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THE UNIVERSITY OF MONTANA



P R E S I D E N T ' S R E P O R T 1 9 9 7

Dear Friends,

The University of Montana will move with deliberation into a challenging future. The entire campus community — faculty, staff, and students — has participated in envisioning this future, as the community has shaped the University's reputation for excellence in the past. As we move into its second century, the University will also enjoy an endowment and an environment appropriate to its mission.

On Oct. 17, friends and alumni of the University gathered on the campus to celebrate the success of the most ambitious Capital Campaign in the history of Montana higher education. Starting with an initial target of \$40 million for scholarships, program enhancements, and needed facilities, the campaign generated over \$71 million. The campaign increased the assets of The University of Montana Foundation to more than \$60 million and the permanent endowment to more than \$50 million. With these developments, we can confidently manage our future.

The physical environment on campus has also changed significantly, but not yet sufficiently. Over the past five years, we have undertaken roughly \$100 million in construction to provide an environment that will sustain the endeavors of faculty, staff, and students. The new and well-equipped Gallagher Building, the Davidson Honors College, Pantzer Hall, and family housing — in addition to the renovated Miller Hall and refurbished residence halls — will help us attract and house increasing numbers of outstanding students. The classroom and laboratory renovation project — possible because students agreed to a new academic facilities fee — will enable us to remodel classrooms and laboratories built before 1971. We will also enhance research space on campus to meet the critical needs of faculty and student researchers. At the Griz Central, the convenient one-stop center in the Lodge, students will soon conduct all University business. Finally, modernizing our athletic facilities will enable us to attract larger numbers of outstanding student athletes and alumni to campus.

Two other trends will dramatically shape the University's future. University faculty have made tremendous strides in developing new knowledge through their research. Over the past seven years, these efforts have increased external funding from just over \$7 million in 1990 to more than \$26 million in 1997. This remarkable record will continue as long as the University provides the infrastructure to support these talented people.

The faculty have also made vital and important contributions to the community. Over the years, civic involvement and the ethic of community service have become critically important to the development of American society. However, this involvement has declined markedly in the 20th century. Through these inspiring examples set by our faculty, the University seeks to rekindle that ethic among the students.

The University of Montana has energetically shaped its future. We have accomplished a great deal, and we have much more to do. But because of the efforts of our faculty, staff, and students, we approach that future with considerable confidence.



George M. Dennison
President



THE STUDIO AT KUFM-TV



DANCERS PERFORM IN "UM DANCING ON LOCATION."

C A M P U S

A campus in motion is composed of individuals who are always seeking new ideas, new ways of doing things, new people. To broaden the educational community, The University of Montana has reached out to diverse communities in a variety of ways. In fall 1996 UM offered students a new major — Native American Studies — the first such major to debut at a Montana university. Two UM students became the first deaf graduates from the Montana University System at UM's 100th commencement on May 14, 1997. With the degree conversion program approved by the state Board of Regents, it also became easier in 1997 for holders of two-year degrees from the College of Technology to transfer credits to UM.

UM faculty are the gatekeepers to the lively intellectual climate on campus. And in 1997, national recognition of faculty accomplishments abounded. Dan Kemmis, the new director of UM's Center for the Rocky Mountain West, received a Charles Frankel Prize in Humanities from the National Endowment for the Humanities. Geology Assistant Professor Marc Hendrix received the \$3,900 Winston and Helen Cox Teaching Award. Photojournalism Professor Patti Reksten was named the Robin F. Garland Educator of the Year by the National Press Photographers Association. Dean of Students Barbara Hollmann was recognized for her outstanding service when she became vice president for student affairs.

Like ripples widening out in a pond, the effects of the University's vibrant intellectual life are inevitably felt throughout the state. KUFM-TV, the new public television station based at UM; the Mansfield conference exploring religious values and the political process; the Center for the Rocky Mountain West's conference tracing the 50-year influence of A.B. Guthrie Jr.'s novel "The Big Sky"; and the WOW van that traveled the state introducing the Internet to small communities are just a few of the ways the University is nurturing learning around the state.

From the \$2 million renovation of the University Theatre to the renovation of the 1898 Prescott House, changes in the physical environment at The University of Montana are some of the most visible symbols of the campus in motion. Continuing education will soon be housed in a three-story \$4.3 million building on the east end of the University Center. The Practical Ethics Center was created in 1996 to promote teaching, research and service in applied and professional ethics. At Griz Central, in the newly renovated Lodge, students will soon be able to conduct University business from registering to filing graduation forms. UM also has a new executive conference facility, the Center at Salmon Lake, on a small island 40 miles northeast of Missoula.

Finally, the wildly successful UM Capital Campaign is one of the best examples of the generosity and activism of the UM community of friends and alumni. The campaign's \$71 million total — \$31 million more than the original target of \$40 million — exceeded everyone's expectations. This infusion of support from businesses and individuals — \$37 million of which came from Montanans — not only strengthens UM scholarships, programs and facilities, it is a testament to Montanans' belief in the future of higher education at The University of Montana.



1996 NATIVE
AMERICAN DAY

LAW SCHOOL: TAKE ONE

The cameras of Court TV focused on Melissa Harrison, associate professor of law, and the Montana Supreme Court during Law Week, April 7-11. The national cable station, based in New York City, was on campus to tape the court's hearing on the constitutional challenge of a Montana law that makes consensual sexual relations between adults of the same sex a felony.



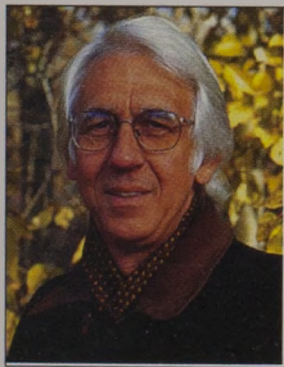
THE PRESCOTT HOUSE

PRESCOTT HOUSE RESTORED

The 1898 American Victorian house built by Missoula merchant Clarence Prescott Sr. was restored and renovated thanks to a gift from Dennis and Phyllis Washington. In addition to being re-wired, replumbed and re-sided, the house was furnished with turn-of-the-century antiques. The surrounding half-acre of grounds features a small amphitheater, pavilion and garden. Dedicated on Oct. 18, 1997, the house will serve as a center for educational conferences and social functions.

ATTENTION: CAMPUS SHOPPERS

The good value of a UM education was nationally recognized in "The Student Guide to America's 100 Best College Buys," which surveyed 1,800 schools to identify the top 100 with the highest academic ratings and lowest costs. Also, UM's program in creative writing tied for 10th place in U.S. News and World Report's 1997 list of America's best graduate schools.



DAN KEMMIS

CULT NEWS

The day after news of Heaven's Gate, the high-tech California cult that committed mass suicide, Professor Rob Balch's phone began to ring. On March 28, 1997, Balch was interviewed by news organizations including Newsweek, The New York Times and The Times of London. Balch, UM's resident cult expert, infiltrated the group in the mid-1970s — when it was known as a UFO cult — and wrote several papers about it, including a chapter in the book, "The Gods Have Landed."

VOYAGE OF THE SENSES

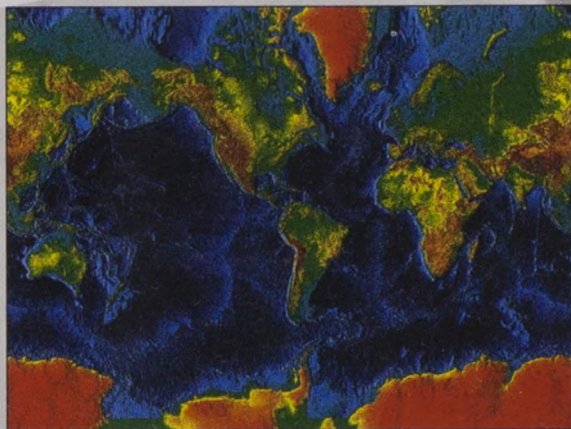
Students packed the University Center April 6 to eat Indian tandoori chicken and Russian pirozhki at "Voyage of the Senses," the seventh annual International Festival and Food Bazaar, which kicked off UM's International Month. Organized by the International Student Association and the Office of Foreign Student and Scholar Services, the festival highlighted traditions of some of the more than 400 foreign students at UM.

BORGMANN NAMED REGENTS PROFESSOR

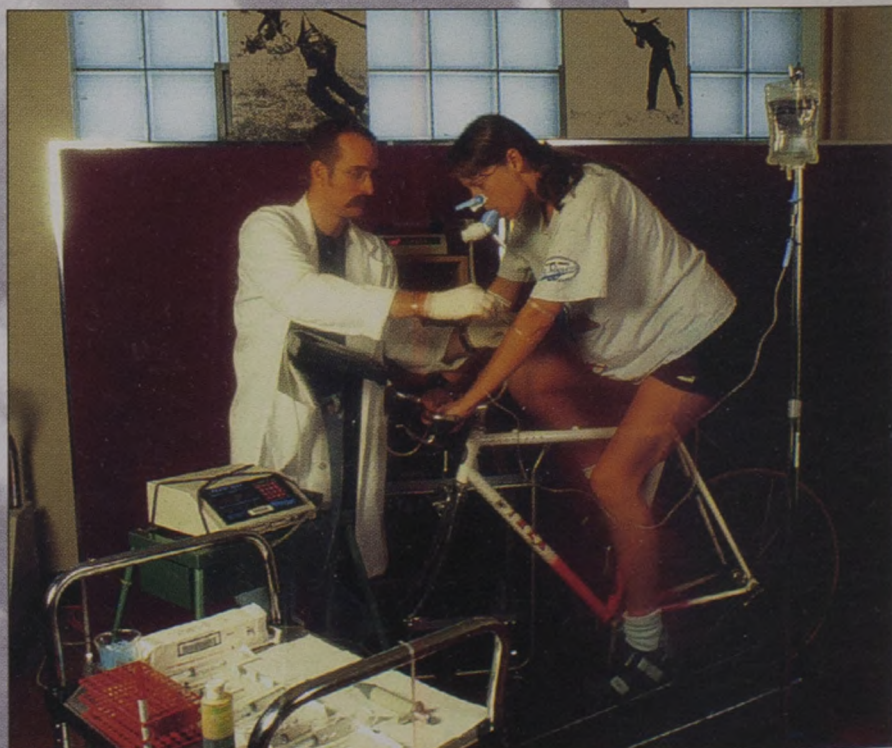
Groundbreaking scholarship, commitment to teaching and years of service to the campus and community earned UM philosopher Albert Borgmann the rank of Regents Professor. Borgmann, the third UM professor ever selected for the prestigious title, was granted the lifetime professorship by the state Board of Regents on September 19, 1996.



THE 1997 INTERNATIONAL FESTIVAL AND FOOD BAZAAR



EACH WEEK THE EARTH OBSERVING SATELLITE, WHICH WILL BE LAUNCHED IN JUNE 1998, WILL PRODUCE IMAGES OF THE CHANGING GLOBAL BIOSPHERE.



BRENT RUBY

S E A R C H

Mending torn heart tissue. Discovering a drug that promotes and inhibits fertility. Using mice to explore the effects of habitat fragmentation on wildlife. These are just a few of many research projects being conducted at The University of Montana. The lifeblood of any university, research keeps the University a vital place of learning. It tests and modifies the assumptions of the past and extends the knowledge of both faculty and students into the future. And this vigorous pursuit of new knowledge energizes the University as a whole.

Research at The University of Montana reached new peaks in 1997. UM faculty attracted a record \$26 million in research grants and contracts during the 1996-97 fiscal year. The total is a 10 percent increase from last year's \$23.5 million. In dollars, the top three UM funding recipients for fiscal 1997 are the Division of Biological Sciences with \$4.78 million, the School of Forestry with \$4.43 million and the Rural Institute on Disabilities with \$3.84 million. Some of the fruits of these research projects include a NASA satellite that will circle the globe as part of the Earth Observing Project. A windmill was created on the plains — blades and turbine toughened to withstand Montana weather — to produce renewable energy. New programs were designed to help special education high school students throughout Montana make a successful transition to adult life.

President George Dennison credits UM faculty for the competitiveness of their projects and their willingness to seek support for their research. Robert Frazier, chair of the Research Management Council, finds the increased number of people and the variety of projects an encouraging trend in UM's applications for research funding.

The recent appointment of a new vice president for research and development, T. Lloyd Chesnut, will encourage the continued success of research at The University of Montana. Chesnut, the former vice president for research and graduate studies at Ohio University, is an entomologist with more than 25 years' experience as a research administrator. At Ohio University, Chesnut doubled the amount of outside funds to support OU's basic research projects. He was a senior scientist for the U.S. Environmental Protection Agency in Washington, D.C., and continues to serve on the agency's Advisory Board of the National Environmental Technology Applications Center.

"The success of our faculty in attracting external funds to support research and graduate education has been truly astonishing," says Dennison. "Moreover, these funds — over \$26 million in 1997 — have contributed to the Montana economy as well. Faculty, students, University, state — everyone wins!"



SCOTT MILLS



JAKKI MOHR HELPS LOGAN MAXWELL LEARN TO RIDE A HORSE.



KELLY WARD GATHERS STORIES FOR THE LIFE STORIES TASK FORCE.

U N T E E R S

Over the years, students and faculty at The University of Montana have been on the move, participating in the age-old tradition of helping others. They have given up their free time to house the homeless, feed the hungry, tutor school children and ease the suffering of the elderly. And, as the following examples illustrate, this tradition among the University community continues. While volunteers of all ages work on projects ranging from painting houses to helping children read, what unites them is their enthusiasm.

In 1997, volunteers from UM took their muscle and their talent both far and wide. Fifteen UM students spent their 1997 spring breaks painting houses, doing yard work and tutoring young children on Hopi and Navajo reservations. This was the first year UM participated in Break Away, a national program that promotes community service and social awareness by immersing students in different cultures. Closer to home, the Garden City got a "Clean Start" on April 19 as volunteers from UM and the Missoula community fanned out from Kiwanis Park and the base of Mount Sentinel to spruce up city neighborhoods and the campus.

Main Hall has answered the call to serve as well. President George Dennison was selected by Gov. Marc Racicot to attend the President's Summit for America's Future, April 27-29 in Philadelphia. Designed to promote volunteerism in the United States, the summit brought Dennison together with presidents past and present — Ford, Carter, Bush and Clinton — and highlighted community service programs that will benefit children in Montana.

Dennison was also one of 20 college presidents chosen for the steering committee of President Clinton's America Reads Challenge. The program pays some UM students to tutor children in reading, but volunteer coordinators on campus hope many other students will volunteer their time as tutors. Dennison selected five other Montana college and university presidents to mobilize reading tutors on their campuses as well.

An astounding number of UM faculty find time to give to communities, even distant ones, despite the hours they spend teaching, developing courses, and doing research and committee work. Carrie Gajdosik, associate professor of physical therapy, spent a month in spring 1996 in Chiapas, Mexico, offering her services to children in villages and Guatemalan refugee camps. Closer to home, forestry Professor Ron Wakimoto works in southwest Montana helping Ducks Unlimited develop and conserve waterfowl wetlands. "We do what we do for future generations," says Wakimoto.

As the following examples illustrate, volunteer opportunities abound for faculty members who can put their expertise to work close to home or close to the heart. "We have a very involved faculty who have accepted their responsibility to help maintain the quality of life in the community," says President Dennison. "They set an example for their students, as well, in civic responsibility."



RON WAKIMOTO

OPERA SINGER HONORED

Stephen Kalm, an assistant professor of music, recently won a coveted Bessie Award from the Dance Theater Workshop of New York for his performance in the opera "The Politics of Quiet" by internationally acclaimed composer Meredith Monk. Kalm sang with the opera at its opening at the Cultural Capital Festival of Europe in Copenhagen, Denmark, and at festivals in Avignon, France, and Lisbon, Portugal. Kalm, who specializes in performing contemporary American opera, has performed in a number of Monk's works, including "Atlas" and "A Celebration Service."

USING GLUE TO MEND BROKEN HEARTS

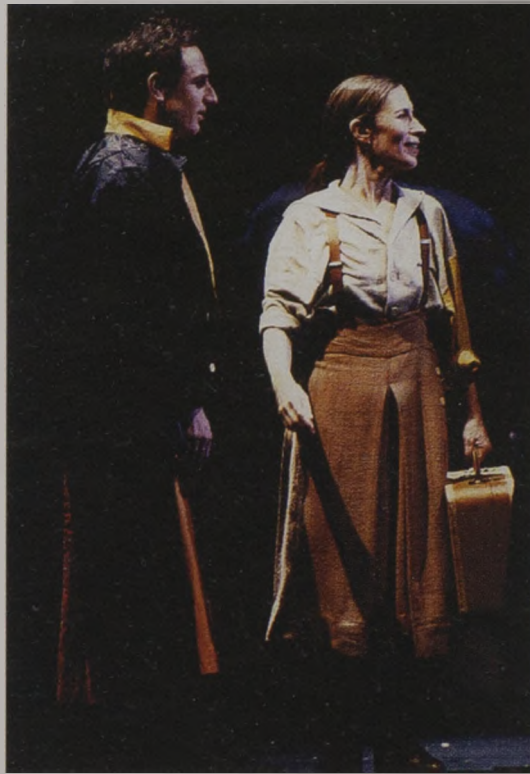
UM researcher Craig Eddy is testing a glue, developed by a biochemist, to mend aortas whose layers have separated because of an unusual type of heart disease. Before Eddy came along, no one had been able to mimic the disease in animals other than turkeys. Eddy has developed a model using sheep and has successfully glued damaged aortas in 12 animals. His procedure can take as few as four minutes and promises to revolutionize the current surgical procedure in humans called aortic dissection.

UM'S ECONOMIC IMPACT ON MISSOULA

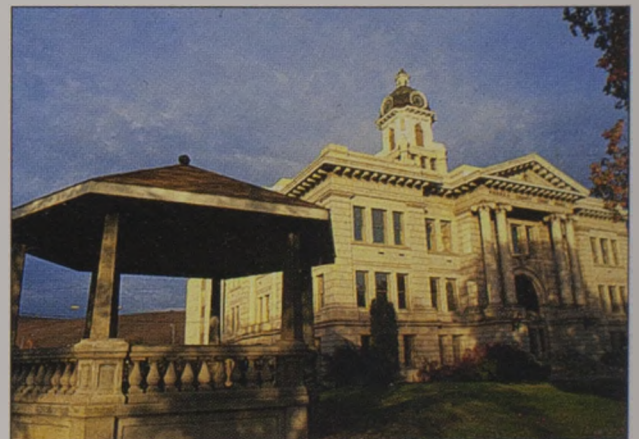
A year-long survey, conducted by Steve Seninger, director of economic analysis at UM's Bureau of Business and Economic Research, recently showed that the University, its students and employees pumped \$185 million dollars into Missoula stores, restaurants, medical facilities and housing in 1996. This figure represents a 12 percent increase in spending from the previous year. Seninger attributes the increase to Missoula's growth as a regional trade center and the University's high-quality athletic teams and cultural events.

SHADOWS OF WAR

Journalism Professor Carol Van Valkenburg has spent an intensive year tracing the families of the Japanese who were arrested by the FBI during World War II. From Dec. 7, 1941, to the end of January 1942, 2,000 prominent Japanese were arrested and housed at Fort Missoula in Missoula, Mont., and Fort Lincoln in Bismarck, N.D. Detainees were later shipped to War Relocation Authority or Department of Justice camps, but little else is known about their fate.



STEPHEN KALM AND MEREDITH MONK IN A 1992 PERFORMANCE OF "ATLAS"



MISSOULA COUNTY COURTHOUSE



THE FORT MISSOULA DETENTION CAMP IN MISSOULA, MONT.



CAROL BREWER

FROM THE ROCKIES TO THE ANDES

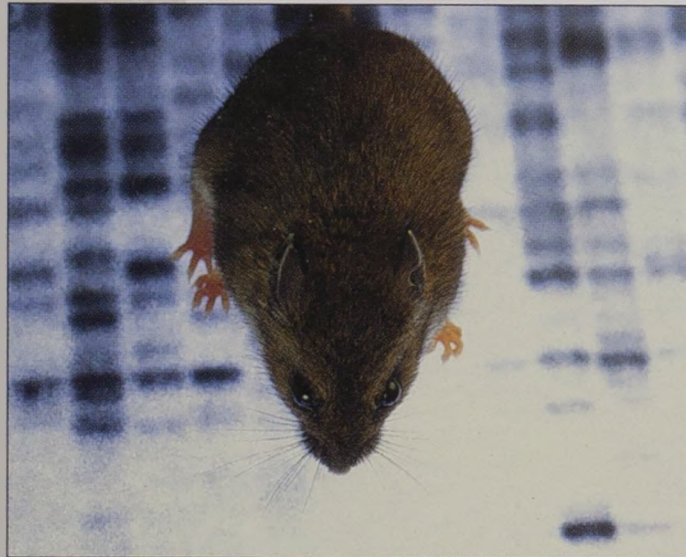
Biology Assistant Professor Carol Brewer recently received a Fulbright Scholar Award, which she will use to teach and do research in San Carlos de Bariloche in Patagonia, Argentina. In addition to bringing updated techniques in physiological ecology to Argentinean educators, Brewer will research the ecology of southern beech trees and study how plants shed water from their leaves in order to photosynthesize. With forestry Assistant Professor Paul Alaback, she is also team-teaching an intersession course for 15 UM students on Patagonia's ecology.

SEXES DIFFER IN GLUCOSE METABOLISM RATE

Assistant Professor Brent Ruby, an exercise physiologist in the health and human performance department, found that during intense exercise women use less blood glucose than similarly trained men. Slower use of glucose may mean that it is more available during prolonged physical activity. Ruby's findings, which are based on a recent study using 10 cyclists — five women and five men — may change thinking about differences in performance between the genders and about nutrition and exercise training for women involved in strenuous occupations.

FROM MICE TO MOUNTAIN LIONS

Using mice housed in nine replicate pens at the Lubrecht Experimental Forest, wildlife biology Assistant Professor Scott Mills is exploring the effects of habitat fragmentation and isolation on wildlife populations. By studying how major habitat alterations affect the birth and death rates of animals in undisturbed and experimental populations, Mills hopes to develop cost-effective techniques that can be used to reverse declining populations of endangered species. He is also studying how movement between isolated populations affects genetic composition and survival rates.



SCOTT MILLS USES MICE TO EXPLORE QUESTIONS ABOUT ENDANGERED SPECIES.

JEKYLL-HYDE HORMONE

The research conducted by pharmaceutical sciences Associate Professor Craig Johnston may seem like a contradiction in terms: a drug that can both promote and inhibit fertility. His preliminary data using rodents show that analogues of the peptide oxytocin — sometimes called the "sex hormone" — can stimulate a female's secretion of luteinizing hormone when given at certain times of the menstrual cycle. Analogues of oxytocin given before this critical period may prevent ovulation, resulting in contraception.

AN EARLIER SPRING

Research Associate Professor Ramakrishna Nemani basked in the international limelight in spring 1997 when newspapers around the world — from The New York Times to the Vancouver Sun — reported on his intensive study that shows the Earth is getting greener and warmer. Nemani's study of satellite images showed that spring is coming earlier than it did a decade ago, particularly in the Northern Hemisphere.



CRAIG JOHNSTON

DARING SCHOOLS

When Missoula law enforcement officials asked sociology Associate Professor Jim Burfeind to evaluate the effectiveness of four years of Drug Abuse Resistance Education (DARE) in Missoula County schools, Burfeind surveyed fifth graders' attitudes about drugs and the police. He found the program provided positive contact with the police, taught problem-solving skills and made students critical consumers of the media.

CAREERS IN MATH AND SCIENCE

Enthusiasm fuels Cathy Bartels. The assistant professor of pharmacy has seen a lot of it in the four years she's volunteered with the annual "Expanding Your Horizons in Science and Mathematics" conference intended to interest Montana middle and high school girls in science careers. "What I like best is seeing their enthusiasm," Bartels says. "That's why I like teaching, period."

FAMILY STORIES

Kelly Ward knows the value of a tale. And working with the Life Stories Task Force of the Missoula Demonstration Project's Quality at Life's End program, the assistant professor of education uses storytelling to help the dying focus on lifetime achievements. "Many people have a hard time letting go," Ward says. "Storytelling provides a vehicle for resolution."

ELDER LAW

"It's a way of giving back," says law Professor David Patterson of his efforts to educate Montana's elderly on the legal issues that concern them. With his wife, Jeanne Patterson, he has formed the nonprofit Patterson Institute for elder law education. "We're just getting rolling," he says, but plans call for free clinics and services at senior centers and agencies.

RIDING AS THERAPY

Through the Miller Creek Therapeutic Riding Program, marketing Associate Professor Jakki Mohr helps children with special needs learn to ride horses. Riding helps autistic youngsters become more engaged with the world and helps those with cerebral palsy walk more easily heel-to-toe. "I was attracted to the program because it was the next best thing to owning my own horses again, as well as a chance to get involved in my new community," Mohr says.

SUPPORT FOR JOURNALISTS

"Those of us who teach on this campus," says journalism Associate Professor Dennis Swibold, "have tremendous latitude to serve in some capacity." Among many projects in his seven years at UM, Swibold worked to establish the Community News Service, which offers Montana's weekly newspapers coverage of selected statewide issues. Swibold also developed an online site, "Montana Online Resources," to help reporters track public information on the Internet.



JIM BURFEIND



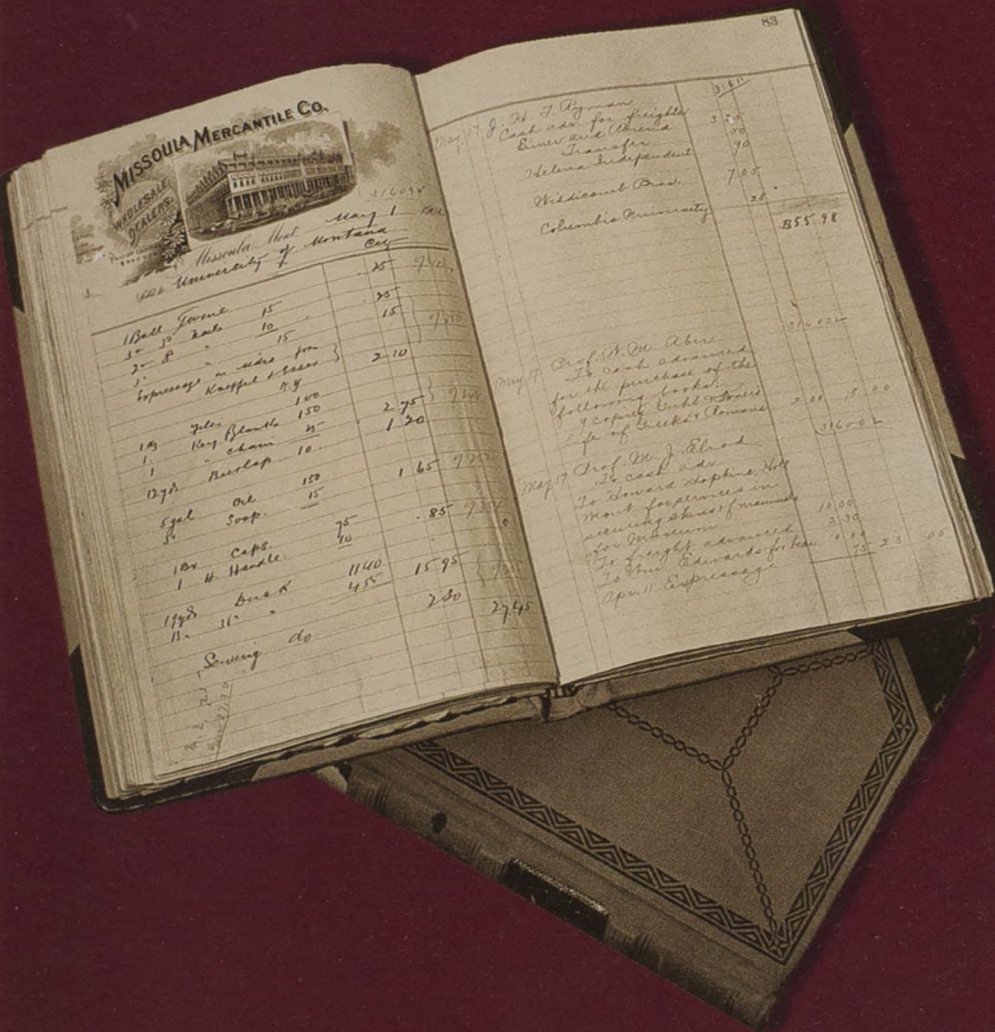
MARGARET MUDD AND AMIE THURBER

NORTHSIDE MURALS

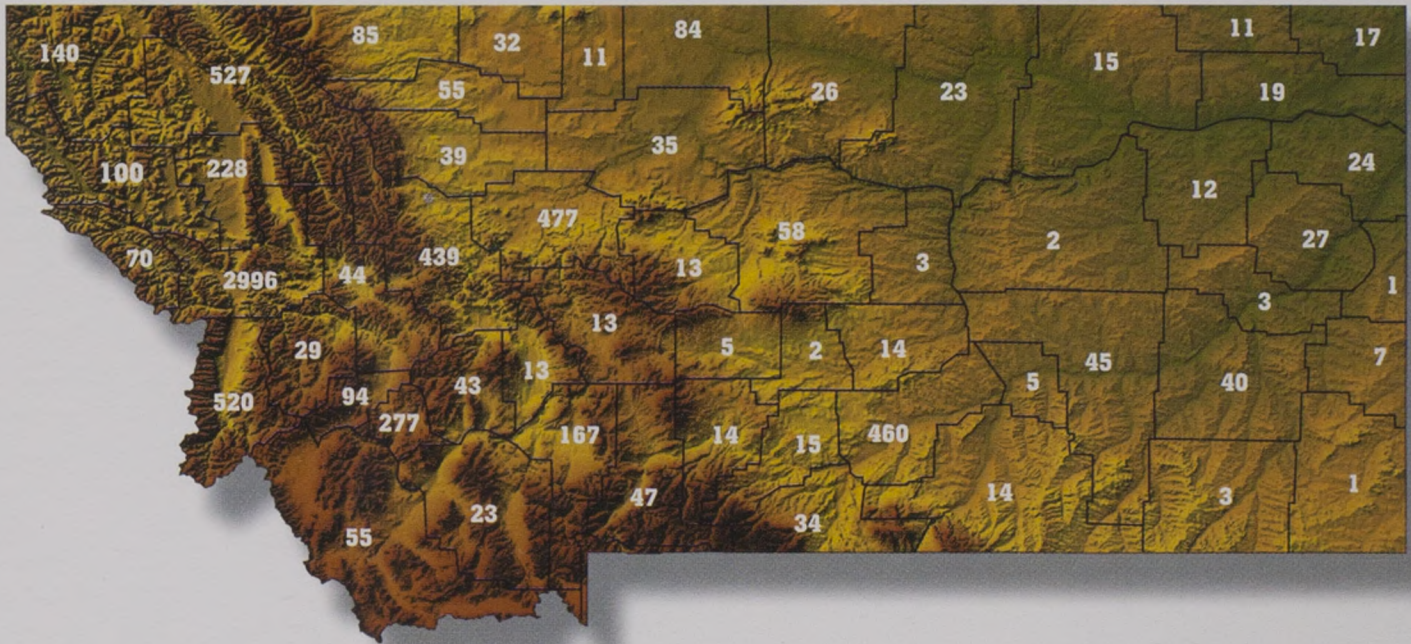
Last summer, while Margaret Mudd was directing UM's Museum of Fine Arts, she heard UM student Amie Thurber's idea to brighten up two northside elementary schools with colorful murals painted by children from Missoula Youth Homes. "I knew it was a project worth doing," says Mudd. She got on the phone and raised the money to pay Thurber to coordinate the projects at Lowell School and Head Start, which is housed in the old Whittier School.

THE UNIVERSITY OF MONTANA

A COMPONENT UNIT OF THE STATE OF MONTANA



UM Fall 1996 Enrollment by Montana County



UM Fall 1996 Enrollment by State



Total Enrollment

(Fall 1996 Head Count)

Montana	7,556
Other States/Territories	4,012
Other Countries	318
Total	11,886

Sources of Current Revenues

Other Sources	1997	3.4%
	1996	3.9%
	1995	4.8%

Sales and Service	1997	18.8%
	1996	17.3%
	1995	17.3%

Grants and Contracts	1997	21.3%
	1996	21.9%
	1995	21.6%



Tuition and Fees	1997	33.6%
	1996	33.5%
	1995	30.8%

State Appropriations	1997	22.9%
	1996	23.4%
	1995	25.5%

Uses of Current Funds

Research	1997	12.8%
	1996	13.6%
	1995	13.4%

Scholarships and Fellowships	1997	8.1%
	1996	8.0%
	1995	7.9%

Public Service	1997	3.7%
	1996	3.9%
	1995	3.7%

Student Services	1997	8.2%
	1996	8.5%
	1995	8.4%



Instruction	1997	32.8%
	1996	33.3%
	1995	33.1%

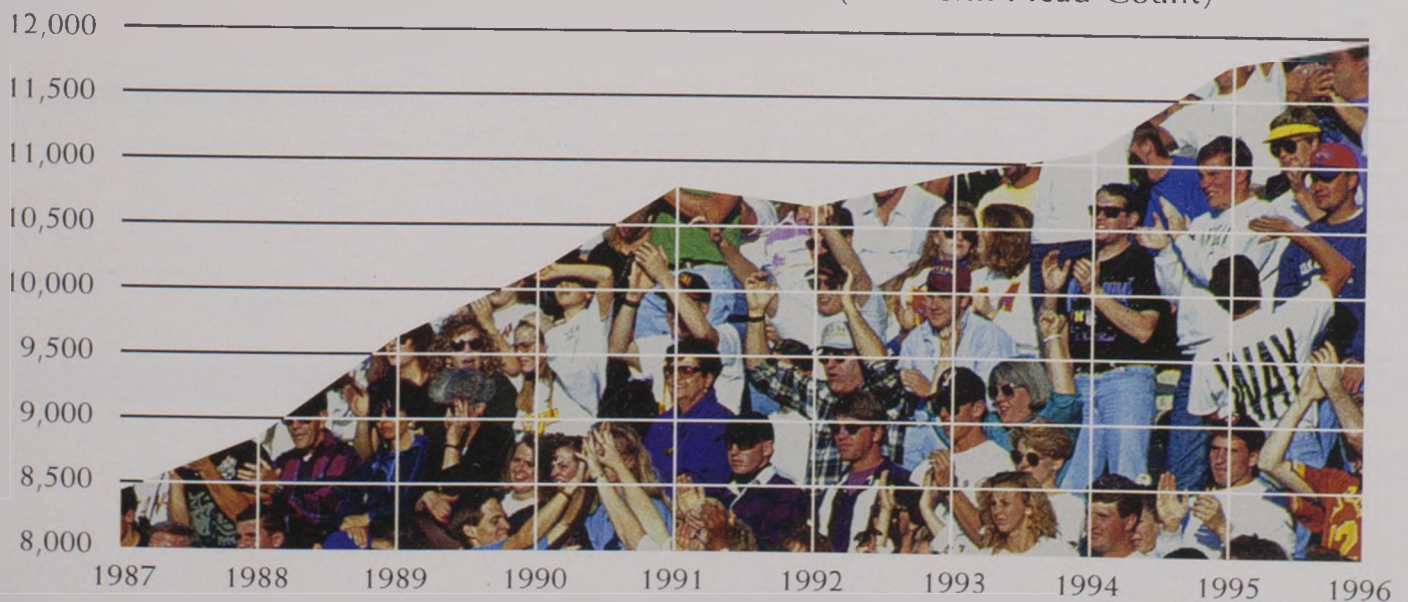
Institutional Support	1997	4.7%
	1996	4.7%
	1995	5.3%

Operations and Maintenance of Plant	1997	6.4%
	1996	5.4%
	1995	5.3%

Academic Support	1997	9.0%
	1996	8.6%
	1995	8.2%

Auxiliary Enterprise Expenditures	1997	14.3%
	1996	14.0%
	1995	14.7%

Enrollment Trends (Fall Term Head Count)



BALANCE SHEET

June 30, 1997

	Current Funds			
	Unrestricted			
	General Operating	Designated	Auxiliary Enterprises	Restricted
ASSETS				
Cash and Cash Equivalents	\$ 5,364,442	\$ 4,429,321	\$ 3,119,413	\$ 1,419,937
Investments				
Accounts Receivable, Net of Allowance	332,816	149,987	220,483	5,753,022
Interest Receivable		19,717		
Inventories	8,203	545,685	398,413	
Prepaid Expenses and Deferred Charges	1,239,832	228,844	13,954	155,451
Due from Other Fund Groups	4,221,464	2,290,454	412,067	102,197
Interfund Loans Receivable		3,265,246		
Loans Receivable, Net of Allowance				
Property, Equipment, & Other Assets				
Cash Collateral - Securities Lending		16,484	74,612	32,785
TOTAL ASSETS	\$ 11,166,757	\$ 10,945,738	\$ 4,238,942	\$ 7,463,392

LIABILITIES AND FUND BALANCE

Accounts Payable and Accrued Liabilities	\$ 4,592,226	\$ 3,409,801	\$ 368,359	\$ 576,064
Accrued Interest Payable	9,875		996	
Students' Deposits	39,700		298,889	
Deposits Held in Custody for Others		51,538		
Due to Other Fund Groups	4,541,736	754,163	454,003	1,407,386
Deferred Revenue	1,982,818	592,446	389,123	2,730
Current Notes Payable				
Long Term Obligations				
Interfund Loans Payable			225,000	3,000,000
Bonds Payable, Net of Discount				
Compensated Leave	7,696,861	1,586,331	828,679	
Liability Under Securities Lending		16,484	74,612	32,785
TOTAL LIABILITIES	\$ 18,863,216	\$ 6,410,763	\$ 2,639,661	\$ 5,018,965
Fund Balances	(7,696,459)	4,534,975	1,599,281	2,444,427
TOTAL LIABILITIES AND FUND BALANCE	\$ 11,166,757	\$ 10,945,738	\$ 4,238,942	\$ 7,463,392

Fund Balances Consist of:

Unrestricted -				
General	\$ (7,696,459)	\$ 4,534,975	\$ 1,599,281	\$
Unexpended				
Renewal and Replacement				
Retirement of Indebtedness				
Restricted -				
U.S. Government Grants Refundable				
General				2,444,427
Net Investment in Plant				
TOTAL FUND BALANCES	\$ (7,696,459)	\$ 4,534,975	\$ 1,599,281	\$ 2,444,427

See Summary of Significant Accounting Policies and Notes to Financial Statements.

Student Loan Funds	Endowment Funds	Plant Funds	Agency Funds	Total
\$ 863,017	\$ 692,740	\$ 39,820,868	\$ 309,475	\$ 56,019,213
	2,695,204	560,812		3,256,016
128,478		27,504	10,850	6,623,140
	11,363	243,691		274,771
				952,301
		1,837,685		3,475,766
4,950	15,055	874,347		7,920,534
		325,000		3,590,246
7,034,006		525,444		7,559,450
		260,477,147		260,477,147
19,227	320,063	138,819	6,616	608,606
\$ 8,049,678	\$ 3,734,425	\$ 304,831,317	\$ 326,941	\$ 350,757,190

\$ 891	\$	\$ 711,425	\$ 1,923	\$ 9,660,689
		621,782		632,653
				338,589
			253,640	305,178
152,490	37,892	508,258	64,606	7,920,534
		120,558	156	3,087,831
		80,141		80,141
		2,216,177		2,216,177
		365,246		3,590,246
		87,358,804		87,358,804
		486		10,112,357
19,227	320,063	138,819	6,616	608,606
\$ 172,608	\$ 357,955	\$ 92,121,696	\$ 326,941	\$ 125,911,805
7,877,070	3,376,470	212,709,621		224,845,385
\$ 8,049,678	\$ 3,734,425	\$ 304,831,317	\$ 326,941	\$ 350,757,190

\$ 732,229	\$ 987,934	\$	\$	\$ 157,960
		6,680,124		6,680,124
		7,493,872		7,493,872
		985,500		985,500
7,144,841				7,144,841
	2,388,536	10,024,814		14,857,777
		187,525,311		187,525,311
\$ 7,877,070	\$ 3,376,470	\$ 212,709,621	\$	\$ 224,845,385

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES

Year Ended June 30, 1997

	General Operating	Unrestricted Designated
REVENUES		
Tuition and Fees	\$ 37,457,124	\$ 4,644,347
State Appropriation	31,450,427	
Federal Grants and Contracts	175,500	
State and Local Grants/Contracts		
Private Gifts, Grants and Contracts		
Investment Income		36,245
Sales and Service		7,219,325
Indirect Cost Recoveries		2,167,090
Other Sources	243,017	1,562,987
TOTAL CURRENT REVENUES	\$ 69,326,068	\$ 15,629,994
EXPENDITURES AND MANDATORY TRANSFERS		
Educational and General:		
Instruction	\$ 37,621,309	\$ 2,529,658
Research	1,878,981	2,444,864
Public Service	440,078	1,261,804
Academic Support	9,144,396	1,475,619
Student Services	4,912,405	5,799,571
Institutional Support	6,403,288	(203,681)
Operations and Maintenance of Plant	6,962,514	1,506,848
Scholarships and Fellowships	2,881,895	283,973
EDUCATIONAL AND GENERAL EXPENDITURES	\$ 70,244,866	\$ 15,098,656
Auxiliary Enterprises Expenditures		14,542
TOTAL EXPENDITURES	\$ 70,244,866	\$ 15,113,198
MANDATORY TRANSFERS		
Principal and Interest	\$	\$ 127,618
Renewals and Replacements		
Other		3,021
TOTAL MANDATORY TRANSFERS	\$	\$ 130,639
TOTAL EXPENDITURES, ADJUSTMENTS AND MANDATORY TRANSFERS	\$ 70,244,866	\$ 15,243,837
OTHER TRANSFERS - ADDITIONS(DEDUCTIONS)		
Restricted Receipts Over (Under)	\$	\$
Transfers to Revenue		
Non-Mandatory Transfers	(432,065)	(111,620)
TOTAL OTHER TRANSFERS -ADDITIONS(DEDUCTIONS)	\$ (432,065)	\$ (111,620)
NET INCREASE (DECREASE) IN FUND BALANCE	\$ (1,350,863)	\$ 274,537

See Summary of Significant Accounting Policies and Notes to Financial Statements.

**Auxiliary
Enterprises**

Restricted

Total

\$ 4,173,680	\$	\$	46,275,151
			31,450,427
		20,421,696	20,597,196
		2,100,865	2,100,865
		6,601,001	6,601,001
364,060		234,831	635,136
18,648,887			25,868,212
			2,167,090
74,801		55,332	1,936,137
\$ 23,261,428	\$ 29,413,725	\$	137,631,215

\$	\$	\$	43,893,230
		3,742,263	17,095,501
		12,771,656	4,979,330
		3,277,448	12,079,626
		1,459,611	11,016,326
		304,350	6,234,490
		34,883	8,486,604
		17,242	10,867,870
		7,702,002	
\$	\$ 29,309,455	\$	114,652,977
19,048,534		104,270	19,167,346
\$ 19,048,534	\$ 29,413,725	\$	133,820,323

\$ 3,048,092	\$	\$	3,175,710
106,480			106,480
1,338,623			1,341,644
\$ 4,493,195	\$	\$	4,623,834

\$ 23,541,729	\$ 29,413,725	\$	138,444,157
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\$	\$	\$	263,236
		263,236	(773,153)
(131,066)		(98,402)	
\$ (131,066)	\$ 164,834	\$	(509,917)
\$ (411,367)	\$ 164,834	\$	(1,322,859)

STATEMENT OF CHANGES IN FUND BALANCE

Year Ended June 30, 1997

	Current Funds			
	Unrestricted			Restrict
	General Operating	Designated	Auxiliary Enterprises	
REVENUES AND OTHER ADDITIONS				
Unrestricted Current Fund	\$ 69,326,068	\$ 15,629,994	\$ 23,261,428	\$
Private Gifts, Grants and Contracts				6,902,70
Government Grants and Contracts				24,651,18
Federal Contributions				
Land Grant Income				
Interest and Recovery on Loans				
Student Fees				
Investment Income				234,83
Retirement of Indebtedness				
Additions to Plant				
Other				55,33
TOTAL REVENUES AND OTHER ADDITIONS	\$ 69,326,068	\$ 15,629,994	\$ 23,261,428	\$ 31,844,05
EXPENDITURES AND OTHER DEDUCTIONS				
Current Funds Expenditures	\$ 70,176,866	\$ 15,113,198	\$ 19,048,534	\$ 29,413,72
Indirect Cost Recovered				2,167,09
Loan Cancellations, Collection Costs and Bad Debt Expense				
Expended for Plant Facilities				
Retirement of Indebtedness				
Interest on Indebtedness				
Other Expenditures				
Deletions from Plant				
Transfers to Other UM Campuses	68,000			
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	\$ 70,244,866	\$ 15,113,198	\$ 19,048,534	\$ 31,580,81
TRANSFERS AMONG FUNDS - ADDITIONS(DEDUCTIONS)				
Mandatory:				
Principal and Interest	\$	\$ (127,618)	\$ (3,048,092)	\$
Renewals and Replacements			(106,480)	
Other		(3,021)	(1,338,623)	
Non-Mandatory	(432,065)	(111,620)	(131,066)	(98,40
Transfer of Land and Buildings				
Net Investment in Plant				
TOTAL TRANSFERS - ADDITIONS(DEDUCTIONS)	\$ (432,065)	\$ (242,259)	\$ (4,624,261)	\$ (98,40
NET INCREASE(DECREASE) FOR THE YEAR	\$ (1,350,863)	\$ 274,537	\$ (411,367)	\$ 164,83
Fund Balance - Beginning of Year	\$ (6,299,816)	\$ 4,324,498	\$ 2,021,537	\$ 2,258,37
Prior Year Adjustments	(45,780)	(64,060)	(10,889)	21,21
FUND BALANCE - BEGINNING OF YEAR RESTATED	\$ (6,345,596)	\$ 4,260,438	\$ 2,010,648	\$ 2,279,59
FUND BALANCE AT END OF YEAR	\$ (7,696,459)	\$ 4,534,975	\$ 1,599,281	\$ 2,444,42

See Summary of Significant Accounting Policies and Notes to Financial Statements

Plant Funds

Student Loans	Endowment Funds	Unexpended	Renewal & Replacement	Retirement of Indebtedness	Investment In Plant
\$ 43,250	\$	\$ 1,632,326	\$	\$	\$
159,004					
199,342		170,258			
41,928		407,608	628,453	1,080,023	
		1,715,055	37,309	384,221	
					2,243,472
53,001	58,790	135,302	187,354	4,178	29,821,443
\$ 496,525	\$ 58,790	\$ 4,060,549	\$ 853,116	\$ 1,468,422	\$ 32,064,915
\$ 249,656	\$	\$ 1,054,505	\$ 4,252,227	\$	\$
				1,755,000	252,567
		1,444,293		4,253,945	
				143,323	1,704,203
				100,000	
\$ 249,656	\$	\$ 2,498,798	\$ 4,252,227	\$ 6,252,268	\$ 1,956,770
\$ (6,686)	\$ 190,055	\$ (1,984,475)	\$ (221,000)	\$ 5,381,185	\$
		(190,813)	190,813	106,480	
		(1,992)		1,343,636	
		774,419	3,816,258	(4,000,893)	
		(721,267)	(830,530)	594,654	957,143
\$ (6,686)	\$ 190,055	\$ (2,124,128)	\$ 2,955,541	\$ 3,425,062	\$ 957,143
\$ 240,183	\$ 248,845	\$ (562,377)	\$ (443,570)	\$ (1,358,784)	\$ 31,065,288
\$ 7,636,887	\$ 3,127,625	\$ 15,975,701	\$ 8,449,951	\$ 2,344,284	\$ 156,460,023
		791,614	(12,509)		
\$ 7,636,887	\$ 3,127,625	\$ 16,767,315	\$ 8,437,442	\$ 2,344,284	\$ 156,460,023
\$ 7,877,070	\$ 3,376,470	\$ 16,204,938	\$ 7,993,872	\$ 985,500	\$ 187,525,311

The University of Montana - Missoula
A Component Unit of the State of Montana

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 1997

1. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The University of Montana-Missoula financial statements include all activities of the University, the Forestry Experiment Station and the Missoula College of Technology. The University of Montana also has administrative oversight for Montana Tech (including Butte College of Technology), Western Montana College and Helena College of Technology. These financial statements exclude activity for these units, which is reported separately by each campus.

The financial statements for The University of Montana - Missoula are included as a component part of the State of Montana General Purpose Financial Statements which are prepared annually and presented in the Montana Comprehensive Annual Financial Report.

The University follows the standards of accounting and reporting as described by National College and University Business Officers (NACUBO). In accordance with Governmental Accounting Standard No. 15, "Governmental College and University Accounting and Reporting Models," the University has adopted the American Institute of Certified Public Accountants' (AICPA) "College Guide Model."

BASIS OF ACCOUNTING

The financial statements of the University have been prepared on the accrual basis, except for depreciation accounting. The statement of current funds revenues, expenditures and other changes is a statement of financial activities related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal additions; (2) mandatory transfers, in the case of required provisions for debt amortization and interest, and property renewal and replacement; and (3) other transfers, for all other cases.

FUND ACCOUNTING

The financial records are maintained in accordance with the principles of fund accounting. These principles require that resources be classified for accounting and reporting purposes into fund groups according to the activities or objectives specified for the resources. Accounts are separately maintained for each fund. In the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Descriptions of these fund groups are as follows:

Current funds - Current funds are used primarily to account for transactions made in performing the primary and support objectives of the University: instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, scholarships and fellowships and auxiliary activities. Funds included in this classification consist of:

- A. **General operating funds** - These funds are used to account for transactions relating to the educational and general operations of the University. The fund balance includes the unfunded liability of \$7,696,861 for compensated absences and associated benefits.
- B. **Designated funds** - These funds are used to account for educational, chargeback, and administrative activities that are essentially self-supporting. Resources in this fund group have been designated for specific purposes by the University.

C. **Auxiliary enterprises funds** - These funds are used to account for transactions of substantially self-supporting activities that primarily provide services for students, faculty and staff. Auxiliary enterprises include activities such as student housing, dining services, swimming pool, golf course and health/dental service.

D. **Restricted funds** - These funds are used to account for current funds expended for operating purposes but restricted by donors or other outside agencies as to how they may be spent. Revenues of the restricted funds are reported in the statement of current funds revenues, expenditures and other changes only to the extent expended for current operating purposes. The difference between receipts and expenditures is included as an addition or deduction to fund balance for the year.

Student loan funds - These funds are available as loans to students to help finance their education and are provided by federal, private and University sources. The federal government provides the majority of the funds.

Endowment and similar funds - These funds have specific donor or other outside agency restrictions prohibiting the expenditure of the principal. Generally, the principal is to be maintained in perpetuity and invested to produce income. The income may or may not be restricted as to use, at the donor's instruction.

Plant funds - These funds are used to account for the transactions relating to investment in University properties. Plant funds include:

- A. **Unexpended plant fund** - comprised of amounts that have been appropriated or designated for land, improvements, buildings and equipment.
- B. **Renewal and replacement fund** - comprised of amounts provided for renewal and replacement of properties.
- C. **Retirement of indebtedness fund** - accumulates resources for interest and principal payments and other debt service charges relating to plant fund indebtedness.
- D. **Net investment in plant fund** - represents the total of property, buildings, equipment and related liabilities.

Agency funds - These funds are used to account for assets held by the University as custodian or fiscal agent for others. Consequently, the transactions of this fund do not affect the statement of changes in fund balances.

2. Assets

Investments - Investments at June 30, 1997 consisted of the following:

	Investments Held by the State of Montana Board of Investments	Investments Held By Trustees
Cash Equivalents	\$11,380,433	\$32,925,444
Stocks and Bonds	2,481,915	
US Government Securities		560,812
UM Foundation Pool		213,290
	\$13,862,348	\$33,699,546

Cash equivalents consist of cash invested in Guaranteed Investment Contracts with MBIA and AIG, in the Short Term Investment Pool (STIP) with the Montana Board of Investments and in short-term, highly liquid investments with original maturities of three months or less. Cash equivalents are classified as Risk Category #1.

STIP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle." The STIP portfolio includes asset-backed securities, banker's acceptances, certificates of deposit, commercial paper, corporate and government securities, repurchase agreements and variable rate securities to provide diversification and a competitive rate of return. Asset-backed securities are collateralized by non-mortgage assets pledged by the issuer. Asset-backed securities 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 Stock Pool (Montcomp) administered by the Montana Board of Investments. Montcomp and TFBP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle."

The Montcomp portfolio includes common stock and convertible equity securities. 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. 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.

The TFBP portfolio includes corporate asset-backed, other corporate, U.S. government mortgage-backed government 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 of Montana Foundation Pool consists of certain endowment funds held in a common investment pool administered by the UM Foundation.

Investments are carried at cost or, in the case of gifts, fair market value at date of receipt except for pooled investments held by the UM Foundation which are reported based on the accounting method used by the foundation. This accounting method reports investments at current value. The market value of cash equivalents and investments held by the State of Montana Board of Investments was \$14,139,125. The market value of cash equivalents and investments held by trustees was \$33,701,609.

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 year 1997, State Street Bank lent, on behalf of the Board, certain securities held by State Street as custodian, and received in return, U.S. dollar currency, U.S. Government securities and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal year 1997 on the amount of loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal year 1997, and there were no losses resulting from default of the borrowers or State Street.

During fiscal year 1997, 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, 1997 the board had no credit risk exposure to borrowers.

Security lending cash collateral for the University of Montana at June 30, 1997 was \$608,605.

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 FIFO or specific identification methods.

Loans Receivable - The loans receivable consist of two types of loans: short-term and long-term. The short-term loans are due in one payment 30 to 90 days from the date borrowed. The long-term loans are generally repayable in installments to the University over a one-year to ten-year period beginning zero to twelve months from the date of separation from the University (depending on loan type). Loans receivable from students bear interest at rates ranging from 0 to 12 percent.

Plant Assets - Plant assets are stated at cost when purchased or constructed or, if acquired by gift, at the estimated fair market value at date of gift. Intangible assets consist entirely of computer software, which is amortized on a straight-line method over a five-year period. The value reported is net of accumulated amortization. Equipment acquired with restricted grants and contracts is recorded as an addition to investment in plant at the time of purchase. On certain grants and contracts, title to equipment purchased is vested with the grantor or contractor until completion of the project at which time the equipment may revert to the University.

Governmental Accounting Standard No. 8, "Applicability of FASB Statement No. 93, Recognition of Depreciation by Not-for-Profit Organizations to Certain State and Local Governmental Entities," provides that governmental colleges and universities should not change their accounting and reporting for depreciation of capital assets as a result of FASB Statement No. 93. Accordingly, the University does not record depreciation of plant assets.

Property, equipment and other assets at June 30, 1997 consisted of the following:

Intangible Assets	\$	1,330,857
Buildings and Improvements		132,369,056
Furniture and Equipment		35,544,201
Library Books and Materials		31,329,444
Land/Land Improvements		11,948,007
Construction in Progress		43,068,337
Museum and Art Collection		4,706,790
Livestock		<u>180,455</u>
Total	\$	260,477,147

In 1881, the University became the beneficiary of a 46,709 acre land grant. Under provisions of the grant, proceeds from the sale of land and land assets 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 \$170,258 in fiscal year ended June 30, 1997 and is reported as plant fund revenue.

3. Liabilities

Capital Leases - The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 1997:

Fiscal Year	Capital Leases
1998	\$ 489,137
1999	390,614
2000	121,326
2001	16,429
Thereafter	0
Minimum Lease Payments	\$1,017,506
Less: Amount Representing Interest	(71,628)
Present Value of Net Minimum Lease Payments	\$ 945,878

Bonds Payable - On November 10, 1993, the University issued \$47,095,000 in Series A 1993 Revenue bonds with interest rates ranging from 2.3 to 5.0 percent to advance refund \$15,383,643 of outstanding 1985/1987 Series A and B Revenue bonds with interest rates ranging from 6.0 to 9.75 percent. Proceeds of \$21,254,665, 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 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.

On January 5, 1995, the University issued \$6,520,000 in Series B 1995 Revenue Bonds with interest ranging from 4.6 to 6.95 percent. On December 14, 1995, the University issued \$25,041,752 in Series C 1995 Revenue Bonds with interest ranging from 3.8 to 5.375 percent. On November 15, 1996, the University issued \$15,950,501 in Series D 1996 Revenue Bonds with interest ranging from 4.0 to 5.75 percent. The proceeds from all three issues provided funds for the acquisition, construction, repair, replacement, renovation and improvement of certain facilities and properties at the University.

Included in the Series D proceeds is \$7,000,000 for classroom and laboratory renovation at all campuses for which The University of Montana has administrative oversight. Beginning in FY98, a student fee for academic facilities will be collected and remitted to the Missoula campus for debt service on the \$7,000,000.

Revenue bonds are payable from certain auxiliary and designated operations, student fees and other revenues as defined in the bond indentures. All pledged revenues are cross-pledged with the other campuses of The University of Montana.

Revenue Bonds Payable - As of June 30, 1997, annual principal payments are as follows:

Series A 1993		
Fiscal Year	Interest Rate	Principal
1998	3.60 - 3.75%	\$ 1,545,000
1999	3.75 - 3.80%	1,605,000
2000	3.80 - 4.00%	1,665,000
2001	4.00 - 4.10%	1,730,000
2002+	4.10 - 5.00%	36,030,000
	Total	\$42,575,000
	Less Unamortized Discount	(1,084,902)
	Total 1993 A Bonds Payable	\$41,490,098

Series B 1995		
Fiscal Year	Interest Rate	Principal
1998	5.00 - 5.20%	\$ 270,000
1999	5.20 - 5.40%	295,000
2000	5.40 - 5.50%	300,000
2001	5.50 - 5.60%	325,000
2002+	5.60 - 6.65%	4,815,000
	Total 1995 B Bonds Payable	\$ 6,005,000

Series C 1995		
Fiscal Year	Interest Rate	Principal
1998	4.10 - 4.20%	\$ 199,439
1999	4.20 - 4.30%	403,742
2000	4.30 - 4.375%	432,929
2001	4.375 - 4.50%	447,522
2002+	4.50 - 5.375%	23,558,120
		\$25,041,752
	Less Unamortized Discount	(942,491)
	Total C Bonds Payable	\$24,099,261

Series D 1996		
Fiscal Year	Interest Rate	Principal
1998	4.00%	\$ 270,000
1999	4.20%	540,000
2000	4.40%	560,000
2001	4.50%	585,000
2002+	4.65-5.75%	13,995,501
		\$15,950,501
	Less Unamortized Discount	(186,055)
	Total D Bonds Payable	\$15,764,446

In prior years, the University 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, 1997, \$7,015,000 of bonds outstanding is considered defeased.

Notes Payable - On June 30, 1997, The University of Montana was indebted for long-term notes payable as follows:

Description	Interest Rate	Maturity Date	Principal Outstanding
University Center Bookstore	Variable	June 30, 2005	\$ 500,000
InterCap - College of Technology	Variable	February 20, 1999	40,837
InterCap - KUFM TV	Variable	February 15, 2007	474,700
InterCap - Printing Services	Variable	February 15, 2000	51,965
Mortgages	8.50%	June 15, 2017	281,000
Total Notes Payable			\$1,348,502
Less - Current Maturities			(80,141)
Total Long-Term Notes Payable			\$1,268,361

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. Sick and annual leave expenses include an increase of \$1,698,795 in estimated compensated leave liability.

4. Commitments

The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and that liabilities include only the unpaid amounts associated with such expenditures. Accordingly, approximately \$232,716 of outstanding purchase orders and purchase commitments as of June 30, 1997 is not reported in the accompanying financial statements.

As of June 30, 1997, the University has initiated construction of the following major capital projects:

Project	Total		Funding Source
	Amount Authorized	Total Expenditures as of 6/30/97	
Davidson Honors College	\$ 2,000,000	\$ 1,985,565	Private Donation
Business Administration Building	15,850,000	15,769,465	Private Donation & State Funds
Family Housing Community Center	300,000	296,329	Auxiliaries
Prescott House/Grounds	650,000	152,339	1993 A & 1995 C Revenue Bonds
Lodge Renovation	3,800,000	1,369,879	1995 B, 1995 C Revenue Bonds
Lubrecht Residence Complex	875,000	864,501	1995 B Revenue Bonds

<u>Project</u>	Total	Total	<u>Funding Source</u>
	<u>Amount Authorized</u>	<u>Expenditures as of 6/30/97</u>	
Student Health Renovation	\$3,150,000	\$3,137,267	1995 B Revenue Bonds & Auxiliaries
Law School Basement	1,000,000	712,297	Private Donation
Residence Life Cabling System	800,000	540,740	Auxiliaries
Adams Field House	23,000,000	1,668,567	1995 C & 1996 D Revenue Bonds with Supplemental Renovation Funding
Continuing Education/Printing Facility	4,375,000	367,243	1995 C Revenue Bonds
Family Housing Complex Phase II	3,340,000	2,677,027	1995 C Revenue Bonds
University Theatre Renovation	2,000,000	646,815	1995 C Revenue Bonds
Parking Structure	1,000,000	935,565	1995 C Revenue Bonds
Chemistry Stores	600,000	42,554	1995 B Revenue Bonds
Biotech Lab	500,000	475,441	Indirect Cost Recovery
Electronic Security Access Residence Halls	300,000	133,673	Auxiliaries
Knowles Hall Life Safety Renovation	375,000	300,218	1993 A Revenue Bonds
Research Facility	1,400,000	0	1995 B & C Revenue Bonds
Replace Boilers University Village	200,000	82,098	1995 C Revenue Bonds
Moot Court Law School Renovation	250,000	11,843	Private Donation
Pharmacy Addition & Renovation	10,400,000	275,168	Private Donation & State Funds
Total	\$76,165,000	\$32,444,594	

5. Federal Aid Fees

The University assesses a fee to cover administrative costs of the Federal Perkins Loan Fund and federal student aid programs. Federal regulations permit the entire fee to be charged to a single program or distributed equally, or unequally, to the various programs at the University's option. Administrative costs charged to federal financial aid programs for the fiscal year ended June 30, 1997 were \$172,919.

6. Retirement Plans

Full-time employees of The University of Montana are all members of the Public Employees Retirement System (PERS), 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 and TRS

PERS 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.

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 1997, expressed as a percentage of covered payroll are as follows:

	<u>Employee</u>	<u>Employer</u>
PERS	6.70%	6.70%
TRS	7.044%	7.47%

The amounts contributed to the plan during years ending June 30, 1995, 1996, and 1997 were equal to the required contribution each year. The amounts contributed were as follows:

	<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>
PERS - Employer	1,244,059	1,359,635	1,357,478
Employee	1,244,063	1,359,636	1,357,555
TRS - Employer	1,302,770	1,486,044	1,389,805
Employee	1,228,475	1,401,206	1,310,557

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 Division, P.O. Box 200131,
1712 Ninth Avenue, Helena, Montana 59620-0131 (406) 444-3154

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 are immediately vested with contributions.

Contributions to ORP for fiscal year 1997 are as follows:

	<u>ORP (TIAA-CREF)</u>
Covered Payroll	\$14,949,713
Employer Contributions	740,908
Percent of Covered Payroll	4.956%
Employee Contributions	1,053,057
Percent of Covered Payroll	7.044%

In addition, a total of \$374,191 or 2.503 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:

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

7. Contingencies

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

Funds provided to the University and accounted for in the current restricted funds and student loan 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. 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.

8. Affiliated Organizations

The University of Montana is a component unit of the State of Montana. These financial statements include only the activities, funds and accounts of the University. Private nonprofit organizations affiliated with the University include The University of Montana Foundation, the Grizzly Athletic Association, and The University of Montana Alumni Association. The foundation and associations operate exclusively for the purposes of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with, the University. In fiscal year 1997, \$5,264,387 was transferred to/expended for the University for scholarships and academic/institutional support from the foundation and \$793,385, was transferred for scholarships and construction projects from the Grizzly Athletic Association. In exchange, the University provides the Foundation with office space and an annually contracted fee; and the associations with office space, staff and some related office expenses.

The University of Montana - Missoula transferred funds to Western Montana College during fiscal year 1997. \$68,000 was transferred from the general fund and \$100,000 was transferred from a plant fund.

