



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL AUDIT

*Montana State  
University*

*For the Fiscal Year Ended  
June 30, 2010*

DECEMBER 2010

LEGISLATIVE AUDIT  
DIVISION

09-11B

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# LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Monica Huyg, Legal Counsel



Deputy Legislative Auditors  
James Gillett  
Angie Grove

December 2010

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, 2010, and June 30, 2009. The university annually requests this financial audit to provide timely audited financial statements to interested parties.

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. We thank President Cruzado and her staff for their cooperation and assistance during the audit.

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor



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### Montana State University-All Campuses

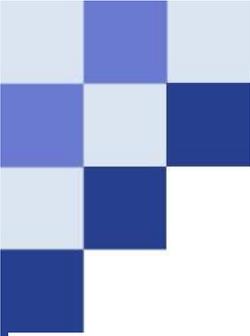
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	Stacy Klippenstein	Vice Chancellor for Student Affairs
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	Jim Nielsen	Director of Business Services
	Liz Tooley	University Budget Director
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	Rosalyn Templeton	Provost and Vice Chancellor for Academic Affairs
	Sue Ost	Director of Business Services
	Chris Wendland	Accountant/Budget Officer

<b>Montana State University-Great Falls- College of Technology</b>	Joe Schaffer	Interim 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
	Ed Binkley	Controller
<b>Montana Agricultural Experiment Stations</b>	Deby Gunter	Budget and Purchasing Officer
	Jeffrey Jacobsen	Director
	Jody Barney	Budget and Fiscal Director
<b>MSU Extension</b>	Douglas Steele	Vice Provost and Extension Director
	Sandra Rahn-Gibson	Budget and Fiscal Director

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

Daniel Adams, Director of Internal Audit  
Hamilton Hall, Room 118  
Bozeman MT 59717  
(406) 994-7035  
E-mail:danieladams@montana.edu



# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL AUDIT

# Montana State University

For the Year Ended June 30, 2010

DECEMBER 2010

09-11B

REPORT SUMMARY

Montana State University is a land grant university serving state, national, and international students and communities. The University's four campuses are located in Bozeman, Billings, Havre, and Great Falls. The Montana Agricultural Experiment Station, The MSU Extension Service, and The Fire Services Training School are reported under the Bozeman campus. The campuses provide a diversity of undergraduate and graduate academic degrees and two-year vocational/technical programs.

### Context

The university requested this audit to provide timely information and accountability for operations to interested parties. We issued a separate financial audit report for the fiscal year ended June 30, 2009 (09-11A) in December 2009. Financial related audits are conducted every two years to determine compliance related to contract and grant expenditures and selected state laws and regulations. Our financial related audit for Montana State University covering fiscal years 2008 and 2009 (09-13) was issued in September 2009. The next scheduled financial related audit will cover fiscal years 2010 and 2011. Annualized Student FTE reported by the Commissioner of Higher Education for fiscal year 2010 is as follows: Bozeman-10,876, Billings-4,259, Havre-1,118, and Great Falls-1,547.

In addition to financial activity of the University, the financial statements include financial activity related to Montana State University Foundation, Museum of the Rockies Incorporated, Montana State University Bobcat Club, Montana State University-Billings Foundation, and Montana State University-Northern Foundation.

During the 2009-2010 academic year tuition and fee revenue increased approximately 4.4 percent due to increased enrollments. Operating expenses in fiscal year 2010 and 2009 were \$126 million and \$129 million respectively. The university received a one time state appropriation of federal stimulus funds in the amount of \$20.3 million in fiscal year 2010. Federal legislation provided for a \$9 million increase in PELL grant revenue for the University in fiscal year 2010.

### Results

This report does not contain any recommendations to the University.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the website at <http://leg.mt.gov/audit>. Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE Call toll-free 1-800-222-4446, or e-mail [lad@mt.gov](mailto:lad@mt.gov).



# Chapter I – Introduction

## **Introduction**

We performed a financial audit of Montana State University (University) for the fiscal year ending June 30, 2010. The objectives of our audit were to:

1. Determine if the University's consolidated financial statements present fairly, in all material respects, the financial position of Montana State University as of and for the period ending June 30, 2010.
2. Obtain an understanding of the University's internal control systems to the extent necessary to support our audit of the consolidated financial statements.
3. Determine compliance with direct and material laws related to the consolidated financial statements.

Our opinion, as it relates to the financial statements at and for the fiscal year ended June 30, 2009, is based on a separate audit report we issued in December 2009 (09-11A). Biannually we conduct a financial related audit of Montana State University Bozeman and its affiliated campuses to determine compliance with regulations related to contract and grant expenditures, other governmental financial assistance, and to test compliance requirements of selected state laws, regulations, and rules. Our previous financial related audit (09-13) was issued in September 2009, for the fiscal years, 2008 and 2009. Our next financial related audit covering fiscal years 2010 and 2011 is expected to be issued in September 2011.

## **Background**

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-Great Falls College of Technology offers instruction leading to two-year degrees (Associate of Arts, Associate of Science, and Associate of Applied Science) as well as one-year certificates (Certificate of Applied Science) that prepare students to enter the workforce or transfer to four-year programs. Programs and courses of study include the Montana University System Core, Health Sciences, Business, Trades, and Technology as well as various Arts and Sciences disciplines.

# Independent Auditor's Report and University Financial Statements



## LEGISLATIVE AUDIT DIVISION

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 Financial Position of Montana State University, a component unit of the state of Montana, as of June 30, 2010, and 2009, and the related Consolidated Statements of Revenues, Expenses and Changes in Financial Position and Consolidated Statements of Cash Flows as of and for the fiscal years then ended, and the University Component Units-Combined Statements of Financial Position as of June 30, 2010, and 2009, and the related University Component Units-Combined Statements of Activities as of and for the fiscal years then ended. The information contained in these financial statements is the responsibility of the university's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the university's aggregate discretely presented component units. Those statements include the Montana State University Foundation, the Museum of the Rockies Incorporated, the Montana State University-Billings Foundation, the Montana State University-Northern Foundation, and the Montana State University Bobcat Club. The component units identified above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Montana State University and the aggregate discretely presented component units as of June 30, 2010, and 2009, and the respective changes in financial position and cash flows, where applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages A-3 through A-14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of Montana State University. The Supplemental Information on pages A-57 through A-73 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 3, 2010

**Montana State University**  
*(a component unit of the State of Montana)*  
**Management's Discussion and Analysis**  
**As of and For Each of the Years Ended June 30, 2010**

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 Position**  
*(in millions)*

	2010	2009 (restated)	2008
Operating revenues	\$ 308.9	\$ 300.6	\$ 287.6
Operating expenses	450.1	442.4	421.8
Operating loss	(141.2)	(141.8)	(134.2)
Non-operating revenues and expenses (net)	145.1	134.0	129.4
Income before capital & other items	3.9	(7.8)	(4.8)
Capital & other items	18.6	26.1	22.5
Change in net position	<u>\$ 22.5</u>	<u>\$ 18.3</u>	<u>\$ 17.7</u>

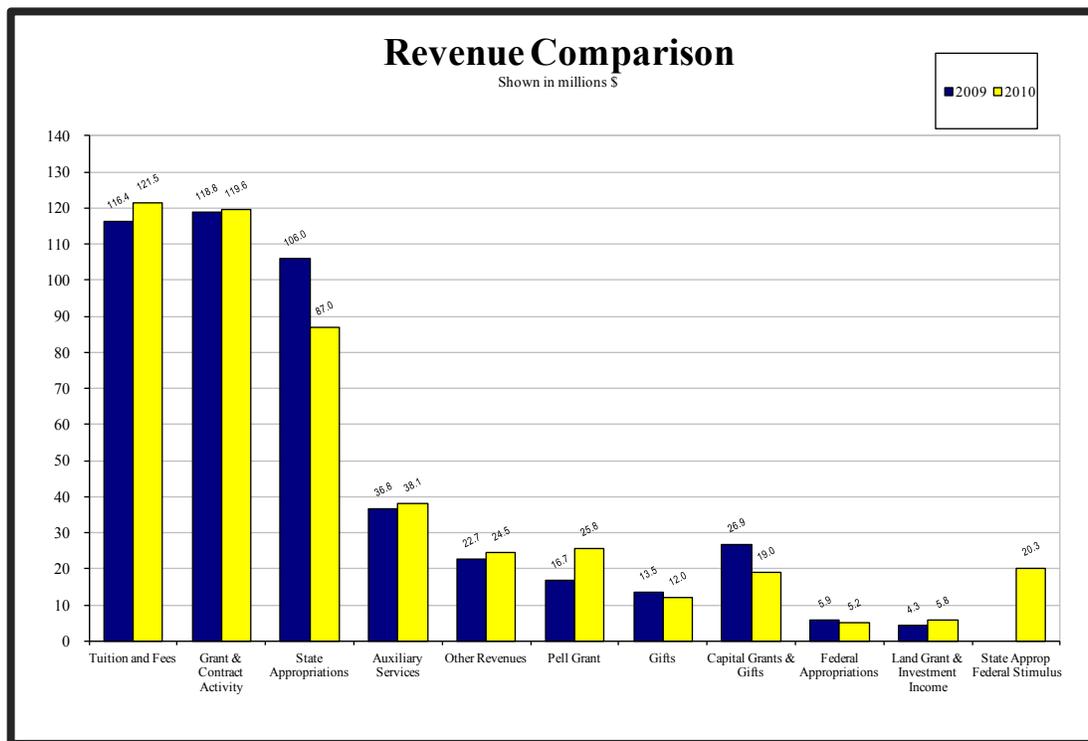
The *Statement of Revenues, Expenses and Changes in Net Position* presents the revenues earned and expenses incurred during the year on a full accrual basis, and classifies activities as either "operating" or "non-operating". This distinction results in operating deficits for those institutions that 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 2010 and 2009 Results of Operations**

The University's net financial position increased \$22.5 million during 2010, resulting largely from \$16.7 million in assets provided by the State of Montana ("State") through its long-range building program, including \$6.9 million related to the renovation of Gaines Hall, a classroom, lecture and laboratory building on the Bozeman campus and \$2.5 million for the construction of an Animal BioScience facility, which is also partially federally- and gift- funded. Also contributed was \$1.7 million toward the renovation of the Bozeman campus's historic Hamilton Hall, which will house the new Gallatin College Program, a two-year college within the existing four-year campus. Offsetting the \$16.7 million in state-contributed assets was \$10.7 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.

**Montana State University**  
*(a component unit of the State of Montana)*  
**Management's Discussion and Analysis**  
**As of and For Each of the Years Ended June 30, 2010**

(continued)



**Operating revenues** contain the majority of the University's income, and increased \$8.3 million, or 2.8%, from 2009 to 2010.

Tuition and fee revenues increased approximately \$5.1 million, or 4.4%. Tuition and fee rates were increased by approximately 3.0%, and the student full-time-equivalent (FTE) count increased by 4.8%, from 16,979 FTE to 17,800 FTE.

Grant and contract revenues, including facility and administrative cost recoveries, increased \$0.8 million, to \$119.6 million, compared with 2009 revenues of \$118.8 million. While these figures include nearly \$6 million in funding through the American Recovery and Reinvestment Act ("ARRA"), the University expects continued strong levels of research and other grant funding to continue irrespective of ARRA funding.

Revenues from auxiliary enterprises increased \$1.3 million, or 3.5%, to \$38.1 million, from \$36.8 million in 2009. Slight price increases were implemented, and occupancy increased due to a large incoming freshman class. Freshman students from outside the immediate area are required to live on-campus.

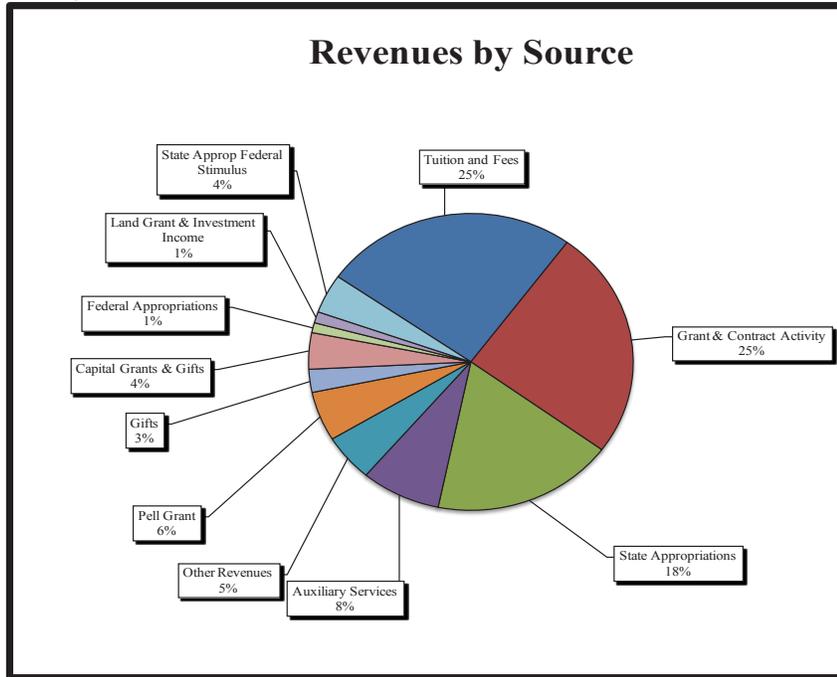
Other revenues increased \$1.8 million, or 7.9%, to \$24.5 million, as compared with \$22.7 million in 2009. Included within the Other revenues figure are a variety of revenues generated from the sale of goods and services to outside parties. Such activities generally increased over the prior year in most departments. For example, additional revenue was generated during 2010 relating to the University's sale of supplies to the State of Montana Architectural and Engineering division, primarily related to the renovation of Gaines Hall, which is funded with State dollars.

**Net non-operating revenue** increased \$11.2 million from 2009 to 2010, primarily due to a \$9.0 million increase in Federal Pell grant revenues resulting from an increase in the maximum allowable per-student Pell award. State appropriations revenue decreased \$19.0 million, from \$106.0 million to \$87.0 million, but was offset by Federal American Recovery and Reinvestment Act (ARRA) funding of \$20.3 million, which was passed through the State of Montana as an appropriation via the Montana Reinvestment Act, also known as House Bill 645. The State of Montana has committed that certain of the ARRA funding will be considered as base funding from state revenue sources in the next budget cycle. Investment income increased by \$2.0 million as a result of unrealized gains on the market value of endowment assets, the State of Montana long-term bond pool investment, and other less significant investments, totaling \$1.8 million.

(continued)

During 2010, revenues were derived as follows:

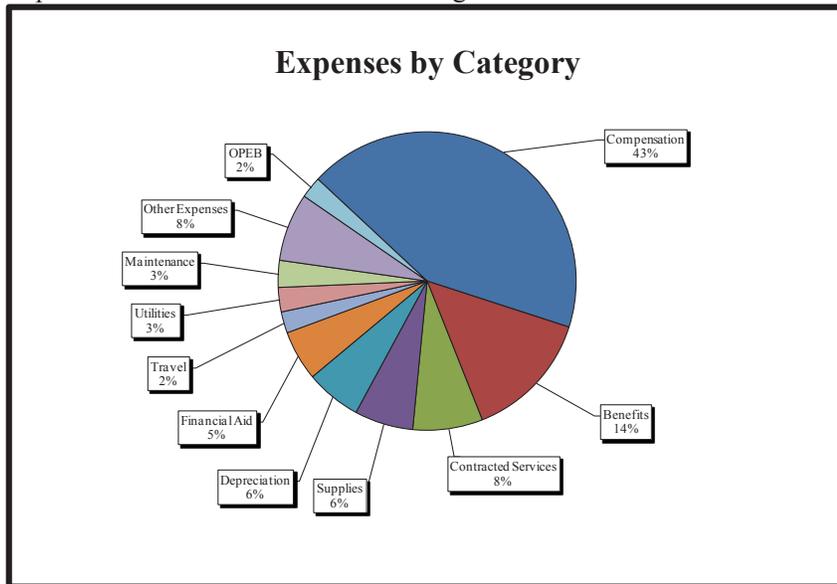
(in millions)



Category	Amount
Tuition and Fees	\$ 121.5
Grant & Contract Activity	119.6
State Appropriations	87.0
Auxiliary Services	38.1
Other Revenues	24.5
Pell Grants	25.8
Gifts	12.0
Capital Grants & Gifts	19.0
Federal Appropriations	5.2
Land Grant & Investment Income	5.8
State Appropriated Federal Stimulus	20.3
<b>Total revenues</b>	<b>\$ 478.8</b>

Expenses were incurred for the following:

(in millions)

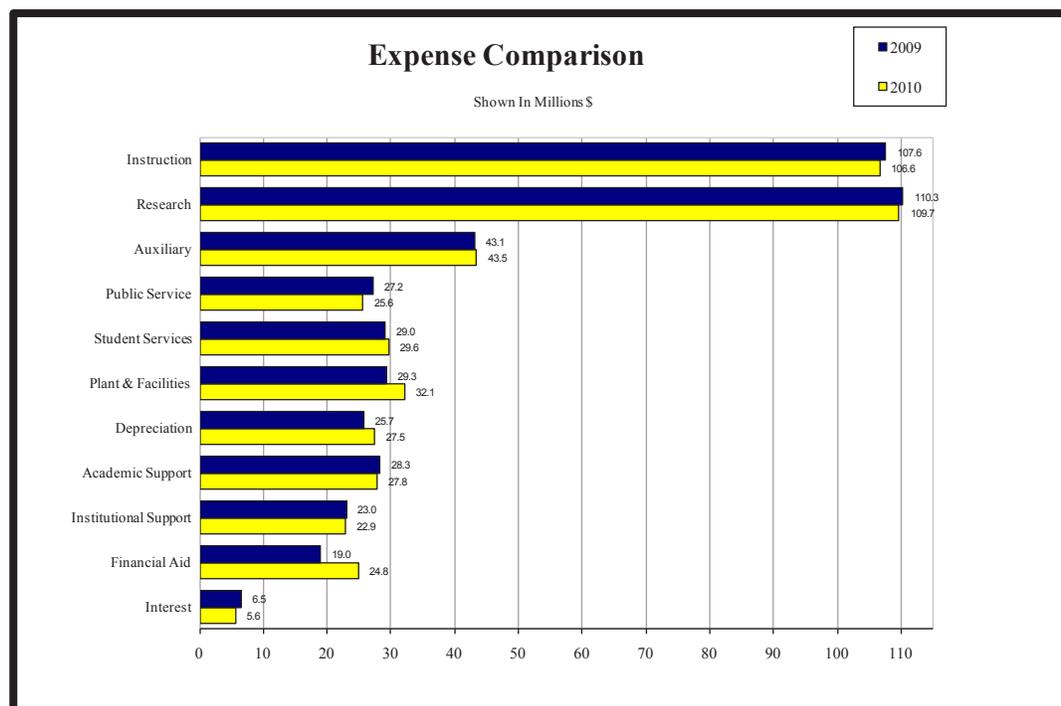


Category	Amount
Compensation	\$ 196.4
Benefits	63.8
Contracted Services	34.6
Supplies	29.0
Depreciation	27.5
Financial Aid	24.8
Travel	10.4
Utilities	12.1
Maintenance	13.3
OPEB	10.7
Other Expenses	
Cost of Sales	6.4
Interest Expense	5.6
Communications	4.1
Rent	5.3
Other	12.2
<b>Total Expenses</b>	<b>\$ 456.2</b>

Sources of revenues and categories of expense have generally remained consistent with prior years. Student-generated revenues including tuition, fees, and auxiliary services represent the largest single revenue category

**Montana State University**  
*(a component unit of the State of Montana)*  
**Management's Discussion and Analysis**  
**As of and For Each of the Years Ended June 30, 2010**

(continued)



**Operating expenses** increased \$7.7 million, or 1.7%, from 2009 to 2010. Many other areas showed only slight changes as compared with 2009. Due to uncertain economic conditions, many departments left staff vacancies open or otherwise attempted to conserve funding because it is not known whether or not Federal ARRA funding will be available in the future.

Public Service expenses decreased \$1.6 million, or 5.9%, due to several factors. Two significant teaching grants ended, accounting for a decrease of nearly \$0.5 million. In addition, the 2009 expenses were higher than normal due to termination payouts for employees who were either voluntarily or involuntarily terminated. Now that those employees are no longer serving the University, salary and benefit expenses have shown a decrease.

Plant and facilities costs increased \$2.8 million, or 9.8%, due to increases in supplies expense of \$1.0 million, contracted services expenses of \$.7 million, and repairs and maintenance expenses of \$.8 million. The increase in supplies expense was largely due to the purchase of computer equipment on the Billings campus. Funds that normally would have been expended during the prior year were postponed until the year ended June 30, 2010. The increase in contracted services expense was due to services obtained in connection with a joint project between the University and the University of Montana, and included software licenses as well as other services. The increase in repairs and maintenance expense was due to the carpeting and painting of residence life and family and graduate housing units, auxiliary ADA improvements, and a utility lighting study performed on the Bozeman campus.

Depreciation expense increased \$1.8 million, or 6.8%, which is consistent with the increase in property, plant and equipment.

Financial aid expense increased \$5.9 million or 31.0%, largely due to increased Federal Pell grant awards enabled by the recent increase in the maximum allowable per-student Pell grant.

Interest expense decreased slightly due to lower levels of debt outstanding, coupled with decreased variable interest rates on the University's State of Montana Intercap loans.

### **Comparison of 2009 and 2008 Results of Operations**

The University's net position increased \$18.3 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.

**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 CO<sub>2</sub> 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 \$4.5 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 \$3.1 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.

**Montana State University**  
*(a component unit of the State of Montana)*  
**Management's Discussion and Analysis**  
**As of and For Each of the Years Ended June 30, 2010**

(continued)

**FINANCIAL POSITION**

**Condensed Statements of Financial Position**  
*(in millions)*

	2010	2009 (restated)	2008 (restated)
<b>ASSETS</b>			
Current assets	\$ 169.4	\$ 159.1	\$ 149.0
Capital assets, net	349.4	339.6	317.5
Other noncurrent assets	54.3	53.2	50.2
Total assets	<u>\$ 573.1</u>	<u>\$ 551.9</u>	<u>\$ 516.7</u>
<b>DEFERRED OUTFLOW-</b> hedging derivative	<u>\$ 3.8</u>	<u>\$ 2.7</u>	<u>\$ 1.6</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 66.8	\$ 75.4	\$ 62.8
Noncurrent liabilities	189.7	181.3	176.0
Total liabilities	<u>\$ 256.5</u>	<u>\$ 256.7</u>	<u>\$ 238.8</u>
<b>NET POSITION</b>			
Invested in capital assets, net	\$ 229.9	\$ 214.5	\$ 187.7
Restricted, non-expendable	12.1	11.3	12.0
Restricted, expendable	13.4	11.2	10.1
Unrestricted	65.0	60.9	69.7
Total net position	<u>\$ 320.4</u>	<u>\$ 297.9</u>	<u>\$ 279.5</u>

The *Statement of Financial Position* is presented in a classified format, which differentiates between current and non-current assets and liabilities, and also categorizes Net Position (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.

Due to the implementation of Governmental Accounting Standards Board Statement Number 53, the market value of the University's derivative financial instruments is now presented on the Statement of Position. As such, a deferred outflow is presented, which is the offsetting balance to the University's hedging derivative. The hedging derivative liability is included within the Noncurrent liabilities amount. Note 10 to the accompanying financial statements provides detail with respect to such instruments.

**Comparison of 2010 and 2009 Financial Position**

- **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 \$10.3 million in current assets resulted primarily from an increase of \$20.7 million in cash and equivalents, which is discussed in the Statement of Cash Flows section of this document. Offsetting this increase was a decrease of \$7.0 million on amounts due from the Federal government for reimbursement of grant expenditures. This decrease occurred because of a decrease in June activity of a subcontractor affiliated with the Big Sky Carbon Sequestration grant in comparison with June of the prior year.
- **Capital assets, net** increased \$9.8 million, resulting from asset additions of \$37.9 million, offset by depreciation and amortization expense of \$27.5 million and \$0.6 million in net book value of asset retirements, as summarized in Note 7 to the financial statements.

Asset additions included over \$24.2 million in construction projects. MSU Bozeman continued construction on the renovation of Gaines Hall at a cost of \$6.9 million, the Animal BioSciences building at a cost of \$6.0 million, and

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the restoration of Hamilton Hall at a cost of \$2.6 million. A number of smaller projects make up the remaining increase, and include office renovations, lab renovations and building restoration projects.

Equipment additions totaled \$11.4 million during 2010. A \$0.4 million grader was donated to the MSU Billings College of Technology, while the Bozeman campus purchased two spectrometers totaling \$1.0 million, which were grant-funded. Additionally, \$0.5 million was expended to upgrade a statewide communications network as part of a collaborative effort with the University of Montana. Research and instruction in the sciences require a substantial equipment investment, and accounted for the bulk of the remaining additions. Approximately \$1.4 million in library materials were acquired in 2010 as well.

- **Other noncurrent assets** include 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 did not fluctuate significantly from 2009 to 2010.
- **Deferred outflow** represents the offset to the University's hedging derivative instrument liability. The University pays a variable rate of interest to the holders of its Series J bonds. To hedge against rises in interest rates, a transaction was entered into whereby the counterparty pays to the University that same variable rate of interest, and in return the University pays the counterparty a fixed rate of interest. Because current bond interest rates are lower than the fixed amount paid to the counterparty, the market value of the instrument is negative. As such, a liability was recorded and is included in Noncurrent liabilities. The offsetting entry is displayed as a deferred outflow rather than being recorded as an expense, because the cash flow hedge is operating as anticipated to achieve the intended synthetic fixed interest rate. The balance increased by \$1.1 million from 2009 to 2010 due to the continued decrease in interest rates paid to the University by the swap counterparty.
- **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 decreased \$8.6 million from 2009 to 2010, due primarily to a \$3.3 million decrease in securities lending liability, a \$1.7 million decrease in the compensated absences liability, and a decrease in amounts due to other agencies of \$3.5 million. The significant change in securities lending resulted from the timing of lending near year-end, and the decrease in amounts due to other agencies resulted from the timing of intergovernmental payments.
- **Noncurrent liabilities** include debt and advance liabilities, the amount of compensated absence liability estimated to be payable after a one-year period, and amounts which would be payable to the Federal government should the University choose to cease participation in the Federal Perkins Loan or Nursing Loan programs. These balances increased \$8.4 million, resulting primarily from the addition of \$10.7 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 \$92.6 million was calculated, of which the third year of a 30-year amortization, plus interest, was recorded during 2010 (see note 15 to the financial statements). This increase was offset by decreases of \$5.4 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, non-expendable** balances must be held in perpetuity, and include endowment principal as well as balances in student loan funds. Balances increased \$0.8 million, primarily due to recovery of the 2009 unrealized loss of approximately \$1.0 million in endowment principal value.

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- **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, for the payment of debt and for scholarships. Total balances increased \$2.2 million, of which \$1.1 million was due to the increased market value of the University's non-hedging derivative instrument balance. Additionally, \$0.6 million in cash payments received from the counterparty to the swap transaction during 2010 were set aside and are classified as restricted for debt service.

**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 2009 and 2008 Financial Position**

- **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 \$3.0 million, or 6.0%, due to a \$2.1 million increase in the noncurrent portion of student loans receivable and the \$0.9 million increase in market value of the University's derivative financial instrument that does not qualify for hedge accounting. See Note 10. 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.
- **Deferred Outflow** increased by \$1.1 million due to the decrease in interest rates paid to the University by the swap counterparty.
- **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 \$5.3 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.

**CASH FLOWS**

**Condensed Statements of Cash Flows**  
*(in millions)*

	2010	2009	2008
Cash provided/(used) by:			
Operating activities, net	\$ (99.3)	\$ (105.3)	\$ (100.2)
Noncapital financing activities, net	148.1	138.6	130.5
Capital and related financing activities, net	(30.2)	(33.2)	(39.5)
Investing activities, net	1.9	0.3	18.8
Net increase (decrease) in cash	20.5	0.4	9.6
Cash, beginning of year	116.8	116.4	106.8
Cash, end of year	\$ 137.3	\$ 116.8	\$ 116.4

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 2010 and 2009 Cash Flows**

- **Operating activities** used \$99.3 million in cash, resulting primarily from an operating loss of \$141.2 million. The operating loss was offset by non-cash expenses of \$38.9 million, primarily depreciation and amortization. Additionally, \$10.7 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 2009, operating activities used \$105.3 million in cash, with an operating loss of \$141.8 million, offset by non-cash expenses of \$35.8 million.
- **Noncapital financing activities** provided \$148.1 million in cash, resulting from \$87.1 million in state appropriations, \$20.3 million in American Recovery and Reinvestment Act funding, \$25.8 million in federal Pell grant revenue, \$1.6 million of land grant income, and \$11.8 million in expendable gifts. In 2009, noncapital financing activities provided \$138.6 million in cash, resulting from \$106.2 million in state appropriations, \$2.0 million of land grant income, \$16.7 million in Pell grants, and \$13.5 million in expendable gifts. Gifts were received primarily from foundations and other support organizations.
- **Capital and related financing activities** used \$30.2 million in cash. Uses included \$20.1 million expended on capital assets, including building construction as discussed above. Debt interest, principal and advance payments totaled \$12.4 million. Borrowings from the State's Intercap lending program provided \$0.3 million in cash. In 2009, these activities used \$33.2 million in cash. Uses included \$22.0 million expended on capital assets, including building construction as discussed above. Debt interest and principal payments totaled \$12.4 million.

**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.

## **BONDS, NOTES AND CAPITAL LEASES**

As of June 30, 2010, the University had approximately \$114.1 million in outstanding bond, note, and capital lease principal, a slight decrease compared with \$119.0 million at June 30, 2009 (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 note 10 to the financial statements. As of June 30, 2010, and as of the most recent rating reports received in September, 2010, the University's debt is rated Aa3 by Moody's Investor Services (converted from A1 in connection with a recent revision of Moody's ratings' scale), and A+ by Standard and Poor's.

## **ECONOMIC OUTLOOK**

In 2008 and 2009, the University saw decreased enrollment from its Montana residents, as the number of high-school graduates in the states experienced a decline. That trend appears to have leveled, with resident enrollment increasing by 654, or 4.8% in 2010, and non-resident enrollment increasing by 170, or 5.1%. 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 2010 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 were raised 3% at the 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, although a portion of that funding was derived from the American Recovery and Reinvestment Act (ARRA).

As noted on the [www.recovery.gov](http://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.

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**(continued)**

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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) are 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. The increased number of students has enabled the University to set aside reserves which may be targeted toward filling the potential budget gap.

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.

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**Consolidated Statements of Financial Position**

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**As of June 30**

**2010**

**2009**  
(restated)

**ASSETS**

**Current assets:**

Cash and cash equivalents (see note 2)	\$	136,403,781	\$	115,726,712
Short term investments		1,199,841		800,000
Securities lending collateral		4,064,132		7,405,802
Accounts and grants receivable, net		7,707,802		7,106,043
Amounts receivable from Federal government		12,315,074		19,361,472
Amounts receivable from primary government		562,427		1,822,134
Amounts receivable from other State of Montana component units		10,121		29,318
Loans receivable, net		2,419,209		2,173,656
Inventories		3,232,836		3,129,098
Prepaid expenses and other current assets		1,515,316		1,529,285

**Total current assets** 169,430,539 159,083,520

**Noncurrent assets**

Restricted cash and cash equivalents		991,209		1,126,526
Restricted investments		6,602,965		5,946,691
Loans receivable, net		21,946,803		22,594,953
Investments		23,535,094		22,161,817
Capital assets, net (see note 7)		349,408,516		339,614,105
Other noncurrent assets		1,198,433		1,295,024

**Total noncurrent assets** 403,683,020 392,739,116

**Total assets** \$ 573,113,559 \$ 551,822,636

**DEFERRED OUTFLOW**

Derivative financial instrument deferred outflow (note 10)	\$	3,799,069	\$	2,743,679
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**LIABILITIES**

**Current liabilities:**

Accounts payable and accrued liabilities	\$	30,076,552	\$	31,067,032
Advances and other amounts payable to primary government		1,083,439		4,947,167
Amounts payable to other State of Montana component units		511,913		601,778
Securities lending liability		4,064,132		7,405,802
Property held in trust for others		2,122,596		1,523,970
Deferred revenues		10,424,172		9,700,500
Compensated absences		13,210,167		14,884,860
Current portion debt and capital lease obligations (see note 10)		5,303,543		5,269,784

**Total current liabilities** 66,796,514 75,400,893

**Noncurrent liabilities:**

Advances from primary government		10,451,229		11,081,612
Debt and capital lease obligations (note xx)		108,780,207		113,778,562
Compensated absences		15,621,956		13,598,286
LT OPEB Implicit Rate Subsidy		28,997,343		18,321,610
Due to Federal government		22,103,408		21,825,930
Derivative instrument-- swap liability (note 10)		3,799,069		2,743,679

**Total noncurrent liabilities** 189,753,212 181,349,679

**Total liabilities** \$ 256,549,726 \$ 256,750,572

**NET POSITION**

Invested in capital assets, net of related debt	\$	229,850,415	\$	214,474,722
Restricted - nonexpendable		12,051,472		11,267,314
Restricted - expendable		13,426,714		11,151,008
Unrestricted (see note 13)		65,034,301		60,922,699

**Total net position** \$ 320,362,902 \$ 297,815,743

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

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**UNIVERSITY COMPONENT UNITS-- Combined Statements of Financial Position**  
*As of June 30 or December 31*

	2010	2009 (restated)
<b>Assets:</b>		
Cash and cash equivalents	\$ 6,126,267	\$ 6,285,472
Accrued dividends and interest	146,963	175,677
Investments	140,150,135	125,385,082
Amounts due from the institution or other MSU component units	1,845,169	1,926,711
Contributions receivable, net of allowance	3,976,327	4,903,061
Contracts, notes and other receivables	3,762,344	3,767,437
Non-depreciable capital assets	2,319,608	1,578,202
Depreciable capital assets, net	8,257,961	9,003,297
Other assets	1,845,165	1,354,833
<b>Total assets</b>	<b>\$ 168,429,939</b>	<b>\$ 154,379,772</b>
<b>Liabilities and net assets:</b>		
Liabilities		
Accounts payable	\$ 379,407	\$ 281,615
Accrued expenses and other liabilities	1,502,475	1,310,955
Compensated absences	376,842	374,686
Notes and bonds payable	2,239,713	2,281,232
Amounts due to the institution or other MSU component units	392,359	576,035
Liabilities to external beneficiaries	5,823,616	6,064,352
Custodial funds	12,418,984	9,641,528
<b>Total liabilities</b>	<b>23,133,396</b>	<b>20,530,403</b>
Unrestricted net assets	11,657,205	7,585,896
Temporarily restricted net assets	39,900,206	36,301,900
Permanently restricted net assets	93,739,132	89,961,573
<b>Total net assets</b>	<b>145,296,543</b>	<b>133,849,369</b>
<b>Total liabilities and net assets</b>	<b>\$ 168,429,939</b>	<b>\$ 154,379,772</b>

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

**Consolidated Statements of Revenues, Expenses and Changes in Financial Position**

**As of and for Each of the Years Ended June 30**

	<b>2010</b>	<b>2009</b>
		(restated)
<b>OPERATING REVENUES</b>		
Tuition and fees (net of \$26,363,379 and \$21,489,209 scholarship discount)	\$ 121,527,027	\$ 116,392,334
Federal appropriations	5,186,077	5,936,339
Federal grants and contracts	84,285,232	85,025,942
State grants and contracts	6,207,338	6,168,457
Non-governmental grants and contracts	9,987,860	10,894,144
Grant and contract facilities and administrative cost recoveries	19,108,820	16,692,184
Educational, public service and outreach revenues	23,261,492	21,436,676
Auxiliary revenues:		
Housing (net of \$2,188,239 and \$1,701,450 scholarship discount)	14,447,381	14,263,275
Food services (net of \$2,327,815 and \$2,013,453 scholarship discount)	14,483,278	13,792,710
Other auxiliary sales and services (net of \$845,795 and \$587,972 scholarship discount)	9,138,776	8,732,354
Interest earned on loans	69,202	122,714
Other operating revenues	1,180,109	1,140,466
<b>Total operating revenues</b>	<b>308,882,592</b>	<b>300,597,595</b>
<b>OPERATING EXPENSES</b>		
Compensation and benefits	260,192,114	258,973,436
Annual Required Contribution to OPEB (see note 15)	10,675,733	9,351,424
Operating expenses (see note 14)	126,919,125	129,388,811
Scholarships and fellowships (net of \$31,725,228 and \$25,792,084 scholarship discount)	24,841,611	18,973,122
Depreciation and amortization	27,461,770	25,716,871
<b>Total operating expenses</b>	<b>450,090,353</b>	<b>442,403,664</b>
<b>Operating loss</b>	<b>(141,207,761)</b>	<b>(141,806,069)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	86,975,709	106,022,816
State appropriation of federal stimulus funds	20,343,576	-
Federal Pell grant revenue	25,790,202	16,741,289
Land grant income (pledged as security for repayment of bonds)	1,616,394	2,000,527
Gifts (expendable)	11,803,495	13,470,587
Investment income	4,226,405	2,272,282
Interest expense	(5,636,077)	(6,545,815)
<b>Net non operating revenues (expenses)</b>	<b>145,119,704</b>	<b>133,961,686</b>
<b>Income before other revenues, expenses, gains and losses</b>	<b>3,911,943</b>	<b>(7,844,383)</b>
Loss on disposals of capital assets	(559,739)	(752,294)
Additions to permanent endowment	222,132	39,862
Capital gifts, grants and contributions	18,972,823	26,862,091
<b>Change in financial position</b>	<b>22,547,159</b>	<b>18,305,276</b>
Financial position, beginning of year	297,815,743	279,510,467
<b>Financial position, end of year</b>	<b>\$ 320,362,902</b>	<b>\$ 297,815,743</b>

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

**Montana State University**  
*a component unit of the State of Montana*  
**UNIVERSITY COMPONENT UNITS-- Combined Statement of Activities**  
**As of and for the Year Ended June 30, 2010 or December 31, 2009**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues:</b>				
Contributions	\$ 706,039	\$ 6,157,281	\$ 2,972,423	\$ 9,835,743
Investment, interest and dividend income	992,418	1,599,912	664	2,592,994
Net realized and unrealized gain (loss) on investments	4,438,206	6,696,136	40,301	11,174,643
Contract support and contributions from University	146,000	145,920	-	291,920
Special events	1,064,951	58,195	-	1,123,146
Other income	4,808,116	(671,100)	28,873	4,165,889
Net assets released from restrictions	10,436,828	(10,480,747)	43,919	-
<b>Total revenues</b>	<b>22,592,558</b>	<b>3,505,597</b>	<b>3,086,180</b>	<b>29,184,335</b>
<b>Expenses:</b>				
Program services				
University support	6,045,225	-	-	6,045,225
Academic and institutional	2,239,024	-	-	2,239,024
Scholarships and awards	4,051,563	-	-	4,051,563
<b>Total program services expense</b>	<b>12,335,812</b>	<b>-</b>	<b>-</b>	<b>12,335,812</b>
Operating expenses				
Fundraising efforts	3,098,500	-	-	3,098,500
General and administrative	2,041,135	-	-	2,041,135
Investment management costs	685,113	-	-	685,113
Other miscellaneous	354,261	-	-	354,261
<b>Total operating expenses</b>	<b>6,179,009</b>	<b>-</b>	<b>-</b>	<b>6,179,009</b>
Change in net assets before Nonoperating items	4,077,737	3,505,597	3,086,180	10,669,514
Nonoperating expenses				
Payments to beneficiaries and change in liabilities to external beneficiaries	(6,428)	92,709	691,379	777,660
<b>Change in net assets</b>	<b>4,071,309</b>	<b>3,598,306</b>	<b>3,777,559</b>	<b>11,447,174</b>
<b>Net assets, beginning of year</b>	<b>7,585,896</b>	<b>36,301,900</b>	<b>89,961,573</b>	<b>133,849,369</b>
<b>Net assets, end of fiscal year</b>	<b>\$ 11,657,205</b>	<b>\$ 39,900,206</b>	<b>\$ 93,739,132</b>	<b>\$ 145,296,543</b>

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

**Montana State University**

*a component unit of the State of Montana*

**UNIVERSITY COMPONENT UNITS-- Combined Statement of Activities**

**As of and for the Year Ended June 30, 2009 or December 31, 2008**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues:</b>				
Contributions	\$ 513,864	\$ 9,601,049	\$ 4,227,310	\$ 14,342,223
Investment, interest and dividend income	(544,686)	401,071	693	(142,922)
Net realized and unrealized gain (loss) on investments	(7,739,599)	(14,607,140)	(220,334)	(22,567,073)
Contract support and contributions from University	480,637	-	-	480,637
Special events	1,894,466	45,500	-	1,939,966
Other income	4,781,433	(339,342)	1,294	4,443,385
Net assets released from restrictions	14,067,069	(14,084,413)	17,344	-
<b>Total revenues</b>	<b>13,453,184</b>	<b>(18,983,275)</b>	<b>4,026,307</b>	<b>(1,503,784)</b>
<b>Expenses:</b>				
Program services				
University support	7,723,294	502,698	100,000	8,325,992
Academic and institutional	2,633,152	-	-	2,633,152
Scholarships and awards	5,001,056	40,939	-	5,041,995
<b>Total program services expense</b>	<b>15,357,502</b>	<b>543,637</b>	<b>100,000</b>	<b>16,001,139</b>
Operating expenses				
Fundraising efforts	4,187,128	-	-	4,187,128
General and administrative	2,244,819	-	-	2,244,819
Investment management costs	744,209	-	-	744,209
Other miscellaneous	381,770	-	-	381,770
<b>Total operating expenses</b>	<b>7,557,926</b>	<b>-</b>	<b>-</b>	<b>7,557,926</b>
Change in net assets before Nonoperating items	(9,462,244)	(19,526,912)	3,926,307	(25,062,849)
Nonoperating expenses-				
Payments to beneficiaries and change in liabilities due to external beneficiaries	(14,607)	(80,832)	(781,796)	(877,235)
<b>Change in net assets</b>	<b>(9,476,851)</b>	<b>(19,607,744)</b>	<b>3,144,511</b>	<b>(25,940,084)</b>
<b>Net assets, beginning of fiscal year, as previously presented</b>	<b>17,015,457</b>	<b>50,643,618</b>	<b>87,117,166</b>	<b>154,776,241</b>
Cumulative effect or prior period adjustment	47,290	5,266,026	(300,104)	5,013,212
<b>Net assets, beginning of year, as restated</b>	<b>17,062,747</b>	<b>55,909,644</b>	<b>86,817,062</b>	<b>159,789,453</b>
<b>Net assets, end of fiscal year</b>	<b>\$ 7,585,896</b>	<b>\$ 36,301,900</b>	<b>\$ 89,961,573</b>	<b>\$133,849,369</b>

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

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*a component unit of the State of Montana*

**Consolidated Statements of Cash Flows**

**As of and For Each of the Years Ended June 30**

	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Operating revenues:		
Tuition and fees	\$121,241,478	\$ 115,950,382
Federal appropriations	5,144,233	5,815,662
Federal grants and contracts	91,322,315	79,352,890
State grants and contracts	7,059,665	5,689,773
Private grants and contracts	9,928,453	10,596,568
Grant and contract facilities and administrative cost recoveries	19,155,654	16,773,961
Educational, public service and outreach revenues	22,862,087	21,663,948
Sales and services of auxiliary enterprises	37,837,065	36,647,215
Interest on loans receivable	347,610	323,309
Other operating receipts	1,181,354	1,140,466
Operating expenses:		
Compensation and benefits	(262,439,748)	(254,220,789)
Operating expenses	(128,392,791)	(124,770,243)
Scholarships and fellowships	(24,841,611)	(18,973,123)
Loans made to students	(2,324,748)	(4,381,962)
Loan payments received	2,607,300	3,129,128
<b>Net cash used in operating activities</b>	<b>(99,311,684)</b>	<b>(105,262,815)</b>
<b>Cash flows from noncapital financing activities:</b>		
Receipts (disbursements) of funds held in trust for others	1,340,037	222,901
Direct lending proceeds	3,103,109	-
Direct lending disbursements	(3,103,109)	-
State appropriations	87,043,702	106,203,531
State appropriation of federal stimulus funds	20,343,576	-
Federal Pell grant funds received	25,790,202	16,741,289
Gifts and contributions (expendable)	11,803,485	13,464,614
Land grant income (see note 2)	1,616,394	2,000,527
Repayment of long-term advance from primary government	(50,534)	(49,307)
Additions to permanent endowment	222,132	39,862
<b>Net cash provided by noncapital financing activities</b>	<b>148,108,994</b>	<b>138,623,417</b>
<b>Cash flows from capital financing activities:</b>		
Purchase of capital assets	(20,070,646)	(21,951,525)
Proceeds from sale of capital assets	88,924	87,940
Gifts restricted for capital purchase	1,153,867	150,542
Other capital financing activities	248,406	461,881
Proceeds from borrowings	-	95,086
Debt principal repayment	(5,493,368)	(5,154,399)
Interest paid	(5,191,802)	(5,744,104)
Payment of debt issue costs	-	(90,331)
Advances from primary government	797,324	303,150
Repayment of advances from primary government	(1,686,516)	(1,363,140)
<b>Net cash used in capital financing activities</b>	<b>(30,153,811)</b>	<b>(33,204,900)</b>
<b>Cash flows from investing activities:</b>		
Purchase of investments	(8,024,320)	(2,589,365)
Proceeds from sale of investments	7,840,618	256,451
Investment income	2,081,955	2,598,455
<b>Net cash provided by (used in) investing activities</b>	<b>1,898,253</b>	<b>265,541</b>
<b>Net change in cash and cash equivalents</b>	<b>20,541,752</b>	<b>421,243</b>
<b>Cash and equivalents at beginning of year</b>	<b>116,853,238</b>	<b>116,431,995</b>
<b>Cash and equivalents at end of year</b>	<b>\$ 137,394,990</b>	<b>\$ 116,853,238</b>

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

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

**Reconciliation of Operating Loss to Net Cash Used in Operations**

	<u>2010</u>	<u>2009</u>
<b>Operating loss</b>	\$ (141,207,761)	\$ (141,806,069)
Noncash income and expense:		
Depreciation and amortization on capital assets	27,461,770	25,716,871
Provision for uncollectible accounts	753,219	683,067
Amortization of OPEB liability	10,675,733	9,351,424
Changes in operating assets and liabilities:		
Accounts and grants receivable	5,869,874	(7,160,653)
Loans receivable	402,597	(1,252,835)
Inventories	(103,738)	(189,247)
Prepaid expenses	82,954	355,496
Accounts payable and other accrued liabilities	(4,596,460)	6,566,953
Deferred revenue	723,671	22,564
Compensated absences	348,979	2,249,018
Amounts due to Federal government	277,478	200,596
<b>Net cash used in operations</b>	<u>\$ (99,311,684)</u>	<u>\$ (105,262,815)</u>

**Schedule of noncash financing and investing activities**

	<u>2010</u>	<u>2009</u> (restated)
Capital assets contributed to the University	\$ 17,804,799	\$ 26,717,522
Capital assets acquired through issuance of capital lease obligations or through trade -in	\$ 15,244	\$ 1,000
Bond issue costs, discounts, premiums and deferred loss on refunding amortized or written off to interest expense	\$ 278,337	\$ 500,736
Change in fair value of investments	\$ 1,786,591	\$ (248,155)

**Reconciliation of cash and cash equivalents as shown on the Statements of Cash Flows to Cash as Shown in the Statements of Financial Position**

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents classified as current assets	\$ 136,403,781	\$ 115,726,712
Cash and cash equivalents classified as noncurrent assets	991,209	1,126,526
Total cash and cash equivalents as reported on the Statements of Cash Flows	<u>\$ 137,394,990</u>	<u>\$ 116,853,238</u>

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

**Montana State University**  
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**Notes to Consolidated Financial Statements**  
**As of and for Each of the Years Ended June 30**

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

**ORGANIZATION**

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

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

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

In May 2002, the Governmental Accounting Standards Board (GASB) issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14*. The 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 position 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 position, revenues, expenses, changes in net position, 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,

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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. Investments include derivatives that do not qualify for hedge accounting in accordance with GASB 53.

**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.

**Restricted cash and investments** – Cash and investments that are externally restricted as to use are classified as noncurrent assets in the accompanying statement of net position. 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*

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**Notes to Consolidated Financial Statements**  
**As of and for Each of the Years Ended June 30**

(continued)

*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.

**Financial position** – Resources are classified in one of the following four 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, nonexpendable** – this represents net assets and deferrals subject to externally imposed stipulations that the University maintain those assets permanently. Such assets include the University's permanent endowment funds.

**Restricted, expendable** – this represents net assets and deferrals 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** – this represents net assets and deferrals 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 position. 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**  
**As of and for Each of the Years Ended June 30**

(continued)

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.

**Restatement of prior year amounts** – 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 has been restated to reflect the revised data. The MSU Foundation statement data also reflects a change in the methodology of accounting for a wholly owned private foundation. Fair value accounting for the private foundation's assets was adopted. Such changes have been reflected as an adjustment to the MSU Foundation's beginning net asset balances.

Although the net book value of capital assets as reported in the prior period has not been restated, the gross value as well as the accumulated depreciation for a fully depreciated asset were found to have been decreased in the fixed asset records in error. As such, prior year amounts as reflected in Note 12 have been restated to reflect the correct values.

As a result of the implementation of Governmental Accounting Standards Board (GASB) Statement number 53, the University has restated prior years' balances to reflect the market value of its derivative financial instruments in the financial statements, rather than only including such information in the footnotes. See Note 10 for a detailed description of the University's derivative financial instruments.

**Accounting standards not yet implemented** – Management does not believe that any currently-issued accounting standards will have a material effect on the University's financial position or results of operations.

## **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 at \$57,947,682, June 30, 2010 and \$47,197,779 at June 30, 2009.

**Cash equivalents** – These amounts consist of cash held by trustees as well as \$77,979,198 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 Investment Pool (TFIP), 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 and the market value of the University's non-hedging derivative financial instrument. 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 \$105.7 million, includes \$6.4 million in real estate, which is accounted for at fair value based on periodic appraisals. Of the pool, the University owns \$6.5 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. A majority of the University's endowment funds are managed by the MSU Bozeman Foundation, in accord with their spending policy, which conforms to UPMIFA.

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**Notes to Consolidated Financial Statements**  
**As of and for Each of the Years Ended June 30**

**(continued)**

**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 \$4,064,132 at June 30, 2010, and \$7,405,802 at June 30, 2009.

The Board did not impose any restrictions during fiscal years 2010 and 2009 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 2010 and 2009. Moreover, there were no losses during fiscal years 2010 and 2009 resulting from a default of the borrowers or State Street Bank and Trust.

During fiscal years 2010 and 2009, 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 20 and 31 days, respectively as of June 30, 2010 and 2009. 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. As of June 30, 2010, 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 TFIP 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. Risks specific to derivative financial instruments are discussed in Note 10.

**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 TFIP 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 Investment 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 TFIP 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, 2010. Credit risk reflects the security quality rating, by investment security type, as of the 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 TFIP investments have been rated by investment security type, neither has been rated by an NRSRO.

**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

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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, 2010:

Security Type	Fair Value	Moody's Credit Quality Rating	Effective Duration (years)
State of Montana Short Term Investment Pool	\$ 82,982,886	A1	N/A
U. S. Bank Money Market Funds (collateralized by U.S. Bank pool, not in the University's name)	688,452	P-1	N/A
State of Montana Trust Fund Investment Pool*	15,331,760	AA-	4.33
Foundation Pooled Cash Equivalents and Investments*	7,047,744	NR	N/A**
U.S. Treasury Notes (noncollateralized, not in the University's name)	1,600,589	NR	1.84
U.S. Treasury Bill (noncollateralized not in University's name)	399,880	NR	.19
U. S. Bank Commercial Paper (collateralized by U.S. Bank pool, not in the University's name)	800,000	P-1	.28
Non-hedging derivative investment value	1,658,449	A2	25.42
Total Cash Equivalents & Investments	<u>\$ 110,509,760</u>		

\* TFIP 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:

	2010	2009
Accounts receivable	\$ 8,305,291	\$ 7,283,479
Other receivables, including private grants and contracts	2,041,281	2,368,428
Gross accounts and grants receivable	10,346,572	9,651,907
Less allowance for uncollectible accounts	(2,638,770)	(2,545,864)
Net accounts and grants receivable	<u>\$ 7,707,802</u>	<u>\$ 7,106,043</u>

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**NOTE 4 – INVENTORIES**

Inventories consisted of the following as of June 30:

	<u>2010</u>	<u>2009</u>
Bookstore	\$ 1,293,917	\$ 1,256,328
Food services	246,009	340,719
Facilities services	313,040	235,025
Livestock	722,558	675,292
Other	657,312	621,734
Total inventories	<u>\$ 3,232,836</u>	<u>\$ 3,129,098</u>

**NOTE 5 – PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid expenses consisted of the following as of June 30:

	<u>2010</u>	<u>2009</u> (restated)
Leases	\$ 17,500	\$ 17,500
Library subscriptions	544,940	697,020
Other (including summer session 2010 payments)	952,876	814,765
Total prepaid expenses	<u>\$ 1,515,316</u>	<u>\$ 1,529,285</u>

**NOTE 6 – LOANS RECEIVABLE**

Total loans receivable balances at June 30, 2010 and 2009 were \$24,366,012 and \$24,768,609, 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, 2010 and 2009 are \$22,103,408 and \$21,825,930 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 position 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 \$60,000 as of 2010 and \$20,000 as of 2009.

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**NOTE 7 – CAPITAL ASSETS**

Following are the changes in capital assets during the years ended June 30, 2010 and 2009:

	Year Ended June 30, 2010				
	Balance July 1, 2009 (restated)	Additions	Retirements	Transfers	Balance June 30, 2010
Capital assets not being depreciated:					
Land	\$ 6,933,381	\$ -	\$ -	\$ -	\$ 6,933,381
Museum and fine art	5,069,503	-	-	-	5,069,503
Library special collections	3,208,279	19,387	-	-	3,227,666
Livestock for educational purposes	3,071,368	6,250	(6,500)	-	3,071,118
Construction work-in-progress	32,925,386	24,218,160	(532,454)	(44,322,160)	12,288,932
<b>Total capital assets not being depreciated</b>	<b>51,207,917</b>	<b>24,243,797</b>	<b>(538,954)</b>	<b>(44,322,160)</b>	<b>30,590,600</b>
Other capital assets:					
Furniture and equipment	116,848,437	11,432,458	(2,306,514)	10,000	125,984,381
Library materials	62,149,985	1,355,095	(501,048)	-	63,004,032
Buildings	234,994,905	231,016	(372,647)	42,014,355	276,867,629
Building improvements	171,460,915	32,758	-	1,716,737	173,210,410
Land improvements	15,636,015	-	-	547,272	16,183,287
Infrastructure	34,801,794	-	-	33,796	34,835,590
Total other capital assets	635,892,051	13,051,327	(3,180,209)	44,322,160	690,085,329
Accumulated depreciation	(348,454,446)	(26,836,929)	3,070,497	-	(372,220,878)
<b>Other capital assets, net</b>	<b>287,437,605</b>	<b>(13,785,602)</b>	<b>(109,712)</b>	<b>44,322,160</b>	<b>317,864,451</b>
<b>Intangible assets, net</b>	<b>968,583</b>	<b>609,723</b>	<b>(624,841)</b>	<b>-</b>	<b>953,465</b>
<b>Capital Assets, net</b>	<b>\$ 339,614,105</b>	<b>\$ 11,067,918</b>	<b>\$ (1,273,507)</b>	<b>\$ -</b>	<b>\$ 349,408,516</b>

	Year Ended June 30, 2009				
	Balance July 1, 2008 (restated)	Additions	Retirements	Transfers	Balance June 30, 2009 (restated)
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
<b>Total capital assets not being depreciated</b>	<b>30,308,412</b>	<b>33,468,087</b>	<b>(98,304)</b>	<b>(12,470,278)</b>	<b>51,207,917</b>
Other capital assets:					
Furniture and equipment	109,809,642	10,029,644	(2,990,849)	-	116,848,437
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	616,327,466	14,911,726	(7,817,419)	12,470,278	635,892,051
Accumulated depreciation	(330,455,953)	(25,072,982)	7,074,489	-	(348,454,446)
<b>Other capital assets, net</b>	<b>285,871,513</b>	<b>(10,161,256)</b>	<b>(742,930)</b>	<b>12,470,278</b>	<b>287,437,605</b>
<b>Intangible assets, net</b>	<b>1,322,239</b>	<b>290,233</b>	<b>(643,889)</b>	<b>-</b>	<b>968,583</b>
<b>Capital Assets, net</b>	<b>\$ 317,502,164</b>	<b>\$ 23,597,064</b>	<b>\$ (1,485,123)</b>	<b>\$ -</b>	<b>\$ 339,614,105</b>

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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 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

	<u>2010</u>	<u>2009</u>
Compensation, benefits and related liabilities	\$ 17,849,700	\$ 16,805,538
Accrued interest expense	502,706	453,682
Accounts payable and other accrued liabilities	11,724,146	13,807,812
Total	<u>\$ 30,076,552</u>	<u>\$ 31,067,032</u>

**NOTE 9 – DEFERRED REVENUES**

Deferred revenues consisted of the following as of June 30:

	<u>2010</u>	<u>2009</u>
Grant and contract funds received in advance	\$ 5,185,536	\$ 5,247,287
Summer session payments received in advance	4,855,613	4,116,232
Other deferred revenues	383,023	336,981
Total	<u>\$ 10,424,172</u>	<u>\$ 9,700,500</u>

**NOTE 10 – NON-CURRENT LIABILITIES AND DERIVATIVE INSTRUMENTS**

Following are the changes in noncurrent liabilities for the years ended June 30, 2010 and 2009:

	<u>Year Ended June 30, 2010</u>				
	Balance July 1, 2009 (restated)	Additions	Reductions	Balance June 30, 2010	Amounts due within one year
Bonds and notes payable, and capital lease obligations					
Bonds payable, net of discount	\$ 116,370,965	-	\$ (4,721,180)	\$ 111,649,785	\$ 5,030,000
Notes and other debt	2,668,749	-	(248,154)	2,420,595	270,434
Capital lease obligations	8,632	\$ 15,244	(10,506)	13,370	3,109
Total bonds, notes and capital lease obligations	<u>\$ 119,048,346</u>	<u>\$ 15,244</u>	<u>\$ (4,979,840)</u>	<u>\$ 114,083,750</u>	<u>5,303,543</u>
Compensated absence liability	<u>\$ 28,483,146</u>	<u>\$ 12,865,544</u>	<u>\$ (12,516,567)</u>	<u>\$ 28,832,123</u>	<u>\$ 13,210,167</u>
Advances from primary government	<u>\$ 12,422,216</u>	<u>\$ 797,324</u>	<u>\$ (1,737,050)</u>	<u>\$ 11,482,490</u>	<u>\$ 1,031,261</u>
Amounts payable to Federal government	<u>\$ 21,825,930</u>	<u>\$ 281,732</u>	<u>\$ (4,254)</u>	<u>\$ 22,103,408</u>	<u>-</u>
OPEB liability— implicit rate subsidy for retiree health insurance	<u>\$ 18,321,610</u>	<u>\$ 10,675,733</u>	<u>-</u>	<u>\$ 28,997,343</u>	<u>-</u>
Hedging derivative instrument liability	<u>\$ 2,743,679</u>	<u>\$ 1,055,390</u>	<u>-</u>	<u>\$ 3,799,069</u>	<u>-</u>

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Amounts not due within one year are reflected in the noncurrent liabilities section of the accompanying Statement of Net Position, and as of June 30, 2010, include \$108,780,207 in bonds, notes and capital lease obligations, \$10,451,229 in advances from primary government and \$15,621,956 in compensated absence liabilities.

	Year Ended June 30, 2009				
	Balance, July 1, 2008 (restated)	Additions	Reductions	Balance, June 30 2009 (restated)	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	\$ 123,690,784	\$ 95,086	\$ (4,737,524)	\$ 119,048,346	\$ 5,269,784
Compensated absence liability	\$ 26,234,126	\$ 15,527,672	\$ (13,278,652)	\$ 28,483,146	\$ 14,884,860
Advances from primary government	\$ 13,531,506	\$ 303,151	\$ (1,412,441)	\$ 12,422,216	\$ 1,340,604
Amounts payable to Federal government	\$ 21,625,334	\$ 200,596	\$ -	\$ 21,825,930	\$ -
OPEB liability— implicit rate subsidy for retiree health insurance	\$ 8,970,186	\$ 9,351,424	\$ -	\$ 18,321,610	\$ -
Hedging derivative instrument liability	\$ 1,608,366	\$ 1,135,313	\$ -	\$ 2,743,679	\$ -

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

**Derivative financial instruments –**

**Description**

The University has two interest rate swaps as of June 30, 2010. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraph 27 a and b of Governmental Accounting Standards Board Statement Number 53, or as investment derivative instruments if they do not. The following table summarizes the interest rate swaps outstanding as of June 30, 2010:

Derivative Description	Trade Date	Effective Date	Termination Date	Counterparty
\$25.75 million fixed payer swap	3/10/2005	7/21/2005	11/15/2035*	Deutsche Bank AG
\$25.25 million basis swap	12/19/2006	11/15/2007	11/15/2035	Morgan Stanley Capital Services Inc.

\*Counterparty may opt out in 2016

As of June 30, 2010, the \$25.75 million fixed payer swap is classified as a hedging derivative instrument under Statement No. 53, whereas the \$25.25 million basis swap is an investment derivative instrument because there is no identified financial risk being hedged by the basis swap that can be expressed in terms of exposure to adverse changes in cash flows or fair values. Statement No. 53 includes four methods for evaluating hedge effectiveness; a governmental entity can use any of the evaluation methods outlined in the Statement and is not limited to using the same method from period to period. The four methods described in Statement No. 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. The fixed payer swap passes the established criteria using the regression analysis methodology.

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The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. The table below summarizes the derivative instrument activity and the reported balances for each of the years ended June 30, 2010 and 2009.

	Change in Fair Value during 2010 – Debit/(Credit)		Fair Value at June 30, 2010— Debit/(Credit)	
	Classification	Amount	Classification	Amount
Cash flow hedges:				
Fixed payer interest rate swap	Deferred outflow	\$ 1,055,390	Noncurrent liability	\$ (3,799,069)
Basis swap	Investment income	\$ (788,130)	Investment	\$ 1,658,449

	Change in Fair Value during 2009 – Debit/(Credit)		Fair Value at June 30, 2009— Debit/(Credit)	
	Classification	Amount	Classification	Amount
Cash flow hedges:				
Fixed payer interest rate swap	Deferred outflow	\$ 1,135,313	Noncurrent liability	\$ (2,743,679)
Basis swap	Investment income	\$ (870,319)	Investment	\$ 870,319

The objective and terms of the University's hedging derivative outstanding as of June 30, 2010 is as follows:

Type	Objective	Notional amount (000's)	Effective Date	Termination Date	Cash (Paid)/ Received (000's)	Terms
Fixed payer swap	Hedge interest rate risk on Series J 2005 Bonds	\$24.525	7/21/2005	11/15/2035	-	Pay 3.953% Receive SIFMA

**Credit Risk**

It is the University's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2010, all interest rate swap counterparties are rated A or higher by Fitch or S&P, or A2 or higher by Moody's. The University manages credit risk by requiring its counterparties to post collateral in certain events. The University is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than \$5MM and the counterparty is rated A+ or A, by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, the University is entitled to collateral up to 100% of the swap's fair value. The University is not required to post collateral. The University enters into derivative agreements with multiple counterparties to limit concentration of credit risk. Currently, the University has interest rate swaps with two different counterparties and each counterparty accounts for approximately 50% of outstanding notional. The University monitors counterparty credit risk on an ongoing basis.

**Interest Rate Risk**

Interest payments on variable rate debt will typically increase as interest rates increase. The University believes it has significantly reduced interest rate risk by entering into a pay-fixed, receive floating interest rate swap. As interest rates increase, variable rate debt interest payments increase but net swap payments decrease. As interest rates decrease, variable rate debt payments decrease but net swap payments increase.

**Basis Risk**

The variable rate debt hedged by the University's derivative is variable rate demand obligation (VRDO) bond that is remarketed daily. The University is exposed to basis risk because the variable rate receipts from the hedging derivative are based on a rate or index other than the interest rates paid on the VRDO bonds. The University is exposed to basis risk to the extent that variable payments on the hedged item are not offset by the variable receipts from the hedging derivative. For the year ended June 30, 2010, the weighted average interest rate on the University's variable rate hedged debt was 0.21%; SIFMA was 0.28%.

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**Termination Risk**

The University or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, the University's fixed payer swap counterparty has the right to terminate the derivative if the credit rating of the University's unenhanced long-term revenue bond rating is withdrawn, suspended or reduced below BBB-, in the case of S&P, or below Baa3 in the case of Moody's. If such an event occurs, the University could be forced to terminate the fixed payer swap in a liability position. As of June 30, 2010, the University's unenhanced long-term revenue bond rating was Aa3 by Moody's.

**Rollover Risk**

Rollover risk is the risk that a hedging derivative instrument associated with a hedgeable item does not extend to the maturity of that hedgeable item. DBAG has the option to unwind the fixed payer swap in 2016, exposing the University to risk for the Series J Bonds' remaining term, through November 2035.

**Foreign Currency Risk**

All hedging derivatives are denominated in US Dollars and therefore the University is not exposed to foreign currency risk.

**Market Access Risk**

Market access risk is the risk that the University will not be able to enter credit markets or that credit will become more costly. For example, to complete a derivative instrument's objective, an issuance of refunding bonds may be planned in the future. If at that time the University is unable to enter credit market, expected cost savings may not be realized.

**NOTE 11 – BONDS, NOTES AND ADVANCES PAYABLE**

Revenue bonds payable at June 30, 2010 were as follows:

<b>Series 1993 A</b>				
Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
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		2,272,650	\$ 3,287,350	\$ 5,560,000
Accreted discount on capital appreciation bonds		3,011,491		
Accreted balance		\$ 5,284,141		

<b>Series 2004H</b>				
Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
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	5.500%	600,000	917,828	1,517,828
2016-2020	3.600-5.000%	3,410,000	4,169,634	7,579,634
2021-2025	4.100-4.375%	4,230,000	3,353,259	7,583,259
2026-2030	4.500-4.625%	5,270,000	2,306,791	7,576,791
2031-2035	5.000%	6,710,000	872,250	7,582,250
Total cash requirements		22,310,000	\$ 15,588,335	\$37,898,335
Unamortized premium		428,164		
Total		\$ 22,738,164		

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**Series 2004I**

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2011	3.000%	\$ 640,000	\$ 1,366,944	\$ 2,006,944
2012	3.250%	650,000	1,346,782	1,996,782
2013	5.250%	690,000	1,318,106	2,008,106
2014	5.250%	725,000	1,280,963	2,005,963
2015	3.625%	760,000	1,248,156	2,008,156
2016-2020	3.700-5.000%	13,640,000	5,058,493	18,698,493
2021-2025	4.375-5.000%	11,320,000	987,674	12,307,674
2026-2030	4.500%	820,000	18,450	838,450
Total cash requirements		29,245,000	\$ 12,625,568	\$41,870,568
Deferred loss on refunding		(1,038,636)		
Unamortized premium		1,074,926		
Total		\$ 29,281,290		

**Series 2005J**

Payable during the year ending June 30,	Interest Rate in Effect June 30, 2010*	Principal	Daily Rate Interest*	Net Hedging Derivatives	Total
2011	0.150%	\$ 375,000	\$ 36,509	\$ 886,671	\$ 1,298,180
2012	0.150%	550,000	35,816	869,849	1,455,665
2013	0.150%	575,000	34,972	849,360	1,459,332
2014	0.150%	550,000	34,128	828,865	1,412,993
2015	0.150%	675,000	33,210	806,570	1,514,780
2016-2020	0.150%	3,575,000	150,791	3,662,206	7,387,997
2021-2025	0.150%	4,375,000	120,871	2,935,547	7,431,418
2026-2030	0.150%	5,500,000	83,921	2,038,171	7,622,092
2031-2035	0.150%	6,800,000	37,992	922,697	7,760,689
2036	0.150%	1,550,000	1,172	28,465	1,579,637
Total cash requirements		\$ 24,525,000	\$ 569,382	\$13,828,401	\$38,922,783

\*Interest rate on the Series J debt varies daily

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**Series 2006K**

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2011	3.750%	\$ 550,000	\$ 533,985	\$ 1,083,985
2012	4.000%	570,000	512,272	1,082,272
2013	4.000%	590,000	489,072	1,079,072
2014	4.000%	620,000	464,872	1,084,872
2015	4.000%	645,000	439,572	1,084,572
2016-2020	4.000-4.500%	5,830,000	1,636,817	7,466,817
2021-2025	4.375-4.500%	3,885,000	283,335	4,168,335
2026-2030	4.500%	205,000	4,613	209,613
Total cash requirements		12,895,000	\$ 4,364,538	\$ 17,259,538
Deferred loss on refunding		(182,497)		
Unamortized discount		(42,902)		
				<u>\$ 12,669,601</u>

**Series 2008L**

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
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	468,300	3,683,300
2015	5.000%	3,340,000	341,175	3,681,175
2016-2020	3.750%	7,075,000	275,344	7,350,344
Total cash requirements		17,140,000	\$ 2,944,633	\$ 20,084,633
Deferred loss on refunding		(321,509)		
Unamortized premium		333,098		
				<u>\$ 17,151,589</u>

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**Total, all series**

Payable during the year ending June 30,	Principal	Interest	Net Hedging Derivatives	Total
2011	\$ 3,420,185	\$ 5,221,044	\$ 886,671	\$ 9,527,900
2012	3,577,465	5,218,033	869,849	9,665,347
2013	5,500,000	3,401,253	849,360	9,750,613
2014	5,675,000	3,198,128	828,865	9,701,993
2015	6,020,000	2,979,941	806,570	9,806,511
2016-2020	33,530,000	11,291,079	3,662,206	48,483,285
2021-2025	23,810,000	4,745,139	2,935,547	31,490,686
2026-2030	11,795,000	2,413,775	2,038,171	16,246,946
2031-2035	13,510,000	910,242	922,697	15,342,939
2036	1,550,000	1,172	28,465	1,579,637
Total cash requirements	108,387,650	\$ 39,379,806	\$ 13,828,401	\$ 161,595,857
Deferred loss on refunding	(1,542,642)			
Unamortized premium (discount) net	1,793,286			
Accreted discount on capital appreciation bonds	3,011,491			
	<u>\$ 111,649,785</u>			

**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,

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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 assumed a direct-pay responsibility for the bonds. Wachovia Bank was subsequently purchased by Wells Fargo. Principal payment amounts and dates remain the same as they were prior to the remarketing. Subsequent to June 30, 2010, the Series J bonds were re-issued. See Note 19.

**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.

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

	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>2010</b>	<b>2009</b>
<i>DeLage Landen Public Finance</i>				
College of Engineering Computers	5.80%	08/03/10	\$ 16,369	\$ 31,837
<i>Dell Financial Services</i>				
College of Engineering computers	4.76%	08/25/09	47,201	69,594
Center for Computational Biology Computers	7.33%	07/01/10	-	5,433
<i>Subtotal, Dell Financial Services</i>			<u>47,201</u>	<u>75,027</u>
<i>Bank of America (assigned from Koch Financial Corp)</i>				
Information Technology Oracle Site License	4.24%	04/01/14	511,856	635,174
<i>MSU-Northern Foundation:</i>				
Consolidated Foundation Loan	6.00%	10/01/19	1,845,169	1,926,711
Total note principal outstanding			<u>\$ 2,420,595</u>	<u>\$ 2,668,749</u>

Scheduled maturities of notes payable are as follows:

Payable during the year ending June 30,	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ 270,434	\$ 129,395	\$ 399,829
2012	291,913	119,589	411,502
2013	273,544	104,366	377,910
2014	279,535	90,275	369,810
2015	220,000	78,310	298,310
2016-2020	1,085,169	193,551	1,278,720
Total	<u>\$ 2,420,595</u>	<u>\$ 715,486</u>	<u>\$ 3,136,081</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 each February. The rate as of June 30, 2010 was 1.95%.

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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Amounts payable to the State of Montana are scheduled as follows:

Payable during the year ending June 30,	InterCap Loans			MSTA Advances		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 979,463	\$ 115,168	\$ 1,094,631	\$ 51,797	\$ 128,203	\$ 180,000
2012	932,760	100,148	1,032,908	53,090	126,910	180,000
2013	875,525	81,861	957,386	54,416	125,584	180,000
2014	804,781	65,469	870,250	55,775	124,225	180,000
2015	781,256	49,867	831,123	57,168	122,832	180,000
2016-2020	1,975,221	69,946	2,045,167	307,981	592,019	900,000
2021-2025	-	-	-	348,408	551,592	900,000
2026-2030	-	-	-	394,142	505,858	900,000
2031-2035	-	-	-	445,879	454,121	900,000
2036-2040	-	-	-	504,407	395,593	900,000
2041-2045	-	-	-	570,618	329,382	900,000
2046-2050	-	-	-	645,520	254,480	900,000
2051-2055	-	-	-	730,254	169,746	900,000
2056-2060	-	-	-	826,108	73,892	900,000
2061	-	-	-	87,920	2,080	90,000
Total	\$ 6,349,006	\$ 482,459	\$ 6,831,465	\$ 5,133,483	\$ 3,956,517	\$ 9,090,000

**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, 2010:

Payable during the year ending June 30,	Principal and Interest
2011	\$ 3,937
2012	3,622
2013	3,622
2014	3,623
2015	604
Total payments	15,408
Less amount representing interest	(2,038)
Principal balance outstanding	\$ 13,370

Assets acquired under capital leases consist mainly of photocopiers. Such assets are carried at a cost of \$34,149 less accumulated depreciation of \$20,403 as of June 30, 2010.

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**NOTE 13 – FINANCIAL POSITION**

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

	<b>2010</b>	<b>2009</b>
General operations *	\$ (16,779,927)	\$ (18,379,261)
OPEB liability **	(28,637,523)	(18,102,278)
Facility renewal and replacement	25,010,679	22,481,970
Student services and auxiliary department reserves, including inventories	12,933,368	10,977,212
Instruction, academic support and public service	12,033,137	10,433,261
Research and indirect cost recoveries, including termination benefits pool for grant-funded employees	15,480,003	13,190,077
Unexpended plant uses	5,797,693	9,716,839
Retirement of indebtedness	6,399,257	6,826,006
Facilities services reserves, including inventories	4,230,443	3,148,601
Board of Regents' Approved Reserves		
Scholarships and stipends	1,835,349	1,911,284
Revenue shortfall contingency	7,867,940	2,629,824
Retirement payments	2,580,504	2,074,154
Agricultural Experiment Station and Extension Services; including livestock inventories	6,860,676	6,132,198
Administrative operations, including Information Technology	6,333,779	5,109,650
Student organizations	1,216,481	1,251,676
President's and Chancellors' operations	1,872,442	1,521,486
Total unrestricted financial position	<u>\$ 65,034,301</u>	<u>\$ 60,922,699</u>

\*The University has not funded the compensated absences balance related to employees paid using state general operating funds, creating negative net asset balances of \$16.8 million and \$18.4 million as of June 30, 2010 and 2009, respectively, in general operating funds.

\*\*As discussed in note 15, a liability for Other Post Employment Benefits impacted Unrestricted Net Position by \$28.6 million as of June 30, 2010, and \$18.1 million as of June 30, 2009.

As of June 30, the University's restricted balances were as follows:

	<b>2010</b>	<b>2009</b> (restated)
Restricted - nonexpendable:		
Endowments	\$ 7,586,965	\$ 6,858,483
Loans	4,464,507	4,408,831
Total restricted - nonexpendable	<u>\$ 12,051,472</u>	<u>\$ 11,267,314</u>
Restricted - expendable:		
Scholarships	\$ 493,129	\$ 1,181,505
Research and other	2,886,014	2,181,627
Loans	461,515	459,467
Construction and renewal of plant facilities	5,115,014	4,341,331
Debt retirement	4,471,042	2,987,078
Total restricted - expendable	<u>\$ 13,426,714</u>	<u>\$ 11,151,008</u>

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**NOTE 14 – MATRIX OF NATURAL AND FUNCTIONAL OPERATING EXPENSES**

Type and Classification of Operating Expenses:

Year Ended June 30, 2010	Instruction	Organized Research	Public Service	Academic Support	Student Services	Institutional Support	Plant-related Expenses	Auxiliary Enterprises	Other Classifications	Total
Compensation and Benefits	\$ 93,344,281	\$ 66,903,197	\$ 18,460,871	\$ 18,124,368	\$ 18,705,951	\$ 15,937,642	\$ 8,368,149	\$ 20,347,655	\$ -	\$ 260,192,114
OPEB	3,162,413	2,209,249	766,398	889,379	955,488	866,536	799,537	1,026,733	-	10,675,733
Supplies and Services	6,226,205	29,074,277	2,877,881	5,890,809	5,706,071	2,595,607	6,012,205	9,394,664	-	67,777,719
Travel	1,622,319	4,471,405	773,856	675,074	2,409,382	362,874	31,292	90,862	-	10,437,064
Utilities	24,153	807,590	29,145	50,359	74,748	2,767	7,620,631	3,461,477	-	12,070,870
Other Operating Expenses	2,219,035	6,187,595	2,722,038	2,176,916	1,797,710	3,102,785	9,290,717	9,136,676	-	36,633,472
Scholarships and Fellowships	-	-	-	-	-	-	-	-	24,841,611	24,841,611
Depreciation and Amortization	-	-	-	-	-	-	-	-	27,461,770	27,461,770
<b>Total</b>	<b>\$106,598,406</b>	<b>\$ 109,653,313</b>	<b>\$ 25,630,189</b>	<b>\$ 27,806,905</b>	<b>\$ 29,649,350</b>	<b>\$ 22,868,211</b>	<b>\$ 32,122,531</b>	<b>\$ 43,458,067</b>	<b>\$ 52,303,381</b>	<b>\$ 450,090,353</b>

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
<b>Total</b>	<b>\$107,581,287</b>	<b>\$ 110,273,465</b>	<b>\$ 27,163,303</b>	<b>\$ 28,290,862</b>	<b>\$ 29,045,570</b>	<b>\$ 22,999,095</b>	<b>\$ 29,253,511</b>	<b>\$ 43,106,578</b>	<b>\$ 44,689,993</b>	<b>\$ 442,403,664</b>

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**NOTE 15 – RETIREMENT PLANS AND OTHER POST-EMPLOYMENT BENEFITS**

**Retirement plans—**

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

ORP - The ORP is a defined contribution plan, established under authority of Title 19, Chapter 21, MCA. Benefits at retirement depend upon the amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. The University records employee/employer contributions, and remits monies to TIAA-CREF. Combined contributions cannot exceed 13% of the participants compensation (MCA §19-21-203). Individuals are immediately vested with contributions. Annual reports that include financial statements and required supplemental information on the plan are available from TIAA-CREF, 730 Third Avenue, New York, New York 10017-3206, Phone 1-800-842-2733.

TRS - This system was established in 1937 and is governed by Title 19, Chapter 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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(continued)

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, 2010:**

	PERS	TRS	ORP	CSRS	FERS	GWPORS
Covered payroll	\$ 47,252,126	\$ 17,601,230	\$ 112,086,590	\$ 1,070,295	\$ 436,420	\$ 1,184,953
Employer contributions*	\$ 3,382,862	\$ 2,362,960	\$ 6,560,500	\$ 79,091	\$ 42,515	\$ 106,645
% of covered payroll	7.170%	9.850%	4.49%-5.96%	3.82%-7.54%	1.00%-10.00%	9.000%
Employee contributions	\$ 3,260,396	\$ 1,258,488	\$ 7,883,929	\$ 94,527	\$ 69,702	\$ 25,131
% of covered payroll	6.900%	7.150%	7.044%	0.10%-5.25%	0.10%-8.50%	10.560%
ORP contribution to TRS		\$ 4,915,188				
% of covered payroll		4.720%				
ORP contributions to PERS	\$ 212,732					
% of covered payroll	2.680%					

\*Includes TRS Option 1 payments of \$639,592

Covered payroll excludes students employed under the College Work Study programs and part-time student employees. Total payroll expense for 2010 and 2009 was \$203,954,109 and \$201,074,993 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
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	\$ 125,741	\$ 185,483
2010	\$ 6,855,990	\$ 8,536,636	\$ 14,444,429	\$ 173,618	\$ 112,217	\$ 131,776

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**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	\$ 55,452	\$ 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 to TRS		4.720%				
ORP contribution to PERS	\$ 196,108					
% of covered payroll to PERS	2.545%					

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

**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 \$433— \$510 per month, depending on the level of deductible and other selected plan features. Upon reaching age 65 (Medicare eligibility), monthly participation premiums range from \$221— \$260 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.

A schedule of funding progress contained in the Required Supplementary Information immediately following the notes to the financial statements presents multi-year trend information.

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, 2010 and June 30, 2009, MSU's annual OPEB cost (expense) of \$10,675,733 and \$9,351,424 was equal to the ARC. The actuarial determination was based on plan information as of July 1, 2009. At that time, the number of active University participants in the health insurance plan was 3,519. The total number

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of inactive (retiree and dependent) participants was 1,201. During the year ended June 30, 2010 and 2009, the University contributed \$29,508,515 and \$27,097,424 for actively employed participants, whose annual covered payroll totaled \$198,691,532 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 \$92,634,783 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 \$28,997,343 and \$18,321,610 for 2010 and 2009 respectively. The funded status of the plan as of June 30 was 0% for both years.

The University's OPEB obligations for 2010 and 2009 are:

Year ended June 30,	2010	2009
Annual Required Contribution	\$ 10,675,733	\$ 9,351,424
Adjustment to annual required contribution	-	-
Annual OPEB cost	\$ 10,675,733	\$ 9,351,424
Contributions made	-	-
Increase to net OPEB obligation	10,675,733	9,351,424
Net OPEB obligation – beginning of year	18,321,610	8,970,186
Net OPEB obligation – end of year	\$ 28,997,343	\$18,321,610

**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	2.50%
Participation	55% of future retirees are assumed to elect coverage at the time of retirement, 60% 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, 2010 and 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 30<sup>th</sup>, 2010, 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.

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**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, using various brokers including Willis, Willis Fine Arts Solutions, Arthur J. Gallagher, and Alliant Insurance Services for excess property, crime, fidelity, boiler and machinery, and fine arts coverage. Coverage for aviation liability and aircraft hull liability is held through specialty broker, Mountain Air Aviation. The RMTDD also supplies other commercial insurance coverage for specific risk exposures on an as needed basis such as the Volunteer Accident and Health, Accidental 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. MSU also works through the RMTDD to secure coverage for Student Professional Liability exposures in a medical and non-medical setting that occur from students' academic projects and experiential programs. MSU secures athletic injury and catastrophic sports injury insurance for its NCAA programs through Bene Marc, Inc. and Summit America Insurance Services.

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. There is no agency deductible applied to tort liability claims.

**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 makes monthly contributions to the self funded program through premium payments using actuarially recommended National Council for Compensation Insurance (NCCI) rates per \$100 in University payroll.

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**NOTE 17 – COMMITMENTS AND CONTINGENT LIABILITIES**

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

<b>Minimum rental payments for operating leases are due in the years ending June 30,</b>	<b>Amount</b>
2011	\$ 3,357,565
2012	3,041,506
2013	2,940,486
2014	2,823,103
2015	2,792,206
2016-2020	8,123,758
Total	<u>\$ 23,078,624</u>

Payments made under operating leases during the years ended June 2010 and 2009 totaled \$3,594,598 and \$2,993,122 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, 2010, the University had issued purchase orders committing the expenditure of \$3,886,262 for equipment, supplies and services 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 2009, the University employed the services of a consultant to examine handicapped access to its housing and fitness areas, and to recommend improvements, if needed. Based on the results of the study, 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' improvements is estimated at \$0.9 million. The cost of the improvements in 2010 totaled \$1.3 million. Improvements of \$112,000 scheduled for 2011 involve a series of room conversions to ADA compliant occupant rooms. Management considers these improvements to be a part of its major maintenance plan.

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**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 \$161,595,857 from July 1, 2010 through June 30, 2036. Amounts of pledged revenue were as follows in the years ended June 30:

Description	2010			2009		
	Pledged Revenue	Total Similar Revenue	% Pledged	Pledged Revenue	Total Similar Revenue	% Pledged
Student fees (no tuition is pledged)	\$ 7,212,197	\$ 31,677,642	23%	\$ 6,561,813	\$ 29,375,869	22%
Housing and residence hall dining revenues, net of related expenses	7,378,947	7,378,947	100%	5,355,636	5,355,636	100%
Grant and contract facility and administrative cost recoveries	1,514,793	19,291,687	8%	1,474,514	16,692,184	9%
Bozeman campus athletic events revenue	1,713,825	1,798,087	95%	1,668,860	1,683,428	99%
Bozeman campus parking revenues	1,702,889	1,702,889	100%	1,704,015	1,704,015	100%
Bozeman bookstore and museum lease income	680,512	680,512	100%	667,529	667,529	100%
Land grant income	1,616,394	1,616,394	100%	2,000,527	2,000,527	100%
Investment income	904,856	4,226,405	21%	1,200,535	2,278,282	53%
Total	22,724,413			20,633,429		
Less debt service requirements	(9,841,412)			(9,599,949)		
Excess of pledged revenue over debt service requirements	\$ 12,883,001			\$ 11,033,480		

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

<b>Description</b>	<b>Amount Expended through June 2010</b>	<b>Remaining Amount Authorized</b>	<b>Total Expected Project Cost</b>
Billings College of Technology*	686,129	454,756	1,140,885
McMullen Exterior Improvements*	873,133	658,062	1,531,195
Auxiliary Master Plan Billings	135,000	15,111	150,111
Science Building Energy Improvements*	257,345	530,013	787,358
AJM Johnson Interior Corridor	10,237	174,763	185,000
AJM Johnson Room 22 Renovation	40,384	1,036,665	1,077,049
Animal Bioscience Facility*	12,998,583	2,704,417	15,703,000
ARC Autoclave Installation	41,999	156,349	198,348
Campus Energy Improvements Bozeman*	520,614	1,015,937	1,536,551
Campus Entry Signage Bozeman	12,362	172,638	185,000
Campus Infrastructure 19th Street Construction	126,494	67,111	193,605
CARC Horse & Dairy Barn	21,178	156,564	177,742
Chemistry/Biochemistry Stores & Renovation	247,476	13,524	261,000
Cobleigh Lab Renovation	238,879	161,121	400,000
Cobleigh Sub Zero Lab	1,698,827	321,195	2,020,022
Cooley Lab Renovation	380,476	15,816,088	16,196,564
Culbertson Window Replacement	176,289	8,711	185,000
Gaines Hall Renovation*	27,035,527	1,731,937	28,767,464
Hamilton Hall Restoration*	3,350,352	1,183,675	4,534,027
Hedges North Water Heater Installation	68,066	51,934	120,000
Howard Hall Reroof*	81,196	318,804	400,000
Irrigation Reservoir Expansion Bozeman	10,756	559,244	570,000
Koch Elevator Retrofit	269,671	155,329	425,000
Lab and Seed Process Building*	611,284	68,919	680,203
Museum of the Rockies Expansion Plan	1,189,595	53,583	1,243,178
NARC Calving Barn*	155,450	216,550	372,000
NWARC Office, Seed Lab and Calving Barn*	1,423,981	433,981	1,857,962
Office/Lab Classroom Building Bozeman*	278,113	2,221,887	2,500,000
Plant Growth Center Reroof*	239,014	80,986	320,000
Post Farm Seed Storage*	315,565	116,598	432,163
Reid Room 108 & Roberts Room 101 Renovation*	769,931	25,469	795,400
Reid Room 223 Remodel	20,899	96,101	117,000
Stabilize Masonry Bozeman*	1,261,161	1,338,839	2,600,000
WTARC Seed Processing Lab*	241,644	15,951	257,595
Great Falls COT Wind Project	373,380	20,351	393,731
Great Falls Simulated Hospital	39,601	1,460,399	1,500,000
Campus Energy Improvements Northern	9,094	112,906	122,000
Hagener Science Classroom Lab Improvement*	22,376	105,624	128,000
Hagener Science System Improvements	70,228	52,522	122,750
Renewable Energy Program Facilities Northern	31,948	493,052	525,000
Renovate Auto Tech Center*	119,254	70,746	190,000
<b>Total</b>	<b>\$ 56,453,491</b>	<b>\$ 34,448,412</b>	<b>\$ 90,901,903</b>

\* 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.

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**NOTE 18 – RELATED PARTIES**

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

During the years ended June 30, 2010 and 2009, respectively, the Foundations provided \$6,755,840 and \$8,444,841 in scholarship and other gift support directly to the University, in addition to significant payments made to others in support of the University. The University paid to its Foundations \$1,387,441 and \$1,736,839 during the years ended 2010 and 2009, 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 \$124,148 during 2010 and \$185,007 during 2009. 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 Financial Position as a prepaid expense (current portion) and as an other asset (long-term portion).

Friends of Montana Public Television provided \$767,519 during 2010 and \$763,048 during 2009 and Friends of KEMC Public Radio provided \$726,500 during 2010 and \$690,950 during 2009 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 \$1,165,125 and \$1,494,928 during the fiscal years ended June 2010 and 2009, 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 \$700,000 and \$650,000 in support of athletic programs during the years ended June 30, 2010 and 2009.

**NOTE 19 – SUBSEQUENT EVENTS**

Prior to September 10, 2010, the University's Series J bonds had been outstanding as Variable Rate Demand Obligations (VRDOs) enhanced by a Wells Fargo Bank letter of credit. Because the letter of credit was scheduled to terminate in September of 2010, the University sought pricing on a renewed letter of credit as well as a direct-placement transaction. After reviewing several options, the University selected the direct-placement transaction, and on September 10, 2010, amended its bond indenture to permit issuance of the Series J bonds in the indexed floater mode, and re-issued the bonds in whole to Wells Fargo Bank. In place of a letter of credit fee, the University now pays Wells Fargo Bank a pre-determined basis point spread over and above the SIFMA weekly indexed rate.

On October 18, 2010 the University entered into a three year lease with the Public Broadcasting Service for 3MHz of transponder protected service, which provides for a redundant system of satellite broadcasting. The total amount of the contract is \$466,740 to be paid in monthly installments of \$12,965.

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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 adopted. Such changes have been reflected as an adjustment to the MSU Foundation's beginning net asset balances.

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**Condensed Combining Schedule of Component Unit Statements of Financial Position**  
**As of June 30, 2010**

	<b>Montana State University Foundation</b>	<b>Montana State University- Billings Foundation</b>	<b>Montana State University- Northern Foundation</b>	<b>Museum of the Rockies, Inc.</b>	<b>Montana State University Bobcat Club</b>	<b>Combined</b>
<b>Assets:</b>						
Cash and investments	\$ 117,159,731	\$ 16,207,776	\$ 3,119,501	\$ 8,596,242	\$ 1,340,115	\$ 146,423,365
Amounts due from MSU	-	-	1,845,169	-	-	1,845,169
Other receivables, net	4,646,344	1,396,000	771,317	898,277	26,733	7,738,671
Capital assets, net	4,294,851	1,953,986	60,931	4,267,572	229	10,577,569
Other assets	105,551	141,096	-	922,064	676,454	1,845,165
<b>Total assets</b>	<b>\$ 126,206,477</b>	<b>\$ 19,698,858</b>	<b>\$ 5,796,918</b>	<b>\$ 14,684,155</b>	<b>\$ 2,043,531</b>	<b>\$ 168,429,939</b>
<b>Liabilities:</b>						
Accounts payable and other liabilities	\$ 1,100,761	\$ 676,966	\$ 14,700	\$ 433,680	\$ 32,617	\$ 2,258,724
Amounts due to MSU	-	-	-	392,359	-	392,359
Notes, bonds and debt obligations	2,175,650	-	-	64,063	-	2,239,713
Liabilities to external parties	3,472,690	297,326	2,053,600	-	-	5,823,616
Custodial funds	11,156,736	1,262,248	-	-	-	12,418,984
<b>Total liabilities</b>	<b>17,905,837</b>	<b>2,236,540</b>	<b>2,068,300</b>	<b>890,102</b>	<b>32,617</b>	<b>23,133,396</b>
<b>Net assets:</b>						
Unrestricted	598,660	4,163,258	(1,111,504)	7,837,044	169,747	11,657,205
Temporarily restricted	30,759,207	2,331,327	1,167,312	5,137,625	504,735	39,900,206
Permanently restricted	76,942,773	10,967,733	3,672,810	819,384	1,336,432	93,739,132
<b>Total net assets</b>	<b>108,300,640</b>	<b>17,462,318</b>	<b>3,728,618</b>	<b>13,794,053</b>	<b>2,010,914</b>	<b>145,296,543</b>
<b>Total liabilities and net assets</b>	<b>\$ 126,206,477</b>	<b>\$ 19,698,858</b>	<b>\$ 5,796,918</b>	<b>\$ 14,684,155</b>	<b>\$ 2,043,531</b>	<b>\$ 168,429,939</b>

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

(continued)

**Montana State University**  
**Condensed Combining Schedule of Component Unit Statements of Activities**  
**For the Year Ended June 30, 2010**

	<b>Montana State University Foundation</b>	<b>Montana State University- Billings Foundation</b>	<b>Montana State University- Northern Foundation</b>	<b>Museum of the Rockies, Inc.</b>	<b>Montana State University Bobcat Club</b>	<b>Combined</b>
<b>Revenues:</b>						
Contributions	\$ 5,277,599	\$ 2,078,566	\$ 1,270,754	\$ 554,706	\$ 654,118	\$ 9,835,743
Investment income and unrealized gain on investments	11,206,507	1,430,031	64,677	920,488	145,934	13,767,637
Support from University	-	-	146,000	-	145,920	291,920
Other income	1,438,366	1,037,172	55,387	1,974,527	783,583	5,289,035
<b>Total revenues</b>	<b>17,922,472</b>	<b>4,545,769</b>	<b>1,536,818</b>	<b>3,449,721</b>	<b>1,729,555</b>	<b>29,184,335</b>
<b>Expenses:</b>						
University support	3,710,025	788,977	112,996	1,097,814	335,413	6,045,225
Scholarships and other program expenses	1,806,738	1,831,126	574,280	1,378,443	700,000	6,290,587
Supporting services	3,556,843	688,543	322,472	949,391	661,760	6,179,009
<b>Total expenses</b>	<b>9,073,606</b>	<b>3,308,646</b>	<b>1,009,748</b>	<b>3,425,648</b>	<b>1,697,173</b>	<b>18,514,821</b>
Change in net assets before nonoperating items	8,848,866	1,237,123	527,070	24,073	32,382	10,669,514
Nonoperating expenses	777,660	-	-	-	-	777,660
<b>Change in net assets</b>	<b>9,626,526</b>	<b>1,237,123</b>	<b>527,070</b>	<b>24,073</b>	<b>32,382</b>	<b>11,447,174</b>
<b>Net assets, beginning of fiscal year</b>	<b>98,674,114</b>	<b>16,225,195</b>	<b>3,201,548</b>	<b>13,769,980</b>	<b>1,978,532</b>	<b>133,849,369</b>
<b>Net assets, end of fiscal year</b>	<b>\$ 108,300,640</b>	<b>\$ 17,462,318</b>	<b>\$ 3,728,618</b>	<b>\$ 13,794,053</b>	<b>\$ 2,010,914</b>	<b>\$ 145,296,543</b>

\*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 30<sup>th</sup> fiscal year. All other component units' year-ends coincide with the University's June 30 fiscal year.

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

(continued)

<b>Component Unit Investment Composition as of June 30:</b>		
	<b>2010</b>	<b>2009</b> (restated)
Pooled investments:		
Equity securities	\$ 10,931,525	\$ 10,491,326
Debt securities	11,220,989	11,141,172
Alternative investments	64,117,328	51,606,104
Real Estate	6,505,433	6,246,790
Mutual funds, cash equivalents, and other	30,782,005	30,813,159
US Treasuries	365,604	330,300
Other real estate	2,555,426	2,049,710
Other investments	7,161,246	6,897,218
Investments held in trust	6,510,579	5,809,303
Total	<u>\$140,150,135</u>	<u>\$ 125,385,082</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 30<sup>th</sup>. All other component units' year-ends coincide with the University's June 30 fiscal year.

Foundation investment pools are not subject to regulatory oversight.

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

(continued)

**Montana State University**  
**Condensed Combining Schedule of Component Unit Statements of Financial Position**  
**As of June 30, 2009 (restated)**

	<b>Montana State University Foundation</b>	<b>Montana State University- Billings Foundation</b>	<b>Montana State University- Northern Foundation</b>	<b>Museum of the Rockies, Inc.</b>	<b>Montana State University Bobcat Club</b>	<b>Combined</b>
<b>Assets:</b>						
Cash and investments	\$104,027,294	\$15,126,186	\$2,526,861	\$8,239,837	1,926,053	\$131,846,231
Amounts due from MSU	-	-	1,926,711	-	-	1,926,711
Other receivables, net	5,098,613	1,143,300	833,073	1,530,130	65,382	8,670,498
Capital assets, net	4,495,579	1,994,529	61,792	4,028,784	815	10,581,499
Other assets	103,219	141,152	7,335	1,042,215	60,912	1,354,833
<b>Total assets</b>	<b>\$113,724,705</b>	<b>\$18,405,167</b>	<b>\$5,355,772</b>	<b>\$ 14,840,966</b>	<b>\$ 2,053,162</b>	<b>\$ 154,379,772</b>
<b>Liabilities:</b>						
Accounts payable and other liabilities	\$ 765,558	\$ 702,445	\$ 9,215	\$ 415,408	\$ 74,630	\$ 1,967,256
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	2,145,009	-	-	6,064,352
Custodial funds	8,443,914	1,197,614	-	-	-	9,641,528
<b>Total liabilities</b>	<b>15,050,591</b>	<b>2,179,972</b>	<b>2,154,224</b>	<b>1,070,986</b>	<b>74,630</b>	<b>20,530,403</b>
<b>Net assets:</b>						
Unrestricted	(2,967,776)	4,124,362	(935,240)	7,494,630	(130,080)	7,585,896
Temporarily restricted	27,184,090	1,874,116	1,012,840	5,456,135	774,719	36,301,900
Permanently restricted	74,457,800	10,226,717	3,123,948	819,215	1,333,893	89,961,573
<b>Total net assets</b>	<b>98,674,114</b>	<b>16,225,195</b>	<b>3,201,548</b>	<b>13,769,980</b>	<b>1,978,532</b>	<b>133,849,369</b>
<b>Total liabilities and net assets</b>	<b>\$ 113,724,705</b>	<b>\$ 18,405,167</b>	<b>\$ 5,355,772</b>	<b>\$ 14,840,966</b>	<b>\$ 2,053,162</b>	<b>\$ 154,379,772</b>

\*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.

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

(continued)

**Montana State University**  
**Condensed Combining Schedule of Component Unit Statements of Activities**  
**For the Year Ended June 30, 2009 (restated)**

	<b>Montana State University Foundation</b>	<b>Montana State University- Billings Foundation</b>	<b>Montana State University- Northern Foundation</b>	<b>Museum of the Rockies, Inc.</b>	<b>Montana State University Bobcat Club</b>	<b>Combined</b>
<b>Revenues:</b>						
Contributions	\$ 8,720,233	\$ 1,882,451	\$ 692,672	\$ 1,088,664	\$ 1,958,203	\$ 14,342,223
Investment income and unrealized gain on investments	(18,589,959)	(2,291,563)	(259,246)	(1,432,552)	(136,675)	(22,709,995)
Support from University	200,000	131,636	149,001	-	-	480,637
Other income	1,608,654	1,089,625	5,659	2,266,559	1,412,854	6,383,351
<b>Total revenues</b>	<b>(8,061,072)</b>	<b>812,149</b>	<b>588,086</b>	<b>1,922,671</b>	<b>3,234,382</b>	<b>(1,503,784)</b>
<b>Expenses:</b>						
University support	4,801,336	1,068,334	128,346	1,688,564	639,412	8,325,992
Scholarships and other program expenses	2,387,867	2,028,470	534,783	1,667,018	1,057,009	7,675,147
Supporting services	4,086,127	669,862	226,373	1,202,292	1,373,272	7,557,926
<b>Total expenses</b>	<b>11,275,330</b>	<b>3,766,666</b>	<b>889,502</b>	<b>4,557,874</b>	<b>3,069,693</b>	<b>23,559,065</b>
Change in net assets before nonoperating items	(19,336,402)	(2,954,517)	(301,416)	(2,635,203)	164,689	(25,062,849)
Nonoperating expenses	(877,235)	-	-	-	-	(877,235)
<b>Change in net assets</b>	<b>(20,213,637)</b>	<b>(2,954,517)</b>	<b>(301,416)</b>	<b>(2,635,203)</b>	<b>164,689</b>	<b>(25,940,084)</b>
<b>Net assets, beginning of fiscal year as previously presented</b>	<b>113,967,693</b>	<b>19,179,712</b>	<b>3,409,810</b>	<b>16,405,183</b>	<b>1,813,843</b>	<b>154,776,241</b>
Cumulative effect of change in accounting principle	4,920,058	-	93,154	-	-	5,013,212
<b>Net assets, beginning of fiscal year, as restated</b>	<b>118,887,751</b>	<b>19,179,712</b>	<b>3,502,964</b>	<b>16,405,183</b>	<b>1,813,843</b>	<b>159,789,453</b>
<b>Net assets, end of fiscal year</b>	<b>\$ 98,674,114</b>	<b>\$ 16,225,195</b>	<b>\$ 3,201,548</b>	<b>\$ 13,769,980</b>	<b>\$ 1,978,532</b>	<b>\$ 133,849,369</b>

A-56 **Montana State University**  
*(a component unit of the State of Montana)*  
**Required Supplementary Information**  
**As of and for Each of the Years Ended June 30**

**REQUIRED SUPPLEMENTARY INFORMATION**

**Schedule of Funding Progress For Other Post Retirement Benefits Plan**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Unfunded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll (b - a) / c</b>
July 1, 2007	-	\$ 95,165,100	\$ 95,165,100	0.00%	\$ 180,287,302	52.79%
July 1, 2009	-	\$ 92,634,783	\$ 92,634,783	0.00%	\$ 198,691,532	46.62%

**Note to Required Supplementary Information**

**Other Post - Employment Benefits (OPEB) Trend Data**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. See assumptions below.

<b>Actuarial Valuation Date</b>	<b>Interest Rate</b>	<b>Payroll Increase</b>	<b>Participant Percentage</b>
July 1, 2007	4.25	3.00%	45%
July 1, 2009	4.25	2.50%	55%

**Montana State University**  
*(a component unit of the State of Montana)*  
**Unaudited Supplemental Information**  
**As of and for Each of the Years Ended June 30**

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Montana State University  
 Unaudited Consolidating Statements of Net Position  
 June 30, 2010

	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	MSU - Great Falls College of Technology	Inter-campus Eliminations	MSU Consolidated Total
<b>ASSETS</b>									
<b>Current assets:</b>									
Cash and cash equivalents	\$ 87,623,910	\$ 6,569,021	\$ 2,952,236	\$ 245,269	\$ 29,838,244	\$ 4,084,937	\$ 5,090,164	\$ -	\$ 136,403,781
Short term investments	800,000	-	-	-	399,841	-	-	-	1,199,841
Securities lending collateral	3,476,402	-	-	-	582,655	-	5,075	-	4,064,132
Accounts and grants receivable, net	5,081,670	12,898	155,569	7,508	1,530,452	647,188	272,517	-	7,707,802
Amounts receivable from Federal government	11,931,053	-	278,254	-	34,617	-	71,150	-	12,315,074
Amounts receivable from primary government	488,615	-	-	-	30,909	14,063	28,840	-	562,427
Amounts receivable from Montana component units	-	-	-	-	3,234	6,887	-	-	10,121
Amounts receivable from MSU campuses	65,000	-	-	-	26,746	39,015	-	(130,761)	-
Loans receivable, net	1,912,189	-	-	-	285,170	221,850	-	-	2,419,209
Inventories	838,018	722,558	-	3,759	1,116,441	268,128	283,932	-	3,232,836
Prepaid expenses and other current assets	1,327,841	1,140	24,212	-	101,942	60,181	-	-	1,515,316
<b>Total current assets</b>	<b>113,544,698</b>	<b>7,305,617</b>	<b>3,410,271</b>	<b>256,536</b>	<b>33,950,251</b>	<b>5,342,249</b>	<b>5,751,678</b>	<b>(130,761)</b>	<b>169,430,539</b>
<b>Noncurrent assets:</b>									
Restricted cash and cash equivalents	904,013	-	-	-	11,652	64,925	10,619	-	991,209
Restricted investments	6,496,979	-	-	-	748	104,557	681	-	6,602,965
Loans receivable, net	17,443,540	-	-	-	3,098,240	1,405,023	-	-	21,946,803
Investments	22,175,049	328,207	106,419	7,181	910,978	-	7,260	-	23,535,094
Capital assets	245,226,987	11,306,005	184,536	281,062	52,437,281	19,033,504	20,939,141	-	349,408,516
Other noncurrent assets	1,303,348	-	-	-	35,302	9,783	-	(150,000)	1,198,433
<b>Total noncurrent assets</b>	<b>293,549,916</b>	<b>11,634,212</b>	<b>290,955</b>	<b>288,243</b>	<b>56,494,201</b>	<b>20,617,792</b>	<b>20,957,701</b>	<b>(150,000)</b>	<b>403,683,020</b>
<b>Total assets</b>	<b>\$ 407,094,614</b>	<b>\$ 18,939,829</b>	<b>\$ 3,701,226</b>	<b>\$ 544,779</b>	<b>\$ 90,444,452</b>	<b>\$ 25,960,041</b>	<b>\$ 26,709,379</b>	<b>\$ (280,761)</b>	<b>\$ 573,113,559</b>
<b>DEFERRED OUTFLOW</b>									
Derivative financial instrument deferred outflow	\$ 3,799,069	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,799,069
<b>LIABILITIES</b>									
<b>Current liabilities:</b>									
Accounts payable and accrued liabilities	\$ 21,558,086	\$ 1,193,183	\$ 1,072,297	\$ 62,396	\$ 3,408,815	\$ 1,573,318	\$ 1,208,457	\$ -	\$ 30,076,552
Amounts payable to primary government	850,914	-	-	-	90,947	76,529	65,049	-	1,083,439
Amounts payable to Montana component units	497,654	-	-	-	-	-	14,259	-	511,913
Amounts payable to MSU campuses	31,495	-	-	-	-	65,000	34,266	(130,761)	-
Securities Lending Liability	3,476,402	-	-	-	582,655	0	5,075	-	4,064,132
Property held in trust for others	1,695,033	-	-	-	147,842	152,865	126,856	-	2,122,596
Deferred revenues	7,902,929	-	6,359	-	1,629,519	470,874	414,491	-	10,424,172
Compensated absences	8,684,926	1,136,340	746,652	47,758	1,628,708	575,074	390,709	-	13,210,167
Current portion debt and capital lease obligations	4,433,543	-	-	-	535,000	335,000	-	-	5,303,543
<b>Total current liabilities</b>	<b>49,130,982</b>	<b>2,329,523</b>	<b>1,825,308</b>	<b>110,154</b>	<b>8,023,486</b>	<b>3,248,660</b>	<b>2,259,162</b>	<b>(130,761)</b>	<b>66,796,514</b>
<b>Noncurrent liabilities:</b>									
Advances from primary government	9,185,209	-	-	-	703,213	712,807	-	(150,000)	10,451,229
Debt and capital lease obligations	95,212,514	-	-	-	11,159,211	2,408,482	-	-	108,780,207
Compensated absences	10,381,284	1,358,291	892,489	57,087	1,989,844	685,513	257,448	-	15,621,956
OPEB	19,282,047	1,374,531	1,189,329	59,830	4,258,674	1,827,967	1,004,965	-	28,997,343
Due to Federal government	17,544,268	-	-	-	3,065,375	1,493,765	-	-	22,103,408
Derivative deferred outflow	3,799,069	-	-	-	-	-	-	-	3,799,069
<b>Total noncurrent liabilities</b>	<b>155,404,391</b>	<b>2,732,822</b>	<b>2,081,818</b>	<b>116,917</b>	<b>21,176,317</b>	<b>7,128,534</b>	<b>1,262,413</b>	<b>(150,000)</b>	<b>189,753,212</b>
<b>Total liabilities</b>	<b>\$ 204,535,373</b>	<b>\$ 5,062,345</b>	<b>\$ 3,907,126</b>	<b>\$ 227,071</b>	<b>\$ 29,199,803</b>	<b>\$ 10,377,194</b>	<b>\$ 3,521,575</b>	<b>\$ (280,761)</b>	<b>\$ 256,549,726</b>
<b>NET ASSETS</b>									
Invested in capital assets, net of related debt	\$ 141,557,134	\$ 11,305,975	\$ 184,536	\$ 281,062	\$ 39,989,357	\$ 15,657,789	\$ 20,874,562	\$ -	\$ 229,850,415
Restricted - nonexpendable	10,947,306	-	-	-	671,496	421,370	11,300	-	12,051,472
Restricted - expendable	10,788,638	474,037	20,649	-	1,043,308	979,145	120,937	-	13,426,714
Unrestricted	43,065,232	2,097,472	(411,085)	36,646	19,540,488	(1,475,457)	2,181,005	-	65,034,301
<b>Total net position</b>	<b>\$ 206,358,310</b>	<b>\$ 13,877,484</b>	<b>\$ (205,900)</b>	<b>\$ 317,708</b>	<b>\$ 61,244,649</b>	<b>\$ 15,582,847</b>	<b>\$ 23,187,804</b>	<b>\$ -</b>	<b>\$ 320,362,902</b>

Montana State University  
 Unaudited Consolidating Statements Revenues, Expenses and Changes in Financial Position  
 For the year ended June 30, 2010

	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
<b>Operating revenues:</b>									
Tuition and fees	\$ 90,411,065	\$ -	\$ 1,815	\$ -	\$ 21,755,288	\$ 4,839,800	\$ 4,519,059	\$ -	\$ 121,527,027
Federal appropriations	-	2,083,312	3,102,765	-	-	-	-	-	5,186,077
Federal grants and contracts	75,352,272	-	766	-	4,757,996	3,670,483	770,078	(266,363)	84,285,232
State grants and contracts	4,708,831	-	62,934	-	654,595	438,344	342,634	-	6,207,338
Non-governmental grants and contracts	9,037,717	-	195,568	-	510,332	98,065	146,178	-	9,987,860
Indirect cost recoveries	18,538,500	-	-	-	390,321	178,753	1,246	-	19,108,820
Educational, public service and outreach revenues	16,737,064	2,189,680	4,048,417	211,169	1,505,208	370,985	62,235	(1,863,266)	23,261,492
Auxiliary - housing	12,438,284	-	-	-	1,544,055	465,042	-	-	14,447,381
Auxiliary - food service	12,768,520	-	-	-	955,629	680,517	78,612	-	14,483,278
Auxiliary - other auxiliary sales and services	3,169,472	-	-	-	4,067,751	718,599	1,285,863	(102,909)	9,138,776
Interest earned on loans	35,988	-	-	-	29,890	3,324	-	-	69,202
Other operating revenues	974,088	8,726	4,121	455	139,958	37,880	14,881	-	1,180,109
<b>Total operating revenues</b>	<b>244,171,801</b>	<b>4,281,718</b>	<b>7,416,386</b>	<b>211,624</b>	<b>36,311,023</b>	<b>11,501,792</b>	<b>7,220,786</b>	<b>(2,232,538)</b>	<b>308,882,592</b>
<b>Operating expenses:</b>									
Compensation and benefits	179,645,318	13,526,063	10,936,514	572,435	33,164,221	12,977,049	9,370,514	-	260,192,114
Annual Required Contribution OPEB	7,192,090	498,680	426,132	22,151	1,546,153	627,850	362,677	-	10,675,733
Operating expenses	94,412,503	2,889,964	2,037,402	256,320	19,154,771	6,398,188	4,002,515	(2,232,538)	126,919,125
Scholarships and fellowships	14,922,002	17,982	5,490	-	5,604,309	1,635,068	2,656,760	-	24,841,611
Depreciation and amortization	21,449,668	715,263	69,009	67,030	3,364,675	966,436	829,689	-	27,461,770
<b>Total operating expenses</b>	<b>317,621,581</b>	<b>17,647,952</b>	<b>13,474,547</b>	<b>917,936</b>	<b>62,834,129</b>	<b>22,604,591</b>	<b>17,222,155</b>	<b>(2,232,538)</b>	<b>450,090,353</b>
<b>Operating loss</b>	<b>(73,449,780)</b>	<b>(13,366,234)</b>	<b>(6,058,161)</b>	<b>(706,312)</b>	<b>(26,523,106)</b>	<b>(11,102,799)</b>	<b>(10,001,369)</b>	<b>-</b>	<b>(141,207,761)</b>
<b>Nonoperating revenues (expenses):</b>									
State appropriations	39,333,716	12,935,476	6,056,223	743,877	15,681,764	7,731,454	4,493,199	-	86,975,709
Pell Grants	12,490,270	-	-	-	6,782,452	2,565,042	3,952,438	-	25,790,202
State appropriation of federal stimulus funds	11,861,970	-	-	-	4,812,139	2,048,307	1,621,160	-	20,343,576
Land grant and timber sales income	1,430,643	-	-	-	185,751	-	-	-	1,616,394
Gifts	8,662,464	90,320	18,113	-	1,966,509	996,812	69,277	-	11,803,495
Investment Income	4,073,823	21,596	7,758	585	88,156	21,055	13,432	-	4,226,405
Interest expense	(4,867,336)	(9,320)	-	-	(584,322)	(172,550)	(2,549)	-	(5,636,077)
<b>Net nonoperating revenues (expenses)</b>	<b>72,985,550</b>	<b>13,038,072</b>	<b>6,082,094</b>	<b>744,462</b>	<b>28,932,449</b>	<b>13,190,120</b>	<b>10,146,957</b>	<b>-</b>	<b>145,119,704</b>
<b>Income before other revenues, expenses, gains and losses</b>									
Transfers in (out)	(464,230)	(328,162)	23,933	38,150	2,409,343	2,087,321	145,588	-	3,911,943
Gain or loss on sale of fixed assets	(373,962)	462,419	27,683	-	-	(165,740)	49,600	-	-
Additions to permanent endowments	(568,386)	17,390	465	-	5,236	(14,444)	-	-	(559,739)
Gifts, capital grants and contributions	215,107	-	-	-	-	7,025	-	-	222,132
	16,475,468	-	-	-	2,037,228	399,828	60,299	-	18,972,823
<b>Change in financial position</b>	<b>15,283,997</b>	<b>151,647</b>	<b>52,081</b>	<b>38,150</b>	<b>4,451,807</b>	<b>2,313,990</b>	<b>255,487</b>	<b>-</b>	<b>22,547,159</b>
<b>Financial position, beginning of year</b>	<b>191,074,313</b>	<b>13,725,837</b>	<b>(257,981)</b>	<b>279,558</b>	<b>56,792,842</b>	<b>13,268,857</b>	<b>22,932,317</b>	<b>-</b>	<b>297,815,743</b>
<b>Financial position, end of year</b>	<b>\$ 206,358,310</b>	<b>\$ 13,877,484</b>	<b>\$ (205,900)</b>	<b>\$ 317,708</b>	<b>\$ 61,244,649</b>	<b>\$ 15,582,847</b>	<b>\$ 23,187,804</b>	<b>\$ -</b>	<b>\$ 320,362,902</b>

Montana State University  
 Unaudited Selected Cash Flow Information  
 For the year ended June 30, 2010

	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
<b>Cash flows from operating activities:</b>									
Operating revenues:									
Tuition and fees	\$ 90,116,393	\$ -	\$ 1,815	\$ -	\$ 21,742,741	\$ 4,705,336	\$ 4,675,193	\$ -	\$ 121,241,478
Federal appropriations	-	2,083,312	3,060,921	-	-	-	-	-	5,144,233
Federal grants and contracts	82,152,849	157,271	(5,543)	-	4,915,997	3,626,797	741,307	(266,363)	91,322,315
State grants and contracts	5,425,886	-	62,934	-	730,414	503,842	336,589	-	7,059,665
Private grants and contracts	9,042,041	-	195,568	-	416,688	127,978	146,178	-	9,928,453
Grant and contract indirect cost recoveries	18,586,580	-	-	-	390,321	178,753	-	-	19,155,654
Educational, public service and outreach revenues	16,307,062	2,183,595	3,981,142	211,323	1,615,789	364,204	62,235	(1,863,263)	22,862,087
Sales and services of auxiliary enterprises	28,187,669	-	-	(1,496)	6,512,769	1,876,557	1,364,475	(102,909)	37,837,065
Interest on loans receivable	317,720	-	-	-	29,890	-	-	-	347,610
Other operating receipts	974,088	8,726	4,120	455	139,958	37,880	16,127	-	1,181,354
Operating expenses:									
Compensation and benefits	(183,788,465)	(12,963,905)	(10,692,879)	(546,969)	(33,231,044)	(12,201,101)	(9,015,385)	-	(262,439,748)
Operating expenses	(97,437,731)	(2,329,494)	(1,598,349)	(222,479)	(18,446,600)	(6,531,403)	(4,059,270)	2,232,535	(128,392,791)
Scholarships and fellowships	(14,922,002)	(17,982)	(5,490)	-	(5,604,309)	(1,635,068)	(2,656,760)	-	(24,841,611)
Loans made to students	(1,844,995)	-	-	-	(253,119)	(226,634)	-	-	(2,324,748)
Loan payments received	2,071,551	-	-	-	324,546	211,203	-	-	2,607,300
Intercampus due to/from	3,491,296	(717,941)	(904,581)	(52,260)	(1,212,107)	(350,435)	(253,972)	-	-
<b>Net cash used in operating activities</b>	<b>(41,320,058)</b>	<b>(11,596,418)</b>	<b>(5,900,342)</b>	<b>(611,426)</b>	<b>(21,928,066)</b>	<b>(9,312,091)</b>	<b>(8,643,283)</b>	<b>-</b>	<b>(99,311,684)</b>
<b>Cash flows from noncapital financing activities:</b>									
Receipts (disbursements) of funds held in trust for others	1,482,355	-	-	-	(48,822)	(103,978)	10,482	-	1,340,037
Direct lending proceeds	2,364,598	-	-	-	417,529	75,249	245,733	-	3,103,109
Direct lending disbursements	(2,364,598)	-	-	-	(417,529)	(75,249)	(245,733)	-	(3,103,109)
State appropriations	39,333,716	12,990,022	6,056,223	743,877	15,695,211	7,731,454	4,493,199	-	87,043,702
State appropriation of federal stimulus funds	11,861,970	-	-	-	4,812,139	2,048,307	1,621,160	-	20,343,576
Federal pell grant funds received	12,490,270	-	-	-	6,782,452	2,565,042	3,952,438	-	25,790,202
Gifts and contributions (expendable)	8,662,464	90,318	18,108	-	1,966,508	996,812	69,275	-	11,803,485
Land grant income	1,430,643	-	-	-	185,751	-	-	-	1,616,394
Repayment of long-term advance from primary government	(50,534)	-	-	-	-	-	-	-	(50,534)
Additions to permanent endowments	215,107	-	-	-	-	7,025	-	-	222,132
Transfers between campuses and agencies	(373,962)	462,419	27,682	-	-	(165,739)	49,600	-	-
<b>Net cash flows from noncapital financing activities</b>	<b>75,052,029</b>	<b>13,542,759</b>	<b>6,102,013</b>	<b>743,877</b>	<b>29,393,239</b>	<b>13,078,923</b>	<b>10,196,154</b>	<b>-</b>	<b>148,108,994</b>
<b>Cash flows from capital financing activities:</b>									
Purchase of capital assets	(15,230,358)	(997,524)	(46,757)	(25,213)	(1,873,495)	(1,435,939)	(461,360)	-	(20,070,646)
Proceeds from sale of capital assets	49,576	33,647	465	-	5,236	-	-	-	88,924
Gifts -restricted for capital purchase	1,153,867	-	-	-	-	-	-	-	1,153,867
Other capital financing activities	246,200	-	-	-	2,206	-	-	-	248,406
Proceeds from borrowings	-	-	-	-	-	-	-	-	-
Debt retirement	(4,502,059)	-	-	-	(494,767)	(496,542)	-	-	(5,493,368)
Payment of debt issue costs	-	-	-	-	-	-	-	-	-
Advances from primary government	648,584	-	-	-	148,740	-	-	-	797,324
Repayment of advances from primary government	(900,986)	-	-	-	(606,635)	(116,676)	(62,219)	-	(1,686,516)
Interest paid	(4,432,763)	(9,320)	-	-	(586,384)	(160,785)	(2,550)	-	(5,191,802)
<b>Net cash change from capital financing activities</b>	<b>(22,967,939)</b>	<b>(973,197)</b>	<b>(46,292)</b>	<b>(25,213)</b>	<b>(3,405,099)</b>	<b>(2,209,942)</b>	<b>(526,129)</b>	<b>-</b>	<b>(30,153,811)</b>
<b>Cash flows from investing activities:</b>									
Purchase of investments	(6,256,020)	(328,207)	(106,419)	(7,181)	(1,311,527)	(7,024)	(7,942)	-	(8,024,320)
Proceeds from sale of investments	6,036,442	369,875	111,071	4,218	1,311,921	-	7,091	-	7,840,618
Investment income	1,915,955	21,597	7,760	582	100,523	21,224	14,314	-	2,081,955
<b>Net cash change from investing activities</b>	<b>1,696,377</b>	<b>63,265</b>	<b>12,412</b>	<b>(2,381)</b>	<b>100,917</b>	<b>14,200</b>	<b>13,463</b>	<b>-</b>	<b>1,898,253</b>
<b>Net change in cash and cash equivalents</b>	<b>12,460,409</b>	<b>1,036,409</b>	<b>167,791</b>	<b>104,857</b>	<b>4,160,991</b>	<b>1,571,090</b>	<b>1,040,205</b>	<b>-</b>	<b>20,541,752</b>
<b>Balances at beginning of year</b>	<b>76,067,513</b>	<b>5,532,612</b>	<b>2,784,446</b>	<b>140,412</b>	<b>25,688,906</b>	<b>2,578,772</b>	<b>4,060,577</b>	<b>-</b>	<b>116,853,238</b>
<b>Balances at end of year</b>	<b>\$ 88,527,922</b>	<b>\$ 6,569,021</b>	<b>\$ 2,952,237</b>	<b>\$ 245,269</b>	<b>\$ 29,849,897</b>	<b>\$ 4,149,862</b>	<b>\$ 5,100,782</b>	<b>\$ -</b>	<b>\$ 137,394,990</b>

**Montana State University**  
**Unaudited Supplemental Information**  
**As of and for the Year Ended June 30, 2010**

(continued)

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**Montana State University—All Campuses and Agencies**

**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****Annual Full Time Equivalent Students**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Montana residents</b>			
Undergraduate	13,194	12,631	12,735
Graduate	1,127	1,036	1,002
<b>Nonresidents</b>			
Undergraduate	2,537	2,383	2,293
Graduate	262	284	272
<b>Western Undergraduate Exchange</b>	<u>680</u>	<u>642</u>	<u>626</u>
Total	<u>17,800</u>	<u>16,976</u>	<u>16,928</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 2009-2010 academic year, on a per-semester basis, were as follows:

	<b>Resident</b>	<b>Nonresident</b>
	<b>Undergraduate—Graduate</b>	<b>Undergraduate—Graduate</b>
Bozeman Campus	\$3,789 – \$4,259	\$5,005 – \$10,090
Billings Campus	\$2,603 – \$3,002	\$3,653 – \$7,723
Northern Campus <sup>(1)</sup>	\$2,424 – \$3,085	\$3,064 – \$8,458
Great Falls Campus <sup>(2)</sup>	\$1,506 – N/A	\$2,114 – N/A

(1) Average of lower and upper divisions.

(2) Undergraduate program only.

**Employees**

As of November 2009, the University employed 7,439 people (head count) as follows:

	<b>Bozeman</b>	<b>Billings</b>	<b>Northern</b>	<b>Great Falls</b>	<b>Total</b>
Faculty/Professional	1,993	423	190	187	2,793
State classified system	1,145	215	60	52	1,472
Temporary hourly	287	79	29	-	395
Students	1,723	270	164	68	2,225
Graduate students	540	14	-	-	554
Total	<u>5,688</u>	<u>1,001</u>	<u>443</u>	<u>307</u>	<u>7,439</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.

**Montana State University**  
**Unaudited Supplemental Information**  
**As of and for the Year Ended June 30, 2010**

(continued)

**MSU- Bozeman****Campus Overview**

On February 16, 1893, the Agricultural College of the State of Montana was founded in Bozeman as the state's land grant institution, and was the first unit of higher education of the of the state of Montana. Later 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 ten undergraduate colleges, including a college of workforce development programs (Gallatin College Programs), 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.

With the addition of the Gallatin College Programs effective July 1, 2010, the campus now offers a curriculum leading to associates' degrees in three areas, 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 more than 40 classroom and administrative buildings, including a full-service library, nine residence halls, three cafeterias, a new Animal Bioscience facility, the recently renovated historic Hamilton Hall as well as a total renovation of Gaines Hall, a heavily used classroom building, the Museum of the Rockies, and numerous other classroom buildings and special laboratories. Currently under construction is a federally-funded \$17 million renovation of one of the University's most active research laboratory facilities.

Research, creativity and technology transfer are at the core of the tri-partite land grant 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 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.

		<b>Student FTE for Fiscal Years Ended June 30,</b>				
		<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Resident</b>	Undergraduate	7,174	7,072	7,166	7,315	7,456
	Graduate	797	705	685	629	633
	Total resident	7,971	7,777	7,851	7,944	8,089
<b>Nonresident</b>	Undergraduate	2,326	2,170	2,086	2,000	1,869
	Graduate	231	321	230	251	263
	Total nonresident	2,557	2,491	2,316	2,251	2,132
<b>Western Undergraduate Exchange</b>		348	240	299	360	421
<b>Total</b>		<b>10,876</b>	<b>10,508</b>	<b>10,466</b>	<b>10,555</b>	<b>10,642</b>

**Montana State University**  
**Unaudited Supplemental Information**  
**As of and for the Year Ended June 30, 2010**

(continued)

	<b>Degrees Granted - Fiscal Years Ended June 30,</b>				
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Undergraduate	1,835	1,889	1,809	1,837	1,821
Graduate	519	485	487	523	480
<b>TOTAL:</b>	<b>2,354</b>	<b>2,374</b>	<b>2,296</b>	<b>2,360</b>	<b>2,301</b>

Additionally, during 2009, 429 Masters degrees were awarded retroactively to students that had received their Bachelors in Architecture more than 10 years ago. The Board of Regents altered credit requirements for the Masters Architecture program and determined that these former students had completed Masters level work in their 5-year baccalaureate course of study.

### **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 117 year history, built a national and international reputation for excellence in undergraduate and graduate education in agriculture, business, engineering, biological and physical sciences, architecture, education, health and human development, the liberal arts and nursing. It ranks among the nation's leaders in the number of Goldwater science, math and engineering scholarships won by its students. It is an institution committed to positioning today's students for successful and meaningful lives in the global economy of the 21st century.

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

The mission of MSU- Bozeman is multi-faceted:

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

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

**Montana State University  
Unaudited Supplemental Information  
As of and for the Year Ended June 30, 2010**

**(continued)**

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**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, is a contract for maintaining viable agricultural and natural resource communities and an affordable supply of food and fiber for America.

In 1893, Montana endorsed the terms of the Morrill Act (1862), creating the land-grant university “Agricultural College of the State of Montana” and the designation of the Montana Agricultural Experiment Station (MAES). 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 adding value to state, regional and national resources within the global economy, as well as developing cutting-edge outreach and education programs.

**Highlights**

The MAES and the College of Agriculture continue to be successful in securing (leveraging new) extramural funding to support research programs. Through 2008—2010, the College of Agriculture is in the top two MSU colleges in terms of sponsored program expenditures. The College and MAES have three departments that rank in the top six in a field of over 30 departments in terms of sponsored research program expenditures. Funding agencies include national, regional and state from multiple sources. These research programs impact Montana, the region and the nation.

**Outlook**

MAES was mandated to take an 8% permanent base budget cut for FY2011. Therefore, research programs will be reduced. With this reduction, there is increased reliance on external funds to backfill and marginally operate research programs. Federal base appropriations (15%) continue to be stable, while State appropriations decrease. This is concurrent with an increased need and demand for the primary economic engine of the state of Montana. MAES provides significant support to the University’s faculty. They all reside in the MSU-Bozeman College of Agriculture, which competes on a national and international basis for faculty and students. Leadership foresees increased difficulty competing in terms of salaries, and will reduce the size of the operation if needed to fund increased costs.

**Montana State University  
Unaudited Supplemental Information  
As of and for the Year Ended June 30, 2010**

**(continued)**

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**MSU Extension Service (ES)**

**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 through 1994 Tribal Extension programs. 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 funding through 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 19,369 Montana youth, ages 6-19. About 47 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 3,991 trained adult and youth volunteers who lead local programs and activities.

Local community and economic viability efforts 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 year Extension will enhance its partnership with the Northwest Area Foundation to develop poverty reduction programs in 35 rural Montana communities.

During 2010 Extension embarked on developing a new strategic plan that 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.

**Montana State University  
Unaudited Supplemental Information  
As of and for the Year Ended June 30, 2010**

**(continued)**

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**Fire Services Training School (FSTS)**

**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 6<sup>th</sup> Street Southwest, Great Falls; however, trainers who provide instruction and resources to local fire and rescue services are strategically located in Cascade County, Yellowstone County, Roosevelt County, Flathead County, Missoula County, Gallatin County and Lewis & Clark County.

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 in more than 400 organizations, 96 percent of whom are volunteers. The Fire Services Training School provides 70 percent of its services to all volunteer fire companies, 24 percent to combination (with both paid and volunteer firefighters) fire companies, and 6 percent to all paid fire companies.

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 2010 fiscal year the School trained 6,603 emergency service members with 2763 hours of instruction, for a total of 41,000 contact hours. The School delivered training for 45 of Montana's 56 Counties. Additionally, the school issued a total of 64 professional training certifications and made 220 resource center loans of equipment and training materials to 49 organizations.

**Montana State University  
Unaudited Supplemental Information  
As of and for the Year Ended June 30, 2010**

(continued)

**MSU- Billings****Campus Overview**

Montana State University Billings is a comprehensive public four-year higher education institution located in Montana's largest population center, whose faculty is actively engaged in teaching, research, creative endeavors and public service. The University opened in 1927 and was initially called Eastern Montana State Normal School at Billings and was established to prepare teachers for elementary schools in eastern Montana. MSU Billings has grown, with the city of Billings and Yellowstone County, into the major 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 nearly 100 academic areas; and features 21 programs that are totally available online. Several academic programs are unique to the Montana University System.

MSU Billings is accredited by the Northwest Commission on Colleges & Universities. The MSU Billings College of Business recently achieved accreditation from the Association to Advance Collegiate Schools of Business, whose standards are used as the basis to evaluate a business school's mission, operations, faculty qualifications and contributions, programs, and other critical areas. MSU Billings is accredited by the National Council for the Accreditation of Teacher Education for preparing elementary and secondary teachers and school counselors through the Bachelor of Science and Master of Education degrees and the Master of Science in Special Education degree. MSU Billings is also accredited by the National Association of Schools of Music, the National Association of Schools of Art and Design, and the Council on Rehabilitation Education. College of Technology programs are approved by the National Institute for Automotive Excellence and the Montana Board of Nursing.

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

	<b>Annual Student FTE for Fiscal Years Ended June 30,</b>				
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Resident</b>					
Undergraduate	2,707	2,773	2,844	2,845	2,910
College of Technology	924	624	666	665	634
Graduate	264	256	254	252	287
Total Resident	3,895	3,653	3,764	3,762	3,831
<b>Nonresident</b>					
Undergraduate	91	93	86	92	102
College of Technology	12	5	4	6	7
Graduate	31	44	42	33	28
Total nonresident	134	142	132	131	137
<b>Western Undergraduate Exchange</b>					
Main Campus	193	217	222	211	225
College of Technology	37	29	36	29	26
Total Western Undergraduate Exchange	230	246	258	240	251
<b>Total</b>	<b>4,259</b>	<b>4,041</b>	<b>4,154</b>	<b>4,133</b>	<b>4,219</b>

**Montana State University  
Unaudited Supplemental Information  
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(continued)

	Degrees Awarded by Type				
	2010	2009	2008	2007	2006
<b>Senior Campus:</b>					
Associate Degrees	32	33	29	21	18
Bachelor's Degrees	547	540	550	513	524
Master's Degrees	128	106	121	110	99
<b>Total Senior Campus</b>	<b>707</b>	<b>679</b>	<b>700</b>	<b>644</b>	<b>641</b>
<b>College of Technology:</b>					
Certificates	28	32	31	29	14
Associate Degrees	196	189	203	174	154
<b>Total College of Technology</b>	<b>224</b>	<b>221</b>	<b>234</b>	<b>203</b>	<b>168</b>
<b>Grand Total Degrees</b>	<b>931</b>	<b>900</b>	<b>934</b>	<b>847</b>	<b>809</b>

MSU Billings overall headcount enrollment topped 5,000 students for the first time in its history in the fall of 2009 and continued that trend into the fall of 2010 where overall headcount enrollment reached 5,335 students.

#### **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.

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.

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 and sustainable energy.

Grants and research production continues. The work of two science faculty members on unique fungal research has led to the approval of MSU Billings' first patent. This project is being done in collaboration with INBRE and MSU Bozeman. New Department of Justice grants allow continuation of training at the Montana Women's Prison in Billings.

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.

MSU Billings was ranked as one of the nation's "Best Colleges" by U.S. News and World Report and recognized as one of the top tier regional universities in the West for undergraduate through master's level academics in

**Montana State University**  
**Unaudited Supplemental Information**  
**As of and for the Year Ended June 30, 2010**

**(continued)**

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“America’s Best Colleges 2011”. For the past 10 years, MSU Billings had ranked among top colleges in the third tier of schools. The current ranking is the highest rank achieved by MSU Billings.

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 1,500 in 2010 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 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; a Certificate of Applied Science in Welding for Energy Technology; and most recently, Certificate of Applied Science and Associate of Applied Science degrees in a new Sustainable Energy Technician program. 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 recently launched “The Opportunity Campaign for MSU Billings Scholarships”, a three-year, \$6 million dollar campaign which aims to secure additional private support for scholarships for all students. The 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 \$1million in scholarships in FY10.

**Montana State University**  
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(continued)

**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.

	<b>Student FTE for Fiscal Years Ended June 30,</b>				
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Resident</b>					
Undergraduate	914	882	916	1,010	1,071
Graduate	66	75	6	75	71
<b>Total resident</b>	<b>980</b>	<b>957</b>	<b>979</b>	<b>1,085</b>	<b>1,142</b>
<b>Nonresident</b>					
Undergraduate	45	50	51	43	46
Graduate	0	0	0	0	0
<b>Total nonresident</b>	<b>45</b>	<b>50</b>	<b>51</b>	<b>43</b>	<b>46</b>
<b>Western Undergraduate Exchange</b>	<b>93</b>	<b>67</b>	<b>66</b>	<b>79</b>	<b>67</b>
<b>Total</b>	<b>1,118</b>	<b>1,074</b>	<b>1,096</b>	<b>1,207</b>	<b>1,255</b>

	<b>Degrees Granted - Fiscal Years Ended June 30,</b>				
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Undergraduate	227	252	267	311	306
Graduate	13	28	13	33	14
<b>Total:</b>	<b>240</b>	<b>280</b>	<b>280</b>	<b>344</b>	<b>320</b>

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**Unaudited Supplemental Information**  
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**(continued)**

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**Campus Outlook**

MSU-Northern is located in the rural, northern region of Montana. With decreasing populations across the State, MSU-Northern has adapted to its decreasing enrollment through careful monitoring of expenses and strategic investments in areas that will help attract and retain students. Student enrollment drives a large portion of operating revenues, and also affects the University's level of State funding. Northern has begun to utilize partnerships and alternatives, innovative teaching, and alternate delivery methods. Partnerships with the tribal colleges across Montana, which help them expand their program offerings in the realm of 4-year Baccalaureate degrees, is one such example. Northern will also continue to explore program offerings at our sites in Lewistown and Great Falls.

**Montana State University  
Unaudited Supplemental Information  
As of and for the Year Ended June 30, 2010**

(continued)

**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 in excess of 30%. The majority of students are Montana residents.

**Annual Enrollment Data (FTE)**

		<b>Student FTE for Fiscal Years Ended June 30,</b>				
		<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Resident Undergraduate</b>						
	Great Falls	1,293	1,138	1,011	1,061	1,073
	College of Technology in Bozeman*	182	161	145	106	83
<b>Nonresident Undergraduate</b>						
	Great Falls	17	8	9	9	8
	College of Technology in Bozeman*	46	38	43	35	21
<b>Western Undergraduate Exchange</b>		9	8	4	1	1
<b>Total</b>		<b>1,547</b>	<b>1,353</b>	<b>1,212</b>	<b>1,212</b>	<b>1,186</b>

\*Effective July 1, 2010 the Gallatin College Programs, which previously operated under the auspices of MSU-GF as the College of Technology in Bozeman, was transferred to Montana State University. It is expected that the total 2010-2011 academic year student population at MSU-GF will reflect this change and will drop to about 1,250 FTE compared to 1,547 in 2009-2010 academic year.

**Montana State University**  
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**As of and for the Year Ended June 30, 2010**

(continued)

The numbers of degrees and certificates granted has increased 67.5% during the past five years.

	<b>Degrees and Certificates Granted</b>				
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Certificate of Applied Science	63	54	61	40	52
Professional Certificate	4	1			
Associate of Science/Arts	69	55	53	30	35
Associate of Applied Science	174	120	117	131	98
<b>Total</b>	<b>310</b>	<b>230</b>	<b>231</b>	<b>201</b>	<b>185</b>

**Highlights**

MSU-GF 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 College of Technology). This program will be operational in fall 2010 with a full complement of fourteen students. The program 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. 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.

MSU-GF is implementing a certification in Health Informatics Technology in collaboration with Montana Tech of the University of Montana, Flathead Valley Community College, and The University of Montana- Helena College of Technology. Funding is provided through the American Recovery and Reinvestment Act (ARRA) with the intent of establishing or expanding health informatics education programs for both health care and information technology students to ensure the rapid and effective utilization and development of health information technologies in the United States health care infrastructure.



MONTANA STATE  
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UNIVERSITY RESPONSE



December 14, 2010

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

RECEIVED  
DEC 20 2010  
LEGISLATIVE AUDIT DIV.

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, 2010. 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,

  
Waded Cruzado  
President

WC/sm

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