



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

Montana State University

*For the Fiscal Year Ended
June 30, 2013*

DECEMBER 2013

LEGISLATIVE AUDIT
DIVISION

13-11A

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RANDY BRODEHL, CHAIR
Randybrodehl57@gmail.com

VIRGINIA COURT
Vjchd52@yahoo.com

MIKE CUFFE
mike@mcuffe.com

MARY McNALLY
mcnallyhd49@gmail.com

RYAN OSMUNDSON
Ryanosmundson@gmail.com

J.P. POMNICHOWSKI
pomnicho@montanadsl.net

SENATORS

DEE BROWN
repdee@yahoo.com

TAYLOR BROWN
taylor@northernbroadcasting.com

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jergeson4senator@yahoo.com

SUE MALEK
senatormalek@gmail.com

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mail@SenatorEricMoore.com

MITCH TROPILA
tropila@mt.net

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FINANCIAL AUDITS

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

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2011, was issued March 29, 2012. The Single Audit Report for the two fiscal years ended June 30, 2013, will be issued by March 31, 2014. Copies of the Single Audit Report can be obtained by contacting:

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

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

AUDIT STAFF

DAVID BRAMMER
BRENT LAYMAN
DELSI PLUMMER
VANESSA SHAW

JENNIFER ERDAHL
PAUL J. O'LOUGHLIN
KENT RICE

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

December 2013

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on the consolidated financial statements of the Montana State University (university) for the fiscal year ended June 30, 2013. During our audit, we reviewed financial records related to the university's compensation and benefits, student financial aid, tuition and fees, grants and contracts, as well as other account balances and transaction cycles. The report does not contain any recommendations to the university. We thank President Cruzado and her staff for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

		<u>Term Expires</u>
Board of Regents of Higher Education	Angela McLean, Chair	February 1, 2017
	Paul Tuss, Vice Chair	February 1, 2020
	Jeffrey Krauss	February 1, 2015
	Major Robinson	February 1, 2018
	Todd Buchanan	February 1, 2014
	Fran M. Albrecht	February 1, 2019
	Zachary Rogala, Student Regent	
	Clayton Christian, Commissioner of Higher Education*	
	Steve Bullock, Governor*	
	Denise Juneau, Superintendent of Public Instruction*	
*Ex officio members		

Office of the Commissioner of Higher Education	Clayton Christian	Commissioner of Higher Education
	Mick Robinson	Deputy Commissioner for Fiscal Affairs/ Chief of Staff
	Neil Moisey	Deputy Commissioner for Academic, Research and Student Affairs
	John Cech	Deputy Commissioner for Two-Year and Community College Education
	Tyler Trevor	Deputy Commissioner for Planning and Analysis
	Kevin McRae	Deputy Commissioner for Communications & Human Resources
	Vivian Hammill	Chief Legal Counsel
	Frieda Houser	Director of Accounting and Budget

Montana State University– All Campuses	Waded Cruzado	President
	Leslie Taylor	Legal Counsel
	Daniel Adams	Director of Institutional Audit & Advisory Services
Montana State University– Bozeman	Martha Potvin	Provost and Vice President for Academic Affairs
	Terry Leist	Vice President for Administration and Finance
	Anne Camper	Interim Vice President for Research, Creativity, and Technology Transfer
	Robert Marley	Interim Vice President of Student Success
	Laura Humberger	Associate Vice President for Financial Services
	Kathy Attebury	Director of University Budgets
Montana State University– Billings	Rolf Groseth	Chancellor
	Mark Pagano	Provost and Academic Vice Chancellor
	Terrie Iverson	Vice Chancellor for Administrative Services
	Stacy Klippenstein	Vice Chancellor of Student Affairs
	LeAnn Anderson	Director of Financial Services
	Jim Nielsen	Director of Business Services
	Trudy Collins	University Budget Director
Montana State University– Northern	James Limbaugh	Chancellor
	Brian Simonson	Vice Chancellor for Finance and Administration
	Rosalyn Templeton	Provost and Vice Chancellor for Academic Affairs
	Kim Watson	Dean of Student Engagement/Director of Residence Life
	Chris Wendland	Director of Financial Services
	Jamie McBryan	Director of Business Services

Great Falls College– Montana State University	Susan Wolff	Dean and CEO
	Darryl Stevens	Associate Dean of Administration and Finance
	Heidi Pasek	Associate Dean and Chief Academic Officer
	Camille Consolvo	Associate Dean of Student Services
	Ed Binkley	Controller
	Kayce Waite	Budget and Purchasing Analyst
Montana Agricultural Experiment Station	Glenn Duff	Interim Director
	Jody Barney	Budget and Fiscal Director
Montana State University Extension	Jill Martz	Interim Director
	Sandra Rahn Gibson	Budget and Fiscal Director

For additional information concerning Montana State University,
contact:

Daniel Adams, Director of Institutional Audit & Advisory Services
Hamilton Hall, Room 118
Bozeman, MT 59717
(406) 994-7035

e-mail: danieladams@montana.edu



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL AUDIT

Montana State University

For the Fiscal Year Ended June 30, 2013

DECEMBER 2013

13-11A

REPORT SUMMARY

Montana State University includes campuses located in Bozeman, Billings, Havre, and Great Falls. For fiscal year 2013, the MSU Bozeman campus experienced a 4.6 percent increase in full-time equivalent (FTE) enrollment from 12,019 students in 2012 to 12,577 in 2013. MSU Northern experienced a slight increase in enrollment during this time period, while the other campuses saw overall decreases. Total FTE enrollment for all campuses increased by 2.1 percent to 19,824 students in 2013.

Context

Montana State University (university) serves state, national, and international students with a diversity of undergraduate and graduate academic degrees as well as two-year vocational and technical programs.

Anticipating continued growth for the university, in November 2013, the Board of Regents approved the issuance of up to \$70 million in debt to construct a new residence hall, upgrade dining facilities, and other construction projects.

In addition to financial activity of the University, the financial statements include financial activity related to foundations for the Bozeman, Billings and Havre campuses, the Museum of the Rockies Incorporated and the Bozeman Bobcat Club.

The report also contains unaudited supplemental information with detailed information for each campus, the Agricultural Experiment Station, Montana State University Extension Service, and the Fire Services Training School.

Results

We issued an unmodified opinion over the university's financial statements. Readers of this report can rely on the financial statements to be a fair representation of the university's operations for fiscal year 2013 and financial position as of June 30, 2013. This report does not contain any findings or recommendations.

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

For a complete copy of the report (13-11A) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>

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Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.

Chapter I – Introduction

Audit Scope

We performed a financial audit of Montana State University (university) for the fiscal year ended June 30, 2013. The objectives of our audit were to:

1. Determine whether the university's consolidated financial statements present fairly, in all material respects, the financial position as of June 30, 2013, and the results of operations, and cash flows of Montana State University for the fiscal year then ended.
2. Obtain an understanding of the university's internal control systems to the extent necessary to support our audit of the consolidated financial statements.

We also conduct a financial-related audit of Montana State University-Bozeman and its affiliated campuses to determine compliance with regulations related to contract and grant expenditures, other governmental financial assistance, and selected state laws, regulations, and rules. We issued the financial-related audit (13-13) for the fiscal years 2012 and 2013, in October 2013.

Background

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

Montana State University-Bozeman, a land-grant institution, receives part of its support from land-grant income. The campus offers four-year undergraduate programs as well as master's and doctoral graduate programs. It includes the Colleges of Agriculture, Arts and Architecture, Business, Education, Health and Human Development, Engineering, Letters and Science, Nursing, University Honors College, and the Division of Graduate Education. The Bozeman campus also includes the MSU Extension Service, the Montana Agricultural Experiment Station, the Gallatin College Program and the Fire Services Training School, which have facilities located in or near cities or towns throughout Montana.

Montana State University-Billings consists of the Colleges of Arts and Sciences, Business, Education, Allied Health Professions, and City College. Montana State University-Billings offers a full complement of one-year and two-year certificate programs, associate, bachelor, and master's degrees, as well as pre-professional academic offerings in a number of fields.

Montana State University-Northern is a regional, multi-purpose educational center, serving students who seek both a technical and liberal arts education. It offers courses at the campus in Havre and at facilities in Great Falls and Lewistown. Montana State University-Northern offers associate, bachelor, and master's degrees. A master's degree program is offered in education, with options in counseling and development, elementary education, vocational education, and general science.

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

Additional detailed information for each of the Montana State University campuses is included in the Unaudited Supplemental Information beginning on page A-53.

**Independent Auditor's Report and
Montana State University
Financial Statements**

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Consolidated Statements of Net Position of Montana State University as of June 30, 2013, and 2012, the related Consolidated Statements of Revenues, Expenses and Changes in Net Position, and Consolidated Statement of Cash Flows for each of the fiscal years then ended, and the University Component Units – Combined Statements of Financial Position as of June 30, 2013, and 2012, and the related University Component Units – Combined Statements of Activities for the fiscal years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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, which include Montana State University Foundation, the Museum of the Rockies Incorporated, the Montana State University Billings Foundation, the Montana State University Northern Foundation, and the Montana State University Bobcat Club, were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for the component units of the university, as noted above, is based solely on the reports of the other auditors. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the university's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the university's internal control, and accordingly, we express no such opinion. An audit also includes

evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Montana State University and its aggregate discretely presented component units as of June 30, 2013, and 2012, and the respective changes in financial position, and where applicable, cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page A-3 and the Required Supplementary Information related to Other Post-Employment Benefits on page A-52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Unaudited Supplemental Information beginning on page A-53 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 basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 13, 2013

Montana State University

(a component unit of the State of Montana)

Management's Discussion and Analysis

As of and For Each of the Years Ended June 30, 2013

Montana State University (the "University") is a land grant university that serves state, national and international constituents by providing academic instruction, conducting a high level of research activity, advancing fundamental knowledge, and by disseminating knowledge to the people of Montana. The University encompasses four campuses located in Bozeman, Billings, Great Falls and Havre, as well as the Montana Agricultural Experiment Station, Montana Extension Service and the Fire Services Training School. The University operates throughout Montana's 145,556 square miles of urban and rural communities housing a population of nearly 1 million.

The University is proud to deliver quality instruction and services to a diverse student population, which is possible because of its dedicated faculty and staff, because its students recognize quality and value. The University continues to ensure diligent recruiting of in-state students, while managing its mix of in-state, out-of-state, and out-of-area students to ensure a diverse, growing student population.

OPERATIONS

Condensed Statements of Revenues, Expenses and Changes in Net Position

(in millions)

	2013	2012	2011
Operating revenues	\$ 333.6	\$ 334.5	\$ 318.1
Operating expenses	483.8	476.3	458.6
Operating loss	(150.2)	(141.8)	(140.5)
Non-operating revenues and expenses (net)	142.8	145.3	147.3
Income before capital & other items	(7.4)	3.5	6.8
Capital & other items	6.2	21.1	10.1
Change in net position	\$ (1.2)	\$ 24.6	\$ 16.9

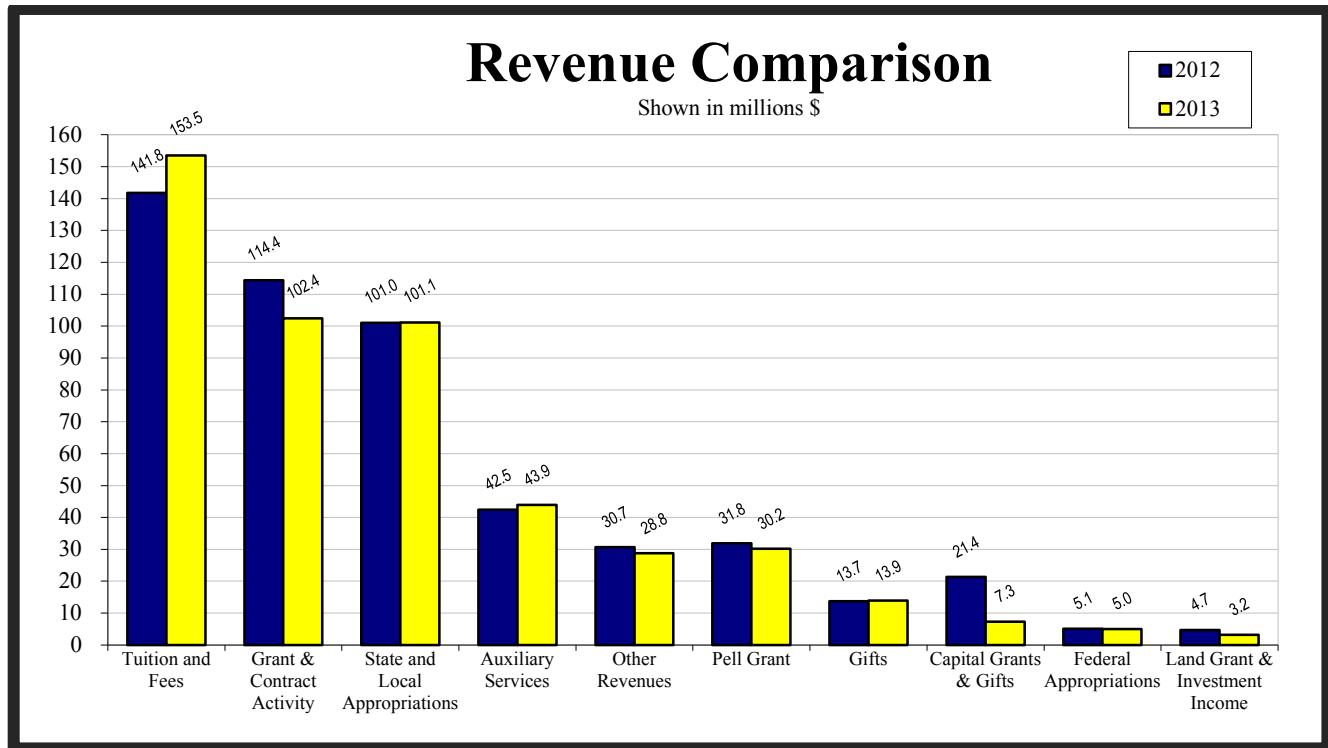
The *Statement of Revenues, Expenses and Changes in Net Position* presents the revenues earned and expenses incurred during the year on a full accrual basis, and classifies activities as either "operating" or "non-operating." This distinction results in operating deficits for those institutions that depend on gifts and state aid, which are classified as non-operating revenue. The utilization of capital assets is reflected in the financial statements as depreciation expense, which allocates the cost of assets over their expected useful lives.

Comparison of 2013 and 2012 Results of Operations

The University's net financial position decreased \$1.2 million during 2013, resulting primarily from \$8.2 million amortization of OPEB expense, which is an actuarially-determined amount related to the participation of retirees on the University's health insurance plan. Offsetting the OPEB expense, capital and other items provided \$6.2 million, resulting largely from \$2.4 million in federal funding for the completion of a renovation to Bozeman's Cooley Lab and other smaller projects including upgrades at the Northern campus and a renovation of the Museum of the Rockies planetarium. Additionally, the State contributed \$2.7 million for various projects including \$1.2 million for Americans With Disabilities Act (ADA) upgrades to the Creative Arts Complex and \$0.5 million for energy improvement upgrades to Leon Johnson Hall on the Bozeman campus.

Montana State University
(a component unit of the State of Montana)
Management's Discussion and Analysis
As of and For Each of the Years Ended June 30, 2013

(continued)



Operating revenues contain the majority of the University's income, and decreased \$0.9 million, or 0.3%, from 2012 to 2013.

Tuition and fee revenues increased approximately \$11.7 million, or 8.3%. Tuition and fee rates were increased by 5.0% at the Bozeman, Billings and Northern campuses, and the number of full-time-equivalent students for all campuses increased by 2.1%, from 19,420 to 19,824.

Grant and contract operating revenues, including facility and administrative cost recoveries, decreased 10.5%, to \$102.5 million, compared with 2012 revenues of \$114.4 million largely due to a \$4.9 million decrease in funds received as a result of Federal American Recovery and Reinvestment Act (ARRA) from 2012 to 2013. In addition, grant and contract operating revenues decreased as a result of reductions in federal expenditures and as a result of grants closing at a faster rate than new grants are received.

Revenues from auxiliary enterprises increased \$1.5 million, or 3.5%, to \$43.9 million, from \$42.5 million in 2012. Slight price increases were implemented, and occupancy increased once again due to a large incoming freshman class and retention of upperclassmen. Freshman students from outside the immediate area are required to live on-campus.

Other revenues decreased \$2.0 million, or 6.4%, to \$28.8 million, as compared with \$30.7 million in 2012, largely due to insurance proceeds received in 2012 as a result of hailstorm damage, which were not received in 2013.

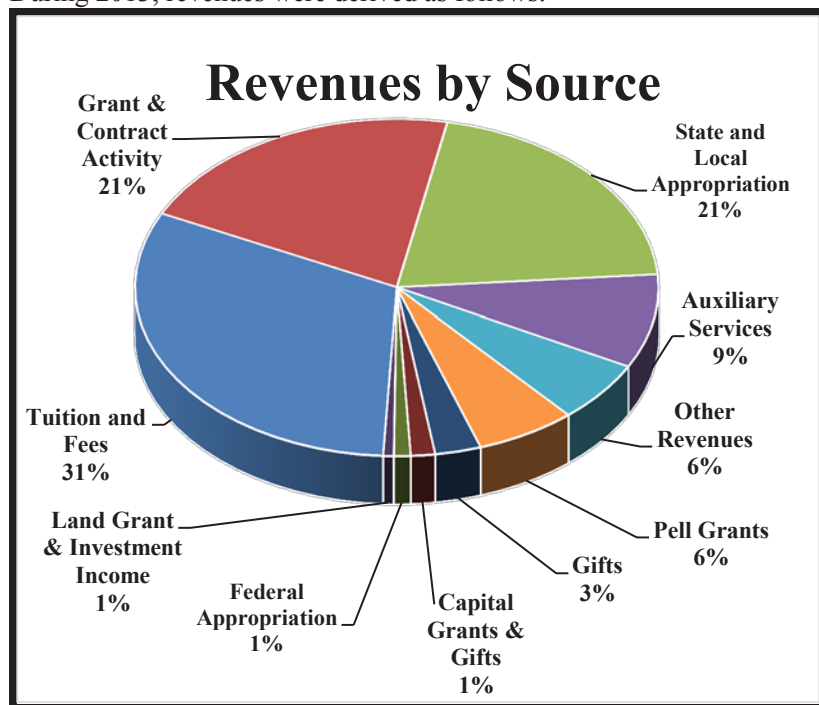
Net non-operating revenue decreased \$2.5 million from 2012 to 2013, primarily due to a decreases in investment income of \$1.7 million and Federal Pell grant revenue of \$1.6 million.

Capital and other items decreased \$15.0 million due primarily to \$11.1 million in federal grant funding for renovations to Cooley Lab in 2012, which were not received in 2013.

Montana State University
(a component unit of the State of Montana)
Management's Discussion and Analysis
As of and For Each of the Years Ended June 30, 2013

(continued)

During 2013, revenues were derived as follows:

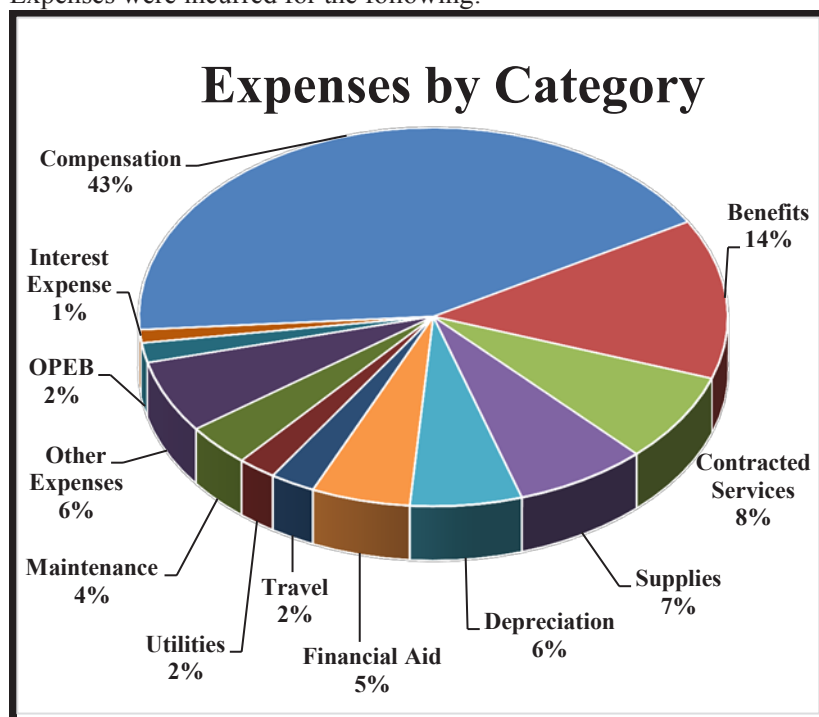


Sources of revenues and categories of expense have generally remained consistent with prior years. Student-generated revenues including tuition, fees, and auxiliary services represent the largest single revenue category.

(in millions)

Category	Amount
Tuition and Fees	\$ 153.5
Grant & Contract Activity	102.5
State and Local Appropriations	101.1
Auxiliary Services	43.9
Other Revenues	28.8
Pell Grants	30.2
Gifts	13.9
Capital Grants & Gifts	7.3
Federal Appropriations	5.0
Land Grant & Investment Income	3.2
Total revenues	\$ 489.4

Expenses were incurred for the following:

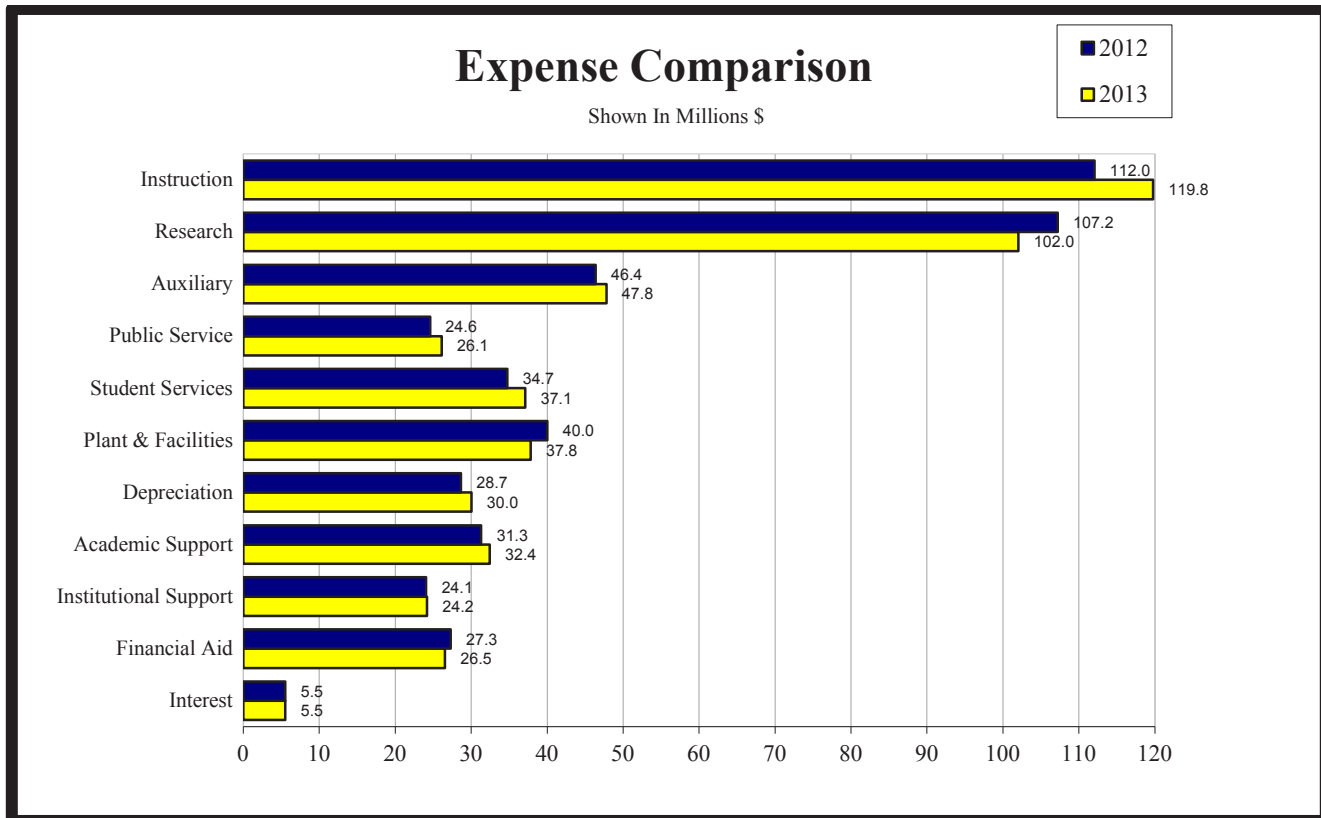


(in millions)

Category	Amount
Compensation	\$ 209.2
Benefits	66.9
Contracted Services	37.1
Supplies	35.5
Depreciation	30.0
Financial Aid	26.5
Travel	12.1
Utilities	10.3
Maintenance	17.7
OPEB	8.2
Other Expenses	
Cost of Sales	5.2
Interest Expense	5.5
Communications	4.5
Rent	5.5
Other	16.4
Total Expenses	\$ 490.6

Montana State University
(a component unit of the State of Montana)
Management's Discussion and Analysis
As of and For Each of the Years Ended June 30, 2013

(continued)



Operating expenses increased \$7.5 million, or 1.6%, from 2012 to 2013. The most significant increase was in instruction costs, which increased \$7.7 million, or 6.9%. This was primarily due to an increase in compensation and benefits of \$7.1 million, largely as a result of salary increases and additional class sections added to accommodate the University's growing enrollment.

Employees in the Montana University System were given 2% plus \$500 raises, in addition to certain merit and tenure increases. As such, compensation and benefits expenses increased in nearly all areas.

Research expenses decreased \$5.2 million, or 4.8%, largely due to a \$4.9 million decrease in funds received as a result of Federal American Recovery and Reinvestment Act (ARRA) funding. Increases and decreases in research funding exist from time to time depending the timing of grant-funding and the success of the University in securing competitively awarded grants. Additionally, research funding nationwide is declining due to overall reductions in federal expenditures.

Auxiliary expenses increased \$1.4 million, or 3.1%, largely due to an increase in compensation and benefits of \$0.7 million, or 3.4%. In addition, because of high occupancy rates in the residence halls, and due to increased enrollment overall, additional food and other operating costs were incurred.

Public Service expenses increased \$1.5 million, or 6.2%, largely due to an increase in compensation and benefits of \$0.5 million combined with increases in indirect costs and subcontracts related to grant activity.

Student services expenses increased by \$2.4 million, or 6.8% primarily due to an increase in compensation and benefits related to student services of \$1.8 million, or 8.3%. Student Services expenses include many different services to students such as financial aid staff, counselors, recruiting and admissions officers, athletics functions, and the dean of

Montana State University
(a component unit of the State of Montana)
Management's Discussion and Analysis
As of and For Each of the Years Ended June 30, 2013

(continued)

students' office. To ensure adequate support for the University's growing student body, additional staff and other expenses were incurred.

Plant-related expenses decreased \$2.2 million, or 5.5%, primarily due to expenditures in 2012 associated with roofs, windows, and other repairs required as a result of a severe hailstorm, which were not required in 2013. Depreciation expense increased by \$1.4 million, or 4.8%, primarily due to the completion of large construction projects in 2013 including Cooley Lab, improvements to Hapner and Langford residence halls, and a number of energy improvements and residence hall upgrades.

Comparison of 2012 and 2011 Results of Operations

The University's net financial position increased \$24.6 million during 2012, resulting largely from an increase in donated assets including \$11.1 million in federal funding for a renovation of Bozeman's Cooley Lab and \$6.0 million for an addition to the football stadium and improvements to the track facility. Also contributed was \$1.6 million for design work on a planned new College of Business building, a \$25 million project which will be funded by a private donation. Additionally, due to higher than anticipated enrollment, the University was able to add \$1.3 million to its reserve funds, which are used to ensure the availability of retirement payout and scholarship funding, and also provide a means to absorb unexpected expenses or decreases in revenue.

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

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

Grant and contract operating revenues, including facility and administrative cost recoveries, decreased 1.3%, to \$114.4 million, compared with 2011 revenues of \$115.9 million. The University expects strong levels of research and other grant funding to continue. In addition to operating grants, federal grant revenues of \$11.1 million for the renovation of Cooley lab are reflected in the University's Capital gifts, grants and contributions in the accompanying financial statements.

Revenues from auxiliary enterprises increased \$1.3 million, or 3.2%, to \$42.5 million, from \$41.1 million in 2011. Slight price increases were implemented, and occupancy increased once again due to a large incoming freshman class and retention of upperclassmen. Freshman students from outside the immediate area are required to live on-campus.

Other revenues increased \$5.2 million, or 20.4%, to \$30.7 million, as compared with \$25.5 million in 2011, largely due to insurance proceeds received as a result of hailstorm damage in the summer of 2010.

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

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

Montana State University
(a component unit of the State of Montana)
Management's Discussion and Analysis
As of and For Each of the Years Ended June 30, 2013

(continued)

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

Employees in the Montana University System were given 1% plus \$500 raises, in addition to certain merit and tenure increases. As such, compensation and benefits expenses increased in nearly all areas. Instruction expenses increased \$3.2 million, or 3.0%, primarily due to an increase in compensation and benefits of \$3.5 million, or 3.7%, largely as a result of salary increases and additional class sections added to accommodate the University's growing enrollment. Student services expenses increased by \$2.4 million, or 7.5%. This category of expense includes many different services to students such as financial aid staff, counselors, recruiting and admissions officers, athletics functions, and the dean of students' office. To ensure adequate support for the University's growing student body, additional staff and other expenses were incurred. Compensation and benefits related to student services increased \$1.5 million, or 7.8%.

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

Research expenses increased \$1.1 million, or 1.0%. While the University's research funding is in the \$100 million range annually, increases and decreases exist from time to time depending the timing of grant-funding and the success of the University in securing competitively awarded grants.

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

Montana State University
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Management's Discussion and Analysis
As of and For Each of the Years Ended June 30, 2013

(continued)

NET POSITION

Condensed Statements of Net Position
(in millions)

	2013	2012 <i>(restated)</i>	2011 <i>(restated)</i>
ASSETS			
Current assets	\$ 213.0	\$ 215.3	\$ 191.2
Capital assets, net	394.0	378.1	356.2
Other noncurrent assets	48.1	50.5	50.7
Total assets	<u>\$ 655.1</u>	<u>\$ 643.9</u>	<u>\$ 598.1</u>
DEFERRED OUTFLOW- hedging derivative	<u>\$ 3.9</u>	<u>\$ 6.1</u>	<u>\$ 2.8</u>
LIABILITIES			
Current liabilities	\$ 72.8	\$ 67.4	\$ 64.5
Noncurrent liabilities	227.5	222.7	201.1
Total liabilities	<u>\$ 300.3</u>	<u>\$ 290.1</u>	<u>\$ 265.6</u>
NET POSITION			
Net investment in capital assets	\$ 263.8	\$ 255.0	\$ 235.1
Restricted, non-expendable	13.0	12.5	12.7
Restricted, expendable	14.4	12.8	13.4
Unrestricted	67.5	79.6	74.1
Total net position	<u>\$ 358.7</u>	<u>\$ 359.9</u>	<u>\$ 335.3</u>

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

The University's overall financial position remained stable, fluctuating little from the prior year.

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

Comparison of 2013 and 2012 Net Position

- **Current assets** include the University's cash and cash equivalents; 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 \$2.4 million in current assets resulted primarily from a decrease of \$3.3 million in cash and equivalents, which is discussed in the Statement of Cash Flows section of this document.
- **Capital assets, net** increased \$16.0 million, resulting from asset additions of \$47.5 million, offset by depreciation and amortization expense of \$30.0 million and \$1.5 million in net book value of asset retirements, as shown in further detail in Note 7 to the financial statements.

Asset additions included \$31.2 million in construction projects. The Bozeman campus completed the renovation of Cooley Lab with additional costs of \$2.8 million and continued the construction of Gallatin Residence Hall expending \$5.5 million during 2013. Improvements to Hapner and Langford Halls in Bozeman added \$3.4 million and renovation to the Student Union Building in Billings added \$1.8 million. A number of energy efficiency

Montana State University

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Management's Discussion and Analysis

As of and For Each of the Years Ended June 30, 2013

(continued)

enhancements were also implemented, totaling \$6.3 million. Additional, smaller projects make up the remaining increase, and include residence hall upgrades, office and lab renovations and other building improvement projects.

Equipment additions totaled \$10.0 million during 2013. Research and instruction in the sciences require a substantial equipment investment, and accounted for \$5.2 million of the additions. Many specialized pieces of equipment are grant-funded. Approximately \$1.2 million in library materials were acquired in 2013 as well.

- **Other noncurrent assets** include endowment fund and other long term investments, student loans receivable, and donated funds restricted to use for facility construction. The balance decreased \$2.4 million from 2012, primarily due to a \$1.7 million decrease in investments and a \$1.3 million decrease in loans receivable.
- **Deferred outflow** represents the offset to the University's hedging derivative instrument liability. The University pays a variable rate of interest to the holders of its Series J bonds. To hedge against rises in interest rates, a transaction was entered into whereby the counterparty pays to the University that same variable rate of interest, and in return the University pays the counterparty a fixed rate of interest. The counterparty may opt out in 2016. Because current bond interest rates are lower than the fixed amount paid to the counterparty, the market value of the instrument is negative. As such, a liability was recorded and is included in Noncurrent liabilities. The offsetting entry is displayed as a deferred outflow rather than being recorded as an expense, because the cash flow hedge is operating as anticipated to achieve the intended synthetic fixed interest rate. The balance decreased by \$2.2 million from 2012 to 2013 due to an increase in the variable interest rate paid by the counterparty.
- **Current liabilities** include payroll and related liabilities, amounts payable to suppliers for goods and services received, cash received for which the University has not yet earned the related revenue, securities lending liability, and debt principal payments due within one year. The balance increased \$5.4 million, or 8.0%, from 2012 to 2013, primarily as a result of an increase of approximately \$4.0 million in accounts payable relating to payments to vendors for energy improvement and other construction projects. The remainder of the increase resulted primarily from the overall growth of the University and related operating expenses.
- **Noncurrent liabilities** include debt and advance liabilities, the amount of compensated absence liability estimated to be payable after a one-year period, and amounts which would be payable to the Federal government should the University choose to cease participation in the Federal Perkins Loan or Nursing Loan programs. These balances increased a total of \$4.8 million, or 2.2%, resulting primarily from the University's OPEB liability, which is an actuarially-determined amount related to the participation of retirees on the University's health insurance plan, and increased \$8.2 million. An actuarially-determined liability of approximately \$55.4 million was calculated, of which the sixth year of a 30-year amortization, plus interest, was recorded during 2013 (see note 15 to the financial statements). In addition, the non-current portion of advances from primary government increased \$3.6 million, because \$5.9 million was borrowed through the state's InterCap loan program, while \$1.8 million in advances were repaid. These increases were offset by a decrease in the non-current portion of debt and leases payable of \$6.0 million, as the University paid down a portion of its debt in accordance with anticipated repayment schedules.
- **Net investment in capital assets** consist of the historical acquisition value of capital assets, reduced by both accumulated depreciation expense charged against assets and debt balances related to capital assets. This balance increases as assets are acquired and debt is repaid, and decreases as assets are depreciated and debt is incurred. Balances increased due to asset additions and debt repayment (discussed above), and were decreased by depreciation expense and additional debt and intergovernmental advances incurred.
- **Restricted, non-expendable** balances must be held in perpetuity, and include endowment principal as well as certain balances in student loan funds. Balances increased \$0.6 million, primarily due an increase in fair market value in the University-owned endowment balances as compared with 2012 balances.

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Management's Discussion and Analysis
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(continued)

- **Restricted, expendable net assets** represent balances that may be expended by the University in accordance with restrictions imposed by an external party, such as a donor, or through a legislative mandate. The University's most significant restricted, expendable balances relate to funds restricted to use for the construction, renewal or replacement of facilities, for the payment of debt and for scholarships. Balances increased \$1.6 million in comparison with 2012 balances.

Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for specific purposes as described in the notes to the financial statements, and include funds accumulated for employee termination payouts, scholarships, facility renewal and replacement, and student organization funds. The University's reserves remained steady with little change from the prior year.

Comparison of 2012 and 2011 Net Position (restated)

- **Current assets** include the University's cash; accounts, grants and loans receivable; inventories; and other assets expected to benefit the University within one year. Accounts and grants receivable result primarily from sponsored projects that are payable on a cost-reimbursement basis, and also from student accounts. The increase of \$24.1 million in current assets resulted primarily from an increase of \$24.4 million in cash and equivalents, which is discussed in the Statement of Cash Flows section of this document.
- **Capital assets, net** increased \$21.9 million, resulting from asset additions of \$51.0 million, offset by depreciation and amortization expense of \$28.7 million and \$0.5 million in net book value of asset retirements, as shown in further detail in Note 7 to the financial statements.

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

Equipment additions totaled \$10.1 million during 2012. Research and instruction in the sciences require a substantial equipment investment, and accounted for \$5.8 million of the additions. Many specialized pieces of equipment are grant-funded. For example, a microscope and a spectrometer accounted for additions of \$0.8 million. Approximately \$1.2 million in library materials were acquired in 2012 as well.

- **Other noncurrent assets** include endowment fund and other long term investments, student loans receivable, and donated funds restricted to use for facility construction. The balance decreased \$0.2 million from 2011, largely due to a \$.5 million reduction in the fair market value of endowment funds.
- **Deferred outflow** represents the offset to the University's hedging derivative instrument liability. The University pays a variable rate of interest to the holders of its Series J bonds. To hedge against rises in interest rates, a transaction was entered into whereby the counterparty pays to the University that same variable rate of interest, and in return the University pays the counterparty a fixed rate of interest. The counterparty may opt out in 2016. Because current bond interest rates are lower than the fixed amount paid to the counterparty, the market value of the instrument is negative. As such, a liability was recorded and is included in Noncurrent liabilities. The offsetting entry is displayed as a deferred outflow rather than being recorded as an expense, because the cash flow hedge is operating as anticipated to achieve the intended synthetic fixed interest rate. The balance increased by \$3.3 million from 2011 to 2012 due to a decrease in the variable interest rate paid by the counterparty.

Montana State University*(a component unit of the State of Montana)***Management's Discussion and Analysis****As of and For Each of the Years Ended June 30, 2013****(continued)**

- **Current liabilities** include payroll and related liabilities, amounts payable to suppliers for goods and services received, cash received for which the University has not yet earned the related revenue, securities lending liability, and debt principal payments due within one year. The balance increased \$2.9 million, or 4.4%, from 2011 to 2012, as a result of the overall growth of the University and related operating expenses.
- **Noncurrent liabilities** include debt and advance liabilities, the amount of compensated absence liability estimated to be payable after a one-year period, and amounts which would be payable to the Federal government should the University choose to cease participation in the Federal Perkins Loan or Nursing Loan programs. These balances increased a total of \$21.6 million, resulting primarily from increases of \$9.4 million in debt and leases payable, as the University incurred new borrowings of \$15.4 million, and \$5.6 million was repaid. In addition, the University's OPEB liability, which is an actuarially-determined amount related to the participation of retirees on the University's health insurance plan, increased \$7.9 million. An actuarially-determined liability of approximately \$55.4 million was calculated, of which the fifth year of a 30-year amortization, plus interest, was recorded during 2012 (see note 15 to the financial statements). Advances from primary government increased \$2.5 million, because \$2.8 million was borrowed through the state's Intercap loan program, and \$1.5 million was advanced through the State Building Energy Conservation Program, while \$1.6 million in advances were repaid.
- **Net investment in capital assets** consist of the historical acquisition value of capital assets, reduced by both accumulated depreciation expense charged against assets and debt balances related to capital assets. This balance increases as assets are acquired and debt is repaid, and decreases as assets are depreciated and debt is incurred. Balances increased due to asset additions and debt repayment (discussed above), and were decreased by depreciation expense and additional debt and intergovernmental advances incurred.
- **Restricted, non-expendable** balances must be held in perpetuity, and include endowment principal as well as balances in student loan funds. Balances decreased \$0.3 million, primarily due a decrease in fair market value in the University-owned endowment balances as compared with 2011 balances.
- **Restricted, expendable balances** represent balances that may be expended by the University in accordance with restrictions imposed by an external party, such as a donor, or through a legislative mandate. The University's most significant restricted, expendable balances relate to funds restricted to use for the construction, renewal or replacement of facilities, for the payment of debt and for scholarships. Balances decreased \$0.6 million in comparison with 2011 balances.

Unrestricted balances may be designated for specific purposes by action of management or the Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for specific purposes as described in the notes to the financial statements, and include funds accumulated for employee termination payouts, scholarships, facility renewal and replacement, and student organization funds. As discussed above, the University was able to add \$1.3 million to its reserve, which may be used to ensure the availability of retirement payout and scholarship funding and provide a means to absorb unexpected expenses or decreases in revenue.

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Management's Discussion and Analysis
As of and For Each of the Years Ended June 30, 2013

(continued)

CASH FLOWS

Condensed Statements of Cash Flows
(in millions)

	2013	2012	2011
Cash provided/(used) by:			
Operating activities, net	\$ (106.4)	\$ (104.7)	\$ (103.9)
Noncapital financing activities, net	146.1	149.4	149.4
Capital and related financing activities, net	(46.4)	(22.6)	(30.3)
Investing activities, net	3.4	2.4	6.4
Net change in cash	(3.3)	24.5	21.6
Cash, beginning of year	183.5	159.0	137.4
Cash, end of year	\$ 180.2	\$ 183.5	\$ 159.0

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 Position and the Statement of Revenues, Expenses and Changes in Net Position, 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 2013 and 2012 Cash Flows

- **Operating activities** used \$106.4 million in cash, resulting primarily from an operating loss of \$150.2 million. The operating loss was offset by non-cash expenses of \$39.4 million, primarily due to \$30.0 million in depreciation and amortization, as well as \$8.2 million in non-cash expense resulted from the amortization of the Annual Required Contribution to the OPEB liability (see note 15 to the financial statements). Other, less significant, increases and decreases also contributed to the change. In 2012, operating activities used \$104.7 million in cash, with an operating loss of \$141.8 million, offset by non-cash expenses of \$37.6 million.
- **Noncapital financing activities** provided \$146.1 million in cash, resulting from \$101.1 million in state and local appropriations, \$30.2 million in federal Pell grant revenue, \$13.8 million in expendable gifts, and \$1.9 million of land grant income. In 2012, noncapital financing activities provided \$149.4 million in cash resulting from \$101.0 million in state and local appropriations, \$31.8 million in federal Pell grant revenue, \$13.6 million in expendable gifts, and \$1.8 million of land grant income.
- **Capital and related financing activities** used \$46.4 million in cash. Debt interest, principal and advance payments totaled \$61.6 million, primarily due to \$53.9 in principal repayments and refunding of debt offset by proceeds from debt refunding and other borrowings which provided \$49.1 million, and borrowings from the State's Intercap lending program which provided \$5.9 million. Uses also included \$40.3 million expended on capital assets, including building construction (see note 7 to the financial statements). In 2012, these activities used \$22.6 million in cash. Uses in 2012 included \$31.2 million expended on capital assets, and debt interest, principal and advance payments totaling \$12.8 million. Proceeds from a bond issuance provided \$15.3 million in 2012, borrowings from the State's Intercap lending program provided \$2.8 million, and borrowing through the State Building Energy Conservation Program provided \$1.5 million in 2012.

Comparison of 2012 and 2011 Cash Flows

- **Operating activities** used \$104.7 million in cash, resulting primarily from an operating loss of \$141.8 million. The operating loss was offset by non-cash expenses of \$37.6 million, primarily \$28.7 million in depreciation and amortization, as well as \$7.9 million in non-cash expense resulted from the amortization of the Annual Required Contribution to the OPEB liability (see note 15 to the financial statements). Other, less significant, increases and

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Management's Discussion and Analysis
As of and For Each of the Years Ended June 30, 2013

(continued)

decreases also contributed to the change. In 2011, operating activities used \$103.9 million in cash, with an operating loss of \$140.5 million, offset by non-cash expenses of \$40.0 million.

- **Noncapital financing activities** provided \$149.4 million in cash, resulting from \$101.0 million in state and local appropriations, \$31.8 million in federal Pell grant revenue, \$1.8 million of land grant income, and \$13.6 million in expendable gifts. In 2011, noncapital financing activities provided \$149.4 million in cash resulting from \$85.4 million in state appropriations, \$18.5 million in American Recovery and Reinvestment Act funding, \$31.9 million in federal Pell grant revenue, \$1.9 million of land grant income, and \$13.0 million in expendable gifts.
- **Capital and related financing activities** used \$22.6 million in cash. Proceeds from borrowings provided \$15.3 million, as the University issued bonds to construct a new 72-bed residence hall and make improvements to several existing residence halls. Uses included \$31.2 million expended on capital assets, including building construction as discussed above. Debt interest, principal and advance payments totaled \$12.8 million. Borrowings from the State's Intercap lending program provided \$2.8 million and borrowing through the State Building Energy Conservation Program provided \$1.5 million. In 2011, these activities used \$30.3 million in cash. Uses included \$25.3 million expended on capital assets, including building construction. Debt interest, principal and advance payments totaled \$12.4 million, and borrowings from the State's Intercap lending program provided \$3.0 million in cash.

DEBT AND ADVANCES

As of June 30, 2013, the University had approximately \$113.7 million in outstanding bond, note, and capital lease principal, a slight decrease compared with \$118.8 million at June 30, 2012 (see note 10 to the financial statements). The majority of bond debt bears interest at fixed rates, except for \$23.0 million in bonds which are reset with a weekly municipal bond index. A fixed-payer swap and a constant maturity swap are associated with the variable rate debt, as described in note 10 to the financial statements. Intercap debt is issued at a variable rate, reset each February, and as of June 30, 2013, was 1.0%. As of June 30, 2013, and as of the most recent rating reports received in December, 2013, the University's bonds are rated Aa3 by Moody's Investor Services and A+ by Standard and Poor's.

ECONOMIC OUTLOOK

Student enrollment has increased in each of the past six years as the University gained in market share state-wide and in the nonresident market. Resident enrollment represents over 75% of the University's 2013 student FTE of 19,824. Management continues to focus on the University's recruiting efforts to maintain an appropriate mix of in- and out-of-state student population. Recently, demand for higher education has increased nationwide and throughout Montana as well, as citizens update their job skills and education. Management predicts slow growth over the next several years. Increased enrollment, combined with 5% tuition increases implemented at the four-year campuses in 2012 and 2013 have enabled the University to implement 1% and 2% pay increases. Additionally, modest reserves have been set aside which ensure the availability of retirement payout and scholarship funding, and also provide a means to absorb unexpected expenses or decreases in revenue.

To assist in the allocation of its resources, management evaluates 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 Position
As of June 30

	2013	2012 (restated)
ASSETS		
Current assets:		
Cash and cash equivalents (note 2)	\$ 179,119,894	\$ 182,415,905
Short term investments	-	758,160
Securities lending collateral	1,141,800	1,068,273
Accounts and grants receivable, net	9,216,998	8,951,441
Amounts receivable from Federal government	13,669,630	12,868,011
Amounts receivable from primary government	607,165	674,020
Amounts receivable from other State of Montana component units	8,354	17,737
Loans receivable, net	3,492,445	3,334,264
Inventories	2,918,317	3,115,026
Prepaid expenses and other current assets	2,781,255	2,108,449
Total current assets	212,955,858	215,311,286
Noncurrent assets		
Restricted cash and cash equivalents	1,038,664	1,034,182
Restricted investments	7,285,637	6,824,529
Loans receivable, net	20,128,858	21,391,520
Investments	18,521,030	20,216,739
Capital assets, net (note 7)	394,022,468	378,055,419
Other noncurrent assets	1,138,656	1,062,377
Total noncurrent assets	442,135,313	428,584,766
Total assets	\$ 655,091,171	\$ 643,896,052
DEFERRED OUTFLOW		
Derivative financial instrument deferred outflow (note 10)	\$ 3,868,317	\$ 6,070,489
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 35,219,474	\$ 31,770,056
Advances and other amounts payable to primary government	2,317,881	1,811,833
Amounts payable to other State of Montana component units	145,652	407,756
Securities lending liability	1,141,800	1,068,273
Property held in trust for others	1,583,463	2,567,431
Deferred revenues	10,177,719	9,115,831
Current portion compensated absences	15,512,992	14,837,704
Current portion debt and capital lease obligations (note 10)	6,676,591	5,781,091
Total current liabilities	72,775,572	67,359,975
Noncurrent liabilities:		
Advances from primary government	23,236,002	19,591,957
Debt, capital lease, and other obligations (note 10)	107,014,587	113,059,186
Compensated absences	14,004,836	13,050,788
LT OPEB Implicit Rate Subsidy	56,268,295	48,029,610
Due to Federal government	22,593,240	22,480,430
Derivative instrument-- swap liability (note 10)	4,389,311	6,496,633
Total noncurrent liabilities	227,506,271	222,708,604
Total liabilities	\$ 300,281,843	\$ 290,068,579
NET POSITION		
Net investment in capital assets	\$ 263,785,515	\$ 254,998,034
Restricted - nonexpendable	13,025,939	12,463,703
Restricted - expendable	14,423,380	12,823,440
Unrestricted (note 13)	67,442,811	79,612,785
Total net position	\$ 358,677,645	\$ 359,897,962

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

Montana State University
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UNIVERSITY COMPONENT UNITS-- Combined Statements of Financial Position
As of June 30 or December 31

Assets:	2013	2012
Cash and cash equivalents	\$ 5,456,760	\$ 5,955,126
Accrued dividends and interest	121,521	129,828
Investments	183,513,218	159,346,615
Amounts due from the institution or other MSU component units	1,440,169	2,453,433
Contributions receivable, net of allowance	20,989,054	27,120,259
Contracts, notes and other receivables	4,823,351	4,299,542
Non-depreciable capital assets	472,486	438,586
Depreciable capital assets, net	9,657,349	9,725,850
Other assets	2,234,615	1,952,217
Total assets	\$ 228,708,523	\$ 211,421,456
Liabilities and net assets:		
Liabilities		
Accounts payable	\$ 605,413	\$ 526,021
Accrued expenses and other liabilities	1,205,233	1,075,078
Compensated absences	445,857	420,660
Notes and bonds payable	2,742,589	2,801,455
Amounts due to the institution or other MSU component units	613,917	624,786
Liabilities to external beneficiaries	7,181,238	7,088,261
Custodial funds	11,568,333	10,690,666
Total liabilities	24,362,580	23,226,927
Net assets		
Unrestricted net assets	16,644,785	15,367,002
Temporarily restricted net assets	79,983,416	72,226,054
Permanently restricted net assets	107,717,742	100,601,473
Total net assets	204,345,943	188,194,529
Total liabilities and net assets	\$ 228,708,523	\$ 211,421,456

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

	2013	2012 <i>(restated)</i>
OPERATING REVENUES		
Tuition and fees (net of \$33,174,915 and \$31,979,062 scholarship discount)	\$ 153,523,695	\$ 141,807,534
Federal appropriations	5,044,560	5,114,225
Federal grants and contracts	69,497,113	81,248,310
State grants and contracts	6,187,965	5,815,358
Non-governmental grants and contracts	10,367,073	9,491,558
Grant and contract facilities and administrative cost recoveries	16,349,985	17,858,322
Educational, public service and outreach revenues	24,294,342	24,510,537
Auxiliary revenues:		
Housing (net of \$2,759,381 and \$2,411,283 scholarship discount)	17,326,126	16,347,272
Food services (net of \$2,689,116 and \$2,941,285 scholarship discount)	16,974,138	17,042,895
Other auxiliary sales and services (net of \$796,828 and \$916,152 scholarship discount)	9,630,042	9,064,405
Interest earned on loans	108,097	100,952
Other operating revenues	4,349,063	6,105,058
Total operating revenues	333,652,199	334,506,426
OPERATING EXPENSES		
Compensation and benefits	276,052,595	265,111,799
Annual Required Contribution to OPEB (note 15)	8,238,685	7,902,814
Operating expenses (note 14)	142,946,170	147,341,469
Scholarships and fellowships (net of \$39,420,240 and \$38,247,782 scholarship discount)	26,541,997	27,289,167
Depreciation and amortization	30,025,952	28,653,522
Total operating expenses	483,805,399	476,298,771
Operating loss	(150,153,200)	(141,792,345)
NONOPERATING REVENUES (EXPENSES)		
State and local appropriations	101,115,514	100,984,947
Federal Pell grant revenue	30,207,442	31,842,883
Land grant income (pledged as security for repayment of bonds)	1,931,796	1,758,778
Gifts (expendable)	13,786,571	13,586,595
Investment income	1,260,416	2,934,058
Interest expense	(5,513,076)	(5,851,855)
Net non operating revenues (expenses)	142,788,663	145,255,406
Income before other revenues, expenses, gains and losses	(7,364,537)	3,463,061
Loss on disposals of capital assets	(1,291,770)	(364,374)
Additions to permanent endowment	106,175	97,110
Capital gifts, grants and contributions	7,329,815	21,392,583
Change in net position	(1,220,317)	24,588,380
Net position, beginning of year as previously stated	359,897,962	336,724,657
Prior period capital asset restatement		(1,415,075)
Net position, beginning of year as restated	359,897,962	335,309,582
Net position, end of year	\$ 358,677,645	\$ 359,897,962

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, 2013 or December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions	\$ 3,354,770	\$ 7,194,763	\$ 6,769,631	\$ 17,319,164
Investment, interest and dividend income	963,905	1,581,806	1,223	2,546,934
Net realized and unrealized gain (loss) on investments	2,998,707	10,828,622	44,008	13,871,337
Contract support and contributions from University	1,370,204	-	-	1,370,204
Special events	1,075,267	122,481	-	1,197,748
Other income	6,748,119	(1,827,921)	43,296	4,963,494
Net assets released from restrictions	10,412,940	(10,158,515)	(254,425)	-
Total revenues	26,923,912	7,741,236	6,603,733	41,268,881
Expenses:				
Program services				
University support	6,697,404			6,697,404
Academic and institutional	2,740,460			2,740,460
Scholarships and awards	5,209,504			5,209,504
Total program services expense	14,647,368			14,647,368
Operating expenses				
Fundraising efforts	3,638,682			3,638,682
General and administrative	4,999,166			4,999,166
Investment management costs	925,285			925,285
Other miscellaneous	1,435,552			1,435,552
Total operating expenses	10,998,685			10,998,685
Change in net assets before				
Nonoperating items	1,277,859	7,741,236	6,603,733	15,622,828
Nonoperating expenses				
Payments to beneficiaries and change in liabilities to external beneficiaries	(76)	16,126	512,536	528,586
Change in net assets	1,277,783	7,757,362	7,116,269	16,151,414
Net assets, beginning of year	15,367,002	72,226,054	100,601,473	188,194,529
Net assets, end of fiscal year	\$ 16,644,785	\$ 79,983,416	\$ 107,717,742	\$ 204,345,943

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

Montana State University
(a component unit of the State of Montana)
UNIVERSITY COMPONENT UNITS-- Combined Statement of Activities
As of and for the Year Ended June 30, 2012 or December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions	\$ 3,336,586	\$ 33,892,252	\$ 3,978,769	\$ 41,207,607
Investment, interest and dividend income	317,163	1,089,621	958	1,407,742
Net realized and unrealized gain (loss) on investments	(776,589)	(1,447,123)	(6,855)	(2,230,567)
Contract support and contributions from University	1,346,000	-	-	1,346,000
Special events	1,031,103	541,668	-	1,572,771
Other income	5,854,962	(1,688,878)	8,443	4,174,527
Net assets released from restrictions	16,961,830	(16,930,197)	(31,633)	-
Total revenues	28,071,055	15,457,343	3,949,682	47,478,080
Expenses:				
Program services				
University support	13,503,724			13,503,724
Academic and institutional	2,383,132			2,383,132
Scholarships and awards	4,673,542			4,673,542
Total program services expense	20,560,398			20,560,398
Operating expenses				
Fundraising efforts	3,549,205			3,549,205
General and administrative	3,704,852			3,704,852
Investment management costs	796,696			796,696
Other miscellaneous	605,598			605,598
Total operating expenses	8,656,351			8,656,351
Change in net assets before				
Nonoperating items	(1,145,694)	15,457,343	3,949,682	18,261,331
Nonoperating expenses				
Payments to beneficiaries and change in liabilities to external beneficiaries	(4,780)	1,097	(301,127)	(304,810)
Change in net assets	(1,150,474)	15,458,440	3,648,555	17,956,521
Net assets, beginning of year	16,517,476	56,767,614	96,952,918	170,238,008
Net assets, end of fiscal year	\$ 15,367,002	\$ 72,226,054	\$ 100,601,473	\$ 188,194,529

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

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

	2013	2012
Cash flows from operating activities:		
Tuition and fees	\$ 154,176,845	\$ 141,564,190
Federal appropriations	4,625,468	5,211,844
Federal grants and contracts	69,354,286	80,627,472
State grants and contracts	6,137,627	5,944,828
Private grants and contracts	10,295,697	8,386,661
Grant and contract facilities and administrative cost	16,393,613	18,550,514
Educational, public service and outreach revenues	23,757,961	24,692,627
Sales and services of auxiliary enterprises	43,807,607	42,039,611
Interest on loans receivable	254,478	242,682
Other operating receipts	4,349,063	6,105,057
Compensation and benefits	(274,212,530)	(264,092,273)
Operating expenses	(139,687,144)	(146,410,452)
Scholarships and fellowships	(26,544,878)	(27,287,970)
Loans made to students	(2,998,008)	(3,659,064)
Loan payments received	3,829,565	3,388,341
Net cash used in operating activities	(106,460,350)	(104,695,932)
Cash flows from noncapital financing activities:		
Receipts (disbursements) of funds held in trust for others	(971,613)	1,160,578
Direct lending proceeds	93,378,401	94,409,810
Direct lending disbursements	(93,378,401)	(94,409,810)
State and local appropriations	101,115,514	100,984,946
Federal Pell grant funds received	30,207,442	31,842,883
Gifts and contributions (expendable)	13,786,573	13,586,595
Land grant income (see note 2)	1,931,797	1,758,778
Repayment of long-term advance from primary government	(54,416)	(53,091)
Additions to permanent endowment	106,175	101,129
Net cash provided by noncapital financing activities	146,121,472	149,381,818
Cash flows from capital financing activities:		
Purchase of capital assets	(40,289,185)	(31,239,771)
Proceeds from sale of capital assets	87,638	112,264
Gifts restricted for capital purchase	552,300	1,645,546
Other capital financing activities	(12,650)	302,057
Proceeds from borrowings	49,076,130	15,294,196
Debt principal repayment	(53,909,038)	(5,516,062)
Payment of debt issue costs	(471,846)	(166,717)
Advances from primary government	5,904,993	4,264,096
Repayment of advances from primary government	(1,714,138)	(1,634,979)
Interest paid	(5,615,415)	(5,659,921)
Net cash used in capital financing activities	(46,391,211)	(22,599,291)
Cash flows from investing activities:		
Purchase of investments	(602,540)	(291,327)
Proceeds from sale of investments	2,623,185	899,707
Investment income	1,417,915	1,753,241
Net cash provided by (used in) investing activities	3,438,560	2,361,621
Net change in cash and cash equivalents	(3,291,529)	24,448,216
Cash and equivalents at beginning of year	183,450,087	159,001,871
Cash and equivalents at end of year	\$ 180,158,558	\$ 183,450,087

Montana State University
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Consolidated Statements of Cash Flows (continued)
As of and for Each of the Years Ended June 30

Reconciliation of Operating Loss to Net Cash Used in Operations

	2013	2012
Operating loss	\$ (150,153,200)	\$ (141,792,345)
Noncash income and expense:		
Depreciation and amortization on capital assets	30,025,952	28,653,522
Provision for uncollectible accounts	1,162,179	1,061,475
Amortization of OPEB liability	8,238,685	7,902,814
Changes in operating assets and liabilities:		
Accounts and grants receivable	(2,396,644)	(1,621,929)
Loans receivable	1,086,271	(80,539)
Inventories	196,710	307,651
Prepaid expenses	(722,807)	(725,181)
Accounts payable and other accrued liabilities	3,298,467	1,491,267
Deferred revenue	1,061,889	(195,818)
Compensated absences	1,629,338	155,663
Amounts due to Federal government	112,810	147,488
Net cash used in operations	\$ (106,460,350)	\$ (104,695,932)

Schedule of noncash financing and investing activities

	2013	2012
Capital assets contributed to the University	\$ 6,777,514	\$ 19,747,037
Capital assets acquired through issuance of capital lease obligations	\$ 305,712	\$ 25,449
Capital assets acquired via trade-in	\$ 90,139	\$ 36,556
Bond issue costs, discounts, premiums and deferred loss on refunding amortized or written off to interest expense (net)	\$ 780,146	\$ 52,262
Net change in fair value of investments	\$ 362,300	\$ 536,330

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

	2013	2012
Cash and cash equivalents classified as current assets	\$ 179,119,894	\$ 182,415,905
Cash and cash equivalents classified as noncurrent assets	1,038,664	1,034,182
Total cash and cash equivalents as reported on the Statements of Cash Flows	\$ 180,158,558	\$ 183,450,087

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

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

(continued)

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

ORGANIZATION

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

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

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

In May 2002, the Governmental Accounting Standards Board (GASB) issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14*. The statement was clarified by the issuance of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—An Amendment of GASB Statements No. 14 and No. 34*, which modifies certain requirements for inclusion of component units in the financial reporting entity. The statements require that a legally tax exempt organization be reported as a component unit of a reporting entity if the economic resources received or held by these organizations are entirely or virtually entirely for the direct benefit of the reporting entity or its component units, and the reporting entity is entitled to, or has the means to otherwise access, a majority of the economic resources received or held by the separate organization. The resources of the separate organization must also be significant to the reporting entity. In addition, organizations are evaluated for inclusion if they are closely related to, or financially integrated with, the reporting entity, and qualify as presenting a financial benefit or burden relationship. The University has established a threshold minimum of 1% - 2% of consolidated net position or 1% - 2% of consolidated revenues as an initial requirement for inclusion of an organization as a component unit in its financial statements. Other entities may be included, though, if the University determines that to exclude the entity would be misleading, according to clarified criteria presented on statement No. 61. For further discussion of component units, see Note 20.

BASIS OF PRESENTATION

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

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

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to

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

(continued)

external parties for goods or services. Accordingly, the University's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Certain prior year amounts have been reclassified to conform with current year presentation.

SIGNIFICANT ACCOUNTING POLICIES

Cash equivalents – For purposes of the statement of cash flows, the University considers its unrestricted, highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Certain funds on deposit with trustees, as well as funds invested in the Short Term Investment Pool with the Montana Board of Investments are considered cash equivalents, unless the Montana Board of Investments management determines that a portion of its portfolio is sufficiently illiquid and should be considered investments. In such cases, each participant in the pool is allocated its pro-rata share of illiquid funds.

Investments – The University accounts for its investments at fair value in accordance with GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investment income is recorded on the accrual basis. All investment income, including unrealized gains and losses on the carrying value of investments, is reported as a component of investment income. Investments include derivatives that do not qualify for hedge accounting in accordance with GASB 53.

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

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

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

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

Capital assets – Capital assets are stated at cost for purchased or constructed assets, and at estimated fair value for donated assets. Renovations to buildings, infrastructure, and land improvements that significantly increase the value, change the use, or extend the useful life of the structure are capitalized. Routine repairs and maintenance and minor renovations are charged to operating expense in the year in which the expense is incurred.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the respective assets, ranging from 3 years for certain software to 75 years for certain infrastructure assets. The University has elected to capitalize museum, fine art and special library collections, but does not record depreciation on those items.

Deferred revenues – Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to events occurring in the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Compensated absences – Eligible University employees earn a minimum of 8 hours sick and 10 hours annual leave for each month worked. Eligible employees may accumulate annual leave up to twice their annual accrual, while sick leave may accumulate without limitation. Twenty-five percent of accumulated sick leave earned after July 1, 1971 and 100 percent of accumulated annual leave, if not used during employment, is paid upon termination.

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

Net position – Resources are classified in one of the following four categories:

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

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

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

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

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

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

Nonoperating revenues – include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

Use of restricted revenues – When the University maintains both restricted and unrestricted funds for the same purpose, the order of use of such funds is determined on a case-by-case basis, depending on relevant law and other restrictions. Restricted funds remain classified as restricted until they are expended.

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

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Notes to Consolidated Financial Statements
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(continued)

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

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

NOTE 2 – CASH DEPOSITS, CASH EQUIVALENTS AND INVESTMENTS

Cash deposits – The University must comply with State statutes, which generally require that cash and investments remain on deposit with the State treasury, and as such are subject to the State's investment policies. Certain exceptions exist, which allow funds to be placed on deposit with trustees to satisfy bond covenants or to maximize investment earnings through placing certain funds with recognized University foundations. Deposits with the State treasury and other financial institutions totaled \$107,773,030 at June 30, 2013 and \$56,063,798 at June 30, 2012.

Cash equivalents – These amounts consist of cash held by trustees as well as \$64,608,043 and \$112,597,164 of the amount invested in the Short Term Investment Pool (STIP) with the Montana Board of Investments at June 30, 2013 and 2012, respectively.

STIP participants include both state agencies and local governments. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost or book value rather than fair value to report net assets to compute unit values. As described in the notes to the Montana Board of Investments Consolidated Unified Investment Program Financial Statements, investments must have a maximum maturity of 397 or fewer days unless they have reset dates.

Investments – These amounts consist of U.S. Government Securities, amounts invested in the Montana Board of Investments Trust Fund Investment Pool (TFIP), certain funds invested in the Montana Board of Investments STIP, funds held in common investment pools administered by the MSU-Bozeman and MSU-Northern Foundations, as well as other funds held with trustees and the market value of the University's non-hedging derivative financial instrument. Except for funds held in the Montana Board of Investments STIP, as discussed above, investments are recorded at fair value. The MSU Bozeman Foundation's investment pool, totaling \$141,016,703, includes \$2,408,200 in real estate, which is accounted for at fair value based on periodic appraisals. Of the pool, the University owns \$8,210,591 or 5.8%. Foundation investment pools are not subject to regulatory oversight.

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

Securities lending transactions – The Board of Investments (BOI) is authorized by law to lend its securities, and has contracted with its custodial bank, State Street Bank, to lend the BOI's securities to broker-dealers and other entities. The custodial bank is required to maintain collateral equal to 102% of the fair value of domestic securities and 105% of the fair value of international securities while the securities are on loan. The BOI and the bank split the earnings 80% and 20% respectively on security lending activities. The University's allocated portion of security lending cash collateral was \$1,141,800 at June 30, 2013 and \$1,068,273 at June 30, 2012.

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Notes to Consolidated Financial Statements
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(continued)

The BOI did not impose any restrictions during fiscal years 2013 and 2012 on the amount of the loans State Street Bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2013 and 2012. Moreover, there were no losses during fiscal years 2013 and 2012 resulting from a default of the borrowers or State Street Bank and Trust.

During fiscal years 2013 and 2012, the BOI and the borrowers maintained the right to terminate all securities lending transactions on notice. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment fund comprised of a liquidity pool and a duration pool. As of June 30, 2013, the Quality D Short Term Investment Fund liquidity pool had an average duration of 29 days and an average weighted final maturity of 85 days for U.S. dollar collateral. The duration pool had an average duration of 44 days and an average weighted final maturity of 1,972 days for U.S. dollar collateral. As of June 30, 2013, the Quality D Short Term Investment Fund liquidity pool had an average duration of 36 days and an average weighted final maturity of 73 days for U.S. dollar collateral. The duration pool had an average duration of 40 days and an average weighted final maturity of 1,329 days for U.S. dollar collateral. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. As of June 30, 2013 the BOI had no credit risk exposure to borrowers. The private equity and real estate pools do not participate in securities lending.

Investment risks – The University’s investments are concentrated primarily with the State of Montana; therefore, discussion of the risks of the applicable State investment products is summarized below. Detailed asset maturity and other information demonstrating risk associated with the BOI STIP and TFIP is contained in the BOI financial statements, and may be accessed by contacting the Board of Investments at P.O. Box 200126, Helena, MT 59620-0126. Investment risks are described in the following paragraphs. Risks specific to derivative financial instruments are discussed in Note 10.

Credit Risk – Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, all TFIP fixed income instruments have credit risk as measured by major credit rating services.

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The securities in the State of Montana Short Term Investment Pool and the State of Montana Trust Fund Investment Pool are held in name of the BOI or were registered in the nominee name for the BOI and held in possession of the BOI custodial bank.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of an entity’s investment in a single issuer. Because the University is limited to investing in certain funds and with certain entities by state statute, it does not maintain its own credit risk policy.

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

The State of Montana has selected the effective duration method to disclose interest rate risk. The University’s investments are categorized below to disclose interest rate and credit risk as of June 30, 2013. Credit risk reflects the security quality rating, by investment security type, as of the report date. Interest rate risk is disclosed using effective duration. If a security investment type is unrated, the quality type is indicated by NR. Although STIP and TFIP investments have been rated by investment security type, neither has been rated by an NRSRO.

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

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

Investment income from the perpetual endowment is distributed periodically to the University by the State of Montana, Board of Land Commissioners, and is reported as revenue in the accompanying financial statements. The University has currently pledged such income to the retirement of revenue bond indebtedness; after satisfying the liens of the indenture, the University may expend the funds for any lawful purpose.

In addition to distributed endowment income, the University also receives revenue generated from trust land timber sales. The University has the flexibility to designate timber sales revenues as either distributable or for reinvestment, should it choose to expend the funds for certain specified purposes.

Cash equivalents and investments are categorized as follows at June 30, 2013:

Security Type	Fair Value	Moody's Credit Quality Rating	Effective Duration (years)
State of Montana Short Term Investment Pool	\$ 65,458,078	NR***	N/A
U. S. Bank Money Market Funds (collateralized by U.S. Bank pool, not in the University's name)	6,355,624	P-1	N/A
State of Montana Trust Fund Investment Pool*	15,695,570	NR***	5.15
Foundation Pooled Cash Equivalents and Investments**	7,355,199	NR***	N/A**
Non-hedging derivative investment value	1,899,836	A2	22.42
Total Cash Equivalents & Investments	\$ 96,764,307		

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

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

*** Not rated

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NOTE 3 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts receivable consisted of the following as of June 30:

	<u>2013</u>	<u>2012</u>
Accounts receivable	\$ 9,774,446	\$ 9,393,279
Other receivables, including private grants and contracts	3,104,564	2,810,940
Gross accounts and grants receivable	12,879,010	12,204,219
Less allowance for uncollectible accounts	(3,662,012)	(3,252,778)
Net accounts and grants receivable	<u>\$ 9,216,998</u>	<u>\$ 8,951,441</u>

NOTE 4 – INVENTORIES

Inventories consisted of the following as of June 30:

	<u>2013</u>	<u>2012</u>
Bookstore	\$ 1,006,907	\$ 1,100,770
Food services	280,237	321,253
Facilities services	671,468	618,731
Livestock	622,408	722,320
Other	337,297	351,952
Total inventories	<u>\$ 2,918,317</u>	<u>\$ 3,115,026</u>

NOTE 5 – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses consisted of the following as of June 30:

	<u>2013</u>	<u>2012</u>
Library subscriptions	\$ 1,583,758	\$ 875,395
Other (including summer session payments)	1,197,497	1,233,054
Total prepaid expenses	<u>\$ 2,781,255</u>	<u>\$ 2,108,449</u>

NOTE 6 – LOANS RECEIVABLE

Student loans made under the Federal Perkins Loan Program constitute the majority of the University's loan balances. Included in noncurrent liabilities as of June 30, 2013 and 2012 are \$22,593,240 and \$22,480,430 that would be repayable to the Federal government, should the University choose to cease participation in the Federal Perkins Loan program.

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

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NOTE 7 – CAPITAL ASSETS

Following are the changes in capital assets during the years ended June 30, 2013 and 2012:

	Year Ended June 30, 2013				Balance June 30, 2013
	Balance July 1, 2012 <i>(restated)</i>	Additions	Retirements	Transfers	
Capital assets not being depreciated:					
Land	\$ 6,603,729	\$ 65,550	\$ -	\$ -	\$ 6,669,279
Museum and fine art	5,133,628	20,000	-	-	5,153,628
Library special collections	3,250,296	71,621	-	-	3,321,917
Livestock for educational purposes	3,206,391	169,476	(3,375)	-	3,372,492
Construction work-in-progress	34,192,714	31,220,275	(1,094,331)	(49,005,177)	15,313,481
Total capital assets not being depreciated	52,386,758	31,546,922	(1,097,706)	(49,005,177)	33,830,797
Other capital assets:					
Furniture and equipment	137,942,174	9,962,448	(2,572,376)	13,342	145,345,588
Library materials	65,420,008	1,157,605	(2,488,025)	-	64,089,588
Buildings	293,981,824	231,856	(475,894)	1,805,935	295,543,721
Building improvements	191,125,677	2,959,078	-	43,683,490	237,768,245
Land improvements	18,833,934	225,334	(30,248)	335,225	19,364,245
Infrastructure	34,835,590	954,847	-	2,730,836	38,521,273
Total other capital assets	742,139,207	15,491,168	(5,566,543)	48,568,828	800,632,660
Accumulated depreciation	(417,126,202)	(29,558,875)	5,194,702	-	(441,490,375)
Other capital assets, net	325,013,005	(14,067,707)	(371,841)	48,568,828	359,142,285
Intangible assets, net	655,656	424,459	(467,078)	436,349	1,049,386
Capital Assets, net	\$ 378,055,419	\$ 17,903,674	\$ (1,936,625)	\$ -	\$ 394,022,468
	Year Ended June 30, 2012				Balance June 30, 2012 <i>(restated)</i>
	Balance July 1, 2011 <i>(restated)</i>	Additions	Retirements	Transfers	
Capital assets not being depreciated:					
Land	\$ 6,603,729	\$ -	\$ -	\$ -	\$ 6,603,729
Museum and fine art	5,069,503	64,125	-	-	5,133,628
Library special collections	3,250,296	-	-	-	3,250,296
Livestock for educational purposes	3,112,115	94,276	-	-	3,206,391
Construction work-in-progress	12,094,956	37,774,724	(24,157)	(15,652,809)	34,192,714
Total capital assets not being depreciated	30,130,599	37,933,125	(24,157)	(15,652,809)	52,386,758
Other capital assets:					
Furniture and equipment	133,701,521	10,140,740	(5,879,566)	(20,521)	137,942,174
Library materials	64,912,242	1,248,576	(740,810)	-	65,420,008
Buildings	283,558,183	82,807	(150,000)	10,490,834	293,981,824
Building improvements	185,868,084	855,302	-	4,402,291	191,125,677
Land improvements	17,426,947	647,300	-	759,687	18,833,934
Infrastructure	34,835,590	-	-	-	34,835,590
Total other capital assets	720,302,567	12,974,725	(6,770,376)	15,632,291	742,139,207
Accumulated depreciation	(395,142,763)	(28,294,961)	6,291,004	20,518	(417,126,202)
Other capital assets, net	325,159,804	(15,320,236)	(479,372)	15,652,809	325,013,005
Intangible assets, net	882,916	140,965	(368,225)	-	655,656
Capital Assets, net	\$ 356,173,319	\$ 22,753,854	\$ (871,754)	\$ -	\$ 378,055,419

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Historical records are not available for certain of the University's assets. As such, some values have been estimated based on insurance values, industry-accepted valuation techniques, or estimates made by University personnel knowledgeable as to the assets' values. Livestock held for educational purposes consist primarily of cattle herds. Breeding cattle are routinely replaced in the herds by their offspring; additions and deductions from the asset cost are not reported for reproducing cattle replaced in this manner.

NOTE 8 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	<u>2013</u>	<u>2012</u>
Compensation, benefits and related liabilities	\$ 18,865,589	\$ 17,928,190
Accrued interest expense	557,721	571,778
Accounts payable and other accrued liabilities	15,796,164	13,270,088
Total	<u>\$ 35,219,474</u>	<u>\$ 31,770,056</u>

NOTE 9 – DEFERRED REVENUES

Deferred revenues consisted of the following as of June 30:

	<u>2013</u>	<u>2012</u>
Grant and contract funds received in advance	\$ 2,918,358	\$ 2,684,449
Summer session payments received in advance	5,941,945	5,411,033
Other deferred revenues	1,317,416	1,020,349
Total	<u>\$ 10,177,719</u>	<u>\$ 9,115,831</u>

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Derivative financial instruments –

Description

The University has two interest rate swaps as of June 30, 2013. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraphs 27 (a) and (b) of Governmental Accounting Standards Board Statement Number 53, or as investment derivative instruments if they do not.

The following table summarizes the interest rate swaps outstanding as of June 30, 2013:

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

*Counterparty may opt out in 2016

As of June 30, 2013, the fixed payer swap is classified as a hedging derivative instrument under Statement No. 53, whereas the basis swap is an investment derivative instrument because there is no identified financial risk being hedged by the basis swap that can be expressed in terms of exposure to adverse changes in cash flows or fair values. Statement No. 53 includes four methods for evaluating hedge effectiveness; a governmental entity may use any of the evaluation methods outlined in the Statement and is not limited to using the same method from period to period. The four methods described in Statement No. 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. In addition, Statement No. 53 permits a governmental entity to use other quantitative methods that are based on “established principles of financial economic theory.” The fixed payer swap passes the established criteria using the regression analysis methodology.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. The time value is equal to the option value minus the intrinsic value. The option value was estimated using a trinomial option pricing model. Incorporating market volatility data, the trinomial model calculates all possible changes in the value of the underlying swap for each future cash flow period (up, down or unchanged) to form a trinomial tree. This tree is used to calculate the current value of the option.

On September 10, 2010, the Series J bonds were converted to index bonds. While in index mode the interest rate is reset weekly at a rate of the Securities Industry and Financial Markets Association (“SIFMA”) plus a fixed spread. The spread is based on the long-term, unenhanced rating assigned to the issuer; the current spread as of June 30 was 0.80%. The dependent variable in the regression is the interest rates of the hedged cash flows; the independent variable is the floating rates due under the hedging derivative. The counterparty to the fixed payer swap has the right to terminate the swap at \$0 on December 14, 2016 (a European option). Upon entering into the transaction, the University received consideration from the counterparty in the form of an off-market (lower) fixed swap rate. A portion of the consideration received was a result of the option being in-the-money at inception; that is, the option had intrinsic value as the cancelable swap’s fixed rate of 3.953% was lower than the at-market rate of 4.110% on the trade date. The remainder of the up-front consideration reflects the time value the counterparty pays for holding the option. To the University, the time value portion represents deferred investment revenue. The intrinsic value of the cancelable swap is considered a loan receivable for financial reporting purposes and is treated as an asset in the accompanying financial statements. Interest accrues to the balance of the asset each year and amortizes with each swap payment.

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The table below summarizes the reported balances as of and the derivative instrument activity during the years ended June 30, 2013 and 2012.

Type of derivative	Notional	Activity During 2013		Fair Value as of June 30, 2013	
		Classification	Amount	Classification	Amount
Cash flow hedge - Pay fixed interest rate swap	\$ 23,025,000	Interest expense	\$ 18,211	Loan receivable	<u>\$ 327,005</u>
		Investment loss	\$ 94,850	Hybrid instrument liability	\$ 520,994
		Deferred outflow increase/(decrease)	\$ (2,202,172)	Noncurrent liability	<u>3,868,317</u>
				Total liability	<u>\$ 4,389,311</u>
Investment derivative - Basis swap	\$ 23,025,000	Investment loss	\$ 332,777	Investment (excluding interest accrued)	<u>\$ 1,899,836</u>
Type of derivative	Notional	Activity During 2012		Fair Value as of June 30, 2012	
		Classification	Amount	Classification	Amount
Cash flow hedge - Pay fixed interest rate swap	\$ 23,600,000	Interest expense	\$ 18,073	Loan receivable	<u>\$ 345,216</u>
		Investment revenue	\$ 650,269	Hybrid instrument liability	\$ 426,144
		Deferred outflow increase/(decrease)	\$ 3,266,717	Noncurrent liability	<u>6,070,489</u>
				Total liability	<u>\$ 6,496,633</u>
Investment derivative - Basis swap	\$ 23,600,000	Investment income	\$ 444,053	Investment (excluding interest accrued)	<u>\$ 2,234,252</u>

The objective and terms of the University's hedging derivative outstanding as of June 30, 2013 is as follows:

Type	Objective	Notional amount	Effective Date	Termination Date	Cash (Paid)/ Received	Terms
Pay fixed, cancelable interest rate swap	Hedge interest rate risk on Series J 2005 Bonds	\$23,025,000	7/21/2005	11/15/2035	-	Pay 3.953% Receive SIFMA

Credit Risk

It is the University's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2013, counterparty ratings were A2 and Baa1 by Moody's and A+ and A- by Standard and Poor's. The University manages credit risk by requiring its counterparties to post collateral in certain events. The University is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than \$5MM and the counterparty is rated A+ or A, by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, the University is entitled to collateral up to 100% of the swap's fair value. The University is not required to post collateral. The University will continue to monitor counterparty credit risk.

The University enters into derivative agreements with multiple counterparties to limit concentration of credit risk. Currently, the University has interest rate swaps with two different counterparties and each counterparty accounts for approximately 50% of outstanding notional. The University monitors counterparty credit risk on an ongoing basis.

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Interest Rate Risk

Interest payments on variable rate debt will typically increase as interest rates increase. The University believes it has significantly reduced interest rate risk by entering into a pay-fixed, receive floating interest rate swap. As interest rates increase, net swap payments decrease so that changes in hedged variable-rate debt interest payments, attributable to SIFMA, are largely offset by the net swap payments.

Basis Risk

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

Termination Risk

The University or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, the University's fixed payer swap counterparty has the right to terminate the derivative if the credit rating of the University's unenhanced long-term revenue bond rating is withdrawn, suspended or reduced below BBB-, in the case of S&P, or below Baa3 in the case of Moody's. If such an event occurs, the University could be forced to terminate the fixed payer swap in a liability position. As of June 30, 2013, the University's unenhanced long-term revenue bond rating was Aa3 by Moody's and A+ by Standard and Poor's.

Rollover Risk

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

Foreign Currency Risk

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

Market Access Risk

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

NOTE 11 – BONDS, NOTES AND ADVANCES PAYABLE

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

	Coupon rate	2013	2012
Series 2004H	5.50%	\$ 1,165,000	\$ 21,320,000
Series 2004I	3.625% – 5.25%	1,485,000	27,955,000
Series 2005J	0.89% *	23,025,000	23,600,000
Series 2006K	4.00% – 4.50%	11,185,000	11,775,000
Series 2008L	3.50% – 4.00%	13,630,000	16,740,000
Series 2011M	2.00% – 5.00%	14,100,000	14,100,000
Series 2012N	2.00% – 4.00%	20,460,000	-
Series 2012O	0.628%–3.09%	28,365,000	-
Total principal outstanding		\$ 113,415,000	\$ 115,490,000

* The interest rate on the Series J debt is variable, and adjusted weekly

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Revenue bonds are payable as follows:

During the year ending June 30,	Principal	Interest	Net Hedging Derivative Interest	Total
2014	\$ 6,285,000	\$ 3,161,803	\$ 885,745	\$ 10,332,548
2015	6,615,000	2,932,939	861,921	10,409,860
2016	6,770,000	2,709,514	837,091	10,316,605
2017	7,095,000	2,498,119	811,320	10,404,439
2018	7,220,000	2,308,652	784,061	10,312,713
2019-2023	35,925,000	8,503,583	3,466,882	47,895,465
2024-2028	24,110,000	3,702,805	2,587,706	30,400,511
2029-2033	12,285,000	1,220,121	1,492,992	14,998,113
2034-2038	7,110,000	143,138	264,945	7,518,083
Total cash requirements	113,415,000	\$ 27,180,674	\$ 11,992,663	\$ 152,588,337
Deferred loss on refunding	(4,087,747)			
Unamortized premium (discount) net	2,208,106			
Bond payable, net	\$ 111,535,359			

Description of bonded indebtedness—

Series A 1993 Bonds, November 9, 1993 – The University issued \$24,911,720 of bonds dated November 9, 1993, consisting of \$3,055,000 of Current Interest Serial Bonds, plus \$6,036,720 (discounted value) of Capital Appreciation Bonds, and the remainder in Current Interest Term Bonds. A total of \$4.3 million was used to partially refund certain eligible portions of the Series B 1985 and Series A 1986 Indentures. The remainder of the proceeds was used for the acquisition, construction, repair, remodeling, replacement, renovation, improvement, furnishing, and equipping of new and existing facilities at the University. The Term Bonds were refunded by the Series G 2003 bonds, which were later refunded by the Series L bonds. Final maturity of the Capital Appreciation Bonds occurred during November, 2011.

Series H 2004, October 14, 2004 – The Series H bonds were refunded in October 2012 upon issuance of the Series N 2012 bonds. Principal remaining for the Series H 2004 bonds as of June 30, 2013 was \$1,165,000. The Series H bonds will be fully defeased in November 2014.

Series I 2004, November 23, 2004 – The Series I bonds were refunded in October 2012 upon issuance of the Series O 2012 bonds. Principal remaining for the Series I 2004 bonds as of June 30, 2013 was \$1,485,000. The Series I bonds will be fully defeased in November 2014.

Series J 2005, July 21, 2005 – In July 2005, the University issued \$25,750,000 of Series J 2005 Auction Rate Facilities Improvement Revenue Bonds to fund the majority of a student facilities enhancement project on the Bozeman campus. The proceeds, together with University funds, were used to renovate the student fitness center, construct a theater, and renovate portions of the Strand Union Building. The bonds are being repaid with a combination of student fees and auxiliary operations revenues. Principal payments continue each May and November through November, 2035. On September 11, 2008, the University remarketed these bonds as Variable Rate Demand Bonds in the daily mode, whereas they had previously been marketed as Municipal Auction Rate Securities in the weekly mode. The bonds were remarketed without bond insurance, because variable rate instruments backed by a direct-pay letter of credit were trading at more attractive rates from the bond issuer's perspective, which is a result of the insurer's downgrading and general market conditions. The bonds are no longer insured by Ambac; instead, the University entered into a Letter of Credit and Reimbursement Agreement with Wachovia Bank, NA ("Wachovia"), for a term of two years, in which Wachovia assumed a direct-pay responsibility for the bonds. Wachovia Bank was subsequently purchased by Wells Fargo. Because the letter of credit was scheduled to terminate in September of 2010, the University sought pricing on a renewed letter of credit as well as a direct-placement transaction. After reviewing several options, the University selected the direct-placement

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transaction, and on September 10, 2010, amended its bond indenture to permit issuance of the Series J bonds in the indexed floater mode, re-issuing the bonds in whole to Wells Fargo Bank. In place of a letter of credit fee, the University now pays Wells Fargo Bank a pre-determined basis point spread over and above the SIFMA weekly indexed rate. Principal payment amounts and dates remained the same as they were prior to the remarketing. In September 2013, the University entered into a 5-year renewal of its direct purchase agreement with Wells Fargo Bank relative to its Series J 2005 bonds, at a rate of 0.65% above SIFMA. This is a decrease of 0.15% as compared with the previous rate of 0.80% above SIFMA.

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

Series L 2008, June 26, 2008 – In June 2008, the University refunded its Series G 2003 Auction Rate Bonds through the issuance of fixed rate Series L 2008 bonds in the amount of \$17.59 million. Series L bond proceeds were sufficient to legally defease the Series 2003 G bonds. The Series L debt will be repaid by November of 2016, the same maturity date as the refunded Series G debt. Repayment is guaranteed by Assured Guaranty. The Series G bonds were called in July, 2008 and are no longer outstanding. The original proceeds of the refunded debt had been used for a \$16,745,000 current refunding of the serial portion of the Series 1993-A bonds, and \$2,015,000 had been used for an advance refunding of the Series 1994 C bonds.

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

Series N 2012, October 17, 2012 – In October 2012, the University issued its Series N refunding debt in the principal amount of \$20.5 million. The proceeds were used to refund the Series H 2004 Facilities Improvement Revenue Bonds with stated maturities in the year 2015 and thereafter. The refunding resulted in an economic gain to the University of \$2.2 million. The proceeds of the Series N 2012 bonds were used to acquire direct general obligations, the maturing principal and interest on which are calculated to be sufficient to pay, when due, at maturity or upon redemption, the principal of and interest on the \$19.6 million Series H 2004 bonds with maturities in the year 2015 and thereafter. The refunded Series H 2004 bonds are no longer considered to be outstanding under the Indenture. The portion of the Series H bonds that were not refunded totals \$1.2 million. This portion matures in the year 2015 and will be retired in accordance with the original repayment schedule.

Series O 2012, October 17, 2012 – In October 2012, the University issued its Series O 2012 refunding debt in the principal amount of \$28.4 million. The proceeds were used to refund the Series I 2004 Facilities Revenue Refunding Bonds with stated maturities in the year 2015 and thereafter. The refunding resulted in an economic gain to the University of \$1.6 million. The proceeds of the Series O 2012 bonds were used to acquire direct general obligations, the maturing principal and interest on which are calculated to be sufficient to pay, when due, at maturity or upon redemption, the principal of and interest on the \$25.8 million Series I 2004 bonds with maturities in the year 2015 and thereafter. The refunded Series I 2004 bonds are no longer considered to be outstanding under the Indenture. The portion of the Series I bonds that were not refunded totals \$1.5 million. This portion matures in the year 2015 and will be retired in accordance with the original repayment schedule.

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

	Interest Rate	Maturity Date	2013	2012
<i>BB&T</i>				
Information Technology Oracle Site License	4.24%	04/01/14	\$ 144,535	\$ 248,991
<i>MSU-Northern Foundation</i>				
Consolidated Foundation Loan	6.00%	10/01/19	1,440,169	1,575,169
Total note principal outstanding			<u>\$ 1,584,704</u>	<u>\$ 1,824,160</u>

Notes are payable as follows:

During the year ending June 30,	Principal	Interest	Total
2014	\$ 279,535	\$ 90,275	\$ 369,810
2015	220,000	78,310	298,310
2016	220,000	65,110	285,110
2017	220,000	51,910	271,910
2018	220,000	38,710	258,710
2019-2023	425,169	37,820	462,989
Total	<u>\$ 1,584,704</u>	<u>\$ 362,135</u>	<u>\$ 1,946,839</u>

Advances payable to primary government – The University participates in the State’s Intercap loan program. Intercap loans contain a variable interest rate, which is based on the underlying bond rate of the Montana Board of Investments Intercap bonds, and is adjusted each February. The rate as of June 30, 2013 was 1.00%.

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

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

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

During the year ending June 30,	Intercap Loans		MSTA Advances		SBCEP		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2014	\$1,707,373	\$140,845	\$55,775	\$124,225	\$497,784	\$227,982	\$2,753,984
2015	1,743,884	124,399	57,168	122,832	462,856	204,910	2,716,049
2016	1,660,032	107,059	58,595	121,405	464,398	185,771	2,597,260
2017	1,410,179	91,141	60,059	119,941	482,929	167,237	2,331,486
2018	1,240,055	77,199	61,559	118,441	498,355	147,811	2,143,420
2019-2023	3,842,648	249,967	331,637	568,363	2,133,386	463,185	7,589,186
2024-2028	2,984,395	73,787	375,169	524,831	1,222,899	122,209	5,303,290
2029-2033	-	-	424,415	475,585	171,582	7,609	1,079,191
2034-2038	-	-	480,126	419,874	-	-	900,000
2039-2043	-	-	543,150	356,850	-	-	900,000
2044-2048	-	-	614,446	285,554	-	-	900,000
2049-2053	-	-	695,101	204,899	-	-	900,000
2054-2058	-	-	786,343	113,657	-	-	900,000
2059-2063	-	-	430,637	19,363	-	-	450,000
Total	<u>\$ 14,588,566</u>	<u>\$ 864,397</u>	<u>\$4,974,180</u>	<u>\$3,575,820</u>	<u>\$ 5,934,189</u>	<u>\$ 1,526,714</u>	<u>\$ 31,463,866</u>

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NOTE 12 - CAPITAL LEASE OBLIGATIONS

Capital Leases: The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2013:

Payable during the year ending June 30,	Principal and Interest
2014	\$ 128,898
2015	118,889
2016	100,292
2017	31,459
2018	5,894
Total payments	385,432
Less amount representing interest	(33,587)
Principal balance outstanding	\$ 351,845

Assets acquired under capital leases consist of photocopiers and a digital mailing system. Such assets are carried at a cost of \$524,472 less accumulated depreciation of \$109,264 as of June 30, 2013.

NOTE 13 – NET POSITION

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

	2013	2012
Board of Regents' approved reserves	\$ 18,873,738	\$ 19,349,115
Other designated purposes	48,569,073	60,263,670
Total unrestricted net position	\$ 67,442,811	\$ 79,612,785

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

	2013	2012
Restricted - nonexpendable:		
Endowments	\$ 8,320,951	\$ 7,835,434
Loans	4,704,988	4,628,269
Total restricted - nonexpendable	\$ 13,025,939	\$ 12,463,703
Restricted - expendable:		
Scholarships	\$ 1,210,131	\$ 1,144,616
Research and other	2,436,545	1,409,308
Loans	392,163	388,105
Construction and renewal of plant facilities	4,966,545	4,460,475
Debt retirement	5,417,996	5,420,936
Total restricted - expendable	\$ 14,423,380	\$ 12,823,440

Prior period restatement of Net Position – The University's beginning net position was restated by \$1,415,075 due to discovery of facts that existed but were not taken into account at the time of the issuance of prior statements. In 2006, the MSU Northern campus received a gift of land and buildings. An appraisal was performed at the time of the donation, but due to changes in personnel occurring at the time of the gift, neither the existence of the appraisal nor its contents were known to campus staff. Recently, the appraisal was discovered and the assets' values were corrected from their previous values, which had been based on insured values.

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NOTE 14 – OPERATING EXPENSES

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

	2013	2012
Instruction	\$ 119,752,747	\$ 112,042,890
Organized research	102,041,080	107,218,165
Public service	26,109,764	24,586,200
Academic support	32,421,656	31,316,472
Student services	37,107,334	34,737,218
Institutional support	24,183,761	24,070,844
Plant-related expenses	37,819,960	40,018,476
Auxiliary enterprises	47,801,148	46,365,817
Scholarships and fellowships	26,541,997	27,289,167
Depreciation and amortization	30,025,952	28,653,522
	\$ 483,805,399	\$ 476,298,771

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

	2013	2012
Compensation and benefits	\$ 276,052,595	\$ 265,111,796
OPEB	8,238,685	7,902,814
Supplies and service	77,032,068	80,014,949
Travel	12,082,943	11,899,645
Utilities	10,297,813	10,402,691
Other operating expenses	43,533,346	45,024,187
Scholarship and Fellowships	26,541,997	27,289,167
Depreciation and amortization	30,025,952	28,653,522
	\$ 483,805,399	\$ 476,298,771

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

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

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

TRS - This system was established in 1937 and is governed by Title 19, Chapter 20, MCA, as a cost-sharing multi-employer defined benefit pension plan providing retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, vocational-technical center or unit of the University

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System. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for benefits is 1/60 times creditable service years times average final compensation. Rights are vested after 5 years of creditable service, and vested employees may retire at or after age 50 and receive reduced retirement benefits. The active participant and employer contribution rates are statutorily determined (MCA §19-20-602 and §19-20-605). Additional information or a separate financial statement can be obtained from the State of Montana, Department of Administration, Teachers' Retirement Division, P.O. Box 200139, Helena, MT 59620-0139

PERS - This system was established in 1945 and is governed by Title 19, Chapter 3, MCA, as a cost-sharing multi-employer defined benefit pension plan providing retirement services to substantially all public employees. Effective July 1, 2002, eligible new employees of the University are defaulted into the PERS defined benefit plan and have one year from their date of hire to elect whether to stay in the PERS defined benefit plan, enroll in the ORP plan, or enroll in the PERS Defined Contribution Plan. Benefit eligibility is age 60 with at least 5 years of service, age 65 regardless of service, or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least 5 years of service. Monthly retirement benefits are determined by multiplying 1/56 by the number of years of service by the final average salary, unless the employee has 25 or more years of service, in which case the multiplier is 1/50. The required contribution rates for active participants and employers are statutorily determined (MCA §19-3-315 and MCA §19-3-316). Members' rights become vested after 5 years of service. Additional information or a separate financial statement can be obtained from the State of Montana, Department of Administration, Public Employees' Retirement Administration, P.O. Box 200131, Helena, MT 59620-0131.

GWPORS – This retirement system was established in 1963 and is governed by Title 19, Chapter 8, MCA, to provide retirement services for all persons employed as game wardens and peace officers. Effective July 1, 1997, this system became the mandatory system for campus security officers employed by the Montana University System, unless they already held membership in another State retirement system. Participants are eligible to retire after completing 20 years of service and reaching age 50. Early retirement with a reduced benefit may be taken after completing 5 years of service and reaching 55 years of age. The retirement formula is 2% of the final average salary per year of service. The required contribution rates for active participants and employers are statutorily determined (MCA §19-8-502 and MCA §19-8-504). Members' rights become vested after 5 years of service. Additional information or a separate financial statement can be obtained from the State of Montana, Department of Administration, Public Employees' Retirement Administration, P.O. Box 200131, Helena, MT 59620-0131.

FERS - This plan commenced in 1986 and is available to Federal employees joining the Extension Service staff that either had no prior covered service under CSRS or had a break in service. This retirement plan contains defined benefit plan components, a Basic Benefit Plan and Social Security, and a defined contribution component, the Thrift Savings Plan (TSP). Basic benefits can be received at age 55 with as little as 10 years of service, and minimum retirement benefits at age 62 with 5 years of service. The formula for basic benefits is 1% of the highest consecutive three-year-average salary multiplied by the number of years of service. The formula changes slightly if over 62 and over 20 years of service. At age 62, retirees are eligible for cost of living adjustments on retirement benefits. The employer is required to make at least a 1% contribution to the TSP. The TSP benefits at retirement depend upon the amount of employer contributions, employee voluntary contributions and investment gains and losses. Further information regarding the Federal Employees Retirement System can be obtained from the U.S. Office of Personnel Management, 1900 E Street NW, Washington, DC 20415.

CSRS - This retirement plan is authorized under the Smith-Lever Act of 1914 as amended and is available to Federal employees who first entered covered service before January 1, 1987 and who are joining the Extension Service staff without a break in service. CSRS is a defined benefit plan. The retirement benefits are based upon the highest consecutive three-year-average salary. Retirees are eligible for cost of living adjustments the year after retirement. Benefits can be received at age 55 with 30 years of service, age 60 with 20 years of service, or age 62 with five years of service. Further information regarding the Civil Service Retirement System can be obtained from the U.S. Office of Personnel Management, 1900 E Street NW, Washington, DC 20415.

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Pension data for the year ended June 30, 2013 is as follows:

	PERS	TRS	ORP	CSRS	FERS	GWPORS
Covered payroll**	\$ 47,544,238	\$ 13,859,434	\$ 120,728,441	\$ 441,874	\$ 352,535	\$ 1,368,630
Employer contributions*	\$ 3,441,592	\$ 1,720,260	\$ 7,121,291	\$ 47,065	\$ 40,773	\$ 123,177
% of covered payroll	7.170%	9.850%	4.490%-5.956%	7.00%-8.00%	11.900%	9.000%
Employee contributions	\$ 3,398,037	\$ 996,287	\$ 8,500,464	\$ 54,260	\$ 55,715	\$ 144,527
% of covered payroll	6.900%-7.900%	7.150%	6.900%-7.900%	7.00%-8.00%	0.800%	10.560%
ORP contribution to TRS		\$ 5,340,357				
% of covered payroll		4.720%				
ORP contributions to PERS	\$ 209,713					
% of covered payroll	2.680%					

*Includes TRS Option 1 payments of \$355,291

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

Total payroll for 2013 and 2012 were \$215,972,370 and \$208,522,971, respectively. Amounts contributed to retirement plans during the past three years were equal to the required contribution each year.

The amounts contributed by the University and its employees were as follows for the years ended June 30:

	PERS	TRS	ORP	CSRS	FERS	GWPORS
2011	\$ 6,569,045	\$ 8,178,177	\$ 14,618,987	\$ 124,362	\$ 92,288	\$ 236,373
2012	\$ 6,745,668	\$ 8,191,710	\$ 14,851,040	\$ 129,720	\$ 85,809	\$ 248,397
2013	\$ 7,049,342	\$ 8,056,904	\$ 15,621,755	\$ 101,325	\$ 96,488	\$ 267,704

Pension data for the year ended June 30, 2012 is as follows:

	PERS	TRS	ORP	CSRS	FERS	GWPORS
Covered payroll	\$ 46,130,986	\$ 15,289,585	\$ 115,112,528	\$ 591,517	\$ 303,952	\$ 1,269,924
Employer contributions*	\$ 3,328,445	\$ 2,010,650	\$ 6,757,621	\$ 52,570	\$ 37,093	\$ 114,293
% of covered payroll	7.170%	9.850%	4.490%-5.956%	7.00%-8.00%	11.900%	9.000%
Employee contributions	\$ 3,221,960	\$ 1,093,205	\$ 8,093,419	\$ 77,150	\$ 48,716	\$ 134,104
% of covered payroll	6.900%-7.900%	7.150%	7.044%	7.00%-8.00%	0.800%	10.560%
ORP contribution to TRS		\$ 5,087,855				
% of covered payroll		4.720%				
ORP contributions to PERS	\$ 195,263					
% of covered payroll	2.680%					

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

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

Other Post-Employment Benefits (OPEB) —

Authorization— Montana State law requires state agencies to provide access to health insurance benefits to eligible retirees up to Medicare – eligible age (65) (§2-18-704(1)(a), MCA). The Board of Regents of the Montana University System (MUS), having broad authority to act in the best interests of the MUS, has directed the Office of

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the Commissioner of Higher Education (OCHE) to provide access to health insurance benefits beyond age 65. Eligible University retirees may participate in the health insurance plan, provided that they contribute to the cost of the plan.

Eligibility— Retirees who are eligible to receive retirement benefits from Teachers Retirement System (TRS) or the Public Employees Retirement System (PERS) at the time employment ceases may participate in the plan. Retirees who are in the Optional Retirement Plan (ORP) (through TIAA-CREF) or any other defined contribution plan associated with the MUS must have worked five or more years and be age 50, or have worked 25 years with the MUS to be eligible for retiree insurance benefits. The MUS's Interunit Benefits Committee, at the direction of the OCHE, sets the premiums for such participation. Until a retiree reaches age 65, individual retiree participation premiums range from \$554-\$648 per month, depending on the level of deductible and other selected plan features. Upon reaching age 65 (Medicare eligibility), monthly participation premiums range from \$263-\$308 for an individual retiree. Coverage is also extended to dependents and surviving dependents of the employee. Retirees who select a non-MUS Medicare Advantage Program are not considered in the above rates.

Financial and plan information— The MUS Group Benefits Plan does not issue a stand-alone financial report, but is subject to audit as part of the State of Montana's Basic Financial Statements, included in the Comprehensive Annual Financial Report (CAFR). A copy of the most recent CAFR can be obtained online at <http://afsd.mt.gov/CAFR/CAFR.asp> or by contacting the Montana Department of Administration, PO Box 200102, Helena, MT 59620-0102.

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

The plan is considered to be a multi-employer agent plan. All units of the MUS fund the post-employment benefits on a pay-as-you-go basis from general assets. The University's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The calculated ARC represents an amount that, if funded, would cover normal cost each year and amortize any unfunded actuarial liability over a period of 30 years. For the fiscal year ended June 30, 2013 and June 30, 2012, MSU's annual OPEB cost (expense) of \$8,238,685 and \$7,902,814 was equal to the ARC. The actuarial determination was based on plan information as of July 1, 2011. At that time, the number of active University participants in the health insurance plan was 3,536. The total number of inactive (retiree and dependent) participants was 1,064. During the year ended June 30, 2013 and 2012, the University contributed \$31,509,597 and \$31,006,741 respectively, for actively employed participants, whose annual covered payroll totaled \$183,870,217 as of the last actuarial valuation. The University does not contribute to the plan for retirees or their dependents.

As of the latest actuarial evaluation, the accrued liability for retiree health benefits was \$55,421,239 all of which was unfunded. The percentage of annual OPEB cost contributed to the plan was 0% for both years, and the net OPEB obligation was \$56,268,295 and \$48,029,610 for 2013 and 2012 respectively. The funded status of the plan as of June 30 was 0% for both years.

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The University's OPEB obligations for 2013 and 2012 are:

Year ended June 30,	2013	2012
Annual Required Contribution	\$ 8,238,685	\$ 7,902,814
Adjustment to annual required contribution	-	-
Annual OPEB cost	8,238,685	7,902,814
Contributions made	-	-
Increase to net OPEB obligation	8,238,685	7,902,814
Net OPEB obligation – beginning of year	48,029,610	40,126,796
Net OPEB obligation – end of year	\$ 56,268,295	\$ 48,029,610

Actuarial methods and assumptions — The projected unit credit funding method was used to determine the cost of the MUS System Employee Group Benefits Plan. This method's objective is to fund each participant's benefits under the plan as they accrue. The total benefit to which each participant is expected to become entitled at retirement is categorized into units, each associated with a year of past or future credited service. The actuarial assumptions included marital status at retirement, mortality rates and retirement age:

Interest/Discount rate	4.25%
Projected payroll increases	2.50%
Participation	55% of future retirees are assumed to elect coverage at the time of retirement, 60% of future eligible spouses of future retirees are assumed to elect coverage

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Such events include assumptions about future employment, mortality rates, and healthcare cost trends. Amounts are subject to continual review and revision as actual results are compared with past expectations and new estimates are made.

Termination Benefits — During the year ended June 30, 2013 and 2012, certain employees were involuntarily terminated. The University agreed to contribute to their health insurance for a specified period of time as severance. Additionally, certain employees were offered a one-time payment as incentive to retire. Certain employees had elected the Teachers' Retirement System Option 1 payout during the fiscal year ended June 2013. During the year ended June 30, 2013, incentive pay of \$89,971 for voluntary and involuntary terminations plus benefits of \$53,568 (including TRS payment of \$22,012) were paid to a total of nine employees, for a total of \$143,539 in expenses included in the accompanying financial statements.

NOTE 16 – RISK MANAGEMENT

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

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transfer. MSU also works through the RMTDD to secure coverage for Student Professional Liability exposures in a medical and non-medical setting that arise from students' academic projects and experiential programs. MSU secures athletic injury and catastrophic sports injury insurance for its NCAA programs through Bene Marc, Inc. and Summit America Insurance Services.

The Tort Claims Act of the State of Montana, Section 2-9-102, MCA, provides that governmental entities are liable for its torts and of those of its employees acting within the course and scope of their employment or duties, whether arising out of a governmental or proprietary function, except as specifically provided by the Legislature. Accordingly, Section 2-9-305, MCA, requires that the State "provide for the immunization, defense and indemnification of its public officers and employees civilly sued for their actions taken within the course and scope of their employment."

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

General liability and tort claim coverage – include comprehensive liability for general, automobile, personal injury, officer's and director's, professional, aircraft, watercraft, leased vehicles and equipment, and are provided for by the University's participation in the State's self-insurance program. There is no agency deductible applied to tort liability claims.

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

Effective July 1, 2003, the University adopted a self-funded workers' compensation insurance program, provided through membership in the MUS Self-Insured Worker's Compensation Program. The MUS program is funded on an actuarial basis and utilizes an OCHE employee as an in-house administrator. Benefits provided are prescribed by state law and include biweekly payments for temporary loss of wages as well as qualifying permanent partial and permanent total disability. Medical and indemnity benefits are statutorily prescribed for qualifying job-related injuries or illnesses.

The MUS program incorporates a self-insured retention of \$750,000 per occurrence and excess commercial coverage to statutory limits. Employer's liability coverage has a \$750,000 per occurrence retention with a per occurrence insurance limit of \$1,000,000. The University makes monthly contributions to the self-funded program utilizing the MUS Worker's Compensation Board recommended rates for premium payments. The MUS Worker's Compensation Board annually utilizes actuarially recommendations based upon the National Council for Compensation Insurance (NCCI) rates per \$100 in University payroll.

NOTE 17 – COMMITMENTS AND CONTINGENT LIABILITIES

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

Minimum rental payments for operating leases are due in the years ending June 30,	Amount
2014	3,822,691
2015	3,369,896
2016	2,552,656
2017	2,524,962
2018	2,553,734
2019-2023	3,084,650
2024-2028	898,649
Total	\$ 18,807,238

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Payments made under operating leases during the years ended June 2013 and 2012 totaled \$3,876,788 and \$3,844,286 respectively. Certain space lease agreements, which comprise the majority of the commitments, contain escalation clauses based on the consumer price index.

Other commitments:

Encumbrances – As of June 30, 2013, the University had issued purchase orders committing the expenditure of \$9,079,601 for equipment, supplies and services which had not yet been received.

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

Refundable grants – The University receives grants and other forms of reimbursement from various Federal and State agencies. These funds are subject to review and audit by cognizant agencies. The University is currently awaiting the outcome of a 2006 federal audit in which questioned costs of approximately \$200,000 were noted. Additionally, in October 2013, it was agreed that program income of approximately \$123,000 will be returned to a sponsor. Such amounts are not considered material, and have not been accrued in the accompanying financial statements.

Accessibility improvements – During 2009, the University employed the services of a consultant to examine handicapped access to its housing and fitness areas, and to recommend improvements, if needed. Based on the results of the study, management developed a plan to improve accessibility through a series of improvements over a seven year period. The expected cost of the remaining years' improvements is estimated at \$874,500. The cost of the improvements in 2013 totaled \$290,634 and \$195,000 in 2012. Remaining improvements include more convenient access to dining facilities, and the continued conversion of residence hall rooms to ADA compliant standards. Management considers these improvements to be a part of its major maintenance plan.

Capital projects – As of June 30, 2013, the University had remaining budget authority on significant capital construction and renovation projects of approximately \$18.47 million. Certain of the projects are funded wholly or partially by the State's Long Range Building Program, and are administered by the State Architecture and Engineering Division, and do not represent a commitment of funds on the part of the University.

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

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

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All of the above revenues are cross-pledged to repay any and all of the secured debt. The remaining cash requirements to repay bonds, including principal and interest, total \$152,588,337 from July 1, 2013 through June 30, 2036.

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

Description	2013			2012		
	Pledged Revenue	Total Similar Revenue	% Pledged	Pledged Revenue	Total Similar Revenue	% Pledged
Student fees (no tuition is pledged)	\$ 8,450,123	\$36,580,651	23%	\$ 8,184,457	\$36,337,932	23%
Housing and residence hall dining revenues, net of related expenses	10,727,320	\$10,727,320	100%	10,051,033	\$10,055,638	100%
Grant and contract facility and administrative cost recoveries	1,482,103	\$16,349,985	9%	1,309,260	\$17,858,322	7%
Bozeman campus athletic events revenue	2,428,568	\$ 2,574,711	94%	2,540,881	\$ 2,650,719	96%
Bozeman campus parking revenues	1,859,485	\$ 1,800,285	100%	1,867,495	\$ 1,867,495	100%
Bozeman bookstore and museum lease income	743,505	\$ 743,505	100%	728,477	\$ 728,477	100%
Land grant income	1,931,797	\$ 1,931,797	100%	1,758,778	\$ 1,758,778	100%
Investment income	462,917	\$ 1,260,416	37%	676,480	\$ 2,934,054	23%
Total	28,085,818			27,116,861		
Less debt service requirements	(10,449,013)			(10,176,868)		
Excess of pledged revenue over debt service requirements	\$ 17,636,805			\$ 16,939,993		

The 2012 figures above have been restated to conform with the final bond audit presentation. An annual audit is required by March 28th of each year under a covenant with the university's bond trustee.

NOTE 18 – RELATED PARTIES

Private nonprofit organizations affiliated with the University include the MSU Foundation, the MSU-Billings Foundation, the MSU-Northern Foundation, the MSU-Bozeman Alumni Association, the MSU Bobcat Club, the MSU-Bozeman Bookstore, Friends of KUSM, Friends of KEMC and the Museum of the Rockies, Inc. As discussed in note 20, certain of the parties are considered Component Units of the University. During 2012, the MSU-Bozeman Alumni Association was merged into the MSU Foundation, and the name of the combined entity was changed to the MSU Alumni Foundation.

During the years ended June 30, 2013 and 2012, respectively, the Foundations provided \$7,645,575 and \$14,152,483 in scholarship, in-kind capital donations, and other gift support directly to the University, in addition to significant payments made to others in support of the University. The University paid to its Foundations \$2,243,621 and \$2,040,657 during the years ended 2013 and 2012, respectively, which included payments for contracted services, capital campaign support, and operating leases.

MSU- Bozeman leased certain office space from the MSU Alumni Foundation's wholly owned subsidiary, Advanced Technology Inc. (ATI). Rental and other payments to ATI totaled \$179,982 during 2013 and \$109,392 during 2012. In June 2008, the University entered into a space lease agreement with the MSU Alumni Foundation in which a total of \$350,000 in rent was paid over a period of five months, in exchange for a 20-year space rental agreement. When the MSU Foundation merged operations with the MSU Alumni Association, the space rental agreement was cancelled, and the MSU Alumni Foundation gave credit to the University for the remaining prepaid rent. As of June 30, 2013, \$112,500 remained as credit for the University, to be used toward payment for future services.

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Friends of Montana Public Television provided \$1,076,497 during 2013 and \$843,684 during 2012 and Friends of KEMC Public Radio provided \$500,000 during 2013 and \$500,000 during 2012 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 \$1,671,686 and \$1,354,179 during the fiscal years ended June 2013 and 2012, respectively, in support of the University, primarily as reimbursement for Museum staff salaries and benefits as well as improvements to the leased facility. The Museum of the Rockies lease continues at a rate of \$300,000 per year through 2016.

The MSU Bobcat Club provided \$ 1,100,000 and \$1,030,000 in support of athletic programs during the years ended June 30, 2013 and 2012.

NOTE 19 – SUBSEQUENT EVENTS

In September 2013, the University entered into a 5-year renewal of its direct purchase agreement with Wells Fargo Bank relative to its Series J 2005 bonds, at a rate of 0.65% above SIFMA. This is a decrease of 0.15% as compared with the previous rate of 0.80% above SIFMA. See Notes 10 and 11 for a complete discussion of the underlying transaction.

In November 2013, the Montana Board of Regents approved the issuance of up to \$70 million in debt to construct a new residence hall, upgrade dining facilities, and bridge fund the construction of a gift-funded building.

NOTE 20 – COMPONENT UNITS

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

The Foundations and the Museum of the Rockies, Inc., meet the test for component units based on the materiality of the support provided to the university. The Montana State University Bobcat Club has been included as a component unit because management believes it would be misleading to exclude it. Support received from this entity is significant and critical in relation to the operations of the individual sports it supports; additionally, many financial statement readers do not differentiate between the University and its sports support organizations, and would expect their financial information to be included within the University's audited statements.

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(continued)

Condensed financial information for each of the University's component units follows. The MSU Alumni Foundation statement data as presented below reflects the merger of the MSU Foundation and the MSU Alumni Association effected January 1, 2012.

Montana State University
Condensed Combining Schedule of Component Unit Statements of Financial Position
As of June 30, 2013 or December 31, 2012*

	Montana State University Alumni Foundation	Montana State University- Billings Foundation	Montana State University- Northern Foundation	Museum of the Rockies, Inc.	Montana State University Bobcat Club	Combined
Assets:						
Cash and investments	\$ 152,001,279	\$ 21,702,522	\$ 3,688,623	\$ 10,208,822	\$ 1,490,253	\$ 189,091,499
Amounts due from MSU	-	-	1,440,169	-	-	1,440,169
Other receivables, net	23,141,776	1,041,100	767,531	824,254	37,744	25,812,405
Capital assets, net	4,786,963	1,893,556	58,350	3,390,966	-	10,129,835
Other assets	357,566	125,201	17,071	984,774	750,003	2,234,615
Total assets	\$ 180,287,584	\$ 24,762,379	\$ 5,971,744	\$ 15,408,816	\$ 2,278,000	\$ 228,708,523
Liabilities:						
Accounts payable and other liabilities	\$ 693,344	\$ 797,854	\$ -	\$ 580,834	\$ 184,471	\$ 2,256,503
Amounts due to MSU	298,339	-	-	315,578	-	613,917
Notes, bonds and debt obligations	2,726,087	-	-	16,502	-	2,742,589
Liabilities to external parties	5,128,463	400,328	1,652,447	-	-	7,181,238
Custodial funds	10,144,660	1,423,673	-	-	-	11,568,333
Total liabilities	18,990,893	2,621,855	1,652,447	912,914	184,471	24,362,580
Net assets:						
Unrestricted	4,491,687	4,526,621	(967,363)	8,109,723	484,117	16,644,785
Temporarily restricted	67,629,971	4,881,839	1,642,007	5,562,097	267,502	79,983,416
Permanently restricted	89,175,033	12,732,064	3,644,653	824,082	1,341,910	107,717,742
Total net assets	161,296,691	22,140,524	4,319,297	14,495,902	2,093,529	204,345,943
Total liabilities and net assets	\$ 180,287,584	\$ 24,762,379	\$ 5,971,744	\$ 15,408,816	\$ 2,278,000	\$ 228,708,523

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

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(continued)

Montana State University
Condensed Combining Schedule of Component Unit Statements of Activities
For the Year Ended June 30, 2013 or December 31, 2012*

	Montana State University Alumni Foundation	Montana State University- Billings Foundation	Montana State University- Northern Foundation	Museum of the Rockies, Inc.	Montana State University Bobcat Club	Combined
Revenues:						
Contributions	\$ 10,805,904	\$ 1,912,103	\$ 718,399	\$ 2,249,859	\$ 1,632,899	\$ 17,319,164
Investment income and unrealized gain on investments	13,515,474	1,959,197	151,803	668,989	122,808	16,418,271
Support from University	1,200,000	-	170,204	-	-	1,370,204
Other income	1,678,573	829,183	194,131	2,758,399	700,956	6,161,242
Total revenues	27,199,951	4,700,483	1,234,537	5,677,247	2,456,663	41,268,881
Expenses:						
University support	3,968,359	654,024	145,076	1,368,409	561,536	6,697,404
Scholarships and other program expenses	2,286,820	1,656,267	1,020,718	1,837,626	1,148,533	7,949,964
Supporting services	8,230,416	740,792	318,419	962,845	746,213	10,998,685
Total expenses	14,485,595	3,051,083	1,484,213	4,168,880	2,456,282	25,646,053
Change in net assets before nonoperating items	12,714,356	1,649,400	(249,676)	1,508,367	381	15,622,828
Nonoperating expenses	528,586	-	-	-	-	528,586
Change in net assets	13,242,942	1,649,400	(249,676)	1,508,367	381	16,151,414
Net assets, beginning of fiscal year	148,053,749	20,491,124	4,568,973	12,987,535	2,093,148	188,194,529
Net assets, end of fiscal year	\$ 161,296,691	\$ 22,140,524	\$ 4,319,297	\$ 14,495,902	\$ 2,093,529	\$ 204,345,943

Component Unit Investment Composition*:

	2013	2012
Pooled investments**:		
Equity securities	\$ 16,134,294	\$ 13,803,305
Debt securities	9,781,743	8,678,921
Alternative investments	97,842,120	76,598,490
Real Estate	2,441,209	3,944,995
Cash equivalents	4,785,108	2,749,731
Other pooled investments	34,454,006	37,599,918
US Treasuries	283,756	288,148
Other real estate	811,083	1,091,508
Other investments	8,199,368	7,104,048
Investments held in trust for others	8,780,531	7,487,551
Total	\$ 183,513,218	\$ 159,346,615

Component Unit Promises Receivable*:

	2013	2012
Receivable in one year	\$ 2,531,276	\$ 3,453,627
Receivable in one to five years	14,773,494	16,849,307
Receivable after five years	5,782,756	8,636,896
Less discounts and allowances	(2,098,472)	(1,819,571)
Total	\$ 20,989,054	\$ 27,120,259

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

**Foundation investment pools are not subject to regulatory oversight.

Montana State University
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As of and for Each of the Years Ended June 30

(continued)

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

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

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

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

(continued)

Montana State University
Condensed Combining Schedule of Component Unit Statements of Activities (restated)
For the Year Ended June 30, 2012 or December 31, 2011*

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

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

Montana State University
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Required Supplementary Information
As of and for Each of the Years Ended June 30

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress For Other Post Retirement Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a) / c
July 1, 2007	-	\$ 95,165,100	\$ 95,165,100	0.00%	\$ 180,287,302	52.79%
July 1, 2009	-	\$ 92,634,783	\$ 92,634,783	0.00%	\$ 198,691,532	46.62%
July 1, 2011	-	\$ 55,421,239	\$ 55,421,239	0.00%	\$ 183,870,217	30.14%

Note to Required Supplementary Information

Other Post - Employment Benefits (OPEB) Trend Data

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

Actuarial Valuation Date	Interest Rate	Payroll Increase	Participant Percentage
July 1, 2007	4.25	3.00%	45%
July 1, 2009	4.25	2.50%	55%
July 1, 2011	4.25	2.50%	55%

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Unaudited Supplemental Information
As of and for Each of the Years Ended June 30

Unaudited Supplemental Information

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

Montana State University
 Unaudited Consolidating Statements of Net Position
 As of June 30, 2013

ASSETS	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	Great Falls College MSU	Intercampus Eliminations	MSU Consolidated Total
Current assets:									
Cash and cash equivalents	\$ 118,531,173	\$ 6,734,666	\$ 3,096,311	\$ 174,223	\$ 38,466,676	\$ 6,142,799	\$ 5,974,046	-	\$ 179,119,894
Securities lending collateral	1,079,292	-	-	-	62,508	-	-	-	1,141,800
Accounts and grants receivable, net	6,402,429	311,532	125,239	12,245	1,104,674	927,837	333,042	-	9,216,998
Amounts receivable from Federal government	11,713,997	-	764,844	-	34,847	1,112,152	43,790	-	13,669,630
Amounts receivable from primary government	561,478	-	-	-	6,302	21,177	18,208	-	607,165
Amounts receivable from Montana component units	-	-	-	-	8,354	-	-	-	8,354
Amounts receivable from MSU campuses	75,000	-	-	-	35,595	-	-	(110,595)	-
Loans receivable, net	2,814,858	-	-	-	462,988	214,599	-	-	3,492,445
Inventories	985,415	622,408	-	2,279	791,502	254,984	261,729	-	2,918,317
Prepaid expenses and other current assets	2,348,632	-	22,790	-	103,687	86,731	219,415	-	2,781,255
Total current assets	144,512,274	7,668,606	4,009,184	188,747	41,077,133	8,760,279	6,850,230	(110,595)	212,955,858
Noncurrent assets:									
Restricted cash and cash equivalents	962,157	-	-	-	12,239	64,268	-	-	1,038,664
Restricted investments	7,184,938	-	-	-	161	100,538	-	-	7,285,637
Loans receivable, net	16,267,764	-	-	-	2,515,243	1,345,851	-	-	20,128,858
Investments	18,174,443	22,734	26,619	287	296,947	-	-	-	18,521,030
Capital assets	280,511,863	19,349,026	273,007	188,710	52,859,368	19,819,227	21,021,267	-	394,022,468
Other noncurrent assets	1,107,490	-	-	-	103,091	3,075	-	(75,000)	1,138,656
Total noncurrent assets	324,208,655	19,371,760	299,626	188,997	55,787,049	21,332,959	21,021,267	(75,000)	442,135,313
Total assets	\$ 468,720,929	\$ 27,040,366	\$ 4,308,810	\$ 377,744	\$ 96,864,182	\$ 30,093,238	\$ 27,871,497	(185,595)	\$ 655,091,171
DEFERRED OUTFLOW	\$ 3,868,317	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,868,317
Derivative financial instrument deferred outflow									
LIABILITIES									
Current liabilities:									
Accounts payable and accrued liabilities	\$ 27,444,513	\$ 1,098,669	\$ 916,079	\$ 67,718	\$ 3,063,811	\$ 1,649,874	\$ 978,810	-	\$ 35,219,474
Amounts payable to primary government	1,747,889	-	-	-	384,150	139,285	46,557	-	2,317,881
Amounts payable to Montana component units	145,652	-	-	-	-	-	-	-	145,652
Amounts payable to MSU campuses	35,595	-	-	-	-	75,000	-	(110,595)	-
Securities Lending Liability	1,079,292	-	-	-	62,508	-	-	-	1,141,800
Property held in trust for others	1,142,554	-	-	-	93,268	200,584	147,057	-	1,583,463
Deferred revenues	7,804,246	-	8,156	-	1,524,479	467,468	373,370	-	10,177,719
Compensated absences	10,562,909	1,136,337	811,028	19,814	1,792,966	768,384	421,554	-	15,512,992
Current portion debt and capital lease obligations	5,588,740	4,207	-	-	720,000	363,644	-	-	6,676,591
Total current liabilities	55,551,390	2,239,213	1,735,263	87,532	7,641,182	3,664,239	1,967,348	(110,595)	72,775,572
Noncurrent liabilities:									
Advances from primary government	18,159,589	-	-	-	3,497,804	1,080,005	573,604	(75,000)	23,236,002
Debt and capital lease obligations	96,099,312	10,567	-	-	9,498,677	1,406,031	-	-	107,014,587
Compensated absences	37,879,843	1,030,580	735,513	17,970	2,100,404	393,891	146,635	-	44,835,136
OPEB	18,071,412	2,586,429	2,283,667	115,182	8,130,077	3,373,914	1,901,142	-	27,351,813
Due to Federal government	4,389,311	-	-	-	3,065,375	1,456,453	-	-	8,911,149
Derivative liability	-	-	-	-	-	-	-	-	-
Total noncurrent liabilities	184,177,351	3,627,576	3,019,180	133,152	26,292,337	7,710,294	2,621,381	(75,000)	227,506,271
Total liabilities	\$ 239,728,741	\$ 5,866,789	\$ 4,754,443	\$ 220,684	\$ 33,933,519	\$ 11,374,533	\$ 4,588,729	(185,595)	\$ 300,281,843
NET POSITION									
Net investment in capital assets	\$ 167,809,075	\$ 19,334,253	\$ 273,007	\$ 188,710	\$ 38,874,547	\$ 16,904,817	\$ 20,401,106	-	\$ 263,785,515
Restricted - nonexpendable	11,887,693	-	-	-	715,703	411,243	11,300	-	13,025,939
Restricted - expendable	11,832,457	146,151	(408,662)	-	885,755	1,833,507	134,172	-	14,423,380
Unrestricted	41,331,280	1,693,173	(309,978)	(31,650)	22,454,658	(430,862)	2,736,190	-	67,442,811
Total net position	\$ 232,860,505	\$ 21,173,577	\$ (445,633)	\$ 157,060	\$ 62,930,663	\$ 18,718,705	\$ 23,282,768	\$ -	\$ 358,677,645

Montana State University
 Unaudited Consolidating Statement of Revenues, Expenses and Changes in Net Position
 For the Year Ended June 30, 2013

	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	Great Falls College MSU	Intercampus Eliminations	Total
Operating revenues:									
Tuition and fees	\$ 119,302,631	\$ -	\$ -	\$ -	\$ 24,126,479	\$ 5,922,305	\$ 4,172,280	\$ -	\$ 153,523,695
Federal appropriations	-	2,479,135	2,565,425	-	-	-	-	-	5,044,560
Federal grants and contracts	63,527,780	-	-	-	2,560,704	2,789,080	674,549	(65,000)	69,497,113
State grants and contracts	4,646,812	-	39,361	-	668,320	517,635	315,837	-	6,187,965
Non-governmental grants and contracts	9,550,162	-	239,949	-	351,647	123,749	101,566	-	10,367,073
Grant and contract facilities and administrative cost recoveries	15,800,591	-	-	-	302,116	239,819	7,459	-	16,349,985
Educational, public service and outreach revenues	17,410,477	3,208,682	4,152,611	163,029	1,359,269	231,478	166,220	(2,397,424)	24,294,342
Auxiliary - housing	15,009,900	-	3,600	-	1,767,767	544,859	-	-	17,326,126
Auxiliary - food service	14,865,560	-	-	-	1,239,290	604,299	264,989	-	16,974,138
Auxiliary - other auxiliary sales and services	3,526,188	-	-	-	4,208,190	741,085	1,263,226	(108,647)	9,630,042
Interest earned on loans	55,057	-	-	-	57,853	(4,813)	-	-	108,097
Other operating revenues	4,215,019	14,621	283	-	97,119	16,027	5,994	-	4,349,063
Total operating revenues	267,910,177	5,702,438	7,001,229	163,029	36,738,754	11,725,523	6,972,120	(2,561,071)	333,652,199
Operating expenses:									
Compensation and benefits	193,048,065	13,183,479	10,400,301	530,593	35,488,338	13,803,288	9,598,531	-	276,052,595
Annual Required Contribution OPEB	5,665,697	359,413	325,350	15,534	1,153,277	454,981	264,433	-	8,238,685
Operating expenses	107,173,263	3,960,455	2,165,622	323,381	21,110,010	6,345,240	4,426,390	(2,558,191)	142,946,170
Scholarships and fellowships	16,227,932	12,677	9,272	-	5,425,088	1,664,178	3,205,730	(2,880)	26,541,997
Depreciation and amortization	22,843,322	1,022,940	69,882	40,268	4,011,769	1,163,458	874,313	-	30,025,952
Total operating expenses	344,958,279	18,538,964	12,970,427	909,776	67,188,482	23,431,145	18,369,397	(2,561,071)	483,805,399
Operating loss	(77,048,102)	(12,836,526)	(5,969,198)	(746,747)	(30,449,728)	(11,705,622)	(11,397,277)	-	(150,153,200)
Nonoperating revenues (expenses):									
State and local appropriations	47,103,894	12,966,442	5,508,692	741,741	19,569,809	9,100,500	6,124,436	-	101,115,514
Pell Grants	15,866,831	-	-	-	7,317,533	2,493,477	4,529,601	-	30,207,442
Land grant and timber sales income	1,644,572	-	-	-	287,224	-	-	-	1,931,796
Gifts	10,845,702	-	113,124	-	1,846,850	903,292	77,603	-	13,786,571
Investment Income	1,116,919	18,564	7,301	389	92,192	11,317	13,734	-	1,260,416
Interest expense	(4,710,685)	(732)	-	-	(546,206)	(178,541)	(76,912)	-	(5,513,076)
Net nonoperating revenues (expenses)	71,867,233	12,984,274	5,629,117	742,130	28,567,402	12,330,045	10,668,462	-	142,788,663
Income before other revenues, expenses, gains and losses	(5,180,869)	147,748	(340,081)	(4,617)	(1,882,326)	624,423	(728,815)	-	(7,364,537)
Transfers in (out)	(166,824)	(16,905)	133,729	-	-	-	50,000	-	-
Gain or loss on disposal of capital assets	(1,241,826)	7,809	-	800	(16,207)	(42,649)	303	-	(1,291,770)
Additions to permanent endowments	106,175	-	-	-	-	-	-	-	106,175
Gifts, capital grants and contributions	5,617,773	27,755	-	-	225,498	731,783	727,006	-	7,329,815
Change in net position	(865,571)	166,407	(206,352)	(3,817)	(1,673,035)	1,313,557	48,494	-	(1,220,317)
Net position, beginning of year as restated	233,726,076	21,007,170	(239,281)	160,877	64,603,698	17,405,148	23,234,274	-	359,897,962
Net position, end of year	\$ 232,860,505	\$ 21,173,577	\$ (445,633)	\$ 157,060	\$ 62,930,663	\$ 18,718,705	\$ 23,282,768	\$ -	\$ 358,677,645

Montana State University
 Unaudited Selected Cash Flow Information
 For the year ended June 30, 2013

	MSU										MSU Consolidated
	Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	Great Falls College MSU	Inter-campus Eliminations			
Cash flows from operating activities:											
Operating revenues:											
Tuition and fees	\$ 120,086,846	\$ -	\$ -	\$ -	\$ 24,098,253	\$ 5,875,260	\$ 4,116,486	\$ -	\$ -	\$ 154,176,845	
Federal appropriations	-	2,479,135	2,146,333	-	-	2,755,891	658,925	(55,000)	-	4,625,468	
Federal grants and contracts	63,413,911	-	39,361	-	2,600,559	557,238	339,056	-	-	69,354,286	
State grants and contracts	4,524,969	-	239,949	-	677,003	109,749	101,566	-	-	6,137,627	
Private grants and contracts	9,515,948	-	-	-	328,485	239,819	7,459	-	-	10,295,697	
Grant and contract indirect cost recoveries	15,844,219	-	-	-	302,116	239,819	7,459	-	-	16,393,613	
Educational, public service and outreach revenues	17,176,548	2,966,998	4,172,432	154,007	1,331,010	232,296	122,094	(2,397,424)	-	23,757,961	
Sales and services of auxiliary enterprises	33,364,952	-	3,600	-	7,198,335	1,831,343	1,518,024	(108,647)	-	43,807,607	
Interest on loans receivable	196,625	-	-	-	57,853	-	-	-	-	254,478	
Other operating receipts	4,215,019	14,621	283	-	97,119	16,027	5,994	-	-	4,349,063	
Operating expenses:											
Compensation and benefits	(190,915,978)	(13,038,364)	(10,420,981)	(521,667)	(35,139,104)	(14,634,054)	(9,542,382)	-	-	(274,212,530)	
Operating expenses	(103,369,756)	(3,784,970)	(2,180,034)	(313,713)	(21,596,018)	(6,595,231)	(4,408,493)	2,561,071	-	(139,687,144)	
Scholarships and fellowships	(16,227,933)	(12,677)	(9,272)	-	(5,425,088)	(1,664,178)	(3,205,730)	-	-	(26,544,878)	
Loans made to students	(2,485,421)	-	-	-	(319,943)	(192,644)	-	-	-	(2,998,008)	
Loan payments received	3,012,506	-	-	-	510,961	306,098	-	-	-	3,829,565	
Inter-campus payables/receivables	(17,556)	-	-	-	17,556	-	-	-	-	-	
Net cash used in operating activities	(41,665,101)	(11,375,257)	(6,008,329)	(681,373)	(25,260,903)	(11,182,386)	(10,287,001)	-	-	(106,460,350)	
Cash flows from noncapital financing activities:											
Receipts (disbursements) of funds held in trust for others	(847,886)	-	-	-	(80,416)	(64,508)	21,197	-	-	(971,613)	
Direct lending proceeds	66,671,556	-	-	-	21,238,292	5,468,553	-	-	-	93,378,401	
Direct lending disbursements	(66,671,556)	-	-	-	(21,238,292)	(5,468,553)	-	-	-	(93,378,401)	
State and local appropriations	47,103,894	12,966,442	5,508,692	741,741	19,569,809	9,100,500	6,124,436	-	-	101,115,514	
Federal pell grant funds received	15,866,831	-	-	-	7,317,533	2,493,477	4,529,601	-	-	30,207,442	
Gifts and contributions (expendable)	10,845,704	-	113,124	-	1,846,850	903,292	77,603	-	-	13,786,573	
Land grant income	1,644,573	-	-	-	287,224	-	-	-	-	1,931,797	
Repayment of long-term advance from primary government	(54,416)	-	-	-	-	-	-	-	-	(54,416)	
Additions to permanent endowments	106,175	-	-	-	-	-	-	-	-	106,175	
Transfers between campuses and agencies	(166,824)	(16,905)	133,729	-	-	-	50,000	-	-	-	
Net cash flows from noncapital financing activities	74,498,051	12,949,537	5,755,545	741,741	28,941,000	12,432,761	10,802,837	-	-	146,121,472	
Cash flows from capital financing activities:											
Purchase of capital assets	(33,016,261)	(1,883,739)	(58,901)	(24,120)	(3,982,048)	(796,865)	(527,251)	-	-	(40,289,185)	
Proceeds from sale of capital assets	44,779	36,372	-	800	5,384	-	303	-	-	87,638	
Gifts -restricted for capital purchase	552,300	-	-	-	-	-	-	-	-	552,300	
Other capital financing activities	(12,650)	-	-	-	-	-	-	-	-	(12,650)	
Proceeds from borrowings	41,895,993	17,847	41,895,993	-	7,162,290	-	-	-	-	49,076,130	
Debt retirement	(45,975,283)	(3,073)	-	-	(7,598,290)	(332,392)	-	-	-	(53,909,038)	
Payment of debt issue costs	(393,443)	-	-	-	(78,403)	-	-	-	-	(471,846)	
Advances from primary government	4,779,124	-	-	-	1,125,869	-	-	-	-	5,904,993	
Repayment of advances from primary government	(1,278,386)	-	-	-	(256,984)	(135,030)	(43,738)	-	-	(1,714,138)	
Interest paid	(4,818,796)	(732)	-	-	(552,202)	(166,775)	(76,910)	-	-	(5,615,415)	
Net cash change from capital financing activities	(38,222,623)	(1,833,325)	(58,901)	(23,320)	(4,174,384)	(1,431,062)	(647,596)	-	-	(46,391,211)	
Cash flows from investing activities:											
Purchase of investments	(602,319)	-	-	(221)	-	-	-	-	-	(602,540)	
Proceeds from sale of investments	2,474,526	81,370	6,187	-	56,924	4,178	-	-	-	2,623,185	
Investment income	1,257,504	18,564	7,303	387	107,787	11,826	14,544	-	-	1,417,915	
Net cash change from investing activities	3,129,711	99,934	13,490	166	164,711	11,826	18,722	-	-	3,438,560	
Net change in cash and cash equivalents	(2,259,962)	(159,111)	(298,195)	37,214	(329,576)	(168,861)	(113,038)	-	-	(3,291,529)	
Balances at beginning of year	121,753,292	6,893,777	3,394,506	137,009	38,808,491	6,375,928	6,087,084	-	-	183,450,087	
Balances at end of year	\$ 119,493,330	\$ 6,734,666	\$ 3,096,311	\$ 174,223	\$ 38,478,915	\$ 6,207,067	\$ 5,974,046	\$ -	\$ -	\$ 180,158,558	

Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2013

(continued)

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

The University is accredited by the Northwest Association of Schools and Colleges and, in addition, by national professional accrediting organizations in teacher education, nursing, environmental health, engineering, engineering technologies, architecture, foods and nutrition, chemistry, art, music and business.

Enrollment**Annual Full Time Equivalent Students**

	2013	2012	2011
Montana residents			
Undergraduate	13,871	14,001	13,802
Graduate	1,090	1,168	1,179
Nonresidents			
Undergraduate	3,503	3,108	2,851
Graduate	334	264	298
Western Undergraduate Exchange	1,026	879	816
Total	19,824	19,420	18,946

Tuition and Fees

Tuition and fees vary from campus to campus, and on each campus differ for residents and nonresidents and for undergraduate students and graduate students. The ranges of tuition and fees charged for full-time students during the 2012-2013 academic year, on a per-semester basis, were as follows:

	Resident	Nonresident
	Undergraduate—Graduate	Undergraduate (WUE)— Graduate
Bozeman Campus	\$3,353 – \$3,885	\$4,730 – \$10,564
Billings Campus	\$2,855 – \$3,295	\$4,013 – \$8,803
Northern Campus ⁽¹⁾	\$2,633 – \$3,363	\$3,673– \$9,283
Great Falls Campus ⁽²⁾	\$1,539– N/A	\$2,162 – N/A

(1) Average of lower and upper divisions.

(2) Undergraduate program only.

Employees

As of Fall 2012, the University employed 8,048 employees and graduate assistants as follows:

	Bozeman	Billings	Northern	Great Falls	Total
Faculty/Professional	1,948	462	187	167	2,764
State classified system	1,182	211	70	50	1,513
Temporary hourly	279	87	42	14	422
Students	2,170	336	135	65	2,706
Graduate assistants	623	20	-	-	643
Total	6,202	1,116	434	296	8,048

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

**Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2013**

(continued)

MSU- Bozeman

Campus Overview

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

The curricula offered are organized into ten undergraduate colleges, including a workforce development program (Gallatin College), as well as a division providing for post-graduate advanced degrees, as follows: College of Agriculture; College of Education, Health and Human Development; College of Engineering; College of Letters and Science; College of Business; College of Nursing; College of Arts and Architecture; University Studies; and the Graduate School. In fall of 2013, the honors program was organized into the 11th college, the University Honors College. In addition to a degree in their regular majors, honors students who complete curriculum requirements also graduate with a University Honors degree.

The campus offers a curriculum leading to associates' degrees in three areas, bachelor's degrees in over 50 fields, master's degrees in over 40 fields and doctorate degrees in nearly 20 fields, as well as maintaining an active role in research through individual departments and programs.

Situated within the City of Bozeman, the campus comprises approximately 1,781 acres and more than 40 classroom and administrative buildings, including a full-service library, ten residence halls, three cafeterias, an animal bioscience facility, the recently renovated historic Hamilton Hall, the recently-renovated Gaines Hall, a heavily used chemistry classroom building, the Museum of the Rockies, and numerous other classroom buildings and special laboratories. A federally-funded \$17 million renovation of one of the University's most active research laboratory facilities was recently completed, as was a suite-style residence hall. Currently under construction is a building which will house the Jake Jabs College of Business and Entrepreneurship. The building and related programs were recently funded with a \$25 million gift to the MSU Alumni Foundation.

As the state's Land Grant institution, the University's mission is to educate students, create knowledge and art, and serve communities by integrating learning, discovery and engagement. The Extended University provides educational opportunities to the citizens of the State by providing off-campus instruction in the form of courses, institutes and conferences for individuals not regularly enrolled at the University. Public service and outreach are central to the Bozeman campus's mission. The campus is the hub of a network of over 50 Extension offices, seven Agricultural Research Centers, five extended nursing campuses, a widely utilized teaching and research museum, a statewide public television network and the state and national reach of the Burns Telecommunications Center.

Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2013

(continued)

Enrollment

		Student FTE for Fiscal Years Ended June 30,				
		2013	2012	2011	2010	2009
Resident	Undergraduate	7,798	7,702	7,435	7,174	7,072
	Gallatin College	271	254	217	-	-
	Graduate	730	802	801	797	705
	Total resident	8,799	8,758	8,453	7,971	7,777
Nonresident	Undergraduate	3,132	2,793	2,594	2,326	2,170
	Gallatin College	94	77	62	-	-
	Graduate	307	236	274	231	321
	Total nonresident	3,533	3,106	2,930	2,557	2,491
Western Undergraduate Exchange		609	488	438	348	240
Total		12,941	12,352	11,821	10,876	10,508

		Degrees Granted - Fiscal Years Ended June 30,				
		2013	2012	2011	2010	2009
	Undergraduate	1,980	1,853	1,831	1,835	1,889
	Graduate	577	591	548	519	485
	TOTAL:	2,557	2,444	2,379	2,354	2,374

Campus Outlook

MSU-Bozeman embraces five core themes in the accomplishment of its mission; education; the creation of knowledge and art; community service; the integration of learning, discovery and engagement; and stewardship. MSU- Bozeman has, over its 118 year history, built a national and international reputation for excellence in undergraduate and graduate education in agriculture, business, engineering, biological and physical sciences, architecture, education, health and human development, the liberal arts, nursing, and community outreach. It ranks among the nation's leaders in the number of students awarded Goldwater science, math and engineering scholarships. It is an institution committed to positioning today's students for successful and meaningful lives in the global economy of the 21st century.

As the number of high school graduates in north-central and eastern Montana has decreased, it has been important to monitor the campus's mix of in-state, out-of-state, and out-of-area students to maintain a healthy and diverse student population. The provision of education to Montana students is our focus, as the state's land grant institution; however, the campus ensures continued attraction of out-of-state students as well, both because the campus values the diversity these students bring to the college experience for our Montana students, and because of the financial benefits derived from their enrollment by both the campus and the community.

In accomplishing its mission, MSU-Bozeman remains committed to the wise stewardship of resources through meaningful assessment and public accountability. A dynamic strategic planning process was recently completed, and guides MSU- Bozeman's actions as it serves the citizens of the State of Montana. Management, faculty, staff and student leadership will continue planning and working together, striving for balance by combining appropriate levels of both expenditures and revenues, maintaining quality programs and assuring student access and success.

**Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2013**

(continued)

Montana Agricultural Experiment Station (MAES)

Agency Overview

The Hatch Act of 1887 created the State Agricultural Experiment Station system. This unique federal/state partnership, supporting agricultural and natural resource research and outreach, is a contract for maintaining viable agricultural and natural resource communities and an affordable supply of food and fiber for America.

In 1893, Montana endorsed the terms of the Morrill Act, creating the land-grant university and the designation of the Montana Agricultural Experiment Station (MAES). The MAES operates under these enabling Acts and subsequent federal and state legislation and amendments through the authority of the MAES Director as approved by USDA. The MAES houses people and programs at its research centers throughout Montana and at the Bozeman campus.

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

The MSU-Bozeman MAES component includes the academic departments of Agricultural Economics and Economics, Animal and Range Sciences, Land Resources and Environmental Sciences, Plant Sciences and Plant Pathology, and Immunology and Infectious Diseases. The majority of the MAES faculty are located on the MSU-Bozeman campus, with split appointments between research, teaching and some extension service, which provides unique and high quality educational opportunities on- and off-campus that are appropriate for the region, and also appeal to students and clientele from around the world.

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

Highlights

The MAES and the College of Agriculture continue to be successful in securing and leveraging new extramural funding to support research programs. The College of Agriculture, which is collaboratively funded by the MAES, has been among the most productive of the academic disciplines in terms of sponsored program expenditures, at approximately \$20 million annually. The College of Agriculture and the MAES have three departments (Immunology and Infectious Diseases, Land Resources and Environmental Science, and Plant Science and Plant Pathology) that rank in the top five in a field of over 30 departments in terms of sponsored program expenditures. The MAES received funding during the recent legislative session to hire personnel with specialties in horticulture (Western Agriculture Research Center in Corvallis), animal science, wildlife habitat ecology, plant physiology and pulse crops. Funding agencies include national, regional and state from multiple sources. Research programs have impact in Montana, the region and nation.

Outlook

The MAES base-funded programs are financed by state (84%) and federal (16%) dollars. Recent appropriation funding will support the operations and maintenance of new buildings across the MAES system and maintain an internal equipment fund. The MAES foresees continued pressure to reduce agricultural research funding through the upcoming farm bill. Competitive grant programs at state, regional and national levels are also significantly constrained. These concerns occur concurrently with an increased need for agriculture to succeed as a primary economic engine for Montana.

**Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2013**

(continued)

MSU Extension Service (ES)

Agency Overview

The mission of the Montana State University Extension Service is to extend the positive impact of research-generated knowledge throughout the state by making it accessible and useful to individuals, families and communities, empowering them to improve their quality of life and strengthen agriculture, forestry and other businesses. To meet the educational needs of Montanans, Extension coordinates educational and research resources in the region through campus-based specialists and 54 local Extension offices providing outreach to all 56 Montana counties and five tribal reservation agents. In addition, seven Tribal College agent offices are affiliated with Extension through 1994 Tribal Extension programs. Because Montana's communities are as diverse as its landscape, the structure of our organization--MSU faculty living in Montana's small towns and cities--ensures that programs are in tune with local issues and can adapt quickly to changing needs.

The unique funding structure of the Extension Service combines State general fund, Federal Smith-Lever and county resources. The State legislature appropriates general funds on a biennial basis. Extension agent salaries are paid from both Federal Smith-Lever and county funding sources, while Extension specialists are paid from State general funds. Extension funds the payroll benefit costs for all employees hired on State funding, while County agents' benefits are paid from a blend of Federal Smith-Lever and State general fund dollars. Operational allocations are made to specialists based on a pre-established formula, and other operating dollars are allocated to support staff development, program development, personnel recruitment and general operating purposes.

To deliver the practical advice and information needed by Montana's agricultural community, Extension taps into the resources of the entire university system. Research results from the ARCs and funding through USDA 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 a wide variety of people and families, providing specialized programs including those targeted toward the elderly, children, single parents and stepfamilies. Topics include food and nutrition, housing, health, family issues, personal finance, environmental health and many other subjects useful to Montanans. One special program emphasizes nutrition education for families with limited resources.

Extension agents also work with Montana's 4-H programs to serve youth throughout the state. In 2012, Montana 4-H reached 18,647 Montana youth, ages 6-19. Approximately 55 percent of these youth are involved in year-long community clubs, while the rest are active through a variety of short term and special interest education programs. These youth are supported by 3,800 trained adult and youth volunteers who lead local programs and activities.

Local community and economic viability efforts continue to be an area of major emphasis for Extension's Community Development program. Extension continues to collaborate with a variety of state and federal agencies to provide local governance, strategic planning, and leadership development education for local communities and individuals. Over the next year Extension will enhance its partnership with the USDA, Montana Community Foundation, and Anaconda Local Development Corporation to design and implement a state-wide community foundation education program.

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

**Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2013**

(continued)

Fire Services Training School (FSTS)

2013 Agency Overview

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

These goals are accomplished by building capacity in local governments for protecting citizens' lives and property, and safeguarding the community tax base and infrastructure from harm caused by fires, accidents, injuries, hazardous materials incidents and other emergencies. FSTS trainers provide instruction and resources to local fire and rescue services and are strategically located in Cascade, Custer, Valley, Roosevelt, Flathead, Missoula, and Lewis & Clark counties.

The FSTS audience consists of 11,700 fire fighters in more than 400 organizations, 95 percent of whom are volunteers. The FSTS provides 70 percent of its services to all- volunteer fire companies, 24 percent to combination (with both paid and volunteer firefighters) fire companies, and 6 percent to all- paid fire companies.

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

Montana State University
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(continued)

MSU- Billings**Campus Overview**

Montana State University Billings is a comprehensive public four-year higher education institution located in Montana's largest population center, whose faculty is actively engaged in teaching, research, creative endeavors and public service. The University opened in 1927 and was initially called Eastern Montana State Normal School at Billings and was established to prepare teachers for elementary schools in eastern Montana. MSU Billings has grown, with the city of Billings and Yellowstone County, into the major urban comprehensive higher education center of south central Montana. The University consists of five colleges on two campuses: the College of Arts and Sciences, the College of Business, the College of Education, the College of Allied Health Professions and City College, which serves the comprehensive two-year mission of the University on a campus seven miles west of the University Campus. MSU Billings offers a full complement of one- and two-year certificate programs, associate degrees, and bachelor and master degrees, as well as pre-professional academic offerings in nearly 100 academic areas; and features 23 programs that are completely available online. Several academic programs are unique to the Montana University System. The MSU Billings Extended Campus also maintains a presence in Downtown Billings through outreach education to underserved populations, GED preparation, summer programs for children and short-term training/conference space.

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

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

Enrollment

	Student FTE for Fiscal Years Ended June 30,				
	2013	2012	2011	2010	2009
Resident					
Undergraduate	2,646	2,731	2,819	2,707	2,773
College of Technology	849	947	990	924	624
Graduate	291	314	317	264	256
Total Resident	3,786	3,992	4,126	3,895	3,653
Nonresident					
Undergraduate	168	138	109	91	93
College of Technology	28	24	16	12	5
Graduate	27	28	24	31	44
Total nonresident	223	190	149	134	142
Western Undergraduate Exchange					
Main Campus	263	252	233	193	217
College of Technology	46	44	47	37	29
Total Western Undergraduate Exchange	309	296	280	230	246
Total	4,318	4,478	4,555	4,259	4,041

Montana State University
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(continued)

	Degrees Granted - Fiscal Years Ended June 30,				
	2013	2012	2011	2010	2009
Senior Campus:					
Associate Degrees	25	32	40	32	33
Bachelor's Degrees	568	510	533	547	540
Master's Degrees	139	152	125	128	106
Total Senior Campus	732	694	698	707	679
City College:					
Certificates	26	36	29	28	32
Associate Degrees	258	291	212	196	189
Total City College	284	327	241	224	221
Grand Total Degrees	1,016	1,021	939	931	900

MSU Billings started the 2013-2014 academic year with just under 5,000 students. This is the first year in the past five where enrollment has dipped below 5,000 students. With the slight decline, MSU Billings remains the third largest higher education unit in Montana. While FTE enrollment growth was down for 2013, there was an increase in non-resident students. Factors contributing to decreased student FTE in 2012 and 2013 include record graduating classes, declining high school enrollments in Montana, and a strong economic growth in Eastern Montana. However the five-year trend points to continued interest in MSU Billings and its programs.

Campus Outlook

MSU Billings continues to serve our students and community with superior levels of excellence and efficiency. Base budgets have been reallocated to develop a student-centered learning environment using continuous assessment of learner growth, student outcomes and increased academic student support services.

MSU Billings has made a substantial investment in distance learning by developing full degree programs, and general education, online. This investment will continue in order to provide educational offerings to Montana citizens who are place bound or time bound. Increasing opportunities for students to participate in internships and cooperative education experiences continues to be a priority for the University.

Grants and research production continues. The work of two science faculty members on unique fungal research has led to the approval of MSU Billings' first patent. This project is being done in collaboration with INBRE and MSU Bozeman. A U.S. Department of Justice grant allows continuation of training at the Montana Women's Prison in Billings. The University received a \$1.2 million grant from the National Science Foundation (NSF) for a NOYCE grant to prepare teachers for rural Montana. Other new grants include a NSF Science Partnership grant with Montana Tech in Butte. In addition, MSU Billings recently received notice of a \$1.5 million grant from the Dept. of Labor as part of a \$25 million federal grant to Montana higher education units to train and prepare workers for jobs in energy and manufacturing industries.

Because Billings is the primary healthcare center of the region, MSU Billings partnered with the healthcare industry to meet its educational needs and established the College of Allied Health Professions with key programs in athletic training, health and human performance and rehabilitation and human services. The College of Allied Health Professions continues growth in enrollments and graduations.

MSU Billings was ranked as one of "Top 100 Best Western Regional Universities" in U.S. News & World Report for 2014. MSU Billings was also ranked as #4 in the "Affordable Colleges Online: Highest Return on Investment Colleges in Montana" ranking.

The 2013 Montana Legislature appropriated \$10 million to provide funds for the renovation and expansion of the existing outdated science facility. An additional \$5 million needed for the project will be raised through fundraising efforts of the MSU Billings Foundation before construction begins. The renovated MSU Billings Yellowstone Hall

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(continued)

will provide state-of-the-art facilities for both the College of Arts and Sciences and the College of Allied Health Professions.

City College at MSU Billings (formerly known as the College of Technology) has continued its transition to a true “community” college by expanding offerings and programs and focuses on the needs of two-year education in the Billings region.

Support for the University continues to be strong. The MSU Billings Foundation Opportunity Campaign for MSU Billings Scholarships raised over \$7.2 million in gifts and pledges, exceeding the original \$6 million goal. The Foundation distributed over \$1.4 million in scholarships in FY13.

**Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2013**

(continued)

MSU- Northern**Campus Overview**

Established by the Legislative Assembly of the State of Montana in 1913, "The Northern Montana Agricultural and Manual Training School" opened in 1929 under the name "The Northern Montana School." In 1931, the common use of "Northern Montana College" came into existence. In 1994, Northern Montana College became Montana State University-Northern (MSU-Northern) as part of the restructuring with Montana State University in Bozeman. Montana State University-Northern offers liberal arts, professional and technical education programs ranging from certificates through master's degrees.

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

MSU-Northern is accredited by the Northwest Association of Schools and Colleges. MSU-Northern's accreditations also include the National League for Nursing Accrediting Commission, the Montana State Board of Nursing, the Accreditation Board of Engineering Technology, the National Automobile Technicians Education Foundation, the Montana Board of Public Education, and the American Design Drafting Association.

MSU-Northern values individualized attention to its students, experientially based learning, and creating a culturally rich and intellectually stimulating environment. From its North Central Montana High Plains main campus, the University serves as a regional cultural center and maintains strong partnerships with communities, education, business and industry.

Enrollment

	Student FTE for Fiscal Years Ended June 30,				
	2013	2012	2011	2010	2009
Resident					
Undergraduate	942	943	954	914	882
Graduate	69	52	61	66	75
Total resident	1,011	995	1,015	980	957
Nonresident					
Undergraduate	44	41	47	45	50
Graduate	0	0	0	0	0
Total nonresident	44	41	47	45	50
Western Undergraduate Exchange	101	89	93	93	67
Total	1,156	1,125	1,155	1,118	1,074
	Degrees Granted - Fiscal Years Ended June 30,				
	2013	2012	2011	2010	2009
Undergraduate	235	259	284	227	252
Graduate	23	10	39	13	28
Total:	258	269	323	240	280

Campus Outlook

MSU-Northern is located in the rural, northern region of Montana. With decreasing populations in certain areas of the state, MSU-Northern understands the importance of careful monitoring of expenses and strategic investments in areas that will help attract and retain students. Student enrollment drives a large portion of operating revenues, and also affects the University's level of state funding. Northern has begun to utilize partnerships, innovative teaching, and alternate delivery methods. Partnerships with tribal colleges across Montana, a number of two-year colleges throughout the Northwest, and Mid-South Community College in West Memphis, Arkansas, help these institutions expand their program offerings in the realm of 4-year Baccalaureate degrees. Northern will also continue to explore expanded program offerings at our sites in Lewistown and Great Falls.

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(continued)

Great Falls College MSU

Campus Overview

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

GFCMSU began as the Great Falls Vocational – Technical Center, established by the Montana State Legislature in 1969 to offer employment training in vocational and technical fields. In January 1994 the Montana Board of Regents of Higher Education approved the restructuring of the Montana University System. Montana State University-Bozeman, Montana State University-Billings, Montana State University-Northern and Great Falls College Montana State University are related through common management; however, they are separate and distinct entities. The mission of GFCMSU is to foster the success of our students and their communities through innovative, flexible learning opportunities for people of all ages, backgrounds, and aspirations resulting in self-fulfillment and competitiveness in an increasingly global society.

GFCMSU is regionally accredited by the Northwest Commission on Colleges and Universities (NWCCU). Various academic programs are accredited individually as well, primarily those within medical fields. The student population at the GFCMSU campus has grown 4.1% over the last five years (1,409 FTE in fiscal year 2013 as compared to 1,353 FTE in fiscal year 2009). The majority of students are Montana residents.

Enrollment

	Student FTE for Fiscal Years Ended June 30,				
	2013	2012	2011*	2010	2009
Resident Undergraduate					
Great Falls	1,365	1,424	1,387	1,293	1,138
College of Technology Bozeman	-	-	-	182	161
Nonresident Undergraduate					
Great Falls	39	35	23	17	8
College of Technology Bozeman	-	-	-	46	38
Western Undergraduate Exchange	5	6	5	9	8
Total	1,409	1,465	1,415	1,547	1,353

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

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(continued)

The number of degrees and certificates granted has increased 81.3% during the past five years.

	Degrees Granted - Fiscal Years Ended June 30,				
	2013	2012	2011	2010	2009
Certificate of Applied Science	51	64	62	63	54
Professional Certificate	25	21	20	4	1
Associate of Science/Arts	156	132	80	69	55
Associate of Applied Science	185	186	179	174	120
Total	417	403	341	310	230

Campus Outlook

The College constructed an on-site child care facility (Bright Beginnings) to provide affordable, accessible child care which allows our students to take advantage of educational opportunities to advance their lives and the lives of their families. The facility is a separate 6,860 square foot building on the Great Falls campus with a capacity of 88 children from infants through five years of age. As of the Fall 2013 term, 83 of the positions are filled. Significant funding necessary for construction was obtained through State and private donations and pledges. Bright Beginnings opened in January 2013 and is operated by Bright Horizons, a nationally recognized early childhood learning corporation.

In response to community and industry demand, GFCMSU is in the process of expanding its welding program. In support of the oil industry, various companies providing equipment to the oil industry have located in the Great Falls area in order to supply oil field operations in Montana, North Dakota and western Canada. Growing demand in Montana and the region, coupled with the need to fill replacement welding job openings in U.S. and Canada place GFC MSU at a strategic location to serve as a trans-boundary training and certification center to help meet this demand. The welding program and faculty have been certified by both the American Welding Society and the Canadian Welding Bureau which will facilitate the development of a trans-border training facility. To accommodate this increased demand, GFCMSU applied for and was awarded a \$1.5 million grant from the Economic Development Agency of the US Department of Commerce. This grant will allow expansion of the current physical welding facility to accommodate increased numbers of students and trainees.

In September, 2013 GFCMSU received notice that the Trade Act Adjustment Community College and Career Training grant application submitted by the State of Montana to the US Department of Labor was awarded in the amount of \$25 million. GFCMSU is the lead campus for this 13 college consortia grant including eleven two-year colleges and two tribal colleges in Montana. In addition to GFCMSU, the other institutions involved are Bitterroot College, City College, Fort Peck Community College, Gallatin College, Dawson Community College, Highlands College, Helena College, Little Big Horn College, MSU-Northern, Flathead Valley Community College, Miles Community College, and Missoula College. Grant activities will extend over four years and will address workforce development needs with specific focus on developing career readiness in the energy and advanced manufacturing fields.

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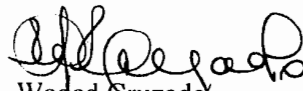
December 19, 2013

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

Dear Ms. Hunthausen:

Montana State University would like to thank the Legislative Audit Division for auditing our financial statements for the fiscal year ended June 30, 2013. This audit was productive and helpful with continually improving financial reporting for all Montana State University campuses. We look forward to working with you again next year.

Sincerely,



Waded Cruzado
President

WC/msh

Office of the President

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

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