

**University of Montana  
Facilities Improvements and Refunding Revenue Bonds  
Series K 2010, Series L 2012, Series M 2013,  
Series N 2015  
Pledged Revenue Funds**

FINANCIAL STATEMENTS, INDEPENDENT AUDITOR'S REPORTS,  
AND CONTINUING DISCLOSURE INFORMATION

June 30, 2017

**Prepared by**

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UNIVERSITY OF MONTANA  
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS  
SERIES K 2010, SERIES L 2012, SERIES M 2013, SERIES N 2015  
PLEDGED REVENUE FUNDS

*June 30, 2017*

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## INDEPENDENT AUDITOR'S REPORT

Montana Board of Regents  
University of Montana  
Missoula, Montana

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the University of Montana Facilities Improvement and Refunding Revenue Bonds Series K 2010, Series L 2012, Series M 2013, and Series N 2015 Pledged Revenue Funds, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the financial statements as titled on pages 4 through 12.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting provisions of the restrictive covenants contained in the Revenue Bond Indentures of Trust. Management is also responsible for the design, implementation, and maintenance of internal control 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 conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 control relevant to the entity'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 entity's internal control. 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 evaluating 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, the financial statements referred to above present fairly, in all material respects, the Revenues, Expenditures, Pledged Revenues Available for Debt Service and the Pledged Revenue Funds of the University of Montana Facilities Improvement and Refunding Revenue Bonds Series K 2010, Series L 2012, Series M 2013 and Series N 2015 as of and for the year ended June 30, 2016, in accordance with the restrictive covenants contained in the Revenue Bond Indentures of Trust as described in Note A.

## **Report on Continuing Disclosure Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to above. The Continuing Disclosure Information presented on Pages 22 through 38, is presented for the purpose of meeting the continuing disclosures required by Rule 15c2-12 of the Securities and Exchange Commission, under the Securities Exchange Act of 1934, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the Continuing Disclosure Information is fairly stated in all material respects in relation to the financial statements referred to above. The information that pertains to future economic outlook, such as enrollment figures for periods after June 30, 2017, and the information on pages 36 through 39, which is the responsibility of management, is of a nonaccounting nature or outside the scope of our audit and has not been subjected to the auditing procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion or provide any assurance on it.

## **Basis of Accounting**

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of the financial reporting provisions specified in the restrictive covenants contained in the Revenue Bond Indentures of Trust, as discussed in Note A, which is a basis of accounting other than accounting principles generally accepted in the United States. Our opinion is not modified with respect to that matter.

## **Restriction on Use**

This report is intended solely for the information and use of the administration of the University of Montana and the bond counsel, and is not intended to be and should not be used by anyone other than these specified parties.

*Wipfli LLP*

Missoula, Montana  
December 1, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
UNIVERSITY REVENUE BOND INDENTURE

Montana Board of Regents  
University of Montana  
Missoula, Montana

We have audited, in accordance with auditing standards generally accepted in the United States, the financial statements of the University of Montana Facilities Improvement and Refunding Revenue Bonds Series K 2010, Series L 2012, Series M 2013, and Series N 2015 Pledged Revenue Funds, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the financial statements as titled on pages 4 through 12, and we have issued our report thereon dated December 1, 2017.

In connection with our audit, nothing came to our attention that caused us to believe that the University of Montana failed to comply with the restrictive covenants contained in Article VIII of the Indenture of Trust, currently containing Series K 2010 Tenth Supplemental Indenture of Trust, Series L 2012 Eleventh Supplemental Indenture of Trust, Series M 2013 Twelfth Supplemental Indenture of Trust and Series N 2015 Thirteenth Supplemental Indenture of Trust, originally dated November 1, 1993, and subsequent amendments there to, with U.S. Bank National Association (formerly First Trust Company of Montana National Association), insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the University's noncompliance with the above referenced restrictive covenants contained in the Revenue Bond Indentures of Trust, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the administration of the University of Montana and the bond counsel and is not intended to be and should not be used by anyone other than those specified parties.

*Wipfli LLP*

Missoula, Montana  
December 1, 2017

UNIVERSITY OF MONTANA  
 FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS  
 SERIES K 2010, SERIES L 2012, SERIES M 2013, SERIES N 2015  
 PLEDGED REVENUE FUNDS

DEBT SERVICE COVERAGE

*in accordance with the restrictive covenants contained in the Revenue Bond Indentures of Trust  
 June 30, 2017*

AUXILIARY FACILITIES	
Operating revenues	\$ 60,837,718
Operating expenditures	<u>47,293,114</u>
NET AUXILIARY FACILITIES OPERATING REVENUE	<u>13,544,604</u>
OTHER PLEDGED REVENUES	
Investment income	756,530
Student building fees	1,924,759
Academic facilities fees	1,371,107
Events revenue	6,142,405
Continuing education	4,342,011
Land grant income	1,982,462
Limited facilities and admin payments and unrestricted general fund revenue	<u>1,827,415</u>
Total other pledged revenues	<u>18,346,689</u>
TOTAL PLEDGED REVENUES	
AVAILABLE FOR DEBT SERVICE	<u>\$ 31,891,293</u>
ACTUAL DEBT SERVICE	<u>\$ 11,751,322</u>
ACTUAL COVERAGE	<u>2.71</u>
REQUIRED BY INDENTURE	<u>1.15</u>

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

UNIVERSITY OF MONTANA  
 FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS  
 SERIES K 2010, SERIES L 2012, SERIES M 2013, SERIES N 2015  
 PLEDGED REVENUE FUNDS

**COMBINED REVENUES AND EXPENDITURES**

*in accordance with the restrictive covenants contained in the Revenue Bond Indentures of Trust*

*June 30, 2017*

AUXILIARY FACILITIES	Missoula	Butte	Dillon	Helena	Total
<b>OPERATING REVENUES</b>					
Residence Life	\$ 15,312,701	\$ 1,281,741	\$ 1,553,016	\$ -	\$ 18,147,458
Food Services	12,037,124	1,695,305.47	2,654,615.08	722.34	16,387,767
Student Union Facilities	4,108,929	647,620.26	107,991.20	120,461.72	4,985,002
Student Health Services	6,021,405	-	-	-	6,021,405
Parking	2,232,873	195,341.50	30,094.50	13,325.00	2,471,634
Recreational Facilities	3,433,717	-	207,281.35	-	3,640,998
Bookstore	-	1,174,722.27	729,751.63	768,291.99	2,672,766
Printing Services	1,290,592	-	-	-	1,290,592
Adams Center	2,326,287	-	-	-	2,326,287
Miscellaneous	2,414,922	-	457,602.00	21,285.00	2,893,809
<b>Total operating revenues</b>	<b>49,178,550</b>	<b>4,994,731</b>	<b>5,740,352</b>	<b>924,086</b>	<b>60,837,718</b>
<b>AUXILIARY FACILITIES</b>					
<b>OPERATING EXPENDITURES</b>					
Residence Life	8,362,668	896,019	1,331,422	-	10,590,109
Food Services	10,720,323	2,155,098	2,416,015	13,142	15,304,578
Student Union Facilities	2,811,374	439,321	92,495	-	3,343,190
Student Health Services	5,535,152	-	-	-	5,535,152
Parking	1,796,971	165,566	16,708	1,530	1,980,775
Recreational Facilities	2,326,972	-	450,409	-	2,777,381
Bookstore	-	1,107,377	758,577	785,580	2,651,534
Printing Services	1,358,288	-	-	-	1,358,288
Adams Center	1,782,810	-	-	-	1,782,810
Miscellaneous	1,369,773	-	574,957	24,567	1,969,297
<b>Total operating expenditures</b>	<b>36,064,331</b>	<b>4,763,381</b>	<b>5,640,583</b>	<b>824,819</b>	<b>47,293,114</b>
<b>NET AUXILIARY FACILITIES</b>					
<b>OPERATING REVENUE</b>	<b>13,114,219</b>	<b>231,350</b>	<b>99,769</b>	<b>99,267</b>	<b>13,544,604</b>
<b>OTHER PLEDGED REVENUES</b>					
Investment income	666,064	9,825	23,286	57,355	756,530
Student building fees	1,085,158	518,394	266,001	55,206	1,924,759
Academic facilities fees	1,097,097	163,172	68,428	42,410	1,371,107
Events revenue	6,037,428	-	104,977	-	6,142,405
Continuing education	4,342,011	-	-	-	4,342,011
Land grant income	242,465	1,288,578	451,419	-	1,982,462
Limited facilities and admin payments and unrestricted general fund revenue	1,827,415	-	-	-	1,827,415
<b>Total other pledged revenues</b>	<b>15,297,638</b>	<b>1,979,969</b>	<b>914,111</b>	<b>154,971</b>	<b>18,346,689</b>
<b>TOTAL PLEDGED REVENUES</b>					
<b>AVAILABLE FOR DEBT SERVICE</b>	<b>\$ 28,411,857</b>	<b>\$ 2,211,319</b>	<b>\$ 1,013,880</b>	<b>\$ 254,238</b>	<b>\$ 31,891,293</b>

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

UNIVERSITY OF MONTANA  
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS  
SERIES K 2010, SERIES L 2012, SERIES M 2013, SERIES N 2015  
PLEDGED REVENUE FUNDS

**DEBT SERVICE FUND, AUXILIARY REPAIR AND REPLACEMENT FUND, AND  
CONSTRUCTION FUND - STATEMENT OF CHANGES IN FUND BALANCE - MISSOULA**

*in accordance with the restrictive covenants contained in the Revenue Bond Indentures of Trust  
for the year ended June 30, 2017*

	Debt Service Fund	Auxiliary Repair & Replacement Fund	Construction Fund
<b>INCOME</b>			
Investments	\$ 496	\$ 2,915	\$ 37
Other income	182,383	12,013	-
Allocations within funds	8,798	(177,562)	-
Total income (loss)	191,677	(162,634)	37
<b>EXPENDITURES AND TRANSFERS</b>			
Expenditures			
Principal and interest on indebtedness	9,792,117	-	-
Expended for plant facilities	-	1,798,289	-
Trustee and audit fees	47,337	-	-
Total expenditures	9,839,454	1,798,289	-
Transfers in			
From pledged revenue fund	10,438,845	1,341,005	-
From Series M Issuance/Construction Draws	9,077	-	-
From various funds for pre-paid bond debt service	-	-	-
From various funds for repair and maintenance	-	2,043,207	-
Total transfers in	10,447,922	3,384,212	-
Transfers out			
Transfers to other plant fund projects	577,086	78,916	-
To debt service funds	-	-	9,077
Total transfers out	577,086	78,916	9,077
Total expenditures and transfers, net	31,382	1,507,007	(9,077)
<b>NET INCREASE (DECREASE) FOR THE YEAR</b>	223,059	1,344,373	(9,040)
<b>FUND BALANCE</b>			
Beginning of year	1,572,118	6,177,487	9,040
End of year	\$ 1,795,177	\$ 7,521,860	\$ -
<b>FUND BALANCE CONSISTS OF:</b>			
Cash in pooled funds	\$ 2,142,204	\$ 6,399,487	\$ -
MUS pooled investments	-	625,000	-
Investments with trustee	9,558	500,964	-
Prepaid Expenditures	-	-	-
Construction in progress	-	-	-
Accrued bond interest payable	(356,585)	-	-
Accounts payable and accrued expenditures	-	(3,591)	-
	\$ 1,795,177	\$ 7,521,860	\$ -

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



UNIVERSITY OF MONTANA  
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS  
SERIES K 2010, SERIES L 2012, SERIES M 2013, SERIES N 2015  
PLEDGED REVENUE FUNDS

**DEBT SERVICE FUND AND CONSTRUCTION FUND -  
STATEMENT OF CHANGES IN FUND BALANCE - BUTTE**

*in accordance with the restrictive covenants contained in the Revenue Bond Indentures of Trust  
for the year ended June 30, 2017*

	<u>Debt Service Fund</u>	<u>Construction Fund</u>
INCOME		
Investments	\$ 46	\$ -
EXPENDITURES AND TRANSFERS		
Expenditures		
Principal and interest on indebtedness	1,096,106	-
Expended for plant facilities	-	-
Total expenditures	<u>1,096,106</u>	<u>-</u>
Transfers in		
From net investment in plant	96,272	(96,272)
From unexpended plant fund	1,099,851	-
From Dillon subsidy for Series J	-	-
Total transfers in	<u>1,196,123</u>	<u>(96,272)</u>
Total expenditures and transfers, net	<u>(100,017)</u>	<u>(96,272)</u>
NET INCREASE (DECREASE) FOR THE YEAR	100,063	(96,272)
FUND (DEFICIT) BALANCE		
Beginning of year	<u>(34,749)</u>	<u>96,272</u>
End of year	<u>\$ 65,314</u>	<u>\$ -</u>
FUND (DEFICIT) BALANCE CONSISTS OF:		
Cash in pooled funds	\$ -	\$ -
Investments with trustee	96,315	-
Accounts payable and accrued expenditures	-	-
Accrued bond interest payable	<u>(31,001)</u>	<u>-</u>
	<u>\$ 65,314</u>	<u>\$ -</u>

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

UNIVERSITY OF MONTANA  
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS  
SERIES K 2010, SERIES L 2012, SERIES M 2013, SERIES N 2015  
PLEDGED REVENUE FUNDS

**DEBT SERVICE FUND AND CONSTRUCTION FUND -  
STATEMENT OF CHANGES IN FUND BALANCE - DILLON**

*in accordance with the restrictive covenants contained in the Revenue Bond Indentures of Trust  
for the year ended June 30, 2017*

	Debt Service Fund	Construction Fund
<b>INCOME</b>		
Investments	\$ 26	\$ -
<b>EXPENDITURES AND TRANSFERS</b>		
<b>Expenditures</b>		
Principal and interest on indebtedness	786,119	-
Operating and administrative costs	-	-
Total expenditures	786,119	-
<b>Transfers in</b>		
From pledged revenue funds	784,914	-
From net investment in plant	-	-
Total transfers in	784,914	-
<b>Transfers out</b>		
To debt service fund	-	-
Total expenditures and transfers, net	(1,205)	-
<b>NET (DECREASE) FOR THE YEAR</b>	(1,179)	-
<b>FUND BALANCE</b>		
Beginning of year	1,261	-
End of year	\$ 82	\$ -
<b>FUND BALANCE CONSISTS OF:</b>		
Cash in pooled funds	\$ 21,700	\$ -
Investment with trustee	25	-
Unamortized bond issuance costs	-	-
Accrued bond interest payable	(21,643)	-
Bonds payable, net of bond discount	-	-
	\$ 82	\$ -

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

UNIVERSITY OF MONTANA  
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS  
SERIES K 2010, SERIES L 2012, SERIES M 2013, SERIES N 2015  
PLEDGED REVENUE FUNDS

**DEBT SERVICE FUND AND CONSTRUCTION FUND -  
STATEMENT OF CHANGES IN FUND BALANCE - HELENA**  
*in accordance with the restrictive covenants contained in the Revenue Bond Indentures of Trust  
for the year ended June 30, 2017*

	Debt Service Fund	Construction Fund
<b>INCOME</b>		
Investments	\$ 5	\$ -
<b>EXPENDITURES AND TRANSFERS</b>		
<b>Expenditures</b>		
Principal and interest on indebtedness	76,980	-
Bond issuance cost/discount amortization	-	-
Total expenditures	76,980	-
<b>Transfers in</b>		
Mandatory transfers	77,257	-
From unexpended	-	-
From net investment in plant fund	-	-
Total transfers in	77,257	-
<b>Transfers out</b>		
Mandatory transfers	-	-
To unexpended plant fund	-	-
Total transfers out	-	-
Total expenditures and transfers, net	277	-
<b>NET INCREASE FOR THE YEAR</b>	282	-
<b>FUND BALANCE</b>		
Beginning of year	4,770	-
End of year	\$ 5,052	\$ -
<b>FUND BALANCE CONSISTS OF:</b>		
Cash in pooled funds	\$ 7,510	\$ -
Investments with trustee	6	-
Unamortized bond issuance costs	-	-
Unamortized discount on bonds payable	-	-
Accounts payable and accrued expenditures	(2,464)	-
Bonds payable, net of bond discount	-	-
	\$ 5,052	\$ -

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

UNIVERSITY OF MONTANA  
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS  
SERIES K 2010, SERIES L 2012, SERIES M 2013, SERIES N 2015  
PLEDGED REVENUE FUNDS

DEBT SERVICE FUND  
INVESTMENTS WITH TRUSTEE

*in accordance with the restrictive covenants contained in the Revenue Bond Indentures of Trust  
June 30, 2017*

	<u>Missoula</u>	<u>Butte</u>	<u>Dillon</u>	<u>Helena</u>
Cash equivalents	<u>\$ 9,558</u>	<u>\$ 96,315</u>	<u>\$ 25</u>	<u>\$ 6</u>

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

UNIVERSITY OF MONTANA  
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS  
SERIES K 2010, SERIES L 2012, SERIES M 2013, SERIES N 2015  
PLEDGED REVENUE FUNDS

AUXILIARY REPAIR AND REPLACEMENT FUND - MISSOULA  
INVESTMENTS WITH TRUSTEE

*in accordance with the restrictive covenants contained in the Revenue Bond Indentures of Trust  
June 30, 2017*

Cash equivalents

\$ 500,964

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

UNIVERSITY OF MONTANA  
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS  
SERIES K 2010, SERIES L 2012, SERIES M 2013, SERIES N 2015  
PLEDGED REVENUE FUNDS

CONSTRUCTION FUND - MISSOULA  
INVESTMENTS WITH TRUSTEE

*in accordance with the restrictive covenants contained in the Revenue Bond Indentures of Trust  
June 30, 2017*

Cash equivalents

\$ -

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

UNIVERSITY OF MONTANA  
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS  
SERIES K 2010, SERIES L 2012, SERIES M 2013, SERIES N 2015  
PLEDGED REVENUE FUNDS

NOTES TO FINANCIAL STATEMENTS

*June 30, 2017*

**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity. Presentation of financial information in this report is limited to that portion of the University's operations associated specifically with the Facilities Improvement and Refunding Revenue Bonds Series K 2010, Series L 2012, Series M 2013 and Series N 2015 and does not include all financial activities of the University.

Basis of Presentation. The accompanying statements have been prepared on the accrual basis. The statement of debt service coverage and the statement of revenues and expenditures are statements of financial activities for the reporting period that relate to specific accounts and pledged funds as identified in the restrictive covenants contained in the Revenue Bond Indentures of Trust.

Fund Accounting. In order to ensure observance of limitations and restrictions placed on the use of the available resources, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with the nature and purpose of such funds. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

**AUXILIARY FACILITIES GROSS PLEDGED REVENUES DERIVED FROM:**

UM Missoula Campus

1. Housing (Family Housing, Residence Halls, Biological Station Lodging, Lubrecht Lodging).
2. Field House Facilities Operations (including revenues from various athletic, concert, and other activities held in arenas, fieldhouses and similar facilities including Washington Grizzly Stadium, Adams Center, and Dornblaser Field; but excluding Events Revenues which constitute Net Pledged Revenues and not Auxiliary Facilities Gross Pledged Revenues).
3. Student Union Facilities (including all Campus Card revenues).
4. Parking Facilities.
5. Recreation Facilities (including all recreation fees and golf course revenues).
6. Printing Services.
7. Food Services (all dining services facilities including revenue from concessions and Biological Station; but excluding the Missoula College snack bar).
8. Residential Rental Property.
9. Student Health and Dental Services, including health service fees.
10. Auxiliary Administration (consisting of lease rentals derived from the rental and leasing of Auxiliary Facilities).

Continued

UNIVERSITY OF MONTANA  
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS  
SERIES K 2010, SERIES L 2012, SERIES M 2013, SERIES N 2015  
PLEDGED REVENUE FUNDS

NOTES TO FINANCIAL STATEMENTS

*June 30, 2017*

**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, continued

UM Missoula Campus, continued

11. Gilkey Executive Education Center.

UM Butte Campus

1. Housing (Family Housing and Residence Halls).
2. Food Services (all dining services).
3. Student Union Facilities.
4. Parking Facilities.
5. Bookstore.
6. Facilities Rental (consisting of lease rental derived from rental and leasing of Auxiliary Facilities).

UM Dillon Campus

1. Housing (Residential Rentals, Family Housing and Residence Halls).
2. Food Services (Dining Facilities).
3. Student Union Facilities.
4. Parking Facilities.
5. Recreation Facilities (including PE Complex).
6. Bookstore.
7. Birch Creek.
8. Event Scheduling.

UM Helena Campus

1. Food Service (Dining Facilities).
2. Student Union Facilities.
3. Bookstore.
4. Parking Facilities.

Continued



UNIVERSITY OF MONTANA  
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS  
SERIES K 2010, SERIES L 2012, SERIES M 2013, SERIES N 2015  
PLEDGED REVENUE FUNDS

NOTES TO FINANCIAL STATEMENTS

*June 30, 2017*

**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, continued

AUXILIARY FACILITIES NET PLEDGED REVENUES:

UM Missoula Campus

1. Investment Income.
2. Student Building Fees.
3. UC Renovation Fee.
4. Continuing Education (non-credit).
5. Information Technology.
6. Land Grant Income.
7. Events Revenue.
  - (a) Revenues derived from all UM sponsored ticket sales for athletic, concert and other events held in stadiums, arenas, fieldhouses and similar facilities inclusive of Washington Grizzly Stadium, Adams Center, and Dornblaser Field.
  - (b) All revenues generated from the operations of the Dennison Theatre.
8. Academic Facilities Fee.
9. Limited Facilities and Admin Payments and Unrestricted General Fund Revenue.

UM Butte Campus

1. Investment Income.
2. Student Building Fees.
3. Land Grant Income.
4. Debt Service Grant.
5. Academic Facilities Fee.

UM Dillon Campus

1. Investment Income.
2. Student Building Fee.
3. Land Grant Income.
4. Academic Facilities Fee.

Continued

UNIVERSITY OF MONTANA  
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS  
SERIES K 2010, SERIES L 2012, SERIES M 2013, SERIES N 2015  
PLEDGED REVENUE FUNDS

NOTES TO FINANCIAL STATEMENTS

*June 30, 2017*

**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, continued

UM Helena Campus

1. Investment Income.
2. Student Union Building Fee.
3. Student Building Fee.
4. Academic Facilities Fee.
5. Bookstore.
6. Parking.

Investments. According to Governmental Accounting Standards Board (GASB) Statement 31, certain investments are required to be carried and reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. Investment income includes changes in the fair value of investments.

Inventories. Inventories consist of food items, supplies and merchandise held for resale. Inventories are valued at cost on a first-in, first-out, moving average, or specific identification basis depending on the management of the inventories.

Cash Balances. All University cash balances including the pledged revenue bond funds are maintained by the State Treasurer.

Income Taxes. Although the University (a component unit of the State of Montana) is exempt from federal income taxes under Section 115 of the Internal Revenue Code, certain income generated by the Pledged Revenue Funds is considered unrelated business income. The Montana University System does file appropriate tax returns with the Internal Revenue Service to report such income. Because the tax liability for the system as a whole is expected to be immaterial, no provision for taxes has been recorded in the accompanying financial statements.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE B INVESTMENTS**

Investments consist of funds managed through the Montana State Board of Investments using its Short-Term Investment Pool (STIP), and investments secured by the Trustee in accordance with the provisions of the bond indenture.

Continued

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**NOTE C BONDS PAYABLE**

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 National Association as trustee. The bonds have been issued from time to time to finance facilities at the four campuses of the University, and are secured by a first lien on the combined pledged revenues of the four campuses. 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 only that campus.

The total aggregate principal amount originally issued pursuant to the Indenture of Trust and the various supplements to the Indenture for all campuses of the University of Montana at June 30, 2017 was \$198,862,783. The combined outstanding principal amount at June 30, 2017 was \$90,632,188.

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%. The bond proceeds from the sale of the Series K 2010 bonds provided funds to defease all of the University's outstanding Series E 1998 Bonds of \$5,760,000 and a portion of Series F 1999 Bonds. \$41,244,997 was paid off leaving a remaining balance of \$15,290,000 of the Series F Bonds. The series F Issuance has since been paid in full. The Series K issuance provided funds to pay costs associated with the bond issuance.

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 2.25% to 5.00%. The bond proceeds from the sale of the Series L 2012 bonds provided funds to advance refund all of the outstanding \$15,290,000 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. \$9,460,000 of the Series I was paid off leaving a remaining balance of \$11,200,000. The Series I issuance has since been paid in full. The Series L issuance provided funds to pay costs associated with the bond issuance.

Series M 2013. On December 17, 2013, the University of Montana issued \$7,891,000 of Series M 2013 Tax Exempt Revenue Bonds. The bond proceeds provided funding to cover the cost of construction projects on the Butte and Missoula campuses and to cover the cost of issuance for Series M 2013. The interest rate on the Series M 2013 bonds is 2.50% tax-exempt, fixed rate for the 10 year duration of the issuance, with no penalty for pre-payment. The bond proceeds from the sale of Series M 2013 bonds provided funds for projects approved by the Board of Regents. The projects include the renovation of restrooms in Prospector Residence Halls for \$1,246,913 on the Montana Tech campus. Other approved projects are on the Missoula campus and include: the Technology Modular Units for \$1,870,791, the Gilkey Executive Education Center for \$1,490,000, the Adams Center Basement for \$100,000 and the Interdisciplinary Science Building (ISB) for \$3,152,526.

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Series N 2015. On February 18, 2015, the University of Montana issued \$20,500,000 of Series N 2015 Tax Exempt Refunding Revenue Bonds. The interest rate on the Series N 2015 bonds is 2.55%. The bond proceeds from the sale of the Series N 2015 bonds provided funds to advance refund all of the outstanding \$20,412,953 Series J 2005 Bonds. The Series N issuance provided funds to pay costs associated with the bond issuance.

Defeased Bonds. In prior years, the University defeased certain bond issuances 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 financial statements.

At June 30, 2017, bonds outstanding in the amounts of \$86,188,868; \$5,930,585; \$5,672,482 and \$480,106 for Missoula, Butte, Dillon, and Helena, respectively, are considered legally defeased.

A summary of bonds payable from revenues of the auxiliary enterprise funds follows:

	University of Montana				Memorandum Total
	Missoula	Butte	Dillon	Helena	
<b>Series K 2010</b>					
<b><u>Refunding Revenue Bonds</u></b>					
1.144 to 4.80% secured revenue bonds in varying installments through 2030	\$ 23,967,637	\$ 3,748,047	\$ 3,190,887	\$ 313,429	\$ 31,220,000
<b>Series L 2012</b>					
<b><u>Refunding Revenue Bonds</u></b>					
2.25 to 5.00% secured revenue bonds in varying installments through 2033	32,809,711	1,819,380	1,674,232	166,677	36,470,000
<b>Series M 2013</b>					
<b><u>Facilities Improvement Revenue Bonds</u></b>					
2.5% secured revenue bonds in annual installments through 2024	4,490,710	846,478	-	-	5,337,188
<b>Series N 2015</b>					
<b><u>Refunding Revenue Bonds</u></b>					
2.55% secured revenue bonds in annual installments through 2030	<u>17,605,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,605,000</u>
	<u>\$ 78,873,058</u>	<u>\$ 6,413,905</u>	<u>\$ 4,865,119</u>	<u>\$ 480,106</u>	<u>\$ 90,632,188</u>

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The annual requirements for the next five years to amortize debt outstanding as of June 30, 2017, not including interest payments, are as follows:

	University of Montana				Totals
	Missoula	Butte	Dillon	Helena	
2017	\$ 7,012,357	\$ 849,065	\$ 587,601	\$ 57,081	\$ 8,506,105
2018	7,317,635	860,035	590,355	57,352	8,825,377
2019	7,636,607	900,962	621,832	60,502	9,219,903
2020	7,994,928	846,448	658,454	65,553	9,565,383
2021	8,252,259	951,706	752,285	74,895	10,031,146
Later years	<u>40,659,272</u>	<u>2,005,689</u>	<u>1,654,592</u>	<u>164,722</u>	<u>43,524,275</u>
	<u>\$ 78,873,058</u>	<u>\$ 6,413,905</u>	<u>\$ 4,865,119</u>	<u>\$ 480,106</u>	<u>\$ 90,632,188</u>

The bond indenture requires the following minimum reserve balances:

Debt Service, K Series	\$	*
Debt Service, L Series	\$	*
Debt Service, M Series	\$	*
Debt Service, N Series	\$	*
Auxiliary Repair and Replacement Fund	\$	500,000

\*This reserve requirement has been met through the purchase of a surety bond.

The University amortizes discounts on bonds payable using the straight-line method. Use of this method does not materially differ from the use of the effective interest method.

**NOTE D INSURANCE**

The State of Montana insures all of the University buildings and contents, including auxiliary facilities, at replacement cost. Insurance coverage also includes use and occupancy insurance on all housing and dining facilities. In addition, the University carries insurance on construction contracts.

**NOTE E INDENTURE PROVISIONS**

The bond indenture requires the University to pay timely all arbitrage rebate amounts owed to the United States and to calculate and compute the arbitrage rebate amount, if any, at least once every bond year the bonds are outstanding. Through the Trustee, the University contracts with a rebate calculation service. There are no reportable arbitrage rebates at this time under the Facilities Improvement and Refunding Revenue Bonds Series K 2010, Series L 2012, Series M 2013 and Series N 2015.

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**NOTE F COMMITMENTS**

As of June 30, 2017, the University of Montana had the following construction activities underway for major projects funded with bond proceeds:

Project	Budget Authorization	Total Expenditures through June 2017	Funding Source
Living Learning Center	\$ 24,000,000	\$ 1,640,124	Plant Funds, Private

**NOTE G PENSION PLANS AND COMPENSATED ABSENCES**

All full-time employees of the University of Montana are members of the Public Employees' Retirement System (PERS), the Teacher's Retirement System (TRS) or the Montana University System – Retirement Program (MUS-RP). Further information regarding these plans can be found in the University's annual financial report.

University employees can accumulate vacation and sick leave. A maximum of twice an employee's annual vacation accrual can be carried over. Unused vacation and 25% of the value of sick leave are paid upon termination. GASB Statement No. 45, on other postemployment benefits (OPEB) accounting requires the recording of the liability associated with OPEB benefits. The University of Montana has properly recorded the OPEB obligation in its consolidated financial statement. For purposes of the Revenue Bond financial statements, the OPEB obligation has not been recorded in the financial statements. Instead, these amounts are recorded on a cash basis in the individual funds.

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**NOTE H AFFILIATED ORGANIZATIONS**

The University of Montana is a component unit of the State of Montana. These financial statements include only the activities, funds, and accounts of the University that are pledged to the Facilities Improvement and Refunding Revenue Bonds Series K 2010, Series L 2012, Series M 2013 and Series N 2015.

Private non-profit organizations affiliated with the University include the University of Montana Foundation (the Foundation), the Grizzly Athletic Association, and the University of Montana Alumni Association. The Foundation and associations operate exclusively for the purposes of encouraging, promoting, and supporting educational programs, research, scholarly pursuits, and athletics at or in connection with the University. In exchange, the University provides the associations with office space, staff, and other related expenses. The University and Foundation have an operating agreement that outlines the services provided by the Foundation and fees the University will pay for those services. The agreement also indicates that the University will provide information technology and related services. The University and Foundation also have a lease agreement that specifies the terms and conditions of rent and space management. The University provides general fund financial support to the administration of the Alumni Association.

In Dillon, the Director of the University of Montana - Western Foundation, a private non-profit organization, is an employee of the University. The Foundation reimburses the University for 29% of the Director's wages.

The Montana Tech Foundation in Butte raises funds for scholarships and academic/institutional support of the University.

**NOTE I SUBSEQUENT EVENTS**

On July 24, 2017, the University issued \$14,125,000 of Series O 2017 Private Placement Revenue Bonds. The proceeds of the issue provide funds to construct a Living Learning Center on the University of Montana Tech campus in Butte. The University will record \$14,125,000 of the Series O bonds payable in FY 18. The interest rate on the revenue bonds is 3.390% over the 20-year term of the bonds.

Management has evaluated all subsequent events from the financial presentation date of June 30, 2017 through the date of December 1, 2017. Management has determined there are no other material subsequent events that require recognition or disclosure in these financial statements.

Concluded

CONTINUING DISCLOSURE INFORMATION



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**General**

Under the Indenture, the income producing Auxiliary Facilities from which the Net Auxiliary Revenues are derived after payment of the Auxiliary Facilities Operation and Maintenance Expenses are defined as follows:

“Auxiliary Facilities” shall mean the real and personal properties and enterprises now or hereafter located at the Missoula Campus, the Butte Campus, the Dillon Campus and the Helena Campus of the University comprising:

(i) all student union buildings and facilities and enterprises; all residence halls, dormitories, apartments, family housing and other housing facilities and enterprises, all dining rooms and halls, cafeterias and other food service facilities and enterprises and all facilities on the Missoula Campus used in connection with field house operations, including concessions sales and revenues at various athletic, concert and other activities and events held in stadiums, arenas, field houses and similar facilities now or hereafter located on the Missoula Campus;

(ii) all residential rental property located at and/or owned and operated by the Dillon Campus, the Helena Campus, and the Missoula Campus and all facilities rentals operated or managed by the Missoula Campus, the Butte Campus and the Dillon Campus;

(iii) student health and dental facilities and enterprises located at and/or operated by the Missoula Campus (but excluding student health and dental facilities located at and on the Dillon Campus, Butte Campus, and the Helena Campus);

(iv) bookstore facilities and enterprises (exclusive of the University Center bookstore enterprise operated on the Missoula Campus);

(v) parking facilities and enterprises located at and on the Dillon, Butte, Helena and Missoula Campuses (but excluding parking facilities and enterprises located at the 2-year College on the Butte Campus);

(vi) student recreation facilities and enterprises at the Missoula Campus and the Dillon Campus;

(vii) printing facilities and enterprises, the Lubrecht Forest Experiment Station housing facilities, and the Adams Center and facilities at the Missoula Campus; and

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(viii) all other revenue producing facilities or enterprises which are now or hereafter designated by the Board and the University as Auxiliary Facilities hereunder, including without limitation all the facilities and enterprises described in Appendix C to the Indenture; provided, however, unless otherwise specifically designated by the Board and the University by an indenture supplemental to the Indenture, the following shall not be considered Auxiliary Facilities under the Indenture: the Missoula Campus Prescription Pharmacy, the Washington Grizzly Stadium at the Missoula Campus, Dornblazer Field at the Missoula Campus; the student telecommunication auxiliaries at the Dillon Campus; the culinary arts food service program at the Missoula Campus; personal property in the equipment leasing pool at the Missoula Campus; and all academic and general administration buildings and facilities and all other facilities at the Campuses not described in this definition. Auxiliary Facilities shall also include all improvements to the Facilities.

**Residence Life and Food Services**

General. Residence hall and family housing facilities are available on the Missoula, Butte, and Dillon Campuses. Neither residence halls nor family housing facilities are currently available at the Helena Campus.

Students at each of the three Campuses with less than thirty college level credits (freshmen) are required to live in a residence hall and take one of the available meal plans unless they are married or are single parents or are living with their immediate family within commuting distance of the campus. Students with more than thirty college level credits may live in a residence hall. The freshman requirement does not apply to students enrolled at the 2 year Colleges.

Residence Halls. The beginning fall semester occupancy of the residence halls on the three Campuses was as follows:

**Fall Occupancy - Residence Halls/Upper Class Housing**

	<u>Fall 2017</u>
Missoula Campus	
Available capacity	2,118
Fall occupancy	1,866
Percent occupancy	88%
Butte Campus	
Available capacity	288
Fall occupancy	262
Percent occupancy	91%
Dillon Campus	
Available capacity	385
Fall occupancy	347
Percent occupancy	90%
Total	
Available capacity	2,791
Fall occupancy	2,475
Percent occupancy	89%

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Biennially, the Board establishes rates for the residence halls on each of the Campuses. The rates vary among the Campuses and depend on the particular residence hall and single or double occupancy. For the 2017-2018 academic years, semester rates will range at the Missoula Campus from \$2,004 for a double room to \$2,822 for a suite; at the Butte Campus from \$1,988 for a double room to \$2,496 for a suite; and at the Dillon Campus from \$1,472 for a double room to \$1,896 for a single suite.

*Family Housing.* Family housing is also available on the Missoula, Butte, and Dillon Campuses. The beginning fall semester occupancy of the family housing units was as follows:

**Fall Occupancy - Family Housing**

	<u>Fall 2017</u>
Missoula Campus	
Available capacity	565
Fall occupancy	596
Percent occupancy	105%
Butte Campus	
Available capacity	60
Fall occupancy	57
Percent occupancy	95%
Dillon Campus	
Available capacity	16
Fall occupancy	16
Percent occupancy	100%
Total	
Available capacity	641
Fall occupancy	669
Percent occupancy	104%

The Board of Regents establishes monthly rental rates for the family housing facilities. With the exception of a limited number of units on the Butte Campus, the units are unfurnished. For the 2017-2018 academic year monthly rents range on the Missoula Campus from \$413 for the least expensive studio to \$1,029 for the most expensive four bedroom. For the 2017-2018 academic year, on the Butte Campus, monthly rents will range from \$546 for a two-bedroom to \$725 for a three bedroom, and on the Dillon Campus from \$495 for a one-bedroom apartment to \$556 for a two-bedroom apartment. The rents are generally significantly below the rents for comparable housing in the respective communities.

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*Food Services.* Students living in residence halls on the three campuses are required to purchase one of the available meal plans.

The meal plan rates vary among the Campuses and depend upon the particular plan selected by the student. Most of the Campuses permits the students to select among several plans providing for differing numbers of meals per week. For the 2017-2018 academic year, semester meal plan rates will range on the Missoula Campus from \$2,334 for 15 meals per week plan to \$2,585 for a 21 meals per week plan, a new Food Zoo unlimited plan was added for \$2,585. On the Butte Campus from \$1,655 for an upper-class meal plan, to \$2,452 for a five-day meal plan, and to \$2,601 for a seven-day meal plan; and on the Dillon Campus \$2,400 for a seven-day meal plan.

In addition to meal plans, cash dining is available on each campus. Cash dining is the only food service available at the Helena campus.

Missoula has concessions and various cash-basis satellite sites around campus.

**Student Union Facilities**

Student union facilities are located on each of the four Campuses of the University.

On the Missoula Campus, the University Center is a general-purpose facility for students enrolled in undergraduate and graduate programs, and for faculty, staff and the general public. Located within the University Center are food service operations of University Dining Services, a recreation center, student government offices, meeting rooms, the United States Postal Service, box office, information desk, University copy services, theater, hair salon, physical therapy clinic, art gallery, Griz Card Center, and University Center administrative offices. A not-for-profit corporation leases space in University Center for a bookstore. Various retail operations are also located within the University Center.

The student union building at the Dillon and Butte Campuses house activities such as student government, snack bar, bookstore, etc.

The student union building at the Helena Campus houses food services and other student facilities. Limited student food service and lounge facilities are located at the other 2 year Colleges.

The maintenance and operational costs of the student union facilities at the Campuses are funded from a student fee dedicated for such purpose and from revenues and lease rental charged for the use of the facilities, all of which constitute Auxiliary Facilities Revenues. Biennially the Board of Regents establishes such fees, and the fee is mandatory for all students depending on the credit hours enrolled. For Academic Year 2017-2018, the per semester student union operations fee at Missoula, Butte, Dillon, and Helena Campuses will be as follows:

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	<b>Student Union Operations Fee Full-Time Students Per Semester</b>	<b>Student Union Renovation Fee Full-Time Students Per Semester</b>
Missoula	\$100.49	\$31.60
Butte	\$129.60	\$27.00
Dillon	\$28.20	N/A
Helena	N/A	\$78.00

**Student Health Services**

The Missoula Campus operates an extensive health care service for students. This includes a 24-hour medical, dental and psychological service. The Health Service is funded primarily by prepaid health fees \$263 per semester in 2017-2018 and fees for services. Services include an inpatient area, multiple specialists, full laboratory, x-ray and permanent physician staffing.

The Butte Campus operates a Student Health Center staffed part-time by a physician and a nurse. Rental of the space for the Health Center is included in Auxiliary Facility Revenues, while revenues from operation of the Student Health Service are not.

Health Services are not offered on the Dillon or Helena Campus. However, health insurance programs are offered to students at all Campuses. Dillon contracts for Health Services at an off-site facility; however, revenues from the Health Service fee are not pledged.

**Parking**

Revenues from parking fees and fines on the Missoula, Butte, Helena and Dillon Campuses are designated as Auxiliary Facilities Pledged Revenues under the Indenture. Fees for parking are not charged at the 2 year college located on the Butte Campus.

The Board of Regents biennially establishes parking fees, which are collected through the sale of parking permits entitling the purchaser to park in various University facilities and at designated on-street sites. The permits are for reserved parking and non-reserved parking and are available to students, faculty and staff. The 2017-2018 permit parking fees for non-reserved parking are expected to vary from \$15 per academic year at Helena, \$85 per academic year at Butte, and \$232 per academic year at Missoula. Reserved parking permits on the Missoula campus can be purchased for \$618 per year and 98% of the spaces are currently filled. At Dillon students pay for their parking permit within the building fee. It is \$12.68 per semester. Non-students can buy a \$60 per year commuter pass. Reserved parking is \$200 per year. Revenues from the parking permits are used for operation costs of the parking program and constitute Auxiliary Facilities Revenues. Revenues are used to support vehicle related security operations. On the Missoula Campus, the parking revenues are also used to subsidize ridership for alternative transportation programs.

**Recreation Facilities**

The Missoula Campus operates a swimming pool, a nine-hole golf course and a campus recreation program. The golf course consists of a pro shop, clubhouse and driving range. The course is open to the public and charges green fees to all users. The swimming pool, open year round, charges a user fee and is available to the general public, as well as to students.

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The Missoula Campus students pay \$117 per semester to service the construction debt for a major construction/renovation of the Campus Recreation Center and to cover the capital and operational costs of the facility.

The Recreation Center includes an open free weight room; large cardiovascular room; a climbing wall; several modern aerobic rooms; an area for martial arts; a large area which houses the Outdoor Program; an indoor running track; and a three-court set-up for volleyball, basketball, indoor soccer, etc.

The Physical Education Complex on the Dillon Campus houses physical education activities and faculty, recreational facilities, and athletic facilities and staff. Students pay \$40 per semester. Campus basketball games, volleyball games, wrestling events, intramural activities, and community events take place in this facility. The campus wellness program is located here, with a well- equipped exercise room. Physical education classes are taught in the classrooms or one of the two gymnasiums.

**Other Auxiliary Facilities**

Bookstores. The Missoula Campus has a bookstore which is owned and operated by a separate not-for-profit corporation in space leased from the University. The UC Bookstore is located in the University Center on the main campus. They sell textbooks, educational supplies, snacks, clothing, and other items with the campus logo or mascot. Net Auxiliary Facilities Revenues include only lease revenues from the privately operated bookstores.

The Butte Campus main bookstore is located in the student union building. It is operated by the Butte Campus and sells textbooks, art supplies, greeting cards, and clothing and other items with the campus logo or mascot.

The Dillon Campus bookstore is also located in the student union building. It is operated by the University and sells textbooks, art supplies, greeting cards, snacks, and clothing and other items with the campus logo or mascot.

The Helena College bookstore has two locations. The main store is located in the student union building on the Donaldson campus and there is a smaller store located at the Airport campus. Both locations sell textbooks, supplies and other student goods.

Printing Services. The Missoula Campus operates a full-service, four-color, printing operation which provides printing and graphic design services to the Campus and other Montana higher education units. It is the only such facility in the Montana University System. The Board authorizes the provision of printing services only to the University, its students, faculty, staff and affiliated organizations and other institutions under the Board. Printing Services at the Missoula Campus also includes Campus Quick Copy which is located in the University Center.

Adams Center. At the Missoula Campus revenues derived from operation of the Adams Center, a public events center, are included as a part of the Auxiliary Facilities Revenues. Expenses associated with the operation of the Adams Center are included as part of the Auxiliary Facilities Operation and Maintenance Expenses. The Adams Center activities do not include revenues from athletic event ticket sales or other revenues comprising Events Revenues as hereinafter described.

Rental Properties. The Missoula Campus owns 37 properties on the edge of campus which it rents to students, visiting and international exchange faculty, staff and international program students. Rental properties on the Dillon Campus include four houses located on the campus that are rented to faculty and staff.

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*Miscellaneous.* The Lubrecht Experimental Forest is a 28,000 acre research, demonstration, and educational facility located 30 miles northeast of Missoula. It contains housing, dining and conference facilities.

Lubrecht Lodge was built to add year round lodging facilities to the experiment station. The Lodge contains 16 rooms, each with two beds, for a total capacity of 32. The Lodge is used by University faculty and staff, state and federal agencies, non-profit and private groups and organizations requiring overnight conference and meeting facilities.

Montana Island Lodge was an executive conference and events facility operated by the University through a lease with the University of Montana Foundation. The facility was a gift to the Foundation. This property was transferred back to the University of Montana Foundation in 2017 and is no longer considered a pledged revenue.

The Yellow Bay Freshwater Research Laboratory, the oldest freshwater research facility in the United States, is located 100 miles northwest of Missoula on Flathead Lake. Housing and food services are provided at the Yellow Bay Laboratory.

The Birch Creek Outdoor Education Center is located in the Pioneer Mountains approximately 24 miles northwest of the Dillon Campus. The Dillon Campus uses this facility to teach outdoor education and art classes and to provide housing and dining facilities for workshops put on by various groups such as the U.S. Forest Service, Girl Scouts, and various university graduate geology camps from throughout the United States.

The Gilkey Center, constructed in 2016, is used for students and community members to be trained in the changing business, economic and entrepreneurial environment of today's global society. The center brings business leaders to Missoula to conduct seminars with students and to provide advanced training and networking opportunities for small businesses in Montana. The center is intended to be a valuable tool in promoting economic and business development in Montana and the Northwest region.

**OTHER PLEDGED REVENUES**

**General**

The Other Pledged Revenues and the sources thereof are described below. The Other Pledged Revenues are pledged and required to be applied to the payment of the Bonds prior to the payment of any expenses associated with their collection or the operation or maintenance of the facilities, activities or sources from which they are derived.

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**AUXILIARY FACILITIES REVENUES**

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**Facilities Fees**

Facilities Fees on all campuses are approved biennially by the Board of Regents. The following table shows the revenues derived from the Student Building and Academic Facilities Fees for the Fiscal Year ended June 30, 2017:

Missoula Campus	\$ 2,182,255
Butte Campus	681,566
Dillon Campus	334,429
Helena Campus	<u>97,616</u>
<b>Total</b>	<b>\$ <u>3,295,866</u></b>

The Board of Regents imposes Student Building Fees for all resident and non-resident students taking courses for credit. The following table shows the student building fee rates for Fall Semester 2017 for full-time students taking 12 or more credit hours:

**Building Fee Rates  
 Fall Semester 2017  
 12 or more Hours**

<u>Campus</u>	<u>Resident Student</u>	<u>Non-Resident Student</u>
Missoula Campus	\$52.08	\$88.08
Butte Campus	\$105.60	\$145.20
Dillon Campus	\$84.50	\$120.50
Helena Campus	\$47.00	\$90.00

**Academic Facilities Fees Revenues**

The Board of Regents approved the establishment of an Academic Facilities Fee effective fall semester of 1997. The fee is dedicated to the renovation and remodeling, including access for persons with disabilities, of classrooms and laboratories on all campuses of the University. The fee is assessed to all undergraduate and graduate students, including students enrolling under the Western Undergraduate Exchange Program. Effective Fall Semester 2017, the per semester Academic Facilities Fee for students taking 12 or more credit hours will be:

**Academic Facilities Fee Rates  
 Fall Semester 2017  
 12 or More Credit Hours**

Missoula	\$42.96
Butte	\$35.16
Dillon	\$24.60
Helena	\$25.00



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**Events Revenues**

Events Revenues consist of all revenues, fees and income derived from ticket sales at and for various University of Montana-Missoula sponsored athletic, concert and other activities and events held in stadiums, arenas, field houses and similar facilities located on the Missoula Campus. The facilities on the Missoula Campus from which Events Revenues are derived currently include the Washington Grizzly Stadium, Adams Center and Dahlberg Arena, and South Campus Fields. Events Revenues also include all revenues generated from the operations of the University Theatre and Dennison Theatre. The Events Revenues are pledged as part of the Pledged Revenues prior to the payment of any expenses or operating costs of the facilities from which they are derived and prior to the application of the Events Revenues for other purposes.

**Land Grant Income**

Land Grant Income is derived from lands granted by Congress in 1881 to the State (then the Territory of Montana) for the benefit of the State's universities and colleges. The land so granted has been allocated and dedicated to each of the units of the University System by the State Legislature and the income from each unit's allocated land is dedicated to the support of each such unit. The University of Montana - Missoula has been allocated 33,754 acres (mineral rights) and 16,844 acres (surface rights); Montana Tech (Butte Campus) has been allocated 86,267 acres (mineral rights) and 59,360 acres (surface rights); and the University of Montana - Western (Dillon Campus) has been allocated 83,285 acres (mineral rights) and 63,060 acres (surface rights). Although sales of land historically were a principal source of funds, the Land Grant Income currently is derived from two principal sources: (i) leases of the land (consisting of grazing leases, agricultural leases, oil and gas leases, recreational leases, and timber revenue which is now distributable to the University System Trusts) and (ii) royalties received from timber harvesting, oil and gas extraction and mining on the land. Royalty income is deposited into a permanent trust fund and invested and the investment income is paid to the unit of the System to which the royalty income was attributable.

The permanent trust fund investments (i.e., the proceeds from the sale of lands), as of June 30, 2017 (unaudited), for the Missoula Campus was \$1,585,143, for the Butte Campus was \$7,049,605 and for the Dillon Campus was \$3,252,017. For Fiscal Year 2017, approximately 18% of Land Grant Income of the Missoula Campus was derived from investment income; approximately 21% of the Land Grant Income of the Butte Campus was derived from investment income, while 15% of the Land Grant Income of the Dillon Campus was derived from investment income.

The total Land Grant Income received by each of the Campuses of the University for Fiscal Year ending June 30, 2017 is as follows:

Missoula Campus	\$ 242,465
Butte Campus	1,288,578
Dillon Campus	<u>451,419</u>
Total	\$ <u>1,982,462</u>

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**Self-Support, Continuing Education**

The revenues derived from the self-support activities of the Continuing Education Program, consist of all revenues, contract income, fees, lease and rental income and all other income derived from or in connection with operation of the self-support activities as described below.

The self-support activities of the Continuing Education Program consist of various programs and services provided to persons who are not enrolled students of the University. They include continuing education programs for various professionals; educational and training programs for governmental, service and other private industry employees; conferences and special institutes for various associations and groups; specialized technical and occupational training, and related programs. The University derives revenue from its operation of these programs from the fees and charges paid by the participants or sponsoring organizations. In Fiscal Year 2017, the University provided services and programs generating fee and other revenue of \$4,342,011.

**Limited Facilities and Administrative Payments and Unrestricted General Fund Revenues**

Other Pledged Revenues include Facilities and Administrative (F&A) payments relating to Research Contracts and unrestricted General Fund revenue, to the extent made available to and received by the University in accordance with applicable law, in an aggregate amount equal to 125% of the annual Debt Service Requirements for that portion of the bonds through Series N, allocated for and applied to the financing of the costs of the School of Pharmacy “Skaggs” Building Expansion and the Interdisciplinary Research Building in each Fiscal Year beginning with the Fiscal Year ending June 30, 2006 through the Fiscal Year ending June 30, 2030.

The Facilities and Administrative payments are derived from a number of research contracts substantially all of which are with agencies of the federal government. The research contracts with federal agencies have various terms, but most are subject to annual appropriations by Congress. The Board and University cannot predict the amount of F&A payments the University will receive from federal agencies in future years or whether annual Congressional appropriations will be adequate to fund existing and future research contracts. In Fiscal Year 2017, total F&A revenue received was \$11,229,530.

**Other**

In addition, Other Pledged Revenues includes revenues from various special facility and use fees and charges as more fully described in the Indenture.

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**Enrollment Trends**

The Fall 2017 head count student enrollment of all campuses of the University was 17,418.

The following table shows the enrollment (head count) history on a combined basis for all four campuses:

<u>Fall Term</u>	<u>Resident</u>	<u>Non-Resident</u>	<u>Total</u>
2006	14,201	4,200	18,401
2007	14,213	4,204	18,417
2008	14,732	4,172	18,904
2009	16,002	4,233	20,235
2010	16,622	4,757	21,379
2011	16,757	4,773	21,530
2012	16,129	4,707	20,836
2013	15,587	4,758	20,345
2014	14,835	4,933	19,768
2015	14,139	4,717	18,856
2016	13,487	4,612	18,099
2017	12,906	4,512	17,418

The competitiveness of higher education along with the recession have made it more difficult to attract non-resident students in the past few years; however, UM continues to keep non-resident enrollment stable. The Missoula Campus accounts for the majority of the decrease in enrollment over the last couple of years and has hired a national firm and a new Vice President of Enrollment and Student Affairs to assist in reversing the downturn. The Missoula Campus saw an increase of 2% in first time freshman for Fall of 2017 and an increase in graduate students by 10%. The actual FTE at the Missoula Campus for Fall Semester 2017 was 9,799.

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**Admissions Standards**

In order to be fully admitted to a 4-year university in the Montana University System (MUS), entering high school graduates are required to meet the following standards:

**Complete the College Preparatory Program:** mathematics (3 years), English (4 years), science (2 years), social studies (3 years), and electives (2 years ) – includes languages, computer science, visual/performing arts, and career/technical education units that meet the office public instruction guidelines.

**Demonstrate Mathematics Proficiency:** earn an ACT math score of 22, SAT score of 520, or complete the Rigorous Core.

**Demonstrate Writing Proficiency:** earn an ACT writing/English score of 18, SAT score of 440; or score 7 or higher on the ACT/SAT essays, or 3.5 or higher on the MUS writing assessment test.

**Achieve one of the following requirements:**

- (1) Earn at least a 2.5 high school grade point average (GPA); or
- (2) Rank in the upper half of his or her graduating class; or
- (3) Score composite ACT of 22 or higher, or SAT of 1540 or higher.

**The FTE enrollments are as follows for the fall of:**

	<u>2017</u>
Missoula Campus	9,799
Butte Campus	2,325
Dillon Campus	1,401
Helena Campus	<u>841</u>
 Total (FTE)	 <u>14,366</u>

(Note: Full-time equivalent student figures are used primarily for funding and academic teaching load purposes, while head count figures are used primarily for purposes associated with demand for student services.)

**Fees**

The fees to be charged to full-time students (i.e., students taking 12 or more credit hours per semester) enrolled in academic programs at the University during the 2017-2018 academic years are described as follows:

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**Student Fees 2017-2018 Academic Year  
 Undergraduate/Graduate Programs  
 12 or More Credits**

<u>Fees Per Semester</u>	<u>Missoula</u>	<u>Butte*</u>	<u>Dillon</u>
Incidental Fee (Tuition)			
Resident Undergraduate	\$ 2,590.92	\$ 2,717.40	\$ 2,154.00
Resident Graduate	2,994.48	2,988.36	-
Resident Advanced Graduate	2,994.48	2,988.36	-
Non-Resident Undergraduate	11,494.92	10,092.72	7,725.00
Non-Resident Graduate	12,737.40	11,673.00	-
Non-Resident Advanced Graduate	12,737.40	11,673.00	-
Building Fee			
Resident	52.08	105.60	84.50
Non-Resident	88.08	145.20	120.50
Registration and Other Miscellaneous Fees	844.65	715.27	512.60
<b>TOTAL FEES</b>			
Resident Undergraduate	\$ 3,523.54	\$ 3,538.27	\$ 2,871.60
Resident Graduate	3,926.99	3,809.23	-
Resident Advanced Graduate	3,927.03	3,809.23	-
Non-Resident Undergraduate	12,702.93	10,953.19	8,358.00
Non-Resident Graduate	13,220.73	12,533.47	-
Non-Resident Advanced Graduate	13,706.13	12,533.47	-

**Student Fees 2017-2018 Academic Year  
 Two Year College Programs  
 12 or more Credits**

<u>Fees Per Semester</u>	<u>Missoula College</u>	<u>Highlands College</u>	<u>Helena College</u>
Incidental Fee (Tuition)			
Resident Undergraduate			
Non-Resident Undergraduate	\$ 1,252.32	\$ 1,249.32	\$ 1,239.00
	5,907.96	2,498.64	3,976.00
Building Fees			
Resident			
Non-resident	52.08	59.40	47.00
Registration and Other Miscellaneous Fees	88.08	99.00	90.00
	560.56	412.86	313.50
Total Fees Resident Two-Year			
Total Fees Non-Resident Two-Year	\$ 1,865.38	\$ 1,721.58	\$ 1,614.50
	\$ 6,556.78	\$ 4,486.74	\$ 4,394.50

\*Fees are stated at 12 credits. Fees over 12 credits are variable.

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**Employees**

As of June 30, 2017, the University employed 4,184 people (head count) as follows:

	<u>Missoula</u>	<u>Butte</u>	<u>Dillon</u>	<u>Helena</u>	<u>Total</u>
Faculty/Professional					
Staff	1,331	308	102	141	1,882
Staff -Temporary hourly	963	145	93	45	1,246
Graduate students	521	16	36	7	580
	<u>435</u>	<u>41</u>	<u>-</u>	<u>-</u>	<u>476</u>
<b>TOTAL</b>	<u><b>3,250</b></u>	<u><b>510</b></u>	<u><b>231</b></u>	<u><b>193</b></u>	<u><b>4,184</b></u>

The entire faculty and virtually all of the State classified employees are members of and represented by 12 collective bargaining units at the University. Part-time employees and administrative employees are not represented by the collective bargaining units.

**Physical Plant and Insurance**

As of June 30, 2017, the replacement values of the buildings of the University for insurance purposes were:

<u>Missoula</u>	<u>Butte</u>	<u>Dillon</u>	<u>Helena</u>	<u>Total</u>
\$ 1,191,458,920	\$ 236,645,981	\$ 124,664,248	\$ 48,971,106	\$ 1,601,740,255

The State of Montana commercially insures the University's buildings and contents. There is a \$2,000,000 per occurrence deductible, which the State self-insures.

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**Budget and Financial**

*State Appropriations.* That portion of the University's operating budget supporting the general academic, research and public service programs that includes State General Fund appropriations is approved biennially by the Board and transmitted to the Governor for consideration and inclusion in the Executive Budget. The Governor is required to present a balanced State operating budget to each Legislative Assembly. The biennial budget is established by Legislative appropriation.

Similar to other states across the country, in recent years, Montana has experienced significant declines in state revenues. Increases in state support for higher education have been limited due to this decline. The Commissioner of Higher Education and Board of Regents worked diligently over the past two years to partner with the State and legislators to move Montana's economy forward through such efforts as workforce development and economic development.

Annual operating budgets prepared in accordance with the provisions of the biennial appropriation act are approved, after review each year, by the Board.

**Operating Budgets Including State Appropriations**

	University of Montana - <u>Missoula</u>	Montana Tech of the University of Montana	University of Montana - <u>Western</u>	Helena College- University of <u>Montana</u>	<u>Total</u>
FY 2016-2017					
Actual	\$ 153,952,134	\$ 35,709,854	\$ 14,681,971	\$ 8,417,372	\$ 212,761,331
FY 2017-2018					
Budgeted	\$151,359,333	\$35,313,548	\$15,639,980	\$7,716,094	\$210,028,955

State law authorizes the University to carry-forward unexpended appropriations into the following fiscal year or biennium.

*Other Funds.* The budget for other University funds, such as Auxiliary Facilities, other current unrestricted funds, federal funds, loan funds, etc., are submitted annually to the Board for its approval and are not subject to legislative appropriation.

*All Funds Summary.* The following financial data was obtained from the financial statements found in the annual Financial Reports of the University for fiscal year 2017. The financial information presented represents revenues, expenses, and changes in net position. Beginning with fiscal year ended June 30, 2002, the University implemented a financial reporting model as required by GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37 and 38. The financial reporting model – a

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Consolidated Statement of Revenues, Expenses and Changes in Net Position – is presented for the fiscal year ended June 30, 2017. Due to various adjustments and eliminations required by the standards, specific amounts of Operating Revenues shown in the following consolidated statements as being pledged differ from amounts shown in the Historical Pledged Revenues and Debt Service Coverage table.



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**CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION**

*June 30, 2017*

	<b>Total</b>
<b>OPERATING REVENUES</b>	
Tuition and fees, net of scholarship allowance of \$32,569,659	\$ 114,268,066
Federal grants and contracts	67,389,950
State and local grants and contracts	8,889,383
Nongovernmental grants and contracts	12,151,817
Indirect cost recoveries	13,080,499
Sales and services of educational departments	16,981,332
Auxiliary enterprises charges	
Residential life, net of scholarship allowances of \$532,158	16,426,841
Food services, net of scholarship allowances of \$532,158	13,749,213
Other auxiliary revenues	14,080,922
Interest earned on loans to students	49,046
Other operating revenues	7,047,994
<b>Total operating revenues</b>	<b>\$ 284,115,063</b>
<b>OPERATING EXPENSES</b>	
Compensation and employee benefits:	\$ 270,235,767
Other post employment benefits	14,329,563
Other	109,401,608
Scholarships and fellowships	21,682,552
Depreciation and amortization	24,110,717
<b>Total operating expenses</b>	<b>\$ 439,760,207</b>
<b>Operating loss</b>	<b>\$(155,645,144)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
State appropriations	\$ 101,560,278
Federal financial aid grants and contracts	22,869,748
Land grant revenues	1,982,462
Private gifts	18,484,537
Investment income	1,933,686
Interest expense	(4,181,536)
<b>Net non-operating revenues</b>	<b>\$ 142,649,175</b>
<b>Loss before other revenues</b>	<b>\$( 12,995,969)</b>
<b>OTHER REVENUES (EXPENSES):</b>	
Capital grants and gifts	\$ 21,838,197
Loss on disposal of capital assets	(900,638)
<b>Total other revenues</b>	<b>20,937,559</b>
<b>Net increase in net position</b>	<b>\$ 7,941,590</b>

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**Academic and Other Programs**

The Missoula Campus is the center of liberal arts education in the University System. It offers 19 associate degrees, 70 bachelor's degrees, 60 master's degrees, specialist degrees in three areas, a juris doctorate, and 29 doctoral degrees. The College of Humanities and Sciences is the largest academic unit at the Missoula Campus, comprising 19 academic departments. Programs are also offered at the Missoula College, Davidson Honors College, Schools of Business Administration, Law, Extended & Lifelong Learning, and Journalism as well as Colleges of Visual and Performing Arts, Forestry and Conservation, Health Professions and Biomedical Sciences, and Education and Human Sciences. Each of the professional schools offers both undergraduate and graduate degrees, with the exception of the Law School which offers only a graduate degree.

The Missoula Campus also includes a number of specialized laboratories, institutes and facilities, including the Flathead Lake Biological Station, Lubrecht Forest Conservation and Experiment Station, Maureen and Mike Mansfield Center for Public Affairs, Bureau of Business and Economic Research and others.

The Butte Campus is an engineering, science and technology based institution with a focus on mineral and energy related professional engineering programs. Undergraduate and master's degrees are offered in General, Civil, Mechanical, Geophysical, Geological, Metallurgical, Mining, Petroleum and Environmental Engineering; and, a collaborative doctorate in Material Science. In addition, undergraduate degrees are offered in Business and Information Technology, Chemistry, Mathematics, Computer Science, Software Engineering, Professional and Technical Communications, Occupational Safety and Health, Network Technology, Nursing and other bachelor and associate degree programs. Highlands College is one of the 4 colleges within Montana Tech and provides 2 year programs and workforce development. The Montana Bureau of Mines and Geology, a department of the Campus, conducts applied research concerning Montana minerals, fuels and groundwater resources.

The Dillon Campus offers bachelor degrees in elementary and secondary education with concentrations in Art, Business, English, General Science, History, Social Science, Biology, Health and Physical Education, Mathematics and others. Approximately 50% of the students are in these programs. The remainder of the students are in four-year Bachelor of Arts, Business, Early Childhood Education, Equine programs or in two-year associate degree programs.

The Helena Campus offers two-year associate degrees and certificates. Occupational program areas include: Accounting and Business Technology, Automotive Technology, Aviation Maintenance Technology, Computer Technology, Construction Technology, Diesel Technology, Fire and Rescue, Machine Tool Technology, Metals Technology, Practical Nursing, Registered Nursing, Office Technology, Water Technology, and Welding Technology.