



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

University of Montana

*For the Fiscal Year Ended
June 30, 2013*

DECEMBER 2013

LEGISLATIVE AUDIT
DIVISION

13-10

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FINANCIAL AUDITS

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

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

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

December 2013

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on the University of Montana's (university) consolidated financial statements for the fiscal year ended June 30, 2013. The statements include comparative information for the fiscal year ended June 30, 2012. The statements include component unit financial information. This report does not contain any recommendations to the university.

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>
Board of Regents of Higher Education	Angela McLean, Chair	February 1, 2017
	Paul Tuss, Vice Chair	February 1, 2020
	Fran M. Albrecht	February 1, 2019
	Todd Buchanan	February 1, 2014
	Jeffrey Krauss	February 1, 2015
	Major Robinson	February 1, 2018
	Zachary Rogala, Student Regent	June 30, 2014
	Clayton Christian, Commissioner of Higher Education*	
	Steve Bullock, Governor*	
	Denise Juneau, Superintendent of Public Instruction*	
	*Ex officio members	

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

University of Montana	Royce C. Engstrom	President
University of Montana–Missoula	Perry J. Brown	Provost and Vice President for Academic Affairs, University Provost
	Teresa S. Branch	Vice President for Student Affairs, University Vice President
	Peggy Kuhr	Vice President for Integrated Communication
	Michael Reid	Vice President for Administration & Finance, University Vice President
	Scott Whittenburg	Vice President for Research & Creative Scholarship, University Vice President
	Matthew Riley	Chief Information Officer
	Lucy France	Legal Counsel
	John McCormick	Interim Director, Business Services
Montana Tech of the University of Montana	Donald M. Blackketter	Chancellor, University Executive Vice President
	Doug Abbott	Vice Chancellor for Academic Affairs, University Associate Vice President
	Beverly Hartline	Vice Chancellor for Academic Affairs and Research, Dean of Graduate School and University Associate Vice President
	Margaret Peterson	Vice Chancellor for Administration and Finance, University Associate Vice President
	Paul Beatty	Associate Vice Chancellor for Student Affairs, Dean of Students
	John Badovinac	Controller/Business Manager, Post-Retirement
	Carleen Cassidy	Director, Sponsored Programs and Grant Accounting
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	Controller

**Helena College
University of
Montana**

Daniel Bingham	Dean/CEO
Denise Runge	Associate Dean for Academic Affairs
Elizabeth Stearns-Sims	Assistant Dean for Student Services
Russ Fillner	Assistant Dean for Fiscal and Plant Operations
Valerie Curtin	Director of Financial Aid

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL AUDIT

University of Montana

For the Fiscal Year Ended June 30, 2013

DECEMBER 2013

13-10

REPORT SUMMARY

The University of Montana is comprised of University of Montana–Missoula, Montana Tech of the University of Montana, University of Montana–Western, and Helena College University of Montana. Enrollment of full-time equivalent students continued to decline in fiscal year 2013 to 17,877 from 18,709 and 19,039 in fiscal year 2012, and fiscal year 2011, respectively, resulting in a continued decrease in tuition and fees revenue.

Context

The annual financial statement audit of the University of Montana (university) is performed to supply relevant and timely audited financial statements to interested parties. Financial audits provide an independent assessment of whether the university's financial statements reliably represent the financial position of university as of June 30, 2013.

The financial statements in this report also contain information regarding the financial activity of the university-related foundations supporting the Missoula, Montana Tech, Western, and Helena College campuses and the Grizzly Scholarship Association. These component units had net assets of \$230 million at June 30, 2013.

Between fiscal years 2013 and 2012, the university incurred an \$8.5 million decline in net position. The fall in net position reflects the continued decrease in the number of full-time equivalent students.

There were no new bond issues for fiscal year 2013. As such, long-term debt obligations declined by approximately \$5.6 million between fiscal years 2013 and 2012.

Results

We issued an unmodified opinion on the university's financial statements and the combined financial statements of the university's component units.

Readers of this report can rely on financial information included in our report as a basis for financial decisions. The audit report does not contain any findings or recommendations.

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

For a complete copy of the report (13-10) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>

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

Chapter I – Introduction

Audit and Objectives

We performed a financial audit of the University of Montana (university) for the fiscal year ended June 30, 2013. The objective of the audit was to determine whether the university's financial statements present fairly its net position at June 30, 2013, and 2012, and the changes in net 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. We also issued a biennial financial-compliance audit in October 2013 covering the university's compliance with selected state and federal laws and regulations for the two-year period ended June 30, 2013.

Background

The University of Montana consists of four campuses:

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

University of Montana-Missoula 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 the two-year Missoula and Bitterroot colleges, which provide a broad range of technical and occupational education and training courses. Students of these two colleges receive either a certificate of completion or a two-year degree upon completion of a program.

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

University of Montana-Western 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.

Helena College University of Montana is 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 Helena College serves approximately 1,500 students each semester.

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
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the university's aggregate discretely presented component units. Those statements, which include 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 other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the university's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the university's

internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

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

Opinion

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

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. 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 applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 12, 2013

UNIVERSITY OF MONTANA

UNIVERSITY OF MONTANA - MISSOULA

UNIVERSITY OF MONTANA - WESTERN

HELENA COLLEGE UNIVERSITY OF MONTANA

MONTANA TECH OF THE UNIVERSITY OF MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR ENDED JUNE 30, 2013 OVERVIEW

The University of Montana (University) is comprised of four campuses: University of Montana - Missoula; University of Montana - Western; Helena College University of Montana; 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 Position; the Statement of Revenues, Expenses, and Changes in Net Position; 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, 2013, 2012, and 2011 and should be read in conjunction with the fiscal year 2013 financial statements.

FINANCIAL HIGHLIGHTS

The financial highlights for fiscal year 2013 were:

- The University continued to experience a declining trend in enrollment, seeing full time equivalent students (FTE) decline by 832 from 18,709 FTE in FY12 to 17,877 in FY13. While enrollment increased at the University of Montana – Western by 73 FTE, the other campuses saw their enrollments drop by a total of 935 FTE. The majority of the decline in enrollment was in in-state students, which decreased by 622 FTE, though, enrollment of out-of-state students declined by 207 FTE. As a result, Tuition and Fee revenue declined by almost \$2.0 million in FY13, or 1.6% compared to the prior year. The decrease was partially mitigated by a 5% across the board increase in tuition at the four year institutions, increasing revenue by almost \$3.7 million.
- During the bargaining cycle completed in FY12, an agreement was reached between the various unions representing faculty and classified staff to increase compensation. In FY13 the negotiated pay increase was 2% plus, \$500. Classified staff not covered by union representation, administrators, and contract professionals, were also eligible for similar increases. The pay increases totaled almost \$7.0 million and were funded primarily by an increase in tuition for resident and nonresident students.
- HB 5 passed by the 2013 Legislative Session provided \$38.0 million to fund three significant construction projects on University of Montana campuses: \$29.0 million to construct a new facility for the Missoula College University of Montana; \$4.0 million for Phase 3 of the Main Hall renovation at the University of Montana – Western; \$5.0 million to construct an addition to the Natural Resource Center at Montana Tech of the University of Montana.
- In FY13, the Montana University System and the governor reached an agreement, referred to as the College Affordability Plan (CAP), to freeze resident tuition for FY14 and FY15, contingent on new funding for inflationary costs and adequate funding for faculty and staff pay raises in HB13. The 2013 Legislature appropriated sufficient funding to implement the CAP agreement. Non-resident student tuition was not frozen and will increase 3% in both FY14 and FY15.

- The University continues to receive an indicative credit ratings of A+ and A1 from Standard and Poor's and Moody's, respectively.

The financial highlights for fiscal year 2012 were:

- In FY12, the University issued Series L 2012 Revenue Bonds in the amount of \$39,415,000 to advance refund all of the \$15,290,000 outstanding Series F 1999 Bonds, all of the \$15,175,000 outstanding Series G 2002 Bonds and a portion of the outstanding Series I 2004 Bonds. The advance refunding will realize a debt service cash flow savings of \$6,589,962, 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.
- After increasing steadily over the past 5 years, enrollment of full time equivalent (FTE) students at the University declined by 330 students in FY12, dropping from 19,039 FTE in FY11 to 18,709 FTE in FY12. The majority of the decline in enrollment was in in-state students, which decreased by 318 FTE. The decline in tuition and fee revenue due to the drop in in-state enrollment was mitigated to a large extent, by an increase of 30 FTE in out-of-state students and increase in mandatory fees at the University's four year institutions. Overall, tuition and fee revenue dropped by less than 1%.
- The appropriation by the 2011 session of the Montana Legislature to the Montana University System (MUS) in the fiscal 2013 biennium declined by over 3.0% as a percentage of total budgeted revenues for the 2 year period. In addition, a pay plan was not passed during the 2011 legislative session nor was a pay plan passed in the 2009 Legislative session for the Fiscal 2011biennium. To address this issue, during the most recent bargaining cycle, agreements were reached between the various unions representing faculty and classified staff to increase compensation. The agreements with the various unions specified a 1% pay increase plus, \$500 in FY12 and a 2% pay increase plus, \$500 in FY13. Classified staff not covered by union representation, administrators, and contract professionals, were also eligible for similar increases. The pay increases are being funded by an increase in mandatory fees for resident and nonresident students.
- The University received an indicative credit ratings of A+ and A1 from Standard and Poor's and Moody's, respectively.

USING THE FINANCIAL STATEMENTS

The University's financial statements consist of the following three statements: Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, 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 Position 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 Position 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 POSITION

The Statement of Net Position reflects the financial position of the University at the end of the fiscal year. The changes in net position that occur over time indicate improvements or deterioration in the University’s financial position. A summary of the Statement of Net Position follows:

<u>Description</u>	For the years ended June 30, (stated in millions)		
	2013	2012	2011
Total current assets	\$ 105.26	\$ 93.03	\$ 99.98
Total non-current assets	441.97	434.39	418.20
Total assets	\$ 547.23	\$ 527.42	\$ 518.18
Total current liabilities	\$ 82.80	\$ 55.80	\$ 58.88
Total non-current liabilities	192.10	190.78	185.85
Total liabilities	\$ 274.90	\$ 246.58	\$ 244.73
Net invested in Capital Assets	\$ 224.18	\$ 223.81	\$ 226.56
Restricted:			
Nonexpendable	20.93	19.81	20.67
Expendable	6.12	6.07	5.69
Unrestricted	21.10	31.15	20.53
Total net position	\$ 272.33	\$ 280.84	\$ 273.45

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

Events or developments which occurred during 2013 include:

- Current assets increased by over \$12.2 million, largely from a \$19.3 million increase in securities lending collateral allocated to the University by the Montana Board of Investments at FYE, which was offset by a \$6.2 million decrease in cash and cash equivalents. Significant transactions contributing to the net decrease in cash and cash equivalents in FY13, include the purchase of \$18.5 million in intermediate term investments; payment of \$10.0 million to purchase capital assets, net of loan proceeds; and \$13.6 million in principal and interest payments made on long term debt, which together offset the \$33.1 million in cash and cash equivalents provided by operating and non-operating activities. Other less significant increases and decreases in current assets account for the remaining change in current assets.

- Noncurrent assets increased by \$7.6 million primarily from an increase in long term investments of over \$18.3 million, offset in part by a net decrease in capital assets of \$10.6 million. In FY13, the University purchased \$18.5 million of additional intermediate term investments acquired largely with available cash reserves. The net decrease in capital assets of \$10.6 million resulted from an increase in accumulated depreciation of \$23.5 million, which exceeded the increase in capital assets of \$12.9 million.
- Current liabilities increased by over \$27.0 million due almost entirely to a \$19.3 million increase in the securities lending liability allocated to the University at FYE by the Montana Board of Investments, and an increase in payroll related liabilities of \$8.1 million accrued at fiscal year end. Other less significant changes to other current liability classifications, also affected the net decrease in current liabilities.
- The increase in noncurrent liabilities of \$1.3 million is due largely to an increase in the liability for other post employment benefits (OPEB) of \$6.9 million, which is the annual amortization, plus interest, 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*, offset by a net decrease in long-term debt of \$6.4 million.
- The University's overall net position decreased by over \$8.5 million in FY13, in contrast to the \$7.5 million increase in net position recorded in the prior year. The decrease was largely due to a \$10.1 million decrease in unrestricted net position, which was significantly affected by a decline in tuition and fee revenues of close to \$2.0 million, and an increase of almost \$8.8 million in compensation and benefits expense.

Events or developments which occurred during 2012 include:

- Current assets decreased by close to \$7.0 million, due largely to a net decrease in cash and cash equivalents of \$11.5 million. Increases in cash and cash equivalents from operations and other sources were offset by the purchase of approximately \$20.0 million of long term investment, acquired in part from available cash reserves, and the disbursement of almost \$8.0 million near year end to fund monthly, biweekly and student payrolls. In FY11, disbursements to fund year end payrolls did not occur until the first month of FY12. The large decrease in cash and cash equivalents was offset in part, by a \$3.9 million increase in securities lending collateral and other less significant changes in other current assets.
- Noncurrent assets increased by \$16.2 million largely from the net increase in long term investments of close to \$18.0 million. During the year, the University purchased \$5.0 million of intermediate term investments and \$15.0 million of additional Trust Fund Investment Pool (TFIP) shares, primarily with proceeds from matured securities and available cash reserves. The increase in long term investments was offset by a \$500 thousand decline in fair market value of investments at fiscal year end.
- The decrease in current liabilities of \$3.1 million can be attributed largely to funding monthly, biweekly and student payrolls of approximately \$8.0 million prior to year end, reducing the outstanding accounts payable and accrued liabilities at the end of FY12. The decrease in current liabilities was partially offset by a \$3.9 million increase in the securities lending liability. Other less significant changes to other current liability classifications, affected the net decrease in current liabilities.

- Non-current liabilities increased over \$4.9 million due largely to an increase in the liability for other post employment benefits (OPEB) of \$6.6 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*, and an increase in long-term borrowing from the primary government of \$4.7 million. The increases of \$11.3 million in non-current liabilities described above, was offset by a \$6.6 million decline in revenue bonds payable during FY12.
- Net position increased by almost \$7.5 million though, \$13.5 million less than the \$21.0 million increase in FY11. Significant items positively affecting net position included, an increase in private gifts of \$2.7 million; an increase in state appropriation of \$1.7 million; a \$2.7 million decline in OPEB expense and a modest increase in other operating expenses of around 1%.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses, and Changes in Net Position 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 Position follows:

	For the years ended June 30,		
	(stated in millions)		
	2013	2012	2011
Description			
Operating revenues	\$ 259.80	\$ 264.36	\$ 267.63
Operating expenses	399.96	391.03	389.80
Operating loss	(140.16)	(126.67)	(122.17)
Non-operating revenues (expenses)	130.38	129.17	127.47
(Loss) income before other revenues	(9.78)	2.50	5.30
Other revenues	1.27	4.89	15.96
Net (decrease) increase in net position	(8.51)	7.39	21.26
Net Position, beginning of year	280.84	273.45	252.19
Net position, end of year	\$ 272.33	\$ 280.84	\$ 273.45

The following provides a comparative analysis of revenues and expenses for the years ended June 30, 2013, 2012, and 2011:

	For the years ended June 30,					
	(stated in millions)					
	2013		2012		2011	
	Amount	Percent	Amount	Percent	Amount	Percent
REVENUES						
Tuition and fees, net	\$ 122.31	30.82%	\$ 124.29	30.72%	\$ 124.58	29.71%
Federal grants and contracts	49.72	12.54%	52.31	12.94%	55.91	13.34%
State & local grants/contracts	10.62	2.68%	10.04	2.48%	11.04	2.63%
Nongovernmental grants/contracts	6.03	1.52%	6.75	1.67%	5.96	1.42%
Facilities and administrative cost allowances	8.96	2.26%	9.04	2.23%	9.58	2.28%
Sales/services of educational departments	17.28	4.35%	16.93	4.18%	15.84	3.78%
Auxiliary enterprise charges	39.04	9.84%	39.55	9.78%	39.01	9.30%
State appropriations	85.39	21.52%	84.22	20.82%	82.53	19.68%
Federal financial aid grants and contracts	32.08	8.08%	34.43	8.51%	33.92	8.09%
Investment income	2.33	0.59%	1.57	0.39%	5.22	1.25%
Private gifts	14.03	3.54%	13.33	3.29%	10.65	2.54%
Capital grants and gifts	1.60	0.40%	5.03	1.24%	17.72	4.23%
All other sources combined	7.47	1.88%	7.07	1.75%	7.35	1.75%
Total revenues	\$ 396.86	100.02%	\$ 404.56	100.00%	\$ 419.31	100.00%
EXPENSES						
Compensation and benefits	\$ 250.38	61.77%	\$ 241.56	60.82%	\$ 239.30	60.12%
Other postemployment benefits	6.89	1.70%	6.61	1.66%	9.31	2.34%
Other operating expenses	91.15	22.49%	90.94	22.90%	89.07	22.38%
Scholarships and fellowships	27.74	6.84%	29.55	7.44%	30.10	7.56%
Depreciation and amortization	23.81	5.87%	22.37	5.63%	22.02	5.53%
Interest expense	5.40	1.33%	6.14	1.55%	6.50	1.63%
Other	-	0.00%	-	0.00%	1.75	0.44%
Total expenses	\$ 405.37	100.00%	\$ 397.17	100.00%	\$ 398.05	100.00%

Events or developments which occurred during 2013 include:

Overall, the University saw an \$8.5 million decline in its net position in FY13. Significant factors affecting the University's net position are described below:

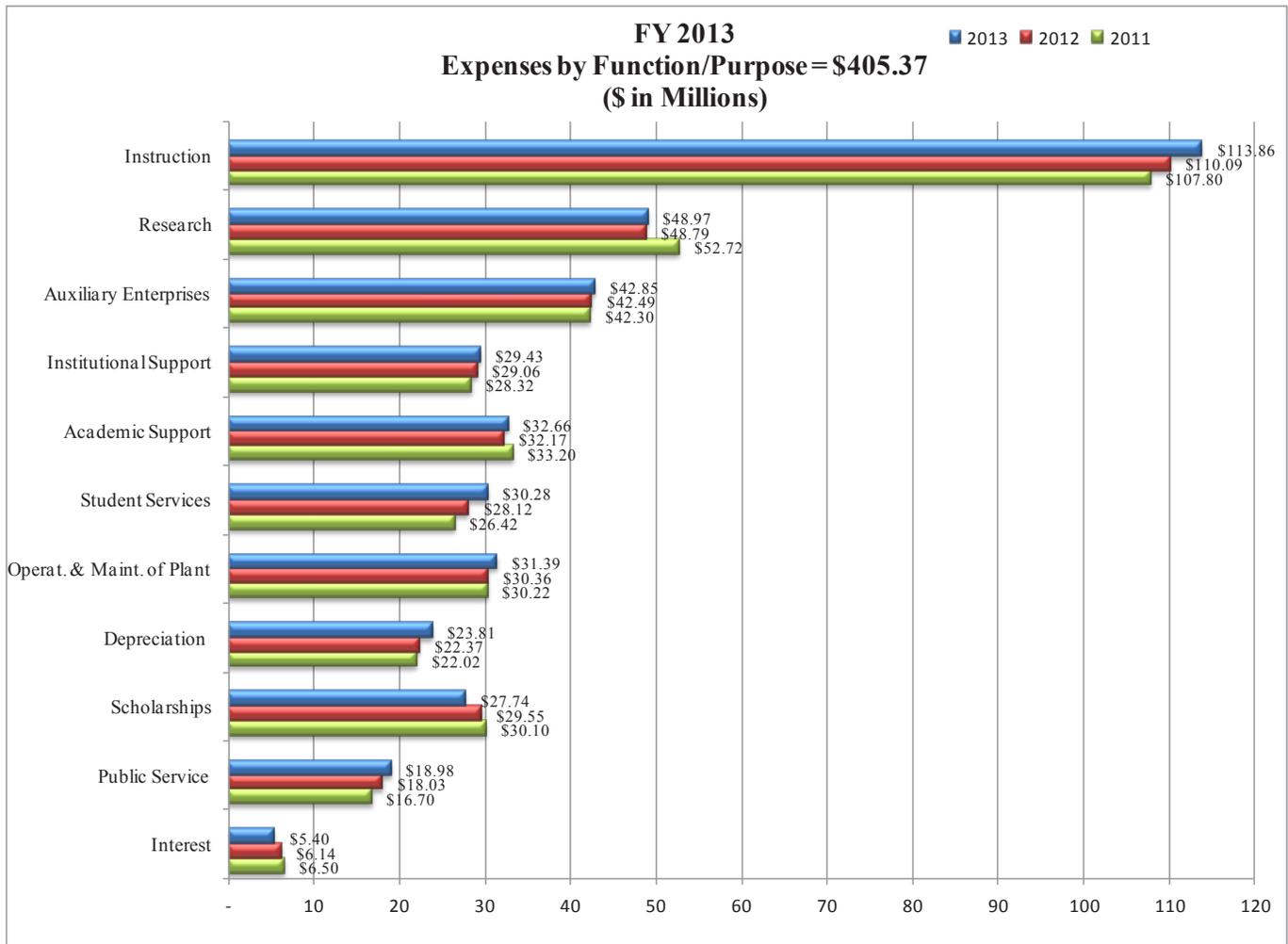
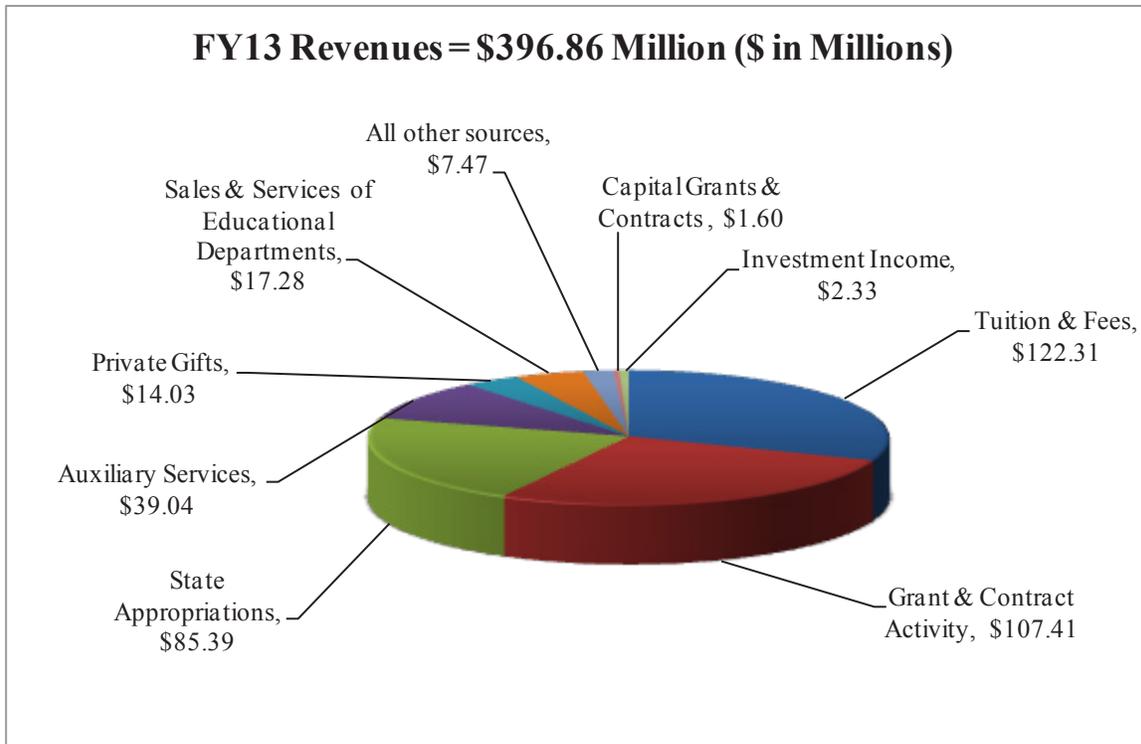
- Operating revenues declined by \$4.6 million due largely to a \$2.0 million decline in tuition and fees revenue and a \$2.6 million decrease in federal grants and contract revenue. The University continued to experience a decline in-state and out-of-state enrollment as evidenced by an 832 decrease in full time equivalent (FTE) students in FY13. The decline in federal grant funding is reflective of the extremely competitive environment faced by research institutions, competing for an ever smaller pool of federal funding available for basic research.
- FY13 saw an increase in operating expenses of \$8.9 million due largely to an increase in compensation and benefits of \$8.8 million. In FY13, a wage increase of 2% plus \$500, negotiated with University employee bargaining units was paid to eligible employees, accounting for much of the \$7.1 million increase in compensation expense. In addition, the University's contribution to the employee benefit plan increased from \$733 per month to \$806 per month, increasing employee benefits expense by more than \$1.7 million. Other notable changes in operating expenses include a decline in scholarships and fellowships expense of around \$1.8 million and increase in depreciation expense of \$1.4 million.
- Non-operating revenue increased by \$1.2 million despite a decrease in Federal Pell Grant funding of over \$2.3 million.

- Other revenues declined \$3.6 million due largely to a decline in capital grants and gifts of \$3.4 million in FY13. Construction of new facilities or the improvement of existing facilities saw less activity compared to prior years.

Events or developments which occurred during 2012 include:

In FY12, the University saw its net position improve by \$7.4 million. Significant factors affecting the University's net position are described below:

- Overall, operating revenues declined by \$3.3 million. A number of factors contributed to the decline in revenue, the primary being a 330 drop in full time equivalent (FTE) students, mainly in-state undergraduates, whose numbers had previously been growing between 2% to 5% annually over the past 5 years. The decline in revenue due to enrollment was offset, for the most part, by an increase in mandatory fees at the University's four year institutions. In addition, grant and contract revenues declined by over \$4.3 million, which can be attributed to the continuing decline in available grant funding at the federal and state levels.
- Operating expenses increased modestly by \$1.2 million, or less than 1%, primarily from a \$2.2 million increase in compensation expense due to a 1% pay plan increase and a \$1.1 million increase in other operating expenses, which was offset by a \$2.7 million decrease in the annual OPEB liability amortization.
- Net non-operating revenues increased slightly by \$1.7 million, or about 1.3% in FY12. The increase was due in part, to an increase in the state appropriation and private gifts of \$1.7 million and \$2.7 million, respectively. However, a decline in investment income of \$3.6 million offset these increases.
- Capital grants and gifts declined by \$12.7 million over the prior year, due largely to the completion or near completion of major capital projects undertaken over the past several years.



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 need for external financing. As required by GASB, the statement is presented using the “Direct Method”, which focuses on those transactions that either provided or used cash during the fiscal year.

	For years ended June 30,		
	(stated in millions)		
Cash Flow Category	2013	2012	2011
Cash Provided by (Used for):			
Operating Activities	\$ (100.32)	\$ (105.60)	\$ (89.63)
Non-capital Financing Activities	133.46	133.67	127.00
Capital and Related Financial Activities	(23.38)	(24.29)	(24.70)
Investing Activities	(15.98)	(15.32)	11.13
Net Increase (Decrease) in Cash	(6.22)	(11.54)	23.80
Cash and Cash Equivalents, beginning of year	62.33	73.87	50.07
Cash and Cash Equivalents, end of year	\$ 56.11	\$ 62.33	\$ 73.87

*Restated

Specific events or cash transactions during 2013 which were notable included:

- Net cash used in operating activities decreased by \$5.3 million in FY13 compared to the prior year. The decrease is primarily due to an \$8.1 million increase in payroll related liabilities largely offsetting an increase in payments made to employees for negotiated wage increases. In addition, a decline in cash provided by operating revenues of \$3.0 million was more than offset by a \$5.2 million decline in cash used for operating expenses and financial aid, further contributing to the overall decrease in cash used in operating activities.
- Net cash flows provided by noncapital financing activities decreased by \$211,690. A decrease in cash provided by federal financial aid of \$2.3 million was offset by increases in cash provided by state appropriation, land grant earnings and private gifts totalling \$2.1 million.
- In FY13, net cash flows used in investing activities amounted to \$16.0 million. The University used \$32.5 million in cash to purchase intermediated term investments, using \$14.0 million in cash provided from matured intermediate term investments and \$18.5 million from available cash reserves. \$2.2 million in cash was provided by investment earnings.
- Net cash used by capital and related financing activities in FY13 totaled \$23.4 million. \$10.7 million was paid for capital assets and \$13.6 million of debt service payments were made on outstanding debt. Just over \$900,000 in proceeds were received in FY13 from new debt issuances.

Specific events or cash transactions during 2012 which were notable included:

- Net cash used in operating activities increased in FY12 by almost \$16.0 million. The increase was primarily due to the following: cash received from state and federal grants and contracts declined by \$7.8 million; payments to employees increased by \$6.5 million due to timing differences in funding payroll between FY12 and FY11, and a 1% pay increase for employees; cash paid for operating expenses increased close to \$3.7 million.

- Net cash provided by noncapital financing activities increased by \$6.7 million due largely to an increase in cash provided from the state appropriation and private gifts of \$1.6 million and \$2.6 million, respectively.
- \$15.3 million of net cash was used in investing activities during FY12. Significant transactions affecting investments include the purchase of intermediate term investments (\$5.0 million) and TFIP shares (\$20.0 million), cash received from investment earnings (\$2.1 million) and proceeds from the maturities of intermediate term investments (\$2.5 million).
- In FY12, \$24.3 million of net cash was used in capital and related financing activities. During FY12, the University received proceeds of \$41.0 million from the issuance of Series L 2012 revenue bonds, which were used to advance refund all, or part, of outstanding Series F 1999, Series G 2002 and Series I 2004 revenue bonds. Other significant capital and related financing activities affecting cash in FY12 include: payment of \$17.0 million to acquire additional capital assets; payment of \$14.0 million of principal and interest on long term obligations; and receipt of \$6.0 million of cash proceeds from additional debt issuances.

DISCUSSION OF SIGNIFICANT ECONOMIC AND FINANCIAL ISSUES

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

- As of June 30, 2013, there were a number of major construction projects that are being planned or are in progress. The following is a summary of the projects, estimated costs and their status as of June 30, 2013.

Project Name	Estimated Cost	Campus	Status
Missoula College	\$32.0 M	Missoula	Bidding, Fall 2014
Gilkey Executive Education Building	\$9.3M	Missoula	Bidding, Spring 2014
Interdisciplinary Science Building Completion	\$3.8M	Missoula	Under construction
Curry Health Center Renovation	\$4.0M	Missoula	Under construction
Food Zoo Renovation	\$7.0M	Missoula	Planning
NAC Basement Finish	\$2.0M	Missoula	Under Construction
Learning Commons – Library	\$3.2M	Missoula	Planning
Athletics Academic Success Center	\$3.0M	Missoula	Bidding, Spring 2014
Intercollegiate Athletics Soft Ball Facility	\$2.0M	Missoula	Planning
Intercollegiate Athletics Locker and Weight Room Renovations	\$10.0M	Missoula	Planning
Geothermal Mine Water System	\$1.1 M	MT Tech	Planning
Residence Hall Restroom Renovation,	\$1.2 M	MT Tech	Planning
Main Hall Phase III Renovation	\$4.5M	Western	Planning

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

The 2013 legislative session passed HB 5 which provided \$29.0 million in funding for a new Missoula College building, which will replace an aging facility with outdated classrooms, some of which were housed in trailers and modular units. The Missoula College has seen its student FTE grow from 886 ten years ago to 1,685 for fall semester 2013.

- Fall semester 2013 enrollment at the University of Montana declined by 624 FTE to 16,821 FTE as compared to 17,445 FTE for fall semester 2012, a decline of 3.6%. Of the four campuses, only MT Tech's enrollment increased (53 FTE), while the other campuses enrollment dropped by a total of 677 FTE for fall semester 2013. Between fall semester of 2010 and 2013, enrollment declined by 2,218 FTE, or a decrease of 11.6%. The decline in enrollment for the University's Missoula campus has created an estimated funding shortfall of over \$6.0 million for FY14.

A number of factors have affected the enrollment at the University including, a decline in high school graduates in Montana which is not expected to improve until 2017, greater competition and more marketing from competing institutions, and the economy. In FY13 the University was able to cover budget shortfalls by utilizing reserve funds established for this purpose and making one time only decreases. In FY14, the affected campuses academic units and support functions are planning to meet the budget reductions through reductions in hiring for vacant positions and by decreasing operating expenses.

The University's flag ship campus in Missoula, which has been significantly impacted by the decline in enrollment, has undertaken a number of strategic initiatives to address the situation on a short and long term basis:

Recruiting and Marketing - regain market share of enrollment by increasing the number and quality of contacts with prospective students and offering more scholarships and waivers. In FY14, \$1.0 million in additional funding has been allocated for this purpose. Other efforts completed or undertaken include: hiring a large higher education recruiting firm to help strengthen recruiting efforts; improved digital communication including a new home page design; reconfigure a cabinet level position to create a Vice President for Integrated Communication.

Strategic Workgroups – work groups have been established by the President to address strategic enrollment, examine revenue enhancement, explore alternative models for resource allocation, reduce costs through efficiency and ways to meet objectives in less expensive ways; examine portfolio of academic programs.

The University, through these efforts, seeks to strategically improve the efficiency and effectiveness of its operations and to help ensure the accomplishment of critical goals, the foremost being the delivery of a quality education to its students.

- An important part of the University's strategic plan through 2020 is fully implementing the Partnering for Student Success, which is aimed at increasing student retention and graduation rates through improved preparation, comprehensive engagement, and enhanced student support.

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;
6. Emphasizing faculty and staff development: and
7. Provide specialized attention to high risk students.

Biennial 2014 and 2015 priorities for this initiative include:

- Implementing a new admissions program
- Develop programming to improve second year retention,
- Strengthen American Indian student services
- Continue development of the Veteran's Center.

The University believes the Partnering for Student Success plan will help its students succeed academically and personally so they graduate well-prepared for their careers or further education.

- A significant outcome of the 2013 Legislative session was the College Affordability Plan (CAP), which is a pledge from the Board of Regents (BOR) to freeze resident student tuition for the 2014 and 2015 biennium. The plan was agreed to by the BOR after the legislature met certain funding conditions such as present-law adjustments and pay plan funding. The legislative session also appropriated the highest level of funding the university system has ever had in relation to resident FTE. None the less, the University faces significant budgetary pressure caused by lower enrollments and the freeze on resident student tuition.

The University of Montana
A Component Unit of the State of Montana
Consolidated Statements of Net Position
As of June 30, 2013 and 2012

A-15

	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents (note 3)	\$ 55,828,267	\$ 62,047,582
Securities lending collateral	24,937,711	5,549,695
Investments	302,160	300,265
Accounts and grants receivable, net	6,687,131	6,223,443
Due from Federal government	7,649,545	9,026,359
Due from primary government	1,405,341	1,217,823
Due from other State of Montana component units	145,652	407,757
Loans to students, net	1,872,634	1,796,341
Inventories	2,270,577	2,065,244
Prepaid expenses and deferred charges	4,160,703	4,389,772
Total current assets	\$ 105,259,721	\$ 93,024,281
Noncurrent Assets		
Restricted cash and cash equivalents	\$ 284,931	\$ 285,709
Restricted investments	20,654,099	19,306,377
Other long term investments	66,078,061	49,060,601
Loans to students, net	9,903,174	9,935,837
Bond issuance costs	1,045,938	1,170,965
Capital assets, net	344,006,096	354,632,786
Total Noncurrent Assets	\$ 441,972,299	\$ 434,392,275
Total Assets	\$ 547,232,020	\$ 527,416,556
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 24,702,460	\$ 16,920,811
Due to Federal government	20,324	294,457
Due to primary government	1,293,391	1,344,740
Due to other State of Montana component units	8,354	17,737
Securities lending liability	24,937,711	5,549,695
Student and other deposits	1,729,213	2,356,943
Deferred revenue	12,821,600	12,815,551
Accrued compensated absences	10,355,102	9,782,001
Current portion of long-term obligations	6,935,458	6,712,582
Total Current Liabilities	\$ 82,803,613	\$ 55,794,517
Noncurrent Liabilities		
Accrued compensated absences	\$ 15,186,319	\$ 14,318,175
Deferred compensation	215,075	136,866
Long term obligations	106,009,156	111,623,981
Advances from primary government	13,837,849	14,644,719
Other post employment benefits	46,758,324	39,867,018
Due to Federal Government	10,093,180	10,189,903
Total Noncurrent Liabilities	\$ 192,099,903	\$ 190,780,662
Total Liabilities	\$ 274,903,516	\$ 246,575,179
NET POSITION		
Net invested in capital assets	\$ 224,182,096	\$ 223,808,759
Restricted for:		
Nonexpendable		
Endowments	18,978,219	17,856,351
Loans	1,949,143	1,952,887
Expendable		
Loans	2,133,736	2,082,448
Scholarships, research, instruction, and other	3,989,783	3,986,843
Unrestricted	21,095,527	31,154,089
Total Net Position	\$ 272,328,504	\$ 280,841,377

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 Statements of Financial Position
As of June 30, 2013 or December 31, 2012 and
June 30, 2012 or December 31, 2011

	2013	2012
ASSETS		
Cash and cash equivalents	\$ 7,808,353	\$ 9,401,650
Short-term investments	5,303,725	4,373,242
Accrued dividends and interest	126,834	151,692
Investments	201,816,341	181,863,228
Contributions receivable, net	6,172,220	7,844,122
Student loans and other receivables	269,909	248,558
Depreciable assets, net of accumulated depreciation	6,133,566	5,381,302
Other assets	1,980,648	1,906,001
Total Assets	\$ 229,611,596	\$ 211,169,795
LIABILITIES		
Accounts payable	\$ 862,405	\$ 472,676
Accrued expenses	154,963	122,791
Compensated absences	223,485	248,055
Note payable - bank	40,000	40,000
Liabilities to external beneficiaries	2,753,725	2,900,688
Custodial funds	20,684,636	19,052,136
Other liabilities	413,460	307,312
Total Liabilities	\$ 25,132,674	\$ 23,143,658
NET ASSETS		
Net assets - unrestricted	\$ 10,478,754	\$ 8,665,313
Net assets - temporarily restricted	62,158,889	53,295,598
Net assets - permanently restricted	131,841,279	126,065,226
Total Net Assets	\$ 204,478,922	\$ 188,026,137
Total Liabilities & Net Assets	\$ 229,611,596	\$ 211,169,795

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 Position**
For the Years Ended June 30, 2013 and 2012

	2013	2012
OPERATING REVENUES:		
Tuition and fees (net of scholarship allowances in 2013 and 2012 of \$31,615,318 and \$31,958,101, respectively)	\$ 122,306,910	\$ 124,293,893
Federal grants and contracts	49,719,312	52,309,030
State and local grants and contracts	10,615,919	10,037,240
Nongovernmental grants and contracts	6,031,713	6,754,837
Grant and contract facilities and administrative cost allowances	8,956,216	9,040,847
Sales and services of educational departments	17,282,414	16,927,044
Auxiliary enterprises charges:		
Residential life (net of scholarship allowances in 2013 and 2012 of \$1,011,103 and \$926,024, respectively)	14,480,117	14,619,288
Food services (net of scholarship allowances in 2013 and 2012 of \$1,011,103 and \$926,024, respectively)	12,245,073	13,126,570
Other auxiliary revenues	12,313,059	11,808,596
Interest earned on loans to students	52,258	49,976
Other operating revenues	5,797,524	5,388,841
Total operating revenues	\$ 259,800,515	\$ 264,356,162
OPERATING EXPENSES:		
Compensation and employee benefits	\$ 250,377,293	\$ 241,556,727
Other post employment benefits (note 18)	6,891,306	6,610,365
Other (note 24)	91,151,008	90,939,245
Scholarships and fellowships	27,743,539	29,551,301
Depreciation and amortization	23,806,165	22,373,703
Total operating expenses	\$ 399,969,311	\$ 391,031,341
OPERATING LOSS	\$ (140,168,796)	\$ (126,675,179)
NON-OPERATING REVENUES (EXPENSES):		
State appropriations	\$ 85,393,791	\$ 84,222,427
Federal financial aid grants and contracts	32,082,813	34,426,489
Land grant revenues	1,959,686	1,771,181
Private gifts	14,027,252	13,330,780
Investment income	2,325,070	1,566,772
Interest expense	(5,405,084)	(6,142,545)
Net non-operating revenues	\$ 130,383,528	\$ 129,175,104
(LOSS) INCOME BEFORE OTHER REVENUES (EXPENSES)	\$ (9,785,268)	\$ 2,499,925
OTHER REVENUES (EXPENSES):		
Capital grants and gifts	\$ 1,600,652	\$ 5,027,229
Loss on disposal of capital assets	(328,257)	(134,832)
Total other revenues	\$ 1,272,395	\$ 4,892,397
Net (decrease) increase in net position	\$ (8,512,873)	\$ 7,392,322
NET POSITION:		
Net position - beginning of year	\$ 280,841,377	\$ 273,449,055
Net position - end of year	\$ 272,328,504	\$ 280,841,377

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, 2013 or December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total
REVENUES:				
Contributions	\$ 1,164,153	\$ 11,171,369	\$ 5,410,118	\$ 17,745,640
Interest and dividend income	\$ 588,595	3,074,877	9,607	3,673,079
Net realized and unrealized gain on investments	\$ 1,628,809	12,838,575	362,422	14,829,806
Administrative fees	\$ 462,467	-	-	462,467
Support received from university	\$ 425,000	-	-	425,000
Special events	\$ 520,091	-	-	520,091
Other income	\$ 120,963	2,529,702	-	2,650,665
Net assets released from restrictions	\$ 20,767,272	(20,767,272)	-	-
Total revenues	\$ 25,677,350	\$ 8,847,251	\$ 5,782,147	\$ 40,306,748
EXPENSES:				
Program services				
Academic and institutional	\$ 7,914,939	\$ -	\$ -	\$ 7,914,939
Capital expenses	2,758,303	-	-	2,758,303
Pledge adjustments	30,241	28,031	(321)	57,951
Scholarships and awards	6,343,454	-	-	6,343,454
Total program services	\$ 17,046,937	\$ 28,031	\$ (321)	\$ 17,074,647
Operating expenses				
Fundraising efforts	\$ 2,991,379	\$ -	\$ -	\$ 2,991,379
General and administrative	3,406,074	-	-	3,406,074
Investment management costs	136,612	-	-	136,612
Other miscellaneous	89,093	-	-	89,093
Total operating expenses	\$ 6,623,158	\$ -	\$ -	\$ 6,623,158
Change in net assets before nonoperating items	\$ 2,007,255	\$ 8,819,220	\$ 5,782,468	\$ 16,608,943
NON-OPERATING REVENUES (EXPENSES):				
Payments to beneficiaries and change in liabilities due to external beneficiaries	736	(156,894)	-	(156,158)
Reclassification of net assets	(194,550)	200,965	(6,415)	-
Change in net assets	\$ 1,813,441	\$ 8,863,291	\$ 5,776,053	\$ 16,452,785
Net assets, beginning of year	8,665,313	53,295,598	126,065,226	188,026,137
Net assets, end of year	\$ 10,478,754	\$ 62,158,889	\$ 131,841,279	\$ 204,478,922

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, 2012 or December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total
REVENUES:				
Contributions	\$ 1,214,066	\$ 13,325,501	\$ 5,363,191	\$ 19,902,758
Interest and dividend income	536,907	3,059,648	7,992	3,604,547
Net realized and unrealized gain on investments	(1,480,378)	(4,796,706)	(255,228)	(6,532,312)
Administrative fees	479,272	-	-	479,272
Support received from university	425,000	69,005	-	494,005
Special events	440,685	-	-	440,685
Other income	183,611	1,624,910	-	1,808,521
Net assets released from restrictions	17,375,431	(17,375,431)	-	-
Total revenues	\$ 19,174,594	\$ (4,093,073)	\$ 5,115,955	\$ 20,197,476
EXPENSES:				
Program services				
Academic and institutional	\$ 6,955,336	\$ -	\$ -	\$ 6,955,336
Capital expenses	908,094	-	-	908,094
Pledge adjustments	16	94,830	15,776	110,622
Scholarships and awards	6,242,092	-	-	6,242,092
Total program services	\$ 14,105,538	\$ 94,830	\$ 15,776	\$ 14,216,144
Operating expenses				
Fundraising efforts	\$ 2,869,166	\$ -	\$ -	\$ 2,869,166
General and administrative	3,280,374	-	-	3,280,374
Investment management costs	151,852	-	-	151,852
Other miscellaneous	91,040	-	-	91,040
Total operating expenses	\$ 6,392,432	\$ -	\$ -	\$ 6,392,432
Change in net assets before nonoperating items	\$ (1,323,376)	\$ (4,187,903)	\$ 5,100,179	\$ (411,100)
NON-OPERATING REVENUES (EXPENSES):				
Payments to beneficiaries and change in liabilities due to external beneficiaries	38,742	(407,623)	-	(368,881)
Reclassification of net assets	-	-	-	-
Change in net assets	\$ (1,284,634)	\$ (4,595,526)	\$ 5,100,179	\$ (779,981)
Net assets, beginning of year	9,949,947	57,891,124	120,965,047	188,806,118
Net assets, end of year	\$ 8,665,313	\$ 53,295,598	\$ 126,065,226	\$ 188,026,137

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, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 122,900,617	\$ 123,078,722
Federal grants and contracts	50,853,063	50,941,941
State grants and contracts	10,882,372	9,794,247
Nongovernmental grants and contracts	6,169,254	6,577,747
Grant and contract facilities and administrative cost allowances	8,956,216	9,040,847
Sales and services of educational activities	16,321,033	17,515,204
Auxiliary enterprises charges	38,284,129	39,822,358
Interest earned on loans to students	171,199	170,799
Other operating receipts	5,797,850	5,484,085
Payments to employees for salaries and benefits	(243,301,956)	(245,454,921)
Operating expenses	(89,571,135)	(92,981,296)
Payments for scholarships and fellowships	(27,743,539)	(29,551,301)
Loans made to students	(1,737,109)	(1,552,832)
Loan payments received	1,693,479	1,511,019
Net Cash Used by Operating Activities	\$ (100,324,527)	\$ (105,603,381)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 85,393,791	\$ 84,222,427
Land Grants	1,959,686	1,771,187
Federal financial aid grants and contracts	32,082,813	34,426,489
Private Gifts for other than capital purposes	14,027,252	13,255,129
Net Cash Provided by Noncapital Financing Activities	\$ 133,463,542	\$ 133,675,232
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	\$ (32,500,000)	\$ (20,042,000)
Proceeds from sales of investments	14,000,000	2,500,000
Cash equivalent investment reclassified to other long term investments	325,826	123,249
Earnings received on investments	2,194,107	2,095,955
Net Cash Used Investing Activities	\$ (15,980,067)	\$ (15,322,796)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for capital assets	\$ (10,704,885)	\$ (16,978,654)
Proceeds from the sale of capital assets	23,724	15,946
Proceeds from the issuance of refunding revenue bonds	-	41,036,856
Payment to advance refund revenue bonds	-	(40,840,709)
Bond issue costs paid on new issue	-	(196,146)
Proceeds from notes payable and advances from primary government	905,265	6,648,494
Principal paid on notes payable, advance from primary government, and capital leases	(2,045,585)	(1,941,257)
Principal paid on bonds payable	(6,532,000)	(6,146,000)
Interest paid on capital debt and leases	(5,025,560)	(5,881,916)
Net Cash Used by Capital and Related Financing Activities	\$ (23,379,041)	\$ (24,283,386)
Net Decrease in Cash and Cash Equivalents	\$ (6,220,093)	\$ (11,534,331)
Cash and Cash Equivalents, Beginning of Year	\$ 62,333,291	\$ 73,867,622
Cash and Cash Equivalents, End of Year	\$ 56,113,198	\$ 62,333,291

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, 2013 and 2012

(Continued)

	2013	2012
Reconciliation of Operating Loss to Net Cash Used By Operating Activities:		
Operating loss	\$(140,168,796)	\$(126,675,179)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Noncash expense:		
Depreciation and amortization expense	23,806,165	22,373,703
Other post employment benefits	6,891,306	6,610,365
Changes in assets and liabilities:		
Accounts receivable	987,713	(811,792)
Loans to students	(43,630)	(41,811)
Inventories	(205,333)	(135,713)
Prepaid expenses and deferred charges	229,069	219,220
Accounts payable and accrued expenses	7,456,138	(6,408,779)
Deferred revenue	6,049	(1,737,390)
Student and other deposits	(627,730)	473,513
Due to federal government	(96,723)	(67,399)
Compensated absences	1,441,245	597,881
Net Cash Used by Operating Activities	\$(100,324,527)	\$(105,603,381)
Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions		
Fixed assets acquired by incurring capital lease obligations	\$ 671,920	\$ 80,140
Increase in fair value of investments recognized as a component of interest income	\$ 151,408	\$ 457,335
Fixed assets acquired from Capital grants and donations	\$ 16,000,652	\$ 5,027,229
Bond issue costs, discounts, premiums and deferred loss on refunding, amortized to interest expense	\$ 201,461	\$ 248,618
Reconciliation of Cash and Cash Equivalent to the Statements of Net Position		
Cash and cash equivalents classified as current assets	\$ 55,828,267	\$ 62,047,582
Cash and cash equivalents classified as noncurrent assets	\$ 284,931	\$ 285,709
Total Cash and Cash Equivalents, End of Year	\$ 56,113,198	\$ 62,333,291

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

THE UNIVERSITY OF MONTANA *A COMPONENT UNIT OF THE STATE OF MONTANA* FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

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 Helena College University of Montana.

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 the provisions of GASB standards, the University reports as a special-purpose government engaged in business type activities. Accordingly, the basic financial statements the University is required to present are a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. Along with notes to the financial statements, required supplemental information includes a management discussion and analysis. For FY 2013, the provisions of GASB Statement No 63, “Financial Reporting of Deferred Inflows of Resources, Deferred Outflows of Resources and Net Position”, amended the net asset reporting requirements in Statement 34, “Basic Financial Statements and

Notes to the Consolidated Financial Statements (continued)

Management Discussion and Analysis for State and Local Governments”, and other pronouncements, by incorporating deferred outflows of resources and deferred inflows of resources in the definitions of the required components of residual measure and by renaming the residual measure as net position, rather than net assets. All significant intra-entity transactions have been eliminated upon consolidation. Also, in accordance with GASB Statement No. 39, the combined statement of financial position and statement of activities of the four component units referred to above are separately presented following the respective University financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

▪ BASIS OF ACCOUNTING

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the University’s consolidated financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

▪ 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 Position.

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 POSITION

Components of the University's net position are categorized as follows:

- **Net Investment in capital assets** - 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 position 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 position 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 position whose use by the University is not subject to externally imposed stipulations. Unrestricted net position 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 position is 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 Position. 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.

▪ SUBSEQUENT EVENT

The University has received approval from the Board of Regents to issue Series M 2013 Revenue Bonds up to an amount of \$8.0 million under the existing structure of the master revenue bond indenture agreement. The bonds will be issued directly to a local bank at a fixed interest rate of 2.5%, for 10 years with no penalty for pre-payments. Proceeds from the issuance will fund a portion of several capital projects including: Construction of the Gilkey Executive Education building, Technology Modular Units as well as renovations of a residence hall, the Interdisciplinary Science Building, and the Adams Center. The bonds will be repaid from additional revenues generated from the facilities and technology fees assessment.

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, 2013 and 2012 totaled \$37,713,360 and \$27,877,509, respectively. The University does not have a formal policy that addresses custodial credit risk for cash deposits with other financial institutions.

▪ CASH EQUIVALENTS

Cash equivalents consist of \$500,497 of cash invested in money market funds with First American Funds and US Bank, and \$17,517,844 in the Short Term Investment Pool (STIP) with the Montana Board of Investments. Amounts held in cash equivalents at June 30, 2013 and 2012 were \$18,018,341 and \$34,250,944, respectively. STIP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle." The STIP

Notes to the Consolidated Financial Statements (continued)

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, 2013 and 2012:

Security Type	Fair Value		Effective	Credit Quality
	2013	2012	Duration at June 30, 2013 ⁽¹⁾	Rating at June 30, 2013 ⁽³⁾
U.S. Government Sponsored Entities	\$ 37,146,875	\$ 19,188,839	2.65	AA+
Short Term Investment Pool (STIP) ⁽⁴⁾	230,479	556,305	Not applicable	NR
Trust Fund Investment Pool (TFIP)	30,670,027	31,395,423	5.15 ⁽²⁾	NR
Montana Domestic Equity Pool (MDEP)	1,529,062	1,259,087	Not applicable	N/A
Foundation Pooled Investments	16,990,056	15,863,602	Not applicable	N/A
Certificates of Deposits	302,160	300,265	Not applicable	N/A
Other	165,661	103,722	Not applicable	N/A
Total investments	\$ 87,034,320	\$ 68,667,243		
Securities Lending Collateral Investment Pool	\$ 24,937,711	\$ 5,549,695	(5)	NR

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

⁽²⁾Effective duration for the Trust Fund Investment Pool (TFIP) is for the entire portfolio. The University's ownership represents approximately 1.8% of the portfolio

⁽³⁾NR indicates security investment unrated for credit quality type.

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

⁽⁵⁾Securities Lending Quality Trust liquidity pool had an average duration of 48 days and an average weighted final maturity of 99 days for U.S. dollar collateral. The duration pool had an average duration of 36 days and an average weighted final maturity of 679 days for U.S. dollar collateral.

Investments held by the University at June 30, 2013 and 2012 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, 2013 and 2012:

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 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.

Notes to the Consolidated Financial Statements (continued)

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. Corporate bonds include asset backed securities.

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 102 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, 2013 and 2012, 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, 2013 and 2012, 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.

Notes to the Consolidated Financial Statements (continued)

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.

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, 2013 and 2012, 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. The TFIP Investment Policy Statement provides for a "2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities." The concentration of credit risk exposure for U.S. government sponsored entities securities held at June 30, 2013 and 2012, expressed as a percentage of total investments, was 42.68% and 27.94%, 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 \$1,959,686 and \$1,771,181 for the years ended June 30, 2013 and 2012, respectively. These earnings are currently pledged to the Series I 2004, Series J 2005, Series K 2010 and Series L 2012 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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Student tuition and fees	\$ 5,025,667	\$ 5,305,533
Auxiliary enterprises and other operating activities	3,029,410	2,110,587
Private grants and contracts	746,760	1,134,493
Other	88,507	120,390
Gross accounts and grants receivable	<u>8,890,344</u>	<u>8,671,003</u>
Less: allowance for doubtful accounts	2,203,213	2,447,560
Net accounts and grants receivable	<u><u>\$ 6,687,131</u></u>	<u><u>\$ 6,223,443</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, 2013 and 2012 are \$10,093,180 and \$10,189,903 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 Position.

NOTE 6 – INVENTORIES

Inventories consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Bookstore	\$ 960,433	\$ 806,022
Food services	269,107	187,804
Facilities services	846,492	736,839
Other	194,546	334,579
Total inventories	<u><u>\$ 2,270,577</u></u>	<u><u>\$ 2,065,244</u></u>

NOTE 7 – PREPAID EXPENSES AND DEFERRED CHARGES

Prepaid expenses and other deferred charges consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Summer session	\$ 698,264	\$ 641,969
Travel advances	43,116	38,695
Other prepaid expenses	3,419,322	3,709,108
Total prepaid expenses and other deferred charges	<u><u>\$ 4,160,703</u></u>	<u><u>\$ 4,389,772</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, 2013 and 2012, respectively.

For the year ended June 30, 2013:

	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
Capital assets not being depreciated:					
Land	\$ 7,817,232	162,250	-	-	\$ 7,979,482
Capitalized collections	17,444,538	206,523	-	-	17,651,061
Construction in progress	18,418,538	-	-	(2,111,478)	16,307,060
	43,680,308	368,773	-	(2,111,478)	41,937,603
Other capital assets:					
Land improvements	14,154,741	-	-	92,871	14,247,612
Infrastructure	6,769,546	-	-	-	6,769,546
Buildings	312,744,615	-	-	-	312,744,615
Building improvements	191,258,660	6,199,022	-	2,102,907	199,560,589
Furniture and equipment	73,491,980	7,035,835	1,651,626	-	78,876,189
Library materials	57,241,516	2,019,748	1,494,927	-	57,766,337
Livestock	39,250	-	-	-	39,250
	655,700,308	15,254,605	3,146,553	2,195,778	670,004,138
Less accumulated depreciation for:					
Land improvements	10,084,707	329,035	-	-	10,413,742
Infrastructure	521,558	169,239	-	-	690,797
Buildings	124,123,100	6,689,943	-	745,384	131,558,427
Building improvements	116,245,272	8,653,719	-	(58,826)	124,840,165
Furniture and equipment	45,886,545	5,935,201	1,498,118	89,910	50,413,538
Library materials	51,052,417	1,357,077	-	1,114,685	53,524,179
Livestock	9,766	4,889	-	-	14,655
	347,923,365	23,139,103	1,498,118	1,891,153	371,455,503
Other capital assets, net	307,776,943	(7,884,498)	1,648,435	304,625	298,548,635
Intangible assets	3,175,535	1,011,385	667,062	-	3,519,858
Total capital assets, net	\$ 354,632,786	\$ (6,504,340)	\$ 2,315,497	\$ (1,806,853)	\$ 344,006,096
Capital Asset Summary:					
Capital assets not being depreciated	\$ 43,680,308	\$ 368,773	\$ -	\$ (2,111,478)	\$ 41,937,603
Other capital and intangible assets	658,875,843	16,265,990	3,813,615	2,195,778	673,523,996
	702,556,151	16,634,763	3,813,615	84,300	715,461,599
Less: accumulated depreciation	347,923,365	23,139,103	1,498,118	1,891,153	371,455,503
Total capital assets, net	\$ 354,632,786	\$ (6,504,340)	\$ 2,315,497	\$ (1,806,853)	\$ 344,006,096

Notes to the Consolidated Financial Statements (continued)

For the year ended June 30, 2012:

	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
Capital assets not being depreciated:					
Land	\$ 7,817,232	-	-	-	\$ 7,817,232
Capitalized collections	17,430,138	14,400	-	-	17,444,538
Construction in progress	30,463,344	11,086,259	-	(23,131,065)	18,418,538
	55,710,714	11,100,659	-	(23,131,065)	43,680,308
Other capital assets:					
Land improvements	12,883,611	1,271,130	-	-	14,154,741
Infrastructure	6,769,546				6,769,546
Buildings	311,579,299	248,362	-	916,954	312,744,615
Building improvements	168,562,191	3,175,806	-	19,520,663	191,258,660
Furniture and equipment	68,281,443	6,506,660	1,296,123	-	73,491,980
Library materials	56,340,779	900,737	-	-	57,241,516
Livestock	16,750	22,500	-	-	39,250
	624,433,619	12,125,195	1,296,123	20,437,617	655,700,308
Less accumulated depreciation for:					
Land improvements	9,804,818	279,889	-	-	10,084,707
Infrastructure	352,320	169,238	-	-	521,558
Buildings	117,722,072	6,401,028	-	-	124,123,100
Building improvements	108,182,212	8,063,060	-	-	116,245,272
Furniture and equipment	41,362,401	5,714,014	1,189,870	-	45,886,545
Library materials	49,693,267	1,359,150	-	-	51,052,417
Livestock	6,750	3,016	-	-	9,766
	327,123,840	21,989,395	1,189,870	-	347,923,365
Other capital assets, net	297,309,779	(9,864,200)	106,253	20,437,617	307,776,943
Intangible assets	2,050,752	1,509,091	384,308	-	3,175,535
Total capital assets, net	\$ 355,071,245	\$ 2,745,550	\$ 490,561	\$ (2,693,448)	\$ 354,632,786
Capital Asset Summary:					
Capital assets not being depreciated	\$ 55,710,714	\$ 11,100,659	\$ -	\$ (23,131,065)	\$ 43,680,308
Other capital and intangible assets	626,484,371	13,634,286	1,680,431	20,437,617	658,875,843
	682,195,085	24,734,945	1,680,431	(2,693,448)	702,556,151
Less: accumulated depreciation	327,123,840	21,989,395	1,189,870	-	347,923,365
Total capital assets, net	\$ 355,071,245	\$ 2,745,550	\$ 490,561	\$ (2,693,448)	\$ 354,632,786

Notes to the Consolidated Financial Statements (continued)

NOTE 9 – DEFERRED REVENUES

Deferred Revenues consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Grant and contract revenue received in advance	\$ 3,995,512	\$ 3,989,521
Summer session payments received in advance	3,201,552	3,085,595
Other deferred revenues	5,624,536	5,740,435
Total deferred revenue	<u>\$ 12,821,600</u>	<u>\$ 12,815,551</u>

NOTE 10 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Compensation, benefits and related liabilities	\$ 17,285,843	\$ 9,168,771
Accrued interest expense	620,488	567,452
Accounts payable and other accrued liabilities	6,796,128	7,184,588
Total accounts payable and accrued liabilities	<u>\$ 24,702,460</u>	<u>\$ 16,920,811</u>

NOTE 11 – LONG-TERM LIABILITIES

The following tables present the changes in long-term liabilities for the years ended June 30, 2013 and 2012, respectively:

For the year ended June 30, 2013:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds, notes and capital leases					
Revenue bonds payable, net	\$ 117,647,422	\$ -	\$ 6,298,537	\$ 111,348,885	\$ 6,595,000
Subordinated bonds payable	288,000	-	32,000	256,000	32,000
Multi-year intangible obligation	-	553,999	-	553,999	-
Notes payable	162,816	-	51,886	110,930	58,606
Capital leases payable	238,325	671,920	235,445	674,800	249,852
	<u>118,336,563</u>	<u>1,225,919</u>	<u>6,617,868</u>	<u>112,944,614</u>	<u>6,935,458</u>
Other long-term liabilities					
Accrued compensated absences	24,100,176	11,020,777	9,579,532	25,541,421	10,355,102
Deferred compensation	136,866	78,209	-	215,075	-
Advances from primary government	15,964,555	905,263	1,758,255	15,111,563	1,273,714
Other Post Employment Benefits	39,867,018	6,891,306	-	46,758,324	-
Due to Federal Government	10,189,903	-	96,723	10,093,180	-
	<u>90,258,518</u>	<u>18,895,555</u>	<u>11,434,510</u>	<u>97,719,563</u>	<u>11,628,816</u>
Total long-term liabilities	<u>\$ 208,595,081</u>	<u>\$ 20,121,474</u>	<u>\$ 18,052,378</u>	<u>\$ 210,664,177</u>	<u>\$ 18,564,274</u>

Notes to the Consolidated Financial Statements (continued)

For the year ended June 30, 2012:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds, notes and capital leases					
Revenue bonds payable, net	\$ 123,814,894	\$ 41,425,253	\$ 47,592,725	\$ 117,647,422	\$ 6,500,000
Subordinated bonds payable	319,000	-	31,000	288,000	32,000
Notes payable	212,453	-	49,637	162,816	51,886
Capital leases payable	395,875	80,142	237,692	238,325	128,696
	124,742,222	41,505,395	47,911,054	118,336,563	6,712,582
Other long-term liabilities					
Accrued compensated absences	23,502,295	10,161,266	9,563,385	24,100,176	9,782,001
Deferred compensation	-	136,866	-	136,866	-
Advances from primary government	10,969,990	6,648,493	1,653,928	15,964,555	1,319,836
Other Post Employment Benefits	33,256,652	6,610,366	-	39,867,018	-
Due to Federal Government	10,257,305	-	67,402	10,189,903	-
	77,986,242	23,556,991	11,284,715	90,258,518	11,101,837
Total long-term liabilities	\$ 202,728,464	\$ 65,062,386	\$ 59,195,769	\$ 208,595,081	\$ 17,814,419

Long-term liabilities include:

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

Capital Leases

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

Fiscal Year	Total
2014	\$ 277,282
2015	202,189
2016	124,554
2017	87,349
2018	41,722
Minimum lease payments	\$ 733,096
Less: Amount representing interest	58,296
Present value of net minimum lease payments	\$ 674,800

Assets acquired under capital leases consist mainly of photocopiers. Such assets are carried at \$1,854,300 with accumulated depreciation of \$948,832 as of June 30, 2013.

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.

Notes to the Consolidated Financial Statements (continued)

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, 2013 and 2012, was \$170,966,783. The combined principal amount outstanding at June 30, 2013 and 2012 was \$113,160,000 and \$119,660,000, respectively.

Series F 1999

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

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

Included in the Series F issuance was \$10,650,000 for construction of a new recreation facility at the University's Missoula campus. In September, 2005, the Series J 2005 Revenue Bond issuance advanced refunded the outstanding principal amount of this portion of the Series F 1999 issuance (see Series J 2005 below).

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.

In June, 2012 the remaining outstanding balance of \$15,290,000 of Series F was advanced refunded with the issuance of Series L 2012 Bonds, leaving a remaining outstanding balance of zero.

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.

In June, 2012 the remaining outstanding balance of \$15,175,000 of Series G was advanced refunded with the issuance of Series L 2012 Bonds, leaving a remaining outstanding balance of zero.

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 expansion of the Skaggs Building and \$2,950,000 for deferred maintenance on the Missoula campus.

In June, 2012 a portion of the outstanding balance of Series I Bonds was advanced refunded with the issuance of Series L 2012 Bonds. Prior to the advance refunding, the Series I total outstanding balance was \$20,660,000. \$9,460,000 was paid off with Series L, leaving a remaining balance of Series I of \$11,200,000.

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.

Notes to the Consolidated Financial Statements (continued)

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).

Series L 2012

On June 12, 2012, The University of Montana issued \$39,415,000 of Series L 2012 (Taxable and Tax Exempt) Refunding Revenue Bonds. The interest rates on the Series L 2012 bonds range from 2.250% to 5.000%. The bond proceeds from the sale of the Series L 2012 bonds provided funds to advance refund all of the \$15,290,000 outstanding Series F 1999 Bonds, all of the \$15,175,000 outstanding Series G 2002 Bonds and a portion of the outstanding Series I 2004 Bonds. Prior to the advance refunding, the Series I outstanding balance was \$20,660,000. \$9,460,000 of the Series I was paid off, leaving a remaining balance of \$11,200,000. As a result of the Series L issuance, and advance refunding, the bonds are considered legally defeased and as a result, the liability for those bonds is no longer recorded in the consolidated financial statements. The Series L issuance provided funds to pay costs associated with the bond issuance.

The debt service cash flows for the Series L 2012 Revenue Bonds (refunding portion) are less than the debt service cash flows for the advance refunded bonds by \$8,247,250. The economic gain for The University of Montana from the advanced refunding was \$6,589,962 (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, 2013 and 2012, \$115,097,018 and \$122,094,145, respectively, of bonds outstanding were considered defeased.

Notes to the Consolidated Financial Statements (continued)

Revenue Bonds Payable

As of June 30, 2013 annual principal payments are as follows:

Series I 2004		
Fiscal Year	Interest Rate	Principal
2014	4.750%	3,180,000
2015	3.700-3.750%	3,250,000
2016	3.750%	1,740,000
		<u>8,170,000</u>
Add net unamortized premium:		286,580
		<u><u>\$ 8,456,580</u></u>

Series J 2005		
Fiscal Year	Interest Rate	Principal
2014	4.000-4.500%	1,130,000
2015	4.000-4.500%	1,145,000
2016	4.000-4.500%	1,165,000
2017	4.000%	1,210,000
2018	4.125%	1,255,000
2019-2023	4.000-4.250%	7,070,000
2024-2028	4.000-4.250%	7,045,000
2029-2030	4.250%	2,260,000
		<u>22,280,000</u>
Add net unamortized premium:		34,321
		<u><u>\$ 22,314,321</u></u>

Series K 2010		
Fiscal Year	Interest Rate	Principal
2014	1.963%-2.545%	1,800,000
2015	2.545%-3.145%	1,860,000
2016	3.145%-3.634%	3,560,000
2017	3.634%-3.984%	5,475,000
2018	3.984%-4.368%	5,695,000
2019-2022	4.568%-4.800%	25,525,000
		<u>43,915,000</u>
Add unamortized premium:		189,300
		<u><u>\$ 44,104,300</u></u>

Notes to the Consolidated Financial Statements (continued)

Series L 2012

Fiscal Year	Interest Rate	Principal
2014	1.504%-5.000%	485,000
2015	1.504%-5.000%	585,000
2016	1.504%-5.000%	610,000
2017	1.504%-5.000%	645,000
2018	2.000%-5.000%	670,000
2019-2023	2.175%-5.000%	11,280,000
2024-2028	3.014%-4.000%	19,195,000
2029-2033	3.125%-4.000%	5,325,000
		38,795,000
Add net unamortized premium:		1,481,431
		\$ 40,276,431

Revenue Bond Payable Summary:

Total revenue bonds outstanding	\$ 113,160,000
Add: Net unamortized premiums and discounts	1,991,632
Less: Unamortized loss on advance refunding	3,802,747
Revenue bonds payable, net	\$ 111,348,885

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

Fiscal Year	Principal	Interest	Total Payment
2014	6,595,000	4,489,453	11,084,453
2015	6,840,000	4,225,362	11,065,362
2016	7,075,000	3,965,887	11,040,887
2017	7,330,000	3,726,551	11,056,551
2018	7,620,000	3,436,150	11,056,150
2019-2023	43,875,000	11,793,817	55,668,817
2024-2028	26,240,000	3,552,108	29,792,108
2029-2033	7,585,000	711,650	8,296,650
Total	\$ 113,160,000	\$ 35,900,978	\$ 149,060,978

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, 2013 is \$256,000.

Notes to the Consolidated Financial Statements (continued)

NOTE 14 – NOTES PAYABLE

Notes payable at June 30, 2013 consisted of the following:

Description	Interest Rate	Maturity Date	Principal Outstanding	Current Maturities
Wells Fargo Bank	4.48%	1-May-15	110,930	58,606
Total			\$ 110,930	\$ 58,606

The scheduled maturities of the notes payable are as follows:

Fiscal Year	Principal	Interest	Total
2014	\$ 58,606	\$ 4,369	\$ 62,975
2015	52,324	1,912	54,236
Total	\$ 110,930	\$ 6,281	\$ 117,211

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 Position.

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 (SBCEP) 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.

Advances from Primary Government at June 30, 2013, are as follows:

Description	Interest Rate	Maturity	Principal
Intercap – Public Safety	Variable	15-Feb-13	116,820
Intercap – HPER Building Renovation	Variable	15-Feb-37	2,197,597
Intercap – Intercollegiate Athletics	Variable	15-Feb-14	54,272
Intercap – PE Electrical Repair	Variable	15-Feb-19	252,699
Intercap – Facility Services	Variable	15-Aug-24	212,383
Intercap – Information Systems	Variable	15-Feb-17	598,855
Intercap – Facility Services	Variable	15-Feb-20	179,181
Intercap – ASUM	Variable	15-Feb-14	58,790
Intercap – KUFM Software	Variable	15-Feb-16	23,198
Intercap – Suburbans	Variable	15-Aug-16	70,365
Intercap – O'Connor Center Remodel	Variable	15-Feb-22	68,138
Intercap – Stadium Lighting	Variable	15-Feb-20	881,478
Intercap – IT Equipment Purchase/Install	Variable	15-Feb-16	401,625

Notes to the Consolidated Financial Statements (continued)

Advances from Primary Government at June 30, 2013 (continued):

Description	Interest Rate	Maturity	Principal
SBECP Project Loan-Health Sci GWC	5.279%	14-Feb-22	136,899
SBECP Project Loan-Health Sci Phase II	8.508%	15-Feb-24	48,764
SBECP Project Loan-Campus Steam Trap	3.000%	1-Feb-16	112,464
SBECP Project Loan-UM Skaggs Bldg	3.000%	1-Aug-27	1,330,860
SBECP Project Loan-Education Bldg	3.000%	1-Feb-26	203,699
SBECP Project Loan-Bio Research	3.000%	1-Feb-30	222,037
SBECP Project Loan-Anderson Bldg	3.000%	1-Feb-26	73,396
SBECP Project Loan-Fine Arts Bldg	3.000%	1-Feb-27	238,646
SBECP Project Loan-Music Bldg	3.000%	1-Feb-26	282,901
SBECP Project Loan-Campus Lighting	3.000%	1-Feb-26	118,286
SBECP Project Loan-UM COT Cooling Tower	3.000%	1-Aug-25	41,304
SBECP Project Loan-UM COT Lighting Upgr	3.000%	1-Aug-25	50,122
SBECP Project Loan-UM Lighting Ph II	3.000%	1-Feb-31	248,632
SBECP Project Loan-Campus DHW	3.000%	1-Feb-31	225,000
SBECP Project Loan-Facilities Lighting Upgr	3.000%	1-Feb-22	88,783
SBECP Project Loan-UM Lighting Ph III	3.000%	1-Feb-31	249,450
SBECP Project Loan-Mechanical Insulation	3.000%	1-Feb-27	122,932
SBECP Project Loan-Mansfield	0.000%	1-Aug-18	392,900
SBECP Project Loan-Law Lighting	0.000%	1-Aug-17	46,924
SBECP Project Loan-UM PARTV	0.000%	1-Aug-18	17,684
SBECP Project Loan-Chemistry Steam Trap	0.000%	1-Aug-15	14,569
SBECP Project Loan-Lighting Upgrade Ph III	3.000%	1-Feb-31	206,642
SBECP Project Loan-Wood-fired Boiler	5.829%	15-Feb-22	671,557
SBECP Project Loan-Library Admin & SUB	3.000%	1-Feb-30	223,818
SBECP Project Loan-UMW Campus Lighting	3.000%	1-Aug-24	119,402
SBECP Project Loan-UMW Upper Gym	0.000%	1-Aug-16	5,612
SBECP Project Loan-UMW Block Hall	0.000%	1-Aug-20	102,440
SBECP Project Loan-UMH Energy Upgrade	5.402%	30-Jun-26	55,021
SBECP Project Loan-Airport Facility	3.000%	1-Aug-31	348,227
SBECP Project Loan-Donaldson Energy	3.000%	19-Oct-28	384,074
SBECP Project Loan-Tech Mechanical Ins.	3.000%	1-Aug-23	296,997
MSTA loan-Research Offices	Variable	30-Jun-61	3,316,120
			<u>15,111,563</u>
Less Current Maturities			1,273,714
Total			<u><u>\$ 13,837,849</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
2014	1,273,714	356,877	\$ 1,630,592
2015	1,189,204	289,319	1,478,523
2016	1,211,344	274,214	1,485,558
2017	1,067,980	255,437	1,323,417
2018	904,465	237,017	1,141,482
2019-2023	3,807,436	907,221	4,714,657
2024-2028	2,369,161	572,353	2,941,514
2029-2033	921,725	351,926	1,273,650
2034-2038	320,084	279,916	600,000
2039-2043	362,100	237,900	600,000
2044-2048	409,631	190,369	600,000
2049-2053	463,401	136,599	600,000
2054-2058	524,229	75,771	600,000
2059-2061	287,090	12,909	299,998
Total	\$ 15,111,563	\$ 4,177,828	\$ 19,289,391

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 2013 and 2012 expressed as a percentage of covered payrolls were as follows:

	2013			2012		
	Covered Payroll	Employee	Employer	Covered Payroll	Employee	Employer
PERS	\$ 49,650,561	7.11%	7.22%	\$ 47,339,794	6.98%	7.17%
GWPORS	\$ 785,613	10.56%	9.00%	\$ 729,575	10.56%	9.00%
TRS	\$ 14,287,521	9.68%	9.86%	\$ 15,189,095	9.03%	9.85%

Notes to the Consolidated Financial Statements (continued)

The amounts contributed to the plan during years ending June 30, 2013, 2012, and 2011, were equal to the required contribution each year. The amounts contributed were as follows:

	Year ending June 30,		
	2013	2012	2011
<u>PERS</u>			
Employer	\$ 3,583,021	\$ 3,394,315	\$ 3,265,827
Employee	\$ 3,530,355	\$ 3,303,213	\$ 3,142,905
<u>GWPORS</u>			
Employer	\$ 70,705	\$ 65,662	\$ 68,344
Employee	\$ 82,961	\$ 77,043	\$ 80,190
<u>TRS</u>			
Employer	\$ 1,408,314	\$ 1,495,510	\$ 1,658,457
Employee	\$ 1,383,446	\$ 1,371,066	\$ 1,789,608

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

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

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

ORP

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

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

	Year ending June 30,	
	2013	2012
<u>FACULTY</u>		
Covered Payroll	\$ 84,538,723	\$ 79,937,787
Employer Contributions	\$ 5,035,126	\$ 4,761,095
Percent of Covered Payroll	5.956%	5.956%
Employee Contributions	\$ 5,911,456	\$ 5,630,191
Percent of Covered Payroll	6.992%	7.043%
<u>STAFF</u>		
Covered Payroll	\$ 9,918,612	\$ 9,357,683
Employer Contributions	\$ 445,346	\$ 420,160
Percent of Covered Payroll	4.490%	4.490%
Employee Contributions	\$ 697,170	\$ 646,820
Percent of Covered Payroll	7.030%	6.912%

Notes to the Consolidated Financial Statements (continued)

For the years ended June 30, 2013 and 2012, 4.72%, or \$3,990,227 and \$3,773,064, 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 \$265,819 and \$250,786, 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 \$278 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, 2013 and 2012, 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:

	2013	2012
Annual required contribution	\$ 5,196,958	\$ 5,196,958
Interest on net OPEB obligation	1,694,348	1,413,408
Annual OPEB cost (expense)	6,891,306	6,610,366
Contributions made	-	-
Increase in OPEB obligation	6,891,306	6,610,366
Net OPEB Obligation Beginning Balance	39,867,018	33,256,652
Net OPEB Obligation Ending Balance	\$ 46,758,324	\$ 39,867,018
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, 2011. The Montana University System actuarial valuation is required every two years. At the time of the valuation, the number of active University participants in the MUS health insurance plan was 3,000. The total inactive (retiree and dependent) participants was 934. As of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$48,159,444, 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 2013 and 2012 was \$26,525,837 and \$26,217,528, respectively, on annual covered payroll for the most recent actuarial valuation of \$166,132,779. The AAL as a percentage of annual covered payroll was 44.68%. 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, 2009, and 2011.

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, 2011</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, 2013 is \$149,060,978 with annual debt service requirements ranging from \$11.1 million in 2013 to \$998,400 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, 2013 and 2012:

	2013		2012	
	Revenues Pledged as Security for Debt	Net Similar Revenues	Revenues Pledged as Security for Debt	Net Similar Revenues
Student fees	\$ 12,187,799	\$ 122,306,910	\$ 12,688,369	\$ 124,293,893
<u>Sales and services:</u>				
Events revenue	5,665,829		5,903,175	
Continuing education	2,081,542		1,853,599	
Residence life	524,223		586,796	
Student union facilities	530,747		526,874	
Other sources	18,933		89,285	
<i>Total sales and services</i>	8,821,274	17,282,414	8,959,729	16,927,044
Residence life	14,479,886	14,480,117	14,614,458	14,619,288
Food services	12,107,410	12,245,073	13,095,714	13,126,570
<u>Other auxiliary revenues:</u>				
Residence life	497,349		439,830	
Food services	910,504		839,934	
Student union facilities	454,160		490,542	
Student health services	645,944		764,043	
Parking	1,625,828		1,661,573	
Recreation facilities	897,923		818,731	
Bookstore	3,068,993		3,127,279	
Printing services	608,605		506,659	
Field house facilities	263,262		235,460	
Other sources	397,874		343,918	
<i>Total other auxiliary revenues</i>	9,370,442	12,313,059	9,227,969	11,808,596
Land grant revenue	1,959,686	1,959,686	1,771,181	1,771,181
Investment income	715,800	2,325,070	593,554	1,566,772
Total pledged revenues	\$ 59,642,299	\$ 182,912,329	\$ 60,950,974	\$ 184,113,344

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.

Notes to the Consolidated Financial Statements (continued)

Buildings and contents – are insured for replacement value. For each loss covered by the state’s self-insurance program and commercial coverage, the University has a \$2,500 per occurrence retention.

General liability and tort claim coverage – include comprehensive general liability, auto liability, personal injury liability, officer’s and director’s liability, professional liability, aircraft liability, watercraft liability, leased vehicles and equipment liability, and are provided for by the University’s participation in the state’s self-insurance program. 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, 2012, the University had the following outstanding commitments under major capital and maintenance projects:

Project	Budget Authorization *	Total Expenditures through June		Funding Source
		2013		
Geothermal Mine Water System	\$ 1,072,744	722,550	DOE	
Upgrade Steam Dist. Phase II	\$ 4,246,242	3,372,795	LRBP-59th & 60th legislative sessions	
Gilkey Executive Education Ctr	\$ 9,300,000	418,238	Series M Revenue Bonds; Foundation Support	
Upgrade Steam Dist. Phase II	\$ 747,520	735,679	LRBP	
ISB 2nd Floor/4th Floor/Basement	\$ 3,600,000	723,417	Series M Revenue Bonds	
Curry Health Center Renovation	\$ 1,500,000	132,202	Financing; Plant fund	
UC Energy Performance	\$ 1,700,000	1,184,599	Student Fee; Plant funds	
Native American Center Basement	\$ 1,132,000	17,850	Private Donation	
Technology Modular Units	\$ 2,300,000	2,531	Technology Fee; Series M Revenue Bonds	
Missoula College	\$ 32,000,000	76,000	LRBP HB0005; Other campus funds	
Natural Resources Research Center Addition	\$ 10,000,000	-	LRBP HB0005; Tech Foundation	
Student Success(Athletics Remodel)	\$ 3,000,000	179,270	Foundation Support	
	<u>\$ 70,598,506</u>	<u>\$ 7,565,131</u>		

*Projects disclosed have budget authorization greater than \$500,000

Notes to the Consolidated Financial Statements (continued)

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

<u>Payable during the year ending June 30,</u>	<u>Total</u>
2014	\$ 391,841
2015	97,199
2016	44,431
2017	41,621
2018	17,142
	<u>\$ 592,234</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.

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, 2013 and 2012, \$93,155 and \$86,444, 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.

Notes to the Consolidated Financial Statements (continued)**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, 2013 and 2012, the following was transferred to the University for scholarships, academic or institutional support or capital expenses by the University foundations: \$11,589,624 and \$8,719,297, respectively with The University of Montana Foundation (406-243-2593), \$4,011,031 and \$2,885,155, respectively, with the Montana Tech Foundation (406-496-4532); and \$400,763 and \$499,231 respectively, with The University of Montana-Western Foundation (406-683-7305). In addition, \$1,413,320 and \$1,360,911 was transferred from the Montana Grizzly Scholarship Association (406-243-6485) for the fiscal years ended June 30, 2013 and 2012, respectively. For the fiscal years ended June 30, 2013 and 2012, the University foundations also expended \$2.8 million and \$4.3 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, 2013 and 2012, the University provided \$425,000 and \$494,005, 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, 2013 and December 31, 2012

	University of Montana Foundation *	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association*	Elimination	Total
ASSETS						
Cash and investments	\$ 176,151,028	\$ 31,745,210	\$ 4,797,759	\$ 3,669,594	\$ (1,308,338)	\$215,055,253
Other receivables, net of allowances	5,498,143	912,512	20,000	11,474	-	6,442,129
Fixed assets, net of depreciation	3,690,361	2,411,839	27,827	3,539	-	6,133,566
Other assets	1,803,267	101,190	-	76,191	-	1,980,648
	<u>\$ 187,142,799</u>	<u>\$ 35,170,751</u>	<u>\$ 4,845,586</u>	<u>\$ 3,760,798</u>	<u>\$ (1,308,338)</u>	<u>\$229,611,596</u>
LIABILITIES AND NET ASSETS						
Current liabilities associated with operations	\$ 570,556	\$ 566,755	\$ 4,191	\$ 289,326	\$ -	\$ 1,430,828
Note payable – other	-	-	40,000	-	-	40,000
Long-term liabilities – other	223,485	40,659	-	-	-	264,144
Liabilities to external beneficiaries	2,713,066	-	-	-	-	2,713,066
Custodial funds	21,992,974	-	-	-	(1,308,338)	20,684,636
	<u>25,500,081</u>	<u>607,414</u>	<u>44,191</u>	<u>289,326</u>	<u>(1,308,338)</u>	<u>25,132,674</u>
Net assets – unrestricted	6,096,695	2,277,260	314,767	1,790,032	-	10,478,754
Net assets – restricted	155,546,023	32,286,077	4,486,628	1,681,440	-	194,000,168
	<u>161,642,718</u>	<u>34,563,337</u>	<u>4,801,395</u>	<u>3,471,472</u>	<u>-</u>	<u>204,478,922</u>
	<u>\$ 187,142,799</u>	<u>\$ 35,170,751</u>	<u>\$ 4,845,586</u>	<u>\$ 3,760,798</u>	<u>\$ (1,308,338)</u>	<u>\$229,611,596</u>

* For the year ended June 30, 2013.

**For the year ended December 31, 2012.

STATEMENT OF FINANCIAL POSITION

June 30, 2012 and December 31, 2011

	University of Montana Foundation ***	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association*	Elimination	Total
ASSETS						
Cash and investments	\$ 159,401,299	\$ 30,163,799	\$ 4,363,944	\$ 3,318,352	\$ (1,457,582)	\$ 195,789,812
Other receivables, net of allowances	6,509,991	1,446,528	101,411	34,750	-	8,092,680
Fixed assets, net of depreciation	3,850,105	1,491,317	35,027	4,853	-	5,381,302
Other assets	1,771,559	101,190	-	33,252	-	1,906,001
	<u>\$ 171,532,954</u>	<u>\$ 33,202,834</u>	<u>\$ 4,500,382</u>	<u>\$ 3,391,207</u>	<u>\$ (1,457,582)</u>	<u>\$ 211,169,795</u>
LIABILITIES AND NET ASSETS						
Current liabilities associated with operations	\$ 431,413	\$ 147,921	\$ 2,003	\$ 14,130	\$ -	\$ 595,467
Note payable – other	-	-	40,000	307,312	-	347,312
Long-term liabilities – other	248,055	63,263	-	-	-	311,318
Liabilities to external beneficiaries	2,837,425	-	-	-	-	2,837,425
Custodial funds	20,509,718	-	-	-	(1,457,582)	19,052,136
	<u>24,026,611</u>	<u>211,184</u>	<u>42,003</u>	<u>321,442</u>	<u>(1,457,582)</u>	<u>23,143,658</u>
Net assets – unrestricted	5,143,513	2,090,412	277,727	1,153,661	-	8,665,313
Net assets – restricted	142,362,830	30,901,238	4,180,652	1,916,104	-	179,360,824
	<u>147,506,343</u>	<u>32,991,650</u>	<u>4,458,379</u>	<u>3,069,765</u>	<u>-</u>	<u>188,026,137</u>
	<u>\$ 171,532,954</u>	<u>\$ 33,202,834</u>	<u>\$ 4,500,382</u>	<u>\$ 3,391,207</u>	<u>\$ (1,457,582)</u>	<u>\$ 211,169,795</u>

* For the year ended June 30, 2012.

**For the year ended December 31, 2011.

Notes to the Consolidated Financial Statements (continued)

STATEMENT OF ACTIVITIES

For the year ended June 30, 2013 and December 31, 2012

	University of Montana Foundation *	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association*	Total
REVENUES					
Contributions	\$ 12,018,457	\$ 3,582,218	\$ 558,950	\$ 1,586,015	\$ 17,745,640
investments	15,052,130	2,863,599	361,796	225,360	18,502,885
Administrative fees	462,467	-	-	-	462,467
Contract for services	425,000	-	28,652	491,439	945,091
Other income	2,611,801	21,764	17,100	-	2,650,665
EXPENSES					
Program services	\$ 11,249,533	\$ 4,011,031	\$ 400,763	\$ 1,413,320	\$ 17,074,647
Supporting services	5,027,789	884,863	222,719	487,787	6,623,158
	\$ 16,277,322	\$ 4,895,894	\$ 623,482	\$ 1,901,107	\$ 23,697,805
Change in net assets before non-operating items	\$ 14,292,533	\$ 1,571,687	\$ 343,016	\$ 401,707	\$ 16,608,943
NON OPERATING EXPENSES					
Payments to beneficiaries and change in liabilities due to external beneficiaries	(156,158)	-	-	-	(156,158)
Change in net assets	\$ 14,136,375	\$ 1,571,687	\$ 343,016	\$ 401,707	\$ 16,452,785
	-	-	-	-	-
Net assets, beginning of fiscal year	147,506,343	32,991,650	4,458,379	3,069,765	188,026,137
Net assets, end of fiscal year	\$ 161,642,718	\$ 34,563,337	\$ 4,801,395	\$ 3,471,472	\$ 204,478,922

* For the year ended June 30, 2013.

**For the year ended December 31, 2012.

STATEMENT OF ACTIVITIES

For the year ended June 30, 2012 and December 31, 2011

	University of Montana Foundation ***	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association*	Total
REVENUES					
Contributions	\$ 13,747,813	\$ 3,660,984	\$ 842,619	\$ 1,651,342	\$ 19,902,758
investments	(1,486,944)	(1,397,352)	(34,431)	(9,038)	(2,927,765)
Administrative fees	479,272	-	-	-	479,272
Contract for services	425,000	69,005	29,611	411,074	934,690
Loss on sale of assets	-	-	-	-	-
Other income	1,788,980	(11,009)	30,550	-	1,808,521
	\$ 14,954,121	\$ 2,321,628	\$ 868,349	\$ 2,053,378	\$ 20,197,476
EXPENSES					
Program services	\$ 9,470,846	\$ 2,885,156	\$ 499,231	\$ 1,360,911	\$ 14,216,144
Supporting services	4,902,301	774,422	268,872	446,837	6,392,432
	\$ 14,373,147	\$ 3,659,578	\$ 768,103	\$ 1,807,748	\$ 20,608,576
Change in net assets before non-operating items	\$ 580,974	\$ (1,337,950)	\$ 100,246	\$ 245,630	\$ (411,100)
NON-OPERATING EXPENSES					
Payments to beneficiaries and change in liabilities due to external beneficiaries	(368,881)	-	-	-	(368,881)
Change in net assets	212,093	(1,337,950)	100,246	245,630	(779,981)
	-	-	-	-	-
Net assets, beginning of fiscal year	\$ 147,294,250	\$ 34,329,600	\$ 4,358,133	\$ 2,824,135	\$ 188,806,118
Net assets, end of fiscal year	\$ 147,506,343	\$ 32,991,650	\$ 4,458,379	\$ 3,069,765	\$ 188,026,137

* For the year ended June 30, 2012.

**For the year ended December 31, 2011.

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, 2012 and 2011. The financial information for all the other component units is as of June 30, 2013 and 2012.

	Fair Market Value	
	2013	2012
Investments held by component units:		
Stocks and bonds	\$ 64,194,521	\$ 57,379,826
Money market and certificates of	1,879,500	1,865,942
Alternative investments	138,729,597	124,625,451
Real property	472,546	472,546
Other	1,843,902	1,892,704
	<u>\$ 207,120,066</u>	<u>\$ 186,236,470</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, 2013, were as follows:

Functional Classification:	Natural Classification							Total
	Compensation & benefits	OPEB*	Supplies & other services	Utilities	Communication	Scholarships	Depreciation	
Instruction	\$ 102,152,798	\$ 2,503,526	\$ 8,742,139	\$ 28,369	\$ 435,854	\$ -	\$ -	\$ 113,862,686
Research	34,635,175	766,272	13,356,095	27,902	182,290	-	-	48,967,734
Public service	12,675,504	386,510	5,804,897	523	110,259	-	-	18,977,692
Academic support	21,426,703	657,431	10,169,692	1,579	407,338	-	-	32,662,743
Student services	19,695,859	609,333	9,514,476	16,321	450,234	-	-	30,286,223
Institutional support	20,952,956	626,583	7,125,487	5,327	716,226	-	-	29,426,579
Operation and maintenance of plant	13,836,578	511,810	10,843,694	5,940,102	257,203	-	-	31,389,386
Scholarships and fellowships	-	-	-	-	-	27,743,539	-	27,743,539
Auxiliary enterprises	25,001,720	829,840	13,480,551	3,383,095	151,357	-	-	42,846,563
Depreciation	-	-	-	-	-	-	23,806,165	23,806,165
	\$ 250,377,293	\$ 6,891,306	\$ 79,037,030	\$ 9,403,217	\$ 2,710,760	\$ 27,743,539	\$ 23,806,165	\$ 399,969,311

* Other Post Employment Benefits

The University's operating expenses by natural and functional classifications for the year ended June 30, 2012, were as follows:

Functional Classification:	Natural Classification							Total
	Compensation & benefits	OPEB*	Supplies & other services	Utilities	Communication	Scholarships	Depreciation	
Instruction	\$ 98,024,634	\$ 2,389,174	\$ 9,196,219	\$ 28,705	\$ 446,621	\$ -	\$ -	\$ 110,085,352
Research	33,708,407	761,126	14,060,918	26,485	231,878	-	-	48,788,814
Public service	12,511,438	329,095	5,046,835	8,680	136,780	-	-	18,032,829
Academic support	21,819,084	627,890	9,451,552	600	267,228	-	-	32,166,355
Student services	17,939,396	602,325	9,172,979	11,043	397,989	-	-	28,123,732
Institutional support	20,260,387	597,610	7,394,444	42	811,347	-	-	29,063,829
Operation and maintenance of plant	13,311,096	486,490	10,118,991	6,179,618	260,008	-	-	30,356,204
Scholarships and fellowships	-	-	-	-	-	29,551,301	-	29,551,301
Auxiliary enterprises	23,982,285	816,655	13,943,203	3,514,462	232,617	-	-	42,489,223
Depreciation	-	-	-	-	-	-	22,373,703	22,373,703
	\$ 241,556,727	\$ 6,610,365	\$ 78,385,141	\$ 9,769,635	\$ 2,784,469	\$ 29,551,301	\$ 22,373,703	\$ 391,031,341

* 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, 2009 and 2011 were as follows:

	2007	2009	2011
Actuarial accrued liability (AAL)	\$ 78,187,418	\$ 80,475,030	\$ 48,159,444
Actuarial value of plan assets	-	-	-
Unfunded actuarial accrued liability (UAAL)	\$ 78,187,418	\$ 80,475,030	\$ 48,159,444
Funded ratio (actuarial value of plan assets/AAL)	0.00%	0.00%	0.00%
Covered payroll (active plan members)	\$ 122,541,536	\$ 167,395,949	\$ 165,497,391
UAAL as a percentage of covered payroll	63.80%	48.07%	44.51%

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:

Actuarial Valuation Date:	July 1, 2007	July 1, 2009	July 1, 2011
Interest/Discount rate	4.25%	4.25%	4.25%
Projected payroll increases	3.00%	2.50%	2.50%
Participant Percentage:			
Future retirees assumed to elect coverage at retirement	45.00%	55.00%	55.00%
Future eligible spouses of future retirees assumed to elect coverage	59.00%	60.00%	60.00%

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

<u>DESCRIPTION</u>	<u>Fall 2012</u>	<u>Fall 2011</u>	<u>Fall 2010</u>	<u>Fall 2009</u>	<u>Fall 2008</u>
Enrollment (Headcount) ¹	20,836	21,530	21,371	20,248	18,979
	<u>FY2013</u>	<u>FY2012</u>	<u>FY2011</u>	<u>FY2010</u>	<u>FY2009</u>
Enrollment (FTE) ²					
Colleges of Technology	3,289	3,338	3,304	3,018	2,560
Undergraduate	12,680	13,386	13,785	13,181	12,565
Graduate	1,908	1,985	1,950	1,900	1,805
	17,877	18,709	19,039	18,099	16,930
Enrollment (FTE) ²					
In-State students	13,809	14,431	14,749	14,090	13,066
Out-of-State students	2,964	3,171	3,141	2,958	2,905
Western Undergraduate Exchange	1,104	1,107	1,149	1,051	959
	17,877	18,709	19,039	18,099	16,930
	<u>FY2013</u>	<u>FY2012</u>	<u>FY2011</u>	<u>FY2010</u>	<u>FY2009</u>
Employees (FTE) - All Funds ²					
Contract Faculty	1,048	1,133	1,112	1,073	1,044
Contract Admin & Professional	603	561	543	515	502
Classified	1,246	1,363	1,349	1,319	1,311
GTA/GRA	199	186	188	178	174
Part Time and Other	682	579	583	558	530
	3,778	3,822	3,774	3,643	3,562
	<u>School Year Ended</u>				
	<u>6/30/2013</u>	<u>6/30/2012</u>	<u>6/30/2011</u>	<u>6/30/2010</u>	<u>6/30/2009</u>
Degrees Granted ³					
Certificate	175	144	182	149	234
Associate	692	668	555	522	455
Undergraduate	2,481	2,509	2,535	2,292	2,177
Graduate	888	828	802	723	751
	4,236	4,149	4,074	3,686	3,617

¹ Source: MUS Data Warehouse

² Source: CHE Operating Reports 2008-2013

³ Source: IPEDS Completion Reports 2008-2013

⁴ Restated

UNIVERSITY OF
MONTANA

UNIVERSITY RESPONSE



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JAN 02 2014
LEGISLATIVE AUDIT DIV.

December 30, 2013

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, I want to extend our appreciation to you and your staff for their work on the University of Montana's Financial Statement Audit for the fiscal year ending June 30, 2013. The audit by the legislative audit staff has been professional and a cooperative process. The University considers accountability for all funds important and values the input provided by the legislative audit staff.

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

Sincerely,

A handwritten signature in cursive script that reads "Royce C. Engstrom".

Royce C. Engstrom,
President
University of Montana

RCE/rp
Englet810

Cc: Clayton Christian, Commissioner of Higher Education

Office of the President