

**UNIVERSITY OF MONTANA
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS
SERIES F 1999, SERIES I 2004, SERIES J 2005, SERIES K 2010, SERIES L 2012
PLEDGED REVENUE FUNDS**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
AND CONTINUING DISCLOSURE INFORMATION**

June 30, 2013

UNIVERSITY OF MONTANA
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS
SERIES F 1999, SERIES I 2004, SERIES J 2005, SERIES K 2010, SERIES L 2012
PLEDGED REVENUE FUNDS
June 30, 2013

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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 financial statements (pages 4 through 12) for the year ended June 30, 2013, of 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 F 1999, Series I 2004, Series J 2005, Series K 2010 and Series L 2012 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 the restrictive covenants contained in the Revenue Bond Indentures of Trust; this includes 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 F 1999, Series I 2004, Series J 2005, Series K 2010 and Series L 2012 for the year ended June 30, 2013, in conformity with the restrictive covenants contained in the Revenue Bond Indentures of Trust.

Report on Continuing Disclosure Information

Our audit was for the purpose of forming an opinion on the revenue bond financial statements listed on pages 4 through 12 of the University of Montana Facilities Improvement and Refunding Revenue Bonds Series F 1999, Series I 2004, Series J 2005, Series K 2010 and Series L 2012 Pledged Revenue Funds taken as a whole. 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 basic financial statements. The Continuing Disclosure 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 Continuing Disclosure Information, except for the information on pages 36 and 37 which is outside the scope of our audit, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Continuing Disclosure Information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Galusha Higgins : Galusha, PC

Missoula, Montana
November 26, 2013

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

Montana Board of Regents
University of Montana
Missoula, Montana

We have audited the financial statements (pages 4 through 12) for the year ended June 30, 2013, of the Revenues, Expenditures, Pledged Revenues Available for Debt Service and the Pledged Revenue Funds of University of Montana Facilities Improvement and Refunding Revenue Bonds Series F 1999, Series I 2004, Series J 2005, Series K 2010 and Series L 2012 and the related notes to the financial statements in accordance with auditing standards generally accepted in the United States of America and have issued our report dated November 26, 2013.

The University of Montana is required to comply with restrictive covenants contained in Article VIII of the Series F 1999 Fifth Supplemental Indenture of Trust, Series I 2004 Eighth Supplemental Indenture of Trust, Series J 2005 Ninth Supplemental Indenture of Trust, Series K 2010 Tenth Supplemental Indenture of Trust and Series L 2012 Eleventh Supplemental Indenture of Trust during the year ended June 30, 2013. Nothing came to our attention that caused us to believe the University of Montana failed to comply with specified aspects of the restrictive covenants, insofar as they relate to accounting matters.

This report is being provided in connection with the audit of the financial statements. Our audit was not directed primarily toward obtaining knowledge regarding compliance, and accordingly, had we performed additional procedures, other matters may have to our attention regarding noncompliance with specific covenants of the bond indenture, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the administration 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.

Galusha Higgins & Galusha, PC

Missoula, Montana
November 26, 2013

UNIVERSITY OF MONTANA
 FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS
 SERIES F 1999, SERIES I 2004, SERIES J 2005, SERIES K 2010, SERIES L 2012
 PLEDGED REVENUE FUNDS

DEBT SERVICE COVERAGE

June 30, 2013

AUXILIARY FACILITIES	
Operating revenues	\$ 58,533,217
Operating expenditures	<u>43,326,498</u>
NET AUXILIARY FACILITIES OPERATING REVENUE	<u>15,206,719</u>
OTHER PLEDGED REVENUES	
Investment income	715,800
Student building fees	2,024,070
Academic facilities fees	1,421,228
Events revenue	6,124,200
Continuing education	2,404,797
Land grant income	1,959,686
Limited facilities and admin payments and unrestricted general fund revenue	<u>1,263,156</u>
	<u>15,912,937</u>
TOTAL PLEDGED REVENUES AVAILABLE FOR DEBT SERVICE	<u>\$ 31,119,656</u>
ACTUAL DEBT SERVICE	<u>\$ 11,140,003</u>
ACTUAL COVERAGE	<u>2.79</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 F 1999, SERIES I 2004, SERIES J 2005, SERIES K 2010, SERIES L 2012
 PLEDGED REVENUE FUNDS

COMBINED REVENUES AND EXPENDITURES

June 30, 2013

AUXILIARY FACILITIES	Missoula	Butte	Dillon	Helena	Total
OPERATING REVENUES					
Residence Life	\$ 13,956,839	\$ 1,269,361	\$ 1,401,670	\$ -	\$ 16,627,870
Food Services	11,595,751	1,677,859	2,226,681	94,195	15,594,486
Student Union Facilities	4,361,089	552,489	116,386	169,001	5,198,965
Student Health Services	6,168,167	-	-	-	6,168,167
Parking	1,995,818	164,358	15,156	-	2,175,332
Recreational Facilities	3,434,640	-	78,626	-	3,513,266
Bookstore	-	1,459,876	763,146	910,960	3,133,982
Printing Services	1,609,357	-	-	-	1,609,357
Adams Center	1,648,263	-	-	-	1,648,263
Miscellaneous	2,477,462	-	358,332	27,735	2,863,529
Total operating revenues	<u>47,247,386</u>	<u>5,123,943</u>	<u>4,959,997</u>	<u>1,201,891</u>	<u>58,533,217</u>
AUXILIARY FACILITIES					
OPERATING EXPENDITURES					
Residence Life	7,677,242	778,750	1,229,351	-	9,685,343
Food Services	9,810,870	1,539,452	2,018,598	90,352	13,459,272
Student Union Facilities	2,819,994	430,402	81,990	-	3,332,386
Student Health Services	5,577,722	-	-	-	5,577,722
Parking	1,554,082	99,398	65,081	-	1,718,561
Recreational Facilities	2,131,840	2,477	282,733	-	2,417,050
Bookstore	-	1,195,009	762,447	803,578	2,761,034
Printing Services	1,425,284	-	-	-	1,425,284
Adams Center	1,074,781	-	-	-	1,074,781
Miscellaneous	1,548,716	-	326,349	-	1,875,065
Total operating expenditures	<u>33,620,531</u>	<u>4,045,488</u>	<u>4,766,549</u>	<u>893,930</u>	<u>43,326,498</u>
NET AUXILIARY FACILITIES					
OPERATING REVENUE					
	<u>13,626,855</u>	<u>1,078,455</u>	<u>193,448</u>	<u>307,961</u>	<u>15,206,719</u>
OTHER PLEDGED REVENUES					
Investment income	664,929	7,925	3,948	38,998	715,800
Student building fees	1,230,115	459,783	258,307	75,865	2,024,070
Academic facilities fees	1,139,373	155,717	67,795	58,343	1,421,228
Events revenue	6,013,903	-	110,297	-	6,124,200
Continuing education	2,404,797	-	-	-	2,404,797
Land grant income	288,928	1,383,534	287,224	-	1,959,686
Limited facilities and admin payments and unrestricted general fund revenue	1,263,156	-	-	-	1,263,156
Total other pledged revenues	<u>13,005,201</u>	<u>2,006,959</u>	<u>727,571</u>	<u>173,206</u>	<u>15,912,937</u>
TOTAL PLEDGED REVENUES					
AVAILABLE FOR DEBT SERVICE					
	<u>\$ 26,632,056</u>	<u>\$ 3,085,414</u>	<u>\$ 921,019</u>	<u>\$ 481,167</u>	<u>\$ 31,119,656</u>

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

UNIVERSITY OF MONTANA
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS
SERIES F 1999, SERIES I 2004, SERIES J 2005, SERIES K 2010, SERIES L 2012
PLEDGED REVENUE FUNDS

DEBT SERVICE FUND, AUXILIARY REPAIR AND REPLACEMENT FUND, AND
CONSTRUCTION FUND - STATEMENT OF CHANGES IN FUND BALANCE - MISSOULA
for the year ended June 30, 2013

	Debt Service Fund	Auxiliary Repair & Replacement Fund	Construction Fund
	<u> </u>	<u> </u>	<u> </u>
INCOME			
Investments	\$ 76	\$ 71,301	\$ -
Other income	-	137,750	-
Allocations within funds	11,453	-	-
Total income	<u>11,529</u>	<u>209,051</u>	<u>-</u>
EXPENDITURES AND TRANSFERS			
Expenditures			
Principal and interest on indebtedness	10,106,066	-	-
Expended for plant facilities	-	1,205,064	1,799
Trustee and audit fees	43,624	-	-
Total expenditures	<u>10,149,690</u>	<u>1,205,064</u>	<u>1,799</u>
Transfers in			
From pledged revenue fund	10,175,590	1,339,313	-
From various funds for pre-paid bond debt service	56,556	-	-
From various funds for repair and maintenance	-	746,881	-
Reimbursement for prior year over expense	-	-	46,478
Total transfers in	<u>10,232,146</u>	<u>2,086,194</u>	<u>46,478</u>
Transfers out			
Transfers to other plant fund projects	-	2,030,896	-
To other R&R projects	-	381,742	-
Total transfers out	<u>-</u>	<u>2,412,638</u>	<u>-</u>
Total expenditures and transfers, net	<u>82,456</u>	<u>(1,531,508)</u>	<u>44,679</u>
NET INCREASE (DECREASE) FOR THE YEAR	93,985	(1,322,457)	44,679
FUND BALANCE			
Beginning of year	<u>1,718,483</u>	<u>10,070,913</u>	<u>105,979</u>
End of year	<u>\$ 1,812,468</u>	<u>\$ 8,748,456</u>	<u>\$ 150,658</u>
FUND BALANCE CONSISTS OF:			
Cash in pooled funds	\$ 2,310,820	\$ 4,296,795	\$ 150,658
MUS pooled investments	-	3,960,000	-
Investments with trustee	37	500,458	-
Construction in progress	-	-	-
Accrued bond interest payable	(498,389)	-	-
Accounts payable and accrued expenditures	-	(8,796)	-
	<u>\$ 1,812,468</u>	<u>\$ 8,748,457</u>	<u>\$ 150,658</u>

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

UNIVERSITY OF MONTANA
 FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS
 SERIES F 1999, SERIES I 2004, SERIES J 2005, SERIES K 2010, SERIES L 2012
 PLEDGED REVENUE FUNDS

DEBT SERVICE FUND AND CONSTRUCTION FUND -
 STATEMENT OF CHANGES IN FUND BALANCE - BUTTE
for the year ended June 30, 2013

	<u>Debt Service Fund</u>	<u>Construction Fund</u>
INCOME		
Investments	\$ 4	\$ -
EXPENDITURES AND TRANSFERS		
Expenditures		
Principal and interest on indebtedness	567,315	-
Other expenditures	-	-
Total expenditures	<u>567,315</u>	<u>-</u>
Transfers in		
From net investment in plant	-	-
From unexpended plant fund	554,259	-
From pledged revenues	19,987	-
Total transfers in	<u>574,246</u>	<u>-</u>
Total expenditures and transfers, net	<u>6,931</u>	<u>-</u>
NET INCREASE FOR THE YEAR	6,935	-
FUND (DEFICIT) BALANCE		
Beginning of year	<u>(43,157)</u>	<u>-</u>
End of year	<u>\$ (36,222)</u>	<u>\$ -</u>
FUND (DEFICIT) BALANCE CONSISTS OF:		
Investments with trustee	\$ -	\$ -
Unamortized bond issuance costs	-	-
Accrued bond interest payable	(36,222)	-
Bonds payable, net of bond discount	<u>-</u>	<u>-</u>
	<u>\$ (36,222)</u>	<u>\$ -</u>

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

UNIVERSITY OF MONTANA
 FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS
 SERIES F 1999, SERIES I 2004, SERIES J 2005, SERIES K 2010, SERIES L 2012
 PLEDGED REVENUE FUNDS

DEBT SERVICE FUND AND CONSTRUCTION FUND -
 STATEMENT OF CHANGES IN FUND BALANCE - DILLON
for the year ended June 30, 2013

	<u>Debt Service Fund</u>	<u>Construction Fund</u>
INCOME		
Investments	<u>\$ 49</u>	<u>\$ -</u>
EXPENDITURES AND TRANSFERS		
Expenditures		
Principal and interest on indebtedness	417,959	-
Operating and administrative costs	-	-
Total expenditures	<u>417,959</u>	<u>-</u>
Transfers in		
From pledged revenue funds	452,782	-
From net investment in plant	-	-
Total transfers in	<u>452,782</u>	<u>-</u>
Transfers out		
To debt service fund	<u>19,987</u>	<u>-</u>
Total expenditures and transfers, net	<u>14,836</u>	<u>-</u>
NET INCREASE FOR THE YEAR	14,885	-
FUND BALANCE		
Beginning of year	<u>3</u>	<u>-</u>
End of year	<u>\$ 14,888</u>	<u>\$ -</u>
FUND BALANCE CONSISTS OF:		
Cash in pooled funds	\$ 45,147	\$ -
Investment with trustee	3	-
Unamortized bond issuance costs	-	-
Accrued bond interest payable	(30,262)	-
Bonds payable, net of bond discount	<u>-</u>	<u>-</u>
	<u>\$ 14,888</u>	<u>\$ -</u>

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

UNIVERSITY OF MONTANA
 FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS
 SERIES F 1999, SERIES I 2004, SERIES J 2005, SERIES K 2010, SERIES L 2012
 PLEDGED REVENUE FUNDS

DEBT SERVICE FUND AND CONSTRUCTION FUND -
 STATEMENT OF CHANGES IN FUND BALANCE - HELENA
for the year ended June 30, 2013

	<u>Debt Service Fund</u>	<u>Construction Fund</u>
INCOME		
Investments	\$ -	\$ -
EXPENDITURES AND TRANSFERS		
Expenditures		
Principal and interest on indebtedness	48,663	-
Bond issuance cost/discount amortization	<u>-</u>	<u>-</u>
Total expenditures	<u>48,663</u>	<u>-</u>
Transfers in		
Mandatory transfers	49,672	-
From unexpended	-	-
From net investment in plant fund	<u>-</u>	<u>-</u>
Total transfers in	<u>49,672</u>	<u>-</u>
Transfers out		
Mandatory transfers	-	-
To debt service funds	<u>-</u>	<u>-</u>
Total transfers out	<u>-</u>	<u>-</u>
Total expenditures and transfers, net	<u>1,009</u>	<u>-</u>
NET INCREASE FOR THE YEAR	1,009	-
FUND BALANCE		
Beginning of year	<u>3,787</u>	<u>-</u>
End of year	<u>\$ 4,796</u>	<u>\$ -</u>
FUND BALANCE CONSISTS OF:		
Cash in pooled funds	\$ 7,508	\$ -
Investments with trustee	-	-
Unamortized bond issuance costs	-	-
Unamortized discount on bonds payable	-	-
Accounts payable and accrued expenditures	(2,712)	-
Bonds payable, net of bond discount	<u>-</u>	<u>-</u>
	<u>\$ 4,796</u>	<u>\$ -</u>

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

UNIVERSITY OF MONTANA
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS
SERIES F 1999, SERIES I 2004, SERIES J 2005, SERIES K 2010, SERIES L 2012
PLEDGED REVENUE FUNDS

DEBT SERVICE FUND
INVESTMENTS WITH TRUSTEE
June 30, 2013

	<u>Missoula</u>	<u>Butte</u>	<u>Dillon</u>	<u>Helena</u>
Cash equivalents	<u>\$ 37</u>	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ -</u>

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

UNIVERSITY OF MONTANA
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS
SERIES F 1999, SERIES I 2004, SERIES J 2005, SERIES K 2010, SERIES L 2012
PLEDGED REVENUE FUNDS

AUXILIARY REPAIR AND REPLACEMENT FUND - MISSOULA
INVESTMENTS WITH TRUSTEE

June 30, 2013

Cash equivalents	<u>\$ 500,458</u>
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The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF MONTANA
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS
SERIES F 1999, SERIES I 2004, SERIES J 2005, SERIES K 2010, SERIES L 2012
PLEDGED REVENUE FUNDS

CONSTRUCTION FUND - MISSOULA
INVESTMENTS WITH TRUSTEE

June 30, 2013

Cash equivalents

\$ -

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

UNIVERSITY OF MONTANA
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS
SERIES F 1999, SERIES I 2004, SERIES J 2005, SERIES K 2010, SERIES L 2012
PLEDGED REVENUE FUNDS

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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 F 1999, Series I 2004, Series J 2005, Series K 2010 and Series L 2012 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 of funds related to the reporting period.

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 Dornblazer 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 F 1999, SERIES I 2004, SERIES J 2005, SERIES K 2010, SERIES L 2012
PLEDGED REVENUE FUNDS

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

UM Missoula Campus, continued

11. Montana Island Lodge.

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 and Swimming Pool).
6. Bookstore.
7. Birch Creek.
8. Event Scheduling.

UM Helena Campus

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

Continued

UNIVERSITY OF MONTANA
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS
SERIES F 1999, SERIES I 2004, SERIES J 2005, SERIES K 2010, SERIES L 2012
PLEDGED REVENUE FUNDS

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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 Dornblazer Field.
 - (b) All revenues generated from the operations of the University 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.

UNIVERSITY OF MONTANA
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS
SERIES F 1999, SERIES I 2004, SERIES J 2005, SERIES K 2010, SERIES L 2012
PLEDGED REVENUE FUNDS

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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.

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 of America 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.

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

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UNIVERSITY OF MONTANA
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS
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NOTE C BONDS PAYABLE, continued

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, 2013 was \$256,241,780. The combined outstanding principal amount at June 30, 2013 was \$113,160,000.

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

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

The University of Montana advance refunded the Series B, D and a portion of C Facilities Improvement Revenue Bonds to reduce annual debt service payments thereby, better matching the term of the debt with the life of the financed facilities. The debt service cash flows for Series F 1999 Revenue Bonds exceed the debt service cash flows for the advance refunded bonds by \$28,173,410. The economic loss for the University of Montana from the advance refunding was \$812,649 (difference between the present values of the debt service payments on the old and new debt).

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

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

The University of Montana refunded the Series A Facilities Improvement Revenue Bonds to reduce annual debt service payments thereby, better matching the term of the debt with the life of the financed facilities. The debt service cash flows for Series I 2004 Revenue Bonds (Refunding portion) are less than the debt service cash flows for the advance refunded bonds by \$3,140,401. The economic gain for the University of Montana from the current refunding was \$3,046,000 (difference between the present values of the debt service payments on the old and new debt).

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UNIVERSITY OF MONTANA
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NOTE C BONDS PAYABLE, continued

Series J 2005. In September 2005, the University of Montana issued \$31,095,000 of Series J Facilities Improvement and Refunding Revenue Bonds, with interest ranging from 3.00 to 4.75 percent. The proceeds from the issue paid and discharged \$11,120,000 of Series F 1999, Revenue Bonds. The issuance also provided \$19,975,000 towards an interdisciplinary research facility on the Missoula campus, a multi-purpose building on the Helena campus and for the renovation, improvement, repair, furnishing and equipping of facilities on the Missoula, Butte and Dillon campuses.

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 4.8 percent to 6.0 percent. The bonds are considered legally defeased and as a result, the liability for those bonds is no longer recorded in the University of Montana consolidated financial statements. The debt service cash flows for Series J 2005 Revenue Bonds (Refunding portion) are less than the debt service cash flows for the advanced refunded bonds by \$862,000. The economic gain for the University of Montana from the advanced refunding was \$600,786 (difference between the present values of the debt service payments on the old and new debt).

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 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 L 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, 2013, bonds outstanding in the amounts of \$96,641,018, \$8,841,816, \$8,908,033 and \$706,151 for Missoula, Butte, Dillon, and Helena, respectively, are considered legally defeased.

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UNIVERSITY OF MONTANA
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 June 30, 2013

NOTE C BONDS PAYABLE, continued

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

	The University of Montana				Memorandum Total
	Missoula	Butte	Dillon	Helena	
Series I 2004 Facilities Improvement & Refunding Revenue Bonds 3.00 to 4.75% secured revenue bonds in varying annual installments through 2030	\$ 8,170,000	\$ -	\$ -	\$ -	\$ 8,170,000
Series J 2005 Facilities Improvement & Refunding Revenue Bonds 3.00 to 4.75% secured revenue bonds in varying installments through 2030	22,175,000	80,000	15,000	10,000	22,280,000
Series K 2010 Refunding Revenue Bonds 1.144 to 4.80% secured revenue bonds in varying installments through 2022	33,626,484	5,419,370	4,436,994	432,152	43,915,000
Series L 2012 Refunding Revenue Bonds 2.25 to 5.00% secured revenue bonds in varying installments through 2033	<u>35,102,509</u>	<u>1,835,386</u>	<u>1,688,961</u>	<u>168,144</u>	<u>38,795,000</u>
	<u>\$ 99,073,993</u>	<u>\$ 7,334,756</u>	<u>\$ 6,140,955</u>	<u>\$ 610,296</u>	<u>\$ 113,160,000</u>

The annual requirements for the next five years to amortize debt outstanding as of June 30, 2013, not including interest payments, are as follows:

	The University of Montana				Rounded Totals
	Missoula	Butte	Dillon	Helena	
2014	\$ 6,128,255	\$ 279,985	\$ 163,019	\$ 23,741	\$ 6,595,000
2015	6,336,158	307,880	179,560	16,402	6,840,000
2016	6,202,044	475,202	363,050	34,704	7,075,000
2017	6,000,189	704,263	570,205	55,343	7,330,000
2018	6,247,757	727,561	587,601	57,081	7,620,000
Later years	<u>68,159,590</u>	<u>4,839,865</u>	<u>4,277,520</u>	<u>423,025</u>	<u>77,700,000</u>
	<u>\$ 99,073,993</u>	<u>\$ 7,334,756</u>	<u>\$ 6,140,955</u>	<u>\$ 610,296</u>	<u>\$ 113,160,000</u>

The bond indenture requires the following minimum reserve balances:

Debt Service, F Series	\$ *
Debt Service, I Series	\$ *
Debt Service, J Series	\$ *
Debt Service, K Series	\$ *
Debt Service, L Series	\$ *
Auxiliary Repair and Replacement Fund	\$ 500,000

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

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UNIVERSITY OF MONTANA
FACILITIES IMPROVEMENT AND REFUNDING REVENUE BONDS
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NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE C BONDS PAYABLE, continued

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 F 1999, Series I 2004, Series J 2005, Series K 2010 and Series L 2012.

NOTE F DEFERRED REVENUE

Deferred revenue consists of fees collected for Summer Session and other income received, but not earned, as of June 30, 2013.

NOTE G COMMITMENTS

As of June 30, 2013, the University of Montana had no construction activities underway for major projects funded with bond proceeds.

NOTE H PENSION PLANS AND COMPENSATED ABSENCES

All full-time employees of the University of Montana are members of the Public Employees' Retirement System (PERS) or one of two other optional elective retirement programs. Further information regarding these plans can be found in The University's annual financial report.

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NOTE H PENSION PLANS AND COMPENSATED ABSENCES, continued

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.

NOTE I 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 F 1999, Series I 2004, Series J 2005, Series K 2010 and Series L 2012.

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 Foundation with office space and an annually contracted fee; and the associations with office space, staff, and some related office expenses.

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.

CONTINUING DISCLOSURE INFORMATION

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AUXILIARY FACILITIES REVENUES

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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 resident 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 and enterprise operated by the Missoula Campus);

(v) parking facilities and enterprises located at and on the Dillon, Butte and Missoula Campuses (but excluding parking facilities and enterprises located at the 2 year College Campuses on the Missoula Campus and 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, Montana Island Lodge and the Adams Center and facilities at the Missoula Campus; and

(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.

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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.

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 2013</u>
Missoula Campus	
Available capacity	2,865
Fall occupancy	2,695
Percent occupancy	94%
Butte Campus	
Available capacity	280
Fall occupancy	269
Percent occupancy	96%
Dillon Campus	
Available capacity	380
Fall occupancy	369
Percent occupancy	97%
Total	
Available capacity	3,525
Fall occupancy	3,333
Percent occupancy	95%

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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.

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 2013-2014 academic years, semester rates will range at the Missoula Campus from \$1,664 for a double room to \$2,344 for a suite; at the Butte Campus from \$1,678 for a double room to \$2,092 for a suite; and at the Dillon Campus from \$1,178 for a double room to \$1,518 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 2013</u>
Missoula Campus	
Available capacity	565
Fall occupancy	565
Percent occupancy	100%
Butte Campus	
Available capacity	60
Fall occupancy	57
Percent occupancy	95%
Dillon Campus	
Available capacity	19
Fall occupancy	19
Percent occupancy	100%
Total	
Available capacity	644
Fall occupancy	641
Percent occupancy	99.5%

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 2013-2014 academic year monthly rents range on the Missoula Campus from \$343 for the least expensive studio to \$855 for the most expensive four bedroom. For the 2013-2014 academic year, on the Butte Campus, monthly rents will range from \$465 for a two-bedroom to \$660 for a three bedroom, and on the Dillon Campus from \$320 for a studio to \$454 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 2013-2014 academic year, semester meal plan rates will range on the Missoula Campus from \$1,938 for a 14 meals per week plan to \$2,148 for a 21 meals per week plan; on the Butte Campus from \$2,076 for a five-day meal plan to \$2,202 for a seven-day meal plan; and on the Dillon Campus \$1,967 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 two 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, Griz Card Center, and University Center administrative offices. A not-for-profit corporation leases space in University Center for a bookstore and a convenience store. 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 2013-2014, the per semester student union operations fee at Missoula, Butte, Dillon, and Helena Campuses will be as follows:

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	Student Union Operations Fee Full-Time Students <u>Per Semester</u>	Student Union Renovation Fee Full-Time Students <u>Per Semester</u>
Missoula	\$92.05	\$30.00
Butte	\$91.32	\$21.60
Dillon	\$28.20	N/A
Helena	N/A	\$62.40

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 (\$227.50 per semester in 2013-2014) 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 has 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 colleges located on the Missoula Campus and 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 2013-2014 permit parking fees for non-reserved parking are expected to vary from \$15 per academic year at Helena to \$185 per academic year at Missoula. Reserved parking permits on the Missoula campus can be purchased for \$555 per year and all spaces are currently filled. 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.

The Missoula Campus students pay \$106 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.

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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. 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 two bookstores both of which are 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 and the Missoula College bookstore is located on the College's East Campus in the Administration Building. 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 is located in the student union building and sells 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, except for a \$1 ticket processing fee, or other revenues comprising Events Revenues as hereinafter described.

Rental Properties. The Missoula Campus owns 28 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 five houses located on the campus that are rented to faculty and staff.

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 thirty-two. 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.

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Montana Island Lodge is 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. It is located approximately one hour northeast of Missoula near the town of Seeley Lake, Montana, and it contains housing for approximately 20 people, along with dining and conference facilities.

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.

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.

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, 2013:

Missoula Campus	\$ 2,369,488
Butte Campus	615,500
Dillon Campus	326,102
Helena Campus	<u>134,208</u>
Total	\$ <u>3,445,298</u>

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 2013 for full-time students taking 12 or more credit hours:

**Building Fee Rates
 Fall Semester 2013
 12 or more Hours**

<u>Campus</u>	<u>Resident Student</u>	<u>Non-Resident Student</u>
Missoula Campus	\$39.00	\$ 75.00
Butte Campus	\$97.68	\$134.40
Dillon Campus	\$84.50	\$120.50
Helena Campus	\$45.00	\$ 85.80

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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 2013, the per semester Academic Facilities Fee for students taking 12 or more credit hours will be:

**Academic Facilities Fee Rates
Fall Semester 2013
12 or More Credit Hours**

Missoula	\$42.00
Butte	\$32.64
Dillon	\$24.60
Helena	\$24.00

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, fieldhouses 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 Dornblazer Field. Events Revenues also include all revenues generated from the operations of the University 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, 2013 (unaudited), for the Missoula Campus was \$1,528,375, for the Butte Campus was \$5,802,048 and for the Dillon Campus was \$3,155,884. For Fiscal Year 2013, approximately 23% of Land Grant Income of the Missoula Campus was derived from investment income; approximately 12% of the Land Grant Income of the Butte Campus was derived from investment income, while 40% of the Land Grant Income of the Dillon Campus was derived from investment income.

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The total Land Grant Income received by each of the Campuses of the University for Fiscal Year ending June 30, 2013 is as follows:

Missoula Campus	\$ 288,928
Butte Campus	1,383,534
Dillon Campus	<u>287,224</u>
Total	\$ <u>1,959,686</u>

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 2013, the University provided services and programs generating fee and other revenue of \$2,404,797.

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 Series I 2004 Bonds and the Series J 2005 Bonds, respectively, allocated for and applied to the financing of the costs of the School of Pharmacy "Skaggs" Building Expansion (as to the Series I 2004 Bonds) and the Series J Interdisciplinary Research Building (as to the Series J 2005 Bonds) in each Fiscal Year beginning with the Fiscal Year ending June 30, 2006 through the Fiscal Year ending June 30, 2030 (after deducting amounts deposited with and held by the Trustee for payment of capitalized interest on Series I 2004 Bonds and Series J 2005 Bonds allocated to the financing of the School of Pharmacy "Skaggs" Building Expansion and the Series J Interdisciplinary Research Building), so long as the Series I 2004 Bonds or the Series J 2005 Bonds, respectively, are outstanding. (See clause (n) of definition of "Net Pledged Revenues" in Appendix A of the indenture.).

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. Although F&A payments from federal agencies have increased in recent years, 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 2013, total F&A revenue received was \$8,476,561.

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 2013 head count student enrollment of all Campuses of the University was 20,345.

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>
2004	13,951	3,845	17,796
2005	13,937	3,980	17,917
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

Growth in enrollment over the past 10 years has been a product of growth in both resident and non-resident enrollment. Non-resident students come from a large number of states, but the primary sources of non-resident enrollment and the sources of greatest recent growth are West Coast states, Upper-Midwest states, and certain East Coast states. 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 to assist in reversing the downturn. While the results of the effort will not materialize until Fall of 2015, the Missoula Campus is very optimistic about the future. The Fall 2013 FTE for all UM campuses did increase over Fall 2012. The actual FTE for Fall Semester 2013 was 17,877.

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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 fiscal year:

	<u>2013</u>
Missoula Campus	12,830
Butte Campus	2,505
Dillon Campus	1,439
Helena Campus	<u>1,103</u>
 Total (FTE)	 <u>17,877</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 2013-2014 academic years are described as follows:

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**Student Fees 2013-2014 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 Lower Division Undergraduate	\$ 2,186.40	\$ 2,459.52	\$ 1,545.00
Resident Upper Division Undergraduate	2,416.80	2,717.40	2,154.00
Resident Graduate	2,588.40	2,901.36	2,154.00
Resident Advanced Graduate	2,924.40	-	-
Non-Resident Lower Division Undergraduate	9,987.60	8,493.60	6,869.04
Non-Resident Upper Division Undergraduate	10,738.20	9,387.72	7,069.20
Non-Resident Graduate	11,212.20	10,533.00	7,069.20
Non-Resident Advanced Graduate	11,656.80	-	-
Building Fee			
Resident	39.00	97.68	84.50
Non-Resident	75.00	134.40	120.50
Registration and Other Miscellaneous Fees	796.94	674.85	440.80
TOTAL FEES			
Resident Lower Division Undergraduate	\$ 3,022.34	\$ 3,232.05	\$ 2,070.30
Resident Upper Division Undergraduate	3,252.74	3,489.93	2,679.30
Resident Graduate	3,424.34	3,673.89	2,679.30
Resident Advanced Graduate	3,760.34	-	-
Non-Resident Lower Division Undergraduate	10,859.54	9,302.85	7,430.34
Non-Resident Upper Division Undergraduate	11,610.14	10,196.97	7,630.50
Non-Resident Graduate	12,084.14	11,342.25	7,630.50
Non-Resident Advanced Graduate	12,528.74	-	-

**Student Fees 2013-2014 Academic Year
 Two Year College Programs
 12 or more Credits**

<u>Fees Per Semester</u>	<u>Missoula</u>	<u>Butte</u>	<u>Helena</u>
Incidental Fee (Tuition)			
Resident Undergraduate	\$ 1,192.80	\$ 1,189.80	\$ 1,179.00
Non-Resident Undergraduate	5,149.80	3,636.60	3,786.00
Building Fees			
Resident	39.00	54.96	45.00
Non-resident	75.00	91.68	85.80
Registration and Other Miscellaneous Fees	497.79	368.02	306.60
Total Fees Resident Undergraduate	\$ 1,729.59	\$ 1,612.78	\$ 1,530.60
Total Fees Non-Resident Undergraduate	\$ 5,722.59	\$ 4,096.30	\$ 4,178.40

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Employees

As of June 30, 2013, the University employed 4,417 people (head count) as follows:

	<u>Missoula</u>	<u>Butte</u>	<u>Dillon</u>	<u>Helena</u>	<u>Total</u>
Faculty/Professional	1,457	373	129	173	2,132
Staff	1,102	132	92	42	1,368
Staff -Temporary hourly	454	24	25	5	508
Graduate students	<u>394</u>	<u>15</u>	<u>-</u>	<u>-</u>	<u>409</u>
TOTAL	<u>3,407</u>	<u>544</u>	<u>246</u>	<u>220</u>	<u>4,417</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, 2013, 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>
\$1,083,156,668	\$213,575,386	\$116,421,835	\$48,112,751	\$1,461,266,640

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 Higher Education's portion of the state budget has remained relatively stable. 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. In general, the 2013-2014 biennium is much brighter in terms of state support for higher education compared to other public higher education across the nation.

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 <u>of Montana</u>	University of Montana - <u>Western</u>	Helena College- University of <u>Montana</u>	<u>Total</u>
FY 2012-2013					
Actual	\$158,557,686	\$29,726,024	\$13,697,932	\$8,242,835	\$210,224,477
FY 2013-2014					
Budgeted	\$161,359,638	\$30,805,449	\$13,906,780	\$8,032,225	\$214,102,092

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.

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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 2013. 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 Consolidated Statement of Revenues, Expenses and Changes in Net Position – is presented for the fiscal year ended June 30, 2013. 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, 2013

	Total
OPERATING REVENUES	
Tuition and fees, net of scholarship allowance of \$31,615,318	\$ 122,306,910
Federal grants and contracts	49,719,312
State and local grants and contracts	10,615,919
Nongovernmental grants and contracts	6,031,713
Indirect cost recoveries	8,956,216
Sales and services of educational departments	17,282,414
Auxiliary enterprises charges	
Residential life, net of scholarship allowances of \$1,011,103	14,480,117
Food services, net of scholarship allowances of \$1,011,103	12,245,073
Other auxiliary revenues	12,313,059
Interest earned on loans to students	52,258
Other operating revenues	5,797,524
Total operating revenues	\$ 259,800,515
OPERATING EXPENSES	
Compensation and employee benefits:	\$ 250,377,293
Other post employment benefits	6,891,306
Other	91,151,008
Scholarships and fellowships	27,743,539
Depreciation and amortization	23,806,165
Total operating expenses	\$ 399,969,311
Operating loss	\$ (140,168,796)
NON-OPERATING REVENUES (EXPENSES)	
State appropriations	\$ 85,393,791
Federal financial aid grants and contracts	32,082,813
Land grant revenues	1,959,686
Private gifts	14,027,252
Investment income	2,325,070
Interest expense	(5,405,084)
Net non-operating revenues	\$ 130,383,528
Loss before other revenues	\$ (9,785,268)
OTHER REVENUES (EXPENSES):	
Capital grants and gifts	\$ 1,600,652
Loss on disposal of capital assets	(328,257)
Total other revenues	1,272,395
Net decrease in net position	\$ (8,512,873)

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Academic and Other Programs

The Missoula Campus is the center of liberal arts education in the University System. It offers 20 associate degrees, 65 undergraduate degrees, 58 master's degrees, specialist degrees in four areas, a juris doctorate, and 29 doctoral degrees. The College of Arts and Sciences is the largest academic unit at the Missoula Campus, comprising 26 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 Yellow Bay 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, Geophysical, Geological, Metallurgical, Mining, Petroleum and Environmental Engineering. 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, Information Technology and Design, Nursing and other bachelor and associate degree programs. 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.