



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

Montana State University

*For the Fiscal Year Ended
June 30, 2014*

FEBRUARY 2015

LEGISLATIVE AUDIT
DIVISION

13-11B

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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, 2013, was issued March 28, 2014. The Single Audit Report for the two fiscal years ended June 30, 2015, will be issued by March 31, 2016. 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

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

February 2015

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, 2014. 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

TABLE OF CONTENTS

Appointed and Administrative Officials	ii
Report Summary	S-1
CHAPTER I – INTRODUCTION.....	1
Audit Scope.....	1
Background.....	1
INDEPENDENT AUDITOR’S REPORT AND MONTANA STATE UNIVERSITY FINANCIAL STATEMENTS	
Independent Auditor’s Report	A-1
Management’s Discussion and Analysis	A-5
Consolidated Statements of Net Position	A-17
University Component Units-Combined Statements of Financial Position	A-18
Consolidated Statements of Revenue, Expenses and Changes in Net Position	A-19
University Component Units-Combined Statement of Activities	A-20
Consolidated Statements of Cash Flows.....	A-22
Notes to Consolidated Financial Statements.....	A-24
Required Supplementary Information	A-55
Unaudited Supplemental Information	A-56
UNIVERSITY RESPONSE	
Montana State University	B-1

APPOINTED AND ADMINISTRATIVE OFFICIALS

	<u>Term Expires</u>
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Fran M. Albrecht	February 1, 2019
William Johnstone	February 1, 2017
Jeffrey Krauss	February 1, 2015
Martha Sheehy	February 1, 2021
Mariah R. Williams, Student Regent	June 30, 2015
Clayton Christian, Commissioner of Higher Education*	
Steve Bullock, Governor*	
Denise Juneau, Superintendent of Public Instruction*	

*Ex officio members

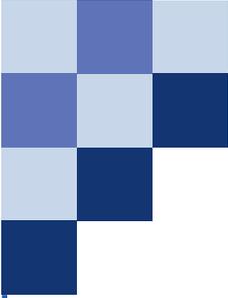
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	Neil Moisey	Deputy Commissioner for Academic, Research and Student Affairs
	John Cech	Deputy Commissioner for Two-Year and Community College Education
	Tyler Trevor	Deputy Commissioner for Planning and Analysis
	Kevin McRae	Deputy Commissioner for Communications and 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 and Advisory Services
Montana State University– Bozeman	Martha Potvin	Provost and Vice President for Academic Affairs
	Terry Leist	Vice President for Administration and Finance
	Renee Reijo Pera	Vice President of Research and Economic Development
	Chris Kearns	Vice President for Student Success
	Laura Humberger	Associate Vice President for Financial Services
	Kathy Attebury	Director of University Budgets
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	Mark Pagano	Provost and Academic Vice Chancellor
	Terrie Iverson	Vice Chancellor of Administrative Services
	Joe Oravec	Vice Chancellor for Student Affairs
	LeAnn Anderson	Director of Financial Services
	Barb Shafer	Director of Business Services
	Trudy Collins	University Budget Director
Montana State University– Northern	Greg Kegel	Interim Chancellor
	Brian Simonson	Vice Chancellor for Finance and Administration
	William Rugg	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
	Jillian Ehnot	Controller
	Carmen Roberts	Budget and Purchasing Analyst
Montana Agricultural Experiment Station	Glenn Duff	Interim Director
	Jody Barney	Budget and Fiscal Director
Montana State University Extension	Jeff Bader	Director
	Sandra Rahn Gibson	Budget and Fiscal Director

For additional information concerning Montana State University, contact:

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL AUDIT

Montana State University

For the Fiscal Year Ended June 30, 2014

FEBRUARY 2015

13-11B

REPORT SUMMARY

The Montana State University (MSU) Bozeman campus full time equivalent (FTE) student increased by 433, or 3.35 percent, in 2014. Since 2010, the student FTE for MSU Bozeman has increased by approximately 2,500. In response to this continued trend of increased enrollment, MSU Bozeman issued \$65.5 million in bonds during fiscal year 2014 to fund a new 400-bed residence hall, the new Jake Jabs College of Business and Entrepreneurship building, and to renovate three existing dining halls, as well as to fund maintenance projects in various residence halls.

Context

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

In addition to the financial activity of MSU, 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

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. 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 2014 and financial position as of June 30, 2014. The Independent Auditor's Report on page A-1 refers to a prior period restatement of the 2013 amounts due to an adjustment to Other Post-Employment Benefits. Our opinion is not modified with respect to this matter.

For a complete copy of the report (13-11B) 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 (MSU) for the fiscal year ended June 30, 2014. 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, 2014, 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.

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.

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 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, University Studies, and the Graduate School. 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 liberal arts, professional and technical educational programs ranging from certificates through master's degrees.

Great Falls College Montana State University is a public institution offering two-year transfer degrees as well as degrees and certificates that prepare students to enter the current workforce. 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.

Additional detailed information for each of the Montana State University campuses is included in the Unaudited Supplemental Information beginning on page A-56.

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, a component unit of the state of Montana, as of June 30, 2014, and 2013, the related Consolidated Statements of Revenues, Expenses and Changes in Net Position and Consolidated Statements 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, 2014, and 2013, and the University Component Units-Combined Statement 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 the Montana State University Foundation, the Montana State University – Billings Foundation, the Montana State University-Northern Foundation, the Museum of the Rockies, Incorporated, and The Montana State University Bobcat Club, were audited by other auditors whose reports thereon 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 on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana State University and its aggregate discretely presented component units as of June 30, 2014, and 2013, and the changes in net 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Fiscal Year 2013 financial statements were restated to correct a misstatement of Other Post–Employment Benefits. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis beginning on page A-5 and the Required Supplementary Information related to Other Post-Employment Benefits on page A-55, be presented to supplement the consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the consolidated 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 consolidated financial statements as a whole. The Unaudited Supplemental Information - all Campuses beginning on page A-56 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated 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 17, 2014

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, 2014

Montana State University (the "University") is a land grant university that serves state, national and international constituents by providing academic instruction, conducting a very high level of research activity, advancing fundamental knowledge, and by disseminating knowledge to the people of Montana and beyond through community engagement. 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 just over 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, and 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)

	2014	2013 <i>(restated)</i>	2012 <i>(restated)</i>
Operating revenues	\$ 341.9	\$ 333.6	\$ 334.5
Operating expenses	502.8	481.9	474.8
Operating loss	(160.9)	(148.3)	(140.3)
Non-operating revenues and expenses (net)	154.9	142.8	145.3
Income before capital & other items	(6.0)	(5.5)	5.0
Capital & other items	15.8	6.2	21.1
Change in net position	\$ 9.8	\$ 0.7	\$ 26.1

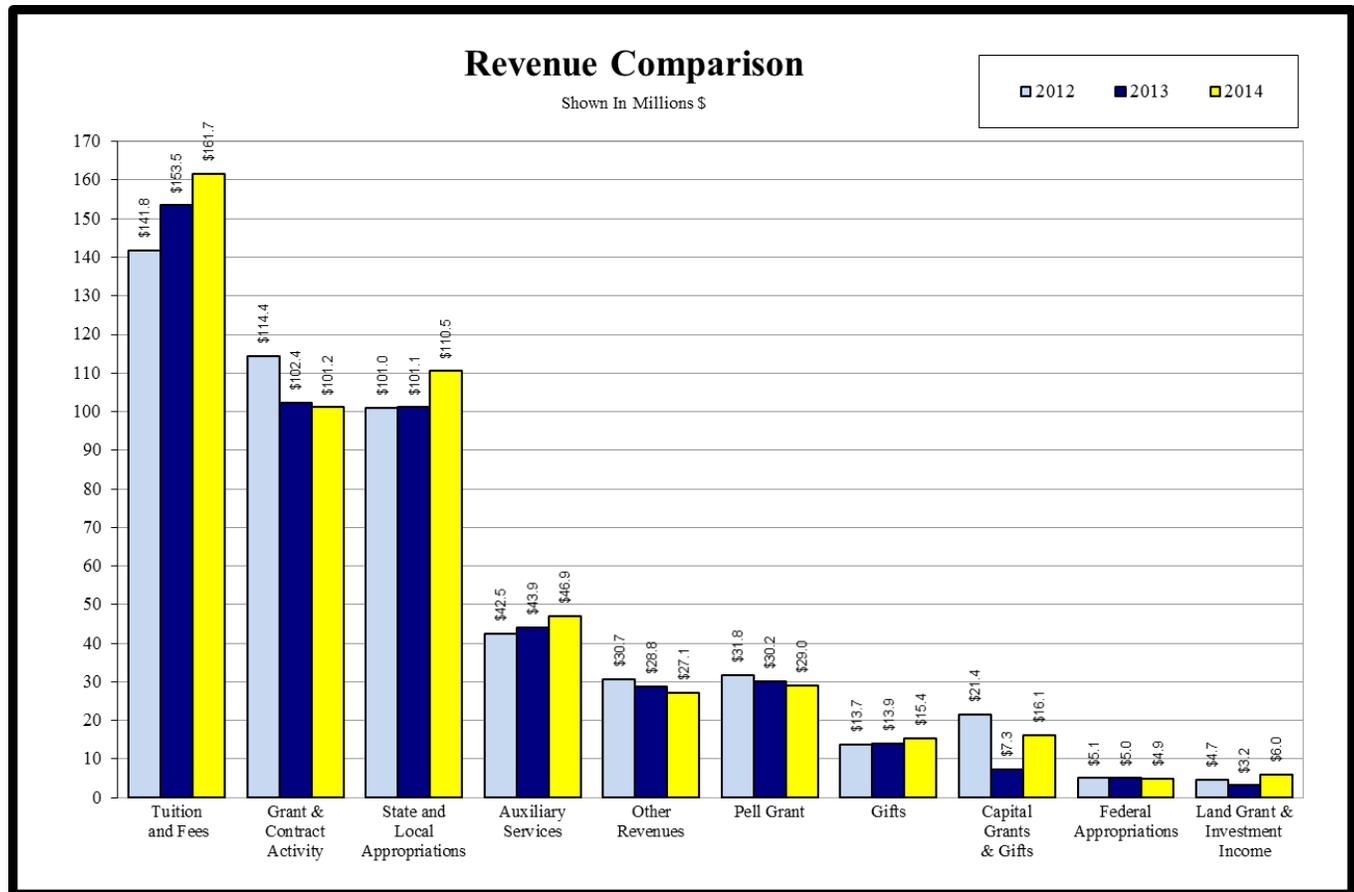
The *Statement of Revenues, Expenses and Changes in Net Position* presents the revenues earned and expenses incurred during the year on a full accrual basis, and classifies activities as either "operating" or "non-operating." This distinction results in operating deficits for those institutions that 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, an operating expense, which allocates the cost of assets over their expected useful lives.

Comparison of 2014 and 2013 Results of Operations

The University's net financial position increased \$9.8 million during 2014, resulting primarily from capital grants and contributions of \$12.8 million. Of this balance, \$11.4 million was in support of the Jake Jobs College of Business and Entrepreneurship. Additionally, the State of Montana contributed \$3.3 million for various projects including \$1.7 million for Americans With Disabilities Act (ADA) upgrades to the Creative Arts Complex, \$0.6 million for the welding program at the Great Falls Campus, and energy and other improvements to Leon Johnson Hall on the Bozeman campus. These increases were offset by OPEB expense of \$5.4 million, which is an actuarially-determined amount related to the participation of retirees on the University's health insurance plan.

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, 2014

(continued)



Operating revenues contain the majority of the University's income, and increased \$8.2 million, or 2.5%, from 2013 to 2014.

Tuition and fee revenues increased approximately \$8.2 million, or 5.3%. Tuition rates were increased by 3.0% and 2.8% for nonresident undergraduate and graduate students, respectively, at the Bozeman campus and by 2.1% and 2.0% for nonresident undergraduate and graduate students, respectively, at the Billings campus. In addition, the number of full-time-equivalent students for all campuses increased by 1.2%, from 19,824 to 20,053.

Grant and contract operating revenues, including facility and administrative cost recoveries, decreased 1.2%, to \$101.2 million, compared with 2013 revenues of \$102.4 million, as federal expenditures stabilize.

Revenues from auxiliary enterprises increased \$3.0 million, or 6.9%, to \$46.9 million, from \$43.9 million in 2013. Slight price increases were implemented, and occupancy increased on the Bozeman campus 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 \$1.7 million, or 5.8%, to \$27.1 million, as compared with \$28.8 million in 2013, largely due to \$2.7 million in insurance proceeds received in 2013, compared to \$0.4 million received in 2014.

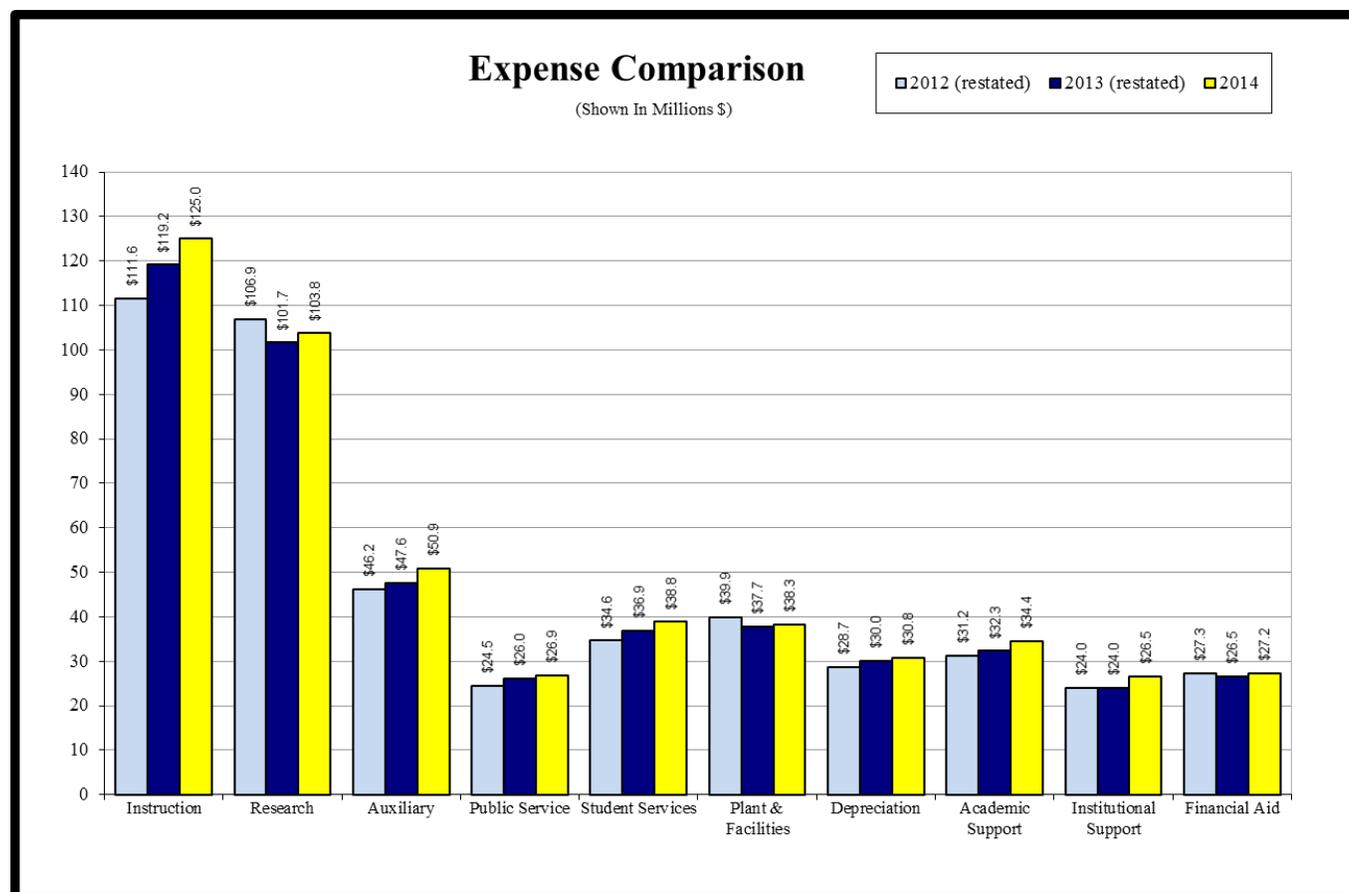
Net non-operating revenue increased \$12.1 million from 2013 to 2014, primarily due to an increase in state appropriations of \$9.4 million, to \$110.5 million, as compared with \$101.1 million in 2013. The 2013 State Legislature

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, 2014

(continued)

appropriated funds to cover inflationary costs and wage increases for the next two years so that the University could freeze tuition for resident students through spring of 2015.

Capital and other items increased \$9.6 million primarily due to \$11.4 million in gift revenue through the MSU Alumni Foundation in support of the Jake Jobs College of Business and Entrepreneurship during 2014.



Operating expenses increased \$20.8 million, or 4.3%, from 2013 to 2014. The most significant increase was in instructional costs, which increased \$5.9 million, or 4.9%. This was primarily due to an increase in compensation and benefits of \$6.8 million, largely as a result of salary increases and additional staffing and class sections added to accommodate the University's growing enrollment.

Employees in the Montana University System were given 2.5% plus \$250 annual raises, in addition to certain merit and tenure increases. As such, compensation and benefits expenses increased in nearly all areas.

Research expenses increased \$2.1 million, or 2.1%, primarily due to an increase of \$2.8 million in expenditures for supplies and services. Increases and decreases in research funding exist from time to time depending the timing of grant-funding and the mix of capital versus operating grants.

Auxiliary expenses increased \$3.3 million, or 6.9%, largely due to an increase in compensation and benefits of \$1.9 million, or 8.4%. 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.

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, 2014

(continued)

Student services expenses increased \$1.9 million, or 5.1% primarily due to an increase in compensation and benefits related to student services of \$1.6 million, or 7.0%. 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 students' office. To ensure adequate support for the University's growing student body, additional staff and other expenses were incurred.

Academic support increased \$2.2 million and institutional support increased \$2.5 million, which were primarily the result of increases in compensation and benefits related to salary increases and additional staffing needed to support the University's growing enrollment.

Depreciation expense increased by \$0.8 million, or 2.7%, primarily due to the completion of large construction projects in 2014 including Gallatin Residence Hall, improvements to Linfield hall, and other energy improvements and residence hall upgrades.

Comparison of 2013 and 2012 Results of Operations (restated)

The University's net financial position increased \$0.7 million during 2013, resulting primarily from \$6.8 million 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.

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, 2014

(continued)

Operating expenses increased \$7.1 million, or 1.5%, from 2012 to 2013. The most significant increase was in instruction costs, which increased \$7.6 million, or 6.8%. This was primarily due to an increase in compensation and benefits of \$7.0 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 annual 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 4.9%, 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 3.0%, largely due to an increase in compensation and benefits of \$0.7 million, or 3.3%. 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 6.1%, 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 \$2.3 million, or 6.7% primarily due to an increase in compensation and benefits related to student services of \$1.7 million, or 8.1%. 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 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 5.6%, 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.

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, 2014

(continued)

NET POSITION

Condensed Statements of Net Position
(in millions)

	2014	2013	2012
ASSETS		<i>(restated)</i>	<i>(restated)</i>
Current assets	\$ 239.1	\$ 213.0	\$ 215.3
Capital assets, net	403.2	394.0	378.1
Other noncurrent assets	88.9	48.1	50.5
Total assets	731.3	655.1	643.9
DEFERRED OUTFLOWS	7.5	8.0	7.3
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 738.8	\$ 663.0	\$ 651.2
LIABILITIES			
Current liabilities	\$ 75.9	\$ 72.8	\$ 67.4
Noncurrent liabilities	285.0	222.2	216.4
Total liabilities	360.9	294.9	283.7
NET POSITION			
Net investment in capital assets	276.2	263.8	255.0
Restricted, non-expendable	13.2	13.0	12.5
Restricted, expendable	15.9	14.4	12.8
Unrestricted	72.6	76.9	87.2
Total net position	377.9	368.1	367.5
TOTAL LIABILITIES AND NET POSITION	\$ 738.8	\$ 663.0	\$ 651.2

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 improved, increasing \$9.8 million from the prior year.

Due to the implementation of Governmental Accounting Standards Board Statement Number 65, Items Previously Reported as Assets and Liabilities, the University's deferred loss on debt refunding is now presented as a deferred outflow on the Statement of Net Position. The deferred loss on debt refunding is the excess of the reacquisition price of refunded debt over its net carrying amount. Note 11 to the accompanying financial statements provides detail with respect to the reclassification.

Comparison of 2014 and 2013 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 increase of \$26.1 million in current assets resulted primarily from an increase of \$20.7 million in short term investments as a result of unexpended bond proceeds. See Note 2 to the financial statements.
- **Capital assets, net** increased \$9.2 million, resulting from asset additions of \$40.5 million, offset by depreciation and amortization expense of \$20.1 million and \$6.1 million in net book value of asset retirements, as shown in further detail in Note 7 to the financial statements.

Asset additions included \$30.0 million in construction projects. The Bozeman campus continued the construction of the Jake Jabs College of Business and Entrepreneurship expending \$9.5 million during 2014 and completed the construction of Gallatin Residence Hall with additional costs of \$1.2 million during 2014. Improvements to the

Montana State University
(a component unit of the State of Montana)
Management's Discussion and Analysis
As of and For Each of the Years Ended June 30, 2014

(continued)

Miller Dining Facility added \$2.4 million and the renovation of Linfield Hall in Bozeman added \$1.6 million. Energy efficiency enhancements were also implemented, totaling \$2.5 million in 2014. Additional, smaller projects make up the remaining increase, and include residence hall upgrades, office and lab renovations and other building improvement projects at all of the University's campuses and agencies.

Equipment additions totaled \$7.7 million during 2014. Research and instruction in the sciences require a substantial equipment investment, and many specialized pieces of equipment are grant-funded. In 2014, equipment related to research accounted for \$2.2 million of the additions. Approximately \$0.9 million in library materials were acquired in 2014 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 increased \$40.8 million from 2013, primarily due to a \$32.5 million increase in investments which was primarily the result of unexpended bond proceeds for the future construction of a new residence hall on the Bozeman campus, and an \$8.7 million increase in other noncurrent assets primarily resulting from a \$9.5 million gift receivable from the MSU Alumni Foundation.
- **Deferred outflows** represent both the University's derivative financial instrument and the deferred loss on debt refunding.

Derivative financial instruments are presented as deferred outflows which offset the University's hedging derivative instrument liability recorded in non-current liabilities. 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 remained stable from 2013 to 2014.

The deferred loss on debt refunding is the excess of the reacquisition price of refunded debt over its net carrying amount. For the year ended June 30, 2014, the University adopted the provisions of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, which required reclassifying deferred loss on debt refunding balances from an offset to long-term debt into a deferred outflow. The deferred loss on refunding balances that were reclassified were related to Series 2004I, Series 2006K, Series 2008L, Series 2012N and Series 2012O. This reclassification is reflected for all periods presented, including \$3.7 million for the year ended June 30, 2014 and \$4.1 million for the year ended June 30, 2013.

- **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 \$3.1 million, or 4.3%, from 2013 to 2014, primarily as a result of an increase of \$1.3 million in compensated absence liability estimated to be payable within a one-year period. 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 \$62.9 million, or 28.3%, resulting primarily from an increase in debt and leases payable of \$60.9 million as the University issued \$65.5 million in new bonds during 2014 to fund a new 400-bed residence hall and a new academic building on the Bozeman campus, and enhance its three dining facilities. In addition, the University's OPEB liability, which is an actuarially-determined amount related to the participation of retirees on the University's

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, 2014

(continued)

health insurance plan, increased \$4.6 million. An actuarially-determined liability of approximately \$49.9 million was calculated, of which the seventh year of a 30-year amortization, plus interest, was recorded during 2014 (see note 15 to the financial statements). These increases were offset by a decrease in the non-current portion of advances from primary government of \$2.2 million. This decrease was primarily due to \$2.7 million in advances through the state's Intercap loan program being repaid or reclassified to current liabilities, while \$0.5 million was borrowed. Additional information can be found in note 10 to the financial statements.

- **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 \$12.4 million 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 \$0.2 million, primarily due an increase in fair market value in the University-owned endowment balances as compared with 2013 balances.
- **Restricted, expendable net assets** represent balances that may be expended by the University in accordance with restrictions imposed by an external party, such as a donor, or through a legislative mandate. The University's most significant restricted, expendable balances relate to funds restricted to use for the construction, renewal or replacement of facilities, for the payment of debt and for scholarships. Balances increased \$1.5 million in comparison with 2013 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. 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 decreased \$4.3 million in comparison with 2013 balances.

Comparison of 2013 and 2012 Net Position (restated)

- **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 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.

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, 2014

(continued)

- **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 outflows** represent both the University's derivative financial instrument and the deferred loss on debt refunding.

Derivative financial instruments are presented as deferred outflows which offset the University's hedging derivative instrument liability recorded in non-current liabilities. 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.

The deferred loss on debt refunding is the excess of the reacquisition price of refunded debt over its net carrying amount. During the year ended June 30, 2014, the University adopted the provisions of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, which required reclassifying deferred loss on debt refunding balances from an offset to long-term debt into a deferred outflow. The deferred loss on refunding balances that were reclassified were related to Series 2004I, Series 2006K, Series 2008L, Series 2012N and Series 2012O. This reclassification is reflected for all periods presented, including \$4.1 million for the year ended June 30, 2013 and \$1.2 million for the year ended June 30, 2012.

- **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 \$5.8 million, or 2.7%, 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 \$6.4 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 \$3.4 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.

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, 2014

(continued)

- **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.
- **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 unrestricted net assets decreased by \$10.3 million, primarily as a result of non-cash OPEB expense of \$6.4 million, as well as the use of a portion of University reserves for strategic investments.

CASH FLOWS

Condensed Statements of Cash Flows
(in millions)

	2014	2013	2012
Cash provided/(used) by:			
Operating activities, net	\$ (126.6)	\$ (106.4)	\$ (104.7)
Noncapital financing activities, net	158.5	146.1	149.4
Capital and related financing activities, net	20.1	(46.4)	(22.6)
Investing activities, net	(51.0)	3.4	2.4
Net change in cash	1.0	(3.3)	24.5
Cash, beginning of year	180.2	183.5	159.0
Cash, end of year	\$ 181.1	\$ 180.2	\$ 183.5

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 2014 and 2013 Cash Flows

- **Operating activities** used \$126.6 million in cash, resulting primarily from an operating loss of \$160.9 million. The operating loss was offset by non-cash expenses of \$36.5 million, primarily due to \$30.8 million in depreciation and amortization, as well as \$4.6 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 2013, operating activities used \$106.4 million in cash, with an operating loss of \$148.3 million, offset by non-cash expenses of \$37.6 million.
- **Noncapital financing activities** provided \$158.5 million in cash, resulting from \$110.5 million in state and local appropriations, \$29.0 million in federal Pell grant revenue, \$15.3 million in expendable gifts, and \$3.4 million of land grant income. In 2013, noncapital financing activities provided \$146.1 million in cash resulting from \$101.1

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, 2014

(continued)

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.

- **Capital and related financing activities** provided \$20.1 million in cash, resulting primarily from cash proceeds from debt refunding and other borrowings which provided \$68.7 million. The debt refunding and other borrowings was offset by cash expended on capital assets of \$36.0, including building construction (see note 7 to the financial statements). Other uses of cash include \$6.7 million in principal debt repayments and interest payments of \$5.8 million. In 2013, these activities used \$46.4 million in cash. Uses in 2013 included debt interest, principal and advance payments totaling \$53.9 million and \$40.3 million expended on capital assets. Proceeds from debt refunding and other borrowings provided \$49.1 million and borrowings from the State's Intercap lending program provided \$5.9 million in 2013.

Comparison of 2013 and 2012 Cash Flows

- **Operating activities** used \$106.4 million in cash, resulting primarily from an operating loss of \$148.3 million. The operating loss was offset by non-cash expenses of \$37.6 million, primarily due to \$30.0 million in depreciation and amortization, as well as \$6.4 million in non-cash expense resulted from the amortization of the Annual Required Contribution to the OPEB liability (see note 15 to the financial statements). Other, less significant, increases and decreases also contributed to the change. In 2012, operating activities used \$104.7 million in cash, with an operating loss of \$140.3 million, offset by non-cash expenses of \$36.1 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.

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, 2014

(continued)

DEBT AND ADVANCES

As of June 30, 2014, the University had approximately \$179.5 million in outstanding bond, note, and capital lease principal, an increase compared with \$117.8 million at June 30, 2013 (see note 10 to the financial statements). Bonds were issued during 2014 to construct a new 400-bed residence hall and make improvements to three existing dining halls, and other major deferred maintenance projects. Bonds were also issued to bridge the construction of a new gift-funded academic building. The majority of bond debt bears interest at fixed rates, except for \$32.5 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 Series 2005J 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, 2014, was 1.0%. As of June 30, 2014, and as of the most recent rating reports received in October, 2013, the University's bonds are rated Aa3 by Moody's Investor Services and A+ by Standard and Poor's.

ECONOMIC OUTLOOK

In May 2013 the Board of Regents adopted a pilot performance-based funding model for fiscal year 2014 and beyond, which will affect the allocation of 5% of the University's state appropriation (approximately \$7.5 million for the entire Montana University System). The performance indicators include graduation rates and the number of freshman returning for their sophomore year. Performance through fiscal year 2014 will result in additional funding of \$4.3 million during fiscal year 2015 allocated to the University, with the remaining \$4.2 million allocated to other higher education units in the state.

Student enrollment has increased in each of the past seven years as the University gained in market share state-wide and in the nonresident market. Resident enrollment represents over 74% of the University's 2014 student FTE of 20,053. Management continues to focus on the University's recruiting efforts to maintain an appropriate mix of in- and out-of-state students. Increased enrollment, combined with tuition increases for nonresident students implemented at the four-year campuses in 2013 and 2014 have enabled the University to implement 2% and 2.5% 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

	2014	2013 <i>(restated)</i>
ASSETS		
Current assets:		
Cash and cash equivalents (note 2)	\$ 180,047,112	\$ 179,119,894
Short term investments	20,702,031	-
Securities lending collateral	849,459	1,141,800
Accounts and grants receivable, net (note 3)	9,580,002	9,216,998
Amounts receivable from Federal government	15,982,897	13,669,630
Amounts receivable from primary government	510,233	607,165
Amounts receivable from other State of Montana component units	5,469	8,354
Loans receivable, net (note 6)	3,538,131	3,492,445
Inventories (note 4)	3,519,622	2,918,317
Prepaid expenses and other current assets (note 5)	4,410,685	2,781,255
Total current assets	239,145,641	212,955,858
Noncurrent assets		
Restricted cash and cash equivalents	1,072,977	1,038,664
Restricted investments	7,363,365	7,285,637
Loans receivable, net (note 6)	19,623,952	20,128,858
Investments	51,017,281	18,521,030
Capital assets, net (note 7)	403,200,491	394,022,468
Other noncurrent assets (note 7)	9,841,999	1,138,656
Total noncurrent assets	492,120,065	442,135,313
Total assets	731,265,706	655,091,171
DEFERRED OUTFLOWS		
Derivative financial instrument (note 10)	3,852,345	3,868,317
Deferred loss on debt refunding (note 11)	3,677,924	4,087,746
Total deferred outflows	7,530,269	7,956,063
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 738,795,975	\$ 663,047,234
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities (note 8)	\$ 36,148,887	\$ 35,219,474
Advances and other amounts payable to primary government	2,311,113	2,317,881
Amounts payable to other State of Montana component units	107,047	145,652
Securities lending liability	849,459	1,141,800
Property held in trust for others	1,845,701	1,583,463
Unearned revenues (note 9)	10,270,306	10,177,719
Current portion compensated absences	16,784,864	15,512,992
Current portion debt and capital lease obligations (note 10)	7,560,876	6,676,591
Total current liabilities	75,878,253	72,775,572
Noncurrent liabilities:		
Advances from primary government	21,050,852	23,236,002
Debt, capital lease, and other obligations (note 10)	171,981,451	111,102,333
Compensated absences	13,807,042	14,004,836
LT OPEB Implicit Rate Subsidy	51,399,245	46,831,891
Due to Federal government	22,774,457	22,593,240
Derivative instrument-- swap liability (note 10)	4,034,590	4,389,311
Total noncurrent liabilities	285,047,637	222,157,613
Total liabilities	360,925,890	294,933,185
NET POSITION		
Net investment in capital assets	276,193,219	263,785,515
Restricted - nonexpendable	13,201,116	13,025,939
Restricted - expendable	15,915,324	14,423,380
Unrestricted (note 13)	72,560,426	76,879,215
Total net position	377,870,085	368,114,049
TOTAL LIABILITIES AND NET POSITION	\$ 738,795,975	\$ 663,047,234

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

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

Assets:	2014	2013
Cash and cash equivalents	\$ 6,531,364	\$ 5,456,760
Accrued dividends and interest	106,045	121,521
Investments	216,914,664	183,513,218
Amounts due from the institution or other MSU component units	1,305,169	1,440,169
Contributions receivable, net of allowance	21,221,893	20,989,054
Contracts, notes and other receivables	4,645,621	4,823,351
Non-depreciable capital assets	456,581	472,486
Depreciable capital assets, net	8,963,748	9,657,349
Other assets	2,030,490	2,234,615
Total assets	\$ 262,175,575	\$ 228,708,523
Liabilities and net assets:		
Liabilities		
Accounts payable	\$ 599,079	\$ 605,413
Accrued expenses and other liabilities	1,224,937	1,205,233
Compensated absences	457,588	445,857
Notes and bonds payable	12,680,581	2,742,589
Amounts due to the institution or other MSU component units	634,162	613,917
Liabilities to external beneficiaries	8,275,099	7,181,238
Custodial funds	12,607,847	11,568,333
Total liabilities	36,479,293	24,362,580
Net assets		
Unrestricted net assets	17,867,161	16,644,785
Temporarily restricted net assets	88,202,975	79,983,416
Permanently restricted net assets	119,626,146	107,717,742
Total net assets	225,696,282	204,345,943
Total liabilities and net assets	\$ 262,175,575	\$ 228,708,523

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

	2014	2013 <i>(restated)</i>
OPERATING REVENUES		
Tuition and fees (net of \$33,958,075 and \$33,174,915 scholarship discount)	\$ 161,709,200	\$ 153,523,695
Federal appropriations	4,931,090	5,044,560
Federal grants and contracts	69,533,147	69,497,113
State grants and contracts	6,120,375	6,187,965
Non-governmental grants and contracts	9,704,352	10,367,073
Grant and contract facilities and administrative cost recoveries	15,861,311	16,349,985
Educational, public service and outreach revenues	24,697,825	24,294,342
Auxiliary revenues:		
Housing (net of \$2,910,883 and \$2,759,381 scholarship discount)	18,333,032	17,326,126
Food services (net of \$2,823,799 and \$2,689,116 scholarship discount)	18,637,625	16,974,138
Other auxiliary sales and services (net of \$782,912 and \$796,828 scholarship discount)	9,968,576	9,630,042
Interest earned on loans	75,355	108,097
Other operating revenues	2,305,523	4,349,063
Total operating revenues	341,877,411	333,652,199
OPERATING EXPENSES		
Compensation and benefits	291,328,431	276,921,086
Annual Required Contribution to OPEB (note 15)	5,430,244	6,838,811
Operating expenses (note 14)	147,979,316	141,602,956
Scholarships and fellowships (net of \$40,475,669 and \$39,420,240 scholarship discount)	27,201,954	26,541,997
Depreciation and amortization	30,834,839	30,025,952
Total operating expenses	502,774,784	481,930,802
Operating loss	(160,897,373)	(148,278,603)
NONOPERATING REVENUES (EXPENSES)		
State and local appropriations	110,541,580	101,115,514
Federal Pell grant revenue	28,973,682	30,207,442
Land grant income (pledged as security for repayment of bonds)	3,375,355	1,931,796
Gifts (expendable)	15,340,768	13,786,571
Investment income	2,667,274	1,260,416
Interest expense	(6,037,446)	(5,513,076)
Net non operating revenues (expenses)	154,861,213	142,788,663
Income before other revenues, expenses, gains and losses	(6,036,160)	(5,489,940)
Loss on disposals of capital assets	(348,084)	(1,291,770)
Additions to permanent endowment	46,755	106,175
Capital gifts, grants and contributions	16,093,525	7,329,815
Change in net position	9,756,036	654,280
Net position, beginning of year as previously stated	368,114,049	359,897,962
Prior period OPEB restatement	-	7,561,807
Net position, beginning of year as restated	368,114,049	367,459,769
Net position, end of year	\$ 377,870,085	\$ 368,114,049

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, 2014 or December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions	\$ 2,428,436	\$ 13,999,544	\$ 10,746,483	\$ 27,174,463
Investment, interest and dividend income	1,461,462	1,858,638	35,330	3,355,430
Net realized and unrealized gain (loss) on investments	2,701,776	18,500,247	133,992	21,336,015
Contract support and contributions from University	1,420,203	-	-	1,420,203
Special events	1,084,165	33,068	-	1,117,233
Other income	7,821,502	(1,959,840)	21,493	5,883,155
Net assets released from restrictions	23,926,765	(24,184,694)	257,929	-
Total revenues	40,844,309	8,246,963	11,195,227	60,286,499
Expenses:				
Program services				
University support	18,234,498			18,234,498
Academic and institutional	2,554,024			2,554,024
Scholarships and awards	6,186,665			6,186,665
Total program services expense	26,975,187			26,975,187
Operating expenses				
Fundraising efforts	3,733,069			3,733,069
General and administrative	5,854,885			5,854,885
Investment management costs	1,020,745			1,020,745
Other miscellaneous	2,030,082			2,030,082
Total operating expenses	12,638,781			12,638,781
Change in net assets before				
Nonoperating items	1,230,341	8,246,963	11,195,227	20,672,531
Nonoperating expenses				
Payments to beneficiaries and change in liabilities to external beneficiaries	(7,965)	(27,404)	713,177	677,808
Change in net assets	1,222,376	8,219,559	11,908,404	21,350,339
Net assets, beginning of year	16,644,785	79,983,416	107,717,742	204,345,943
Net assets, end of fiscal year	\$ 17,867,161	\$ 88,202,975	\$ 119,626,146	\$ 225,696,282

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)
Consolidated Statements of Cash Flows
As of and for Each of the Years Ended June 30

	2014	2013
Cash flows from operating activities:		
Tuition and fees	\$ 161,105,380	\$ 154,176,845
Federal appropriations	5,340,580	4,625,468
Federal grants and contracts	67,530,917	69,354,286
State grants and contracts	6,418,804	6,137,627
Private grants and contracts	10,306,739	10,295,697
Grant and contract facilities and administrative cost	15,130,986	16,393,613
Educational, public service and outreach revenues	23,757,660	23,757,961
Sales and services of auxiliary enterprises	46,761,610	43,807,607
Interest on loans receivable	280,419	254,478
Other operating receipts	2,305,523	4,349,063
Compensation and benefits	(289,117,485)	(274,212,530)
Operating expenses	(149,474,147)	(139,687,144)
Scholarships and fellowships	(27,201,954)	(26,544,878)
Loans made to students	(3,484,832)	(2,998,008)
Loan payments received	3,700,541	3,829,565
Net cash used in operating activities	(126,639,259)	(106,460,350)
Cash flows from noncapital financing activities:		
Receipts (disbursements) of funds held in trust for others	355,495	(971,613)
Direct lending proceeds	97,212,679	93,378,401
Direct lending disbursements	(97,212,679)	(93,378,401)
State and local appropriations	110,541,580	101,115,514
Federal Pell grant funds received	28,973,682	30,207,442
Gifts and contributions (expendable)	15,289,988	13,786,573
Land grant income (see note 2)	3,375,355	1,931,797
Repayment of long-term advance from primary government	(55,774)	(54,416)
Additions to permanent endowment	46,755	106,175
Net cash provided by noncapital financing activities	158,527,081	146,121,472
Cash flows from capital financing activities:		
Purchase of capital assets	(36,028,411)	(40,289,185)
Proceeds from sale of capital assets	264,031	87,638
Gifts restricted for capital purchase	1,634,500	552,300
Other capital financing activities	90,441	(12,650)
Proceeds from borrowings	68,700,651	49,076,130
Debt principal repayment	(6,694,875)	(53,909,038)
Payment of capitalized debt issue costs	-	(471,846)
Advances from primary government	494,560	5,904,993
Repayment of advances from primary government	(2,648,077)	(1,714,138)
Interest paid	(5,755,828)	(5,615,415)
Net cash provided by (used in) used in capital financing activities	20,056,992	(46,391,211)
Cash flows from investing activities:		
Purchase of investments	(58,357,385)	(602,540)
Proceeds from sale of investments	4,737,715	2,623,185
Investment income	2,636,387	1,417,915
Net cash provided by (used in) investing activities	(50,983,283)	3,438,560
Net change in cash and cash equivalents	961,531	(3,291,529)
Cash and equivalents at beginning of year	180,158,558	183,450,087
Cash and equivalents at end of year	\$ 181,120,089	\$ 180,158,558

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

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

Reconciliation of Operating Loss to Net Cash Used in Operations

	2014	2013 <i>(restated)</i>
Operating loss	\$ (160,897,373)	\$ (148,278,603)
Noncash income and expense:		
Depreciation and amortization on capital assets	30,834,839	30,025,952
Provision for uncollectible accounts	1,080,783	1,162,179
Amortization of OPEB liability	4,567,354	6,364,088
Changes in operating assets and liabilities:		
Accounts and grants receivable	(2,759,756)	(2,396,644)
Loans receivable	439,075	1,086,271
Inventories	(601,305)	196,710
Prepaid expenses	(1,679,429)	(722,807)
Accounts payable and other accrued liabilities	1,028,672	3,298,467
Unearned revenue	92,587	1,061,889
Compensated absences	1,074,077	1,629,338
Amounts due to Federal government	181,217	112,810
Net cash used in operations	\$ (126,639,259)	\$ (106,460,350)

Schedule of noncash financing and investing activities

	2014	2013
Capital assets contributed to the University	\$ 4,459,526	\$ 6,777,514
Capital assets acquired through issuance of capital lease obligations	\$ 137,038	\$ 305,712
Capital assets acquired via trade-in	\$ 119,601	\$ 90,139
Bond issue costs, discounts, premiums and deferred loss on refunding amortized or written off to interest expense (net)	\$ 8,508	\$ 780,146
Net increase (decrease) in fair value of investments	\$ (53,264)	\$ 362,300

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

	2014	2013
Cash and cash equivalents classified as current assets	\$ 180,047,112	\$ 179,119,894
Cash and cash equivalents classified as noncurrent assets	1,072,977	1,038,664
Total cash and cash equivalents as reported on the Statements of Cash Flows	\$ 181,120,089	\$ 180,158,558

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

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

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 Great Falls College Montana State University. 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 external parties for goods or services. Accordingly, the University’s financial statements have been prepared using

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

(continued)

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

Certain prior year amounts have been reclassified to conform with current year presentation. In addition, a prior year restatement was made because it was discovered that the University had over-recorded its OPEB liability in all except the year of inception. As a result, the beginning fund balance as previously reported was increased by \$7.6 million, and the OPEB and related benefits expense previously reported in 2013 was reduced by \$1.9 million.

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 at lower of cost or market value, 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. Capitalization thresholds range from \$5,000 for equipment to \$500,000 for infrastructure.

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.

Unearned revenues – Unearned 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. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.

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

(continued)

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

Other Post-Employment Benefits (OPEB) – During the year ended June 30, 2008, the University adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for 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 balances subject to externally imposed stipulations requiring permanent maintenance. Such assets include the University's permanent endowment funds.

Restricted, expendable – this represents balances whose use by the University is subject to externally imposed stipulations as to use of the assets.

Unrestricted – this represents balances that are not subject to externally imposed stipulations. 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 balances 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

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

(continued)

liabilities are not considered to be material, no provision for income tax expense is reported in the accompanying financial statements.

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

Accounting Standards Recently Adopted – During the year ended June 30, 2014, the University adopted the provisions of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The University's implementation of GASB No. 65 required debt issuance costs to be expensed. The University recorded approximately \$0.8 million in professional services expense during fiscal 2014 year for debt issuance costs which had been previously capitalized, as it was not deemed an amount significant enough to warrant restating prior periods.

Implementation of GASB 65 also resulted in reclassifying the University's deferred loss on debt refunding balances from an offset to long-term debt into a deferred outflow. The deferred loss on debt refunding is the excess of the reacquisition price of refunded debt over its net carrying amount. The deferred loss on refunding balances that were reclassified were related to Series 2004I, Series 2006K, Series 2008L, Series 2012N and Series 2012O. Deferred loss on debt refunding is further described in note 11.

Accounting standards not yet implemented – Management is currently evaluating the effect of recently-issued accounting pronouncements. In particular, Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27, is expected to have a significant impact upon adoption.

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 \$121,740,862 at June 30, 2014 and \$107,773,030 at June 30, 2013.

Cash equivalents – These amounts consist of cash held by trustees as well as \$50,896,319 and \$64,608,043 of the amount invested in the Short Term Investment Pool (STIP) with the Montana Board of Investments at June 30, 2014 and 2013, 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

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

(continued)

value. The MSU Bozeman Foundation's investment pool totals \$166,300,216, of which the University owns \$8,857,554 or 5.3%. 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 \$849,459 at June 30, 2014 and \$1,141,800 at June 30, 2013.

The BOI did not impose any restrictions during fiscal years 2014 and 2013 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 2014 and 2013. Moreover, there were no losses during fiscal years 2014 and 2013 resulting from a default of the borrowers or State Street Bank and Trust.

During fiscal years 2014 and 2013, 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, 2014, the Quality D Short Term Investment Fund liquidity pool had an average duration of 37 days and an average weighted final maturity of 104 days for U.S. dollar collateral. The duration pool had an average duration of 42 days and an average weighted final maturity of 1,770 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 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. 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, 2014 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.

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

(continued)

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, 2014. Credit risk reflects the security quality rating, by investment security type, as of the report date. Interest rate risk is disclosed using effective duration. If a security investment type is unrated, the quality type is indicated by NR. Although STIP and TFIP investments have been rated by investment security type, neither has been rated by an NRSRO.

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

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

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

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

Cash equivalents and investments are categorized as follows at June 30, 2014:

Security Type	Fair Value	Moody’s Credit Quality Rating	Effective Duration (years)
State of Montana Short Term Investment Pool	\$ 51,460,417	NR***	N/A
U. S. Bank Money Market Funds (collateralized by U.S. Bank pool, not in the University’s name)	6,587,769	P-1	N/A
State of Montana Trust Fund Investment Pool*	15,985,966	NR***	5.13
Foundation Pooled Cash Equivalents and Investments**	7,422,177	NR***	N/A**
Non-hedging derivative investment value	1,556,177	Baa2	21.42
Guaranteed Investment Contract	53,548,232	A2	1.16

* 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

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

(continued)

NOTE 3 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts receivable consisted of the following as of June 30:

	2014	2013
Accounts receivable	\$ 10,104,936	\$ 9,774,446
Other receivables, including private grants and contracts	3,616,729	3,104,564
Gross accounts and grants receivable	13,721,665	12,879,010
Less allowance for uncollectible accounts	(4,141,663)	(3,662,012)
Net accounts and grants receivable	<u>\$ 9,580,002</u>	<u>\$ 9,216,998</u>

NOTE 4 – INVENTORIES

Inventories consisted of the following as of June 30:

	2014	2013
Bookstore	\$ 1,263,738	\$ 1,006,907
Food services	252,097	280,237
Facilities services	700,905	671,468
Livestock	907,995	622,408
Other	394,887	337,297
Total inventories	<u>\$ 3,519,622</u>	<u>\$ 2,918,317</u>

NOTE 5 – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses consisted of the following as of June 30:

	2014	2013
Library subscriptions	\$ 2,298,209	\$ 1,583,758
Other (including summer session payments)	2,112,476	1,197,497
Total prepaid expenses	<u>\$ 4,410,685</u>	<u>\$ 2,781,255</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, 2014 and 2013 are \$22,774,457 and \$22,593,240 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.

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

(continued)

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.

Other non-current assets –

During the year ended June 30, 2014, the MSU Alumni Foundation committed to a \$10 million gift, which will be paid to the University as needed to repay principal on its Series B debt. The gift is recorded in the accompanying financial statements as \$0.5 million in current receivables, and \$9.5 million in long-term assets. The Series B debt was issued to bridge fund construction of a classroom building until gift proceeds are received.

NOTE 8 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	<u>2014</u>	<u>2013</u>
Compensation, benefits and related liabilities	\$ 21,628,304	\$ 18,865,589
Accrued interest expense	795,959	557,721
Accounts payable and other accrued liabilities	13,724,624	15,796,164
Total	<u>\$ 36,148,887</u>	<u>\$ 35,219,474</u>

NOTE 9 – UNEARNED REVENUES

Unearned revenues consisted of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Grant and contract funds received in advance	\$ 3,103,104	\$ 2,918,358
Summer session payments received in advance	5,728,489	5,941,945
Other unearned revenues	1,438,713	1,317,416
Total	<u>\$ 10,270,306</u>	<u>\$ 10,177,719</u>

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

(continued)

Derivative financial instruments –**Description**

The University has two interest rate swaps as of June 30, 2014. 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, 2014:

Derivative Description	Trade Date	Effective Date	Termination Date	Terms	Counterparty
\$25.75 million fixed payer swap	3/10/2005	7/21/2005	11/15/2035*	Pay 3.953%, Receive SIFMA	Deutsche Bank AG
\$25.25 million basis swap	12/19/2006	11/15/2007	11/15/2035	Pay SIFMA, Receive 86.8% of 10-year SIFMA	Morgan Stanley Capital Services Inc.

*Counterparty may opt out in 2016

As of June 30, 2014, 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”) rate 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 0.65%. 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 future 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.

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

(continued)

The table below summarizes the reported balances as of and the derivative instrument activity during the years ended June 30, 2014 and 2013.

Type of derivative	Notional	Activity During 2014		Fair Value as of June 30, 2014	
		Classification	Amount	Classification	Amount
Cash flow hedge - Pay fixed interest rate swap	\$ 22,475,000	Interest expense	\$ 20,145	Loan receivable	\$ <u>306,860</u>
		Investment income	\$ 338,749		
		Deferred outflow increase/(decrease)	\$ (15,972)	Derivative liability	\$ <u>4,034,590</u>
Investment derivative - Basis swap	\$ 22,475,000	Investment loss	\$ 339,870	Investment (excluding interest accrued)	\$ <u>1,556,177</u>
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		
		Deferred outflow increase/(decrease)	\$ (2,202,172)	Derivative 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>

The objective and terms of the University's hedging derivative outstanding as of June 30, 2014 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	\$22,475,000	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, 2014, 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.

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

(continued)

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, 2014, 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, ADVANCES PAYABLE AND DEFERRED LOSS ON DEBT REFUNDING

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

	Coupon rate	2014	2013
Series 2004H	5.50%	\$ 600,000	\$ 1,165,000
Series 2004I	3.625%	760,000	1,485,000
Series 2005J	0.71% *	22,475,000	23,025,000
Series 2006K	4.00% – 4.50%	10,565,000	11,185,000
Series 2008L	3.75% – 5.00%	10,415,000	13,630,000
Series 2011M	2.00% – 5.00%	14,025,000	14,100,000
Series 2012N	2.00% – 4.00%	20,385,000	20,460,000
Series 2012O	0.886%–3.09%	27,905,000	28,365,000
Series 2013A	2.00% – 5.00%	55,480,000	-
Series 2014B	0.71%*	10,000,000	-
Total principal outstanding		\$ 172,610,000	\$ 113,415,000

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

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

(continued)

Revenue bonds are payable as follows:

During the year ending June 30,	Principal	Interest	Net Hedging Derivative Interest	Total
2015	\$ 7,115,000	\$ 5,550,673	\$ 861,921	\$ 13,527,594
2016	7,270,000	5,330,377	837,091	13,437,468
2017	8,620,000	5,106,176	811,320	14,537,496
2018	8,775,000	4,888,132	784,061	14,447,193
2019	16,590,000	4,652,421	755,853	21,998,274
2020-2024	39,235,000	19,194,863	3,304,864	61,734,727
2025-2029	29,465,000	13,155,083	2,387,249	45,007,332
2030-2034	22,635,000	9,034,465	1,244,853	32,914,318
2035-2039	16,960,000	5,472,779	-	22,432,779
2040-2044	15,945,000	2,072,624	-	18,017,624
Total cash requirements	172,610,000	\$ 74,457,593	\$ 10,987,212	\$ 258,054,805
Unamortized premium (discount) net	4,801,144			
Bond payable, net	\$ 177,411,144			

Description of bonded indebtedness—

Series A 2013, December 31, 2013— In December 2013, the University issued \$55,480,000 in Series A 2013 Facilities Improvement Revenue Bonds to fund the construction of a new 400-bed residence hall on the Bozeman campus, as well as renovate and expand three existing dining halls and fund major and deferred maintenance projects in various residence halls. Payments are scheduled each May and November through November, 2043. The bonds are secured by a first lien on and pledge of the net pledged revenues, as described in Note 17.

Series B 2014, January 31, 2014— In January 2014, the University issued \$10,000,000 in Series B 2014 Facilities Improvement Revenue Bonds to fund the construction of a new academic building on the Bozeman campus. The bonds were a direct placement with Wells Fargo Bank. The bonds contain an index rate mode whereby the interest rate is reset periodically at SIFMA plus an applicable spread based on the term of the rate period. Payments are scheduled each January and will amortize over a 5-year term at the greater of: 1) a minimum of \$500,000 per year, or 2) 85% of pledge receipts, so long as there is no more than \$8,000,000 outstanding at the time the index floating rate mode matures. The bonds are secured by a first lien on and pledge of the net pledged revenues, as described in Note 17.

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, 2014 was \$600,000. 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, 2014 was \$760,000. 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

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

(continued)

Securities in the weekly mode. The bonds were remarketed without bond insurance, because variable rate instruments backed by a direct-pay letter of credit were trading at more attractive rates from the bond issuer's perspective, which is a result of the insurer's downgrading and general market conditions. The bonds are no longer insured by Ambac; instead, the University entered into a Letter of Credit and Reimbursement Agreement with Wachovia Bank, NA ("Wachovia"), for a term of two years, in which Wachovia assumed a direct-pay responsibility for the bonds. Wachovia Bank was subsequently purchased by Wells Fargo. Because the letter of credit was scheduled to terminate in September of 2010, the University sought pricing on a renewed letter of credit as well as a direct-placement transaction. After reviewing several options, the University selected the direct-placement transaction, and on September 10, 2010, amended its bond indenture to permit issuance of the Series J bonds in the indexed floater mode, re-issuing the bonds in whole to Wells Fargo Bank. In place of a letter of credit fee, the University now pays Wells Fargo Bank a pre-determined basis point spread over and above the SIFMA weekly indexed rate. Principal payment amounts and dates remained the same as they were prior to the remarketing. 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.

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

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

(continued)

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.

Deferred Loss on Debt Refunding –

Deferred loss on debt refunding is the excess of the reacquisition price of refunded debt over its net carrying amount. For the year ended June 30, 2014, the University adopted the provisions of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, which required reclassifying deferred loss on debt refunding balances from an offset to long-term debt into a deferred outflow. The deferred loss on refunding balances that were reclassified were related to Series 2004I, Series 2006K, Series 2008L, Series 2012N and Series 2012O. This reclassification is reflected for all periods presented, including \$3.7 million for the year ended June 30, 2014 and \$4.1 million for the year ended June 30, 2013. Though the transactions resulted in an accounting loss, the refundings resulted in an economic gain, in that future principal plus interest (including issuance costs) will be less than the principal and interest that would have been paid had the original debt been paid out to its scheduled maturity. This occurs due to lower interest costs over the life of the debt.

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

	Interest Rate	Maturity Date	2014	2013
<i>BB&T</i>				
Information Technology Oracle Site License	4.24%	04/01/14	\$ -	\$ 144,535
<i>Academic Analytics</i>				
Information Technology Software License	-	11/01/15	216,100	-
<i>MSU-Northern Foundation</i>				
Consolidated Foundation Loan	6.00%	10/01/19	1,305,169	1,440,169
Total note principal outstanding			<u>\$ 1,521,269</u>	<u>\$ 1,584,704</u>

Notes are payable as follows:

During the year ending June 30,	Principal	Interest	Total
2015	\$ 325,500	\$ 78,310	\$ 403,810
2016	330,600	65,110	395,710
2017	220,000	51,910	271,910
2018	220,000	38,710	258,710
2019	220,000	25,510	245,510
2020-2024	205,169	12,310	217,479
Total	<u>\$ 1,521,269</u>	<u>\$ 271,860</u>	<u>\$ 1,793,129</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, 2014 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.

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

(continued)

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

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

During the year ending June 30,	Intercap Loans		MSTA Advances		DEQ SBECP		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2015	\$1,716,765	\$124,882	\$57,168	\$122,832	\$462,857	\$204,909	\$2,689,413
2016	1,669,530	107,820	58,595	121,405	464,395	185,771	2,607,516
2017	1,391,155	91,943	60,059	119,941	482,929	167,237	2,313,264
2018	1,188,038	78,210	61,559	118,441	498,355	147,811	2,092,414
2019	923,675	67,010	63,096	116,904	470,858	127,531	1,769,074
2020-2024	3,738,457	216,609	339,919	560,081	1,987,383	378,606	7,221,055
2025-2029	2,305,211	45,688	384,538	515,462	1,020,126	84,413	4,355,438
2030-2034	-	-	435,015	464,985	49,502	2,454	951,956
2035-2039	-	-	492,117	407,883	-	-	900,000
2040-2044	-	-	556,714	343,286	-	-	900,000
2045-2049	-	-	629,791	270,209	-	-	900,000
2050-2054	-	-	712,461	187,539	-	-	900,000
2055-2059	-	-	805,981	94,019	-	-	900,000
2060-2064	-	-	261,392	8,608	-	-	270,000
Total	\$ 12,932,831	\$ 732,162	\$4,918,405	\$3,451,595	\$ 5,436,405	\$ 1,298,732	\$ 28,770,130

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, 2014:

Payable during the year ending June 30,	Principal and Interest
2015	\$ 136,213
2016	115,003
2017	62,467
2018	37,260
2019	7,540
Total payments	358,483
Less amount representing interest	(30,494)
Principal balance outstanding	\$ 327,989

Assets acquired under capital leases consist of photocopiers and a digital mailing system. Such assets are carried at a cost of \$578,500 less accumulated depreciation of \$332,781 as of June 30, 2014.

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

(continued)

NOTE 13 – NET POSITION

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

	2014	2013 <i>(restated)</i>
Board of Regents' approved reserves	\$ 19,960,000	\$ 18,873,738
Other designated purposes	52,600,426	58,005,477
Total unrestricted net position	<u>\$ 72,560,426</u>	<u>\$ 76,879,215</u>

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

	2014	2013
Restricted - nonexpendable:		
Endowments	\$ 8,441,621	\$ 8,320,951
Loans	4,759,495	4,704,988
Total restricted - nonexpendable	<u>\$ 13,201,116</u>	<u>\$ 13,025,939</u>
Restricted - expendable:		
Scholarships	\$ 1,770,537	\$ 1,210,131
Research and other	2,915,252	2,436,545
Loans	394,105	392,163
Construction and renewal of plant facilities	4,845,605	4,966,545
Debt retirement	5,989,825	5,417,996
Total restricted - expendable	<u>\$ 15,915,324</u>	<u>\$ 14,423,380</u>

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

(continued)

NOTE 14 – OPERATING EXPENSES

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

	2014	2013 <i>(restated)</i>
Instruction	\$ 125,046,854	\$ 119,160,337
Organized research	103,836,945	101,713,468
Public service	26,859,315	25,971,914
Academic support	34,436,609	32,262,997
Student services	38,803,003	36,928,608
Institutional support	26,541,430	24,033,364
Plant-related expenses	38,294,651	37,679,148
Auxiliary enterprises	50,919,184	47,613,017
Scholarships and fellowships	27,201,954	26,541,997
Depreciation and amortization	30,834,839	30,025,952
	<u>\$ 502,774,784</u>	<u>\$ 481,930,802</u>

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

	2014	2013 <i>(restated)</i>
Compensation and benefits	\$ 291,328,431	\$ 276,921,086
OPEB	5,430,244	6,838,811
Supplies and service	79,517,594	75,170,001
Travel	12,181,353	12,084,781
Utilities	10,155,825	10,299,428
Other operating expenses	46,124,544	44,048,746
Scholarship and Fellowships	27,201,954	26,541,997
Depreciation and amortization	30,834,839	30,025,952
	<u>\$ 502,774,784</u>	<u>\$ 481,930,802</u>

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

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

ORP - The ORP is a defined contribution plan, established under authority of Title 19, Chapter 21, MCA. Benefits at retirement depend upon the amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. The University records employee/employer contributions, and remits monies to TIAA-CREF. Combined contributions cannot exceed 13% of the participants compensation (MCA §19-21-203). Individuals are immediately vested with

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

(continued)

contributions. Annual reports that include financial statements and required supplemental information on the plan are available from TIAA-CREF, 730 Third Avenue, New York, New York 10017-3206, Phone 1-800-842-2733.

TRS - This system was established in 1937 and is governed by Title 19, Chapter 20, MCA, as a cost-sharing multi-employer defined benefit pension plan providing retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, vocational-technical center or unit of the University System. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for benefits is 1/60 times creditable service years times average final compensation. Rights are vested after 5 years of creditable service, and vested employees may retire at or after age 50 and receive reduced retirement benefits. The active participant and employer contribution rates are statutorily determined (MCA §19-20-602 and §19-20-605). Additional information or a separate financial statement can be obtained from the State of Montana, Department of Administration, Teachers' Retirement Division, P.O. Box 200139, Helena, MT 59620-0139

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

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

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

(continued)

highest consecutive three-year-average salary. Retirees are eligible for cost of living adjustments the year after retirement. Benefits can be received at age 55 with 30 years of service, age 60 with 20 years of service, or age 62 with five years of service. Further information regarding the Civil Service Retirement System can be obtained from the U.S. Office of Personnel Management, 1900 E Street NW, Washington, DC 20415.

Pension data for the year ended June 30, 2014 is as follows:

	PERS	TRS	ORP	CSRS	FERS	GWPORS
Covered payroll**	\$ 48,696,177	\$ 12,626,701	\$ 129,285,453	\$ 478,864	\$ 445,492	\$ 1,522,114
Employer contributions*	\$ 3,987,797	\$ 2,070,669	\$ 7,584,844	\$ 44,789	\$ 47,940	\$ 138,176
% of covered payroll	8.170%	10.850%	4.490%-4.956%	7.00%-8.00%	11.900%	9.000%
Employee contributions	\$ 3,925,869	\$ 1,024,322	\$ 9,173,565	\$ 48,925	\$ 61,015	\$ 159,735
% of covered payroll	7.900%	8.150%	7.044%-7.900%	7.00%-8.00%	0.800%	10.560%
ORP contribution to TRS		\$ 5,733,353				
% of covered payroll		4.720%				
ORP contributions to PERS	\$ 286,090					
% of covered payroll	3.680%					

*Includes TRS Option 1 payments of \$645,985

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

Total payroll for 2014 and 2013 were \$226,031,786 and \$215,972,370, 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
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
2014	\$ 8,199,756	\$ 8,828,344	\$ 16,758,410	\$ 93,714	\$ 108,955	\$ 297,911

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.

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

(continued)

Other Post-Employment Benefits (OPEB) —

Authorization— Montana State law requires state agencies to provide access to health insurance benefits to eligible retirees up to Medicare – eligible age (65) (§2-18-704(1)(a), MCA). The Board of Regents of the Montana University System (MUS), having broad authority to act in the best interests of the MUS, has directed the Office of the Commissioner of Higher Education (OCHE) to provide access to health insurance benefits beyond age 65. Eligible University retirees may participate in the health insurance plan, provided that they contribute to the cost of the plan.

Eligibility— Retirees who are eligible to receive retirement benefits from Teachers Retirement System (TRS) or the Public Employees Retirement System (PERS) at the time employment ceases may participate in the plan. Retirees who are in the Optional Retirement Plan (ORP) (through TIAA-CREF) or any other defined contribution plan associated with the MUS must have worked five or more years and be age 50, or have worked 25 years with the MUS to be eligible for retiree insurance benefits. The MUS's Interunit Benefits Committee, at the direction of the OCHE, sets the premiums for such participation. Until a retiree reaches age 65, individual retiree participation premiums range from \$575-\$687 per month, depending on the level of deductible and other selected plan features. Upon reaching age 65 (Medicare eligibility), monthly participation premiums range from \$243-\$291 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.. The most recent actuarial determination was based on plan information as of July 1, 2013. At that time, the number of active University participants in the health insurance plan was 3,513. The total number of inactive (retiree and dependent) participants was 979. During the years ended June 30, 2014, 2013 and 2012, the University contributed \$35,014,278, \$31,509,597, and \$31,006,741, respectively, which was calculated based on a contribution rate per actively employed participants, whose annual covered payroll totaled \$201,051,981 as of the last actuarial valuation. Included within this amount, the University is deemed to have contributed \$862,890, \$474,723 and \$106,919, for retirees or their dependents during 2014, 2013 and 2012, respectively.

As of the latest actuarial evaluation, the accrued liability for retiree health benefits was \$49,869,358 all of which was unfunded. The percentage of annual OPEB cost contributed to the plan was 16%, 7% and 2% for 2014, 2013 and 2012 respectively. The funded status of the plan as of June 30 was 0% for each of the previous three years.

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

(continued)

The University's OPEB obligations were computed as follows for 2014, 2013 and 2012:

Year ended June 30,	2014	2013 <i>(restated)</i>	2012 <i>(restated)</i>
Annual Required Contribution	\$ 5,002,217	\$ 6,469,002	\$ 6,205,186
Interest on net OPEB Obligation	1,984,489	1,714,570	1,442,728
Amortization of net OPEB Obligation	(1,556,462)	(1,344,761)	(1,131,551)
Annual OPEB cost	5,430,244	6,838,811	6,516,363
Contributions made	(862,890)	(474,723)	(106,919)
Increase to net OPEB obligation	4,567,354	6,364,088	6,409,444
Net OPEB obligation – beginning of year	46,831,891	40,467,803	34,058,359
Net OPEB obligation – end of year	\$ 51,399,245	\$ 46,831,891	\$ 40,467,803

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:

Method	30-year, level percent of pay amortization on an open basis
Interest/Discount rate	4.25%
Projected payroll increases	2.50%
Healthcare cost trend rate	-8.0% (Medical and Prescription) for the initial year; -Rates decreasing from 7.5% to 5.0% for years 2014 - 2019 -4.5% (Medical and Prescription) in 2020 and beyond
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. Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and on the pattern of sharing of costs between the employer and plan members to that point. Calculations reflect a long-term perspective, and as such, may include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Termination Benefits — During the year ended June 30, 2014 and 2013, 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 2014. During the year ended June 30, 2014, incentive pay of \$244,048 for voluntary and involuntary terminations plus benefits of \$432,196 (including TRS payment of \$365,425) were recorded for a total of 17 employees, for a total of \$787,385 in expenses included in the accompanying financial statements. Of this total, \$676,244 was paid, with \$111,141 remaining to be paid, which was accrued as of June 30, 2014.

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

(continued)

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 automobile physical damage, aircraft physical damage and liability, general liability and property exposures. The RMTDD provides coverage, above self-insured retentions, by purchasing other commercial coverage using Alliant Insurance Services as the primary insurance broker for volunteer accidental death & dismemberment, boiler & machinery, crime, business interruption, cyber/data information security, fine art, foreign liability and special risks, inland marine, student medical and non-medical professional liability, excess property, and special events coverage. The insurance broker for crime insurance is HUB International, and coverage for aviation excess liability and aircraft hull liability is held through a specialty broker, Mountain Air Aviation. MSU secures athletic injury and catastrophic sports injury insurance for its NCAA programs through Bene Marc, Inc. and Summit America Insurance Services. In addition to these basic policies, the University's Department of Safety and Risk Management establishes guidelines and provides consultation in risk assessment, avoidance, acceptance and transfer. There have been no significant reductions in commercial property insurance protection from 2014 to 2015, and there were no instances in which settlements exceeded insurance coverage for the past three fiscal years.

Buildings and contents – are insured for replacement cost 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 – includes comprehensive liability for personal injury or property damage that may arise from a negligent act or omission of the state. Also included are automobile liability, watercraft and mobile equipment, and are provided for by the University's participation in the State's self-insurance program. If the RMTDD pays damages on a claim, the division has the right to recover costs or damages from any party in connection with the claim. There is no agency deductible applied to tort liability claims. There is a \$250/\$500 deductible for comprehensive/collision claims on state owned, loaned or leased vehicles.

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."

Self-Funded Programs – The University's employee 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 MUS adopted a self-funded workers' compensation insurance program, provided through membership in the MUS Self-Insured Workers' 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 Workers' Compensation Board recommended rates for premium payments. The MUS Workers' Compensation Board annually utilizes actuarially recommendations based upon the National Council for Compensation Insurance (NCCI) rates per \$100 in University payroll.

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

(continued)

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
2015	3,513,741
2016	2,661,023
2017	2,498,938
2018	1,337,078
2019	1,126,376
2020-2024	3,006,495
Total	\$ 14,143,651

Payments made under operating leases during the years ended June 2014 and 2013 totaled \$3,687,366 and \$3,876,788 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, 2014, the University had issued purchase orders committing the expenditure of approximately \$6.3 million 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. This amount is not considered a likely liability, and has 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 \$156,200. The cost of the improvements in 2014 totaled \$733,100 and \$290,634 in 2013. 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, 2014, the University had remaining budget authority on significant capital construction and renovation projects of approximately \$98.9 million. Certain of the projects are funded wholly or partially by the State's Long Range Building Program, and are administered by the State Architecture and Engineering Division, and do not represent a commitment of funds on the part of the University.

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

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

(continued)

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

All of the above revenues are cross-pledged to repay any and all of the secured debt. The remaining cash requirements to repay bonds, including principal and interest, total \$258,054,804 from July 1, 2014 through June 30, 2044.

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

Description	2014			2013		
	Pledged Revenue	Total Similar Revenue	% Pledged	Pledged Revenue	Total Similar Revenue (restated)	% Pledged
Student fees (no tuition is pledged)	\$ 9,020,551	\$37,049,930	24%	\$ 8,450,123	\$36,580,651	23%
Housing and residence hall dining revenues, net of related expenses	11,134,821	11,134,821	100%	10,727,320	10,727,320	100%
Grant and contract facility and administrative cost recoveries	1,388,104	15,861,311	9%	1,482,103	16,349,985	9%
Bozeman campus athletic events revenue	3,003,855	3,144,353	96%	2,428,568	2,574,711	94%
Bozeman campus parking revenues	2,155,927	2,155,927	100%	1,859,485	1,859,485	100%
Bozeman bookstore and museum lease income	709,739	709,739	100%	743,505	743,505	100%
Land grant income	3,375,355	3,375,355	100%	1,931,797	1,931,797	100%
Investment income	678,888	2,369,918	29%	462,917	1,260,416	37%
Total	<u>31,467,240</u>			<u>28,085,818</u>		
Less debt service requirements	<u>(11,676,936)</u>			<u>(10,449,013)</u>		
Excess of pledged revenue over debt service requirements	<u>\$ 19,790,304</u>			<u>\$ 17,636,805</u>		

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, 2014 and 2013, respectively, the Foundations provided \$20,292,081 and \$7,645,575 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 \$2,167,638

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

(continued)

and \$2,243,621 during the years ended 2014 and 2013, 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 \$196,520 during 2014 and \$179,982 during 2013. 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, 2014, \$62,500 remained as credit for the University, to be used toward payment for future services.

Friends of Montana Public Television provided \$913,625 during 2014 and \$1,076,497 during 2013 and Friends of KEMC Public Radio provided \$700,000 during 2014 and \$500,000 during 2013 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 \$1,434,961 and \$1,671,686 during the fiscal years ended June 2014 and 2013, 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 \$1,125,000 and \$1,100,000 in support of athletic programs during the years ended June 30, 2014 and 2013.

NOTE 19 – SUBSEQUENT EVENTS

In September of 2014, the Board of Regents authorized the Billings campus to repair and replace the existing roof for the Student Union Building, and seek an Intercap loan in the amount of \$850,000 to finance the project.

In November of 2014, the Board of Regents authorized the Bozeman campus to execute a lease with Bozeman Deaconess Hospital. This arrangement will provide space to accommodate elements of the University of Washington's School of Medicine Wyoming, Washington, Alaska, Montana, Idaho consortium (WWAMI) medical program by locating first, second and third year WWAMI students under one roof and facilitate additional integration of clinical and basic science teaching.

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 Montana State University Foundation (doing business as the Montana State University 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.

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

(continued)

Condensed financial information for each of the University's component units follows.

Montana State University
Condensed Combining Schedule of Component Unit Statements of Financial Position
As of June 30, 2014 or December 31, 2013*

	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	\$ 179,308,865	\$ 26,417,510	\$ 4,494,540	\$ 11,733,420	\$ 1,597,738	\$ 223,552,073
Amounts due from MSU	-	-	1,305,169	-	-	1,305,169
Other receivables, net	23,787,776	801,000	700,816	559,611	18,311	25,867,514
Capital assets, net	4,798,863	1,285,730	57,489	3,278,247	-	9,420,329
Other assets	419,638	166,678	12,271	603,014	828,889	2,030,490
Total assets	\$ 208,315,142	\$ 28,670,918	\$ 6,570,285	\$ 16,174,292	\$ 2,444,938	\$ 262,175,575
Liabilities:						
Accounts payable and other liabilities	\$ 749,536	\$ 808,421	\$ -	\$ 522,415	\$ 201,232	\$ 2,281,604
Amounts due to MSU	308,180	-	-	325,982	-	634,162
Notes, bonds and debt obligations	12,680,581	-	-	-	-	12,680,581
Liabilities to external parties	6,251,226	375,790	1,648,083	-	-	8,275,099
Custodial funds	10,944,300	1,663,547	-	-	-	12,607,847
Total liabilities	30,933,823	2,847,758	1,648,083	848,397	201,232	36,479,293
Net assets:						
Unrestricted	4,036,349	4,997,655	(989,968)	9,163,808	659,317	17,867,161
Temporarily restricted	72,938,520	7,671,201	2,015,440	5,337,335	240,479	88,202,975
Permanently restricted	100,406,450	13,154,304	3,896,730	824,752	1,343,910	119,626,146
Total net assets	177,381,319	25,823,160	4,922,202	15,325,895	2,243,706	225,696,282
Total liabilities and net assets	\$ 208,315,142	\$ 28,670,918	\$ 6,570,285	\$ 16,174,292	\$ 2,444,938	\$ 262,175,575

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

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

(continued)

Montana State University
Condensed Combining Schedule of Component Unit Statements of Activities
For the Year Ended June 30, 2014 or December 31, 2013*

	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	\$ 20,711,370	\$ 2,737,116	\$ 912,969	\$ 1,304,942	\$ 1,508,066	\$ 27,174,463
Investment income and unrealized gain on investments	19,454,660	3,236,941	479,057	1,332,117	188,670	24,691,445
Support from University	1,200,000	50,000	170,203	-	-	1,420,203
Other income	2,264,243	899,590	97,844	3,013,058	725,653	7,000,388
Total revenues	43,630,273	6,923,647	1,660,073	5,650,117	2,422,389	60,286,499
Expenses:						
University support	15,434,814	840,016	113,049	1,527,869	318,750	18,234,498
Scholarships and other program expenses	3,201,470	1,653,421	547,523	2,164,565	1,173,710	8,740,689
Supporting services	9,636,765	747,574	347,000	1,127,690	779,752	12,638,781
Total expenses	28,273,049	3,241,011	1,007,572	4,820,124	2,272,212	39,613,968
Change in net assets before nonoperating items	15,357,224	3,682,636	652,501	829,993	150,177	20,672,531
Nonoperating items	727,404	-	(49,596)	-	-	677,808
Change in net assets	16,084,628	3,682,636	602,905	829,993	150,177	21,350,339
Net assets, beginning of fiscal year	161,296,691	22,140,524	4,319,297	14,495,902	2,093,529	204,345,943
Net assets, end of fiscal year	\$ 177,381,319	\$ 25,823,160	\$ 4,922,202	\$ 15,325,895	\$ 2,243,706	\$ 225,696,282

Component Unit Investment Composition*:

	2014	2013
Pooled investments**:		
Equity securities	\$ 20,769,897	\$ 16,134,294
Debt securities	10,031,154	9,781,743
Alternative investments	114,398,921	97,842,120
Real Estate	27,627	2,441,209
Cash equivalents	12,883,975	4,785,108
Other pooled investments	38,042,865	34,454,006
US Treasuries	388,390	283,756
Other real estate	576,083	811,083
Other investments	9,020,015	8,199,368
Investments held in trust for others	10,775,737	8,780,531
Total	\$ 216,914,664	\$ 183,513,218

Component Unit Promises Receivable*:

	2014	2013
Receivable in one year	\$ 5,598,900	\$ 2,531,276
Receivable in one to five years	14,369,885	14,773,494
Receivable after five years	3,271,595	5,782,756
Less discounts and allowances	(2,018,487)	(2,098,472)
Total	\$ 21,221,893	\$ 20,989,054

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

(continued)

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

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

(continued)

Montana State University
Condensed Combining Schedule of Component Unit Statements of Activities (restated)
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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress For Other Post Retirement Benefits Plan

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, 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%
July 1, 2013	-	\$ 49,869,358	\$ 49,869,358	0.00%	\$ 201,051,981	24.80%

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, 2009	4.25	2.50%	55%
July 1, 2011	4.25	2.50%	55%
July 1, 2013	4.25	2.50%	55%

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

Unaudited Supplemental Information

- A-57** Montana State University-All Campuses and Agencies
- A-60** MSU Bozeman
- A-62** Montana Agricultural Experiment Station
- A-63** MSU Extension Service
- A-64** MSU Fire Services Training School
- A-65** MSU Billings
- A-69** MSU Northern
- A-70** Great Falls College Montana State University

Montana State University
 Unaudited Consolidating Statements of Net Position
 As of June 30, 2014

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	\$ 119,236,367	\$ 6,160,362	\$ 3,332,511	\$ 137,518	\$ 37,573,206	\$ 8,183,592	\$ 5,423,556	-	\$ 180,047,112
Short term investments	20,702,031	-	-	-	-	-	-	-	20,702,031
Securities lending collateral	834,121	-	-	-	15,338	-	-	-	849,459
Accounts and grants receivable, net	6,818,729	233,351	103,123	13,100	1,338,770	811,504	261,425	-	9,580,002
Amounts receivable from Federal government	15,358,100	-	364,027	-	40,802	128,625	91,343	-	15,982,897
Amounts receivable from primary government	448,712	-	-	-	6,934	27,505	27,082	-	510,233
Amounts receivable from Montana component units	-	-	-	-	5,469	-	-	-	5,469
Amounts receivable from MSU campuses	75,000	-	-	-	-	-	-	(75,000)	-
Loans receivable, net	2,918,811	-	-	-	363,284	256,036	-	-	3,538,131
Inventories	1,014,966	907,995	-	-	1,018,414	290,405	287,842	-	3,519,622
Prepaid expenses and other current assets	3,760,367	612	13,419	-	105,555	115,172	415,560	-	4,410,685
Total current assets	171,167,204	7,302,320	3,813,080	150,618	40,467,772	9,812,839	6,506,808	(75,000)	239,145,641
Noncurrent assets:									
Restricted cash and cash equivalents	997,150	-	-	-	12,264	63,563	-	-	1,072,977
Restricted investments	7,262,691	-	-	-	136	100,538	-	-	7,363,365
Loans receivable, net	15,591,979	-	-	-	2,671,354	1,360,619	-	-	19,623,952
Investments	50,753,342	12,382	24,685	190	226,682	-	-	-	51,017,281
Capital assets	291,398,940	19,321,024	246,810	186,778	51,254,505	19,524,615	21,267,819	-	403,200,491
Other noncurrent assets	9,841,999	-	-	-	-	-	-	-	9,841,999
Total noncurrent assets	375,846,101	19,333,406	271,495	186,968	54,164,941	21,049,335	21,267,819	-	492,120,065
Total assets	\$ 547,013,305	\$ 26,635,726	\$ 4,084,575	\$ 337,586	\$ 94,632,713	\$ 30,862,174	\$ 27,774,627	(75,000)	\$ 731,265,706
DEFERRED OUTFLOWS	\$ 6,792,687	\$ -	\$ -	\$ -	\$ 732,048	\$ 5,534	\$ -	\$ -	\$ 7,530,269
LIABILITIES									
Current liabilities:									
Accounts payable and accrued liabilities	\$ 26,230,594	\$ 1,316,814	\$ 1,020,146	\$ 49,644	\$ 4,649,357	\$ 1,880,703	\$ 1,001,629	-	\$ 36,148,887
Amounts payable to primary government	1,827,354	-	-	-	288,553	145,648	49,558	-	2,311,113
Amounts payable to Montana component units	107,047	-	-	-	-	-	-	-	107,047
Amounts payable to MSU campuses	-	-	-	-	-	75,000	-	(75,000)	-
Securities Lending Liability	834,121	-	-	-	15,338	-	-	-	849,459
Property held in trust for others	1,437,609	-	-	-	88,866	216,116	103,110	-	1,845,701
Deferred revenues	8,143,096	-	3,473	-	1,421,849	442,396	259,492	-	10,270,306
Compensated absences	11,619,647	1,276,280	806,372	24,310	2,030,932	585,469	441,854	-	16,784,864
Current portion debt and capital lease obligations	6,482,584	4,499	-	-	750,000	323,793	-	-	7,560,876
Total current liabilities	56,682,052	2,597,593	1,829,991	73,954	9,244,895	3,669,125	1,855,643	(75,000)	75,878,253
Noncurrent liabilities:									
Advances from primary government	16,872,009	-	-	-	2,793,853	860,944	524,046	-	21,050,852
Debt and capital lease obligations	161,316,580	6,067	-	-	9,561,502	1,097,302	-	-	171,981,451
Compensated absences	9,507,186	1,044,251	659,773	19,891	1,791,411	607,057	177,473	-	13,807,042
OPEB	34,653,263	2,349,946	2,079,437	102,200	7,412,661	3,068,383	1,733,355	-	51,399,245
Due to Federal government	18,267,129	-	-	-	3,065,375	1,441,953	-	-	22,774,457
Derivative instrument - swap liability	4,034,590	-	-	-	-	-	-	-	4,034,590
Total noncurrent liabilities	244,650,757	3,400,264	2,739,210	122,091	24,624,802	7,075,639	2,434,874	-	285,047,637
Total liabilities	\$ 301,332,809	\$ 5,997,857	\$ 4,569,201	\$ 196,045	\$ 33,869,697	\$ 10,744,764	\$ 4,290,517	(75,000)	\$ 360,925,890
NET POSITION									
Net investment in capital assets	\$ 180,112,455	\$ 19,250,447	\$ 246,810	\$ 186,778	\$ 38,599,695	\$ 17,102,818	\$ 20,694,216	-	\$ 276,193,219
Restricted - nonexpendable	12,071,349	-	-	-	711,011	407,456	11,300	-	13,201,116
Restricted - expendable	12,914,573	619,559	(455,017)	-	999,574	1,743,869	92,766	-	15,915,324
Unrestricted	47,374,806	767,863	(276,419)	(45,237)	21,184,784	868,801	2,685,828	-	72,560,426
Total net position	\$ 252,473,183	\$ 20,637,869	\$ (484,626)	\$ 141,541	\$ 61,495,064	\$ 20,122,944	\$ 23,484,110	-	\$ 377,870,085

Montana State University
 Unaudited Consolidating Statement of Revenues, Expenses and Changes in Net Position
 For the Year Ended June 30, 2014

	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	\$ 126,597,234	\$ -	\$ -	\$ -	\$ 23,225,280	\$ 6,120,470	\$ 5,766,216	\$ -	\$ 161,709,200
Federal appropriations	-	2,553,217	2,377,873	-	-	-	-	-	4,931,090
Federal grants and contracts	64,112,897	-	-	-	2,520,727	1,612,853	1,417,189	(130,519)	69,533,147
State grants and contracts	4,791,705	-	51,694	-	685,866	348,629	242,481	-	6,120,375
Non-governmental grants and contracts	8,970,411	-	231,351	-	379,012	40,000	83,578	-	9,704,352
Grant and contract facilities and administrative cost recoveries	15,416,567	-	-	-	272,797	171,084	863	-	15,861,311
Educational, public service and outreach revenues	17,035,096	2,826,881	4,177,596	90,106	1,242,514	222,814	209,625	(1,106,807)	24,697,825
Auxiliary - housing	15,875,617	-	-	-	1,878,042	579,373	-	-	18,333,032
Auxiliary - food service	16,425,741	-	-	-	1,248,316	703,316	260,252	-	18,637,625
Auxiliary - other auxiliary sales and services	3,851,943	-	-	-	3,858,638	729,859	1,656,333	(128,197)	9,968,576
Interest earned on loans	51,833	-	-	-	32,869	(9,347)	-	-	75,355
Other operating revenues	2,005,274	103,560	93	-	148,732	17,390	30,474	-	2,305,523
Total operating revenues	275,134,318	5,483,658	6,838,607	90,106	35,492,793	10,536,441	9,667,011	(1,365,523)	341,877,411
Operating expenses:									
Compensation and benefits	203,984,217	14,309,541	10,666,015	466,116	37,773,370	13,648,082	10,481,090	-	291,328,431
Annual Required Contribution OPEB	3,723,107	239,340	215,499	8,420	762,765	303,516	177,597	-	5,430,244
Operating expenses	109,583,222	4,510,669	2,472,194	319,010	20,792,149	6,563,288	5,104,307	(1,365,523)	147,979,316
Scholarships and fellowships	15,209,543	20,766	1,025	-	5,240,858	1,605,184	5,124,578	-	27,201,954
Depreciation and amortization	23,521,587	1,095,246	64,088	38,018	3,939,450	1,283,218	893,232	-	30,834,839
Total operating expenses	356,021,676	20,175,562	13,418,821	831,564	68,508,592	23,403,288	21,780,804	(1,365,523)	502,774,784
Operating loss	(80,887,358)	(14,691,904)	(6,580,214)	(741,458)	(33,015,799)	(12,866,847)	(12,113,793)	-	(160,897,373)
Nonoperating revenues (expenses):									
State and local appropriations	52,498,774	13,726,996	5,932,312	695,975	20,580,150	10,166,240	6,941,133	-	110,541,580
Pell Grants	15,343,193	-	-	-	6,836,095	2,462,782	4,331,612	-	28,973,682
Land grant and timber sales income	2,887,735	-	-	-	487,620	-	-	-	3,375,355
Gifts	11,948,727	-	235,543	500	2,175,171	863,756	117,071	-	15,340,768
Investment Income	2,582,835	9,441	4,317	196	52,796	9,979	7,710	-	2,667,274
Interest expense	(5,395,844)	(868)	-	-	(463,940)	(139,396)	(37,398)	-	(6,037,446)
Net nonoperating revenues (expenses)	79,865,420	13,735,569	6,172,172	696,671	29,667,892	13,363,361	11,360,128	-	154,861,213
Income before other revenues, expenses, gains and losses	(1,021,938)	(956,335)	(408,042)	(44,787)	(3,347,907)	496,514	(753,665)	-	(6,036,160)
Transfers in (out)	(30,911)	(31,171)	(16,439)	9,204	75,500	(43,683)	37,500	-	-
Gain or loss on disposal of capital assets	(325,250)	(7,017)	-	-	(4,893)	(6,957)	(3,967)	-	(348,084)
Additions to permanent endowments	46,755	-	-	-	-	-	-	-	46,755
Gifts, capital grants and contributions	14,587,915	21,025	-	-	482,726	397,548	604,311	-	16,093,525
Change in net position	13,256,571	(973,498)	(424,481)	(35,583)	(2,794,574)	843,422	(115,821)	-	9,756,036
Net position, beginning of year restated	239,216,612	21,611,367	(60,145)	177,124	64,289,638	19,279,522	23,599,931	-	368,114,049
Net position, end of year	\$ 252,473,183	\$ 20,637,869	\$ (484,626)	\$ 141,541	\$ 61,495,064	\$ 20,122,944	\$ 23,484,110	\$ -	\$ 377,870,085

Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2014

(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

	2014	2013	2012
Montana residents			
Undergraduate	13,789	13,871	14,001
Graduate	1,078	1,090	1,168
Nonresidents			
Undergraduate	3,735	3,503	3,108
Graduate	334	334	264
Western Undergraduate Exchange	1,117	1,026	879
Total	20,053	19,824	19,420

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 2013-2014 academic year, on a per-semester basis, were as follows:

	Resident	Nonresident
	Undergraduate—Graduate	Undergraduate (WUE)— Graduate
Bozeman Campus	\$3,376 – \$3,909	\$4,778 – \$10,891
Billings Campus	\$2,872 – \$3,312	\$4,030 – \$8,820
Northern Campus ⁽¹⁾	\$2,633 – \$3,363	\$3,673– \$9,283
Great Falls Campus ⁽²⁾	\$1,543– N/A	\$2,167 – N/A

(1) Average of lower and upper divisions.

(2) Undergraduate program only.

Employees and Graduate Assistants

As of Fall 2013, the University had 7,505 employees and utilized 666 graduate assistants as follows:

	Bozeman	Billings	Northern	Great Falls	Total
Faculty/Professional	2,040	477	178	168	2,863
State classified system	1,137	218	65	52	1,472
Temporary hourly	281	70	41	17	409
Students	2,284	300	119	58	2,761
Total employees	5,742	1,065	403	295	7,505
Graduate assistants	644	22	-	-	666

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 professionals 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, 2014**

(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 eleven 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; the Graduate School; and the University Honors College. In addition to a degree in their regular majors, honors students who complete certain 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, 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. Also under construction is a 400-bed residence hall, to house the University's growing freshman population.

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 extension offices operating in each of Montana's 56 counties, seven Agricultural Research Centers, five extended nursing campuses, a widely utilized teaching and research museum, and a statewide public television network.

Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2014

(continued)

Enrollment

		Student FTE for Fiscal Years Ended June 30,				
		2014	2013	2012	2011	2010
Resident	Undergraduate	7,852	7,798	7,702	7,435	7,174
	Gallatin College	306	271	254	217	-
	Graduate	746	730	802	801	797
	Total resident	8,904	8,799	8,758	8,453	7,971
Nonresident	Undergraduate	3,355	3,132	2,793	2,594	2,326
	Gallatin College	95	94	77	62	-
	Graduate	309	307	236	274	231
	Total nonresident	3,759	3,533	3,106	2,930	2,557
Western Undergraduate Exchange		711	609	488	438	348
Total		13,374	12,941	12,352	11,821	10,876

		Degrees Granted - Fiscal Years Ended June 30,				
		2014	2013	2012	2011	2010
	Undergraduate	2,310	1,980	1,853	1,831	1,835
	Graduate	563	577	591	548	519
	TOTAL:	2,873	2,557	2,444	2,379	2,354

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, and has been recognized for the high level of engagement and commitment to diversity. 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 the focal point, 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 and its related assessments 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, 2014**

(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 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 Microbiology and Immunology, a collaboration between the MAES and the College of Letters and Science. 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 departments of Microbiology and Immunology, Land Resources and Environmental Science, and Plant Science and Plant Pathology 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, 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%) funding. 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, 2014**

(continued)

MSU Extension Service (ES)

Agency Overview

The mission of Montana State University Extension is to improve the lives of Montana citizens by providing unbiased research-based education and information that integrates learning, discovery and engagement to strengthen the social, economic and environmental well-being of individuals, families, and communities. 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 7 reservations. 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 Montana State University Extension 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 4-H programs to serve youth throughout the state. In 2013, Montana 4-H reached 23,948 Montana youth, ages 6-19. Approximately 50 percent of these youth are involved in year-long community clubs, while the rest are active through a variety of short term and special interest education programs. These youth are supported by 4,327 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. The MSU Extension - Local Government Center provides the only extensive education and training for Montana's elected and government officials at the local and county level.

Montana State University Extension's strategic plan complements the university's strategic plan by focusing on engagement within Montana communities and the integration of learning, discovery, and engagement. Montana State University Extension is successful throughout the state in meeting and excelling at this tripartite mission. Within Montana State University's strategic plan, Montana State University Extension has a clear leadership role in increasing its capacity as a statewide resource for collaborating to respond to local needs and address the state's greatest challenges.

**Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2014**

(continued)

Fire Services Training School (FSTS)

Agency Overview

The Fire Services Training School (FSTS) is an educational outreach program of Montana State University's Extension Service. The 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
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2014**

(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. MSU Billings is unique in that it is one of a select few higher education institutions that also boasts an embedded two-year community college.

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 and eastern Montana. The University campus consists of four colleges: the College of Arts and Sciences, the College of Business, the College of Education and the College of Allied Health Professions. Seven miles west of the University campus sits City College at MSU Billings, which serves the comprehensive two-year mission of the university. 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 24 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. Disciplinary departments that have received national accreditation include the Music Department (National Association of Schools of Music), the Art Department (National Association of Schools of Art and Design), the Department of Health and Human Performance (Commission on Accreditation of Athletic Training Education), and the Department of Rehabilitation and Human Services (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.

Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2014

(continued)

Enrollment

	Student FTE for Fiscal Years Ended June 30,				
	2014	2013	2012	2011	2010
Resident					
Undergraduate	2,531	2,646	2,731	2,819	2,707
City College	819	849	947	990	924
Graduate	267	291	314	317	264
Total Resident	3,617	3,786	3,992	4,126	3,895
Nonresident					
Undergraduate	181	168	138	109	91
City College	24	28	24	16	12
Graduate	25	27	28	24	31
Total nonresident	230	223	190	149	134
Western Undergraduate Exchange					
Main Campus	262	263	252	233	193
City College	44	46	44	47	37
Total Western Undergraduate Exchange	306	309	296	280	230
Total	4,153	4,318	4,478	4,555	4,259

	Degrees Granted - Fiscal Years Ended June 30,				
	2014	2013	2012	2011	2010
University Campus:					
Associate Degrees	33	25	32	40	32
Bachelor's Degrees	502	568	510	533	547
Master's Degrees	127	139	152	125	128
Total University Campus	662	732	694	698	707
City College Campus:					
Certificates	26	26	36	29	28
Associate Degrees	240	258	291	212	196
Total City College	266	284	327	241	224
Grand Total Degrees	928	1,016	1,021	939	931

MSU Billings started the 2014-2015 academic year with 4,781 students, which is short of last fall's opening enrollment of 4,969. This is the second consecutive year where enrollment has been below 5,000 students. However, MSU Billings still holds strong as the third largest higher education unit in Montana. While FTE enrollment growth was down for 2014-2015, the new freshman class is up by nearly three percent with a marked increase of those students coming from the three Billings high schools. Factors contributing to decreased student FTE in 2013 and 2014 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. The University is in the process of creating a new Student Success Committee to address such issues as student success, enrollment and retention.

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. An Academic Program Prioritization Committee was created last year to evaluate every academic program from the ground up with the expectation that this evaluation process will result in a clearer understanding of which programs the university recognizes as imperative to our future. Conversely, the evaluation will also address programs that have outlived

Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2014

(continued)

their centrality to our mission. The initial work of the committee has been completed and will be evaluated over the coming year.

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. Three faculty members were recently inducted in to the National Academy of Inventors. The University received a \$1.2 million grant from the National Science Foundation (NSF) for a NOYCE grant to prepare teachers for rural Montana. MSU Billings received 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. Other new grants include Montana Board of Research & Commercialization Technology and additional INBRE grants.

Thanks to additional funding by the Montana Legislature in support of veterans returning to school, the University used proceeds to hire a coordinator to assist veterans returning to the classroom and to renovate dedicated space for veterans to meet and study.

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.

As part of the Governor's initiative to improve Montana's workforce, MSU Billings is working with local school districts to expand dual-enrollment programs whereby high school students can take college level courses taught at their high school and receive credit at both institutions. This gives students a chance to experience a college class and helps to open doors to further education and preparing them for college, as well as give them a head start when they do attend college. MSU Billings also offers a Connections program for high school students to participate in classes at the University.

The College of Business recently instituted a hall of fame to recognize our state's most respected and influential leaders for their commitment and investment in our communities. The hall of fame is designed to honor, preserve and perpetuate the names and outstanding accomplishments of Montana business leaders who have enhanced the state's business climate and made significant contributions to their communities, and who serve as role models for Montana's business students.

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 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.

MSU Billings student success continues with a Goldwater Scholarship recipient in 2014, the GNAC Female Athlete of the Year, and SkillsUSA and American Indian Business Leaders national competition winners to name a few.

Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2014

(continued)

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 \$1.4 million in scholarships in FY14.

Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2014

(continued)

MSU- Northern**Campus Overview**

Founded 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 of the Montana University System. 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 main campus on the Montana Hi-Line, 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,				
	2014	2013	2012	2011	2010
Resident					
Undergraduate	943	942	943	954	914
Graduate	65	69	52	61	66
Total resident	1,008	1,011	995	1,015	980
Nonresident					
Undergraduate	47	44	41	47	45
Graduate	0	0	0	0	0
Total nonresident	47	44	41	47	45
Western Undergraduate Exchange	93	101	89	93	93
Total	1,148	1,156	1,125	1,155	1,118
	Degrees Granted - Fiscal Years Ended June 30,				
	2014	2013	2012	2011	2010
Undergraduate	247	235	259	284	227
Graduate	27	23	10	39	13
Total:	274	258	269	323	240

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 and a number of two-year colleges throughout the Northwest help these institutions expand their program offerings in the realm of 4-year Baccalaureate degrees. Northern will also continue to explore expanded program offerings at our sites in Lewistown and Great Falls.

Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2014

(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.

Enrollment

	Student FTE for Fiscal Years Ended June 30,				
	2014	2013	2012	2011*	2010
Resident Undergraduate					
Great Falls	1,338	1,365	1,424	1,387	1,293
College of Technology Bozeman	-	-	-	-	182
Nonresident Undergraduate					
Great Falls	33	39	35	23	17
College of Technology Bozeman	-	-	-	-	46
Western Undergraduate Exchange	7	5	6	5	9
Total	1,378	1,409	1,465	1,415	1,547

*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.

Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2014

(continued)

	Degrees Granted - Fiscal Years Ended June 30,				
	2014	2013	2012	2011	2010
Certificate of Applied Science	68	51	64	62	63
Professional Certificate	29	25	21	20	4
Associate of Science/Arts	201	156	132	80	69
Associate of Applied Science	156	185	186	179	174
Total	454	417	403	341	310

Campus Outlook

The College is participating in a Department of Labor funded grant, which provides remote lab capabilities for online science and health science classes. The Great Falls College MSU North American Network of Science Labs Online (NANSLO) lab is one of only three in the world, and it allows remote delivery of scientific experiments to our students over the internet. The advantages of the remote lab over simulations or lab kits, which also can be used with online science classes, is that students have access to actual high-end laboratory equipment including microscopes, spectrophotometers and gas chromatographs for chemistry, biology and allied health courses. Up to five students can access a lab simultaneously with as many as four labs running concurrently. Real time video feeds allow students a more immersive experience which has been shown to improve the learning experience of online activities when compared to simulations alone.

In the past year, the College administration has placed a greater emphasis on offering and marketing courses that provide students with the ability of transferring to four year institutions, in order to complete an academic degree. To emphasize this change, the division formerly known as the Developmental Education and Transfer Division was renamed the General Education and Transfer Division. The division has expanded course offerings in the Fine Arts and Humanities area. New courses include: College/Community Choir, Spanish, upper level Calculus, and Introduction to Humanities. Fall semester 2014 was the initial semester for students to enroll in courses leading to a 1+3 Civil Engineering transfer option with Montana State University in Bozeman. Expansion of engineering transfer options with other MUS institutions are being explored. In addition, the division implemented efforts in several existing courses in order to encourage higher enrollments. The results have been positive; several math and science courses have seen significant increases in enrollments. The division is planning on offering more courses in the future, in order to expand the opportunities for students wishing to take advantage of the transfer mission.

The Business, Trades, and Technology Division is now able to provide an Associates of Science transfer degree with an emphasis in business, an option that was developed state-wide. Great Falls College MSU now has an agreement for transfer to MSU in Bozeman for business students. The Division also revised its former Sustainable Energy Technician program to an Industrial Technician program that expands curriculum in the areas of electrical and mechanical skills to broaden employment opportunities.

At the September 2014 meeting of the Montana University System Board of Regents, the College notified the Board of its intent to begin enrolling students into the Associate of Science – Registered Nurse (ASN) program in the fall semester of 2015.

MONTANA STATE
UNIVERSITY

UNIVERSITY RESPONSE



RECEIVED
FEB 03 2015
LEGISLATIVE AUDIT DIV.

January 28, 2015

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, 2014. 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,

A handwritten signature in black ink, appearing to read 'Waded Cruzado'.

Waded Cruzado
President

Office of the President

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