

Legislative Audit Division

State of Montana



Report to the Legislature

December 2005

Financial Audit

For the Fiscal Year Ended June 30, 2005

Montana State University

A Component Unit of the State of Montana

We performed a financial audit of Montana State University's consolidated financial statements for the fiscal year ended June 30, 2005. These financial statements present the financial position, the results of operations, and the cash flows, on a consolidated basis, of all four campuses affiliated with Montana State University: Montana State University-Bozeman; Montana State University-Billings; Montana State University-Northern (located in Havre); and Montana State University College of Technology-Great Falls.

The statements include component unit financial information as required under GASB 39. This report contains an unqualified opinion on the University's financial statements and accompanying notes for the fiscal year ended June 30, 2005, and the comparative information for the fiscal year ended June 30, 2004. The opinion means the reader may rely on the financial statement information presented. Supplemental Information on pages A-50 through A-64 is presented for additional analysis.

This audit is performed to attest to the fairness of the consolidated financial statements of Montana State University. Audit issues, if any, identified during this audit have been discussed with university management and, if appropriate, will be reported in our financial-related audit of the University for the two fiscal years ended June 30, 2007.

Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

05-11

Help eliminate fraud, waste, and abuse in state government. Call the Fraud Hotline at 1-800-222-4446 statewide or 444-4446 in Helena.

FINANCIAL AUDITS

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

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2005, will be issued by March 31, 2006. The Single Audit Report for the two fiscal years ended June 30, 2003, was issued on March 23, 2004. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

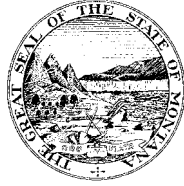
MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

Senator Joe Balyeat, Vice Chair
Senator John Brueggeman
Senator Jim Elliott
Senator Dan Harrington
Senator Lynda Moss
Senator Corey Stapleton

Representative Dee Brown
Representative Hal Jacobson
Representative Christine Kaufmann
Representative Scott Mendenhall
Representative John Musgrove, Chair
Representative Janna Taylor

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

December 2005

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on Montana State University's (university) consolidated financial statements for the fiscal year ended June 30, 2005. The statements include comparative information for the fiscal year ended June 30, 2004. The university requested this audit to provide timely audited financial statements to interested parties. The objective of our audit was to determine if the university's financial statements present fairly its financial position, changes in financial position, and its cash flows as of, and for the fiscal year ended, June 30, 2005. This objective included determining the university's compliance with laws and regulations having a direct and material impact on the financial statements. Our opinion, as it relates to the financial statements at and for the fiscal year ended June 30, 2004, is based on the audit we performed in the fall of 2004.

Montana State University consists of campuses located in Bozeman, Billings, Havre, and Great Falls. All campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The Montana State University campuses provide a diversity of undergraduate and graduate academic and two-year vocational/technical programs to students.

Montana State University-Bozeman was founded in February 1893 as the Agricultural College of the State of Montana. It is a land-grant institution, authorized by the Morrill Act of 1862, and receives part of its support from land-grant income. The campus offers four-year undergraduate programs along with masters 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 Graduate Studies. The Bozeman campus also includes the Extension Service, the Agricultural Experiment Station, and the Fire Services Training School, which have facilities located in or near cities or towns throughout Montana.

Montana State University-Billings consists of five colleges: the College of Arts and Sciences, the College of Business, the College of Education and Human Services, the College of Technology, and the College of Professional Studies and Lifelong Learning. MSU-Billings offers a full complement of one-year and two-year certificate programs, associate degrees, and bachelor and master 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. This campus offers associate, bachelor, and master degrees. A master's degree program is offered in education, with options in counseling and development, elementary education, vocational education, and general science.

Montana State University College of Technology-Great Falls offers instruction leading to certificates in one-year programs and associate of applied science degrees in two-year programs in vocational-technical trades and industry. Programs include practical nursing, office/secretarial, interior design technology, computer and information sciences, various health-related programs, auto body repair and refinishing, dental hygiene, and business management/entrepreneurship.

A list of Appointed and Administrative Officials having oversight responsibilities with respect to Montana State University can be found beginning on page i.

Beginning on page A-1, you will find the Independent Auditor's Report followed by the financial statements and accompanying notes. We issued an unqualified opinion on the university's consolidated financial statements, which means the reader can rely on the presented information.

This report does not contain any recommendations to the university. Any issues resulting from this financial audit have been discussed with university management. The university's response to this report is on page B-1.

We thank President Gamble and his staff for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Scott A Seacat

Scott A. Seacat
Legislative Auditor

Appointed and Administrative Officials

Board of Regents of Higher Education

John A. Mercer, Chair
 Mike Foster, Vice Chair
 Kala French, Student Regent
 Stephen M. Barrett, Regent
 Lynn Morrison-Hamilton, Regent
 Mark Semmens, Regent
 Lila Taylor, Regent

 Brian Schweitzer, Governor*
 Linda McCulloch, Superintendent of Public Instruction*

* Ex officio members of the Board of Regents

Office of the Commissioner of Higher Education

Sheila M. Stearns	Commissioner of Higher Education*
Rodger Barber	Deputy Commissioner for Academic and Student Affairs
Mick Robinson	Associate Commissioner for Fiscal Affairs
Pam Joehler	Director of Budget and Accounting
Cathy Swift	Chief Legal Counsel

Montana State University-All Campuses

Geoffrey Gamble	President
Rolf Groseth	Vice President of Intercampus Affairs
Virginia Key	Director of Internal Audit

Montana State University-Bozeman

David Dooley	Provost and Vice President for Academic Affairs
Craig Roloff	Vice President for Administration and Finance
Thomas McCoy	Vice President for Research and Creative Activities
Leslie Schmidt	Assistant Vice President for Research and Creative Activities
Allen Yarnell	Vice President of Student Affairs
Tom Gibson	Treasurer
Leslie Taylor	Legal Counsel
Laura Humberger	Controller
Kathy Attebury	Director of University Budgets

Appointed and Administrative Officials

Montana State University- Billings

Ronald P. Sexton	Chancellor
George White	Interim Provost and Academic Vice Chancellor
Curt Kochner	Vice Chancellor for Student Affairs
Terrie Iverson	Administrative Vice Chancellor
LeAnn Anderson	Director of Financial Services
Jim Nielsen	Director of Business Services
Trudy Collins	Budget Officer and Internal Audit

Montana State University- Northern

Alex Capdeville	Chancellor
Cheri Jimeno	Interim Provost and Senior Vice Chancellor
Chuck Jensen	Vice Chancellor for Finance & Administration/Student Affairs
Carrie Molitor	Controller

Montana State University College of Technology- Great Falls

Mary Sheehy Moe	Dean
Vernon Pedersen	Associate Dean for Academic and Student Affairs
Mary Ellen Baukol	Assistant Dean for Business and Finance
Ed Binkley	Controller

Montana Agricultural Experiment Stations

Jeffrey Jacobsen	Director
Connie Shelhamer	Budget & Fiscal Director

Montana Extension Service

Douglas Steele	Vice Provost and Extension Director
Sandra Rahn-Gibson	Budget and Fiscal Director

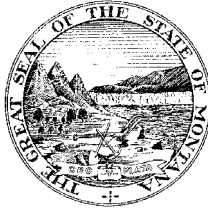
For further information on the Montana State University
(all campuses) contact:

Virginia Key, Internal Audit
Suite 7 Hamilton Hall
Bozeman, MT 59717
(406) 994-7035
key@montana.edu

Members of the audit staff involved in this audit were Pearl Allen, Danielle Gamradt, Paul O'Loughlin, Sonia Powell, Vickie Rauser, Jeff Tamblyn, Lena Tamcke, and Amber Thorvilson.

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Consolidated Statements of Net Assets of Montana State University, a component unit of the state of Montana, as of June 30, 2005, and 2004, and the related Consolidated Statements of Revenues, Expenses and Changes in Net Assets and Consolidated Statements of Cash Flows for the fiscal years then ended and the University Component Units-Combined Statements of Financial Position as of June 30, 2005, and 2004, and the related University Component Units-Combined Statement 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, and the Montana State University-Northern Foundation, which represent 98.36 percent and 94.97 percent of the assets and revenues, respectively, as of and for the year fiscal ending June 30, 2005, and 98.15 percent and 95.00 percent of the assets and revenues, respectively, as of and for the fiscal year ending June 30, 2004, of the total aggregate discretely presented component units. The component units identified above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units are based on the reports of the other auditors.

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

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 discreetly presented component units as of June 30, 2005, and 2004, and the respective changes in financial position and cash flows, where applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages A-3 through A-13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Supplemental Information on pages A-50 through A- 64 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 9, 2005

**Montana State University's
Management's Discussion and Analysis,
Financial Statements, Notes, and Supplemental Information**

Montana State University

(a component unit of the State of Montana)

Management's Discussion and Analysis

As of and For Each of the Two Years Ended June 30, 2005

Montana State University is a research-intensive land grant university that serves state, national and international communities by providing academic instruction, conducting research and other activities that advance fundamental knowledge, and by disseminating knowledge to the people of Montana. The University encompasses four campuses located in Bozeman, Billings, Great Falls and Havre, as well as the Montana Agricultural Experiment Station, Montana Extension Service and the Fire Services Training School. The University operates throughout Montana's 145,556 square miles of urban and rural communities housing an estimated population of 926,865.

The University and its students are in a unique position. The number of high school graduates in Eastern Montana continues to decline, which has required the University to modify its mix of traditional in-state, out-of-state, and out-of-area students to ensure a diverse, growing student population. At the same time that the University's student makeup is changing, employee salary and benefit needs continue to grow, and the level of monetary support received from the State has not kept pace with increasing costs.

Given these significant changes, the University is proud to continue delivering quality services to a diverse student population, which is possible because of its dedicated faculty and staff, because its students recognize quality and value, and because accountability and the wise stewardship of University resources are simply a way of life.

OPERATIONS

Condensed Statements of Revenues, Expenses and Changes in Net Assets

(in millions)

	2005	2004	2003
Operating revenues	\$ 279.0	\$ 257.5	\$ 242.3
Operating expenses	360.8	342.4	323.7
Operating loss	(81.8)	(84.9)	(81.4)
Non-operating revenues and expenses (net)	86.5	88.9	83.6
Income before capital & other items	4.7	4.0	2.2
Capital & other items	5.2	8.6	13.8
Change in net assets	\$ 9.9	\$ 12.6	\$ 16.0

The *Statement of Revenues, Expenses and Changes in Net Assets* presents the revenues earned and expenses incurred during the year on a full accrual basis, and classifies activities as either "operating" or "non-operating." This distinction results in operating deficits for those institutions that depend on State aid and gifts, 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 2005 and 2004 Results of Operations

The University's net assets increased \$9.9 million during 2005, resulting largely from \$4.6 million in capital gifts, grants and contributions, \$1.0 million in permanent endowment contributions, and other excesses of revenue over expense totaling \$4.3 million. Capital grant revenues include \$3.4 million provided by the State of Montana under authorization from its long-range building program, of which \$2.8 million was recorded by MSU- Northern related to the construction of its applied technology center. In addition, \$1.2 million in assets were granted or donated to MSU campuses for use in functions ranging from digital television broadcasting to scientific research.

- **Operating revenues** contain the majority of the University's income, and increased \$21.5 million from 2004 to 2005, largely due to an increase in grant and contract-related revenues of approximately \$9.4 million, or 7.9%. Grant and contract-related revenues include research grants funded by Federal, State and private sponsors, as well as over \$21 million in financial aid. The University maintains a vibrant Research and Creative Activities function that

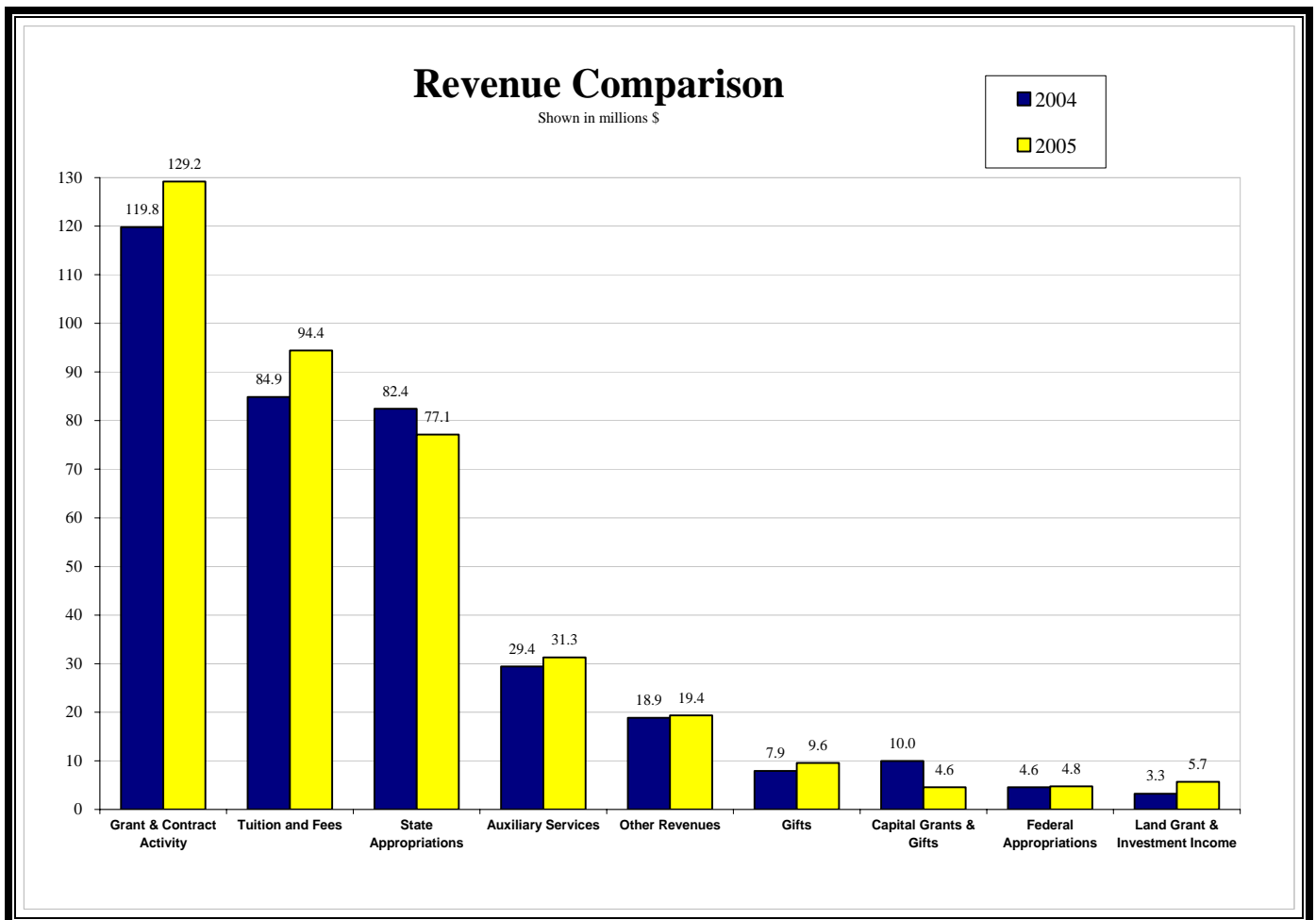
has experienced dramatic growth in the past year. These activities accounted for \$108.1 million in operating revenues during 2005.

Annual Student Enrollment Data (Full Time Equivalent)			
	2005	2004	2003
Montana residents			
Undergraduate	13,809	13,380	13,130
Graduate	1,341	1,044	1,027
Non-residents			
Undergraduate	2,341	1,932	2,048
Graduate	408	276	269
Western Undergraduate Exchange	665	724	661
Total	18,564	17,356	17,135

Tuition and fee revenues increased approximately \$9.6 million, or 11.3%. The University's freshman class has increased during each of the past several years. While the number of full-time equivalent students increased 7.0% compared with 2004, the primary reason for increased tuition and fee revenue was an approximate 11.3% average tuition increase, coupled with an increase in non-resident students who pay the full cost of education.

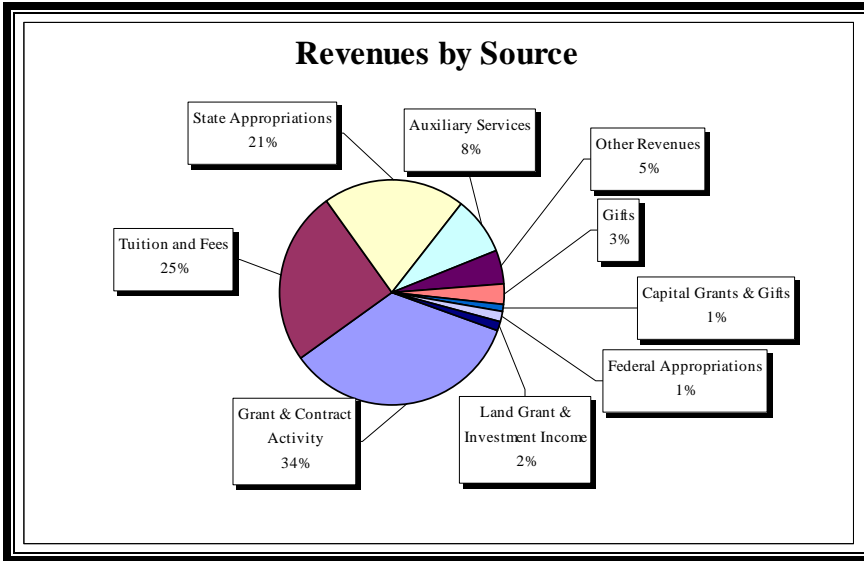
State appropriations revenue, considered **non-operating revenue**, decreased by \$5.3 million from \$82.4 million to \$77.1 million, or 6.4%. In 2004, the

University was permitted to use \$2.5 million of its 2005 appropriation so that tuition increases could be evenly implemented during each year of the 2004-2005 biennium. Had this amount not been forward-funded, the appropriations would have been stable in 2004 and 2005.



During 2005, revenues were derived as follows:

(in millions)

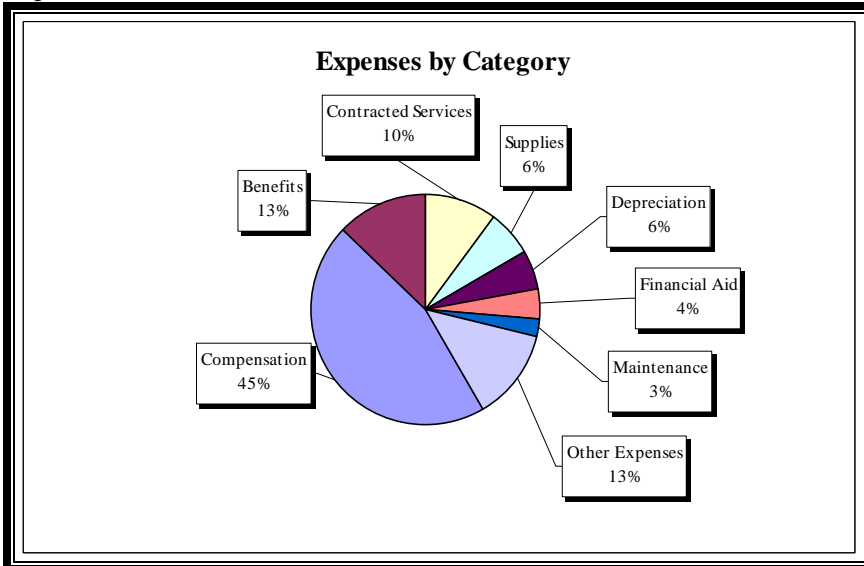


Source	Amount
Grant & Contract Activity	\$ 129.2
Tuition and Fees	94.4
State Appropriations	77.1
Auxiliary Services	31.3
Other Revenues	19.4
Gifts	9.6
Capital Grants & Gifts	4.6
Federal Appropriations	4.8
Land Grant & Investment Income	5.7
Total revenues	\$ 376.1

Sources of recurring revenues are expected to remain strong, with a trend toward higher levels of University-generated revenues such as grant and contract activity, and other entrepreneurial activities.

Expenses were incurred as follows:

(in millions)

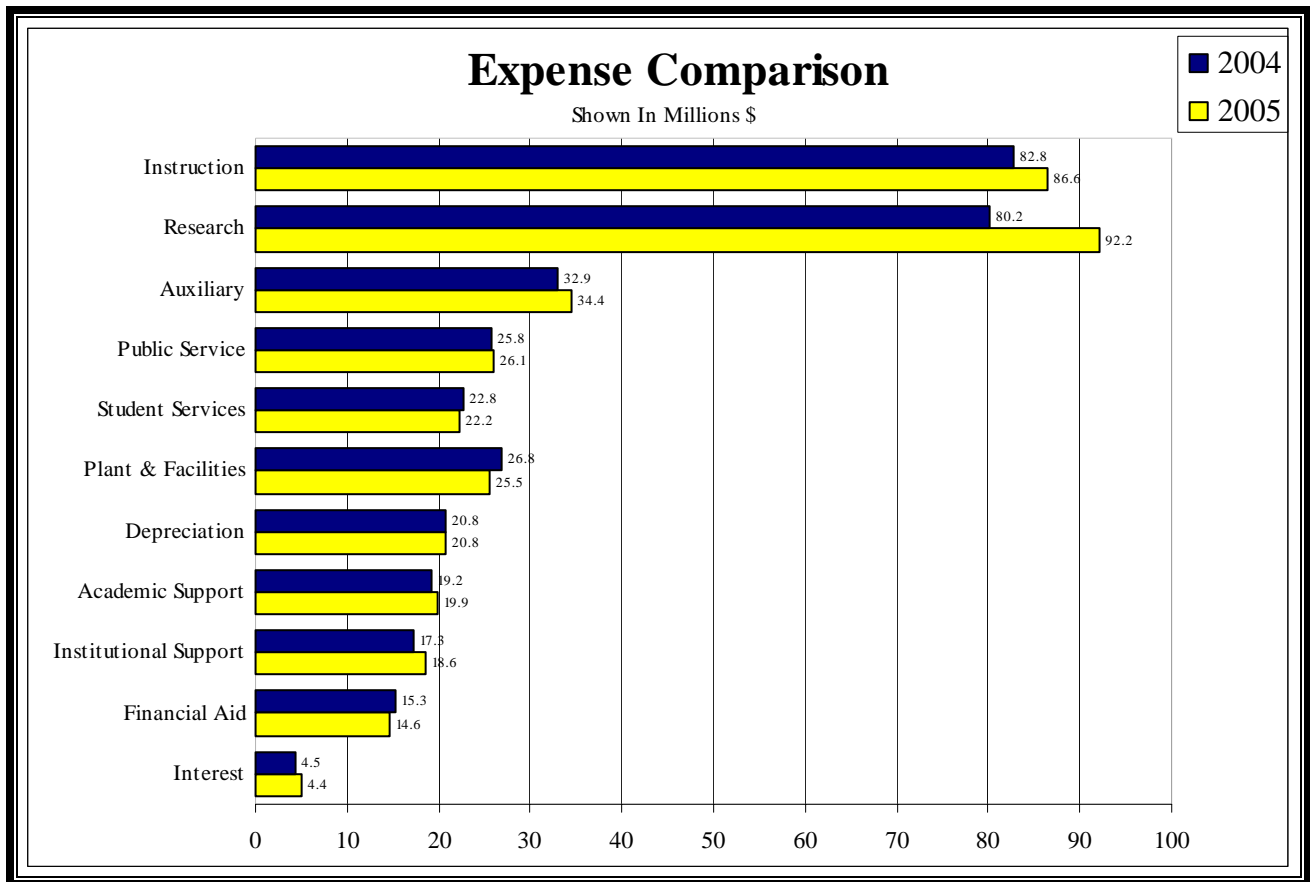


Category	Amount
Compensation	\$ 166.9
Benefits	46.7
Contracted Services	37.6
Supplies	22.9
Depreciation	20.8
Financial Aid	14.6
Maintenance	9.8
Other Expenses	
Travel	9.5
Utilities	9.3
Cost of Sales	5.5
Communication	4.7
Interest Expense	4.9
Rent	3.1
Other	9.5
Total expenses	\$ 365.8

Proportions of revenues and expenses have generally remained constant as compared with prior years. Revenues are derived primarily from student charges, state appropriations and grant and contract activity, while expenses are primarily employee-related. These relationships are expected to continue.

➤ **Operating expenses** increased \$18.5 million. Instruction and research activities together constitute approximately half of the University's expenses, and were two of the primary programs showing a marked increase, consistent with higher enrollment and a growing research program.

Plant and facilities expenses decreased slightly as compared with 2004, primarily because facilities staff spent more time during 2004 working on projects which resulted in capitalized building improvements, and therefore were not reflected in operating expenses. Utility costs are expected to increase due to rising rates. In fiscal year 2006, students will pay a temporary utility surcharge to help offset the effect of these increases.



Overall expenses are expected to grow, consistent with increases in research activity and increasing compensation costs. Financial aid awards are expected to increase commensurate with increases in tuition rates, as the University strives to ensure continued access to all qualified students. Interest expense, considered a non-operating expense, is expected to increase as the University issues new debt to construct and renovate facilities.

Comparison of 2004 and 2003 Results of Operations

The University's net assets increased \$12.6 million during 2004, largely resulting from \$10.0 million in capital grants. Capital grant revenues include approximately \$2.9 million receivable from the Montana State University Foundation, dedicated to the construction of an agriculture research center.

- **Operating revenues** increased \$15.2 million from 2003 to 2004, largely due to an increase in grant and contract-related revenues of approximately \$8.8 million, or 7.9%. Grant and contract-related revenues include research grants funded by Federal, State and private sponsors, as well as over \$22 million in financial aid. Research and creative activities accounted for \$97.5 million in operating revenues during 2004.

Tuition and fee revenues increased approximately \$5.4 million, or 6.7% from 2003 to 2004. While the number of full-time equivalent students increased 1.3% compared with 2003, the primary reason for increased tuition and fee revenue was an approximate 11% average tuition increase.

State appropriations revenue increased by \$4.8 million from \$77.6 million in 2003 to \$82.4 million in 2004, or 6.2%. In 2003, the State made a mid-year budget reduction of \$6.7 million. Absent this reduction, the 2003 appropriation level would have been \$84.3 million. In 2004, the University was permitted to use \$2.5 million of its 2005 appropriation so that tuition increases could be evenly implemented during each year of the 2004-2005 biennium. Had this amount not been forward-funded, the 2004 appropriation would have been \$79.9 million. The rescission and decreased funding are reflective of difficult economic times recently faced by the State of Montana.

- **Operating expenses** increased \$18.7 million during 2004. Instruction and research activities were two of the primary programs showing a marked increase, consistent with higher enrollment and a growing research program.

Plant and facilities expenses increased \$6.1 million during 2004, due to several factors. The cost of utilities used in the operation of classroom and administration facilities increased approximately \$1.0 million, and the write-off of development and design costs related to a canceled capital project contributed approximately \$800,000 in expense. Also during 2004, facilities staff performed more work on projects which were of a maintenance nature than in the prior year, in which significant staff time was spent on projects whose costs were capitalized and thus were not reflected in 2003 expenses.

The cost of providing auxiliary services increased \$2.9 million in 2004, due to the completion of certain deferred maintenance projects.

ASSETS, LIABILITIES AND NET ASSETS

Condensed Statements of Net Assets

(in millions)

ASSETS	2005	2004	2003
Current assets	\$ 116.5	\$ 118.7	\$ 113.4
Capital assets, net	242.2	239.3	236.8
Other noncurrent assets	62.3	28.1	24.4
Total assets	\$ 421.0	\$ 386.1	\$ 374.6
LIABILITIES			
Current liabilities	\$ 53.6	\$ 49.9	\$ 48.9
Noncurrent liabilities	145.3	124.1	126.2
Total liabilities	\$ 198.9	\$ 174.0	\$ 175.1
NET ASSETS			
Invested in capital assets, net	\$ 151.7	\$ 147.7	\$ 143.3
Restricted, expendable	10.8	9.2	5.3
Restricted, non-expendable	11.1	9.8	9.3
Unrestricted	48.4	45.4	41.6
Total net assets	\$ 222.1	\$ 212.1	\$ 199.5

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

Comparison of 2005 and 2004 Assets, Liabilities and Net Assets

- **Current assets** include the University's cash; accounts, grants and loans receivable; inventories; and other assets expected to benefit the University within one year. Accounts and grants receivable result primarily from sponsored projects that are payable on a cost-reimbursement basis, and also from student accounts. The decrease of \$2.2 million in current assets resulted from a decrease of \$1.0 million in current cash and equivalents, which is discussed in detail in conjunction with the Statement of Cash Flows, as well as slight fluctuations in several current asset categories.
- **Capital assets, net** increased \$2.9 million, resulting from asset additions of \$24.0 million, offset by depreciation expense of \$19.9 million and asset retirements of \$1.2 million.

Increases included \$10.8 million in construction project additions, including \$2.8 million toward MSU- Northern's Applied Technology Center, which is nearing completion, and will house state of the art automotive and diesel instruction centers. MSU- Bozeman's chemistry/biochemistry research facility, which will total approximately \$24.5 million upon completion, added \$1.4 million in construction progress during 2005. Also in Bozeman, design and construction began on a \$28 million student facilities enhancement project, contributing \$1.2 million in capital assets during 2005. Three student facilities will be renovated during the project, including the student union building, theater, and health and P.E. complex.

Approximately \$3.6 million in library materials were added, replacing \$1.9 million of obsolete materials. Equipment totaling \$8.1 million was acquired. Research and instruction in the sciences require a substantial equipment investment. Most large equipment acquisitions were for scientific equipment, with the six largest items totaling \$1.3 million. Scientific acquisitions related largely to the University's research and instruction programs, and included many grant-funded items.

Montana State University

(a component unit of the State of Montana)

Management's Discussion and Analysis

As of and For Each of the Two Years Ended June 30, 2005

(continued)

- **Other noncurrent assets** include unexpended bond proceeds, endowment fund assets, student loans receivable, investments expected to mature over a period longer than one year, and donated funds restricted to use for facility construction. The balance increased \$34.4 million, due to two primary factors. Restricted investments in 2005 include \$23.2 million in unexpended bond proceeds related to the Series H 2004 debt issued for construction of the chemistry/biochemistry facility. In addition, the University invested \$10.0 million in the State's Trust Fund Bond Pool that had previously been in cash or short-term investments.
- **Current liabilities** include payroll and related liabilities, amounts payable to suppliers for goods and services received, cash received for which the University has not yet earned the related revenue, and debt principal payments due within one year. The balance increased \$3.7 million, resulting primarily from \$1.2 million in securities lending liability. Because the University joined the Trust Fund Bond Pool during the year, its securities were available for lending through the State's Board of Investments, whereas they had not been in 2004. Other, less significant fluctuations, also contributed to the overall increase.
- **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 \$21.2 million, resulting from the issuance of Series H 2004 bonds in the amount of \$23.7 million in October, 2004, offset by scheduled repayments of bond principal. Series I refunding bonds were issued, which refunded the Series D 1996 bonds. Other, less significant, fluctuations also contributed to the overall increase.
- 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 \$4.0 million due to asset additions and debt repayment.
- **Restricted, expendable net assets** represent balances that may be expended by the University, but only in accordance with restrictions imposed upon the University by an external party, such as a donor or through a legislative mandate. The University's most significant restricted, expendable balances relate to funds restricted to use for the construction, renewal or replacement of facilities. Approximately \$3.1 million is held by trustees in accordance with bond covenants, and may only be expended for the renewal and replacement of assets whose revenues are pledged as security for the repayment of debt. An additional \$2.8 million relates to amounts held on the University's behalf by the MSU Foundation, which is to be expended for the construction of an agricultural research facility. Debt retirement funds account for \$1.2 million of the restricted balance.
- **Restricted, non-expendable** balances must be held in perpetuity, and include endowment principal as well as the University portion of student loans receivable under the Federal Perkins and Nursing Loan programs. Balances increased \$1.4 million during 2005, primarily from endowment fund gifts additions of \$1.0 million.
- **Unrestricted net assets** may be designated for specific purposes by action of management or the Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for specific purposes as described in the notes to the financial statements, and include funds accumulated for employee termination payouts, funds earmarked for facility renewal and replacement, and student organization funds. Details regarding the purposes for which unrestricted net assets are designated are contained in Note 13 to the audited financial statements.

Comparison of 2004 and 2003 Assets, Liabilities and Net Assets

- **Current assets:** The 2004 increase of \$5.3 million in current assets resulted primarily from an increase of \$4.0 million in cash, which is discussed in detail in conjunction with the Statement of Cash Flows.
- **Capital assets, net** increased \$2.5 million during 2004, resulting from asset additions of \$24.1 million, offset by depreciation expense of \$19.4 million and asset retirements of \$2.2 million. Increases included \$4.9 million in construction project additions, \$1.1 million of which was expended to replace the roof on MSU- Bozeman's fieldhouse and \$1.4 million expended for MSU- Northern's Heating, Ventilation and Air-Conditioning system. Approximately \$3.5 million in library materials were added, \$2.3 million in buildings and improvements were recorded, and \$13.6 million in furniture and equipment were acquired. Furniture and equipment acquisitions included a \$2.1 million weightless space chamber and a digital satellite system for public television valued at nearly \$2 million. Other acquisitions related largely to the University's research and instruction programs, and included several donated and grant-funded items.
- **Other noncurrent assets** increased \$3.7 million during 2004, which included an increase of \$2.8 million in donations receivable and an increase of \$810,000 in noncurrent student loans receivable.
- **Current liabilities** increased \$1.0 million during 2004, resulting primarily from the timing of expense payments near year-end in 2004 as compared with 2003, and the overall increase in expenditure levels.
- **Noncurrent liabilities** decreased \$2.1 million during 2004, due primarily to scheduled repayments of bond principal, offset by increased advances from the State under the Intercap lending program.
- **Restricted, expendable net assets** relate primarily to expendable balances restricted to use for the construction, renewal or replacement of facilities. As of June 2004, approximately \$3.0 million was held by trustees in accordance with bond covenants, and may only be expended for the renewal and replacement of assets whose revenues are pledged as security for the repayment of debt. The remaining \$2.8 million related to an amount receivable from the MSU Foundation, which is to be expended for the construction of a research facility.

CASH FLOWS

Condensed Statements of Cash Flows

(in millions)

	2005	2004	2003
Cash provided/(used) by:			
Operating activities, net	\$ (55.1)	\$ (65.8)	\$ (56.2)
Noncapital financing activities, net	89.3	92.6	92.1
Capital and related financing activities, net	(1.9)	(24.3)	(24.6)
Investing activities, net	(34.3)	1.5	(3.4)
Net increase (decrease) in cash	(1.9)	4.0	7.9
Cash, beginning of year	87.0	83.0	75.1
Cash, end of year	\$ 85.1	\$ 87.0	\$ 83.0

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 2005 and 2004 Cash Flows

Cash and equivalents decreased \$1.9 million during 2005, primarily because bond proceeds and other university cash were used to purchase investments. During the prior year, a \$4.0 million increase in cash and equivalents was generated. A year-to-year comparison of each type of cash flow follows.

- **Operating activities** used \$55.1 million in cash, resulting primarily from an operating loss of \$81.8 million. The operating loss was offset by non-cash expenses of \$21.4 million, primarily depreciation and amortization. Collections on accounts and grants receivable contributed \$2.0 million in operating cash. Other, less significant, increases and decreases also contributed to the change.

In the prior year, operating activities used \$65.8 million in cash, resulting primarily from an operating loss of \$84.9 million. The operating loss was offset by non-cash expenses of \$21.5 million. Issuance of student loans outpaced the collection of loan repayments by \$1.5 million, resulting in a decreased cash balance. Other, less significant, increases and decreases also contributed to the change in operating cash.

- **Noncapital financing activities** provided \$89.3 million in cash, resulting from \$77.1 million in state appropriations, \$2.9 million of land grant income, and \$8.6 million in expendable gifts. Gifts were received primarily from foundations and other support organizations. In the prior year, noncapital financing activities provided \$92.6 million in cash, resulting from \$82.4 million in state appropriations, \$1.7 million of land grant income, and \$7.7 million of gift income.
- **Capital and related financing activities** used \$1.9 million in cash, resulting primarily from \$57.2 million received as bond proceeds, offset by \$37.5 million in debt principal payments (including refunded debt of \$16.7 million), and \$19.6 million expended to acquire capital assets. In the prior year, these activities used \$24.2 million in cash, resulting primarily from \$18.0 million expended to acquire capital assets, \$19.6 million in bond issuance proceeds, \$22.5 million in debt principal payments (including refunded debt of \$18.1 million), and \$4.0 million in cash paid for interest, primarily related to bond indebtedness.

Montana State University

(a component unit of the State of Montana)

Management's Discussion and Analysis

As of and For Each of the Two Years Ended June 30, 2005

(continued)

- **Investing activities** used \$34.3 million, resulting from the purchase of \$37.5 million in investments, offset by investment income received of \$2.9 million. Unexpended bond proceeds of \$21.1 from the Series H 2004 issuance were invested until their use is required for the project. In addition, the University invested \$10.0 million in the State of Montana's Trust Fund Bond Pool, rather than in cash or cash equivalents as in prior years. In the prior year, investing activities generated \$1.5 million, resulting primarily from investment income.

Comparison of 2004 and 2003 Cash Flows

In 2004, a \$4.0 million increase in cash and equivalents was generated on \$4.0 million of "Income before other revenues, expenses, gains and losses" as reported in the accompanying 2004 Statement of Revenues, Expenses and Changes in Net Assets. During 2003, a \$7.9 million increase in cash and equivalents was generated on \$2.3 million of "Income before other revenues, expenses, gains and losses." A year-to-year comparison of each type of cash flow follows.

- **Operating activities** used \$65.8 million in cash, resulting primarily from an operating loss of \$84.9 million. The operating loss was offset by non-cash expenses of \$21.5 million, (primarily depreciation and amortization). Issuance of student loans outpaced the collection of loan repayments by \$1.5 million, resulting in a decreased cash balance. Other, less significant, increases and decreases also contributed to the change in operating cash.

In 2003, operating activities used \$56.2 million in cash, resulting primarily from an operating loss of \$81.4 million. The operating loss was offset by non-cash expenses of \$20.5 million, (primarily depreciation and amortization) as well increased funds of \$4.7 million resulting from changes in operating assets and liabilities.

- **Noncapital financing activities** provided \$92.6 million in cash, resulting from \$82.4 million in state appropriations, \$1.7 million of land grant income, and \$7.7 million of gift income. In 2003, noncapital financing activities provided \$92.1 million in cash, resulting from \$77.6 million in state appropriations, \$1.6 million of land grant income, and \$8.3 million of gift income, as well as other, less significant sources and uses of cash.
- **Capital and related financing activities** used \$24.2 million in cash, resulting primarily from \$18.0 million expended to acquire capital assets, \$19.6 million in bond issuance proceeds, \$22.5 million in debt principal payments (including refunded debt of \$18.1 million), and \$4.0 million in cash paid for interest, primarily related to bond indebtedness. In 2003, these activities used \$24.6 million in cash, resulting from \$16.5 million expended to acquire capital assets, \$4.6 million in debt principal payments, and \$5.4 million in cash paid for interest.
- **Investing activities** provided \$1.5 million, resulting from earnings on invested cash. In 2003, investing activities used \$3.4 million. During 2003, cash of \$4.8 million, most of which had been received in the form of an estate gift, and was shown as a cash inflow in "Noncapital financing activities," was used to purchase long-term investments, and as such was considered a use of cash for investing purposes. This use of cash was offset by investment earnings of \$1.2 million.

BONDS, NOTES, AND CAPITAL LEASES

As of June 30, 2005, the University had approximately \$107.6 million in outstanding bonds, notes, and capital lease principal, an increase of \$20.3 million compared with June 30, 2004. Refunding Series I 2004 contributed \$31.3 million in borrowing, and refunded \$31.0 million of Series D 1996 Bonds. The Series H 2004 bonds, issued to fund construction of a chemistry/biochemistry facility on the Bozeman campus, increased the total outstanding debt by \$23.7 million. Indirect cost recoveries derived from the University's Research and Creative Activities have been added to the existing pledged revenues of the University's bonded indebtedness, in an amount sufficient to service the debt.

Subsequent to June 30, the University issued bonds for the enhancement of student facilities at the Bozeman campus. Enhancements include renovation of the student union building, construction of a theater, and renovation of the health

and P.E. complex. The entire project is estimated at \$28.0 million, with existing University resources supplementing the \$25.8 million in bond proceeds. Increased student fees of approximately \$110 per academic year per full-time student were implemented beginning in the Fall of 2005, and are pledged for the repayment of these bonds.

ECONOMIC OUTLOOK

Montana State University has, like many other institutions, increased its tuition rates to offset flat State revenues. Other recent revenue increases have been achieved through several means: the growth of grant and contract activity; focused recruitment and retention efforts towards increasing the complement of out-of state students; and continued encouragement of the entrepreneurial spirit maintained by many University faculty and staff. Tuition rates are now slightly higher than our geographic peer group, although very affordable compared with national rates. It will be increasingly important to balance revenues with expenses to assure that access is achieved consistent with our land grant mission.

The State of Montana generated a budget surplus in the 2004-2005 biennium, and was able to direct one-time funds to the University, primarily the two-year campuses, for the 2006-2007 biennium. Progress was also made in terms of a slight increase in the proportion of state-funding for certain fixed costs and employee pay increases.

The U.S. Census Bureau projects that, over the next twenty years, the population of Montanans ages 18 – 24 will decrease steadily, showing an approximate 10% overall decrease and affecting the University through a decreased number of high-school graduates. In light of this trend, continued monitoring and management of the University's out-of-state student population and tuition rates is crucial.

To assist in the allocation of its resources, management evaluates University programs regularly, and maintains a budgeting process that is open to the public. Accountability and stewardship of the University's assets are stressed by top management, as is excellence in the programs offered. University management will continue to determine the proper balance between spending and revenue, to ensure that quality programs remain while access to the University is not unduly limited by the cost of attendance.

Montana State University
a component unit of the State of Montana
Consolidated Statements of Net Assets
As of June 30

ASSETS	2005	2004
Current assets:		
Cash and cash equivalents	\$ 85,045,611	\$ 86,085,048
Securities lending collateral	1,203,088	-
Accounts and grants receivable, net	6,921,731	5,935,449
Amounts receivable from Federal government	12,252,646	15,350,504
Amounts receivable from primary government	854,785	1,190,805
Amounts receivable from other State of Montana Component Units	190,573	146,710
Loans receivable, net	4,787,338	4,232,045
Inventories	2,799,030	2,832,718
Prepaid expenses and other current assets	2,464,644	3,179,666
Total current assets	116,519,446	118,952,945
Noncurrent assets:		
Restricted cash and cash equivalents	71,474	941,704
Restricted investments	31,306,565	5,396,299
Loans receivable, net	17,014,959	17,033,357
Investments	12,992,674	1,745,681
Other assets	941,546	2,775,858
Capital assets, net (see note 7)	242,164,819	239,316,813
Total noncurrent assets	304,492,037	267,209,712
Total assets	\$ 421,011,483	\$ 386,162,657
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 24,091,379	\$ 23,026,240
Amounts payable to primary government	1,596,884	1,247,450
Amounts payable to other State of Montana component units	458,222	20,934
Securities lending liability	1,203,088	-
Property held in trust for others	1,177,966	1,237,654
Deferred revenues	8,623,299	8,360,313
Compensated absences	11,376,627	11,081,843
Current portion debt and capital lease obligations (note 10)	5,103,513	4,965,455
Total current liabilities	53,630,978	49,939,889
Noncurrent liabilities:		
Advances from primary government	8,687,113	8,785,996
Debt and capital lease obligations (note 10)	102,488,471	82,351,350
Compensated absences	13,213,944	12,176,957
Due to Federal government	20,910,053	20,771,691
Total noncurrent liabilities	145,299,581	124,085,994
Total liabilities	198,930,559	174,025,883
NET ASSETS		
Invested in capital assets, net of related debt	151,719,045	147,763,170
Restricted - nonexpendable:		
Endowments	7,344,826	6,338,003
Loans	3,803,430	3,425,954
Restricted - expendable:		
Scholarships	667,794	824,666
Research and other	2,678,914	2,445,913
Loans	365,123	167,636
Construction and renewal of plant facilities	5,912,189	5,771,107
Debt retirement	1,193,586	23,952
Unrestricted (note 13)	48,396,017	45,376,373
Total net assets	222,080,924	212,136,774
Total liabilities and net assets	\$ 421,011,483	\$ 386,162,657

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

Montana State University
a component unit of the State of Montana
UNIVERSITY COMPONENT UNITS-- Combined Statements of Financial Position
As of June 30 or December 31 (see Note 20)

Assets:	2005	2004
Cash and cash equivalents	\$ 3,387,077	\$ 6,443,381
Accrued dividends and interest	119,352	53,869
Investments	122,824,076	107,776,367
Amounts due from the institution or other MSU component units	814,390	817,648
Contributions receivable, net of allowance	4,585,228	5,895,303
Contracts, notes and other receivables	782,854	113,646
Student loans and other receivables	20,426	872,014
Non-depreciable capital assets	671,108	783,109
Depreciable capital assets, net	6,895,170	6,033,789
Other assets	2,033,353	2,299,030
Total assets	\$ 142,133,034	\$ 131,088,156
Liabilities and net assets:		
Liabilities		
Accounts payable	\$ 207,006	\$ 217,170
Accrued expenses and other liabilities	1,048,995	1,220,925
Compensated absences	194,667	95,535
Notes and bonds payable	2,683,737	2,734,731
Amounts due to the institution or other MSU component units	743,613	3,504,384
Liabilities to external beneficiaries	3,592,916	3,147,064
Custodial funds	13,319,228	8,778,795
Total liabilities	21,790,162	19,698,604
Unrestricted net assets	12,899,045	12,391,176
Temporarily restricted net assets	35,977,016	31,355,795
Permanently restricted net assets	71,466,811	67,642,581
Total net assets	120,342,872	111,389,552
Total liabilities and net assets	\$ 142,133,034	\$ 131,088,156

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

Montana State University
a component unit of the State of Montana

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

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

OPERATING REVENUES	2005	2004
Tuition and fees (net of \$18,123,904 and \$17,326,412 scholarship discount); (\$5,476,942 and \$5,426,006 are pledged for repayment of bonds)	\$ 94,428,655	\$ 84,852,818
Federal appropriations	4,766,960	4,562,318
Federal grants and contracts	97,954,458	89,330,062
State grants and contracts	7,124,537	7,508,336
Non-governmental grants and contracts	7,882,960	8,828,330
Grant and contract facilities and administrative cost allowances	16,226,346	14,110,253
Educational, public service and outreach revenues (\$3,203,109 and \$2,959,480 are pledged for repayment of bonds)	18,481,217	18,302,474
Auxiliary revenues:		
Housing (net of \$1,372,312 and \$1,314,925 scholarship discount),(\$2,293,561 and \$2,119,122 net revenues are pledged for repayment of bonds)	11,482,654	11,135,119
Food services (net of \$1,473,856 and \$1,532,249 scholarship discount), (\$1,614,022 and \$1,388,797 net revenues are pledged for repayment of bonds)	11,576,710	10,856,444
Other auxiliary sales and services (net of \$650,456 and \$572,653 scholarship discount), (\$92,743 and \$380,081 net losses are pledged for repayment of bonds)	8,222,599	7,430,793
Interest earned on loans	233,547	54,301
Other operating revenues	647,285	496,216
Total operating revenues	279,027,928	257,467,464
OPERATING EXPENSES		
Compensation and benefits	213,538,625	203,327,304
Operating expenses (Note 14)	111,894,354	102,936,542
Scholarships and fellowships (net of \$21,620,528 and \$20,746,239 scholarship discount)	14,597,874	15,312,605
Depreciation and amortization	20,840,982	20,803,902
Total operating expenses	360,871,835	342,380,353
Operating loss	(81,843,907)	(84,912,889)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	77,144,443	82,435,945
Land grant income (pledged as security for repayment of bonds)	2,851,784	1,706,447
Gifts (Expendable)	8,576,108	7,696,004
Investment income (\$875,732 and \$184,216 are pledged as repayment of bonds)	2,857,426	1,544,840
Interest expense	(4,926,961)	(4,460,697)
Net nonoperating revenues (expenses)	86,502,800	88,922,539
Income before other revenues, expenses, gains and losses	4,658,893	4,009,650
Gain (loss) on disposals of capital assets	(309,220)	(1,585,269)
Additions to permanent endowment	1,002,781	229,730
Capital gifts, grants and contributions	4,591,696	9,971,792
Change in net assets	9,944,150	12,625,903
Net assets, beginning of year	212,136,774	199,510,871
Net assets, end of year	\$ 222,080,924	\$ 212,136,774

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 or December 31 (see Note 20)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2005 Total	2004 (memo) Total
Revenues:					
Contributions	\$ 622,006	\$ 6,580,559	\$ 3,383,480	\$ 10,586,045	\$ 13,656,757
Investment, interest and dividend income	926,291	5,867,943	485,608	7,279,842	8,403,136
Net realized and unrealized gain (loss) on investments	49,645	213,437	(3,292)	259,790	727,393
Contract support and contributions from University	1,106,066	-	-	1,106,066	1,272,065
Special events	888,404	-	-	888,404	260,237
Other income	3,963,644	456,410	23,765	4,443,819	4,748,196
Net assets released from restrictions	8,456,211	(8,497,128)	40,917	-	-
Total revenues	16,012,267	4,621,221	3,930,478	24,563,966	29,067,784
Expenses:					
Program services					
University support	6,828,885	-	-	6,828,885	6,522,002
Academic and institutional	1,077,322	-	-	1,077,322	1,154,462
Scholarships and awards	2,851,323	-	-	2,851,323	2,659,423
Total program services expense	10,757,530	-	-	10,757,530	10,335,887
Operating expenses					
Fundraising efforts	1,850,844	-	-	1,850,844	1,733,148
General and administrative	1,727,193	-	-	1,727,193	1,677,268
Investment management costs	91,460	-	-	91,460	81,619
Other miscellaneous	1,052,791	-	106,248	1,159,039	1,121,406
Total operating expenses	4,722,288	-	106,248	4,828,536	4,613,441
Change in net assets before nonoperating items	532,449	4,621,221	3,824,230	8,977,900	14,118,456
Non-operating expenses					
Other nonoperating expenses	-	-	-	-	(80,000)
Payments to beneficiaries and change in liabilities to external beneficiaries	(24,580)	-	-	(24,580)	(27,506)
Change in net assets	507,869	4,621,221	3,824,230	8,953,320	14,010,950
Net assets, beginning of fiscal year	12,391,176	31,355,795	67,642,581	111,389,552	97,378,602
Net assets, end of fiscal year	\$ 12,899,045	\$ 35,977,016	\$ 71,466,811	\$ 120,342,872	\$ 111,389,552

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 the Year Ended June 30

	2005	2004
Cash flows from operating activities:		
Operating revenues:		
Tuition and fees	\$ 95,001,041	\$ 84,200,737
Federal appropriations	4,644,810	4,894,423
Federal grants and contracts	101,213,943	86,917,211
State grants and contracts	7,546,218	6,893,965
Private grants and contracts	6,830,918	10,290,760
Indirect cost recoveries	16,699,464	14,017,462
Educational, public service and outreach revenues	19,320,072	19,484,885
Sales and services of auxiliary enterprises	31,109,150	29,519,473
Interest on loans receivable	234,510	649,007
Other operating receipts	681,031	496,216
Operating expenses:		
Compensation and benefits	(211,897,187)	(202,502,845)
Operating expenses	(111,329,045)	(104,579,505)
Scholarships and fellowships	(14,597,875)	(15,312,605)
Loans made to students	(5,104,443)	(4,928,354)
Loan payments received	4,567,547	4,135,087
Net cash used in operating activities	(55,079,846)	(65,824,083)
Cash flows from noncapital financing activities:		
Receipts of funds held in trust for others	(177,050)	518,835
Direct lending proceeds	-	62,582
Direct lending disbursements	-	(62,582)
State appropriations	77,118,997	82,435,946
Gifts and contributions (expendable)	8,572,765	7,696,005
Land grant income (Note 2)	2,851,784	1,706,447
Repayment of long-term advance from primary government	(44,671)	-
Additions to permanent endowment	1,002,781	229,730
Net cash provided by noncapital financing activities	89,324,606	92,586,963
Cash flows from capital financing activities:		
Purchase of capital assets	(19,578,800)	(17,951,302)
Proceeds from sale of capital assets	186,477	92,502
Capital gifts, grants and contributions	2,440,714	128,000
Proceeds from borrowings	57,170,429	19,552,969
Debt repayment	(37,493,588)	(22,450,185)
Interest paid	(4,201,121)	(4,004,438)
Payment of debt issue costs	(637,683)	(816,879)
Advances from primary government	1,104,698	1,943,485
Repayment of advances from primary government	(845,721)	(744,522)
Net cash used in capital financing activities	(1,854,595)	(24,250,370)
Cash flows from investing activities:		
Purchase of investments	(37,538,237)	(449,122)
Proceeds from sale of investments	380,978	394,980
Investment income	2,857,427	1,544,842
Net cash provided by (used in) investing activities	(34,299,832)	1,490,700
Net change in cash and cash equivalents	(1,909,667)	4,003,210
Cash balances at beginning of year	87,026,752	83,023,542
Cash balances at end of year	\$ 85,117,085	\$ 87,026,752

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

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

Reconciliation of Operating Loss to Net Cash Used in Operations

	<u>2005</u>	<u>2004</u>
Operating loss	\$ (81,843,907)	\$ (84,912,889)
Non-cash income and expense:		
Depreciation and amortization	20,840,982	20,803,902
Provision for uncollectible accounts	571,411	649,222
Changes in operating assets and liabilities:		
Accounts and grants receivable	1,996,640	(1,620,147)
Loans receivable	(544,275)	(793,269)
Inventories	33,688	176,721
Prepaid expenses	715,022	(582,575)
Accounts payable and other accrued liabilities	1,417,473	185,731
Deferred revenue	262,987	(610,788)
Compensated absences	1,331,772	362,645
Due to federal government	138,361	517,364
Net cash used in operating activities	<u>\$ (55,079,846)</u>	<u>\$ (65,824,083)</u>

Schedule of noncash financing and investing activities

	<u>2005</u>	<u>2004</u>
Capital assets contributed to the University	\$ 3,948,412	\$ 7,067,935
Capital assets acquired through issuance of capital lease obligations	\$ 14,191	\$ 10,796
Bond discount amortized to interest expense	\$ 572,490	\$ 508,590
Bond issue costs amortized to interest expense	\$ 46,281	\$ 81,688

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

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents classified as current assets	\$ 85,045,611	\$ 86,085,048
Cash and cash equivalents classified as non-current assets	71,474	941,704
Total cash and cash equivalents as reported on the Statements of Cash Flows	<u>\$ 85,117,085</u>	<u>\$ 87,026,752</u>

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 Two Years Ended June 30, 2005

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 a modern research intensive land grant university that serves the state, national and international communities by providing its students with academic instruction, conducting research and other activities that advance fundamental knowledge, and by disseminating knowledge to the people of Montana.

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

In May 2002, the Governmental Accounting Standards Board (GASB) issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14*. The University was required to adopt the statement as of and for the year ended June 30, 2004. The statement requires that a legally tax exempt organization should be reported as a component unit of a reporting entity if the economic resources received or held by these organizations are entirely or virtually entirely for the direct benefit of the reporting entity or its component units, and the reporting entity is entitled to, or has the means to otherwise access, a majority of the economic resources received or held by the separate organization. The resources of the separate organization must also be significant to the reporting entity. In addition, other organizations should be evaluated for inclusion if they are closely related to, or financially integrated with, the reporting entity. The University has established a threshold minimum of 1% - 2% percent of consolidated net assets or 1% - 2% percent of consolidated revenues as an initial requirement for inclusion of an organization as a component unit in its financial statements. Other entities may be included, though, if the University determines that to exclude the entity would be misleading. All component units and other related organizations will be tested and evaluated on an annual basis for inclusion under GASB No. 39. For further discussion of component units, see Note 20.

BASIS OF PRESENTATION

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This was followed in November, 1999 by GASB Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*. The State of Montana implemented GASB Statement No. 34 as of and for the year ended June 30, 2003. As a component unit of the State of Montana, the University was also required to adopt GASB Statements No. 34 and No. 35. The latter statement was adopted as amended by GASB Statements No. 37 and No. 38.

The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the University’s assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the University’s financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

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

SIGNIFICANT ACCOUNTING POLICIES

Cash equivalents – For purposes of the statement of cash flows, the University considers its unrestricted, highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Funds invested in the Short Term Investment Pool with the Montana Board of Investments are considered cash equivalents, as are certain investments held by trustees.

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 changes in unrealized gain (loss) on the carrying value of investments, is reported as a component of investment income.

Accounts and grants receivable – Accounts receivable consist of tuition and fees charged to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are reported net of estimated uncollectible amounts.

Allowances for uncollectible accounts – The University estimates the value of its receivables that will ultimately prove uncollectible, and has reported a provision for such as an expense in the accompanying financial statements.

Inventories – Inventories include consumable supplies, livestock, and food items and items held for resale or recharge within the University. Inventories are valued using First In First Out (FIFO) or specific identification methods.

Non-current cash and investments – Cash and investments that are externally restricted as to use are classified as non-current assets in the accompanying statement of net assets. Such assets include endowment fund cash and investments.

Capital assets – Capital assets are stated at cost or fair value at date of purchase or donation. Livestock held for educational purposes is recorded at estimated fair value. Renovations to buildings, infrastructure, and land improvements that significantly increase the value 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.

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

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

Invested in capital assets, net of related debt – this represents the University’s total investment in capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets, nonexpendable – this represents net assets subject to externally imposed stipulations that the University maintain those assets permanently. Such assets include the University’s permanent endowment funds.

Restricted net assets, expendable – this represents net assets whose use by the University is subject to externally imposed stipulations as to either the use or the period of availability of the assets.

Unrestricted net assets – this represents net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for specific purposes as described in Note 13.

Classification of revenues – The University has classified its revenues as either operating or non-operating according to the following criteria:

Operating revenues – include activities that have the characteristics of exchange transactions, including (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most Federal, state and local grants and contracts and Federal appropriations, and (4) interest on institutional student loans.

Non-operating revenues – include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB 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. Restricted funds remain classified as restricted until they are expended.

Income taxes – The University, as a political subdivision of the State of Montana, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514. Because tax liabilities are not considered to be material, no provision for income tax expense is reported in the accompanying financial statements.

Scholarship discounts and allowances – Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are computed as the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students’ behalf. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs, are recorded as operating revenues in the University’s financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Reclassifications – Certain prior year amounts have been reclassified to conform to the current year financial statement presentation.

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 \$54,822,628 at June 30, 2005 and \$49,191,610 at June 30, 2004.

Cash equivalents – These amounts consist of cash held by trustees as well as in a Short Term Investment Pool (STIP) with the Montana Board of Investments. Amounts held in STIP may be withdrawn by the University on demand, and as such are classified as cash equivalents, even though a portion of the pool’s underlying investments may be considered noncurrent.

STIP investments are purchased in accordance with the statutorily mandated “Prudent Expert Principle.” The STIP portfolio may include asset-backed securities, commercial paper, corporate and government securities, repurchase agreements, and variable-rate (floating-rate) instruments. These securities are purchased to provide shareholders with a diversified portfolio earning a competitive total rate of return.

Asset-backed securities represent debt securities collateralized by a pool of mortgage and non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. Commercial paper is unsecured short-term debt with maturities ranging from 1 to 270 days. Commercial paper issued at a discount, direct or by brokers, is backed by bank credit lines. Repurchase agreements (REPOs) represent an agreement between a seller and a buyer, usually of US government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and stated time. Variable-rate (floating-rate) securities pay a variable rate of interest until maturity. The STIP portfolio’s variable-rate securities float with LIBOR (London Interbank Offered Rate).

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 rather than fair value to report net assets to compute unit values. Funds held in STIP are reported at fair value as of June 30, based on market prices supplied to the Montana Board of Investments by its custodial bank.

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

TFBP investments are purchased in accordance with the statutorily mandated “Prudent Expert Principle.” The TFBP portfolio includes securities classified as corporate, foreign government bonds, municipals, U.S. government direct-backed, U.S. government indirect-backed, and cash equivalents. U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. government. U.S. government indirect-backed obligations include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages.

The TFBP portfolio includes structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). REMICs are pass-through vehicles for multiclass mortgage-backed securities. Strip investments represent the separate purchase of the principal and interest cash flows of a mortgage security. These securities, purchased for portfolio diversification and a competitive rate of return, are identified and reported as U.S. government indirect-backed securities in the investment risk and portfolio disclosures.

TFBP fixed income securities pay a fixed rate of interest until maturity while the variable-rate (floating-rate) securities pay a variable interest rate until maturity. The TFBP variable-rate securities float with LIBOR (London Interbank Offered Rate). Investments are presented in the TFBP Statement of Net Asset Value at fair value. Fair values for securities are determined primarily by reference to market prices supplied to the Board of Investments by its custodial bank, State Street Bank.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

The MSU- Bozeman and MSU- Northern Foundation Pools consist of certain endowment funds held in common investment pools. Such pools are administered by the separate Foundations and managed in accordance with investment policies in effect at each.

Securities lending transactions – During fiscal years 2005 and 2004, State Street Bank loaned, on behalf of the Montana Board of Investments, certain securities held by State Street, as custodian, and received U.S. dollar currency cash, U.S. government securities, and irrevocable bank letters of credit as collateral. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2005 and 2004 on the amount of the loans that State Street Bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2005 and 2004. Moreover, there were no losses during fiscal years 2005 and 2004 resulting from a default of the borrowers or State Street Bank.

During fiscal years 2005 and 2004, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust, which has a weighted average maturity of 35 and 49 days, respectively as of June 30, 2005 and 2004. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. At year-end, the University had no credit risk exposure to borrowers because the amounts the Board owes the borrowers exceed the amounts receivable from the borrowers.

As of June 30, 2005, the University maintained security lending cash collateral of \$1,203,088. None existed at June 30, 2004.

Investment risks – Effective June 30, 2005, the University implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – *Deposit and Investment Risk Disclosures*. Detailed asset maturity and other information demonstrating risk associated with the State of Montana Board of Investments STIP and TFBP is contained in the State of Montana Board of Investments financial statements, and may be accessed by contacting the Board of Investments at P.O. Box 200126, Helena, MT 59620-0126. Investment risks are described in the following paragraphs.

Credit Risk – Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, all STIP securities and TFBP fixed income instruments have credit risk as measured by major credit rating services. The Board of Investments' policy requires that STIP securities have the highest investment grade rating in the short term category by at least one Nationally Recognized Statistical Rating Organizations (NRSRO). The six NRSROs include Standard and Poor, Moody, Duff and Phelps, Fitch, IBCA and Thompson's Bank Watch. The Board of Investment's policy requires TFBP fixed income investments, at the time of purchase, to be rated an investment grade as defined by Moody's or by Standard & Poor's (S&P) rating services.

U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

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. As of June 30, 2005 and 2004, all STIP and TFBP securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the Board's custodial bank, State Street Bank. According to the STIP Investment Policy, "repurchase agreements require electronic delivery of U.S. Government Treasury collateral, priced at 102 percent market value, to the designated State of Montana Federal Reserve Bank account." The TFBP's State Street repurchase agreement was purchased in the State of Montana Board of Investments name.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement. The STIP Investment Policy Statement does not specifically address concentration of credit risk. The policy does provide for “minimum three (3%) percent or \$15 million, whichever is higher, to be invested in Repurchase Agreements.” As of June 30, 2005, there were no single issuer investments that exceeded 5% of the STIP portfolio. According to the TFBP Investment Policy, “with the exception of U.S. government indirect-backed (agency) securities, additional TFBP portfolio purchases will not be made in a credit if the credit risk exceeds 2 percent of the portfolio at the time of purchase.” As of June 30, 2005, the TFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 8.19%. As of June 30, 2004, there were no single issuer investments that exceeded 5% of the TFBP portfolio.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. According to GASB Statement No. 40, interest rate disclosures are not required for STIP since STIP is a 2a-7-like pool. The TFBP investment policy does not formally address interest rate risk.

The State of Montana has selected the effective duration method to disclose interest rate risk. The University’s investments are categorized below to disclose interest rate and credit risk as of June 30, 2005. Credit risk reflects the security quality rating, by investment security type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a security investment type is unrated, the quality type is indicated by NR. Although STIP and TFBP investments have been rated by investment security type, neither has been rated by an NRSRO.

Cash equivalents and investments are categorized as follows at June 30, 2005:

Security Type	Fair Value		Moody’s Credit Quality Rating at June 30, 2005	Effective Duration at June 30, 2005
	2005	2004		
State of Montana Short Term Investment Pool	\$29,571,127	\$36,140,723	NR	N/A
U. S. Bank Money Market Funds (collateralized by U.S. Bank pool, not in the University’s name)	324,010	1,233,681	P-1	N/A
State of Montana Trust Fund Bond Pool*	10,043,711	-	NR	N/A*
Foundation Pooled Cash and Investments*	9,252,365	5,396,299	NR	N/A*
U.S. Treasury Notes	1,532,675	1,745,682	NR	1.45
U.S. Treasury Bills	247,462	-	NR	0.33
U. S. Bank Certificates of Deposit (collateralized by U. S. Bank pool, not in the University’s name)	1,000,000	-	Aa1	2.46
U. S. Bank Guaranteed Investment Contracts (non-collateralized)	22,223,027	-	Aa1	2.14
Total Cash Equivalents & Investments	<u>\$74,194,377</u>	<u>\$44,516,385</u>		
Securities Lending Collateral Investment Pool	<u>\$ 1,203,088</u>	<u>\$ -</u>	NR	N/A

* TFBP and Foundation investments are not intended for withdrawal.

Land grant earnings – The University benefits from two separate land grants which total 240,000 acres. The first granted 90,000 acres for the University under provisions of the Morrill Act of 1862. The second, under the Enabling Act of 1889, granted an additional 50,000 acres for agricultural institutions and 100,000 acres for state normal schools.

Under provisions of both grants, income from the sale of land and land assets must be reinvested and constitutes, along with the balance of the unsold land, a perpetual endowment fund. The State of Montana, Board of Land Commissioners, administers both grants and holds all endowed assets. The University’s land grant assets are not reflected in these financial statements, but are included as a component of the State of Montana Basic Financial Statements that are prepared annually and presented in the Montana Comprehensive Annual Financial Report.

Investment income from the perpetual endowment is distributed periodically to the University by the State of Montana, Board of Land Commissioners, and is reported as revenue in the accompanying financial statements. The University has currently pledged such income to the retirement of revenue bond indebtedness.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

In addition to distributed endowment income, the University also receives revenue generated from trust land timber sales. The University has designated these revenues for re-investment, but has the flexibility to remove this designation, should it choose to expend the funds for certain specified purposes.

NOTE 3 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts receivable consisted of the following as of June 30:

	2005	2004
Accounts receivable	\$ 5,525,052	\$ 5,088,174
Other receivables, including private grants and contracts	3,461,518	2,773,336
Gross accounts and grants receivable	8,986,570	7,861,510
Less allowance for uncollectible accounts	(2,064,839)	(1,926,061)
Net accounts and grants receivable	<u>\$ 6,921,731</u>	<u>\$ 5,935,449</u>

NOTE 4 – INVENTORIES

Inventories consisted of the following as of June 30:

	2005	2004
Bookstore	\$ 1,183,261	\$ 1,048,589
Food services	293,247	268,707
Facilities services	248,759	248,432
Livestock	518,406	519,225
Other	555,357	747,765
Total inventories	<u>\$ 2,799,030</u>	<u>\$ 2,832,718</u>

NOTE 5 – PREPAID EXPENSES

Prepaid expenses consisted of the following as of June 30:

	2005	2004
Leases	\$ -	\$ 50,000
Library subscriptions	1,401,032	1,374,535
Other	1,063,612	1,755,131
Total prepaid expenses	<u>\$ 2,464,644</u>	<u>\$ 3,179,666</u>

NOTE 6 – LOANS RECEIVABLE

Total loans receivable balances at June 30, 2005 and 2004 were \$21,802,297 and \$21,265,401, respectively. Student loans made under the Federal Perkins Loan Program constitute the majority of the University's loan balances. Included in non-current liabilities as of June 30, 2005 and 2004 are \$20,910,053 and \$20,771,691 that would be refundable to the Federal Government, should the University choose to cease participation in the Federal Perkins Loan program.

The Federal portions of interest income and loan program expenses are shown as additions to and deductions from the amount due to the Federal government, and not as operating transactions, in the accompanying financial statements.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

NOTE 7 – CAPITAL ASSETS

Following are the changes in capital assets for the years ended June 30, 2005 and 2004:

	Year Ended June 30, 2005				Balance June 30, 2005
	Balance July 1, 2004	Additions	Retirements	Transfers	
Capital assets not being depreciated:					
Land	\$ 4,240,069	\$ -	\$ -	\$ -	\$ 4,240,069
Museum and fine art	4,319,153	-	-	-	4,319,153
Library special collections	3,460,950	-	-	-	3,460,950
Livestock for educational purposes	2,757,710	205,686	-	-	2,963,396
Construction work-in-progress	5,787,224	10,785,343	(28,291)	(4,511,171)	12,033,105
Total capital assets not being depreciated	20,565,106	10,991,029	(28,291)	(4,511,171)	27,016,673
Other capital assets:					
Furniture and equipment	86,525,992	8,087,302	(2,840,687)	-	91,772,607
Library materials	55,700,604	3,564,994	(1,853,482)	-	57,412,116
Buildings	167,833,641	587,195	-	-	168,420,836
Building improvements	121,583,414	412,081	-	4,511,171	126,506,666
Land improvements	13,129,316	157,264	-	-	13,286,580
Infrastructure	32,128,077	-	-	-	32,128,077
Total other capital assets	476,901,044	12,808,836	(4,694,169)	4,511,171	489,526,882
Accumulated depreciation	(259,555,088)	(19,952,615)	4,347,772	-	(275,159,931)
Other capital assets, net	217,345,956	(7,143,779)	(346,397)	4,511,171	214,366,951
Intangible assets, net	1,405,751	197,644	(822,200)		781,195
Capital Assets, net	\$ 239,316,813	\$ 4,044,894	\$ (1,196,888)	\$ -	\$ 242,164,819

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.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

	Year Ended June 30, 2004				Balance June 30, 2004
	Balance July 1, 2003	Additions	Retirements	Transfers	
Capital assets not being depreciated:					
Land	\$ 4,276,003	\$ -	\$ (35,934)	\$ -	\$ 4,240,069
Museum and fine art	4,306,153	13,000	-	-	4,319,153
Library special collections	3,460,950	-	-	-	3,460,950
Livestock for educational purposes	2,751,710	6,000	-	-	2,757,710
Construction work-in-progress	5,885,805	4,948,339	(955,858)	(4,091,062)	5,787,224
Total capital assets not being depreciated	20,680,621	4,967,339	(991,792)	(4,091,062)	20,565,106
Other capital assets:					
Furniture and equipment	80,492,522	13,652,562	(7,690,741)	71,649	86,525,992
Library materials	52,821,531	3,470,280	(591,207)	-	55,700,604
Buildings	166,061,788	1,265,081	-	506,772	167,833,641
Building improvements	117,579,556	851,110	(32,374)	3,185,122	121,583,414
Land improvements	13,415,606	174,338	-	(460,628)	13,129,316
Infrastructure	31,336,047	3,883	-	788,147	32,128,077
Total other capital assets	461,707,050	19,417,254	(8,314,322)	4,091,062	476,901,044
Accumulated depreciation	(247,738,483)	(19,432,459)	7,615,854	-	(259,555,088)
Other capital assets, net	213,968,567	(15,205)	(698,468)	4,091,062	217,345,956
Intangible assets, net	2,119,264	(204,942)	(508,571)	-	1,405,751
Capital Assets, net	\$ 236,768,452	\$ 4,747,192	\$ (2,198,831)	\$ -	\$ 239,316,813

NOTE 8 – DEFERRED REVENUES

Deferred revenues consisted of the following as of June 30:

	2005	2004
Grant and contract funds received in advance	\$ 4,606,360	\$ 4,694,327
Summer session payments received in advance	3,751,887	3,344,887
Other deferred revenues	265,052	321,099
Total	<u>\$ 8,623,299</u>	<u>\$ 8,360,313</u>

NOTE 9 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	2005	2004
Compensation, benefits and related liabilities	\$ 16,401,248	\$ 15,811,290
Accrued interest expense	492,842	385,775
Accounts payable and other accrued liabilities	7,197,289	6,829,175
Total	<u>\$ 24,091,379</u>	<u>\$ 23,026,240</u>

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

NOTE 10 – NON-CURRENT LIABILITIES

Following are the changes in non-current liabilities for the years ended June 30, 2005 and 2004:

	Year Ended June 30, 2005				
	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Amounts due within one year
Bonds and notes payable, and capital lease obligations					
Bonds payable, net of discount	\$ 85,616,694	\$ 56,207,918	\$ (35,565,000)	\$ 106,259,612	\$ 4,855,000
Notes and other debt	1,638,510	-	(347,111)	1,291,399	222,697
Capital lease obligations	61,605	14,191	(34,823)	40,973	25,816
Total bonds, notes and capital lease obligations	<u>\$ 87,316,809</u>	<u>\$ 56,222,109</u>	<u>\$ (35,946,934)</u>	<u>\$ 107,591,984</u>	<u>\$ 5,103,513</u>
Compensated absence liability	<u>\$ 23,258,802</u>	<u>\$ 12,096,379</u>	<u>\$ (10,764,609)</u>	<u>\$ 24,590,572</u>	<u>\$ 11,376,627</u>
Advances from primary government	<u>\$ 9,655,645</u>	<u>\$ 1,104,698</u>	<u>\$ (890,389)</u>	<u>\$ 9,869,954</u>	<u>\$ 1,182,840</u>
Due to Federal government	<u>\$ 20,771,691</u>	<u>\$ 157,741</u>	<u>\$ (19,380)</u>	<u>\$ 20,910,052</u>	<u>\$ -</u>

Amounts not due within one year are reflected in the non-current liabilities section of the accompanying Statement of Net Assets, and as of June 30, 2005, include \$102,488,470 in bonds, notes and capital lease obligations, \$8,687,113 advances from primary government and \$13,213,944 in compensated absence liabilities.

	Year Ended June 30, 2004				
	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Amounts due within one year
Bonds and notes payable, and capital lease obligations					
Bonds payable, net of discount	\$ 89,158,295	\$ 18,533,399	\$ (22,075,000)	\$ 85,616,694	\$ 4,590,000
Notes and other debt	1,146,276	792,965	(300,735)	1,638,506	347,110
Capital lease obligations	151,312	10,796	(100,503)	61,605	28,345
Total bonds, notes and capital lease obligations	<u>\$ 90,455,883</u>	<u>\$ 19,337,160</u>	<u>\$ (22,476,238)</u>	<u>\$ 87,316,805</u>	<u>\$ 4,965,455</u>
Compensated absence liability	<u>\$ 22,896,157</u>	<u>\$ 11,214,154</u>	<u>\$ (10,851,509)</u>	<u>\$ 23,258,802</u>	<u>\$ 11,081,843</u>
Advances from primary government	<u>\$ 8,430,621</u>	<u>\$ 1,943,485</u>	<u>\$ (718,461)</u>	<u>\$ 9,655,645</u>	<u>\$ 869,649</u>
Due to Federal government	<u>\$ 20,254,326</u>	<u>\$ 524,409</u>	<u>\$ (7,044)</u>	<u>\$ 20,771,691</u>	<u>\$ -</u>

Amounts not due within one year are reflected in the non-current liabilities section of the accompanying Statement of Net Assets, and as of June 30, 2004, include \$82,351,350 in bonds, notes and capital lease obligations, \$8,785,996 advances from primary government, and \$12,176,957 in compensated absence liabilities.

Interest rate exchange agreement related to long-term debt – In March 2005, the University entered into a forward-starting interest rate swap agreement with Deutsche Bank AG (“counterparty”). The notional amount of the swap is \$25,750,000, which equals the University’s Series J 2005 Bond principal. The instrument converts the Series J 2005 bonds, issued July 21, 2005, from a variable rate (2.35% at time of bond issuance) to an intended synthetic fixed rate of 3.953%. The swap was executed approximately 4 months in advance of the Series J 2005 bond issuance, to allow the University to lock in the current market interest rates, and its effective date is concurrent with the bond issue date.

The counterparty to the swap has the option to unwind the swap in 2016 (the “swaption”), exposing the University to rollover risk for the Series J Bonds’ remaining term. If the swaption is not exercised in 2016, the swap terminates in November, 2035, at which time the Series J 2005 Bonds mature. The swaption date of 2016 coincides with the date at which the University’s only other variable rate debt, the Series G 2003 issuance, matures. Such timing is

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

intended to limit the University's exposure to interest rate risk by allowing the Series J debt to convert to a variable rate only after the Series G variable rate debt matures.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a financial instrument. At June 30, 2005, the fair value of the swap was (\$1,615,994). Such value was provided to the University by the counterparty, and was calculated using mid-market levels as of the close of business on June 30, 2005. The value is negative because as of June 30, 2005, the University has committed to pay a fixed rate that exceeds the June 30, 2005, Bond Market Association Municipal Swap index ("BMA") rate, and includes the fair value of the swaption.

Basis risk exists because the interest rate which the University pays to bondholders is based on the Municipal Auction Rate Securities ("MARS") rate, while the interest rate the University receives from the counterparty is based on the BMA index. The difference between funds received from the counterparty at BMA and funds paid to the bondholders at MARS can result in a difference between the intended synthetic interest rate and the effective synthetic interest rate.

Credit risk is dependent upon the credit quality rating of the counterparty. At June 30, 2005, the University was not subject to credit risk, because the swap had a negative fair value. However, should interest rates change and the fair value become positive, the University would be exposed to credit risk in the amount of the fair value of the swap. To mitigate credit risk, the counterparty must maintain at least double-A category ratings from both Moody's and S&P, and must post collateral with a third party in the event of a rating downgrade.

The University or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable rate bonds would no longer carry a synthetic rate. In addition, the University may be required to pay an amount equal to the swap's fair value, if negative.

The bonds underlying the swap were not issued until July, 2005. Future debt service requirements relative to the debt and the swap are presented in Note 19, Subsequent Events.

Additional information regarding bonds, notes and capital leases is included in Notes 11 and 12.

NOTE 11 – BONDS, NOTES AND ADVANCES PAYABLE

Revenue bonds payable at June 30, 2005 were as follows:

Series 1993 A					
Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total	
2008	5.000%	\$ 1,208,611	\$ 1,206,389	\$ 2,415,000	
2009	5.050%	1,314,579	1,465,421	2,780,000	
2010	5.100%	1,240,881	1,539,119	2,780,000	
2011-2015	5.150 - 5.200%	2,272,650	3,287,350	5,560,000	
Total cash requirements		\$ 6,036,721	\$ 7,498,279	\$ 13,535,000	
Accreted discount on Capital Appreciation Bonds			4,813,628		
Accreted balance		\$ 10,850,349			

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

Series 1996 B

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2006	5.750%	\$ 2,370,000	\$ 229,123	\$ 2,599,123
2007	5.750%	2,555,000	87,573	2,642,573
2008	5.750%	235,000	6,812	241,812
Total cash requirements		\$ 5,160,000	\$ 323,508	\$ 5,483,508

Series 1996 D

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2006	4.750%	\$ 670,000	\$ 443,364	\$ 1,113,364
2007	4.875%	705,000	410,273	1,115,273
2008	5.000%	145,000	389,414	534,414
2009	5.000%	120,000	382,784	502,784
2010	5.125%	130,000	376,454	506,454
2011-2015	5.250-5.375%	760,000	1,770,222	2,530,222
2016-2020	5.375%	3,220,000	1,361,879	4,581,879
2021-2025	5.375%	2,735,000	287,245	3,022,245
2026-2030	5.375%	205,000	5,766	210,766
Total cash requirements		\$ 8,690,000	\$ 5,427,401	\$ 14,117,401

Series 1998 E

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2006	4.300%	\$ 280,000	\$ 332,182	\$ 612,182
2007	4.300%	290,000	332,182	622,182
2008	4.350%	305,000	332,182	637,182
2009	4.400%	315,000	332,182	647,182
2010	4.500%	330,000	332,182	662,182
2011-2015	4.600 - 5.000%	1,910,000	332,182	2,242,182
2016-2020	5.000%	2,440,000	332,182	2,772,182
2021-2025	5.000%	1,160,000	332,182	1,492,182
Total cash requirements		\$ 7,030,000	\$ 2,657,456	\$ 9,687,456

Series 1998 F

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2006	4.300%	\$ 1,170,000	\$ 25,291	\$ 1,195,291
Total cash requirements		\$ 1,170,000	\$ 25,291	\$ 1,195,291

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

Series 2003G

Payable during the year ending June 30,	Interest Rate in effect June 30,	Principal	Interest	Total
	2005*			
2006	2.750%	\$ 275,000	\$ 500,012	\$ 775,012
2007	2.750%	300,000	492,658	792,658
2008	2.750%	240,000	485,732	725,732
2009	2.750%	305,000	478,832	783,832
2010	2.750%	320,000	477,351	797,351
2011-2015	2.750%	10,285,000	1,976,637	12,261,637
2016-2020	2.750%	6,680,000	185,967	6,865,967
Total cash requirements		\$ 18,405,000	\$ 4,597,189	\$ 23,002,189
Deferred Loss on Refunding		(653,504)		
Total		\$ 17,751,496		

*interest rate varies with market rate monthly

Series 2004H

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2007		-	1,083,088	1,083,088
2008	2.100%	435,000	1,078,520	1,513,520
2009	4.000%	450,000	1,064,952	1,514,952
2010	4.000%	470,000	1,046,553	1,516,553
2011-2015	3.000 - 5.500%	2,690,000	4,886,401	7,576,401
2016-2020	3.625 - 5.000%	3,410,000	4,169,633	7,579,633
2021-2025	4.100 - 4.375%	4,230,000	3,353,259	7,583,259
2026-2030	4.500 - 4.625%	5,270,000	2,306,790	7,576,790
2031-2035	5.00%	6,710,000	872,250	7,582,250
Total cash requirements		\$ 23,665,000	\$ 20,944,534	\$ 44,609,534
Unamortized Premium/Discount (net)		517,365		
Total		\$ 24,182,365		

Series 2004I

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2007	2.500%	95,000	1,428,556	1,523,556
2008	2.500%	685,000	1,418,807	2,103,807
2009	2.500%	610,000	1,402,619	2,012,619
2010	3.000%	615,000	1,385,768	2,000,768
2011-2015	3.000 - 5.250%	3,465,000	6,560,951	10,025,951
2016-2020	3.700 - 5.000%	13,640,000	5,058,493	18,698,493
2021-2025	4.250 - 5.000%	11,320,000	987,674	12,307,674
2026-2030	4.500%	820,000	18,450	838,450
Total cash requirements		\$ 31,340,000	\$ 19,692,186	\$ 51,032,186
Deferred /Loss on Refunding		(1,452,273)		
Unamortized Premium/Discount (net)		1,537,675		
Total		\$ 31,425,402		

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

Total, all series			
Payable during the year ending June 30,	Principal	Interest	Total
2006	\$ 4,855,000	\$ 4,043,928	\$ 8,898,928
2007	3,945,000	3,834,329	7,779,329
2008	3,253,611	4,917,855	8,171,466
2009	3,114,579	5,126,789	8,241,368
2010	3,105,881	5,157,427	8,263,308
2011-2015	21,382,650	18,813,743	40,196,393
2016-2020	29,390,000	11,108,154	40,498,154
2021-2025	19,445,000	4,960,360	24,405,360
2026-2030	6,295,000	2,331,006	8,626,006
2031-2035	6,710,000	872,250	7,582,250
Total cash requirements	\$ 101,496,721	\$ 61,165,841	\$ 162,662,562
Deferred Loss on Refunding	(2,105,777)		
Unamortized Premium/Discount (net)	2,055,040		
Accreted discount on Capital Appreciation Bonds	4,813,628		
Bonds payable, net	\$ 106,259,612		

Debt refunded, issued, and escrowed –

Series A 1993 Bonds, November 9, 1993 – An original issue of \$24,911,720 dated November 9, 1993, consisting of \$3,055,000 of fully registered Current Interest Serial Bonds, plus \$6,036,720 (discounted value) of fully registered Capital Appreciation Bonds, and the remainder of fully registered 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 for the acquisition, construction, repair, remodeling, replacement, renovation, improvement, furnishing, and equipping of new and existing facilities at the University. The Serial Bonds were refunded by the Series G 2003 bonds, leaving the Capital Appreciation Bonds outstanding.

Series B 1996, October 1, 1996 – On October 1, 1996, the University issued Series B 1996 Facilities Refunding Revenue Bonds in the amount of \$18,995,000. Proceeds from the sale of the bonds were used to: 1) advance refund \$18,440,000 of outstanding Series A 1986 bonds; 2) pay the bond insurance premium; and 3) pay certain costs associated with the issuance of the bonds.

Series D 1996, August 15, 1996 – On August 15, 1996, the University issued Series D 1996 Facilities Improvement and Refunding Revenue Bonds in the amount of \$44,530,000. Proceeds from the sale of the bonds were used to: 1) pay the costs of acquisition, construction, renovation, improvement, furnishing, and equipping certain facilities; 2) pay the bond insurance premium; and 3) pay certain costs associated with the issuance of the bonds. The bonds are fully insured by the Municipal Bond Insurance Association (MBIA). A significant portion of the Series D 1996 bonds were refunded during 2005.

Series E 1998, June 1, 1998 – On June 1, 1998, the University issued Series E 1998 Facilities Improvement Revenue Bonds in the amount of \$8,255,000. Proceeds from the sale of the bonds were used to: 1) finance the construction, improvement, repair, replacement, expansion, renovation, furnishing, and equipping of the football stadium at the Bozeman campus; 2) pay the premiums for the municipal bond insurance policy; and 3) pay certain costs associated with the issuance of the Series E 1998 bonds. Bonds maturing on or before November 15, 2008, are not subject to optional redemption prior to maturity. The MBIA unconditionally and irrevocably guarantees all bonds.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

Series F 1998, June 1, 1998 – On June 1, 1998, the University issued Series F 1998 Facilities Improvement Revenue Bonds (Information Technology Project), in the amount of \$8,175,000. Proceeds were used for the purchase, installation and implementation of the Banner2000 software and required equipment, training and support. The bonds are unconditionally and irrevocably guaranteed by the MBIA, and are not subject to optional redemption prior to maturity.

Series G 2003, October 15, 2003 - On October 15, 2003, the University issued \$18,760,000 in Municipal Auction Rate Securities as Series 2003 G Revenue Bonds. Of this total, \$16,745,000 was used for a current refunding of the Series 1993-A bonds and \$2,015,000 was used for an advance refunding of the Series 1994 C bonds. The bonds are ten year variable rate bonds, priced on a 35-day rate period. They are unconditionally and irrevocably guaranteed by XL Capital Assurance. Payments are scheduled each May 15 and November 15 through November, 2016. Bond proceeds, along with monies from the University, were sufficient to legally defease a portion of the Series 1993 A bonds, and the Series 1994 C bonds. The refunding resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,451,453. The refunded debt is considered defeased and is not reported in the University's financial statements.

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, 2026 maturity in November, 2027; and for the November, 2034 maturity in November, 2028, 2029, 2031, 2032, and 2033. The bonds are secured by a first lien on and pledge of the net pledged revenues, as described below. Payment is guaranteed by Ambac Assurance Corporation.

Series I 2004, November 23, 2004 - In November, 2004, the University issued \$31,340,000 of Series I 2004 Facilities Revenue Refunding Bonds. Bond proceeds, together with funds from the University, were sufficient to refund a significant portion of the Series 1996D bonds and pay for costs of bond issuance. They are unconditionally and irrevocably 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 defeased and is not reported in the University's financial statements.

Pledged revenues – As of June 30, 2005, the University's bonds are 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) a HUD debt service grant; 5) lease rentals from the Museum of the Rockies; 6) all Land Grant income; 7) certain student athletic fees; 8) certain Health & Physical Education fees; 9) MSU-Bozeman Fieldhouse fees; 10) capitalized interest and earnings on certain funds created under the Indenture; 11) technology fees assessed to students until the Series F 1998 Bonds are paid and discharged; 12) and certain Grant-related Facilities & Administrative Costs with respect to the Series H 2004 debt. None of the net pledged revenues are derived from facilities or fees relating to the Great Falls Campus.

Defeased debt – In prior years, the University defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, neither the trust account assets nor the liability for the defeased bonds are included in the University's financial statements. Certain of the transactions met the qualifications for legal defeasance, while others are considered to be defeased in substance. At June 30, 2005 and 2004, \$4,355,000 and \$4,965,000 of bond principal outstanding was considered to be defeased in substance.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

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

	Interest Rate	Maturity Date	2005	2004
<i>GE Capital:</i>				
Great Falls Library	4.99%	09/01/04	\$ -	\$ 493
Bozeman Library	4.99%	09/01/04	-	3,244
ITC Wiring Project	4.18%	09/01/07	415,421	569,925
<i>Subtotal, GE Capital Loan Principal Outstanding</i>			<u>415,421</u>	<u>573,662</u>
<i>Key Municipal Finance-</i>				
Renne Library	4.10%	02/01/05	-	89,813
<i>Accutitle Incorporated-</i>				
3009 Yucca Escrow Agreement	7.75%	10/27/04	-	6,692
<i>Independence Bank</i>				
Admissions Auto Loan	0.00%	09/01/07	13,716	18,288
<i>Cisco:</i>				
Information Technology Services Equipment	5.75%	12/20/05	8,535	40,641
Information Technology Services Cable	5.75%	06/20/06	46,059	91,763
<i>Subtotal, Cisco Loan Principal Outstanding</i>			<u>54,594</u>	<u>132,404</u>
<i>MSU-Northern Foundation:</i>				
Athletics Wrestling Van	6.50%	10/01/04	-	2,343
MacKenzie Hall Wiring	5.00%	10/01/11	124,263	124,263
Campus Backbone Wiring	5.00%	10/01/11	225,243	225,243
Digital Phone System	5.00%	10/01/11	133,901	133,901
Brockman Wiring	5.00%	10/01/11	46,062	46,062
ITS Electronics	5.00%	10/01/11	275,700	275,700
Student Services Office Equipment and Carpeting	6.50%	10/01/04	-	5,290
Athletics Volleyball Van	6.50%	10/01/05	2,499	4,845
<i>Subtotal, MSU-Northern Foundation Loan Principal Outstanding</i>			<u>807,668</u>	<u>817,647</u>
Total note principal outstanding			<u>\$1,291,399</u>	<u>\$1,638,506</u>

Scheduled note maturities are as follows:

Payable during the year ending June 30,	Principal	Interest	Total
2006	\$ 222,697	\$ 56,432	\$ 279,129
2007	172,405	49,156	221,561
2008	214,002	42,348	256,350
2009	151,921	34,115	186,036
2010	159,517	26,519	186,036
2011-2015	370,857	30,086	400,943
Total	<u>\$ 1,291,399</u>	<u>\$ 238,656</u>	<u>\$ 1,530,055</u>

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

Advances payable to primary government – The University participates in the State’s Intercap loan program. Intercap loans contain a variable interest rate, which is based on the underlying bond rate of the Montana Board of Investments Intercap bonds, and is adjusted annually. The rate as of June 30, 2005, was 3.80%.

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

Payable during the year ending June 30,	Intercap Loans			MSTA Advances		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 1,137,070	\$ 156,406	\$1,293,476	\$ 45,786	\$ 134,214	\$ 180,000
2007	1,049,336	117,533	1,166,869	46,930	133,070	180,000
2008	948,467	78,600	1,027,067	48,102	131,898	180,000
2009	658,970	44,484	703,454	49,303	130,697	180,000
2010	347,876	22,469	370,345	50,534	129,466	180,000
2011-2015	354,096	28,705	382,801	272,245	627,755	900,000
2016-2020	-	-	-	307,981	592,019	900,000
2021-2025	-	-	-	348,408	551,592	900,000
2026-2030	-	-	-	394,142	505,858	900,000
2031-2035	-	-	-	445,879	454,121	900,000
2036-2040	-	-	-	504,407	395,593	900,000
2041-2045	-	-	-	570,618	329,382	900,000
2046-2050	-	-	-	645,520	254,480	900,000
2051-2055	-	-	-	730,254	169,746	900,000
2056-2060	-	-	-	826,110	73,890	900,000
2061	-	-	-	87,920	2,080	90,000
	\$ 4,495,815	\$ 448,197	\$ 4,944,012	\$ 5,374,139	\$ 4,615,861	\$ 9,990,000

NOTE 12 - CAPITAL LEASE OBLIGATIONS

Capital Leases: The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2005:

Payable during the year ending June 30,	Principal and Interest
2006	\$ 28,820
2007	19,484
2008	1,387
Total payments	49,691
Less amount representing interest	(8,719)
Principal balance outstanding	\$ 40,972

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

NOTE 13 – UNRESTRICTED NET ASSETS

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

	2005	2004
General operating	\$ (14,297,199)	\$ (12,934,811)
Facility renewal and replacement	14,024,658	13,340,446
Student services and auxiliary department reserves, including inventories	11,977,662	12,446,348
Instruction, academic support and public service	8,671,171	7,946,789
Indirect cost recoveries and research	9,441,791	7,138,459
Unexpended plant uses	4,442,569	3,677,161
Retirement of indebtedness	3,534,826	3,366,200
Facilities services reserves, including inventories	2,293,659	2,407,092
Employer-provided benefits	1,326,999	1,186,599
Agricultural Experiment Station and Extension Services	2,232,621	2,056,702
Administration and finance	2,738,610	2,722,041
Student organizations	733,474	764,305
Livestock inventories	518,406	519,225
President's office	756,770	739,817
Total unrestricted net assets	<u>\$ 48,396,017</u>	<u>\$ 45,376,373</u>

The University has not funded the compensated absences balance related to employees paid using state general operating funds, creating negative net asset balances of \$14.3 million and \$12.9 million as of June 30, 2005 and 2004, respectively. Other funds have largely been earmarked for minor and major equipment replacement, facility renovation, operating contingencies, and maintenance and renovation projects in progress as of June 30.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

NOTE 14 – MATRIX OF NATURAL AND FUNCTIONAL OPERATING EXPENSES

The University's operating expenses consisted of the following during the year ended June 30, 2005:

Type and classification of operating expense:	Instruction	Organized Research	Public Service	Academic Support	Student Services	Institutional Support	Plant-related Expenses	Auxiliary Enterprises	Other Classifications	Total
Compensation	\$ 60,380,272	\$ 44,128,056	\$ 12,587,678	\$ 11,818,145	\$ 11,081,855	\$ 9,671,560	\$ 4,610,381	\$ 12,604,159	\$ -	\$ 166,882,106
Benefits	16,495,443	10,965,776	3,604,157	3,277,201	3,170,878	3,363,440	2,191,907	3,587,717	-	46,656,519
Contracted Services	2,926,857	20,334,703	4,088,670	1,065,450	2,039,258	1,993,690	2,274,970	2,899,529	-	37,623,127
Supplies	2,762,060	8,416,874	1,213,614	1,161,452	1,454,694	472,269	3,119,976	4,281,368	-	22,882,307
Communications	1,073,438	681,185	582,414	320,878	988,824	380,075	104,977	538,878	-	4,670,669
Travel	1,598,280	3,686,843	1,009,600	669,693	2,050,877	339,931	59,939	83,563	-	9,498,726
Utilities	9,896	380,386	23,659	17,304	65,262	-	6,080,348	2,708,784	-	9,285,639
Cost of Sales	35,636	810	112,235	699,197	86,226	136,070	10,568	4,377,356	-	5,458,098
Maintenance	296,931	783,038	133,244	169,779	202,701	82,917	5,867,179	2,313,505	-	9,849,294
Other Expenses	856,505	1,726,075	2,612,852	558,464	861,669	1,971,425	224,626	678,068	-	9,489,684
Rent	127,407	1,099,889	115,292	95,151	196,898	178,182	971,038	352,953	-	3,136,810
Scholarships and Fellowships	-	-	-	-	-	-	-	-	14,597,874	14,597,874
Depreciation and Amortization	-	-	-	-	-	-	-	-	20,840,982	20,840,982
Total	\$ 86,562,725	\$ 92,203,635	\$ 26,083,415	\$ 19,852,714	\$ 22,199,142	\$ 18,589,559	\$ 25,515,909	\$ 34,425,880	\$ 35,438,856	\$ 360,871,835

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

The University's operating expenses consisted of the following during the year ended June 30, 2004:

Type and classification of operating expense:	Instruction	Organized Research	Public Service	Academic Support	Student Services	Institutional Support	Plant-related Expenses	Auxiliary Enterprises	Other Classifications	Total
Compensation	\$ 57,932,179	\$ 41,086,258	\$ 12,486,942	\$ 11,306,799	\$ 11,139,849	\$ 9,269,892	\$ 4,779,404	\$ 12,353,939	\$ -	\$ 160,355,262
Benefits	15,422,926	9,798,883	3,514,690	3,006,254	2,922,570	2,909,473	2,089,765	3,307,481	-	42,972,042
Contracted Services	2,797,726	14,051,284	4,380,449	1,080,532	2,315,422	1,932,601	2,781,905	2,933,254	-	32,273,173
Supplies	2,712,067	7,931,072	1,216,496	1,240,505	1,600,527	365,240	3,348,261	4,275,605	-	22,689,773
Communications	1,120,837	640,142	640,479	298,749	1,159,330	196,817	165,259	548,328	-	4,769,941
Travel	1,420,717	3,680,962	1,032,450	684,286	2,004,172	295,683	24,573	126,269	-	9,269,112
Utilities	6,405	345,775	24,544	32,637	71,533	-	5,187,126	2,188,487	-	7,856,507
Cost of Sales	47,421	20	155,057	973,619	81,453	164,629	13,100	4,129,683	-	5,564,982
Maintenance	342,931	821,430	114,701	206,449	229,220	28,648	6,057,130	2,194,003	-	9,994,512
Other Expenses	831,798	979,523	2,037,266	303,031	1,025,088	2,035,261	-	507,987	-	7,719,954
Rent	122,867	901,180	212,122	88,101	228,964	151,512	750,030	343,812	-	2,798,588
Scholarships and Fellowships	-	-	-	-	-	-	-	-	15,312,605	15,312,605
Depreciation and Amortization	-	-	-	-	-	-	-	-	20,803,902	20,803,902
Total	\$ 82,757,874	\$ 80,236,528	\$ 25,815,196	\$ 19,220,962	\$ 22,778,128	\$ 17,349,756	\$ 25,196,553	\$ 32,908,849	\$ 36,116,507	\$ 342,380,353

NOTE 15 – RETIREMENT PLANS

University employees eligible to participate in retirement programs are members of either the Public Employees' Retirement System (PERS), the Game Wardens and Peace Officers Retirement System (GWPORS), Teacher's 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 Montana Retirement 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. Individuals are immediately vested with contributions. Annual reports that include financial statements and required supplemental information on the plan are available from TIAA-CREF, 730 Third Avenue, New York, New York 10017-3206, Phone 1-800-842-2733.

TRS - This system was established in 1937 and is governed by Title 19, Chapter 4, MCA, as a cost-sharing multi-employer defined benefit pension plan providing retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, vocational-technical center or unit of the University System. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for benefits is 1/60 times creditable service years times average final compensation. Rights are vested after 5 years of creditable service, and vested employees may retire at or after age 50 and receive reduced retirement benefits. Additional information or a separate financial statement can be obtained from the State of Montana, Department of Administration, Teachers' Retirement Division, P.O. Box 200139, Helena, MT 59620-0139.

PERS - This system was established in 1945 and is governed by Title 19, Chapter 3, MCA, as a cost-sharing multi-employer defined benefit pension plan providing retirement services to substantially all public employees. Effective July 1, 2002, eligible new employees of the University are defaulted into the PERS defined benefit plan and have one year from their date of hire to elect whether to stay in the PERS defined benefit plan, enroll in the ORP plan, or enroll in the PERS Defined Contribution Plan. Benefit eligibility is age 60 with at least 5 years of service, age 65 regardless of service, or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least 5 years of service. Monthly retirement benefits are determined by multiplying 1/56 by the number of years of service by the final average salary, unless the employee has 25 or more years of service, in which case the multiplier is 1/50. 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. 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.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

FERS - This plan commenced in 1986 and is available to Federal employees joining the Extension Service staff without 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. At age 62, retirees are eligible for cost of living adjustments on retirement benefits. The TSP benefits at retirement depend upon the amount of employer contributions, employee voluntary contributions and investment gains and losses.

CSRS - This retirement plan is authorized under the Smith-Lever Act of 1914 as amended and is available to Federal employees 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.

Pension data for the year ended June 30, 2005:

	PERS	TRS	ORP	CSRS	FERS	GWPORS
Covered payroll	\$ 40,135,715	\$ 18,756,079	\$ 83,083,544	\$ 1,946,082	\$ 584,354	\$ 385,256
Total Payroll	\$ 172,913,309	\$ 172,913,309	\$ 172,913,309	\$ 172,913,309	\$ 172,913,309	\$ 172,913,309
Employer contributions	\$ 2,769,364	\$ 1,795,457	\$ 4,088,916	\$ 116,591	\$ 63,256	\$ 34,673
% of covered payroll	6.90%	7.47%	4.49%-4.96%	3.82%-7.54%	1.00%-10.00%	9.00%
Employee contributions	\$ 2,748,147	\$ 1,668,884	\$ 5,843,535	\$ 133,477	\$ 62,282	\$ 40,683
% of covered payroll	6.90%	10.21%	7.03%	0.10%-5.25%	0.10%-8.50%	10.56%
ORP contribution to other plans	\$ 148,448	\$ 3,107,723				
% of ORP contribution	2.41%	4.04%				

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

Amounts contributed to retirement plans during the past three years were equal to the required contribution each year. The amounts contributed by the University and its employees were:

Year ended June 30,	PERS	TRS	ORP	CSRS	FERS	GWPORS
2003	\$ 5,709,572	\$ 7,111,003	\$ 8,298,780	\$ 377,067	\$ 147,761	\$ 59,010
2004	\$ 5,497,886	\$ 6,164,039	\$ 9,375,631	\$ 238,517	\$ 154,632	\$ 69,838
2005	\$ 5,665,959	\$ 6,572,064	\$ 9,932,451	\$ 250,068	\$ 125,538	\$ 75,356

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

Pension data for the year ended June 30, 2004:

	PERS	TRS	ORP	CSRS	FERS	GWPORS
Covered payroll	\$ 38,746,770	\$ 18,836,968	\$ 78,448,435	\$ 2,697,199	\$ 763,308	\$ 357,044
Total Payroll	\$166,370,885	\$166,370,885	\$166,370,885	\$166,370,885	\$166,370,885	\$166,370,885
Employer contributions	\$ 2,673,527	\$ 1,908,144	\$ 3,858,736	\$ 102,938	\$ 83,681	\$ 32,134
% of covered payroll	6.90%	7.47%	4.49 - 4.96%	3.82 - 7.54%	1.00-10.00%	9.00%
Employee contributions	\$ 2,673,527	\$ 1,346,843	\$ 5,516,895	\$ 135,529	\$ 70,951	\$ 37,704
% of covered payroll	6.90%	7.15%	7.03%	0.11 - 5.25%	0.01 - 8.50%	10.56%
ORP contribution to other plans	\$ 150,832	\$ 2,909,052				
% of ORP contribution	2.41%	4.04%				

NOTE 16 – RISK MANAGEMENT

Due to the diverse risk exposure of the University and its constituent agencies, the insurance portfolio contains a comprehensive variety of coverage. Montana statutes, Sections 2-9-101 through 305, MCA, and ARM Section 2-2-298, require participation of all state agencies in the self- insurance plan established by the Montana Department of Administration, Risk Management and Tort Defense Division (RMTDD). The self- insurance program includes coverage for commercial general liability, auto liability, professional liability, and errors and omissions exposures. The RMTDD provides coverage, above self- insured retentions, by purchasing other commercial coverage through the State’s broker, Willis of Seattle, for excess property, crime, fidelity, boiler and machinery, and fine arts coverage. Coverage for aircraft and hull liability is held through Mountain Air. The RMTDD also supplies other commercial insurance coverage for specific risk exposures on an as needed basis such as the Volunteer Accident and Health, Dismemberment and Accidental Death coverage obtained for all units of the Montana University System. In addition to these basic policies, the University’s Department of Safety and Risk Management (“SRM”) establishes guidelines and provides consultation in risk assessment, risk avoidance, risk acceptance and risk transfer.

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

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

General liability and tort claim coverage – include comprehensive general liability, auto liability, personal injury liability, officer’s and director’s liability, professional liability, aircraft liability, watercraft liability, leased vehicles and equipment liability, and are provided for by the University’s participation in the State’s self- insurance program.

Self-Funded Programs – The University’s health care program is self-funded, and is provided through participation in the Montana University System (MUS) Inter-unit Benefits Program. The MUS program is funded on an actuarial basis and the University believes that sufficient reserves exist to pay run-off claims related to prior years, and that premiums and University contributions are sufficient to pay current and future claims.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

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 is administered by a third party, Missoula County. Benefits provided are prescribed by state law and include biweekly payments for temporary loss of wages as well as qualifying permanent partial and permanent total disability. Medical and indemnity benefits are statutorily prescribed for qualifying job-related injuries or illnesses.

The MUS program incorporates a self-insured retention of \$500,000 per claim and excess commercial coverage to statutory limits. Employer's liability is provided, with a \$500,000 retention and an excess insurance limit of \$1,000,000. The University provides periodic disbursements to the administrator for claims paid and administrative expenses.

NOTE 17 – COMMITMENTS AND CONTINGENT LIABILITIES

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

Minimum rental payments for operating leases are due in the years ending June 30,	Amount
2006	\$ 1,248,139
2007	983,594
2008	928,059
2009	792,369
2010	703,553
2011-2015	3,363,333
2016-2020	<u>2,009,178</u>
Total	<u>\$ 10,028,225</u>

Payments made under non-cancelable operating leases during the years ended June 2005 and 2004 totaled \$1,460,843 and \$1,250,187, respectively.

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 does not expect any material adjustments or repayments to result from such audits.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

As of June 30, 2005, the University had initiated construction or was authorized to do so on the following major capital and maintenance projects:

Description	Amount Expended through June 2005	Remaining Amount Authorized	Total Expected Project Cost
Reroof Cisel Hall	\$ 11,627	\$ 119,103	\$ 130,730
Heating System Improvements	14,200	85,800	100,000
College of Technology	-	9,000,000	9,000,000
AES Isolation Building Renovation	-	250,000	250,000
Animal Bioscience Facility	12,081	4,987,919	5,000,000
Bozeman Campus Roof Repairs	-	1,208,270	1,208,270
Chemistry/Biochemistry Facility	1,395,832	23,104,168	24,500,000
Cobleigh Hall Re-roof	262,557	8,550	271,107
Cooley Lab Renovation	5,380	147,020	152,400
EARC Renovation	1,050	208,950	210,000
EHHD Air Conditioning	35,648	324,352	360,000
EPS Building Clean Room	128,149	1,851,851	1,980,000
Family & Graduate Housing	39,968	42,532	82,500
Gaines Hall Renovation	-	3,500,000	3,500,000
Grant Chamberlain Parking Lot Replacement	219,595	5,405	225,000
Hapner Fire Sprinkler Design	118,741	172,459	291,200
Harrison Dining Renovations	17,391	12,609	30,000
Harrison Re-Roof	120,638	179,362	300,000
Herrick Comprehensive Study	145,445	4,555	150,000
Langford Hall Fire Alarm System	93,040	161,906	254,946
Leon Johnson Hall Reroof	219,932	15,705	235,637
Marsh Fire Suppression Design	13,190	123,810	137,000
Marsh Space Renovations	275,842	164,400	440,242
NARC Renovation	17,478	282,522	300,000
NWARC Renovation	-	160,000	160,000
SARC Machine Shop	-	525,000	525,000
Student Facilities Enhancement Project	1,151,153	26,848,847	28,000,000
Upgrade Electrical Distribution	-	1,496,250	1,496,250
Applied Technology Center Construction	3,554,481	668,469	4,222,950
Cowan Hall Heating and Air Conditioning	2,327,491	33,209	2,360,700
Hail/Damage Repair	83,749	6,829	90,578
Morgan/Brockman Roofs	243,692	22,606	266,298
Patch/Coat/Seal Roofs	263,868	85,622	349,490
Shingle/Roof Repairs	582,613	23,055	605,668
Campus Improvements	-	936,800	936,800
Montana Hall Re-roof	22,200	249,087	271,287
SARC Renovation	511,492	788,508	1,300,000
Totals	\$ 11,888,523	\$ 77,805,530	\$ 89,694,053

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

NOTE 18 – RELATED PARTIES

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

During the years ended June 30, 2005 and 2004, respectively, the Foundations provided \$5,439,390 and \$5,575,736 in scholarship and other gift support paid directly to the University, in addition to significant payments made to others in support of the University. In addition, during 2004, the University recorded restricted gift revenue of approximately \$2.8 million related to funds received from the MSU Foundation pursuant to a land settlement agreement. The University paid to its Foundations \$1,664,593 and \$1,520,600 during the years ended 2005 and 2004, respectively, which included payments for contracted services, capital campaign support, and operating leases.

MSU- Bozeman leased certain office space from Advanced Technology, Inc. (ATI), a subsidiary of the MSU Foundation. Rental and other payments to ATI totaled \$186,398 during 2005 and \$175,551 during 2004. Friends of Montana Public Television provided \$267,765 during 2005 and \$414,072 during 2004, and Friends of KEMC Public Radio provided \$487,000 during 2005 and \$425,000 during 2004 in support of the University’s television and radio stations.

The Museum of the Rockies, Inc. paid \$300,000 per year to the University for facility rental, and provided \$1,425,109 and \$1,571,784 during the fiscal years ended June 2005 and 2004, respectively, in support of the University, primarily as reimbursement for Museum staff salaries and benefits as well as improvements to the leased facility.

The MSU- Bozeman Athletic Scholarship Association provided \$608,000 and \$489,157 in support of athletic programs during the years ended June 30, 2005 and 2004.

NOTE 19 – SUBSEQUENT EVENT

In July 2005, the University issued \$25,750,000 of Series J 2005 Auction Rate variable rate bonds at an initial rate of 2.35% to fund the majority of a student facilities enhancement project on the Bozeman campus. The design is nearing completion, and construction has proceeded on portions of the project. The bonds will be repaid with a combination of student fees and auxiliary operations revenues. As discussed in Note 10, the University entered into an interest rate swap with respect to the debt. Swap interest as of the issue date netted 1.633%, which is the difference between the fixed rate of 3.953% paid to the counterparty and 2.32% received from the counterparty at the BMA rate. Repayment schedules using interest rates in effect at the bond issue date are as follows:

Payable during the year ending June 30,	Variable Rate		Net SWAP	Total
	Principal	Interest	Interest	
2006	\$ -	\$ 605,125	\$ 420,498	\$ 1,025,623
2007	175,000	603,086	419,080	1,197,166
2008	325,000	597,225	415,008	1,337,233
2009	275,000	590,170	410,106	1,275,276
2010	450,000	581,668	404,198	1,435,866
2011-2015	2,725,000	2,735,957	1,901,199	7,362,156
2016-2020	3,575,000	2,362,389	1,641,609	7,578,998
2021-2025	4,375,000	1,893,641	1,315,879	7,584,520
2026-2030	5,500,000	1,314,769	913,624	7,728,393
2031-2035	6,800,000	595,207	413,605	7,808,812
2036	1,550,000	18,362	12,760	1,581,122
Total	\$ 25,750,000	\$ 11,897,599	\$ 8,267,566	\$ 45,915,165

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

NOTE 20 – COMPONENT UNITS

Entities included as component units in the financial statements are nonprofit, tax exempt organizations operating exclusively for the purposes of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with the University. Although the University may not control the timing or amount of receipts from these entities, the majority of the revenues or incomes thereon that the entities hold and invest are restricted by donors to the activities of the University. The entities included as component units in the financial statements are the MSU Foundation (406-994-2053), the MSU-Billings Foundation (406-657-2244), the MSU-Northern Foundation (406-265-3711), the MSU Athletic Scholarship Association (406-994-3741), and the Museum of the Rockies, Inc.(406-994-3466).

Condensed financial information for each of the University's component units is presented below.

Montana State University
Condensed Combining Schedule of Component Unit Statements of Financial Position
As of June 30, 2005

	Montana State University Foundation	Montana State University- Billings Foundation	Montana State University- Northern Foundation	Museum of the Rockies, Inc.	Montana State University Athletic Scholarship Association	Combined
Assets:						
Cash and investments	\$ 99,737,233	\$ 14,217,956	\$ 3,811,490	\$ 6,279,388	\$ 2,284,438	\$ 126,330,505
Amounts due from MSU	-	-	814,390	-	-	814,390
Other receivables, net	2,918,223	1,649,426	746,453	50,133	24,273	5,388,508
Capital assets, net	3,677,752	1,411,934	9,398	1,783,635	12,451	6,895,170
Other assets	570,268	145,792	141,230	1,839,393	7,778	2,704,461
Total assets	\$ 106,903,476	\$ 17,425,108	\$ 5,522,961	\$ 9,952,549	\$ 2,328,940	\$ 142,133,034
Liabilities:						
Accounts payable and other liabilities	\$ 537,332	\$ 634,408	\$ 717	\$ 240,957	\$ 37,254	\$ 1,450,668
Amounts due to MSU	-	-	-	400,166	343,447	743,613
Notes, bonds and debt obligations	2,475,273	-	-	140,416	68,048	2,683,737
Liabilities to external parties	1,088,065	236,633	2,268,218	-	-	3,592,916
Custodial funds	12,066,665	1,252,563	-	-	-	13,319,228
Total liabilities	16,167,335	2,123,604	2,268,935	781,539	448,749	21,790,162
Net assets:						
Unrestricted	2,714,446	4,283,542	(283,387)	6,012,911	171,533	12,899,045
Temporarily restricted	29,587,105	2,920,951	910,027	2,340,226	218,707	35,977,016
Permanently restricted	58,434,590	8,097,011	2,627,386	817,873	1,489,951	71,466,811
Total net assets	90,736,141	15,301,504	3,254,026	9,171,010	1,880,191	120,342,872
Total liabilities and net assets	\$ 106,903,476	\$ 17,425,108	\$ 5,522,961	\$ 9,952,549	\$ 2,328,940	\$ 142,133,034

* The Museum of the Rockies, Inc. and the MSU- ASA maintain 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)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

Condensed Combining Schedule of Component Unit Statements of Activities
For the Year ended June 30, 2005*

	Montana State University Foundation	Montana State University- Billings Foundation	Montana State University- Northern Foundation	Museum of the Rockies, Inc.	Montana State University Athletic Scholarship Association	Combined
Revenues:						
Contributions	\$ 6,978,120	\$ 1,745,189	\$ 770,914	\$ 515,848	\$ 575,974	\$ 10,586,045
Investment income and unrealized gain on investments	6,557,096	762,710	(203,050)	380,599	42,277	7,539,632
Support from University	-	968,566	137,500	-	-	1,106,066
Other income	2,583,049	207,811	14,683	1,909,776	616,904	5,332,223
Total revenues	16,118,265	3,684,276	720,047	2,806,223	1,235,155	24,563,966
Expenses:						
University support	3,867,982	1,154,895	787,920	1,018,088	-	6,828,885
Scholarships and other program expenses	1,147,760	892,802	230,368	1,077,322	580,393	3,928,645
Supporting services	2,561,598	586,372	242,262	759,062	679,242	4,828,536
Total expenses	7,577,340	2,634,069	1,260,550	2,854,472	1,259,635	15,586,066
Change in net assets before nonoperating items	8,540,925	1,050,207	(540,503)	(48,249)	(24,480)	8,977,900
Nonoperating expenses	(24,580)	-	-	-	-	(24,580)
Change in net assets	8,516,345	1,050,207	(540,503)	(48,249)	(24,480)	8,953,320
Net assets, beginning of fiscal year	82,219,796	14,251,297	3,794,529	9,219,259	1,904,671	111,389,552
Net assets, end of fiscal year	\$ 90,736,141	\$ 15,301,504	\$ 3,254,026	\$ 9,171,010	\$ 1,880,191	\$ 120,342,872

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

Component Unit Investment Composition as of June 30,*:

	2005	2004
Pooled investments:		
Equity securities	\$ 54,310,696	\$ 48,668,136
Debt securities	32,391,897	26,893,214
Alternative investments	14,552,734	13,190,321
Cash equivalents	218,397	610,765
Real Estate	5,210,000	-
US Treasuries	764,972	622,788
Other real estate	1,061,714	998,338
Other investments	12,375,875	11,185,755
Interest in Private Foundation	-	3,846,000
Investments held in trust	1,937,791	1,761,050
Total	\$ 122,824,076	\$ 107,776,367

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

Condensed Combining Schedule of Component Unit Statements of Financial Position
As of June 30, 2004*

	Montana State University Foundation	Montana State University- Billings Foundation	Montana State University- Northern Foundation	Museum of the Rockies, Inc.	Montana State University Athletic Scholarship Association	Combined
Assets:						
Cash and investments	\$ 88,705,758	\$12,592,601	\$ 3,872,799	\$ 6,860,544	\$ 2,241,915	\$114,273,617
Amounts due from MSU	-	-	817,648	-	-	817,648
Other receivables, net	3,623,161	2,185,426	940,937	98,109	33,330	6,880,963
Capital assets, net	3,308,177	1,458,058	12,378	1,243,187	11,989	6,033,789
Other assets	1,306,150	142,648	61,230	1,567,329	4,782	3,082,139
Total assets	\$ 96,943,246	\$16,378,733	\$ 5,704,992	\$ 9,769,169	\$ 2,292,016	\$ 131,088,156
Liabilities:						
Accounts payable and other liabilities	\$ 803,736	\$ 551,214	\$ 50	\$ 139,235	\$ 39,395	\$ 1,533,630
Amounts due to MSU	2,775,858	-	-	380,576	347,950	3,504,384
Notes, bonds and debt obligations	2,581,957	122,675	-	30,099	-	2,734,731
Liabilities to external parties	1,010,479	226,172	1,910,413	-	-	3,147,064
Custodial funds	7,551,420	1,227,375	-	-	-	8,778,795
Total liabilities	14,723,450	2,127,436	1,910,463	549,910	387,345	19,698,604
Net assets:						
Unrestricted	2,468,453	3,998,561	204,318	5,550,669	169,175	12,391,176
Temporarily restricted	24,440,750	2,735,630	992,144	2,851,591	335,680	31,355,795
Permanently restricted	55,310,593	7,517,106	2,598,067	816,999	1,399,816	67,642,581
Total net assets	82,219,796	14,251,297	3,794,529	9,219,259	1,904,671	111,389,552
Total liabilities and net assets	\$ 96,943,246	\$16,378,733	\$ 5,704,992	\$ 9,769,169	\$ 2,292,016	\$ 131,088,156

* The Museum of the Rockies, Inc. and the MSU- ASA maintain 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)
Notes to Consolidated Financial Statements
As of and for Each of the Two Years Ended June 30, 2005

(continued)

Condensed Combining Schedule of Component Unit Statements of Activities
For the Year ended June 30, 2004*

	Montana State University Foundation	Montana State University- Billings Foundation	Montana State University- Northern Foundation	Museum of the Rockies, Inc.	Montana State University Athletic Scholarship Association	Combined
Revenues:						
Contributions	\$ 9,472,259	\$ 2,282,781	\$ 877,823	\$ 481,629	\$ 542,265	\$ 13,656,757
Investment income and unrealized gain on investments	6,982,003	1,107,186	527,760	509,374	4,206	9,130,529
Support from University	179,135	960,730	132,200	-	-	1,272,065
Other income (expense)	2,168,201	209,680	11,724	1,996,583	622,245	5,008,433
Total revenues	18,801,598	4,560,377	1,549,507	2,987,586	1,168,716	29,067,784
Expenses:						
University support	3,617,425	1,201,100	786,047	917,430	-	6,522,002
Scholarships and other program expenses	1,106,075	786,724	235,405	1,154,462	531,219	3,813,885
Supporting services	2,571,895	537,287	192,846	673,916	637,497	4,613,441
Total expenses	7,295,395	2,525,111	1,214,298	2,745,808	1,168,716	14,949,328
Change in net assets before nonoperating items	11,506,203	2,035,266	335,209	241,778	-	14,118,456
Non-operating expenses	(27,506)	(80,000)	-	-	-	(107,506)
Change in net assets	11,478,697	1,955,266	335,209	241,778	-	14,010,950
Net assets, beginning of year	70,741,099	12,296,031	3,459,320	8,977,481	1,904,671	97,378,602
Net assets, end of year	\$ 82,219,796	\$ 14,251,297	\$ 3,794,529	\$ 9,219,259	1,904,671	\$ 111,389,552

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

Unaudited Supplemental Information

Montana State University
Unaudited Consolidating Statements of Net Assets
June 30, 2005

	MSU - Bozeman	Montana Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	MSU - Great Falls College of Technology	Eliminations	Total
ASSETS									
Current assets:									
Cash and cash equivalents	\$ 56,755,664	\$ 4,755,687	\$ 2,203,386	\$ 134,480	\$ 16,511,413	\$ 889,492	\$ 3,795,489	\$ -	\$ 85,045,611
Securities lending collateral	1,175,139	27,949	-	-	-	-	-	-	1,203,088
Accounts and grants receivable, net	3,937,052	23,148	172,620	53,934	1,413,372	1,095,824	225,781	-	6,921,731
Amounts receivable from Federal government	12,007,525	-	-	-	117,641	87,117	40,363	-	12,252,646
Amounts receivable from primary government	658,314	25,446	28,449	-	123,527	16,524	2,525	-	854,785
Amounts receivable from State component	188,024	-	-	-	2,549	-	-	-	190,573
Amounts receivable from MSU campuses	222,870	-	-	-	115,563	723	1,997	(341,153)	-
Loans receivable, net	3,750,239	-	-	-	582,979	454,120	-	-	4,787,338
Inventories	781,020	519,225	-	3,761	980,178	392,417	122,429	-	2,799,030
Prepaid expenses and other current assets	2,178,168	-	-	-	228,310	30,130	28,036	-	2,464,644
Total current assets	81,654,015	5,351,455	2,404,455	192,175	20,075,532	2,966,347	4,216,620	(341,153)	116,519,446
Noncurrent assets:									
Restricted cash and cash equivalents	34,254	-	-	-	12,400	13,520	11,300	-	71,474
Restricted investments	31,209,033	-	-	-	-	97,532	-	-	31,306,565
Loans receivable, net	13,450,347	-	-	-	2,525,729	1,038,883	-	-	17,014,959
Investments	12,348,553	1,030	-	-	643,091	-	-	-	12,992,674
Capital assets	173,752,524	9,257,153	75,825	170,189	38,278,682	13,754,823	6,875,623	-	242,164,819
Other noncurrent assets	941,546	-	-	-	-	-	-	-	941,546
Total noncurrent assets	231,736,257	9,258,183	75,825	170,189	41,459,902	14,904,758	6,886,923	-	304,492,037
Total assets	\$ 313,390,272	\$ 14,609,638	\$ 2,480,280	\$ 362,364	\$ 61,535,434	\$ 17,871,105	\$ 11,103,543	\$ (341,153)	\$ 421,011,483
LIABILITIES									
Current liabilities:									
Accounts payable and accrued liabilities	17,089,138	971,268	847,453	38,752	2,903,243	1,491,274	750,251	-	24,091,379
Amounts payable to primary government	1,179,315	-	735	3,033	118,525	272,645	22,631	-	1,596,884
Amounts payable to State component units	457,627	-	7	-	335	253	-	-	458,222
Amounts payable to MSU campuses	120,873	-	-	668	143,269	42,389	33,954	(341,153)	-
Securities Lending Liability	1,175,139	27,949	-	-	-	-	-	-	1,203,088
Property held in trust for others	887,791	-	-	-	124,764	81,104	84,307	-	1,177,966
Deferred revenues	6,008,161	-	4,614	-	1,913,065	505,666	191,793	-	8,623,299
Compensated absences	7,288,012	991,511	729,928	46,389	1,507,150	618,576	195,061	-	11,376,627
Current portion debt and capital lease	4,041,848	-	-	-	755,000	306,665	-	-	5,103,513
Total current liabilities	38,247,904	1,990,728	1,582,737	88,842	7,465,351	3,318,572	1,277,997	(341,153)	53,630,978
Noncurrent liabilities:									
Advances from primary government	7,878,830	-	-	-	320,358	487,925	-	-	8,687,113
Debt and capital lease obligations	86,732,946	-	-	-	13,376,212	2,379,313	-	-	102,488,471
Compensated absences	8,621,857	1,172,975	863,519	54,880	1,633,529	668,246	198,938	-	13,213,944
Due to Federal government	16,365,903	-	-	-	3,065,375	1,478,775	-	-	20,910,053
Total noncurrent liabilities	119,599,536	1,172,975	863,519	54,880	18,395,474	5,014,259	198,938	-	145,299,581
Total liabilities	157,847,440	3,163,703	2,446,256	143,722	25,860,825	8,332,831	1,476,935	(341,153)	198,930,559
NET ASSETS									
Invested in capital assets, net of related debt	101,249,868	9,257,153	75,824	170,189	23,744,612	10,345,778	6,875,621	-	151,719,045
Restricted – nonexpendable, Endowments	7,210,075	-	-	-	12,400	111,051	11,300	-	7,344,826
Restricted – nonexpendable, Loans	3,086,388	-	-	-	477,641	239,401	-	-	3,803,430
Restricted – expendable, Scholarships	636,006	-	-	-	-	-	31,788	-	667,794
Restricted – expendable, Research and other	2,117,681	419,012	114,183	-	-	-	28,038	-	2,678,914
Restricted – expendable, Loans	312,910	-	-	-	-	52,213	-	-	365,123
Restricted – expendable, Construction & Renewal	5,036,801	-	-	-	685,016	190,372	-	-	5,912,189
Restricted – expendable, Debt retirement	1,193,084	-	-	-	253	249	-	-	1,193,586
Unrestricted	34,700,019	1,769,770	(155,983)	48,453	10,754,687	(1,400,790)	2,679,861	-	48,396,017
Total net assets	155,542,832	11,445,935	34,024	218,642	35,674,609	9,538,274	9,626,608	-	222,080,924
Total liabilities and net assets	\$ 313,390,272	\$ 14,609,638	\$ 2,480,280	\$ 362,364	\$ 61,535,434	\$ 17,871,105	\$ 11,103,543	\$ (341,153)	\$ 421,011,483

Montana State University
Unaudited Consolidating Statements Revenues, Expenses and Changes in Net Assets
As of and for the Year Ended June 30, 2005

	MSU - Bozeman	Montana Agricultural Experiment Station	MSU Extension	Fire Services Training School	MSU - Billings	MSU - Northern	MSU - Great Falls College of Technology	Eliminations	Total
Operating revenues:									
Tuition and fees	\$ 67,069,296	\$ -	\$ -	\$ -	19,368,641	\$ 5,116,385	\$ 2,897,773	\$ (23,440)	\$ 94,428,655
Federal appropriations	-	1,975,945	2,791,015	-	-	-	-	-	4,766,960
Federal grants and contracts	81,734,361	-	398,205	-	9,220,533	4,212,748	2,642,160	(253,549)	97,954,458
State grants and contracts	6,128,744	-	64,792	-	519,736	291,889	119,376	-	7,124,537
Non-governmental grants and contracts	7,010,644	-	106,729	-	681,633	33,342	50,612	-	7,882,960
Grant/contract facilities and administrative costs	15,504,433	-	-	-	398,430	270,197	53,286	-	16,226,346
Educational, public service and outreach revenues	12,761,669	2,258,641	2,634,364	215,502	1,324,794	361,409	132,212	(1,207,374)	18,481,217
Auxiliary - housing	10,050,846	-	-	-	1,124,093	307,715	-	-	11,482,654
Auxiliary - food service	10,375,171	-	-	-	744,556	402,002	54,981	-	11,576,710
Auxiliary - other auxiliary sales and services	2,980,386	-	-	-	3,722,279	701,277	902,055	(83,398)	8,222,599
Interest earned on loans	172,579	-	-	-	41,551	19,417	-	-	233,547
Other operating revenues	486,987	689	1,882	264	109,924	38,666	8,873	-	647,285
Total operating revenues	214,275,116	4,235,275	5,996,987	215,766	37,256,170	11,755,047	6,861,328	(1,567,761)	279,027,928
Operating expenses:									
Compensation and benefits	145,803,705	11,684,087	9,050,313	394,399	28,923,653	11,272,357	6,410,111	-	213,538,625
Operating expenses	81,760,437	2,611,955	1,566,434	296,960	18,157,596	6,019,120	3,049,613	(1,567,761)	111,894,354
Scholarships and fellowships	8,333,652	1,481	1,450	-	3,412,138	1,725,672	1,123,481	-	14,597,874
Depreciation and amortization	16,649,521	619,508	42,955	63,834	2,515,354	570,096	379,714	-	20,840,982
Total operating expenses	252,547,315	14,917,031	10,661,152	755,193	53,008,741	19,587,245	10,962,919	(1,567,761)	360,871,835
Operating loss	(38,272,199)	(10,681,756)	(4,664,165)	(539,427)	(15,752,571)	(7,832,198)	(4,101,591)	-	(81,843,907)
Nonoperating revenues (expenses):									
State appropriations	35,942,279	10,527,376	4,679,574	518,233	14,544,705	7,115,297	3,816,979	-	77,144,443
Land grant and timber sales income	2,263,156	-	-	-	588,628	-	-	-	2,851,784
Gifts	5,595,991	-	-	-	1,166,203	1,807,197	6,717	-	8,576,108
Investment Income	2,202,099	112,234	41,606	3,861	373,548	43,153	80,925	-	2,857,426
Interest expense	(4,102,803)	-	-	-	(697,969)	(126,189)	-	-	(4,926,961)
Net nonoperating revenues (expenses)	41,900,722	10,639,610	4,721,180	522,094	15,975,115	8,839,458	3,904,621	-	86,502,800
Income before other revenues, expenses, gains and	3,628,523	(42,146)	57,015	(17,333)	222,544	1,007,260	(196,970)	-	4,658,893
Transfers in (out)	(49,631)	(29,055)	(34,983)	3,919	(21,068)	(39,353)	170,171	-	-
Gain or loss on sale of fixed assets	(376,769)	123,474	-	-	(667)	(52,433)	(2,825)	-	(309,220)
Additions to permanent endowments	1,002,781	-	-	-	-	-	-	-	1,002,781
Capital grants and contributions	989,502	693,332	-	11,551	233,790	2,663,521	-	-	4,591,696
Change in net assets	5,194,406	745,605	22,032	(1,863)	434,599	3,578,995	(29,624)	-	9,944,150
Net assets, beginning of year	150,348,426	10,700,330	11,992	220,505	35,240,010	5,959,279	9,656,232	-	212,136,774
Net assets, end of year	\$155,542,832	\$ 11,445,935	\$ 34,024	\$ 218,642	\$ 35,674,609	\$ 9,538,274	\$ 9,626,608	\$ -	\$ 222,080,924

Montana State University
Unaudited Selected Cash Flow Information
June 30, 2005

	MSU- Bozeman	Montana Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU- Billings	MSU- Northern	MSU- Great Falls College of Technology	Total
Cash flows from operating activities:								
Operating revenues:								
Tuition and fees	\$ 67,662,572	\$ -	\$ -	\$ -	\$19,250,410	\$ 5,010,160	\$ 3,077,899	\$ 95,001,041
Federal appropriations	-	1,971,506	2,673,304	-	-	-	-	4,644,810
Federal grants and contracts	84,639,558	-	299,602	-	9,345,935	4,321,480	2,607,368	101,213,943
State grants and contracts	6,505,457	-	64,792	-	553,963	290,837	131,169	7,546,218
Private grants and contracts	6,049,113	-	106,729	-	748,757	(124,293)	50,612	6,830,918
Indirect cost recoveries	15,977,551	-	-	-	398,430	270,197	53,286	16,699,464
Educational, public service and outreach revenues	12,304,977	2,346,357	2,679,732	215,502	1,297,107	344,185	132,212	19,320,072
Sales and services of auxiliary enterprises	23,204,334	-	-	(22,677)	5,573,150	1,397,307	957,036	31,109,150
Interest on loans receivable	139,694	-	-	-	82,170	12,646	-	234,510
Other operating receipts	486,986	14,117	22,534	264	109,591	38,666	8,873	681,031
Operating expenses:								
Compensation and benefits	(144,723,659)	(11,718,778)	(8,966,195)	(404,997)	(28,630,369)	(11,192,346)	(6,260,843)	(211,897,187)
Operating expenses	(79,714,334)	(2,568,768)	(1,561,895)	(298,788)	(18,207,414)	(5,971,523)	(3,006,323)	(111,329,045)
Scholarships and fellowships	(8,333,653)	(1,481)	(1,450)	-	(3,412,138)	(1,725,672)	(1,123,481)	(14,597,875)
Loans made to students	(3,940,084)	-	-	-	(758,891)	(405,468)	-	(5,104,443)
Loan payments received	3,429,771	-	-	-	605,475	532,301	-	4,567,547
Inter-campus payables and receivables	(102,963)	(54,410)	82,309	1,825	149,066	(94,210)	18,383	-
Net cash used in operating activities	(16,414,680)	(10,011,457)	(4,600,538)	(508,871)	(12,894,758)	(7,295,733)	(3,353,809)	(55,079,846)
Cash flows from noncapital financing activities:								
Receipts (disbursements) of funds held in trust	(217,075)	-	-	-	8,995	55,336	(24,306)	(177,050)
State appropriations	35,942,279	10,501,930	4,679,574	518,233	14,544,705	7,115,297	3,816,979	77,118,997
Gifts and contributions (expendable)	5,592,648	-	-	-	1,166,203	1,807,197	6,717	8,572,765
Land grant income (Note 2)	2,263,156	-	-	-	588,628	-	-	2,851,784
Repayment of advance from primary government	(44,671)	-	-	-	-	-	-	(44,671)
Additions to permanent endowments	1,002,781	-	-	-	-	-	-	1,002,781
Inter-campus transfers	(49,631)	(29,055)	(34,983)	3,919	(21,068)	(39,353)	170,171	-
Net cash provided by noncapital financing activities	44,489,487	10,472,875	4,644,591	522,152	16,287,463	8,938,477	3,969,561	89,324,606
Cash flows from capital financing activities:								
Purchase of capital assets	(15,947,850)	(539,151)	(23,545)	(23,719)	(1,341,262)	(1,602,831)	(100,442)	(19,578,800)
Proceeds from sale of capital assets	39,227	147,250	-	-	-	-	-	186,477
Capital gifts and contributions	2,440,714	-	-	-	-	-	-	2,440,714
Proceeds from borrowings	45,956,822	-	-	-	11,213,607	-	-	57,170,429
Debt retirement	(25,274,201)	-	-	-	(11,887,027)	(332,360)	-	(37,493,588)
Payment of debt issue costs	(637,683)	-	-	-	-	-	-	(637,683)
Advances from primary government	1,090,230	-	-	-	14,468	-	-	1,104,698
Repayment of advances from primary government	(586,768)	-	-	-	(69,615)	(189,338)	-	(845,721)
Interest paid	(3,391,143)	-	-	-	(697,571)	(112,406)	-	(4,201,120)
Net cash used in capital financing activities	3,689,348	(391,901)	(23,545)	(23,719)	(2,767,400)	(2,236,935)	(100,442)	(1,854,594)
Cash flows from investing activities:								
Purchase of investments	(37,342,385)	(1,030)	-	-	(194,822)	-	-	(37,538,237)
Proceeds from sale of investments	380,978	-	-	-	-	-	-	380,978
Investment income	2,202,100	112,234	41,606	3,861	373,548	43,153	80,925	2,857,427
Net cash provided by (used in) investing activities	(34,759,307)	111,204	41,606	3,861	178,726	43,153	80,925	(34,299,832)
Net change in cash and cash equivalents	(2,995,152)	180,721	62,114	(6,577)	804,031	(551,038)	596,235	(1,909,666)
Cash balances at beginning of year	59,785,070	4,574,966	2,141,272	141,057	15,719,782	1,454,050	3,210,554	87,026,751
Cash balances at end of year	\$ 56,789,918	\$ 4,755,687	\$ 2,203,386	\$ 134,480	\$ 16,523,813	\$ 903,012	\$ 3,806,789	\$ 85,117,085

MSU- Bozeman

Campus Overview

On February 16, 1893, the Agricultural College of the State of Montana was founded in Bozeman as the state's first unit of higher education. Renamed The Montana College of Agriculture and Mechanic Arts, the institution was popularly known as Montana Agricultural College, or MAC. By the 1920s, the institution's preferred name was Montana State College and so it remained until July 1, 1965, when, in recognition of the enormous advances in the College's commitment to scientific and humanistic research, the thirty-ninth legislative assembly of the State of Montana changed MSC's name to Montana State University. In 1994, the Board of Regents approved a restructuring plan that created a four-campus Montana State University and gave the Bozeman campus administrative oversight of the, now, MSU-Billings, MSU-Great Falls College of Technology and MSU-Northern. Statutory authority for Montana State University-Bozeman is contained in Title 20, Chapter 25, Section 201 Montana Code Annotated.

The campus has comprehensive offerings at the undergraduate level, where it bestows bachelor's degrees in 51 areas of study and holds 17 specialized accreditations. In addition, the campus offers 39 masters degree programs and 17 programs at the doctoral level. Many of the programs on the Bozeman campus are unique in the state.

Research, creativity and technology transfer are at the core of Montana State University's mission. Faculty and students on the campus and throughout the state conduct externally funded research in a wide variety of areas that both enhances undergraduate and graduate education and provides a research and development function for the small company economy that exists in Montana.

Public service and outreach are central to the Bozeman campus's land grant mission. The campus is the hub of a network of over 50 Extension offices, seven Agricultural Research Centers, five extended nursing campuses, a widely utilized teaching and research museum, a statewide public television network and the state and national reach of the Burns Telecommunications Center.

	Student FTE for Fiscal Years Ended June 30,				
	2005	2004	2003	2002	2001
Resident					
Undergraduate	8,091	7,504	7,443	7,321	7,151
Graduate	958	634	641	606	589
Total resident	9,049	8,138	8,084	7,927	7,740
Non-resident					
Undergraduate	2,180	1,790	1,899	1,855	2,096
Graduate	377	253	238	202	199
Total non-resident	2,557	2,043	2,137	2,057	2,295
Western Undergraduate Exchange	397	484	453	460	376
Total	12,003	10,665	10,674	10,444	10,411

	Degrees Granted - Fiscal Years Ended June 30,				
	2005	2004	2003	2002	2001
Undergraduate	1,805	1,821	1,831	1,828	1,672
Graduate	482	417	349	356	357
TOTAL:	2,287	2,238	2,180	2,184	2,029

Resident attendance has grown steadily for the past several years, indicating that the campus is successful in attracting students from all areas of the state. In keeping with MSU-Bozeman's status as a land grant institution, management strives to ensure that all qualified Montana residents who desire to attend MSU-Bozeman are able to do so.

Campus Outlook

MSU- Bozeman's vision is to be the "university of choice for those seeking a student-centered learning environment distinguished by innovation and discovery in a Rocky Mountain setting." MSU- Bozeman has, over its 110 year history, built a national and international reputation for excellence in undergraduate and graduate education in agriculture, business, engineering, biological and physical sciences, architecture, education, health and human development, the liberal arts and nursing. It is routinely listed by U.S. News and World Report as one of America's "best buys" for undergraduate education and ranks among the nation's leaders in the number of Goldwater science, math and engineering scholarships won by its students. It is an institution committed to positioning today's students for successful and meaningful lives in the global economy of the 21st century.

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

The mission of MSU- Bozeman is multi-faceted:

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

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

Montana Agricultural Experiment Station

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, formalized a contract for maintaining a viable agricultural industry and an affordable supply of food and fiber for America.

In 1893, Montana endorsed the terms of the Hatch Act, creating the Agricultural College of the State of Montana and the designation of the Montana Agricultural Experiment Station (MAES). The Morrill Act of 1862 also designated the new institution as Montana's land grant college. The MAES operates under these enabling acts and subsequent federal and state legislation. The MAES has components (Research Centers) throughout Montana and the main campus (MSU-Bozeman).

The Research Centers consist of: Northern Agricultural Research Center (ARC) at Havre, Northwestern ARC at Creston, Western ARC at Corvallis, Central ARC at Moccasin, Southern ARC at Huntley, Western Triangle ARC at Conrad, and Eastern ARC at Sidney. The Research Centers are located in environments that serve the specific needs of agricultural clientele in local areas (multiple counties), as well as the broader needs of Montana's agricultural and natural resources systems. The oldest Research Centers, Central and Western, were established in 1907 with the most recent, Western Triangle, established in 1978. MAES also cooperates with the ARS Fort Keogh Livestock and Range Research Laboratory at Miles City, a partnership that has been in place since 1924 and the ARS research programs at Sidney.

The MSU-Bozeman MAES component includes the academic departments of Agricultural Economics and Economics, Animal and Range Sciences, Land Resources and Environmental Sciences, Plant Sciences and Plant Pathology, and Veterinary Molecular Biology. The majority of the MAES faculty is located on the MSU-Bozeman campus, with split appointments between research and teaching, which provides unique and high quality educational opportunities that are appropriate for the region, but appeal to students from around the world.

MAES cooperates with state, regional and federal agencies on research to provide dynamic programs that generate and disseminate superior knowledge and produce advances in technology that increase the competitiveness and profitability in agricultural and natural resource systems. MAES aids agriculture in competing and succeeding in a global environment, preserving environmental quality, improving the quality of life, and capturing value added of regional and national resources within the global economy, as well as developing cutting-edge outreach and education programs for stakeholders.

Highlights

The MAES and the College of Agriculture continue to be successful in securing extramural funding to support research programs. In 2005, the College of Agriculture, which is predominantly funded by MAES, became the highest-ranking college in terms of sponsored program expenditures, exceeding \$28 million. The College/MAES have three departments that rank first, third and sixth in a field of over 30 departments in terms of sponsored program expenditures. Funding agencies include national, regional and state from multiple sources.

Outlook

As operating costs continue to increase and remain unfunded through state and federal appropriations, scientists within the MAES find it absolutely critical to compete for external funding to maintain quality research programs to meet the needs of our state and add value to Montana's agricultural and natural resources. With the majority of the MAES faculty in the MSU-Bozeman College of Agriculture, which competes on a national and international basis for faculty and students, we are increasingly becoming non-competitive with our salaries, equipment infrastructure and facilities. We will reduce the size of the operation as needed due to increases in MSU direct costs, unfunded operations and maintenance charges, increases in utilities and insurance and partial funding through the state general fund.

MSU Extension Service

Agency Overview

The mission of the Montana State University Extension Service is to extend the positive impact of research-generated knowledge throughout the state by making it accessible and useful to individuals, families and communities, empowering them to improve their quality of life and strengthen agriculture, forestry and other businesses. To meet the educational needs of Montanans, Extension coordinates all appropriate educational and research resources in the region through campus-based specialists and county and reservation agents.

The unique funding structure of the Extension Service includes State general fund, Federal Smith-Lever and county sources. The State legislature appropriates both State general funds and Federal Smith-Lever funds on a biennial basis. Extension agent salaries are paid from Federal Smith-Lever and county funding sources. Extension specialists are paid from State general funds. The Extension Service funds 100 percent of the benefit costs for all employees hired on current unrestricted funding from a blend of Federal Smith-Lever and State general fund dollars. Operational allocations are made to specialists based on a pre-established formula. Other operating dollars are allocated to support staff development, program development, personnel recruitment and general operating purposes.

While 12,000 students further their education on the MSU campus each year, through Extension, MSU reaches out to all of the citizens of Montana. The Extension Service has 35 campus-based specialists and 62 offices across the State serving all 56 counties and five reservations. In addition, seven Tribal College agent offices are affiliated with Extension. Because Montana's communities are as diverse as its landscape, the very structure of our organization--MSU faculty living in Montana's small towns and cities--ensures that programs are in tune with local issues and can adapt quickly to changing needs.

To deliver the practical advice and information needed by Montana's agricultural community, Extension taps into the resources of the entire university system. Research results from the Ag Experiment Station and programs like the Montana Beef Network and Sheep Institute, as well as the U.S.D.A., assist in developing programmatic responses. Primary concerns related to sustainability and profitability, natural resources and the environment, and technology transfer/value-added opportunities are addressed through outreach efforts across the state.

Extension's Family & Consumer Sciences program area serves people and families of all shapes and sizes---from the elderly to kids, from single parents to stepfamilies. Topics include food and nutrition, housing, health, family issues, personal finance, environmental health and many other subjects useful to Montanans.

Montana 4-H annually reaches over 22,000 Montana youth, ages 6-19. About 40 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 nearly 4,000 trained adult and youth volunteers who lead local programs and activities. Recent highlights include the expansion of the new 4-H cowboy poetry project, developing a robotics program for youth on Malmstrom Air Force Base, and involving clubs in every county to help assemble and distribute hospital "de-contamination" kits for emergency and hazardous waste situations.

Tourism development continues to be an area of major emphasis for Extension's Community Development program. In 2004, Extension collaborated with a variety of state and federal agencies to provide tourism development education for local communities and individuals. Helena, Rocky Boy Reservation and White Sulphur Springs joined over 30 communities that have completed the 9-month Community Tourism Assessment Program conducted by MSU Extension in partnership with Travel Montana. Partnerships with the Montana Arts Council and the Montana Small Business Development Centers provided Marketing for Artists workshops in Billings, Butte and Great Falls.

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

Fire Services Training School

Agency Overview

The Fire Services Training School (FSTS) is an educational outreach program of Montana State University's Extension Service. The mission of FSTS is to build capacity in local governments for protecting citizens' lives and property, and safeguarding the community tax base and infrastructure from harm caused by fires, accidents, injuries, hazardous materials incidents and other emergencies. The FSTS is authorized in 20-31-102, MCA, and its office is located at 750 6th Street Southwest, Great Falls; however, four trainers who provide instruction and resources to local firefighters are strategically located around the state.

Emergencies strike Montana communities every day. In an emergency, the members of local government fire and rescue services are among the first line of defense, and the first help to arrive at the scene. The FSTS audience consists of 12,000 fire fighters, 96 percent of whom are volunteers, statewide. The Fire Services Training School provides 75 percent of its services to volunteer fire fighters and 25 percent to career fire fighters.

The responsibility to provide training to fire fighters is shared by the Fire Services Training School and the organization to which the responder belongs. The FSTS curriculum includes entry level recruit academies, hazardous materials and technical rescue courses, leadership and management, as well as tactical and strategic level incident operations courses.

The Fire Services Training School has been primarily responsible for introducing new technology into local emergency forces. Rural Water Shuttles, Compressed Air Foam Systems, Positive Pressure Ventilation and Incident Management Systems have all been introduced by FSTS and adopted by community responders, resulting in safer and more efficient operations. Involvement with FSTS has resulted in significantly reduced costs for fire insurance premium payers in many communities.

When citizens require emergency help, they dial 911; when providers of that emergency help need assistance, they call the Fire Services Training School. In the 2005 fiscal year, 2,947 emergency responders from 53 counties received 26,686 hours of instruction from FSTS. The school issued a total of 48 professional training certifications and made 1,132 resource center loans of equipment and training materials.

MSU- Billings

Campus Overview

Montana State University-Billings was established in Billings, Montana by the Legislative Assembly on March 12, 1927, with an initial authorization to prepare teachers for the elementary schools. Statutory authority for Montana State University-Billings is contained in Title 20, Chapter 25, M.C.A. The University was initially called Eastern Montana State Normal School at Billings and was established to prepare teachers for elementary schools in eastern Montana. The name was changed to Eastern Montana College of Education in 1949, then to Eastern Montana College in 1965.

In January of 1994, the Montana University System Board of Regents approved the restructuring of the Montana University System. As part of that restructuring, effective July 1, 1994, Eastern Montana College was affiliated with Montana State University and the name of the institution was changed to Montana State University-Billings (MSU-Billings). In addition, the Billings Vocational Technical Center was fully merged into MSU-Billings and renamed MSU-Billings College of Technology.

MSU-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. MSU-Billings has grown, with the city of Billings and Yellowstone County, into the major higher education center of south central Montana. The University consists of six colleges: the College of Arts and Sciences, the College of Business, the College of Education, the College of Professional Studies and Lifelong Learning, the College of Technology, and the College of Allied Health Professions.

MSU-Billings offers a full complement of one and two year certificate programs, associate degrees, and bachelor and master degrees, as well as pre-professional academic offerings in a number of fields. Several academic programs are unique to the Montana University System.

MSU-Billings is accredited by the Northwest Association of Schools and Colleges. It is accredited by the National Council for the Accreditation of Teacher Education for preparing elementary and secondary teachers and school counselors through the Bachelor of Science and Master of Education degrees and the Master of Science in Special Education degree. MSU-Billings is also accredited by the National Association of Schools of Music, the National Association of Schools of Art and Design, and the Council on Rehabilitation Education. College of Technology programs are approved by the National Institute for Automotive Service Excellence, the National Automotive Technicians Education Foundation, and the Montana Board of Nursing. MSU-Billings has achieved candidacy status for Association to Advance Collegiate Schools of Business (AACSB) accreditation for its College of Business.

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

	Annual Student FTE for Fiscal Years Ended June 30,				
	2005	2004	2003	2002	2001
Resident					
Undergraduate	2,890	2,937	2,864	2,861	2,823
College of Technology	638	638	552	490	447
Graduate	288	298	262	270	286
Total Resident	3,816	3,873	3,678	3,621	3,556
Non-resident					
Undergraduate	85	75	81	86	89
College of Technology	12	8	13	9	10
Graduate	31	24	29	27	15
Total non-resident	128	107	123	122	114
Western Undergraduate Exchange					
Main Campus	189	169	146	165	151
College of Technology	18	14	15	12	17
Total Western Undergraduate Exchange	207	183	161	177	168
Total	4,151	4,163	3,962	3,920	3,838

	Degrees Granted - Fiscal Years Ended June 30,				
	2005	2004	2003	2002	2001
College of Technology	183	185	169	146	168
Undergraduate	525	517	519	513	505
Graduate	115	136	103	107	116
Total	823	838	791	766	789

MSU-Billings has made a substantial investment in distance learning by developing full degree programs, and general education, online. This investment will continue in order to provide educational offerings to Montana citizens who are place bound or time bound. Increasing opportunities for students to participate in internships and cooperative education experiences continues to be a high priority for the University. Additional funds have been allocated to increase the number of supervised internships and cooperative experiences available to students in all disciplines.

Campus Outlook

MSU-Billings continues to serve our students and community with superior levels of excellence.

The University's downtown Billings campus facilities were expanded to house the College of Professional Studies and Lifelong Learning, to assist with the development of downtown Billings and to serve the educational needs of the area's employees and businesses. The downtown campus plays a key role in community-wide work force development and training.

Because Billings is the primary health care center of the region, MSU-Billings is partnering with the health care industry to meet its educational needs and established the College of Allied Health Professions with key programs in athletic training, health and human performance and rehabilitation and human services.

MSU-Billings opened an office in Red Lodge, Montana as part of an ongoing initiative to reach out into the communities the University serves. The office will also assist students and prospective students with academic and admissions information.

For the sixth consecutive year, MSU-Billings has been ranked as one of the nation's 'Best Colleges' by *U.S. News and World Report*, for undergraduate through master's level academics, in the latest edition of "America's Best Colleges 2005".

The College of Technology has continued its transition to a true community college by expanding offerings and programs. Enrollment growth has been significant at the MSU-Billings College of Technology. With the College of Technology focusing on the needs of two-year education in the Billings region, it is anticipated that the growth in enrollment will continue. A new \$9 million state-of-the-art academic facility at the College of Technology was approved by the 2005 Legislature and is expected to be completed in time for classes in fall of 2007. The Board of Regents Workforce Development Committee recently allocated over \$1 million in equipment funds to the College of Technology. A new Construction Trades Training Program was developed in 2005 in partnership with the Montana Contractors' Association, Inc.

MSU-Billings continues to make a significant investment in distance learning. Starting with 5 online courses in the fall of 1998, 240 individual online courses have now been developed representing 38 different academic disciplines with more than 7,500 annual enrollees. These courses meet the educational needs of many individuals throughout Montana, 29 states and four foreign countries.

The People, Pride & Promise Campaign for Excellence at Montana State University – Billings is a five-year effort to raise \$21 million for scholarships, academic programs, faculty and facilities. Over \$18 million in gifts and pledges has been raised to date.

MSU- Northern

Campus Overview

The Thirteenth Legislative Assembly of the State of Montana enacted a law to establish “The Northern Montana Agricultural and Manual Training School.” This enactment authorized the purchase of two thousand acres of land in the Fort Assiniboine Reservation. However, no money was appropriated for the operation of the school. Then, in 1929, sixteen years after it was first approved, the Twenty-First Session of the Legislative Assembly authorized funding for the operation. Also in 1929, the State Board of Education authorized the use of the name “The Northern Montana School” in place of the full legal title. In 1931, the word “college” was substituted for “school” in the third catalog and the common use of “Northern Montana College” came into existence. In 1994, Northern Montana College became Montana State University-Northern (MSU-Northern) as part of the restructuring with Montana State University in Bozeman.

Montana State University-Northern offers programs of professional preparation emphasizing discipline mastery, critical inquiry, and social responsibility in:

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

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

MSU-Northern 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.

MSU-Northern is accredited by the Northwest Association of Schools and Colleges. It is also accredited by the National Council for the Accreditation of Teacher Education for preparing elementary and secondary teachers through the Master of Education degree. 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 American Design Drafting Association, the International Assembly for Collegiate Business Educations, and the Postsecondary Ag Students.

	Student FTE for Fiscal Years Ended June 30,				
	2005	2004	2003	2002	2001
Resident					
Undergraduate	1,113	1,216	1,231	1,266	1,218
Graduate	95	113	124	130	118
Total resident	1,208	1,329	1,355	1,396	1,336
Non-resident					
Undergraduate	50	46	43	46	38
Graduate	0	0	2	2	0
Total non-resident	50	46	45	48	38
Western Undergraduate Exchange	61	56	46	45	44
Total	1,319	1,431	1,446	1,489	1,418
	Degrees Granted - Fiscal Years Ended June 30,				
	2005	2004	2003	2002	2001
Undergraduate	304	368	358	325	299
Graduate	54	31	79	33	41
Total:	358	399	437	358	340

Campus Outlook

MSU-Northern is located in the rural, northern region of Montana. With decreasing populations across the State, MSU-Northern has had to adapt. Northern has begun to utilize partnerships and alternatives, innovative teaching, and alternate delivery methods. Partnerships with the tribal colleges across Montana, which help them expand their program offerings in the realm of 4-year Baccalaureate degrees, is one such example. Northern will also continue to explore program offerings at our sites in Lewistown and Great Falls.

Student enrollment drives a large portion of operating revenues, and also affects the University's level of State funding. Trends indicate that in the future, a greater proportion of revenues will be obtained from students to offset a proportional decrease in available state funding.

MSU- Great Falls College of Technology

Campus Overview

The Great Falls Vocational – Technical Center was established by the Montana State Legislature in 1969 to offer employment training in vocational and technical fields. In January 1994 the Montana Board of Regents of Higher Education approved the restructuring of the Montana University System. Montana State University-Bozeman, Montana State University-Billings, Montana State University-Northern and Montana State University-Great Falls College of Technology (COT) are related through common management; however, they are separate and distinct entities. The mission of Montana State University-Great Falls College of Technology is to prepare students for immediate employment or for transfer to another higher education institution.

The COT is fully accredited by the Northwest Association of Schools and Colleges, Commission on Colleges. Various programs are accredited by the American Dental Association, American Health Information Management Association, The Commission on the Accreditation of Allied Health Educational Programs, American Association of Medical Assistants, Commission on Accreditation in Physical Therapy Education, Montana State Board of Nursing, The Committee on Accreditation of Respiratory Care Programs, and, the Association of Surgical Technologists.

The COT student population has grown dramatically over the last five years with a cumulative increase exceeding 31%. Nearly all our students are Montana residents.

	Annual Enrollment Data (FTE)				
	2005	2004	2003	2002	2001
Resident	1,078	1,085	1,040	941	822
Non-resident	14	13	13	11	12
Total FTE	1,092	1,098	1,053	952	834

Commensurately, student headcount has increased 19% from 2,996 in fiscal year 2001 to 3,552 in fiscal year 2005. During the ten year period from academic year 1995-96 through academic year 2004-05, student headcount increased from 2,336 to 3,552 (a 52% increase) while the FTE increased from 727 to 1,092, a 50% increase.

Highlights

As a result of the growth mentioned above, the College of Technology has experienced significant challenges involving inadequate space for a number of years. In early 2005, the Montana State Legislature approved \$11 million for a planned 60,000 square foot two-story building west of the original facility in Great Falls. Groundbreaking is realistically expected in the Fall of 2006 with occupancy of the new space tentatively scheduled for Fall 2007 although every effort will be made to improve those dates.

Discussions with architects and engineers have begun and it is anticipated the new building will include an expanded library and student computer lab, health science classrooms, additional meeting rooms, science laboratory space and faculty offices.

In addition to this expansion, the COT is expanding course offerings (effective Fall 2005) to the Bozeman area and will have a physical location on the Bozeman campus. The COT will provide specialized instruction and workforce development to the Gallatin Valley. Bozeman area residents will also be able to enroll in COT programs including a new aviation program in which students will be able to attain an Associates degree in Avionics. Eight hundred enrollments per year are expected to take advantage of the COT in Bozeman.



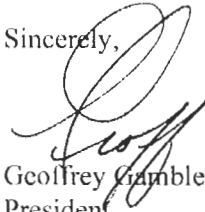
December 5, 2005

Mr. Scott A. Seacat
Legislative Auditor
Legislative Audit Division
State Capitol, Room 135
P.O. Box 201705
Helena, MT 59620-1705

Dear Mr.  Seacat:

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, 2005. We feel this audit was productive and instrumental in continually improving the financial reporting of all Montana State University campuses. We look forward to working with you again next year.

Sincerely,



Geoffrey Gamble
President

GG/sm
Enclosure

Office of the President

211 Montana Hall
P.O. Box 172420
Bozeman, MT 59717-2420

Tel (406) 994-2341
Fax (406) 994-1893