



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

*The University of
Montana*

*For the Fiscal Year Ended
June 30, 2009*

JANUARY 2010

LEGISLATIVE AUDIT
DIVISION

09-10A

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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, 2007, was issued January 23, 2008. The Single Audit Report for the two fiscal years ended June 30, 2009, will be issued by March 31, 2010. Copies of the Single Audit Report can be obtained by contacting:

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

January 2010

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on The University of Montana's (university) consolidated financial statements for the fiscal year ended June 30, 2009. The statements include comparative information for the fiscal year ended June 30, 2008. The statements include component unit financial information as required under Governmental Accounting Standards Board Statement No. 39.

The university requests annual financial audits to provide timely audited financial statements to interested parties. The objective of our audit was to determine if the university's financial statements present fairly its financial position, changes in financial position, and cash flows as of June 30, 2009, and for the fiscal year then ended. This objective included determining the university's compliance with laws and regulations having a direct and material impact on the financial statements. Our opinions for fiscal year 2007-08 are based on the audit we performed in the fall of 2008.

This financial audit is a component of the statutorily required biennial financial-compliance audit. Financial and financial-related audits are combined for a two-year period to constitute the financial-compliance audit. We issue the financial-related audit every other year and a financial audit every year. The financial-related audit was issued in September 2009.

The University of Montana consists of four campuses:

- ◆ The University of Montana-Missoula is located in Missoula. The Montana Forest and Conservation Experiment Station is associated with this campus.
- ◆ Montana Tech of The University of Montana is located in Butte and includes the Montana Bureau of Mines and Geology.
- ◆ The University of Montana-Western is located in Dillon.
- ◆ The University of Montana-Helena College of Technology is located in Helena.

All campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The four campuses of The University of Montana provide a diversity of undergraduate and graduate academic and two-year vocational/technical programs to students.

The University of Montana-Missoula was established in 1893 in Missoula as a comprehensive university. The campus offers four-year undergraduate programs along with masters 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 and Human Science, Visual and Performing Arts, Forestry and Conservation, Health Professions and Biomedical Sciences, Continuing Education, Honors, Graduate, and Journalism. In addition, the campus includes a two-year college of technology, which provides a broad range of technical and occupational education and training courses. College of technology students receive either a certificate of completion or a two-year degree upon completion of a program.

Montana Tech of The University of Montana was established in 1893 in Butte as the Montana School of Mines. It provides a variety of four-year and graduate programs with a focus on mineral, geological, environmental, petroleum, mining, and other engineering and science programs. It also includes a college of technology, which provides core education courses and two-year degrees in various occupational and technical programs.

The University of Montana-Western was established in 1893 in Dillon as the state's Normal School for teacher education. It now provides undergraduate degrees in a number of liberal arts, professional, and pre-professional areas using a unique scheduling system in which students take one class at a time.

The University of Montana-Helena College of Technology was established in 1939 in Helena as a Vocational-Technical School. It is a two-year institution of higher education. It offers an Associate of Science or Arts Degree in general transfer for students who want to acquire a core of coursework transferable to university system baccalaureate programs throughout the state. It also offers a variety of occupational, technical, and training specialties. This includes accounting, construction, computer, electronics and welding technologies, and practical nursing. Students enrolled in these programs receive either a certificate of completion or a two-year degree.

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. Any audit issues identified during this audit have been discussed with university management. Issues requiring further follow-up were referred to the financial-related portion of the biennial financial-compliance audit. 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,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

APPOINTED AND ADMINISTRATIVE OFFICIALS

Board of Regents of Higher Education

Stephen Barrett, Chair
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 Robert Barnosky, Student Regent
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 Janine Pease
 Lila Taylor
 Sheila Stearns, Commissioner of Higher Education*
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*Ex officio members

Office of the Commissioner of Higher Education

Sheila Stearns	Commissioner of Higher Education
Mick Robinson	Deputy Commissioner for Fiscal Affairs/ Chief of Staff
Sylvia Moore	Deputy Commissioner for Academic and Student Affairs
Mary Sheehy Moe	Deputy Commissioner for Two-Year Education and Workforce Development
Tyler Trevor	Associate Commissioner for Planning, Technology, and Communication
Frieda Houser	Director of Accounting and Budgeting
Catherine Swift	Chief Legal Counsel

The University of Montana

George M. Dennison President

The University of Montana–Missoula

Royce C. Engstrom	Provost and Vice President for Academic Affairs, University Provost
Robert Durringer	Vice President for Administration and Finance, University Vice President
Daniel J. Dwyer	Vice President for Research and Development, University Vice President
Teresa S. Branch	Vice President for Student Affairs, University Vice President
James Foley	University Executive Vice President

	Rosi Keller	Associate Vice President for Administration and Finance
	Bill Muse	Associate Vice President for Office of Planning, Budgeting and Analysis
	David Aronofsky	Legal Counsel
	Mark Pullium	Director of Business Services
Montana Tech of The University of Montana	W. Franklin Gilmore	Chancellor, University Executive Vice President
	Doug Abbott	Vice Chancellor for Academic Affairs, University Associate Vice President
	Joseph F. Figueira	Associate Vice Chancellor for Academic Affairs and Research, University Associate Vice President
	Margaret Peterson	Vice Chancellor for Administration and Finance, University Associate Vice President
	Mike Johnson	Vice Chancellor for Development and Student Services
	John C. Badovinac	Controller/Business Manager
	Carleen Cassidy	Director Contracts and Grants
The University of Montana–Western	Richard Storey	Chancellor, University Executive Vice President
	Karl E. Ulrich	Provost and Vice Chancellor for Academic Affairs, University Associate Vice President
	Susan D. Briggs	Vice Chancellor, Administration/Finance and Student Affairs, University Associate Vice President
	Liane Forrester	Director of Business Services
The University of Montana–Helena College of Technology	Daniel Bingham	Dean/CEO, University Executive Vice President
	Brandi Foster	Associate Dean for Academic Affairs
	Russ Fillner	Assistant Dean for Fiscal and Plant Operations

For further information on The University of Montana (All Campuses) contact:

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Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Consolidated Statements of Net Assets of The University of Montana, a component unit of the state of Montana, as of June 30, 2009, and 2008, and the related Consolidated Statements of Revenues, Expenses, and Changes in Net Assets, and Consolidated Statements of Cash Flows for each of the fiscal years then ended and the University Component Units – Combined Statements of Financial Position as of June 30, 2009, and 2008, and the related University Component Units – Combined Statements of Activities for the fiscal years then ended. The information contained in these financial statements is the responsibility of the university's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the university's aggregate discretely presented component units. Those statements, 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 for the component units of the university, as noted above, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of The University of Montana as of June 30, 2009, and 2008, and the respective changes in financial position and, where applicable, cash flows thereof for each of the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages A-3 through A-13 is not a required part of the 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 opinions on the basic financial statements of The University of Montana. The Supplemental Information – All Campuses on page A-49 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures in the audit of the financial statements and, accordingly, we express no opinion on it.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

December 28, 2009

**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, 2009

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. This discussion addresses 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, 2009, 2008, and 2007 and should be read in conjunction with the fiscal year 2009 financial statements.

FINANCIAL HIGHLIGHTS

The financial highlights for fiscal year 2009 were:

- In accordance with the College Affordability Plan (CAP), announced by the Governor in September of 2006, and approved by the 2007 Session of the Montana Legislature, tuition was held at levels in effect for 2007 for all the Campuses of The University of Montana for Montana resident students.
- The University's investment earnings decreased by over \$3.7 million compared to the prior year, largely due to the continued affect of the subprime mortgage crisis on financial markets. Cash flows from investment earnings have in fact declined over \$3.4 million since FY2007. In FY09, the decline in investment earnings can be primarily attributed to the following factors: 1) The fair value of investments decreased by \$3.6 million, and 2) the average yield on money market investments declined substantially and was less than 2.0% for FY09.
- The University engaged two credit rating agencies in FY09 to assess the credit worthiness of its revenue bond issuances. The University received indicative credit ratings of A+ and A1 from Standard and Poor's and Moody's, respectively.
- Net assets of the University increased by \$27.7 million primarily from a \$38.4 million increase in investment in capital assets, which included capital grants and gifts of \$33.3 million. Other notable changes to net assets that offset the increase in capital assets included: (1) a decline in the fair value of endowment investments of over \$3.6 million (2) unrestricted net assets decreased by approximately \$7.2 million due in large part to an increase in the unfunded liability for other post employment benefits.
- Long term obligations and advances from primary government decreased by \$6.1 million. The University issued just over \$800 thousand of new long-term debt.

- The University of Montana Foundation (UM Foundation) reported an investment return of a negative 18.1% on its investments for FY09. Its long term investment portfolio, which includes endowed funds managed on behalf of the University, reported a negative return of 19.7%. The magnitude of the investment loss pushed the value of a material portion of the UM Foundation-held endowments below the original gift value, which caused a cessation of spending from these endowments. Despite this significant challenge, actions by the University and the UM Foundation served to mitigate the impact of this situation. In fact, scholarship and academic support to the University were at record levels.

The financial highlights for fiscal year 2008 were:

- In accordance with the College Affordability Plan (CAP), announced by the Governor in September of 2006, and approved by the 2007 Session of the Montana Legislature, tuition was held at levels in effect for 2007 for all the Campuses of The University of Montana for Montana resident students.
- Investment earnings decreased by \$5.3 million as compared to the prior year. The decrease can be attributed to the following factors: 1) The fair value of endowed equity investments decreased by \$2.3 million, 2) the yield on investments declined due to lower interest rates in the market place, and 3) about \$12 million from bond proceeds was utilized in new construction.
- Long term obligations and advances from primary government decreased by \$5.4 million. The University issued new long-term debt totaling \$343,000.
- Net assets of The University increased by \$10.8 million as a primary result of capital grants & gifts related to the addition of new facilities construction.

USING THE FINANCIAL STATEMENTS

The University's financial statements consist of the following three statements: Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows.

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.
- The financial statements are prepared using the accrual basis of accounting, which means revenues are reported when earned, and expenses are reported when incurred.
- Assets and liabilities presented in the financial statements are generally measured at current value, although capital assets are stated at historical cost less 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 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, and directly related to supplying the basic service while "non-operating" is defined as resulting from transactions not derived from the basic operation of the enterprise. As a result, the accompanying Statement of Revenues, Expenses, and Changes in Net Assets reflects a

substantial operating loss 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 and expense.

STATEMENT OF NET ASSETS

The Statement of Net Assets reflects the financial position of the University at 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, (stated in millions)		
	2009	2008	2007
Total current assets	\$ 78.06	\$ 79.78	\$ 109.54
Total non-current assets	388.91	349.31	301.75
Total assets	\$ 466.97	\$ 429.09	\$ 411.29
Total current liabilities	\$ 58.77	\$ 51.80	\$ 47.30
Total non-current liabilities	175.29	172.10	169.59
Total liabilities	234.06	223.90	216.89
Invested in Capital Assets, Net of Related Debt	192.23	153.83	134.28
Restricted:			
Nonexpendable	15.87	19.29	21.07
Expendable	6.05	6.12	5.50
Unrestricted	18.76	25.95	33.55
Total net assets	232.91	205.19	194.40
Total liabilities and net assets	\$ 466.97	\$ 429.09	\$ 411.29

Events or developments that occurred, which had a significant impact on the Statement of Net Assets included:

Events or developments which occurred during 2009

- Non-Current assets increased by over \$39.6 million due largely to net additions to capital assets of \$35.8 million, which includes an increase to accumulated depreciation of \$19.2 million. The purchase of \$5.5 million of long term investments net of a \$3.7 million decline in fair market value accounts for much of the remaining \$2.1 million increase in non current assets.
- Current liabilities increased by nearly \$7 million due primarily to increases in accounts payable and accrued liabilities, securities lending liability, and deferred revenue, of \$3.1 million, \$1.9 million, and \$1.2 million, respectively.
- Non-Current liabilities increased by almost \$3.2 million dollars due largely to recording an increase in the liability for other post employment benefits (OPEB) of \$7.7 million as

required by GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The increase in the OPEB liability was offset by decline in long-term debt of \$6.0 million net of new borrowings of \$803 thousand.

- Net assets of the University increased by over \$27.7 million. Significant items affecting the change net assets include: investment in capital assets, net of related debt increased by \$38.4 million; the value of non-expendable endowments decreased by \$3.4 million; and, the unfunded OPEB liability increased by \$7.7 million in FY09.

Events or developments which occurred during 2008:

- Current assets decreased by \$29.8 million due primarily from additions to capital assets from cash reserves of approximately \$11.8 million plus, net investment of about \$18 million in longer-term investments.
- Non-Current assets increased by about \$47.6 million due primarily to additions to capital assets of \$26 million net of an increase to accumulated depreciation of \$16.7 million. An increase in long-term investments of \$18 million also contributed to the increase in non-current assets. The remaining \$3.6 million increase is a combination of various factors including premium purchases on long-term investments, market fluctuations, and reinvestment of interest earnings.
- Non-current liabilities increased primarily as a result of recording other post employment benefits totaling \$7.4 million as required by GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.
- Net assets of the University increased by \$10.8 million due primarily to the increase in the investment in capital assets, net of the increase in non-current liabilities related to GASB 45.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses, and Changes in Net Assets present the results of the University's operational activities for the fiscal year, categorizing them as either operating or non-operating items. 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.

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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>(stated in millions)</u>		
	<u>2009</u>	<u>2008*</u>	<u>2007*</u>
Operating revenues	\$ 246.56	\$ 234.85	\$ 228.98
Operating expenses	355.36	335.25	310.45
Operating loss	(108.80)	(100.40)	(81.47)
Non-operating revenues (expenses)	103.06	100.15	95.72
Income (loss) before other revenues	(5.74)	(.25)	14.25
Other revenues	33.46	11.04	9.90
Net increase in net assets	27.72	10.79	24.15
Net assets, beginning of year, as adjusted	205.19	194.40	170.25
Net assets, end of year	\$ 232.91	\$ 205.19	\$ 194.40

*Restated

The following provides a comparative analysis of revenues and expenses for the years ended June 30, 2009, 2008, and 2007:

	For the years ended June 30,					
	(stated in millions)					
	<u>2009</u>		<u>2008*</u>		<u>2007*</u>	
	Amount	Percent	Amount	Percent	Amount	Percent
REVENUES						
Tuition and fees, net	\$ 107.52	27.5%	\$ 104.32	29.5%	\$ 99.15	29.0%
Federal grants and contracts	54.11	13.9%	49.91	14.1%	49.94	14.6%
State & local grants/contracts	11.17	2.9%	9.73	2.8%	9.31	2.7%
Nongovernmental grants/contracts	8.04	2.1%	8.46	2.4%	6.81	2.0%
Facilities and administrative cost allowances	9.35	2.4%	8.76	2.5%	8.53	2.5%
Sales/services of educational departments	15.56	4.0%	13.82	3.9%	14.14	4.1%
Auxiliary enterprise charges	36.59	9.4%	36.24	10.2%	34.33	10.0%
State appropriations	79.97	20.5%	73.53	20.8%	63.45	18.6%
Federal financial aid grants and contracts	18.51	4.7%	16.23	4.6%	15.51	4.5%
Investment income (loss)	(1.00)	(0.3%)	2.69	0.8%	8.03	2.4%
Private gifts	11.32	2.9%	13.50	3.8%	14.66	4.3%
Capital grants and gifts	33.32	8.5%	10.82	3.1%	8.15	2.4%
All other sources combined	5.94	1.5%	5.44	1.5%	10.03	2.9%
Total revenues	\$ 390.40	100.0%	\$ 353.45	100.0%	\$ 342.04	100.0%
EXPENSES						
Compensation and benefits	\$ 225.54	62.2%	\$ 212.76	62.1%	\$ 201.17	63.3%
Other postemployment benefits	7.66	2.1%	7.35	2.1%	-	-
Other operating expenses	82.59	22.8%	80.55	23.6%	76.08	23.9%
Scholarships and fellowships	20.40	5.6%	17.77	5.2%	16.36	5.2%
Depreciation and amortization	19.18	5.3%	16.81	4.9%	16.84	5.3%
Interest expense	7.31	2.0%	7.42	2.1%	7.44	2.3%
Total expenses	\$ 362.68	100.0%	\$ 342.66	100.0%	\$ 317.89	100.0%

* Restated

Comments about specific revenue and expense items are:

Events or developments which occurred during 2009 include:

- Tuition and fees increased approximately \$3.2 million, with about 55% of the growth in revenue from higher enrollments and the remaining 45% increase in revenues from fees associated with higher tuition rates for out-of-state students.
- Grants and contracts from federal, state and local funding sources, and facilities and administrative cost allowances, increased by about \$6.2 million. Funding for research from federal awards increased this fiscal year, accounting for \$4.2 million of the increase from FY08. State and local awards increased by almost 15%, or \$1.4 million, over the prior year.

- Capital grants and gifts amounted to \$33,320,000 during the year and were as follows:

<u>Project</u>	<u>Amount</u>	<u>Campus</u>
Phyllis J. Washington Education Center	\$ 8,969,000	Missoula
Law School Expansion	5,248,000	Missoula
Native American Studies Center	3,392,000	Missoula
Upgrade Steam Distribution System	1,396,000	Missoula
Equipment and art work gifts-in-kind	846,000	Missoula
Upgrade PARTV Lighting and Sound	507,000	Missoula
HVAC Projects	599,000	Missoula
MBMG/Petroleum Building	9,605,000	Butte
COT System Improvements	1,426,000	Butte
Other capital grants and gifts	1,332,000	Various
Total	<u>\$ 33,320,000</u>	

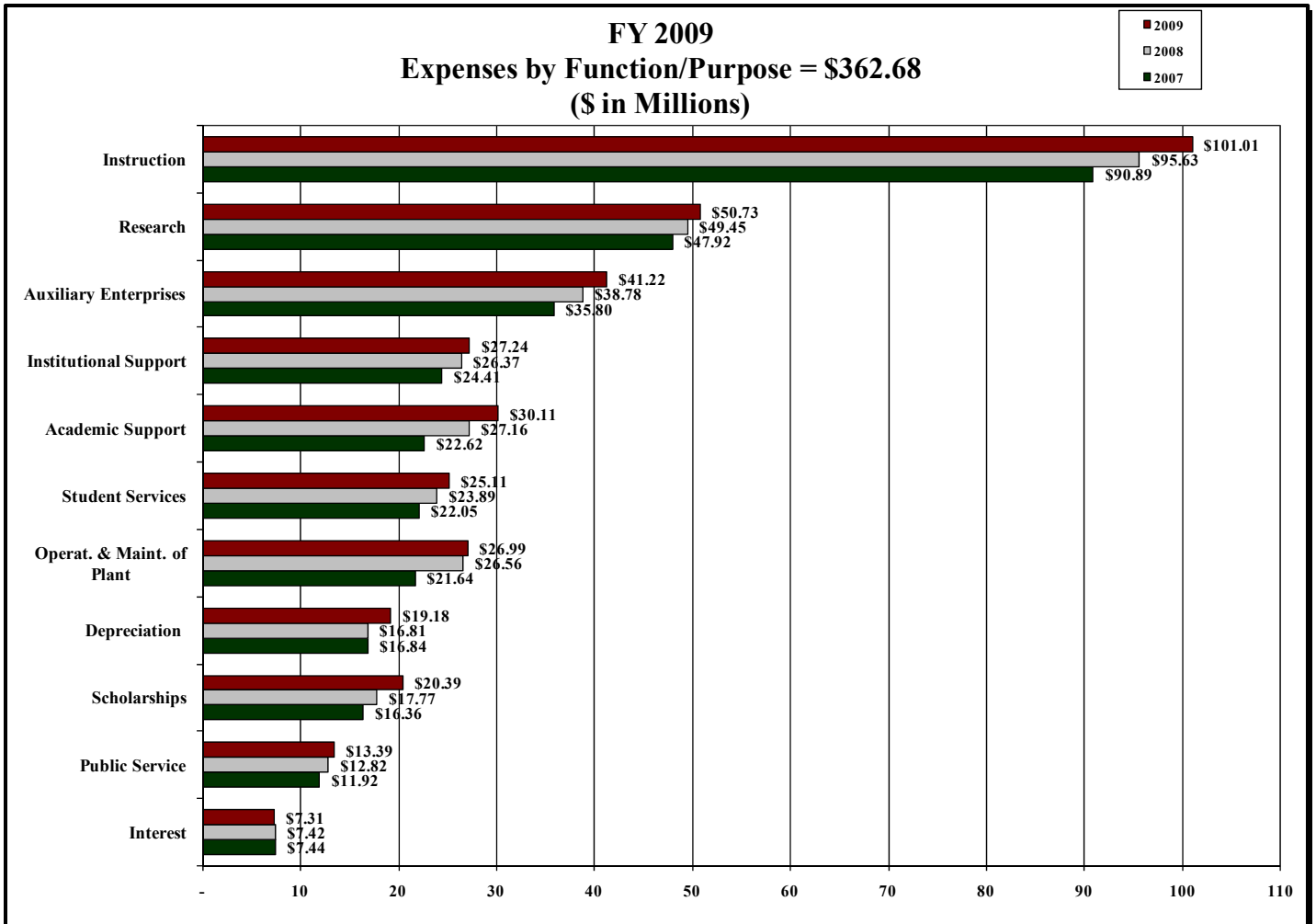
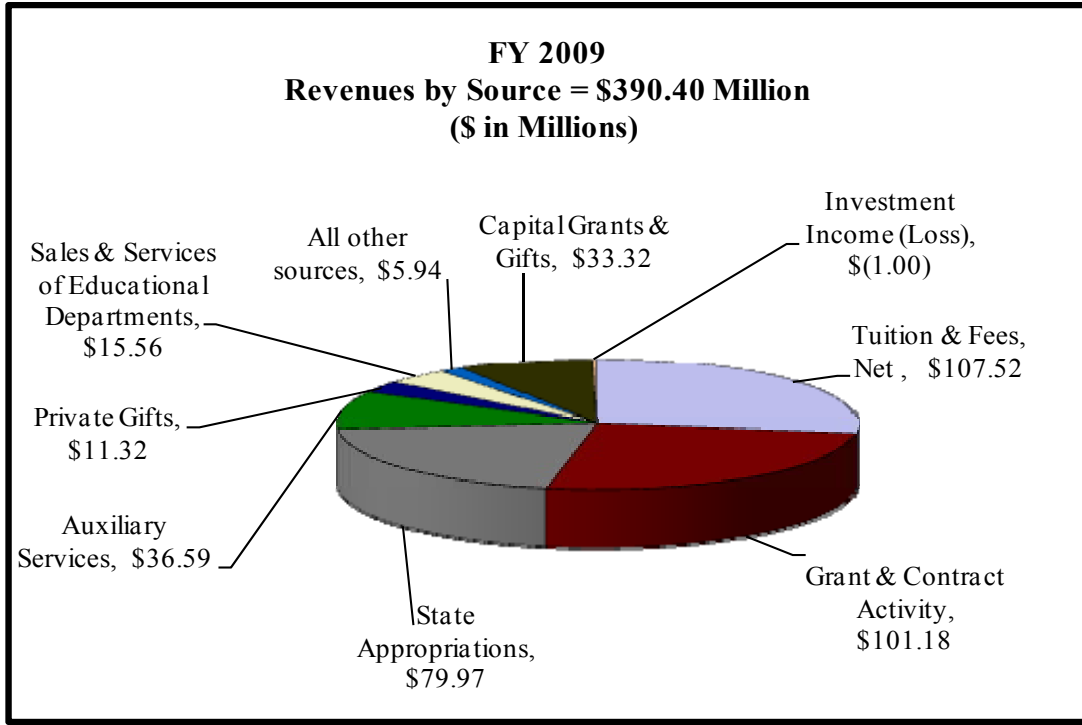
- Operating expenses increased by approximately \$20 million due primarily to increases in salaries and benefits, other operating expenses, scholarships, and depreciation costs, of \$12.8 million, \$2.0 million, \$2.6 million, and \$2.4 million, respectively. Salary increases in FY09 for classified staff and faculty were 3.6% and 3.0%, respectively. Employer contributions for employee benefits, including health insurance, increased by approximately 6.8% over FY 08, or an increase of \$3.5 million.

Events or developments which occurred during 2008 include:

- Tuition and fees increased approximately \$3.2 million, with about \$1.4 million due to higher enrollments, and the remaining increase of about \$1.8 million due to higher tuition rates for out-of-state students.
- Grants and contracts from state, local and private funding sources, and facilities and administrative cost allowances, increased by about \$875 thousand. Funding for research from federal sources continues to be difficult to obtain because of the federal governments' war efforts. As a result, funding from this source increased only slightly by about \$704 thousand in FY 08.
- Capital grants and gifts amounted to \$10,817,000 during the year and were as follows:

<u>Project</u>	<u>Amount</u>	<u>Campus</u>
Upgrade Steam Distribution System	\$ 3,285,000	Missoula
Law School Expansion	2,242,000	Missoula
Donaldson Building	2,238,000	HCOT
Journalism Building	514,000	Missoula
HVAC Projects	1,362,000	Missoula
Cell Block Renovation	512,000	Missoula
Other Renewal and Replacement Projects	664,000	Various
Total	<u>\$ 10,817,000</u>	

- Operating expenses increased by approximately \$24.8 million due primarily to increases in salaries and benefits, other post employment benefits, and utility and supply costs, of \$11.6 million, \$7.4 million, and \$4.4 million, respectively. Salary increases in FY08 for classified staff and faculty were 3.6% and 3.0%, respectively. Employer contributions for employee benefits including health insurance, increased by approximately 8.3% over FY 07.



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, its ability to generate future cash flows, and its 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.

	For years ended June 30,		
	(stated in millions)		
<u>CASH FLOW CATEGORY</u>	2009	2008*	2007*
Cash Provided by (Used for):			
Operating Activities	\$ (78.46)	\$ (74.63)	\$ (62.90)
Non-capital Financial Activities	111.70	105.19	95.64
Capital and Related Financial Activities	(33.63)	(45.13)	(36.44)
Investing Activities	(2.70)	(18.03)	6.12
Net (Decrease) Increase in Cash	(3.09)	(32.60)	2.42
Cash and Cash Equivalents, beginning of year	54.45	87.05	84.63
Cash and Cash Equivalents, end of year	\$ 51.36	\$ 54.45	\$ 87.05

* Restated

Specific events or cash transactions in FY 09 which were notable included:

- Cash flows from operating revenues were higher by over \$17.1 million compared to the prior fiscal year, due primarily to an increase in cash flows from tuition and fees, and grants and contracts of \$6.7 million and \$9.6 million, respectively. This increase in cash flows was reduced by an increase in operating expenses of \$21.0 million due principally to an increase in payments for salaries and benefits of \$15.7 million.
- Cash flows from non-capital financing activities increased by approximately \$6.5 million due largely to an increase in state appropriation and federal financial aid grants and contracts revenue of \$6.4 million and \$2.4 million, respectively. These increases in cash flows were offset by a decrease in cash flows from private gifts, which decreased by \$2.3 million over FY08.
- Overall, cash used in investing activities decreased by over \$15.0 generally due to fewer purchases of fixed income investments during FY09 compared to the prior year. During the year, the University purchased an additional \$5.5 million of U.S. government agency securities to enhance investment earnings. Even so, earnings received on investments declined by over \$2.4 million due primarily to declining interest rates.
- Cash used by capital and related financing activities decreased by a net amount of \$11.5 million over the amount used in FY08. The University used \$37.7 million in cash during FY09 primarily for capital construction projects. The amount paid was offset by cash received from capital gifts of \$16.9 million to help fund these projects. \$13.7 million of cash was used for principal and interest payments on long term obligations.

Specific events or cash transactions in FY 08 which were notable included:

- Cash flows from operating revenues increased by approximately \$3.9 million over FY 07, due primarily to an increase in cash flows from tuition and fees, and auxiliary enterprise charges service activities totaling \$4.4 million. This increase in cash flows was offset by an increase in operating expenses of \$11.0 million due largely to an increase in payments for salaries and benefits of \$8.4 million and \$3.3 million for operating expenses.
- The University purchased \$22.0 million of intermediate term investments and additional Trust Fund Bond Pool shares in FY 08, accounting for most of the \$24.2 million increase in cash used in investing activities.
- Overall, \$45.1 million in cash was used in capital and related financing activities, or an increase of \$8.7 million in comparison to FY 07. The University issued \$343 thousand of long term debt in FY 08 to finance current or future acquisitions of capital assets. In FY 08, \$31.5 million was paid for construction and acquisition of capital assets. An additional \$14.1 million of cash was used to make debt service payments on long term obligations, including, \$6.6 million of principal paid.

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:

- As of June 30, 2009, there were a number of major construction projects that have been completed, under construction or being planned. The following is a summary of estimated costs, the projects and the status as of June 30th, 2009.

Project Name	Estimated Cost	Campus	Status
CLAPP HVAC	\$820,000	Missoula	Completed
Health Science HVAC	\$565,000	Missoula	Completed
Fire Lanes LA/Journalism	\$210,000	Missoula	Completed
Law School Addition	\$14.7M	Missoula	Under Construction
Interdisciplinary Science	\$13.8M	Missoula	Under Construction
Steam Line Replacement	\$459,000	Missoula	Under Construction
Education Addition	\$12M	Missoula	Under Construction
Mansfield Library HVAC	\$440,000	Missoula	Under Construction
Field Station Renovation	\$400,000	Missoula	Under Construction
Native American Center	\$8.5M	Missoula	Under Construction
Missoula COT	\$500,000	Missoula	Design Development (\$32.5m)
Gilkey Education Addition	\$9.0M	Missoula	Planning
Alumni/Foundation Building	TBD	Missoula	Planning
Art/Culture Museum	TBD	Missoula	Planning
Interdisciplinary Science - 2 nd Floor	\$7.9M	Missoula	Planning
Skaggs Basement completion	\$806,000	Missoula	Under Construction
Montana Northern Tier Network	\$1.5 M	Missoula	Under Construction
MBMG/Petroleum Building	\$17.4M	MT Tech	Under Construction
Main Hall Renovation	\$4.5M	Western	Planning

These projects are being funded from a variety of sources including, private donations and state funding.

- The University intends to increase the retention rate by assuring that more of the entering freshmen have the support necessary for them to progress to graduation. In order to improve student success, a collaborative action plan for student retention 2009-2013 is underway. The target first-to-second year retention rate for the University of Montana-Missoula's Mountain Campus by academic year 2012-2013 is 80% and the six-year graduation rate by 2014-2015 is 57%.

The approach taken in this plan recognizes that student success is multifaceted and begins well before a student arrives at college. Therefore, the retention plan is organized around six issues associated with student success:

1. Preparing K-12 student for college work;
2. Transitioning to college;
3. Integrating the early college curriculum;
4. Engaging students;
5. Strengthening student support; and
6. Emphasizing faculty and staff development.

The plan includes a discussion of each issue and includes an introduction followed by one or more specific actions, each with implementation steps. For the complete list of Actions, visit the Partnering for Student Success web site at www.umt.edu/partnering.

- The number of new high school graduates in Montana is projected to decline by about 2% per year over the next 10 years. The decline in high school graduates will present a new challenge for the University. The University has developed and is implementing strategies to improve access and enhance participation by new high school graduates from Montana to mitigate the impact of potential enrollment declines. While tuition at the University is in the moderate range when compared to other peer institutions, even a moderate level of tuition increase is not affordable for many Montana families. To improve access and hopefully increase the participation rate of a smaller pool of prospective in-state students, the University will continue to refine such programs as Montana Partnering for Affordable College Tuition (MPACT) to minimize debt burden as a barrier to participation. The University will also continue to encourage more need-based assistance at the State level to help increase the overall support provided to economically disadvantaged students.
- UM Foundation investment returns have improved significantly since March, 2009, greatly reducing the number of endowments where spending is impaired. Support to the University is expected to be modestly impacted in FY10 because some endowments continue to be "underwater" and there are fewer alternative resources available to offset reduced endowed spending.
- The Montana Legislature's appropriation to the Montana University System for the 2010-2011 biennium that was approved during 2009 legislative session, included \$17.6 million in federal stimulus funds distributed through the American Reinvestment and Recovery Act (ARRA) of 2009. Of the total, UM's campuses will receive approximately \$9 million in funding in the current biennium. Due to the one-time nature of the federal funding, a management plan is being formulated to identify revenue enhancement and expenditure reductions that could mitigate this potential loss of funding. Also, the Montana University System appropriation included approximately \$59 million of education stabilization funding through ARRA. This funding is in lieu of the state general funds, which is expected to be restored in the next biennium by the legislature.

- The University has applied for and may receive ARRA funding to construct several major capital projects. The largest project being an underground research support facility that would be constructed on the Missoula campus. The grant proposal scored well in the first review. It will be late December before the University will know whether or not the grant proposal will be funded.
- The University continues to seek ways to improve the efficiency and effectiveness of its operations through an on-going assessment of its business practices. It must pursue initiatives to generate additional financial support, reduce operating costs, while improving services to students.

The University of Montana

A-14 *A Component Unit of the State of Montana*

Consolidated Statements of Net Assets

As of June 30, 2009 and 2008

	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (note 3)	\$ 51,174,362	\$ 54,242,994
Securities lending collateral	3,633,321	1,775,795
Investments	290,604	283,871
Accounts and grants receivable, net	3,800,099	3,926,722
Due from Federal government	8,837,399	9,959,967
Due from primary government	3,025,627	3,031,025
Due from other State of Montana component units	601,778	295,768
Loans to students, net	1,749,708	1,778,883
Inventories	1,923,739	1,739,906
Prepaid expenses and deferred charges	3,024,119	2,741,381
Total current assets	\$ 78,060,756	\$ 79,776,312
Noncurrent Assets		
Restricted cash and cash equivalents	\$ 189,816	\$ 207,357
Restricted investments	15,140,886	19,021,757
Other long term investments	34,170,005	28,598,934
Loans to students, net	10,695,763	10,259,975
Bond issuance costs	1,933,418	2,038,828
Capital assets, net	326,780,834	289,186,493
Total Noncurrent Assets	\$ 388,910,722	\$ 349,313,344
Total Assets	\$ 466,971,478	\$ 429,089,656
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 23,786,303	\$ 20,675,857
Due to Federal government	145,301	159,452
Due to primary government	841,477	859,019
Due to other State of Montana component units	29,317	20,056
Securities lending liability	3,633,321	1,775,795
Student and other deposits	2,318,126	2,246,010
Deferred revenue	12,454,291	11,285,347
Accrued compensated absences	9,536,677	8,856,934
Current portion of long-term obligations	6,027,230	5,917,736
Total Current Liabilities	\$ 58,772,043	\$ 51,796,206
Noncurrent Liabilities		
Accrued compensated absences	\$ 13,558,279	\$ 12,526,256
Long term obligations	129,396,317	135,194,873
Advances from primary government	5,022,524	4,778,384
Other post employment benefits	15,015,611	7,351,584
Due to Federal Government	10,198,697	10,161,565
Derivative financial instrument	2,094,500	2,094,500
Total Noncurrent Liabilities	\$ 175,285,928	\$ 172,107,162
Total Liabilities	\$ 234,057,971	\$ 223,903,368
NET ASSETS		
Invested in capital assets, net of related debt	\$ 192,230,174	\$ 153,832,155
Restricted for:		
Nonexpendable		
Endowments	13,923,653	17,378,767
Loans	1,950,538	1,907,200
Expendable		
Loans	2,068,506	1,957,331
Scholarships, research, instruction, and other	3,976,855	4,165,953
Unrestricted	18,763,781	25,944,882
Total Net Assets	\$ 232,913,507	\$ 205,186,288
Total Liabilities & Net Assets	\$ 466,971,478	\$ 429,089,656

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

The University of Montana

A Component Unit of the State of Montana

A-15

University Component Units - Combined Statements of Financial Position

As of June 30 or December 31, 2009 and 2008

	2009	2008
ASSETS		
Cash and cash equivalents	\$ 4,696,442	\$ 13,214,392
Short-term investments	5,767,625	4,420,571
Accrued dividends and interest	222,875	296,455
Investments	140,128,973	173,656,689
Contributions receivable, net	14,227,577	23,743,800
Contracts and notes receivable, net	260,252	358,314
Student loans and other receivables	356,873	250,631
Depreciable assets, net of accumulated depreciation	4,244,701	4,351,739
Other assets	871,666	666,290
Total Assets	\$ 170,776,984	\$ 220,958,881
LIABILITIES		
Accounts payable	\$ 354,170	\$ 473,673
Accrued expenses	145,735	84,252
Compensated absences	212,975	172,980
Note payable - bank	214,062	355,338
Liabilities to external beneficiaries	3,189,275	2,877,475
Custodial funds	16,373,016	20,988,477
Other liabilities	323,852	343,098
Total Liabilities	\$ 20,813,085	\$ 25,295,293
NET ASSETS		
Net assets - unrestricted	\$ (2,206,747)	\$ 11,222,219
Net assets - temporarily restricted	43,082,642	77,728,412
Net assets - permanently restricted	109,088,004	106,712,957
Total Net Assets	\$ 149,963,899	\$ 195,663,588
Total Liabilities & Net Assets	\$ 170,776,984	\$ 220,958,881

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

The University of Montana

A-16 *A Component Unit of the State of Montana*

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30, 2009 and 2008

	2009	2008*
OPERATING REVENUES:		
Tuition and fees (net of scholarship allowances in 2009 and 2008 of \$21,037,341 and \$19,648,284, respectively)	\$ 107,522,641	\$ 104,322,918
Federal grants and contracts	54,114,370	49,910,406
State and local grants and contracts	11,168,831	9,730,333
Nongovernmental grants and contracts	8,039,772	8,463,466
Grant and contract facilities and administrative cost allowances	9,347,639	8,755,911
Sales and services of educational departments	15,561,907	13,823,552
Auxiliary enterprises charges:		
Residential life (net of scholarship allowances in 2009 and 2008 of \$1,539,626 and \$1,225,431, respectively)	13,083,303	12,692,277
Food services (net of scholarship allowances in 2009 and 2008 of \$1,539,626 and \$1,225,432, respectively)	11,740,318	10,839,308
Other auxiliary revenues	11,770,299	12,705,616
Interest earned on loans to students	44,091	45,265
Other operating revenues	4,169,781	3,562,195
Total operating revenues	\$ 246,562,952	\$ 234,851,247
OPERATING EXPENSES:		
Compensation and employee benefits	\$ 225,538,230	\$ 212,769,555
Other post employment benefits (note 17)	7,664,027	7,351,584
Other (note 24)	82,588,518	80,545,464
Scholarships and fellowships	20,394,534	17,775,884
Depreciation and amortization	19,181,605	16,811,747
Total operating expenses	\$ 355,366,914	\$ 335,254,234
OPERATING LOSS	\$ (108,803,962)	\$ (100,402,987)
NON-OPERATING REVENUES (EXPENSES):		
State appropriations	\$ 79,965,549	\$ 73,528,981
Federal financial aid grants and contracts	18,514,559	16,227,001
Land grant revenues	1,581,881	1,616,632
Private gifts	11,322,572	13,504,444
Investment income (loss)	(1,002,689)	2,695,372
Interest expense	(7,313,503)	(7,423,405)
Net non-operating revenues	\$ 103,068,369	\$ 100,149,025
INCOME BEFORE OTHER REVENUES (EXPENSES)	\$ (5,735,593)	\$ (253,962)
OTHER REVENUES (EXPENSES):		
Capital grants and gifts	\$ 33,320,652	\$ 10,816,706
Additions to permanent endowments	312,500	312,500
Gain (loss) on disposal of capital assets	(170,340)	(92,022)
Total other revenues	\$ 33,462,812	\$ 11,037,184
Net increase in net assets	\$ 27,727,219	\$ 10,783,222
NET ASSETS:		
Net assets - beginning of year	\$ 205,186,288	\$ 194,403,066
Net assets - end of year	\$ 232,913,507	\$ 205,186,288

* *Restated*

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

A-17

University Component Units - Combined Statement of Activities
For the Years Ended June 30 or December 31, 2009 and 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total
REVENUES:				
Contributions	\$ 1,137,907	\$ 14,520,693	\$ 3,998,044	\$ 19,656,644
Interest and dividend income	870,983	3,778,238	-	4,649,221
Net realized and unrealized gain (loss) on investments	(11,752,338)	(18,787,155)	(1,354,447)	(31,893,940)
Administrative fees	352,718	-	-	352,718
Loss on sale of assets	-	(8,791)	-	(8,791)
Support received from university	395,900	73,747	-	469,647
Special events	695,121	393,592	-	1,088,713
Other income	96,410	1,568,087	-	1,664,497
Net assets released from restrictions	36,124,527	(36,124,527)	-	-
Total revenues	\$ 27,921,228	\$ (34,586,116)	\$ 2,643,597	\$ (4,021,291)
EXPENSES:				
Program services				
Academic and institutional	\$ 11,010,969	\$ -	\$ -	\$ 11,010,969
Capital expenses	16,824,802	-	-	16,824,802
Scholarships and awards	6,836,602	-	-	6,836,602
Total program services	\$ 34,672,373	\$ -	\$ -	\$ 34,672,373
Operating expenses				
Fundraising efforts	\$ 3,407,018	\$ -	\$ -	\$ 3,407,018
General and administrative	2,527,324	-	-	2,527,324
Investment management costs	236,599	-	-	236,599
Other miscellaneous	64,190	-	-	64,190
Total operating expenses	\$ 6,235,131	\$ -	\$ -	\$ 6,235,131
Change in net assets before nonoperating items	\$ (12,986,276)	\$ (34,586,116)	\$ 2,643,597	\$ (44,928,795)
NON-OPERATING REVENUES (EXPENSES):				
Payments to beneficiaries and change in liabilities due to external beneficiaries	(49,209)	(762,324)	-	(811,533)
Adjustments	-	309,189	(268,550)	40,639
Change in net assets	\$ (13,035,485)	\$ (35,039,251)	\$ 2,375,047	\$ (45,699,689)
Net assets, beginning of year	10,828,738	78,121,893	106,712,957	195,663,588
Net assets, end of year	\$ (2,206,747)	\$ 43,082,642	\$ 109,088,004	\$ 149,963,899

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

The University of Montana

A-18 *A Component Unit of the State of Montana*

University Component Units - Combined Statement of Activities

For the Years Ended June 30 or December 31, 2009 and 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008* Total
REVENUES:				
Contributions	\$ 1,533,521	\$ 28,023,597	\$ 6,563,336	\$ 36,120,454
Interest and dividend income	1,020,609	4,503,287	130,670	5,654,566
Net realized and unrealized gain (loss) on investments	(563,878)	(12,951,772)	(274,543)	(13,790,193)
Loss on impairment of asset	96,432	(100,000)	-	(3,568)
Administrative fees	442,358	-	-	442,358
Loss on sale of assets	-	(3,000)	-	(3,000)
Support received from university	414,000	67,600	-	481,600
Special events	556,595	286,665	130	843,390
Other income	46,688	813,731	-	860,419
Net assets released from restrictions	18,725,342	(18,725,342)	-	-
Total revenues	\$ 22,271,667	\$ 1,914,766	\$ 6,419,593	\$ 30,606,026
EXPENSES:				
Program services				
Academic and institutional	\$ 8,745,933	\$ -	\$ -	8,745,933
Capital expenses	1,430,902	-	-	1,430,902
Scholarships and awards	5,966,049	-	-	5,966,049
Total program services	\$ 16,142,884	\$ -	\$ -	\$ 16,142,884
Operating expenses				
Fundraising efforts	\$ 3,011,293	\$ -	\$ -	\$ 3,011,293
General and administrative	2,968,660	-	-	2,968,660
Investment management costs	388,292	-	-	388,292
Other miscellaneous	79,906	-	-	79,906
Total operating expenses	\$ 6,448,151	\$ -	\$ -	\$ 6,448,151
Change in net assets before nonoperating items	\$ (319,368)	\$ 1,914,766	\$ 6,419,593	\$ 8,014,991
NON-OPERATING REVENUES (EXPENSES):				
Payments to beneficiaries and change in liabilities due to external beneficiaries	(26,791)	(292,852)	-	(319,643)
Adjustments	(338)	(902,991)	881,451	(21,878)
Change in net assets	\$ (346,497)	\$ 718,923	\$ 7,301,044	\$ 7,673,470
Net assets, beginning of year	11,175,235	77,402,970	99,411,913	187,990,118
Net assets, end of year	\$ 10,828,738	\$ 78,121,893	\$ 106,712,957	\$ 195,663,588

* Restated

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

A-19

For the Years Ended June 30, 2009 and 2008

	2009	2008*
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 109,437,718	\$ 102,666,290
Federal grants and contracts	54,793,217	47,821,744
State grants and contracts	11,351,676	9,369,055
Nongovernmental grants and contracts	8,139,210	8,111,557
Grant and contract facilities and administrative cost allowances	9,347,639	8,755,911
Sales and services of educational activities	15,354,999	13,682,501
Auxiliary enterprises charges	35,937,792	36,906,999
Interest earned on loans to students	129,054	149,865
Other operating receipts	4,431,756	4,310,362
Payments to employees for salaries and benefits	(223,948,815)	(208,259,183)
Operating expenses	(82,630,699)	(78,998,578)
Payments for scholarships and fellowships	(20,394,534)	(17,775,884)
Loans made to students	(2,201,951)	(3,560,865)
Loan payments received	1,795,338	2,188,663
Net Cash Used by Operating Activities	\$ (78,457,600)	\$ (74,631,563)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 79,965,549	\$ 73,528,981
Land Grants	1,581,881	1,616,632
Federal financial aid grants and contracts	18,514,559	16,227,001
Private Gifts for other than capital purposes	11,322,572	13,504,445
Additions to permanent endowments	312,500	312,500
Net Cash Provided by Noncapital Financing Activities	\$ 111,697,061	\$ 105,189,559
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	\$ (10,312,500)	\$ (23,299,886)
Proceeds from sales of investments	4,500,000	2,065,794
Cash equivalent investment reclassified to other long term investments	449,412	(1,866,274)
Earnings received on investments	2,663,471	5,066,621
Net Cash Used by Investing Activities	\$ (2,699,617)	\$ (18,033,745)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for capital assets	\$ (37,659,189)	\$ (31,487,262)
Capital gifts	16,904,336	-
Proceeds from the sale of capital assets	16,270	84,029
Proceeds from notes payable and advances from primary government	803,206	342,993
Principal paid on notes payable, advance from primary government, and capital leases	(752,983)	(963,330)
Principal paid on bonds payable	(5,590,000)	(5,610,000)
Interest paid on capital debt and leases	(7,347,657)	(7,496,652)
Net Cash Used by Capital and Related Financing Activities	\$ (33,626,017)	\$ (45,130,222)
Net Decrease in Cash and Cash Equivalents	\$ (3,086,173)	\$ (32,605,971)
Cash and Cash Equivalents, Beginning of Year	\$ 54,450,351	\$ 87,056,322
Cash and Cash Equivalents, End of Year	\$ 51,364,178	\$ 54,450,351

* Restated

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

The University of Montana

A-20 *A Component Unit of the State of Montana*

Consolidated Statements of Cash Flows

For the Years Ended June 30, 2009 and 2008

(Continued)

	2009	2008*
Reconciliation of Operating Loss to Net Cash Used By Operating Activities:		
Operating loss	\$(108,803,962)	\$(100,402,987)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization expense	19,181,605	16,811,747
Other amortization expense	322,332	332,409
Other post employment benefits	7,664,027	7,351,584
Changes in assets and liabilities:		
Accounts receivable	948,579	(1,048,227)
Loans to students	(406,613)	(1,372,201)
Inventories	(183,833)	62,517
Prepaid expenses and deferred charges	(282,740)	(235,945)
Accounts payable and accrued expenses	113,047	5,084,734
Deferred revenue	1,168,944	(1,952,661)
Student and other deposits	72,116	(396,562)
Due to federal government	37,132	140,949
Compensated absences	1,711,766	993,080
Net Cash Used by Operating Activities	\$ (78,457,600)	\$ (74,631,563)
Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions		
Fixed assets acquired by incurring capital lease obligations	\$ 230,792	\$ 425,635
Decrease in fair value of investments recognized as a component of interest income	\$ (3,672,890)	\$ (2,371,248)
Fixed assets acquired from Capital grants and donations	\$ 16,416,316	\$ 10,816,705
Reconciliation of Cash and Cash Equivalent to the Statement of Net Assets		
Cash and cash equivalents classified as current assets	\$ 51,174,362	\$ 54,242,994
Cash and cash equivalents classified as noncurrent assets	189,816	207,357
Total Cash and Cash Equivalents, End of Year	\$ 51,364,178	\$ 54,450,351

* *Restated*

**THE UNIVERSITY OF MONTANA
A COMPONENT UNIT OF THE STATE OF MONTANA
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008****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 19,000 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.

GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14” 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 one percent of consolidated net assets or one 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 22, “Accounting for Component Units.”

The University is considered a component unit of the State of Montana under GASB 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 Governmental Accounting Standards Board (GASB). Under GASB Statement No. 34, “Basic Financial Statements and Management Discussion and Analysis for State and Local Governments” and GASB Statement 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 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 Statement No. 39, the combined statement 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 money market funds and 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 Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." Investment income is recorded on the accrual basis. All investment income, including changes in unrealized gain (loss) on the carrying value of investments, is reported as a component of investment income.

▪ ACCOUNTS AND GRANTS RECEIVABLE

Accounts receivable 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.

▪ CASH AND SHORT-TERM INVESTMENTS

Cash and investments that are externally restricted to make debt service payments, 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.

▪ **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. The table below illustrates the capitalization thresholds.

<u>Capital Asset Category:</u>	<u>Capitalization Threshold</u>
	<u>Amount:</u>
Equipment	\$5,000
Buildings, Building Improvements, Land Improvements	\$25,000
Infrastructure	\$500,000

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 which require 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.

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- **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, investment income, and federal financial aid grants and contracts.

▪ **USE OF RESTRICTED REVENUES**

When the University maintains both restricted and unrestricted funds for the same purpose, the order of use of such funds is determined on a case-by-case basis. Restricted funds remain classified as restricted until they have been expended.

▪ **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.

• **RECLASSIFICATION AND RESTATEMENT**

In order to make certain prior year amounts compare to the current year presentation on the Consolidated Statements of Revenues, Expenses and Changes in Net Assets, \$16,227,001 was reclassified from federal grants and contracts to a separate non-operating revenue classification for federal financial aid grants and contracts. In addition, \$1,841,599 on the Consolidated Statements of Revenues, Expenses and Changes in Net Assets, was reclassified from grant and contract facilities and administrative cost allowances to appropriate grant and contract revenue classifications.

NOTE 3 – CASH DEPOSITS, CASH EQUIVALENTS AND INVESTMENTS

▪ **CASH DEPOSITS**

The University must comply with State statutes, which generally require that cash remain on deposit with the State treasury, and as such are subject to the State's investment policies. Certain exceptions exist, which allow funds to be placed on deposit with trustees to satisfy bond covenants or to maximize investment earnings by placing certain funds with University foundations. Deposits with State treasury and other financial institutions at June 30, 2009 and 2008 totaled \$34,511,137 and \$27,104,868, respectively.

▪ **CASH EQUIVALENTS**

Cash equivalents consist of \$1,036,612 of cash invested in a money market fund with First American Funds, and \$15,613,455 in the STIP with the Montana Board of Investments. Amounts held in cash equivalents at June 30, 2009 and 2008 were \$16,650,067 and \$26,714,983, respectively. 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. The First American Funds, Prime Obligations Money Market Fund invests in short-term debt obligations, including commercial paper, U.S. dollar-dominated obligations of domestic and foreign banks, non-convertible corporate debt securities, U.S. government or agency securities, loan participation interests, and repurchase agreements. Investments in STIP and the money market fund may be withdrawn by the University on demand, and as such, are classified as cash equivalents.

INVESTMENTS

Investments consisted of the following at June 30, 2009 and 2008:

Security Type	Fair Value		Effective Duration at June 30, 2009*	Credit Quality Rating at June 30, 2009***
	2009	2008		
U.S. Government Sponsored Entities	\$ 21,137,317	\$ 14,989,237	1.14	AAA
Short Term Investment Pool (STIP)****	1,416,862	1,866,274	Not Applicable	NR
Trust Fund Bond Pool (TFBP)	13,496,421	13,644,676	4.14**	NR
Montana Domestic Equity Pool (MDEP)	819,662	1,140,294	Not Applicable	N/A
Foundation Pooled Investments	12,440,629	15,980,210	Not Applicable	N/A
Certificates of Deposits	290,604	283,871	.483	N/A
Total investments	\$ 49,601,495	\$ 47,904,562		
Securities Lending Collateral Investment Pool	\$ 3,633,321	\$ 1,775,795		

*See Interest Rate Risk under the Investment Risks disclosure included in this note.

**Effective duration for the Trust Fund Bond Pool (TFBP) is for the entire portfolio. The University's ownership represents less than 0.9% of the portfolio

***NR indicates security investment unrated for credit quality type.

****Structured Investment Vehicle investments in STIP portfolio reclassified from cash and cash equivalents.

Investments held by the University at June 30, 2009 and 2008 are described further in the paragraphs below.

U.S. Government Sponsored Entities

U.S. government sponsored entities securities are mortgage-backed securities purchased and administered by the Montana Board of Investments (MBOI), or bond trustee funds managed by U.S. Bank for the University. All of the securities were registered under the nominee's name (MBOI or U.S. Bank) on behalf of the University.

Montana Board of Investments Pools

The University is a participant in certain internal investment pools administered by the Montana Board of Investments (MBOI). MBOI purchases investments for each portfolio in accordance with the statutorily mandated "Prudent Expert Principle." The University was invested in the following internal investment pools at June 30, 2009 and 2008:

Montana Domestic Equity Pool (MDEP)

The MDEP portfolio may include common stock, equity index, preferred stock, convertible equity securities, American Depositary Receipts (ADR's), equity derivatives and commingled funds. ADR's are receipts issued by a U.S. depository bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depository bank. Equity derivatives "derive" their value from other equity instruments such as futures and options. An institutional commingled fund combines assets from several institutional investors that are blended or pooled together, to reduce management and administration costs.

Trust Funds Bond Pool (TFBP)

The TFBP portfolio includes corporate and foreign government bonds; U.S. government direct obligations and U.S. government agency securities; and cash equivalents. U.S. government direct obligations include U.S. Treasury securities and debt explicitly guaranteed by the U.S. government. U.S. government agency securities include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages.

The TFBP portfolio includes structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). These investments are pass-through vehicles for multi class mortgage-backed securities.

A-26 Notes to the Consolidated Financial Statements (continued)

The University Foundation Pools

This pool consists of endowment funds held in a common investment pool administered by the University of Montana and Montana Tech Foundations. The Foundations portfolio includes cash equivalents, fixed income and equity securities.

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 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, 2009 and 2008, 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, 2009 and 2008, the Board of Investments had no credit risk exposure to borrowers.

Investment risks

Effective June 30, 2005, the University implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosures." Investments administered by the MBOI for the University are subject to their investment risk policies. The University does not have a formal investment policy for interest rate risk or credit risk. Detailed asset maturity and other information demonstrating risk associated with the State of Montana Board of Investments STIP and TFBP is contained in the State of Montana Board of Investments financial statements, and may be accessed by contacting the Board of Investments at P.O. Box 200126, Helena, MT 59620-0126.

Investment risks associated with the University's investments are described in the following paragraphs:

Interest Rate Risk

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

In accordance with GASB Statement No. 40, the State of Montana has selected the effective duration method to disclose interest rate risk. Duration is a measure of a debt's exposure to fair value changes from changing interest rates. It uses the present value of the cash flows from the investment, weighting those cash flows as a percentage of the investment's full price.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, all STIP securities and TFBP fixed income instruments have credit risk as measured by major credit rating services. The First American money market fund has received AAA credit quality ratings from three NSRO's: Moody's; Standard and Poor's; and Fitch.

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

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2009 and 2008, all STIP, MDEP and TFBP securities were registered in the nominee name for the MBOI and held in the possession of the Board's custodial bank, State Street Bank. According to the STIP Investment Policy, "repurchase agreements require electronic delivery of U.S. Government Treasury collateral, priced at 102 percent market value, to the designated State of Montana Federal Reserve Bank account." The TFBP's State Street repurchase agreement was purchased in the State of Montana Board of Investments name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement. MDEP investments in pooled investments are also excluded from this requirement. According to the TFBP Investment Policy, "with the exception of the U.S. government/agency securities, additional purchases will not be made in a credit if the credit risk exceeds 2 percent of the portfolio at the time of purchase." The concentration of credit risk exposure for U.S. government sponsored entities securities held at June 30, 2009 and 2008, expressed as a percentage of total investments, was 43.09% and 31.29%, 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 \$1,581,881 and \$1,616,632 for the years ended June 30, 2009 and 2008, respectively. These earnings are currently pledged to the Series C 1995, Series E 1998, Series F 1999, Series G 2002, Series I 2004, and Series J 2005 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).

NOTE 4 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts Receivable consisted of the following at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Student tuition and fees	\$ 2,651,824	\$ 2,696,550
Auxiliary enterprises and other operating activities	1,852,333	1,511,981
Private grants and contracts	217,164	229,316
Other	134,655	297,859
Gross accounts and grants receivable	4,855,976	4,735,706
Less: allowance for doubtful accounts	1,055,877	808,984
Net accounts and grants receivable	<u>\$ 3,800,099</u>	<u>\$ 3,926,722</u>

NOTE 5 – 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, 2009 and 2008 are \$10,198,697 and \$10,161,565, 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 6 – INVENTORIES

Inventories consisted of the following at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Bookstore	\$ 626,580	\$ 624,128
Food services	145,659	123,247
Facilities services	744,606	716,815
Other	406,894	275,716
Total inventories	<u>\$ 1,923,739</u>	<u>\$ 1,739,906</u>

NOTE 7 – PREPAID EXPENSES AND DEFERRED CHARGES

Prepaid expenses and other deferred charges consisted of the following at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Summer session	\$ 703,397	\$ 566,172
Travel advances	22,696	49,732
Other prepaid expenses	2,298,028	2,125,477
Total prepaid expenses and other deferred charges	<u>\$ 3,024,121</u>	<u>\$ 2,741,381</u>

NOTE 8 – CAPITAL ASSETS

The following tables present the changes in capital assets for the years ended June 30, 2009 and 2008, respectively.

For the year ended June 30, 2009:

	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
Capital assets not being depreciated:					
Land	\$ 7,532,929	\$ -	\$ -	\$ -	\$ 7,532,929
Capitalized Collections	16,531,333	295,750	40	-	16,827,043
Construction in progress	47,187,108	45,584,126	-	(30,685,429)	62,085,805
	<u>71,251,370</u>	<u>45,879,876</u>	<u>40</u>	<u>(30,685,429)</u>	<u>86,445,777</u>
Other capital assets:					
Land improvements	12,753,185	-	-	130,426	12,883,611
Infrastructure	-	-	-	6,759,119	6,759,119
Buildings	237,941,795	-	-	6,128,323	244,070,118
Building improvements	134,422,443	-	986,151	19,883,525	153,319,817
Furniture and equipment	53,248,823	7,342,397	1,647,466	(12,060)	58,931,694
Library materials	52,213,861	1,395,432	42,175	-	53,567,118
Livestock	19,048	-	5,149	-	13,899
	<u>490,599,155</u>	<u>8,737,829</u>	<u>2,680,941</u>	<u>32,889,333</u>	<u>529,545,376</u>
Less accumulated depreciation for:					
Land improvements	8,899,016	316,395	-	-	9,215,411
Infrastructure	-	14,082	-	-	14,082
Buildings	100,522,566	5,102,573	-	-	105,625,139
Building improvements	85,496,021	7,293,138	774,204	-	92,014,955
Furniture and equipment	32,357,911	4,522,427	1,598,014	-	35,282,324
Library materials	45,678,701	1,793,334	5,259	-	47,466,776
Livestock	8,941	2,285	3,249	-	7,977
	<u>272,963,156</u>	<u>19,044,234</u>	<u>2,380,726</u>	<u>-</u>	<u>289,626,664</u>
Other capital assets, net	<u>217,635,999</u>	<u>(10,306,405)</u>	<u>300,215</u>	<u>32,889,333</u>	<u>239,918,712</u>
Intangible assets	299,124	258,510	3,918	(137,371)	416,345
Total capital assets, net	<u>\$ 289,186,493</u>	<u>\$ 35,831,981</u>	<u>\$ 304,173</u>	<u>\$ 2,066,533</u>	<u>\$ 326,780,834</u>
Capital Asset Summary:					
Capital assets not being depreciated	\$ 71,251,370	\$ 45,879,876	\$ 40	\$ (30,685,429)	\$ 86,445,777
Other capital and intangible assets	490,898,279	8,996,339	2,684,859	32,751,962	529,961,721
	<u>562,149,649</u>	<u>54,876,215</u>	<u>2,684,899</u>	<u>2,066,533</u>	<u>616,407,498</u>
Less: accumulated depreciation	272,963,156	19,044,234	2,380,726	-	289,626,664
Total capital assets, net	<u>\$ 289,186,493</u>	<u>\$ 35,831,981</u>	<u>\$ 304,173</u>	<u>\$ 2,066,533</u>	<u>\$ 326,780,834</u>

A-30 Notes to the Consolidated Financial Statements (continued)

For the year ended June 30, 2008:

	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
Capital assets not being depreciated:					
Land	\$ 7,125,781	\$ 407,148	\$ -	\$ -	\$ 7,532,929
Capitalized Collections	16,210,450	328,383	7,500	-	16,531,333
Construction in progress	52,028,936	32,209,652	-	(37,051,480)	47,187,108
	75,365,167	32,945,183	7,500	(37,051,480)	71,251,370
Other capital assets:					
Land improvements	12,619,381	-	-	133,804	12,753,185
Infrastructure	-	-	-	-	-
Buildings	204,142,766	260,056	52,000	33,590,973	237,941,795
Building improvements	129,972,955	1,174,017	51,232	3,326,703	134,422,443
Furniture and equipment	49,940,948	6,799,629	3,490,967	(787)	53,248,823
Library materials	50,920,432	1,413,464	120,035	-	52,213,861
Livestock	24,197	-	5,149	-	19,048
	447,620,679	9,647,166	3,719,383	37,050,693	490,599,155
Less accumulated depreciation for:					
Land improvements	8,570,968	328,048	-	-	8,899,016
Infrastructure	-	-	-	-	-
Buildings	96,178,308	4,392,233	47,975	-	100,522,566
Building improvements	78,907,089	6,640,164	51,232	-	85,496,021
Furniture and equipment	31,833,236	3,873,635	3,348,960	-	32,357,911
Library materials	44,380,909	1,417,827	120,035	-	45,678,701
Livestock	8,433	3,021	2,513	-	8,941
	259,878,943	16,654,928	3,570,715	-	272,963,156
Other capital assets, net	187,741,736	(7,007,762)	148,668	37,050,693	217,635,999
Intangible assets	337,781	120,282	2,120	(156,819)	299,124
Total capital assets, net	\$ 263,444,684	\$ 26,057,703	\$ 158,288	\$ (157,606)	\$ 289,186,493
Capital Asset Summary:					
Capital assets not being depreciated	\$ 75,365,167	\$ 32,945,183	\$ 7,500	\$ (37,051,480)	\$ 71,251,370
Other capital and intangible assets	447,958,460	9,767,448	3,721,503	36,893,874	490,898,279
	523,323,627	42,712,631	3,729,003	(157,606)	562,149,649
Less: accumulated depreciation	259,878,943	16,654,928	3,570,715	-	272,963,156
Total capital assets, net	\$ 263,444,684	\$ 26,057,703	\$ 158,288	\$ (157,606)	\$ 289,186,493

NOTE 9 – DEFERRED REVENUES

Deferred Revenues consisted of the following at June 30, 2009 and 2008:

	2009	2008
Grant and contract revenue received in advance	\$ 4,981,455	\$ 5,049,108
Summer session payments received in advance	2,809,778	3,127,622
Other deferred revenues	4,663,058	3,108,617
Total deferred revenue	\$ 12,454,291	\$ 11,285,347

NOTE 10 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2009 and 2008:

	2009	2008
Compensation, benefits and related liabilities	\$ 17,593,429	\$ 16,594,137
Accrued interest expense	864,776	874,676
Accounts payable and other accrued liabilities	5,328,098	3,207,044
Total accounts payable and accrued liabilities	\$ 23,786,303	\$ 20,675,857

NOTE 11 – LONG-TERM LIABILITIES

The following tables present the changes in long-term liabilities for the years ended June 30, 2009 and 2008, respectively:

For the year ended June 30, 2009:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds, notes and capital leases					
Revenue bonds payable, net	\$ 139,730,023	\$ 266,603	\$ 5,639,681	\$134,356,945	\$ 5,725,000
Notes payable	746,104	-	85,188	660,916	88,492
Capital leases payable	636,482	-	230,795	405,687	213,738
	141,112,609	266,603	5,955,664	135,423,548	6,027,230
Other long-term liabilities					
Accrued compensated absences	21,383,190	10,305,930	8,594,164	23,094,956	9,536,677
Advances from primary government	5,186,766	803,206	437,002	5,552,970	530,447
Other Post Employment Benefits	7,351,584	7,664,027	-	15,015,611	-
Due to Federal Government	10,161,565	37,132	-	10,198,697	-
Derivative financial instrument	2,094,500	-	-	2,094,500	-
	46,177,605	18,810,295	9,031,166	55,956,734	10,067,124
Total long-term liabilities	\$ 187,290,214	\$ 19,076,898	\$ 14,986,830	\$ 191,380,282	\$ 16,094,354

For the year ended June 30, 2008:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds, notes and capital leases					
Revenue bonds payable, net	\$ 145,121,397	\$ 268,307	\$ 5,659,681	\$ 139,730,023	\$ 5,590,000
Notes payable	930,491	232,589	416,976	746,104	85,188
Capital leases payable	431,137	425,635	220,290	636,482	242,548
	146,483,025	926,531	6,296,947	141,112,609	5,917,736
Other long-term liabilities					
Accrued compensated absences	20,390,110	9,537,369	8,544,289	21,383,190	8,856,934
Advances from primary government	5,466,477	110,404	390,115	5,186,766	408,382
Other post employment benefits	-	7,351,584	-	7,351,584	-
Due to Federal Government	10,020,616	140,949	-	10,161,565	-
Derivative financial instrument	2,094,500	-	-	2,094,500	-
	37,971,703	17,140,306	8,934,404	46,177,605	9,265,316
Total long-term liabilities	\$ 184,454,728	\$ 18,066,837	\$ 15,231,351	\$ 187,290,214	\$ 15,183,052

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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.

Interest Rate Exchange Agreement

In August, 2005 the University entered into a forward SWAP agreement (“swaption”) with Wachovia Bank, NA (“counterparty”) to hedge the interest rate risk associated with the potential future issuance of variable-rate revenue bonds. In exchange, the University received \$2,094,500 from the counterparty. A portion of the payment was consideration for the estimated present value of the fixed rate payable under the agreement upon execution of the swaption. The swaption gives the counterparty the right to require that the University execute a floating-to-fixed swap in May 2010, based on a notional amount of \$47,000,000. Should the counterparty exercise its option, the University would expect to issue Series K 2010 taxable, variable rate bonds at the \$47,000,000 notional amount of the swap. The intention of the University in entering into the swaption was to refund its outstanding Series F 1999 Revenue Bonds and lower the cost of its borrowing.

Terms – The counterparty has the right to exercise the swap on May 15, 2010, the call date of the Series F 1999 Revenue Bonds. If the swaption is exercised it will also become effective on May 15, 2010. Under terms of the swap, the University will pay the counterparty a fixed rate substantially equal to the fixed rate on the refunded bonds and receive a variable payment based on the one-month LIBOR rate, plus 30 basis points. Termination of the swaption could result in the University being required to make a termination payment to the counterparty.

Once the refunded Series F 1999 Revenue Bonds escrow matures in 2019, the floating rate Series K 2010 Parity Bonds will be converted to tax-exempt bonds and the swap will convert to tax exempt rates as well. Should the option to enter the swap not be exercised by the counterparty, the University would not be required to repay the swaption purchase price.

Fair Value – At June 30, 2009, the swaption had a negative fair value of \$5,652,978, which has not been recorded in the University’s financial statements. Such value was provided to the University by the counterparty, and was calculated as an approximation of market value derived from proprietary models and from certain other financial information believed to be reliable by the counterparty. The negative fair value of the swaption indicates that the fixed rate the University would pay under the potential transaction exceeded the one-month London InterBank Offering Rate (LIBOR) at June 30, 2009.

Market-access risk – If the option is exercised and variable-rate Series K 2010 Parity Bonds are not issued by the University, the Series F 1999 Revenue Bonds would not be refunded, and the University would make net swap payments as required by the terms of the swap.

Capital Leases

The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2009:

Fiscal Year	Total
2010	\$ 243,199
2011	119,985
2012	73,178
2013	16,828
Minimum lease payments	\$ 453,190
Less: Amount representing interest	47,503
Present value of net minimum lease payments	<u>\$ 405,687</u>

Assets acquired under capital leases consist mainly of photocopiers. Such assets are carried at \$1,129,836 with accumulated depreciation of \$636,800 as of June 30, 2009.

NOTE 12 – 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, 2009 and 2008, was \$168,411,780. The combined principal amount outstanding at June 30, 2009 and 2008 was \$136,364,998 and \$141,954,997, 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 1998 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 Series B, C and D Facilities Improvements Revenue 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's Missoula campus. In September, 2005, the Series J 2005 Revenue Bond issuance advanced refunded the outstanding principal amount of this portion of the Series F 1999 issuance (see Series J 2005 below).

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 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.

Series J 2005

On September 15, 2005, The University of Montana issued \$31,095,000 of Series J 2005 Facilities Improvement and Refunding Revenue Bonds, with interest ranging from 3.0 percent to 4.5 percent. The proceeds from the issue, together with certain resources of the University, provided funds to pay and discharge a portion of the

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Series F Revenue Bonds, and finance or refinance, the costs of acquisition, construction, furnishing, equipping, renovation or improvement of certain University facilities.

The University of Montana recorded \$11,120,000 of the Series J 2005 Revenue Bonds to advance refund \$10,010,000 of outstanding Series F Facilities Improvement Revenue Bonds to reduce annual debt service payments. The interest rates on the advanced refunded revenue bonds ranged from 4.80 percent to 6.00 percent. The Series F Facilities Improvement Revenue Bonds are considered legally defeased and as a result, the liability for those bonds is no longer recorded in the consolidated financial statements.

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, 2009 and 2008, \$46,579,503 and \$49,029,871, respectively, of bonds outstanding were considered defeased.

Revenue Bonds Payable

As of June 30, 2009 annual principal payments are as follows:

Series C 1995 (Partial)		
Fiscal Year	Interest Rate	Principal
2010	5.20%	\$ 495,000
2011	5.25%	525,000
		<u>\$ 1,020,000</u>

Series E 1998		
Fiscal Year	Interest Rate	Principal
2010	4.60%	\$ 310,000
2011	4.70%	460,000
2012	4.80%	470,000
2013	5.00%	500,000
2014	5.00%	565,000
2015-2019	5.00%	2,465,000
2020-2021	5.00%	1,300,000
		<u>6,070,000</u>
Less unamortized discount:		16,154
		<u>\$ 6,053,846</u>

Series F 1999		
Fiscal Year	Interest Rate	Principal
2010	5.20%	\$ 460,000
2011	5.35%	345,000
2012	5.25%	915,000
2013	5.55%	954,998
2014	5.375%	965,000
2015-2019	5.75 - 6.00%	19,390,000
2020-2024	5.75%	33,965,000
		<u>56,994,998</u>
Less unamortized discount:		746,502
		<u>\$ 56,248,496</u>

Series G 2002

Fiscal Year	Interest Rate	Principal
2010	3.15%	\$ 420,000
2011	3.30%	430,000
2012	3.40%	445,000
2013	3.60%	460,000
2014	3.75%	475,000
2015-2019	3.90-4.30%	2,680,000
2020-2024	4.40-4.65%	3,310,000
2025-2029	4.65%	4,160,000
2030-2033	4.65%	4,090,000
		16,470,000
Less unamortized discount:		38,364
		\$ 16,431,636

Series I 2004

Fiscal Year	Interest Rate	Principal
2010	3.50%	\$ 2,710,000
2011	3.50%	2,800,000
2012	3.50-4.75%	2,905,000
2013	4.75%	3,030,000
2014	4.75%	3,180,000
2015-2019	3.75 -4.375%	5,390,000
2020-2024	4.375%	495,000
2025-2029	4.50%	8,090,000
2030	4.50%	475,000
		29,075,000
Add net unamortized premium:		828,471
		\$ 29,903,471

Series J 2005

Fiscal Year	Interest Rate	Principal
2010	4.50%	\$ 1,330,000
2011	4.50%	990,000
2012	4.25%	1,045,000
2013	4.50%	1,090,000
2014	4.00%	1,130,000
2015-2019	4.00-4.50%	6,080,000
2020-2024	4.00 %	7,365,000
2025-2029	4.00- 4.25%	6,550,000
2030	4.25%	1,155,000
		26,735,000
Add net unamortized premium:		42,396
		\$ 26,777,396

Revenue Bond Payable**Summary:**

Total revenue bonds outstanding	\$ 136,364,998
Add: Net unamortized premiums and discounts	69,847
Less: Unamortized loss on advance refunding	2,077,900
Revenue bonds payable, net	\$ 134,356,945

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

Fiscal Year	Principal	Interest	Total Payment
2010	\$ 5,725,000	\$ 6,644,551	\$ 12,369,551
2011	5,550,000	6,411,002	11,961,002
2012	5,780,000	6,199,616	11,979,616
2013	6,034,998	5,938,844	11,973,842
2014	6,315,000	5,649,528	11,964,528
2015-2019	36,005,000	23,631,420	59,636,420
2020-2024	46,435,000	13,180,883	59,615,883
2025-2029	18,800,000	3,210,639	22,010,639
2030-2033	5,720,000	556,856	6,276,856
Total	\$ 136,364,998	\$ 71,423,339	\$ 207,788,337

NOTE 13 – NOTES PAYABLE

Notes payable at June 30, 2009 consisted of the following:

Description	Interest Rate	Maturity Date	Principal Outstanding	Current Maturities
First Interstate Bank	7.00%	15-Oct-15	\$ 146,220	\$ 19,805
Wells Fargo Bank	4.48%	1-May-15	305,366	45,428
UM Foundation	5.02%	25-Nov-17	209,330	23,259
Total			\$ 660,916	\$ 88,492

The scheduled maturities of the notes payable are as follows:

Fiscal Year	Principal	Interest	Total Payment
2010	\$ 88,492	\$ 33,395	\$ 121,887
2011	91,981	28,638	120,619
2012	95,650	23,802	119,452
2013	99,561	18,723	118,284
2014	103,677	13,440	117,117
2015-2018	181,555	14,965	196,520
Total	\$ 660,916	\$ 132,963	\$ 793,879

NOTE 14 – 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 15 – 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 Montana Science and Technology Alliance (MSTA) loan originates from a loan that was originally issued in 1994, and has a remaining term of 52 years. The interest rates are variable and are adjusted annually.

Advances from Primary Government at June 30, 2009, are as follows:

Description	Interest Rate	Maturity Date	Principal Outstanding
InterCap – IT Wiring and Fiber	Variable	15-Aug-10	\$ 73,948
InterCap – Real Estate	Variable	15-Feb-12	30,848
InterCap – Intercollegiate Athletics	Variable	15-Feb-10	58,038
InterCap – Public Safety	Variable	15-Aug-16	228,767
InterCap – Forestry	Variable	15-Aug-14	582,399
InterCap – Facility Services	Variable	15-Feb-10	18,166
InterCap – Public Safety	Variable	15-Feb-13	213,699
InterCap – ASUM	Variable	15-Feb-13	90,175
InterCap – Microwave Network	Variable	15-Aug-11	26,342
InterCap – ASUM	Variable	15-Feb-13	247,974
InterCap – Intercollegiate Athletics	Variable	15-Feb-14	250,000
InterCap – ASUM	Variable	15-Feb-14	276,603
MSTA loan – Research Offices	Variable	30-June-61	3,456,011
			5,552,970
Less Current Maturities			530,446
Total			\$ 5,022,524

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

Fiscal Year	Principal	Interest	Total Payment
2010	\$ 530,446	\$ 162,787	\$ 693,233
2011	449,216	143,056	592,272
2012	420,341	126,698	547,039
2013	428,328	110,705	539,033
2014	292,694	93,636	386,330
2015-2019	353,324	404,805	758,129
2020-2024	226,613	373,387	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	474,974	125,026	600,000
2055-2059	537,321	62,679	600,000
2060-2061	174,262	5,738	180,000
Total	\$ 5,552,970	\$ 2,943,066	\$ 8,496,036

NOTE 16 – RETIREMENT PLANS

Full-time employees of the University are members of the Public Employees' Retirement System (PERS), Game Wardens' & Peace Officers' Retirement System (GWPORS), 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.

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

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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 plans are required and determined by state law. The contribution rates for 2009 and 2008 expressed as a percentage of covered payrolls were as follows:

	2009			2008		
	Covered Payroll	Employee	Employer	Covered Payroll	Employee	Employer
PERS	\$ 43,163,552	6.90%	7.04%	\$ 41,189,082	6.90%	7.04%
GWPORS	\$ 727,049	10.56%	9.00%	\$ 594,464	10.54%	9.00%
TRS	\$ 19,153,445	8.34%	9.47%	\$ 19,539,560	9.32%	9.30%

The amounts contributed to the plan during years ending June 30, 2009, 2008, and 2007, were equal to the required contribution each year. The amounts contributed were as follows:

	Year ending June 30,		
	2009	2008	2007
<u>PERS</u>			
Employer	\$ 3,036,969	\$ 2,899,156	\$ 2,710,410
Employee	\$ 2,980,089	\$ 2,843,455	\$ 2,710,756
<u>GWPORS</u>			
Employer	\$ 65,434	\$ 53,506	\$ 46,586
Employee	\$ 76,777	\$ 62,679	\$ 55,674
<u>TRS</u>			
Employer	\$ 1,813,832	\$ 1,816,799	\$ 1,553,068
Employee	\$ 1,598,098	\$ 1,821,825	\$ 2,001,911

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
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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 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:

	<u>Year ending June 30,</u>	
	<u>2009</u>	<u>2008</u>
<u>FACULTY</u>		
Covered Payroll	\$70,575,027	\$65,344,630
Employer Contributions	\$4,203,536	\$3,807,955
Percent of Covered Payroll	5.956%	5.827%
Employee Contributions	\$4,967,260	\$4,596,819
Percent of Covered Payroll	7.038%	7.035%
<u>STAFF</u>		
Covered Payroll	\$8,709,835	\$8,272,833
Employer Contributions	\$391,072	\$371,450
Percent of Covered Payroll	4.49%	4.49%
Employee Contributions	\$600,980	\$570,822
Percent of Covered Payroll	6.90%	6.90%

For the years ended June 30, 2009 and 2008, 4.72%, or \$3,331,141 and \$3,084,266, respectively, was contributed to TRS from ORP faculty employer contributions to amortize past service unfunded liability in accordance with state law. In addition, 2.54%, or \$221,667 and \$210,958 respectively, 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 17 – OTHER POST EMPLOYMENT BENEFITS FOR HEALTH INSURANCE

The University adopted the provisions of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during fiscal year 2008. The primary type of other post employment benefit (OPEB) addressed by GASB 45 is post employment health benefits. OPEBS have generally been accounted for on a pay-as-you-go basis and financial statements have often not recognized their financial effects until the benefits are paid. The standard requires that the cost of postemployment healthcare benefits be accounted for under the accrual basis of accounting, similar to the accounting requirements under GASB 27 for government sponsored pension plans, where the cost of benefits to employees are recognized in periods when the related services are received by the employer.

Plan Description. The University is affiliated with the Montana University System Group Insurance Plan (MUSGIP), an agent multiple-employer health care plan administered by the Office of Commissioner of Higher Education. In accordance with section 2-18-702 of the Montana Code Annotated, the USGIP provides optional postemployment health care benefits to eligible University employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the Montana University System (MUS) at least five years, are age 50 or have worked 25 years with the MUS. Spouses, unmarried dependent children, and surviving spouses are also eligible. Premiums rates established by the Inter-Unit Benefits Committee are approved by the Commissioner of Higher Education. Retiree monthly premium rates range from \$405 to \$634 for medical coverage and decrease when a retiree becomes Medicare eligible. Medicare enrolled retiree premium rates range from \$209 to \$498. Retirees can also elect optional dental and vision coverage. The MUSGIP does not issue a stand-alone financial report but is reported as an agency fund in the State of Montana Comprehensive Annual Financial Report (CAFR) which can be viewed online at <http://accounting.mt.gov/cafr/cafr.asp>.

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Annual OPEB Cost. The University's OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that is projected to cover normal cost each year and amortize any unfunded actuarial liability over a period of 30 years. For fiscal year ended June 30, 2009 and 2008, the University's annual OPEB cost (expense), the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation was as follows:

	<u>2009</u>	<u>2008</u>
Annual required contribution	\$ 7,351,584	\$ 7,351,584
Interest on net OPEB obligation	312,443	-
Annual OPEB cost (expense)	<u>7,664,027</u>	<u>7,351,584</u>
Contributions made	-	-
Increase in OPEB obligation	<u>7,664,027</u>	<u>7,351,584</u>
Net OPEB Obligation Beginning Balance	<u>7,351,584</u>	<u>-</u>
Net OPEB Obligation Ending Balance	<u>\$ 15,015,611</u>	<u>\$ 7,351,584</u>
Percentage of annual OPEB cost contributed	0.00%	0.00%

The actuarial determination was based on plan information as of July 1, 2007. The Montana University System actuarial valuation is required every two years. At that time, the number of active University participants in the MUS health insurance plan was 2,854. The total inactive (retiree and dependent) participants was 1,017. The total amount contributed for active participants to the self insured health insurance plan by the University during fiscal 2009 and 2008 was \$21,643,955 and \$19,942,950, respectively. The University does not contribute to the plan for its retirees. Currently, the University is not required to fund the ARC.

Funding Status and Funding Progress. As of the most recent actuarial valuation, the actuarial accrued liability for benefits was \$78,187,418, all of which was unfunded. The funded status of the plan as of June 30, 2008 was as follows:

Actuarial accrued liability (AAL)	\$ 78,187,418
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 78,187,418</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$ 122,541,536
UAAL as a percentage of covered payroll	64.00%

The UAAL is being amortized as a level dollar amount over an open basis of 30 years.

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

Projections of benefits for financial reporting progress are based on the substantive plan (the plan as understood by the employer and the plan members) and includes, the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Actuarial Methods and Assumptions - The actuarial funding method used to determine the cost of the MUSGIP was the projected unit credit funding method. This method's objective is to fund each participant's benefits under the plan as they accrue. The total benefit to which each participant is expected to become entitled at retirement is categorized into units, each associated with a year of past or future credited service.

The actuarial assumptions included, in addition to marital status at retirement, mortality rates and retirement age were as follows:

Actuarial Assumptions:

Interest/Discount rate	4.25%
Projected payroll increases	3.00%
Participation	45% of future retirees are assumed to elect coverage at the time of retirement, 59% of future eligible spouses of future retirees are assumed to elect coverage

NOTE 18 – PLEDGED REVENUES

Revenue bonds issued by the University to finance capital asset projects as described in Note 12, are secured by a first lien on the gross and net pledged revenues derived primarily from auxiliary facilities on each of its four campuses. Gross pledged revenues include revenue from housing, food service, student union, recreation and field house facility operations. Net pledged revenues are derived mainly from investment income, student fees, events revenue, continuing education (non-credit) and land grant revenue. Total principal and interest remaining on the debt at June 30, 2009 is \$207,788,337 with annual debt service requirements ranging from \$12.4 million in 2010 to \$1.1 million in 2033, the final year of repayment.

A schedule of revenues pledged as security for revenue bonds is presented as follows at June 30, 2009 and 2008:

	2009		2008	
	Revenues Pledged as Security for Debt	Net Similar Revenues	Revenues Pledged as Security for Debt	Net Similar Revenues
Student fees	\$ 11,367,569	\$ 107,522,641	\$ 11,286,518	\$ 104,322,918
<u>Sales and services:</u>				
Events revenue	4,827,197		4,129,701	
Continuing education	1,003,927		779,827	
Residence life	773,351		848,137	
Student union facilities	526,094		535,515	
Other sources	887,584		815,361	
<i>Total sales and services</i>	8,018,153	15,561,907	7,108,541	13,823,552
Residence life	13,083,133	13,083,303	12,691,688	12,692,277
Food services	11,609,220	11,740,318	10,710,990	10,839,308
<u>Other auxiliary revenues:</u>				
Residence life	339,524		434,400	
Food services	724,215		652,543	
Student union facilities	935,830		182,849	
Student health services	938,081		862,356	
Parking	1,410,256		1,342,340	
Recreation facilities	899,452		888,808	
Bookstore	2,720,436		3,315,282	
Printing services	418,165		323,429	
Field house facilities	272,133		454,325	
Other sources	417,975		285,299	
<i>Total other auxiliary revenues</i>	9,076,067	11,770,299	8,741,631	12,705,616
Land grant revenue	1,581,863	1,581,881	1,616,603	1,616,603
Investment income	1,548,185	(1,002,689)	1,780,923	2,695,372
Total pledged revenues	\$ 56,284,190	\$ 160,257,660	\$ 53,936,894	\$ 158,693,646

NOTE 19 – 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, 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 in section, 2-9-102, MCA, provides that Governmental entities are liable for its torts and of those of its employees acting within the course and scope of their employment or duties whether arising out of a governmental or proprietary function, except as specifically provided by the Legislature. Accordingly section, 2-9-305, MCA, requires that the state provide for the immunization, defense and indemnification of its public officers and employees civilly sued for their actions taken within the course and scope of their employment. The University also has commercial coverage for other risk exposures that are not covered by the State's self-insurance program.

Buildings and contents – are insured for replacement value. For each loss covered by the state's self-insurance program and commercial coverage, 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 the 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 Workers' 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 Intermountain Claims, Inc.. 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 20 – COMMITMENTS AND CONTINGENCIES

At June 30, 2009, the University had the following outstanding commitments under major capital and maintenance projects:

Project	Budget Authorization	Total Expenditures through June 2009	Funding Source
Skaggs Addition Basement	\$ 806,930	\$ 458,237	Grants
ISB 2nd Floor	790,555	649,995	Series J
Law School Expansion	14,900,000	13,098,970	Donations,LRB,Grant,Series J
Research Facility	13,724,510	13,327,070	2005 Series J Revenue Bonds
MGMB & Petroleum Building	17,400,000	11,601,871	Long Range Building Plan and Plant Funds
Native American Studies Center	8,503,330	4,145,688	Donations
Northern Tier Network Pipeline	1,000,000	123,675	Intercap Loan
PE complex Electrical	400,000	134,027	Intercap Loan, Institutional
Steamline Auxiliary Upgrade	458,600	52,549	2005 Series J Revenue Bonds
Upgrade Boiler Controls	253,795	250,496	General Operating and Plant Funds
MG Building HVAC Upgrade	915,400	81,483	LRBP
COT Futures Park	135,000	95,000	Research & Development
Science Complex Network Maintenance	275,592	217,306	Technology Fees
Phylis J Washington Education Center	11,533,709	9,426,928	Donations, State, Series I Deferred Maint, Aux, Plant
	<u>\$71,097,411</u>	<u>\$53,663,295</u>	

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

<u>Payable during the year ending June 30,</u>	<u>Total</u>
2010	\$ 193,295
2011	69,370
2012	60,843
2013	26,882
2014	16,000
	<u>\$ 366,390</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 the 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.

A-44 Notes to the Consolidated Financial Statements (continued)

NOTE 21– 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 and the Montana Tech Alumni Association.

The associations and booster club operate exclusively for the purpose 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, 2009 and 2008, \$92,464 and \$131,168, respectively, was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, the University provides the associations and booster club 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 22 – 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 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, 2009 and 2008, the following was transferred to the University for scholarships, academic or institutional support or capital expenses by the University foundations: \$ 23,646,222 and \$12,414,618, respectively with The University of Montana Foundation (406-243-2593), \$3,013,093 and \$2,057,627, respectively, with the Montana Tech Foundation (406-496-4532); and \$464,241 and \$413,574 respectively, with The University of Montana-Western Foundation (406-683-7305). In addition, \$1,469,315 and \$1,257,065 was transferred from the Montana Grizzly Scholarship Association (406-243-6485) for the fiscal years ended June 30, 2009 and 2008, respectively. For the fiscal years ended June 30, 2009 and 2008, the University foundations also expended \$9.7 million and \$6.0 million, respectively, directly to third parties in support of the University. 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 years ended June 30, 2009 and 2008, the University provided \$469,647 and \$481,600, respectively, 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 information for The University of Montana – Western Foundation is as of December 31, for the years presented. The financial information for all the other component units is as of June 30, for the years presented.

STATEMENT OF FINANCIAL POSITION
June 30, 2009 and December 31, 2008

	University of Montana Foundation *	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association*	Elimination	Total
ASSETS						
Cash and investments	\$ 123,323,992	\$ 22,868,364	\$ 3,744,437	\$ 2,264,982	\$(1,385,860)	\$150,815,915
Other receivables, net of allowances	14,061,902	767,494	-	15,306	-	14,844,702
Fixed assets, net of depreciation	4,074,184	167,685	-	2,835	-	4,244,704
Other assets	803,912	4,111	-	63,643	-	871,666
	<u>\$ 142,263,990</u>	<u>\$ 23,807,654</u>	<u>\$ 3,744,437</u>	<u>\$ 2,346,766</u>	<u>\$(1,385,860)</u>	<u>\$170,776,987</u>
LIABILITIES AND NET ASSETS						
Current liabilities associated with operations	\$ 390,100	\$ 99,541	\$ 9,155	\$ 1,109	-	\$ 499,905
Note payable – other	123,140	50,922	40,000	-	-	214,062
Long-term liabilities – other	212,975	48,607	-	323,852	-	585,434
Liabilities to external beneficiaries	3,140,668	-	-	-	-	3,140,668
Custodial funds	17,758,876	-	-	-	(1,385,860)	16,373,016
	<u>21,625,759</u>	<u>199,070</u>	<u>49,155</u>	<u>324,961</u>	<u>(1,385,860)</u>	<u>20,813,085</u>
Net assets – unrestricted	(4,860,357)	1,575,338	256,665	821,610	-	(2,206,744)
Net assets – restricted	125,498,588	22,033,246	3,438,617	1,200,195	-	152,170,646
	<u>120,638,231</u>	<u>23,608,584</u>	<u>3,695,282</u>	<u>2,021,805</u>	<u>-</u>	<u>149,963,902</u>
	<u>\$ 142,263,990</u>	<u>\$ 23,807,654</u>	<u>\$ 3,744,437</u>	<u>\$ 2,346,766</u>	<u>\$(1,385,860)</u>	<u>\$ 170,776,987</u>

* For the year ended June 30, 2009.

**For the year ended December 31, 2008.

STATEMENT OF FINANCIAL POSITION
June 30, 2008 and December 31, 2007

	University of Montana Foundation *	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association*	Elimination	Total
ASSETS						
Cash and investments	\$ 158,719,279	\$ 27,333,147	\$ 4,547,482	\$ 2,279,562	\$(1,291,363)	\$191,588,107
Other receivables, net of allowances	23,042,488	1,235,216	2,280	72,761	-	24,352,745
Fixed assets, net of depreciation	4,171,753	175,112	-	4,874	-	4,351,739
Other assets	526,760	4,332	-	135,198	-	666,290
	<u>\$ 186,460,280</u>	<u>\$ 28,747,807</u>	<u>\$ 4,549,762</u>	<u>\$ 2,492,395</u>	<u>\$(1,291,363)</u>	<u>\$220,958,881</u>
LIABILITIES AND NET ASSETS						
Current liabilities associated with operations	\$ 483,605	\$ 44,762	\$ 17,238	\$ 12,320	-	\$ 557,925
Note payable – other	213,842	101,496	40,000	-	-	355,338
Long-term liabilities – other	172,980	78,113	-	343,098	-	594,191
Liabilities to external beneficiaries	2,799,362	-	-	-	-	2,799,362
Custodial funds	22,279,840	-	-	-	(1,291,363)	20,988,477
	<u>25,949,629</u>	<u>224,371</u>	<u>57,238</u>	<u>355,418</u>	<u>(1,291,363)</u>	<u>25,295,293</u>
Net assets – unrestricted	6,561,957	3,314,075	282,292	1,063,895	-	11,222,219
Net assets – restricted	153,948,694	25,209,361	4,210,232	1,073,082	-	184,441,369
	<u>160,510,651</u>	<u>28,523,436</u>	<u>4,492,524</u>	<u>2,136,977</u>	<u>-</u>	<u>195,663,588</u>
	<u>\$ 186,460,280</u>	<u>\$ 28,747,807</u>	<u>\$ 4,549,762</u>	<u>\$ 2,492,395</u>	<u>\$(1,291,363)</u>	<u>\$ 220,958,881</u>

* For the year ended June 30, 2008. UM Foundation restated for errors to discounts on pledges receivable.

** For the year ended December 31, 2007

A-46 Notes to the Consolidated Financial Statements (continued)

STATEMENT OF ACTIVITY
For the year ended June 30, 2009 and December 31, 2008

	University of Montana Foundation *	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association *	Total
REVENUES					
Contributions	\$ 15,153,691	\$ 2,624,128	\$ 501,148	\$1,377,677	\$ 19,656,644
Investment income and unrealized gain(loss) of investments	(22,206,249)	(4,035,398)	(840,133)	(162,939)	(27,244,719)
Administrative fees	352,718	-	-	-	352,718
Contract for services	380,000	349,492	217,158	611,710	1,558,360
Loss on sale of assets	-	(8,791)	-	-	(8,791)
Other income	1,628,277	13,120	23,100	-	1,664,497
	<u>\$ (4,691,563)</u>	<u>\$ (1,057,449)</u>	<u>\$ (98,727)</u>	<u>\$ 1,826,448</u>	<u>\$ (4,021,291)</u>
EXPENSES					
Program services	\$ 29,725,724	\$ 3,013,093	\$ 464,241	\$ 1,469,315	\$ 34,672,373
Supporting services	4,684,239	844,310	234,274	472,305	6,235,128
	<u>\$ 34,409,963</u>	<u>\$ 3,857,403</u>	<u>\$ 698,515</u>	<u>\$ 1,941,620</u>	<u>\$ 40,907,501</u>
Change in net assets before non- operating items	\$ (39,101,526)	\$ (4,914,852)	\$ (797,242)	\$ (115,172)	\$ (44,928,792)
NONOPERATING EXPENSES					
Payments to beneficiaries and change in liabilities due to external beneficiaries	(770,894)	-	-	-	(770,894)
Change in net assets	(39,872,420)	(4,914,852)	(797,242)	(115,172)	(45,699,686)
Net assets, beginning of fiscal year	\$ 160,510,651	\$ 28,523,436	\$ 4,492,524	\$ 2,136,977	\$195,663,588
Net assets, end of fiscal year	<u>\$ 120,638,231</u>	<u>\$ 23,608,584</u>	<u>\$ 3,695,282</u>	<u>\$ 2,021,805</u>	<u>\$ 149,963,902</u>

* For the year ended June 30, 2009.

** For the year ended December 31, 2008.

STATEMENT OF ACTIVITY
For the year ended June 30, 2008 and December 31, 2007

	University of Montana Foundation *	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association *	Total
REVENUES					
Contributions	\$ 30,555,514	\$ 3,611,044	\$ 457,452	\$ 1,496,444	\$ 36,120,454
Investment income and unrealized gain(loss) of investments	(6,643,219)	(1,719,009)	264,837	(38,236)	(8,135,627)
Loss on impairment of asset	(3,568)	-	-	-	(3,568)
Contract for services	400,000	199,711	184,803	540,476	1,324,990
Administrative fees	442,358	-	-	-	442,358
Loss on sale of assets	-	(3,000)	-	-	(3,000)
Other income	830,445	7,874	22,100	-	860,419
	<u>\$ 25,581,530</u>	<u>\$ 2,096,620</u>	<u>\$ 929,192</u>	<u>\$ 1,998,684</u>	<u>\$ 30,606,026</u>
EXPENSES					
Program services	\$ 12,414,618	\$ 2,057,627	\$ 413,574	\$ 1,257,065	\$ 16,142,884
Supporting services	4,738,612	974,036	266,249	469,254	6,448,151
	<u>\$ 17,153,230</u>	<u>\$ 3,031,663</u>	<u>\$ 679,823</u>	<u>\$ 1,726,319</u>	<u>\$ 22,591,035</u>
Change in net assets before non- operating items	\$ 8,428,300	\$ (935,043)	\$ 249,369	\$ 272,365	\$ 8,014,991
NONOPERATING REVENUES					
Payments to beneficiaries and change in liabilities due to external beneficiaries	(341,521)	-	-	-	(341,521)
Change in net assets	8,086,779	(935,043)	249,369	272,365	7,673,470
Net assets, beginning of fiscal year	\$ 152,423,872	\$ 29,458,479	\$ 4,243,155	\$ 1,864,612	\$ 187,990,118
Net assets, end of fiscal year	<u>\$ 160,510,651</u>	<u>\$ 28,523,436</u>	<u>\$ 4,492,524</u>	<u>\$ 2,136,977</u>	<u>\$195,663,588</u>

* For the year ended June 30, 2008. UM Foundation restated for reclassification of expense abatement to revenue.

** For the year ended December 31, 2007

Notes to the Consolidated Financial Statements (continued)

The following table shows the total investments held by the component units. The investments for The University of Montana – Western Foundation are as of December 31, 2008 and 2007. The financial information for all the other component units is as of June 30, 2009 and 2008.

	Fair Market Value	
	2009	2008
Investments held by component units:		
Stocks and bonds	\$ 123,107,202	\$ 155,406,462
Money market and certificates of deposit	2,463,096	1,842,142
Hedge funds	11,304,624	13,411,744
Alternative investments	6,494,369	4,057,500
Real property	913,028	678,426
Other	1,614,279	2,680,986
	<u>\$ 145,896,598</u>	<u>\$ 178,077,260</u>

NOTE 23 – SUBSEQUENT EVENT

On December 21, 2009, the University terminated the forward SWAP agreement (“swaption”) dated August 18, 2005, with Wachovia Bank, NA (“counterparty”) due to projected unfavorable long-term interest rates and current volatility in the financial markets. In order to liquidate the derivative financial instrument amounting to \$2,094,500 and terminate the swaption agreement in its entirety, the University paid the counterparty \$5,410,000 resulting in a net loss totaling \$3,315,500 (see Note 11).

This transaction is not presented in the Consolidated Statements of Net Assets as of June 30, 2009. The net effect of this transaction on the Consolidated Statements of Net Assets as of June 30, 2009 would be as follows:

	Unadjusted Balances	Net Change Due To Termination of Swaption	Adjusted Balances
Current Assets			
Cash and cash equivalents	\$ 51,174,362	\$ (5,410,000)	\$ 45,764,362
Noncurrent Liabilities			
Derivative financial instrument	\$ 2,094,500	\$ (2,094,500)	\$ -
Net Assets			
Unrestricted	<u>\$ 18,763,781</u>	<u>\$ (3,315,500)</u>	<u>\$ 15,448,281</u>

Notes to the Consolidated Financial Statements (continued)

NOTE 24 – NATURAL CLASSIFICATION WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by natural and functional classifications for the year ended June 30, 2009, were as follows:

Functional Classification:	Natural Classification							Total
	Compensation & benefits	OPEB*	Supplies & other services	Utilities	Communication	Scholarships	Depreciation	
Instruction	\$ 89,559,483	\$ 2,690,685	\$ 8,142,855	\$ 26,804	\$ 577,138	\$ -	\$ -	\$ 100,996,965
Research	34,907,304	1,019,315	14,134,914	83,221	582,413	-	-	50,727,167
Public service	8,750,387	294,637	4,229,443	70	120,152	-	-	13,394,689
Academic support	21,588,083	689,593	7,511,093	79	326,185	-	-	30,115,033
Student services	15,677,394	668,938	8,208,493	7,614	549,399	-	-	25,111,838
Institutional support	19,455,830	731,588	6,176,036	-	876,680	-	-	27,240,134
Operation and maintenance of plant	12,344,181	563,632	7,581,083	6,402,293	95,491	-	-	26,986,680
Scholarships and fellowships	-	-	-	-	-	20,394,534	-	20,394,534
Auxiliary enterprises	23,255,568	1,005,639	12,853,236	3,786,906	316,920	-	-	41,218,269
Depreciation	-	-	-	-	-	-	19,181,605	19,181,605
	<u>\$ 225,538,230</u>	<u>\$ 7,664,027</u>	<u>\$ 68,837,153</u>	<u>\$ 10,306,987</u>	<u>\$ 3,444,378</u>	<u>\$ 20,394,534</u>	<u>\$ 19,181,605</u>	<u>\$ 355,366,914</u>

*Other Post Employment Benefits

The University's operating expenses by natural and functional classifications for the year ended June 30, 2008, were as follows:

Functional Classification:	Natural Classification							Total
	Compensation & benefits	OPEB*	Supplies & other services	Utilities	Communication	Scholarships	Depreciation	
Instruction	\$ 85,311,548	\$ 2,568,121	\$ 7,233,960	\$ 20,967	\$ 500,516	\$ -	\$ -	\$ 95,635,112
Research	33,348,589	313,820	15,383,071	93,228	312,044	-	-	49,450,752
Public service	8,398,017	283,083	4,037,825	-	103,025	-	-	12,821,950
Academic support	19,375,092	670,033	6,752,125	58	369,439	-	-	27,166,747
Student services	14,658,889	739,766	7,985,773	25,648	477,249	-	-	23,887,325
Institutional support	18,300,694	707,089	6,550,994	-	809,238	-	-	26,368,015
Operation and maintenance of plant	11,446,388	1,086,106	7,547,614	6,382,571	94,029	-	-	26,556,708
Scholarships and fellowships	-	-	-	-	-	17,775,884	-	17,775,884
Auxiliary enterprises	21,930,338	983,566	11,938,626	3,635,840	291,624	-	-	38,779,994
Depreciation	-	-	-	-	-	-	16,811,747	16,811,747
	<u>\$ 212,769,555</u>	<u>\$ 7,351,584</u>	<u>\$ 67,429,988</u>	<u>\$ 10,158,312</u>	<u>\$ 2,957,164</u>	<u>\$ 17,775,884</u>	<u>\$ 16,811,747</u>	<u>\$ 335,254,234</u>

The University of Montana
Supplemental Information - All Campuses
(Unaudited)

<u>DESCRIPTION</u>	<u>Fall 2008</u>	<u>Fall 2007</u>	<u>Fall 2006</u>	<u>Fall 2005</u>	<u>Fall 2004</u>	<u>Fall 2003</u>
Enrollment (Headcount) ¹	18,979	18,417	18,383	17,919	17,796	17,595
	<u>FY2009</u>	<u>FY2008</u>	<u>FY2007</u>	<u>FY2006</u>	<u>FY2005</u>	<u>FY2004</u>
Enrollment (FTE) ²						
Colleges of Technology	2,560	2,358	2,121	2,055	1,881	1,905
Undergraduate	12,565	12,223	12,167	11,985	12,026	12,149
Graduate	1,805	1,837	1,777	1,747	1,765	1,772
Enrollment (FTE) ²						
In-State students	13,066	12,557	12,354	12,215	12,225	12,402
Out-of-State students	2,905	2,927	2,732	2,710	2,675	2,699
Western Undergraduate Exchange	959	934	979	862	772	725
	<u>FY2009</u>	<u>FY2008</u>	<u>FY2007</u>	<u>FY2006</u>	<u>FY2005</u>	<u>FY2004</u>
Employees (FTE) - All Funds ³						
Contract Faculty	1,044	1,033	1,003	993	985	961
Contract Admin & Professional	502	470	455	386	401	390
Classified	1,311	1,317	1,294	1,283	1,275	1,265
GTA/GRA	174	164	170	173	178	167
Part Time and Other	530	553	399	403	385	360
	<u>School Year Ended</u>					
	<u>6/30/2009</u>	<u>6/30/2008⁵</u>	<u>6/30/2007</u>	<u>6/30/2006</u>	<u>6/30/2005</u>	<u>6/30/2004</u>
Degrees Granted ⁴						
Certificate	234	189	163	102	76	47
Associate	455	429	481	478	467	510
Undergraduate	2,177	2,151	2,074	2,034	2,192	2,242
Graduate	751	741	705	711	698	673

¹ Source: MUS Data Warehouse

² Source: Internal management reports 2000-2001, CHE Operating Reports 2002-2009

³ Source: CHE Operating Reports 2000-2009

⁴ Source: IPEDS Completion Reports, Fall 2000-2005, internal management reports

⁵ Restated

THE UNIVERSITY OF
MONTANA

UNIVERSITY RESPONSE



The University of
Montana

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15 January 2010

Ms. Tori Hunthausen
Legislative Auditor
Legislative Audit Division
Room 135 State Capitol
P. O. Box 201705
Helena, MT 59620-1705

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LEGISLATIVE AUDIT DIV.

Dear Ms. Hunthausen:

We thank the Legislative Audit staff for their professional work on the annual Financial Audit for the year ended 30 June 2009. We appreciate the cooperative efforts made by the audit team and thank those involved for their assistance.

Sincerely,

George M. Dennison
President

GMD/kc
Denlet4104

c: S. Stearns, Commissioner of Higher Education