



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL AUDIT

# *Montana State University*

*For the Two Fiscal Years Ended  
June 30, 2012*

DECEMBER 2012

LEGISLATIVE AUDIT  
DIVISION

**11-11B**

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**FINANCIAL AUDITS**

Financial audits are conducted by the Legislative Audit Division to determine whether 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) licenses.

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, 2011, was issued March 29, 2012. The Single Audit Report for the two fiscal years ended June 30, 2013, will be issued by March 31, 2014. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator  
Office of Budget and Program Planning  
Room 277, State Capitol  
P.O. Box 200802  
Helena, MT 59620-0802

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

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# LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors  
Cindy Jorgenson  
Angus Maciver

December 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, 2012, and June 30, 2011. The 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>	Angela McLean, Chair	February 1, 2017
	Major Robinson, Vice Chair	February 1, 2018
	Todd Buchanan	February 1, 2014
	Jeffrey Krauss	February 1, 2015
	Paul Tuss	February 1, 2013
	Pat Williams	February 1, 2019
	Joseph Thiel, Student Regent	June 30, 2013
	Clayton Christian, 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>	Clayton Christian	Commissioner of Higher Education
	Mick Robinson	Deputy Commissioner for Fiscal Affairs/ Chief of Staff
	Neil Moisey	Interim 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	Vice President for Administration and Finance
	Thomas McCoy	Vice President for Research, Creativity, and Technology Transfer
	Jim Rimpau	Vice President of Student Success
	DeWitt Latimer	Chief Information Officer
	Laura Humberger	Assistant Vice President for Financial Services
	Kathy Attebury	Director of University Budgets
<b>Montana State University– Billings</b>	Rolf Groseth	Chancellor
	Mark Pagano	Provost and Vice Chancellor for Academic Affairs
	Terrie Iverson	Vice Chancellor for Administrative Services
	Stacy Klippenstein	Vice Chancellor of Student Affairs
	LeAnn Anderson	Director of Financial Services
	Jim Nielsen	Director of Business Services
	Trudy Collins	University Budget Director

**Montana State University–  
Northern**

Jim Limbaugh	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

**Great Falls College  
Montana State University**

Susan Wolff	Dean and CEO
Heidi Pasek	Associate Dean of Instruction, Assessment, and General Education
Ed Binkley	Controller
Deby Gunter	Budget/Purchasing Officer

**Montana Agricultural  
Experiment Station**

Jeffrey Jacobson	Director
Jody Barney	Budget and Fiscal Director

**MSU Extension**

Jill Martz	Interim Director of Extension
Sandra Rahn Gibson	Budget and Fiscal Director

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

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Hamilton Hall, Room 118  
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# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL AUDIT

### Montana State University

For the Two Fiscal Years Ended June 30, 2012

DECEMBER 2012

11-11B

REPORT SUMMARY

Montana State University (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, MSU Extension, 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. During the 2011-2012 academic year, tuition and fee revenue increased approximately 2.5 percent due to increased enrollments. Total operating expenses in fiscal years 2012 and 2011 were \$476.3 million and \$458.6 million, respectively. Annualized full-time equivalent student counts reported by the Commissioner of Higher Education for fiscal year 2012 are as follows: Bozeman—12,352, Billings—4,478, Havre—1,125, and Great Falls—1,465.

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.

The report also contains unaudited supplemental information with detailed information for each campus, the Agricultural

Experiment Station, MSU Extension, and the Fire Services Training School.

In addition to the annual financial audits, we conduct financial related audits every two years to determine compliance with contract provisions grant requirements, and selected state laws and regulations. We will conduct a financial-related audit for Montana State University covering fiscal years 2012 and 2013.

### Results

Report readers can rely on financial information included in these audited statements for financial decisions. 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 (11-11B) 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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# Chapter I – Introduction

## **Audit Scope**

We performed a financial audit of Montana State University (university) for the two fiscal years ended June 30, 2012. 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 fiscal years ending June 30, 2012 and 2011.
2. Obtain an understanding of the University's internal control systems to the extent necessary to support our audit of the consolidated financial statements.

The annual financial audits of the university constitute part of the biennial financial-compliance audit. We also 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. We will issue a financial-related audit for the fiscal years 2012 and 2013.

## **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, a land-grant institution, receives part of its support from land-grant income. The campus offers four-year undergraduate programs as well as 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, 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, and City College. 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.

Great Falls College Montana State University 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  
Angus Maciver

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, 2012, and 2011, 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, 2012, and 2011, 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, 2012, and 2011, 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.

Accounting principles generally accepted in the United State of America require that the Management's Discussion and Analysis, on pages A-3 to A-14, and the Schedule of Funding Progress for Other Post Retirement Benefits Plan on page A-52 be presented to supplement the basic financial statements. Such

information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Management's Discussion and Analysis and the Schedule of Funding Progress for Other Post Retirement Benefits Plan in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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-68 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

November 28, 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, 2012

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)

	2012	2011	2010 (restated)
Operating revenues	\$ 334.5	\$ 318.1	\$ 308.9
Operating expenses	476.3	458.6	449.1
Operating loss	(141.8)	(140.5)	(140.2)
Non-operating revenues and expenses (net)	145.3	147.3	145.1
Income before capital & other items	3.5	6.8	4.9
Capital & other items	21.1	10.1	18.6
Change in net position	\$ 24.6	\$ 16.9	\$ 23.5

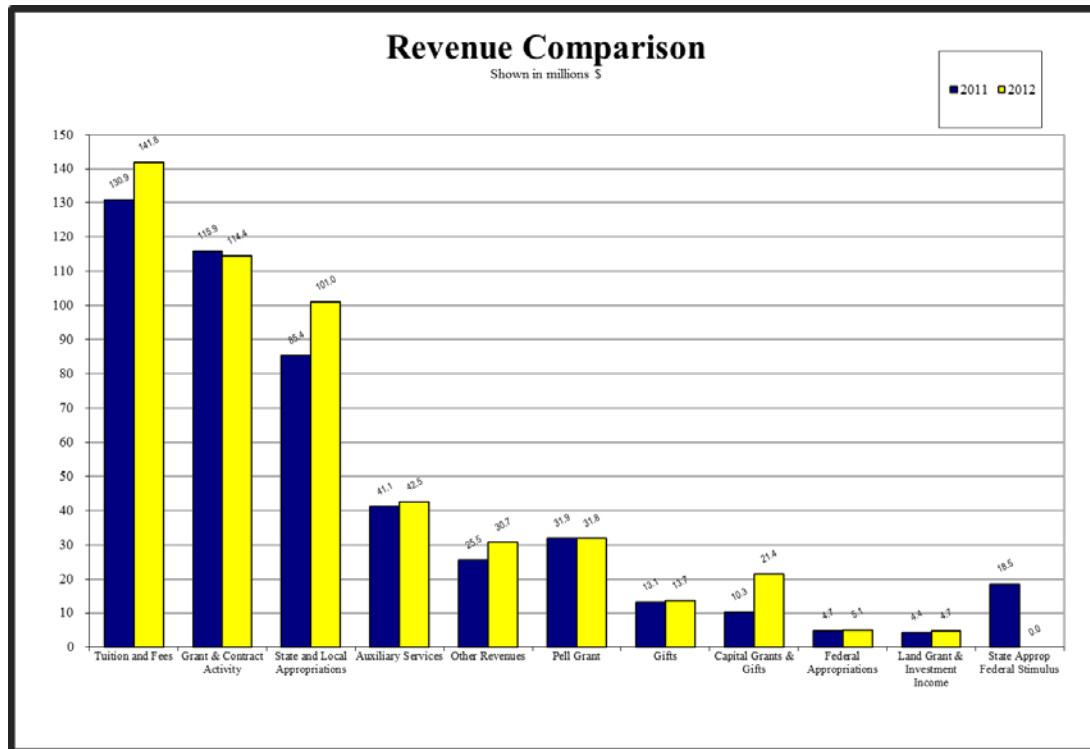
The *Statement of Revenues, Expenses and Changes in Net Position* presents the revenues earned and expenses incurred during the year on a full accrual basis, and classifies activities as either "operating" or "non-operating". This distinction results in operating deficits for those institutions that 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 2012 and 2011 Results of Operations

The University's net financial position increased \$24.6 million during 2012, resulting largely from an increase in donated assets including \$11.1 million in federal funding for a renovation of Bozeman's Cooley Lab and \$6.0 million for an addition to the football stadium and improvements to the track facility. Also contributed was \$1.6 million for design work on a planned new College of Business building, a \$25 million project which will be funded by a private donation. Additionally, due to higher than anticipated enrollment, the University was able to add \$1.3 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.

**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, 2012**

(continued)



**Operating revenues** contain the majority of the University's income, and increased \$16.4 million, or 5.2%, from 2011 to 2012.

Tuition and fee revenues increased approximately \$10.9 million, or 8.4%. Tuition and fee rates were increased by 5.0% at the Bozeman, Billings and Havre campuses, and the number of full-time-equivalent students for all campuses increased by 2.5%, from 18,946 to 19,419.

Grant and contract operating revenues, including facility and administrative cost recoveries, decreased 1.3%, to \$114.4 million, compared with 2011 revenues of \$115.9 million. The University expects strong levels of research and other grant funding to continue. In addition to operating grants, federal grant revenues of \$11.1 million 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 \$1.3 million, or 3.2%, to \$42.5 million, from \$41.1 million in 2011. 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 \$5.2 million, or 20.4%, to \$30.7 million, as compared with \$25.5 million in 2011, largely due to insurance proceeds received as a result of hailstorm damage in the summer of 2010.

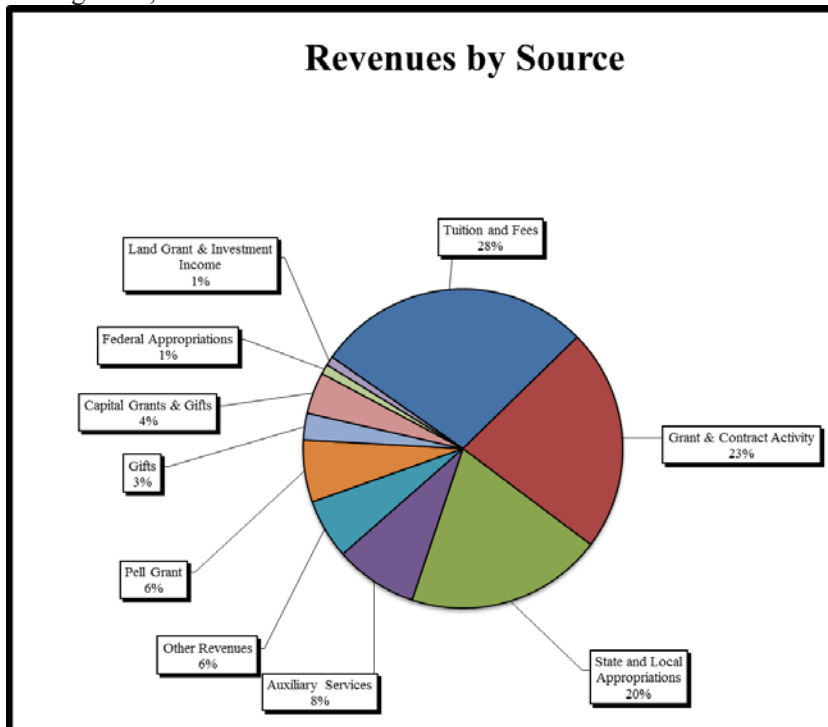
**Net non-operating revenue** decreased \$2.0 million from 2011 to 2012, primarily due to net decrease of \$2.9 million in state appropriations revenue, including both those funds received through the state as a result of Federal American Recovery and Reinvestment Act (ARRA) funding and appropriations received directly. State and ARRA pass-through appropriations had in the past been allocated to the state's campuses based on the number of students as well as their course of study, with education in the sciences being more costly. During 2012 the Office of the Commissioner of Higher Education revised the methodology for allocating state appropriations to the campuses to a pro-rata distribution based on FTE-count alone, resulting in a decreased allocation to the University and an increase to other state campuses.

**Capital and other items** increased \$11.0 million due primarily to the federal grant funding of renovations to Cooley Lab, as discussed above.

**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, 2012**

(continued)

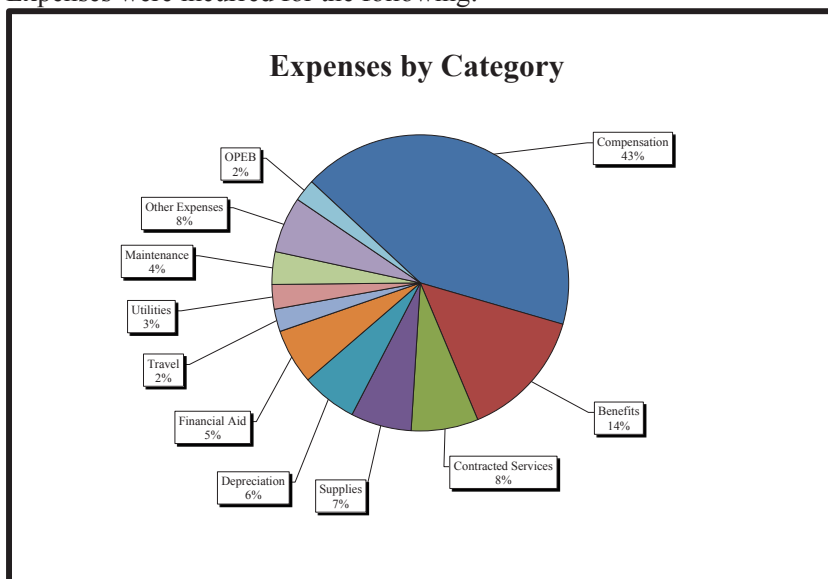
During 2012, revenues were derived as follows:



*(in millions)*

Category	Amount
Tuition and Fees	\$ 141.8
Grant & Contract Activity	114.4
State and Local Appropriations	101.0
Auxiliary Services	42.5
Other Revenues	30.7
Pell Grants	31.8
Gifts	13.7
Capital Grants & Gifts	21.4
Federal Appropriations	5.1
Land Grant & Investment Income	4.7
<b>Total revenues</b>	<b>\$ 507.1</b>

Expenses were incurred for the following:



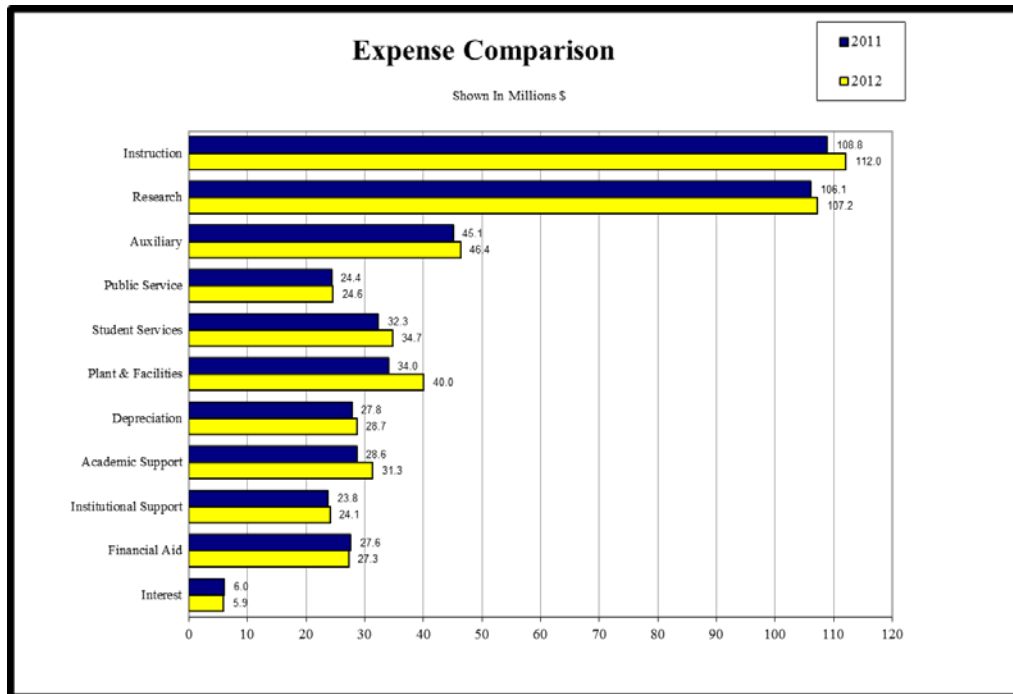
*(in millions)*

Category	Amount
Compensation	\$ 200.4
Benefits	64.7
Contracted Services	41.6
Supplies	33.9
Depreciation	28.7
Financial Aid	27.3
Travel	11.9
Utilities	10.4
Maintenance	20.7
OPEB	7.9
Other Expenses	
Cost of Sales	6.0
Interest Expense	5.9
Communications	4.5
Rent	5.5
Other	12.8
<b>Total Expenses</b>	<b>\$ 482.2</b>

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

**Montana State University**  
*(a component unit of the State of Montana)*  
**Management's Discussion and Analysis**  
**As of and For Each of the Years Ended June 30, 2012**

(continued)



**Operating expenses** increased \$17.7 million, or 3.9%, from 2011 to 2012. The most significant increase was in plant and facilities costs, which increased \$6.0 million, or 17.6%. This was largely due to repair and maintenance associated with roofs, windows, and other repairs required as a result of a severe hailstorm. In addition, approximately \$350,000 in repairs and maintenance were made to the Northern campus to address a variety of issues.

Employees in the Montana University System were given 1% plus \$500 raises, in addition to certain merit and tenure increases. As such, compensation and benefits expenses increased in nearly all areas. Instruction expenses increased \$3.2 million, or 3.0%, primarily due to an increase in compensation and benefits of \$3.5 million, or 3.7%, largely as a result of salary increases and additional class sections added to accommodate the University's growing enrollment.

Student services expenses increased by \$2.4 million, or 7.5%. 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. Compensation and benefits related to student services increased \$1.5 million, or 7.8%.

Auxiliary expenses increased \$1.3 million, or 2.9%. Because of high occupancy rates in the residence halls, and due to increased enrollment overall, additional food and other costs were incurred.

Research expenses increased \$1.1 million, or 1.0%. While the University's research funding is 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.

Academic support increased \$2.7 million, or 9.4%, largely due to an increase in supplies and services of \$2.0 million which included increases in online digital subscriptions at the library, as well as other costs associated with supporting the University's increased enrollment.

### **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

**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, 2012****(continued)**

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 \$6.1million 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.

**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.

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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.

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

	2012	2011	2010 <i>(restated)</i>
<b>ASSETS</b>			
Current assets	\$ 215.3	\$ 191.2	\$ 169.4
Capital assets, net	379.5	357.6	351.2
Other noncurrent assets	50.5	50.7	54.3
Total assets	\$ 645.3	\$ 599.5	\$ 574.9
<b>DEFERRED OUTFLOW-</b> hedging derivative	\$ 6.1	\$ 2.8	\$ 3.8
<b>LIABILITIES</b>			
Current liabilities	\$ 67.4	\$ 64.5	\$ 67.2
Noncurrent liabilities	222.7	201.1	191.7
Total liabilities	\$ 290.1	\$ 265.6	\$ 258.9
<b>NET POSITION</b>			
Invested in capital assets, net	\$ 256.4	\$ 236.5	\$ 229.3
Restricted, non-expendable	12.5	12.7	12.1
Restricted, expendable	12.8	13.4	13.4
Unrestricted	79.6	74.1	65.0
Total net position	\$ 361.3	\$ 336.7	\$ 319.8

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, increasing \$24.6 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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(continued)

### Comparison of 2012 and 2011 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 \$24.1 million in current assets resulted primarily from an increase of \$24.4 million in cash and equivalents, which is discussed in the Statement of Cash Flows section of this document.
- **Capital assets, net** increased \$21.9 million, resulting from asset additions of \$51.0 million, offset by depreciation and amortization expense of \$28.7 million and \$0.9 million in net book value of asset retirements, as shown in further detail in Note 7 to the financial statements.

Asset additions included \$37.8 million in construction projects. The Bozeman campus continued the renovation of Cooley Lab at a cost of \$11.3 million and the football stadium underwent an expansion of which \$6.6 million was expended during 2012. Improvements to Leon Johnson Hall added \$5.5 million and improvements to Hapner and Langford Halls totaled \$3.0 million. A number of energy efficiency enhancements were also implemented, totaling \$4.1 million. Additional, smaller projects make up the remaining increase, and include residence hall upgrades, office and lab renovations and other building improvement projects.

Equipment additions totaled \$10.1 million during 2012. Research and instruction in the sciences require a substantial equipment investment, and accounted for \$5.8 million of the additions. Many specialized pieces of equipment are grant-funded. For example, a microscope and a spectrometer accounted for additions of \$0.8 million. Approximately \$1.2 million in library materials were acquired in 2012 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 \$0.2 million from 2011, largely due to a \$.5 million reduction in the fair market value of endowment funds.
- **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 increased by \$3.3 million from 2011 to 2012 due to a decrease in the variable interest rate paid by the 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 increased \$2.9 million, or 4.4%, from 2011 to 2012, as a result of the overall growth of the University and related operating expenses.
- **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 a total of \$21.6 million, resulting primarily from increases of \$9.4 million in debt and leases payable, as the University incurred new borrowings of \$15.4 million, and \$5.6 million was repaid. In addition, the University's OPEB liability, which is an actuarially-determined amount related to the participation of retirees on the University's health insurance plan, increased \$7.9 million. An actuarially-determined liability of approximately \$55.4 million was calculated, of which the fourth year of a 30-year amortization, plus interest, was recorded during 2012 (see note

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15 to the financial statements). Advances from primary government increased \$2.5 million, because \$2.8 million was borrowed through the state's Intercap loan program, and \$1.5 million was advanced through the State Building Energy Conservation Program, while \$1.6 million in advances were repaid.

- **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 decreased \$0.3 million, primarily due a decrease in fair market value in the University-owned endowment balances as compared with 2011 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 decreased \$0.6 million in comparison with 2011 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 \$1.3 million to its reserve, which may be used to ensure the availability of retirement payout and scholarship funding and provide a means to absorb unexpected expenses or decreases in revenue.

### **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 Hager 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.



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## Management's Discussion and Analysis

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(continued)

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.

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- **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.

## CASH FLOWS

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

	2012	2011	2010
Cash provided/(used) by:			
Operating activities, net	\$ (104.7)	\$ (103.9)	\$ (99.3)
Noncapital financing activities, net	149.4	149.4	148.1
Capital and related financing activities, net	(22.6)	(30.3)	(30.2)
Investing activities, net	2.4	6.4	1.9
Net increase in cash	24.5	21.6	20.5
Cash, beginning of year	159.0	137.4	116.9
Cash, end of year	\$ 183.5	\$ 159.0	\$ 137.4

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

### Comparison of 2012 and 2011 Cash Flows

- **Operating activities** used \$104.7 million in cash, resulting primarily from an operating loss of \$141.8 million. The operating loss was offset by non-cash expenses of \$37.6 million, primarily \$28.7 million in depreciation and amortization, as well as \$7.9 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 2011, operating activities used \$103.9 million in cash, with an operating loss of \$140.5 million, offset by non-cash expenses of \$40.0 million.
- **Noncapital financing activities** provided \$149.4 million in cash, resulting from \$101.0 million in state and local appropriations, \$31.8 million in federal Pell grant revenue, \$1.8 million of land grant income, and \$13.6 million in expendable gifts. In 2011, 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.

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**(continued)**

- **Capital and related financing activities** used \$22.6 million in cash. Proceeds from borrowings provided \$15.3 million, as the University issued bonds to construct a new 70-bed residence hall and make improvements to several existing residence halls. Uses included \$31.2 million expended on capital assets, including building construction as discussed above. Debt interest, principal and advance payments totaled \$12.8 million. Borrowings from the State's InterCap lending program provided \$2.8 million and borrowing through the State Building Energy Conservation Program provided \$1.5 million. In 2011, these activities used \$30.3 million in cash. Uses included \$25.3 million expended on capital assets, including building construction. Debt interest, principal and advance payments totaled \$12.4 million, and borrowings from the State's InterCap lending program provided \$3.0 million in cash.

**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.

**DEBT AND ADVANCES**

As of June 30, 2012, the University had approximately \$118.8 million in outstanding bond, note, and capital lease principal, a slight increase compared with \$109.0 million at June 30, 2011 (see note 10 to the financial statements). Bonds were issued during 2012 to construct a new 70-bed residence hall and make improvements to several existing residence halls. The majority of bond debt bears interest at fixed rates, except for \$23.6 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 variable rate debt, as described in note 10 to the financial statements. InterCap debt is issued at a variable rate, reset each February, and as of June 30, 2012, was 1.25%. As of June 30, 2012, and as of the most recent rating reports received in October, 2012, the University's bonds are rated Aa3 by Moody's Investor Services and A+ by Standard and Poor's.

**ECONOMIC OUTLOOK**

In 2007 through 2009, the University experienced decreased enrollment from its Montana residents, as the number of high-school graduates in the state declined. The full-time-equivalent (FTE) number of resident students attending the

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University increased in each of the past three years as the University gained in market share and as the number of high-school graduates in the state stabilizes, and now represents 15,169 of the 19,420 student FTE. Non-resident enrollment is strong as well, and represents 21.9% of the student FTE in 2012. 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 update their job skills and education. Management predicts slow growth over the next several years, rather than continued recent record levels of increased enrollment.

Increased enrollment, combined with 5% tuition increases implemented at the four-year campuses in 2012 and 2013 have enabled the University to implement 1% and 2% pay increases. 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**

<b>ASSETS</b>	<b>2012</b>	<b>2011</b>
<b>Current assets:</b>		
Cash and cash equivalents (note 2)	\$ 182,415,905	\$ 157,968,213
Short term investments	758,160	799,006
Securities lending collateral	1,068,273	2,310,759
Accounts and grants receivable, net	8,951,441	6,816,138
Amounts receivable from Federal government	12,868,011	14,119,472
Amounts receivable from primary government	674,020	998,084
Amounts receivable from other State of Montana component units	17,737	51,484
Loans receivable, net	3,334,264	3,254,337
Inventories	3,115,026	3,422,677
Prepaid expenses and other current assets	2,108,449	1,483,268
<b>Total current assets</b>	<b>215,311,286</b>	<b>191,223,438</b>
<b>Noncurrent assets</b>		
Restricted cash and cash equivalents	1,034,182	1,033,658
Restricted investments	6,824,529	7,165,654
Loans receivable, net	21,391,520	21,408,983
Investments	20,216,739	19,910,836
Capital assets, net (note 7)	379,470,494	357,588,393
Other noncurrent assets	1,062,377	1,188,213
<b>Total noncurrent assets</b>	<b>429,999,841</b>	<b>408,295,737</b>
<b>Total assets</b>	<b>\$ 645,311,127</b>	<b>\$ 599,519,175</b>
<b>DEFERRED OUTFLOW</b>		
Derivative financial instrument deferred outflow (note 10)	\$ 6,070,489	\$ 2,803,772
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 31,770,056	\$ 30,314,109
Advances and other amounts payable to primary government	1,811,833	1,715,444
Amounts payable to other State of Montana component units	407,756	296,783
Securities lending liability	1,068,273	2,310,759
Property held in trust for others	2,567,431	1,435,188
Deferred revenues	9,115,831	9,311,649
Compensated absences	14,837,704	13,597,626
Current portion debt and capital lease obligations (note 10)	5,781,091	5,517,434
<b>Total current liabilities</b>	<b>67,359,975</b>	<b>64,498,992</b>
<b>Noncurrent liabilities:</b>		
Advances from primary government	19,591,957	17,102,990
Debt, capital lease, and other obligations (note 10)	113,059,186	103,521,184
Compensated absences	13,050,788	14,135,201
LT OPEB Implicit Rate Subsidy	48,029,610	40,126,796
Due to Federal government	22,480,430	22,332,942
Derivative instrument-- swap liability (note 10)	6,496,633	3,880,185
<b>Total noncurrent liabilities</b>	<b>222,708,604</b>	<b>201,099,298</b>
<b>Total liabilities</b>	<b>\$ 290,068,579</b>	<b>\$ 265,598,290</b>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	\$ 256,413,109	\$ 236,478,621
Restricted - nonexpendable	12,463,703	12,747,294
Restricted - expendable	12,823,440	13,416,989
Unrestricted (see note 13)	79,612,785	74,081,753
<b>Total net position</b>	<b>\$ 361,313,037</b>	<b>\$ 336,724,657</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**

	2012	2011 (restated)
<b>Assets:</b>		
Cash and cash equivalents	\$ 5,955,126	\$ 7,382,692
Accrued dividends and interest	129,828	134,909
Investments	159,346,615	162,230,389
Amounts due from the institution or other MSU component units	2,453,433	1,710,170
Contributions receivable, net of allowance	27,120,259	6,730,628
Contracts, notes and other receivables	4,299,542	4,853,255
Non-depreciable capital assets	438,586	3,065,150
Depreciable capital assets, net	9,725,850	8,780,729
Other assets	1,952,217	1,809,802
<b>Total assets</b>	<b>\$ 211,421,456</b>	<b>\$ 196,697,724</b>
<b>Liabilities and net assets:</b>		
Liabilities		
Accounts payable	\$ 526,021	\$ 1,532,034
Accrued expenses and other liabilities	1,075,078	1,187,081
Compensated absences	420,660	416,686
Notes and bonds payable	2,801,455	2,251,369
Amounts due to the institution or other MSU component units	624,786	815,299
Liabilities to external beneficiaries	7,088,261	5,770,333
Custodial funds	10,690,666	14,486,914
<b>Total liabilities</b>	<b>23,226,927</b>	<b>26,459,716</b>
Net assets		
Unrestricted net assets	15,367,002	16,517,476
Temporarily restricted net assets	72,226,054	56,767,614
Permanently restricted net assets	100,601,473	96,952,918
<b>Total net assets</b>	<b>188,194,529</b>	<b>170,238,008</b>
<b>Total liabilities and net assets</b>	<b>\$ 211,421,456</b>	<b>\$ 196,697,724</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 Revenues, Expenses and Changes in Financial Position**  
**As of and for Each of the Years Ended June 30**

<b>OPERATING REVENUES</b>	<b>2012</b>	<b>2011</b>
Tuition and fees (net of \$31,979,062 and \$30,382,382 scholarship discount)	\$ 141,807,534	\$ 130,870,514
Federal appropriations	5,114,225	4,710,734
Federal grants and contracts	81,248,310	81,637,556
State grants and contracts	5,815,358	5,462,273
Non-governmental grants and contracts	9,491,558	9,998,950
Grant and contract facilities and administrative cost recoveries	17,858,322	18,793,055
Educational, public service and outreach revenues	24,510,537	23,120,450
Auxiliary revenues:		
Housing (net of \$2,411,283 and \$2,673,133 scholarship discount)	16,347,272	15,872,748
Food services (net of \$2,941,285 and \$2,803,650 scholarship discount)	17,042,895	15,971,526
Other auxiliary sales and services (net of \$916,152 and \$949,058 scholarship discount)	9,064,405	9,277,402
Interest earned on loans	100,952	101,987
Other operating revenues	6,105,058	2,284,800
<b>Total operating revenues</b>	<b>334,506,426</b>	<b>318,101,995</b>
<b>OPERATING EXPENSES</b>		
Compensation and benefits	265,111,799	260,134,768
Annual Required Contribution to OPEB (see note 15)	7,902,814	11,129,453
Operating expenses (see note 14)	147,341,469	131,874,690
Scholarships and fellowships (net of \$38,247,782 and \$36,808,222 scholarship discount)	27,289,167	27,609,596
Depreciation and amortization	28,653,522	27,821,047
<b>Total operating expenses</b>	<b>476,298,771</b>	<b>458,569,554</b>
<b>Operating loss</b>	<b>(141,792,345)</b>	<b>(140,467,559)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	100,984,947	85,383,395
State appropriation of federal stimulus funds	-	18,536,201
Federal Pell grant revenue	31,842,883	31,892,413
Land grant income (pledged as security for repayment of bonds)	1,758,778	1,939,930
Gifts (expendable)	13,586,595	13,037,131
Investment income	2,934,058	2,490,291
Interest expense	(5,851,855)	(6,014,135)
<b>Net non operating revenues (expenses)</b>	<b>145,255,406</b>	<b>147,265,226</b>
<b>Income before other revenues, expenses, gains and losses</b>	<b>3,463,061</b>	<b>6,797,667</b>
Loss on disposals of capital assets	(364,374)	(268,113)
Additions to permanent endowment	97,110	101,811
Capital gifts, grants and contributions	21,392,583	10,258,684
<b>Change in financial position</b>	<b>24,588,380</b>	<b>16,890,049</b>
Financial position, beginning of year	336,724,657	319,834,608
<b>Financial position, end of year</b>	<b>\$ 361,313,037</b>	<b>\$ 336,724,657</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, 2012 or December 31, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues:</b>				
Contributions	\$ 3,336,586	\$ 33,892,252	\$ 3,978,769	\$ 41,207,607
Investment, interest and dividend income	317,163	1,089,621	958	1,407,742
Net realized and unrealized gain (loss) on investments	(776,589)	(1,447,123)	(6,855)	(2,230,567)
Contract support and contributions from University	1,346,000	-	-	1,346,000
Special events	1,031,103	541,668	-	1,572,771
Other income	5,854,962	(1,688,878)	8,443	4,174,527
Net assets released from restrictions	16,961,830	(16,930,197)	(31,633)	-
<b>Total revenues</b>	<b>28,071,055</b>	<b>15,457,343</b>	<b>3,949,682</b>	<b>47,478,080</b>
<b>Expenses:</b>				
Program services				
University support	13,503,724			13,503,724
Academic and institutional	2,383,132			2,383,132
Scholarships and awards	4,673,542			4,673,542
<b>Total program services expense</b>	<b>20,560,398</b>			<b>20,560,398</b>
Operating expenses				
Fundraising efforts	3,549,205			3,549,205
General and administrative	3,704,852			3,704,852
Investment management costs	796,696			796,696
Other miscellaneous	605,598			605,598
<b>Total operating expenses</b>	<b>8,656,351</b>			<b>8,656,351</b>
Change in net assets before				
Nonoperating items	(1,145,694)	15,457,343	3,949,682	18,261,331
Nonoperating expenses				
Payments to beneficiaries and change in liabilities to external beneficiaries	(4,780)	1,097	(301,127)	(304,810)
<b>Change in net assets</b>	<b>(1,150,474)</b>	<b>15,458,440</b>	<b>3,648,555</b>	<b>17,956,521</b>
<b>Net assets, beginning of year</b>	<b>16,517,476</b>	<b>56,767,614</b>	<b>96,952,918</b>	<b>170,238,008</b>
<b>Net assets, end of fiscal year</b>	<b>\$ 15,367,002</b>	<b>\$ 72,226,054</b>	<b>\$ 100,601,473</b>	<b>\$ 188,194,529</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 restated******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	\$ 1,801,594	\$ 15,249,625	\$ 2,562,215	\$ 19,613,434
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	946,860	92,609	-	1,039,469
Other income	5,774,460	(1,517,092)	24,604	4,281,972
Net assets released from restrictions	10,623,912	(10,553,946)	(69,966)	-
<b>Total revenues</b>	<b>24,486,149</b>	<b>17,094,232</b>	<b>2,562,444</b>	<b>44,142,825</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>164,280</b>	<b>-</b>	<b>6,943,598</b>
Change in net assets before				
Nonoperating items	4,792,227	16,929,952	2,562,444	24,284,623
Nonoperating expenses				
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>4,822,902</b>	<b>16,947,648</b>	<b>3,176,795</b>	<b>24,947,345</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>Prior Period Adjustment</b>	<b>37,369</b>	<b>(80,240)</b>	<b>36,991</b>	<b>(5,880)</b>
<b>Beginning Net Assets, As Restated</b>	<b>11,694,574</b>	<b>39,819,966</b>	<b>93,776,123</b>	<b>145,290,663</b>
<b>Net assets, end of fiscal year</b>	<b>\$ 16,517,476</b>	<b>\$ 56,767,614</b>	<b>\$ 96,952,918</b>	<b>\$170,238,008</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**

	2012	2011
<b>Cash flows from operating activities:</b>		
Tuition and fees	\$ 141,564,190	\$ 130,448,921
Federal appropriations	5,211,844	4,537,254
Federal grants and contracts	80,627,472	79,451,078
State grants and contracts	5,944,828	5,069,751
Private grants and contracts	8,386,661	10,598,047
Grant and contract facilities and administrative cost	18,550,514	18,459,932
Educational, public service and outreach revenues	24,692,627	23,845,359
Sales and services of auxiliary enterprises	42,039,611	40,954,726
Interest on loans receivable	242,682	338,127
Other operating receipts	6,105,057	2,284,641
Compensation and benefits	(264,092,273)	(260,096,574)
Operating expenses	(146,410,452)	(132,079,278)
Scholarships and fellowships	(27,287,970)	(27,609,596)
Loans made to students	(3,659,064)	(3,850,068)
Loan payments received	3,388,341	3,745,244
<b>Net cash used in operating activities</b>	<b>(104,695,932)</b>	<b>(103,902,436)</b>
<b>Cash flows from noncapital financing activities:</b>		
Receipts (disbursements) of funds held in trust for others	1,160,578	(1,478,385)
Direct lending proceeds	94,409,810	97,927,059
Direct lending disbursements	(94,409,810)	(97,927,059)
State appropriations	100,984,946	85,383,396
State appropriation of federal stimulus funds	-	18,536,201
Federal Pell grant funds received	31,842,883	31,892,413
Gifts and contributions (expendable)	13,586,595	13,037,131
Land grant income (see note 2)	1,758,778	1,939,931
Repayment of long-term advance from primary government	(53,091)	(51,796)
Additions to permanent endowment	101,129	108,836
<b>Net cash provided by noncapital financing activities</b>	<b>149,381,818</b>	<b>149,367,727</b>
<b>Cash flows from capital financing activities:</b>		
Purchase of capital assets	(31,239,771)	(25,331,134)
Proceeds from sale of capital assets	112,264	129,544
Gifts restricted for capital purchase	1,645,546	1,060,733
Other capital financing activities	302,057	(78,783)
Proceeds from borrowings	15,294,196	-
Debt principal repayment	(5,516,062)	(5,469,267)
Payment of debt issue costs	(166,717)	-
Interest paid	(5,659,921)	(5,538,017)
Advances from primary government	4,264,096	6,356,879
Repayment of advances from primary government	(1,634,979)	(1,422,113)
<b>Net cash used in capital financing activities</b>	<b>(22,599,291)</b>	<b>(30,292,158)</b>
<b>Cash flows from investing activities:</b>		
Purchase of investments	(291,327)	(195,234)
Proceeds from sale of investments	899,707	4,447,968
Investment income	1,753,241	2,181,014
<b>Net cash provided by (used in) investing activities</b>	<b>2,361,621</b>	<b>6,433,748</b>
<b>Net change in cash and cash equivalents</b>	<b>24,448,216</b>	<b>21,606,881</b>
<b>Cash and equivalents at beginning of year</b>	<b>159,001,871</b>	<b>137,394,990</b>
<b>Cash and equivalents at end of year</b>	<b>\$ 183,450,087</b>	<b>\$ 159,001,871</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>2012</b>	<b>2011</b>
<b>Operating loss</b>	\$ (141,792,345)	\$ (140,467,559)
Noncash income and expense:		
Depreciation and amortization on capital assets	28,653,522	27,821,047
Provision for uncollectible accounts	1,061,475	1,038,563
Amortization of OPEB liability	7,902,814	11,129,453
Changes in operating assets and liabilities:		
Accounts and grants receivable	(1,621,929)	(1,646,805)
Loans receivable	(80,539)	65,981
Inventories	307,651	(189,841)
Prepaid expenses	(725,181)	14,549
Accounts payable and other accrued liabilities	1,491,267	314,464
Deferred revenue	(195,818)	(1,112,524)
Compensated absences	155,663	(1,099,298)
Amounts due to Federal government	147,488	229,534
<b>Net cash used in operations</b>	<b>\$ (104,695,932)</b>	<b>\$ (103,902,436)</b>

**Schedule of noncash financing and investing activities**

	<b>2012</b>	<b>2011</b>
Capital assets contributed to the University	\$ 19,747,037	\$ 9,197,952
Capital assets acquired through issuance of capital lease obligations	\$ 25,449	-
Capital assets acquired via trade-in	\$ 36,556	\$ 18,901
Bond issue costs, discounts, premiums and deferred loss on refunding amortized or written off to interest expense	\$ 52,262	\$ 151,430
Net change in fair value of investments	\$ 536,330	\$ 797,354

**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>2012</b>	<b>2011</b>
Cash and cash equivalents classified as current assets	\$ 182,415,905	\$ 157,968,213
Cash and cash equivalents classified as noncurrent assets	1,034,182	1,033,658
Total cash and cash equivalents as reported on the Statements of Cash Flows	<b>\$ 183,450,087</b>	<b>\$ 159,001,871</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% of consolidated net position or 1% - 2% 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

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

**(continued)**

the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

**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)**

**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.



**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)**

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.

**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 \$56,063,798 June 30, 2012 and \$53,937,280 at June 30, 2011.

**Cash equivalents** – These amounts consist of cash held by trustees as well as \$112,597,164 and \$102,263,176 of the amount invested in the Short Term Investment Pool (STIP) with the Montana Board of Investments at June 30, 2012 and 2011, respectively.

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 \$121,325,424, includes \$3,915,000 in real estate, which is accounted for at fair value based on periodic appraisals. Of the pool, the University owns \$7,600,421, or 6.2%. Foundation investment pools are not subject to regulatory oversight.

**Endowment spending policy** – The State of Montana has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), including the provision that the appropriation for expenditure of an amount greater than 7% of the fair market value of an endowment fund (calculated on the basis of market values averaged over a period of not less than three preceding years) creates a rebuttable presumption of imprudence. A majority of the University's endowment funds are managed by the MSU Bozeman Foundation, in accord with their spending policy, which conforms to UPMIFA.

**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% of the fair value of domestic securities and 105% 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 \$1,068,273 at June 30, 2012 and \$2,310,759 at June 30, 2011.

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The BOI did not impose any restrictions during fiscal years 2012 and 2011 on the amount of the loans 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 2012 and 2011. Moreover, there were no losses during fiscal years 2012 and 2011 resulting from a default of the borrowers or State Street Bank and Trust.

During fiscal years 2012 and 2011, 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, 2012, the Quality D Short Term Investment Fund liquidity pool had an average duration of 36 days and an average weighted final maturity of 73 days for U.S. dollar collateral. The duration pool had an average duration of 40 days and an average weighted final maturity of 1,329 days for U.S. dollar collateral. As of June 30, 2012, 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. 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, 2012 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.

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, 2012. 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.



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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, 2012:

<b>Security Type</b>	<b>Fair Value</b>	<b>Moody's Credit Quality Rating</b>	<b>Effective Duration (years)</b>
State of Montana Short Term Investment Pool	\$ 114,453,090	A2	N/A
U. S. Bank Money Market Funds (collateralized by U.S. Bank pool, not in the University's name)	13,845,972	P-1	N/A
State of Montana Trust Fund Investment Pool*	16,066,796	AA-	4.90
Foundation Pooled Cash Equivalents and Investments*	6,878,268	NR	N/A**
U.S. Treasury Notes (noncollateralized, not in the University's name)	758,160	NR	0.34
Non-hedging derivative investment value	2,234,252	A2	23.42
<b>Total Cash Equivalents &amp; Investments</b>	<b>\$ 154,236,538</b>		

\* 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:

	<b>2012</b>	<b>2011</b>
Accounts receivable	\$ 9,393,279	\$ 8,486,052
Other receivables, including private grants and contracts	2,810,940	1,262,756
Gross accounts and grants receivable	12,204,219	9,748,808
Less allowance for uncollectible accounts	(3,252,778)	(2,932,670)
Net accounts and grants receivable	<u>\$ 8,951,441</u>	<u>\$ 6,816,138</u>

**NOTE 4 – INVENTORIES**

Inventories consisted of the following as of June 30:

	<b>2012</b>	<b>2011</b>
Bookstore	\$ 1,100,770	\$ 1,401,040
Food services	321,253	240,721
Facilities services	210,925	273,149
Livestock	722,320	729,414
Other	759,757	778,353
Total inventories	<u>\$ 3,115,026</u>	<u>\$ 3,422,677</u>

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

Prepaid expenses consisted of the following as of June 30:

	<b>2012</b>	<b>2011</b>
Library subscriptions	\$ 875,395	\$ 692,012
Other (including summer session payments)	1,233,054	791,256
Total prepaid expenses	<u>\$ 2,108,449</u>	<u>\$ 1,483,268</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, 2012 and 2011 are \$22,480,430 and \$22,332,942 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 \$10,000 as of June 30, 2012 and \$30,000 as of June 30, 2011.

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**NOTE 7 – CAPITAL ASSETS**

Following are the changes in capital assets during the years ended June 30, 2012 and 2011:

	Year Ended June 30, 2012				
	Balance July 1, 2011	Additions	Retirements	Transfers	Balance June 30, 2012
Capital assets not being depreciated:					
Land	\$ 6,933,381	\$ -	\$ -	\$ -	\$ 6,933,381
Museum and fine art	5,069,503	64,125	-	-	5,133,628
Library special collections	3,250,296	-	-	-	3,250,296
Livestock for educational purposes	3,112,115	94,276	-	-	3,206,391
Construction work-in-progress	12,094,956	37,774,724	(24,157)	(15,652,809)	34,192,714
<b>Total capital assets not being depreciated</b>	<b>30,460,251</b>	<b>37,933,125</b>	<b>(24,157)</b>	<b>(15,652,809)</b>	<b>52,716,410</b>
Other capital assets:					
Furniture and equipment	133,701,521	10,140,740	(5,879,566)	(20,521)	137,942,174
Library materials	64,912,242	1,248,576	(740,810)	-	65,420,008
Buildings	284,876,793	82,807	(150,000)	10,490,834	295,300,434
Building improvements	185,868,084	855,302	-	4,402,291	191,125,677
Land improvements	17,426,947	647,300	-	759,687	18,833,934
Infrastructure	34,835,590	-	-	-	34,835,590
Total other capital assets	721,621,177	12,974,725	(6,770,376)	15,632,291	743,457,817
Accumulated depreciation	(395,375,950)	(28,294,961)	6,291,004	20,518	(417,359,389)
<b>Other capital assets, net</b>	<b>326,245,227</b>	<b>(15,320,236)</b>	<b>(479,372)</b>	<b>15,652,809</b>	<b>326,098,428</b>
<b>Intangible assets, net</b>	<b>882,916</b>	<b>140,965</b>	<b>(368,225)</b>	<b>-</b>	<b>655,656</b>
<b>Capital Assets, net</b>	<b>\$ 357,588,394</b>	<b>\$ 22,753,854</b>	<b>\$ (871,754)</b>	<b>\$ -</b>	<b>\$ 379,470,494</b>

	Year Ended June 30, 2011				
	Balance July 1, 2010	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	10,184,791	(2,467,651)	-	133,701,521
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	15,760,065	(3,446,734)	18,362,946	721,621,177
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>(11,531,367)</b>	<b>(312,906)</b>	<b>18,362,946</b>	<b>326,245,227</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>\$ 7,237,653</b>	<b>\$ (927,274)</b>	<b>\$ -</b>	<b>\$ 357,588,393</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:

	<b>2012</b>	<b>2011</b>
Compensation, benefits and related liabilities	\$ 17,928,190	\$ 18,885,417
Accrued interest expense	571,778	461,122
Accounts payable and other accrued liabilities	13,270,088	10,967,570
Total	<u>\$ 31,770,056</u>	<u>\$ 30,314,109</u>

**NOTE 9 – DEFERRED REVENUES**

Deferred revenues consisted of the following as of June 30:

	<b>2012</b>	<b>2011</b>
Grant and contract funds received in advance	\$ 2,684,449	\$ 3,885,031
Summer session payments received in advance	5,411,033	4,594,108
Other deferred revenues	1,020,349	832,510
Total	<u>\$ 9,115,831</u>	<u>\$ 9,311,649</u>

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

Following are the changes in noncurrent liabilities for the years ended June 30, 2012 and 2011:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Amounts due within one year
Bonds, notes payable, and capital lease obligations					
Bonds payable, net of discount	\$ 106,816,699	\$ 15,273,962	\$(5,262,055)	\$ 116,828,606	\$ 5,500,000
Notes and other long-term liabilities	2,211,657	62,650	(293,523)	1,980,784	273,544
Capital lease obligations	10,264	25,449	(4,823)	30,890	7,547
Total bonds, notes and capital lease obligations	\$ 109,038,620	15,362,061	(5,560,401)	118,840,280	5,781,091
Compensated absence liability	\$ 27,732,825	14,422,478	(14,266,811)	27,888,492	14,837,704
Advances from primary government – InterCap	\$ 8,398,869	2,805,218	(1,230,894)	9,973,193	1,289,620
Advances from primary government - MSTA	\$ 5,081,686	-	(53,090)	5,028,596	54,416
Advances from primary government - DEQ	\$ 5,282,695	1,480,098	(404,086)	6,358,707	424,503
Amounts due to Federal government	\$ 22,332,942	147,488	-	22,480,430	-
OPEB liability— implicit rate subsidy for retiree health insurance	\$ 40,126,796	7,902,814	-	48,029,610	-
Derivative instrument liability	\$ 3,880,185	2,616,448	-	6,496,633	-

Year Ended June 30, 2011					
	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Amounts due within one year
Bonds, notes payable, and capital lease obligations					
Bonds payable, net of discount	\$ 111,649,785	\$ -	\$(4,833,086)	\$ 106,816,699	\$ 5,255,000
Notes and other long-term liabilities	2,420,595	93,975	(302,913)	2,211,657	259,435
Capital lease obligations	13,370	-	(3,106)	10,264	2,999
Total bonds, notes and capital lease obligations	\$ 114,083,750	\$ 93,975	\$(5,139,105)	\$ 109,038,620	\$ 5,517,434
Compensated absence liability	\$ 28,832,123	\$ 12,469,392	\$(13,568,690)	\$ 27,732,825	\$ 13,597,627
Advances from primary government – InterCap	\$ 6,349,006	\$ 3,029,326	\$(979,463)	\$ 8,398,869	\$ 1,074,657
Advances from primary government - MSTA	\$ 5,133,483	-	\$(51,798)	\$ 5,081,686	\$ 53,090
Advances from primary government - DEQ	\$ 2,397,793	\$ 3,327,553	\$(442,651)	\$ 5,282,695	\$ 532,513
Amounts due to Federal government	\$ 22,103,408	\$ 239,703	\$(10,169)	\$ 22,332,942	\$ -
OPEB liability— implicit rate subsidy for retiree health insurance	\$ 28,997,343	\$ 11,129,453	\$ -	\$ 40,126,796	\$ -
Derivative instrument liability	\$ 3,799,069	\$ 81,116	\$ -	\$ 3,880,185	\$ -

Amounts not due within one year are reflected in the noncurrent liabilities section of the accompanying Statement of Net Position.

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**Derivative financial instruments —**

**Description**

The University has two interest rate swaps as of June 30, 2012. 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, 2012:

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

\*Counterparty may opt out in 2016

As of June 30, 2012, the fixed payer swap is classified as a hedging derivative instrument under Statement No. 53, whereas the 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, 2012 and 2011.

Type of derivative	Notional	Activity During 2012 Increase (Decrease)		Fair Value as of June 30, 2012	
		Classification	Amount	Classification	Amount
Cash flow hedge - Pay fixed interest rate swap	\$ 23,600,000	Interest expense	\$ 18,073	Loan receivable	<u>\$ 345,216</u>
		Investment revenue	\$ 650,269	Hybrid instrument liability	\$ 426,144
		Deferred outflow	\$ (3,266,717)	Noncurrent liability	<u>6,070,489</u>
				Total liability	<u>\$ 6,496,633</u>
Investment derivative - Basis swap	\$ 23,600,000	Investment income	\$ 444,053	Investment (excluding interest accrued)	<u>\$ 2,234,252</u>
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>

The objective and terms of the University's hedging derivative outstanding as of June 30, 2012 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	\$23,600,000	7/21/2005	11/15/2035	-	Pay 3.953% Receive SIFMA

**Credit Risk**

It is the University's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2012, counterparty ratings had been downgraded to A2 and Baa1 by Moody's and A+ and A- by Standard and Poor'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.

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**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.

**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, 2012, 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:

	Coupon rate	<b>2012</b>		<b>2011</b>	
Series 1993 A (including accreted discount)	—	\$	-	\$	2,709,527
Series 2004H	3.60% – 5.50%		21,320,000		21,825,000
Series 2004I	3.25% – 5.25%		27,955,000		28,605,000
Series 2005J	0.89%		23,600,000		24,150,000
Series 2006K	4.00% – 4.50%		11,775,000		12,345,000
Series 2008L	3.50% – 5.00%		16,740,000		16,940,000
Series 2011M	2.00% – 5.00%		14,100,000		-
Total principal outstanding		\$	115,490,000	\$	106,574,527



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Revenue bonds are payable as follows:

During the year ending June 30,	Principal	Interest	Net Hedging Derivative Interest	Total
2013	\$ 5,500,000	\$ 4,019,353	\$ 879,670	\$ 10,399,023
2014	5,750,000	4,011,786	858,443	10,620,229
2015	6,075,000	3,787,320	835,353	10,697,673
2016	6,240,000	3,561,360	811,288	10,612,648
2017	6,565,000	3,337,871	786,311	10,689,182
2018-2022	37,430,000	12,394,849	3,510,438	52,575,287
2023-2027	23,725,000	5,752,706	2,693,248	24,335,954
2028-2032	14,180,000	2,272,668	1,678,029	26,725,697
2033-2036	10,025,000	440,729	449,886	10,915,615
Total cash requirements	115,490,000	\$ 39,578,640	\$ 12,502,666	\$ 167,571,306
Deferred loss on refunding	(1,237,833)			
Unamortized premium (discount) net	2,576,439			
Bond payable, net	\$ 116,828,606			

**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 occurred during 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 in Note 17. Payment is guaranteed by Ambac Assurance Corporation.

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

**Series J 2005, July 21, 2005** — In July 2005, the University issued \$25,750,000 of Series J 2005 Auction Rate Facilities Improvement Revenue Bonds to fund the majority of a student facilities enhancement project on the Bozeman campus. The proceeds, together with University funds, were used to renovate the student fitness center, construct a theater, and renovate portions of the Strand Union Building. The bonds are being repaid with a combination of student fees and auxiliary operations revenues. Principal payments continue each May and November through November, 2035. On September 11, 2008, the University remarketed these bonds as Variable Rate Demand Bonds in the daily mode, whereas they had previously been marketed as Municipal Auction Rate

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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.

**Series M 2011, October 26, 2011**– In October 2011, the University issued \$14,100,000 in Series M 2011 Facilities Improvement Revenue Bonds to fund the construction of a new suite-style residence hall on the Bozeman campus, as well as renovate public spaces in two existing residence halls and perform energy efficiency improvements including window and lighting fixture replacement. Payments are scheduled each May and November through November, 2027. The bonds are secured by a first lien on and pledge of the net pledged revenues, as described in Note 17.

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

	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>2012</b>	<b>2011</b>
<i>Dell Financial Services</i>				
College of Engineering computers	4.76%	08/25/09	\$ -	\$ 24,309
<i>Bank of America (assigned from Koch Financial Corp)</i>				
Information Technology Oracle Site License	4.24%	04/01/14	248,991	383,205
<i>MSU-Northern Foundation</i>				
Consolidated Foundation Loan	6.00%	10/01/19	1,575,169	1,710,169
Total note principal outstanding			\$ 1,824,160	\$ 2,117,683

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Notes are payable as follows:

During the year ending June 30,	Principal	Interest	Total
2013	\$ 273,544	\$ 104,366	\$ 377,910
2014	245,447	87,263	332,710
2015	220,000	78,310	298,310
2016	220,000	65,110	285,110
2017	220,000	51,910	271,910
2018-2022	645,169	76,560	721,699
Total	\$ 1,824,160	\$ 463,490	\$ 2,287,650

**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, 2012 was 1.25%.

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

Certain advances were made to the University by the State Department of Environmental Quality as part of its State Building Energy Conservation Program (SBECP). 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		SBECP		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2013	\$1,289,620	\$116,915	\$54,416	\$125,584	\$424,503	\$213,716	\$2,224,754
2014	1,246,848	104,607	55,775	124,225	464,707	263,829	2,259,991
2015	1,231,039	89,056	57,168	122,832	464,634	205,902	2,170,631
2016	1,141,820	73,809	58,595	121,405	466,225	186,712	2,048,566
2017	1,047,203	59,899	60,059	119,941	484,813	168,123	1,940,038
2018-2022	2,500,970	164,498	323,556	576,444	2,212,979	554,777	6,333,224
2023-2027	1,498,885	48,605	366,028	533,972	1,545,402	175,165	4,168,057
2028-2032	16,808	104	414,073	485,926	295,444	16,546	1,228,901
2033-2037	-	-	468,427	431,573	-	-	900,000
2038-2042	-	-	529,916	370,084	-	-	900,000
2043-2047	-	-	599,475	300,525	-	-	900,000
2048-2052	-	-	678,165	221,835	-	-	900,000
2053-2057	-	-	767,184	132,816	-	-	900,000
2058-2062	-	-	595,759	34,241	-	-	630,000
Total	\$ 9,973,193	\$ 657,493	\$5,028,596	\$3,701,403	\$ 6,358,707	\$ 1,784,770	\$ 27,504,162

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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, 2012:

Payable during the year ending June 30,	Principal and Interest
2013	\$ 10,088
2014	10,088
2015	7,069
2016	6,466
2017	3,542
Total payments	37,253
Less amount representing interest	(6,363)
Principal balance outstanding	<u>\$ 30,890</u>

Assets acquired under capital leases consist of photocopiers. Such assets are carried at a cost of \$40,694 less accumulated depreciation of \$12,728 as of June 30, 2012.

**NOTE 13 – FINANCIAL POSITION**

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

	2012	2011
Board of Regents' approved reserves	\$ 19,199,115	\$ 17,916,776
Other designated purposes	60,413,670	56,164,977
Total unrestricted financial position	<u>\$ 79,612,785</u>	<u>\$ 74,081,753</u>

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

	2012	2011
Restricted - nonexpendable:		
Endowments	\$ 7,835,434	\$ 8,193,369
Loans	4,628,269	4,553,925
Total restricted - nonexpendable	<u>\$ 12,463,703</u>	<u>\$ 12,747,294</u>
Restricted - expendable:		
Scholarships	\$ 1,144,616	\$ 1,101,271
Research and other	1,409,308	2,862,804
Loans	388,105	487,384
Construction and renewal of plant facilities	4,460,475	4,510,441
Debt retirement	5,420,936	4,455,089
Total restricted - expendable	<u>\$ 12,823,440</u>	<u>\$ 13,416,989</u>

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**NOTE 14 –OPERATING EXPENSES**

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

	<b>2012</b>	<b>2011</b>
Instruction	\$ 112,042,890	\$ 108,810,667
Organized research	107,218,165	106,134,030
Public service	24,586,200	24,356,077
Academic support	31,316,472	28,652,345
Student services	34,737,218	32,311,031
Institutional support	24,070,844	23,758,841
Plant-related expenses	40,018,476	34,033,138
Auxiliary enterprises	46,365,817	45,082,782
Scholarships and fellowships	27,289,167	27,609,596
Depreciation and amortization	28,653,522	27,821,047
	<u>\$ 476,298,771</u>	<u>\$ 458,569,554</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, 2012 is as follows:

	PERS	TRS	ORP	CSRS	FERS	GWPORS
Covered payroll**	\$ 46,130,986	\$ 15,289,585	\$ 115,112,528	\$ 591,517	\$ 303,952	\$ 1,269,924
Employer contributions*	\$ 3,328,445	\$ 2,010,650	\$ 6,757,621	\$ 52,570	\$ 37,093	\$ 114,293
% of covered payroll	7.170%	9.850%	4.49%-5.96%	3.82%-7.54%	1.00%-10.00%	9.000%
Employee contributions	\$ 3,221,960	\$ 1,093,205	\$ 8,093,419	\$ 77,150	\$ 48,716	\$ 134,104
% of covered payroll	6.900%-7.900%	7.150%	7.044%	0.10%-5.25%	0.10%-8.50%	10.560%
ORP contribution to TRS		\$ 5,087,855				
% of covered payroll		4.720%				

ORP contributions to PERS \$ 195,263

% of covered payroll 2.680%

\*Includes TRS Option 1 payments of \$515,604

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

Total payroll for 2012 and 2011 were \$208,522,971 and \$204,218,921, 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
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
2012	\$ 6,745,668	\$ 8,191,710	\$ 14,851,040	\$ 129,720	\$ 85,809	\$ 248,397

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

**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 \$556-\$621 per month, depending on the level of deductible and other selected plan features. Upon reaching age 65 (Medicare eligibility), monthly participation premiums range from \$278-\$311 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, 2012 and June 30, 2011, MSU's annual OPEB cost (expense) of \$7,902,814 and \$11,129,453 was equal to the ARC. The actuarial determination was based on plan information as of July 1, 2011. At that time, the number of active University participants in the health insurance plan was 3,536. The total number of inactive (retiree and dependent) participants was 1,064. During the year ended June 30, 2012 and 2011, the University contributed \$31,006,741 and \$31,112,924, respectively, for actively employed participants, whose annual covered payroll totaled \$183,870,217 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 \$55,421,239 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 \$48,029,610 and \$40,126,796 for 2012 and 2011 respectively. The funded status of the plan as of June 30 was 0% for both years.



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(continued)

The University's OPEB obligations for 2012 and 2011 are:

<b>Year ended June 30,</b>	<b>2012</b>	<b>2011</b>
Annual Required Contribution	\$ 7,902,814	\$ 11,129,453
Adjustment to annual required contribution	-	-
Annual OPEB cost	7,902,814	11,129,453
Contributions made	-	-
Increase to net OPEB obligation	7,902,814	11,129,453
Net OPEB obligation – beginning of year	40,126,796	28,997,343
Net OPEB obligation – end of year	\$ 48,029,610	\$ 40,126,796

**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, 2012 and 2011, 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>, 2012, 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 \$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>
2013	\$ 3,903,840
2014	3,260,183
2015	3,191,585
2016	2,549,800
2017	2,478,382
2018-2022	3,784,770
<b>Total</b>	<b>\$ 19,168,561</b>

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Payments made under operating leases during the years ended June 2012 and 2011 totaled \$3,844,286 and \$3,566,620 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, 2012, the University had issued purchase orders committing the expenditure of \$6,247,030 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 \$1,550,000. The cost of the improvements in 2012 totaled \$195,000 and in 2011 \$135,000. 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.

**Capital projects** — As of June 30, 2012, the University had remaining budget authority on significant capital construction and renovation projects of approximately \$34.9 million. Certain of the 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.

**Pollution remediation**— The University performed remediation with respect to an above-ground fuel tank which was damaged in a fire. The costs of remediation were covered by insurance. The Department of Environmental Quality has not yet given its opinion as to whether the cleanup is completed. The University does not believe any further liability exists as a result of the damage.

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

All of the above revenues are cross-pledged to repay any and all of the secured debt. The remaining cash requirements to repay bonds, including principal and interest, total \$167,571,306 from July 1, 2012 through June 30, 2036.

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

Description	2012			2011		
	Pledged Revenue	Total Similar Revenue	% Pledged	Pledged Revenue	Total Similar Revenue	% Pledged
Student fees (no tuition is pledged)	\$ 8,161,597	\$36,337,932	22%	\$ 7,775,255	\$34,406,950	23%
Housing and residence hall dining revenues, net of related expenses	10,055,638	\$10,055,638	100%	10,128,608	\$10,128,608	100%
Grant and contract facility and administrative cost recoveries	1,309,260	\$17,858,322	7%	1,309,113	\$18,793,055	7%
Bozeman campus athletic events revenue	2,540,331	\$ 2,650,719	96%	1,835,134	\$ 1,914,586	96%
Bozeman campus parking revenues	1,867,495	\$ 1,867,495	100%	1,739,410	\$ 1,739,410	100%
Bozeman bookstore and museum lease income	728,477	\$ 728,477	100%	720,097	\$ 720,097	100%
Land grant income	1,758,778	\$ 1,758,778	100%	1,939,930	\$ 1,939,930	100%
Investment income	676,480	\$ 2,934,054	23%	940,232	\$ 2,491,229	38%
Total	27,098,056			26,387,779		
Less debt service requirements	(10,603,041)			(10,092,542)		
Excess of pledged revenue over debt service requirements	\$ 16,495,015			\$ 16,295,237		

**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. During 2012, the MSU-Bozeman Alumni Association was merged into the MSU Foundation, and the name of the combined entity was changed to the MSU Alumni Foundation.

During the years ended June 30, 2012 and 2011, respectively, the Foundations provided \$14,152,483 and \$6,793,559 in scholarship, in-kind capital donations, 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 \$2,040,657 and \$1,569,187 during the years ended 2012 and 2011, 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 Alumni Foundation's wholly owned subsidiary, Advanced Technology Inc. (ATI). Grubb & Ellis Company is a property management firm affiliated with the MSU Alumni Foundation through ATI. Rental and other payments to Grubb & Ellis and ATI totaled \$109,392 during 2012 and \$120,592 during 2011. In June 2008, the University entered into a space lease agreement with the MSU Alumni 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 \$843,684 during 2012 and \$779,897 during 2011 and Friends of KEMC Public Radio provided \$500,000 during 2012 and \$300,000 during 2011 in support of the University's television and radio stations.

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The Museum of the Rockies, Inc. paid \$300,000 per year to the University for facility rental, and provided \$1,354,179 and \$1,307,120 during the fiscal years ended June 2012 and 2011, 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 \$ 1,030,000 and \$900,000 in support of athletic programs during the years ended June 30, 2012 and 2011.

**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 to the MSU Alumni Foundation in October 2011. The construction has not yet been approved by the state legislature.

In September 2012 the University entered into a space lease agreement with Advanced Technology Inc. for office space. The lease period is for October 31, 2012 to June 30, 2017, with a five-year renewal option. Annual rent is currently \$67,579.

In October 2012, the University issued bonds in the amount of \$48.8 million to refund the majority of its Series H and Series I debt.

In November, 2012, the University issued Intercap debt totaling \$4.35 million to fund energy efficiency projects in its auxiliary buildings.

**NOTE 20 – COMPONENT UNITS**

Entities included as component units of the University are nonprofit, tax exempt organizations operating exclusively for the purposes of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with the University. Although the University may not control the timing or amount of receipts from these entities, the majority of the revenues or incomes thereon that the entities hold and invest are restricted by donors to the activities of the University. The entities included as component units in the financial statements are the MSU Alumni 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 Alumni Foundation statement data as presented below reflects the merger of the MSU Foundation and the MSU Alumni Association effected January 1, 2012.

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**Montana State University**  
**Condensed Combining Schedule of Component Unit Statements of Financial Position**  
**As of June 30, 2012 or December 31, 2011\***

	Montana State University Alumni 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	\$ 131,171,151	\$ 19,659,621	\$ 3,824,363	\$ 9,400,555	\$ 1,375,879	\$ 165,431,569
Amounts due from MSU	878,264	-	1,575,169	-	-	2,453,433
Other receivables, net	28,060,256	1,221,100	1,726,193	357,354	54,898	31,419,801
Capital assets, net	4,971,203	1,943,089	59,210	3,190,934	-	10,164,436
Other assets	210,300	145,135	10,000	869,618	717,164	1,952,217
<b>Total assets</b>	<b>\$ 165,291,174</b>	<b>\$ 22,968,945</b>	<b>\$ 7,194,935</b>	<b>\$ 13,818,461</b>	<b>\$ 2,147,941</b>	<b>\$ 211,421,456</b>
<b>Liabilities:</b>						
Accounts payable and other liabilities	\$ 601,303	\$ 800,298	\$ 102,959	\$ 462,406	\$ 54,793	\$ 2,021,759
Amounts due to MSU	288,811	-	-	335,975	-	624,786
Notes, bonds and debt obligations	2,768,910	-	-	32,545	-	2,801,455
Liabilities to external parties	4,194,912	370,346	2,523,003	-	-	7,088,261
Custodial funds	9,383,489	1,307,177	-	-	-	10,690,666
<b>Total liabilities</b>	<b>17,237,425</b>	<b>2,477,821</b>	<b>2,625,962</b>	<b>830,926</b>	<b>54,793</b>	<b>23,226,927</b>
<b>Net assets:</b>						
Unrestricted	4,265,113	4,333,902	(1,039,513)	7,393,337	414,163	15,367,002
Temporarily restricted	61,592,348	3,804,144	1,719,481	4,770,989	339,092	72,226,054
Permanently restricted	82,196,288	12,353,078	3,889,005	823,209	1,339,893	100,601,473
<b>Total net assets</b>	<b>148,053,749</b>	<b>20,491,124</b>	<b>4,568,973</b>	<b>12,987,535</b>	<b>2,093,148</b>	<b>188,194,529</b>
<b>Total liabilities and net assets</b>	<b>\$ 165,291,174</b>	<b>\$ 22,968,945</b>	<b>\$ 7,194,935</b>	<b>\$ 13,818,461</b>	<b>\$ 2,147,941</b>	<b>\$ 211,421,456</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**  
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**For the Year Ended June 30, 2012 or December 31, 2011\***

	Montana State University Alumni 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	\$ 36,183,606	\$ 2,282,376	\$ 1,222,371	\$ 431,958	\$ 1,087,296	\$ 41,207,607
Investment income and unrealized gain on investments	(874,786)	91,508	32,296	(52,828)	(19,015)	(822,825)
Support from University	1,200,000	-	146,000	-	-	1,346,000
Other income	961,551	825,782	64,624	2,861,604	1,033,737	5,747,298
Total revenues	37,470,371	3,199,666	1,465,291	3,240,734	2,102,018	47,478,080
<b>Expenses:</b>						
University support	11,059,854	824,899	173,473	1,158,581	286,917	13,503,724
Scholarships and other program expenses	1,917,213	1,435,299	756,229	1,875,753	1,072,180	7,056,674
Supporting services	5,713,552	721,525	305,777	984,421	931,076	8,656,351
Total expenses	18,690,619	2,981,723	1,235,479	4,018,755	2,290,173	29,216,749
Change in net assets before nonoperating items	18,779,752	217,943	229,812	(778,021)	(188,155)	18,261,331
Nonoperating expenses	(304,810)	-	-	-	-	(304,810)
<b>Change in net assets</b>	18,474,942	217,943	229,812	(778,021)	(188,155)	17,956,521
<b>Net assets, beginning of fiscal year</b>	129,578,807	20,273,181	4,339,161	13,765,556	2,281,303	170,238,008
<b>Net assets, end of fiscal year</b>	\$ 148,053,749	\$ 20,491,124	\$ 4,568,973	\$ 12,987,535	\$ 2,093,148	\$ 188,194,529

**Component Unit Investment Composition\*:**

	2012	2011
Pooled investments**:		
Equity securities	\$ 13,803,305	\$ 14,543,220
Debt securities	8,678,921	10,816,845
Alternative investments	76,598,490	77,794,414
Real Estate	3,944,995	3,947,712
Cash equivalents	2,749,731	4,496,824
Other pooled investments	37,599,918	33,297,718
US Treasuries	288,148	365,044
Other real estate	1,091,508	1,374,870
Other investments	7,104,048	8,333,585
Investments held in trust for others	7,487,551	7,260,157
Total	\$ 159,346,615	\$ 162,230,389

**Component Unit Promises Receivable\*:**

	2012	2011
Receivable in one year	\$ 3,453,627	\$ 2,802,257
Receivable in one to five years	16,849,896	4,211,418
Receivable after five years	8,636,896	222,023
Less discounts and allowances	(1,819,571)	(505,070)
Total	\$ 27,120,259	\$ 6,730,628

\* 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 (restated)****As of June 30, 2011 or December 31, 2010\***

	<b>Montana State University Alumni 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	\$ 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	1,131,866	452,031	33,376	11,583,883
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>\$ 6,099,909</b>	<b>\$ 14,803,889</b>	<b>\$ 2,344,384</b>	<b>\$ 196,697,724</b>
<b>Liabilities:</b>						
Accounts payable and other liabilities	\$ 1,915,602	\$ 695,260	\$ 7,634	\$ 454,224	\$ 63,081	\$ 3,135,801
Amounts due to MSU	279,588	-	-	535,711	-	815,299
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>1,760,748</b>	<b>1,038,333</b>	<b>63,081</b>	<b>26,459,716</b>
<b>Net assets:</b>						
Unrestricted	4,477,298	4,421,234	(943,741)	8,019,865	542,820	16,517,476
Temporarily restricted	45,857,689	4,089,464	1,494,210	4,925,661	400,590	56,767,614
Permanently restricted	79,243,820	11,762,483	3,788,692	820,030	1,337,893	96,952,918
<b>Total net assets</b>	<b>129,578,807</b>	<b>20,273,181</b>	<b>4,339,161</b>	<b>13,765,556</b>	<b>2,281,303</b>	<b>170,238,008</b>
<b>Total liabilities and net assets</b>	<b>\$ 150,717,371</b>	<b>\$ 22,732,171</b>	<b>\$ 6,099,909</b>	<b>\$ 14,803,889</b>	<b>\$ 2,344,384</b>	<b>\$ 196,697,724</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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**Condensed Combining Schedule of Component Unit Statements of Activities (restated)**  
**For the Year Ended June 30, 2011 or December 31, 2010\***

	Montana State University Alumni 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	\$ 1,586,993	\$ 19,613,434
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	549,849	5,321,441
Total revenues	30,520,446	5,917,739	1,687,749	3,682,570	2,334,321	44,142,825
<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
Total expenses	9,905,001	3,106,876	1,071,326	3,711,067	2,063,932	19,858,202
Change in net assets before nonoperating items	20,615,445	2,810,863	616,423	(28,497)	270,389	24,284,623
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>270,389</b>	<b>24,947,345</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>Prior Period Adjustment</b>	<b>-</b>	<b>-</b>	<b>(5,880)</b>	<b>-</b>	<b>-</b>	<b>(5,880)</b>
<b>Net assets at beginning of year, as restated</b>	<b>108,300,640</b>	<b>17,462,318</b>	<b>3,722,738</b>	<b>13,794,053</b>	<b>2,010,914</b>	<b>145,290,663</b>
<b>Net assets, end of fiscal year</b>	<b>\$ 129,578,807</b>	<b>\$ 20,273,181</b>	<b>\$ 4,339,161</b>	<b>\$ 13,765,556</b>	<b>\$ 2,281,303</b>	<b>\$ 170,238,008</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>Funded 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%
July 1, 2011	-	\$ 55,421,239	\$ 55,421,239	0.00%	\$ 183,870,217	30.14%

**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%
July 1, 2011	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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**Unaudited Supplemental Information**

<b>A-54</b>	<b>Montana State University-All Campuses and Agencies</b>
<b>A-58</b>	<b>MSU Bozeman</b>
<b>A-60</b>	<b>Montana Agricultural Experiment Station</b>
<b>A-61</b>	<b>MSU Extension Service</b>
<b>A-62</b>	<b>MSU Fire Services Training School</b>
<b>A-63</b>	<b>MSU Billings</b>
<b>A-66</b>	<b>MSU Northern</b>
<b>A-67</b>	<b>Great Falls College Montana State University</b>

**Montana State University**  
**Unaudited Consolidating Statements of Net Position**  
**As of June 30, 2012**

	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	Great Falls College MSU	Inter campus Eliminations	MSU Consolidated Total
<b>ASSETS</b>									
<b>Current assets:</b>									
Cash and cash equivalents	\$ 120,806,825	\$ 6,893,777	\$ 3,394,506	\$ 137,009	\$ 38,796,293	\$ 6,311,528	\$ 6,075,967	-	\$ 182,415,905
Short term investments	758,160	-	-	-	-	-	-	-	758,160
Securities lending collateral	1,022,620	-	-	-	45,121	-	532	-	1,068,273
Accounts and grants receivable, net	5,691,130	69,849	156,108	3,223	1,462,895	1,270,135	298,101	-	8,951,441
Amounts receivable from Federal government	11,871,102	-	347,716	-	37,212	583,815	28,166	-	12,868,011
Amounts receivable from primary government	554,012	-	-	-	23,787	57,635	38,586	-	674,020
Amounts receivable from Montana component units	-	-	-	-	8,425	6,471	2,841	-	17,737
Amounts receivable from MSU campuses	-	-	-	-	53,152	-	-	(53,152)	-
Loans receivable, net	2,759,321	-	-	-	337,488	237,455	-	-	3,334,264
Inventories	939,868	722,320	-	2,279	876,424	290,216	283,919	-	3,115,026
Prepaid expenses and other current assets	1,735,533	-	-	-	160,678	80,254	131,984	-	2,108,449
<b>Total current assets</b>	<b>146,138,571</b>	<b>7,685,946</b>	<b>3,898,330</b>	<b>142,511</b>	<b>41,801,475</b>	<b>8,837,509</b>	<b>6,860,096</b>	<b>(53,152)</b>	<b>215,311,286</b>
<b>Noncurrent assets:</b>									
Restricted cash and cash equivalents	946,467	-	-	-	12,198	64,400	11,117	-	1,034,182
Restricted investments	6,723,606	-	-	-	202	100,538	183	-	6,824,529
Loans receivable, net	17,123,309	-	-	-	2,831,761	1,436,450	-	-	21,391,520
Investments	19,721,938	104,104	32,806	66	353,830	-	3,995	-	20,216,739
Capital assets	266,254,345	18,489,035	283,989	204,859	52,685,182	20,911,761	20,641,323	-	379,470,494
Other noncurrent assets	1,176,177	-	-	-	30,889	5,311	-	(150,000)	1,062,377
<b>Total noncurrent assets</b>	<b>311,945,842</b>	<b>18,593,139</b>	<b>316,795</b>	<b>204,925</b>	<b>55,914,062</b>	<b>22,518,460</b>	<b>20,656,618</b>	<b>(150,000)</b>	<b>429,999,841</b>
<b>Total assets</b>	<b>\$ 458,084,413</b>	<b>\$ 26,279,085</b>	<b>\$ 4,215,125</b>	<b>\$ 347,436</b>	<b>\$ 97,715,537</b>	<b>\$ 31,355,969</b>	<b>\$ 27,516,714</b>	<b>(203,152)</b>	<b>\$ 645,311,127</b>
<b>DEFERRED OUTFLOW</b>									
Derivative financial instrument deferred outflow	\$ 6,070,489	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,070,489
<b>LIABILITIES</b>									
<b>Current liabilities:</b>									
Accounts payable and accrued liabilities	\$ 22,085,591	\$ 1,027,950	\$ 970,696	\$ 39,882	\$ 3,989,899	\$ 2,858,491	\$ 797,547	-	\$ 31,770,056
Amounts payable to primary government	1,369,790	-	-	-	260,970	137,335	43,738	-	1,811,833
Amounts payable to Montana component units	407,756	-	-	-	-	-	-	-	407,756
Amounts payable to MSU campuses	53,152	-	-	-	-	-	-	(53,152)	-
Securities Lending Liability	1,022,620	-	-	-	45,121	-	532	-	1,068,273
Property held in trust for others	2,162,566	-	-	-	173,684	105,321	125,860	-	2,567,431
Deferred revenues	6,709,547	-	21,167	-	1,537,261	400,125	447,731	-	9,115,831
Compensated absences	10,032,458	1,076,309	802,703	25,096	1,851,817	648,068	401,253	-	14,837,704
Current portion debt and capital lease obligations	4,856,091	-	-	-	575,000	350,000	-	-	5,781,091
<b>Total current liabilities</b>	<b>48,699,571</b>	<b>2,104,259</b>	<b>1,794,566</b>	<b>64,978</b>	<b>8,433,752</b>	<b>4,499,340</b>	<b>1,816,661</b>	<b>(53,152)</b>	<b>67,359,975</b>
<b>Noncurrent liabilities:</b>									
Advances from primary government	15,086,255	-	-	-	2,743,365	1,292,176	620,161	(150,000)	19,591,957
Debt and capital lease obligations	101,236,970	-	-	-	10,079,677	1,742,539	-	-	113,059,186
Compensated absences	8,767,366	940,640	701,523	21,933	1,812,870	597,547	208,909	-	13,050,788
OPEB	32,212,187	2,227,016	1,958,317	99,648	6,976,800	2,918,933	1,636,709	-	48,029,610
Due to Federal government	17,929,844	-	-	-	3,065,375	1,485,211	-	-	22,480,430
Derivative liability	6,496,633	-	-	-	-	-	-	-	6,496,633
<b>Total noncurrent liabilities</b>	<b>181,729,255</b>	<b>3,167,656</b>	<b>2,659,840</b>	<b>121,581</b>	<b>24,678,087</b>	<b>8,036,406</b>	<b>2,465,779</b>	<b>(150,000)</b>	<b>222,708,604</b>
<b>Total liabilities</b>	<b>\$ 230,428,826</b>	<b>\$ 5,271,915</b>	<b>\$ 4,454,406</b>	<b>\$ 186,559</b>	<b>\$ 33,111,839</b>	<b>\$ 12,535,746</b>	<b>\$ 4,282,440</b>	<b>(203,152)</b>	<b>\$ 290,068,579</b>
<b>NET POSITION</b>									
Invested in capital assets, net of related debt	\$ 160,855,823	\$ 18,489,035	\$ 283,989	\$ 204,859	\$ 39,061,045	\$ 17,540,934	\$ 19,977,424	-	\$ 256,413,109
Restricted - nonexpendable	11,339,445	-	-	-	695,894	417,064	11,300	-	12,463,703
Restricted - expendable	11,090,882	61,126	(867,506)	-	1,027,878	1,327,428	183,632	-	12,823,440
Unrestricted	50,439,926	2,457,009	344,236	(43,982)	23,818,881	(465,203)	3,061,918	-	79,612,785
<b>Total net position</b>	<b>\$ 233,726,076</b>	<b>\$ 21,007,170</b>	<b>\$ (239,281)</b>	<b>\$ 160,877</b>	<b>\$ 64,603,698</b>	<b>\$ 18,820,223</b>	<b>\$ 23,234,274</b>	<b>-</b>	<b>\$ 361,313,037</b>

Montana State University  
Unaudited Consolidating Statement of Revenues, Expenses and Changes in Financial Position  
For the Year Ended June 30, 2012

	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	Great Falls College MSU	Intercampus Eliminations	Total
<b>Operating revenues:</b>									
Tuition and fees	\$ 108,094,651	\$ -	\$ -	\$ -	\$ 24,827,509	\$ 5,156,734	\$ 3,728,640	\$ -	\$ 141,807,534
Federal appropriations	-	2,192,197	2,922,028	-	-	-	-	-	5,114,225
Federal grants and contracts	73,462,595	-	-	-	3,231,321	3,435,023	1,371,010	(251,639)	81,248,310
State grants and contracts	4,190,149	-	121,846	-	728,656	549,020	225,687	-	5,815,358
Non-governmental grants and contracts	8,661,753	-	219,839	-	352,929	177,019	80,018	-	9,491,558
Indirect cost recoveries	17,220,340	-	-	-	337,078	304,152	(3,248)	-	17,858,322
Educational, public service and outreach revenues	17,637,781	2,798,226	4,299,423	155,465	1,380,389	284,405	79,553	(2,124,705)	24,510,537
Auxiliary - housing	14,038,090	-	-	-	1,829,385	479,797	-	-	16,347,272
Auxiliary - food service	14,946,628	-	-	-	1,234,431	644,455	217,381	-	17,042,895
Auxiliary - other auxiliary sales and services	3,033,891	-	-	-	4,272,123	703,636	1,163,402	(108,647)	9,064,405
Interest earned on loans	55,083	-	-	-	41,726	4,143	-	-	100,952
Other operating revenues	5,873,320	18,467	7,633	-	150,087	39,249	16,302	-	6,105,058
<b>Total operating revenues</b>	<b>267,214,281</b>	<b>5,008,890</b>	<b>7,570,769</b>	<b>155,465</b>	<b>38,385,634</b>	<b>11,777,633</b>	<b>6,878,745</b>	<b>(2,484,991)</b>	<b>334,506,426</b>
<b>Operating expenses:</b>									
Compensation and benefits	184,207,823	12,884,508	10,579,904	603,581	34,744,537	13,179,042	8,912,404	-	265,111,799
Annual Required Contribution OPEB	5,423,587	345,944	321,110	15,827	1,106,261	436,432	253,653	-	7,902,814
Operating expenses	111,631,355	3,539,278	2,146,757	328,837	20,307,136	6,924,136	4,925,761	(2,461,791)	147,341,469
Scholarships and fellowships	17,027,578	5,877	-	-	5,822,059	1,626,181	2,830,672	(23,200)	27,289,167
Depreciation and amortization	21,676,336	925,750	63,963	48,605	3,734,830	1,358,532	845,506	-	28,653,522
<b>Total operating expenses</b>	<b>339,966,679</b>	<b>17,701,357</b>	<b>13,111,734</b>	<b>996,850</b>	<b>65,714,823</b>	<b>23,524,323</b>	<b>17,767,996</b>	<b>(2,484,991)</b>	<b>476,298,771</b>
<b>Operating loss</b>	<b>(72,752,398)</b>	<b>(12,692,467)</b>	<b>(5,540,965)</b>	<b>(841,385)</b>	<b>(27,329,189)</b>	<b>(11,746,690)</b>	<b>(10,889,251)</b>	<b>-</b>	<b>(141,792,345)</b>
<b>Nonoperating revenues (expenses):</b>									
State and local appropriations	47,015,502	12,932,024	5,528,900	739,738	19,552,428	9,094,922	6,121,433	-	100,984,947
Pell Grants	16,373,396	-	-	-	8,043,620	2,735,158	4,690,709	-	31,842,883
Land grant and timber sales income	1,450,074	-	-	-	308,704	-	-	-	1,758,778
Gifts	10,596,214	-	5,704	-	1,915,597	977,703	91,377	-	13,586,595
Investment Income	2,752,452	22,860	7,755	624	111,078	21,063	18,226	-	2,934,058
Interest expense	(5,028,901)	-	-	-	(601,426)	(176,118)	(45,410)	-	(5,851,855)
<b>Net nonoperating revenues (expenses)</b>	<b>73,158,737</b>	<b>12,954,884</b>	<b>5,542,359</b>	<b>740,362</b>	<b>29,330,001</b>	<b>12,652,728</b>	<b>10,876,335</b>	<b>-</b>	<b>145,255,406</b>
<b>Income before other revenues, expenses, gains and losses</b>	<b>406,339</b>	<b>262,417</b>	<b>1,394</b>	<b>(101,023)</b>	<b>2,000,812</b>	<b>906,038</b>	<b>(12,916)</b>	<b>-</b>	<b>3,463,061</b>
Transfers in (out)	(1,182,480)	917,965	236,936	5,500	(50,000)	22,079	50,000	-	-
Gain or loss on sale of fixed assets	(246,955)	(107,584)	2,530	-	12,033	(24,398)	-	-	(364,374)
Additions to permanent endowments	101,129	-	-	-	-	(4,019)	-	-	97,110
Gifts, capital grants and contributions	20,696,809	-	-	-	231,172	139,689	324,913	-	21,392,583
<b>Change in financial position</b>	<b>19,774,842</b>	<b>1,072,798</b>	<b>240,860</b>	<b>(95,523)</b>	<b>2,194,017</b>	<b>1,039,389</b>	<b>361,997</b>	<b>-</b>	<b>24,588,380</b>
<b>Financial position, beginning 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>
<b>Financial position, end of year</b>	<b>\$ 233,726,076</b>	<b>\$ 21,007,170</b>	<b>\$ (239,281)</b>	<b>\$ 160,877</b>	<b>\$ 64,603,698</b>	<b>\$ 18,820,223</b>	<b>\$ 23,234,274</b>	<b>\$ -</b>	<b>\$ 361,313,037</b>

Montana State University  
Unaudited Selected Cash Flow Information  
For the year ended June 30, 2012

	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	Great Falls College MSU	Inter-campus Eliminations	MSU Consolidated
<b>Cash flows from operating activities:</b>									
Operating revenues:									
Tuition and fees	\$108,306,070	\$ -	\$ 124	\$ -	\$24,451,194	\$ 5,119,212	\$ 3,687,590	\$ -	\$ 141,564,190
Federal appropriations	-	2,192,196	3,019,648	-	-	-	-	-	5,211,844
Federal grants and contracts	73,538,622	-	8,569	-	3,387,022	2,506,191	1,438,707	(251,639)	80,627,472
State grants and contracts	4,554,942	-	121,846	-	603,429	432,640	231,971	-	5,944,828
Private grants and contracts	7,634,841	-	219,839	-	342,014	108,949	81,018	-	8,386,661
Grant and contract indirect cost recoveries	17,912,532	-	-	-	337,078	304,152	(3,248)	-	18,550,514
Educational, public service and outreach revenues	17,782,097	2,832,362	4,256,268	155,465	1,429,724	275,992	85,424	(2,124,705)	24,692,627
Sales and services of auxiliary enterprises	31,761,932	-	-	4,004	7,285,440	1,742,232	1,354,650	(108,647)	42,039,611
Interest on loans receivable	200,956	-	-	-	41,726	-	-	-	242,682
Other operating receipts	5,873,320	18,466	7,633	-	150,087	39,249	16,302	-	6,105,057
Operating expenses:									
Compensation and benefits	(183,788,855)	(12,666,859)	(10,395,994)	(667,342)	(35,207,247)	(12,239,011)	(9,126,965)	-	(264,092,273)
Operating expenses	(111,828,190)	(3,816,235)	(2,467,202)	(347,768)	(18,431,978)	(6,631,549)	(5,349,321)	2,461,791	(146,410,452)
Scholarships and fellowships	(17,027,578)	(5,877)	-	-	(5,822,059)	(1,624,984)	(2,830,672)	23,200	(27,287,970)
Loans made to students	(3,173,681)	-	-	-	(303,850)	(181,533)	-	-	(3,659,064)
Loan payments received	2,790,576	-	-	-	361,696	236,069	-	-	3,388,341
Inter-campus payables/receivables	16,564	-	-	-	(13,579)	28,418	(31,403)	-	-
<b>Net cash used in operating activities</b>	<b>(45,445,852)</b>	<b>(11,445,947)</b>	<b>(5,229,269)</b>	<b>(855,641)</b>	<b>(21,389,303)</b>	<b>(9,883,973)</b>	<b>(10,445,947)</b>	<b>-</b>	<b>(104,695,932)</b>
<b>Cash flows from noncapital financing activities:</b>									
Receipts (disbursements) of funds held in trust for others	1,131,097	-	-	-	28,565	(9,730)	10,646	-	1,160,578
Direct lending proceeds	66,956,472	-	-	-	22,589,796	4,863,542	-	-	94,409,810
Direct lending disbursements	(66,956,472)	-	-	-	(22,589,796)	(4,863,542)	-	-	(94,409,810)
State and local appropriations	47,015,502	12,932,023	5,528,900	739,738	19,552,428	9,094,922	6,121,433	-	100,984,946
Federal pell grant funds received	16,373,396	-	-	-	8,043,620	2,735,158	4,690,709	-	31,842,883
Gifts and contributions (expendable)	10,596,214	-	5,704	-	1,915,597	977,703	91,377	-	13,586,595
Land grant income	1,450,074	-	-	-	308,704	-	-	-	1,758,778
Repayment of long-term advance from primary government	(53,091)	-	-	-	-	-	-	-	(53,091)
Additions to permanent endowments	101,129	-	-	-	-	-	-	-	101,129
Transfers between campuses and agencies	(1,182,478)	917,964	236,935	5,500	(50,000)	22,079	50,000	-	-
<b>Net cash flows from noncapital financing activities</b>	<b>75,431,843</b>	<b>13,849,987</b>	<b>5,771,539</b>	<b>745,238</b>	<b>29,798,914</b>	<b>12,820,132</b>	<b>10,964,165</b>	<b>-</b>	<b>149,381,818</b>
<b>Cash flows from capital financing activities:</b>									
Purchase of capital assets	(23,359,447)	(2,224,038)	(92,396)	(8,025)	(3,895,033)	(1,345,826)	(315,006)	-	(31,239,771)
Proceeds from sale of capital assets	79,990	15,000	2,530	-	14,744	-	-	-	112,264
Gifts -restricted for capital purchase	1,645,546	-	-	-	-	-	-	-	1,645,546
Other capital financing activities	299,850	-	-	-	2,207	-	-	-	302,057
Proceeds from borrowings	15,273,962	-	-	-	20,234	-	-	-	15,294,196
Debt retirement	(4,657,279)	-	-	-	(545,001)	(313,782)	-	-	(5,516,062)
Payment of debt issue costs	(166,717)	-	-	-	-	-	-	-	(166,717)
Advances from primary government	3,067,090	-	-	-	984,570	212,436	-	-	4,264,096
Repayment of advances from primary government	(1,270,109)	-	-	-	(202,390)	(121,390)	(41,090)	-	(1,634,979)
Interest paid	(4,846,415)	-	-	-	(603,743)	(164,353)	(45,410)	-	(5,659,921)
<b>Net cash change from capital financing activities</b>	<b>(13,933,529)</b>	<b>(2,209,038)</b>	<b>(89,866)</b>	<b>(8,025)</b>	<b>(4,224,412)</b>	<b>(1,732,915)</b>	<b>(401,506)</b>	<b>-</b>	<b>(22,599,291)</b>
<b>Cash flows from investing activities:</b>									
Purchase of investments	(211,665)	-	(75,101)	(4,561)	-	-	-	-	(291,327)
Proceeds from sale of investments	798,995	3,017	74,357	5,838	3,086	-	14,414	-	899,707
Investment income	1,574,742	22,859	7,755	624	108,746	20,648	17,867	-	1,753,241
<b>Net cash change from investing activities</b>	<b>2,162,072</b>	<b>25,876</b>	<b>7,011</b>	<b>1,901</b>	<b>111,832</b>	<b>20,648</b>	<b>32,281</b>	<b>-</b>	<b>2,361,621</b>
<b>Net change in cash and cash equivalents</b>	<b>18,214,534</b>	<b>220,878</b>	<b>459,415</b>	<b>(116,527)</b>	<b>4,297,031</b>	<b>1,223,892</b>	<b>148,993</b>	<b>-</b>	<b>24,448,216</b>
<b>Balances at beginning 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>
<b>Balances at end of year</b>	<b>\$121,753,292</b>	<b>\$ 6,893,777</b>	<b>\$ 3,394,506</b>	<b>\$ 137,009</b>	<b>\$38,808,491</b>	<b>\$ 6,375,928</b>	<b>\$ 6,087,084</b>	<b>\$ -</b>	<b>\$ 183,450,087</b>

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

**Montana State University**  
**Unaudited Supplemental Information**  
**As of and for the Year Ended June 30, 2012**

(continued)

**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**

	2012	2011	2010
<b>Montana residents</b>			
Undergraduate	14,001	13,802	13,194
Graduate	1,168	1,179	1,127
<b>Nonresidents</b>			
Undergraduate	3,108	2,851	2,537
Graduate	264	298	262
<b>Western Undergraduate Exchange</b>	879	816	680
<b>Total</b>	<u>19,420</u>	<u>18,946</u>	<u>17,800</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 2011-2012 academic year, on a per-semester basis, were as follows:

	<b>Resident Undergraduate—Graduate</b>	<b>Nonresident Undergraduate (WUE)— Graduate</b>
Bozeman Campus	\$3,214 – \$3,722	\$4,527 – \$10,084
Billings Campus	\$2,735 – \$3,154	\$3,837 – \$8,398
Northern Campus <sup>(1)</sup>	\$2,535 – \$3,230	\$3,528 – \$8,870
Great Falls Campus <sup>(2)</sup>	\$1,535 – N/A	\$2,159 – N/A

(1) Average of lower and upper divisions.

(2) Undergraduate program only.

**Employees**

As of fall 2011, the University employed 7,945 employees and graduate assistants as follows:

	<b>Bozeman</b>	<b>Billings</b>	<b>Northern</b>	<b>Great Falls</b>	<b>Total</b>
Faculty/Professional	1,947	474	205	167	2,793
State classified system	1,157	215	67	49	1,488
Temporary hourly	301	79	46	13	439
Students	2,080	333	142	72	2,627
Graduate assistants	581	17	-	-	598
<b>Total</b>	<u>6,066</u>	<u>1,118</u>	<u>460</u>	<u>301</u>	<u>7,945</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.



**Montana State University**  
**Unaudited Supplemental Information**  
**As of and for the Year Ended June 30, 2012**

(continued)

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

On February 16, 1893, the Agricultural College of the State of Montana was founded in Bozeman as the state's land grant institution, and was the first unit of higher education of the of the state of Montana. Later renamed The Montana College of Agriculture and Mechanic Arts, the institution was popularly known as Montana Agricultural College, or MAC. By the 1920s, the institution's preferred name was Montana State College and so it remained until July 1, 1965, when, in recognition of the enormous advances in the College's commitment to scientific and humanistic research, the thirty-ninth legislative assembly of the State of Montana changed MSC's name to Montana State University. In 1994, the Board of Regents approved a restructuring plan that created a four-campus Montana State University and gave the Bozeman campus administrative oversight of the, now, MSU-Billings, Great Falls College MSU 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), as well as 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; University Studies; and the Graduate School.

The campus offers a curriculum leading to associates' degrees in three areas, bachelor's degrees in over 50 fields, master's degrees in over 40 fields and doctorate degrees in nearly 20 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, an Animal Bioscience facility, the recently renovated historic Hamilton Hall, the recently-renovated Gaines Hall, a heavily used chemistry 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 and a suite-style residence hall.

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>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Resident</b>	Undergraduate	7,702	7,435	7,174	7,072	7,166
	Gallatin College	254	217			
	Graduate	802	801	797	705	685
	Total resident	8,758	8,452	7,971	7,777	7,851
<b>Nonresident</b>	Undergraduate	2,793	2,594	2,326	2,170	2,086
	Gallatin College	77	62			
	Graduate	236	274	231	321	230
	Total nonresident	3,106	2,930	2,557	2,491	2,316
<b>Western Undergraduate Exchange</b>		488	438	348	240	299
<b>Total</b>		<b>12,352</b>	<b>11,820</b>	<b>10,876</b>	<b>10,508</b>	<b>10,466</b>



**Montana State University**  
**Unaudited Supplemental Information**  
**As of and for the Year Ended June 30, 2012**

(continued)

<b>Degrees Granted - Fiscal Years Ended June 30,</b>					
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Undergraduate	1,853	1,831	1,835	1,889	1,809
Graduate	591	548	519	485	487
<b>TOTAL:</b>	<b>2,444</b>	<b>2,379</b>	<b>2,354</b>	<b>2,374</b>	<b>2,296</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, nursing, and community outreach. It ranks among the nation's leaders in the number of students awarded Goldwater science, math and engineering scholarships. 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 has recently been completed, and guides MSU- Bozeman's actions as it serves the citizens of the State of Montana. Management, faculty, staff and student leadership will continue planning and working together, striving for balance by combining appropriate levels of both expenditures and revenues, maintaining quality programs and assuring student access and success.

**Montana State University  
Unaudited Supplemental Information  
As of and for the Year Ended June 30, 2012**

**(continued)**

**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 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 at its research centers throughout Montana and at the Bozeman campus.

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 consisting of multiple counties, as well as the broader needs of Montana's agricultural and natural resource 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, 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 to 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 and leveraging new extramural funding to support research programs. The College of Agriculture, which is predominantly funded by MAES, has been in the top two MSU colleges in terms of sponsored program expenditures, at approximately \$20 million annually. The College of Agriculture and MAES have three departments that rank in the top five 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 an 8% base budget cut in FY11, and recent appropriations will support the operations and maintenance of new buildings across the MAES system, restore some graduate student stipends, and create an internal equipment fund. The MAES foresees continued pressure to reduce agricultural research funding through the upcoming farm bill. Competitive grant programs at state, regional and national levels are also significantly constrained. These concerns occur concurrently with an increased need for agriculture to succeed as a primary economic engine for Montana. Faculty are supported by MAES, with some academic program support, and reside in the MSU-Bozeman College of Agriculture, which competes on a national and international basis to recruit and retain 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.

**Montana State University**  
**Unaudited Supplemental Information**  
**As of and for the Year Ended June 30, 2012**

**(continued)**

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**MSU Extension Service (ES)**

**Agency Overview**

The mission of the Montana State University Extension Service is to extend the positive impact of research-generated knowledge throughout the state by making it accessible and useful to individuals, families and communities, empowering them to improve their quality of life and strengthen agriculture, forestry and other businesses. To meet the educational needs of Montanans, Extension coordinates 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 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 combines State general fund, Federal Smith-Lever and county sources. The State legislature appropriates general 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 the benefit costs for all employees hired on State funding from those funds. County agent benefits are paid from a blend of Federal Smith-Lever and State general fund dollars. Operational allocations are made to specialists based on a pre-established formula, and 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 ARCs 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 children, 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.

Extension agents work with Montana's 4-H programs to serve youth throughout the state. In 2011, Montana 4-H reached 19,112 Montana youth, ages 6-19. Approximately 50 percent of these youth are involved in year-long community clubs, while the rest are active through a variety of short term and special interest education programs. These youth are supported by 3,800 trained adult and youth volunteers who lead local programs and activities.

Local community and economic viability efforts continue 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.

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

**Montana State University  
Unaudited Supplemental Information  
As of and for the Year Ended June 30, 2012**

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**Fire Services Training School (FSTS)**

**2012 Agency Overview**

The Fire Services Training School (FSTS) is an educational outreach program of Montana State University's Extension Service. The FSTS is authorized in 20-31-102, MCA. The purpose of the FSTS is to provide fire service personnel with professional training, identify new methods of fire prevention and suppression and disseminate information about them, provide a resource center for use by local fire services, provide testing and certification for personnel and apparatus and coordinate fire services training in the state.

We accomplish this by building 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. FSTS trainers provide instruction and resources to local fire and rescue services and are strategically located in Cascade, Yellowstone, Roosevelt, Flathead, Missoula, Gallatin and Lewis & Clark counties.

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.

FSTS curriculum includes entry level recruit academies, hazardous materials and technical rescue courses, leadership and management, as well as tactical and strategic level incident operations courses. The Fire Services Training School continues to introduce new methods and technology into local fire service organizations, and has resulted in enhanced firefighter safety, a higher level of citizen protection, and significantly reduced costs for fire insurance premiums in many communities.

**Montana State University**  
**Unaudited Supplemental Information**  
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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 on two campuses: the College of Arts and Sciences, the College of Business, the College of Education, the College of Allied Health Professions and City College, which serves the comprehensive two-year mission of the University on a campus seven miles west of the University Campus. 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. The University also maintains a presence in Downtown Billings through outreach education to underserved populations, GED preparation, summer programs for children and short-term training/conference space.

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 is accredited by the National Council for the Accreditation of Teacher Education for preparing elementary and secondary teachers and school counselors through the Bachelor of Science and Master of Education degrees, and the Master of Science in Special Education degree. MSU Billings is also accredited by the National Association of Schools of Music, the National Association of Schools of Art and Design, and the Council on Rehabilitation Education. City College 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 for Inclusive Education, a comprehensive education, rehabilitation, and diagnostic center serving Montanans with disabilities.

**Enrollment**

	<b>Annual Student FTE for Fiscal Years Ended June 30,</b>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Resident</b>					
Undergraduate	2,731	2,819	2,707	2,773	2,844
College of Technology	947	990	924	624	666
Graduate	314	317	264	256	254
Total Resident	3,992	4,126	3,895	3,653	3,764
<b>Nonresident</b>					
Undergraduate	138	109	91	93	86
College of Technology	24	16	12	5	4
Graduate	28	24	31	44	42
Total nonresident	190	149	134	142	132
<b>Western Undergraduate Exchange</b>					
Main Campus	252	193	193	217	222
College of Technology	44	37	37	29	36
Total Western Undergraduate Exchange	296	280	230	246	258
<b>Total</b>	<b>4,478</b>	<b>4,555</b>	<b>4,259</b>	<b>4,041</b>	<b>4,154</b>

**Montana State University**  
**Unaudited Supplemental Information**  
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(continued)

	Degrees Awarded by Type				
	2012	2011	2010	2009	2008
<b>Senior Campus:</b>					
Associate Degrees	32	40	32	33	29
Bachelor's Degrees	510	533	547	540	550
Master's Degrees	152	125	128	106	121
<b>Total Senior Campus</b>	<b>694</b>	<b>698</b>	<b>707</b>	<b>679</b>	<b>700</b>
<b>City College:</b>					
Certificates	36	29	28	32	31
Associate Degrees	291	212	196	189	203
<b>Total City College</b>	<b>327</b>	<b>241</b>	<b>224</b>	<b>221</b>	<b>234</b>
<b>Grand Total Degrees</b>	<b>1,021</b>	<b>939</b>	<b>931</b>	<b>900</b>	<b>934</b>

MSU Billings started the 2012-2013 academic year with more than 5,000 students, continuing a five-year upward trend on enrollment. This marks the fourth straight year where MSU Billings enrollment eclipsed the 5,000 mark, making it the third largest higher education unit in the state. While FTE enrollment growth was down for fall of 2011, there was an increase in non-resident students. Factors contributing to decreased student FTE in 2012 include a record graduating class last spring, declining high school enrollments in Montana, and a strong economic growth in Eastern Montana. However the five-year trend points to continued interest in MSU Billings and its programs.

#### **Campus Outlook**

MSU Billings continues to serve our students and community with superior levels of excellence and efficiency. Base budgets have been reallocated to develop a student-centered learning environment using continuous assessment of learner growth, 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 priority for the University.

Program innovations include Health Care Pathways 2+2 pilot programs and general business 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. U.S. Department of Justice grants allow continuation of training at the Montana Women's Prison in Billings. The University also received a new grant from the National Science Foundation for a NOYCE grant to prepare teachers for rural Montana.

Because Billings is the primary healthcare center of the region, MSU Billings partnered with the healthcare 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 again 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 2013". For more than a decade, MSU Billings had ranked among top colleges in the third tier of schools. For the second year in a row, however, MSU Billings has been ranked in the first tier.

**Montana State University**  
**Unaudited Supplemental Information**  
**As of and for the Year Ended June 30, 2012**

**(continued)**

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City College at MSU Billings (formerly known as 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 1,336 in 2012. With City College 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 City College include a Construction Trades Training Program developed in partnership with the Montana Contractors’ Association, Inc; an Associate of Science degree in nursing; an Associate of Applied Science in Power Plant Technology; an Associate of Applied Science in Welding and Metal Fabrication Technology; a Certificate of Applied Science in Welding for Energy Technology; 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.

Support for the University continues to be strong. 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. The campaign will wind up this year with the good news that gifts and pledges of \$6.4 million were received, exceeding the \$6 million goal. The Foundation distributed over \$1 million in scholarships in FY12.



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(continued)

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**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**

	Student FTE for Fiscal Years Ended June 30,				
	2012	2011	2010	2009	2008
<b>Resident</b>					
Undergraduate	943	954	914	882	916
Graduate	52	61	66	75	6
Total resident	995	1,015	980	957	979
<b>Nonresident</b>					
Undergraduate	41	47	45	50	51
Graduate	0	0	0	0	0
Total nonresident	41	47	45	50	51
<b>Western Undergraduate Exchange</b>	89	93	93	67	66
<b>Total</b>	<b>1,125</b>	<b>1,155</b>	<b>1,118</b>	<b>1,074</b>	<b>1,096</b>

	Degrees Granted - Fiscal Years Ended June 30,				
	2012	2011	2010	2009	2008
Undergraduate	259	284	227	252	267
Graduate	10	39	13	28	13
<b>Total:</b>	<b>359</b>	<b>323</b>	<b>240</b>	<b>280</b>	<b>280</b>

**Campus Outlook**

MSU-Northern is located in the rural, northern region of Montana. With decreasing populations in certain areas of 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.



**Montana State University**  
**Unaudited Supplemental Information**  
**As of and for the Year Ended June 30, 2012**

**(continued)**

**Great Falls College MSU**

**Campus Overview**

On June 28, 2012 the Montana Board of Regents of Higher Education officially changed the name of Montana State University – Great Falls College of Technology to Great Falls College Montana State University. This action was in consonance with the name change of all other colleges of technology in Montana. The former ‘college of technology’ name did not reflect the expanded comprehensive mission of these two-year schools. Dr. Susan J. Wolff joined the college as Dean and CEO effective July 16, 2012.

Great Falls College Montana State University (GFCMSU) is an independently accredited, comprehensive two-year college primarily serving north-central Montana. GFCMSU 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. Transfer degrees include general education (Associate of Arts, Associate of Science, and the Montana University System Core) offerings. The Certificate and Associate of Applied Science degrees include one- and two-year applied programs in Health Sciences, Business Trades, and Technology disciplines. As part of being a comprehensive two-year college, additional offerings related to workforce development, customized and contracted training, and community enrichment are provided as part of economic and community development. Several of the Health Sciences and Trades programs are unique to the State and the region. In partnership with the Great Falls Public Schools, the ABLE program is also housed on the Great Falls College MSU campus. College Pathways advisers who are co-located at the two high schools in Great Falls also do bridge advising for the ABLE students to prepare them to continue their education. The College has a full complement of student, academic and administrative services reflective of a larger campus.

GFCMSU 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 Great Falls College Montana State University are related through common management; however, they are separate and distinct entities. The mission of GFCMSU 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.

GFCMSU is regionally accredited by the Northwest Commission on Colleges and Universities (NWCCU). Various academic programs are accredited individually as indicated in the following list:

- Dental Assistant is accredited by Commission on Dental Accreditation
- Dental Hygiene is accredited by Commission on Dental Accreditation
- Emergency Medical Services is accredited by Commission on Accreditation of Educational Program for the EMS Professions
- Health Information Technology is accredited by Committee on Accreditation for Health Informatics & Information Man. Educ.
- Health Info. Coding Specialist is accredited by American Health Information Management Association
- Medical Assistant is accredited by Curriculum Review Board of the American Association of Medical Assistants
- Medical Billing/Coding is accredited by American Health Information Management Association)
- Medical Transcription is accredited by Association for Health Care Documentation , Integrity Approval Process
- Physical Therapy Assistant is accredited by Commission on Accreditation in Physical Therapy Education
- Practical Nursing is accredited by Montana State Board of Nursing
- Radiologic Technology is accredited by Montana State Board of Nursing
- Respiratory Care is accredited by Committee on Accreditation of Respiratory Care Educational Programs
- Surgical Technology is accredited by Accreditation Review Committee on Education in Surgical Technology
- Interior Design AAS Program is accredited by National Kitchen and Bath Association

The student population at the GFCMSU campus has grown nearly 21% over the last five years, to 1,465 FTE in fiscal year 2012 from 1,212 FTE in fiscal year 2008. The majority of students are Montana residents.

**Montana State University**  
**Unaudited Supplemental Information**  
**As of and for the Year Ended June 30, 2012**

(continued)

**Enrollment**

	Student FTE for Fiscal Years Ended June 30,				
	2012	2011*	2010	2009	2008
Resident Undergraduate	1,424	1,387	1,293	1,138	1,011
Nonresident Undergraduate	35	23	17	8	9
Western Undergraduate Exchange		5	9	8	4
<b>Total</b>	<b>1,465</b>	<b>1,415</b>	<b>1,547</b>	<b>1,353</b>	<b>1,212</b>

\*Effective July 1, 2010 Gallatin College at MSU Bozeman took over management of certain courses and programs which previously operated under the auspices of GFCMSU, resulting in a decline in enrollment from 2010 to 2011.

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

	Degrees and Certificates Granted				
	2012	2011	2010	2009	2008
Certificate of Applied Science	64	62	63	54	61
Professional Certificate	21	20	4	1	
Associate of Science/Arts	132	80	69	55	53
Associate of Applied Science	186	179	174	120	117
<b>Total</b>	<b>403</b>	<b>341</b>	<b>310</b>	<b>230</b>	<b>231</b>

**Highlights**

GFCMSU is building an on-site child care facility to provide affordable, accessible child care which will allow our students to take advantage of educational opportunities. The planned facility is a separate 6,860 square foot building on the GFCMSU 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. The child care center is expected to be open and serving clients in January 2013.

MONTANA STATE  
UNIVERSITY

UNIVERSITY RESPONSE





December 6, 2012

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

**RECEIVED**

DEC 06 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, 2012. This audit was productive and helpful with continually improving financial reporting for all Montana State University campuses. We look forward to working with you again next year.

Sincerely,

Waded Cruzado  
President

WC/da

**Office of the President**

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**Mountains & Minds**