



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL AUDIT

# *The University of Montana*

*For the Two Fiscal Years Ended  
June 30, 2011*

JANUARY 2012

LEGISLATIVE AUDIT  
DIVISION

11-10A

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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, 2009, was issued March 1, 2010. The Single Audit Report for the two fiscal years ended June 30, 2011, will be issued by March 31, 2012. Copies of the Single Audit Report can be obtained by contacting:

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

Legislative Audit Division  
Room 160, State Capitol  
P.O. Box 201705  
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<http://leg.mt.gov/audit>

# LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors  
Cindy Jorgenson  
Angie Grove

January 2012

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 two fiscal years ended June 30, 2011. The statements include comparative information for the fiscal year ended June 30, 2010. The statements include component unit financial information.

This report does not contain any recommendations to the university. We issued an unqualified opinion on the university's consolidated financial statements, which means the reader can rely on the presented information.

We thank President Engstrom and university staff for their cooperation and assistance during the audit.

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor



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## APPOINTED AND ADMINISTRATIVE OFFICIALS

	<u>Term Expires</u>	
<b>Board of Regents of Higher Education</b>	Todd Buchanan, Vice Chair	February 1, 2014
	Stephen Barrett	February 1, 2012
	Teresa Borrenpohl, Student Regent	June 30, 2011
	Major Robinson	February 1, 2018
	Angela McLean	February 1, 2017
	Lynn Morrison-Hamilton**	February 1, 2013
	Denise Juneau, Superintendent of Public Instruction*	
	Brian Schweitzer, Governor*	
	Sheila Stearns, Commissioner of Higher Education*	
<b>Board of Regents of Higher Education</b>	*Ex officio members	
	**Resigned in September 2011	
<b>Office of the Commissioner of Higher Education</b>	Sheila Stearns, Commissioner of Higher Education	
	Mick Robinson, Deputy Commissioner for Fiscal Affairs, Chief of Staff	
	Sylvia Moore, Deputy Commissioner for Academic, Research, and Student Affairs	
	John Cech, Deputy Commissioner for Two-Year and Community College Education	
	Tyler Trevor, Associate Commissioner for Planning and Analysis	
	Frieda Houser, Director of Accounting and Budgeting	
	Catherine Swift, Chief Legal Counsel	
<b>The University of Montana</b>	Royce C. Engstrom, President	
<b>The University of Montana-Missoula</b>	Perry J. Brown, 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	

**Montana Tech of The  
University of Montana**

James Foley, University Executive Vice President

David Aronofsky, Legal Counsel

Mark Pullium, Director of Business Services

W. Franklin Gilmore, Chancellor, retired as of June 30, 2011

Donald M. Blacketter, Chancellor, effective June 27, 2011

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, Post-Retirement

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/Chief Executive Officer, University Executive  
Vice President

Brandi Foster, Associate Dean for Academic Affairs

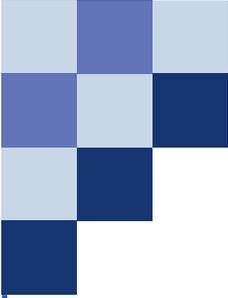
Russ Fillner, Assistant Dean for Fiscal and Plant Operations

Valerie Lambert, Director of Financial Aid

For additional information concerning The University of Montana (all  
campuses), contact:

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# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL AUDIT

### The University of Montana

For the Two Fiscal Years Ended June 30, 2011

JANUARY 2012

11-10A

REPORT SUMMARY

The University of Montana (university) is comprised of The University of Montana – Missoula, Montana Tech of The University of Montana, The University of Montana – Western, and The University of Montana – Helena College of Technology. Enrollment of full-time equivalent students between fiscal years 2010 and 2011 increased from 18,099 to 19,043. Employment of full-time equivalent workers between fiscal years 2010 and 2011 increased from 3,643 to 3,774.

### Context

The annual financial statement audit of the university is performed to supply relevant and timely audited financial statements to interested parties. A biennial compliance audit (11-12) covering fiscal years 2011 and 2010 was released in October 2011.

During December 2010, the university issued, with Board of Regents approval, approximately \$48.4 million of taxable and tax-exempt revenue bonds. The proceeds were used to buy back all of one series of bonds and a portion of another series.

Between fiscal years 2011 and 2010, the university operating revenues and operating expenses increased \$8.7 million and \$15.2 million, respectively. The rise in operating revenue is attributable mainly to increased tuition and fees revenue resulting from higher enrollment numbers. Largely, operating expenses grew in three main classifications; compensation and employee benefits, scholarships and fellowships, and supplies and other services.

State appropriations, including American Recovery and Reinvestment Act (ARRA) appropriations, totaled \$82.5 million for fiscal year 2011, a decrease of \$0.57 million from fiscal year 2010. Federal financial aid grants and contracts increased \$6.6 million between fiscal years 2011 and 2010. State appropriations and federal financial aid are considered nonoperating revenues and are classified as such on the financial statements.

### Results

The audit report does not contain any recommendations. We issued an unqualified opinion on the university's financial statements. The reader can rely on the audited financial information included in our audit report.

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

For a complete copy of the report (11-10A) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>

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Call toll-free 1-800-222-4446, or e-mail [lad@mt.gov](mailto:lad@mt.gov).

# Chapter I – Introduction

## **Audit and Objectives**

We performed a financial audit of The University of Montana (university) for the two fiscal years ended June 30, 2011. The objective of the audit was to determine whether the university's financial statements present fairly its financial position at June 30, 2011, and 2010, and the changes in financial position and cash flows for the years then ended. This objective included:

1. Determining the university's compliance with selected applicable laws and regulations.
2. Obtaining an understanding of the university's control systems to the extent necessary to support the audit of the financial statements, and if appropriate, make recommendations for improvement in management and internal controls.

We perform annual financial audits of the university to provide timely audited financial statements to interested parties. To complete the biennial financial-compliance audit required in statute, we also issue a financial-related audit every other year that determines the university's compliance with additional selected state and federal laws and regulations for the two-year period, the most recent of which was issued in October 2011.

## **Background**

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/colleges include Business Administration, Education and Human Science, Visual and Performing Arts, Forestry and Conservation, Health Professions and Biomedical Sciences, Extended and Lifelong Learning, 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.

Founded as one of the four original campuses of the Montana University System in 1893, Montana Tech now has an enrollment focused on education and research in science, engineering, health, business, and communications. The institution offers degree programs at the certificate, 2-year, 4-year, and graduate levels. The student body presents a national and global snapshot with over 15 foreign countries represented. The College of Technology provides occupationally-specific higher education programs in Business, Health, Information Technology, and Technical and Trades. Successful completion of a one- or two-year program leads to the award of a Certificate or an Associate of Applied Science degree.

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 has evolved into a growing two-year college offering 32 credentials in 14 different areas, as well as general transfer degrees and a variety of learning opportunities in personal enrichment and customized training. Through these offerings, The University of Montana–Helena serves around 1,500 students each semester throughout Helena and the surrounding area.

# Independent Auditor's Report and University Financial Statements



## LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors  
Cindy Jorgenson  
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, 2011, and 2010, 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, 2011, and 2010, 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, is based on the reports of the other auditors.

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

In our opinion, 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, 2011, and 2010, 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 and the Schedule of Funding Status for Other Post Retirement Benefits for Health Insurance are not a required part of the financial statements but are 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 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/ Cindy Jorgenson*

Cindy Jorgenson, CPA  
Deputy Legislative Auditor

December 5, 2011

**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**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FISCAL YEAR ENDED JUNE 30, 2011 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, 2011, 2010, and 2009 and should be read in conjunction with the fiscal year 2011 financial statements.

**FINANCIAL HIGHLIGHTS**

**The financial highlights for fiscal year 2011 were:**

- The appropriation by the 2009 session of the Montana Legislature to the Montana University System for the 2010-2011 biennium included, \$17.6 million in federal stimulus funding and approximately, \$59 million of education stabilization funding through the American Reinvestment and Recovery Act (ARRA) of 2009. The University of Montana was allocated \$13.3 million of these funds in FY11, for education stabilization and \$3.5 million for tuition mitigation and increase access to distance learning. The University was also awarded over \$7.2 million of federal grants and contracts that were funded through ARRA. The University established additional accounting and monitoring processes and procedures to ensure compliance with regulations and reporting requirements established by the federal government for federal stimulus and recovery funds received.
- Investment earnings increased approximately \$4.3 million in FY11 due primarily to a \$3.1 million increase in the fair value of investments. The yields on interest bearing investments continue to remain very low. The weighted average yield on these investments in FY11 was 1.7% compared to 2.2% in the prior year.
- Enrollment of full time equivalent students to the University increased by 944 students in FY11 over the full time equivalents reported for FY10. The increase in enrollment, and a 4.5% and a 4.8% increase in tuition and mandatory fees for in-state and out of state students, respectively, helped to increase tuition and fee revenue by over \$7.0 million.
- The University of Montana Foundation (UM Foundation) reported an investment return of 23.4% on its investments for FY11. While investment returns have improved substantially in FY11 and FY10, a number of the Foundation's endowments continue to remain below the original gift value.

- In FY11, the University issued Series K 2010 Revenue Bonds in the amount of \$48,415,000 to advance refund all of Series E 1998 and \$41,224,997 of Series F 1999. The advance refunding will realize a debt service cash flow savings of \$3,669,560, which is the difference between the debt service cash flow on the refunded bonds and the debt service cash flow on the new revenue bond issuance.

**The financial highlights for fiscal year 2010 were:**

- The appropriation by the 2009 session of the Montana Legislature to the Montana University System for the 2010-2011 biennium included, \$17.6 million in federal stimulus funding and approximately, \$59 million of education stabilization funding through the American Reinvestment and Recovery Act (ARRA) of 2009. The University of Montana was allocated \$17.4 million of these funds in FY10, which was comprised of \$2.9 million for tuition mitigation and increase access to distance learning; \$14.6 million of education stabilization funding. The University was also awarded over \$5.0 million of federal grants and contracts that were funded through ARRA. The University established additional accounting and monitoring processes and procedures to ensure compliance with regulations and reporting requirements established by the federal government for federal stimulus and recovery funds received.
- The fair value of investments increased approximately \$2.4 million in FY10, however, investment earnings on cash equivalents and investments decreased by more than \$800 thousand over FY09, due to very low yields on interest bearing investments and the slow recovery from the economic recession. The decline was despite the increase in average investments, primarily in government agency securities, of approximately \$5.0 million during the fiscal year.
- Enrollment of full time equivalent students to the University increased by 1,169 students in FY10 over the full time equivalents reported for FY09. The increase in enrollment, and a 3.0% and an 8.0% increase in tuition and mandatory fees for in-state and out-of-state students, respectively, helped to increase tuition and fee revenue by over \$10 million.
- The University terminated its swaption agreement with Wachovia Bank, NA (“counterparty”) in FY10 due to unfavorable projected interest rates, recognizing a net loss in the FY10 financial statements.
- The University of Montana Foundation (UM Foundation) reported an investment return of 14% on its investments for FY10, which is a significant improvement over the negative 18.1% return reported in the prior fiscal year. While investment returns for the year improved, a large portion of the Foundation’s endowments continue to remain below the original gift value. Actions by the University and the UM Foundation have served to mitigate the impact of this situation.
- Long term obligations and advances from primary government decreased by \$6.7 million. The University issued just over \$2.0 million of new long-term debt.

**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 accounting standards requires that the State Appropriation, which is used for operations, must be reported as non-operating revenue.
- 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>	<b>For the years ended June 30,</b> <b>(stated in millions)</b>		
	<b>2011</b>	<b>2010*</b>	<b>2009*</b>
Total current assets	\$ 99.98	\$ 78.20	\$ 78.06
Total non-current assets	418.20	414.41	388.91
<b>Total assets</b>	<b>\$ 518.18</b>	<b>\$ 492.61</b>	<b>\$ 466.97</b>
Total current liabilities	\$ 58.88	\$ 58.94	\$ 58.92
Total non-current liabilities	185.85	181.48	176.98
<b>Total liabilities</b>	<b>\$ 244.73</b>	<b>\$ 240.42</b>	<b>\$ 235.90</b>
Invested in Capital Assets, Net of Related Debt	\$ 226.56	\$ 211.11	\$ 190.38
Restricted:			
Nonexpendable	20.67	17.93	15.88
Expendable	5.69	6.16	6.05
Unrestricted	20.53	16.99	18.76
<b>Total net assets</b>	<b>\$ 273.45</b>	<b>\$ 252.19</b>	<b>\$ 231.07</b>
<b>Total liabilities and net assets</b>	<b>\$ 518.18</b>	<b>\$ 492.61</b>	<b>\$ 466.97</b>

\*Restated

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

**Events or developments which occurred during 2011**

- Current assets increased by \$21.8 million due largely to a net increase in cash and cash equivalents of \$23.7 million. The increase in cash and cash equivalents resulted largely from the sale/maturities of intermediate term investments (\$9.0 million); the early disbursement of direct student loans for summer session (\$3.8 million); an increase in cash from FY11 operations, transferred to Board of Regents approved reserve funds (\$3.3 million); excess debt service transfers made as part of the University's debt management plan (\$1.0 million). The increase in cash and cash equivalents was offset by less significant changes in other current assets.
- The increase in non-current assets of \$3.8 million is primarily due to a net increase in capital assets of \$9.9 million and a \$3.1 million increase in the fair value of long term investments. These increases in non-current assets were offset by the sales and maturities of intermediated term investments, the proceeds of which were not reinvested in long term investments.
- Non-current liabilities increased by \$4.4 million dollars due largely to an increase in the liability for other post employment benefits (OPEB) of \$9.3 million, which is the annual amortization amount of the unfunded actuarially accrued liability for benefits calculated in accordance with GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The increase in the OPEB liability was offset by a net decline in long-term debt of \$5.5 million. Proceeds from new borrowings amounted to \$3.5 million from advances from primary government and less than \$500,000 from net borrowings on the issuance of revenue and other bonds.
- Net assets of the University increased by over \$21.0 million. Significant items affecting the change in net assets include: an increase of \$15.4 Million in investment in capital assets, net of related debt, largely from capital projects that were funded from the state's Long Range Building Program or from private sources; an increase in restricted non-expendable net assets due to a \$2.9 million increase in fair market value of non-expendable endowments; and, a \$3.5 million increase in unrestricted net assets primarily due to an increase in investment earnings over FY10 of \$4.3 million. The prior year investment earnings included a \$3.3 million realized loss from the termination of an interest rate swap.

**Events or developments which occurred during 2010:**

- Non-Current assets increased by \$25.5 million due largely to net additions to capital assets of \$35.0 million, which were offset by an increase to accumulated depreciation of \$16.6 million. The purchase of \$4.5 million of long term investments, plus, a \$2.5 million increase in fair market value of long term investments accounts for much of the remaining \$7.1 million increase in non-current assets.
- Non-Current liabilities increased by \$3.3 million dollars due largely to an increase in the liability for other post employment benefits (OPEB) of \$8.9 million, which is the annual amortization amount of the unfunded actuarially accrued liability for benefits calculated in accordance with GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The increase in the OPEB liability was offset by a net decline in long-term debt of \$4.4 million, which includes new borrowings of \$2.3 million.
- Net assets of the University increased by over 21.1 million. Significant items affecting the change in net assets include: investment in capital assets, net of related debt increased by \$22.1 million largely from capital projects that were funded from the state's Long Range

Building Program or from private sources; the change in restricted non-expendable net assets is primarily from the \$2.1 million increase in fair market value of non-expendable endowments; and, the unfunded OPEB liability increased by \$8.9 million in FY10 contributing to the overall decline in unrestricted net assets of \$1.8 million.

## 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.

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

<b>Description</b>	<b>For the years ended June 30,</b>		
	<b>(stated in millions)</b>		
	<b>2011</b>	<b>2010*</b>	<b>2009*</b>
Operating revenues	\$ 267.63	\$ 258.94	\$ 246.56
Operating expenses	389.80	374.53	355.13
Operating loss	(122.17)	(115.59)	(108.57)
Non-operating revenues (expenses)	127.47	116.74	102.99
Income (loss) before other revenues	5.30	1.15	(5.58)
Other revenues	15.96	19.97	33.09
Net increase in net assets	21.26	21.12	27.51
Net assets, beginning of year, as adjusted	252.19	231.07	203.56
Net assets, end of year	\$ 273.45	\$ 252.19	\$ 231.07

\*Restated

The following provides a comparative analysis of revenues and expenses for the years ended June 30, 2011, 2010, and 2009:

	<b>For the years ended June 30,</b>					
	<b>(stated in millions)</b>					
	<b>2011</b>		<b>2010*</b>		<b>2009*</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
<b>REVENUES</b>						
Tuition and fees, net	\$ 124.58	29.71%	\$ 117.54	29.18%	\$ 107.52	27.57%
Federal grants and contracts	55.91	13.34%	56.12	13.93%	54.11	13.87%
State & local grants/contracts	11.04	2.63%	10.70	2.66%	11.17	2.86%
Nongovernmental grants/contracts	5.96	1.42%	8.17	2.03%	8.04	2.06%
Facilities and administrative cost allowances	9.58	2.28%	9.83	2.44%	9.35	2.40%
Sales/services of educational departments	15.84	3.78%	14.98	3.72%	15.56	3.99%
Auxiliary enterprise charges	39.01	9.30%	36.57	9.08%	36.59	9.38%
State appropriations	82.53	19.68%	83.11	20.63%	79.97	20.50%
Federal financial aid grants and contracts	33.92	8.09%	27.25	6.77%	18.51	4.75%
Investment income (loss)	5.22	1.25%	0.90	0.22%	(1.00)	-0.26%
Private gifts	10.65	2.54%	11.33	2.81%	11.32	2.90%
Capital grants and gifts	17.72	4.23%	19.76	4.91%	32.95	8.45%
All other sources combined	7.35	1.75%	6.51	1.62%	5.94	1.53%
<b>Total revenues</b>	<b>\$ 419.31</b>	<b>100.00%</b>	<b>\$ 402.77</b>	<b>100.00%</b>	<b>\$ 390.03</b>	<b>100.00%</b>
<b>EXPENSES</b>						
Compensation and benefits	\$ 239.30	60.12%	\$ 234.77	61.51%	\$ 225.54	62.21%
Other postemployment benefits	9.31	2.34%	8.93	2.34%	7.66	2.11%
Other operating expenses	89.07	22.38%	84.54	22.15%	82.35	22.72%
Scholarships and fellowships	30.10	7.56%	25.72	6.74%	20.40	5.63%
Depreciation and amortization	22.02	5.53%	20.57	5.39%	19.18	5.29%
Interest expense	6.50	1.63%	7.12	1.87%	7.39	2.04%
Other (SBECP Loans)	1.75	0.44%	-	0.00%	-	0.00%
<b>Total expenses</b>	<b>\$ 398.05</b>	<b>100.00%</b>	<b>\$ 381.65</b>	<b>100.00%</b>	<b>\$ 362.53</b>	<b>100.00%</b>

\*Restated

**Events or developments which occurred during 2011 include:**

- Tuition and fees increased over \$7.0 million, with about 62% of the growth in revenue from higher enrollments and the remaining 38% increase in revenues from fees associated with higher tuition rates for out-of-state students.
- The \$6.7 million increase in federal financial aid grants and contracts is due primarily to a loosening of eligibility requirements for obtaining Federal Pell Grants, increasing the number of students who were awarded these grants.
- Investment income reported for FY11 was \$5.2 million, or an increase of 4.3 million over the investment earnings reported in FY10. Investment earnings in FY11 were comprised of \$2.0 million of investment income and a \$3.2 million increase in the fair value of investments.
- Capital grants and gifts declined by \$2.1 million over the prior year, due largely to the completion or near completion of major capital projects undertaken in the past several years.

Capital grants and gifts amounted to \$17,715,130 during the year and were as follows:

<u>Project</u>	<u>Amount</u>	<u>Campus</u>
Phyllis J. Washington Education Center	\$ 2,008,961	Missoula
Gilkey Executive Education Building	300,697	Missoula
Native American Studies Center	584,242	Missoula
Equipment and art work gifts-in-kind	664,489	Missoula
Airport campus improvements	4,329,609	Helena
MG Building HVAC upgrade	1,801,995	Butte
Health Sciences Building	1,562,460	Butte
Main Hall Phase I and II renovation	4,942,993	Dillon
Other capital grants and gifts	1,519,684	Various
Total	<u>\$ 17,715,130</u>	

- Operating expenses increased by over \$15.3 million due primarily to increases in compensation and benefits, supplies and other services, and scholarships and fellowships, of \$4.5 million, \$3.8 million, and \$4.4 million, respectively. The increase in compensation and benefits was due primarily to a \$2.1 million increase in salaries paid for contract faculty and contract professionals and a \$2.8 million increase in employer contributions for employee benefits, including health insurance. The latter represents a 9.2% increase, or \$2.2 million, over FY 11. The 17% increase in scholarships and fellowships over the prior year is primarily due to an increase in enrollment and funding for financial aid.

**Events or developments which occurred during 2010 include:**

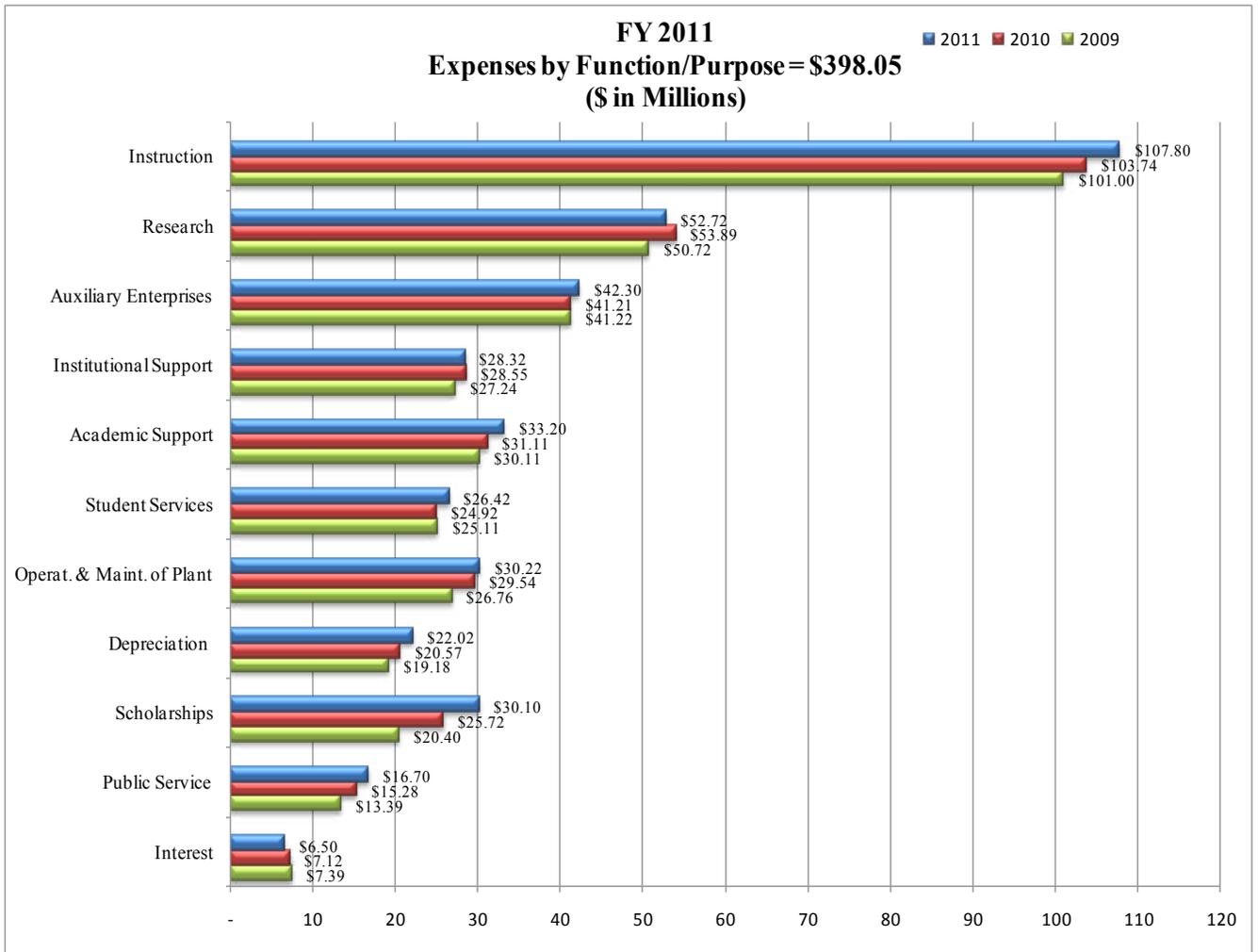
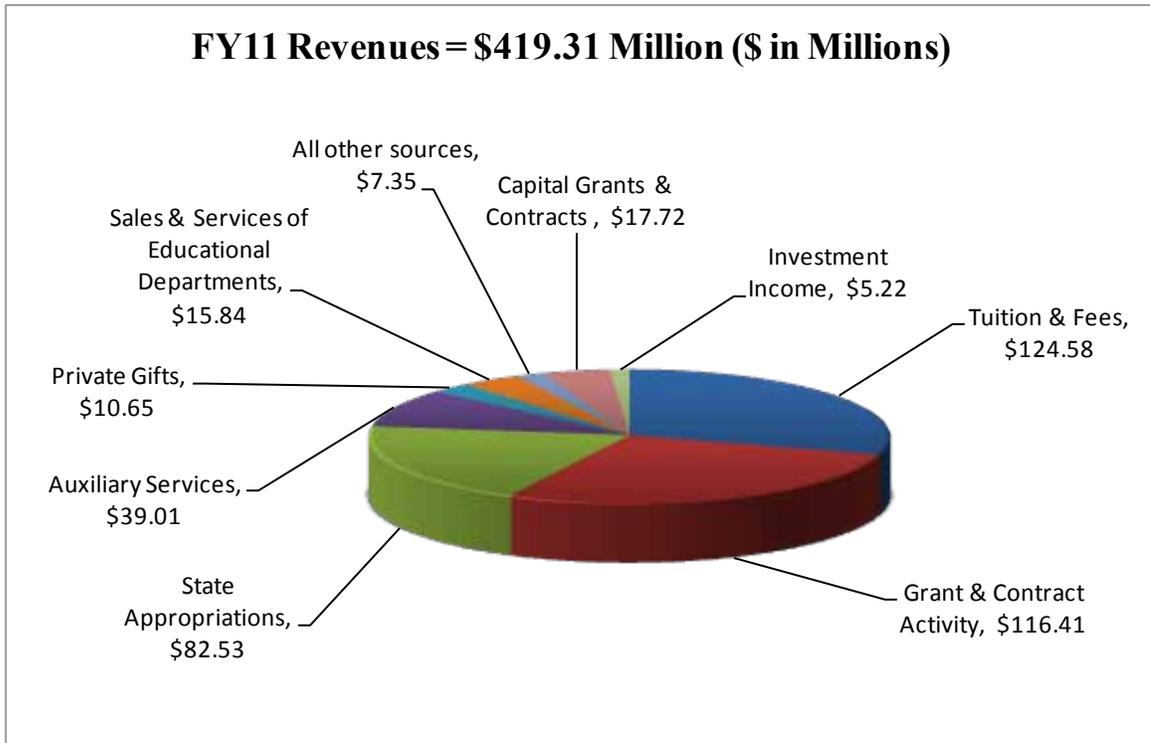
- Tuition and fees increased over \$10 million, with about 61% of the growth in revenue from higher enrollments and the remaining 39% increase in revenues from fees associated with higher tuition rates for out-of-state students.
- The \$8.7 million increase in federal financial aid grants and contracts is due primarily to a \$619 increase in the maximum value of a Federal Pell Grant, which was legislated as part of the American Recovery and Reinvestment Act of 2009 (ARRA).
- Investment income reported for FY10 was close to \$1 million, or an increase of almost \$2 million over the investment loss reported in FY10. Investment earnings for FY10 were comprised of \$1.9 million of income on investments and a \$2.5 million increase in the fair value of investments, which was offset by a realized loss of \$3.3 million on the termination of a swaption agreement.

- Capital grants and gifts declined by \$12.1 million over the prior year, or by approximately 36%, due largely to the completion or near completion of major capital projects undertaken in the past several years.

Capital grants and gifts amounted to \$19,758,620 during the year and were as follows:  
Change

<b>Project</b>	<b>Amount</b>	<b>Campus</b>
Phyllis J. Washington Education Center	\$ 1,078,000	Missoula
Law School Expansion	1,105,000	Missoula
Native American Studies Center	582,000	Missoula
Upgrade Steam Distribution System	876,000	Missoula
Washington Stadium expansion	680,000	Missoula
Equipment and art work gifts-in-kind	694,000	Missoula
Roof repair and replacement	1,424,000	Missoula
HVAC Projects	1,290,000	Missoula & Dillon
Natural Resources Building	6,616,000	Butte
Main Hall Phase I & II	4,395,000	Dillon
Other capital grants and gifts	1,018,620	Various
Total	<u>\$ 19,758,620</u>	

- Operating expenses increased by over \$19 million due primarily to increases in compensation and benefits, supplies and other services, and scholarships and fellowships, of \$9.2 million, \$2.8 million, and \$5.3 million, respectively. The increase in compensation and benefits was due primarily to a \$3.9 million increase in salaries paid to contract faculty and contract professionals and a \$3.8 million increase in employer contributions for employee benefits, including health insurance. The latter represents a 6.9% increase over FY 09. The 26.1% increase in scholarships and fellowships over the prior year is primarily due to an increase in enrollment and funding for financial aid.



**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.

<u>CASH FLOW CATEGORY</u>	<u>For years ended June 30,</u>		
	<u>(stated in millions)</u>		
	<u>2011</u>	<u>2010*</u>	<u>2009*</u>
Cash Provided by (Used for):			
Operating Activities	\$ (89.63)	\$ (85.96)	\$ (55.46)
Non-capital Financing Activities	127.00	123.28	111.70
Capital and Related Financial Activities	(24.70)	(29.39)	(56.63)
Investing Activities	11.13	(9.22)	(2.70)
Net Increase (Decrease) in Cash	23.80	(1.29)	(3.09)
Cash and Cash Equivalents, beginning of year	50.07	51.36	54.45
Cash and Cash Equivalents, end of year	\$ 73.87	\$ 50.07	\$ 51.36

\*Restated

Specific events or cash transactions during 2011 which were notable included:

- Cash flows from operating revenues were higher by over \$8.3 million compared to the prior fiscal year, due primarily to an increase in cash flows from tuition and fees and auxiliary enterprise charges of \$6.4 million and \$1.1million, respectively. This increase in cash flows was offset by an almost \$12.1 million increase in cash used for operating activities due principally to an increase in payments to employees for salaries and benefits of \$3.0 million, an increase in cash paid for operating expenses of \$4.2 million, and a \$4.4 million increase in amounts paid to students for scholarships and fellowships.
- Cash flows from non-capital financing activities increased by approximately \$3.7 million due largely to a \$6.7 million increase in the amount received from the federal government for Pell Grants which was offset by a \$1.8 million matching payment for a federal capital grant.
- Overall, cash provided by investing activities increased by over \$20.3 million, due largely to the sale or maturity of \$19.0 of intermediate term investments, which were not reinvested in long term securities.
- Cash used by capital and related financing activities decreased by a net amount of \$4.8 million over the FY10 amount due primarily to fewer capital additions during the fiscal year, a net decline in debt issuances, and lower interest payments on long term debt. The University used \$82.0 million in cash during FY11 which included; \$20.0 million paid for capital construction projects and equipment purchases; \$48.3 million used to advance refund revenue bond issuances; and principal and interest payments on long term obligations of \$11.5 million. The amounts paid for capital and related financing activities were offset by cash received from capital gifts of \$6.8 million to help fund capital additions, \$48.7 million in proceeds from Series K 2010 revenue bond issuance, as well as \$2.1 million of cash received on the proceeds from other debt issuances.

Specific events or cash transactions during 2010 which were notable included:

- Cash flows from operating revenues were higher by over \$11.4 million compared to the prior fiscal year, due primarily to an increase in cash flows from tuition and fees and auxiliary enterprise charges of \$8.3 million and \$1.9 million, respectively. This increase in cash flows was offset by an almost \$19.0 million increase in cash used for operating activities due principally to an increase in payments to employees for salaries and benefits of \$12.0 million and a \$5.3 million increase in amounts paid to students for scholarships and fellowships.
- Cash flows from non-capital financing activities increased by approximately \$11.6 million due largely to a \$3.1 million increase in state appropriation and \$8.7 million increase in the amount received from the federal government for Pell Grants.
- Overall, cash used in investing activities increased by over \$ 6.5 million, largely due to a payment of \$5.3 million to terminate the swaption agreement with the counterparty, Wachovia Bank, NA. During the year, the University purchased an additional \$5 million of U.S. government sponsored entities securities to enhance investment earnings. Even so, earnings received on investments declined by over \$800 thousand due primarily to continued low yields on interest bearing investments.
- Cash used by capital and related financing activities decreased by a net amount of \$4.3 million over the FY09 amount due primarily to the slower pace of new construction during FY10. The University used \$23.4 million in cash during FY10 mainly for capital construction projects and equipment purchases. The amount paid was offset by cash received from capital gifts of \$5.5 million to help fund these capital additions. Additional sources and uses of cash during the fiscal year included 2.0 million in proceeds from new debt issuances, and \$13.8 million of cash used for principal and interest payments on long term obligations.

## 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, 2011, 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 30, 2011.

<b>Project Name</b>	<b>Estimated Cost</b>	<b>Campus</b>	<b>Status</b>
Gilkey Executive Education Building	\$9.3M	Missoula	Planning
Alumni/Art & Culture Museum	TBD	Missoula	Planning
Interdisciplinary Science Building Completion	\$2.3M	Missoula	Planning
Curry Health Center Renovation	\$4.0M	Missoula	Planning
Food Zoo Renovation	\$7.0M	Missoula	Planning
Think Tank Bistro	\$1.5M	Missoula	Planning
Learning Commons – Library	\$3.2M	Missoula	Planning
Athletics Academic Success Center	\$3.0M	Missoula	Planning
Stadium Lights	\$1.0M	Missoula	Planning
Intercollegiate Athletics Facilities Renovations	\$4.0M	Missoula	Planning

Project Name	Estimated Cost	Campus	Status
Art Annex Facility	\$4.6M	Missoula	Planning
Health Science Building Renovation	\$2.8M	MT Tech	Under construction
HPER Renovations	\$3.5M	MT Tech	Under construction
Main Hall Renovation	\$10.7M	Western	Under construction
Helena Airport Campus Improvements	\$5.9 M	Helena COT	Completed

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

- The University intends to increase the student 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 is underway. The target first-to-second year retention rate for the University by 2013 is 80% and the six-year graduation rate by 2020 is 60%.

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](http://www.umt.edu/partnering).

- The decline in the number of new high school graduates in Montana is projected to continue through FY 2015 before beginning a slow upward trend. Fortunately, enrollment (FTE) increases in FY11 (approximately 5.0%) and in recent prior years, have helped mitigated the impact of this trend. The University has developed and is implementing strategies to improve access and enhance participation by new high school graduates from Montana. 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. To further address the low average income levels among Montanans, the University will continue to encourage more need-based assistance at the State level to help increase the overall support provided to economically disadvantaged students.
- A big challenge facing the University is the lack of sufficient state support that is further at risk because of a poor economy and a resultant decline in state revenue streams. At the same time, increased enrollment is challenging the University's capacity in some programs as well as its ability to maintain quality, particularly in 2 year education and the general education core. These factors will require continue efforts to maximize efficiency in the use of scarce resources and to identify new and creative ways to facilitate the accomplishment of critical goals through new and enhanced revenue streams.

- The University must continue to seek creative 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 Component Unit of the State of Montana*  
**Consolidated Statements of Net Assets**  
**As of June 30, 2011 and 2010**

	2011	2010*
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (note 3)	\$ 73,576,523	\$ 49,842,261
Securities lending collateral	1,618,758	2,558,995
Investments	298,523	297,028
Accounts and grants receivable, net	6,217,715	5,663,620
Due from Federal government	8,606,212	9,735,464
Due from primary government	942,880	1,775,571
Due from other State of Montana component units	296,783	511,913
Loans to students, net	1,882,046	1,965,109
Inventories	1,929,532	1,797,757
Prepaid expenses and deferred charges	4,608,992	4,048,973
<b>Total current assets</b>	<b>\$ 99,977,964</b>	<b>\$ 78,196,691</b>
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	\$ 291,099	\$ 232,389
Restricted investments	20,220,317	17,281,363
Other long term investments	31,197,115	40,053,156
Loans to students, net	9,808,321	9,861,815
Bond issuance costs	1,617,790	1,819,238
Capital assets, net	355,071,245	345,162,714
<b>Total Noncurrent Assets</b>	<b>\$ 418,205,887</b>	<b>\$ 414,410,675</b>
<b>Total Assets</b>	<b>\$ 518,183,851</b>	<b>\$ 492,607,366</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 23,862,372	\$ 22,692,044
Due to Federal government	14,336	145,328
Due to primary government	1,052,066	930,078
Due to other State of Montana component units	51,484	10,121
Securities lending liability	1,618,758	2,558,995
Student and other deposits	1,883,430	2,057,761
Deferred revenue	14,552,941	15,211,543
Accrued compensated absences	9,500,465	9,619,632
Current portion of long-term obligations	6,342,596	5,716,053
<b>Total Current Liabilities</b>	<b>\$ 58,878,448</b>	<b>\$ 58,941,555</b>
<b>Noncurrent Liabilities</b>		
Accrued compensated absences	\$ 14,001,830	\$ 14,037,141
Long term obligations	118,399,626	123,878,000
Advances from primary government	9,940,935	9,295,961
Other post employment benefits	33,256,652	23,946,353
Due to Federal Government	10,257,305	10,322,154
<b>Total Noncurrent Liabilities</b>	<b>\$ 185,856,348</b>	<b>\$ 181,479,609</b>
<b>Total Liabilities</b>	<b>\$ 244,734,796</b>	<b>\$ 240,421,164</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 226,563,565	\$ 211,109,840
Restricted for:		
Nonexpendable		
Endowments	18,692,462	15,939,206
Loans	1,980,662	1,987,931
Expendable		
Loans	2,031,887	1,989,280
Scholarships, research, instruction, and other	3,648,721	4,171,916
Unrestricted	20,531,758	16,988,029
<b>Total Net Assets</b>	<b>\$ 273,449,055</b>	<b>\$ 252,186,202</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$ 518,183,851</b>	<b>\$ 492,607,366</b>

\*Restated

**A-16 The University of Montana***A Component Unit of the State of Montana***University Component Units - Combined Statements of Financial Position****As of June 30, 2011 or December 31, 2010**

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 9,101,688	\$ 5,727,679
Short-term investments	4,098,659	3,251,752
Accrued dividends and interest	135,640	154,964
Investments	184,919,313	155,925,237
Contributions receivable, net	9,426,369	10,671,047
Student loans and other receivables	296,260	267,306
Depreciable assets, net of accumulated depreciation	4,119,670	4,115,664
Other assets	847,705	850,743
<b>Total Assets</b>	<b>\$ 212,945,304</b>	<b>\$ 180,964,392</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 409,692	\$ 263,046
Accrued expenses	112,965	93,055
Compensated absences	241,466	249,556
Note payable - bank	40,000	40,000
Liabilities to external beneficiaries	2,969,787	2,956,224
Custodial funds	19,934,779	16,460,149
Other liabilities	430,497	357,118
<b>Total Liabilities</b>	<b>\$ 24,139,186</b>	<b>\$ 20,419,148</b>
<b>NET ASSETS</b>		
Net assets - unrestricted	\$ 9,949,947	\$ 2,925,297
Net assets - temporarily restricted	57,891,124	42,228,333
Net assets - permanently restricted	120,965,047	115,391,614
<b>Total Net Assets</b>	<b>\$ 188,806,118</b>	<b>\$ 160,545,244</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$ 212,945,304</b>	<b>\$ 180,964,392</b>

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

**The University of Montana**  
*A Component Unit of the State of Montana*  
**Consolidated Statements of Revenues, Expenses**  
**and Changes in Net Assets**

A-17

**For the Years Ended June 30, 2011 and 2010**

	<b>2011</b>	<b>2010*</b>
<b>OPERATING REVENUES:</b>		
Tuition and fees (net of scholarship allowances in 2011 and 2010 of \$30,852,602 and \$25,559,412, respectively)	\$ 124,581,298	\$ 117,543,233
Federal grants and contracts	55,911,233	56,121,947
State and local grants and contracts	11,041,634	10,701,636
Nongovernmental grants and contracts	5,963,467	8,174,005
Grant and contract facilities and administrative cost allowances	9,580,411	9,827,639
Sales and services of educational departments	15,841,888	14,984,682
Auxiliary enterprises charges:		
Residential life (net of scholarship allowances in 2011 and 2010 of \$1,097,889 and \$1,828,732, respectively)	14,414,725	13,438,896
Food services (net of scholarship allowances in 2011 and 2010 of \$1,097,889 and \$1,828,732, respectively)	12,737,142	11,521,033
Other auxiliary revenues	11,859,709	11,608,536
Interest earned on loans to students	47,864	55,168
Other operating revenues	5,655,968	4,956,488
<b>Total operating revenues</b>	<b>\$ 267,635,339</b>	<b>\$ 258,933,263</b>
<b>OPERATING EXPENSES:</b>		
Compensation and employee benefits	\$ 239,299,531	\$ 234,768,985
Other post employment benefits (note 18)	9,310,299	8,930,742
Other (note 25)	89,073,774	84,541,625
Scholarships and fellowships	30,097,552	25,717,106
Depreciation and amortization	22,019,856	20,569,295
<b>Total operating expenses</b>	<b>\$ 389,801,012</b>	<b>\$ 374,527,753</b>
<b>OPERATING LOSS</b>	<b>\$ (122,165,673)</b>	<b>\$ (115,594,490)</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
State appropriations	\$ 69,184,267	\$ 65,683,726
State appropriations - Federal ARRA	13,346,787	17,424,246
Federal financial aid grants and contracts	33,922,436	27,251,648
Land grant revenues	1,646,236	1,273,804
Private gifts	10,648,261	11,329,439
Investment income (loss)	5,214,416	905,164
Interest expense	(6,496,347)	(7,124,751)
<b>Net non-operating revenues</b>	<b>\$ 127,466,056</b>	<b>\$ 116,743,276</b>
<b>INCOME BEFORE OTHER REVENUES (EXPENSES)</b>	<b>\$ 5,300,383</b>	<b>\$ 1,148,786</b>
<b>OTHER REVENUES (EXPENSES):</b>		
Capital grants and gifts	\$ 17,715,130	\$ 19,758,620
Additions to permanent endowments	-	312,500
Loss on disposal of capital assets	(2,660)	(98,662)
Other (note 22)	(1,750,000)	-
<b>Total other revenues</b>	<b>\$ 15,962,470</b>	<b>\$ 19,972,458</b>
<b>Net increase in net assets</b>	<b>\$ 21,262,853</b>	<b>\$ 21,121,244</b>
<b>NET ASSETS:</b>		
Net assets - beginning of year as previously stated	\$ 252,186,202	\$ 232,913,507
Adjustment to record additional advances from primary government	-	(1,848,549)
Net Assets - beginning of year as restated	\$ 252,186,202	\$ 231,064,958
<b>Net assets - end of year</b>	<b>\$ 273,449,055</b>	<b>\$ 252,186,202</b>

*\*Restated*

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

# The University of Montana

## A Component Unit of the State of Montana

### University Component Units - Combined Statement of Activities

For the Years Ended June 30, 2011 or December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
<b>REVENUES:</b>				
Contributions	\$ 1,167,291	\$ 11,788,851	\$ 5,480,821	\$ 18,436,963
Interest and dividend income	504,984	3,151,719	-	3,656,703
Net realized and unrealized gain on investments	6,280,091	19,504,738	362,553	26,147,382
Administrative fees	437,477	-	-	437,477
Gain (loss) on sale of assets	(591)	-	-	(591)
Support received from university	427,000	68,840	-	495,840
Special events	469,367	104,767	-	574,134
Other income	59,019	1,619,470	18,507	1,696,996
Net assets released from restrictions	19,690,980	(19,690,980)	-	-
<b>Total revenues</b>	<b>\$ 29,035,618</b>	<b>\$ 16,547,405</b>	<b>\$ 5,861,881</b>	<b>\$ 51,444,904</b>
<b>EXPENSES:</b>				
<b>Program services</b>				
Academic and institutional	\$ 6,137,694	\$ -	\$ -	\$ 6,137,694
Capital expenses	3,650,520	-	-	3,650,520
Pledge Adjustments	(677)	603,309	34,496	637,128
Scholarships and awards	6,288,837	-	-	6,288,837
<b>Total program services</b>	<b>\$ 16,076,374</b>	<b>\$ 603,309</b>	<b>\$ 34,496</b>	<b>\$ 16,714,179</b>
<b>Operating expenses</b>				
Fundraising efforts	\$ 2,725,899	\$ -	\$ -	\$ 2,725,899
General and administrative	3,123,108	-	-	3,123,108
Investment management costs	178,964	-	-	178,964
Other miscellaneous	102,729	-	-	102,729
<b>Total operating expenses</b>	<b>\$ 6,130,700</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,130,700</b>
<b>Change in net assets before nonoperating items</b>	<b>\$ 6,828,544</b>	<b>\$ 15,944,096</b>	<b>\$ 5,827,385</b>	<b>\$ 28,600,025</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Payments to beneficiaries and change in liabilities due to external beneficiaries	9,424	(348,575)	-	(339,151)
Reclassification of net assets	-	166,450	(166,450)	-
<b>Change in net assets</b>	<b>\$ 6,837,968</b>	<b>\$ 15,761,971</b>	<b>\$ 5,660,935</b>	<b>\$ 28,260,874</b>
<b>Net assets, beginning of year</b>	<b>3,111,979</b>	<b>42,129,153</b>	<b>115,304,112</b>	<b>160,545,244</b>
<b>Net assets, end of year</b>	<b>\$ 9,949,947</b>	<b>\$ 57,891,124</b>	<b>\$ 120,965,047</b>	<b>\$ 188,806,118</b>

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

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

**University Component Units - Combined Statement of Activities**  
**For the Years Ended June 30, 2010 or December 31, 2009**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total*
<b>REVENUES:</b>				
Contributions	\$ 903,350	\$ 7,777,777	\$ 3,478,943	\$ 12,160,070
Interest and dividend income	584,291	3,100,524	-	3,684,815
Net realized and unrealized gain on investments	4,887,190	8,642,841	376,724	13,906,755
Administrative fees	440,664	-	-	440,664
Gain (loss) on sale of assets	94,606	-	-	94,606
Support received from university	408,612	69,500	-	478,112
Special events	432,971	157,278	-	590,249
Other income	15,491	1,748,358	14,149	1,777,998
Net assets released from restrictions	22,011,951	(22,011,951)	-	-
<b>Total revenues</b>	<b>\$ 29,779,126</b>	<b>\$ (515,673)</b>	<b>\$ 3,869,816</b>	<b>\$ 33,133,269</b>
<b>EXPENSES:</b>				
<b>Program services</b>				
Academic and institutional	\$ 6,786,196	\$ -	\$ -	\$ 6,786,196
Capital expenses	5,387,374	-	-	5,387,374
Pledge Adjustments	2,587	99,180	87,502	189,269
Scholarships and awards	6,742,536	-	-	6,742,536
<b>Total program services</b>	<b>\$ 18,918,693</b>	<b>\$ 99,180</b>	<b>\$ 87,502</b>	<b>\$ 19,105,375</b>
<b>Operating expenses</b>				
Fundraising efforts	\$ 2,726,527	\$ -	\$ -	\$ 2,726,527
General and administrative	2,596,000	-	-	2,596,000
Investment management costs	156,840	-	-	156,840
Other miscellaneous	60,515	-	-	60,515
<b>Total operating expenses</b>	<b>\$ 5,539,882</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,539,882</b>
<b>Change in net assets before nonoperating items</b>	<b>\$ 5,320,551</b>	<b>\$ (614,853)</b>	<b>\$ 3,782,314</b>	<b>\$ 8,488,012</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Payments to beneficiaries and change in liabilities due to external beneficiaries	(6,044)	(80,465)	-	(86,509)
Reclassification of net assets	4,219	(258,171)	2,433,791	2,179,839
<b>Change in net assets</b>	<b>\$ 5,318,726</b>	<b>\$ (953,489)</b>	<b>\$ 6,216,105</b>	<b>\$ 10,581,342</b>
<b>Net assets, beginning of year</b>	<b>(2,206,747)</b>	<b>43,082,642</b>	<b>109,088,007</b>	<b>149,963,902</b>
<b>Net assets, end of year</b>	<b>\$ 3,111,979</b>	<b>\$ 42,129,153</b>	<b>\$ 115,304,112</b>	<b>\$ 160,545,244</b>

\* Restated

A-20 **The University of Montana**  
**A Component Unit of the State of Montana**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended June 30, 2011 and 2010**

	2011	2010*
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 124,097,203	\$ 117,703,850
Federal grants and contracts	57,226,272	55,683,075
State grants and contracts	11,320,005	10,618,403
Nongovernmental grants and contracts	6,102,873	8,094,958
Grant and contract facilities and administrative cost allowances	9,580,411	9,827,639
Sales and services of educational activities	15,644,571	15,236,334
Auxiliary enterprises charges	38,954,973	37,817,987
Interest earned on loans to students	184,836	169,205
Other operating receipts	5,494,109	5,128,533
Payments to employees for salaries and benefits	(238,994,884)	(235,949,922)
Operating expenses	(89,280,391)	(85,191,952)
Payments for scholarships and fellowships	(30,097,552)	(25,717,106)
Loans made to students	(1,384,206)	(1,691,877)
Loan payments received	1,520,763	2,310,424
<b>Net Cash Used by Operating Activities</b>	<b>\$ (89,631,017)</b>	<b>\$ (85,960,449)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$ 69,184,268	\$ 65,683,726
State appropriations - Federal ARRA	13,346,787	17,424,246
Matching funds paid on federal capital grant	(1,750,000)	-
Land Grants	1,646,236	1,273,804
Federal financial aid grants and contracts	33,922,436	27,251,648
Private Gifts for other than capital purposes	10,648,261	11,329,437
Additions to permanent endowments	-	312,500
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>\$ 126,997,988</b>	<b>\$ 123,275,361</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	\$ (10,000,000)	\$ (6,312,500)
Proceeds from sales of investments	19,000,000	1,500,000
Cash equivalent investment reclassified to other long term investments	126,432	(853,122)
Payment to terminate forward SWAP agreement	-	(5,409,996)
Earnings received on investments	2,003,575	1,856,229
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>\$ 11,130,007</b>	<b>\$ (9,219,389)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Cash paid for capital assets	\$ (20,742,316)	\$ (23,377,029)
Capital gifts	6,783,039	4,044,913
Proceeds from the sale of capital assets	66,456	40,904
Proceeds from the issuance of refunding revenue bonds	48,667,400	-
Payment to advance refund revenue bonds	(48,277,772)	-
Bond issue costs paid on new issue	(352,587)	-
Proceeds from the issuance of subordinated bonds payable	107,710	225,989
Proceeds from notes payable and advances from primary government	2,038,278	3,589,777
Principal paid on notes payable, advance from primary government, and capital leases	(1,501,291)	(1,339,663)
Principal paid on bonds payable	(5,779,700)	(5,725,000)
Interest paid on capital debt and leases	(5,713,223)	(6,844,942)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>\$ (24,704,006)</b>	<b>\$ (29,385,051)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 23,792,972</b>	<b>\$ (1,289,528)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>\$ 50,074,650</b>	<b>\$ 51,364,178</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 73,867,622</b>	<b>\$ 50,074,650</b>

\*Restated

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

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

**For the Years Ended June 30, 2011 and 2010**

(Continued)

	2011	2010*
<b>Reconciliation of Operating Loss to Net Cash Used By Operating Activities:</b>		
Operating loss	\$(122,165,673)	\$(115,594,490)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Noncash expense:		
Depreciation and amortization expense	22,019,856	20,569,295
Other post employment benefits	9,310,299	8,930,742
Changes in assets and liabilities:		
Accounts receivable	1,622,978	(1,421,665)
Loans to students	136,557	618,547
Inventories	(131,774)	125,983
Prepaid expenses and deferred charges	(560,019)	(1,024,855)
Accounts payable and accrued expenses	1,189,022	(1,346,167)
Deferred revenue	(658,602)	2,757,252
Student and other deposits	(174,331)	(260,365)
Due to federal government	(64,852)	123,457
Compensated absences	(154,478)	561,817
<b>Net Cash Used by Operating Activities</b>	<b>\$ (89,631,017)</b>	<b>\$ (85,960,449)</b>
<b>Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions</b>		
Fixed assets acquired by incurring capital lease obligations	\$ 323,094	\$ 67,946
Increase in fair value of investments recognized as a component of interest income	\$ 3,066,152	\$ 2,368,800
Fixed assets acquired from Capital grants and donations	\$ 13,094,860	\$ 15,720,994
Bond issue costs, discounts, premiums and deferred loss on refunding, amortized to interest expense	\$ 695,571	218,705
<b>Reconciliation of Cash and Cash Equivalent to the Statement of Net Assets</b>		
Cash and cash equivalents classified as current assets	\$ 73,576,523	\$ 49,842,261
Cash and cash equivalents classified as noncurrent assets	\$ 291,099	232,389
<b>Total Cash and Cash Equivalents, End of Year</b>	<b>\$ 73,867,622</b>	<b>\$ 50,074,650</b>

\*Restated

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### THE UNIVERSITY OF MONTANA *A COMPONENT UNIT OF THE STATE OF MONTANA* FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

#### 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 20,000 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 23, “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.

## Notes to the Consolidated Financial Statements (continued)

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.

## Notes to the Consolidated Financial Statements (continued)

### ▪ CAPITAL ASSETS

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

<u>Capital Asset Category:</u>	<u>Capitalization Threshold Amount:</u>
Equipment	\$ 5,000
Buildings, Building Improvements, Land Improvements	\$ 25,000
Intangibles	\$ 100,000
Intangibles - Internally Generated	\$ 500,000
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. Amortization is computed on a straight-line basis over the estimated 4 to 20 year useful lives of intangible assets. Intangible assets with indefinite useful lives are not amortized. 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.

## Notes to the Consolidated Financial Statements (continued)

### ▪ 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.
- **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

Projects financed through the State Building Energy Conservation Program (SBECP) were not accounted for as long term liabilities in the University's prior year financial statements (see note 16). In prior years, SBECP project costs were recorded as capital grants and gifts, and repayments for the financed projects were recorded as utility expense in the Statement for Revenue and Expenses and Changes in Net Assets. The fiscal year 2010 Statement of Net Assets reflects an increase of \$241,478 in due to primary government; an increase of \$2,925,995 in advances from primary government; a decrease of \$3,197,473 in invested in capital assets, net of related debt. The fiscal year 2010 Statement of Revenues, Expenses and Changes in Net Assets reflects a net decrease of \$1,348,924 to net assets for project costs not recorded as advances from primary government. The fiscal year 2010 Statement of Cash Flows reflects a net decrease of \$215,054 in net cash used by operating activities and a corresponding increase of \$215,054 in net cash used by capital and related investing activities.

## 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, 2011 and 2010 totaled \$33,755,975 and \$36,006,877, respectively. The University does not have a formal policy that addresses custodial credit risk for cash deposits with other financial institutions.

## Notes to the Consolidated Financial Statements (continued)

### ▪ CASH EQUIVALENTS

Cash equivalents consist of \$581,271 of cash invested in money market funds with First American Funds and US Bank, and \$39,345,124 in the Short Term Investment Pool (STIP) with the Montana Board of Investments. Amounts held in cash equivalents at June 30, 2011 and 2010 were \$39,926,395 and \$13,851,842, 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, 2011 and 2010:

Security Type	Fair Value		Effective	Credit Quality
	2011	2010	Duration at June 30, 2011 <sup>(1)</sup>	Rating at June 30, 2011 <sup>(3)</sup>
U.S. Government Sponsored Entities	\$ 16,844,167	\$ 25,722,861	1.62	AAA
Short Term Investment Pool (STIP) <sup>(4)</sup>	679,554	853,123	Not applicable	NR
Trust Fund Investment Pool (TFIP)	15,714,280	15,488,769	4.76 <sup>(2)</sup>	NR
Montana Domestic Equity Pool (MDEP)	1,232,935	942,076	Not applicable	N/A
Foundation Pooled Investments	16,946,496	14,327,690	Not applicable	N/A
Certificates of Deposits	298,523	297,028	Not applicable	N/A
<b>Total investments</b>	<u>\$ 51,715,955</u>	<u>\$ 57,631,547</u>		
<b>Securities Lending Collateral Investment Pool</b>	<u>\$ 1,618,758</u>	<u>\$ 2,558,995</u>	(5)	NR

<sup>(1)</sup>See Interest Rate Risk under the Investment Risks disclosure included in this note.

<sup>(2)</sup>Effective duration for the Trust Fund Investment Pool (TFIP) is for the entire portfolio. The University's ownership represents less than 0.9% of the portfolio

<sup>(3)</sup>NR indicates security investment unrated for credit quality type.

<sup>(4)</sup>Structured Investment Vehicle investments in STIP portfolio reclassified from cash and cash equivalents.

<sup>(5)</sup>Securities Lending Quality Trust liquidity pool had an average duration of .09 and an average weighted final maturity of .29 for U.S. dollar collateral. The duration pool had an average duration of .09 and an average weighted final maturity of 2.61 for U.S. dollar collateral.

Investments held by the University at June 30, 2011 and 2010 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. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages. 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, 2011 and 2010:

##### Montana Domestic Equity Pool (MDEP)

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

## Notes to the Consolidated Financial Statements (continued)

from several institutional investors that are blended or pooled together, to reduce management and administration costs. MDEP portfolio is limited to domestic stock or ADR investments.

### **Trust Funds Investment Pool (TFIP)**

The TFIP 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 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. The custodial bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. The Board of Investments and the bank split the earnings on security lending activities. The Board of Investments retains all rights and risks of ownership during the loan period.

During the years ending June 30, 2011 and 2010, 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, 2011 and 2010, 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, credit risk or custodial risk. Detailed asset maturity and other information demonstrating risk associated with the State of Montana Board of Investments STIP and TFIP 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 TFIP 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 defined as the average percentage change in a bond's price for a given change in interest rates. Prices move inversely to 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.

**Notes to the Consolidated Financial Statements (continued)****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 TFIP 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, 2011 and 2010, all STIP, MDEP and TFIP securities were registered in the nominee name for the MBOI and held in the possession of the Board's custodial bank, State Street Bank

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. 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 TFIP Investment Policy, "with the exception of the U.S. government/agency securities, additional purchases will not be made in a security 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, 2011 and 2010, expressed as a percentage of total investments, was 32.57% and 44.64%, 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 \$1,646,236 and \$1,273,804 for the years ended June 30, 2011 and 2010, respectively. These earnings are currently pledged to the Series C 1995, Series F 1999, Series G 2002, Series I 2004, Series J 2005 and Series K 2010 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).

## Notes to the Consolidated Financial Statements (continued)

### NOTE 4 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts Receivable consisted of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Student tuition and fees	\$ 4,167,175	\$ 3,699,523
Auxiliary enterprises and other operating activities	2,531,449	2,169,843
Private grants and contracts	1,300,646	1,606,666
Other	131,104	129,076
Gross accounts and grants receivable	<u>8,130,374</u>	<u>7,605,108</u>
Less: allowance for doubtful accounts	1,912,660	1,941,488
<b>Net accounts and grants receivable</b>	<u><u>\$ 6,217,715</u></u>	<u><u>\$ 5,663,620</u></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, 2011 and 2010 are \$10,257,305 and \$10,322,154, 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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Bookstore	\$ 737,442	\$ 673,353
Food services	153,931	145,876
Facilities services	766,045	764,692
Other	272,114	213,836
<b>Total inventories</b>	<u><u>\$ 1,929,532</u></u>	<u><u>\$ 1,797,757</u></u>

### NOTE 7 – PREPAID EXPENSES AND DEFERRED CHARGES

Prepaid expenses and other deferred charges consisted of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Summer session	\$ 651,974	\$ 725,849
Travel advances	22,844	33,041
Other prepaid expenses	3,934,174	3,290,083
<b>Total prepaid expenses and other deferred charges</b>	<u><u>\$ 4,608,992</u></u>	<u><u>\$ 4,048,973</u></u>

## Notes to the Consolidated Financial Statements (continued)

## NOTE 8 – CAPITAL ASSETS

The following tables present the changes in capital assets for the years ended June 30, 2011 and 2010, respectively.

## For the year ended June 30, 2011:

	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
<b>Capital assets not being depreciated:</b>					
Land	\$ 7,817,232	\$ -	\$ -	\$ -	\$ 7,817,232
Capitalized collections	17,160,147	269,991	-	-	17,430,138
Construction in progress	18,183,800	23,309,657	-	(11,030,113)	30,463,344
	43,161,179	23,579,648	-	(11,030,113)	55,710,714
<b>Other capital assets:</b>					
Land improvements	12,883,611	-	-	-	12,883,611
Infrastructure	6,769,546	-	-	-	6,769,546
Buildings	312,951,913	210,280	1,981,967	399,073	311,579,299
Building improvements	157,363,294	567,857	-	10,631,040	168,562,191
Furniture and equipment	62,942,098	6,267,866	928,521	-	68,281,443
Library materials	54,945,183	1,571,878	176,282	-	56,340,779
Livestock	13,899	8,000	5,149	-	16,750
	607,869,544	8,625,881	3,091,919	11,030,113	624,433,619
<b>Less accumulated depreciation for:</b>					
Land improvements	9,529,349	275,469	-	-	9,804,818
Infrastructure	183,081	169,239	-	-	352,320
Buildings	111,222,534	6,499,538	-	-	117,722,072
Building improvements	100,101,842	8,081,147	777	-	108,182,212
Furniture and equipment	36,645,178	5,524,556	807,333	-	41,362,401
Library materials	48,523,013	1,286,240	115,986	-	49,693,267
Livestock	9,588	1,392	4,230	-	6,750
	306,214,585	21,837,581	928,326	-	327,123,840
<b>Other capital assets, net</b>	301,654,959	(13,211,700)	2,163,593	11,030,113	297,309,779
<b>Intangible assets</b>	346,576	1,886,451	-	(182,275)	2,050,752
<b>Total capital assets, net</b>	\$ 345,162,714	\$ 12,254,399	\$ 2,163,593	\$ (182,275)	\$ 355,071,245
<b>Capital Asset Summary:</b>					
Capital assets not being depreciated	\$ 43,161,179	\$ 23,579,648	\$ -	\$ (11,030,113)	\$ 55,710,714
Other capital and intangible assets	608,216,120	10,512,332	3,091,919	10,847,838	626,484,371
	651,377,299	34,091,980	3,091,919	(182,275)	682,195,085
Less: accumulated depreciation	306,214,585	21,837,581	928,326	-	327,123,840
<b>Total capital assets, net</b>	\$ 345,162,714	\$ 12,254,399	\$ 2,163,593	\$ (182,275)	\$ 355,071,245

## Notes to the Consolidated Financial Statements (continued)

For the year ended June 30, 2010:

	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
<b>Capital assets not being depreciated:</b>					
Land	\$ 7,532,929	\$ 172,479	\$ -	\$ 111,824	\$ 7,817,232
Capitalized collections	16,827,043	305,014	9,130	37,220	17,160,147
Construction in progress	62,085,805	26,030,342		(69,932,347)	18,183,800
	86,445,777	26,507,835	9,130	(69,783,303)	43,161,179
<b>Other capital assets:</b>					
Land improvements	12,883,611	-	-	-	12,883,611
Infrastructure	6,759,119	-	-	10,427	6,769,546
Buildings	244,070,118	818,405	-	68,063,390	312,951,913
Building improvements	153,319,817	-	-	4,043,477	157,363,294
Furniture and equipment	58,931,694	7,821,996	3,794,692	(16,900)	62,942,098
Library materials	53,567,118	1,576,751	178,366	(20,320)	54,945,183
Livestock	13,899	-	-	-	13,899
	529,545,376	10,217,152	3,973,058	72,080,074	607,869,544
<b>Less accumulated depreciation for:</b>					
Land improvements	9,215,411	313,938	-	-	9,529,349
Infrastructure	14,082	168,999	-	-	183,081
Buildings	105,625,139	5,597,395	-	-	111,222,534
Building improvements	92,014,955	8,086,887	-	-	100,101,842
Furniture and equipment	35,282,324	5,036,348	3,673,494	-	36,645,178
Library materials	47,466,776	1,218,083	161,846	-	48,523,013
Livestock	7,977	1,611	-	-	9,588
	289,626,664	20,423,261	3,835,340	-	306,214,585
<b>Other capital assets, net</b>	239,918,712	(10,206,109)	137,718	72,080,074	301,654,959
<b>Intangible assets</b>	416,345	76,265	-	(146,034)	346,576
<b>Total capital assets, net</b>	<u>\$ 326,780,834</u>	<u>\$ 16,377,991</u>	<u>\$ 146,848</u>	<u>\$ 2,150,737</u>	<u>\$ 345,162,714</u>
<b>Capital Asset Summary:</b>					
Capital assets not being depreciated	\$ 86,445,777	\$ 26,507,835	\$ 9,130	\$ (69,783,303)	\$ 43,161,179
Other capital and intangible assets	529,961,721	10,293,417	3,973,058	71,934,040	608,216,120
	616,407,498	36,801,252	3,982,188	2,150,737	651,377,299
Less: accumulated depreciation	289,626,664	20,423,261	3,835,340	-	306,214,585
<b>Total capital assets, net</b>	<u>\$ 326,780,834</u>	<u>\$ 16,377,991</u>	<u>\$ 146,848</u>	<u>\$ 2,150,737</u>	<u>\$ 345,162,714</u>

## Notes to the Consolidated Financial Statements (continued)

### NOTE 9 – DEFERRED REVENUES

Deferred Revenues consisted of the following at June 30, 2011 and 2010:

	2011	2010
Grant and contract revenue received in advance	\$ 5,434,853	\$ 4,826,922
Summer session payments received in advance	3,356,453	3,472,810
Other deferred revenues	5,761,635	6,911,811
<b>Total deferred revenue</b>	<b>\$ 14,552,941</b>	<b>\$ 15,211,543</b>

### NOTE 10 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2011 and 2010:

	2011	2010
Compensation, benefits and related liabilities	\$ 19,584,954	\$ 16,514,647
Accrued interest expense	701,173	811,700
Accounts payable and other accrued liabilities	3,576,245	5,365,697
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 23,862,372</b>	<b>\$ 22,692,044</b>

### NOTE 11 – LONG-TERM LIABILITIES

The following tables present the changes in long-term liabilities for the years ended June 30, 2011 and 2010, respectively:

#### For the year ended June 30, 2011:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
<b>Bonds, notes and capital leases</b>					
Revenue bonds payable, net	\$ 128,850,651	\$ 49,146,995	\$ 54,182,752	\$ 123,814,894	\$ 6,115,000
Subordinated bonds payable	225,988	107,712	14,700	319,000	32,000
Notes payable	259,939	-	47,486	212,453	49,637
Capital leases payable	257,475	323,094	184,694	395,875	145,959
	129,594,053	49,577,801	54,429,632	124,742,222	6,342,596
<b>Other long-term liabilities</b>					
Accrued compensated absences	23,656,773	9,589,061	9,743,539	23,502,295	9,500,465
Advances from primary government	10,200,824	2,038,278	1,269,112	10,969,990	1,029,055
Other Post Employment Benefits	23,946,353	9,310,299	-	33,256,652	-
Due to Federal Government	10,322,154	-	64,849	10,257,305	-
	68,126,104	20,937,638	11,077,500	77,986,242	10,529,520
<b>Total long-term liabilities</b>	<b>\$ 197,720,157</b>	<b>\$ 70,515,439</b>	<b>\$ 65,507,132</b>	<b>\$ 202,728,464</b>	<b>\$ 16,872,116</b>

## Notes to the Consolidated Financial Statements (continued)

For the year ended June 30, 2010:

	Beginning Balance	Additions	Deductions	Ending Balance*	Current* Portion
<b>Bonds, notes and capital leases</b>					
Revenue bonds payable, net	\$ 134,356,945	\$ 268,387	\$ 5,774,681	\$ 128,850,651	\$ 5,550,000
Subordinated bonds payable	-	225,988	-	225,988	-
Notes payable	660,916	-	400,977	259,939	47,486
Capital leases payable	405,687	67,946	216,158	257,475	118,567
	135,423,548	562,321	6,391,816	129,594,053	5,716,053
<b>Other long-term liabilities</b>					
Accrued compensated absences	23,094,956	9,774,019	9,212,202	23,656,773	9,619,632
Advances from primary government	7,401,518	3,521,833	722,526	10,200,824	904,863
Other Post Employment Benefits	15,015,611	8,930,742	-	23,946,353	-
Due to Federal Government	10,198,697	123,457	-	10,322,154	-
Derivative financial instrument	2,094,500	-	2,094,500	-	-
	57,805,282	22,350,051	12,029,228	68,126,104	10,524,495
<b>Total long-term liabilities</b>	<b>\$ 193,228,830</b>	<b>\$ 22,912,372</b>	<b>\$ 18,421,044</b>	<b>\$ 197,720,157</b>	<b>\$ 16,240,548</b>

\*Restated

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 gave the counterparty the right to require that the University execute a floating-to-fixed swap in May 2011, based on a notional amount of \$47,000,000. Had the counterparty exercised its option, the University would have expected to issue Series K 2011 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.

Under terms of the swap, the University would have paid the counterparty a fixed rate substantially equal to the fixed rate on the refunded bonds and would have received a variable payment based on the one-month LIBOR rate, plus 30 basis points.

On December 21, 2009, the University terminated the swaption with the counterparty due to projected unfavorable long-term interest rates and the 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. The net loss is included in investment income reported at June 30, 2010.

## Notes to the Consolidated Financial Statements (continued)

### Capital Leases

The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2011:

<u>Fiscal Year</u>	<u>Total</u>
2012	\$ 168,506
2013	123,445
2014	76,473
2015	62,259
2016	9,450
Minimum lease payments	<u>\$ 440,133</u>
Less: Amount representing interest	<u>44,258</u>
Present value of net minimum lease payments	<u>\$ 395,875</u>

Assets acquired under capital leases consist mainly of photocopiers. Such assets are carried at \$1,240,838 with accumulated depreciation of \$769,152 as of June 30, 2011.

### **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, 2011 and 2010, was \$154,190,000 and \$168,411,780, respectively. The combined principal amount outstanding at June 30, 2011 and 2010 was 126,285,000 and \$130,639,997, 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. The final payment of Series C 1995 was made during FY11.

#### 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. In December, 2011, outstanding Series E bonds were advance refunded with the issuance of Series 2010 K during FY11.

#### 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

## Notes to the Consolidated Financial Statements (continued)

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).

In December, 2011, \$41,244,997 of Series F was advance refunded with the issuance of Series K 2010 Bonds, leaving a remaining outstanding balance of \$15,290,000.

### 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 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.

### Series K 2010

On October 21, 2010, the Board of Regents of Higher Education for the State of Montana authorized the University to issue a total of approximately \$65 million of Series K 2010 (Taxable and Tax Exempt) Refunding Revenue Bonds. The bonds were subsequently issued on December 6, 2010 in the amount of \$48,415,000. The interest rates on the Series K 2010 bonds range from 1.144% to 4.800%. Bond proceeds from the sale of the Series K 2010 bonds provided funds to legally defease all of the Series E and \$41,244,997 of the Series F bonds, and as a result, the liability for those bonds is no longer recorded in the consolidated financial statements. Prior to the advance refunding, the Series E 1998 bonds outstanding balance was \$5,760,000 and the Series F bonds outstanding balance was \$56,534,997. The Series K issuance provided funds to pay costs associated with the bond issuance.

The debt service cash flows for the Series K 2010 Revenue bonds (Refunding portion) are less than the debt service cash flow for the advanced refunded bonds by \$3,669,560. The economic gain for The University of Montana from the advanced refunding was \$2,980,499 (the difference between the present values of the debt service payments on the old and new debt).

### 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, 2011 and 2010, \$86,307,315 and \$43,221,810, respectively, of bonds outstanding were considered defeased.

## Notes to the Consolidated Financial Statements (continued)

## Revenue Bonds Payable

As of June 30, 2011 annual principal payments are as follows:

## Series F 1999

<b>Fiscal Year</b>	<b>Interest Rate</b>	<b>Principal</b>
2012	5.250%-5.350%	\$ -
2013	5.250%-5.550%	-
2014	5.375%-5.550%	-
2015	5.375%-5.750%	-
2016	5.750%	-
2017-2021	5.750 - 6.000%	-
2022-2024	5.750%	15,290,000
		15,290,000
Less unamortized discount:		143,951
		<u>\$ 15,146,049</u>

## Series G 2002

<b>Fiscal Year</b>	<b>Interest Rate</b>	<b>Principal</b>
2012	3.300-3.400%	\$ 445,000
2013	3.400-3.600%	460,000
2014	3.750%	475,000
2015	3.900%	495,000
2016	4.000%	515,000
2017-2021	4.100-4.600%	2,905,000
2022-2026	4.600-4.650%	3,625,000
2027-2031	4.650%	4,560,000
2032-2033	4.650%	2,140,000
		15,620,000
Less unamortized discount:		35,028
		<u>\$ 15,584,972</u>

## Series I 2004

<b>Fiscal Year</b>	<b>Interest Rate</b>	<b>Principal</b>
2012	3.500-4.750%	\$ 2,905,000
2013	4.750%	3,030,000
2014	4.750%	3,180,000
2015	3.700-3.750%	3,325,000
2016	3.750-4.375%	1,815,000
2017-2021	4.375%	435,000
2022-2026	4.375-4.500%	7,095,000
2027-2030	4.500%	1,780,000
		23,565,000
Add net unamortized premium:		749,569
		<u>\$ 24,314,569</u>

## Notes to the Consolidated Financial Statements (continued)

**Series J 2005**

<b>Fiscal Year</b>	<b>Interest Rate</b>	<b>Principal</b>
2012	4.500%	\$ 1,045,000
2013	4.250%	1,090,000
2014	4.500%	1,130,000
2015	4.000%	1,145,000
2016	4.500%	1,165,000
2017-2021	4.000-4.250%	6,540,000
2022-2026	4.000%	7,950,000
2027-2030	4.000-4.250%	4,350,000
		<u>24,415,000</u>
Add net unamortized premium:		38,359
		<u><u>\$ 24,453,359</u></u>

**Series K 2010**

<b>Fiscal Year</b>	<b>Interest Rate</b>	<b>Principal</b>
2012	1.144%-1.637%	1,720,000
2013	1.637%-2.545%	1,760,000
2014	2.545%-3.145%	1,800,000
2015	3.145%-3.634%	1,860,000
2016	3.634%-4.368%	3,560,000
2017-2021	3.984%-4.730%	29,840,000
2022	4.730%-4.800%	6,855,000
		<u>47,395,000</u>
Add unamortized premium:		231,367
		<u><u>\$ 47,626,367</u></u>

**Revenue Bond Payable Summary:**

Total revenue bonds outstanding	\$ 126,285,000
Add: Net unamortized premiums and discounts	840,316
Less: Unamortized loss on advance refunding	3,310,422
<b>Revenue bonds payable, net</b>	<u><u>\$ 123,814,894</u></u>

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

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Payment</b>
2012	\$ 6,115,000	\$ 5,546,397	\$ 11,661,397
2013	6,340,000	5,316,724	11,656,724
2014	6,585,000	5,062,272	11,647,272
2015	6,825,000	4,800,966	11,625,966
2016	7,055,000	4,547,402	11,602,402
2017-2021	39,720,000	18,382,604	58,102,604
2022-2026	40,815,000	8,187,544	49,002,544
2027-2031	10,690,000	1,829,047	12,519,047
2032-2033	2,140,000	150,428	2,290,428
<b>Total</b>	<u>\$ 126,285,000</u>	<u>\$ 53,823,384</u>	<u>\$ 180,108,384</u>

## Notes to the Consolidated Financial Statements (continued)

### NOTE 13 – SUBORDINATE BONDS PAYABLE

In August, 2009, The Board of Regents of Higher Education adopted the Bond Resolution for the 2009 Series I and 2009 Series II Facility Improvement Bonds and authorized The University of Montana to complete the sale and delivery of bonds in the amount of \$750,000 for the purpose of installing water backflow prevention devices on the University of Montana-Missoula campus. The Series I and II 2009 Bonds are subordinate obligations issued under Section 2.07(d) of The Indenture of Trust. The committed amounts for the Series I Bond and the Series II Bond are \$416,300 and \$333,700, respectively. Upon completion of the project and satisfaction of funding requirements, American Recovery and Reinvestment Act (ARRA) stimulus funds paid off the Series I bonds. The Series II bonds will be amortized over 10 years at a fixed rate of 1.75%. The bond proceeds are disbursed only for and after which costs have been incurred on the water improvement project. As of June 30, 2010, \$225,988 was disbursed from the Series I Bond. As of June 30, 2011 the remaining funds were disbursed, and the Series I Bond committed amount was repaid as described above. The outstanding balance of the Series II Bond at June 30, 2011 is \$319,000.

### NOTE 14 – NOTES PAYABLE

Notes payable at June 30, 2011 consisted of the following:

Description	Interest Rate	Maturity Date	Principal Outstanding	Current Maturities
Wells Fargo Bank	4.48%	1-May-15	212,453	49,637
<b>Total</b>			<b>\$ 212,453</b>	<b>\$ 49,637</b>

The scheduled maturities of the notes payable are as follows:

Fiscal Year	Principal	Interest	Total
2012	\$ 49,637	\$ 8,968	\$ 58,605
2013	51,886	6,719	58,605
2014	54,237	4,369	58,606
2015	56,693	4,369	61,062
<b>Total</b>	<b>\$ 212,453</b>	<b>\$ 24,425</b>	<b>\$ 236,878</b>

### NOTE 15 – 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 16 – ADVANCES FROM PRIMARY GOVERNMENT

Advances from the primary government are received through the Intercap Program and State Building Energy Conservation Program offered through the Montana Board of Investments and Montana Department of Environmental Quality, respectively. The Intercap program lends money to state agencies for the purpose of financing or refinancing the acquisition and installation of equipment or personal and real property and infrastructure improvements. The State Building Energy Conservation Program (SBECP) lends money to state agencies to fund projects that create energy cost savings for state owned buildings. The program is financed through GO Bonds, American Recovery and Reinvestment Act funds and state general fund appropriations.

The Montana Science and Technology Alliance (MSTA) loan originates from a loan that was originally issued in 1994, and has a remaining term of 51 years. The interest rates are variable and are adjusted annually.

## Notes to the Consolidated Financial Statements (continued)

Advances from Primary Government at June 30, 2011, are as follows:

Description	Interest Rate	Maturity	Principal
Intercap – Public Safety	Variable	15-Aug-16	\$ 109,505
Intercap – Forestry	Variable	15-Aug-14	380,236
Intercap – Public Safety	Variable	15-Feb-13	175,419
Intercap – ASUM	Variable	15-Feb-13	47,119
Intercap – Microwave Network	Variable	15-Aug-11	5,197
Intercap – ASUM	Variable	15-Feb-13	128,949
Intercap – Intercollegiate Athletics	Variable	15-Feb-14	156,248
Intercap – PE Electrical Repair	Variable	15-Feb-19	287,948
Intercap – Facility Services	Variable	15-Aug-24	461,943
Intercap – Information Systems	Variable	15-Feb-17	870,571
Intercap – Facility Services	Variable	15-Feb-20	226,316
Intercap – ASUM	Variable	15-Feb-14	171,143
Intercap – KUFM Software	Variable	15-Feb-16	38,061
Intercap – Van Replacements	Variable	15-Feb-16	88,542
Intercap – Suburbans	Variable	15-Aug-16	99,078
SBECP Project Loan-Central Heating	8.814%	1-Aug-12	57,028
SBECP Project Loan-Health Sci GWC	5.279%	14-Feb-22	159,631
SBECP Project Loan-Health Sci Phase II	8.508%	15-Feb-24	53,812
SBECP Project Loan-Campus Steam Trap	3.000%	1-Feb-16	151,897
SBECP Project Loan-UM Skaggs Bldg	3.000%	1-Aug-27	144,132
SBECP Project Loan-Education Bldg	3.000%	1-Feb-26	221,287
SBECP Project Loan-Bio Research	3.000%	1-Feb-30	173,057
SBECP Project Loan-Anderson Bldg	3.000%	1-Feb-26	78,207
SBECP Project Loan-Fine Arts Bldg	3.000%	1-Feb-27	259,630
SBECP Project Loan-Music Bldg	3.000%	1-Feb-26	309,756
SBECP Project Loan-Campus Lighting	3.000%	1-Feb-26	52,513
SBECP Project Loan-Mansfield	0.000%	1-Aug-18	521,617
SBECP Project Loan-Law Lighting	0.000%	1-Aug-17	65,758
SBECP Project Loan-Chemistry Steam Trap	0.000%	1-Aug-15	35,331
SBECP Project Loan-Western Library	3.295%	15-Feb-13	3,144
SBECP Project Loan-Wood-fired Boiler	5.829%	15-Feb-22	779,722
SBECP Project Loan-Boiler Plant	7.832%	14-Feb-12	1,855
SBECP Project Loan-Library Admin & SU	3.000%	1-Feb-30	230,598
SBECP Project Loan-IT Woods	3.000%	1-Feb-31	41,025
SBECP Project Loan-UMW Campus Lighting	3.000%	1-Aug-24	76,075
SBECP Project Loan-Block Hall Windows	3.000%	1-Aug-28	5,200
SBECP Project Loan-UMW Upper Gym	0.000%	1-Aug-16	9,582
SBECP Project Loan-UMW Block Hall	0.000%	1-Aug-20	128,894
SBECP Project Loan-Tech Chemistry	9.025%	15-Feb-12	5,503
SBECP Project Loan-Tech Mining & Geol	3.000%	1-Feb-26	400,000
SBECP Project Loan-Tech Health PE Bldg	3.000%	1-Aug-17	135,625
SBECP Project Loan-Tech Health Sciences	3.000%	1-Aug-25	130,890
SBECP Project Loan-UMH Energy Upgrade	5.402%	30-Jun-26	60,618
SBECP Project Loan-Donaldson Energy	3.000%	19-Oct-28	43,538
MSTA loan-Research Offices	Variable	30-Jun-61	3,387,790
			<u>10,969,990</u>
Less Current Maturities			1,029,055
<b>Total</b>			<u><u>\$ 9,940,935</u></u>

## Notes to the Consolidated Financial Statements (continued)

The scheduled maturities of the Intercap loans, SBCEP loans and MSTA loan are as follows:

Fiscal Year	Principal	Interest	Total Payment
2012	\$ 1,029,055	\$ 290,835	\$ 1,319,890
2013	1,015,103	267,321	1,282,424
2014	889,050	240,520	1,129,570
2015	740,158	218,279	958,437
2016	694,366	200,543	894,909
2017-2021	2,311,800	776,465	3,088,265
2022-2026	1,390,911	476,978	1,867,889
2027-2031	415,633	340,916	756,549
2032-2036	304,676	295,324	600,000
2037-2041	344,669	255,331	600,000
2042-2046	389,912	210,088	600,000
2047-2051	441,094	158,906	600,000
2052-2056	498,994	101,006	600,000
2057-2061	504,569	35,029	539,598
<b>Total</b>	<b>\$ 10,969,990</b>	<b>\$ 3,867,541</b>	<b>\$ 14,837,531</b>

### NOTE 17 – 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 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 2011 and 2010 expressed as a percentage of covered payrolls were as follows:

	2011			2010		
	Covered Payroll	Employee	Employer	Covered Payroll	Employee	Employer
PERS	\$ 45,547,015	6.90%	7.17%	\$ 44,637,406	6.90%	7.19%
GWPORS	\$ 759,378	10.56%	9.00%	\$ 781,690	10.56%	9.00%
TRS	\$ 16,843,932	10.62%	9.85%	\$ 18,138,298	9.35%	9.90%

## Notes to the Consolidated Financial Statements (continued)

The amounts contributed to the plan during years ending June 30, 2011, 2010, and 2009, were equal to the required contribution each year. The amounts contributed were as follows:

	<u>Year ending June 30,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b><u>PERS</u></b>			
Employer	\$ 3,265,827	\$ 3,207,986	\$ 3,036,969
Employee	\$ 3,142,905	\$ 3,079,336	\$ 2,980,089
<b><u>GWPORS</u></b>			
Employer	\$ 68,344	\$ 70,352	\$ 65,434
Employee	\$ 80,190	\$ 82,547	\$ 76,777
<b><u>TRS</u></b>			
Employer	\$ 1,658,457	\$ 1,795,830	\$ 1,813,832
Employee	\$ 1,789,608	\$ 1,696,659	\$ 1,598,098

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>2011</u>	<u>2010</u>
<b><u>FACULTY</u></b>		
Covered Payroll	\$ 77,727,923	\$ 74,496,939
Employer Contributions	\$ 4,629,475	\$ 4,437,038
Percent of Covered Payroll	5.956%	5.956%
Employee Contributions	\$ 5,467,506	\$ 5,241,646
Percent of Covered Payroll	7.034%	7.036%
<b><u>STAFF</u></b>		
Covered Payroll	\$ 9,208,815	\$ 8,875,656
Employer Contributions	\$ 413,476	\$ 398,517
Percent of Covered Payroll	4.490%	4.49%
Employee Contributions	\$ 635,408	\$ 610,830
Percent of Covered Payroll	6.900%	6.88%

## Notes to the Consolidated Financial Statements (continued)

For the years ended June 30, 2011 and 2010, 4.72%, or \$3,668,758 and \$3,516,792, respectively, was contributed to TRS from ORP faculty employer contributions to amortize past service unfunded liability in accordance with state law. In addition, 2.68%, or \$246,796 and \$238,230, 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 18 – 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. OPEB's 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 MUSGIP 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 \$556 to \$1,051 for medical coverage and decrease when a retiree becomes Medicare eligible. Medicare enrolled retiree premium rates range from \$140 to \$741. Retirees can also elect optional dental and vision coverage. The MUSGIP does not issue a stand-alone financial report but is reported as an enterprise fund in the State of Montana Comprehensive Annual Financial Report (CAFR) which can be viewed online at <http://accounting.mt.gov/cafr/cafr.asp>.

**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, 2011 and 2010, 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:

	2011	2010
Annual required contribution	\$ 8,292,578	\$ 8,292,578
Interest on net OPEB obligation	1,017,721	638,164
Annual OPEB cost (expense)	9,310,299	8,930,742
Contributions made	-	-
Increase in OPEB obligation	9,310,299	8,930,742
Net OPEB Obligation Beginning Balance	23,946,353	15,015,611
Net OPEB Obligation Ending Balance	\$ 33,256,652	\$ 23,946,353
Percentage of annual OPEB cost contributed	0.00%	0.00%

## Notes to the Consolidated Financial Statements (continued)

The actuarial determination was based on plan information as of July 1, 2009. 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 2,912. The total inactive (retiree and dependent) participants was 956. As of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$80,475,030, all of which was unfunded and is being amortized as a level dollar amount over an open basis of 30 years. The total amount contributed for active participants to the self insured health insurance plan by the University during fiscal 2011 and 2010 was \$26,261,365.56 and \$24,121,154.52, respectively, on annual covered payroll for the most recent actuarial valuation of \$167,395,949. The AAL as a percentage of annual covered payroll was 48.07%. The University does not contribute to the plan for its retirees. Currently, the University is not required to fund the ARC.

Required supplemental information immediately following the notes to the financial statements presents a schedule of funding status and the actuarial assumptions used for the actuarial valuations completed in fiscal 2007 and 2009.

**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 following actuarial assumptions were used in addition to marital status at retirement, mortality rates and retirement age:

<u>Actuarial Valuation Date:</u>	<u>July 1, 2009</u>
Interest/Discount rate	4.25%
Projected payroll increases	2.50%
Participant Percentage:	
Future retirees assumed to elect coverage at retirement	55.00%
Future eligible spouses of future retirees assumed to elect coverage	60.00%

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.

### NOTE 19 – 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, 2011 is \$180,108,384 with annual debt service requirements ranging from \$11.7 million in 2012 to \$1.1 million in 2033, the final year of repayment.

## Notes to the Consolidated Financial Statements (continued)

A schedule of revenues pledged as security for revenue bonds is presented as follows at June 30, 2011 and 2010:

	2011		2010	
	Revenues Pledged as Security for Debt	Net Similar Revenues	Revenues Pledged as Security for Debt	Net Similar Revenues
Student fees	\$ 12,670,151	\$ 124,581,298	\$ 13,354,416	\$ 117,543,233
<u>Sales and services:</u>				
Events revenue	5,168,377		4,469,140	
Continuing education	2,069,287		2,513,064	
Residence life	523,119		575,842	
Student union facilities	536,998		532,585	
Other sources	67,232		4,221	
<i>Total sales and services</i>	<b>8,365,013</b>	<b>15,841,888</b>	<b>8,094,852</b>	<b>14,984,682</b>
Residence life	<b>14,410,101</b>	<b>14,414,725</b>	<b>13,491,257</b>	<b>13,438,896</b>
Food services	<b>12,723,133</b>	<b>12,737,142</b>	<b>11,512,829</b>	<b>11,521,033</b>
<u>Other auxiliary revenues:</u>				
Residence life	363,731		348,995	
Food services	936,145		728,494	
Student union facilities	531,823		231,195	
Student health services	972,817		877,570	
Parking	1,612,962		1,574,676	
Recreation facilities	839,472		853,715	
Bookstore	3,055,794		2,922,803	
Printing services	361,804		399,454	
Field house facilities	174,026		284,089	
Other sources	127,021		240,704	
<i>Total other auxiliary revenues</i>	<b>8,975,595</b>	<b>11,859,709</b>	<b>8,461,695</b>	<b>11,608,536</b>
Land grant revenue	<b>1,646,236</b>	<b>1,646,236</b>	<b>1,273,804</b>	<b>1,273,804</b>
Investment income	<b>545,274</b>	<b>5,214,416</b>	<b>470,226</b>	<b>905,164</b>
<b>Total pledged revenues</b>	<b>\$ 59,335,503</b>	<b>\$ 186,295,414</b>	<b>\$ 56,659,079</b>	<b>\$ 171,275,348</b>

### NOTE 20 – RISK MANAGEMENT

Due to the diverse risk exposure of the University and its constituent agencies, the insurance portfolio contains a comprehensive variety of coverage. Montana statutes, 2-9-101 through 305, MCA, and ARM 2-2-298, require participation of all state agencies in the self-insurance plan established by the Montana Department of Administration, Risk Management and Tort Defense Division (RMTDD). The self-insurance program includes coverage for tort 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 brokers, Alliant Insurance Services and Willis, 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 \$2,500 per occurrence retention.

## Notes to the Consolidated Financial Statements (continued)

**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. Montana Codes Annotated (2-9-108, MCA) limits awards for damages against the state to \$750,000 per claim, \$1,500,000 per occurrence.

**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 21 – COMMITMENTS AND CONTINGENCIES

At June 30, 2011, the University had the following outstanding commitments under major capital and maintenance projects:

Project	Budget Authorization	Total Expenditures through June 2011	Funding Source
Replace Block Hall Windows	\$ 178,450	\$ -	A&E/DEQ
Renovate IT Woods Classrooms	436,320	-	A&E
Replace IT Woods Mechanical	151,254	-	A&E
Main Hall Phase II	5,135,642	3,655,972	A&E
Campus Lighting Improves	143,490	-	A&E/DEQ
Fine Art Annex	230,000	-	A&E/ Institution
MGBldg HVAC Upgrade	2,131,808	1,942,113	LRBP & Plant Funds
Health Science Bldg Renovation	2,839,683	2,302,375	LRBP & Plant Funds
HPER Phase II	3,551,855	1,176,297	Intercap Loan & other campus funds
ISB 2nd Floor	790,555	707,250	Series J Revenue bonds
Improve LA Bldg Restroom Access	136,861	86,835	Code/DM
Biomass Boiler Repairs	100,000	19,887	DEQ
Mansfield Library Cooling	1,073,200	1,032,739	DEQ, Utility & Code/DM
Campus Energy Improvs I	243,000	43,140	DEQ & Energy Related/DM
Bio Research Energy Upgrade	207,985	173,057	LRBP & Plant Funds, DEQ
Skaggs Energy Upgrade	2,067,000	144,132	DEQ, Utility & Energy Related/DM
Education Bldg Energy Upgrade	315,993	300,291	DEQ, Utility & Energy Related/DM
Campus Lighting Energy Improvements	810,000	303,916	LRBP, DEQ, Utility & Energy Related/DM
Campus Lighting Energy Improves/Fire A	648,000	73,548	LRBP, DEQ, Utility & Energy Related/DM
Lighting Improvements Phase II	306,000	305,460	DEQ
Campus Steam Traps	180,666	151,897	DEQ
Campus Energy Improvs II	200,000	-	Energy Related/DM

## Notes to the Consolidated Financial Statements (continued)

Music Bldg Upgrades	817,000	812,629	DEQ, Utility & Energy Related/DM
Fine Arts Energy Upgrade	1,138,888	1,116,425	DEQ, Utility & Energy Related/DM
Replace Elevators Aber/Jesse H	800,000	758,782	Plant
Dining Services HVAC	950,000	718,052	Auxiliary Funds
La Peak Remodel to Country Sto	300,000	268,508	Auxiliary Funds
Aber Hall Room Renovations	149,500	-	Auxiliary Funds
UC Service Elevator Replacements	550,000	415,978	Auxiliary Funds
FLBS Directors House Remodel	140,000	139,626	Donations
FLBS Rse Support Bldg 10-86	272,500	248,951	Grant, Donations
COT Modular Acquisition & Site Work	294,000	129,146	Plant
McGill Bsmt Daycare Renovation	145,000	9,516	Plant, UM Funding
ARRA Skaggs CLNP Consolidation	240,000	15,228	Grant
Replacement of Ath. Production Equi	300,000	7,543	UM Funding
Biological Station Master Plan	550,000	528,022	Donations
Maintenance Shop-Residence Lif	500,000	498,930	Plant
Main Hall Network Wiring 2010	145,000	142,875	Plant
Gilkey Executive Education Ctr	7,500,000	413,238	Donations
Upgrade Steam Dist. Phase II	747,520	735,679	LRBP, Series J, Plant
Steam Tunnel Auxiliary	458,600	314,589	2005 Series J Revenue Bonds
Skaggs Basement Finish	900,000	809,083	Grants, ARRA Funds
ASUM Bus Barn	450,000	346,700	Intercap Loan
ARRA-Skaggs Basement Addition	200,600	155,239	Grant, ARRA Funds
Service Entry Backflow Devices/ARRA	1,328,844	738,000	ARRA Funds
COT Futures Park	135,000	13,500	Research & Development
	<u>\$ 40,890,214</u>	<u>\$ 21,755,148</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>
2012		\$ 327,418
2013		246,957
2014		204,303
2015		46,092
2016		27,660
		<u>\$ 852,430</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.

## Notes to the Consolidated Financial Statements (continued)

### NOTE 22– 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, 2011 and 2010, \$66,187 and \$ 77,189, 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.

The University contributed \$1.75 million in matching funds to MonTECH in conjunction with a grant awarded by U.S Economic Development Administration in fiscal year 2011. The total of the \$3.50 million from the matching funds and the grant will be used to undertake a renovation of MonTEC.

### NOTE 23 – 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, 2011 and 2010, the following was transferred to the University for scholarships, academic or institutional support or capital expenses by the University foundations: \$9,917,891 and \$10,883,656, respectively with The University of Montana Foundation (406-243-2593), \$2,763,797 and \$3,800,498, respectively, with the Montana Tech Foundation (406-496-4532); and \$322,344 and \$381,329 respectively, with The University of Montana-Western Foundation (406-683-7305). In addition, \$1,320,212 and \$1,315,000 was transferred from the Montana Grizzly Scholarship Association (406-243-6485) for the fiscal years ended June 30, 2011 and 2010, respectively. For the fiscal years ended June 30, 2011 and 2010, the University foundations also expended \$4.3 million and \$6.2 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, 2011 and 2010, the University provided \$495,840 and \$478,112, respectively, to its Foundations, which included payments for contracted services, capital campaign support and a lease payment of \$1 for a lake lodge used by The University of Montana-Missoula for conferences and other events.

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.

## Notes to the Consolidated Financial Statements (continued)

## STATEMENT OF FINANCIAL POSITION

June 30, 2011 and December 31, 2010

	University of Montana Foundation *	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association *	Elimination	Total
<b>ASSETS</b>						
Cash and investments	\$ 160,637,614	\$ 31,632,665	\$ 4,362,876	\$ 3,096,729	\$ (1,474,584)	\$198,255,300
Other receivables, net of allowances	7,044,878	2,624,085	-	53,666	-	9,722,629
Fixed assets, net of depreciation	3,857,132	216,469	42,227	3,842	-	4,119,670
Other assets	823,642	67	-	23,996	-	847,705
	<u>\$ 172,363,266</u>	<u>\$ 34,473,286</u>	<u>\$ 4,405,103</u>	<u>\$ 3,178,233</u>	<u>\$ (1,474,584)</u>	<u>\$212,945,304</u>
<b>LIABILITIES AND NET ASSETS</b>						
Current liabilities associated with operations	\$ 395,550	\$ 88,011	\$ 6,970	\$ 32,126	\$ -	\$ 522,657
Note payable – other	108,525	-	40,000	321,972	-	470,497
Long-term liabilities – other	241,466	-	-	-	-	241,466
Liabilities to external beneficiaries	2,914,112	55,675	-	-	-	2,969,787
Custodial funds	21,409,363	-	-	-	(1,474,584)	19,934,779
	<u>25,069,016</u>	<u>143,686</u>	<u>46,970</u>	<u>354,098</u>	<u>(1,474,584)</u>	<u>24,139,186</u>
Net assets – unrestricted	6,444,330	1,933,629	266,213	1,305,775	-	9,949,947
Net assets – restricted	140,849,920	32,395,971	4,091,920	1,518,360	-	178,856,171
	<u>147,294,250</u>	<u>34,329,600</u>	<u>4,358,133</u>	<u>2,824,135</u>	<u>-</u>	<u>188,806,118</u>
	<u>\$ 172,363,266</u>	<u>\$ 34,473,286</u>	<u>\$ 4,405,103</u>	<u>\$ 3,178,233</u>	<u>\$ (1,474,584)</u>	<u>\$212,945,304</u>

\* For the year ended June 30, 2011.

\*\*For the year ended December 31, 2010.

## STATEMENT OF FINANCIAL POSITION

June 30, 2010 and December 31, 2009

	University of Montana Foundation ***	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association *	Elimination	Total
<b>ASSETS</b>						
Cash and investments	\$ 135,561,481	\$ 24,279,859	\$ 4,119,197	\$ 2,535,144	\$ (1,436,049)	\$ 165,059,632
Other receivables, net of allowances	10,479,229	427,163	-	31,961	-	10,938,353
Fixed assets, net of depreciation	3,949,828	163,573	-	2,263	-	4,115,664
Other assets	801,751	-	-	48,992	-	850,743
	<u>\$ 150,792,289</u>	<u>\$ 24,870,595</u>	<u>\$ 4,119,197</u>	<u>\$ 2,618,360</u>	<u>\$ (1,436,049)</u>	<u>\$ 180,964,392</u>
<b>LIABILITIES AND NET ASSETS</b>						
Current liabilities associated with operations	\$ 248,314	\$ 92,001	\$ 7,899	\$ 7,887	\$ -	\$ 356,101
Note payable – other	-	-	40,000	357,118	-	397,118
Long-term liabilities – other	249,556	46,433	-	-	-	295,989
Liabilities to external beneficiaries	2,909,791	-	-	-	-	2,909,791
Custodial funds	17,896,198	-	-	-	(1,436,049)	16,460,149
	<u>21,303,859</u>	<u>138,434</u>	<u>47,899</u>	<u>365,005</u>	<u>(1,436,049)</u>	<u>20,419,148</u>
Net assets – unrestricted	161,371	1,755,621	261,639	933,348	-	2,925,297
Net assets – restricted	129,327,059	22,976,540	3,809,659	1,320,007	-	157,619,947
	<u>129,488,430</u>	<u>24,732,161</u>	<u>4,071,298</u>	<u>2,253,355</u>	<u>-</u>	<u>160,545,244</u>
	<u>\$ 150,792,289</u>	<u>\$ 24,870,595</u>	<u>\$ 4,119,197</u>	<u>\$ 2,618,360</u>	<u>\$ (1,436,049)</u>	<u>\$ 180,964,392</u>

\* For the year ended June 30, 2010.

\*\*For the year ended December 31, 2009.

\*\*\*Restated due to reclassification of net assets.

## Notes to the Consolidated Financial Statements (continued)

## STATEMENT OF ACTIVITIES

For the year ended June 30, 2011 or December 31, 2010

	University of Montana Foundation *	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association*	Total
<b>REVENUES</b>					
Contributions	\$ 8,354,388	\$ 7,730,342	\$ 613,770	\$ 1,738,463	\$ 18,436,963
Investment income and unrealized gain(loss) on investments	24,104,647	5,171,173	270,980	257,285	29,804,085
Administrative fees	437,477	-	-	-	437,477
Contract for services	425,000	194,906	27,884	422,184	1,069,974
Gain on sale of assets	-	(591)	-	-	(591)
Other income	1,673,696	4,450	18,850	-	1,696,996
	\$ 34,995,208	\$ 13,100,280	\$ 931,484	\$ 2,417,932	\$ 51,444,904
<b>EXPENSES</b>					
Program services	\$ 12,307,826	\$ 2,763,797	\$ 322,344	\$ 1,320,212	\$ 16,714,179
Supporting services	4,542,411	739,044	322,305	526,940	6,130,700
	\$ 16,850,237	\$ 3,502,841	\$ 644,649	\$ 1,847,152	\$ 22,844,879
Change in net assets before non-operating items	\$ 18,144,971	\$ 9,597,439	\$ 286,835	\$ 570,780	\$ 28,600,025
<b>NON-OPERATING EXPENSES</b>					
Payments to beneficiaries and change in liabilities due to external beneficiaries	339,151	-	-	-	339,151
Change in net assets	17,805,820	9,597,439	286,835	570,780	28,260,874
Net assets, beginning of fiscal year	\$ 129,488,430	\$ 24,732,161	\$ 4,071,298	\$ 2,253,355	\$ 160,545,244
Net assets, end of fiscal year	\$ 147,294,250	\$ 34,329,600	\$ 4,358,133	\$ 2,824,135	\$ 188,806,118

\* For the year ended June 30, 2011.

\*\*For the year ended December 31, 2010.

## STATEMENT OF ACTIVITIES

For the year ended June 30, 2010 or December 31, 2009

	University of Montana Foundation ***	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association*	Total
<b>REVENUES</b>					
Contributions	\$ 7,735,218	\$ 2,338,443	\$ 597,250	\$ 1,489,159	\$ 12,160,070
Investment income and unrealized gain(loss) on investments	14,151,658	2,920,702	408,240	110,970	17,591,570
Administrative fees	440,664	-	-	-	440,664
Contract for services	400,000	252,754	21,246	394,361	1,068,361
Loss on sale of assets	6,501	88,105	-	-	94,606
Other income	1,751,761	3,537	22,700	-	1,777,998
	\$ 24,485,802	\$ 5,603,541	\$ 1,049,436	\$ 1,994,490	\$ 33,133,269
<b>EXPENSES</b>					
Program services	\$ 13,608,548	\$ 3,800,498	\$ 381,329	\$ 1,315,000	\$ 19,105,375
Supporting services	4,120,385	679,466	292,091	447,940	5,539,882
	\$ 17,728,933	\$ 4,479,964	\$ 673,420	\$ 1,762,940	\$ 24,645,257
Change in net assets before non-operating items	\$ 6,756,869	\$ 1,123,577	\$ 376,016	\$ 231,550	\$ 8,488,012
<b>NON-OPERATING EXPENSES</b>					
Payments to beneficiaries and change in liabilities due to external beneficiaries	(86,509)	-	-	-	(86,509)
Reclassification of Net Assets	2,179,839	-	-	-	2,179,839
Change in net assets	8,850,199	1,123,577	376,016	231,550	10,581,342
Net assets, beginning of fiscal year	\$ 120,638,231	\$ 23,608,584	\$ 3,695,282	\$ 2,021,805	\$ 149,963,902
Net assets, end of fiscal year	\$ 129,488,430	\$ 24,732,161	\$ 4,071,298	\$ 2,253,355	\$ 160,545,244

\* For the year ended June 30, 2010.

\*\*For the year ended December 31, 2009.

\*\*\*Restated due to net asset and program reclassifications.

### 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, 2010 and 2009. The financial information for all the other component units is as of June 30, 2011 and 2010.

	<b>Fair Market Value</b>	
	<b>2011</b>	<b>2010</b>
<b>Investments held by component units:</b>		
Stocks and bonds	\$ 153,564,210	\$ 131,018,056
Money market and certificates of	763,019	1,148,447
Hedge funds	16,801,232	14,641,981
Alternative investments	15,538,715	10,210,100
Real property	472,546	472,546
Other	1,878,250	1,685,859
	<u>\$ 189,017,972</u>	<u>\$ 159,176,989</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, 2011, were as follows:

Functional Classification:	Natural Classification							Total
	Compensation & benefits	OPEB*	Supplies & other services	Utilities	Communication	Scholarships	Depreciation	
Instruction	\$ 94,978,259	\$ 3,297,285	\$ 9,054,991	\$ 25,076	\$ 447,712	\$ -	\$ -	\$ 107,803,323
Research	36,372,264	1,205,211	14,890,052	35,436	213,939	-	-	52,716,902
Public service	11,255,826	445,950	4,868,169	11,504	125,338	-	-	16,706,787
Academic support	23,078,569	858,950	9,019,201	1,030	238,934	-	-	33,196,684
Student services	16,983,990	818,313	8,237,124	22,531	354,882	-	-	26,416,840
Institutional support	19,976,446	855,409	6,864,006	-	630,390	-	-	28,326,251
Operation and maintenance of plant	13,062,584	684,620	9,084,117	7,234,423	154,606	-	-	30,220,350
Scholarships and fellowships	-	-	-	-	-	30,097,552	-	30,097,552
Auxiliary enterprises	23,591,593	1,144,561	13,473,413	3,855,839	231,061	-	-	42,296,467
Depreciation	-	-	-	-	-	-	22,019,856	22,019,856
	<u>\$ 239,299,531</u>	<u>\$ 9,310,299</u>	<u>\$ 75,491,073</u>	<u>\$ 11,185,839</u>	<u>\$ 2,396,862</u>	<u>\$ 30,097,552</u>	<u>\$ 22,019,856</u>	<u>\$ 389,801,012</u>

\*Other Post Employment Benefits

The University's operating expenses by natural and functional classifications for the year ended June 30, 2010, were as follows:

Functional Classification:	Natural Classification							Total
	Compensation & benefits	OPEB*	Supplies & other services	Utilities	Communication	Scholarships	Depreciation	
Instruction	\$ 92,394,274	\$ 3,147,907	\$ 7,703,591	\$ 33,643	\$ 461,651	\$ -	\$ -	\$ 103,741,066
Research	37,030,043	1,169,854	15,364,382	69,757	252,024	-	-	53,886,060
Public service	10,119,838	392,953	4,645,342	2,649	118,879	-	-	15,279,661
Academic support	22,264,237	808,036	7,767,933	-	266,312	-	-	31,106,518
Student services	16,087,896	780,597	7,609,740	5,505	440,627	-	-	24,924,365
Institutional support	20,423,415	838,692	6,611,023	-	682,415	-	-	28,555,545
Operation and maintenance of plant	13,003,663	656,080	9,441,367	6,172,216	262,170	-	-	29,535,496
Scholarships and fellowships	-	-	-	-	-	25,717,106	-	25,717,106
Auxiliary enterprises	23,445,619	1,136,623	12,558,115	3,821,354	250,930	-	-	41,212,641
Depreciation	-	-	-	-	-	-	20,569,295	20,569,295
	<u>\$ 234,768,985</u>	<u>\$ 8,930,742</u>	<u>\$ 71,701,493</u>	<u>\$ 10,105,124</u>	<u>\$ 2,735,008</u>	<u>\$ 25,717,106</u>	<u>\$ 20,569,295</u>	<u>\$ 374,527,753</u>

\*Other Post Employment Benefits

# The University of Montana

## Required Supplementary Information

### Schedule of Funding Status for Other Post Retirement Benefits for Health Insurance

The funded status of the plan as of the actuarial valuations dated July 1, 2007 and 2009 were as follows:

	<u>2007</u>	<u>2009</u>
Actuarial accrued liability (AAL)	\$ 78,187,418	\$ 80,475,030
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 78,187,418</u>	<u>\$ 80,475,030</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%	0.00%
Covered payroll (active plan members)	\$ 122,541,536	\$ 167,395,949
UAAL as a percentage of covered payroll	63.80%	48.07%

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.

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

<u>Actuarial Valuation Date:</u>	<u>July 1, 2007</u>	<u>July 1, 2009</u>
Interest/Discount rate	4.25%	4.25%
Projected payroll increases	3.00%	2.50%
Participant Percentage:		
Future retirees assumed to elect coverage at retirement	45.00%	55.00%
Future eligible spouses of future retirees assumed to elect coverage	59.00%	60.00%

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

<u>DESCRIPTION</u>	<u>Fall 2010</u>	<u>Fall 2009</u>	<u>Fall 2008</u>	<u>Fall 2007</u>	<u>Fall 2006</u>	<u>Fall 2005</u>
Enrollment (Headcount) <sup>1</sup>	21,371	20,248	18,979	18,417	18,383	17,919
	<u>FY2011</u>	<u>FY2010</u>	<u>FY2009</u>	<u>FY2008</u>	<u>FY2007</u>	<u>FY2006</u>
Enrollment (FTE) <sup>2</sup>						
Colleges of Technology	3,304	3,018	2,560	2,358	2,121	2,055
Undergraduate	13,789	13,181	12,565	12,223	12,167	11,985
Graduate	1,950	1,900	1,805	1,837	1,777	1,747
Enrollment (FTE) <sup>2</sup>						
In-State students	14,749	14,090	13,066	12,557	12,354	12,215
Out-of-State students	3,141	2,958	2,905	2,927	2,732	2,710
Western Undergraduate Exchange	1,149	1,051	959	934	979	862
	<u>FY2011</u>	<u>FY2010</u>	<u>FY2009</u>	<u>FY2008</u>	<u>FY2007</u>	<u>FY2006</u>
Employees (FTE) - All Funds <sup>2</sup>						
Contract Faculty	1,112	1,073	1,044	1,033	1,003	993
Contract Admin & Professional	543	515	502	470	455	386
Classified	1,349	1,319	1,311	1,317	1,294	1,283
GTA/GRA	188	178	174	164	170	173
Part Time and Other	583	558	530	553	399	403
	<u>School Year Ended</u>					
	<u>6/30/2011</u>	<u>6/30/2010</u>	<u>6/30/2009</u>	<u>6/30/2008</u> <sup>4</sup>	<u>6/30/2007</u>	<u>6/30/2006</u>
Degrees Granted <sup>3</sup>						
Certificate	182	149	234	189	163	102
Associate	555	522	455	429	481	478
Undergraduate	2,535	2,292	2,177	2,151	2,074	2,034
Graduate	802	723	751	741	705	711

<sup>1</sup> Source: MUS Data Warehouse

<sup>2</sup> Source: CHE Operating Reports 2006-2011

<sup>3</sup> Source: IPEDS Completion Reports 2006-2011

<sup>4</sup> Restated



THE UNIVERSITY OF  
MONTANA

UNIVERSITY RESPONSE



The University of  
**Montana**

B-1

Office of the President  
The University of Montana  
Missoula, Montana 59812-3324  
Office: (406) 243-2311  
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January 4, 2012

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**JAN 06 2012**

**LEGISLATIVE AUDIT DIV.**

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

Dear Ms. Hunthausen,

On behalf of The University of Montana community, I want to extend our appreciation to you and the Legislative Audit staff for their work on The University of Montana's Financial Statement Audit for the fiscal year ending June 30, 2011. We find this process to be helpful. The work by the Legislative Auditor has been professional and a cooperative process. The University takes accountability and stewardship of all funds with the utmost importance.

Again, thank you and your staff for their assistance and attentive efforts.

Sincerely,

Royce C. Engstrom,  
President

RCE/kc  
Englet316

c: S. Stearns, Commissioner of Higher Education

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