



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

University of Montana

*For the Fiscal Year Ended
June 30, 2014*

JANUARY 2015

LEGISLATIVE AUDIT
DIVISION

13-10B

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REPRESENTATIVES

RANDY BRODEHL, CHAIR
Randybrodehl57@gmail.com

VIRGINIA COURT
vcourtforlegislature@yahoo.com

MIKE CUFFE
mcuffe@interbel.net

MARY McNALLY
McNally4MTLeg@gmail.com

RYAN OSMUNDSON
Ryanosmundson@gmail.com

J.P. POMNICHOWSKI
pomnicho@montanadsl.net

SENATORS

DEE BROWN
repdee@yahoo.com

TAYLOR BROWN
taylor@northernbroadcasting.com

GREG JERGESON, VICE CHAIR
jergeson4senator@yahoo.com

SUE MALEK
senatormalek@gmail.com

FREDRICK (ERIC) MOORE
mail@SenatorEricMoore.com

MITCH TROPILA
tropila@mt.net

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FINANCIAL AUDITS

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

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2013, was issued March 28, 2014. The Single Audit Report for the two fiscal years ended June 30, 2015, will be issued by March 31, 2016. Copies of the Single Audit Report can be obtained by contacting:

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

Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705

AUDIT STAFF

JENNIFER ERDAHL
AARON FUNK
VANESSA SHAW

JOHN FINE
KENT RICE

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

January 2015

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on the University of Montana's (university) consolidated financial statements for the fiscal year ended June 30, 2014, with comparative information for the fiscal year ended June 30, 2013. The statements include financial information from four fund-raising foundations which are component units of the university. This report does not contain any recommendations to the university.

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

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

| | | <u>Term Expires</u> |
|------------------------------------------------------|------------------------------------------------------|---------------------|
| Board of Regents of Higher Education | Paul Tuss, Chair | February 1, 2020 |
| | Major Robinson, Vice Chair | February 1, 2018 |
| | Fran M. Albrecht | February 1, 2019 |
| | William Johnstone | February 1, 2017 |
| | Jeffrey Krauss | February 1, 2015 |
| | Martha Sheehy | February 1, 2021 |
| | Mariah R. Williams, Student Regent | June 30, 2015 |
| | Clayton Christian, Commissioner of Higher Education* | |
| Steve Bullock, Governor* | | |
| Denise Juneau, Superintendent of Public Instruction* | | |

*Ex officio members

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

| | | |
|----------------------------------------------------------|-----------------------|--------------------------------------------------------------------------------------------------------------------------|
| University of Montana–Missoula | Perry J. Brown | Provost and Vice President for Academic Affairs, University Provost |
| | Teresa S. Branch | Vice President for Student Affairs, University Vice President |
| | Peggy Kuhr | Vice President for Integrated Communication |
| | Michael Reid | Vice President for Administration & Finance, University Vice President |
| | Scott Whittenburg | Vice President for Research & Creative Scholarship, University Vice President |
| | Matthew Riley | Chief Information Officer |
| | Lucy France | Legal Counsel |
| | John McCormick | Interim Director, Business Services |
| Montana Tech of the University of Montana | Donald M. Blackketter | Chancellor, University Executive Vice President |
| | Doug Abbott | Vice Chancellor for Academic Affairs, University Associate Vice President |
| | Beverly Hartline | Vice Chancellor for Academic Affairs and Research, Dean of Graduate School and University Associate Vice President |
| | Margaret Peterson | Vice Chancellor for Administration and Finance, University Associate Vice President |
| | Paul Beatty | Associate Vice Chancellor for Student Affairs, Dean of Students |
| | John Badovinac | Controller/Business Manager, Post-Retirement |
| | Carleen Cassidy | Director, Sponsored Programs and Grant Accounting |
| | Richard Storey | Chancellor, University Executive Vice President (Retired September 2014) |
| University of Montana–Western | Beth Weatherby | Chancellor, University Executive Vice President (effective January 15, 2015) |
| | Karl E. Ulrich | Provost and Vice Chancellor for Academic Affairs, University Associate Vice President |
| | Susan D. Briggs | Vice Chancellor, Administration/Finance and Student Affairs, University Associate Vice President |
| | Liane Forrester | Controller |

**Helena College
University of
Montana**

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

For additional information concerning the University of Montana, contact:

Kathy Burgmeier, Director
Internal Audit
University Hall 018
Missoula, MT 59812
(406) 243-2545
(406) 243-2797 (fax)
e-mail: burgmeierka@mso.umt.edu



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL AUDIT

University of Montana

For the Fiscal Year Ended June 30, 2014

JANUARY 2015

13-10B

REPORT SUMMARY

The University of Montana is comprised of University of Montana–Missoula, Montana Tech of the University of Montana, University of Montana–Western, and Helena College University of Montana. Enrollment of full-time equivalent students continued to decline in fiscal year 2014 to 17,139 from 17,877 in fiscal year 2013, resulting in a corresponding decrease in tuition and fees revenue of \$2.8 million.

Context

We perform an annual financial statement audit of the University of Montana (university) to provide an independent assessment of whether the university's financial statements reliably represent the financial position of the university as of June 30, 2014, as well as the results of operations and cash flows for the year then ended.

The financial statements in this report also contain information regarding the financial activity of the university-related foundations supporting the Missoula, Montana Tech, and Western campuses. These foundations had a combined net position of \$242.7 million at June 30, 2014, comparable to the university's net position of \$278.9 million.

During fiscal year 2014, the university incurred a \$1.2 million decline in net position. The fall in net position reflects the continued decrease in the number of full-time equivalent students.

The university issued \$7.9 million of revenue bonds in December 2013 to fund construction projects at the Butte and Missoula campuses. Repayments of previously issued bonds limited the increase in revenue bond debt to \$700,000.

In performing this audit, we documented our understanding of controls related to material balances and activities. We tested controls to the extent appropriate to reduce risk of not detecting misstatements. Test procedures covered certain controls within the university's automated accounting system and compliance with laws and regulations where noncompliance could cause risk of material misstatement of the presented financial information.

Audit procedures detected an error in the method used to estimate Other Post Employment Benefits (OPEB), the liability for medical expenses of retirees. As a result, the university restated the OPEB liability as of June 30, 2013, which decreased by \$7.8 million from the amount previously reported.

Results

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

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

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

Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE

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

Chapter I – Introduction

Audit and Objectives

We performed a financial audit of the University of Montana (university) for the fiscal year ended June 30, 2014. The objective of the audit was to determine whether the university's financial statements present fairly its net position at June 30, 2014, and the changes in net position and cash flows for the year then ended. This objective included:

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

In determining whether the university's financial statements are fairly presented, we document our understanding of controls related to material balances and activities. We test these controls to the extent deemed appropriate to reduce risk of misstatements. These tests include procedures over operation of controls within the university's automated data processing accounting system. We also test compliance with laws and regulations where noncompliance could cause significant risk of material misstatement of the presented financial information.

We perform annual financial audits of the university to provide audited financial statements to interested parties. We also conduct separate biennial audits covering the university's compliance with selected state and federal laws and regulations.

Background

The University of Montana consists of four campuses:

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

All campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The four campuses of the University of

Montana provide a diversity of undergraduate and graduate academic and two-year vocational/technical programs to students.

University of Montana-Missoula offers four-year undergraduate programs along with masters and doctoral graduate programs. It includes professional schools and significant research activities. The campus is the center of liberal arts education in the Montana University System and operates the only law school in the system. Other schools/colleges include Business Administration, Education and Human Science, Visual and Performing Arts, Forestry and Conservation, Health Professions and Biomedical Sciences, Extended and Lifelong Learning, Honors, Graduate, and Journalism. In addition, the campus includes the two-year Missoula and Bitterroot colleges, which provide a broad range of technical and occupational education and training courses. Students of these two colleges receive either a certificate of completion or a two-year degree upon completion of a program.

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

University of Montana-Western provides undergraduate degrees in a number of liberal arts, professional, and pre-professional areas using a unique scheduling system in which students take one class at a time.

Helena College University of Montana is a growing two-year college offering 32 credentials in 14 different areas, as well as general transfer degrees and a variety of learning opportunities in personal enrichment and customized training. Through these offerings, the Helena College serves approximately 1,500 students each semester.

Additional information on enrollment, degrees granted, and employee levels is presented on page A-53.

Independent Auditor's Report and University Financial Statements

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Consolidated Statements of Net Position of the University of Montana (university), a component unit of the state of Montana, as of June 30, 2014, and 2013, the related Consolidated Statements of Revenues, Expenses and Changes in Net Position and Consolidated Statements of Cash Flows for each of the fiscal years then ended, and the University Component Units-Combined Statements of Financial Position as of June 30, 2014, and 2013, and the University Component Units-Combined Statements of Activities for the fiscal years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of the university's aggregate discretely presented component units. Those statements, which include the University of Montana Foundation, the Montana Tech Foundation, the University of Montana-Western Foundation, and the Montana Grizzly Scholarship Association, were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts for the component units of the university, as noted above, is based on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the university's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of university's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

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

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Montana and its aggregate discretely presented component units as of June 30, 2014, and 2013, and the changes in net position and, where applicable, cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Fiscal Year 2013 financial statements have been restated to correct a misstatement of Other Post –Employment Benefits. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Supplemental Information - All Campuses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 16, 2014

UNIVERSITY OF MONTANA

UNIVERSITY OF MONTANA - MISSOULA
 MONTANA TECH OF THE UNIVERSITY OF MONTANA
 UNIVERSITY OF MONTANA - WESTERN
 HELENA COLLEGE UNIVERSITY OF MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR ENDED JUNE 30, 2014 OVERVIEW

The University of Montana (University) is comprised of four campuses: University of Montana - Missoula; Montana Tech of the University of Montana; University of Montana - Western; and Helena College University of Montana. This discussion addresses the consolidated financial statements for the four campuses, and included are three basic statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The discussion and analysis which follows provides a comparative overview of the University's financial position and operating results for the fiscal years ended June 30, 2014, 2013, and 2012 and should be read in conjunction with the fiscal year 2014 financial statements.

FINANCIAL HIGHLIGHTS

The financial highlights for fiscal year 2014 were:

- Upon further review of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, by independent auditors, it was determined that some provisions of the standard were not implemented properly by the State of Montana and its component units, which caused the University's other postemployment benefits (OPEB) liability recorded in the statement of net position to be overstated by \$6,280,146. The FY14 consolidated financial statements have been restated to reflect the overstatement in prior periods. In addition, the OPEB expense recorded by the University will be reduced in future years based on changes made to the annual OPEB cost calculation.
- The University of Montana issued \$7,891,000 of Series M 2013 Tax Exempt Revenue Bonds in December, 2013. 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. Projects funded from the bond proceeds on the Missoula campus include the Technology Modular Units for \$1,870,791, the Gilkey Executive Education Center for \$1,490,000 and the Interdisciplinary Science Building (ISB) for \$3,152,526. Projects funded on the Montana Tech campus include the renovation of restrooms in Prosper Residence Halls for \$1,246,913.
- Long term investments increased by about \$16.2 million primarily from the purchase of \$20.0 million of additional intermediate term investments and an increase in the investments fair market value during the year. The additional amount invested in intermediate term investments and the positive fair market value adjustment helped increase investment earnings by \$2.8 million over the prior year.
- Tuition and fees revenue declined by \$2.8 million in FY14 due to a continued decline in enrollment primarily at the Missoula campus, which saw its full time equivalent students (FTE) drop by 619 students. Overall, FTE for the University declined by 738 FTE from 17,877 FTE in FY13, to 17,139 in FY14. The University increased tuition for nonresident students by 3% in FY14, which partially mitigated the revenue decline from the lower enrollment.

- Resident tuition was frozen for FY14 and FY15 due to the College Affordability Plan (CAP) agreement reached between the governor and Montana University System. However, the 2013 Legislature appropriated sufficient funds to the Montana University System to fund the CAP agreement.
- The most recent agreement reached with bargaining units representing faculty and classified staff provided for a wage increase of 2.5% plus \$250 in FY14. Classified staff not covered by union representation, administrators, and contract professionals, were also eligible for a similar wage increase. The pay increases totaled around \$4.7 million.
- The University continues to receive an indicative credit ratings of A+ and A1 from Standard and Poor's and Moody's, respectively.

The financial highlights for fiscal year 2013 were:

- The University continued to experience a declining trend in enrollment, seeing full time equivalent students (FTE) decline by 832 from 18,709 FTE in FY12 to 17,877 in FY13. While enrollment increased at the University of Montana – Western by 73 FTE, the other campuses saw their enrollments drop by a total of 935 FTE. The majority of the decline in enrollment was in in-state students, which decreased by 622 FTE, though, enrollment of out-of-state students declined by 207 FTE. As a result, Tuition and Fee revenue declined by almost \$2.0 million in FY13, or 1.6% compared to the prior year. The decrease was partially mitigated by a 5% across the board increase in tuition at the four year institutions, increasing revenue by almost \$3.7 million.
- During the bargaining cycle completed in FY12, an agreement was reached between the various unions representing faculty and classified staff to increase compensation. In FY13 the negotiated pay increase was 2% plus, \$500. Classified staff not covered by union representation, administrators, and contract professionals, were also eligible for similar increases. The pay increases totaled almost \$4.6 million and were funded primarily by an increase in tuition for resident and nonresident students.
- HB 5 passed by the 2013 Legislative Session provided \$38.0 million to fund three significant construction projects on University of Montana campuses: \$29.0 million to construct a new facility for the Missoula College University of Montana; \$4.0 million for Phase 3 of the Main Hall renovation at the University of Montana – Western; \$5.0 million to construct an addition to the Natural Resource Center at Montana Tech of the University of Montana.
- In FY13, the Montana University System and the governor reached an agreement, referred to as the College Affordability Plan (CAP), to freeze resident tuition for FY14 and FY15, contingent on new funding for inflationary costs and adequate funding for faculty and staff pay raises in HB13. The 2013 Legislature appropriated sufficient funding to implement the CAP agreement. Non-resident student tuition was not frozen and will increase 3% in both FY14 and FY15.
- The University continues to receive an indicative credit ratings of A+ and A1 from Standard and Poor's and Moody's, respectively.

USING THE FINANCIAL STATEMENTS

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

A discussion of each of the individual statements follows. Some key points to be aware of regarding the statements are:

- These are consolidated financial statements representing the University's four campuses.
- The financial statements are prepared using the accrual basis of accounting, which means revenues are reported when earned, and expenses are reported when an obligation has been incurred.
- Assets and liabilities presented in the financial statements are generally measured at current value, although capital assets are stated at historical cost less accumulated depreciation.
- Capital assets are classified as depreciable and non-depreciable. Depreciation is treated as an operating expense.
- Assets and liabilities are treated as current (Due within one year) or as non-current (Due in more than one year), and are presented in the Statement of Net Position in order of liquidity. Deferred outflows of resources represent the consumption of resources that are applicable to a future reporting period but do not require a future exchange of goods or services.
- Revenues and expenses are classified as operating or non-operating. "Operating" is defined as resulting from transactions involving exchanges of goods or services for payment, and directly related to supplying the basic service while "non-operating" is defined as resulting from transactions not derived from the basic operation of the enterprise. As a result, the accompanying Statement of Revenues, Expenses, and Changes in Net Position reflects a substantial operating loss, primarily because accounting standards requires that the State Appropriation, which is used for operations, must be reported as non-operating revenue.
- Tuition and fees are reported net of any scholarships or fellowships that were applied directly to a student's account. The reason for "netting" these is to keep the University financial statements from "double counting" this revenue and expense.

STATEMENT OF NET POSITION

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

| Description | For the years ended June 30, (stated in millions) | | |
|---------------------------------------|--------------------------------------------------------------|------------------|------------------|
| | 2014 | 2013* | 2012* |
| Total current assets | \$ 94.10 | \$ 105.26 | \$ 93.03 |
| Total non-current assets | 451.76 | 441.97 | 434.39 |
| Total assets | \$ 545.86 | \$ 547.23 | \$ 527.42 |
| Deferred Outflows of Resources | \$ 3.41 | \$ 3.81 | \$ 4.20 |
| Total current liabilities | \$ 79.91 | \$ 82.80 | \$ 55.80 |
| Total non-current liabilities | 190.41 | 188.06 | 188.70 |
| Total liabilities | \$ 270.32 | \$ 270.86 | \$ 244.50 |
| Net invested in Capital Assets | \$ 214.82 | \$ 224.18 | \$ 223.81 |
| Restricted: | | | |
| Nonexpendable | 22.88 | 20.93 | 19.81 |
| Expendable | 5.81 | 6.22 | 6.14 |
| Unrestricted | 35.44 | 28.85 | 37.36 |
| Total net position | \$ 278.95 | \$ 280.18 | \$ 287.12 |

**Restated*

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

Events or developments which occurred during 2014 include:

- Current assets declined by \$11.2 million, due primarily to a \$10.6 million decrease in securities lending collateral allocated to the University by the Montana Board of Investments at FYE and a \$4.0 million decrease in cash and cash equivalents. The decrease was offset in part by increases of \$1.4 million and \$1.7 million in due from Federal government and prepaid expenses, respectively.
- Noncurrent assets increased by \$9.8 million largely from an increase in long term investments of over \$15.7 million, offset in part by a net decrease in capital assets of \$5.2 million. The increase in long term investments in FY14, was due primarily to a purchase of \$20.0 million of additional intermediate term investments acquired largely with available cash reserves. The net decrease in capital assets resulted from a net increase in accumulated depreciation of \$19.3 million, which exceeded the net increase in additions to capital assets of \$14.1 million.
- Current liabilities decreased by \$2.9 million due to a \$10.6 million decrease in the securities lending liability allocated to the University at FYE by the Montana Board of Investments, which was offset in part by increases of \$2.0 million in accounts payable, a \$1.6 million increase in student and other deposits, and a \$2.7 million increase in unearned revenue. Other less significant changes to other current liability classifications also affected the net decrease in current liabilities.
- Noncurrent Liabilities increased by \$2.3 million largely from an increase in the liability for other postemployment benefits (OPEB) of \$3.9 million, which is the increase in the OPEB obligation calculated in accordance with GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The increase in the OPEB obligation was offset primarily by a \$1.6 million net decrease in long term debt.
- The University's overall net position declined by about \$1.2 million in FY14, primarily because of a \$9.4 million decline in net investment in capital assets offset by a \$2.0 million increase in nonexpendable endowments and a \$6.6 million increase in unrestricted net position. Depreciation expense of \$23.3 million exceeded capital grants and gifts revenue and total principal payments on long-term debt, which accounted for much of the decline in net investment in capital assets. The overall decline in net position was not as significant compared to the prior year, when net position declined by \$6.9 million (restated).

Events or developments which occurred during 2013 include:

- Current assets increased by over \$12.2 million, largely from a \$19.3 million increase in securities lending collateral allocated to the University by the Montana Board of Investments at FYE, which was offset by a \$6.2 million decrease in cash and cash equivalents. Significant transactions contributing to the net decrease in cash and cash equivalents in FY13, include the purchase of \$18.5 million in intermediate term investments; payment of \$10.0 million to purchase capital assets, net of loan proceeds; and \$13.6 million in principal and interest payments made on long term debt, which together offset the \$33.1 million in cash and cash equivalents provided by operating and non-operating activities. Other less significant increases and decreases in current assets account for the remaining change in current assets.
- Noncurrent assets increased by \$7.6 million primarily from an increase in long term investments of over \$18.3 million, offset in part by a net decrease in capital assets of \$10.6 million. In FY13, the University purchased \$18.5 million of additional intermediate term

investments acquired largely with available cash reserves. The net decrease in capital assets of \$10.6 million resulted from an increase in accumulated depreciation of \$23.5 million, which exceeded the increase in capital assets of \$12.9 million.

- Current liabilities increased by over \$27.0 million due almost entirely to a \$19.3 million increase in the securities lending liability allocated to the University at FYE by the Montana Board of Investments, and an increase in payroll related liabilities of \$8.1 million accrued at fiscal year-end. Other less significant changes to other current liability classifications, also affected the net decrease in current liabilities.
- Noncurrent liabilities decreased by just over \$600 thousand (restated). Significant changes affecting noncurrent liabilities were an increase in the liability for postemployment benefits (OPEB) of \$5.3 (restated) million, which is the increase in the OPEB obligation calculated in accordance with GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and a net decrease in long-term debt of \$6.4 million.
- The University's overall net position decreased by over \$6.9 million (restated) in FY13, in contrast to the \$7.5 million increase in net position recorded in the prior year. The decrease was largely due to a \$8.5 million (restated) decrease in unrestricted net position, which was significantly affected by a decline in tuition and fee revenues of close to \$2.0 million, and an increase of almost \$8.5 million (restated) in compensation and benefits expense.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses, and Changes in Net Position present the results of the University's operational activities for the fiscal year, categorizing them as either operating or non-operating items. Consistent with the accrual method of accounting, the current year's revenues and expenses are recognized when they were earned or incurred, regardless of when cash was received or paid.

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

| | For the years ended June 30, | | |
|------------------------------------------------------|-------------------------------------|------------------|------------------|
| | (stated in millions) | | |
| | 2014 | 2013* | 2012* |
| Description | | | |
| Operating revenues | \$ 255.33 | \$ 259.80 | \$ 264.36 |
| Operating expenses | 399.39 | 398.40 | 389.78 |
| Operating loss | (144.06) | (138.60) | (125.42) |
| Non-operating revenues (expenses) | 138.55 | 130.39 | 129.17 |
| (Loss) income before other revenues | (5.51) | (8.21) | 3.75 |
| Other revenues | 4.28 | 1.27 | 4.89 |
| Net (decrease) increase in net position | (1.23) | (6.94) | 8.64 |
| Net Position, beginning of year as previously stated | 280.18 | 280.84 | 273.45 |
| Adjustment for OPEP liability misstatement | - | 6.28 | 5.03 |
| Net Position, beginning of year as restated | 280.18 | 287.12 | 278.48 |
| Net position, end of year | \$ 278.95 | \$ 280.18 | \$ 287.12 |
| *Restated | | | |

The following provides a comparative analysis of revenues and expenses for the years ended June 30, 2014, 2013, and 2012:

| | For the years ended June 30, | | | | | |
|-----------------------------------------------|-------------------------------------|----------------|------------------|----------------|------------------|----------------|
| | (stated in millions) | | | | | |
| | 2014 | | 2013* | | 2012* | |
| | Amount | Percent | Amount | Percent | Amount | Percent |
| REVENUES | | | | | | |
| Tuition and fees, net | \$ 119.42 | 29.60% | \$ 122.31 | 30.82% | \$ 124.29 | 30.72% |
| Federal grants and contracts | 46.26 | 11.48% | 49.72 | 12.54% | 52.31 | 12.94% |
| State & local grants/contracts | 9.05 | 2.24% | 10.62 | 2.68% | 10.04 | 2.48% |
| Nongovernmental grants/contracts | 8.92 | 2.21% | 6.03 | 1.52% | 6.75 | 1.67% |
| Facilities and administrative cost allowances | 8.28 | 2.05% | 8.96 | 2.26% | 9.04 | 2.23% |
| Sales/services of educational departments | 15.47 | 3.83% | 17.28 | 4.35% | 16.93 | 4.18% |
| Auxiliary enterprise charges | 41.70 | 10.34% | 39.04 | 9.84% | 39.55 | 9.78% |
| State appropriations | 92.52 | 22.93% | 85.39 | 21.52% | 84.22 | 20.82% |
| Federal financial aid grants and contracts | 29.80 | 7.39% | 32.08 | 8.08% | 34.43 | 8.51% |
| Investment income | 5.16 | 1.28% | 2.33 | 0.59% | 1.57 | 0.39% |
| Private gifts | 14.42 | 3.57% | 14.03 | 3.54% | 13.33 | 3.29% |
| Capital grants and gifts | 4.29 | 1.06% | 1.60 | 0.40% | 5.03 | 1.24% |
| All other sources combined | 8.16 | 2.02% | 7.47 | 1.88% | 7.07 | 1.75% |
| Total revenues | \$ 403.45 | 100.00% | \$ 396.86 | 100.02% | \$ 404.56 | 100.00% |
| EXPENSES | | | | | | |
| Compensation and benefits | \$ 254.63 | 62.92% | \$ 249.98 | 61.91% | \$ 241.47 | 60.99% |
| Other postemployment benefits | 4.65 | 1.15% | 5.72 | 1.42% | 5.45 | 1.38% |
| Other operating expenses | 90.29 | 22.31% | 91.15 | 22.57% | 90.94 | 22.97% |
| Scholarships and fellowships | 26.49 | 6.55% | 27.74 | 6.87% | 29.55 | 7.46% |
| Depreciation and amortization | 23.33 | 5.77% | 23.81 | 5.90% | 22.37 | 5.65% |
| Interest expense | 5.29 | 1.31% | 5.40 | 1.34% | 6.14 | 1.55% |
| Total expenses | \$ 404.68 | 100.00% | \$ 403.80 | 100.00% | \$ 395.92 | 100.00% |

*Restated

Events or developments which occurred during 2014 include:

Overall, the University saw a \$1.2 million decline in its net position in FY14. Significant factors affecting the University's net position are described below:

- Operating revenues declined by \$4.5 million due largely to a \$2.9 million decline in tuition and fees revenue, a net decline of \$2.1 million in grants and contracts revenue and a \$1.8 million decline in sales and service revenue, which were offset in part by a \$2.7 million increase in auxiliary enterprise revenues. The University continued to experience a decline in-state and out-of-state enrollment as evidenced by a 738 decrease in full time equivalent (FTE) students in FY14. Since 2012, enrollment has dropped by 1,570 FTE or around 8.4%. The decline in grants and contracts revenue is primarily due to a decline of \$3.5 million in funding awarded to the University by the federal government. Research institutions face a very competitive environment when vying for federal funding available for basic research, which has remained relatively flat over the past 10 years.
- In total, operating expenses increased by less than \$1.0 million compared to FY13, or by 0.25%, due largely to a \$1.0 million decrease in other postemployment benefits expense, a \$1.3 million decrease in scholarships and fellowships and a \$1.3 million decrease in other operating expense classifications, which offset a \$4.7 million increase in compensation and employee benefits. A wage increase of 2.5% plus \$250, negotiated with University employee bargaining units was paid to eligible employees, increasing compensation expense by approximately \$4.7 million. University administrators and contract professionals were also eligible to receive a similar wage increase. In addition, the University's contribution to the employee benefit plan increased from \$733 per month to \$806 per month, increasing group insurance expense by over \$2.5 million. These increases to compensation and benefits expense were offset in part, by an

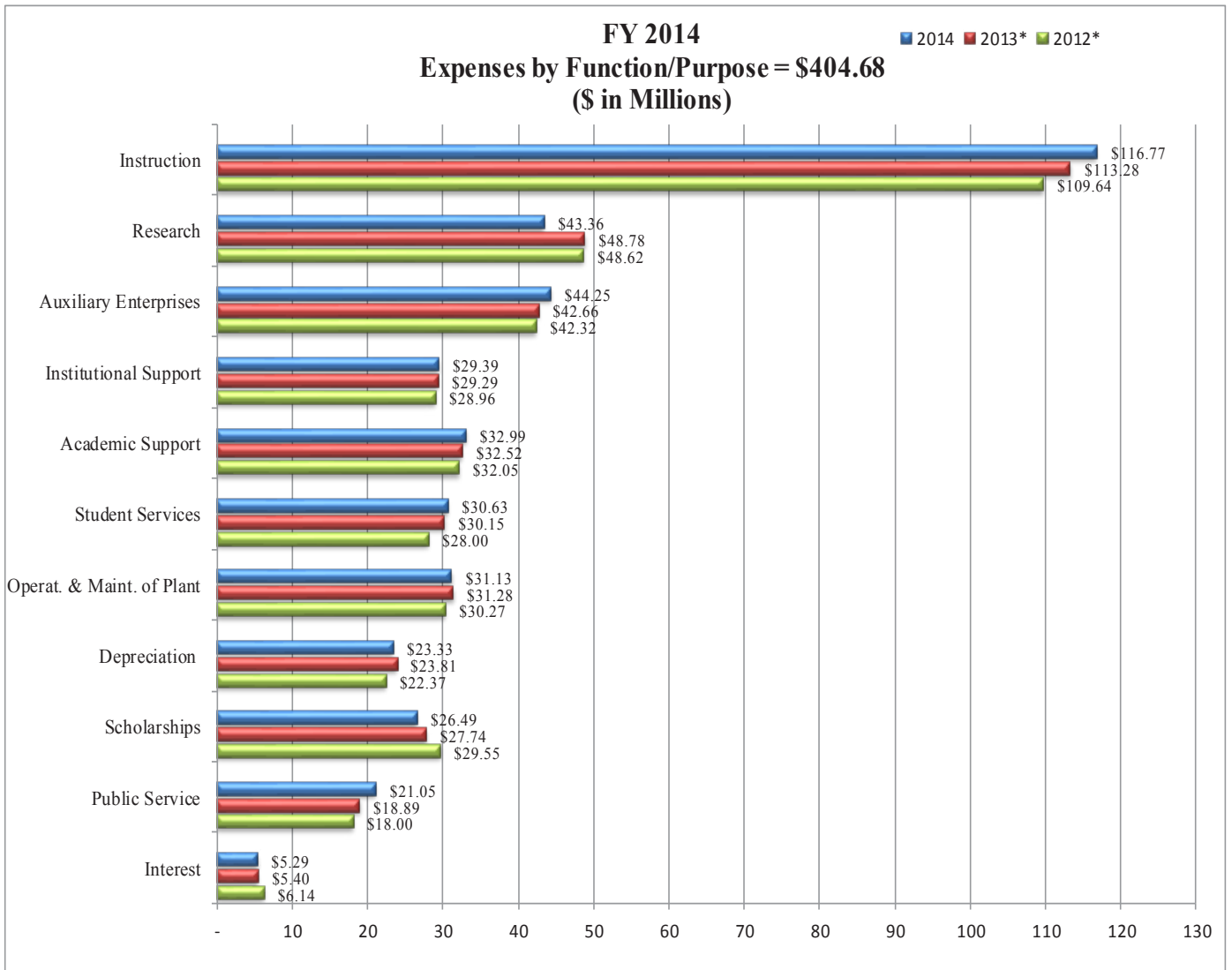
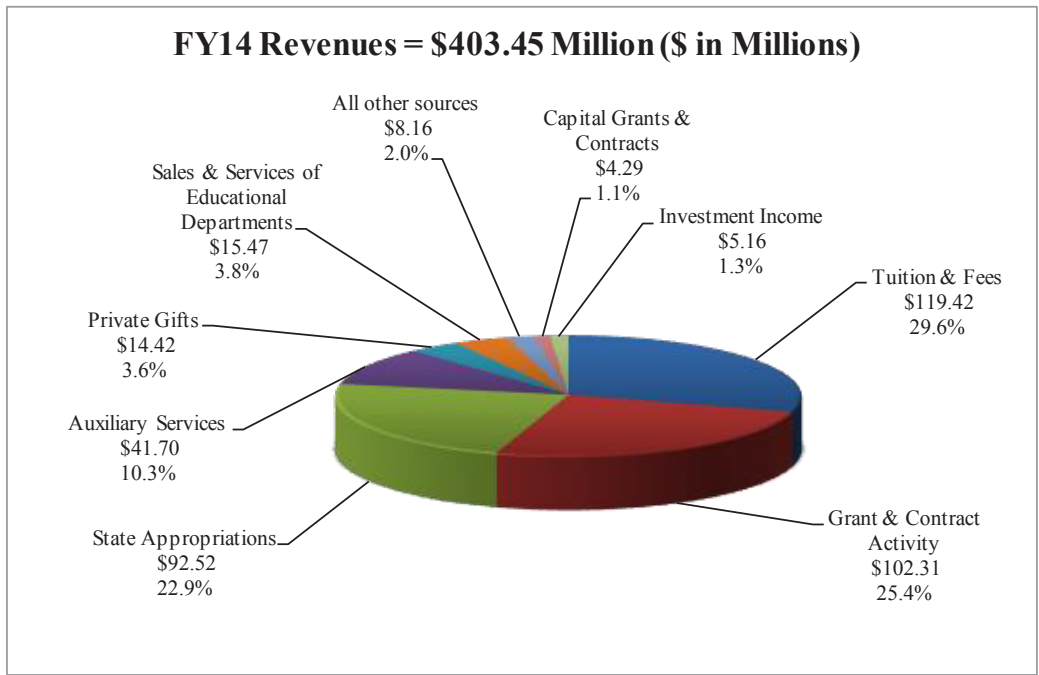
almost \$3.0 million decrease in other wages, workers comp, and compensated absences expense.

- Non-operating revenues increased by over \$8.1 million mainly from a \$7.1 million increase in state appropriations and a \$2.8 million increase investment earnings, offset by a \$2.2 million decrease in Federal Pell Grant funding. Much of the \$2.8 million increase in investment earnings is due to an increase in investments fair market value during FY14.
- Other revenues increased by \$3.0 million due largely to an increase in capital grants and gifts of \$3.0 million in FY14, which included \$1.9 million in capital donations from the University's foundations.

Events or developments which occurred during 2013 include:

Overall, the University saw a \$6.9 million (restated) decline in its net position in FY13. Significant factors affecting the University's net position are described below:

- Operating revenues declined by \$4.6 million due largely to a \$2.0 million decline in tuition and fees revenue and a \$2.6 million decrease in federal grants and contract revenue. The University continued to experience a decline in-state and out-of-state enrollment as evidenced by an 832 decrease in full time equivalent (FTE) students in FY13. The decline in federal grant funding is reflective of the extremely competitive environment faced by research institutions, competing for an ever-smaller pool of federal funding available for basic research.
- FY13 saw an increase in operating expenses of \$8.6 million (restated) due largely to an increase in compensation and benefits of \$8.5 million (restated). In FY13, a wage increase of 2% plus \$500, negotiated with University employee bargaining units was paid to eligible employees, accounting for about \$4.6 million of the \$6.3 million increase in compensation expense. Other notable changes in operating expenses include a decline in scholarships and fellowships expense of around \$1.8 million and increase in depreciation expense of \$1.4 million.
- Non-operating revenue increased by \$1.2 million despite a decrease in Federal Pell Grant funding of over \$2.3 million.
- Other revenues declined \$3.6 million due largely to a decline in capital grants and gifts of \$3.4 million in FY13. Construction of new facilities or the improvement of existing facilities saw less activity compared to prior years.



*Restated

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about the University's sources and uses of cash during the fiscal year. This statement aids in assessing the University's ability to meet obligations and commitments as they become due, its ability to generate future cash flows, and its need for external financing. As required by GASB, the statement is presented using the "Direct Method", which focuses on those transactions that either provided or used cash during the fiscal year.

| | For years ended June 30, | | |
|-----------------------------------------------|---------------------------------|-----------------|-----------------|
| | (stated in millions) | | |
| Cash Flow Category | 2014 | 2013 | 2012 |
| Cash Provided by (Used for): | | | |
| Operating Activities | \$ (112.30) | \$ (100.32) | \$ (105.60) |
| Non-capital Financing Activities | 138.67 | 133.46 | 133.67 |
| Capital and Related Financial Activities | (19.36) | (23.38) | (24.29) |
| Investing Activities | (11.00) | (15.98) | (15.32) |
| Net Increase (Decrease) in Cash | (3.99) | (6.22) | (11.54) |
| Cash and Cash Equivalents, beginning of year | 56.11 | 62.33 | 73.87 |
| Cash and Cash Equivalents, end of year | \$ 52.12 | \$ 56.11 | \$ 62.33 |

Specific events or cash transactions during fiscal year 2014, which were notable included:

- Net cash used for operating activities totaled \$112.3 million, which is almost a 12% increase over the FY13. An \$11.6 million increase in payments for salaries and benefits and a decline in cash received from operating revenues of \$2.3 million were the primary reasons net cash used for operating activities increased by \$12.0 million in FY14. Reduction in payments for operating expense and scholarship and fellowships of \$1.6 million offset the increases in cash used for operating activities.
- In FY 14, noncapital financing activities provided \$138.7 million in cash primarily from state appropriations of \$92.5 million, \$29.8 million of Pell and other federal financial aid revenue and private gifts of \$14.4 million. Cash provided by noncapital financing activities increased by \$5.2 over FY13, primarily because of a \$7.1 million, or 8.4%, increase in the state appropriation.
- Investing activities used \$11.0 million of cash in FY14, which is almost \$5.0 million less than in the prior year. The University used cash to purchase \$20.0 million in intermediate term investments using \$5.0 million in cash provided from matured intermediate term investments and \$15.0 million from available cash reserves. \$3.4 million in cash was provided by investment earnings.
- Capital and related financing activities used \$19.4 million of cash in FY14. The University used \$13.8 million of cash to purchase capital assets, partially funded from Series M 2013 Revenue Bond proceeds of \$7.9 million, which were issued in FY14. The University used \$13.6 million of cash to make principal payments on long-term debt.

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

- Net cash used for operating activities decreased by \$5.3 million in FY13 compared to the prior year. The decrease is primarily due to an \$8.1 million increase in payroll related liabilities largely offsetting an increase in payments made to employees for negotiated wage increases. In addition, a decline in cash provided by operating revenues of \$3.0 million was more than

offset by a \$5.2 million decline in cash used for operating expenses and financial aid, further contributing to the overall decrease in cash used in operating activities.

- Net cash flows provided by noncapital financing activities decreased by \$211,690. A decrease in cash provided by federal financial aid of \$2.3 million was offset by increases in cash provided by state appropriation, land grant earnings and private gifts totaling \$2.1 million.
- In FY13, net cash flows used in investing activities amounted to \$16.0 million. The University used \$32.5 million in cash to purchase intermediated term investments, using \$14.0 million in cash provided from matured intermediate term investments and \$18.5 million from available cash reserves. \$2.2 million in cash was provided by investment earnings.
- Net cash used by capital and related financing activities in FY13 totaled \$23.4 million. \$10.7 million was paid for capital assets and \$13.6 million of debt service payments were made on outstanding debt. Just over \$900,000 in proceeds were received in FY13 from new debt* issuances.

DISCUSSION OF SIGNIFICANT ECONOMIC AND FINANCIAL ISSUES

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

- As of June 30, 2014, there were a number of major construction projects that are being planned or are in progress. The following is a summary of the projects, estimated costs and their status as of June 30, 2014.

| Project Name | Estimated Cost | Campus | Status |
|----------------------------------------------------------|-----------------------|---------------|----------------------|
| Missoula College | \$32.0 M | Missoula | Contractor Selected |
| Gilkey Executive Education Center | \$8.7M | Missoula | Under Construction |
| NAC Basement Finish | \$1.1M | Missoula | Under Construction |
| Intercollegiate Athletics Softball Facility | \$1.3M | Missoula | Under Construction |
| Athletics Academic Success Center | \$3.0M | Missoula | Under Construction |
| Technology Modular Unit | \$2.6M | Missoula | Under Construction |
| Washington Grizzly Champions Center (Locker/Weight Room) | \$14.0M | Missoula | Planning |
| Natural Resource Research Center | \$10.0M | MT Tech | Planning |
| Residence Hall Restroom Renovation, | \$1.2 M | MT Tech | Under construction |
| Main Hall Phase III Renovation | \$4.5M | Western | Bidding, Spring 2015 |

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

The 2013 legislative session passed HB 5 which provided \$29.0 million in funding for a new Missoula College building, which will replace an aging facility with outdated classrooms, some of which were housed in trailers and modular units. The Missoula College has seen its student FTE grow from 896 ten years ago to 1,668 for fall semester 2014.

- Declining enrollment continues to be a concern for the University, particular at the flagship campus in Missoula. Enrollment there has declined over the last 5 years from a high of 13,917 FTE in FY11, to 12,211 FTE in FY14, or a decline of over 12.0%. Overall, during the same time period the University's enrollment declined 1,900 FTE from a high of 19,039 FTE in FY11, to 17,139 FTE in FY14, or a decline of almost 10.0%.

The campuses significantly affected by declining enrollment have reduced expenses by among other things, controlling hiring for vacant positions, reducing costs through efficiencies and

meeting objectives in less expensive ways. The University will continue to seek innovative ways to reduce costs by improving operational efficiency and effectiveness.

The Missoula campus in particular, has undertaken a number of strategic initiatives to address the issue of lower enrollment, some of which are described below:

Recruiting and Marketing - regain market share of enrollment by increasing the number and quality of contacts with prospective students and offering more scholarships and waivers. Among other things, the campus has contracted with a large higher education recruiting firm to help strengthen recruiting efforts.

Academic Program Alignment – look to strengthen existing programs challenged by low enrollment, suggest programs not yet present on campus and identify the best way to communicate the importance of liberal arts in today’s higher education.

Financial Management – perform a comprehensive review of financial practices to help ensure resources are managed to maximum effectiveness. A primary goal of the review is to eliminate outdated practices and develop a new methodology that provides strategic allocation of resources. In addition, educate stakeholders to ensure a comprehensive understanding of finances.

Fundraising Campaign – move forward with a new campaign in partnership with the UM Foundation, to raise support for the University through private philanthropy.

- An important part of the University’s strategic plan through 2020 is to fully implement the Partnering for Student Success initiative, which is aimed at increasing student retention and graduation rates through improved preparation, comprehensive engagement, and enhanced student support. As the Montana University System continues to phase in a performance based funding model, the successful implementation of this initiative becomes increasingly important.
- The 64th session of the Montana Legislature will convene on January 5, 2015. The University along with the Montana University System (MUS), will work to increase appropriations for higher education. A key component of the governor’s budget proposal for the 2017 biennium is freezing tuition within the MUS. Appropriations must increase accordingly for a tuition freeze to become reality for Montana resident’s enrolling in the state’s institutions of higher education.

The University of Montana
A Component Unit of the State of Montana
Consolidated Statements of Net Position
As of June 30, 2014 and 2013

| | 2014 | 2013* |
|-------------------------------------------------|-----------------------|-----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents (note 3) | \$ 51,818,488 | \$ 55,828,267 |
| Securities lending collateral | 14,383,859 | 24,937,711 |
| Investments | 302,716 | 302,160 |
| Accounts and grants receivable, net | 7,241,530 | 6,687,131 |
| Due from Federal government | 9,008,799 | 7,649,545 |
| Due from primary government | 1,374,329 | 1,405,341 |
| Due from other State of Montana component units | 107,047 | 145,652 |
| Loans to students, net | 1,758,146 | 1,872,634 |
| Inventories | 2,153,189 | 2,270,577 |
| Prepaid expenses and other charges | 5,955,527 | 4,160,703 |
| Total current assets | \$ 94,103,630 | \$ 105,259,721 |
| Noncurrent Assets | | |
| Restricted cash and cash equivalents | \$ 305,343 | \$ 284,931 |
| Restricted investments | 21,108,327 | 20,654,099 |
| Other long term investments | 81,811,248 | 66,078,061 |
| Loans to students, net | 9,737,040 | 9,903,174 |
| Bond issuance costs | - | 1,045,938 |
| Capital assets, net | 338,794,664 | 344,006,096 |
| Total Noncurrent Assets | \$ 451,756,622 | \$ 441,972,299 |
| Total Assets | \$ 545,860,252 | \$ 547,232,020 |
| DEFERRED OUTFLOW OF RESOURCES | | |
| Loss on advance refunding of debt | \$ 3,407,466 | \$ 3,802,747 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 26,681,700 | \$ 24,702,460 |
| Due to Federal government | 111,453 | 20,324 |
| Due to primary government | 1,204,676 | 1,293,391 |
| Due to other State of Montana component units | 5,468 | 8,354 |
| Securities lending liability | 14,383,859 | 24,937,711 |
| Student and other deposits | 3,364,297 | 1,729,213 |
| Unearned revenue | 15,540,928 | 12,821,600 |
| Accrued compensated absences | 10,824,801 | 10,355,102 |
| Current portion of long-term obligations | 7,790,741 | 6,935,458 |
| Total Current Liabilities | \$ 79,907,923 | \$ 82,803,613 |
| Noncurrent Liabilities | | |
| Accrued compensated absences | \$ 15,048,098 | \$ 15,186,319 |
| Unearned compensation | 293,284 | 215,075 |
| Long term obligations | 109,256,717 | 109,811,903 |
| Advances from primary government | 12,804,813 | 13,837,849 |
| Other post employment benefits | 42,817,481 | 38,910,158 |
| Due to Federal Government | 10,188,640 | 10,093,180 |
| Total Noncurrent Liabilities | \$ 190,409,033 | \$ 188,054,484 |
| Total Liabilities | \$ 270,316,956 | \$ 270,858,097 |
| NET POSITION | | |
| Net investment in capital assets | \$ 214,824,361 | \$ 224,182,096 |
| Restricted for: | | |
| Nonexpendable | | |
| Endowments | 20,951,799 | 18,978,219 |
| Loans | 1,923,548 | 1,949,143 |
| Expendable | | |
| Loans | 2,267,084 | 2,133,736 |
| Scholarships, research, instruction, and other | 3,543,360 | 4,080,977 |
| Unrestricted | 35,440,610 | 28,852,499 |
| Total Net Position | \$ 278,950,762 | \$ 280,176,670 |

*Restated

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

The University of Montana
A Component Unit of the State of Montana
University Component Units - Combined Statements of Financial Position
As of June 30, 2014 or December 31, 2013 and
June 30, 2013 or December 31, 2012

| | 2014 | 2013* |
|-----------------------------------------------------|-----------------------|-----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 5,819,628 | \$ 7,808,353 |
| Short-term investments | 5,001,549 | 5,303,725 |
| Accrued dividends and interest | 136,824 | 126,834 |
| Investments | 240,093,160 | 201,816,341 |
| Contributions receivable, net | 7,469,136 | 6,172,220 |
| Student loans and other receivables | 295,303 | 269,909 |
| Depreciable assets, net of accumulated depreciation | 2,462,859 | 6,133,566 |
| Property held for sale | 3,543,840 | - |
| Other assets | 1,997,956 | 1,980,648 |
| Total Assets | \$ 266,820,255 | \$ 229,611,596 |
| LIABILITIES | | |
| Accounts payable | \$ 358,032 | \$ 862,405 |
| Accrued expenses | 155,121 | 154,963 |
| Compensated absences | 227,169 | 223,485 |
| Note payable - bank | 17,855 | 40,000 |
| Liabilities to external beneficiaries | 2,710,930 | 2,753,725 |
| Custodial funds | 20,256,399 | 20,684,636 |
| Other liabilities | 342,495 | 413,460 |
| Total Liabilities | \$ 24,068,001 | \$ 25,132,674 |
| NET ASSETS | | |
| Net assets - unrestricted | \$ 13,457,634 | \$ 10,478,754 |
| Net assets - temporarily restricted | 84,090,387 | 62,239,008 |
| Net assets - permanently restricted | 145,204,233 | 131,761,160 |
| Total Net Assets | \$ 242,752,254 | \$ 204,478,922 |
| Total Liabilities & Net Assets | \$ 266,820,255 | \$ 229,611,596 |

**Restated*

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

For the Years Ended June 30, 2014 and 2013

| | 2014 | 2013* |
|------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------------|
| OPERATING REVENUES: | | |
| Tuition and fees (net of scholarship allowances in 2014 and 2013 of \$33,289,593 and \$31,615,318, respectively) | \$ 119,422,415 | \$ 122,306,910 |
| Federal grants and contracts | 46,256,904 | 49,719,312 |
| State and local grants and contracts | 9,045,065 | 10,615,919 |
| Nongovernmental grants and contracts | 8,919,380 | 6,031,713 |
| Grant and contract facilities and administrative cost allowances | 8,279,200 | 8,956,216 |
| Sales and services of educational departments | 15,473,370 | 17,282,414 |
| Auxiliary enterprises charges: | | |
| Residential life (net of scholarship allowances in 2014 and 2013 of \$549,650 and \$1,011,103, respectively) | 15,729,892 | 14,480,117 |
| Food services (net of scholarship allowances in 2014 and 2013 of \$549,650 and \$1,011,103, respectively) | 12,267,861 | 12,245,073 |
| Other auxiliary revenues | 13,702,898 | 12,313,059 |
| Interest earned on loans to students | 57,100 | 52,258 |
| Other operating revenues | 6,173,208 | 5,797,524 |
| Total operating revenues | \$ 255,327,293 | \$ 259,800,515 |
| OPERATING EXPENSES: | | |
| Compensation and employee benefits | \$ 254,630,505 | \$ 249,980,208 |
| Other post employment benefits (note 18) | 4,645,516 | 5,720,371 |
| Other (note 24) | 90,294,360 | 91,151,008 |
| Scholarships and fellowships | 26,489,069 | 27,743,539 |
| Depreciation and amortization | 23,334,553 | 23,806,165 |
| Total operating expenses | \$ 399,394,003 | \$ 398,401,291 |
| OPERATING LOSS | \$ (144,066,710) | \$ (138,600,776) |
| NON-OPERATING REVENUES (EXPENSES): | | |
| State appropriations | \$ 92,524,154 | \$ 85,393,791 |
| Federal financial aid grants and contracts | 29,796,776 | 32,082,813 |
| Land grant revenues | 1,932,977 | 1,959,686 |
| Private gifts | 14,419,132 | 14,027,252 |
| Investment income | 5,164,668 | 2,325,070 |
| Interest expense | (5,286,535) | (5,405,084) |
| Net non-operating revenues | \$ 138,551,172 | \$ 130,383,528 |
| (LOSS) INCOME BEFORE OTHER REVENUES (EXPENSES) | \$ (5,515,538) | \$ (8,217,248) |
| OTHER REVENUES (EXPENSES): | | |
| Capital grants and gifts | \$ 4,291,394 | \$ 1,600,652 |
| Loss on disposal of capital assets | (1,764) | (328,257) |
| Total other revenues | \$ 4,289,630 | \$ 1,272,395 |
| Net (decrease) increase in net position | \$ (1,225,908) | \$ (6,944,853) |
| NET POSITION: | | |
| Net position - beginning of year as previously stated | \$ 280,176,670 | \$ 280,841,377 |
| Adjustment for OPEB liability misstatement | - | 6,280,146 |
| Net position - beginning of year as restated | \$ 280,176,670 | \$ 287,121,523 |
| Net position - end of year | \$ 278,950,762 | \$ 280,176,670 |

**Restated*

The University of Montana

A Component Unit of the State of Montana

University Component Units - Combined Statement of Activities

For the Years Ended June 30, 2014 or December 31, 2013

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2014 Total |
|-----------------------------------------------------------------------------------|----------------------|---------------------------|---------------------------|-----------------------|
| REVENUES: | | | | |
| Contributions | \$ 1,000,776 | \$ 17,574,362 | \$ 13,069,563 | \$ 31,644,701 |
| Interest and dividend income | 689,377 | 3,052,527 | 40,108 | 3,782,012 |
| Net realized and unrealized gain on investments | 1,944,897 | 22,699,871 | 342,409 | 24,987,177 |
| Administrative fees | 471,741 | - | - | 471,741 |
| Support received from university | 500,000 | - | - | 500,000 |
| Special events | 359,374 | - | - | 359,374 |
| Other income | 31,796 | 1,565,819 | - | 1,597,615 |
| Net assets released from restrictions | 22,515,806 | (22,515,806) | - | - |
| Total revenues | \$ 27,513,767 | \$ 22,376,773 | \$ 13,452,080 | \$ 63,342,620 |
| EXPENSES: | | | | |
| Program services | | | | |
| Academic and institutional | \$ 8,472,796 | \$ - | \$ - | \$ 8,472,796 |
| Capital expenses | 1,215,100 | - | - | 1,215,100 |
| Pledge adjustments | - | 251,582 | 9,007 | 260,589 |
| Scholarships and awards | 7,411,097 | - | - | 7,411,097 |
| Total program services | \$ 17,098,993 | \$ 251,582 | \$ 9,007 | \$ 17,359,582 |
| Operating expenses | | | | |
| Fundraising efforts | \$ 3,894,363 | \$ - | \$ - | \$ 3,894,363 |
| General and administrative | 3,328,413 | - | - | 3,328,413 |
| Investment management costs | 128,058 | - | - | 128,058 |
| Other miscellaneous | 85,060 | - | - | 85,060 |
| Total operating expenses | \$ 7,435,894 | \$ - | \$ - | \$ 7,435,894 |
| Change in net assets before nonoperating items | \$ 2,978,880 | \$ 22,125,191 | \$ 13,443,073 | \$ 38,547,144 |
| NON-OPERATING REVENUES (EXPENSES): | | | | |
| Payments to beneficiaries and change in liabilities due to external beneficiaries | - | (273,812) | - | (273,812) |
| Reclassification of net assets | - | - | - | - |
| Change in net assets | \$ 2,978,880 | \$ 21,851,379 | \$ 13,443,073 | \$ 38,273,332 |
| Net assets, beginning of year * | 10,478,754 | 62,239,008 | 131,761,160 | 204,478,922 |
| Net assets, end of year | \$ 13,457,634 | \$ 84,090,387 | \$ 145,204,233 | \$ 242,752,254 |

*Restated

The University of Montana

A Component Unit of the State of Montana

University Component Units - Combined Statement of Activities

For the Years Ended June 30, 2013 or December 31, 2012

| | Unrestricted | Temporarily Restricted* | Permanently Restricted* | 2013 Total |
|-----------------------------------------------------------------------------------|----------------------|----------------------------|----------------------------|-----------------------|
| REVENUES: | | | | |
| Contributions | \$ 1,164,153 | \$ 11,171,369 | \$ 5,410,118 | \$ 17,745,640 |
| Interest and dividend income | \$ 588,595 | 3,074,877 | 9,607 | 3,673,079 |
| Net realized and unrealized gain on investments | \$ 1,628,809 | 12,918,694 | 282,303 | 14,829,806 |
| Administrative fees | \$ 462,467 | - | - | 462,467 |
| Support received from university | \$ 425,000 | - | - | 425,000 |
| Special events | \$ 520,091 | - | - | 520,091 |
| Other income | \$ 120,963 | 2,529,702 | - | 2,650,665 |
| Net assets released from restrictions | \$ 20,767,272 | (20,767,272) | - | - |
| Total revenues | \$ 25,677,350 | \$ 8,927,370 | \$ 5,702,028 | \$ 40,306,748 |
| EXPENSES: | | | | |
| Program services | | | | |
| Academic and institutional | \$ 7,914,939 | \$ - | \$ - | \$ 7,914,939 |
| Capital expenses | 2,758,303 | - | - | 2,758,303 |
| Pledge adjustments | 30,241 | 28,031 | (321) | 57,951 |
| Scholarships and awards | 6,343,454 | - | - | 6,343,454 |
| Total program services | \$ 17,046,937 | \$ 28,031 | \$ (321) | \$ 17,074,647 |
| Operating expenses | | | | |
| Fundraising efforts | \$ 2,991,379 | \$ - | \$ - | \$ 2,991,379 |
| General and administrative | 3,406,074 | - | - | 3,406,074 |
| Investment management costs | 136,612 | - | - | 136,612 |
| Other miscellaneous | 89,093 | - | - | 89,093 |
| Total operating expenses | \$ 6,623,158 | \$ - | \$ - | \$ 6,623,158 |
| Change in net assets before nonoperating items | \$ 2,007,255 | \$ 8,899,339 | \$ 5,702,349 | \$ 16,608,943 |
| NON-OPERATING REVENUES (EXPENSES): | | | | |
| Payments to beneficiaries and change in liabilities due to external beneficiaries | 736 | (156,894) | - | (156,158) |
| Reclassification of net assets | (194,550) | 200,965 | (6,415) | - |
| Change in net assets | \$ 1,813,441 | \$ 8,943,410 | \$ 5,695,934 | \$ 16,452,785 |
| Net assets, beginning of year | 8,665,313 | 53,295,598 | 126,065,226 | 188,026,137 |
| Net assets, end of year | \$ 10,478,754 | \$ 62,239,008 | \$ 131,761,160 | \$ 204,478,922 |

*Restated

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

The University of Montana
A Component Unit of the State of Montana
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

| | 2014 | 2013* |
|--------------------------------------------------------------------------------------|-------------------------|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Student tuition and fees | \$ 118,967,195 | \$ 122,900,617 |
| Federal grants and contracts | 44,023,628 | 50,853,063 |
| State grants and contracts | 8,612,619 | 10,882,372 |
| Nongovernmental grants and contracts | 8,488,754 | 6,169,254 |
| Grant and contract facilities and administrative cost allowances | 8,279,200 | 8,956,216 |
| Sales and services of educational activities | 18,305,526 | 16,321,033 |
| Auxiliary enterprises charges | 44,926,749 | 38,284,129 |
| Interest earned on loans to students | 206,876 | 171,199 |
| Other operating receipts | 6,207,825 | 5,797,850 |
| Payments to employees for salaries and benefits | (254,936,644) | (243,304,273) |
| Operating expenses | (89,179,254) | (89,568,818) |
| Payments for scholarships and fellowships | (26,489,069) | (27,743,539) |
| Loans made to students | (1,872,791) | (1,737,109) |
| Loan payments received | 2,153,413 | 1,693,479 |
| Net Cash Used by Operating Activities | \$ (112,305,973) | \$ (100,324,527) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State appropriations | \$ 92,524,155 | \$ 85,393,791 |
| Land Grants | 1,932,977 | 1,959,686 |
| Federal financial aid grants and contracts | 29,796,776 | 32,082,813 |
| Private Gifts for other than capital purposes | 14,419,132 | 14,027,252 |
| Net Cash Provided by Noncapital Financing Activities | \$ 138,673,040 | \$ 133,463,542 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of investments | \$ (20,000,000) | \$ (32,500,000) |
| Proceeds from sales of investments | 5,607,289 | 14,000,000 |
| Cash equivalent investment reclassified to other long term investments | 13,688 | 325,826 |
| Earnings received on investments | 3,379,475 | 2,194,107 |
| Net Cash Used Investing Activities | \$ (10,999,548) | \$ (15,980,067) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Cash paid for capital assets | \$ (13,795,108) | \$ (10,704,885) |
| Proceeds from the sale of capital assets | 31,105 | 23,724 |
| Proceeds from the issuance of revenue bonds | 7,891,000 | - |
| Proceeds from notes payable and advances from primary government | 150,000 | 905,265 |
| Principal paid on notes payable, advance from primary government, and capital leases | (1,524,849) | (2,045,585) |
| Principal paid on bonds payable | (6,993,880) | (6,532,000) |
| Interest paid on capital debt and leases | (5,115,154) | (5,025,560) |
| Net Cash Used by Capital and Related Financing Activities | \$ (19,356,886) | \$ (23,379,041) |
| Net Decrease in Cash and Cash Equivalents | \$ (3,989,367) | \$ (6,220,093) |
| Cash and Cash Equivalents, Beginning of Year | \$ 56,113,198 | \$ 62,333,291 |
| Cash and Cash Equivalents, End of Year | \$ 52,123,831 | \$ 56,113,198 |

*Restated

The University of Montana
A Component Unit of the State of Montana
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

(Continued)

| | 2014 | 2013* |
|------------------------------------------------------------------------------------------------|-------------------------|-------------------------|
| Reconciliation of Operating Loss to Net Cash Used By Operating Activities: | | |
| Operating loss | \$ (144,066,710) | \$ (138,600,776) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Noncash expense: | | |
| Depreciation and amortization expense | 23,334,553 | 23,806,165 |
| Other post employment benefits | 3,907,323 | 5,323,286 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (1,844,036) | 987,713 |
| Loans to students | 280,622 | (43,630) |
| Inventories | 117,388 | (205,333) |
| Prepaid expenses and deferred charges | (748,886) | 229,069 |
| Accounts payable and accrued expenses | 1,932,422 | 7,456,138 |
| Unearned revenue | 2,719,328 | 6,049 |
| Student and other deposits | 1,635,084 | (627,730) |
| Due to federal government | 95,460 | (96,723) |
| Compensated absences | 331,479 | 1,441,245 |
| Net Cash Used by Operating Activities | \$ (112,305,973) | \$ (100,324,527) |
| Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions | | |
| Fixed assets acquired by incurring capital lease obligations | \$ 69,489 | \$ 671,920 |
| Increase in fair value of investments recognized as a component of interest income | \$ 1,814,871 | \$ 151,408 |
| Fixed assets acquired from capital grants and donations | \$ 4,291,394 | \$ 16,000,652 |
| Discounts, premiums and deferred loss on refunding amortized to interest expense | \$ 171,382 | \$ 201,461 |
| Reconciliation of Cash and Cash Equivalent to the Statements of Net Position | | |
| Cash and cash equivalents classified as current assets | \$ 51,818,488 | \$ 55,828,267 |
| Cash and cash equivalents classified as noncurrent assets | \$ 305,343 | \$ 284,931 |
| Total Cash and Cash Equivalents, End of Year | \$ 52,123,831 | \$ 56,113,198 |

*Restated

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

THE UNIVERSITY OF MONTANA *A COMPONENT UNIT OF THE STATE OF MONTANA* FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 1 – ORGANIZATION, REPORTING ENTITY AND BASIS OF PRESENTATION

▪ ORGANIZATION

The University of Montana (University) is a component unit of the State of Montana (State) with an enrollment of approximately 20,000 students on its four campuses. The State of Montana Board of Regents (Board of Regents) is appointed by the Governor of the State and has oversight responsibility with respect to the University. The State allocates and allots funds to each campus separately and requires that the funds be maintained accordingly.

▪ REPORTING ENTITY

The accompanying consolidated financial statements include all activities of the four campuses of the University, the Forestry Experiment Station and the Montana Bureau of Mines. The four campuses of the University are the University of Montana – Missoula, Montana Tech of the University of Montana, which is located in Butte, the University of Montana – Western, which is located in Dillon, and Helena College University of Montana.

GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14” requires that a legally tax exempt organization should be reported as a component unit of a reporting entity if the economic resources received or held by these organizations are entirely or virtually entirely for the direct benefit of the reporting entity or its component units, and the reporting entity is entitled to, or has the means to otherwise access, a majority of the economic resources received or held by the separate organization. The resources of the separate organization must also be significant to the reporting entity. The University has established a threshold minimum of one percent of consolidated net assets or one percent of consolidated revenues as an additional requirement for inclusion of an organization as a component unit in its financial statements. In addition, other organizations should be evaluated for inclusion if they are closely related to, or financially integrated with, the reporting entity. All component units and other related organizations will be tested and evaluated on an annual basis for inclusion under GASB No. 39. Accordingly, the University has identified and will present the combined activities of four component units, The University of Montana Foundation, The Montana Tech Foundation, The University of Montana - Western Foundation, and the Montana Grizzly Scholarship Association. For further discussion of accounting for component units, see Consolidated Financial Statements Note 23, “Accounting for Component Units.”

The University is considered a component unit of the State of Montana under GASB No. 14. As such, the financial statements for the University are included as a component part of the State of Montana Basic Financial Statements, which are prepared annually and presented in the Montana Comprehensive Annual Financial Report (CAFR).

The University, as a political subdivision of the State of Montana, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

▪ BASIS OF PRESENTATION

The financial statements have been prepared in accordance with generally accepted accounting principles, as prescribed by the Governmental Accounting Standards Board (GASB). Under the provisions of GASB standards, the University reports as a special-purpose government engaged in business type activities. Accordingly, the basic financial statements the University is required to present are a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. Along with notes to the financial statements, required supplemental information includes a management discussion and analysis. The provisions of GASB Statement No 63, “Financial Reporting of Deferred Inflows of Resources, Deferred Outflows of Resources and Net Position”, amended the net asset reporting requirements in Statement 34, “Basic Financial Statements and Management Discussion and Analysis for State and Local Governments”, and other pronouncements, by

Notes to the Consolidated Financial Statements (continued)

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

▪ BASIS OF ACCOUNTING

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

▪ USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

▪ CASH EQUIVALENTS

For purposes of the Consolidated Statement of Cash Flows, the University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Funds invested in money market funds and in the Short Term Investment Pool (STIP) with the Montana Board of Investments are considered cash equivalents.

▪ INVESTMENTS

The University accounts for its investments at fair value in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." Investment income is recorded on the accrual basis. All investment income, including changes in unrealized gain (loss) on the carrying value of investments, is reported as a component of investment income.

▪ ACCOUNTS AND GRANTS RECEIVABLE

Accounts receivable consists of tuition and fee charges to students and to auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also includes amounts due from the federal government and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable is recorded net of estimated uncollectible amounts.

▪ INVENTORIES

Inventories are comprised of consumable supplies, food items and items held for resale or recharge within the University. The larger inventories are valued using the moving-average method. Other inventories are valued using First-In-First-Out (FIFO) or specific identification methods.

▪ CASH AND SHORT-TERM INVESTMENTS

Cash and investments that are externally restricted to make debt service payments, or by a donor or outside agency prohibiting the expenditure of principal and possibly earnings, are classified as non-current assets in the Consolidated Statement of Net Position.

Notes to the Consolidated Financial Statements (continued)

▪ CAPITAL ASSETS

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

| <u>Capital Asset Category:</u> | <u>Capitalization Threshold Amount:</u> |
|-----------------------------------------------------|-------------------------------------------------|
| Equipment | \$ 5,000 |
| Buildings, Building Improvements, Land Improvements | \$ 25,000 |
| Intangibles | \$ 100,000 |
| Intangibles - Internally Generated | \$ 500,000 |
| Infrastructure | \$ 500,000 |

Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets as follows: buildings - 40 years; land improvements and infrastructure - 20 and 40 years, respectively; library books - 8 years; and equipment - 3 to 10 years. Amortization is computed on a straight-line basis over the estimated 4 to 20 year useful lives of intangible assets. Intangible assets with indefinite useful lives are not amortized. Historically, the University has capitalized all artwork subject to applicable capitalization policies at the time of donation or purchase. The University has elected to capitalize artwork subject to the current threshold, but without recording depreciation on those items.

▪ UNEARNED REVENUE

Unearned revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.

▪ COMPENSATED LEAVE

Eligible University employees earn eight hours sick leave and ten hours annual leave for each month worked. The accrual rate for annual leave increases with length of service. The maximum annual leave that eligible employees may accumulate is two hundred percent of their annual accrual. Sick leave may accumulate without limitation. Twenty-five percent of accumulated sick leave earned after July 1, 1971, and one hundred percent of accumulated annual leave, if not used during employment, is paid upon termination.

▪ DEFERRED OUTFLOW OF RESOURCES

Deferred outflows represent the consumption of resources that are applicable to a future reporting period but do not require a future exchange of goods or services. The University has reported a deferred outflow of resources from the refunding of revenue bond issuances.

▪ RECLASSIFICATIONS

To conform to the requirements of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources Inflows of Resources, Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the unamortized loss on advance refunding previously netted against revenue bonds payable, was reclassified as a deferred outflow of resources on the Statement of Net Position.

▪ NET POSITION

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

- **Net Investment in capital assets** - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted, nonexpendable** - Net position subject to externally imposed stipulations which require that the University maintain those assets permanently. Such assets include the University's permanent endowment funds.

Notes to the Consolidated Financial Statements (continued)

- **Restricted, expendable** – Net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.
- **Unrestricted** – net position whose use by the University is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net position is designated for academic and research programs and initiatives, and capital programs.

▪ CLASSIFICATION OF REVENUES

The University has classified its revenues as either operating or non-operating revenues according to the following criteria:

- **Operating revenue** - Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts and federal appropriations, and (4) interest on institutional student loans.
- **Non-operating revenues** - Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting," and GASB No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." Types of revenue sources that fall into this classification are state appropriations, investment income, and federal financial aid grants and contracts.

▪ USE OF RESTRICTED REVENUES

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

▪ SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances are generated by the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating revenues in the University's consolidated financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

▪ RESTATEMENT OF PRIOR YEAR AMOUNTS

Upon further review of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which was implemented in fiscal year 2008, it was determined that some provisions of the standard were not adopted properly by the State of Montana and its component units. Since implementation, the annual employer contribution did not include all required components for the amortization adjustment and did not consider employer contributions, which caused the University's other postemployment benefits (OPEB) liability recorded in the statement of net position to be overstated by \$6,280,146.

NOTE 3 – CASH DEPOSITS, CASH EQUIVALENTS AND INVESTMENTS

▪ CASH DEPOSITS

The University must comply with State statutes, which generally require that cash remain on deposit with the State treasury, and as such are subject to the State's investment policies. Certain exceptions exist, which allow funds to be placed on deposit with trustees to satisfy bond covenants or to maximize investment earnings by placing certain funds

Notes to the Consolidated Financial Statements (continued)

with University foundations. Deposits with State treasury and other financial institutions at June 30, 2014 and 2013 totaled \$27,660,925 and \$37,713,360, respectively. The University does not have a formal policy that addresses custodial credit risk for cash deposits with other financial institutions.

▪ CASH EQUIVALENTS

Cash equivalents consist of \$4,742,865 of cash invested in money market funds with First American Funds and US Bank, and \$19,560,096 in the Short Term Investment Pool (STIP) with the Montana Board of Investments. Amounts held in cash equivalents at June 30, 2014 and 2013 were \$24,302,961 and \$18,018,341, respectively. STIP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle." The STIP portfolio may include asset-backed securities, commercial paper, corporate and government securities, repurchase agreements and variable rate, or floating rate instruments to provide diversification and a competitive rate of return. The First American Funds, Prime Obligations Money Market Fund invests in short-term debt obligations, including commercial paper, U.S. dollar-dominated obligations of domestic and foreign banks, non-convertible corporate debt securities, U.S. government or agency securities, loan participation interests, and repurchase agreements. Investments in STIP and the money market fund may be withdrawn by the University on demand, and as such, are classified as cash equivalents.

INVESTMENTS

Investments consisted of the following at June 30, 2014 and 2013:

| Security Type | Fair Value | | Effective Duration at | Credit Quality Rating at |
|------------------------------------------------------|-----------------------|----------------------|------------------------------|------------------------------|
| | 2014 | 2013 | June 30, 2014 ⁽¹⁾ | June 30, 2014 ⁽³⁾ |
| U.S. Government Sponsored Entities | \$ 52,340,644 | \$ 37,146,875 | 1.77 | AA+ |
| Short Term Investment Pool (STIP) ⁽⁴⁾ | 216,791 | 230,479 | Not applicable | NR |
| Trust Fund Investment Pool (TFIP) | 31,237,476 | 30,670,027 | 5.21 ⁽²⁾ | NR |
| Montana Domestic Equity Pool (MDEP) | 232,859 | 1,529,062 | Not applicable | N/A |
| Foundation Pooled Investments | 18,778,035 | 16,990,056 | Not applicable | N/A |
| Certificates of Deposits | 302,716 | 302,160 | Not applicable | N/A |
| Other | 113,769 | 165,661 | Not applicable | N/A |
| Total investments | \$ 103,222,290 | \$ 87,034,320 | | |
| Securities Lending Collateral Investment Pool | \$ 14,383,859 | \$ 24,937,711 | (5) | NR |

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

⁽²⁾Effective duration for the Trust Fund Investment Pool (TFIP) is for the entire portfolio. The University's ownership represents approximately 1.4% of the portfolio

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

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

⁽⁵⁾Securities Lending Quality Trust liquidity pool had an average duration of 41 days and an average weighted final maturity of 114 days for U.S. dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 548 days for U.S. dollar collateral.

Investments held by the University at June 30, 2014 and 2013 are described further in the paragraphs below.

U.S. Government Sponsored Entities

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

Montana Board of Investments Pools

The University is a participant in certain internal investment pools administered by the Montana Board of Investments (MBOI). MBOI purchases investments for each portfolio in accordance with the statutorily mandated "Prudent Expert Principle." The University was invested in the following internal investment pools at June 30, 2014 and 2013:

Notes to the Consolidated Financial Statements (continued)

Montana Domestic Equity Pool (MDEP)

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

Trust Funds Investment Pool (TFIP)

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

The University Foundation Pools

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

Certificates of deposit

Certificates of deposit serve as collateral for loans made to students with disabilities for the purchase of specialized equipment necessary to complete their education. The certificate of deposit, including interest earned, is reinvested upon maturity.

Securities lending transactions

Under the provisions of state statutes, the Board of Investments, via a Securities Lending Authorization Agreement, has authorized the custodial bank, State Street Bank and Trust, to lend the Board of Investment's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. The Board of Investments and the bank split the earnings, 80/20 respectively, on security lending activities. The Board of Investments retains all rights and risks of ownership during the loan period.

During the years ending June 30, 2014 and 2013, the Board of Investments and the borrowers maintained the right to terminate all securities lending transactions on notice. The cash collateral received on each loan was invested, together with the cash collateral of other qualified-plan lenders, in a collective investment fund, comprised of a liquidity pool and a duration pool. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investment made with the cash collateral received from the borrower. At June 30, 2014 and 2013, the Board of Investments had no credit risk exposure to borrowers.

Investment risks

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

Notes to the Consolidated Financial Statements (continued)

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

Interest Rate Risk

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

In accordance with GASB Statement No. 40, the State of Montana has selected the effective duration method to disclose interest rate risk. Duration is defined as the average percentage change in a bond's price for a given change in interest rates. Prices move inversely to interest rates. The effective duration method uses the present value of the cash flows from the investment, weighting those cash flows as a percentage of the investment's full price. The TFIP investment policy requires duration to remain within 20% of the established Index duration. Duration for external managers of fixed income funds must be within 25% of the established Index duration.

Credit Risk

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

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

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2014 and 2013, all STIP, MDEP and TFIP securities were registered in the nominee name for the MBOI and held in the possession of the Board's custodial bank, State Street Bank. The MBOI does not have policy addressing custodial risk for investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement. MDEP investments in pooled investments are also excluded from this requirement. The TFIP Investment Policy Statement provides for a "2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities." The concentration of credit risk exposure for U.S. government sponsored entities securities held at June 30, 2014 and 2013, expressed as a percentage of total investments, was 50.71% and 42.68%, respectively.

Land grant earnings

In 1881, the Congress of the United States granted land to the State of Montana for the benefit of the state's universities and colleges. The Enabling Act of 1889 granted 46,563 acres to Missoula, 100,000 acres to Montana Tech and 50,000 acres to Western Montana College. Under provisions of the grants, proceeds from the sale of land and land assets, together with proceeds from the sale of timber, oil royalties and other minerals, must be reinvested, and constitute, along with the balance of unsold land, a perpetual trust fund. The grant is administered as a trust by the State Land Board, which holds title and has the authority to direct, control, lease, exchange and sell these lands. The University, as a beneficiary, does not have title to the assets resulting from the grant, only a right to the earnings generated. The University's share of the trust earnings was \$1,932,977 and \$1,959,686 for the years ended June 30, 2014 and 2013, respectively. These earnings are currently pledged to the Series I 2004, Series J 2005, Series K 2010 and Series L 2012 revenue bonds.

The University's land grant assets are not reflected in the consolidated financial statements, but are included as a component of the State of Montana Basic Financial Statements that are prepared annually and presented in the Montana Comprehensive Annual Financial Report (CAFR).

Notes to the Consolidated Financial Statements (continued)

NOTE 4 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts Receivable consisted of the following at June 30, 2014 and 2013:

| | 2014 | 2013 |
|------------------------------------------------------|---------------------|---------------------|
| Student tuition and fees | \$ 5,240,274 | \$ 5,025,667 |
| Auxiliary enterprises and other operating activities | 2,626,378 | 3,029,410 |
| Private grants and contracts | 1,624,162 | 746,760 |
| Other | 75,437 | 88,507 |
| Gross accounts and grants receivable | 9,566,251 | 8,890,344 |
| Less: allowance for doubtful accounts | 2,324,721 | 2,203,213 |
| Net accounts and grants receivable | \$ 7,241,530 | \$ 6,687,131 |

NOTE 5 – LOANS RECEIVABLE

Student loans made under the Federal Perkins Loan Program constitute the majority of the University's loan receivable balances. Included in non-current liabilities as of June 30, 2014 and 2013 are \$10,188,640 and \$10,093,180 respectively, that would be refundable to the Federal Government should the University choose to cease participation in the Federal Perkins Loan program.

The Federal portion of interest income and loan program expenses is shown as additions to and deductions from the amount due to the Federal government, and not as operating transactions, in the Consolidated Statement of Net Position.

NOTE 6 – INVENTORIES

Inventories consisted of the following at June 30, 2014 and 2013:

| | 2014 | 2013 |
|--------------------------|---------------------|---------------------|
| Bookstore | \$ 898,321 | \$ 960,433 |
| Food services | 308,097 | 269,107 |
| Facilities services | 768,029 | 846,492 |
| Other | 178,742 | 194,546 |
| Total inventories | \$ 2,153,189 | \$ 2,270,577 |

NOTE 7 – PREPAID EXPENSES AND OTHER CHARGES

Prepaid expenses and other charges consisted of the following at June 30, 2014 and 2013:

| | 2014 | 2013 |
|-------------------------------------------------|---------------------|---------------------|
| Summer session | \$ 635,483 | \$ 698,264 |
| Travel advances | 19,704 | 43,116 |
| Other prepaid expenses | 5,300,339 | 3,419,322 |
| Total prepaid expenses and other charges | \$ 5,955,526 | \$ 4,160,703 |

Notes to the Consolidated Financial Statements (continued)

NOTE 8 – CAPITAL ASSETS

The following tables present the changes in capital assets for the years ended June 30, 2014 and 2013, respectively.

For the year ended June 30, 2014:

| | Beginning Balance | Additions | Deletions | Transfers and Other Changes | Ending Balance |
|----------------------------------------------|------------------------------|------------------|------------------|----------------------------------------|-----------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 7,979,482 | 246,240 | - | - | \$ 8,225,722 |
| Capitalized collections | 17,651,061 | 41,208 | - | - | 17,692,269 |
| Construction in progress | 16,307,060 | 7,933,262 | - | (15,777,635) | 8,462,687 |
| | 41,937,603 | 8,220,710 | - | (15,777,635) | 34,380,678 |
| Other capital assets: | | | | | |
| Land improvements | 14,247,612 | - | - | 86,893 | 14,334,505 |
| Infrastructure | 6,769,546 | 1,407,431 | - | - | 8,176,977 |
| Buildings | 312,744,615 | 968,748 | - | 703,955 | 314,417,318 |
| Building improvements | 199,560,589 | 112,524 | - | 15,725,738 | 215,398,851 |
| Furniture and equipment | 78,876,189 | 5,298,777 | 2,563,877 | - | 81,611,089 |
| Library materials | 57,766,337 | 666,025 | - | - | 58,432,362 |
| Livestock | 39,250 | - | 29,250 | - | 10,000 |
| | 670,004,138 | 8,453,505 | 2,593,127 | 16,516,586 | 692,381,102 |
| Less accumulated depreciation for: | | | | | |
| Land improvements | 10,413,742 | 319,903 | 7,161 | - | 10,726,484 |
| Infrastructure | 690,797 | 177,826 | - | - | 868,623 |
| Buildings | 131,558,427 | 6,658,504 | - | - | 138,216,931 |
| Building improvements | 124,840,165 | 8,735,980 | - | - | 133,576,145 |
| Furniture and equipment | 50,413,538 | 5,945,181 | 2,328,573 | - | 54,030,146 |
| Library materials | 53,524,179 | 719,206 | - | (911,768) | 53,331,617 |
| Livestock | 14,655 | 2,443 | 13,645 | - | 3,453 |
| | 371,455,503 | 22,559,043 | 2,349,379 | (911,768) | 390,753,399 |
| Other capital assets, net | 298,548,635 | (14,105,538) | 243,748 | 17,428,354 | 301,627,703 |
| Intangible assets | 3,519,858 | 41,235 | - | (774,810) | 2,786,283 |
| Total capital assets, net | \$ 344,006,096 | \$ (5,843,593) | \$ 243,748 | \$ 875,909 | \$ 338,794,664 |
| Capital Asset Summary: | | | | | |
| Capital assets not being depreciated | \$ 41,937,603 | \$ 8,220,710 | \$ - | \$ (15,777,635) | \$ 34,380,678 |
| Other capital and intangible assets | 673,523,996 | 8,494,740 | 2,593,127 | 15,741,776 | 695,167,385 |
| | 715,461,599 | 16,715,450 | 2,593,127 | (35,859) | 729,548,063 |
| Less: accumulated depreciation | 371,455,503 | 22,559,043 | 2,349,379 | (911,768) | 390,753,399 |
| Total capital assets, net | \$ 344,006,096 | \$ (5,843,593) | \$ 243,748 | \$ 875,909 | \$ 338,794,664 |

Notes to the Consolidated Financial Statements (continued)

For the year ended June 30, 2013:

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

Notes to the Consolidated Financial Statements (continued)

NOTE 9 – UNEARNED REVENUES

Unearned Revenues consisted of the following at June 30, 2014 and 2013:

| | <u>2014</u> | <u>2013</u> |
|------------------------------------------------|----------------------|----------------------|
| Grant and contract revenue received in advance | \$ 3,066,498 | \$ 3,995,512 |
| Summer session payments received in advance | 2,977,126 | 3,201,552 |
| Other unearned revenues | 9,497,304 | 5,624,536 |
| Total unearned revenue | <u>\$ 15,540,928</u> | <u>\$ 12,821,600</u> |

NOTE 10 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2014 and 2013:

| | <u>2014</u> | <u>2013</u> |
|-------------------------------------------------------|----------------------|----------------------|
| Compensation, benefits and related liabilities | \$ 18,084,843 | \$ 17,285,843 |
| Accrued interest expense | 584,945 | 620,488 |
| Accounts payable and other accrued liabilities | 8,011,912 | 6,796,128 |
| Total accounts payable and accrued liabilities | <u>\$ 26,681,700</u> | <u>\$ 24,702,460</u> |

NOTE 11 – LONG-TERM LIABILITIES

The following tables present the changes in long-term liabilities for the years ended June 30, 2014 and 2013, respectively:

For the year ended June 30, 2014:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deductions</u> | <u>Ending Balance</u> | <u>Current Portion</u> |
|----------------------------------------------------|------------------------------|----------------------|----------------------|-----------------------|----------------------------|
| Bonds, notes and capital leases | | | | | |
| Revenue bonds payable, net | \$ 115,151,632 | \$ 7,891,000 | \$ 7,150,237 | \$ 115,892,395 | \$ 7,551,090 |
| Subordinated bonds payable | 256,000 | - | 32,000 | 224,000 | 32,000 |
| Multi-year intangible obligation | 553,999 | - | 221,933 | 332,066 | - |
| Notes payable | 110,930 | - | 54,237 | 56,693 | 56,693 |
| Capital leases payable | 674,800 | - | 132,496 | 542,304 | 150,958 |
| | <u>116,747,361</u> | <u>7,891,000</u> | <u>7,590,903</u> | <u>117,047,458</u> | <u>7,790,741</u> |
| Other long-term liabilities | | | | | |
| Accrued compensated absences | 25,541,421 | 11,844,292 | 11,512,814 | 25,872,899 | 10,824,801 |
| Deferred compensation | 215,075 | 78,209 | - | 293,284 | - |
| Advances from primary government | 15,111,563 | 150,000 | 1,268,628 | 13,992,935 | 1,188,122 |
| Other Post Employment Benefits (<i>restated</i>) | 38,910,158 | 3,907,323 | - | 42,817,481 | - |
| Due to Federal Government | 10,093,180 | 95,460 | - | 10,188,640 | - |
| | <u>89,871,397</u> | <u>16,075,284</u> | <u>12,781,442</u> | <u>93,165,239</u> | <u>12,012,923</u> |
| Total long-term liabilities | <u>\$ 206,618,758</u> | <u>\$ 23,966,284</u> | <u>\$ 20,372,345</u> | <u>\$ 210,212,697</u> | <u>\$ 19,803,664</u> |

Notes to the Consolidated Financial Statements (continued)

For the year ended June 30, 2013:

| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
|----------------------------------------------------|-----------------------|----------------------|----------------------|-----------------------|----------------------|
| Bonds, notes and capital leases | | | | | |
| Revenue bonds payable, net | \$ 121,845,452 | \$ - | \$ 6,693,820 | \$ 115,151,632 | \$ 6,595,000 |
| Subordinated bonds payable | 288,000 | - | 32,000 | 256,000 | 32,000 |
| Multi-year intangible obligation | - | 553,999 | - | 553,999 | - |
| Notes payable | 162,816 | - | 51,886 | 110,930 | 58,606 |
| Capital leases payable | 238,325 | 671,920 | 235,445 | 674,800 | 249,852 |
| | <u>\$ 122,534,593</u> | <u>\$ 1,225,919</u> | <u>\$ 7,013,151</u> | <u>\$ 116,747,361</u> | <u>\$ 6,935,458</u> |
| Other long-term liabilities | | | | | |
| Accrued compensated absences | 24,100,176 | 11,020,777 | 9,579,532 | 25,541,421 | 10,355,102 |
| Deferred compensation | 136,866 | 78,209 | - | 215,075 | - |
| Advances from primary government | 15,964,555 | 905,263 | 1,758,255 | 15,111,563 | 1,273,714 |
| Other Post Employment Benefits (<i>restated</i>) | 33,586,872 | 5,323,286 | - | 38,910,158 | - |
| Due to Federal Government | 10,189,903 | - | 96,723 | 10,093,180 | - |
| | <u>83,978,372</u> | <u>17,327,535</u> | <u>11,434,510</u> | <u>89,871,397</u> | <u>11,628,816</u> |
| Total long-term liabilities | <u>\$ 206,512,965</u> | <u>\$ 18,553,454</u> | <u>\$ 18,447,661</u> | <u>\$ 206,618,758</u> | <u>\$ 18,564,274</u> |

Long-term liabilities include:

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

Capital Leases

The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2014:

| <u>Fiscal Year</u> | <u>Total</u> |
|---------------------------------------------|-------------------|
| 2015 | \$ 155,503 |
| 2016 | 202,927 |
| 2017 | 117,048 |
| 2018 | 71,157 |
| 2019 | 27,536 |
| Minimum lease payments | <u>\$ 574,171</u> |
| Less: Amount representing interest | <u>31,867</u> |
| Present value of net minimum lease payments | <u>\$ 542,304</u> |

Assets acquired under capital leases consist mainly of photocopiers. Such assets are carried at \$1,250,903 with accumulated depreciation of \$663,098 as of June 30, 2014.

NOTE 12 – REVENUE BONDS

Revenue bonds were issued pursuant to an Indenture of Trust between the Board of Regents of Higher Education for the State of Montana (on behalf of The University of Montana) and U. S. Bank Trust National Association MT. The bonds are secured by a first lien on the combined pledged revenues of the four campuses of The University of Montana. The pledged revenues earned at each campus are cross-pledged among all campuses of The University of Montana. Bonds payable recorded by each campus reflect the liability associated with the bond proceeds deposited into the accounts of that campus and do not necessarily mean that the debt service payments on that liability will be made by that campus.

Notes to the Consolidated Financial Statements (continued)

The total aggregate principal amount originally issued pursuant to the Indenture of Trust and the various supplements to the Indenture for all campuses of The University of Montana at June 30, 2014 and 2013, was \$178,857,783 and \$170,966,783, respectively. The combined principal amount outstanding at June 30, 2014 and 2013 was \$114,089,120 and \$119,660,000, respectively.

Series I 2004

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

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

Series J 2005

On September 15, 2005, The University of Montana issued \$31,095,000 of Series J 2005 Facilities Improvement and Refunding Revenue Bonds, with interest ranging from 3.0 percent to 4.5 percent. The proceeds from the issue, together with certain resources of the University, provided funds to pay and discharge a portion of the Series F Revenue Bonds, and finance or refinance, the costs of acquisition, construction, furnishing, equipping, renovation or improvement of certain University facilities.

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

Series K 2010

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

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

Series L 2012

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

Notes to the Consolidated Financial Statements (continued)

The debt service cash flows for the Series L 2012 Revenue Bonds (refunding portion) are less than the debt service cash flows for the advance refunded bonds by \$8,247,250. The economic gain for The University of Montana from the advanced refunding was \$6,589,962 (the difference between the present values of the debt service payments on the old and new debt).

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 2.500% 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 Prosper 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.

Defeased Bonds

The University has defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's consolidated financial statements. As of June 30, 2014 and 2013, \$109,719,891 and \$115,097,018, respectively, of bonds outstanding were considered defeased.

Revenue Bonds Payable

As of June 30, 2014 annual principal payments are as follows:

| Series I 2004 | | |
|------------------------------|----------------------|------------------|
| Fiscal Year | Interest Rate | Principal |
| 2015 | 3.700-3.750% | 3,250,000 |
| 2016 | 3.750% | 1,740,000 |
| | | 4,990,000 |
| Add net unamortized premium: | | 191,053 |
| | | 5,181,053 |
| Series J 2005 | | |
| Fiscal Year | Interest Rate | Principal |
| 2015 | 4.000%-4.500% | 1,145,000 |
| 2016 | 4.000%-4.500% | 1,165,000 |
| 2017 | 4.000% | 1,210,000 |
| 2018 | 4.125%-4.250% | 1,255,000 |
| 2019 | 4.000%-4.250% | 1,305,000 |
| 2020-2024 | 4.000%-4.250% | 7,365,000 |
| 2025-2029 | 4.000%-4.250% | 6,550,000 |
| 2030 | 4.250% | 1,155,000 |
| | | 21,150,000 |
| Add net unamortized premium: | | 32,302 |
| | | \$ 21,182,302 |

Notes to the Consolidated Financial Statements (continued)

Series K 2010

| Fiscal Year | Interest Rate | Principal |
|--------------------------|----------------------|----------------------|
| 2015 | 2.545%-3.145% | 1,860,000 |
| 2016 | 3.145%-3.634% | 3,560,000 |
| 2017 | 3.634%-3.984% | 5,475,000 |
| 2018 | 3.984%-4.368% | 5,695,000 |
| 2019 | 4.568%-4.718% | 5,935,000 |
| 2020-2022 | 4.718%-4.800% | 19,589,997 |
| | | <u>42,114,997</u> |
| Add unamortized premium: | | 168,267 |
| | | <u>\$ 42,283,264</u> |

Series L 2012

| Fiscal Year | Interest Rate | Principal |
|------------------------------|----------------------|----------------------|
| 2015 | 1.504%-5.000% | 585,000 |
| 2016 | 1.504%-5.000% | 610,000 |
| 2017 | 1.504%-5.000% | 645,000 |
| 2018 | 2.000%-5.000% | 670,000 |
| 2019 | 2.175%-5.000% | 700,000 |
| 2020-2024 | 2.250%-5.000% | 19,095,000 |
| 2025-2029 | 3.125%-4.000% | 11,940,000 |
| 2030-2033 | 3.125%-4.000% | 4,065,003 |
| | | <u>38,310,003</u> |
| Add net unamortized premium: | | 1,411,653 |
| | | <u>\$ 39,721,656</u> |

Series M 2013

| Fiscal Year | Interest Rate | Principal |
|--------------------|----------------------|------------------|
| 2015 | 2.500% | 711,090 |
| 2016 | 2.500% | 728,536 |
| 2017 | 2.500% | 747,306 |
| 2018 | 2.500% | 766,105 |
| 2019 | 2.500% | 785,377 |
| 2020-2024 | 2.500% | 3,785,706 |
| | | <u>7,524,120</u> |

Revenue Bond Payable Summary:

| | | |
|---------------------------------------------|-----------|---------------------------|
| Total revenue bonds outstanding | \$ | 114,089,120 |
| Add: Net unamortized premiums and discounts | | <u>1,803,275</u> |
| Revenue bonds payable, net | \$ | <u>115,892,395</u> |

Notes to the Consolidated Financial Statements (continued)

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

| Fiscal Year | Principal | Interest | Total Payment |
|--------------------|-----------------------|----------------------|-----------------------|
| 2015 | 7,551,090 | 4,409,094 | 11,960,184 |
| 2016 | 7,803,536 | 4,132,172 | 11,935,708 |
| 2017 | 8,077,306 | 3,874,068 | 11,951,374 |
| 2018 | 8,386,105 | 3,564,867 | 11,950,972 |
| 2019 | 8,725,377 | 3,219,056 | 11,944,433 |
| 2020-2024 | 49,835,706 | 10,179,817 | 60,015,523 |
| 2025-2029 | 18,490,000 | 2,584,181 | 21,074,181 |
| 2030-2033 | 5,220,000 | 424,957 | 5,644,957 |
| Total | \$ 114,089,120 | \$ 32,388,212 | \$ 146,477,332 |

NOTE 13 – SUBORDINATE BONDS PAYABLE

In August, 2009, The Board of Regents of Higher Education adopted the Bond Resolution for the 2009 Series I and 2009 Series II Facility Improvement Bonds and authorized the University of Montana to complete the sale and delivery of bonds in the amount of \$750,000 for the purpose of installing water backflow prevention devices on the University of Montana-Missoula campus. The Series I and II 2009 Bonds are subordinate obligations issued under Section 2.07(d) of The Indenture of Trust. The committed amounts for the Series I Bond and the Series II Bond are \$416,300 and \$333,700, respectively. Upon completion of the project and satisfaction of funding requirements, American Recovery and Reinvestment Act (ARRA) stimulus funds paid off the Series I bonds. The Series II bonds will be amortized over 10 years at a fixed rate of 1.75%. The bond proceeds are disbursed only for and after which costs have been incurred on the water improvement project. As of June 30, 2010, \$225,988 was disbursed from the Series I Bond. As of June 30, 2011 the remaining funds were disbursed, and the Series I Bond committed amount was repaid as described above. The outstanding balance of the Series II Bond at June 30, 2014 is \$224,000.

NOTE 14 – NOTES PAYABLE

Notes payable at June 30, 2014 consisted of the following:

| Description | Interest Rate | Maturity Date | Principal Outstanding | Current Maturities |
|--------------------|----------------------|----------------------|------------------------------|---------------------------|
| Wells Fargo Bank | 4.48% | 1-May-15 | \$ 56,693 | \$ 56,693 |

NOTE 15 – COMPENSATED LEAVE

Employee compensated absences are accrued at year-end for consolidated financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the Statements of Net Position, and as a component of compensation and benefit expense in the Statements of Revenues, Expenses, and Changes in Net Position.

NOTE 16 – ADVANCES FROM PRIMARY GOVERNMENT

Advances from the primary government are received through the Intercap Program and State Building Energy Conservation Program offered through the Montana Board of Investments and Montana Department of Environmental Quality, respectively.

The Intercap program lends money to state agencies for the purpose of financing or refinancing the acquisition and installation of equipment or personal and real property and infrastructure improvements. Intercap loans have a variable interest, which is based on the underlying bond rate of the Montana Board of Investments Intercap bonds, and is adjusted annually in February. The rate at June 30, 2014 was 1.25%.

Notes to the Consolidated Financial Statements (continued)

The State Building Energy Conservation Program (SBCEP) lends money to state agencies to fund projects that create energy cost savings for state owned buildings. The program is financed through GO Bonds, American Recovery and Reinvestment Act funds and state general fund appropriations.

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

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

| Fiscal Year | Intercap Loans | | MSTA Loan | | SBCEP Loans | | Total |
|-------------|----------------|-----------|--------------|--------------|--------------|--------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | |
| 2015 | \$ 642,997 | \$ 14,681 | \$ 38,112 | \$ 81,888 | \$ 507,013 | \$ 195,138 | \$ 1,479,829.20 |
| 2016 | 661,047 | 12,391 | 39,064 | 80,936 | 515,204 | 180,606 | 1,489,248.38 |
| 2017 | 502,937 | 9,785 | 40,039 | 79,961 | 528,905 | 165,500 | 1,327,127.64 |
| 2018 | 323,517 | 8,163 | 41,039 | 78,961 | 543,739 | 149,799 | 1,145,217.92 |
| 2019 | 417,732 | 6,814 | 42,064 | 77,936 | 498,018 | 133,472 | 1,176,035.56 |
| 2020-2024 | 1,393,422 | 13,968 | 226,613 | 373,387 | 1,936,594 | 435,743 | 4,379,727.04 |
| 2025-2029 | 585,329 | 1,191 | 256,359 | 343,641 | 1,302,193 | 168,581 | 2,657,294.52 |
| 2030-2034 | - | - | 290,010 | 309,990 | 355,354 | 15,653 | 971,007.00 |
| 2035-2039 | - | - | 328,078 | 271,922 | - | - | 600,000.00 |
| 2040-2044 | - | - | 371,143 | 228,857 | - | - | 600,000.00 |
| 2045-2049 | - | - | 419,861 | 180,139 | - | - | 600,000.00 |
| 2050-2054 | - | - | 474,974 | 125,026 | - | - | 600,000.00 |
| 2055-2059 | - | - | 537,321 | 62,679 | - | - | 600,000.00 |
| 2060-2064 | - | - | 174,261 | 5,739 | - | - | 180,000.00 |
| Total | \$ 4,526,981 | \$ 66,994 | \$ 3,278,937 | \$ 2,301,063 | \$ 6,187,018 | \$ 1,444,494 | \$ 17,805,487.26 |

Total advances payable from primary government and the current portion of advances at June 30, 2014, was \$13,992,935 and \$1,188,122, respectively.

NOTE 17 – RETIREMENT PLANS

Full-time employees of the University are members of the Public Employees' Retirement System (PERS), Game Wardens' & Peace Officers' Retirement System (GWORS), Teachers' Retirement System (TRS) or the Optional Retirement Program (ORP) as described below. Only faculty and administrators with contracts under the authority of the Board of Regents are enrolled under TRS or ORP. Beginning July 1, 1993, state legislation required all new faculty and administrators with contracts under the authority of the Board of Regents to enroll in ORP.

PERS, GWORS and TRS

PERS, GWORS and TRS are statewide, cost-sharing, multiple-employer defined benefit retirement plans. The plans are established under state law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. PERS, a mandatory system established by the state in 1945, provides retirement services to substantially all public employees. GWORS, established in 1963, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel, and state police officers not eligible to join the Sheriffs' Retirement System, Highway Patrol Officers' Retirement System, and Municipal Police Officers' Retirement System. TRS, established in 1937, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the University System.

Contribution rates for the plans are required and determined by state law. The contribution rates for 2014 and 2013 expressed as a percentage of covered payrolls, were as follows:

| | 2014 | | | 2013 | | |
|-------|-----------------|----------|----------|-----------------|----------|----------|
| | Covered Payroll | Employee | Employer | Covered Payroll | Employee | Employer |
| PERS | \$ 50,757,254 | 7.90% | 8.20% | \$ 49,650,561 | 7.11% | 7.22% |
| GWORS | \$ 857,149 | 10.56% | 9.00% | \$ 785,613 | 10.56% | 9.00% |
| TRS | \$ 13,529,625 | 10.86% | 10.85% | \$ 14,287,521 | 9.68% | 9.86% |

Notes to the Consolidated Financial Statements (continued)

The amounts contributed to the plan during years ending June 30, 2014, 2013, and 2012, were equal to the required contribution each year. The amounts contributed were as follows:

| | <u>Year ending June 30,</u> | | |
|----------------------|-----------------------------|--------------|--------------|
| | <u>2014</u> | <u>2013</u> | <u>2012</u> |
| <u>PERS</u> | | | |
| Employer | \$ 4,160,647 | \$ 3,583,021 | \$ 3,394,315 |
| Employee | \$ 4,009,376 | \$ 3,530,355 | \$ 3,303,213 |
| <u>GWPORS</u> | | | |
| Employer | \$ 77,143 | \$ 70,705 | \$ 65,662 |
| Employee | \$ 90,515 | \$ 82,961 | \$ 77,043 |
| <u>TRS</u> | | | |
| Employer | \$ 1,467,472 | \$ 1,408,314 | \$ 1,495,510 |
| Employee | \$ 1,469,537 | \$ 1,383,446 | \$ 1,371,066 |

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

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

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

ORP

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

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

| | <u>Year ending June 30,</u> | |
|----------------------------|-----------------------------|---------------|
| | <u>2014</u> | <u>2013</u> |
| <u>FACULTY</u> | | |
| Covered Payroll | \$ 86,618,001 | \$ 84,538,723 |
| Employer Contributions | \$ 5,158,968 | \$ 5,035,126 |
| Percent of Covered Payroll | 5.956% | 5.956% |
| Employee Contributions | \$ 6,099,571 | \$ 5,911,456 |
| Percent of Covered Payroll | 7.042% | 6.992% |
| <u>STAFF</u> | | |
| Covered Payroll | \$ 10,451,401 | \$ 9,918,612 |
| Employer Contributions | \$ 469,268 | \$ 445,346 |
| Percent of Covered Payroll | 4.490% | 4.490% |
| Employee Contributions | \$ 820,088 | \$ 697,170 |
| Percent of Covered Payroll | 7.847% | 7.030% |

For the years ended June 30, 2014 and 2013, 4.72%, or \$4,088,370 and \$3,990,227, respectively, was contributed to TRS from ORP faculty employer contributions to amortize past service unfunded liability in accordance with state

Notes to the Consolidated Financial Statements (continued)

law. In addition, 3.68%, or \$384,612 and \$265,819, respectively, was contributed to PERS from ORP staff employer contributions to amortize past service unfunded liability in accordance with state law.

Annual reports that include financial statements and required supplemental information on the plan are available from:

TIAA-CREF
730 Third Avenue
New York, New York 10017-3206
Phone: 1-800-842-2733

NOTE 18 – OTHER POSTEMPLOYMENT BENEFITS FOR HEALTH INSURANCE

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

Plan Description. The University is affiliated with the Montana University System Group Insurance Plan (MUSGIP), an agent multiple-employer health care plan administered by the Office of Commissioner of Higher Education. In accordance with section 2-18-702 of the Montana Code Annotated, the MUSGIP provides optional postemployment health care benefits to eligible University employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the Montana University System (MUS) at least five years, are age 50 or have worked 25 years with the MUS. Spouses, unmarried dependent children, and surviving spouses are also eligible. Premiums rates established by the Inter-Unit Benefits Committee are approved by the Commissioner of Higher Education. Retiree monthly premium rates range from \$600 to \$1,410 for medical coverage and decrease when a retiree becomes Medicare eligible. Medicare enrolled retiree premium rates range from \$259 to \$951. Retirees can also elect optional dental and vision coverage. The MUSGIP does not issue a stand-alone financial report but is reported as an enterprise fund in the State of Montana Comprehensive Annual Financial Report (CAFR) which can be viewed online at <http://accounting.mt.gov/cafr/cafr.asp>.

Annual OPEB Cost. The University's OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that is projected to cover normal cost each year and amortize any unfunded actuarial liability over a period of 30 years. For fiscal year ended June 30, 2014 and 2013, the University's annual OPEB cost (expense), the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation was as follows:

| | 2014 | 2013* | 2012* |
|--------------------------------------------|---------------|---------------|---------------|
| Annual required contribution | \$ 4,288,320 | \$ 5,411,759 | \$ 5,190,975 |
| Interest on net OPEB obligation | 1,656,088 | 1,430,836 | 1,203,979 |
| Amortization of net OPEB obligation | (1,298,892) | (1,122,224) | (944,297) |
| Annual OPEB cost (expense) | 4,645,516 | 5,720,371 | 5,450,657 |
| Contributions made | (738,193) | (397,085) | (89,432) |
| Increase in OPEB obligation | 3,907,323 | 5,323,286 | 5,361,225 |
| Net OPEB Obligation Beginning Balance | 38,910,158 | 33,586,872 | 28,225,647 |
| Net OPEB Obligation Ending Balance | \$ 42,817,481 | \$ 38,910,158 | \$ 33,586,872 |
| * Restated | | | |
| Percentage of annual OPEB cost contributed | 15.89% | 6.94% | 1.64% |

Notes to the Consolidated Financial Statements (continued)

The actuarial determination was based on plan information as of July 1, 2013. The Montana University System actuarial valuation is required every two years. At the time of the valuation, the number of active University participants in the MUS health insurance plan was 3,016. The total inactive (retiree and dependent) participants was 934. As of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$39,903,367, a portion of which is funded by employer contributions and is being amortized as a level dollar amount over an open basis of 30 years. The total amount contributed for active participants to the self insured health insurance plan by the University during fiscal 2014 and 2013 was \$29,040,377 and \$26,525,837, respectively, on annual covered payroll for the most recent actuarial valuation of \$176,743,341. The AAL as a percentage of annual covered payroll was 22.58%.

Required supplemental information immediately following the notes to the financial statements presents a schedule of funding status and the actuarial assumptions used for the actuarial valuations completed in fiscal 2009, 2011, and 2013.

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

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

| Actuarial Valuation Date: | July 1, 2013 |
|----------------------------------------------------------------------|---------------------|
| Interest/Discount rate | 4.25% |
| Projected payroll increases | 2.50% |
| Participant Percentage: | |
| Future retirees assumed to elect coverage at retirement | 55.00% |
| Future eligible spouses of future retirees assumed to elect coverage | 60.00% |

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

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

NOTE 19 – PLEDGED REVENUES

Revenue bonds issued by the University to finance capital asset projects as described in Note 12, are secured by a first lien on the gross and net pledged revenues derived primarily from auxiliary facilities on each of its four campuses. Gross pledged revenues include revenue from housing, food service, student union, recreation and field house facility operations. Net pledged revenues are derived mainly from investment income, student fees, events revenue, continuing education (non-credit) and land grant revenue. Total principal and interest remaining on the debt at June 30, 2014 is \$146,477,332 with annual debt service requirements ranging from \$12.0 million in 2015 to \$998,400 in 2033, the final year of repayment.

Notes to the Consolidated Financial Statements (continued)

A schedule of revenues pledged as security for revenue bonds is presented as follows at June 30, 2014 and 2013:

| | 2014 | | 2013 | |
|---------------------------------------|---------------------------------------------|-------------------------|---------------------------------------------|-------------------------|
| | Revenues Pledged as Security for Debt | Net Similar Revenues | Revenues Pledged as Security for Debt | Net Similar Revenues |
| Student fees | \$ 12,251,798 | \$ 119,422,415 | \$ 12,187,799 | \$ 122,306,910 |
| <u>Sales and services:</u> | | | | |
| Events revenue | 5,593,269 | | 5,665,829 | |
| Continuing education | 2,023,198 | | 2,081,542 | |
| Residence life | 533,196 | | 524,223 | |
| Student union facilities | 561,438 | | 530,747 | |
| Other sources | - | | 18,933 | |
| <i>Total sales and services</i> | 8,711,101 | 15,473,370 | 8,821,274 | 17,282,414 |
| Residence life | 15,690,494 | 15,729,892 | 14,479,886 | 14,480,117 |
| Food services | 12,008,757 | 12,267,861 | 12,107,410 | 12,245,073 |
| <u>Other auxiliary revenues:</u> | | | | |
| Residence life | 559,578 | | 497,349 | |
| Food services | 949,218 | | 910,504 | |
| Student union facilities | 429,529 | | 454,160 | |
| Student health services | 787,149 | | 645,944 | |
| Parking | 1,764,984 | | 1,625,828 | |
| Recreation facilities | 971,842 | | 897,923 | |
| Bookstore | 3,013,086 | | 3,068,993 | |
| Printing services | 547,090 | | 608,605 | |
| Field house facilities | 276,033 | | 263,262 | |
| Other sources | 501,315 | | 397,874 | |
| <i>Total other auxiliary revenues</i> | 9,799,824 | 13,702,898 | 9,370,442 | 12,313,059 |
| Land grant revenue | 1,932,977 | 1,932,977 | 1,959,687 | 1,959,686 |
| Investment income | 662,012 | 5,164,668 | 715,800 | 2,325,070 |
| Total pledged revenues | \$ 61,056,963 | \$ 183,694,081 | \$ 59,642,300 | \$ 182,912,329 |

NOTE 20 – RISK MANAGEMENT

Due to the diverse risk exposure of the University and its constituent agencies, the insurance portfolio contains a comprehensive variety of coverage. Montana statutes, 2-9-101 through 305, MCA, and ARM 2.2.298, require participation of all state agencies in the self-insurance plan established by the Montana Department of Administration, Risk Management and Tort Defense Division (RMTDD). The self-insurance program includes coverage for tort general liability, auto liability, professional liability, and errors and omissions exposures. The RMTDD provides coverage, above self-insured retentions, by purchasing other commercial coverage through the state's brokers, Alliant Insurance Services and Willis, for excess liability, property, crime, fidelity, boiler and machinery, fine arts, aircraft-liability and hull coverage. The RMTDD also supplies other commercial insurance coverage for specific risk exposures on an as-needed basis such as the Volunteer Accident and Health, Dismemberment and Accidental Death coverage obtained for all units of the Montana University System. In addition to these basic policies, the University has established guidelines in risk assessment, risk avoidance, risk acceptance and risk transfer.

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

Notes to the Consolidated Financial Statements (continued)

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

General liability and tort claim coverage – include comprehensive general liability, auto liability, personal injury liability, officer’s and director’s liability, professional liability, aircraft liability, watercraft liability, leased vehicles and equipment liability, and are provided for by the University’s participation in the state’s self-insurance program. Montana Codes Annotated (2-9-108, MCA) limits awards for damages against the state to \$750,000 per claim, \$1,500,000 per occurrence.

Self-Funded Programs – The University’s health care program is self-funded, and is provided through participation in the Montana University System (MUS) Inter-unit Benefits Program. The MUS program is funded on an actuarial basis and the University believes that sufficient reserves exist to pay run-off claims related to prior years, and that the premiums and University contributions are sufficient to pay current and future claims.

Effective July 1, 2003, (for fiscal year 2004), the University’s workers’ compensation program became self-funded and is provided through membership in the MUS Self Insured Workers’ Compensation Program. In fiscal year 2003 the University’s workers’ compensation coverage was provided for through participation in the state’s Compensation Insurance Fund. The MUS self-funded program is funded on an actuarial basis and is administered by a third party, currently Intermountain Claims, Inc.. The MUS program incorporates a self-insured retention of \$500,000 per claim and excess commercial coverage to statutory limits. Employer’s liability is provided with a \$500,000 retention and an excess insurance limit of \$1,000,000. The University provides periodic disbursements to the administrator for claims paid and administrative expenses. Benefits provided are prescribed by state law and include biweekly payments for temporary loss of wages as well as qualifying permanent partial and permanent total disability. Medical and indemnity benefits are statutorily prescribed for qualifying job-related injuries or illnesses.

NOTE 21 – COMMITMENTS AND CONTINGENCIES

| Project | Budget Authorization * | Total Expenditures through June 2014 | | Funding Source |
|---------------------------------------------|---------------------------|-----------------------------------------------|--|----------------------------------------------|
| | | | | |
| Geothermal Mine Water System | \$ 1,072,744 | \$ 1,060,000 | | DOE |
| Gilkey Executive Education Ctr | \$ 9,300,000 | 740,035 | | Series M Revenue Bonds; Foundation Support |
| ISB 2nd Floor/4th Floor/Basement | \$ 3,600,000 | 790,555 | | Series M Revenue Bonds |
| Native American Center Basesment | \$ 1,132,000 | 726,495 | | Private Donation |
| Technology Modular Units | \$ 2,300,000 | 94,563 | | Technology Fee; Series M Revenue Bonds |
| Missoula College | \$ 32,000,000 | 252,029 | | LRBP HB0005; Other campus funds |
| Missoula College ; Environmental Assessment | \$ 3,000,000 | 76,780 | | Other campus funds |
| Student Athlete Academic Center | \$ 2,500,000 | - | | 63rd Legislature HB0005 |
| Main Hall Phase III | \$ 4,500,000 | 68,787 | | A&E, FEMA Grant, other campus funds |
| Mathews Hall Seismic Stabilization | \$ 1,143,874 | 90,889 | | FEMA grant, auxiliary funds |
| Natural Resources Research Center Addition | \$ 10,000,000 | 45,847 | | LRBP HB0005; Tech Foundation; DOE, donations |
| Renovate Res Hall Restroom | \$ 1,246,913 | 627,321 | | Bonds |
| Parking Lot Repairs | \$ 680,000 | 24,834 | | Plant Funds |
| | <u>\$ 72,475,531</u> | <u>\$ 4,598,135</u> | | |

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

Notes to the Consolidated Financial Statements (continued)

At June 30, 2014, the University had the following outstanding commitments under major capital and maintenance projects: Operating leases – The University has commitments under non-cancelable operating leases as follows:

| <u>Payable during the year ending June 30,</u> | <u>Total</u> |
|------------------------------------------------|-------------------|
| 2015 | 591,949 |
| 2016 | 64,398 |
| 2017 | 43,139 |
| 2018 | 10,088 |
| | <u>\$ 709,575</u> |

The University is a defendant in several legal actions. While the outcome cannot be determined at this time, management is of the opinion that the liability, if any, from these actions will not have a material effect on the University's financial position.

In the normal course of operations, the University receives grants and other forms of reimbursement from various federal and state agencies. These funds are subject to review and audit by the cognizant agencies. The University does not expect any material adjustments or repayments to result from such audits.

Although the University is exempt from federal income tax as an instrumentality of the State of Montana, certain income may be considered unrelated business income by the Internal Revenue Service (IRS). The Montana University System files appropriate tax returns with the IRS to report such income. Because the tax liability for the System as a whole is not material, no provision is recorded in the accompanying consolidated financial statements.

NOTE 22– RELATED PARTIES

The University of Montana is a component unit of the State of Montana. The University's consolidated financial statements and the combined financial statements of its component units include only the activities, funds and accounts of the University and the component units. Private nonprofit organizations with relations to the University include The University of Montana Alumni Association, the Montana Technology Enterprise Center (MonTEC), the Montana Tech Booster Club and the Montana Tech Alumni Association.

The associations and booster club operate exclusively for the purpose of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with, the University. For the years ended June 30, 2014 and 2013, \$132,544 and \$93,155, respectively, was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, the University provides the associations and booster club with office space, staff and some related office expenses.

MonTEC was established as a nonprofit 501(C) 3 corporation in fiscal year 2001 as a result of an agreement between the University and the Missoula Area Economic Development Foundation (MAEDF). MonTEC provides low cost lease space and business consulting to local "start-up" companies. The corporation's board of directors is comprised equally of members appointed by MAEDF and the University.

NOTE 23 – SUBSEQUENT EVENT

On November 20, 2014, the Board of Regents of the Montana University System authorized the University to issue up to \$21,000,000 of Series N 2015 Refunding Revenue Bonds for the purpose of refunding the outstanding Series J 2005 Facilities Improvement and Refunding Revenue Bonds maturing after May 15, 2015, previously issued to finance and refinance certain improvements to the campuses of the University, and paying cost of issuance of the Series N 2015 Bonds. The revenue bonds will be issued prior to the optional redemption date of May 15, 2015, specified in the supplement to the Indenture of Trust. The University is seeking to private place the Series N Bonds with one or more commercial banks or institutional investors.

Notes to the Consolidated Financial Statements (continued)

NOTE 24 – ACCOUNTING FOR COMPONENT UNITS

The entities included as component units in the financial statements are nonprofit, tax exempt organizations operating exclusively for the purposes of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with the University. Although the University does not control the timing or amount of receipts from these entities, the majority of the revenues or income that the entities hold and invest is restricted to the activities of the University by donors. The entities included as component units in the financial statements are The University of Montana Foundation, The Montana Tech Foundation, The University of Montana – Western Foundation and The Montana Grizzly Scholarship Association.

For the fiscal years ended June 30, 2014 and 2013, the following was transferred to the University for scholarships, academic or institutional support or capital expenses by the University foundations: \$10,139,737 and \$11,589,624, respectively with The University of Montana Foundation (406-243-2593), \$2,965,933 and \$4,011,031, respectively, with the Montana Tech Foundation (406-496-4532); and \$232,787 and \$400,763 respectively, with The University of Montana-Western Foundation (406-683-7305). In addition, \$1,448,186 and \$1,413,320 was transferred from the Montana Grizzly Scholarship Association (406-243-6485) for the fiscal years ended June 30, 2014 and 2013, respectively. For the fiscal years ended June 30, 2014 and 2013, the University foundations also expended \$2.7 million and \$2.8 million, respectively, directly to third parties in support of the University. In exchange, the University provides the foundations with office space and an annually contracted fee, and the association with office space, staff and some related office expenses. For the fiscal years ended June 30, 2014 and 2013, the University provided \$450,000 and \$425,000, respectively, to its Foundations, which included payments for contracted services, capital campaign support and a lease payment of \$1 for a lake lodge used by The University of Montana-Missoula for conferences and other events.

Condensed financial information for each of the University's component units is presented below. The information for The University of Montana – Western Foundation is as of December 31, for the years presented. The financial information for all the other component units is as of June 30, for the years presented.

Notes to the Consolidated Financial Statements (continued)

STATEMENT OF FINANCIAL POSITION

June 30, 2014 and December 31, 2013

| | University of Montana Foundation* | Montana Tech Foundation* | University of Montana – Western Foundation** | Montana Grizzly Scholarship Association* | Elimination | Total |
|------------------------------------------------|-----------------------------------------|--------------------------------|-------------------------------------------------------|---------------------------------------------------|----------------|----------------|
| ASSETS: | | | | | | |
| Cash and investments | \$ 209,518,830 | \$ 35,999,674 | \$ 5,502,877 | \$ 4,204,436 | \$ (4,174,656) | \$ 251,051,161 |
| Other receivables, net of allowances | 6,951,584 | 793,379 | 10,000 | 9,476 | - | 7,764,439 |
| Fixed assets, net of depreciation | 35,036 | 2,404,874 | 20,627 | 2,322 | - | 2,462,859 |
| Property held for sale | 3,543,840 | - | - | - | - | 3,543,840 |
| Other assets | 1,861,284 | 101,190 | - | 35,482 | - | 1,997,956 |
| Total Assets | \$ 221,910,574 | \$ 39,299,117 | \$ 5,533,504 | \$ 4,251,716 | \$ (4,174,656) | \$ 266,820,255 |
| LIABILITIES: | | | | | | |
| Current liabilities associated with operations | \$ 504,004 | \$ 123,093 | \$ 5,196 | \$ 223,355 | \$ - | \$ 855,648 |
| Note payable – other | - | - | 17,855 | - | - | 17,855 |
| Long-term liabilities – other | 227,169 | - | - | - | - | 227,169 |
| Liabilities to external beneficiaries | 2,671,484 | 39,446 | - | - | - | 2,710,930 |
| Custodial funds | 24,431,055 | - | - | - | (4,174,656) | 20,256,399 |
| Total Liabilities | 27,833,712 | 162,539 | 23,051 | 223,355 | (4,174,656) | 24,068,001 |
| NET ASSETS: | | | | | | |
| Net assets – unrestricted | 8,535,880 | 2,238,682 | 322,781 | 2,360,291 | - | 13,457,634 |
| Net assets – restricted | 185,540,982 | 36,897,896 | 5,187,672 | 1,668,070 | - | 229,294,620 |
| Total Net Assets | 194,076,862 | 39,136,578 | 5,510,453 | 4,028,361 | - | 242,752,254 |
| Total Liabilities & Net Assets | \$ 221,910,574 | \$ 39,299,117 | \$ 5,533,504 | \$ 4,251,716 | \$ (4,174,656) | \$ 266,820,255 |

* For the year ended June 30, 2014.

**For the year ended December 31, 2013.

STATEMENT OF FINANCIAL POSITION

June 30, 2013 and December 31, 2012

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

* For the year ended June 30, 2013.

**For the year ended December 31, 2012.

STATEMENT OF ACTIVITIES

For the year ended June 30, 2014 and December 31, 2013

| | University of Montana Foundation* | Montana Tech Foundation* | University of Montana – Western Foundation** | Montana Grizzly Scholarship Association* | Total |
|-----------------------------------------------------------------------------------|-----------------------------------------|--------------------------------|-------------------------------------------------------|---------------------------------------------------|----------------|
| REVENUES: | | | | | |
| Contributions | \$ 24,977,428 | \$ 4,097,961 | \$ 850,480 | \$ 1,718,832 | \$ 31,644,701 |
| Investment income and unrealized gain(loss) on investments | 23,336,538 | 4,605,255 | 452,188 | 375,208 | 28,769,189 |
| Administrative fees | 471,741 | - | - | - | 471,741 |
| Contract for services | 500,000 | - | 28,652 | 330,722 | 859,374 |
| Other income | 1,578,947 | 2,468 | 16,200 | - | 1,597,615 |
| Total Revenues | \$ 50,864,654 | \$ 8,705,684 | \$ 1,347,520 | \$ 2,424,762 | \$ 63,342,620 |
| EXPENSES: | | | | | |
| Program services | \$ 12,638,503 | \$ 2,842,725 | \$ 430,168 | \$ 1,448,186 | \$ 17,359,582 |
| Supporting services | 5,518,195 | 1,289,718 | 208,294 | 419,687 | 7,435,894 |
| Total Expenses | \$ 18,156,698 | \$ 4,132,443 | \$ 638,462 | \$ 1,867,873 | \$ 24,795,476 |
| Change in net assets before non-operating items | \$ 32,707,956 | \$ 4,573,241 | \$ 709,058 | \$ 556,889 | \$ 38,547,144 |
| NON-OPERATING EXPENSES: | | | | | |
| Payments to beneficiaries and change in liabilities due to external beneficiaries | (273,812) | - | - | - | (273,812) |
| Change in net assets | \$ 32,434,144 | \$ 4,573,241 | \$ 709,058 | \$ 556,889 | \$ 38,273,332 |
| Net assets, beginning of fiscal year | 161,642,718 | 34,563,337 | 4,801,395 | 3,471,472 | 204,478,922 |
| Net assets, end of fiscal year | \$ 194,076,862 | \$ 39,136,578 | \$ 5,510,453 | \$ 4,028,361 | \$ 242,752,254 |

* For the year ended June 30, 2014.

**For the year ended December 31, 2013.

STATEMENT OF ACTIVITIES

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

| | University of Montana Foundation* | Montana Tech Foundation* | University of Montana – Western Foundation** | Montana Grizzly Scholarship Association* | Total |
|-----------------------------------------------------------------------------------|-----------------------------------------|--------------------------------|-------------------------------------------------------|---------------------------------------------------|----------------|
| REVENUES: | | | | | |
| Contributions | \$ 12,018,457 | \$ 3,582,218 | \$ 558,950 | \$ 1,586,015 | \$ 17,745,640 |
| Investment income and unrealized gain(loss) on investments | 15,052,130 | 2,863,599 | 361,796 | 225,360 | 18,502,885 |
| Administrative fees | 462,467 | - | - | - | 462,467 |
| Contract for services | 425,000 | - | 28,652 | 491,439 | 945,091 |
| Other income | 2,611,801 | 21,764 | 17,100 | - | 2,650,665 |
| Total Revenues | \$ 30,569,855 | \$ 6,467,581 | \$ 966,498 | \$ 2,302,814 | \$ 40,306,748 |
| EXPENSES: | | | | | |
| Program services | \$ 11,249,533 | \$ 4,011,031 | \$ 400,763 | \$ 1,413,320 | \$ 17,074,647 |
| Supporting services | 5,027,789 | 884,863 | 222,719 | 487,787 | 6,623,158 |
| Total Expenses | \$ 16,277,322 | \$ 4,895,894 | \$ 623,482 | \$ 1,901,107 | \$ 23,697,805 |
| Change in net assets before non-operating items | \$ 14,292,533 | \$ 1,571,687 | \$ 343,016 | \$ 401,707 | \$ 16,608,943 |
| NON-OPERATING EXPENSES: | | | | | |
| Payments to beneficiaries and change in liabilities due to external beneficiaries | (156,158) | - | - | - | (156,158) |
| Change in net assets | \$ 14,136,375 | \$ 1,571,687 | \$ 343,016 | \$ 401,707 | \$ 16,452,785 |
| Net assets, beginning of fiscal year | 147,506,343 | 32,991,650 | 4,458,379 | 3,069,765 | 188,026,137 |
| Net assets, end of fiscal year | \$ 161,642,718 | \$ 34,563,337 | \$ 4,801,395 | \$ 3,471,472 | \$ 204,478,922 |

* For the year ended June 30, 2013.

**For the year ended December 31, 2012.

Notes to the Consolidated Financial Statements (continued)

The following table shows the total investments held by the component units. The investments for The University of Montana – Western Foundation are as of December 31, 2012 and 2011. The financial information for all the other component units is as of June 30, 2014 and 2013.

| | Fair Market Value | |
|---------------------------------------------|--------------------------|-----------------------|
| | 2014 | 2013 |
| Investments held by component units: | | |
| Stocks and bonds | \$ 76,547,141 | \$ 64,194,521 |
| Money market and certificates of deposit | 1,696,218 | 1,879,500 |
| Alternative investments | 167,253,021 | 138,729,597 |
| Real property | 392,526 | 472,546 |
| Other | 1,987,548 | 1,843,902 |
| | <u>\$ 247,876,454</u> | <u>\$ 207,120,066</u> |

Notes to the Consolidated Financial Statements (continued)

NOTE 25 – NATURAL CLASSIFICATION WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by natural and functional classifications for the year ended June 30, 2014, were as follows:

| Functional Classification: | Natural Classification | | | | | | | Total |
|------------------------------------|-------------------------|--------------|---------------------------|--------------|---------------|---------------|---------------|----------------|
| | Compensation & benefits | OPEB* | Supplies & other services | Utilities | Communication | Scholarships | Depreciation | |
| Instruction | \$ 106,090,243 | \$ 1,858,206 | \$ 8,321,117 | \$ 28,271 | \$ 466,260 | \$ - | \$ - | \$ 116,764,097 |
| Research | 32,188,394 | 214,623 | 10,747,084 | 27,330 | 185,799 | - | - | 43,363,230 |
| Public service | 14,056,642 | 108,241 | 6,779,336 | 4,052 | 97,543 | - | - | 21,045,814 |
| Academic support | 22,000,046 | 491,031 | 10,079,766 | 605 | 413,478 | - | - | 32,984,926 |
| Student services | 19,034,240 | 460,371 | 10,623,471 | 29,183 | 489,337 | - | - | 30,636,602 |
| Institutional support | 21,615,502 | 477,094 | 6,568,264 | 7,981 | 722,709 | - | - | 29,391,550 |
| Operation and maintenance of plant | 14,129,578 | 392,546 | 10,634,725 | 5,744,835 | 232,081 | - | - | 31,133,765 |
| Scholarships and fellowships | - | - | - | - | - | 26,489,069 | - | 26,489,069 |
| Auxiliary enterprises | 25,515,860 | 643,404 | 14,678,846 | 3,259,374 | 152,913 | - | - | 44,250,397 |
| Depreciation | - | - | - | - | - | - | 23,334,553 | 23,334,553 |
| | \$ 254,630,505 | \$ 4,645,516 | \$ 78,432,609 | \$ 9,101,631 | \$ 2,760,120 | \$ 26,489,069 | \$ 23,334,553 | \$ 399,394,003 |

*Other Postemployment Benefits

The University's operating expenses by natural and functional classifications for the year ended June 30, 2013, were as follows:

| Functional Classification: | Natural Classification | | | | | | | Total |
|------------------------------------|-------------------------|--------------|---------------------------|--------------|---------------|---------------|---------------|----------------|
| | Compensation & benefits | OPEB* | Supplies & other services | Utilities | Communication | Scholarships | Depreciation | |
| Instruction | \$ 101,990,789 | \$ 2,078,211 | \$ 8,742,139 | \$ 28,369 | \$ 435,854 | \$ - | \$ - | \$ 113,275,362 |
| Research | 34,580,245 | 636,105 | 13,356,095 | 27,902 | 182,290 | - | - | 48,782,637 |
| Public service | 12,655,401 | 320,913 | 5,804,897 | 523 | 110,259 | - | - | 18,891,992 |
| Academic support | 21,392,721 | 545,723 | 10,169,692 | 1,579 | 407,338 | - | - | 32,517,053 |
| Student services | 19,664,623 | 505,681 | 9,514,476 | 16,321 | 450,234 | - | - | 30,151,335 |
| Institutional support | 20,919,726 | 519,982 | 7,125,487 | 5,327 | 716,226 | - | - | 29,286,748 |
| Operation and maintenance of plant | 13,814,634 | 425,024 | 10,843,694 | 5,940,102 | 257,203 | - | - | 31,280,656 |
| Scholarships and fellowships | - | - | - | - | - | 27,743,539 | - | 27,743,539 |
| Auxiliary enterprises | 24,962,069 | 688,732 | 13,480,551 | 3,383,095 | 151,357 | - | - | 42,665,804 |
| Depreciation | - | - | - | - | - | - | 23,806,165 | 23,806,165 |
| | \$ 249,980,208 | \$ 5,720,371 | \$ 79,037,030 | \$ 9,403,217 | \$ 2,710,760 | \$ 27,743,539 | \$ 23,806,165 | \$ 398,401,291 |

*Other Postemployment Benefits as restated

The University of Montana

Required Supplementary Information

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

The funded status of the plan as of the actuarial valuations dated July 1, 2009, 2011 and 2013 were as follows:

| | 2009 | 2011 | 2013 |
|---------------------------------------------------|----------------------|----------------------|----------------------|
| Actuarial accrued liability (AAL) | \$ 80,475,030 | \$ 48,159,444 | \$ 39,903,367 |
| Actuarial value of plan assets | - | - | - |
| Unfunded actuarial accrued liability (UAAL) | <u>\$ 80,475,030</u> | <u>\$ 48,159,444</u> | <u>\$ 39,903,367</u> |
| Funded ratio (actuarial value of plan assets/AAL) | 0.00% | 0.00% | 0.00% |
| Covered payroll (active plan members) | \$ 167,395,949 | \$ 166,132,779 | \$ 176,743,341 |
| UAAL as a percentage of covered payroll | 48.07% | 28.99% | 22.58% |

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

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

| Actuarial Valuation Date: | July 1, 2009 | July 1, 2011 | July 1, 2013 |
|----------------------------------------------------------------------|---------------------|---------------------|---------------------|
| Interest/Discount rate | 4.25% | 4.25% | 4.25% |
| Projected payroll increases | 2.50% | 2.50% | 2.50% |
| Participant Percentage: | | | |
| Future retirees assumed to elect coverage at retirement | 55.00% | 55.00% | 55.00% |
| Future eligible spouses of future retirees assumed to elect coverage | 60.00% | 60.00% | 60.00% |

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

| <u>DESCRIPTION</u> | <u>Fall 2013</u> | <u>Fall 2012</u> | <u>Fall 2011</u> | <u>Fall 2010</u> | <u>Fall 2009</u> |
|------------------------------------------|--------------------------|------------------|------------------|------------------|------------------|
| Enrollment (Headcount) ¹ | 20,345 | 20,836 | 21,530 | 21,371 | 20,248 |
| | <u>FY2014</u> | <u>FY2013</u> | <u>FY2012</u> | <u>FY2011</u> | <u>FY2010</u> |
| Enrollment (FTE) ² | | | | | |
| Two-year Colleges | 3,024 | 3,289 | 3,338 | 3,304 | 3,018 |
| Undergraduate | 12,235 | 12,680 | 13,386 | 13,785 | 13,181 |
| Graduate | 1,880 | 1,908 | 1,985 | 1,950 | 1,900 |
| | 17,139 | 17,877 | 18,709 | 19,039 | 18,099 |
| Enrollment (FTE) ² | | | | | |
| In-State students | 13,035 | 13,809 | 14,431 | 14,749 | 14,090 |
| Out-of-State students | 2,975 | 2,964 | 3,171 | 3,141 | 2,958 |
| Western Undergraduate Exchange | 1,129 | 1,104 | 1,107 | 1,149 | 1,051 |
| | 17,139 | 17,877 | 18,709 | 19,039 | 18,099 |
| | <u>FY2014</u> | <u>FY2013</u> | <u>FY2012</u> | <u>FY2011</u> | <u>FY2010</u> |
| Employees (FTE) - All Funds ² | | | | | |
| Contract Faculty | 1,083 | 1,048 | 1,133 | 1,112 | 1,073 |
| Contract Admin & Professional | 595 | 603 | 561 | 543 | 515 |
| Classified | 1,216 | 1,246 | 1,363 | 1,349 | 1,319 |
| GTA/GRA | 312 | 199 | 186 | 188 | 178 |
| Part Time and Other | 559 | 682 | 579 | 583 | 558 |
| | 3,766 | 3,778 | 3,822 | 3,774 | 3,643 |
| | <u>School Year Ended</u> | | | | |
| | <u>6/30/2014</u> | <u>6/30/2013</u> | <u>6/30/2012</u> | <u>6/30/2011</u> | <u>6/30/2010</u> |
| Degrees Granted ³ | | | | | |
| Certificate | 205 | 175 | 144 | 182 | 149 |
| Associate | 678 | 692 | 668 | 555 | 522 |
| Undergraduate | 2,569 | 2,481 | 2,509 | 2,535 | 2,292 |
| Graduate | 828 | 888 | 828 | 802 | 723 |
| | 4,280 | 4,236 | 4,149 | 4,074 | 3,686 |

¹ Source: MUS Data Warehouse

² Source: CHE Operating Reports 2011-2015

³ Source: IPEDS Completions Reports 2011-2015

UNIVERSITY OF MONTANA

UNIVERSITY RESPONSE



RECEIVED
JAN 16 2015
LEGISLATIVE AUDIT DIV.

January 13, 2015

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

Dear Ms. Hunthausen,

On behalf of the University of Montana, I want to extend our appreciation to you and your staff for their work on the University of Montana's Financial Statement Audit for the fiscal year ending June 30, 2014. The University considers accountability for all funds important and values the input provided by the legislative audit staff.

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

Sincerely,

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

Royce C. Engstrom,
President
University of Montana

RCE/rp
Englet1033

Cc: Clayton Christian, Commissioner of Higher Education