



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL AUDIT

*Montana State  
University*

*For the Two Fiscal Years Ended  
June 30, 2011*

JANUARY 2012

LEGISLATIVE AUDIT  
DIVISION

11-11A

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**FINANCIAL AUDITS**

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

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2009, was issued March 1, 2010. The Single Audit Report for the two fiscal years ended June 30, 2011, will be issued by March 31, 2012. Copies of the Single Audit Report can be obtained by contacting:

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P.O. Box 200802  
Helena, MT 59620-0802

Legislative Audit Division  
Room 160, State Capitol  
P.O. Box 201705  
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# LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors  
Cindy Jorgenson  
Angie Grove

January 2012

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial audit report on the consolidated financial statements of the Montana State University (university) for the fiscal years ended June 30, 2011, and June 30, 2010. 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. 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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## APPOINTED AND ADMINISTRATIVE OFFICIALS

	<u>Term Expires</u>
<b>Board of Regents of Higher Education</b>	
Todd Buchanan, Vice Chair	February 1, 2014
Stephen Barrett	February 1, 2012
Angela McLean	February 1, 2017
Paul Tuss	February 1, 2013
Major Robinson	February 1, 2018
Joseph Thiel, Student Regent	June 30, 2012
Sheila M. Stearns, Commissioner of Higher Education*	
Brian Schweitzer, Governor*	
Denise Juneau, Superintendent of Public Instruction*	
*Ex officio members	

<b>Office of the Commissioner of Higher Education</b>	Sheila M. Stearns	Commissioner of Higher Education
	Mick Robinson	Deputy Commissioner for Fiscal Affairs/ Chief of Staff
	Sylvia Moore	Deputy Commissioner for Academic, Research and Student Affairs
	John Cech	Deputy Commissioner for Two-Year and Community College Education
	Tyler Trevor	Associate Commissioner for Planning and Analysis
	Kevin McRae	Associate Commissioner for Communications & Human Resources
	Catherine Swift	Chief Legal Counsel
	Frieda Houser	Director of Accounting and Budget

<b>Montana State University– All Campuses</b>	Waded Cruzado	President
	Leslie Taylor	Legal Counsel
	Daniel Adams	Director of Institutional Audit & Advisory Services
<b>Montana State University– Bozeman</b>	Martha Potvin	Provost and Vice President for Academic Affairs
	Terry Leist	Interim Vice President for Administration and Finance
	Thomas McCoy	Vice President for Research, Creativity, and Technology Transfer
	Allen Yarnell	Vice President for Student Success
	Douglas Steele	Vice President for External Relations
	Jim Rimpau	Vice President for Planning and Chief Information Officer
	Thomas Calcagni	Executive Director of University Communications
	Laura Humberger	Assistant Vice President for Financial Services
	Leslie Schmidt	Assistant Vice President for Research, Creativity and Technology Transfer
	Brandi Payne	Director of Financial Aid
	Kathy Attebury	Director of University Budgets
<b>Montana State University– Billings</b>	Rolf Groseth	Chancellor
	Mark Pagano	Provost and Academic Vice Chancellor
	Terrie Iverson	Vice Chancellor for Administrative Services
	Stacy Klippenstein	Vice Chancellor for Student Affairs
	LeAnn Anderson	Director of Financial Services
	Jim Nielsen	Director of Business Services
	Trudy Collins	University Budget Director

<b>Montana State University– Northern</b>	Joseph Callahan	Interim Chancellor
	Rosalyn Templeton	Provost and Vice Chancellor for Academic Affairs
	Lindsey Brown	Dean of Students/Registrar
	Sue Ost	Director of Business Services
	Chris Wendland	Accountant/Budget Officer
<b>Montana State University– Great Falls</b>	Joe Schaffer	Dean and CEO
	Mary Ellen Baukol	Associate Dean of Administration and Finance
	Heidi Pasek	Associate Dean and Chief Academic Officer
	Judy Hay	Assistant Dean of Student Services
	Ed Binkley	Controller
	Deby Gunter	Budget/Purchasing Officer
<b>Montana Agricultural Experiment Station</b>	Jeffrey Jacobson	Director
	Jody Barney	Budget and Fiscal Director
<b>MSU Extension Service</b>	Douglas Steele	Director
	Sandra Rahn Gibson	Budget and Fiscal Director

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

Daniel Adams, Director of Institutional Audit & Advisory Services  
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 Bozeman, MT 59717  
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# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL AUDIT

### Montana State University

For the Two Fiscal Years Ended June 30, 2011

JANUARY 2012

11-11A

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, the Gallatin College Program 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

We perform annual financial audits of the university to provide timely information and accountability for operations to interested parties. Financial related audits are conducted every two years to determine compliance with contract provisions, grant requirements, and selected state laws and regulations. We issued our financial-related audit (11-13) for Montana State University covering fiscal years 2010 and 2011 in October 2011.

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 2010-2011 academic year, tuition and fee revenue increased approximately 7.7 percent due to increased enrollments. Total operating expenses in fiscal years 2011 and 2010, were \$458.6 million and \$449.1 million, respectively. The university received a one

time state appropriation of federal stimulus funds in the amount of \$18.5 million in fiscal year 2011. Annualized full-time equivalent student counts reported by the Commissioner of Higher Education for fiscal year 2011 are as follows: Bozeman-11,820, Billings-4,555, Havre-1,155, and Great Falls-1,415.

### Results

This report does not contain any recommendations to the university.

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

For a complete copy of the report (11-11A) 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 web site at <http://leg.mt.gov/audit>

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Call toll-free 1-800-222-4446, or e-mail [lad@mt.gov](mailto:lad@mt.gov).



# Chapter I – Introduction

## **Audit Scope**

We performed a financial audit of Montana State University (University) for the two fiscal years ending June 30, 2011. The objectives of our audit were to:

1. Determine whether the University’s consolidated financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of Montana State University as of and for the two periods ending June 30, 2011 and 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.

Our opinion, as it relates to the financial statements at and for the fiscal year ended June 30, 2010, is based on a separate audit report we issued in December 2010 (09-11B). 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 most recent financial-related audit (11-13) was issued in October 2011 for the fiscal years 2010 and 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. As a land-grant institution, it 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 MSU Extension Service, the Montana Agricultural Experiment Station, the Gallatin College Program 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  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors  
Cindy Jorgenson  
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, 2011, and 2010, and the related Consolidated Statements of Revenues, Expenses and Changes in Financial Position and Consolidated Statements of Cash Flows for the fiscal years then ended, and the University Component Units-Combined Statements of Financial Position as of June 30, 2011, and 2010, and the related University Component Units-Combined Statements of Activities for the fiscal years then ended. The information contained in these financial statements is the responsibility of the university's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the university's aggregate discretely presented component units. Those statements include the Montana State University Foundation, the Museum of the Rockies Incorporated, the Montana State University-Billings Foundation, the Montana State University-Northern Foundation, and the Montana State University Bobcat Club. The component units identified above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based on the reports of 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, 2011, and 2010, 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 and the Schedule of Funding Progress For Other Post Retirement Benefits Plan on page A-53 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of Montana State University. The Supplemental Information on pages A-54 through A-70 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA  
Deputy Legislative Auditor

January 3, 2012



## 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, 2011

Montana State University (the "University") is a land grant university that serves state, national and international constituents 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. 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 managing its mix of 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

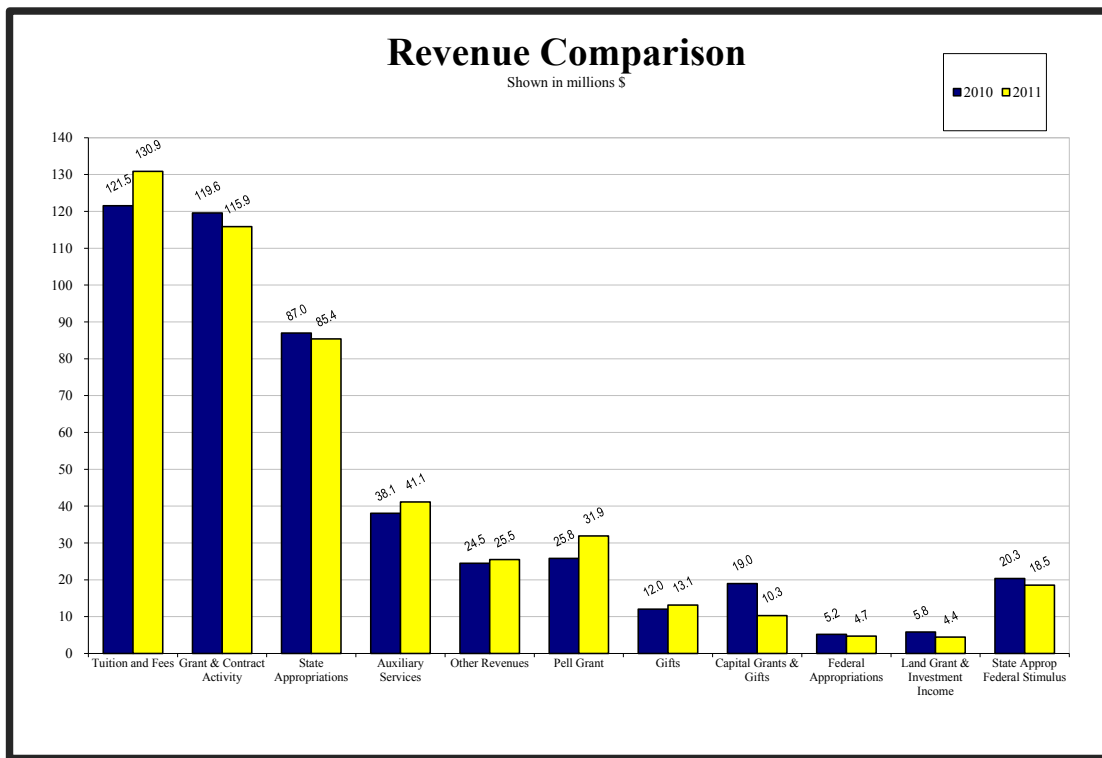
(in millions)

	2011	2010 (restated)	2009 (restated)
Operating revenues	\$ 318.1	\$ 308.9	\$ 300.6
Operating expenses	458.6	449.1	442.4
Operating loss	(140.5)	(140.2)	(141.8)
Non-operating revenues and expenses (net)	147.3	145.1	134.0
Income before capital & other items	6.8	4.9	(7.8)
Capital & other items	10.1	18.6	26.1
Change in net position	<u>\$ 16.9</u>	<u>\$ 23.5</u>	<u>\$ 18.3</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 2011 and 2010 Results of Operations

The University's net financial position increased \$16.9 million during 2011, resulting largely from \$7.3 million in assets provided by the State of Montana ("State") through its long-range building program, including \$2.1 million related to improvements at the Eastern Agricultural Research Center. Also contributed was \$2.9 million in donated assets, including \$1.0 million in federal funding for a renovation of Bozeman's Cooley Lab, a \$17 million project which will be funded primarily by the National Institutes of Health. Additionally, due to higher than anticipated enrollment, the University was able to add \$4.3 million to its reserve funds, which are used to ensure the availability of retirement payout and scholarship funding, and also provide a means to absorb unexpected expenses or decreases in revenue. Also due to higher than anticipated enrollment, the student housing and dining system added \$2.4 million to its facility improvement fund, which was then expended during the summer to install furniture and other room upgrades in two of its housing complexes.



**Operating revenues** contain the majority of the University's income, and increased \$9.2 million, or 3.0%, from 2010 to 2011.

Tuition and fee revenues increased approximately \$9.4 million, or 7.7%. Tuition and fee rates were increased by approximately 3.0% at the Bozeman campus, and the student full-time-equivalent count for all campuses increased by 6.4%, from 17,800 to 18,946.

Grant and contract operating revenues, including facility and administrative cost recoveries, decreased \$3.7 million, to \$115.9 million, compared with 2010 revenues of \$119.6 million. While these figures include \$10.8 in 2011 and \$6 million in 2010 funded 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. In addition to operating grants, federal grant revenues of \$613,000 for the renovation of Cooley lab are reflected in the University's Capital gifts, grants and contributions in the accompanying financial statements.

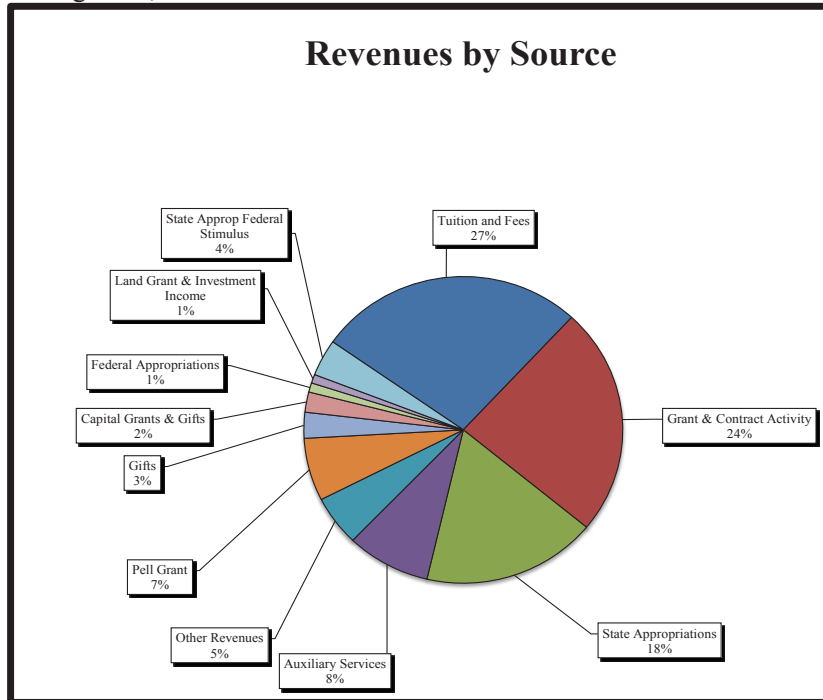
Revenues from auxiliary enterprises increased \$3.0 million, or 8.0%, to \$41.1 million, from \$38.1 million in 2010. Slight price increases were implemented, and occupancy increased once again due to a large incoming freshman class and retention of upperclassmen. Freshman students from outside the immediate area are required to live on-campus.

Other revenues increased \$1.0 million, or 3.9%, to \$25.5 million, as compared with \$24.5 million in 2010, largely caused by insurance proceeds received as a result of damage caused by a severe hailstorm in the summer of 2010.

**Net non-operating revenue** increased \$2.1 million from 2010 to 2011, primarily due to a \$6.1 million increase in Federal Pell grant revenues resulting from increased student enrollment, as well as the awarding of Pell grants year-round rather than only for the main Fall and Spring terms, as had been the past federal process. State appropriations revenue decreased \$1.6 million, from \$87.0 million to \$85.4 million. Additionally, Federal American Recovery and Reinvestment Act (ARRA) funding was passed through the State of Montana as an appropriation via the Montana Reinvestment Act, also known as House Bill 645, in the amount of \$18.5 million in 2011, as compared with \$20.3 million in 2010. Certain of the ARRA funding was considered to be base funding from state revenue sources in the 2012 – 2013 biennial budget cycle, resulting in only a slight decrease to the University's combined state and ARRA expected future funding level. Investment income decreased by \$1.7 million as a result of income stabilizing to a normal level; in 2010, income included significant unrealized gains in endowment balances, as they recovered from the 2009 downturn.

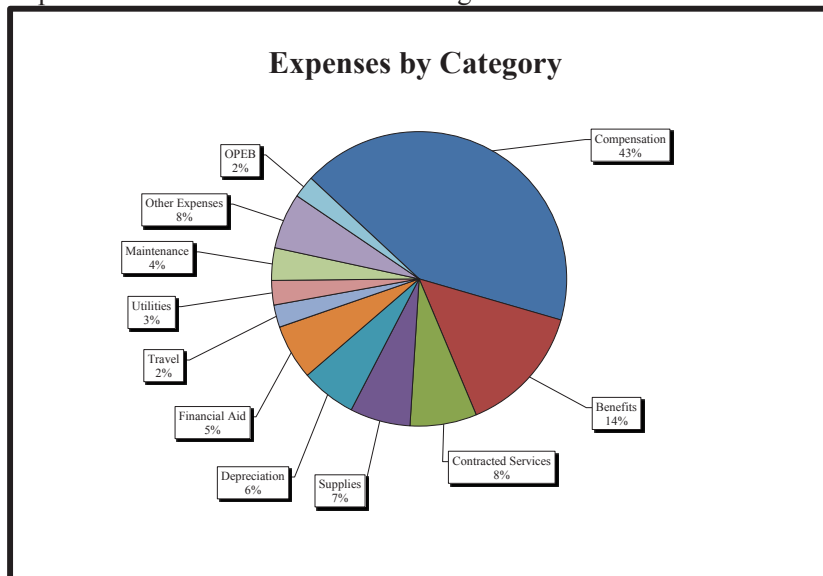
(continued)

During 2011, revenues were derived as follows:



<i>(in millions)</i>	
Category	Amount
Tuition and Fees	\$ 130.9
Grant & Contract Activity	115.9
State Appropriations	85.4
Auxiliary Services	41.1
Other Revenues	25.5
Pell Grants	31.9
Gifts	13.1
Capital Grants & Gifts	10.3
Federal Appropriations	4.7
Land Grant & Investment Income	4.4
State Appropriated Federal Stimulus	18.5
<b>Total revenues</b>	<b>\$ 481.7</b>

Expenses were incurred for the following:

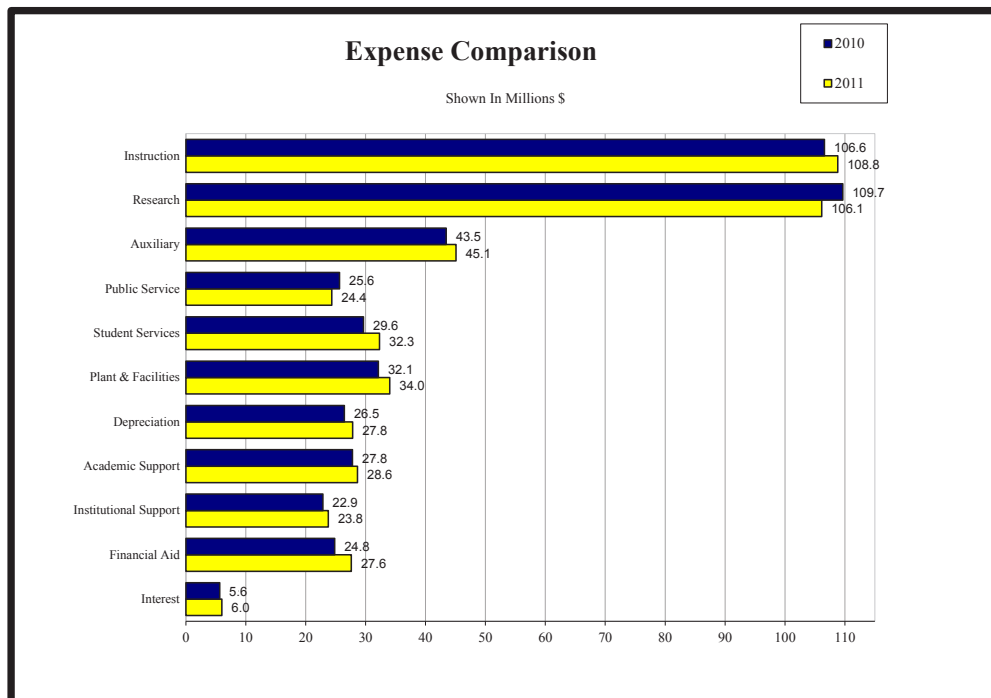


<i>(in millions)</i>	
Category	Amount
Compensation	\$ 195.2
Benefits	65.0
Contracted Services	33.6
Supplies	30.3
Depreciation	27.8
Financial Aid	27.6
Travel	11.3
Utilities	12.3
Maintenance	16.3
OPEB	11.1
Other Expenses	
Cost of Sales	6.0
Interest Expense	6.0
Communications	4.3
Rent	5.2
Other	12.6
<b>Total Expenses</b>	<b>\$ 464.6</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, 2011**

(continued)



**Operating expenses** increased \$9.5 million, or 2.1%, from 2010 to 2011. The most significant increase was in the amount of financial aid paid to students, which increased \$2.8 million, or 11.2%. This resulted largely from the increase in Pell Grant awards, as discussed above.

Employees statewide, including the Montana University System employees, were not given across-the-board raises, although certain merit and tenure increases were implemented.

Student services expenses increased by \$2.7 million, or 8.9%. This category of expense includes many different services to students such as financial aid staff, counselors, recruiting and admissions officers, athletics functions, and the dean of students' office. To ensure adequate support for the University's growing student body, additional staff and other expenses were incurred.

Instruction expenses increased \$2.2 million, or 2.1%, largely as a result of additional class sections added to accommodate the University's growing enrollment.

Plant and facilities costs increased \$1.9 million, or 6.0%, largely due to repair and maintenance associated with roofs, windows, and other repairs required as a result of a severe hailstorm in summer, 2011. Depreciation expense increased \$1.4 million, or 5.2%, which is consistent with the increase in depreciable assets of \$20.7 million.

Auxiliary expenses increased \$1.6 million, or 3.7%. Because of high occupancy rates in the residence halls, and due to increased enrollment overall, additional food and other costs were incurred.

Research expenses decreased \$3.6 million, or 3.2%. While the University's levels of research funding are in the \$100 million range annually, increases and decreases exist from time to time depending the timing of grant-funding and the success of the University in securing competitively awarded grants.

Public Service expenses decreased \$1.2 million, or 5.0%, due to reductions in federal grants as well as reduced federal appropriation to the Extension Service.

### Comparison of 2010 and 2009 Results of Operations

The University's net financial position increased \$23.5 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.

**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.

**Operating expenses** increased \$7.7 million, or 1.7%, from 2009 to 2010. Many 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.

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(continued)

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 \$0.8 million due to 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.

**FINANCIAL POSITION**

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

	2011	2010 <i>(restated)</i>	2009 <i>(restated)</i>
<b>ASSETS</b>			
Current assets	\$ 191.2	\$ 169.4	\$ 159.1
Capital assets, net	357.6	351.2	340.4
Other noncurrent assets	50.7	54.3	53.1
Total assets	<u>\$ 599.5</u>	<u>\$ 574.9</u>	<u>\$ 552.6</u>
<b>DEFERRED OUTFLOW-</b> hedging derivative	<u>\$ 2.8</u>	<u>\$ 3.8</u>	<u>\$ 2.7</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 64.5	\$ 67.2	\$ 75.8
Noncurrent liabilities	201.1	191.7	183.3
Total liabilities	<u>\$ 265.6</u>	<u>\$ 258.9</u>	<u>\$ 259.1</u>
<b>NET POSITION</b>			
Invested in capital assets, net	\$ 236.5	\$ 229.3	\$ 212.9
Restricted, non-expendable	12.7	12.1	11.3
Restricted, expendable	13.4	13.4	11.2
Unrestricted	74.1	65.0	60.9
Total net position	<u>\$ 336.7</u>	<u>\$ 319.8</u>	<u>\$ 296.2</u>

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

The University's overall financial position is strong, with Net Position showing an increase of \$16.9 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.

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### Comparison of 2011 and 2010 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 \$21.8 million in current assets resulted primarily from an increase of \$21.6 million in cash and equivalents, which is discussed in the Statement of Cash Flows section of this document.
- **Capital assets, net** increased \$6.4 million, resulting from asset additions of \$34.5 million, offset by depreciation and amortization expense of \$27.8 million and \$0.3 million in net book value of asset retirements, as shown in further detail in Note 7 to the financial statements.

Asset additions included \$18.2 million in construction projects. The Bozeman campus continued construction on the renovation of Hamilton Hall at a cost of \$3.9 million, and the football stadium is underwent an expansion totaling \$10 million, of which \$3.1 million was expended during 2011. Improvements are being made to the Eastern Agricultural Research Center, which added \$2.6 million during 2011. Laboratory renovations in the Hagener Science Building at the Northern campus were completed, with costs of \$1.3 million added during 2011. A lab building expansion on the Bozeman campus which is primarily federally-funded added \$1.0 million in 2011, and a number of energy efficiency enhancements were implemented, totaling \$3.0 million. Additional, smaller projects make up the remaining increase, and include dining hall upgrades, office and lab renovations and building improvement projects.

Equipment additions totaled \$10.2 million during 2011. Research and instruction in the sciences require a substantial equipment investment, and accounted for the bulk of the additions. Many specialized pieces of equipment are grant-funded. For example, two microscopes accounted for additions of \$0.9 million, while equipment used in research performed by the Western Transportation Institute cost \$0.4 million. Approximately \$2.2 million in library materials were acquired in 2011 as well.

- **Other noncurrent assets** include endowment fund and other long term investments, student loans receivable, and donated funds restricted to use for facility construction. The balance decreased \$3.6 million from 2010 to 2011, largely due to a reduction in long-term investments, which resulted from a reduction in the portion of the state's investment pool that is classified as long-term.
- **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. The counterparty may opt out in 2016. 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 decreased by \$1.0 million from 2010 to 2011 because the instrument was re-valued to separate the option portion from the swap portion of this hybrid instrument, offset by 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 \$2.7 million from 2010 to 2011, due primarily to a \$1.7 million decrease in securities lending liability resulting from the timing of transactions near year-end. A \$1.1 million decrease in deferred revenues occurred due to a lower amount of grant and contract funds received in advance, which is consistent with a slightly lower level of grant funding.

- **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 \$9.4 million, resulting primarily from the addition of \$11.1 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 fourth year of a 30-year amortization, plus interest, was recorded during 2011 (see note 15 to the financial statements). Advances from primary government increased \$4.7 million, because \$3.0 million was borrowed through the state's InterCap loan program, and \$3.3 million was advanced through the State Building Energy Conservation Program, while \$1.4 million in advances were repaid. Decreases of \$5.4 million in debt and leases payable occurred, as the University continued to pay down its debt obligations, without incurring significant new outside borrowing.
- 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 decreased by depreciation expense and additional debt and intergovernmental advances incurred.
- **Restricted, non-expendable** balances must be held in perpetuity, and include endowment principal as well as balances in student loan funds. Balances increased \$0.7 million, primarily due recovery of value in the University-owned endowment balances.
- **Restricted, expendable net assets** represent balances that may be expended by the University in accordance with restrictions imposed 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. Balances did not fluctuate significantly in comparison with 2010 balances.

**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. As discussed above, the University was able to add \$4.3 million to its reserve, used to ensure the availability of retirement payout and scholarship funding and provide a means to absorb unexpected expenses or decreases in revenue. Additionally, due to higher than anticipated enrollment, the student housing and dining system added \$2.4 million to its facility improvement fund, which was then expended during the summer to install furniture and other room upgrades in two of its housing complexes.

#### **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 \$10.8 million, resulting from asset additions of \$37.9 million, offset by depreciation and amortization expense of \$26.5 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 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

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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.
- **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.

## CASH FLOWS

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

	2011	2010	2009
Cash provided/(used) by:			
Operating activities, net	\$ (103.9)	\$ (99.3)	\$ (105.3)
Noncapital financing activities, net	149.4	148.1	138.6
Capital and related financing activities, net	(30.3)	(30.2)	(33.2)
Investing activities, net	6.4	1.9	0.3
Net increase (decrease) in cash	21.6	20.5	0.4
Cash, beginning of year	137.4	116.9	116.5
Cash, end of year	\$ 159.0	\$ 137.4	\$ 116.9

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 2011 and 2010 Cash Flows

- **Operating activities** used \$103.9 million in cash, resulting primarily from an operating loss of \$140.5 million. The operating loss was offset by non-cash expenses of \$40.0 million, primarily \$27.8 million in depreciation and amortization, as well as \$11.1 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 2010, operating activities used \$99.3 million in cash, with an operating loss of \$141.2 million, offset by non-cash expenses of \$38.9 million.

- **Noncapital financing activities** provided \$149.4 million in cash, resulting from \$85.4 million in state appropriations, \$18.5 million in American Recovery and Reinvestment Act funding, \$31.9 million in federal Pell grant revenue, \$1.9 million of land grant income, and \$13.0 million in expendable gifts. In 2010, 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
- **Capital and related financing activities** used \$30.3 million in cash. Uses included \$25.3 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 \$3.0 million and borrowing through the State Building Energy Conservation Program provided \$3.3 million. In 2010, these activities used \$30.2 million in cash. Uses included \$20.1 million expended on capital assets, including building construction. Debt interest, principal and advance payments totaled \$12.4 million. Borrowings from the State's Intercap lending program provided \$0.3 million in cash.

#### **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.

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

As of June 30, 2011, the University had approximately \$109.0 million in outstanding bond, note, and capital lease principal, a slight decrease compared with \$114.1 million at June 30, 2010 (see note 10 to the financial statements). The majority of debt bears interest at fixed rates, except for \$24.15 million in bonds which are reset with a weekly municipal bond index. 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, 2011, and as of the most recent rating reports received in October, 2011, the University's debt is rated Aa3 by Moody's Investor Services 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. The decrease in resident student enrollment did not continue, and has now increased—by 654, or 4.8% in 2010, and 660 in 2011. In 2010, non-resident enrollment increased by 170, or 5.1%, and in 2011 by 486 or 14.0%. Management continues to manage the University's recruiting efforts to maintain an appropriate mix of in- and out-of-state student population.

Recently, demand for higher education has increased nationwide and throughout Montana as well, as citizens look toward upgrading job skills and education. While optimistic as to the future, management believes that recent increased enrollment may be partially related to the current difficult economic climate, and that growth may not continue at similar levels once the economy recovers.

Increased enrollment, combined with 5% tuition increases to be implemented in the upcoming academic year at the four-year campuses in Bozeman, Billings and Havre, have enabled the University to implement 1% and 2% across-the-board pay increases for the 2012 and 2013 fiscal years, respectively. Additionally, modest reserves have been set aside which ensure the availability of retirement payout and scholarship funding, and also provide a means to absorb unexpected expenses or decreases in revenue.

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**  
**As of June 30**

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<b>ASSETS</b>	<b>2011</b>	<b>2010</b> <i>(restated)</i>
<b>Current assets:</b>		
Cash and cash equivalents (see note 2)	\$ 157,968,213	\$ 136,403,781
Short term investments	799,006	1,199,841
Securities lending collateral	2,310,759	4,064,132
Accounts and grants receivable, net	6,816,138	7,707,802
Amounts receivable from Federal government	14,119,472	12,315,074
Amounts receivable from primary government	998,084	562,427
Amounts receivable from other State of Montana component units	51,484	10,121
Loans receivable, net	3,254,337	2,419,209
Inventories	3,422,677	3,232,836
Prepaid expenses and other current assets	1,483,268	1,515,316
<b>Total current assets</b>	<b>191,223,438</b>	<b>169,430,539</b>
<b>Noncurrent assets</b>		
Restricted cash and cash equivalents	1,033,658	991,209
Restricted investments	7,165,654	6,602,965
Loans receivable, net	21,408,983	21,946,803
Investments	19,910,836	23,535,094
Capital assets, net (see note 7)	357,588,393	351,278,015
Other noncurrent assets	1,188,213	1,198,433
<b>Total noncurrent assets</b>	<b>408,295,737</b>	<b>405,552,519</b>
<b>Total assets</b>	<b>\$ 599,519,175</b>	<b>\$ 574,983,058</b>
<b>DEFERRED OUTFLOW</b>		
Derivative financial instrument deferred outflow (note 10)	\$ 2,803,772	\$ 3,799,069
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 30,314,109	\$ 30,076,552
Advances and other amounts payable to primary government	1,715,444	1,526,090
Amounts payable to other State of Montana component units	296,783	511,913
Securities lending liability	2,310,759	4,064,132
Property held in trust for others	1,435,188	2,122,596
Deferred revenues	9,311,649	10,424,172
Compensated absences	13,597,626	13,210,167
Current portion debt and capital lease obligations (see note 10)	5,517,434	5,303,543
<b>Total current liabilities</b>	<b>64,498,992</b>	<b>67,239,165</b>
<b>Noncurrent liabilities:</b>		
Advances from primary government	17,102,990	12,406,371
Debt, capital lease, and other obligations (note 10)	103,521,184	108,780,207
Compensated absences	14,135,201	15,621,956
LT OPEB Implicit Rate Subsidy	40,126,796	28,997,343
Due to Federal government	22,332,942	22,103,408
Derivative instrument-- swap liability (note 10)	3,880,185	3,799,069
<b>Total noncurrent liabilities</b>	<b>201,099,298</b>	<b>191,708,354</b>
<b>Total liabilities</b>	<b>\$ 265,598,290</b>	<b>\$ 258,947,519</b>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	\$ 236,478,621	\$ 229,322,121
Restricted - nonexpendable	12,747,294	12,051,472
Restricted - expendable	13,416,989	13,426,714
Unrestricted (see note 13)	74,081,753	65,034,301
<b>Total net position</b>	<b>\$ 336,724,657</b>	<b>\$ 319,834,608</b>

*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**

<b>Assets:</b>	<b>2011</b>	<b>2010</b>
Cash and cash equivalents	\$ 7,373,022	\$ 6,126,267
Accrued dividends and interest	134,909	146,963
Investments	162,240,059	140,150,135
Amounts due from the institution or other MSU component units	1,710,170	1,845,169
Contributions receivable, net of allowance	6,730,628	3,976,327
Contracts, notes and other receivables	4,858,255	3,762,344
Non-depreciable capital assets	3,065,150	2,319,608
Depreciable capital assets, net	8,780,729	8,257,961
Other assets	1,809,802	1,845,165
<b>Total assets</b>	<b>\$ 196,702,724</b>	<b>\$ 168,429,939</b>
<b>Liabilities and net assets:</b>		
Liabilities		
Accounts payable	\$ 1,531,153	\$ 379,407
Accrued expenses and other liabilities	1,466,669	1,502,475
Compensated absences	416,686	376,842
Notes and bonds payable	2,251,369	2,239,713
Amounts due to the institution or other MSU component units	535,711	392,359
Liabilities to external beneficiaries	5,770,333	5,823,616
Custodial funds	14,486,914	12,418,984
<b>Total liabilities</b>	<b>26,458,835</b>	<b>23,133,396</b>
Unrestricted net assets	16,536,570	11,657,205
Temporarily restricted net assets	56,791,392	39,900,206
Permanently restricted net assets	96,915,927	93,739,132
<b>Total net assets</b>	<b>170,243,889</b>	<b>145,296,543</b>
<b>Total liabilities and net assets</b>	<b>\$ 196,702,724</b>	<b>\$ 168,429,939</b>

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

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*(a component unit of the State of Montana)*

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**Consolidated Statements of Revenues, Expenses and Changes in Financial Position**  
**As of and for Each of the Years Ended June 30**

	<b>2011</b>	<b>2010</b> <i>(restated)</i>
<b>OPERATING REVENUES</b>		
Tuition and fees (net of \$30,382,382 and \$26,363,379 scholarship discount)	\$ 130,870,514	\$ 121,527,027
Federal appropriations	4,710,734	5,186,077
Federal grants and contracts	81,637,556	84,285,232
State grants and contracts	5,462,273	6,207,338
Non-governmental grants and contracts	9,998,950	9,987,860
Grant and contract facilities and administrative cost recoveries	18,793,055	19,108,820
Educational, public service and outreach revenues	23,120,450	23,261,492
Auxiliary revenues:		
Housing (net of \$2,673,133 and \$2,188,239 scholarship discount)	15,872,748	14,447,381
Food services (net of \$2,803,650 and \$2,327,815 scholarship discount)	15,971,526	14,483,278
Other auxiliary sales and services (net of \$949,058 and \$845,795 scholarship discount)	9,277,402	9,138,776
Interest earned on loans	101,987	69,202
Other operating revenues	2,284,800	1,180,109
<b>Total operating revenues</b>	<b>318,101,995</b>	<b>308,882,592</b>
<b>OPERATING EXPENSES</b>		
Compensation and benefits	260,134,768	260,192,114
Annual Required Contribution to OPEB (see note 15)	11,129,453	10,675,733
Operating expenses (see note 14)	131,874,690	126,919,125
Scholarships and fellowships (net of \$36,808,222 and \$31,725,228 scholarship discount)	27,609,596	24,841,611
Depreciation and amortization	27,821,047	26,451,842
<b>Total operating expenses</b>	<b>458,569,554</b>	<b>449,080,425</b>
<b>Operating loss</b>	<b>(140,467,559)</b>	<b>(140,197,833)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	85,383,395	86,975,709
State appropriation of federal stimulus funds	18,536,201	20,343,576
Federal Pell grant revenue	31,892,413	25,790,202
Land grant income (pledged as security for repayment of bonds)	1,939,930	1,616,394
Gifts (expendable)	13,037,131	11,803,495
Investment income	2,490,291	4,226,405
Interest expense	(6,014,135)	(5,636,077)
<b>Net non operating revenues (expenses)</b>	<b>147,265,226</b>	<b>145,119,704</b>
<b>Income before other revenues, expenses, gains and losses</b>	<b>6,797,667</b>	<b>4,921,871</b>
Loss on disposals of capital assets	(268,113)	(559,739)
Additions to permanent endowment	101,811	222,132
Capital gifts, grants and contributions	10,258,684	18,972,823
<b>Change in financial position</b>	<b>16,890,049</b>	<b>23,557,087</b>
Financial position, beginning of year as previously stated	319,834,608	297,815,743
Prior period restatement	-	(1,538,222)
Financial position, beginning of year as restated	319,834,608	296,277,521
<b>Financial position, end of year</b>	<b>\$ 336,724,657</b>	<b>\$ 319,834,608</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, 2011 or December 31, 2010**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Revenues:</b>				
Contributions	\$ 1,705,802	\$ 14,804,393	\$ 2,562,215	\$ 19,072,410
Investment, interest and dividend income	1,208,576	1,159,133	332	2,368,041
Net realized and unrealized gain (loss) on investments	3,884,747	12,663,903	45,259	16,593,909
Contract support and contributions from University	246,000	-	-	246,000
Special events	1,392,092	92,609	-	1,484,701
Other income	5,870,253	(1,517,092)	24,604	4,377,765
Net assets released from restrictions	10,235,142	(10,165,176)	(69,966)	-
<b>Total revenues</b>	<b>24,542,612</b>	<b>17,037,770</b>	<b>2,562,444</b>	<b>44,142,826</b>
<b>Expenses:</b>				
Program services				
University support	6,163,034	-	-	6,163,034
Academic and institutional	2,217,231	-	-	2,217,231
Scholarships and awards	4,534,339	-	-	4,534,339
<b>Total program services expense</b>	<b>12,914,604</b>	<b>-</b>	<b>-</b>	<b>12,914,604</b>
Operating expenses				
Fundraising efforts	3,412,507	-	-	3,412,507
General and administrative	2,350,119	-	-	2,350,119
Investment management costs	612,915	-	-	612,915
Other miscellaneous	403,777	164,280	-	568,057
<b>Total operating expenses</b>	<b>6,779,318</b>	<b>-</b>	<b>-</b>	<b>6,943,598</b>
Change in net assets before				
Nonoperating items	4,848,690	16,873,490	2,562,444	24,284,624
Nonoperating items				
Payments to beneficiaries and change in liabilities to external beneficiaries	30,675	17,696	614,351	662,722
<b>Change in net assets</b>	<b>4,879,365</b>	<b>16,891,186</b>	<b>3,176,795</b>	<b>24,947,346</b>
<b>Net assets, beginning of year</b>	<b>11,657,205</b>	<b>39,900,206</b>	<b>93,739,132</b>	<b>145,296,543</b>
<b>Net assets, end of fiscal year</b>	<b>\$ 16,536,570</b>	<b>\$ 56,791,392</b>	<b>\$ 96,915,927</b>	<b>\$170,243,889</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*

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<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 items				
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*  
**Consolidated Statements of Cash Flows**  
**As of and For Each of the Years Ended June 30**

	2011	2010
<b>Cash flows from operating activities:</b>		
Operating sources:		
Tuition and fees	\$ 130,448,921	\$ 121,241,478
Federal appropriations	4,537,254	5,144,233
Federal grants and contracts	79,451,078	91,322,315
State grants and contracts	5,069,751	7,059,665
Private grants and contracts	10,598,047	9,928,453
Grant and contract facilities and administrative cost recoveries	18,459,932	19,155,654
Educational, public service and outreach revenues	23,845,359	22,862,087
Sales and services of auxiliary enterprises	40,954,726	37,837,065
Interest on loans receivable	338,127	347,610
Other operating receipts	2,284,641	1,181,354
Operating uses:		
Compensation and benefits	(260,096,574)	(262,439,748)
Operating expenses	(132,079,278)	(128,392,791)
Scholarships and fellowships	(27,609,596)	(24,841,611)
Loans made to students	(3,850,068)	(2,324,748)
Loan payments received	3,745,244	2,607,300
<b>Net cash used in operating activities</b>	<b>(103,902,436)</b>	<b>(99,311,684)</b>
<b>Cash flows from noncapital financing activities:</b>		
Receipts (disbursements) of funds held in trust for others	(1,478,385)	1,340,037
Direct lending proceeds	97,927,059	3,103,109
Direct lending disbursements	(97,927,059)	(3,103,109)
State appropriations	85,383,396	87,043,702
State appropriation of federal stimulus funds	18,536,201	20,343,576
Federal Pell grant funds received	31,892,413	25,790,202
Gifts and contributions (expendable)	13,037,131	11,803,485
Land grant income (see note 2)	1,939,931	1,616,394
Repayment of long-term advance from primary government	(51,796)	(50,534)
Additions to permanent endowment	108,836	222,132
<b>Net cash provided by noncapital financing activities</b>	<b>149,367,727</b>	<b>148,108,994</b>
<b>Cash flows from capital financing activities:</b>		
Purchase of capital assets	(25,331,134)	(20,070,646)
Proceeds from sale of capital assets	129,544	88,924
Gifts restricted for capital purchase	1,060,733	1,153,867
Other capital financing activities	(78,783)	248,406
Debt principal repayment	(5,469,267)	(5,493,368)
Interest paid	(5,538,017)	(5,191,802)
Advances from primary government	6,356,879	797,324
Repayment of advances from primary government	(1,422,113)	(1,686,516)
<b>Net cash used in capital financing activities</b>	<b>(30,292,158)</b>	<b>(30,153,811)</b>
<b>Cash flows from investing activities:</b>		
Purchase of investments	(195,234)	(8,024,320)
Proceeds from sale of investments	4,447,968	7,840,618
Investment income	2,181,014	2,081,955
<b>Net cash provided by (used in) investing activities</b>	<b>6,433,748</b>	<b>1,898,253</b>
<b>Net change in cash and cash equivalents</b>	<b>21,606,881</b>	<b>20,541,752</b>
<b>Cash and equivalents at beginning of year</b>	<b>137,394,990</b>	<b>116,853,238</b>
<b>Cash and equivalents at end of year</b>	<b>\$ 159,001,871</b>	<b>\$ 137,394,990</b>

**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**

	<b>2011</b>	<b>2010</b> <i>(restated)</i>
<b>Operating loss</b>	\$ (140,467,559)	\$ (140,197,833)
Noncash income and expense:		
Depreciation and amortization on capital assets	27,821,047	26,451,842
Provision for uncollectible accounts	1,038,563	753,219
Amortization of OPEB liability	11,129,453	10,675,733
Changes in operating assets and liabilities:		
Accounts and grants receivable	(1,646,805)	5,869,874
Loans receivable	65,981	402,597
Inventories	(189,841)	(103,738)
Prepaid expenses	14,549	82,954
Accounts payable and other accrued liabilities	314,464	(4,596,460)
Deferred revenue	(1,112,524)	723,671
Compensated absences	(1,099,298)	348,979
Amounts due to Federal government	229,534	277,478
<b>Net cash used in operations</b>	<b>\$ (103,902,436)</b>	<b>\$ (99,311,684)</b>

**Schedule of noncash financing and investing activities**

	<b>2011</b>	<b>2010</b>
Capital assets contributed to the University	\$ 9,197,952	\$ 17,804,799
Capital assets acquired through issuance of capital lease obligations or through trade -in	\$ 18,901	\$ 15,244
Bond issue costs, discounts, premiums and deferred loss on refunding amortized or written off to interest expense	\$ 151,430	\$ 278,337
Change in fair value of investments	\$ 797,354	\$ 1,786,591

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

	<b>2011</b>	<b>2010</b>
Cash and cash equivalents classified as current assets	\$ 157,968,213	\$ 136,403,781
Cash and cash equivalents classified as noncurrent assets	1,033,658	991,209
Total cash and cash equivalents as reported on the Statements of Cash Flows	<b>\$ 159,001,871</b>	<b>\$ 137,394,990</b>

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

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

(continued)

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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

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

**(continued)**

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

**SIGNIFICANT ACCOUNTING POLICIES**

**Cash equivalents** – For purposes of the statement of cash flows, the University considers its unrestricted, highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. 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.

**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)**

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**Other Post-Employment Benefits (OPEB)** – During the year ended June 30, 2008, the University adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The University allows retirees to participate in the Montana University System’s self-funded health insurance plan by paying an amount considered by the University to cover their full costs (as calculated using the pooled risk of retirees and active employees). An actuarial study determined that this blended rate structure results in an implicit rate subsidy to retirees, who are considered to be a higher-cost pool of participants. The State of Montana and its component units will amortize the calculated OPEB liability resulting from this implicit rate subsidy over a period of 30 years. The state has not mandated funding of the liability. See note 15.

**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 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 assets were donated in 2006, and were found not to have been recorded in the University's financial records. As such, the beginning net asset balance has been restated by \$859,571 to reflect these assets. It was also noted during 2011 that an error in the computation of depreciation expense for certain assets had occurred during 2010. The 2010 depreciation expense was decreased by \$1,009,928 to reflect the correct amount.

In August of 2011, the State of Montana Department of Administration corrected its accounting policies with respect to certain advances made from the State of Montana Department of Environmental Quality (DEQ) to the University and to other State of Montana Component Units. As a result, advances of funds for which the University is expected to repay the DEQ have been recorded as an intergovernmental payable, resulting in a \$2,397,793 restatement to the beginning net asset balance.

**Accounting standards not yet implemented** – Management does not believe that any currently-issued accounting standards will have a material effect on the University's reported 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 \$53,937,280 June 30, 2011 and \$57,947,682 at June 30, 2010.

**Cash equivalents** – These amounts consist of cash held by trustees as well as \$102,263,176 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 \$123,525,479, includes \$3,915,000 in real estate, which is accounted for at fair value based on periodic appraisals. Of the pool, the University owns \$7,882,149, or 6.4%. 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

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funds are managed by the MSU Bozeman Foundation, in accord with their spending policy, which conforms to UPMIFA.

**Securities lending transactions** –The Board of Investments (BOI) is authorized by law to lend its securities, and has contracted with its custodial bank, State Street Bank, to lend the BOI’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 BOI and the bank split the earnings 80% and 20% respectively on security lending activities. The University’s allocated portion of security lending cash collateral was at \$2,310,759 June 30, 2011 and \$4,064,132 at June 30, 2010.

The BOI did not impose any restrictions during fiscal years 2011 and 2010 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 2011 and 2010. Moreover, there were no losses during fiscal years 2011 and 2010 resulting from a default of the borrowers or State Street Bank and Trust.

During fiscal years 2011 and 2010, the BOI and the borrowers maintained the right to terminate all securities lending transactions on notice. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment fund comprised of a liquidity pool and a duration pool. As of June 30, 2011, the Quality D Short Term Investment Fund liquidity pool had an average duration of 36 days and an average weighted final maturity of 62 days for U.S. dollar collateral. The duration pool had an average duration of 32 days and an average weighted final maturity of 484 days for U.S. dollar collateral. As of June 30, 2011, the Securities Lending Quality Trust liquidity pool had an average duration of 34 days and an average weighted final maturity of 105 days for U.S. dollar collateral. The duration pool had an average duration of 32 days and an average weighted final maturity of 952 days for U.S. dollar collateral. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. As of June 30, 2011 the BOI had no credit risk exposure to borrowers. The private equity and real estate Pools do not participate in securities lending.

**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 BOI STIP and TFIP is contained in the BOI 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 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.



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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, 2011. 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 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, 2011:

Security Type	Fair Value	Moody's Credit Quality Rating	Effective Duration (years)
State of Montana Short Term Investment Pool	\$ 104,029,428	A1	N/A
U. S. Bank Money Market Funds (collateralized by U.S. Bank pool, not in the University's name)	1,920,536	P-1	N/A
State of Montana Trust Fund Investment Pool*	15,554,985	AA-	4.76
Foundation Pooled Cash Equivalents and Investments*	7,142,858	NR	N/A**
U.S. Treasury Notes (noncollateralized, not in the University's name)	1,625,496	NR	.84
Non-hedging derivative investment value	1,779,844	Aa3	24.42
Total Cash Equivalents & Investments	\$ 132,053,147		

\* 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.

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**NOTE 3 – ACCOUNTS AND GRANTS RECEIVABLE**

Accounts receivable consisted of the following as of June 30:

	<u>2011</u>	<u>2010</u>
Accounts receivable	\$ 8,486,052	\$ 8,305,291
Other receivables, including private grants and contracts	1,262,756	2,041,281
Gross accounts and grants receivable	9,748,808	10,346,572
Less allowance for uncollectible accounts	<u>(2,932,670)</u>	<u>(2,638,770)</u>
Net accounts and grants receivable	<u>\$ 6,816,138</u>	<u>\$ 7,707,802</u>

**NOTE 4 – INVENTORIES**

Inventories consisted of the following as of June 30:

	<u>2011</u>	<u>2010</u>
Bookstore	\$ 1,401,040	\$ 1,293,917
Food services	240,721	246,009
Facilities services	273,149	313,040
Livestock	729,414	722,558
Other	<u>778,353</u>	<u>657,312</u>
Total inventories	<u>\$ 3,422,677</u>	<u>\$ 3,232,836</u>

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

Prepaid expenses consisted of the following as of June 30:

	<u>2011</u>	<u>2010</u>
Leases	\$ 17,500	\$ 17,500
Library subscriptions	674,512	544,940
Other (including summer session payments)	<u>791,256</u>	<u>952,876</u>
Total prepaid expenses	<u>\$ 1,483,268</u>	<u>\$ 1,515,316</u>

**NOTE 6 – LOANS RECEIVABLE**

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, 2011 and 2010 are \$22,332,942 and \$22,103,408 that would be repayable 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 \$30,000 as of 2011 and \$60,000 as of 2010.

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**NOTE 7 – CAPITAL ASSETS**

Following are the changes in capital assets during the years ended June 30, 2011 and 2010:

	Year Ended June 30, 2011				
	Balance July 1, 2010 (restated)	Additions	Retirements	Transfers	Balance June 30, 2011
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	3,227,666	22,630	-	-	3,250,296
Livestock for educational purposes	3,071,118	100,515	(59,518)	-	3,112,115
Construction work-in-progress	12,288,932	18,194,204	(25,234)	(18,362,946)	12,094,956
<b>Total capital assets not being depreciated</b>	<b>30,590,600</b>	<b>18,317,349</b>	<b>(84,752)</b>	<b>(18,362,946)</b>	<b>30,460,251</b>
Other capital assets:					
Furniture and equipment	125,984,381	10,184,790	(2,467,651)	-	133,701,520
Library materials	63,004,032	2,222,410	(314,200)	-	64,912,242
Buildings	276,867,629	247,444	(111,738)	7,873,458	284,876,793
Building improvements	174,043,126	1,936,481	(553,145)	10,441,622	185,868,084
Land improvements	16,210,142	1,168,939	-	47,866	17,426,947
Infrastructure	34,835,590	-	-	-	34,835,590
Total other capital assets	690,944,900	15,760,064	(3,446,734)	18,362,946	721,621,176
Accumulated depreciation	(371,218,346)	(27,291,432)	3,133,828	-	(395,375,950)
<b>Other capital assets, net</b>	<b>319,726,554</b>	<b>(11,531,368)</b>	<b>(312,906)</b>	<b>18,362,946</b>	<b>326,245,226</b>
<b>Intangible assets, net</b>	<b>960,861</b>	<b>451,671</b>	<b>(529,616)</b>	<b>-</b>	<b>882,916</b>
<b>Capital Assets, net</b>	<b>\$ 351,278,015</b>	<b>\$ 7,237,652</b>	<b>\$ (927,274)</b>	<b>\$ -</b>	<b>\$ 357,588,393</b>
	Year Ended June 30, 2010				
	Balance July 1, 2009 (restated)	Additions	Retirements	Transfers	Balance June 30, 2010 (restated)
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	172,293,631	32,758	-	1,716,737	174,043,126
Land improvements	15,662,870	-	-	547,272	16,210,142
Infrastructure	34,801,794	-	-	33,796	34,835,590
Total other capital assets	636,751,622	13,051,327	(3,180,209)	44,322,160	690,944,900
Accumulated depreciation	(348,454,446)	(25,834,397)	3,070,497	-	(371,218,346)
<b>Other capital assets, net</b>	<b>288,297,176</b>	<b>(12,783,070)</b>	<b>(109,712)</b>	<b>44,322,160</b>	<b>319,726,554</b>
<b>Intangible assets, net</b>	<b>968,583</b>	<b>617,119</b>	<b>(624,841)</b>	<b>-</b>	<b>960,861</b>
<b>Capital Assets, net</b>	<b>\$ 340,473,676</b>	<b>\$ 12,077,846</b>	<b>\$ (1,273,507)</b>	<b>\$ -</b>	<b>\$ 351,278,015</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>2011</u>	<u>2010</u>
Compensation, benefits and related liabilities	\$ 18,885,417	\$ 17,849,700
Accrued interest expense	461,122	502,706
Accounts payable and other accrued liabilities	10,967,570	11,724,146
Total	<u>\$ 30,314,109</u>	<u>\$ 30,076,552</u>

**NOTE 9 – DEFERRED REVENUES**

Deferred revenues consisted of the following as of June 30:

	<u>2011</u>	<u>2010</u>
Grant and contract funds received in advance	\$ 3,885,031	\$ 5,185,536
Summer session payments received in advance	4,594,108	4,855,613
Other deferred revenues	832,510	383,023
Total	<u>\$ 9,311,649</u>	<u>\$ 10,424,172</u>



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**Derivative financial instruments –****Description**

The University has two interest rate swaps as of June 30, 2011. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraphs 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, 2011:

<b>Derivative Description</b>	<b>Trade Date</b>	<b>Effective Date</b>	<b>Termination Date</b>	<b>Counterparty</b>
\$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, 2011, 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 may 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. In Addition, Statement No. 53 permits a governmental entity to use other quantitative methods that are based on “established principles of financial economic theory.” The fixed payer swap passes the established criteria using the regression analysis methodology.

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 option value was estimated using a trinomial option pricing model. Incorporating market volatility data, the trinomial model calculates all possible changes in the value of the underlying swap for each future cash flow period (up, down or unchanged) to form a trinomial tree. This tree is used to calculate the current value of the option.

On September 10, 2010, the Series J bonds were converted to index bonds. While in index mode the interest rate is reset weekly at a rate of SIFMA plus a fixed spread. The spread is based on the long-term, unenhanced rating assigned to the issuer; the current spread is 0.80%. The dependent variable in the regression is the interest rates of the hedged cash flows; the independent variable is the floating rates due under the hedging derivative. The counterparty to the fixed payer swap has the right to terminate the swap at \$0 on December 14, 2016 (a European option). Upon entering into the transaction, the University received consideration from the counterparty in the form of an off-market (lower) fixed swap rate. A portion of the consideration received was a result of the option being in-the-money at inception; that is, the option had intrinsic value as the cancelable swap’s fixed rate of 3.953% was lower than the at-market rate of 4.110% on the trade date. The remainder of the up-front consideration reflects the time value the counterparty pays for holding the option. To the University, the time value portion represents deferred investment revenue. The intrinsic value of the cancelable swap is considered a loan receivable for financial reporting purposes and is treated as an asset in the accompanying financial statements. Interest accrues to the balance of the asset each year and amortizes with each swap payment.

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The table below summarizes the reported balances as of and the derivative instrument activity during the years ended June 30, 2011 and 2010.

Type of derivative	Notional	Activity During 2011 Increase (Decrease)		Fair Value as of June 30, 2011	
		Classification	Amount	Classification	Amount
Cash flow hedge -					
Pay fixed interest rate swap	\$ 24,150,000	Interest expense	\$ 234,515	Loan receivable	\$ <u>363,289</u>
		Investment revenue	\$ 478,609	Hybrid instrument liability	\$ 1,076,413
		Deferred outflow	\$ (975,297)	Noncurrent liability	<u>2,803,772</u>
				Total liability	<u>\$ 3,880,185</u>
Investment derivative -					
Basis swap	\$ 24,150,000	Investment income	\$ 121,395	Investment	\$ <u>1,779,844</u>
Type of derivative	Notional	Activity During 2010 Increase (Decrease)		Fair Value as of June 30, 2010	
		Classification	Amount	Classification	Amount
Cash flow hedge -					
Pay fixed interest rate swap	\$24,525,000	Deferred outflow	\$ 1,055,390	Noncurrent liability	\$ 3,799,069
Investment derivative -					
Basis swap	\$24,525,000	Investment income	\$ 788,130	Investment	\$ 1,658,449

The objective and terms of the University's hedging derivative outstanding as of June 30, 2011 is as follows:

Type	Objective	Notional amount	Effective Date	Termination Date	Cash (Paid)/ Received	Terms
Pay fixed, cancelable interest rate swap	Hedge interest rate risk on Series J 2005 Bonds	\$24,150,000	3/10/2005	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, 2011, 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 will continue to monitor counterparty credit risk.

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, net swap payments decrease so that changes in hedged variable-rate debt interest payments, attributable to SIFMA, are largely offset by the net swap payments.

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**Basis Risk**

The variable-rate cash flows being hedged by the pay-fixed swap will increase or decrease as SIFMA rates increase or decrease. Because the hedged cash flows are SIFMA based and the floating receipts of the pay-fixed swap are SIFMA based, there is no basis risk.

**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, 2011, the University's unenhanced long-term revenue bond rating was Aa3 by Moody's.

**Rollover Risk**

The University's hedging derivative includes a cancellation option which allows the counterparty to cancel the swap on 12/14/16. Should the counterparty exercise its option, the University would be exposed to rollover risk as exercise would only be likely in a rate environment higher than that at the time the trade was originally entered into.

**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 bond principal outstanding was as follows as of June 30:

		<b>2011</b>	<b>2010</b>
Series 1993 A (including accreted discount)	5.20% imputed	\$ 2,709,527	\$ 5,284,141
Series 2004H	3.60% – 5.50%	21,825,000	22,310,000
Series 2004I	3.25% – 5.25%	28,605,000	29,245,000
Series 2005J	0.89%	24,150,000	24,525,000
Series 2006K	4.00% – 4.50%	12,345,000	12,895,000
Series 2008L	3.50% – 5.00%	16,940,000	17,140,000
Total principal outstanding		<u>\$ 106,574,527</u>	<u>\$ 111,399,141</u>



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Revenue bonds are payable as follows:

During the year ending June 30,	Principal	Interest	Net Hedging Derivative Interest	Total
2012	\$ 3,577,465	\$ 5,394,725	\$ 922,379	\$ 9,894,569
2013	5,500,000	3,573,784	900,653	9,974,437
2014	5,675,000	3,366,496	878,920	9,920,416
2015	6,020,000	3,143,780	855,279	10,019,059
2016	6,150,000	2,919,745	830,640	9,900,385
2017-2021	34,970,000	10,635,919	3,741,911	49,347,830
2022-2026	19,230,000	4,517,735	2,939,029	26,686,764
2027-2031	11,245,000	2,504,850	1,944,481	15,694,331
2032-2036	12,600,000	730,575	709,988	14,040,563
Total cash requirements	104,967,465	\$ 36,787,609	\$ 13,723,280	\$ 155,478,354
Accreted discount on capital appreciation bonds	1,607,062			
Total principal requirements	106,574,527			
Deferred loss on refunding	(1,390,238)			
Unamortized premium (discount) net	1,632,410			
Bond payable, net	\$ 106,816,699			

**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 Term Bonds were refunded by the Series G 2003 bonds, which were later refunded by the Series L bonds. Final maturity of the Capital Appreciation Bonds is November, 2011.

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

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

**Series J 2005, July 21, 2005** - In July 2005, the University issued \$25,750,000 of Series J 2005 Auction Rate Facilities Improvement Revenue Bonds to fund the majority of a student facilities enhancement project on the Bozeman campus. The proceeds, together with University funds, were used to renovate the student fitness center, construct a theater, and renovate portions of the Strand Union Building. The bonds are being repaid with a combination of student fees and auxiliary operations revenues. Principal payments continue each May and

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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. 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, re-issuing 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. Principal payment amounts and dates remained the same as they were prior to the remarketing.

**Series K 2006, July 26, 2006** - In July 2006, the University issued its Series K refunding debt in the principal amount of \$13.71 million. The proceeds were used to refund portions of the Series E 1998 and Series D 1996 debt, and resulted in an economic gain to the University of \$704,468. The proceeds of the Series K Bonds 2006 were used to acquire United States Government Obligations, the maturing principal and interest on which are calculated to be sufficient to pay, when due, at maturity or upon redemption, the principal of and interest on the \$7,315,000 Series D 1996 Bonds maturing on and after November 15, 2007 (which were redeemed at par on November 15, 2006), and to pay, when due, at maturity or upon redemption, the principal of and interest on the \$5,840,000 Series E 1998 Bonds that were refunded. The refunded Series D 1996 Bonds and Series E 1998 Bonds are no longer considered to be outstanding under the Indenture.

**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. The Series G bonds were 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.

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

	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>2011</b>	<b>2010</b>
<i>DeLage Landen Public Finance</i>				
College of Engineering Computers	5.80%	08/03/10	\$ -	\$ 16,369
<i>Dell Financial Services</i>				
College of Engineering computers	4.76%	08/25/09	24,309	47,201
<i>Bank of America (assigned from Koch Financial Corp)</i>				
Information Technology Oracle Site License	4.24%	04/01/14	383,205	511,856
<i>MSU-Northern Foundation</i>				
Consolidated Foundation Loan	6.00%	10/01/19	1,710,169	1,845,169
Total note principal outstanding			<u>\$ 2,117,683</u>	<u>\$ 2,420,595</u>

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Notes are payable as follows:

During the year ending June 30,	Principal	Interest	Total
2012	\$ 259,435	\$ 114,967	\$ 374,402
2013	273,544	104,366	377,910
2014	279,535	90,275	369,810
2015	220,000	78,310	298,310
2016	220,000	65,110	285,110
2017-2021	865,169	128,441	993,610
Total	\$ 2,117,683	\$ 581,469	\$ 2,699,152

**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, 2011 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.

Certain advances were made to the University by the State Department of Environmental Quality as part of its State Building Energy Conservation Program (SBCEP). The program provides funding for projects such as lighting, window replacement, and other energy-efficiency initiatives. The projects selected for funding under the program are done so only if utility savings resulting from the improvements are expected to offset the cost of the projects.

Amounts due to the State of Montana are scheduled to be repaid as follows:

During the year ending June 30,	Intercap Loans		MSTA Advances		SBCEP		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2012	\$ 1,074,657	\$ 143,625	\$ 53,090	\$ 126,910	\$ 532,513	\$ 152,820	\$ 2,083,615
2013	1,142,172	136,860	54,416	125,584	390,937	200,698	2,050,667
2014	1,076,658	115,243	55,775	124,225	405,709	181,126	1,958,736
2015	1,058,460	94,313	57,168	122,832	368,053	160,782	1,861,608
2016	966,828	73,904	58,595	121,405	366,774	144,461	1,731,967
2017-2021	2,210,147	162,820	315,673	584,327	1,772,186	480,463	5,525,616
2022-2026	790,664	50,713	357,109	542,891	1,319,337	143,728	3,204,442
2027-2031	79,283	767	403,985	496,015	127,186	9,100	1,116,336
2032-2036	-	-	457,014	442,986	-	-	900,000
2037-2041	-	-	517,004	382,996	-	-	900,000
2042-2046	-	-	584,868	315,132	-	-	900,000
2047-2051	-	-	661,641	238,359	-	-	900,000
2052-2056	-	-	748,491	151,509	-	-	900,000
2057-2061	-	-	756,857	53,143	-	-	810,000
Total	\$ 8,398,869	\$ 778,245	\$ 5,081,686	\$ 3,828,314	\$ 5,282,695	\$ 1,473,178	\$24,842,987

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**NOTE 12 - CAPITAL LEASE OBLIGATIONS**

**Capital Leases:** The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2011:

Payable during the year ending June 30,	Principal and Interest
2012	\$ 3,622
2013	3,622
2014	3,623
2015	604
Total payments	11,471
Less amount representing interest	(1,209)
Principal balance outstanding	<u>\$ 10,262</u>

Assets acquired under capital leases consist mainly of photocopiers. Such assets are carried at a cost of \$15,245 less accumulated depreciation of \$5,277 as of June 30, 2011.

**NOTE 13 – FINANCIAL POSITION**

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

	<b>2011</b>	<b>2010</b>
Board of Regents' approved reserves	\$ 17,916,776	\$ 13,666,517
Other designated purposes	56,164,977	51,367,784
Total unrestricted financial position	<u>\$ 74,081,753</u>	<u>\$ 65,034,301</u>

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

	<b>2011</b>	<b>2010</b>
Restricted - nonexpendable:		
Endowments	\$ 8,193,369	\$ 7,586,965
Loans	4,553,925	4,464,507
Total restricted - nonexpendable	<u>\$ 12,747,294</u>	<u>\$ 12,051,472</u>
Restricted - expendable:		
Scholarships	\$ 1,101,271	\$ 493,129
Research and other	2,862,804	2,886,014
Loans	487,384	461,515
Construction and renewal of plant facilities	4,510,441	5,115,014
Debt retirement	4,455,089	4,471,042
Total restricted - expendable	<u>\$ 13,416,989</u>	<u>\$ 13,426,714</u>

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**NOTE 14 – OPERATING EXPENSES**

Operating expenses were incurred in the following categories during the years ended June 30:

	<b>2011</b>	<b>2010</b>
Instruction	\$ 108,810,667	\$ 106,598,406
Organized research	106,134,030	109,653,316
Public service	24,356,077	25,630,188
Academic support	28,638,842	27,806,905
Student services	32,311,031	29,649,350
Institutional support	23,758,841	22,868,211
Plant-related expenses	34,033,138	32,122,531
Auxiliary enterprises	45,082,782	43,458,067
Scholarships and fellowships	27,623,103	24,841,611
Depreciation and amortization	27,821,047	26,451,842
	<u>\$ 458,569,558</u>	<u>\$ 449,080,427</u>

**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

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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 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.

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Pension data for the year ended June 30, 2011 is as follows:

	PERS	TRS	ORP	CSRS	FERS	GWPORS
Covered payroll	\$ 45,263,371	\$ 16,152,066	\$ 113,401,025	\$ 585,983	\$ 356,939	\$ 1,208,448
Employer contributions*	\$ 3,240,407	\$ 2,034,351	\$ 6,642,059	\$ 56,494	\$ 39,561	\$ 108,760
% of covered payroll	7.170%	9.850%	4.49%-5.96%	3.82%-7.54%	1.00%-10.00%	9.000%
Employee contributions	\$ 3,123,172	\$ 1,154,873	\$ 7,976,928	\$ 67,869	\$ 52,727	\$ 127,612
% of covered payroll	6.900%	7.150%	7.044%	0.10%-5.25%	0.10%-8.50%	10.560%
ORP contribution to TRS		\$ 4,988,953				
% of covered payroll		4.720%				
ORP contributions to PERS	\$ 205,465					
% of covered payroll	2.680%					

\*Includes TRS Option 1 payments of \$452,201

Covered payroll excludes students employed under the College Work Study programs and part-time student employees. Total covered payroll for 2011 and 2010 were \$204,218,921 and \$203,954,109, 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 as follows for the years ended June 30:

	PERS	TRS	ORP	CSRS	FERS	GWPORS
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	\$ 231,776
2011	\$ 6,569,045	\$ 8,178,177	\$ 14,618,987	\$ 124,362	\$ 92,288	\$ 236,373

Pension data for the year ended June 30, 2010 is as follows:

	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	\$ 125,131
% 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

**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.

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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 \$517-\$608 per month, depending on the level of deductible and other selected plan features. Upon reaching age 65 (Medicare eligibility), monthly participation premiums range from \$263-\$310 for an individual retiree. Coverage is also extended to dependents and surviving dependents of the employee. Retirees who select a non-MUS Medicare Advantage Program are not considered in the above rates.

**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, 2011 and June 30, 2010, MSU's annual OPEB cost (expense) of \$11,129,453 and \$10,675,733 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 of inactive (retiree and dependent) participants was 1,201. During the year ended June 30, 2011 and 2010, the University contributed \$31,112,924 and \$29,508,515, respectively, 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 \$40,126,796 and \$28,997,343 for 2011 and 2010 respectively. The funded status of the plan as of June 30 was 0% for both years.



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The University's OPEB obligations for 2011 and 2010 are:

Year ended June 30,	2011	2010
Annual Required Contribution	\$ 11,129,453	\$ 10,675,733
Adjustment to annual required contribution	-	-
Annual OPEB cost	11,129,453	10,675,733
Contributions made	-	-
Increase to net OPEB obligation	11,129,453	10,675,733
Net OPEB obligation – beginning of year	28,997,343	18,321,610
Net OPEB obligation – end of year	\$ 40,126,796	\$ 28,997,343

**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, 2011 and 2010, 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>, 2011, but had not yet retired as of that date. Expenses and related accrued liabilities relating to these voluntary and involuntary terminations have been included in the accompanying financial statements.

#### **NOTE 16 – RISK MANAGEMENT**

Due to the diverse risk exposure of the University and its constituent agencies, the insurance portfolio contains a comprehensive variety of coverage. Montana statutes, Sections 2-9-101 through 305, MCA require participation of all state agencies in the self-insurance plan established by the Montana Department of Administration, Risk Management and Tort Defense Division (RMTDD). The self-insurance program includes coverage for commercial general liability, automobile liability, professional liability, and errors and omissions exposures. The RMTDD provides coverage, above self-insured retentions, by purchasing other commercial coverage, 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

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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.

**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>
2012	\$ 3,185,871
2013	3,129,867
2014	2,903,221
2015	2,833,428
2016	2,193,171
2017-2021	5,952,368
Total	<u>\$ 20,197,926</u>

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Payments made under such operating leases during the years ended June 2011 and 2010 totaled \$3,566,620 and \$3,594,598 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, 2011, the University had issued purchase orders committing the expenditure of \$5,709,042 for equipment, supplies and services which had not yet been received.

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

**Refundable grants** – The University receives grants and other forms of reimbursement from various Federal and State agencies. These funds are subject to review and audit by cognizant agencies. The University is currently awaiting the outcome of a 2006 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 a seven year period. The expected cost of the remaining years' improvements is estimated at \$1.1 million. The cost of the improvements in 2011 totaled \$135,000 and in 2010 \$1.3 million. Remaining improvements include more convenient access to dining facilities, and the continued conversion of residence hall rooms to ADA compliant standards. Management considers these improvements to be a part of its major maintenance plan.

**Pledged revenues** – The University's bonded indebtedness, as described in Note 11, is payable from and secured by a parity first lien on and pledge of certain gross and net revenues, which comprised: 1) all student building fees and certain student union use fees assessed against students attending the University; 2) net student housing system pledged revenues, after the payment of operation and maintenance expenses of such facilities; 3) certain rental and other income generated by the pledged facilities; 4) lease rentals from the Museum of the Rockies; 5) all Land Grant income; 6) certain student athletic fees; 7) certain Health & Physical Education fees; 8) MSU- Bozeman Fieldhouse fees; 9) capitalized interest and earnings on certain funds created under the Indenture; 10) certain Grant-related Facilities & Administrative Costs with respect to the Series H 2004 debt; 11) revenue generated from the student facility enhancement fee; 12) lease income generated from the University's lease with the ASMSU Bookstore; and 13) student fees generated by the student union building fees. None of the net pledged revenues are derived from facilities or fees relating to the Great Falls campus, the MSU Extension Service, the Montana Agricultural Experiment Station, or the Fire Services Training School.

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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 \$155,478,354 from July 1, 2011 through June 30, 2036.

Amounts of pledged revenue were as follows in the years ended June 30:

Description	2011			2010		
	Pledged Revenue	Total Similar Revenue	% Pledged	Pledged Revenue	Total Similar Revenue	% Pledged
Student fees (no tuition is pledged)	\$ 7,775,255	\$34,406,950	23%	\$ 7,212,197	\$ 31,677,642	23%
Housing and residence hall dining revenues, net of related expenses	10,128,608	\$10,128,608	100%	7,378,947	\$ 7,378,947	100%
Grant and contract facility and administrative cost recoveries	1,309,113	\$18,793,055	7%	1,514,793	\$19,291,687	8%
Bozeman campus athletic events revenue	1,835,134	\$ 1,914,586	96%	1,713,825	\$ 1,798,087	95%
Bozeman campus parking revenues	1,739,410	\$ 1,739,410	100%	1,702,889	\$ 1,702,889	100%
Bozeman bookstore and museum lease income	720,097	\$ 720,097	100%	680,512	\$ 680,512	100%
Land grant income	1,939,930	\$ 1,939,930	100%	1,616,394	\$ 1,616,394	100%
Investment income	940,232	\$ 2,491,229	38%	904,856	\$ 4,226,405	21%
Total	26,387,779			22,724,413		
Less debt service requirements	(10,092,542)			(9,841,412)		
Excess of pledged revenue over debt service requirements	\$ 16,295,237			\$ 12,883,001		

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

Description	Amount Expended through June 2011	Remaining Amount Authorized	Total Expected Project Cost
ASC Sub Remodel	\$ -	\$ 1,200,000	\$ 1,200,000
Bookstore Remodel	2,660	697,340	700,000
COT Serving Line	17,809	99,391	117,200
Gym Bleachers	15,574	379,426	395,000
Gym Lighting	-	110,000	110,000
Library 148	-	450,000	450,000
Replace Residence Hall Roofs	33,694	466,306	500,000
Replace Windows COT Billings*	103,584	48,742	152,326
AJM Johnson Interior Corridor	53,113	131,887	185,000
AJM Johnson Room 22 Renovation	159,063	917,986	1,077,049
AJMJ Ecology Lab 231-232 Renovation	73,004	63,996	137,000
ARC Auto Clave Installation	170,323	50,884	221,207
Auxiliary Technical Energy Audits	196,954	28,046	225,000
BART Farm Road Improvements	21,855	113,811	135,666
Campus Entry Signage Bozeman	24,873	160,127	185,000
Campus Outdoor Lighting Replacement	14,309	235,691	250,000
Campus Utilities Electric Metering	68,315	31,685	100,000
Campus Utility Meter Installation	643	419,357	420,000
Classroom Renovations	185,538	183,462	369,000
Cobleigh Lab Renovation	322,350	77,650	400,000
Cooley Lab Renovation	849,190	15,347,374	16,196,564
Gaines Service Drive*	130,182	169,818	300,000
Hamilton Hall Elevator*	7,942	192,900	200,842
Hapner and Langford Room Remodel	948,393	915,207	1,863,600
Herrick Hall Food Lab Reno	261,243	14,180	275,423
Irrigation Reservoir Expansion	188,554	381,446	570,000
Leon Johnson 6th Floor Renovation	126,603	2,123,560	2,250,163
Lewistown WTI Snow Making Ph III	228,274	40,726	269,000
Linfield South 224-225 Restroom Renovation	122,870	57,130	180,000
PM Quonset Server Installation	1,715	98,285	100,000
Reid First Floor Restroom	1,781	148,219	150,000
Renne Library Learning Commons	33,989	616,011	650,000
Stadium End Zone	3,057,618	942,382	4,000,000
Swingle Sprinkler Design and Construction	10,672	139,328	150,000
Great Falls COT Wind Project	385,272	8,459	393,731
Great Falls Child Care Center*	14,850	885,150	900,000
Great Falls Simulated Hospital*	598,069	136,798	734,867
Classroom Lab Improvements	22,376	105,624	128,000
Renewable Energy Program Facilities Northern	93,592	459,929	553,521
Renovate Auto Tech Center*	148,316	41,684	190,000
Upgrade Electronics Heating System	17,181	218,580	235,761
<b>Total</b>	<b>\$ 8,712,343</b>	<b>\$ 28,908,577</b>	<b>\$ 37,620,920</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.

**NOTE 18 – RELATED PARTIES**

Private nonprofit organizations affiliated with the University include the MSU Foundation, the MSU-Billings Foundation, 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.

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During the years ended June 30, 2011 and 2010, respectively, the Foundations provided \$6,793,559 and \$6,755,840 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 \$1,569,187 and \$1,387,441 during the years ended 2011 and 2010, 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 \$120,592 during 2011 and \$124,148 during 2010. 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 \$779,897 during 2011 and \$767,519 during 2010 and Friends of KEMC Public Radio provided \$300,000 during 2011 and \$726,500 during 2010 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 \$1,307,120 and \$1,165,125 during the fiscal years ended June 2011 and 2010, 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 \$900,000 and \$700,000 in support of athletic programs during the years ended June 30, 2011 and 2010.

**NOTE 19 – SUBSEQUENT EVENTS**

In November 2011, the Montana Board of Regents approved the design of a new instructional building to house the college of business on the Bozeman campus, which is expected to be funded entirely by a \$25 million gift which was pledged in October 2011. Also in November, \$14.1 million in fixed-rate bonds were issued at 3.84% to construct a suite-style residence hall and make improvements to existing residence halls on the Bozeman campus. The bonds will be repaid over a period of 15 years, from revenues pledged to the repayment of debt pursuant to the University's bond indenture.

In spring 2011, the Bozeman campus commenced an addition to its football stadium. Construction was completed in summer 2011, and included new seating, concessions areas, restroom facilities and a locker room. The total project cost was \$10 million, \$4 million of which was funded by the University through the State's Intercap Loan Program, and \$6 million of which was funded with donations through the MSU Foundation. As of June 30, 2011, the University had borrowed \$2,179,354, and subsequent to year-end drew an additional \$1,820,646 to complete the \$4 million University portion of the project. The final draw amount for the loan was made in August 2011.

The Billings campus has applied for two loans through the State's Intercap Loan Program. If approved, the proceeds from a \$500,000 loan will be used to re-roof the residence halls and the other loan, in the amount of \$580,000, will be used to remodel the campus bookstore.

**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

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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.

**Montana State University**  
**Condensed Combining Schedule of Component Unit Statements of Financial Position**  
**As of June 30, 2011 or December 31, 2010\***

	Montana State University Foundation	Montana State University- Billings Foundation	Montana State University- Northern Foundation	Museum of the Rockies, Inc.	Montana State University Bobcat Club	Combined
<b>Assets:</b>						
Cash and investments	\$ 135,685,909	\$ 19,597,488	\$ 3,187,802	\$ 9,644,507	\$ 1,632,284	\$ 169,747,990
Amounts due from MSU	-	-	1,710,170	-	-	1,710,170
Other receivables, net	8,867,210	1,099,400	1,136,866	452,031	33,376	11,588,883
Capital assets, net	6,027,073	1,891,741	60,071	3,866,994	-	11,845,879
Other assets	137,179	143,542	10,000	840,357	678,724	1,809,802
<b>Total assets</b>	<b>\$ 150,717,371</b>	<b>\$ 22,732,171</b>	<b>\$ 6,104,909</b>	<b>\$ 14,803,889</b>	<b>\$ 2,344,384</b>	<b>\$ 196,702,724</b>
<b>Liabilities:</b>						
Accounts payable and other liabilities	\$ 2,195,190	\$ 695,260	\$ 6,754	\$ 454,224	\$ 63,080	\$ 3,414,508
Amounts due to MSU	-	-	-	535,711	-	535,711
Notes, bonds and debt obligations	2,202,971	-	-	48,398	-	2,251,369
Liabilities to external parties	3,703,256	313,963	1,753,114	-	-	5,770,333
Custodial funds	13,037,147	1,449,767	-	-	-	14,486,914
<b>Total liabilities</b>	<b>21,138,564</b>	<b>2,458,990</b>	<b>1,759,868</b>	<b>1,038,333</b>	<b>63,080</b>	<b>26,458,835</b>
<b>Net assets:</b>						
Unrestricted	4,477,298	4,421,234	(950,567)	8,019,865	568,740	16,536,570
Temporarily restricted	45,857,689	4,089,464	1,543,907	4,925,661	374,671	56,791,392
Permanently restricted	79,243,820	11,762,483	3,751,701	820,030	1,337,893	96,915,927
<b>Total net assets</b>	<b>129,578,807</b>	<b>20,273,181</b>	<b>4,345,041</b>	<b>13,765,556</b>	<b>2,281,304</b>	<b>170,243,889</b>
<b>Total liabilities and net assets</b>	<b>\$ 150,717,371</b>	<b>\$ 22,732,171</b>	<b>\$ 6,104,909</b>	<b>\$ 14,803,889</b>	<b>\$ 2,344,384</b>	<b>\$ 196,702,724</b>

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

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**Montana State University**  
**Condensed Combining Schedule of Component Unit Statements of Activities**  
**For the Year Ended June 30, 2011 or December 31, 2010\***

	Montana State University Foundation	Montana State University- Billings Foundation	Montana State University- Northern Foundation	Museum of the Rockies, Inc.	Montana State University Bobcat Club	Combined
<b>Revenues:</b>						
Contributions	\$ 14,038,339	\$ 2,179,102	\$ 1,128,407	\$ 680,593	\$ 1,045,969	\$ 19,072,410
Investment income and unrealized gain on investments	14,911,155	2,957,068	354,296	541,952	197,479	18,961,950
Support from University	100,000	-	146,000	-	-	246,000
Other income	1,470,952	781,569	59,046	2,460,025	1,090,874	5,862,466
<b>Total revenues</b>	<b>30,520,446</b>	<b>5,917,739</b>	<b>1,687,749</b>	<b>3,682,570</b>	<b>2,334,322</b>	<b>44,142,826</b>
<b>Expenses:</b>						
University support	3,863,581	781,134	157,244	1,143,870	217,205	6,163,034
Scholarships and other program expenses	2,032,551	1,617,973	520,310	1,680,736	900,000	6,751,570
Supporting services	4,008,869	707,769	393,772	886,461	946,727	6,943,598
<b>Total expenses</b>	<b>9,905,001</b>	<b>3,106,876</b>	<b>1,071,326</b>	<b>3,711,067</b>	<b>2,063,932</b>	<b>19,858,202</b>
Change in net assets before nonoperating items	20,615,445	2,810,863	616,423	(28,497)	270,390	24,284,624
Nonoperating expenses	662,722	-	-	-	-	662,722
<b>Change in net assets</b>	<b>21,278,167</b>	<b>2,810,863</b>	<b>616,423</b>	<b>(28,497)</b>	<b>270,390</b>	<b>24,947,346</b>
<b>Net assets, beginning 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>
<b>Net assets, end of fiscal year</b>	<b>\$ 129,578,807</b>	<b>\$ 20,273,181</b>	<b>\$ 4,345,041</b>	<b>\$ 13,765,556</b>	<b>\$ 2,281,304</b>	<b>\$ 170,243,889</b>

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

	2011	2010
Pooled investments:		
Equity securities	\$ 14,543,220	\$ 10,931,525
Debt securities	10,859,134	11,220,989
Alternative investments	77,800,454	64,117,328
Real Estate	3,948,019	6,505,433
Mutual funds, cash equivalents, and other	37,755,576	30,782,005
US Treasuries	365,044	365,604
Other real estate	1,374,870	2,555,426
Other investments	8,333,585	7,161,246
Investments held in trust	7,260,157	6,510,579
<b>Total</b>	<b>\$162,240,059</b>	<b>\$140,150,135</b>

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

Foundation investment pools are not subject to regulatory oversight.



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**Montana State University**  
**Condensed Combining Schedule of Component Unit Statements of Financial Position**  
**As of June 30, 2010 or December 31, 2009\***

	<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>

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

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**Montana State University**  
**Condensed Combining Schedule of Component Unit Statements of Activities**  
**For the Year Ended June 30, 2010 or December 31, 2009\***

	<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. 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)*  
**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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- A-55 **Montana State University-All Campuses and Agencies**
- A-59 **MSU Bozeman**
- A-61 **Montana Agricultural Experiment Station**
- A-63 **MSU Extension Service**
- A-64 **MSU Fire Services Training School**
- A-65 **MSU Billings**
- A-68 **MSU Northern**
- A-69 **MSU Great Falls College of Technology**

Montana State University  
 Unaudited Consolidating Statements of Net Position  
 As of June 30, 2011

ASSETS	MSU - Bozeman	MT Agricultural			MSU Extension Service	Fire Services		MSU - Billings	MSU - Northern	MSU - Great Falls College of Technology	Intercampus Eliminations	MSU Consolidated Total
		Experiment Station	Experiment Station	Experiment Station		Training School	Training School					
<b>Current assets:</b>												
Cash and cash equivalents	\$ 102,593,108	\$ 6,672,899	\$ 2,935,091	\$ 253,536	\$ 34,499,270	\$ 5,087,326	\$ 5,926,983	\$ -	\$ -	\$ 157,968,213	\$ -	\$ 799,006
Short term investments	799,006	-	-	-	-	-	-	-	-	2,310,759	-	799,006
Securities lending collateral	2,016,286	-	-	-	279,901	-	14,572	-	-	201,725	-	6,816,138
Accounts and grants receivable, net	4,309,293	24,041	106,225	7,227	1,495,238	672,389	201,725	-	-	95,863	-	14,119,472
Amounts receivable from Federal government	13,336,421	79,943	452,187	-	86,927	68,131	6,971	-	-	998,084	-	51,484
Amounts receivable from primary government	892,867	-	-	-	19,153	79,093	40,740	-	-	-	-	-
Amounts receivable from Montana component units	-	-	-	-	9,343	1,401	-	-	-	-	(143,188)	-
Amounts receivable from MSU campuses	75,198	-	-	-	39,572	28,418	-	-	-	-	-	3,254,337
Loans receivable, net	2,633,824	-	-	-	382,891	237,622	-	-	-	-	-	3,422,677
Inventories	942,550	729,414	-	2,183	1,147,931	331,469	269,130	-	-	-	-	1,483,268
Prepaid expenses and other current assets	1,239,769	2,945	11,406	-	101,431	64,343	63,374	-	-	-	-	-
<b>Total current assets</b>	<b>128,838,322</b>	<b>7,509,242</b>	<b>3,504,909</b>	<b>262,946</b>	<b>38,061,657</b>	<b>6,570,192</b>	<b>6,619,358</b>	<b>(143,188)</b>	<b>(75,000)</b>	<b>20,876,610</b>	<b>(218,188)</b>	<b>191,223,438</b>
<b>Noncurrent assets:</b>												
Restricted cash and cash equivalents	945,650	-	-	-	12,190	64,710	11,108	-	-	-	-	1,033,658
Restricted investments	7,060,695	-	-	-	210	104,557	192	-	-	-	-	7,165,654
Loans receivable, net	17,073,961	-	-	-	2,844,203	1,490,819	-	-	-	-	-	21,408,983
Investments	19,395,002	107,121	32,062	1,343	356,908	-	18,400	-	-	19,910,836	-	357,588,393
Capital assets	245,821,466	17,313,330	255,555	245,438	52,296,518	20,809,176	20,846,910	-	-	-	-	1,188,213
Other noncurrent assets	1,222,570	-	-	-	33,096	7,547	-	-	-	-	(75,000)	-
<b>Total noncurrent assets</b>	<b>291,519,344</b>	<b>17,420,451</b>	<b>287,617</b>	<b>246,781</b>	<b>55,543,125</b>	<b>22,476,809</b>	<b>20,876,610</b>	<b>(75,000)</b>	<b>(75,000)</b>	<b>27,495,968</b>	<b>(218,188)</b>	<b>408,295,737</b>
<b>Total assets</b>	<b>\$ 420,357,666</b>	<b>\$ 24,929,693</b>	<b>\$ 3,792,526</b>	<b>\$ 509,727</b>	<b>\$ 93,604,782</b>	<b>\$ 29,047,001</b>	<b>\$ 27,495,968</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 599,519,175</b>
<b>DEFERRED OUTFLOW</b>												
Derivative financial instrument deferred outflow	\$ 2,803,772	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,803,772
<b>LIABILITIES</b>												
<b>Current liabilities:</b>												
Accounts payable and accrued liabilities	\$ 21,943,666	\$ 936,764	\$ 926,385	\$ 57,212	\$ 3,291,296	\$ 1,799,506	\$ 1,359,280	\$ -	\$ -	\$ 30,314,109	\$ -	\$ 1,715,444
Amounts payable to primary government	1,335,371	-	-	-	213,232	125,751	41,090	-	-	-	-	296,783
Amounts payable to Montana component units	289,917	-	-	-	-	-	6,866	-	-	-	-	-
Amounts payable to MSU campuses	36,785	-	-	-	-	75,000	31,403	-	-	(143,188)	-	-
Securities Lending Liability	2,016,286	-	-	-	279,901	-	14,572	-	-	2,310,759	-	2,310,759
Property held in trust for others	1,072,847	-	-	-	145,119	102,008	115,214	-	-	1,435,188	-	1,435,188
Deferred revenues	6,876,454	-	12,598	-	1,564,404	446,168	412,025	-	-	9,311,649	-	13,597,626
Compensated absences	9,059,379	1,074,484	837,130	55,412	1,625,494	572,870	372,857	-	-	-	-	5,517,434
Current portion debt and capital lease obligations	4,637,434	-	-	-	545,000	335,000	-	-	-	-	-	-
<b>Total current liabilities</b>	<b>47,268,139</b>	<b>2,011,248</b>	<b>1,776,113</b>	<b>112,624</b>	<b>7,664,446</b>	<b>3,456,303</b>	<b>2,353,307</b>	<b>(143,188)</b>	<b>(75,000)</b>	<b>663,899</b>	<b>(75,000)</b>	<b>17,102,990</b>
<b>Noncurrent liabilities:</b>												
Advances from primary government	13,385,764	-	-	-	2,010,047	1,118,280	663,899	-	-	-	-	103,521,184
Debt and capital lease obligations	90,803,730	-	-	-	10,634,444	2,083,010	-	-	-	-	-	14,135,201
Compensated absences	9,299,815	1,103,001	859,347	56,882	1,950,250	642,477	223,429	-	-	-	-	40,126,796
OPEB	26,788,600	1,881,072	1,637,207	83,821	5,870,539	2,482,501	1,383,056	-	-	-	-	22,332,942
Due to Federal government	17,783,971	-	-	-	3,065,375	1,483,596	-	-	-	-	-	3,880,185
Derivative deferred outflow	3,880,185	-	-	-	-	-	-	-	-	-	-	-
<b>Total noncurrent liabilities</b>	<b>161,942,065</b>	<b>2,984,073</b>	<b>2,496,554</b>	<b>140,703</b>	<b>23,530,655</b>	<b>7,809,864</b>	<b>2,270,384</b>	<b>(75,000)</b>	<b>(75,000)</b>	<b>2,270,384</b>	<b>(75,000)</b>	<b>201,099,298</b>
<b>Total liabilities</b>	<b>\$ 209,210,204</b>	<b>\$ 4,995,321</b>	<b>\$ 4,272,667</b>	<b>\$ 253,327</b>	<b>\$ 31,195,101</b>	<b>\$ 11,266,167</b>	<b>\$ 4,623,691</b>	<b>\$ (218,188)</b>	<b>\$ (218,188)</b>	<b>\$ 6,623,691</b>	<b>\$ (218,188)</b>	<b>\$ 265,598,290</b>
<b>NET POSITION</b>												
Invested in capital assets, net of related debt	\$ 141,635,376	\$ 18,042,744	\$ 255,554	\$ 245,438	\$ 38,932,000	\$ 17,225,587	\$ 20,141,922	\$ -	\$ -	\$ 236,478,621	\$ -	\$ 236,478,621
Restricted - nonexpendable	11,630,104	-	-	-	684,808	421,082	11,300	-	-	12,747,294	-	13,416,989
Restricted - expendable	10,316,931	607,009	(42,506)	-	1,015,846	1,392,883	126,826	-	-	-	-	74,081,753
Unrestricted	50,368,823	1,284,619	(693,189)	10,962	21,777,027	(1,258,718)	2,592,229	-	-	-	-	336,724,657
<b>Total net position</b>	<b>\$ 213,951,234</b>	<b>\$ 19,934,372</b>	<b>\$ (480,141)</b>	<b>\$ 256,400</b>	<b>\$ 62,409,681</b>	<b>\$ 17,780,834</b>	<b>\$ 22,872,277</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 336,724,657</b>

Montana State University  
 Unaudited Consolidating Statement of Revenues, Expenses and Changes in Financial Position  
 For the Year Ended June 30, 2011

	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	MSU - Great Falls College of Technology	Inter-campus Eliminations	Total
<b>Operating revenues:</b>									
Tuition and fees	\$ 99,209,114	\$ -	\$ -	\$ -	\$ 23,141,012	\$ 4,966,589	\$ 3,553,923	\$ -	\$ 130,870,638
Federal appropriations	-	1,911,498	2,799,236	-	-	-	-	-	4,710,734
Federal grants and contracts	74,172,837	-	-	-	4,159,369	2,613,495	986,170	(294,315)	81,637,556
State grants and contracts	3,874,783	-	59,410	-	658,330	434,405	435,345	-	5,462,273
Non-governmental grants and contracts	9,127,861	-	203,563	-	438,004	103,331	126,191	-	9,998,950
Indirect cost recoveries	18,215,457	-	-	-	354,883	215,488	7,227	-	18,793,055
Educational, public service and outreach revenues	16,023,535	2,410,711	4,149,177	189,706	1,520,527	358,570	326,671	(1,858,571)	23,120,326
Auxiliary - housing	13,566,917	-	-	-	1,785,654	520,177	-	-	15,872,748
Auxiliary - food service	13,976,344	-	-	-	1,194,277	730,712	70,193	-	15,971,526
Auxiliary - other auxiliary sales and services	3,218,000	-	-	-	4,107,770	723,044	1,334,071	(105,483)	9,277,402
Interest earned on loans	49,747	-	-	-	48,676	3,564	-	-	101,987
Other operating revenues	2,055,165	8,036	3,953	575	153,613	45,377	18,081	-	2,284,800
<b>Total operating revenues</b>	<b>253,489,760</b>	<b>4,330,245</b>	<b>7,215,339</b>	<b>190,281</b>	<b>37,562,115</b>	<b>10,714,752</b>	<b>6,857,872</b>	<b>(2,258,369)</b>	<b>318,101,995</b>
<b>Operating expenses:</b>									
Compensation and benefits	180,618,383	12,424,182	10,789,855	572,483	33,763,205	13,043,048	8,923,612	-	260,134,768
Annual Required Contribution OPEB	7,506,553	506,541	447,878	23,991	1,611,865	654,534	378,091	-	11,129,453
Operating expenses	97,750,008	2,852,969	1,890,889	291,242	20,526,366	6,364,100	4,457,485	(2,258,369)	131,874,690
Scholarships and fellowships	16,300,122	5,020	4,844	-	6,413,865	1,745,513	3,140,232	-	27,609,596
Depreciation and amortization	21,378,344	836,697	24,662	59,525	3,618,020	1,070,386	833,413	-	27,821,047
<b>Total operating expenses</b>	<b>323,553,410</b>	<b>16,625,409</b>	<b>13,158,128</b>	<b>947,241</b>	<b>65,933,321</b>	<b>22,877,581</b>	<b>17,732,833</b>	<b>(2,258,369)</b>	<b>458,569,554</b>
<b>Operating loss</b>	<b>(70,063,650)</b>	<b>(12,295,164)</b>	<b>(5,942,789)</b>	<b>(756,960)</b>	<b>(28,371,206)</b>	<b>(12,162,829)</b>	<b>(10,874,961)</b>	<b>-</b>	<b>(140,467,559)</b>
<b>Nonoperating revenues (expenses):</b>									
State appropriations	39,004,829	11,942,739	5,651,892	688,654	16,013,345	7,473,197	4,608,739	-	85,383,395
Pell Grants	15,959,813	-	-	-	8,291,513	2,975,507	4,665,580	-	31,892,413
State appropriation of federal stimulus funds	10,848,014	-	-	-	4,377,921	1,865,102	1,445,164	-	18,536,201
Land grant and timber sales income	1,782,584	-	-	-	157,346	-	-	-	1,939,930
Gifts	10,278,733	-	14,421	-	1,650,596	972,311	121,070	-	13,037,131
Investment Income	2,325,482	22,297	8,314	798	98,808	12,403	22,188	-	2,490,290
Interest expense	(5,040,697)	-	-	-	(671,974)	(202,862)	(98,601)	-	(6,014,134)
<b>Net nonoperating revenues (expenses)</b>	<b>75,158,758</b>	<b>11,965,036</b>	<b>5,674,627</b>	<b>689,452</b>	<b>29,917,555</b>	<b>13,095,658</b>	<b>10,764,140</b>	<b>-</b>	<b>147,265,226</b>
<b>Income before other revenues, expenses, gains and losses</b>	<b>5,095,108</b>	<b>(330,128)</b>	<b>(268,162)</b>	<b>(67,508)</b>	<b>1,546,349</b>	<b>932,829</b>	<b>(110,821)</b>	<b>-</b>	<b>6,797,667</b>
Transfers in (out)	(6,067,414)	6,424,516	(6,079)	2,800	(210,000)	(179,280)	35,457	-	-
Gain or loss on sale of fixed assets	(214,653)	(37,500)	-	3,400	11,407	(30,767)	-	-	(268,113)
Additions to permanent endowments	101,811	-	-	-	-	-	-	-	101,811
Gifts, capital grants and contributions	7,892,897	-	-	-	948,701	877,392	539,694	-	10,258,684
<b>Change in financial position</b>	<b>6,807,749</b>	<b>6,056,888</b>	<b>(274,241)</b>	<b>(61,308)</b>	<b>2,296,457</b>	<b>1,600,174</b>	<b>464,330</b>	<b>-</b>	<b>16,890,049</b>
<b>Financial position, beginning of year, as restated</b>	<b>207,143,485</b>	<b>13,877,484</b>	<b>(205,900)</b>	<b>317,708</b>	<b>60,113,224</b>	<b>16,180,660</b>	<b>22,407,947</b>	<b>-</b>	<b>319,834,608</b>
<b>Financial position, end of year</b>	<b>\$ 213,951,234</b>	<b>\$ 19,934,372</b>	<b>\$ (480,141)</b>	<b>\$ 256,400</b>	<b>\$ 62,409,681</b>	<b>\$ 17,780,834</b>	<b>\$ 22,872,277</b>	<b>\$ -</b>	<b>\$ 336,724,657</b>

Montana State University  
 Unaudited Selected Cash Flow Information  
 For the year ended June 30, 2011

	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
<b>Cash flows from operating activities:</b>									
Operating revenues:									
Tuition and fees	\$ 99,175,307	\$ -	\$ -	\$ -	\$ 22,781,648	\$ 4,833,180	\$ 3,658,786	\$ -	\$ 130,448,921
Federal appropriations	-	1,911,498	2,625,756	-	4,054,262	2,483,793	961,457	-	4,537,254
Federal grants and contracts	72,239,642	-	6,239	-	-	-	-	(294,315)	79,451,078
State grants and contracts	3,414,493	-	59,410	-	737,706	441,668	416,474	-	5,069,751
Private grants and contracts	9,811,856	-	203,563	-	348,468	108,969	125,191	-	10,598,047
Grant and contract indirect cost recoveries	17,889,561	-	-	-	354,883	215,488	-	-	18,459,932
Educational, public service and outreach revenues	16,842,239	2,319,625	4,198,068	189,706	1,473,845	362,734	317,713	(1,858,571)	23,845,359
Sales and services of auxiliary enterprises	30,729,089	-	-	282	7,007,239	1,946,197	1,377,402	(105,483)	40,954,726
Interest on loans receivable	289,451	-	-	-	48,676	-	-	-	338,127
Other operating receipts	2,055,164	8,036	3,953	576	153,613	45,377	17,922	-	2,284,641
Operating expenses:									
Compensation and benefits	(180,483,734)	(12,416,660)	(10,410,184)	(545,520)	(33,701,094)	(13,125,586)	(9,413,796)	-	(260,096,574)
Operating expenses	(97,984,622)	(3,442,717)	(2,346,331)	(314,365)	(20,254,569)	(6,077,650)	(3,917,393)	2,258,369	(132,079,278)
Scholarships and fellowships	(16,300,122)	(5,020)	(4,844)	-	(6,413,865)	(1,745,513)	(3,140,232)	-	(27,609,596)
Loans made to students	(3,242,983)	-	-	-	(277,112)	(329,973)	-	-	(3,850,068)
Loan payments received	3,083,412	-	-	-	433,427	228,405	-	-	3,745,244
Inter-campus payables/receivables	70,092	-	-	-	(12,826)	(54,403)	(2,863)	-	-
<b>Net cash used in operating activities</b>	<b>(42,441,155)</b>	<b>(11,625,238)</b>	<b>(5,664,370)</b>	<b>(669,321)</b>	<b>(23,265,699)</b>	<b>(10,667,314)</b>	<b>(9,599,339)</b>	<b>-</b>	<b>(103,902,436)</b>
<b>Cash flows from noncapital financing activities:</b>									
Receipts (disbursements) of funds held in trust for others	(1,410,262)	-	-	-	(2,723)	(53,758)	(11,642)	-	(1,478,385)
Direct lending proceeds	64,621,074	-	-	-	23,038,248	4,615,051	5,652,686	-	97,927,059
Direct lending disbursements	(64,621,074)	-	-	-	(23,038,248)	(4,615,051)	(5,652,686)	-	(97,927,059)
State appropriations	39,004,830	11,942,739	5,651,892	688,654	16,013,345	7,473,197	4,608,739	-	85,383,396
State appropriation of federal stimulus funds	10,848,014	-	-	-	4,377,921	1,865,102	1,445,164	-	18,536,201
Federal pell grant funds received	15,959,813	-	-	-	8,291,513	2,975,507	4,665,580	-	31,892,413
Gifts and contributions (expendable)	10,278,732	-	14,421	-	1,650,596	972,312	121,070	-	13,037,131
Land grant income	1,782,585	-	-	-	157,346	-	-	-	1,939,931
Repayment of long-term advance from primary government	(51,796)	-	-	-	-	7,025	-	-	(51,796)
Additions to permanent endowments	101,811	-	-	-	-	-	-	-	108,836
Transfers between campuses and agencies	(6,067,415)	6,424,516	(6,079)	2,800	(210,000)	(179,280)	35,458	-	-
<b>Net cash flows from noncapital financing activities</b>	<b>70,446,312</b>	<b>18,367,255</b>	<b>5,660,234</b>	<b>691,454</b>	<b>30,277,998</b>	<b>13,060,105</b>	<b>10,864,369</b>	<b>-</b>	<b>149,367,727</b>
<b>Cash flows from capital financing activities:</b>									
Purchase of capital assets	(14,431,118)	(6,908,348)	(95,681)	(23,901)	(2,530,737)	(1,139,862)	(201,487)	-	(25,331,134)
Proceeds from sale of capital assets	85,730	26,826	-	3,400	13,588	-	-	-	129,544
Gifts - restricted for capital purchase	1,060,733	-	-	-	-	-	-	-	1,060,733
Other capital financing activities	(80,989)	-	-	-	2,206	-	-	-	(78,783)
Debt retirement	(4,619,500)	-	-	-	(514,767)	(335,000)	-	-	(5,469,267)
Advances from primary government	5,343,506	-	-	-	572,028	441,345	-	-	6,356,879
Repayment of advances from primary government	(836,890)	-	-	-	(274,299)	(171,476)	(139,448)	-	(1,422,113)
Interest paid	(4,574,227)	-	-	-	(674,082)	(191,101)	(98,607)	-	(5,538,017)
<b>Net cash change from capital financing activities</b>	<b>(18,052,755)</b>	<b>(6,881,522)</b>	<b>(95,681)</b>	<b>(20,501)</b>	<b>(3,406,063)</b>	<b>(1,396,094)</b>	<b>(439,542)</b>	<b>-</b>	<b>(30,292,158)</b>
<b>Cash flows from investing activities:</b>									
Purchase of investments	(177,558)	-	-	-	-	(7,025)	(10,651)	-	(195,234)
Proceeds from sale of investments	3,192,239	221,086	74,357	5,838	954,448	-	-	-	4,447,968
Investment income	2,013,753	22,297	8,314	797	100,879	12,502	22,472	-	2,181,014
<b>Net cash change from investing activities</b>	<b>5,028,434</b>	<b>243,383</b>	<b>82,671</b>	<b>6,635</b>	<b>1,055,327</b>	<b>5,477</b>	<b>11,821</b>	<b>-</b>	<b>6,433,748</b>
<b>Net change in cash and cash equivalents</b>	<b>15,010,836</b>	<b>103,878</b>	<b>(17,146)</b>	<b>8,267</b>	<b>4,661,563</b>	<b>1,002,174</b>	<b>837,309</b>	<b>-</b>	<b>21,606,881</b>
<b>Balances at beginning 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>
<b>Balances at end of year</b>	<b>\$ 103,538,758</b>	<b>\$ 6,672,899</b>	<b>\$ 2,935,091</b>	<b>\$ 253,536</b>	<b>\$ 34,511,460</b>	<b>\$ 5,152,036</b>	<b>\$ 5,938,091</b>	<b>\$ -</b>	<b>\$ 159,001,871</b>

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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>2011</u>	<u>2010</u>	<u>2009</u>
<b>Montana residents</b>			
Undergraduate	13,802	13,194	12,631
Graduate	1,179	1,127	1,036
<b>Nonresidents</b>			
Undergraduate	2,851	2,537	2,383
Graduate	298	262	284
<b>Western Undergraduate Exchange</b>	<u>816</u>	<u>680</u>	<u>642</u>
Total	<u>18,946</u>	<u>17,800</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 2010-2011 academic year, on a per-semester basis, were as follows:

	<u>Resident</u> <u>Undergraduate—Graduate</u>	<u>Nonresident</u> <u>Undergraduate (WUE)—</u> <u>Graduate</u>
Bozeman Campus	\$3,084 – \$3,567	\$4,336 – \$9,629
Billings Campus	\$2,621 – \$3,020	\$3,671 – \$8,017
Northern Campus <sup>(1)</sup>	\$2,442 – \$3,013	\$3,390 – \$8,477
Great Falls Campus <sup>(2)</sup>	\$1,512 – N/A	\$2,136 – N/A

(1) Average of lower and upper divisions.

(2) Undergraduate program only.

**Employees**

As of fall 2010, the University utilized 7,551 employees and graduate assistants as follows:

	<u>Bozeman</u>	<u>Billings</u>	<u>Northern</u>	<u>Great Falls</u>	<u>Total</u>
Faculty/Professional	1,930	464	183	148	2,725
State classified system	1,161	204	63	48	1,476
Temporary hourly	315	74	31	8	428
Students	1,810	304	168	60	2,342
Graduate assistants	560	20	-	-	580
Total	<u>5,776</u>	<u>1,066</u>	<u>445</u>	<u>264</u>	<u>7,551</u>

Nearly all faculty and classified employees at the University are members of and represented by various collective bargaining units. Currently, part-time employees and administrative employees are not represented by any of the collective bargaining units.



**MSU- Bozeman**

**Campus Overview**

On February 16, 1893, the Agricultural College of the State of Montana was founded in Bozeman as the state's 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 workforce development program (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.

The campus 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.

The University's mission, as the state's Land Grant institution, is to educate students, create knowledge and art, and serve communities by integrating learning, discovery and engagement. 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.

**Enrollment**

		<b>Student FTE for Fiscal Years Ended June 30,</b>				
		<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Resident</b>	Undergraduate	7,435	7,174	7,072	7,166	7,315
	Gallatin College Programs	217				
	Graduate	801	797	705	685	629
	Total resident	<u>8,452</u>	<u>7,971</u>	<u>7,777</u>	<u>7,851</u>	<u>7,944</u>
<b>Nonresident</b>	Undergraduate	2,594	2,326	2,170	2,086	2,000
	Gallatin College Programs	62				
	Graduate	274	231	321	230	251
	Total nonresident	<u>2,930</u>	<u>2,557</u>	<u>2,491</u>	<u>2,316</u>	<u>2,251</u>
<b>Western Undergraduate Exchange</b>		438	348	240	299	360
<b>Total</b>		<u><b>11,820</b></u>	<u><b>10,876</b></u>	<u><b>10,508</b></u>	<u><b>10,466</b></u>	<u><b>10,555</b></u>

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	<b>Degrees Granted - Fiscal Years Ended June 30,</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Undergraduate	1,831	1,835	1,889	1,809	1,837
Graduate	548	519	485	487	523
<b>TOTAL:</b>	<b>2,379</b>	<b>2,354</b>	<b>2,374</b>	<b>2,296</b>	<b>2,360</b>

**Campus Outlook**

MSU-Bozeman embraces five core themes in the accomplishment of its mission; education; the creation of knowledge and art; community service; the integration of learning, discovery and engagement; and stewardship. MSU-Bozeman has, over its 118 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, and community outreach. 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 has decreased, it has been 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. The provision of education to Montana students is our focus, as the state's land grant institution; however, the campus ensures continued attraction of out-of-state students as well, 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.

In accomplishing its mission, MSU-Bozeman remains committed to the wise stewardship of resources through meaningful assessment and public accountability. A dynamic strategic planning process is underway, and will guide MSU-Bozeman's achievements and as enable the campus to continue 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.

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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 Immunology and Infectious Diseases. 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—2011, the College of Agriculture, which is predominantly funded by MAES, is in the top two MSU colleges in terms of sponsored program expenditures (>\$20M annually). The College/MAES have three departments that rank in the top six in a field of over 30 departments in terms of sponsored program expenditures. Funding agencies include national, regional and state from multiple sources. Research programs have impact in Montana, the region and nation.

**Outlook**

MAES base-funded programs are financed by state (84%) and federal (16%) dollars. MAES has transitioned from its 8% base budget cut in the year ended June 30, 2011. Recent Legislative appropriations will support the operations and maintenance of new buildings across the MAES system, restore certain graduate student stipends, assist in meeting departmental operating expenses, and create an internally-funded mini-equipment proposal process. The outlook is likely to include continued volatility in MAES funding and substantially more pressure to

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reduce Agricultural Research funding through the upcoming Farm Bill process. Competitive grant programs at state, regional and national levels are also being significantly constrained. This is concurrent with an increased need and demand for the primary economic engine for Montana. Faculty are supported by MAES to the largest extent, with some academic program support. They all reside in the MSU-Bozeman College of Agriculture, which competes on a national and international basis for faculty and students. Leadership foresees increased difficulty competing in terms of salaries, equipment, infrastructure and facilities offered, and will reduce the size of the operation if needed to fund increased costs.

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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 54 local Extension offices providing outreach to all 56 Montana counties and five tribal reservation agents. 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.

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.

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.

In 2010, Montana 4-H reached 23,332 Montana youth, ages 6-19. Approximately 49 percent of these youth are involved in year-long community clubs, while the rest are active through a variety of short term and special interest education programs. These youth are supported by 4,656 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.

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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 11,700 fire fighters in more than 400 organizations, 95 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 FSTS 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 FSTS. In the 2011 fiscal year the School trained 6,113 emergency service members with 3,237 hours of instruction, for a total of 60,794 contact hours. The School delivered training for 44 of Montana's 56 Counties. Additionally, the school issued a total of 99 professional training certifications and made 94 resource center loans of equipment and training materials to 24 organizations.

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**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 five colleges: the College of Arts and Sciences, the College of Business, the College of Education, 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 is accredited by 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. The MSU Billings College of Education was recently reaccredited 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.

**Enrollment**

	<b>Annual Student FTE for Fiscal Years Ended June 30,</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Resident</b>					
Undergraduate	2,819	2,707	2,773	2,844	2,845
College of Technology	990	924	624	666	665
Graduate	317	264	256	254	252
Total Resident	4,126	3,895	3,653	3,764	3,762
<b>Nonresident</b>					
Undergraduate	109	91	93	86	92
College of Technology	16	12	5	4	6
Graduate	24	31	44	42	33
Total nonresident	149	134	142	132	131
<b>Western Undergraduate Exchange</b>					
Main Campus	193	193	217	222	211
College of Technology	37	37	29	36	29
Total Western Undergraduate Exchange	280	230	246	258	240
<b>Total</b>	<b>4,555</b>	<b>4,259</b>	<b>4,041</b>	<b>4,154</b>	<b>4,133</b>

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	Degrees Awarded by Type				
	2011	2010	2009	2008	2007
<b>Senior Campus:</b>					
Associate Degrees	40	32	33	29	21
Bachelor's Degrees	533	547	540	550	513
Master's Degrees	125	128	106	121	110
<b>Total Senior Campus</b>	<b>698</b>	<b>707</b>	<b>679</b>	<b>700</b>	<b>644</b>
<b>College of Technology:</b>					
Certificates	29	28	32	31	29
Associate Degrees	212	196	189	203	174
<b>Total College of Technology</b>	<b>241</b>	<b>224</b>	<b>221</b>	<b>234</b>	<b>203</b>
<b>Grand Total Degrees</b>	<b>939</b>	<b>931</b>	<b>900</b>	<b>934</b>	<b>847</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. Enrollment remains strong going in to the fall of 2011. While overall enrollment growth was down slightly for fall of 2011, there was growth in graduate level and international 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.

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 and Department of Labor grants allow continuation of training at the Montana Women's Prison in Billings. The University received a grant from the Department of Labor for workforce 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 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 "America's Best Colleges 2012". For over 10 years, MSU Billings had ranked among top colleges in the third tier of schools. Last year, MSU Billings had been ranked in the first tier.

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 1,391 in 2011 at the College of Technology. With the College of Technology focusing on the needs of two-year education in the Billings region, it is anticipated that 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



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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; a Certificate of Applied Science and Associate of Applied Science in Sustainable Energy Technician, and most recently a Certificate of Applied Science in Construction Technology-Carpentry. 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 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. To date \$4.5 million has been raised towards this goal. The Foundation distributed over \$1 million in scholarships in FY11.

**Montana State University**  
**Unaudited Supplemental Information**  
**As of and for the Year Ended June 30, 2011**

(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 liberal arts, professional and technical education programs ranging from certificates through master's degrees.

The university promotes a student centered and culturally enriched environment endorsing lifelong learning, personal growth, and responsible citizenship. The university partners with a variety of community and external entities to enhance collaborative learning, provide applied research opportunities, stimulate economic development, and expand student learning experiences.

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.

**Enrollment**

	<b>Student FTE for Fiscal Years Ended June 30,</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Resident</b>					
Undergraduate	954	914	882	916	1,010
Graduate	61	66	75	6	75
Total resident	1,015	980	957	979	1,085
<b>Nonresident</b>					
Undergraduate	47	45	50	51	43
Graduate	0	0	0	0	0
Total nonresident	47	45	50	51	43
<b>Western Undergraduate Exchange</b>	93	93	67	66	79
<b>Total</b>	<b>1,155</b>	<b>1,118</b>	<b>1,074</b>	<b>1,096</b>	<b>1,207</b>

	<b>Degrees Granted - Fiscal Years Ended June 30,</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Undergraduate	284	227	252	267	311
Graduate	39	13	28	13	33
<b>Total:</b>	<b>323</b>	<b>240</b>	<b>280</b>	<b>280</b>	<b>344</b>

**Campus Outlook**

MSU-Northern is located in the rural, northern region of Montana. With decreasing populations across the State, MSU-Northern understands the importance of 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, innovative teaching, and alternate delivery methods. Partnerships with tribal colleges across Montana, a number of two-year colleges throughout the Northwest, and Mid-South Community College in West Memphis, Arkansas, help these institutions expand their program offerings in the realm of 4-year Baccalaureate degrees. Northern will also continue to explore expanded program offerings at our sites in Lewistown and Great Falls.

**MSU- Great Falls College of Technology**

**Campus Overview**

Montana State University-Great Falls College of Technology (MSU-GF), an affiliated campus of Montana State University, is an independently accredited, comprehensive two-year college primarily serving north-central Montana. MSU-GF is a progressive public institution 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.

MSU-GF began as the Great Falls Vocational – Technical Center, 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.

The student population at the MSU-GF campus has grown 32% over the last five years (1,415FTE in fiscal year 2010 as compared to 1,071 FTE in fiscal year 2007). The majority of students are Montana residents.

**Enrollment**

		<b>Student FTE for Fiscal Years Ended June 30,</b>				
		<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Resident Undergraduate</b>						
	Great Falls	1,387	1,293	1,138	1,011	1,061
<b>Nonresident Undergraduate</b>						
	Great Falls	23	17	8	9	9
<b>Western Undergraduate Exchange</b>		5	9	8	4	1
<b>Total</b>		<b>1,415</b>	<b>1,547</b>	<b>1,353</b>	<b>1,212</b>	<b>1,212</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.

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

		<b>Degrees and Certificates Granted</b>				
		<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Certificate of Applied Science		62	63	54	61	40
Professional Certificate		20	4	1		
Associate of Science/Arts		80	69	55	53	30
Associate of Applied Science		179	174	120	117	131
<b>Total</b>		<b>341</b>	<b>310</b>	<b>230</b>	<b>231</b>	<b>201</b>

**Montana State University**  
**Unaudited Supplemental Information**  
**As of and for the Year Ended June 30, 2011**

**(continued)**

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**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 became operational in fall 2010 with a full complement of students at MSU-GF. The program provides training to students in the maintenance and operation of energy generating wind-powered turbines.

The College opened a simulated medical facility in the fall 2011. The facility is a teaching-learning, practical laboratory incorporated within the current facility. The laboratory is 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 simulates 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.

The College is in the initial stages of developing an on-site child care facility in order to provide affordable, accessible child care which will allow our students to take advantage of educational opportunities to advance the lives of our students and their families. The planned facility will be a separate 6,860 square feet building on the Great Falls campus with a capacity of 88 children from infants through five years of age. A large part of the funding necessary for construction has been obtained through State and private donations and pledges. Construction will commence when full funding has been obtained.

MONTANA STATE  
UNIVERSITY

UNIVERSITY RESPONSE



January 17, 2012

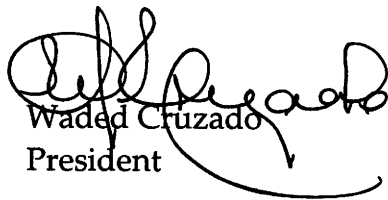
Ms. Tori Hunthausen  
Legislative Auditor  
Legislative Audit Division  
P.O. Box 201705  
Helena, MT 59620-1705

**RECEIVED**  
JAN 19 2012  
**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, 2011. 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

**Office of the President**

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