

University of Montana

## ScholarWorks at University of Montana

---

University of Montana Annual Financial Reports,  
1918-2012

University of Montana Publications

---

1-2004

### Consolidated Financial Report 2003

University of Montana–Missoula

Follow this and additional works at: [https://scholarworks.umt.edu/annual\\_financial\\_reports](https://scholarworks.umt.edu/annual_financial_reports)

**Let us know how access to this document benefits you.**

---

#### Recommended Citation

University of Montana–Missoula, "Consolidated Financial Report 2003" (2004). *University of Montana Annual Financial Reports, 1918-2012*. 80.

[https://scholarworks.umt.edu/annual\\_financial\\_reports/80](https://scholarworks.umt.edu/annual_financial_reports/80)

This Report is brought to you for free and open access by the University of Montana Publications at ScholarWorks at University of Montana. It has been accepted for inclusion in University of Montana Annual Financial Reports, 1918-2012 by an authorized administrator of ScholarWorks at University of Montana. For more information, please contact [scholarworks@mso.umt.edu](mailto:scholarworks@mso.umt.edu).



The University of  
**Montana**  
CONSOLIDATED  
FINANCIAL REPORT

2003



The University of  
**Montana**

**Montana Tech**

THE UNIVERSITY OF MONTANA

The University of Montana  
**Western**



The University of Montana - Helena  
COLLEGE OF WESTERN IDAHO





The University of  
**Montana**

January 8, 2004

To Our Financial Statement Users:

We are pleased to submit the annual Consolidated Financial Report for the four campuses of the University of Montana.

The Report presents the University's financial position as of June 30, 2003 and 2002, and the results of its operations for the years then ended.

The financial statements included in the report are presented in conformity with accounting principles generally accepted in the United States of America. The Legislative Audit Division has examined this report and their unqualified opinion is included.

Sincerely,

Robert A. Duringer  
Vice President for Administration and Finance

James R. Darcy, CPA  
Director of Business Services

Dan W. Jenko, CPA  
Accounting Manager

# Contents

---

<b>Leadership</b> .....	1
<b>Independent Auditor's Report</b> .....	2
<b>Management's Discussion and Analysis</b> .....	3
<b>Audited Consolidated Financial Statements</b>	
Consolidated Statements of Net Assets .....	9
Consolidated Statements of Revenues, Expenses and Changes in Net Assets .....	10
Consolidated Statements of Cash Flows .....	11
Notes to Consolidated Financial Statements .....	13
<b>Supplemental Information</b> .....	32

### Montana Board of Regents

Ed Jasmin	Chairman
Christian Hur	Vice Chairman, Student Regent
Lynn Morrison-Hamilton	Regent
John Mercer	Regent
Richard Roehm	Regent
Mark Semmens	Regent
Lila Taylor	Regent
Judy Martz*	Governor
Linda McCulloch*	Superintendent of Public Instruction

\* *Ex-officio members*

### Office of Commissioner of Higher Education

Sheila Stearns	Commissioner
Roger Barber	Deputy Commissioner for Academic and Student Affairs
Rod Sundsted	Associate Commissioner for Fiscal Affairs

### The University of Montana Executive Officers

#### The University of Montana – Missoula

George Dennison	President
Lois Muir	Provost and Vice President for Academic Affairs
Robert Duringer	Vice President for Administration and Finance
Daniel Dwyer	Vice President for Research and Development
Teresa Branch	Vice President for Student Affairs
Robert Frazier	Executive Vice President and Executive Assistant to the President

#### Montana Tech of The University of Montana

Frank Gilmore	Chancellor
Susan Patton	Vice Chancellor for Academic Affairs and Research
Joseph Figueira	Vice Chancellor for Research and Graduate Studies
John Badovinac	Controller

#### The University of Montana –Western

Karl Ulrich	Interim Chancellor and Vice Chancellor for Academic Affairs
Susan Briggs	Vice Chancellor for Administration and Finance

#### The University of Montana-Helena College of Technology

Steven Hoyle	CEO/Dean
Rick Gray	Associate Dean
D.J. Whitaker	Assistant Dean for Fiscal and Plant Operations

# LEGISLATIVE AUDIT DIVISION



Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel

Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Consolidated Statement of Net Assets of The University of Montana, a component unit of the state of Montana, as of June 30, 2003 and 2002, and the related Consolidated Statement of Revenues, Expenses and Changes in Net Assets and Consolidated Statement of Cash Flows for the fiscal years then ended. The information contained in these financial statements is the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Montana as of June 30, 2003 and 2002, and the results of its operations, and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements. The supplemental information on enrollment, employees, and degrees granted is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Respectfully submitted,

Handwritten signature of James Gillett in cursive.

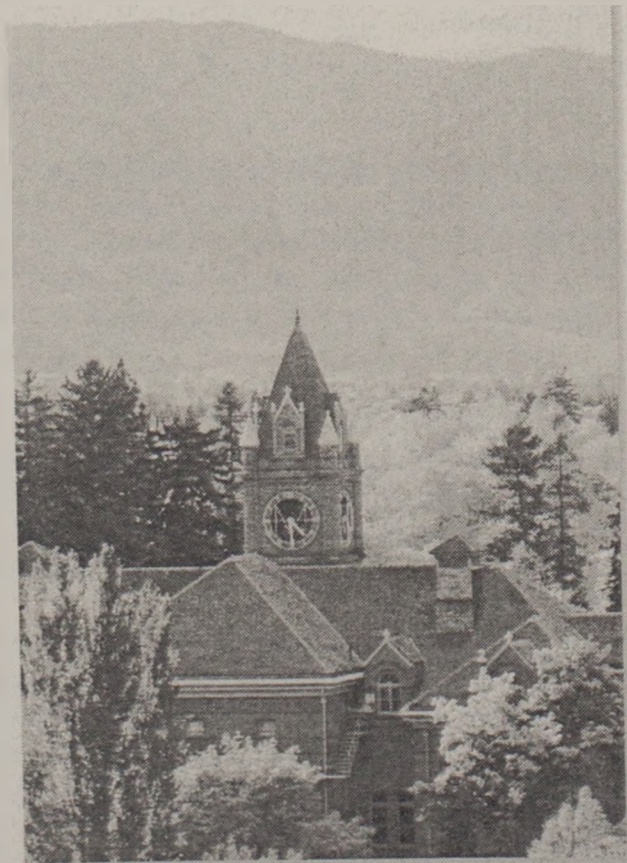
James Gillett, CPA  
Deputy Legislative Auditor

November 19, 2003



The University of  
**Montana**

# Management's Discussion and Analysis



# The University of Montana

The University of Montana-Missoula

The University of Montana- Western

The University of Montana- Helena College of Technology

Montana Tech of the University of Montana

## Management's Discussion and Analysis

---

### Fiscal Year Ended June 30, 2003

#### Overview

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

The discussion and analysis which follow provide a comparative overview of the University's financial position and operating results for the fiscal years ended 6/30/03 and 6/30/02, and should be read in conjunction with the fiscal year 2003 financial statements.

#### Financial Highlights of Fiscal Year 2003

- Tuition increased 13% for both resident and non-resident undergraduate and graduate program students and 5% for College of Technology students on the four campuses from fiscal year 2002 to fiscal year 2003. In addition, a tuition surcharge designed to partially offset a \$4.9 million state appropriation rescission was instituted in FY 2003. The tuition increase and surcharge coupled with a modest increase in the number of students generated approximately \$8.9 million in increased tuition revenue (net of scholarship allowances) over fiscal year 2002.
- The University issued \$18,900,000 of Series "G" Revenue Bonds on October 18, 2002. The proceeds of the issuance will be used primarily to construct a 198-unit housing complex in Missoula just south of Dornblaser Field. In addition, a small portion of the proceeds provided funding to enhance the campus information technology infrastructure. The complex is currently under construction and is expected to be ready for occupancy in August of 2004.
- Because of the unusually large spread between long term and short-term interest rates, the University invested approximately \$10,000,000 in the State of Montana Trust Fund Bond Pool (TFBP) on August 1 of 2002. Previously, those funds were invested exclusively in the State of Montana Short-Term Investment Pool (STIP), which is a money market fund. The TFBP investment generated approximately \$496,000 of interest income in excess of what would have been earned in STIP during the period from August 1, 2002 through June 30, 2003. During that period of time, the average yield spread between the TFBP and STIP exceeded 5%.



- Federal contract and grant revenue increased by approximately \$9.0 million (from \$47.6 million to \$56.6 million) in fiscal year 2003 compared to fiscal year 2002. The Pharmacy School on the Missoula campus was the single largest source of that increased revenue.
- Unrestricted Net Assets increased substantially during the year, increasing from about \$14.0 million to more than \$18.4 million. Most of that increase is attributed to a number of the University's Designated Fund self-supporting activities.

## Using the Financial Statements

The University's financial statements consist of the following three statements:

- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- 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 statements representing the University's four campuses.
- They are prepared using the accrual basis of accounting, which means revenues are reported when earned, and expenses are reported when incurred, regardless of when the cash was actually received or paid.
- Assets and liabilities presented in the statements are generally measured at current value, although capital assets are stated at historical cost less an allowance for accumulated depreciation.
- Capital assets are classified as depreciable and non-depreciable (see Notes 2 and 7). Depreciation is treated as an operating expense, and capital assets are reported in the statements at cost less accumulated depreciation.
- Assets and Liabilities are treated as current (Due within one year) or as noncurrent (Due in more than one year), and in the Statement of Net Assets are presented in order of their relative liquidity.
- Revenues and Expenses are classified as operating or non-operating. "Operating" is defined by the Governmental Accounting Standards Board (GASB) as resulting from transactions involving exchanges of goods or services for payment, while "non-operating" is defined by GASB as resulting from transactions not involving the exchange of goods or services for payment. We show a substantial "operating loss" in the Statement of Revenues, Expenses, and Changes in Net Assets primarily because GASB requires that General Operating Fund expenses be reported as "operating," while the State Appropriation revenues must be reported as "non-operating."
- Tuition and Fees are reported net of any Scholarships or Fellowships that were applied directly to a student's account. The reason for this "netting" is to keep the University financial statements from "double counting" this revenue.

## Statement of Net Assets

The Statement of Net Assets reflects the financial position of the University at the end of the fiscal year. The changes in net assets that occur over time indicate improvements or deterioration in the University's financial position.

A summary of the Statements of Net Assets follows:

<u>DESCRIPTION OF ITEM</u>	<u>For Fiscal Year Ended 6/30/03</u>	<u>For Fiscal Year Ended 6/30/02</u>
Total Current Assets	\$68,667,583	\$61,895,306
Total Noncurrent Assets	259,022,930	246,002,863
<b>TOTAL ASSETS</b>	<u>\$327,690,513</u>	<u>\$307,898,169</u>
Total Current Liabilities	\$39,821,974	\$37,255,424
Total Noncurrent Liabilities	150,646,734	133,447,863
<b>TOTAL LIABILITIES</b>	<u>\$190,468,708</u>	<u>\$170,703,287</u>
Invested in Capital Assets, Net of Related Debt	\$107,983,903	\$112,517,856
Restricted		
Nonexpendable	4,906,955	4,670,083
Expendable	4,475,344	4,585,109
Unrestricted	19,855,603	15,421,834
<b>TOTAL NET ASSETS</b>	<u>\$137,221,805</u>	<u>\$137,194,882</u>

Events or developments that occurred during fiscal year 2003 which had a significant impact on the Statement of Net Assets include:

- **Investment of approximately \$10,000,000 in August of 2002 in the Montana Board of Investments Trust Fund Bond Pool.** At the end of fiscal year 2003, this had the effect of decreasing Current Assets-Cash and Cash Equivalents while increasing Current Assets-Investments.
- **Issuance of \$18,900,000 of Series G Facilities Improvement (Student Housing Project) Revenue Bonds in October of 2002.** Since construction of this project was still in the early stages at the end of fiscal year 2003, this had the effect of increasing Liabilities-Long-Term Debt, while also increasing Noncurrent Assets-Restricted Investments.
- **Depreciation of Capital Assets exceeded our Capital Asset acquisitions.** In comparing the end of fiscal year 2003 to the end of fiscal year 2002, this had the effect of decreasing Noncurrent Assets-Capital Assets (net) by about \$4.8 million, while also decreasing Net Assets- Invested in Capital Assets, net of related debt by a roughly similar amount, or about \$4.5 million.
- **Increase in the Net Assets of our Designated Fund Accounts.** In comparing the end of fiscal year 2003 to the end of fiscal year 2002, this had the effect of increasing Net Assets-Unrestricted by approximately \$4.4 million, while also increasing Current Assets-Cash and Cash Equivalents by approximately \$4.4 million.
- **Decrease in Accounts Receivable (Net).** Accounts Receivable (Net) decreased by slightly over 10%, from about \$12.8 million to \$11.4 million. This occurred despite the approximate 10% increase in revenue from fiscal year 2002 to 2003, and is attributable to increased emphasis on collection efforts on all campuses.

## Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Nets Assets (the SRECNA) presents the results of the University's operational activities for the fiscal year, categorizing them as either operating or non-operating (see Note 2 for further explanation). Consistent with the accrual method of accounting, current years revenues and expenses are recognized when they were earned or incurred, regardless of when cash was received or paid.

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

<u>DESCRIPTION OF ITEM</u>	<u>For Fiscal Year Ended 6/30/03</u>	<u>For Fiscal Year Ended 6/30/02</u>
Operating Revenue	\$193,494,096	\$169,520,784
Operating Expenses	254,471,951	233,663,305
Operating (Loss)	-60,977,855	-64,142,521
Non-operating Revenues (Expenses)	60,164,887	60,253,308
Loss before Other Revenues	-812,968	-3,889,213
Other Revenues	1,657,807	1,578,587
Net Increase (Decrease) in Net Assets	844,839	-2,310,626
Net Assets- beginning of year, as adjusted	136,376,966	139,505,508
Net Assets- end of year	<u>\$137,221,805</u>	<u>\$137,194,882</u>

The following provides a comparative analysis of revenues and expenses for the two fiscal years:

### ANALYSIS OF ALL SOURCES OF REVENUE

(dollar amounts stated in millions)

<u>SOURCE OF REVENUE</u>	<u>FISCAL YEAR 2003</u>		<u>FISCAL YEAR 2002</u>		<u>INCREASE (DECREASE) FY '03 VS '02</u>
	<u>AMOUNT</u>	<u>PERCENT</u>	<u>AMOUNT</u>	<u>PERCENT</u>	
Tuition and fees (net)	\$73.486	28.2%	\$64.577	27.3%	\$8.909
Federal grants and contracts	56.634	21.7%	47.603	20.1%	9.031
State & local grants/contracts	6.635	2.6%	5.593	2.4%	1.042
Nongovernmental grants/contracts	5.319	2.0%	5.742	2.4%	-0.423
Indirect cost recoveries	8.575	3.3%	8.370	3.5%	0.205
Sales/services of educational departments	10.216	3.9%	7.996	3.4%	2.220
Auxiliary enterprise charges	28.365	10.9%	25.941	11.0%	2.424
State appropriations	55.277	21.2%	56.824	24.1%	-1.547
Private gifts	7.943	3.1%	7.731	3.3%	0.212
All other sources combined	7.953	3.1%	5.849	2.5%	2.104
<b>**TOTALS FOR FISCAL YEAR**</b>	<u>\$260.403</u>	<u>100.0%</u>	<u>\$236.226</u>	<u>100.0%</u>	<u>\$24.177</u>



## ANALYSIS OF CATEGORY OF EXPENSE

(dollar amounts stated in millions)

<u>CATEGORY OF EXPENSE</u>	<u>FISCAL YEAR 2003</u>		<u>FISCAL YEAR 2002</u>		<u>INCREASE</u>
	<u>AMOUNT</u>	<u>PERCENT</u>	<u>AMOUNT</u>	<u>PERCENT</u>	<u>(DECREASE)</u>
					<u>FY '03 VS '02</u>
Compensation and benefits	\$160.412	61.4%	\$147.215	61.3%	\$13.197
Other operating expenses	63.725	24.4%	58.719	24.5%	5.006
Scholarships and fellowships	14.728	5.6%	12.780	5.3%	1.948
Depreciation and amortization	15.606	6.0%	14.949	6.2%	0.657
Interest expense	6.746	2.6%	6.451	2.7%	0.295
<b>**TOTALS FOR FISCAL YEAR**</b>	<b>\$261.217</b>	<b>100.0%</b>	<b>\$240.114</b>	<b>100.0%</b>	<b>\$21.103</b>

Comments about specific revenue and expense items are:

- **Tuition and fees (net):** Increases in tuition rates, a tuition surcharge during fiscal year 2003, and a nearly 2 per cent increase in the number of students all contributed to the 13.8 percent increase in tuition and fees (net).
- **Federal contracts and grants.** The nearly 19% increase in revenue from fiscal year 2002 to 2003 is attributable to a system-wide focus on increasing our research dollars, with the Pharmacy School on the Missoula campus the single largest source of this revenue.
- **Auxiliary enterprise charges.** Increased by over 9% year to year. A substantial portion of that came from increases in Dining Services and Residence Life charges, with concession sales and fees charged for ancillary items such as cable television also contributing to the increase.
- **State appropriations.** State appropriations to the four campuses increased in the fiscal year 2003 budget, but when actual state revenues fell short of budgetary projections, a rescission of \$4.9 million was necessary. The net of these two events was a \$1.7 million decrease of state appropriations in fiscal year 2003.
- **Expenses (general comment):** Overall expenses did increase by about \$21 million from fiscal year 2002 to 2003. This was consistent with the \$24 million increase in revenue, and the percent portions expended in various natural categories of expense (for example, salaries, operating expenses, etc.) was very consistent from 2002 to 2003.

## 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, their ability to generate future cash flows, and their needs for external financing. As required by GASB, the statement is presented using the "Direct Method," which focuses on those transactions that either provided or used cash during the fiscal year.

A summary of the Statements of Cash Flows follows:

<u>CASH FLOW CATEGORY</u>	<u>For Fiscal Year Ended 6/30/03</u>	<u>For Fiscal Year Ended 6/30/02</u>
Cash Provided (Used) by:		
Operating Activities	-\$42,819,671	-\$44,407,202
Noncapital Financial Activities	64,427,881	65,640,018
Capital and Related Financial Activities	-946,497	-19,981,159
Investing Activities	-9,526,422	1,822,368
Net Increase (Decrease) in Cash	11,135,291	3,074,025
Cash and Cash Equivalents, beginning of year	44,258,748	41,184,723
Cash and Cash Equivalents, end of year	<u>\$55,394,039</u>	<u>\$44,258,748</u>

Specific events or cash transactions outside the “everyday realm” of collecting revenues and paying obligations that had significant influence on the approximately \$11 million increase in cash (a net cash inflow) during fiscal year 2003 were:

- The net proceeds from the Series G Revenue Bonds of approximately \$16 million were invested in cash or cash equivalents at the end of fiscal year 2003. This had the effect on cash flows of providing \$16 million in cash in the category captioned “Capital and Related Financial Activities.”
- The investment of approximately \$10,000,000 in the Montana Board of Investments Trust Fund Bond Pool in August of 2002 had the effect of being a use of cash in the “Investing Activities” category.

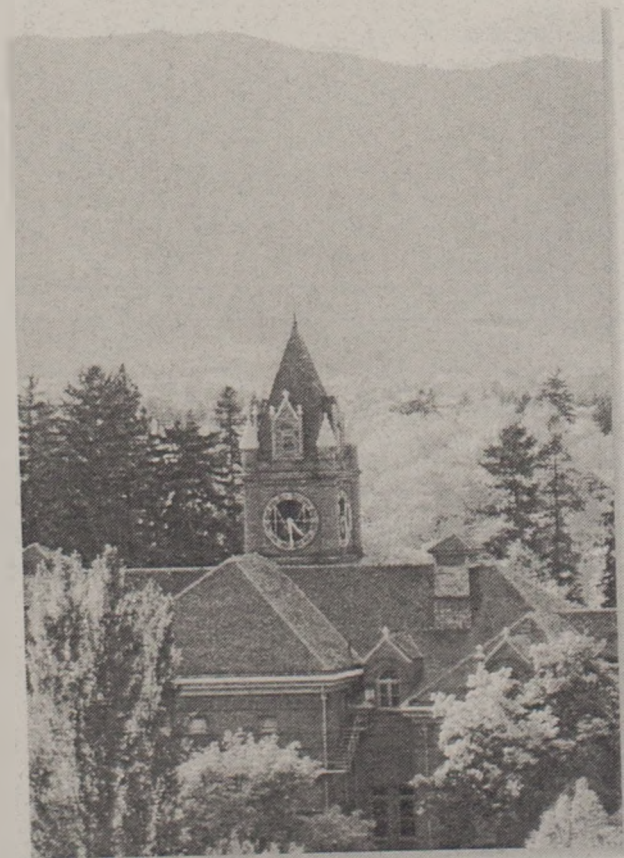
## Discussion of Significant Pending Economic and Financial Issues

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

- The combination of a continuation of a five year trend of decreases in non-resident student enrollment plus a shrinking pool in Montana of graduating high school seniors will challenge our ability to grow, or perhaps even to maintain, our current enrollment levels.
- The current plan of zero percent pay increases for all of our employees for both fiscal years 2004 and 2005 give us concern about our ability to attract and retain high- quality faculty and staff.

The University of  
**Montana**

Audited Consolidated  
Financial Statements





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

**Consolidated Statements of Net Assets**

At June 30

	2003	2002
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 38,465,966	\$ 43,677,784
Investments	10,737,714	-
Accounts and grants receivable, net	5,474,963	4,942,445
Due from Federal government	5,966,958	7,877,441
Due from primary government	1,656,537	769,875
Due from other State of Montana component units	338,382	53,310
Loans to students, net	2,704,886	1,496,123
Inventories	1,678,645	1,601,064
Prepaid expenses and deferred charges	1,643,532	1,477,264
<b>Total Current Assets</b>	<b>\$ 68,667,583</b>	<b>\$ 61,895,306</b>
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	\$ 16,928,073	\$ 580,964
Endowment investments	5,036,021	4,588,176
Other long term investments	823,502	-
Loans to students, net	7,758,788	8,423,844
Bond issuance costs	2,181,970	1,926,567
Capital assets, net	225,520,109	230,311,648
Securities lending collateral	774,467	171,664
<b>Total Noncurrent Assets</b>	<b>\$259,022,930</b>	<b>\$246,002,863</b>
<b>Total Assets</b>	<b>\$327,690,513</b>	<b>\$307,898,169</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 12,168,188	\$ 11,636,325
Due to Federal government	6,598,518	6,003,514
Due to primary government	181,127	116,331
Due to other State of Montana component units	18,677	-
Student and other deposits	1,492,811	1,501,813
Deferred revenue	8,227,493	7,838,136
Accrued compensated absences	6,453,021	5,987,602
Current portion of long-term obligations	4,682,139	4,171,703
<b>Total Current Liabilities</b>	<b>\$ 39,821,974</b>	<b>\$ 37,255,424</b>
<b>Noncurrent Liabilities</b>		
Accrued compensated absences	\$ 10,921,913	\$ 10,244,174
Long term obligations	130,045,612	114,158,531
Due to Federal Government	8,904,742	8,873,494
Securities lending liability	774,467	171,664
<b>Total Noncurrent Liabilities</b>	<b>\$150,646,734</b>	<b>\$133,447,863</b>
<b>Total Liabilities</b>	<b>\$190,468,708</b>	<b>\$170,703,287</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$107,983,903	\$112,517,856
Restricted for:		
Nonexpendable		
Endowments	3,265,229	3,179,154
Loans	1,641,726	1,490,929
Expendable		
Loans	1,416,424	1,388,918
Scholarships, research, instruction, and other	3,058,920	3,196,191
Unrestricted	19,855,603	15,421,834
<b>Total Net Assets</b>	<b>\$137,221,805</b>	<b>\$137,194,882</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$327,690,513</b>	<b>\$307,898,169</b>

Accompanying notes are an integral part of these financial statements

# The University of Montana

## A Component Unit of the State of Montana

### Consolidated Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30

	2003	2002
<b>Operating revenues:</b>		
Tuition and fees (net of scholarship allowances in 2003 and 2002 of \$16,729,969 and \$14,350,802, respectively; 2003 and 2002 revenues of \$7,603,727 and \$7,408,410, respectively, are pledged)	\$ 73,485,612	\$ 64,577,349
Federal grants and contracts	56,633,643	47,602,725
State and local grants and contracts	6,635,483	5,592,611
Nongovernmental grants and contracts	5,319,300	5,741,547
Indirect cost recoveries	8,575,287	8,370,440
Sales and services of educational departments (2003 and 2002 revenues of \$3,018,136 and \$3,634,667 respectively, are pledged)	10,216,233	7,995,668
Auxiliary enterprises charges:		
Residential life (net of scholarship allowances in 2003 and 2002 of \$593,115 and \$646,796, respectively; 2003 and 2002 revenues of \$9,820,916 and \$9,143,289, respectively, are pledged)	9,845,714	9,807,412
Food services (net of scholarship allowances in 2003 and 2002 of \$593,115 and \$646,795, respectively; 2003 and 2002 revenues of \$8,502,712 and \$7,480,931, respectively, are pledged)	8,643,475	7,753,368
Other auxiliary revenues (2003 and 2002 revenues of \$9,298,215 and \$8,260,629 respectively, are pledged)	9,876,116	8,380,427
Interest earned on loans to students	38,329	120,525
Other operating revenues	4,224,904	3,578,712
<b>Total operating revenues</b>	<b>\$193,494,096</b>	<b>\$169,520,784</b>
<b>Operating expenses:</b>		
Compensation and employee benefits	\$160,412,153	\$147,214,998
Other (note 13)	63,724,669	58,719,032
Scholarships and fellowships	14,728,724	12,780,514
Depreciation and amortization	15,606,405	14,948,961
<b>Total operating expenses</b>	<b>\$254,471,951</b>	<b>\$233,663,305</b>
<b>Operating loss</b>	<b>\$(60,977,855)</b>	<b>\$(64,142,521)</b>
<b>Non-operating revenues (expenses):</b>		
State appropriations	\$ 55,277,445	\$ 56,823,766
Land grant revenues (revenues are pledged)	1,207,229	1,085,367
Private gifts	7,943,207	7,730,885
Investment income (2003 and 2002 revenues of \$534,366 and \$566,619, respectively, are pledged)	2,482,638	1,064,531
Interest expense	(6,745,632)	(6,451,241)
<b>Net non-operating revenues</b>	<b>\$ 60,164,887</b>	<b>\$ 60,253,308</b>
<b>Loss before other revenues</b>	<b>\$(812,968)</b>	<b>\$(3,889,213)</b>
<b>Other revenues:</b>		
Capital grants and gifts	1,657,807	1,578,587
<b>Net increase (decrease) in net assets</b>	<b>\$ 844,839</b>	<b>\$(2,310,626)</b>
<b>Net assets:</b>		
Net assets - beginning of year	\$137,194,882	\$331,068,239
Recognition of cumulative effects of changes in accounting principle:		
Change in accounting for summer session operations	-	1,600,428
Adoption of depreciation for capital assets	-	(177,021,994)
Change in classification of federal loan programs	-	(8,482,634)
Deferred revenue recognition	-	(5,210,516)
Adjustment to capital assets	(889,995)	(2,485,787)
Other adjustments	72,079	37,772
<b>Net assets - beginning of year, as adjusted</b>	<b>\$136,376,966</b>	<b>\$139,505,508</b>
<b>Net assets - end of year</b>	<b>\$137,221,805</b>	<b>\$137,194,882</b>

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**

Years Ended June 30

	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 73,536,408	\$ 65,972,930
Federal grants and contracts	56,704,012	47,743,962
State grants and contracts	6,613,277	5,572,648
Nongovernmental grants and contracts	5,301,569	4,721,487
Indirect cost recoveries	8,575,287	8,370,440
Sales and services of educational activities	10,272,061	8,076,300
Auxiliary enterprise charges	28,540,587	26,658,022
Interest earned on loans to students	143,015	255,554
Other operating receipts	4,830,197	3,842,852
Payments to employees for salaries and benefits	(159,120,508)	(144,239,825)
Operating expenses	(62,925,389)	(58,377,207)
Payments for scholarships and fellowships	(14,447,440)	(12,780,314)
Loans made to students	(3,550,226)	(2,241,206)
Loan payments received	2,707,479	2,017,155
<b>Net Cash Used by Operating Activities</b>	<b>\$ (42,819,671)</b>	<b>\$ (44,407,202)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$ 55,277,445	\$ 56,823,766
Land Grants	1,207,229	1,085,367
Private Gifts	7,943,207	7,730,885
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>\$ 64,427,881</b>	<b>\$ 65,640,018</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	\$ (12,040,095)	\$ (142,491)
Proceeds from sales of investments	746,218	475,850
Earnings received on investments	1,767,455	1,489,009
<b>Net Cash (Used) Provided by Investing Activities</b>	<b>\$ (9,526,422)</b>	<b>\$ 1,822,368</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Cash paid for capital assets	\$ (9,460,321)	\$ (10,391,558)
Proceeds from the sale of capital assets	8,024	-
Proceeds from notes payable	88,223	647,647
Principal paid on notes payable and capital leases	(1,325,242)	(917,464)
Proceeds from issuance of revenue bonds	19,864,960	-
Principal paid on bonds payable	(3,010,000)	(2,895,000)
Bond issuance costs paid on new issue	(382,945)	-
Interest paid on capital debt and leases	(6,729,196)	(6,424,784)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>\$ (946,497)</b>	<b>\$ (19,981,159)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>\$ 11,135,291</b>	<b>\$ 3,074,025</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>\$ 44,258,748</b>	<b>\$ 41,184,723</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 55,394,039</b>	<b>\$ 44,258,748</b>



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

**Consolidated Statements of Cash Flows**

Years Ended June 30  
 (Continued)

	2003	2002
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used By) Operating Activities:</b>		
Operating income (loss):	\$ (60,977.855)	\$ (64,142.521)
Adjustments to reconcile operating income (loss) to net cash used by operating activities		
Depreciation expense	15,606.405	14,948.961
Other amortization expense	241,102	229,669
Net loss on disposal of fixed assets	71,259	3,871
Changes in assets and liabilities		
Accounts receivable	206,231	489.196
Loans to students	(543,707)	(224.053)
Inventories	(77,581)	236,018
Prepaid expenses and deferred charges	(166,268)	343,554
Accounts payable and accrued expenses	1,265,983	1,617,306
Deferred revenue	389,357	115,112
Student and other deposits	(9,002)	187,369
Due to federal government	31,247	390,860
Compensated absences	1,143,158	1,397,456
<b>Net Cash Used by Operating Activities</b>	<b>\$ (42,819,671)</b>	<b>\$ (44,407,202)</b>
<b>Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions</b>		
Fixed assets acquired by incurring capital lease obligations	\$ (666,017)	\$ (843,143)
Change in fair value of investments recognized as a component of interest income	715,183	(424,478)
Fixed assets acquired from Capital grants and donations	1,657,807	1,578,587
<b>Reconciliation of Cash and Cash Equivalent to the Statement of Net Asset:</b>		
Cash and cash equivalents classified as current assets	\$ 38,465,966	\$ 43,677,784
Cash and cash equivalents classified as noncurrent assets	16,928,073	580,964
	<b>\$ 55,394,039</b>	<b>\$ 44,258,748</b>

Accompanying notes are an integral part of these financial statements

### The University of Montana A Component Unit of the State of Montana For the Years Ended June 30, 2003 and 2002

#### NOTE 1 – ORGANIZATION, REPORTING ENTITY AND BASIS OF PRESENTATION

**Organization:** The University of Montana (hereafter the “University”) is a component unit of the State of Montana with an enrollment of more than 16,000 students on its four campuses. The State of Montana Board of Regents is appointed by the Governor of the State and has oversight responsibility with respect to the University. The State of Montana allocates and allots funds to each campus separately and requires that the funds be maintained accordingly.

**Reporting Entity:** The accompanying financial statements include all activities 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 (located in Butte), The University of Montana – Western (located in Dillon) and The University of Montana - Helena College of Technology.

The financial reporting entity, as defined by Governmental Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, 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.

Accounts of The University of Montana Foundation and other affiliated organizations, such as booster and alumni organizations, are not controlled by the University and are not included in the accompanying financial statements. (See Note 12 regarding related party transactions.)

**Basis of Presentation:** The financial statements have been prepared in accordance with generally accepted accounting principles, as prescribed by the GASB. Under GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*, the University is required to present a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. All significant intra-entity transactions have been eliminated upon consolidation.

GASB Statements No. 34 and 35 were adopted as of and for the year ended June 30, 2002. The latter statement was adopted as amended by GASB Statements No. 37 and 38. Significant accounting changes made in order to comply with the new requirements include: (1) adoption of depreciation on capital assets; and (2) allocating summer school revenues and expenses between fiscal years rather than in one fiscal year, and (3) reporting of tuition and fees net of scholarship discounts and allowances.

#### 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

**The University of Montana**  
*A Component Unit of the State of Montana*  
For the Years Ended June 30, 2003 and 2002

whole or in part by fees charged to external parties for goods or services. Accordingly, the University's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

**Reclassifications** – Certain reclassifications have been made to amounts in the June 30, 2002, consolidated financial statements to conform to the current year presentation.

**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 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 the Short-Term Investment Pool 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 include 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 are 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.

**Non-current Cash and Investments** - Cash and investments that are externally restricted to make debt service payments, or to purchase or construct capital or other non-current assets, or by a donor or outside agency prohibiting the expenditure of principal and possibly earnings, are classified as non-current assets in the statement of net assets.

**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.

Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets: building 40 years; land improvements and infrastructure 20 and 40 years, respectively; library books 8



**The University of Montana**  
**A Component Unit of the State of Montana**  
**For the Years Ended June 30, 2003 and 2002**

years; equipment 3 to 10 years. Historically, the University has capitalized all artwork subject to applicable capitalization policies at the time of donation or purchase. The University has elected to continue to capitalize artwork subject to the current threshold but without recording depreciation on those items.

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

**Compensated Leave** - Eligible University employees earn 8 hours sick and 10 hours annual leave for each month worked. The accrual rate for annual leave increases with longevity. Eligible employees may accumulate annual leave up to twice their annual accrual. Sick leave may accumulate without limitation. Twenty-five percent of accumulated sick leave earned after July 1, 1971 and 100 percent of accumulated annual leave, if not used during employment, is paid upon termination.

**Net Assets** – The University’s net assets are categorized as follows:

**Invested in capital assets, net of related debt** - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

**Restricted, nonexpendable** - Net assets subject to externally imposed stipulations that the University maintains those assets permanently. Such assets include the University's permanent endowment funds.

**Restricted, expendable** - Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

**Unrestricted** - Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs.

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

**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** - 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, such as state appropriations and investment income.

**Scholarship Discounts and Allowances** - Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge

**The University of Montana**  
**A Component Unit of the State of Montana**  
**For the Years Ended June 30, 2003 and 2002**

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 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.

**New Accounting Pronouncements** – In May of 2002 the GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which is effective for fiscal years beginning after June 15, 2003 and amends GASB Statement No. 14, *The Financial Reporting Entity*. The University has not yet determined which of its support organizations qualify for inclusion as a component unit subject to the provisions of Statement No. 39.

**NOTE 3 – CASH EQUIVALENTS AND INVESTMENTS**

**Cash equivalents** – These amounts consist of cash invested in Guaranteed Investment Contracts with AIG Funding Corporation and AMBAC Capital Funding and in the Short-Term Investment Pool (STIP) with the Montana Board of Investments. 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 (floating rate) instruments to provide diversification and a competitive rate of return. Cash equivalents are classified as Risk Category I.

**Investments** - The University's investments are categorized as to credit risk as either Category I insured or registered, or securities held by the University or its agent in the University's name or other investments not categorized.

<b>Investments at fair value were as follows at June 30:</b>		
	<b>2003</b>	<b>2002</b>
<b>Category I:</b>		
U.S. Government securities	\$ 823,502	\$ 150,997
Stocks and bonds	13,611,244	3,014,152
Certificates of deposit	257,640	254,155
<b>Total Category I</b>	<b>14,692,386</b>	<b>3,419,304</b>
<b>Not Categorized:</b>		
UM Foundation Pool	1,898,973	1,162,554
Tech Foundation Pool	5,878	6,318
<b>Total Not Categorized</b>	<b>1,904,851</b>	<b>1,168,872</b>
<b>Total Investments</b>	<b>\$ 16,597,237</b>	<b>\$ 4,588,176</b>

The cost basis of investments held at June 30 were as follows:

	<b>2003</b>	<b>2002</b>
State of Montana Board of Investments	\$ 12,576,396	\$ 2,655,654
Trustees	\$ 3,086,540	\$ 1,713,525

Asset-backed securities are collateralized by a pool of mortgage and non-mortgage assets, pledged by the issuer and have one or more forms of credit enhancement to raise the quality of the security. Stocks and bonds consist of assets held in the Trust Funds Bond Pool (TFBP) and the Montana Domestic Equity Pool



**The University of Montana**  
**A Component Unit of the State of Montana**  
**For the Years Ended June 30, 2003 and 2002**

(MDEP) administered by the Montana Board of Investments. MDEP and TFBP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle."

**The MDEP portfolio** – may include common stock, equity index, preferred stock, convertible equity securities and equity derivatives. Common stock represents ownership units (shares) of a public corporation. Common stock owners are entitled to vote on director selection and other important matters as well as receive dividends on their holdings. Equity index investments are investments in selected mutual funds whose equity portfolios match a broad based index or composite. Preferred stock, as a class of stock, pays dividends at a specified rate and has preference in the payment of dividends and liquidation of assets. Preferred stock holders, ordinarily, do not have voting rights. Convertible securities are securities carrying the right to exchange, or "convert" the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer's common stock. Equity derivatives "derive" their value from other equity instruments such as futures and options.

**The TFBP portfolio** - includes corporate asset-backed, other corporate, U.S. government mortgage-backed, and Yankee securities. Corporate asset-backed securities represent debt securities collateralized by a pool of assets. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages. Government securities include direct and indirect obligations of the U.S. Treasury and state and local government bonds. Yankee bonds are U.S. dollar denominated securities issued by foreign corporations and governments and U.S. companies issuing debt in foreign markets.

**The University Foundation Pool** - consists of endowment funds held in a common investment pool administered by the UM and Montana Tech Foundations.

**The certificates of deposit** - serves as collateral for loans made to students with disabilities for the purchase of specialized equipment necessary to complete their education. The six-month certificate of deposit, including interest earned, is reinvested upon maturity.

**Securities lending transactions** - Under the provisions of state statutes, the Board of Investments has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the market value of the loaned securities and maintain collateral equal to not less than 100 percent of the market value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2003 and 2002, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. On June 30, 2003 and 2002, the board had no credit risk exposure to borrowers.

Security lending cash collateral for the University at June 30, 2003 and 2002, was \$774,467 and \$171,664, 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



**The University of Montana**  
**A Component Unit of the State of Montana**  
**For the Years Ended June 30, 2003 and 2002**

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 \$1,207,229 and \$1,085,367 for the fiscal years ended June 30, 2003 and 2002, respectively. These monies are currently pledged to the Series A 1993, Series C 1995, Series E 1998, Series F 1999, Series G 2002 and Series H 2003 revenue bonds.

The University's land grant assets are not reflected in these 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).

**Off-Balance Sheet risk** - The University's investment strategy (like that of most other institutions) incorporates certain financial instruments, which involve, to varying degrees, elements of market risk and credit risk in excess of amounts recorded in the financial statements. Market risk is the potential for changes in the value of financial instruments due to market changes, including interest and foreign exchange rate movements and fluctuations embodied in forward, futures, commodity or security prices. Market risk is directly impacted by the volatility and liquidity of the markets in which the related underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of counterparty to perform according to the terms of the contract. The University's risk of loss in the event of counterparty default is typically limited to the amounts recognized in the statement of net assets and is not represented by the contract or notional amounts of the instruments.

**NOTE 4 – INVENTORIES**

<b>Inventories consisted of the following at June 30:</b>				
	<b>2003</b>		<b>2002</b>	
Bookstore	\$	576,666	\$	482,552
Food Services		57,696		96,520
Facilities Services		443,032		469,763
Other		601,251		552,229
<b>Total Inventories</b>	<b>\$</b>	<b>1,678,645</b>	<b>\$</b>	<b>1,601,064</b>

**NOTE 5 – ACCOUNTS AND GRANTS RECEIVABLE**

<b>Accounts Receivable consisted of the following at June 30:</b>				
	<b>2003</b>		<b>2002</b>	
Student tuition and fees	\$	1,327,734	\$	1,588,871
Auxiliary enterprises and other operating activities		1,196,857		1,405,787
Federal and private grants and contracts		3,006,541		1,688,849
Other		213,299		513,654
<b>Total accounts receivable</b>		<b>5,744,431</b>		<b>5,197,161</b>
Less allowance for doubtful accounts		269,468		254,716
<b>Net accounts receivable</b>	<b>\$</b>	<b>5,474,963</b>	<b>\$</b>	<b>4,942,445</b>

## Notes to the Consolidated Financial Statements (continued)

The University of Montana  
 A Component Unit of the State of Montana  
 For the Years Ended June 30, 2003 and 2002

### NOTE 6 – 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, 2003 and 2002, is \$8,904,742 and \$8,873,494, 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 are shown as additions to and deductions from the amount due to the Federal government, and not as operating transactions, in the accompanying financial statements.

### NOTE 7 – CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2003:

	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
Land	\$ 6,935,781	\$ -	\$ -	\$ -	\$ 6,935,781
Capitalized Collections	14,394,964	324,520	-	-	14,719,484
Construction in progress	7,401,664	6,048,795		(6,131,766)	7,318,693
<b>Total capital assets not being depreciated</b>	<b>28,732,409</b>	<b>6,373,315</b>	<b>-</b>	<b>(6,131,766)</b>	<b>28,973,958</b>
Other capital assets:					
Buildings	184,375,561	-	-	2,707,648	187,083,209
Building improvements	114,336,461	-	-	3,081,419	117,417,880
Furniture and equipment	40,715,105	3,835,790	668,707	(105,341)	43,776,847
Land improvements	8,971,404	-	-	274,924	9,246,328
Livestock	166,619	39,801	-	-	206,420
Library materials	43,916,775	1,067,669	10,439	7,730	44,981,735
<b>Total other capital assets</b>	<b>392,481,925</b>	<b>4,943,260</b>	<b>679,146</b>	<b>5,966,380</b>	<b>402,712,419</b>
<b>Less accumulated depreciation for:</b>					
Buildings	74,837,370	4,197,511	7,388	-	79,027,493
Building improvements	45,583,692	6,067,197	-	490,576	52,141,465
Furniture and equipment	28,690,892	2,757,920	626,233	-	30,822,579
Land improvements	6,863,215	395,138	-	(2,144)	7,256,209
Library materials	35,978,662	2,703,062	-	-	37,761,135
<b>Total accumulated Depreciation</b>	<b>191,953,831</b>	<b>15,200,239</b>	<b>633,621</b>	<b>488,432</b>	<b>207,008,881</b>
<b>Other capital assets, net</b>	<b>200,528,094</b>	<b>(10,256,980)</b>	<b>45,525</b>	<b>5,477,948</b>	<b>195,703,538</b>
Intangible assets	1,051,145	1,612,295	1,414,660	(406,166)	842,613
<b>Capital assets, net</b>	<b>\$230,311,648</b>	<b>\$ (2,271,370)</b>	<b>\$ 1,460,185</b>	<b>\$ (1,059,984)</b>	<b>\$ 225,520,109</b>
<b>Capital Asset Summary</b>					
Capital assets not being depreciated	\$ 28,732,409	\$ 6,373,315	\$ -	\$ (6,131,766)	\$ 28,973,958
Other capital and intangible assets	393,533,070	6,555,554	2,093,806	5,560,214	403,555,032

**Notes to the Consolidated Financial Statements (continued)**

The University of Montana  
 A Component Unit of the State of Montana  
 For the Years Ended June 30, 2003 and 2002

<b>Total cost of capital assets</b>	422,265,479	12,928,869	2,093,806	(571,552)	432,528,990
Less accumulated Depreciation	191,953,831	15,200,239	633,621	488,432	207,008,881
<b>Capital assets, net</b>	<b>\$230,311,648</b>	<b>\$(2,271,370)</b>	<b>\$ 1,460,185</b>	<b>\$ (1,059,984)</b>	<b>\$ 225,520,109</b>

Following are the changes in capital assets for the year ended June 30, 2002:

	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
Land	\$ 6,813,398	\$ 70,000	\$ -	\$ 52,383	\$ 6,935,781
Capitalized Collections	5,080,632	-	-	9,314,332	14,394,964
Construction in progress	12,715,787	7,593,289	-	(12,907,412)	7,401,664
<b>Total capital assets not being depreciated</b>	<b>24,609,817</b>	<b>7,663,289</b>	<b>-</b>	<b>(3,540,697)</b>	<b>28,732,409</b>
Other capital assets:					
Buildings	291,214,325	168,831	-	(107,007,595)	184,375,561
Building Improvements	13,533,309	1,452,292	-	99,350,860	114,336,461
Furniture and equipment	38,749,933	3,654,295	20,995	(1,668,128)	40,715,105
Land improvements	-	167,637	-	8,803,767	8,971,404
Livestock	209,662	-	-	(43,043)	166,619
Library materials	41,037,666	1,350,046	-	1,529,063	43,916,775
<b>Total other capital assets</b>	<b>384,744,895</b>	<b>6,793,101</b>	<b>20,995</b>	<b>964,924</b>	<b>392,481,925</b>
<b>Less accumulated depreciation for:</b>					
Buildings	-	4,032,129	-	70,805,241	74,837,370
Building Improvements	-	6,020,466	-	39,563,226	45,583,692
Furniture and equipment	-	2,713,980	17,124	25,994,036	28,690,892
Land improvements	-	403,275	-	6,459,940	6,863,215
Library materials	-	1,779,111	-	34,199,551	35,978,662
<b>Total accumulated depreciation</b>	<b>-</b>	<b>14,948,961</b>	<b>17,124</b>	<b>177,021,994</b>	<b>191,953,831</b>
<b>Other capital assets, net</b>	<b>384,744,895</b>	<b>(8,155,860)</b>	<b>3,871</b>	<b>(176,057,070)</b>	<b>200,528,094</b>
Intangible assets	2,586,581	608,519	-	(2,143,955)	1,051,145
<b>Capital assets, net</b>	<b>\$ 411,941,293</b>	<b>\$ 115,948</b>	<b>\$ 3,871</b>	<b>\$(181,741,722)</b>	<b>\$ 230,311,648</b>

**Capital Asset Summary**

Capital assets not being depreciated	\$ 24,609,817	\$ 7,663,289	\$ -	\$ (3,540,697)	\$ 28,732,409
Other capital and intangible assets	387,331,476	7,401,620	20,995	(1,179,031)	393,533,070
<b>Total cost of capital assets</b>	<b>411,941,293</b>	<b>15,064,909</b>	<b>20,995</b>	<b>(4,719,728)</b>	<b>422,265,479</b>
Less accumulated depreciation	-	14,948,961	17,124	177,021,994	191,953,831
<b>Capital assets, net</b>	<b>\$ 411,941,293</b>	<b>\$ 115,948</b>	<b>\$ 3,871</b>	<b>\$(181,741,722)</b>	<b>\$ 230,311,648</b>



The University of Montana  
 A Component Unit of the State of Montana  
 For the Years Ended June 30, 2003 and 2002

**NOTE 8 – LONG – TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
<b>Bonds, notes and capital leases</b>					
Revenue bonds payable, net	\$114,841,327	\$ 19,866,628	\$ 2,898,107	\$ 131,809,848	\$ 3,720,000
Notes payable	2,146,495	88,223	568,433	1,666,285	455,703
Capital leases payable	1,342,412	666,017	756,811	1,251,618	506,436
<b>Total bonds, notes and capital leases</b>	<b>118,330,234</b>	<b>20,620,868</b>	<b>4,223,351</b>	<b>134,727,751</b>	<b>4,682,139</b>
<b>Other noncurrent liabilities</b>					
Accrued compensated absences	16,231,776	7,610,415	6,467,257	17,374,934	6,453,021
Due to Federal Government	8,873,494	31,248	-	8,904,742	-
Securities lending liability	171,664	602,803	-	774,467	-
<b>Total other noncurrent liabilities</b>	<b>25,276,934</b>	<b>8,244,466</b>	<b>6,467,257</b>	<b>27,054,143</b>	<b>6,453,021</b>
<b>Total noncurrent liabilities</b>	<b>\$143,607,168</b>	<b>\$ 28,865,334</b>	<b>\$ 10,690,608</b>	<b>\$ 161,781,894</b>	<b>\$ 11,135,160</b>

Long-term liability activity for the year ended June 30, 2002 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
<b>Bonds, notes and capital leases</b>					
Revenue bonds payable, net	\$117,628,288	\$ -	\$ 2,786,961	\$114,841,327	\$ 3,010,000
Notes payable	1,907,669	647,649	408,823	2,146,495	529,862
Capital leases payable	1,007,911	843,142	508,641	1,342,412	631,841
<b>Total bonds, notes and capital leases</b>	<b>120,543,868</b>	<b>1,490,791</b>	<b>3,704,425</b>	<b>118,330,234</b>	<b>4,171,703</b>
<b>Other noncurrent liabilities</b>					
Accrued compensated absences	14,834,320	7,073,635	5,676,179	16,231,776	5,987,602
Due to Federal Government	-	8,873,494	-	8,873,494	-
Securities lending liability	188,598	-	16,934	171,664	-
<b>Total other noncurrent liabilities</b>	<b>15,022,918</b>	<b>15,947,129</b>	<b>5,693,113</b>	<b>25,276,934</b>	<b>5,987,602</b>
<b>Total noncurrent liabilities</b>	<b>\$135,566,786</b>	<b>\$17,437,920</b>	<b>\$ 9,397,538</b>	<b>\$143,607,168</b>	<b>\$ 10,159,305</b>

**Noncurrent Liabilities** - Include (1) capital lease obligations, principal amounts of bonds payable, revenue bonds payable, and notes payable with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) 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, 2003:

Fiscal Year	Capital Leases
2004	\$ 597,955
2005	426,110

**The University of Montana**  
**A Component Unit of the State of Montana**  
**For the Years Ended June 30, 2003 and 2002**

2006	215,586
2007	179,359
2008	13,107
Minimum Lease Payments	\$ 1,432,117
Less: Amount representing interest	180,499
<b>Present Value of Net Minimum Lease Payments</b>	<b>\$ 1,251,618</b>

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

The total aggregate principal amount originally issued pursuant to the Indenture of Trust and the various supplements to the Indenture for all campuses of The University of Montana at June 30, 2003 and 2002, was \$147,875,000 and \$127,960,000, respectively. The combined principal amount outstanding at June 30, 2003 and 2002, was \$133,785,000 and \$116,880,000, respectively.

**Series A 1993** - November 10, 1993, The University of Montana issued \$48,050,000 in Series A 1993 Revenue Bonds, with interest rates ranging from 2.3 to 5.0 percent to advance refund \$15,823,643 of outstanding 1985/1987 Series A and B Revenue Bonds (Missoula) with interest rates ranging from 6.0 to 9.75 percent, and 1966 Series B, C, & D and 1967 Series A & B Revenue Bonds (Western Montana College) with interest rates ranging from 3.0 to 5.25 percent. Proceeds of \$22,286,749, together with certain funds and monies of the University were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to legally defease the 1985/1987 Series A and B bonds, the 1966 Series B, C, & D bonds, and the 1967 Series A & B bonds. The balance of the proceeds, together with certain funds and monies of the University, provided funds for the acquisition, construction, repair, replacement, renovation and improvement of certain facilities and properties at the University.

**Series C 1995** - On December 14, 1995, The University of Montana issued \$34,406,784 of Series C 1995 Revenue Bonds, with interest ranging from 3.80 to 5.75 percent. In fiscal year 2000, the Series F 1999 Revenue Bonds issuance advance refunded a portion of Series C 1995 revenue bonds (see below).

**Series E 1998** - On June 26, 1998, The University of Montana issued \$10,670,000 of Series E Facilities Improvement Revenue Bonds, with interest ranging from 3.90 to 5.00 percent. The proceeds from the issue provided funds for the acquisition, construction, repair, replacement, renovation and improvement of certain facilities and properties.

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

The University of Montana recorded \$58,205,000 of the Series F 1999 Revenue Bonds to advance refund \$58,609,189 of outstanding Series B, C and D Facilities Improvements Revenue Bonds with average

**The University of Montana  
A Component Unit of the State of Montana  
For the Years Ended June 30, 2003 and 2002**

interest rates ranging from 4.30 to 6.65 percent. The bonds are considered legally defeased and as a result, the liability for those bonds is no longer recorded in the financial statements.

Included in the Series F issuance is \$10,650,000 for construction of a new recreation facility at The University of Montana - Missoula. The students of the University voted to assess a student fee to fund a portion of the debt service on the \$10,650,000. The remainder of the debt service will be paid by fees charged faculty and staff and from other projected sources of revenue.

*Series G 2002* – On October 18, 2002, The University of Montana issued \$18,900,000 of Series G Facilities Improvement Revenue Bonds, with interest ranging from 3.00 to 4.65 percent. The proceeds from the issue provided funds for the acquisition, construction, furnishing and equipping of certain student housing facilities on the Missoula campus.

*Series H 2003* - On April, 2003, The University of Montana issued \$1,015,000 of Series H Facilities Improvement Revenue Bonds, with interest at 2.70 percent. The proceeds from the issue provided funds for the Washington-Grizzly Stadium expansion on the Missoula campus.

*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 financial statements. As of June 30, 2003 and 2002, \$53,429,655 and \$55,386,750, respectively, of bonds outstanding were considered defeased.

**Revenue Bonds Payable:** As of June 30, 2003 annual principal payments are as follows:

<b>Series A 1993</b>		
<b>Fiscal Year</b>	<b>Interest Rate</b>	<b>Principal</b>
2004	4.30 – 4.50%	\$ 2,025,000
2005	4.50 – 4.60%	2,115,000
2006	4.60 – 4.625%	2,205,000
2007	4.625 - 4.70%	2,305,000
2008	4.70 - 4.80%	2,425,000
2009 – 2013	4.80 – 4.50%	13,590,000
2014 – 2015	4.50%	8,085,000
<b>Subtotal</b>		<b>32,750,000</b>
Less: Unamortized Discount		743,926
<b>Total 1993 A Bonds Payable</b>		<b>\$ 32,006,074</b>
<b>Series C 1995 (Partial)</b>		
<b>Fiscal Year</b>	<b>Interest Rate</b>	<b>Principal</b>
2004	4.50 – 4.60%	\$ 370,000
2005	4.60 – 5.25%	385,000
2006	5.25 – 5.375%	405,000
2007	5.375%	425,000
2008	5.00 – 5.375%	450,000
2009 - 2011	5.00 – 5.25%	1,495,000
<b>Total 1995 C Bonds Payable</b>		<b>\$ 3,530,000</b>



**Notes to the Consolidated Financial Statements (continued)**

The University of Montana  
A Component Unit of the State of Montana  
For the Years Ended June 30, 2003 and 2002

<b>Series E 1998</b>		
<b>Fiscal Year</b>	<b>Interest Rate</b>	<b>Principal</b>
2004	4.15 - 4.20%	\$ 720,000
2005	4.20 - 4.30%	755,000
2006	4.30 - 4.35%	595,000
2007	4.35 - 4.40%	360,000
2008	4.40 - 4.45%	375,000
2009-2013	4.45 - 5.00%	2,145,000
2014-2018	5.00%	2,305,000
2019-2021	5.00%	2,025,000
<b>Subtotal</b>		<b>9,280,000</b>
Less: Unamortized Discount		28,733
<b>Total 1998 E Bonds Payable</b>		<b>\$ 9,251,267</b>
<b>Series F 1999</b>		
<b>Fiscal Year</b>	<b>Interest Rate</b>	<b>Principal</b>
2004	4.45 - 4.60%	\$ 255,000
2005	4.60 - 4.70%	275,000
2006	4.70 - 4.80%	285,000
2007	4.80 - 4.90%	545,000
2008	4.90 - 5.35%	555,000
2009-2013	5.00 - 5.55%	4,760,000
2014-2018	5.55 - 5.75%	17,365,000
2019-2023	5.75%	34,240,000
2024-2026	5.75 - 5.80%	10,030,000
<b>Subtotal</b>		<b>68,310,000</b>
Less: Unamortized Discount		1,154,123
<b>Total 1999 F Bonds Payable</b>		<b>\$ 67,155,877</b>
<b>Series G 2002</b>		
<b>Fiscal Year</b>	<b>Interest Rate</b>	<b>Principal</b>
2004	3.00%	\$ 150,000
2005	3.00%	435,000
2006	3.00%	445,000
2007	3.00%	455,000
2008	3.00%	465,000
2009-2013	3.00 - 3.60%	2,235,000
2014-2018	3.60 - 4.20%	2,575,000
2019-2023	4.20 - 4.65%	3,165,000
2024-2028	4.65%	3,975,000
2029-2033	4.65%	5,000,000
<b>Subtotal</b>		<b>18,900,000</b>
Less: Unamortized Discount		48,370
<b>Total 2002 G Bonds Payable</b>		<b>\$ 18,851,630</b>

## Notes to the Consolidated Financial Statements (continued)

The University of Montana  
 A Component Unit of the State of Montana  
 For the Years Ended June 30, 2003 and 2002

Series H 2003			
Fiscal Year	Interest Rate		Principal
2004	2.70%	\$	200,000
2005	2.70%		200,000
2006	2.70%		200,000
2007	2.70%		200,000
2008	2.70%		215,000
<b>Total 2003 H Bonds Payable</b>		<b>\$</b>	<b>1,015,000</b>

### Maturity Information

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

Fiscal Year	Principal	Interest	Total Payment
2004	\$ 3,720,000	\$ 6,826,455	\$ 10,546,455
2005	4,165,000	6,663,841	10,828,841
2006	4,135,000	6,481,208	10,616,208
2007	4,290,000	6,297,588	10,587,588
2008	4,485,000	6,104,004	10,589,004
2009-2013	24,225,000	27,313,040	51,538,040
2014-2018	30,330,000	21,018,719	51,348,719
2019-2023	39,430,000	11,891,907	51,321,907
2024-2028	14,005,000	2,441,370	16,446,370
2029-2033	5,000,000	718,890	5,718,890
<b>Total</b>	<b>\$ 133,785,000</b>	<b>\$ 95,757,022</b>	<b>\$ 229,542,022</b>

**Notes Payable:** At June 30, 2003, The University of Montana was indebted for long-term notes payable as follows:

Description	Interest Rate	Maturity Date	Principal Outstanding
Intercap – Telephone System	Variable	15-Aug-04	\$ 56,888
Intercap – Network Engineering	Variable	15-Feb-07	112,821
Intercap – Computer Equipment	Variable	15-Feb-04	58,956
Intercap – Cisco Program	Variable	15-Aug-04	20,802
Intercap – 3 Meter Rail Robot	Variable	15-Feb-04	72,678
Intercap – Weight Room Expansion	Variable	15-Feb-09	156,157
Intercap – Stadium	Variable	15-Jul-04	27,574
Intercap – Equipment	Variable	15-Feb-05	62,985
Intercap – Real Estate	Variable	15-Feb-12	80,939
Intercap – KUFM TV	Variable	15-Feb-07	217,445
Intercap – Lubrecht Forest	Variable	15-Aug-08	108,289
Intercap – Intercollegiate Athletics	Variable	15-Feb-10	355,735
Intercap – Office of Public Safety	Variable	15-Aug-04	7,698
Intercap – Facility Services	Variable	15-Feb-06	88,223
Mortgages	8.50%	15-Jun-17	239,095
<b>Total Notes Payable</b>			<b>\$ 1,666,285</b>

The University of Montana  
 A Component Unit of the State of Montana  
 For the Years Ended June 30, 2003 and 2002

Less Current Maturities 455,703

---

**Total Long-Term Notes Payable** **\$ 1,210,582**

---

*Maturity Information*

The scheduled maturities of the notes payable are as follows:

Fiscal Year	Principal	Interest	Total Payment
2004	\$ 455,703	\$ 57,387	\$ 513,090
2005	275,270	45,057	320,327
2006	227,233	37,112	264,345
2007	206,861	30,130	236,991
2008	124,448	24,107	148,555
2009-2013	277,835	69,084	346,919
2014-2017	98,935	18,117	117,052
<b>Total</b>	<b>\$ 1,666,285</b>	<b>\$ 280,994</b>	<b>\$ 1,947,279</b>

**Compensated Leave** - Employee compensated absences is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statements of net assets, and as a component of compensation and benefit expense in the statements of revenues, expenses, and changes in net assets.

**NOTE 9 – RETIREMENT PLANS**

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

**PERS, GWPORS and TRS:** PERS, GWPORS and TRS are statewide, cost-sharing, multiple-employer defined benefit retirement plans. The plans are established under State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. PERS, a mandatory system established by the State in 1945, provides retirement services to substantially all public employees. GWPORS, established in 1963, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel, and state police officers not eligible to join the Sheriff's 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 plan are required and determined by State law. The contribution rates for 2003 and 2002 expressed as a percentage of covered payroll were as follows:

	2003		2002	
	Employee	Employer	Employee	Employer
PERS	6.90%	6.90%	6.90%	6.90%



**Notes to the Consolidated Financial Statements (continued)**

The University of Montana  
 A Component Unit of the State of Montana  
 For the Years Ended June 30, 2003 and 2002

GWPORS	10.56%	9.00%	10.20%	9.00%
TRS	8.32%	7.47%	7.15%	7.47%

The amounts contributed to the plan during years ending June 30, 2001, 2002, and 2003 were equal to the required contribution each year. The amounts contributed were as follows:

		FY 2001	FY 2002	FY 2003
PERS	- Employer	\$ 2,256,341	\$ 2,369,365	\$ 2,440,236
	Employee	\$ 2,253,266	\$ 2,369,385	\$ 2,439,770
GWPORS	- Employer	\$ 26,233	\$ 34,482	\$ 37,579
	Employee	\$ 24,776	\$ 38,976	\$ 44,093
TRS	- Employer	\$ 1,926,278	\$ 1,843,787	\$ 1,863,593
	Employee	\$ 1,849,267	\$ 1,764,803	\$ 2,074,460

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. 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 of Montana 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 for the fiscal years ended June 30:

	2003	2002
Covered Payroll	\$ 44,272,767	\$ 39,307,348
Employer Contributions	\$ 2,194,158	\$ 1,948,073
Percent of Covered Payroll	4.956%	4.956%
Employee Contributions	\$ 3,119,513	\$ 2,768,809
Percent of Covered Payroll	7.044%	7.044%

In addition, for the fiscal years ended June 30, 2003 and 2002, a total of \$1,788,629 and \$1,588,017, respectively, or 4.04 percent, was contributed to TRS from ORP 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:

**The University of Montana**  
**A Component Unit of the State of Montana**  
**For the Years Ended June 30, 2003 and 2002**

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

**NOTE 10 – 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 commercial 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 broker, Willis of Seattle, 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, 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, 2-9-305 MCA requires that the State "provide for the immunization, defense and indemnification its public officers and employees civilly sued for their actions taken within the course and scope of their employment." The University also has commercial coverage for other risk exposures that are not covered by the State's self-insurance program.

**Buildings and contents** – are insured for replacement value. For each loss covered by the State's self-insurance program and commercial coverage, the University has a \$1,000 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.

**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 premiums and University contributions are sufficient to pay current and future claims.

Effective July 1, 2003, the University's workers' compensation program became self-funded and is provided through membership in the MUS Self-Insured Worker's Compensation Program. In fiscal years 2003 and 2002 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 Missoula County. 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

**Notes to the Consolidated Financial Statements (continued)**

The University of Montana  
 A Component Unit of the State of Montana  
 For the Years Ended June 30, 2003 and 2002

permanent partial and permanent total disability. Medical and indemnity benefits are statutorily prescribed for qualifying job-related injuries or illnesses.

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

At June 30, 2003, the University had the following outstanding commitments under major capital and maintenance projects:

Project	Budget Authorization	Total Expenditures through June, 2003	Funding Source
Washington-Grizzly Stadium Expansion	\$ 2,997,182	\$ 1,767,811	2003 Series H Revenue Bonds
South Campus University Housing	16,688,000	1,644,071	2002 Series G Revenue Bonds
Adams Center Ticketing System	193,672	192,912	Auxiliary Operations
Research Lab Facility	1,300,000	15,153	Unrestricted Operations Student Building Fees & Private Donations
McGill Hall Renovation	1,265,000	74,084	Donations
Elrod Hall Fire Sprinklers & Cabling	400,000	165,602	Auxiliary Operations
<b>Total</b>	<b>\$ 22,843,854</b>	<b>\$ 3,859,633</b>	

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

Payable during the year ending June 30,	
2004	\$ 179,258
2005	145,549
2006	50,595
2007	17,084
2008	2,345
<b>Total</b>	<b>\$ 394,831</b>

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 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 financial statement.



The University of Montana  
*A Component Unit of the State of Montana*  
For the Years Ended June 30, 2003 and 2002

**NOTE 12– RELATED PARTIES**

The University of Montana is a component unit of the State of Montana. Those financial statements include only the activities, funds and accounts of the University. Private nonprofit organizations with relations to the University include The University of Montana Foundation, Montana Tech Foundation, The University of Montana-Western Foundation, the Montana Grizzly Scholarship Association, The University of Montana Alumni Association, the Montana Technology Enterprise Center (MonTEC), the Montana Tech Booster Club, the Montana Tech Alumni Association and The University of Montana – Western Booster Club.

The foundations and associations operate exclusively for the purposes of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with the University. In fiscal years 2003 and 2002 the following was transferred to or expended for scholarships and academic or institutional support by the University foundations: \$6,388,689 and \$8,478,114, respectively, from The University of Montana Foundation \$2,128,503 and \$1,428,521, respectively, from the Montana Tech Foundation; \$366,405 and \$417,808, respectively, from The University of Montana-Western Foundation. In addition, in fiscal years 2003 and 2002 the following was transferred from booster clubs for scholarships and construction projects: from the Montana Grizzly Scholarship Association \$1,348,318 and \$1,264,361, respectively; from the Montana Tech Booster Club \$67,319 and \$54,319, respectively; from The University of Montana – Western Booster Club \$61,723 and \$52,402, respectively. In exchange, the University provides the foundations with office space and an annually contracted fee, and the associations with office space, staff and some related office expenses. The University in fiscal years 2003 and 2002 provided \$286,957 and \$246,675, respectively, to its Foundations, which included payments for contracted services and capital campaign support.

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). The corporation acquired a warehouse facility in fiscal year 2001 and completed renovation of the facility during fiscal year 2003. MonTEC provides low-cost lease space and business consulting to local “start-up” companies and began to provide those services during fiscal year 2002. Cost of the renovation project was approximately \$1.5 million and was funded from federal grants and private debt. A portion of the federal funding was received directly by the University and passed through to MonTEC to fund the renovation project. Operations have begun, and MonTEC is now entirely self-supporting. The corporation’s board of directors is comprised equally of members appointed by MAEDF and the University.

## NOTE 13 – NATURAL CLASSIFICATION WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by natural and functional classifications for the year ended June 30, 2003, were as follows:

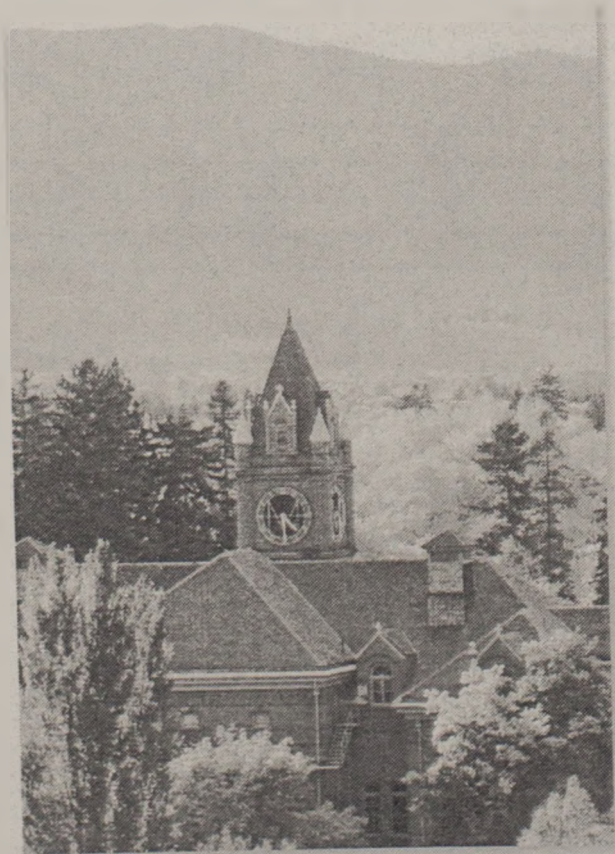
Functional Classification	Natural Classification						Total
	Compensation & benefits	Supplies & other services	Utilities	Communication	Scholarships	Depreciation	
Instruction	\$ 66,626,572	\$ 7,969,371	5,185	487,007		\$	\$ 75,088,135
Research	25,771,970	10,762,414	71,458	243,576			36,849,418
Public service	4,787,736	3,440,770	899	106,709			8,336,114
Academic support	15,668,258	4,864,033	7,990	616,518			21,156,799
Student services	10,562,118	7,188,410	5,494	437,069			18,193,091
Institutional support	10,630,254	3,916,900		775,039			15,322,193
Operation and maintenance of plant	9,113,496	5,990,294	3,592,117	67,682			18,763,589
Scholarships and fellowships					14,728,724		14,728,724
Auxiliary enterprises	17,251,749	10,617,037	2,154,987	403,710			30,427,483
Depreciation						15,606,405	15,606,405
<b>Total Expenses</b>	<b>\$ 160,412,153</b>	<b>\$ 54,749,229</b>	<b>5,838,130</b>	<b>3,137,310</b>	<b>14,728,724</b>	<b>15,606,405</b>	<b>254,471,951</b>

The University's operating expenses by natural and functional classifications for the year ended June 30, 2002, were as follows:

Functional Classification	Natural Classification						Total
	Compensation & benefits	Supplies & other services	Utilities	Communication	Scholarships	Depreciation	
Instruction	\$ 60,603,901	\$ 9,866,302	4,407	783,132	1,025,318		\$ 72,283,060
Research	22,689,121	12,875,035	67,405	387,151	645,616		36,664,328
Public service	4,373,618	3,561,957	1,079	153,334	12,279		8,102,267
Academic support	14,835,249	758,020	9,427	993,784	195,277		16,791,757
Student services	10,413,426	7,584,968	23,725	623,398	101,643		18,747,160
Institutional support	9,666,661	2,784,439	271,206	1,156,420	37		13,878,763
Operation and maintenance of plant	8,647,856	1,950,763	3,402,367	89,165	1,234		14,091,385
Scholarships and fellowships	174,050	(18,372)	214	(68)	10,798,910		10,954,734
Auxiliary enterprises	15,811,116	8,550,320	2,064,939	774,515			27,200,890
Depreciation						14,948,961	14,948,961
<b>Total Expenses</b>	<b>\$ 147,214,998</b>	<b>\$ 47,913,432</b>	<b>5,844,769</b>	<b>4,960,831</b>	<b>12,780,314</b>	<b>14,948,961</b>	<b>233,663,305</b>

The University of  
**Montana**

## Supplemental Information





## Supplemental Information - All Campuses

<u>DESCRIPTION</u>	<u>Fall 2002</u>	<u>Fall 2001</u>	<u>Fall 2000</u>	<u>Fall 1999</u>	<u>Fall 1998</u>
Enrollment (Headcount) <sup>1</sup>	17,175	16,703	16,436	16,508	16,163
	<u>FY2003</u>	<u>FY2002</u>	<u>FY2001</u>	<u>FY2000</u>	<u>FY1999</u>
Enrollment (FTE) <sup>2</sup>					
Colleges of Technology	1,858	1,833	1,807	1,790	1,764
Undergraduate	12,052	11,871	11,708	11,675	11,834
Graduate	1,630	1,582	1,551	1,530	1,317
Enrollment (FTE) <sup>2</sup>					
In-State students	12,070	11,683	11,399	11,251	11,101
Out-of-State students	2,901	2,981	3,000	3,247	3,380
Western Undergraduate Exchange	569	622	667	497	434
	<u>FY2003</u>	<u>FY2002</u>	<u>FY2001</u>	<u>FY2000</u>	<u>FY1999</u>
Employees (FTE) - All Funds <sup>3</sup>					
Contract Faculty	937	901	905	906	894
Contract Admin & Professional	366	347	341	334	312
Classified	1,266	1,249	1,191	1,197	1,164
GTA/GRA	170	157	140	146	131
Part Time and Other	378	397	359	378	407
	<u>School Year Ended</u>				
	<u>6/30/2003</u>	<u>6/30/2002</u>	<u>6/30/2001</u>	<u>6/30/2000</u>	<u>6/30/1999</u>
Degrees Granted <sup>4</sup>					
Certificate	79	84	106	176	205
Associate	492	479	427	411	372
Undergraduate	2,136	2,182	2,103	2,112	2,148
Graduate	620	666	575	564	592

<sup>1</sup> Source: Internal management reports 1999-2003

<sup>2</sup> Source: Internal management reports 1999-2001, CHE Operating Report 2002-2003

<sup>3</sup> Source: CHE Operating Report 2000-2004

<sup>4</sup> Source: IPEDS Completion Reports, Fall 1999-2003, internal management reports

