2012	5.20%	1,102,465	1,677,535	2,780,000
Total cash requirements		3,513,531	\$ 4,826,469	\$ 8,340,000
Accreted discount on capital appreciation bonds		4,218,316		
Accreted balance		\$ 7,731,847		

Series 2004H

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
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	5.500%	565,000	949,865	1,514,865
2015-2019	3.600-5.500%	3,265,000	4,316,591	7,581,591
2020-2024	4.000-4.300%	4,055,000	3,527,224	7,582,224
2025-2029	4.375-4.625%	5,035,000	2,541,488	7,576,488
2030-2034	4.625-5.000%	6,385,000	1,197,459	7,582,459
2035-2037	5.000%	1,480,000	37,000	1,517,000
Total cash requirements		22,780,000	\$ 16,634,888	\$ 39,414,888
Unamortized premium/discount (net)		446,004		
Total		\$ 23,226,004		

Series 2004I

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
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	5.250%	725,000	1,280,963	2,005,963
2015-2019	3.625-5.000%	10,190,000	5,621,390	15,811,390
2020-2024	4.000-5.000%	14,745,000	1,618,861	16,363,861
2025-2029	4.375-4.500%	1,605,000	72,522	1,677,522
Total cash requirements		29,860,000	\$ 14,011,336	\$ 43,871,336
Deferred loss on refunding		(1,121,363)		
Unamortized premium/discount (net)		1,167,476		
Total		\$ 29,906,113		

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Series 2005J

Payable during the year ending June 30,	Interest Rate in Effect June 30, 2009*	Principal	Auction Rate Interest*	Net Swap Interest**	Total
2010	0.32%	\$ 450,000	\$ 79,206	\$ 398,014	\$ 927,220
2011	0.32%	375,000	77,885	391,377	844,262
2012	0.32%	550,000	76,407	383,951	1,010,358
2013	0.32%	575,000	74,608	374,908	1,024,516
2014	0.32%	550,000	72,807	365,861	988,668
2015-2019	0.32%	3,450,000	332,925	1,672,971	5,455,896
2020-2024	0.32%	4,250,000	271,656	1,365,088	5,886,744
2025-2029	0.32%	5,250,000	196,229	986,063	6,432,292
2030-2034	0.32%	6,500,000	102,325	514,192	7,116,517
2035-2036	0.32%	3,025,000	9,840	49,445	3,084,285
Total cash requirements		\$ 24,975,000	\$ 1,293,888	\$ 6,501,870	\$ 32,770,758

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

**Net interest reflects both the fixed-payer and constant maturity swaps. See Note 10.

Series 2006K

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2010	4.000%	\$ 530,000	\$ 554,898	\$ 1,084,898
2011	3.750%	550,000	533,986	1,083,986
2012	4.000%	570,000	512,273	1,082,273
2013	4.000%	590,000	489,073	1,079,073
2014	4.000%	620,000	464,873	1,084,873
2015-2019	4.000-4.250%	4,925,000	1,861,069	6,786,069
2020-2024	4.300-4.500%	5,240,000	485,043	5,725,043
2025-2026	4.500%	400,000	18,225	418,225
Total cash requirements		13,425,000	\$ 4,919,440	\$ 18,344,440
Deferred loss on refunding		(197,111)		
Unamortized premium/discount (net)		(46,307)		
		\$ 13,181,582		

Series 2008L

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
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	3.500%	3,215,000	468,301	3,683,301
2015-2016	3.750-5.000%	10,415,000	616,519	11,031,519
Total cash requirements		17,340,000	\$ 3,595,547	\$ 20,935,547
Deferred loss on refunding		(376,571)		
Unamortized premium/discount (net)		386,990		
		\$ 17,350,419		

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Total, all series

Payable during the year ending June 30,	Principal	Interest	Net Swap Interest	Total
2010	\$ 3,505,881	\$ 5,256,458	\$ 398,014	\$ 9,160,353
2011	3,420,185	5,262,421	391,377	9,073,983
2012	3,577,465	5,258,624	383,951	9,220,040
2013	5,500,000	3,440,890	374,908	9,315,798
2014	5,675,000	3,236,809	365,861	9,277,670
2015-2019	32,245,000	12,748,494	1,672,971	46,666,465
2020-2024	28,290,000	5,902,784	1,365,088	35,557,872
2025-2029	12,290,000	2,828,464	986,063	16,104,527
2030-2034	12,885,000	1,299,784	514,192	14,698,976
2035-2037	4,505,000	46,840	49,445	4,601,285
Total cash requirements	111,893,531	\$ 45,281,568	\$ 6,501,870	\$ 163,676,969
Deferred loss on refunding	(1,695,045)			
Unamortized premium/discount (net)	1,954,163			
Accreted discount on capital appreciation bonds	4,218,316			
Bonds payable, net	\$ 116,370,965			

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 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 occurred 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. The bonds are being repaid with a combination of student fees and auxiliary operations revenues. Principal payments continue each May and November through November, 2035. On September 11, 2008, the University remarketed these 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 bonds are no longer insured by Ambac; instead, 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 Bank was recently purchased by Wells Fargo. Principal payment amounts and dates remain the same as they were prior to the remarketing.

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. The remaining \$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 will be 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 by November of 2016, the same maturity date as the refunded Series G debt. Repayment is guaranteed by Assured Guaranty. Because the refunded debt was considered defeased, it was not reported in the University's financial statements as of June 30, 2008. Such bonds were subsequently called in July, 2008 and are no longer outstanding. The original proceeds of the refunded 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, 2009 and 2008, \$445,000 and \$1,535,000 of bond principal outstanding was considered to be defeased in substance.

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

	Interest Rate	Maturity Date	2009	2008
<i>DeLage Landen Public Finance</i>				
College of Engineering Computers	5.80%	08/03/10	\$ 31,837	\$ 46,451
<i>Dell Financial Services</i>				
College of Engineering computers	4.76%	08/25/09	69,594	-
Center for Computational Biology Computers	7.33%	07/01/10	5,433	10,148
<i>Subtotal, Dell Financial Services</i>			<u>75,027</u>	<u>10,148</u>
<i>Independence Bank</i>				
Admissions Auto Loan	6.00%	10/01/12	-	15,900
<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>			<u>-</u>	<u>24,429</u>
<i>Koch Financial Corporation</i>				
Information Technology Oracle Site License	4.24%	04/01/14	635,174	753,380
<i>MSU-Northern Foundation:</i>				
Consolidated Foundation Loan*	6.00%	10/01/19	1,926,711	2,005,169
Total note principal outstanding			<u>\$ 2,668,749</u>	<u>\$ 2,855,477</u>

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

Scheduled maturities of notes payable are as follows:

Payable during the year ending June 30,	Principal	Interest	Total
2010	\$ 216,462	\$ 119,826	\$ 336,288
2011	302,128	136,581	438,709
2012	291,913	118,209	410,122
2013	273,543	104,366	377,909
2014	279,534	90,275	369,809
2015-2019	1,100,000	259,551	1,359,551
2020-2024	205,169	12,310	217,479
Total	<u>\$ 2,668,749</u>	<u>\$ 841,118</u>	<u>\$ 3,509,867</u>

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, 2009 was 3.25%.

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.

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Payable during the year ending June 30,	Intercap Loans			MSTA Advances		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 1,290,068	\$ 224,063	\$ 1,514,131	\$ 50,536	\$ 129,464	\$ 180,000
2011	1,062,530	190,499	1,253,029	51,796	128,204	180,000
2012	935,802	156,611	1,092,413	53,090	126,910	180,000
2013	881,075	125,217	1,006,292	54,416	125,584	180,000
2014	680,135	98,028	778,163	55,775	124,225	180,000
2015-2019	2,388,590	184,837	2,573,427	300,477	599,523	900,000
2020-2024	-	-	-	339,919	560,081	900,000
2025-2029	-	-	-	384,538	515,462	900,000
2030-2034	-	-	-	435,015	464,985	900,000
2035-2039	-	-	-	492,117	407,883	900,000
2040-2044	-	-	-	556,714	343,286	900,000
2045-2049	-	-	-	629,791	270,209	900,000
2050-2054	-	-	-	712,461	187,539	900,000
2055-2059	-	-	-	805,981	94,019	900,000
2060-2061	-	-	-	261,392	8,608	270,000
Total	\$ 7,238,200	\$ 979,255	\$ 8,217,455	\$ 5,184,018	\$ 4,085,982	\$ 9,270,000

NOTE 12 - CAPITAL LEASE OBLIGATIONS

Capital Leases: The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2009:

Payable during the year ending June 30,	Principal and Interest
2010	\$ 8,708
2011	314
Total payments	9,022
Less amount representing interest	(388)
Principal balance outstanding	<u>\$ 8,634</u>

Assets acquired under capital leases consist mainly of photocopiers. Such assets are carried at \$54,846 with accumulated depreciation of \$35,619 as of June 30, 2009.

NOTE 13 – UNRESTRICTED NET ASSETS

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

	2009	2008 (as reclassified)
General operations *	\$ (18,379,261)	\$ (16,323,993)
OPEB liability **	(18,102,278)	(8,867,901)
Facility renewal and replacement	22,481,970	19,386,081
Student services and auxiliary department reserves, including Inventories	10,977,212	12,719,952
Instruction, academic support and public service	10,433,261	8,751,977
Research and indirect cost recoveries, including termination benefits pool for grant-funded employees	13,190,077	14,035,040
Unexpended plant uses	9,716,839	12,704,429
Retirement of indebtedness	6,826,006	6,510,734
Facilities services reserves, including inventories	3,148,601	2,898,530
Board of Regents' Approved Reserves		
Scholarships and stipends	1,911,284	992,923
Revenue shortfall contingency	2,629,824	1,724,596
Retirement payments	2,074,154	1,343,944
Agricultural Experiment Station and Extension Services; including livestock inventories	5,456,906	5,104,400
Administrative operations, including Information Technology	5,109,650	4,314,860
Student organizations	1,251,676	1,174,090
Instructional campus livestock inventories	675,292	623,990
President's and Chancellors' operations	1,521,486	2,650,297
Total unrestricted net assets	<u>\$ 60,922,699</u>	<u>\$ 69,743,949</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 \$18.4 million and \$16.3 million as of June 30, 2009 and 2008, respectively, in general operating funds.

**As discussed in note 15, a liability for Other Post Employment Benefits impacted Unrestricted Net Assets by \$18.1 million as of June 30, 2009, and \$8.9 million as of June 30, 2008.

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NOTE 14 – MATRIX OF NATURAL AND FUNCTIONAL OPERATING EXPENSES

Type and Classification of Operating Expenses:

Year Ended June 30, 2009	Instruction	Organized Research	Public Service	Academic Support	Student Services	Institutional Support	Plant-related Expenses	Auxiliary Enterprises	Other Classifications	Total
Compensation and Benefits	\$ 93,817,535	\$ 63,944,142	\$ 19,048,327	\$ 18,266,753	\$ 18,538,972	\$ 16,384,666	\$ 8,580,895	\$ 20,392,146	\$ -	\$ 258,973,436
OPEB	2,873,462	1,805,286	702,749	785,425	835,124	765,934	690,515	892,929	-	9,351,424
Supplies and Services	6,973,923	34,180,685	3,875,313	5,051,851	4,927,453	2,123,394	4,250,309	9,538,330	-	70,921,258
Travel	1,551,902	4,278,265	805,048	998,300	2,671,254	423,511	55,627	125,268	-	10,909,175
Utilities	35,001	883,015	37,613	53,922	73,341	36,053	7,176,215	3,362,875	-	11,658,035
Other Operating Expenses	2,329,464	5,182,072	2,694,253	3,134,611	1,999,426	3,265,537	8,499,950	8,795,030	-	35,900,343
Scholarships and Fellowships	-	-	-	-	-	-	-	-	18,973,122	18,973,122
Depreciation and Amortization	-	-	-	-	-	-	-	-	25,716,871	25,716,871
Total	\$107,581,287	\$110,273,465	\$ 27,163,303	\$ 28,290,862	\$ 29,045,570	\$ 22,999,095	\$ 29,253,511	\$ 43,106,578	\$ 44,689,993	\$ 442,403,664

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

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 20, 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 (MCA §19-8-502 and MCA §19-8-504). Members' rights become vested after 5 years of service. Additional

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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, 2009:

	PERS	TRS	ORP	CSRS	FERS	GWPORS
Covered payroll	\$ 46,590,394	\$ 18,009,356	\$ 109,873,292	\$ 1,083,562	\$ 491,292	\$ 948,275
Employer contributions*	\$ 3,277,634	\$ 2,090,732	\$ 6,421,239	\$ 82,362	\$ 207,950	\$ 85,345
% of covered payroll	7.035%	9.470%	4.49%-5.96%	3.82%-7.54%	1.00%-10.00%	9.000%
Employee contributions	\$ 3,214,737	\$ 1,287,668	\$ 7,728,379	\$ 120,319	\$ 70,289	\$ 100,138
% of covered payroll	6.900%	7.150%	7.044%	0.10%-5.25%	0.10%-8.50%	10.560%
ORP contribution to TRS		\$ 4,822,313				
% of covered payroll		4.720%				
ORP contributions to PERS	\$ 196,108					
% of covered payroll	2.545%					

*Includes TRS Option 1 payments of \$385,246.

Covered payroll excludes students employed under the College Work Study programs and part-time student employees. Total payroll expense for 2009 and 2008 was \$201,074,993 and \$195,405,249 respectively.

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
2007	\$ 6,151,248	\$ 7,994,744	\$ 11,691,891	\$ 228,573	\$ 161,343	\$ 126,018
2008	\$ 6,483,914	\$ 8,527,775	\$ 13,312,257	\$ 233,009	\$ 155,178	\$ 125,360
2009	\$ 6,688,479	\$ 8,200,713	\$ 14,149,618	\$ 202,681	\$ 278,239	\$ 185,483

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Pension data for the year ended June 30, 2008 (as restated):

	PERS	TRS	ORP	CSRS	FERS	GWPORS
Covered payroll	\$ 45,144,190	\$ 19,559,249	\$ 103,294,831	\$ 1,173,166	\$ 654,724	\$ 640,900
Employer contributions*	\$ 3,185,967	\$ 2,585,434	\$ 6,039,546	\$ 100,786	\$ 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		\$ 4,536,818				
% of covered payroll to TRS		4.720%				
ORP contribution to PERS	\$ 182,624					
% of covered payroll to PERS	2.545%					

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

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 \$409— \$481 per month, depending on the level of deductible and other selected plan features. Upon reaching age 65 (Medicare eligibility), monthly participation premiums range from \$209— \$245 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 stand-alone financial report, but is subject to audit as part of the State of Montana's Basic Financial Statements, included in the 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 No. 45. The calculated ARC represents an amount that, if funded, would cover normal cost each year and amortize any unfunded actuarial liability over a period of 30 years. For the fiscal year ended June 30, 2009 and June 30, 2008, MSU's annual OPEB cost (expense) of \$9,351,424 and \$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, 2009 and 2008, the University contributed \$27,097,424 and \$25,476,374 for actively employed participants, whose annual covered

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payroll totaled \$180,287,302 as of the last actuarial valuation. The University does not contribute to the plan for retirees or their dependents.

As of the latest actuarial evaluation, the accrued liability for retiree health benefits was \$95,165,100, all of which was unfunded. The percentage of annual OPEB cost contributed to the plan was 0% for both years, and the net OPEB obligation was \$18,321,610 and \$8,970,186 for 2009 and 2008 respectively. The funded status of the plan as of June 30 was 0% for both years.

The University's OPEB obligations for 2009 and 2008 are:

Year ended June 30,	2009	2008
Annual Required Contribution	\$ 9,351,424	\$8,970,186
Adjustment to annual required contribution	-	-
Annual OPEB cost	\$ 9,351,424	\$8,970,186
Contributions made	-	-
Increase to net OPEB obligation	\$ 9,351,424	\$8,970,186
Net OPEB obligation – beginning of year	\$ 8,970,186	-
Net OPEB obligation – end of year	\$18,321,610	\$8,970,186

Actuarial methods and assumptions—The projected unit credit funding method was used to determine the cost of the MUS System Employee Group Benefits Plan. 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 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.

Termination Benefits—

During the year ended June 30, 2009, certain employees were involuntarily terminated due to difficult economic circumstances in their departments. The University agreed to contribute to their health insurance for a specified period of time as severance. Additionally, certain employees were offered a one-time payment as incentive to retire. Certain employees had elected the Teachers' Retirement System Option 1 payout prior to June 30th, 2009, but had not yet retired as of that date. Expenses and related accrued liabilities relating to these voluntary and involuntary terminations have been included in the accompanying financial statements.

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 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, automobile 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 establishes guidelines and provides consultation in risk assessment, avoidance, acceptance and transfer.

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

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

General liability and tort claim coverage – include comprehensive liability for general, automobile, personal injury, officer’s and director’s, professional, aircraft, watercraft, leased vehicles and equipment, 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 coverage is provided, with a \$500,000 retention and an excess insurance limit of \$1,000,000. The University periodically provides funds to the administrator for claims paid and administrative expenses.

NOTE 17 – COMMITMENTS AND CONTINGENT LIABILITIES

Operating leases – The University is committed under noncancelable operating leases as follows:

Minimum rental payments for operating leases are due in the years ending June 30,	Amount
2010	\$ 3,257,731
2011	2,418,940
2012	2,172,778
2013	2,170,472
2014	2,128,945
2015-2019	10,546,893
2020-2024	506,491
Total	\$ 23,202,250

Payments made under operating leases during the years ended June 2009 and 2008 totaled \$ 2,993,122 and \$2,453,952 respectively. Certain space lease agreements, which comprise the majority of the commitments, contain escalation clauses based on the consumer price index.

Other commitments:

Encumbrances – As of June 30, 2009, the University had issued purchase orders committing the expenditure of \$2,427,887 for equipment and supplies 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.

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 awaiting the outcome of 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.

Accessibility improvements – During 2005, the Office of Civil Rights (OCR) visited the University's Bozeman campus, and in 2008, issued a report noting that their visit revealed certain undergraduate housing and fitness complex areas were not appropriately accessible to individuals with disabilities. The University agreed to employ the services of a consultant to examine the remaining housing and fitness areas, and to recommend improvements, if needed. During the fiscal year ended 2009, the consultant issued its report. Based on its results, management developed a plan to improve accessibility through a series of improvements over the next seven years. In September, 2009, the Board of Regents granted authorization to construct modifications which, in the first three years of a 7-year plan, are expected to cost approximately \$1.7 million. The expected cost of the remaining years'

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improvements is estimated at \$0.9 million. Management considers these improvements to be a part of its major maintenance plan.

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 \$163,676,969 from July 1, 2009 through June 30, 2036. Amounts of pledged revenue were as follows in the years ended June 30:

Description	2009			2008		
	Pledged Revenue	Total Similar Revenue	% Pledged	Pledged Revenue	Total Similar Revenue	% Pledged
Student fees (no tuition is pledged)	\$ 6,477,583	\$29,375,869	22%	\$ 6,460,008	\$ 28,683,370	23%
Housing and residence hall dining revenues, net of related expenses	5,355,636	5,355,636	100%	5,405,312	5,405,312	100%
Grant and contract facility and administrative cost recoveries	1,474,514	16,692,184	8%	1,468,573	16,396,341	9%
Bozeman campus athletic events revenue	1,668,860	1,683,428	99%	1,756,941	1,774,103	99%
Bozeman campus parking revenues	1,704,015	1,704,015	100%	1,698,751	1,698,751	100%
Bozeman bookstore and museum lease income	667,529	667,529	100%	664,412	664,412	100%
Land grant income	2,000,527	2,000,527	100%	2,303,335	2,303,335	100%
Investment income	1,200,535	1,401,963	51%	1,551,517	5,417,225	29%
Total	20,549,199			21,308,849		
Debt service requirements	10,121,948			9,704,5778		
Excess of pledged revenue over debt service requirements	<u>\$ 10,427,251</u>			<u>\$ 11,604,272</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 2009	Remaining Amount Authorized	Total Expected Project Cost
Billings College of Technology*	\$ 167,834	\$ 280,962	\$ 448,796
Join Library Project Master Plan*	138,375	11,625	150,000
Library Roof & Precast*	26,509	374,491	401,000
McMullen Hall Exterior Improvements*	-	200,000	200,000
Alumni Plaza	25,106	143,749	168,855
Animal Bioscience Facility*	6,609,899	9,841,101	16,451,000
Campus Infrastructure 19th Street Construction	-	299,700	299,700
Campus Street Maintenance	236,369	16,018	252,387
Chemistry/Biochemistry Facility	23,432,566	585,434	24,018,000
Cobleigh Sub Zero Lab	1,617,063	402,959	2,020,022
Cooley Renovation	753,458	13,598	767,056
Culbertson Window Replacement	22,514	202,486	225,000
Fieldhouse Arena Heating and Ventilation Repairs	122,327	37,673	160,000
Gaines Hall Renovation*	16,030,685	15,882,028	31,912,713
Hamilton Hall Restoration*	691,698	368,225	1,059,923
Howard Hall Reroof*	-	400,000	400,000
Huffman Impound Parking Lot Expansion	7,004	147,496	154,500
Lab and Seed Process Building*	308,719	368,681	677,400
Lewistown WTI Snow Making Facility	1,142,658	59,110	1,201,768
Library Freeze Protection Upgrade	94,262	5,738	100,000
Library ITC Electrical System Upgrade	95,631	255,369	351,000
Linfield Room 107 Renovation	64,476	35,524	100,000
Museum of the Rockies Expansion Plan	422,715	507,285	930,000
NWARC Office, Seed Lab and Calving Barn*	175,458	1,671,678	1,847,136
Office/Lab Classroom Building*	212,561	1,387,439	1,600,000
Outdoor Recreation Building	159,787	410,213	570,000
Plant Growth Center Reroof*	8,629	311,371	320,000
Plew Office Remodel	248,779	86,221	335,000
Stabilize Masonry*	685,074	1,914,926	2,600,000
Student Facilities Enhancement	30,772,766	881,710	31,654,476
Visual Communications Window Repair*	48,966	201,034	250,000
Great Falls COT Skilled Trades Building	3,052,898	10,959	3,063,857
Great Falls COT Wind Project	261	223,731	223,992
Classroom Lab Improvement*	22,376	105,624	128,000
Hagner Science Cooling Upgrade*	237,329	14,967	252,296
Library/PE Boiler Upgrade*	447,845	128,155	576,000
Renovate Auto Tech Center*	75,795	724,205	800,000
Totals	\$ 88,158,392	\$ 38,711,485	\$ 126,869,877

* 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, and do not represent a commitment of funds on the part of the University.

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, 2009 and 2008, respectively, the Foundations provided \$8,444,841 and \$9,342,049 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 \$1,736,839 and \$1,330,172 during the years ended 2009 and 2008, 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 \$185,007 during 2009 and \$136,943 during 2008. 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 \$763,048 during 2009 and \$709,902 during 2008 and Friends of KEMC Public Radio provided \$690,950 during 2009 and \$560,302 during 2008 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 \$1,494,928 and \$1,787,399 during the fiscal years ended June 2009 and 2008, 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 \$650,000 and \$692,755 in support of athletic programs during the years ended June 30, 2009 and 2008.

NOTE 19 – SUBSEQUENT EVENTS

Cash Equivalents and Investments—

As of June 30, 2009 MSU had \$73,192,976 invested in the State of Montana STIP, or 3.18% of the total pool balance of \$2,301,281,468. During 2007, the Montana Board of Investments invested \$50,000,000 in Orion Finance USA and \$90,000,000 in Axon Financing. On November 20, 2007 Axon Financing declared an insolvency event and Orion declared an insolvency event in January, 2008. In June, 2009 the Board applied \$14 million from the STIP reserve to the outstanding principal for the Axon Financial Funding and Orion Finance USA securities. As of June 30, 2009, the State's outstanding balances of these Structured Investment Vehicles are \$68,625,566 for Axon and \$45,000,000 for Orion. Certain payments have been received subsequent to June 30, 2009 with respect to these investments. In August 2009, Axon paid an additional \$3,893,968 in principal and interest of \$192,225. An additional interest compensation payment of \$153,270 from Axon was received on October 1, 2009.

On October 14, 2009, the Board of Investments received its initial payment from Orion Finance USA totaling \$12,490,293. This payment applied \$9,867,165 to principal, \$903,922 to the accrued interest receivable as of the January 16, 2008 and April 21, 2008 maturity dates, as well as \$1,719,206 to interest compensation.

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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, primarily due to the reclassifications of balances among net asset classifications. Information for prior periods as presented below has been restated to reflect the revised data. Additionally, the MSU Foundation statement data as presented below reflects a change in the methodology of accounting for a wholly owned private foundation. Fair value accounting for the private foundation's assets was discontinued, and historical cost-basis accounting was instead adopted, as required by Generally Accepted Accounting Principles. Such changes have been reflected as an adjustment to the MSU Foundation's beginning net asset balances as of June 30, 2007.

Montana State University
Condensed Combining Schedule of Component Unit Statements of Financial Position
As of June 30, 2009 or December 31, 2008

	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	\$ 97,758,316	\$ 15,126,186	\$ 2,526,861	\$ 8,239,837	\$ 1,926,053	\$ 125,577,253
Amounts due from MSU	-	-	1,926,711	-	-	1,926,711
Other receivables, net	5,098,613	1,143,300	832,599	1,530,130	65,382	8,670,024
Capital assets, net	5,354,057	1,994,529	61,792	4,028,784	815	11,439,977
Other assets	276,055	141,152	7,335	1,042,215	60,912	1,527,669
Total assets	\$ 108,487,041	\$ 18,405,167	\$ 5,355,298	\$ 14,840,966	\$ 2,053,162	\$ 149,141,634
Liabilities:						
Accounts payable and other liabilities	\$ 765,559	\$ 702,445	\$ 8,745	\$ 415,408	\$ 74,630	\$ 1,966,787
Amounts due to MSU	-	-	-	576,035	-	576,035
Notes, bonds and debt obligations	2,201,689	-	-	79,543	-	2,281,232
Liabilities to external parties	3,639,430	279,913	2,238,159	-	-	6,157,502
Custodial funds	8,443,914	1,197,614	-	-	-	9,641,528
Total liabilities	15,050,592	2,179,972	2,246,904	1,070,986	74,630	20,623,084
Net assets:						
Unrestricted	(2,967,778)	4,124,362	(898,884)	7,494,630	(218,968)	7,533,362
Temporarily restricted	21,946,428	1,874,116	883,330	5,456,135	869,842	31,029,851
Permanently restricted	74,457,799	10,226,717	3,123,948	819,215	1,327,658	89,955,337
Total net assets	93,436,449	16,225,195	3,108,394	13,769,980	1,978,532	128,518,550
Total liabilities and net assets	\$ 108,487,041	\$ 18,405,167	\$ 5,355,298	\$ 14,840,966	\$ 2,053,162	\$ 149,141,634

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

	2009	2008 (as restated)
Pooled investments:		
Equity securities	\$ 10,491,327	\$ 19,264,247
Debt securities	11,089,614	27,334,204
Alternative investments	51,606,104	34,704,780
Mutual funds, cash equivalents, and other	30,949,334	43,967,764
US Treasuries	381,858	721,994
Other real estate	2,049,710	1,222,151
Other investments	6,897,217	12,153,096
Investments held in trust	5,693,134	5,064,015
Total	<u>\$ 119,158,298</u>	<u>\$ 144,432,251</u>

*The Museum of the Rockies, Inc. and the MSU Bobcat Club maintained a December 31 year-end through December of 2007. As of June 30, 2009, the MSU Bobcat Club changed its fiscal year end to June 30th. All other component units' year-ends coincide with the University's June 30 fiscal year.

Foundation investment pools are not subject to regulatory oversight.

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Montana State University
Condensed Combining Schedule of Component Unit Statements of Activities
For the Year Ended June 30, 2009 or December 31, 2008

	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	\$ 8,720,230	\$ 1,882,451	\$ 690,818	\$ 1,088,664	\$ 1,958,203	\$ 14,340,366
Investment income and unrealized gain on investments	(18,600,954)	(2,291,563)	(257,392)	(1,432,552)	(136,675)	(22,719,136)
Support from University	200,000	131,636	149,000	-	-	480,636
Other income	1,620,476	1,089,625	5,659	2,266,559	1,412,854	6,395,173
Total revenues	(8,060,248)	812,149	588,085	1,922,671	3,234,382	(1,502,961)
Expenses:						
University support	4,801,333	1,068,334	128,346	1,688,564	639,412	8,325,989
Scholarships and other program expenses	2,387,867	2,028,470	534,783	1,667,018	1,057,009	7,675,147
Supporting services	4,086,126	669,862	226,372	1,202,292	1,373,272	7,557,924
Total expenses	11,275,326	3,766,666	889,501	4,557,874	3,069,693	23,559,060
Change in net assets before nonoperating items	(19,335,574)	(2,954,517)	(301,416)	(2,635,203)	164,689	(25,062,021)
Nonoperating expenses	(877,235)	-	-	-	-	(877,235)
Change in net assets	(20,212,809)	(2,954,517)	(301,416)	(2,635,203)	164,689	(25,939,256)
Net assets, beginning of fiscal year as previously presented	113,967,693	19,179,712	3,409,810	16,405,183	1,813,843	154,457,806
Cumulative effect of change in accounting principle	(318,435)	-	-	-	-	(318,435)
Net assets, beginning of fiscal year, as restated	113,649,258	19,179,712	3,409,810	16,405,183	1,813,843	154,457,806
Net assets, end of fiscal year	\$ 93,436,449	\$ 16,225,195	\$ 3,108,394	\$ 13,769,980	\$ 1,978,532	\$ 128,518,550

*The Museum of the Rockies, Inc. maintains a December 31 year-end. The MSU Bobcat Club maintained a December 31 year-end through 2007; however, as of June 30, 2009, they now report using a June 30th fiscal year. 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, 2008 or December 31, 2007* 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	\$ 119,410,564	\$ 17,843,909	\$ 2,662,038	\$ 10,097,296	\$ 2,196,435	\$152,210,242
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	5,325,657	2,070,418	54,352	4,233,638	5,619	11,689,684
Other assets	310,921	140,673	7,335	1,178,625	3,784	1,641,338
Total assets	\$ 131,368,637	\$ 21,597,500	\$ 5,747,687	\$ 17,434,048	\$ 2,232,916	\$178,380,788
Liabilities:						
Accounts payable and other liabilities	\$ 965,656	\$ 702,586	\$ 10,608	\$ 378,883	\$ 56,573	\$ 2,114,306
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	-	-	-	12,197,607
Total liabilities	17,400,944	2,417,788	2,337,877	1,028,865	419,073	23,604,547
Net assets:						
Unrestricted	5,434,381	4,652,878	(783,306)	7,930,472	(218,968)	17,015,457
Temporarily restricted	36,498,914	4,804,451	1,074,134	7,655,917	607,153	50,640,569
Permanently restricted	72,034,398	9,722,383	3,118,982	818,794	1,425,658	87,120,215
Total net assets	113,967,693	19,179,712	3,409,810	16,405,183	1,813,843	154,776,241
Total liabilities and net assets	\$ 131,368,637	\$ 21,597,500	\$ 5,747,687	\$ 17,434,048	\$ 2,232,916	\$178,380,788

*The Museum of the Rockies, Inc. and the MSU- Bobcat Club maintained a December 31 year-end as of December 31, 2007. All other component units' year-ends coincide with the University's June 30 fiscal year.

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As of and for Each of the Years Ended June 30

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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 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	\$ 12,447,964	\$ 2,502,801	\$ 980,057	\$ 2,133,824	\$ 636,972	\$ 18,701,618
Investment income and unrealized gain 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	3,047,974	750,826	29,814	2,871,365	809,935	7,509,914
Total revenues	10,141,224	2,716,672	753,611	5,652,368	1,548,538	20,812,413
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	(2,734,454)	(392,230)	(200,712)	540,496	38,048	(2,748,852)
Nonoperating expenses	(263,241)	-	-	-	-	(263,241)
Change in net assets	(2,997,695)	(392,230)	(200,712)	540,496	38,048	(3,012,093)
Net assets, beginning of fiscal year	116,965,388	19,571,942	3,610,522	15,864,687	1,775,795	157,788,334
Net assets, end of fiscal year	\$ 113,967,693	\$ 19,179,712	\$ 3,409,810	\$ 16,405,183	\$ 1,813,843	\$154,776,241

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Unaudited Supplemental Information
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Unaudited Supplemental Information

Montana State University
 Unaudited Consolidating Statements of Net Assets
 June 30, 2009

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	\$ 74,977,754	\$ 5,532,612	\$ 2,784,446	\$ 140,412	\$ 25,677,538	\$ 2,563,733	\$ 4,050,217	\$ -	\$ 115,726,712
Short term investments	800,000	-	-	-	-	-	-	-	800,000
Securities lending collateral	6,484,250	-	-	-	915,960	-	5,592	-	7,405,802
Accounts and grants receivable, net	4,447,478	6,813	104,009	6,013	1,614,723	627,217	299,790	-	7,106,043
Amounts receivable from Federal government	18,840,640	157,271	150,294	-	170,887	-	42,380	-	19,361,472
Amounts receivable from primary government	1,576,337	54,546	70,406	154	53,979	43,967	22,745	-	1,822,134
Amounts receivable from Montana component units	12,355	-	-	-	10,063	6,850	50	-	29,318
Amounts receivable from MSU campuses	403,387	-	-	-	38,131	33,649	6,579	(481,746)	-
Loans receivable, net	1,735,241	-	-	-	256,325	182,090	-	-	2,173,656
Inventories	893,470	675,292	-	3,947	1,015,338	279,233	261,818	-	3,129,098
Prepaid expenses and other current assets	1,302,737	-	18,628	-	105,163	85,618	17,139	-	1,529,285
Total current assets	111,473,649	6,426,534	3,127,783	150,526	29,858,107	3,822,357	4,706,310	(481,746)	159,083,520
Noncurrent assets:									
Restricted cash and cash equivalents	1,089,759	-	-	-	11,368	15,039	10,360	-	1,126,526
Restricted investments	5,847,187	-	-	-	1,032	97,532	940	-	5,946,691
Loans receivable, net	17,967,090	-	-	-	3,198,511	1,429,352	-	-	22,594,953
Investments	19,489,255	369,875	111,071	4,218	1,310,928	-	6,151	-	21,291,498
Capital assets	236,727,415	11,040,001	206,788	322,878	51,891,233	18,178,617	21,247,171	-	339,614,103
Other noncurrent assets	1,460,498	-	-	-	37,508	12,020	-	(215,000)	1,295,026
Total noncurrent assets	282,581,204	11,409,876	317,859	327,096	56,450,580	19,732,560	21,264,622	(215,000)	391,868,797
Total assets	\$ 394,054,853	\$ 17,836,410	\$ 3,445,642	\$ 477,622	\$ 86,308,687	\$ 23,554,917	\$ 25,970,932	\$ (696,746)	\$ 550,952,317
LIABILITIES									
Current liabilities:									
Accounts payable and accrued liabilities	\$ 22,877,536	\$ 803,416	\$ 1,104,493	\$ 58,700	\$ 3,690,031	\$ 1,429,998	\$ 1,102,858	\$ -	\$ 31,067,032
Accounts payable to primary government	4,125,515	155	151	155	449,364	302,238	69,589	-	4,947,167
Accounts payable to Montana component units	595,027	-	1,325	-	3,567	1,859	-	-	601,778
Accounts payable to MSU campuses	51,541	-	150	-	250,807	145,816	33,432	(481,746)	-
Securities Lending Liability	6,484,249	-	-	-	915,960	-	5,593	-	7,405,802
Property held in trust for others	1,103,395	-	-	-	196,664	107,536	116,375	-	1,523,970
Deferred revenues	7,627,073	-	12,669	-	1,341,754	434,253	284,751	-	9,700,500
Compensated absences	9,727,920	1,283,316	961,576	48,441	1,904,860	620,587	338,160	-	14,884,860
Current portion debt and capital lease obligations	4,473,242	-	-	-	515,000	281,542	-	-	5,269,784
Total current liabilities	57,065,498	2,086,887	2,080,364	107,296	9,268,007	3,323,829	1,950,758	(481,746)	75,400,893
Noncurrent liabilities:									
Advances from primary government	9,361,293	-	-	-	1,012,168	858,571	64,580	(215,000)	11,081,612
Debt and capital lease obligations	99,370,631	-	-	-	11,673,978	2,733,953	-	-	113,778,562
Compensated absences	8,700,944	1,147,835	860,062	53,089	1,783,796	671,571	380,989	-	13,598,286
OPEB	12,089,957	875,851	763,197	37,679	2,712,521	1,200,117	642,288	-	18,321,610
Due to Federal government	17,262,536	-	-	-	3,065,375	1,498,019	-	-	21,825,930
Total noncurrent liabilities	146,785,361	2,023,686	1,623,259	90,768	20,247,838	6,962,231	1,087,857	(215,000)	178,606,000
Total liabilities	203,850,859	4,110,573	3,703,623	198,064	29,515,845	10,286,060	3,038,615	(696,746)	254,006,893
NET ASSETS									
Invested in capital assets, net of related debt	128,879,861	11,040,001	206,788	322,878	38,492,854	14,411,968	21,120,372	-	214,474,722
Restricted - nonexpendable	10,211,852	-	-	-	687,542	356,620	11,300	-	11,267,314
Restricted - expendable	8,217,182	420,390	103,471	-	873,373	547,649	118,624	-	10,280,689
Unrestricted	42,895,099	2,265,446	(568,240)	(43,320)	16,739,073	(2,047,380)	1,682,021	-	60,922,699
Total net assets	190,203,994	13,725,837	(257,981)	279,558	56,792,842	13,268,857	22,932,317	-	296,945,424
Total liabilities and net assets	\$ 394,054,853	\$ 17,836,410	\$ 3,445,642	\$ 477,622	\$ 86,308,687	\$ 23,554,917	\$ 25,970,932	\$ (696,746)	\$ 550,952,317

Montana State University
 Unaudited Consolidating Statements Revenues, Expenses and Changes in Net Assets
 For the year ended June 30, 2009

	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	Total
Operating revenues:									
Tuition and fees	\$ 85,847,697	\$ -	\$ -	\$ -	\$ 21,509,273	\$ 4,737,427	\$ 4,297,937	\$ -	\$ 116,392,334
Federal appropriations	-	2,734,350	3,201,989	-	-	-	-	-	5,936,339
Federal grants and contracts	76,820,023	-	450,490	-	5,547,205	2,277,178	330,799	(399,753)	85,025,942
State grants and contracts	4,651,447	-	51,039	-	606,589	455,230	404,152	-	6,168,457
Non-governmental grants and contracts	9,821,002	-	202,237	-	724,955	7,077	138,873	-	10,894,144
Indirect cost recoveries	16,112,740	-	-	-	410,424	167,895	1,125	-	16,692,184
Educational, public service and outreach revenues	16,075,191	2,157,102	3,670,680	159,190	1,394,479	424,403	41,828	(2,486,197)	21,436,676
Auxiliary - housing	12,262,024	-	-	-	1,531,816	469,435	-	-	14,263,275
Auxiliary - food service	12,109,608	-	-	-	954,544	661,235	67,323	-	13,792,710
Auxiliary - other auxiliary sales and services	3,055,718	-	80	-	3,902,044	681,136	1,193,288	(99,912)	8,732,354
Interest earned on loans	35,314	-	-	-	79,872	7,528	-	-	122,714
Other operating revenues	931,929	28,408	4,556	648	130,919	30,207	13,799	-	1,140,466
Total operating revenues	237,722,693	4,919,860	7,581,071	159,838	36,792,120	9,918,751	6,489,124	(2,985,862)	300,597,595
Operating expenses:									
Compensation and benefits	177,499,572	13,961,914	11,910,031	574,440	33,398,456	12,500,556	9,128,467	-	258,973,436
Annual Required Contribution OPEB	6,169,451	442,705	394,663	19,751	1,384,482	612,546	327,826	-	9,351,424
Operating expenses	97,005,085	3,036,918	2,160,623	325,001	20,158,470	5,843,187	3,851,362	(2,991,835)	129,388,811
Scholarships and fellowships	11,838,387	65	6,339	-	3,890,737	1,444,866	1,792,728	-	18,973,122
Depreciation and amortization	20,112,624	730,555	48,443	54,555	3,100,486	838,504	831,704	-	25,716,871
Total operating expenses	312,625,119	18,172,157	14,520,099	973,747	61,932,631	21,239,659	15,932,087	(2,991,835)	442,403,664
Operating loss	(74,902,426)	(13,252,297)	(6,939,028)	(813,909)	(25,140,511)	(11,320,908)	(9,442,963)	5,973	(141,806,069)
Nonoperating revenues (expenses):									
State appropriations	50,949,892	12,857,563	6,164,239	940,431	20,038,809	9,036,727	6,035,155	-	106,022,816
Pell Grants	8,117,127	-	-	-	4,317,179	1,894,567	2,412,416	-	16,741,289
Land grant and timber sales income	1,714,263	-	-	-	286,264	-	-	-	2,000,527
Gifts	9,983,504	72,791	48,048	-	2,461,412	773,264	131,568	-	13,470,587
Investment Income	790,320	103,973	40,466	2,653	370,222	26,638	67,691	-	1,401,963
Interest expense	(5,609,255)	(81,919)	-	-	(621,673)	(227,102)	(5,866)	-	(6,545,815)
Net nonoperating revenues (expenses)	65,945,851	12,952,408	6,252,753	943,084	26,852,213	11,504,094	8,640,964	-	133,091,367
Income before other revenues, expenses, gains and losses									
	(8,956,575)	(299,889)	(686,275)	129,175	1,711,702	183,186	(801,999)	5,973	(8,714,702)
Transfers in (out)	588,744	(589,405)	83,923	-	-	(153,262)	70,000	-	-
Gain or loss on sale of fixed assets	(731,793)	(22,667)	516	2,046	6,615	(5,007)	(2,004)	-	(752,294)
Additions to permanent endowments	39,862	-	-	-	-	-	-	-	39,862
Gifts, capital grants and contributions	22,849,202	-	-	-	3,290,654	728,208	-	(5,973)	26,862,091
Change in net assets	13,789,440	(911,961)	(601,836)	131,221	5,008,971	753,125	(734,003)	-	17,434,957
Net assets, beginning of year	176,414,554	14,637,798	343,855	148,337	51,783,871	12,515,732	23,666,320	-	279,510,467
Net assets, end of year	\$ 190,203,994	\$ 13,725,837	\$ (257,981)	\$ 279,558	\$ 56,792,842	\$ 13,268,857	\$ 22,932,317	\$ -	\$ 296,945,424

Montana State University
Unaudited Selected Cash Flow Information
For the year ended June 30, 2009

	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	MSU Consolidated
Cash flows from operating activities:									
Operating revenues:									
Tuition and fees	\$ 86,017,190	\$ -	\$ -	\$ -	\$ 20,907,036	\$ 4,714,633	\$ 4,311,523	\$ -	\$ 115,950,382
Federal appropriations	-	2,734,351	3,081,311	-	-	-	-	-	5,815,662
Federal grants and contracts	71,377,640	(157,271)	448,225	-	5,482,152	2,289,684	312,213	(399,753)	79,352,890
State grants and contracts	4,200,575	-	51,039	-	599,802	416,582	421,775	-	5,689,773
Private grants and contracts	9,523,084	-	202,237	-	717,817	14,557	138,873	-	10,596,568
Grant and contract indirect cost recoveries	16,194,517	-	-	-	410,424	167,895	1,125	-	16,773,961
Educational, public service and outreach revenues	16,064,008	2,491,614	3,665,252	159,186	1,309,860	418,397	41,828	(2,486,197)	21,663,948
Sales and services of auxiliary enterprises	27,374,663	-	80	(5,083)	6,316,746	1,800,110	1,260,611	(99,912)	36,647,215
Interest on loans receivable	230,056	-	-	-	79,872	13,381	-	-	323,309
Other operating receipts	931,926	28,408	4,557	648	130,917	30,210	13,800	-	1,140,466
Operating expenses:									
Compensation and benefits	(174,445,687)	(13,205,599)	(11,451,944)	(566,791)	(33,092,400)	(12,399,520)	(9,058,848)	-	(254,220,789)
Operating expenses	(91,773,386)	(3,548,824)	(2,443,221)	(344,858)	(19,969,815)	(5,714,647)	(3,967,327)	2,991,835	(124,770,243)
Scholarships and fellowships	(11,838,388)	(65)	(6,339)	-	(3,890,737)	(1,444,866)	(1,792,728)	-	(18,973,123)
Loans made to students	(3,682,035)	-	-	-	(353,588)	(346,339)	-	-	(4,381,962)
Loan payments received	2,502,035	-	-	-	288,487	338,606	-	-	3,129,128
Intercampus due to/from	(72,816)	(304,235)	(109,637)	(18,009)	356,251	98,098	50,348	-	-
Net cash used in operating activities	(47,396,618)	(11,961,621)	(6,558,440)	(774,907)	(20,707,176)	(9,603,219)	(8,266,807)	5,973	(105,262,815)
Cash flows from noncapital financing activities:									
Receipts (disbursements) of funds held in trust for others	126,595	-	-	-	82,428	8,164	5,714	-	222,901
State appropriations	50,949,892	12,966,893	6,164,239	940,431	20,110,194	9,036,727	6,035,155	-	106,203,531
Federal pell grant funds received	8,117,127	-	-	-	4,317,179	1,894,567	2,412,416	-	16,741,289
Gifts and contributions (expendable)	9,983,504	72,791	48,048	-	2,461,412	773,264	131,568	(5,973)	13,464,614
Land grant income	1,714,263	-	-	-	286,264	-	-	-	2,000,527
Repayment of long-term advance from primary government	(49,307)	-	-	-	-	-	-	-	(49,307)
Additions to permanent endowments	39,862	-	-	-	-	-	-	-	39,862
Transfers between campuses and agencies	588,743	(589,405)	83,923	-	-	(153,261)	70,000	-	-
Net cash flows from noncapital financing activities	71,470,679	12,450,279	6,296,210	940,431	27,257,477	11,559,461	8,654,853	(5,973)	138,623,417
Cash flows from capital financing activities:									
Purchase of capital assets	(18,206,533)	(557,651)	(110,009)	(204,206)	(1,725,857)	(361,451)	(785,818)	-	(21,951,525)
Proceeds from sale of capital assets	67,669	11,094	516	2,046	6,615	-	-	-	87,940
Gifts -restricted for capital purchase	150,542	-	-	-	-	-	-	-	150,542
Other capital financing activities	461,881	-	-	-	-	-	-	-	461,881
Proceeds from borrowings	95,086	-	-	-	-	-	-	-	95,086
Debt retirement	(4,335,611)	-	-	-	(465,000)	(353,788)	-	-	(5,154,399)
Payment of debt issue costs	(90,331)	-	-	-	-	-	-	-	(90,331)
Advances from primary government	303,150	-	-	-	-	-	-	-	303,150
Repayment of advances from primary government	(925,707)	-	-	-	(216,916)	(160,598)	(59,919)	-	(1,363,140)
Interest paid	(4,840,184)	(81,919)	-	-	(600,798)	(215,337)	(5,866)	-	(5,744,104)
Net cash change from capital financing activities	(27,320,038)	(628,476)	(109,493)	(202,160)	(3,001,956)	(1,091,174)	(851,603)	-	(33,204,900)
Cash flows from investing activities:									
Purchase of investments	(2,638,539)	828	65,637	2,783	(20,074)	-	-	-	(2,589,365)
Proceeds from sale of investments	-	-	-	-	200,742	-	55,709	-	256,451
Investment income	1,956,331	103,972	40,471	2,657	396,059	25,834	73,131	-	2,598,455
Net cash change from investing activities	(682,208)	104,800	106,108	5,440	576,727	25,834	128,840	-	265,541
Net change in cash and cash equivalents	(3,928,185)	(35,018)	(265,615)	(31,196)	4,125,072	890,902	(334,717)	-	421,243
Balances at beginning of year	79,995,700	5,567,630	3,050,061	171,608	21,563,834	1,687,870	4,395,292	-	116,431,995
Balances at end of year	\$ 76,067,515	\$ 5,532,612	\$ 2,784,446	\$ 140,412	\$ 25,688,906	\$ 2,578,772	\$ 4,060,575	\$ -	\$ 116,853,238

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Montana residents			
Undergraduate	12,631	12,735	12,988
Graduate	1,036	1,002	956
Nonresidents			
Undergraduate	2,383	2,293	2,200
Graduate	284	272	284
Western Undergraduate Exchange	<u>642</u>	<u>626</u>	<u>679</u>
Total	<u>16,976</u>	<u>16,928</u>	<u>17,107</u>

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 2008-2009 academic year, on a per-semester basis, were as follows:

	<u>Resident</u> <u>Undergraduate—Graduate</u>	<u>NonResident</u> <u>Undergraduate—Graduate</u>
Bozeman Campus	\$2,894 - \$3,350	\$4,057 - \$8,593
Billings Campus	\$2,586 - \$2,985	\$3,636 - \$7,442
Northern Campus ⁽¹⁾	\$2,195 - \$3,060	\$3,037 - \$8,171
Great Falls Campus ⁽²⁾	\$1,500 - N/A	\$2,114 - N/A

(1) Average of lower and upper divisions.

(2) Undergraduate program only.

Employees

As of December 31, 2008, the University employed 7,514 people (head count) as follows:

	<u>Bozeman</u>	<u>Billings</u>	<u>Northern</u>	<u>Great Falls</u>	<u>Total</u>
Faculty/Professional	1,987	436	145	175	2,743
State classified system	1,152	214	65	50	1,481
Temporary hourly	511	67	29	3	610
Students	1,810	264	150	75	2,149
Graduate Students	366	15	-	-	531
Total	<u>5,826</u>	<u>996</u>	<u>389</u>	<u>303</u>	<u>7,514</u>

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

MSU- Bozeman

Campus Overview

On February 16, 1893, the Agricultural College of the State of Montana was founded in Bozeman as the state's first unit of higher education. Renamed The Montana College of Agriculture and Mechanic Arts, the institution was popularly known as Montana Agricultural College, or MAC. By the 1920s, the institution's preferred name was Montana State College and so it remained until July 1, 1965, when, in recognition of the enormous advances in the College's commitment to scientific and humanistic research, the thirty-ninth legislative assembly of the State of Montana changed MSC's name to Montana State University. In 1994, the Board of Regents approved a restructuring plan that created a four-campus Montana State University and gave the Bozeman campus administrative oversight of the, now, MSU-Billings, MSU-Great Falls College of Technology and MSU-Northern. Statutory authority for Montana State University-Bozeman is contained in Title 20, Chapter 25, Section 201 Montana Code Annotated. The curricula offered are organized into nine undergraduate colleges and a division providing for post-graduate, advanced degrees, as follows: College of Agriculture; College of Education, Health and Human Development; College of Engineering; College of Letters and Science; College of Business; College of Nursing; College of Arts and Architecture; Liberal Studies; University Studies; and the Division of Graduate Education.

The campus offers a diversified curriculum leading to bachelor's degrees in 51 fields covering 122 areas, master's degrees in 41 fields and doctorate degrees in 18 fields, as well as maintaining an active role in research through individual departments and programs.

Situated within the City of Bozeman, the campus comprises approximately 1,781 acres and is composed of more than 40 classroom and administrative buildings, including a full-service library, nine residence halls, three cafeterias, a recently renovated health and fitness complex and student union building, a chemistry/biochemistry research facility completed in 2007, the Museum of the Rockies, and numerous other classroom buildings and special laboratories. The State's Long Range Building Program recently began the renovation of the University's chemistry classroom building and historic Hamilton Hall. Also currently under construction is a new Animal Bioscience facility.

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,				
	2009	2008	2007	2006	2005
Resident					
Undergraduate	7,072	7,166	7,315	7,456	7,367
Graduate	705	685	629	633	634
Total resident	<u>7,777</u>	<u>7,851</u>	<u>7,944</u>	<u>8,089</u>	<u>8,001</u>
Nonresident					
Undergraduate	2,170	2,086	2,000	1,869	1,876
Graduate	321	230	251	263	257
Total nonresident	<u>2,491</u>	<u>2,316</u>	<u>2,251</u>	<u>2,132</u>	<u>2,133</u>
Western Undergraduate Exchange	<u>240</u>	<u>299</u>	<u>360</u>	<u>421</u>	<u>394</u>
Total	<u>10,509</u>	<u>10,466</u>	<u>10,555</u>	<u>10,642</u>	<u>10,528</u>

**A-60 Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2009**

(continued)

	Degrees Granted - Fiscal Years Ended June 30,				
	2009	2008	2007	2006	2005
Undergraduate	1,889	1,809	1,837	1,821	1,805
Graduate	485	487	523	480	482
TOTAL:	2,374	2,296	2,360	2,301	2,287

Additionally, 429 Masters degrees were awarded retroactively to students that had received their Bachelors in Architecture more than 10 years ago. The Board of Regents changed the credit requirements for the Masters Architecture program and determined that these former students had completed Masters level work.

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 Agricultural Experiment Station (MAES)

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 as approved by USDA. The MAES has people and programs (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 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 federal USDA ARS Fort Keogh Livestock and Range Research Laboratory at Miles City, a partnership that has been in place since 1924 and the USDA 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 (MAES), 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 and clientele from around the world.

MAES cooperates with state, regional and federal agencies on research 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 (leveraging new) extramural funding to support research programs. Through 2007—2009, the College of Agriculture, which is predominantly funded by MAES, remains a top ranked college in terms of sponsored program expenditures. The College/MAES have four 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 (15% total) and the many demands statewide for state appropriations (85%). 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. Management foresees increased difficulty competing in terms of salaries, equipment, infrastructure and facilities offered, and will reduce the size of the operation if needed to fund increased costs.

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.

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.

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 70 percent of its services to fire fighters: 70 percent to volunteer fire fighters, 24 percent to combination fire fighters, and 6 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 2009 fiscal year 3,805 emergency responders from 44 counties received 3,742.3 hours of instruction from FSTS. The school issued a total of 65 professional training certifications and made 557 resource center loans of equipment and training materials to 75 departments.

Montana State University 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 urban comprehensive 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. Students can also choose from more than 200 classes offered in 16 online programs. Several academic programs are unique to the Montana University System.

MSU-Billings is accredited by the Northwest Commission on Colleges & Universities. 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 Inter-Industry Conference on Auto Collision Repair, the Montana State Board of Nursing, the Committee on Accreditation of Allied Health Education Programs, and the Committee on Accreditation of Educational Programs for the EMS Professions. 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,				
	2009	2008	2007	2006	2005
Resident					
Undergraduate	2,773	2,844	2,845	2,910	2,890
College of Technology	624	666	665	634	638
Graduate	256	254	252	287	288
Total Resident	3,653	3,764	3,762	3,831	3,816
Nonresident					
Undergraduate	93	86	92	102	85
College of Technology	5	4	6	7	12
Graduate	44	42	33	28	31
Total nonresident	142	132	131	137	128
Western Undergraduate Exchange					
Main Campus	217	222	211	225	189
College of Technology	29	36	29	26	18
Total Western Undergraduate Exchange	246	258	240	251	207
Total	4,041	4,154	4,133	4,219	4,151

	Degrees Granted - Fiscal Years Ended June 30,				
	2009	2008	2007	2006	2005
College of Technology	254	263	224	186	183
Undergraduate	540	550	513	524	525
Graduate	106	121	110	99	115
Total	900	934	847	809	823

Enrollment was down in FY09, however overall headcount enrollment for the fall semester of 2009 reached historical levels and we anticipate an increase in total annual FTE for FY10.

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, criminal justice and political science.

Grants and research production continues. 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 recently was awarded two new Department of Justice Grants to do training at the Montana Women’s Prison in Billings, as well as a subgrant with MSU-Great Falls College of Technology for new wind energy workforce development. The KEMC public radio station was also awarded several new grants for digital conversion and infrastructure upgrades. Additional Department of Education grants were awarded for workforce development. A new Mobile Energy Training Laboratory, funded by a US Dept of Labor “Energy for Tomorrow” grant, is used to train students and workers around the region in the latest energy-related technologies.

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. The College of Allied Health Professions continues growth in enrollments and graduations.

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 tenth 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 2010". MSU-Billings was ranked ninth nationally among all NCAA Division II schools in the National Collegiate Scouting Association Power Rankings for 2009.

The College of Technology has continued its transition to a true community college by expanding offerings and programs. Enrollment has grown from over 500 student headcount in 1999 to over 1,400 in 2009 at the 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 largest deterrent to growth in two-year education continues to be affordability and perceived return on investment. 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. Recent program additions at the College of Technology include a Construction Trades Training Program developed in partnership with the Montana Contractors' Association, Inc; an Associate of Science degree in nursing; an Associate of Applied Science in Power Plant Technology; an Associate of Applied Science in Welding and Metal Fabrication Technology; and a Certificate of Applied Science in Welding for Energy Technology. In addition to the new programs, an applied supervision program at the COT was reorganized into a new Business Administration Associate degree program designed to provide a new entry point for students interested in pursuing business related careers.

The MSU-Billings Foundation completed the People, Pride & Promise Campaign for Excellence at Montana State University Billings in December of 2006, raising over \$30 million in gifts and pledges for scholarships, academic programs, faculty and facilities. The Foundation distributed over \$1 million in scholarships in FY09.

MSU- Northern

Campus Overview

Established by the Legislative Assembly of the State of Montana in 1913, "The Northern Montana Agricultural and Manual Training School" opened in 1929 under the name "The Northern Montana School." In 1931, the common use of "Northern Montana College" came into existence. In 1994, Northern Montana College became Montana State University-Northern (MSU-Northern) as part of the restructuring with Montana State University in Bozeman. Montana State University-Northern offers programs of professional preparation emphasizing discipline mastery, critical inquiry, and social responsibility in:

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

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

MSU-Northern is accredited by the Northwest Association of Schools and Colleges. MSU-Northern's accreditations also include the National League for Nursing Accrediting Commission, the Montana State Board of Nursing, the Accreditation Board of Engineering Technology, the National Automobile Technicians Education Foundation, the Montana Board of Public Education, 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,				
	2009	2008	2007	2006	2005
Resident					
Undergraduate	882	916	1,010	1,071	1,113
Graduate	75	63	75	71	95
Total resident	957	979	1,085	1,142	1,208
Nonresident					
Undergraduate	50	51	43	46	50
Graduate	0	0	0	0	0
Total nonresident	50	51	43	46	50
Western Undergraduate Exchange	67	66	79	67	61
Total	1,074	1,096	1,207	1,255	1,319

	Degrees Granted - Fiscal Years Ended June 30,				
	2009	2008	2007	2006	2005
Undergraduate	252	267	311	306	304
Graduate	28	13	33	14	54
Total:	280	280	344	320	358

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.

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 is a progressive public college offering two-year transfer degrees as well as degrees and certificates that prepare students to enter high-skill, high-demand careers. 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 are offered in Health Sciences, Business Trades, and Technology disciplines. Several of the Health Sciences 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.

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 foster the success of our students and their communities through innovative, flexible learning opportunities for people of all ages, backgrounds, and aspirations resulting in self-fulfillment and competitiveness in an increasingly global society.

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 of nearly 24%. The majority of students are Montana residents.

Annual Enrollment Data (FTE)

	Student FTE for Fiscal Years Ended June 30,				
	2009	2008	2007	2006	2005
Resident					
Undergraduate	1,280	1,143	1,153	1,155	1,072
Nonresident					
Undergraduate	65	66	58	30	21
Western Undergraduate Exchange	8	3	1	1	0
Total	1,353	1,212	1,212	1,186	1,093

The numbers of degrees and certificates granted has increased over 30% during the past five years.

Degrees and Certificates Granted

	2009	2008	2007	2006	2005
Certificates	55	61	40	52	36
Associate of Science	55	53	30	35	41
Associate of Applied Science	120	117	131	98	99
Total	230	231	201	185	176

Highlights

As a result of the growth mentioned above, MSU-GF has experienced significant challenges involving inadequate space for a number of years. A new 45,000 square foot two-story building west of the original facility in Great Falls was 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. In addition, a Construction and Industrial Trades building was operational in the 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.

The college has received a \$1.97 million grant from the U.S. Department of Labor to facilitate the development of a wind technology program in conjunction with three partner campuses (Montana State University- Northern, Montana State University-Billings College of Technology, and Montana Tech of the University of Montana). It is expected that this program will be operational in fall 2010 and will provide training to students in the maintenance and operation of energy generating wind-powered turbines.

The College is in the initial stages of developing a simulated medical facility. The facility will be a teaching-learning, practical laboratory incorporated within the current facility expansion that has already taken place on campus. The laboratory will be a one of a kind learning environment aimed to provide skills training in a wide range of healthcare fields. Under simulated conditions, student performance of physical assessment and procedural skills, as well as their demonstration of critical reasoning, will facilitate the acquisition of clinical knowledge that will benefit them, their prospective practices, and all future patients within their care. The new facility will generate the simulation of patient care environments, including replications of emergency, surgical, and examination facilities currently operating in Great Falls medical centers.

The College of Technology in Bozeman, an extension of the MSU-Great Falls College of Technology, is located in Culbertson Hall on the MSU campus in Bozeman. Established to serve the need for workforce and career training in the Gallatin Valley, the College of Technology in Bozeman offers Associate of Applied Science degrees in Aviation, Design Drafting and Interior Design, and a certificate program in Welding. The College of Technology in Bozeman also provides developmental classes in mathematics and English to help students succeed in college-level coursework. Working with community partners, the College envisions the growth of coursework, certificates and degree programs that will provide a trained workforce to growth industries and businesses in the Bozeman area.

MONTANA STATE
UNIVERSITY

UNIVERSITY RESPONSE

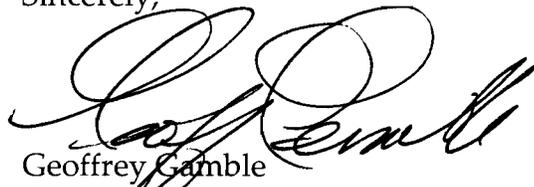
December 23, 2009

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, 2009. 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

Office of the President

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