

Legislative Audit Division

State of Montana



Report to the Legislature

December 2004

Financial Audit

For the Fiscal Year Ended June 30, 2004

The University of Montana

A Component Unit of the State of Montana

We performed a financial audit of The University of Montana's consolidated financial statements for the fiscal year ended June 30, 2004. These financial statements present the financial position, the results of operations, and cash flows, on a consolidated basis, of all four campuses affiliated with The University of Montana: The University of Montana-Missoula; Montana Tech of The University of Montana; The University of Montana-Western; and The University of Montana-Helena College of Technology. The statements include component unit financial information as required under GASB 39, implemented by The University for the fiscal year ending June 30, 2004. This report contains an unqualified opinion on the financial statements and accompanying notes for the fiscal year ended June 30, 2004, and the comparative information for the fiscal year ended June 30, 2003. This opinion means the reader may rely on the financial statement information presented.

This audit is performed to attest to the fairness of the consolidated financial statements of The University of Montana. Audit issues, if any, identified during this audit have been discussed with university management.

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

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FINANCIAL AUDITS

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

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

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

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

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Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

December 2004

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on The University of Montana's consolidated financial statements for the fiscal year ended June 30, 2004. The statements include comparative information for the fiscal year ended June 30, 2003. The University requested this audit to provide timely audited financial statements to interested parties. The objective of our audit was to determine if The University's financial statements present fairly its financial position, changes in its financial position, and its cash flows for the fiscal year ended June 30, 2004. This objective included determining The University's compliance with laws and regulations having a direct and material impact on the financial statements. Our opinion for fiscal year 2003 is based on the audit we performed in the fall of 2003. For the period ending June 30, 2004, The University implemented Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement 14.

The University of Montana consists of campuses located in Missoula, Butte, Dillon, and Helena. The campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges and provide a diversity of undergraduate and graduate academic and two-year vocational/technical programs to students.

The University of Montana-Missoula is a comprehensive university offering four-year undergraduate programs along with master and doctoral graduate programs. It includes professional schools and significant research activities. The campus is the center of liberal arts education in the Montana University System and operates the only law school in the system. Other schools include business administration, education, fine arts, forestry, pharmacy and allied health services, and journalism. In addition, the campus includes a two-year college of technology that provides a broad range of technical and occupational education and training courses.

Montana Tech of The University of Montana provides a variety of four-year and graduate programs with a focus on mineral, geological, environmental, petroleum, mining, and other engineering and science programs and majors. It also includes a college of technology that provides two-year degrees in various occupational and technical programs and core education courses.

The University of Montana-Western provides both two-year and four-year undergraduate degree programs with a focus on elementary and secondary education. It also provides a four-year liberal arts degree with several emphases that complement the education programs.

The University of Montana-Helena College of Technology provides two-year Associate of Science degree programs and a variety of other occupational, technical, and training specialties. These areas include accounting technology, carpentry, computer technology, practical nursing, electronics technology, and welding technology. The college is expanding its offerings and will serve as a higher education center by offering certain courses transferable to degree programs offered at other campuses of the Montana University System.

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

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

This report does not contain any recommendations to The University. Audit issues, if any, identified during this audit have been discussed with university management. The University's response to this report is on page B-1.

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

Respectfully submitted,

(Signature on File)

Scott A. Seacat
Legislative Auditor

Appointed and Administrative Officials

Board of Regents of Higher Education

John A. Mercer, Chair
 Mike Foster, Vice Chair
 Karla French, Student Regent
 Lynn Morrison-Hamilton, Regent
 Richard Roehm, Regent
 Mark Semmens, Regent
 Lila Taylor, Regent

Judy Martz, Governor*
 Linda McCullough, Superintendent of Public Instruction*

Commissioner of Higher Education

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

The University of Montana, All Campuses

George M. Dennison	President
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The University of Montana-Missoula

Lois Muir	University Provost and Vice President for Academic Affairs
Robert Durringer	Vice President for Administration and Finance and University Vice President
Daniel J. Dwyer	Vice President for Research and Development and University Vice President
Teresa S. Branch	Vice President for Student Affairs and University Vice President
David Aronofsky	Legal Counsel
James R. Darcy	Director of Business Services
A. William Muse	Executive Director of Planning, Budget and Analysis

*Ex officio members of the Board of Regents

Appointed and Administrative Officials

Montana Tech of The University of Montana

W. Franklin Gilmore	Chancellor and University Executive and Chief Fiscal Officer
Susan B. Patton	Vice Chancellor for Academic Affairs and Research and University Associate Provost
Joseph F. Figueira	Vice Chancellor for Research and Graduate Studies and University Associate Vice President
John C. Badovinac	Controller/Business Manager
Lynn Job	Director of Contracts and Grants

The University of Montana-Western

Richard Storey	Chancellor
Thomas R. Yahraes	Vice Chancellor for Institutional Advancement
Susan D. Briggs	Vice Chancellor for Administration and Finance
Virginia Dale	Director of Business Services

The University of Montana-Helena College of Technology

Barbara Yahrah	Interim Associate Dean for Academic Affairs
Cristobal Valdez	Interim Assistant Dean for Student Affairs
Russ Fillner	Controller

Members of the audit staff involved in this audit were Laurie Barrett, John Fine, Danielle Gamradt, Jim Manning, Delsi Plummer, and Vickie Rauser.

LEGISLATIVE AUDIT DIVISION

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



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

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Consolidated Statement of Net Assets of The University of Montana, a component unit of the state of Montana, as of June 30, 2004 and 2003, and the related Consolidated Statement of Revenues, Expenses and Changes in Net Assets and Consolidated Statement of Cash Flows for the fiscal years then ended and the Combined Statement of Financial Position-Component Units as of June 30, 2004 and the related Combined Statement of Activities-Component Units for the fiscal year then ended. The information contained in these financial statements is the responsibility of the university's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the university's aggregate discretely presented component units. Those statements, which include The University of Montana Foundation, the Montana Tech Foundation, The University of Montana-Western Foundation, and the Montana Grizzly Scholarship Association, were audited by other auditors whose reports thereon have been furnished to us, and our opinion insofar as it relates to the amounts included for the audited component units of the university, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our 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 University of Montana as of June 30, 2004, and 2003, and the results of its operations and its cash flows for the fiscal years then ended, and the financial position of the aggregate discretely presented component units as of June 30, 2004, and the related changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, for the period ending June 30, 2004 the university implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14.

The Management's Discussion and Analysis on pages A-3 through A-9 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements. The supplemental information on enrollment, employees, and degrees granted on page A-39 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

November 19, 2004

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

THE UNIVERSITY OF MONTANA

THE UNIVERSITY OF MONTANA - MISSOULA

THE UNIVERSITY OF MONTANA - WESTERN

THE UNIVERSITY OF MONTANA - HELENA COLLEGE OF TECHNOLOGY

MONTANA TECH OF THE UNIVERSITY OF MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR ENDED JUNE 30, 2004

OVERVIEW

The University of Montana (University) is comprised of four campuses: The University of Montana - Missoula; The University of Montana - Western; The University of Montana - Helena College of Technology; and Montana Tech of The University of Montana. These are the consolidated financial statements for the four campuses, and included are three basic statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The discussion and analysis which follows provides a comparative overview of the University's financial position and operating results for the fiscal years ended June 30, 2004 and 2003, and should be read in conjunction with the fiscal year 2004 financial statements.

NEW ACCOUNTING GUIDANCE

In May 2002, the Governmental Accounting Standards Board (GASB) issued Statement No. 39, "Determining Whether Certain Organizations are Component Units". This guidance must be applied to financial statements for accounting periods which begin after June 15, 2003, or in our case for these financial statements for the fiscal year ended June 30, 2004. Accordingly, we have included in these financial statements information on four entities which qualify as component units. Those are The University of Montana Foundation, the Montana Tech Foundation, The University of Montana - Western Foundation, and the Montana Grizzly Scholarship Association.

These four component units are legally separate, tax-exempt entities that issue their own financial statements in a format promulgated by the Financial Accounting Standards Board (FASB), and not GASB. As a result, their financial information is issued on a separate page from the consolidated information of the four campuses.

FINANCIAL HIGHLIGHTS OF FISCAL YEAR 2004

- Tuition increased 8.75% at the Missoula and Western campuses and 12% at the Montana Tech campus for both resident and non-resident undergraduate and graduate program students for the year ended June 30, 2004 compared to the same period in 2003. Tuition increased 6% at the College of Technology campuses for the same period. The tuition increase resulted in approximately \$3,100,000 in increased tuition revenue, net of scholarship allowances in fiscal year 2004 compared to fiscal year 2003.
- The University issued \$40,490,000 of Series I Refunding and Facilities Improvement Revenue Bonds in April 2004, at rates which ranged from 3.00% to 4.75%. The proceeds of the issuance were used to pay and discharge \$30,725,000 of Facilities Improvement and Refunding Revenue Bonds, Series A 1993, to help fund an addition to the School of Pharmacy and to perform various deferred maintenance projects at the Missoula campus.

- Federal contract and grant revenue increased by approximately \$8,100,000, from \$56,600,000 to \$64,700,000 in fiscal year 2004 compared to fiscal year 2003. The Pharmacy School on the Missoula campus was the single largest source of that increased revenue.
- Considerable attention was given during the fiscal year to the financial and budgetary difficulties experienced by the UM Athletics Department at the Missoula campus. This culminated in the appointment of an inquiry panel by the Commissioner of Higher Education, which performed a review on UM Athletics. The panel issued a report of findings and recommendations in May 2004. It included a number of recommendations which were categorized as accounting, auditing, or budget related, and exonerated the UM of wrongdoing and revealed there had been no National Collegiate Athletic Association violations. As a result of the report, a number of mechanisms related to control, monitoring and reporting on the Athletics Department financial status were implemented. A plan is in place to eliminate the accumulated deficit in the Athletics Department within five years. The deficit elimination plan is in place and its progress will be monitored closely by UM Athletics, UM Administration, and the Board of Regents.

USING THE FINANCIAL STATEMENTS

The University's financial statements consist of the following three statements:

- Statement of Nets Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows

In addition, we prepare and present a Statement of Activities and a Statement of Financial Position for the four component units mentioned previously. A discussion of each of the individual statements follows. Some key points to be aware of regarding the statements are:

- These are consolidated financial statements representing the University's four campuses and the component units mentioned previously.
- The financial statements are prepared using the accrual basis of accounting, which means revenues are reported when earned, and expenses are reported when incurred, regardless of when the cash was actually received or paid.
- Assets and liabilities presented in the financial statements are generally measured at current value, although capital assets are stated at historical cost less an allowance for accumulated depreciation.
- Capital assets are classified as depreciable and non-depreciable. Depreciation is treated as an operating expense.
- Assets and liabilities are treated as current (Due within one year) or as non-current (Due in more than one year), and are presented in the Statement of Net Assets in order of their relative liquidity.
- Revenues and expenses are classified as operating or non-operating. "Operating" is defined as resulting from transactions involving exchanges of goods or services for payment, while "non-operating" is defined as resulting from transactions not involving the exchange of goods or services for payment. We show a substantial operating loss on the Statement of Revenues, Expenses, and Changes in Net Assets primarily because GASB requires that *General Operating*

Fund expenses be reported as operating, while the State Appropriation - which is General Operating Fund revenue - must be reported as non-operating.

- Tuition and fees are reported net of any scholarships or fellowships that were applied directly to a student's account. The reason for "netting" these is to keep the University financial statements from "double counting" this revenue.

STATEMENT OF NET ASSETS

The Statement of Net Assets reflects the financial position of the University the end of the fiscal year. The changes in net assets that occur over time indicate improvements or deterioration in the University's financial position.

A summary of the Statement of Net Assets follows:

<u>Description</u>	For the years ended June 30,	
	<u>2004</u>	<u>2003</u>
Total current assets	\$76,414,479	\$68,667,583
Total non-current assets	272,968,569	263,743,807
Total assets	\$349,383,048	\$332,411,390
Total current liabilities	\$42,663,290	\$39,851,754
Total non-current liabilities	162,704,490	154,229,492
Total liabilities	\$205,367,780	\$194,081,246
Invested in Capital Assets, Net of Related Debt	\$108,316,821	\$107,983,903
Restricted		
Nonexpendable	10,057,936	9,627,832
Expendable	5,363,546	4,475,344
Unrestricted	20,276,965	16,243,065
Total net assets	\$144,015,268	\$138,330,144
Total liabilities and net assets	\$ 349,383,048	\$ 332,411,390

Events or developments that occurred during fiscal year 2004 which had a significant impact on the Statement of Net Assets include:

- **Sale in August 2003 of approximately \$9,000,000 invested in the Montana Board of Investments Trust Fund Bond Pool.** This had the effect of increasing current assets – cash and cash equivalents while decreasing current assets - investments.
- **Issuance of \$40,490,000 of Series I Refunding and Facilities Improvement Revenue Bonds in April 2004 and subsequent retirement of approximately \$30,540,000 of Series A Facilities Improvement and Refunding Bonds.** This had the net effect of increasing

liabilities-long term obligations, while also increasing non-current assets – other long-term investments.

- **Capitalization of approximately \$11,000,000 of costs related to the Lewis and Clark Village student housing complex.** This had the effect of increasing non-current assets- capital assets, net accompanied by either decreases to non-current assets – restricted cash and cash equivalents or increases to various liability accounts.
- **Recording of prior period adjustments.** In 2004, it was determined that certain transactions that occurred during previous fiscal years were incorrectly reported. The correction of these transactions has resulted in a restatement of the consolidated financial statements for the year ending June 30, 2003.

The first item requiring restatement is an endowment investment that originated in the year ending June 30, 2002. This investment and the associated income and expenses were originally reflected on the financial statements of the University of Montana Foundation. Since then, it has been determined that the investment and associated revenues and expenses should be recorded by the University of Montana and that the investment will be managed by the University of Montana Foundation. This has resulted in a prior period adjustment on the Statement of Net Assets for the year ended June 30, 2003 of approximately \$4,400,000 and a restatement of activity on the financial statements for that fiscal year.

The second item is a liability that was previously unrecorded on the University’s consolidated financial statements. This liability originated from a loan by the Montana Science and Technology Alliance (MSTA). The loan, which matures in 2061, was issued in 1994 and the amounts received by the University were incorrectly recorded as revenue and payments on the loan as expenses. The correction of this has resulted in a prior period adjustment of \$3,600,000 on the Statement of Net Assets for the year ended June 30, 2003.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses, and Changes in Nets Assets presents the results of the University’s operational activities for the fiscal year, categorizing them as either operating or non-operating items. See Consolidated Statements Financial Statement Note 2, “Summary of Significant Accounting Policies” for further explanation. Consistent with the accrual method of accounting, the current year’s revenues and expenses are recognized when they were earned or incurred, regardless of when cash was received or paid.

A summary of the Statement of Revenues, Expenses and Changes in Net Assets follows:

<u>Description</u>	<u>For the years ended June 30,</u>	
	<u>2004</u>	<u>(Restated)</u> <u>2003</u>
Operating revenue	\$206,144,258	\$193,494,096
Operating expenses	266,274,831	254,471,951
Operating loss	(60,130,573)	(60,977,855)
Non-operating revenues	61,777,650	60,522,733
Income (loss) before other revenues	1,647,077	(455,122)
Other revenues	4,414,321	1,657,807

Net increase in net assets	6,061,398	1,202,685
Net assets, beginning of year, as adjusted	137,953,870	137,127,459
Net assets, end of year	\$144,015,268	\$138,330,144

The following provides a comparative analysis of revenues and expenses for the years ended June 30, 2004 and 2003.

For the years ended June 30,					
(Restated)					
	2004		2003		Change
	(dollar amounts in millions)				
REVENUES	Amount	Percent	Amount	Percent	Amount
Tuition and fees, net	\$76.601	27.4%	\$73.487	28.0%	\$3.114
Federal grants and contracts	64.725	23.2%	56.634	21.6%	8.091
State & local grants/contracts	5.636	2.0%	6.635	2.5%	(.999)
Nongovernmental grants/contracts	4.801	1.7%	5.319	2.0%	(.518)
Indirect cost recoveries	9.699	3.5%	8.575	3.3%	1.124
Sales/services of educational departments	10.513	3.8%	10.216	3.9%	.297
Auxiliary enterprise charges	29.562	10.6%	28.365	10.8%	1.197
State appropriations	58.048	20.8%	55.277	21.1%	2.771
Private gifts	8.445	3.0%	8.154	3.1%	.291
Capital grants and gifts	4.414	1.6%	1.658	.6%	2.756
All other sources combined	6.943	2.4%	8.101	3.1%	(1.158)
	\$279.387	100.0%	\$262.421	100.0%	\$16.966

For the years ended June 30,					
(dollar amounts in millions)					
	2004		2003		Change
EXPENSES	Amount	Percent	Amount	Percent	Amount
Compensation and benefits	\$168.369	61.6%	\$160.412	61.4%	\$7.957
Other operating expenses	66.901	24.5%	63.725	24.4%	3.176
Scholarships and fellowships	15.166	5.5%	14.728	5.6%	.438
Depreciation and amortization	15.838	5.8%	15.606	6.0%	.232
Interest expense	7.052	2.6%	6.746	2.6%	.306
	\$273.326	100.0%	\$261.217	100.0%	\$12.109

Comments about specific revenue and expense items are:

- **Tuition and fees, net:** Increases in tuition rates and some fee rates at all campuses were the primary reasons for the 4.2% increase in tuition and fees, net.
- **Federal contracts and grants and indirect cost recoveries.** The 14.3% increase in revenue from fiscal year 2003 to 2004 is attributable to a system wide focus on increasing our research dollars, with the Pharmacy School on the Missoula campus the single largest source of this revenue. A byproduct of the increase in federal contracts and grants is that indirect cost

recoveries, which result from such federal contracts and grants, increased by 13.1% during the same period.

- **State appropriations.** State appropriations to the four campuses increased in the fiscal year 2004 by about \$2,770,000, or 5%. Most of this increase is to help cover a significant increase in the cost of employee health insurance premiums.
- **Capital grants and gifts.** Capital grants and gifts increased by approximately \$2,800,000 from fiscal year 2003 as compared to fiscal year 2004. The increase was mainly due to the contribution received from the State of Montana Architecture and Engineering Agency for the renovation of the Chemistry building.
- **Expenses:** Overall expenses increased by \$12,100,000 from fiscal year 2003 to 2004. This was consistent with the \$14,300,000 increase in total revenue, and the percent portions expended in various natural categories of expense, such as salaries, operating expenses, etc. was very consistent from 2003 to 2004.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about the University's sources and uses of cash during the fiscal year. This statement aids in assessing the University's ability to meet obligations and commitments as they become due, their ability to generate future cash flows, and their needs for external financing. As required by GASB, the statement is presented using the "Direct Method", which focuses on those transactions that either provided or used cash during the fiscal year.

<u>CASH FLOW CATEGORY</u>	For years ended June 30,	
	<u>2004</u>	<u>2003</u>
Cash Provided by(Used for):		
Operating Activities	\$ (42,144,484)	\$ (42,819,671)
Non-capital Financial Activities	67,686,518	64,427,881
Capital and Related Financial Activities	(24,464,908)	(946,497)
Investing Activities	1,126,341	(9,526,422)
Net Increase in Cash	2,203,467	11,135,291
Cash and Cash Equivalents, beginning of year	55,394,039	44,258,748
Cash and Cash Equivalents, end of year	\$57,597,506	\$55,394,039

Specific events or cash transactions outside the "everyday realm" of collecting revenues and paying obligations that had significant influence on the \$2,200,000 increase in cash (a net cash inflow) during fiscal year 2004 were:

- The net proceeds from the Series I Revenue Bonds of \$40,490,000 were partially offset by the retirement of approximately \$30,500,000 of Series A Revenue Bonds, resulting in a net cash increase of about \$10,000,000.
- The sale of approximately \$9,000,000 in the Montana Board of Investments Trust Fund Bond Pool in August 2003 had the effect of being a source of cash in the "Investing Activities" category.

- Large capital expenditures, primarily attributable to the Lewis and Clark Village student housing complex, led to our using significantly more cash to acquire capital assets in fiscal year 2004 as compared to fiscal year 2003.

DISCUSSION OF SIGNIFICANT PENDING ECONOMIC AND FINANCIAL ISSUES

The issues we view as significant pending economic or financial issues for the four campuses of the University are:

- The combination of a continuation of a five-year trend of decreases in non-resident student enrollment plus a shrinking pool in Montana of graduating high school seniors will challenge our ability to grow- or perhaps even to maintain- our current enrollment levels. We committed additional financial resources to out-of-state recruitment in fiscal year 2005, and our preliminary indications, based on fall semester of fiscal year 2005, are that the strategy might help us achieve our goal.
- The current plan of a zero percent pay increase for all of our employees for fiscal year 2005 gives us concern about our ability to attract and retain high quality faculty and staff.

The University of Montana
A Component Unit of the State of Montana

Consolidated Statements of Net Assets

At June 30,

	2004	Restated 2003
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 52,870,136	\$ 38,465,966
Investments	3,464,732	10,737,714
Accounts and grants receivable, net	5,017,907	5,474,963
Due from Federal government	7,664,789	5,966,958
Due from primary government	1,132,278	1,656,537
Due from other State of Montana component units	23,201	338,382
Loans to students, net	2,539,048	2,704,886
Inventories	1,695,872	1,678,645
Prepaid expenses and deferred charges	2,006,516	1,643,532
Total current assets	\$ 76,414,479	\$ 68,667,583
Noncurrent Assets		
Restricted cash and cash equivalents	\$ 4,727,370	\$ 16,928,073
Endowment investments	9,686,743	9,756,898
Other long term investments	8,182,831	823,502
Loans to students, net	8,765,975	7,758,788
Bond issuance costs	2,106,445	2,181,970
Capital assets, net	238,949,342	225,520,109
Securities lending collateral	549,863	774,467
Total Noncurrent Assets	\$ 272,968,569	\$ 263,743,807
Total Assets	\$ 349,383,048	\$ 332,411,390
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 15,859,619	\$ 16,355,095
Due to Federal government	2,692,281	2,411,611
Due to primary government	630,485	657,314
Due to other State of Montana component units	144,106	18,677
Student and other deposits	2,310,446	1,492,811
Deferred revenue	10,166,492	8,227,493
Accrued compensated absences	6,833,716	6,453,021
Current portion of long-term obligations	4,026,145	4,235,732
Total Current Liabilities	\$ 42,663,290	\$ 39,851,754
Noncurrent Liabilities		
Accrued compensated absences	\$ 10,842,735	\$ 10,921,913
Long term obligations	136,796,939	129,064,829
Advances from primary government	5,042,707	4,563,541
Due to Federal Government	9,472,246	8,904,742
Securities lending liability	549,863	774,467
Total Noncurrent Liabilities	\$ 162,704,490	\$ 154,229,492
Total Liabilities	\$ 205,367,780	\$ 194,081,246
NET ASSETS		
Invested in capital assets, net of related debt	\$ 108,316,821	\$ 107,983,903
Restricted for:		
Nonexpendable		
Endowments	8,297,565	7,986,106
Loans	1,760,371	1,641,726
Expendable		
Loans	1,753,508	1,416,424
Scholarships, research, instruction, and other	3,610,038	3,058,920
Unrestricted	20,276,965	16,243,065
Total Net Assets	\$ 144,015,268	\$ 138,330,144
Total Liabilities & Net Assets	\$ 349,383,048	\$ 332,411,390

The University of Montana
A Component Unit of the State of Montana

Combined Statement of Financial Position - Component Units

June 30, 2004

ASSETS	
Cash and cash equivalents	\$ 3,434,215
Short -term investments	7,718,443
Accrued dividends and interest	128,514
Investments	121,573,733
Contributions receivable, net	14,737,552
Contracts and notes receivable, net	6,922
Student loans and other receivables	470,480
Depreciable assets, net of accumulated depreciation	5,665,779
Other assets	450,123
Total Assets	\$154,185,761
LIABILITIES	
Accounts payable	\$ 40,168
Accrued expenses	45,624
Compensated absences	125,551
Note payable - bank	356,500
Note payable - long-term	522,211
Liabilities to external beneficiaries	2,394,930
Custodial funds	7,872,061
Other liabilities	328,735
Total Liabilities	\$ 11,685,780
NET ASSETS	
Net assets - unrestricted	8,877,184
Net assets - Temporarily restricted	46,976,433
Net assets - permanently restricted	86,646,364
Total Net Assets	\$142,499,981
Total Liabilities & Net Assets	\$154,185,761

The University of Montana

A Component Unit of the State of Montana

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30,

	2004	Restated 2003
OPERATING REVENUES:		
Tuition and fees (net of scholarship allowances in 2004 and 2003 of \$17,764,238 and \$16,729,969 respectively; 2004 and 2003 revenues of \$9,547,718 and \$7,603,727, respectively, are pledged)	\$ 76,601,413	\$ 73,485,612
Federal grants and contracts	64,724,689	56,633,643
State and local grants and contracts	5,635,503	6,635,483
Nongovernmental grants and contracts	4,800,632	5,319,300
Indirect cost recoveries	9,698,812	8,575,287
Sales and services of educational departments (2004 and 2003 revenues of \$3,894,755 and \$3,018,136 respectively, are pledged)	10,513,183	10,216,233
Auxiliary enterprises charges:		
Residential life (net of scholarship allowances in 2004 and 2003 of \$633,999 and \$593,115 respectively; 2004 and 2003 revenues of \$10,157,309 and \$9,820,916 respectively, are pledged)	10,182,766	9,845,714
Food services (net of scholarship allowances in 2004 and 2003 of \$633,999 and \$593,115, respectively; 2004 and 2003 revenues of \$9,069,374 and \$8,502,712, respectively, are pledged)	9,447,463	8,643,475
Other auxiliary revenues (2004 and 2003 revenues of \$8,925,995 and \$9,298,215 respectively, are pledged)	9,932,130	9,876,116
Interest earned on loans to students	26,019	38,329
Other operating revenues	4,581,648	4,224,904
Total operating revenues	\$ 206,144,258	\$ 193,494,096
OPERATING EXPENSES:		
Compensation and employee benefits	\$ 168,369,266	\$ 160,412,153
Other (note 19)	66,901,057	63,724,669
Scholarships and fellowships	15,166,146	14,728,724
Depreciation and amortization	15,838,362	15,606,405
Total operating expenses	\$ 266,274,831	\$ 254,471,951
OPERATING LOSS	\$ (60,130,573)	\$ (60,977,855)
NON-OPERATING REVENUES (EXPENSES):		
State appropriations	\$ 58,047,869	\$ 55,277,445
Land grant revenues (revenues are pledged)	1,193,305	1,207,229
Private gifts	8,445,343	8,153,502
Investment income (2004 and 2003 revenues of \$433,065 and \$534,366, respectively, are pledged)	1,142,533	2,630,189
Interest expense	(7,051,400)	(6,745,632)
Net non-operating revenues	\$ 61,777,650	\$ 60,522,733
INCOME (LOSS) BEFORE OTHER REVENUES	\$ 1,647,077	\$ (455,122)
OTHER REVENUES:		
Capital grants and gifts	4,414,321	1,657,807
Net increase in net assets	\$ 6,061,398	\$ 1,202,685
NET ASSETS:		
Net assets - beginning of year	\$ 138,330,144	\$ 137,194,882
Adjustment to capital assets	(285,582)	(889,995)
Other adjustments	(90,692)	72,079
Adjustments related to restatement (note 3):		
Endowment investment	-	4,363,031
Advance from primary government	-	(3,612,538)
Net assets - beginning of year, as adjusted	\$ 137,953,870	\$ 137,127,459
Net assets - end of year	\$ 144,015,268	\$ 138,330,144

The University of Montana

A Component Unit of the State of Montana

Combined Statement of Activities - Component Units

Year Ended June 30, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:				
Contributions	\$2,111,907	\$10,223,888	\$5,310,548	17,646,343
Interest and dividend income	178,200	2,694,369	10,600	2,883,169
Net realized and unrealized gain (loss) on investments	(87,161)	8,898,882	380,375	9,192,096
Support received from university	394,944	-	-	394,944
Special events	274,851	169,892	-	444,743
Other income	29,411	479,380	-	508,791
Net assets released from restrictions	11,776,505	(11,776,505)	-	-
Total revenues	\$ 14,678,657	\$ 10,689,906	\$ 5,701,523	\$ 31,070,086
EXPENSES:				
Program services				
Academic and institutional	5,392,347	-	-	5,392,347
Capital expenses	1,429,590	-	-	1,429,590
Scholarships and awards	4,377,405	-	-	4,377,405
Total program services	11,199,342	-	-	11,199,342
Operating expenses				
Fundraising efforts	2,062,697	-	-	2,062,697
General and administrative	1,496,343	-	-	1,496,343
Investment management costs	45,694	-	-	45,694
Other miscellaneous	248,586	-	-	248,586
Total operating expenses	3,853,320	-	-	3,853,320
Change in net assets before nonoperating items	(374,005)	10,689,906	5,701,523	16,017,424
NON-OPERATING REVENUES (EXPENSES):				
Payments to beneficiaries and change in liabilities due to external beneficiaries	(8,766)	(325,639)	-	(334,405)
Adjustments	28,891	257,287	(286,178)	-
Change in net assets	(353,880)	10,621,554	5,415,345	15,683,019
Net assets, beginning of fiscal year	9,231,064	36,354,879	81,231,019	126,816,962
Net assets - end of year	\$ 8,877,184	\$ 46,976,433	\$86,646,364	142,499,981

The University of Montana

A Component Unit of the State of Montana

Consolidated Statements of Cash Flows

Years Ended June 30,

	2004	Restated 2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 77,014,910	\$ 73,536,408
Federal grants and contracts	65,286,541	56,704,012
State grants and contracts	6,111,902	6,613,277
Nongovernmental grants and contracts	4,836,741	5,301,569
Indirect cost recoveries	9,698,812	8,575,287
Sales and services of educational activities	11,672,004	10,272,061
Auxiliary enterprise charges	30,533,429	28,540,587
Interest earned on loans to students	116,950	143,015
Other operating receipts	4,069,142	4,830,197
Payments to employees for salaries and benefits	(168,452,743)	(159,120,508)
Operating expenses	(66,781,611)	(62,925,389)
Payments for scholarships and fellowships	(15,166,146)	(14,447,440)
Loans made to students	(3,882,761)	(3,550,226)
Loan payments received	2,798,346	2,707,479
Net Cash Used by Operating Activities	\$ (42,144,484)	\$ (42,819,671)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 58,047,869	\$ 55,277,445
Land Grants	1,193,305	1,207,229
Private Gifts	8,445,344	7,943,207
Net Cash Provided by Noncapital Financing Activities	\$ 67,686,518	\$ 64,427,881
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	\$ (10,313,118)	\$ (12,040,095)
Proceeds from sales of investments	9,906,219	746,218
Earnings received on investments	1,533,240	1,767,455
Net Cash Provided by (Used for) Investing Activities	\$ 1,126,341	\$ (9,526,422)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for capital assets	\$ (25,200,926)	\$ (9,460,321)
Proceeds from the sale of capital assets	164,288	8,024
Proceeds from notes payable and advances from primary government	1,847,837	88,223
Principal paid on notes payable, advance from primary government, and capital leases	(983,771)	(1,325,242)
Principal and premium paid to advance refund revenue bonds	(31,339,501)	-
Proceeds from issuance of revenue bonds	42,366,505	19,864,960
Principal paid on bonds payable	(3,720,000)	(3,010,000)
Bond issuance costs paid on new issue	(613,059)	(382,945)
Interest paid on capital debt and leases	(6,986,281)	(6,729,196)
Net Cash Used by Capital and Related Financing Activities	\$ (24,464,908)	\$ (946,497)
Net Increase in Cash and Cash Equivalents	\$ 2,203,467	\$ 11,135,291
Cash and Cash Equivalents, Beginning of Year	\$ 55,394,039	\$ 44,258,748
Cash and Cash Equivalents, End of Year	\$ 57,597,506	\$ 55,394,039

The University of Montana
A Component Unit of the State of Montana
Consolidated Statements of Cash Flows

Years Ended June 30

(Continued)

	2004	Restated 2003
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used By) Operating Activities:		
Operating loss:	\$ (60,130,573)	\$ (60,977,855)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	15,838,362	15,606,405
Other amortization expense	244,498	241,102
Changes in assets and liabilities:		
Accounts receivable	(401,335)	206,231
Loans to students	(841,349)	(543,707)
Inventories	(17,227)	(77,581)
Prepaid expenses and deferred charges	(362,984)	(166,268)
Accounts payable and accrued expenses	(99,532)	1,337,242
Deferred revenue	1,938,999	389,357
Student and other deposits	817,635	(9,002)
Due to federal government	567,505	31,247
Compensated absences	301,517	1,143,158
Net Cash Used by Operating Activities	\$ (42,144,484)	\$ (42,819,671)
Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions		
Fixed assets acquired by incurring capital lease obligations	\$ (102,230)	\$ (666,017)
Change in fair value of investments recognized as a component of interest income	(628,361)	715,183
Fixed assets acquired from Capital grants and donations	4,523,595	1,657,807
Reconciliation of Cash and Cash Equivalent to the Statement of Net Assets		
Cash and cash equivalents classified as current assets	\$ 52,870,136	\$ 38,465,966
Cash and cash equivalents classified as noncurrent assets	4,727,370	16,928,073
	\$ 57,597,506	\$ 55,394,039

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

THE UNIVERSITY OF MONTANA A COMPONENT UNIT OF THE STATE OF MONTANA FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 1 – ORGANIZATION, REPORTING ENTITY AND BASIS OF PRESENTATION

▪ ORGANIZATION

The University of Montana (University) is a component unit of the State of Montana (State) with an enrollment of approximately 17,000 students on its four campuses. The State of Montana Board of Regents (Board of Regents) is appointed by the Governor of the State and has oversight responsibility with respect to the University. The State allocates and allots funds to each campus separately and requires that the funds be maintained accordingly.

▪ REPORTING ENTITY

The accompanying consolidated financial statements include all activities of the four campuses of the University, the Forestry Experiment Station and the Montana Bureau of Mines. The four campuses of the University are The University of Montana – Missoula, Montana Tech of The University of Montana, which is located in Butte, The University of Montana – Western, which is located in Dillon, and The University of Montana - Helena College of Technology.

In May 2002, GASB issued Statement No. 39, *“Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14.”* The University was required to adopt GASB No. 39 as of and for the year ended June 30, 2004. The statement requires that a legally tax exempt organization should be reported as a component unit of a reporting entity if the economic resources received or held by these organizations are entirely or virtually entirely for the direct benefit of the reporting entity or its component units, and the reporting entity is entitled to, or has the means to otherwise access, a majority of the economic resources received or held by the separate organization. The resources of the separate organization must also be significant to the reporting entity. The University has established a threshold minimum of 1 percent of consolidated net assets or 1 percent of consolidated revenues as an additional requirement for inclusion of an organization as a component unit in its financial statements. In addition, other organizations should be evaluated for inclusion if they are closely related to, or financially integrated with, the reporting entity. All component units and other related organizations will be tested and evaluated on an annual basis for inclusion under GASB No. 39. Accordingly, the University has identified and will present the combined activities of four component units, The University of Montana Foundation, The Montana Tech Foundation, The University of Montana - Western Foundation, and the Montana Grizzly Scholarship Association. For further discussion of accounting for component units, see Consolidated Financial Statements Note 17, *“Accounting for Component Units.”*

The University is considered a component unit of the State of Montana under GASB No. 39 and No. 14. As such, the financial statements for the University are included as a component part of the State of Montana Basic Financial Statements, which are prepared annually and presented in the Montana Comprehensive Annual Financial Report (CAFR).

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.

▪ BASIS OF PRESENTATION

The financial statements have been prepared in accordance with generally accepted accounting principles, as prescribed by the GASB. Under GASB No. 34, *“Basic Financial Statements and Management Discussion and Analysis for State and Local Governments”* and GASB No. 35, *“Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities,”* the University is required to present a Statement of

Notes to the Consolidated Financial Statements (continued)

Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. All significant intra-entity transactions have been eliminated upon consolidation.

Also, in accordance with GASB Statements No. 39 and No. 14, the combined statements of financial position and statement of activities of the four component units referred to above, are separately presented following the respective University financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

▪ BASIS OF ACCOUNTING

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

The University had the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University elected to not apply FASB pronouncements issued after the applicable date.

▪ USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

▪ CASH EQUIVALENTS

For purposes of the Consolidated Statement of Cash Flows, the University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Funds invested in the Short Term Investment Pool (STIP) with the Montana Board of Investments are considered cash equivalents.

▪ INVESTMENTS

The University accounts for its investments at fair value in accordance with GASB No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." Investment income is recorded on the accrual basis. All investment income, including changes in unrealized gain (loss) on the carrying value of investments, is reported as a component of investment income.

▪ ACCOUNTS AND GRANTS RECEIVABLE

Accounts receivable consists of tuition and fee charges to students and to auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also includes amounts due from the federal government and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable is recorded net of estimated uncollectible amounts.

▪ INVENTORIES

Inventories are comprised of consumable supplies, food items and items held for resale or recharge within the University. The larger inventories are valued using the moving-average method. Other inventories are valued using First In First Out (FIFO) or specific identification methods.

▪ NON-CURRENT CASH AND INVESTMENTS

Cash and investments that are externally restricted to make debt service payments, or to purchase or construct capital or other non-current assets, or by a donor or outside agency prohibiting the expenditure of principal and possibly earnings, are classified as non-current assets in the Consolidated Statement of Net Assets.

Notes to the Consolidated Financial Statements (continued)

▪ CAPITAL ASSETS

Capital assets are stated at cost or fair market value at date of purchase or donation. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets as follows: buildings - 40 years; land improvements and infrastructure - 20 and 40 years, respectively; library books - 8 years; and equipment- 3 to 10 years. Historically, the University has capitalized all artwork subject to applicable capitalization policies at the time of donation or purchase. The University has elected to continue to capitalize artwork subject to the current threshold, but without recording depreciation on those items.

▪ DEFERRED REVENUE

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

▪ COMPENSATED LEAVE

Eligible University employees earn eight hours sick leave and ten hours annual leave for each month worked. The accrual rate for annual leave increases with length of service. The maximum annual leave that eligible employees may accumulate is two hundred percent of their annual accrual. Sick leave may accumulate without limitation. Twenty-five percent of accumulated sick leave earned after July 1, 1971 and one hundred percent of accumulated annual leave, if not used during employment, is paid upon termination.

▪ NET ASSETS

The University's net assets are categorized as follows:

- **Invested in capital assets, net of related debt** - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted, nonexpendable** - Net assets subject to externally imposed stipulations that the University maintain those assets permanently. Such assets include the University's permanent endowment funds.
- **Restricted, expendable** - Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.
- **Unrestricted** - Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs.

▪ CLASSIFICATION OF REVENUES

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

- **Operating revenue** - Operating revenues include activities that have the characteristics of exchange transactions, such as (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.

Notes to the Consolidated Financial Statements (continued)

- **Non-operating revenues** - Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting," and GASB No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." Types of revenue sources that fall into this classification are state appropriations and investment income.

▪ 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 Statements of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are generated by the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating revenues in the University's consolidated 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.

NOTE 3 – PRIOR PERIOD ADJUSTMENTS

In 2004, it was determined that certain transactions that occurred during previous fiscal years were incorrectly reported. The correction of these transactions has resulted in a restatement of the consolidated financial statements for the year ending June 30, 2003.

The first item requiring restatement is an endowment investment that originated in the year ending June 30, 2002. This investment and the associated income and expenses were originally reflected on the financial statements of the University of Montana Foundation. Since then, it has been determined that the investment and associated revenues and expenses, should be recorded by the University of Montana and that the investment should be managed by the University of Montana Foundation. This has resulted in a prior period adjustment of \$4,363,031 on the Statement of Net Assets for the year ended June 30, 2003 and a restatement of activity on the financial statements for that fiscal year.

The second item is a liability that was previously unrecorded on the University's consolidated financial statements. This liability originated from a loan by the Montana Science and Technology Alliance (MSTA). The loan was issued in 1994 and the amounts received by the University were incorrectly recorded as revenue and payments on the loan as expenses. The correction of this has resulted in a prior period adjustment of \$3,612,538 on the Statement of Net Assets for the year ended June 30, 2003.

NOTE 4 – CASH EQUIVALENTS AND INVESTMENTS

▪ CASH EQUIVALENTS

These amounts consist of cash invested in Guaranteed Investment Contracts with AIG Funding Corporation and AMBAC Capital Funding and in the STIP with the Montana Board of Investments. STIP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle." The STIP portfolio may include asset-backed securities, commercial paper, corporate and government securities, repurchase agreements and variable rate, or floating rate, instruments to provide diversification and a competitive rate of return. Cash equivalents are classified as Risk Category I.

▪ INVESTMENTS

The University's investments are categorized as to credit risk as either Category I insured or registered, securities held by the University or its agent in the University's name or other investments not categorized.

Notes to the Consolidated Financial Statements (continued)

Investments at fair value consisted of the following.

	June 30,	
	2004	(Restated) 2003
Category I:		
U.S. Government securities	\$ 9,175,845	\$ 823,502
Stocks and bonds	4,936,025	13,611,244
Certificates of deposit	259,295	257,640
	<u>\$ 14,371,165</u>	<u>\$ 14,692,386</u>
Not Categorized:		
UM Foundation Pool	\$ 6,957,263	\$ 6,619,850
Tech Foundation Pool	5,878	5,878
	<u>\$ 6,963,141</u>	<u>\$ 6,625,728</u>
	<u>\$ 21,334,306</u>	<u>\$ 21,318,114</u>

The cost basis of investments held at June 30 was as follows:

	June 30,	
	2004	(Restated) 2003
State of Montana Board of Investments	\$ 4,562,094	\$ 12,576,396
Trustees	\$ 15,645,592	\$ 7,681,100

Asset-backed securities are collateralized by a pool of mortgage and non-mortgage assets, pledged by the issuer and have one or more forms of credit enhancement to raise the quality of the security. U.S. Government securities consist of bond trustee funds managed by U.S. Bank. Stocks and bonds consist of assets held in the Trust Funds Bond Pool (TFBP) and the Montana Domestic Equity Pool (MDEP) administered by the Montana Board of Investments (Board of Investments.) MDEP and TFBP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle."

U.S. Government Securities

The U.S. Government securities portfolio includes Treasury securities or other Federal agency securities, and federal money market accounts.

MDEP Portfolio

The MDEP portfolio may include common stock, equity index, preferred stock, convertible equity securities and equity derivatives. Common stock represents ownership units, or shares, of a public corporation. Common stock owners are entitled to vote on director selection and other important matters, as well as receive dividends on their holdings. Equity index investments are investments in selected mutual funds whose equity portfolios match a broad based index or composite. Preferred stock, as a class of stock, pays dividends at a specified rate and has preference in the payment of dividends and liquidation of assets. Preferred stock holders, ordinarily, do not have voting rights. Convertible securities are securities carrying the right to exchange, or "convert" the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer's common stock. Equity derivatives "derive" their value from other equity instruments such as futures and options.

TFBP Portfolio

The TFBP portfolio includes corporate asset-backed, other corporate, U.S. government mortgage-backed, and Yankee securities. Corporate asset-backed securities represent debt securities collateralized by a pool of assets. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages. Government securities

Notes to the Consolidated Financial Statements (continued)

include direct and indirect obligations of the U.S. Treasury and state and local government bonds. Yankee bonds are U.S. dollar denominated securities issued by foreign corporations and governments and U.S. companies issuing debt in foreign markets.

The University Foundation Pool

This pool consists of endowment funds held in a common investment pool administered by the University of Montana and Montana Tech Foundations.

Certificates of deposit

Certificates of deposit serve as collateral for loans made to students with disabilities for the purchase of specialized equipment necessary to complete their education. The six-month certificate of deposit, including interest earned, is reinvested upon maturity.

Securities lending transactions

Under the provisions of state statutes, the Board of Investments, via a Securities Lending Authorization Agreement, has authorized the custodial bank, State Street Bank and Trust, to lend the Board of Investment's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the Board of Investments receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the market value of the loaned securities and maintain collateral equal to not less than 100 percent of the market value of the loaned security. The Board of Investments retains all rights and risks of ownership during the loan period.

During the years ending June 30, 2004 and 2003, the Board of Investments and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified-plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Board of Investment's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board of Investments could not determine. At June 30, 2004 and 2003, the Board of Investments had no credit risk exposure to borrowers.

Security lending cash collateral for the University at June 30, 2004 and 2003 was \$549,863 and \$774,467, respectively.

Land grant earnings

In 1881, The Congress of the United States granted land to the State of Montana for the benefit of the State's universities and colleges. The Enabling Act of 1889 granted 46,563 acres to Missoula, 100,000 acres to Montana Tech and 50,000 acres to Western Montana College. Under provisions of the grants, proceeds from the sale of land and land assets, together with proceeds from the sale of timber, oil royalties and other minerals, must be reinvested, and constitute, along with the balance of unsold land, a perpetual trust fund. The grant is administered as a trust by the State Land Board, which holds title and has the authority to direct, control, lease, exchange and sell these lands. The University, as a beneficiary, does not have title to the assets resulting from the grant, only a right to the earnings generated. The University's share of the trust earnings was \$1,193,305 and \$1,207,229 for the years ended June 30, 2004 and 2003, respectively. These earnings are currently pledged to the Series C 1995, Series E 1998, Series F 1999, Series G 2002, Series H 2003, and Series I 2004 revenue bonds.

The University's land grant assets are not reflected in the consolidated 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 (CAFR).

Off-Balance Sheet risk

The University's investment strategy, which is consistent with other institutions, incorporates certain financial instruments, which involve, to varying degrees, elements of market risk and credit risk in excess of amounts recorded in the consolidated financial statements. Market risk is the potential for changes in the value of financial instruments due to market changes, including interest and foreign exchange rate movements and *fluctuations embodied* in forward,

Notes to the Consolidated Financial Statements (continued)

futures, commodity or security prices. Market risk is directly impacted by the volatility and liquidity of the markets in which the related underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of counterparty to perform according to the terms of the contract. The University's risk of loss in the event of counterparty default is typically limited to the amounts recognized in the Statement of Net Assets and is not represented by the contract or notional amounts of the instruments.

NOTE 5 – INVENTORIES

Inventories consisted of the following at June 30, 2004 and 2003:

	June 30,	
	2004	2003
Bookstore	\$ 577,815	\$ 576,666
Food Services	95,506	57,696
Facilities services	466,176	443,032
Other	556,375	601,251
	<u>\$ 1,695,872</u>	<u>\$ 1,678,645</u>

NOTE 6 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts Receivable consisted of the following at June 30, 2004 and 2003:

	June 30,	
	2004	2003
Student tuition and fees	\$ 1,134,562	\$ 1,327,734
Auxiliary enterprises and other operating activities	1,251,087	1,196,857
Federal and private grants and contracts	2,518,494	3,006,541
Other	380,714	213,299
	<u>5,284,857</u>	<u>5,744,431</u>
Less: allowance for doubtful accounts	266,950	269,468
	<u>\$ 5,017,907</u>	<u>\$ 5,474,963</u>

NOTE 7 – LOANS RECEIVABLE

Student loans made under the Federal Perkins Loan Program constitute the majority of the University's loan receivable balances. Included in non-current liabilities as of June 30, 2004 and 2003 are \$9,472,245 and \$8,904,742, respectively, that would be refundable to the Federal Government should the University choose to cease participation in the Federal Perkins Loan program.

The Federal portion of interest income and loan program expenses is shown as additions to and deductions from the amount due to the Federal government, and not as operating transactions, in the Consolidated Statement of Net Assets.

NOTE 8 – CAPITAL ASSETS

The following tables present the changes in capital assets for the years ended June 30, 2004 and 2003, respectively.

Notes to the Consolidated Financial Statements (continued)

For the year ended June 30, 2004:

	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
Capital assets not being depreciated:					
Land	\$ 6,935,781	\$ 65,000	\$ -	\$ -	\$ 7,000,781
Capitalized Collections	14,719,484	73,514	-	-	14,792,998
Construction in progress	7,318,693	23,118,786	62,667	(6,280,953)	24,093,859
	28,973,958	23,257,300	62,667	(6,280,953)	45,887,638
Other capital assets:					
Buildings	187,083,209	129,700	-	(907,740)	186,305,169
Building improvements	117,417,880	179,590	-	6,877,008	124,474,478
Furniture and equipment	43,776,847	5,032,368	2,013,068	476,509	47,272,656
Land improvements	9,246,328	-	-	121,763	9,368,091
Livestock	206,420	18,750	206,420	-	18,750
Library materials	44,981,735	1,604,944	58,385	-	46,528,294
	402,712,419	6,965,352	2,277,873	6,567,540	413,967,438
Less accumulated depreciation for:					
Buildings	79,027,493	4,203,574	-	(327,325)	82,903,742
Building improvements	52,141,465	6,201,721	-	719,889	59,063,075
Furniture and equipment	30,822,579	2,957,158	1,129,955	36,930	32,686,712
Livestock	-	625	-	-	625
Land improvements	7,256,209	349,047	-	-	7,605,256
Library materials	37,761,135	1,752,357	58,385	-	39,455,107
	207,008,881	15,464,482	1,188,340	429,494	221,714,517
Other capital assets, net	195,703,538	(8,499,130)	1,089,533	6,138,046	192,252,921
Intangible assets	842,613	480,070	140,020	(373,880)	808,783
Total capital assets, net	\$ 225,520,109	\$ 15,238,240	\$ 1,292,220	\$ (516,787)	\$ 238,949,342
Capital Asset Summary:					
Capital assets not being depreciated	\$ 28,973,958	\$ 23,257,300	\$ 62,667	\$ (6,280,953)	\$ 45,887,638
Other capital and intangible assets	403,555,032	7,445,422	2,417,893	6,193,660	414,776,221
	432,528,990	30,702,722	2,480,560	(87,293)	460,663,859
	207,008,881	15,464,482	1,188,340	429,494	221,714,517
Total capital assets, net	\$ 225,520,109	\$ 15,238,240	\$ 1,292,220	\$ (516,787)	\$ 238,949,342

For the year ended June 30, 2003:

	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
Capital assets not being depreciated:					
Land	\$ 6,935,781	\$ -	\$ -	\$ -	\$ 6,935,781
Capitalized collections	14,394,964	324,520	-	-	14,719,484
Construction in progress	7,401,664	6,048,795	-	(6,131,766)	7,318,693
	28,732,409	6,373,315	-	(6,131,766)	28,973,958
Other capital assets:					
Buildings	184,375,561	-	-	2,707,648	187,083,209
Building Improvements	114,336,461	-	-	3,081,419	117,417,880

Notes to the Consolidated Financial Statements (continued)

Furniture and equipment	40,715,105	3,835,790	668,707	(105,341)	43,776,847
Land improvements	8,971,404	-	-	274,924	9,246,328
Livestock	166,619	39,801	-	-	206,420
Library materials	43,916,775	1,067,669	10,439	7,730	44,981,735
	<u>392,481,925</u>	<u>4,943,260</u>	<u>679,146</u>	<u>5,966,380</u>	<u>402,712,419</u>
Less accumulated depreciation for:					
Buildings	74,837,370	4,197,511	7,388	-	79,027,493
Building improvements	45,583,692	6,067,197	-	490,576	52,141,465
Furniture and equipment	28,690,892	2,757,920	626,233	-	30,822,579
Land improvements	6,863,215	395,138	-	(2,144)	7,256,209
Library materials	35,978,662	1,782,473	-	-	37,761,135
	<u>191,953,831</u>	<u>15,200,239</u>	<u>633,621</u>	<u>488,432</u>	<u>207,008,881</u>
Other capital assets, net	200,528,094	(10,256,979)	45,525	5,477,948	195,703,538
Intangible assets	1,051,145	1,612,294	1,414,660	(406,166)	842,613
Total capital assets, net	<u>\$230,311,648</u>	<u>\$ (2,271,370)</u>	<u>\$ 1,460,185</u>	<u>\$ (1,059,984)</u>	<u>\$ 225,520,109</u>
Capital Asset Summary					
Capital assets not being depreciated	\$ 28,732,409	\$ 6,373,315	\$ -	\$ (6,131,766)	\$ 28,973,958
Other capital and intangible assets	393,533,070	6,555,554	2,093,806	5,560,214	403,555,032
	<u>422,265,479</u>	<u>12,928,869</u>	<u>2,093,806</u>	<u>(571,552)</u>	<u>432,528,990</u>
Less: accumulated depreciation	191,953,831	15,200,239	633,621	488,432	207,008,881
Total capital assets, net	<u>\$230,311,648</u>	<u>\$ (2,271,370)</u>	<u>\$ 1,460,185</u>	<u>\$ (1,059,984)</u>	<u>\$ 225,520,109</u>

NOTE 9 – LONG – TERM LIABILITIES

The following tables present the changes in long-term liabilities for the years ended June 30, 2004 and 2003, respectively:

For the year ended June 30, 2004

	(Restated) Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds, notes and capital leases					
Revenue bonds payable, net	\$ 131,809,848	\$ 38,468,485	\$ 32,358,664	\$ 137,919,669	\$ 3,235,000
Notes payable	239,095	2,478,826	641,298	2,076,623	415,014
Capital leases payable	1,251,618	102,230	527,056	826,792	376,131
	<u>133,300,561</u>	<u>41,049,541</u>	<u>33,527,018</u>	<u>140,823,084</u>	<u>4,026,145</u>
Other long-term liabilities					
Accrued compensated absences	17,374,934	7,265,095	6,963,578	17,676,451	6,833,716
Advances from primary government	5,039,729	780,000	446,407	5,373,322	330,615
Due to Federal Government	8,904,742	567,504	-	9,472,246	-
Securities lending liability	774,467	-	224,604	549,863	-
	<u>32,093,872</u>	<u>8,612,599</u>	<u>7,634,589</u>	<u>33,071,882</u>	<u>7,164,331</u>
Total long-term liabilities	<u>\$ 165,394,433</u>	<u>\$ 49,662,140</u>	<u>\$ 41,161,607</u>	<u>\$ 173,894,966</u>	<u>\$ 11,190,476</u>

Notes to the Consolidated Financial Statements (continued)

For the year ended June 30, 2003

	(Restated) Beginning Balance	Additions	Deductions	(Restated) Ending Balance	(Restated) Current Portion
Bonds, notes and capital leases					
Revenue bonds payable, net	\$ 114,841,327	\$ 19,866,628	\$ 2,898,107	\$ 131,809,848	\$ 3,720,000
Notes payable	247,637	-	8,542	239,095	9,296
Capital leases payable	1,342,412	666,017	756,811	1,251,618	506,436
	<u>116,431,376</u>	<u>20,532,645</u>	<u>3,663,460</u>	<u>133,300,561</u>	<u>4,235,732</u>
Other long-term liabilities					
Accrued compensated absences	16,231,776	7,610,415	6,467,257	17,374,934	6,453,021
Advances from primary government	5,511,397	88,223	559,891	5,039,729	476,188
Due to Federal Government	8,873,494	31,248	-	8,904,742	-
Securities lending liability	171,664	602,803	-	774,467	-
	<u>30,788,331</u>	<u>8,332,689</u>	<u>7,027,148</u>	<u>32,093,872</u>	<u>6,929,209</u>
	<u>\$ 147,219,707</u>	<u>\$ 28,865,334</u>	<u>\$ 10,690,608</u>	<u>\$ 165,394,433</u>	<u>\$ 11,164,941</u>

The beginning balance for Advances from Primary Government has been restated at June 30, 2003 to account for a loan from MSTA that had previously been unrecorded. See Consolidated Financial Statements Note 3, "Prior Period Adjustments" for further discussion of this liability.

▪ LONG-TERM LIABILITIES

Long-term liabilities include:

- capital lease obligations, principal amounts of bonds payable, revenue bonds payable, and notes payable with contractual maturities greater than one year;
- estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and
- other liabilities that, although payable within one year, are to be paid from funds that are classified as non-current assets.

Capital Leases

The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2004:

Fiscal Year	Capital Leases
2005	\$ 436,544
2006	240,519
2007	204,652
2008	38,200
2009	19,998
Minimum lease payments	<u>\$ 939,913</u>
Less: Amount representing interest	<u>113,121</u>
Present value of net minimum lease payments	<u>\$ 826,792</u>

Notes to the Consolidated Financial Statements (continued)

NOTE 10 – REVENUE BONDS

Revenue bonds were issued pursuant to an Indenture of Trust between the Board of Regents of Higher Education for the State of Montana (on behalf of The University of Montana) and U. S. Bank Trust National Association MT. The bonds are secured by a first lien on the combined pledged revenues of the four campuses of The University of Montana. The pledged revenues earned at each campus are cross-pledged among all campuses of The University of Montana. Bonds payable recorded by each campus reflect the liability associated with the bond proceeds deposited into the accounts of that campus and do not necessarily mean that the debt service payments on that liability will be made by that campus.

The total aggregate principal amount originally issued pursuant to the Indenture of Trust and the various supplements to the Indenture for all campuses of The University of Montana at June 30, 2004 and 2003, was \$148,981,780 and \$156,541,780, respectively. The combined principal amount outstanding at June 30, 2004 and 2003 was \$139,830,000 and \$133,785,000, respectively.

Series C 1995

On December 14, 1995, The University of Montana issued \$34,406,784 of Series C 1995 Revenue Bonds, with interest ranging from 3.80 percent to 5.75 percent. In fiscal year 2000, the Series F 1999 Revenue Bonds issuance advance refunded a portion of Series C 1995 revenue bonds.

Series E 1998

On June 26, 1998, The University of Montana issued \$10,670,000 of Series E Facilities Improvement Revenue Bonds, with interest ranging from 3.90 percent to 5.00 percent. The proceeds from the issue provided funds for the acquisition, construction, repair, replacement, renovation and improvement of certain facilities and properties.

Series F 1999

On November 12, 1999, The University of Montana issued \$69,240,000 of Series F 1999 Revenue Bonds, with interest rates ranging from 3.80 percent to 6.00 percent. The proceeds from the issue were used for the purpose of restructuring Series B, C and D Facilities Improvement Revenue Bonds, and for the acquisition, construction, remodeling, improvement and equipping certain facilities and properties at The University of Montana.

The University of Montana recorded \$58,205,000 of the Series F 1999 Revenue Bonds to advance refund \$58,609,189 of outstanding Series B, C and D Facilities Improvements Revenue Bonds with average interest rates ranging from 4.30 percent to 6.65 percent. The bonds are considered legally defeased and as a result, the liability for those bonds is no longer recorded in the consolidated financial statements.

Included in the Series F issuance was \$10,650,000 for construction of a new recreation facility at The University of Montana - Missoula. The students of the University voted to assess a student fee to fund a portion of the debt service on the \$10,650,000. The remainder of the debt service will be paid by fees charged faculty and staff and from other projected sources of revenue.

Series G 2002

On October 18, 2002, The University of Montana issued \$18,900,000 of Series G Facilities Improvement Revenue Bonds, with interest ranging from 3.00 percent to 4.65 percent. The proceeds from the issue provided funds for the acquisition, construction, furnishing and equipping of certain student housing facilities on the Missoula campus.

Series H 2003

In April 2003, The University of Montana issued \$1,015,000 of Series H Facilities Improvement Revenue Bonds, with interest at 2.70 percent. The proceeds from the issue provided funds for the Washington Grizzly Stadium expansion on the Missoula campus.

Notes to the Consolidated Financial Statements (continued)

Series I 2004

In April 2004, The University of Montana issued \$40,490,000 of Series I Refunding and Facilities Improvement Revenue Bonds, with interest ranging from 3.00 percent to 4.75 percent. The proceeds from the issue paid and discharged \$30,540,000 of Series A 1993, Revenue Bonds. The issuance also provided \$7,000,000 towards future expansion of the Skaggs Building and \$2,950,000 for deferred maintenance on the Missoula campus.

Defeased Bonds

The University has defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's consolidated financial statements. As of June 30, 2004 and 2003, \$49,351,963 and \$53,429,655, respectively, of bonds outstanding were considered defeased.

Revenue Bonds Payable

As of June 30, 2004 annual principal payments are as follows:

Series C 1995 (Partial)

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Principal</u>
2005	4.60 - 5.25%	\$ 385,000
2006	5.25 - 5.375%	405,000
2007	5.375%	425,000
2008	5.00 - 5.375%	450,000
2009	5.00 - 5.10%	475,000
2010-2011	5.10 - 5.25%	1,020,000
		<u>\$ 3,160,000</u>

Series E 1998

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Principal</u>
2005	4.20 - 4.30%	\$ 755,000
2006	4.30 - 4.35%	595,000
2007	4.35 - 4.40%	360,000
2008	4.40 - 4.45%	375,000
2009	4.45 - 4.50%	405,000
2010-2014	4.50 - 5.00%	2,305,000
2015-2019	5.00%	2,465,000
2020-2021	5.00%	1,300,000
		<u>8,560,000</u>
Less unamortized discount:		27,116
		<u>\$ 8,532,884</u>

Series F 1999

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Principal</u>
2005	4.60 - 4.70%	\$ 275,000
2006	4.70 - 4.80%	285,000
2007	4.80 - 4.90%	545,000
2008	4.90 - 5.00%	555,000
2009	5.00 - 5.10%	610,000
2010-2014	5.10 - 5.55%	5,535,000
2015-2019	5.375 - 6.00%	21,720,000
2020-2024	5.75 - 6.00%	37,050,000
2025-2026	5.75 - 5.80%	1,480,000
		<u>68,055,000</u>
Less unamortized discount:		1,100,804
		<u>\$ 66,954,196</u>

Notes to the Consolidated Financial Statements (continued)

Series G 2002

Fiscal Year	Interest Rate	Principal
2005	3.00%	\$ 435,000
2006	3.00%	445,000
2007	3.00%	455,000
2008	3.00%	465,000
2009	3.00%	480,000
2010-2014	3.00 – 3.75%	2,230,000
2015-2019	3.75 – 4.30%	2,680,000
2020-2024	4.30 – 4.65%	3,310,000
2025-2029	4.65%	4,160,000
2030-2033	4.65%	4,090,000
		18,750,000
Less unamortized discount:		46,704
		<u>\$ 18,703,296</u>

Series H 2003

Fiscal Year	Interest Rate	Principal
2005	2.70%	\$ 200,000
2006	2.70%	200,000
2007	2.70%	200,000
2008	2.70%	215,000
		<u>\$ 815,000</u>

Series I 2004

Fiscal Year	Interest Rate	Principal
2005	3.00%	\$ 1,185,000
2006	3.00%	2,410,000
2007	3.00%	2,540,000
2008	3.00%	2,620,000
2009	3.00 - 3.50%	2,660,000
2010-2014	3.50 - 4.75%	14,625,000
2015-2019	3.70 – 4.375%	5,390,000
2020-2024	4.375%	495,000
2025-2029	4.375 – 4.50%	8,090,000
2030	4.50%	475,000
		\$ 40,490,000
Add net unamortized premium:		1,093,663
		<u>\$ 41,583,663</u>

Revenue Bond Payable Summary:

Total revenue bonds outstanding	\$ 139,830,000
Less: Net unamortized discount	80,961
Unamortized loss on advance refunding	1,829,370
Revenue bonds payable, net	<u>\$ 137,919,669</u>

The scheduled maturities of the revenue bonds payable are as follows:

Fiscal Year	Principal	Interest	Total Payment
2005	\$ 3,235,000	\$ 6,967,170	\$ 10,202,170
2006	4,340,000	6,693,852	11,033,852
2007	4,525,000	6,540,333	11,065,333
2008	4,680,000	6,379,266	11,059,266
2009	4,630,000	6,212,586	10,842,586

Notes to the Consolidated Financial Statements (continued)

2010-2014	25,715,000	28,111,694	53,826,694
2015-2019	32,255,000	21,528,247	53,783,247
2020-2024	42,155,000	11,658,996	53,813,996
2025-2029	13,730,000	2,345,968	16,075,968
2030-2033	4,565,000	507,765	5,072,765
	<u>\$ 139,830,000</u>	<u>\$ 96,945,877</u>	<u>\$ 236,775,877</u>

NOTE 11 – NOTES PAYABLE

Notes payable at June 30, 2004 consisted of the following:

Description	Interest Rate	Maturity Date	Principal Outstanding	Current Maturities
First Interstate Bank	7.00%	15-Oct-18	\$ 228,786	\$ 13,815
Ames Construction, Inc.	3.085%	01-Nov-08	1,847,837	401,199
			<u>\$ 2,076,623</u>	<u>\$ 415,014</u>

The scheduled maturities of the notes payable are as follows:

Fiscal Year	Principal	Interest	Total Payment
2005	\$ 415,014	\$ 34,966	\$ 449,980
2006	340,585	59,229	399,814
2007	347,141	48,108	395,249
2008	376,733	36,741	413,474
2009	448,173	24,414	472,587
2010-2014	113,137	33,934	147,071
2015-2018	35,840	1,764	37,604
	<u>\$ 2,076,623</u>	<u>\$ 239,156</u>	<u>\$ 2,315,779</u>

NOTE 12 – COMPENSATED LEAVE

Employee compensated absences are accrued at year-end for consolidated financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the Statements of Net Assets, and as a component of compensation and benefit expense in the Statements of Revenues, Expenses, and Changes in Net Assets.

NOTE 13 – ADVANCES FROM PRIMARY GOVERNMENT

Advances from the primary government are received through the Intercap Program offered through the Montana Board of Investments. The program lends money to State agencies, including the Montana University System, for the purpose of financing or refinancing the acquisition and installation of equipment or personal and real property and infrastructure improvements.

The MSTA loan originates from a loan made by MSTA that had previously been unrecorded. It was originally issued in 1994 and has a remaining term of 57 years. For more information regarding this transaction, refer to Consolidated Financial Statements Note 3, "Prior Period Adjustments."

The interest rates are variable and are adjusted annually.

Notes to the Consolidated Financial Statements (continued)

Advances from Primary Government at June 30, 2004, are as follows:

Description	Interest Rate	Maturity Date	Principal Outstanding
Intercap – Telephone System	Variable	15-Aug-04	\$ 16,749
Intercap – Network Engineering	Variable	15-Feb-07	86,891
Intercap – Cisco Program	Variable	15-Aug-04	6,993
Intercap – Weight Room Expansion	Variable	15-Feb-09	132,694
Intercap – Equipment	Variable	15-Feb-05	32,233
Intercap – Real Estate	Variable	15-Feb-12	73,539
Intercap – KUFM TV	Variable	15-Feb-07	166,909
Intercap – Lubrecht Forest	Variable	15-Aug-08	90,658
Intercap – Intercollegiate Athletics	Variable	15-Feb-10	311,783
Intercap – Office of Public Safety	Variable	15-Aug-04	2,607
Intercap – Facility Services	Variable	15-Feb-06	59,727
Intercap – Dining Services	Variable	15-Aug-08	20,000
Intercap – Forestry	Variable	15-Aug-14	760,000
MSTA loan – Research Offices	Variable	30-June-61	3,612,539
			5,373,322
Less Current Maturities			330,615
			<u>\$ 5,042,707</u>

The scheduled maturities of the Intercap loans and MST A loan are as follows:

Fiscal Year	Principal	Interest	Total Payment
2005	\$ 330,614	\$ 129,064	\$ 459,678
2006	319,681	126,954	446,635
2007	301,079	118,514	419,593
2008	220,076	110,997	331,073
2009	213,857	105,072	318,929
2010-2014	709,078	462,003	1,171,081
2015-2019	200,318	399,682	600,000
2020-2024	226,612	373,388	600,000
2025-2029	256,359	343,641	600,000
2030-2034	290,010	309,990	600,000
2035-2039	328,078	271,922	600,000
2040-2044	371,143	228,857	600,000
2045-2049	419,861	180,139	600,000
2050-2054	474,973	125,027	600,000
2055-2059	537,321	62,679	600,000
2060-2062	174,262	5,738	180,000
	<u>\$ 5,373,322</u>	<u>\$ 3,353,667</u>	<u>\$ 8,726,989</u>

NOTE 14 – RETIREMENT PLANS

Full-time employees of the University are all members of the Public Employees' Retirement System (PERS), Game Wardens & Peace Officers Retirement System (GWORS), Teachers' Retirement System (TRS) or the Optional Retirement Program (ORP) as described below. Only faculty and administrators with contracts under the authority of the Board of Regents are enrolled under TRS or ORP. Beginning July 1, 1993, state legislation required all new faculty and administrators with contracts under the authority of the Board of Regents to enroll in ORP.

Notes to the Consolidated Financial Statements (continued)

PERS, GWPORS and TRS

PERS, GWPORS and TRS are statewide, cost-sharing, multiple-employer defined benefit retirement plans. The plans are established under State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. PERS, a mandatory system established by the State in 1945, provides retirement services to substantially all public employees. GWPORS, established in 1963, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel, and state police officers not eligible to join the Sheriffs Retirement System, Highway Patrol Officers Retirement System, and Municipal Police Officers Retirement System. TRS, established in 1937, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the University System.

Contribution rates for the plan are required and determined by State law. The contribution rates for 2004 and 2003 expressed as a percentage of covered payroll were as follows:

	2004		2003	
	Employee	Employer	Employee	Employer
PERS	6.90%	6.90%	6.90%	6.90%
GWPORS	10.60%	9.00%	10.56%	9.00%
TRS	8.32%	7.47%	8.32%	7.47%

The amounts contributed to the plan during years ending June 30, 2004, 2003, and 2002 were equal to the required contribution each year. The amounts contributed were as follows:

	Year ending June 30,		
	2004	2003	2002
<u>PERS</u>			
Employer	\$ 2,307,287	\$ 2,440,236	\$ 2,369,365
Employee	\$ 2,306,542	\$ 2,439,770	\$ 2,369,385
<u>GWPORS</u>			
Employer	\$ 40,909	\$ 37,579	\$ 34,482
Employee	\$ 48,000	\$ 44,093	\$ 38,796
<u>TRS</u>			
Employer	\$ 1,767,774	\$ 1,863,593	\$ 1,843,787
Employee	\$ 2,100,459	\$ 2,074,460	\$ 1,764,803

The plans issue publicly available annual reports that include financial statements and required supplemental information. The reports may be obtained from the following:

Public Employees' Retirement Administration
P.O. Box 200131
100 North Park, Suite 220
Helena, Montana 59620-0131
Phone: (406) 444-3154

Teachers' Retirement Division
P.O. Box 200139
1500 Sixth Avenue
Helena, MT 59620-0139
Phone: (406) 444-3134

ORP

ORP was established in 1988 and is underwritten by the Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). The ORP is a defined-contribution plan. Until July 1, 2003, only faculty and staff with contracts under the authority of the Board of Regents were eligible to participate. The plan was changed, effective July 1, 2003, to allow all staff to participate in the ORP. Contribution rates for the plan are required and determined by State law. The University's contributions were equal to the required contribution. The benefits at retirement depend upon the amount of contributions, amounts of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with

Notes to the Consolidated Financial Statements (continued)

TIAA-CREF. The University records employee/employer contributions and remits monies to TIAA-CREF. Individuals vest immediately in the employer portion of retirement contributions.

Contributions to ORP (TIAA-CREF) were as follows:

	Year ending June 30,	
	2004	2003
<u>FACULTY</u>		
Covered Payroll	\$47,841,418	\$44,272,767
Employer Contributions	\$2,371,021	\$2,194,158
Percent of Covered Payroll	4.956%	4.956%
Employee Contributions	\$3,370,302	\$3,119,513
Percent of Covered Payroll	7.046%	7.044%
<u>STAFF</u>		
Covered Payroll	\$6,673,423	\$ -
Employer Contributions	\$299,637	\$ -
Percent of Covered Payroll	4.49%	-%
Employee Contributions	\$460,441	\$ -
Percent of Covered Payroll	6.90%	-%

For the years ended June 30, 2004 and 2003, \$1,932,793 and \$1,788,629, respectively, or 4.04 percent, was contributed to TRS from ORP faculty employer contributions to amortize past service unfunded liability in accordance with state law. In addition, \$160,829 or 2.41% was contributed to PERS from ORP staff employer contributions to amortize past service unfunded liability in accordance with state law.

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

NOTE 15 – 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, 2-9-101 through 305, MCA and ARM 2-2-298, require participation of all state agencies in the self insurance plan established by the Montana Department of Administration, Risk Management and Tort Defense Division (RMTDD). The self-insurance program includes coverage for commercial general liability, auto liability, professional liability, and errors and omissions exposures. The RMTDD provides coverage, above self insured retentions, by purchasing other commercial coverage through the State's broker, Willis of Seattle, for excess liability, property, crime, fidelity, boiler and machinery, fine arts, aircraft-liability and hull coverage. The RMTDD also supplies other commercial insurance coverage for specific risk exposures on an as-needed basis such as the Volunteer Accident and Health, Dismemberment and Accidental Death coverage obtained for all units of the Montana University System. In addition to these basic policies, the University has established guidelines in risk assessment, risk avoidance, risk acceptance and risk transfer.

The Tort Claims Act of the State of Montana, 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, 2-9-305 MCA requires that the State "provide for the immunization, defense and indemnification its public officers and employees civilly sued for their actions taken within the course and scope of their employment". The University also has commercial coverage for other risk exposures that are not covered by the State's self-insurance program.

Notes to the Consolidated Financial Statements (continued)

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

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

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

Effective July 1, 2003 (for fiscal year 2004), the University’s workers’ compensation program became self-funded and is provided through membership in the MUS Self Insured Worker’s Compensation Program. In fiscal year 2003 the University’s workers compensation coverage was provided for through participation in the State’s Compensation Insurance Fund. The MUS self-funded program is funded on an actuarial basis and is administered by a third party, currently Missoula County. The MUS program incorporates a self-insured retention of \$500,000 per claim and excess commercial coverage to statutory limits. Employer’s liability is provided with a \$500,000 retention and an excess insurance limit of \$1,000,000. The University provides periodic disbursements to the administrator for claims paid and administrative expenses. 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.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

At June 30, 2004, the University had the following outstanding commitments under major capital and maintenance projects:

Project	Budget Authorization	Total Expenditures through June 2004	Funding Source
South Campus University Housing	\$ 16,688,000	\$ 13,708,274	2002 Series G Revenue Bonds
Campus Network Infrastructure	562,863	535,415	2002 Series G Revenue Bonds
Skaggs Building Addition	14,000,000	218,510	2004 Series I Revenue Bonds, Donations, Grants
Campus Deferred Maintenance	1,500,000	34,041	2004 Series I Revenue Bonds
Chemistry Building Renovation	825,000	553,360	General Operating and Plant Funds, Donations
Lewis and Clark Transfer Station	600,000	38,175	County, Auxiliary Operations
Research Lab Facility	1,896,341	1,479,774	Intercap Loan, Designated and General Operating Funds and Donations
Journalism Building	12,000,000	298,896	Intercap Loan, Donations and Plant Fund
Science Complex Rm. 342	165,000	142,008	Federal Grant
Renovate Liberal Arts	101,586	52,118	Equipment Fees, General Operating and Donations
Upgrade Boiler Controls	275,000	124,894	General Operating and Plant Funds
Replace Primary Electrical Radial System	635,924	105,932	Plant Fund and Grant
Renovation Chemistry/Biology Building Rooms	188,255	16,757	Federal Grant
	<u>\$ 49,437,969</u>	<u>\$ 17,308,154</u>	

Notes to the Consolidated Financial Statements (continued)

Operating leases – The University has commitments under non-cancelable operating leases as follows:

	<u>Payable during the year ending June 30,</u>	
2005	\$	186,418
2006		111,390
2007		56,505
2008		33,098
2009		30,754
	<u>\$</u>	<u>418,165</u>

The University is a defendant in several legal actions. While the outcome cannot be determined at this time, management is of the opinion that the liability, if any, from these actions will not have a material effect on the University's financial position.

In the normal course of operations, the University receives grants and other forms of reimbursement from various Federal and State agencies. These funds are subject to review and audit by cognizant agencies. The University does not expect any material adjustments or repayments to result from such audits.

Although the University is exempt from Federal income tax as an instrumentality of the State of Montana, certain income may be considered unrelated business income by the Internal Revenue Service (IRS). The Montana University System files appropriate tax returns with the IRS to report such income. Because the tax liability for the System as a whole is not material, no provision is recorded in the accompanying consolidated financial statements.

NOTE 17– RELATED PARTIES

The University of Montana is a component unit of the State of Montana. The University's consolidated financial statements and the combined financial statements of its component units include only the activities, funds and accounts of the University and the component units. Private nonprofit organizations with relations to the University include The University of Montana Alumni Association, the Montana Technology Enterprise Center (MonTEC), the Montana Tech Booster Club, the Montana Tech Alumni Association and the University of Montana – Western Booster Club.

The associations and booster clubs operate exclusively for the purposes of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with the University. For the years ended June 30, 2004 and 2003, the following was transferred from booster clubs for scholarships and construction projects: from the Montana Tech Booster Club \$61,058 and \$67,319, respectively; and \$26,380 and \$61,723, respectively from the University of Montana – Western Booster Club. In exchange, the University provides the associations and booster clubs with office space, staff and some related office expenses.

MonTEC was established as a nonprofit 501 (c) 3 corporation in fiscal year 2001 as a result of an agreement between the University and the Missoula Area Economic Development Foundation (MAEDF). MonTEC provides low cost lease space and business consulting to local "start-up" companies. The corporation's board of directors is comprised equally of members appointed by MAEDF and the University.

NOTE 18 - ACCOUNTING FOR COMPONENT UNITS

The entities included as component units in the financial statements are nonprofit, tax exempt organizations operating exclusively for the purposes of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with the University. Although the University does not control the timing or amount of receipts from these entities, the majority of the revenues or income that the entities hold and invest is restricted to the activities of the University by donors. The entities included as component units in the financial

Notes to the Consolidated Financial Statements (continued)

statements are The University of Montana Foundation, The Montana Tech Foundation, The University of Montana – Western Foundation and The Montana Grizzly Scholarship Association.

For the fiscal years ended June 30, 2004, the following was transferred to or expended for scholarships, academic or institutional support or capital expenses by the University foundations: \$8,298,485 with The University of Montana Foundation, \$1,187,458 with the Montana Tech Foundation; and \$220,135 with The University of Montana-Western Foundation. In addition, \$878,000 was transferred from the Montana Grizzly Scholarship Association for the fiscal year ended June 30, 2004. In exchange, the University provides the foundations with office space and an annually contracted fee, and the association with office space, staff and some related office expenses. For the fiscal year ended June 30, 2004, the University provided \$404,944 to its Foundations, which included payments for contracted services and capital campaign support.

Condensed financial information for each of the University's component units is presented below. The University of Montana – Western Foundation maintains a December 31 year-end. All other component units' year-ends coincide with the University's June 30 fiscal year-end.

STATEMENT OF FINANCIAL POSITION

	University of Montana Foundation *	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association*	Total
ASSETS					
Cash and investments	\$ 110,585,573	\$ 18,153,453	\$ 3,389,114	\$ 726,765	\$132,854,905
Amounts due from institution or other component units	-	-	-	216,500	216,500
Other receivables, net of allowances	13,696,089	1,248,857	1,600	51,908	14,998,454
Fixed assets, net of depreciation	5,575,588	86,709	-	3,482	5,665,779
Other assets	414,788	7,812	-	27,523	450,123
	<u>\$ 130,272,038</u>	<u>\$ 19,496,831</u>	<u>\$ 3,390,714</u>	<u>\$ 1,026,178</u>	<u>\$154,185,761</u>
LIABILITIES AND NET ASSETS					
Current liabilities associated with operations	\$ 43,894	\$ 24,001	\$ 5,771	\$ 12,126	\$ 85,792
Note payable – other	100,000	160,107	40,000	385,128	685,235
Note payable – long-term	408,557	-	-	-	408,557
Long-term liabilities - other	125,551	113,654	-	-	239,205
Liabilities to external beneficiaries	2,394,930	-	-	-	2,394,930
Custodial funds	7,872,061	-	-	-	7,872,061
	<u>10,944,993</u>	<u>297,762</u>	<u>45,771</u>	<u>397,254</u>	<u>11,685,780</u>
Net assets – unrestricted	5,670,324	2,906,647	236,271	63,942	8,877,184
Net assets - restricted	113,656,721	16,292,422	3,108,672	564,982	133,622,797
	<u>119,327,045</u>	<u>19,199,069</u>	<u>3,344,943</u>	<u>628,924</u>	<u>142,499,981</u>
	<u>\$ 130,272,038</u>	<u>\$ 19,496,831</u>	<u>\$ 3,390,714</u>	<u>\$ 1,026,178</u>	<u>\$154,185,761</u>

* For the year ended June 30, 2004

** For the year ended December 31, 2003

Notes to the Consolidated Financial Statements (continued)

STATEMENT OF ACTIVITY

	University of Montana Foundation *	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association *	Total
REVENUES					
Contributions	\$13,018,268	\$ 2,505,252	\$ 657,012	\$ 1,465,811	\$ 17,646,343
Investment income and unrealized gain(loss) of investments	9,695,584	2,024,547	346,701	8,433	12,075,265
Contract for services	278,000	116,944	-	-	394,944
Other income	468,703	200,715	37,756	246,360	953,534
	<u>\$23,460,555</u>	<u>\$ 4,847,458</u>	<u>\$ 1,041,469</u>	<u>\$ 1,720,604</u>	<u>\$ 31,070,086</u>
EXPENSES					
Program services	\$ 8,298,485	\$ 1,269,241	\$ 612,394	\$ 1,019,222	\$ 11,199,342
Supporting services	2,528,505	680,459	63,160	581,196	3,853,320
	<u>\$10,826,990</u>	<u>\$ 1,949,700</u>	<u>\$ 675,554</u>	<u>\$ 1,600,418</u>	<u>\$ 15,052,662</u>
Change in net assets before non- operating items	\$12,633,565	\$ 2,897,758	\$ 365,915	\$ 120,186	\$ 16,017,424
NONOPERATING REVENUES (EXPENSES)					
Payments to beneficiaries and change in liabilities due to external beneficiaries	(334,405)	-	-	-	(334,405)
Change in net assets	12,299,160	2,897,758	365,915	120,186	15,683,019
Net assets, beginning of fiscal year	\$107,027,885	\$ 16,301,311	\$ 2,979,028	\$ 508,738	\$ 126,816,962
Net assets, end of fiscal year	<u>\$119,327,045</u>	<u>\$ 19,199,069</u>	<u>\$ 3,344,943</u>	<u>\$ 628,924</u>	<u>\$ 142,499,981</u>

* For the year ended June 30, 2004

** For the year ended December 31, 2003

The following table shows the total investments held by the component units as of the fiscal year end being reported:

	<u>Fair Market Value</u>
Investments held by component units:	
Stocks and bonds	\$ 127,930,838
Money market and certificates of deposit	225,312
Real property	869,390
Other	395,150
	<u>\$ 129,420,690</u>

NOTE 19 – NATURAL CLASSIFICATION WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by natural and functional classifications for the year ended June 30, 2004, were as follows:

Functional Classification:	Natural Classification						Total
	Compensation & benefits	Supplies & other services	Utilities	Communication	Scholarships	Depreciation	
Instruction	\$69,023,422	\$7,927,557	\$5,564	\$537,246	\$	\$	\$77,493,789
Research	27,764,477	15,311,004	118,756	274,264	-	-	43,468,501
Public service	5,787,234	3,575,472	88	170,259	-	-	9,533,053
Academic support	12,766,834	5,344,241	93	288,206	-	-	18,399,374
Student services	11,557,444	7,471,881	2,349	418,682	-	-	19,450,356
Institutional support	13,824,738	4,930,141	-	571,388	-	-	19,326,267
Operation and maintenance of plant	9,484,739	5,165,835	4,004,354	123,661	-	-	18,778,589
Scholarships and fellowships	-	-	-	-	15,166,146	-	15,166,146
Auxiliary enterprises	18,160,378	7,890,221	2,294,746	475,049	-	-	28,820,394
Depreciation	-	-	-	-	-	15,838,362	15,838,362
	\$168,369,266	\$57,616,352	\$6,425,950	\$2,858,755	\$15,166,146	\$15,838,362	\$266,274,831

The University's operating expenses by natural and functional classifications for the year ended June 30, 2003, were as follows:

Functional Classification	Natural Classification						Total
	Compensation & benefits	Supplies & other services	Utilities	Communication	Scholarships	Depreciation	
Instruction	\$66,626,572	\$7,969,371	\$5,185	\$487,007	\$	\$	\$75,088,135
Research	25,771,970	10,762,414	71,458	243,576	-	-	36,849,418
Public service	4,787,736	3,440,770	899	106,709	-	-	8,336,114
Academic support	15,668,258	4,864,033	7,990	616,518	-	-	21,156,799
Student services	10,562,118	7,188,410	5,494	437,069	-	-	18,193,091
Institutional support	10,630,254	3,916,900	-	775,039	-	-	15,322,193
Operation and maintenance of plant	9,113,496	5,990,294	3,592,117	67,682	-	-	18,763,589
Scholarships and fellowships	-	-	-	-	14,728,724	-	14,728,724
Auxiliary enterprises	17,251,749	10,617,037	2,154,987	403,710	-	-	30,427,483
Depreciation	-	-	-	-	-	15,606,405	15,606,405
	\$160,412,153	\$54,749,229	\$5,838,130	\$3,137,310	\$14,728,724	\$15,606,405	\$254,471,951

SUPPLEMENTAL INFORMATION

The University of Montana

Supplemental Information - All Campuses

<u>DESCRIPTION</u>	<u>Fall 2003</u>	<u>Fall 2002</u>	<u>Fall 2001</u>	<u>Fall 2000</u>	<u>Fall 1999</u>
Enrollment (Headcount) ¹	17,595	17,175	16,703	16,436	16,508
	<u>FY2004</u>	<u>FY2003</u>	<u>FY2002</u>	<u>FY2001</u>	<u>FY2000</u>
Enrollment (FTE) ²					
Colleges of Technology	1,905	1,858	1,833	1,807	1,790
Undergraduate	12,149	12,052	11,871	11,708	11,675
Graduate	1,772	1,630	1,582	1,551	1,530
Enrollment (FTE) ²					
In-State students	12,402	12,070	11,683	11,399	11,251
Out-of-State students	2,699	2,901	2,981	3,000	3,247
Western Undergraduate Exchange	725	569	622	667	497
	<u>FY2004</u>	<u>FY2003</u>	<u>FY2002</u>	<u>FY2001</u>	<u>FY2000</u>
Employees (FTE) - All Funds ³					
Contract Faculty	961	937	901	905	906
Contract Admin & Professional	390	366	347	341	334
Classified	1,265	1,266	1,249	1,191	1,197
GTA/GRA	167	170	157	140	146
Part Time and Other	360	378	397	359	378
	<u>School Year Ended</u>				
	<u>6/30/2004</u>	<u>6/30/2003</u>	<u>6/30/2002</u>	<u>6/30/2001</u>	<u>6/30/2000</u>
Degrees Granted ⁴					
Certificate	51	79	84	106	176
Associate	523	492	479	427	411
Undergraduate	2,242	2,136	2,182	2,103	2,112
Graduate	673	620	666	575	564

¹ Source: Internal management reports 2000-2004

² Source: Internal management reports 2000-2001, CHE Operating Report 2002-2004

³ Source: CHE Operating Report 2000-2004

⁴ Source: IPEDS Completion Reports, Fall 2000-2004, internal management reports



The University of
Montana

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3 December, 2004

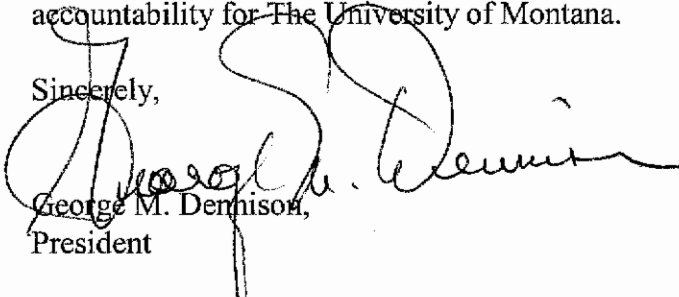
Mr. Scott A. Seacat
Legislative Auditor
Legislative Audit Division
Room 135 State Capitol
P. O. Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

We compliment the Legislative Audit staff for their cooperation and completion of The University of Montana Financial Audit for fiscal year ended 30 June 2004. Through the dedication of both the University's staff and those in the Legislative Audit Division, we now provide this annual attestation on The University of Montana's consolidated financial statements.

We appreciate the cooperative efforts made by the audit team and thank those involved for their assistance. Also, we remain committed to reliable financial reporting and accountability for The University of Montana.

Sincerely,



George M. Dennison,
President

c: S. Stearns, Commissioner of Higher Education
R. Durringer, Vice President for Administration and Finance

GMD/mea
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