A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

# University of Montana

## For the Fiscal Year Ended June 30, 2015

JANUARY 2016

LEGISLATIVE AUDIT
DIVISION

*15-10A*

## Legislative Audit Committee



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## Financial Audits

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

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

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

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

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Reports can be found in electronic format at:
http://leg.mt.gov/audit

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

January 2016

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on the University of Montana's (university) consolidated financial statements for the fiscal year ended June 30, 2015, with comparative information for the fiscal year ended June 30, 2014. The statements include financial information from four fundraising organizations of the university. This report contains no recommendations to the university.

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

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA
Legislative Auditor

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Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

# Table of Contents

# Appointed and Administrative Officials

| | | Term Expires |
|---|---|---|
| **Board of Regents of Higher Education** | Paul Tuss, Chair | February 1, 2020 |
| | Fran M. Albrecht, Vice Chair | February 1, 2019 |
| | William Johnstone | February 1, 2017 |
| | Casey Lozar | February 1, 2018 |
| | Robert A. Nystuen | February 1, 2022 |
| | Martha Sheehy | February 1, 2021 |
| | Asa Hohman, Student Regent | June 30, 2016 |
| | Mariah Williams, Student Regent | June 30, 2015 |
| | Clayton Christian, Commissioner of Higher Education* | |
| | Steve Bullock, Governor* | |
| | Denise Juneau, Superintendent of Public Instruction* | |
| | *Ex officio members | |

| | | |
|---|---|---|
| **Office of the Commissioner of Higher Education** | Clayton Christian | Commissioner of Higher Education |
| | Mick Robinson | Deputy Commissioner for Fiscal Affairs, Chief of Staff |
| | John Cech | Deputy Commissioner, Academic & Student Affairs |
| | Tyler Trevor | Deputy Commissioner for Planning and Analysis |
| | Kevin McRae | Deputy Commissioner for Communications and Human Resources |
| | Frieda Houser | Director of Accounting and Budget |
| | Vivian Hammill | MUS Chief Legal Counsel, Deputy Commissioner |

| | | |
|---|---|---|
| **University of Montana** | Royce C. Engstrom | President |

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

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

For additional information concerning the University of Montana, contact:

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Montana Legislative Audit Division

# Financial Audit
# University of Montana
## For the Fiscal Year Ended June 30, 2015

January 2016 | 15-10A | Report Summary

The University of Montana is comprised of University of Montana–Missoula, Montana Tech of the University of Montana, University of Montana–Western, and Helena College University of Montana. Student enrollment has continued to decline in fiscal year 2015 to 16,717 from 17,139 in fiscal year 2014.

## Context

We performed an annual financial statement audit of the University of Montana (university) to provide an independent assessment of whether the university's financial statements reliably represent the financial position of the university as of June 30, 2015, as well as the results of operations and cash flows for the year then ended.

The statements include financial information from four fundraising organizations which are the University of Montana Foundation, the Montana Tech Foundation, the University of Montana–Western Foundation, and the Montana Grizzly Scholarship Association. These foundations had combined net assets of $261.5 million at June 30, 2015, comparable to the university's net position of $209.1 million.

During fiscal year 2015, the university incurred a $69.8 million decline in net position. The decline in enrollment contributed to the decline in net position but did not have a significant impact on the tuition and fees revenue. The decrease is mainly related to the effect of the implementation of a new governmental accounting standard. Governmental Accounting Standards Board (GASB) Statement No. 68 requires the university to recognize its portion of the defined benefit pension liability and expense and the related deferred outflows and inflows.

In performing this audit, we obtained an understanding of the university's controls over the significant activity and balances. We focused our audit efforts on activity related to tuition and fees, grants and contracts, compensation and benefits, student financial aid, as well as other account balances and transaction cycles.

A separate biennial audit is also conducted to determine compliance with selected state and federal laws and regulations. We issued this compliance audit (15-12) for the two fiscal years ended June 30, 2015, under separate cover in October 2015.

## Results

We issued unmodified opinions on the university's financial statements.

The audit report does not contain any findings or recommendations.

For a complete copy of the report (15-10A) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at http://leg.mt.gov/audit
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.

# Chapter I – Introduction

## Audit and Objectives

We performed a financial audit of the University of Montana (university) for the fiscal year ended June 30, 2015. The objectives of the audit were to:

1. Determine whether the university's financial statements present fairly the financial position, changes in financial position, and cash flows for the fiscal year ended June 30, 2015, with comparative financial amounts for the fiscal year ended June 30, 2014.
2. Obtain an understanding of the university's control systems to the extent necessary to support the audit of the financial statements, and if appropriate, make recommendations for improvement in management and internal controls.
3. Determine the university's compliance with selected applicable laws and regulations.

To address objectives #1 and #2, we obtained an understanding of the university's controls over the significant activity and balances, as well as the university's primary accounting system, BANNER. We focused our audit efforts on activity related to tuition and fees, grants and contracts, compensation and benefits, student financial aid, as well as other account balances and transaction cycles. The audit work also included review of the financial statement process and preparation.

A separate biennial audit is also conducted to determine compliance with selected state and federal laws and regulations. We issued this compliance audit (15-12) for the two fiscal years ended June 30, 2015, under separate cover in October 2015.

## Background

The University of Montana consists of four campuses:

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

All campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The four campuses of the University of Montana provide a diversity of undergraduate and graduate academic and two-year vocational/technical programs to students.

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

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

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

**Helena College University of Montana** is a growing two-year college offering associate degrees and technical proficiency certificates. Helena College also provides studies toward upper-level and graduate level programs. Approximately 1,500 students are served by Helena College each semester.

Additional information on enrollment, degrees granted, and employee levels is presented on page A-67.

# Independent Auditor's Report and University Financial Statements

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

# Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

***Introduction***

We have audited the accompanying Consolidated Statements of Net Position of the University of Montana (university), a component unit of the state of Montana, as of June 30, 2015, and 2014, the related Consolidated Statements of Revenues, Expenses and Changes in Net Position, and Consolidated Statements of Cash Flows for each of the fiscal years then ended, and the University Component Units–Combined Statements of Financial Position as of June 30, 2015, and 2014, and the related University Component Units–Combined Statement of Activities for the fiscal years then ended and the related notes to the financial statements.

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

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

***Auditor's Responsibility***

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The other auditors did not perform the audits in accordance with *Government Auditing Standards.*

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

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

***Opinion***

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Montana as of June 30, 2015, and 2014, and the changes in net position and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Notes 1 and 17 to the financial statements, in fiscal year 2015, the University of Montana adopted the Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis beginning on page A-5, the Required Supplementary Information related to pensions beginning on page A-63, and the Required Supplementary Information related to Other Post–Employment Benefits on page A-66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2015, on our consideration of the University of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the university's internal control over financial reporting and compliance.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 22, 2015

# UNIVERSITY OF MONTANA

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

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## MANAGEMENT'S DISCUSSION AND ANALYSIS
## FISCAL YEAR ENDED JUNE 30, 2015 OVERVIEW

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

The discussion and analysis which follows provides a comparative overview of the University's financial position and operating results for the fiscal years ended June 30, 2015, 2014, and 2013, and should be read in conjunction with the fiscal year 2015 financial statements.

## FINANCIAL HIGHLIGHTS

**<u>The financial highlights for fiscal year 2015 were</u>:**

- In FY15, the University implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which became effective for fiscal years ending after June 14, 2014. The statement established among other things, standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense. The effect of the changes from the implementation of GASB 68 was to reduce the University's previously stated beginning net position of $278,950,762, by $82,931,473. The net pension liability at fiscal year-end was $74,796,398.

- The University issued $20,500,000 of Series N 2015 Tax Exempt Facilities Revenue Refunding Bonds in FY15. The proceeds of the issue provided funds to advance refund most of the Series J 2005 Bonds and pay the costs of issuance. The economic gain for the University from the advanced refunding was $1,941,153.

- After seeing little growth over the past several years, Federal grants and contract revenue saw a marked increase in FY15 of over 13%, or $6.1 million. Several large grants awarded to the Missoula campus, such as the $45 million, five-year award with the U.S. Army Corps of Engineers to study and solve environmental and cultural resource problems across the nation, have contributed to the increase in grant and contract activity.

- The University's enrollment decreased by 422 full time equivalent students (FTE) from 17,139 in FY14, to 16,717 in FY15, or a 2.5% decline. Since FY10, enrollment has declined by 2,322 FTE, or 12.2%. Montana Tech did see an increase of 51 FTE in FY15, which helped offset the declines in enrollment at the other campuses. Despite the decline in enrollment, tuition and fees revenue decreased by less than 1%, or $304,673, in FY15. Mitigating the revenue impact of the decline in enrollment was an overall increase in nonresident FTE, and a 3.0% tuition increase assessed this group.

- Through the efforts of the University of Montana Foundation, the University received several large gifts in FY15. The School of Law received a $10.0 million gift to fund an endowed chair in consumer law and protection. In addition, a $7.0 million gift was received to help build the Washington Champion Center on the Missoula campus.

**Management, Discussion and Analysis (continued)**

- The University continues to receive an indicative credit ratings of A+ and A1 from Standard and Poor's and Moody's, respectively.

**The financial highlights for fiscal year 2014 were:**

- Upon further review of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* by independent auditors, it was determined that some provisions of the standard were not implemented properly by the State of Montana and its component units, which caused the University's other postemployment benefits (OPEB) liability recorded in the statement of net position to be overstated by $6,280,146. The FY14 consolidated financial statements have been restated to reflect the overstatement in prior periods. In addition, the OPEB expense recorded by the University will be reduced in future years based on changes made to the annual OPEB cost calculation.

- The University of Montana issued $7,891,000 of Series M 2013 Tax Exempt Revenue Bonds in December, 2013. The bond proceeds provided funding to cover the cost of construction projects on the Butte and Missoula campuses and to cover the cost of issuance for Series M 2013. Projects funded from the bond proceeds on the Missoula campus include the Technology Modular Units for $1,870,791, the Gilkey Executive Education Center for $1,490,000 and the Interdisciplinary Science Building (ISB) for $3,152,526. Projects funded on the Montana Tech campus include the renovation of restrooms in Prosper Residence Halls for $1,246,913.

- Long term investments increased by about $16.2 million primarily from the purchase of $20.0 million of additional intermediate term investments and an increase in the investments fair market value during the year. The additional amount invested in intermediate term investments and the positive fair market value adjustment helped increase investment earnings by $2.8 million over the prior year.

- Tuition and fees revenue declined by $2.8 million in FY14 due to a continued decline in enrollment primarily at the Missoula campus, which saw its full time equivalent students (FTE) drop by 619 students. Overall, FTE for the University declined by 738 FTE from 17,877 FTE in FY13, to 17,139 in FY14. The University increased tuition for nonresident students by 3% in FY14, which partially mitigated the revenue decline from the lower enrollment.

- Resident tuition was frozen for FY14 and FY15 due to the College Affordability Plan (CAP) agreement reached between the governor and Montana University System. However, the 2013 Legislature appropriated sufficient funds to the Montana University System to fund the CAP agreement.

- The most recent agreement reached with bargaining units representing faculty and classified staff provided for a wage increase of 2.5% plus $250 in FY14. Classified staff not covered by union representation, administrators, and contract professionals, were also eligible for a similar wage increase. The pay increases totaled around $4.7 million.

- The University continues to receive an indicative credit ratings of A+ and A1 from Standard and Poor's and Moody's, respectively.

## USING THE FINANCIAL STATEMENTS

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

**Management, Discussion and Analysis (continued)**

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

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

## STATEMENT OF NET POSITION

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

| | For the years ended June 30, (stated in millions) | | |
|---|---|---|---|
| | **2015** | **2014** | **2013*** |
| **Description** | | | |
| Total current assets | $ 90.52 | $ 94.10 | $ 105.26 |
| Total non-current assets | 441.75 | 451.76 | 441.97 |
| **Total assets** | $ 532.27 | $ 545.86 | $ 547.23 |
| **Deferred outflows of resources** | $ 18.21 | $ 3.41 | $ 3.81 |
| Total current liabilities | $ 65.42 | $ 79.91 | $ 82.80 |
| Total non-current liabilities | 258.75 | 190.41 | 188.06 |
| **Total liabilities** | $ 324.17 | $ 270.32 | $ 270.86 |
| **Deferred inflows of resources** | $ 17.24 | $ - | $ - |
| Net invested in capital assets | $ 228.13 | $ 214.82 | $ 224.18 |
| Restricted: | | | |
| Nonexpendable | 21.90 | 22.88 | 20.93 |
| Expendable | 4.12 | 5.81 | 6.22 |
| Unrestricted | (45.08) | 35.44 | 28.85 |
| **Total net postion** | $ 209.07 | $ 278.95 | $ 280.18 |

***Restated***

**Management, Discussion and Analysis (continued)**

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

**Events or developments which occurred during 2015 include:**

- Current assets increased by $3.5 million due primarily to an increase of $8.4 million in cash and cash equivalents from the maturity of Federal agency securities, which was offset by a decrease in securities lending collateral of $12.2 million. The University is allocated a portion of securities lending collateral held by the Montana Board of Investments (MBOI) based on the University's position in investment pools holding securities lending collateral at fiscal year-end. Variances between other current asset classifications were not significant.

- Noncurrent assets decreased by $10.0 million in FY15 largely because of a decrease in other long term investments in the same amount. $10.0 million of federal agency securities that matured during the year were not reinvested by the University.

- The University recorded deferred outflows of resources of $14.8 million from the implementation of GASB 68, *Accounting and Financial Reporting for Pensions*, in FY15. Deferred outflows also includes the unamortized loss from revenue bond debt refunding, which increased slightly from the refunding of outstanding Series J revenue bonds. The University did not restate FY14 for GASB 68 because insufficient actuarial data was available.

- Current liabilities decreased by almost by $14.5 million due largely to a $12.2 million decrease in MBOI's allocation of securities lending liability to the University and a $4.0 million decrease in unearned auxiliary revenue, that was offset by a $3.0 million net increase in accounts payable and accrued liabilities.

  The increase in accrued compensation and benefits of $4.6 million, offset by a $1.6 million decrease in year-end accounts payable and other accruals, accounts for the net increase in accounts payables and accrued liabilities.

- The large increase in noncurrent liabilities of $68.3 million is due primarily to the recording of a $74.8 million pension liability as required by GASB 68, *Accounting and Financial Reporting for Pensions*, implemented by the University in FY15, which was offset by an $8.4 million decrease in long term obligations and an increase in GASB 45, Other Postemployment Benefits Obligations, of $3.1 million.

- Deferred inflows were recorded in FY15, of $17.3 million as result of the implementation of GASB 68. FY14 was not restated because insufficient actuarial information was available for prior years.

- The University's net positon decreased by $69.8 million, due primarily to a prior period adjustment to beginning unrestricted net position of $82.9 million from the implementation of GASB 68. The GASB 68 adjustment was offset by a $13.3 million increase in net investment in capital assets, which represents an increase in equity in capital assets from principal payments on long term obligations in FY15

**Events or developments which occurred during 2014 include:**

- Current assets declined by $11.2 million, due primarily to a $10.6 million decrease in securities lending collateral allocated to the University by the Montana Board of Investments at FYE and a $4.0 million decrease in cash and cash equivalents. The decrease was offset in part by increases of $1.4 million and $1.7 million in due from Federal government and prepaid expenses, respectively.

- Noncurrent assets increased by $9.8 million largely from an increase in long term investments of over $15.7 million, offset in part by a net decrease in capital assets of $5.2 million. The increase in long term investments in FY14, was due primarily to a purchase of $20.0 million of additional intermediate term investments acquired largely with available cash reserves. The net decrease in capital assets resulted from

**Management, Discussion and Analysis (continued)**

a net increase in accumulated depreciation of $19.3 million, which exceeded the net increase in additions to capital assets of $14.1 million.

- Current liabilities decreased by $2.9 million due to a $10.6 million decrease in the securities lending liability allocated to the University at FYE by the Montana Board of Investments, which was offset in part by increases of $2.0 million in accounts payable, a $1.6 million increase in student and other deposits, and a $2.7 million increase in unearned revenue. Other less significant changes to other current liability classifications also affected the net decrease in current liabilities.

- Noncurrent Liabilities increased by $2.3 million largely from an increase in the liability for other postemployment benefits (OPEB) of $3.9 million, which is the increase in the OPEB obligation calculated in accordance with GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* The increase in the OPEB obligation was offset primarily by a $1.6 million net decrease in long term debt.

- The University's overall net position declined by about $1.2 million in FY14, primarily because of a $9.4 million decline in net investment in capital assets offset by a $2.0 million increase in nonexpendable endowments and a $6.6 million increase in unrestricted net position. Depreciation expense of $23.3 million exceeded capital grants and gifts revenue and total principal payments on long-term debt, which accounted for much of the decline in net investment in capital assets. The overall decline in net position was not as significant compared to the prior year, when net position declined by $6.9 million (restated).

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

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

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

| | For the years ended June 30, (stated in millions) | | |
|---|---|---|---|
| | **2015** | **2014** | **2013*** |
| **<u>Description</u>** | | | |
| Operating revenues | $ 269.03 | $ 255.33 | $ 259.80 |
| Operating expenses | 409.84 | 399.39 | 398.40 |
| **Operating loss** | (140.81) | (144.06) | (138.60) |
| Non-operating revenues (expenses) | 143.74 | 138.55 | 130.39 |
| **(Loss) income before other revenues** | 2.93 | (5.51) | (8.21) |
| Other revenues | 10.12 | 4.28 | 1.27 |
| **Net (decrease) increase in net position** | 13.05 | (1.23) | (6.94) |
| Net Position, beginning of year as previously stated | 278.95 | 280.18 | 280.84 |
| Restatement for net pension liability and related expenses | (82.93) | - | - |
| Adjustment for OPEB liability misstatement | - | - | 6.28 |
| Net Position, beginning of year as restated | 196.02 | 280.18 | 287.12 |
| **Net position, end of year** | $ 209.07 | $ 278.95 | $ 280.18 |

***Restated***

## Management, Discussion and Analysis (continued)

The following provides a comparative analysis of revenues and expenses for the years ended June 30, 2015, 2014, and 2013:

| | For the years ended June 30, (stated in millions) | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2013* | |
| **REVENUES** | Amount | Percent | Amount | Percent | Amount | Percent |
| Tuition and fees, net | $ 119.12 | 27.87% | $ 119.42 | 29.60% | $ 122.31 | 30.82% |
| Federal grants and contracts | 52.38 | 12.26% | 46.26 | 11.48% | 49.72 | 12.54% |
| State & local grants/contracts | 9.08 | 2.12% | 9.05 | 2.24% | 10.62 | 2.68% |
| Nongovernmental grants/contracts | 10.33 | 2.42% | 8.92 | 2.21% | 6.03 | 1.52% |
| Facilities and administrative cost allowances | 8.83 | 2.07% | 8.28 | 2.05% | 8.96 | 2.26% |
| Sales/services of educational departments | 16.66 | 3.90% | 15.47 | 3.83% | 17.28 | 4.35% |
| Auxiliary enterprise charges | 44.34 | 10.37% | 41.70 | 10.34% | 39.04 | 9.84% |
| State appropriations | 99.47 | 23.27% | 92.52 | 22.93% | 85.39 | 21.52% |
| Federal financial aid grants and contracts | 27.80 | 6.50% | 29.80 | 7.39% | 32.08 | 8.08% |
| Investment income | 1.53 | 0.36% | 5.16 | 1.28% | 2.33 | 0.59% |
| Private gifts | 17.45 | 4.08% | 14.42 | 3.57% | 14.03 | 3.54% |
| Capital grants and gifts | 10.12 | 2.37% | 4.29 | 1.06% | 1.60 | 0.40% |
| All other sources combined | 10.36 | 2.42% | 8.16 | 2.02% | 7.47 | 1.88% |
| **Total revenues** | $ 427.47 | 100.01% | $ 403.45 | 100.00% | $ 396.86 | 100.02% |
| **EXPENSES** | **Amount** | **Percent** | **Amount** | **Percent** | **Amount** | **Percent** |
| Compensation and benefits | $ 255.23 | 61.59% | $ 254.63 | 62.92% | $ 249.98 | 61.91% |
| Pension expense | 7.03 | 1.70% | - | 0.00% | - | 0.00% |
| Other postemployment benefits | 4.56 | 1.10% | 4.65 | 1.15% | 5.72 | 1.42% |
| Other operating expenses | 94.96 | 22.91% | 90.29 | 22.31% | 91.15 | 22.57% |
| Scholarships and fellowships | 24.33 | 5.87% | 26.49 | 6.55% | 27.74 | 6.87% |
| Depreciation and amortization | 23.73 | 5.73% | 23.33 | 5.77% | 23.81 | 5.90% |
| Interest expense | 4.58 | 1.11% | 5.29 | 1.31% | 5.40 | 1.34% |
| **Total expenses** | $ 414.42 | 100.00% | $ 404.68 | 100.00% | $ 403.80 | 100.00% |

***Restated**

### Events or developments which occurred during 2015 include:

Overall, the University saw a $13.1 million increase in its net position in FY15. Significant factors affecting the University's net position are described below:

- Operating revenues increased by $13.7 million due largely to an increase in grant and contract revenues of $8.1 million, representing an 11.2% increase. The Missoula campus was awarded $83.0 million in external research funding in FY15, which was an all-time record for the campus and 17.0% more than the next highest award year. The substantial increase in awards was a significant reason for the increase in grant and contract revenue recognized in FY15. The Auxiliary food service and other revenues increased by $2.6 million and 2.1 million, respectively, accounting for much of the remaining increase in operating revenues in FY15. The decline in tuition and fee revenue from a 422 drop in FTE, was largely mitigated by a 3.0% increase in nonresident tuition and fees, resulting in a net decline from this source of just over $300 thousand.

- The overall increase in operating expenses of $10.5 in FY15, was primarily due to recording $7.0 million in pension expense from implementing GASB 68, and a $4.7 increase in other expenses largely from a substantial increase in grant and contract activity. Offsetting the increase to operating expenses was a $2.2 million decrease in scholarships and fellowships expense.

  A wage increase of 2.5% plus $250, negotiated with University employee bargaining units, and a similar wage increase for University administrators and contract professionals, increased compensation and employee benefits by approximately $10.8 million. GASB's 68/71, implemented in FY15, required current year employer contributions made to defined benefit plans to be recorded as deferred outflows, which

**Management, Discussion and Analysis (continued)**

decreased employee benefit expense by over $10.7 million and largely mitigating the effect of employee wage increases.

- Non-operating revenues (expenses) increased by almost $5.2 million mainly from a $6.9 million increase in state appropriations and a $3.0 million increase in private gifts, offset by a decrease in Federal Pell Grant funding and investment earnings of $2.0 million and $3.6 million, respectively. Much of the $3.6 million decrease in investment earnings is due to a decline in investments fair market value during FY15.

- The increase in other revenues of over $5.8 million is primarily from foundation donations to fund several major capital projects on the Missoula campus.

**Events or developments which occurred during 2014 include:**

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

- Operating revenues declined by $4.5 million due largely to a $2.9 million decline in tuition and fees revenue, a net decline of $2.1 million in grants and contracts revenue and a $1.8 million decline in sales and service revenue, which were offset in part by a $2.7 million increase in auxiliary enterprise revenues. The University continued to experience a decline in-state and out-of-state enrollment as evidenced by a 738 decrease in full time equivalent (FTE) students in FY14. Since 2012, enrollment has dropped by 1,570 FTE or around 8.4%. The decline in grants and contracts revenue is primarily due to a decline of $3.5 million in funding awarded to the University by the federal government. Research institutions face a very competitive environment when vying for federal funding available for basic research, which has remained relatively flat over the past 10 years.

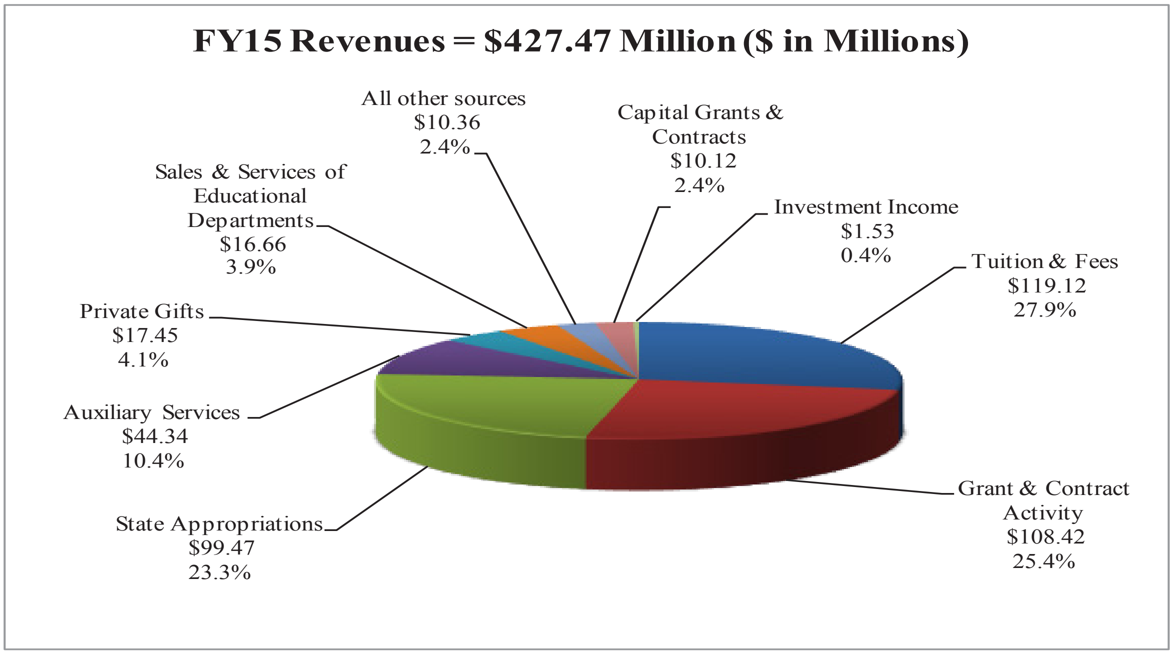
- In total, operating expenses increased by less than $1.0 million compared to FY13, or by 0.25%, due largely to a $1.0 million decrease in other postemployment benefits expense, a $1.3 million decrease in scholarships and fellowships and a $1.3 million decrease in other operating expense classifications, which offset a $4.7 million increase in compensation and employee benefits. A wage increase of 2.5% plus $250, negotiated with University employee bargaining units was paid to eligible employees, increasing compensation expense by approximately $4.7 million. University administrators and contract professionals were also eligible to receive a similar wage increase. In addition, the University's contribution to the employee benefit plan increased from $733 per month to $806 per month, increasing group insurance expense by over $2.5 million. These increases to compensation and benefits expense were offset in part, by an almost $3.0 million decrease in other wages, workers comp, and compensated absences expense.

- Non-operating revenues increased by over $8.1 million mainly from a $7.1 million increase in state appropriations and a $2.8 million increase investment earnings, offset by a $2.2 million decrease in Federal Pell Grant funding. Much of the $2.8 million increase in investment earnings is due to an increase in investments fair market value during FY14.

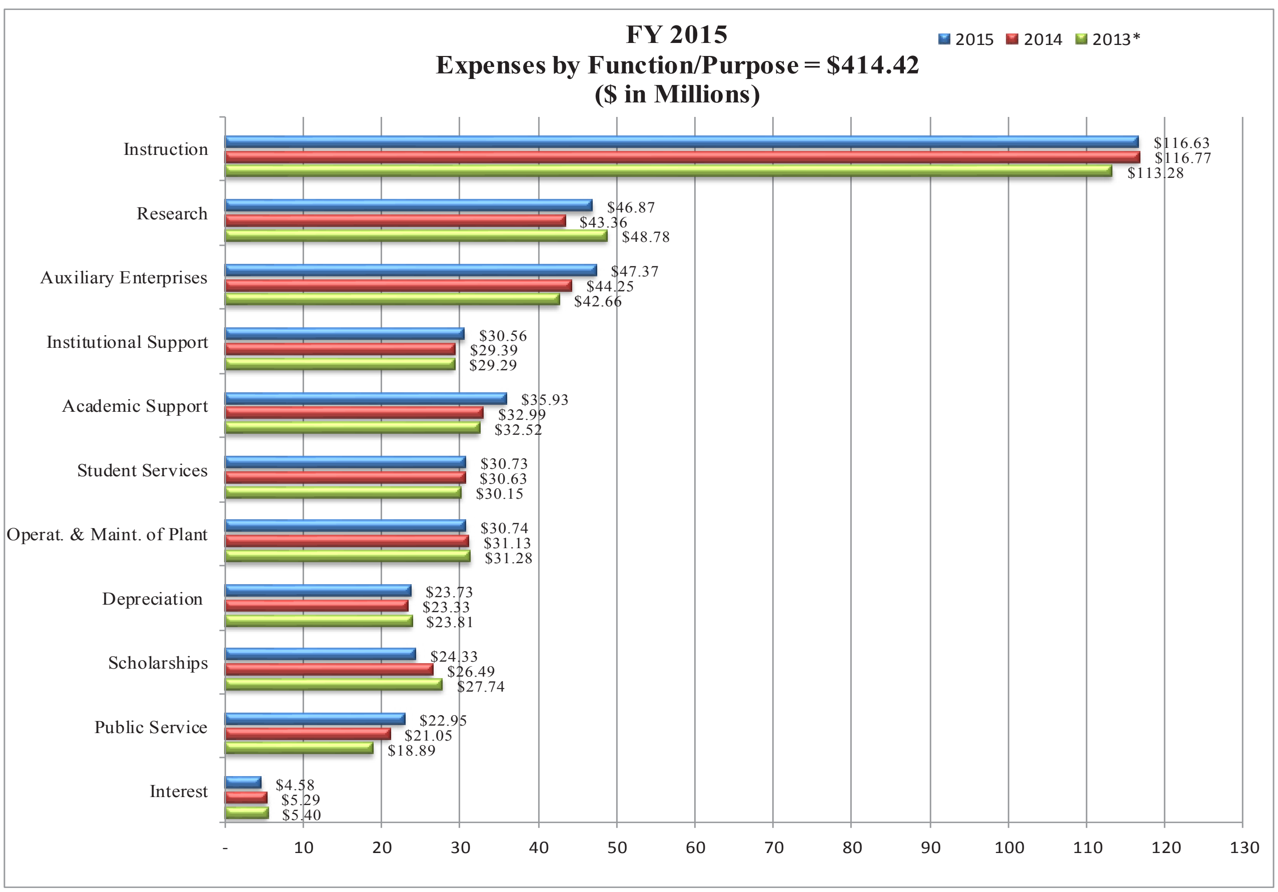
- Other revenues increased by $3.0 million due largely to an increase in capital grants and gifts of $3.0 million in FY14, which included $1.9 million in capital donations from the University's foundations.

**Management, Discussion and Analysis (continued)**

The following chart provides a graphical representation of revenue classifications as a percentage of total revenues for fiscal year 2015:




The following chart provides a graphical comparison of operating expenses by function for fiscal years 2015, 2014 and 2013:




***Restated**

**Management, Discussion and Analysis (continued)**

## STATEMENT OF CASH FLOWS

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

| | For years ended June 30, (stated in millions) | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| **Cash Flow Category** | | | |
| Cash Provided by (Used for): | | | |
| Operating Activities | $ (123.30) | $ (112.30) | $ (100.32) |
| Non-capital Financing Activities | 146.80 | 138.67 | 133.46 |
| Capital and Related Financial Activities | (27.67) | (19.36) | (23.38) |
| Investing Activities | 12.46 | (11.00) | (15.98) |
| **Net Increase (Decrease) in Cash** | 8.29 | (3.99) | (6.22) |
| Cash and Cash Equivalents, beginning of year | 52.12 | 56.11 | 62.33 |
| **Cash and Cash Equivalents, end of year** | $ 60.41 | $ 52.12 | $ 56.11 |

Specific events or cash transactions during fiscal year 2015, which were notable included:

- Net cash used for operating activities totaled $123.3 million, which is a 9.8% increase over FY14. Cash paid for salaries and benefits and other expenses increased by over $17.6 million, which was the primary reason net cash used for operating activities increased by $10.9 million in FY15. Increases in operating expenses were offset by a reduction in payments for scholarships and fellowships of $2.1 million, an increase in cash received from grants and contracts $10.3 million, which was offset by a $5.3 million decrease in cash from other revenue sources.

- In FY 15, noncapital financing activities provided $146.8 million in cash primarily from state appropriations of $99.5 million, $27.8 million received from Pell and other federal financial aid sources, and private gifts received of $17.4 million. Cash provided by noncapital financing activities increased by $8.1 million over FY14, primarily because of a $6.9 million, or a 7.5% increase in state appropriations, and an increase in cash received of $3.0 million from private gifts.

- Investing activities provided $12.4 million in cash in FY15. The University used cash to purchase $10.0 million of intermediate term investments that was funded from $20.0 million in cash provided from matured intermediate term investments. $2.5 million in cash was provided by investment earnings.

- Capital and related financing activities used $27.6 million of cash in FY15. The University used $13.6 million of cash to purchase capital assets. In FY15, the University received $20,500,000 in bond proceeds from the Series N revenue bonds issuance, which was used to advance refund most of Series J revenue bonds outstanding. The University used $14.3 million of cash to make debt service payments on long-term debt.

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

- Net cash used for operating activities totaled $112.3 million, which is almost a 12% increase over FY13. An $11.6 million increase in payments for salaries and benefits and a decline in cash received from operating revenues of $2.3 million. Reduction in payments for operating expense and scholarship and fellowships of $1.6 million offset the increases in cash used for operating activities.

**Management, Discussion and Analysis (continued)**

- In FY 14, noncapital financing activities provided $138.7 million in cash primarily from state appropriations of $92.5 million, $29.8 million of Pell and other federal financial aid revenue and private gifts of $14.4 million. Cash provided by noncapital financing activities increased by $5.2 over FY13, primarily because of a $7.1 million, or 8.4%, increase in the state appropriation.

- Investing activities used $11.0 million of cash in FY14, which is almost $5.0 million less than in the prior year. The University used cash to purchase $20.0 million in intermediate term investments using $5.0 million in cash provided from matured intermediate term investments and $15.0 million from available cash reserves. $3.4 million in cash was provided by investment earnings.

- Capital and related financing activities used $19.4 million of cash in FY14. The University used $13.8 million of cash to purchase capital assets, partially funded from Series M 2013 Revenue Bond proceeds of $7.9 million, which were issued in FY14. The University used $13.6 million of cash to make principal payments on long-term debt.

## DISCUSSION OF SIGNIFICANT ECONOMIC AND FINANCIAL ISSUES

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

- As of June 30, 2015, there were a number of major construction projects that are being planned or are in progress. The following is a summary of the projects, estimated costs and their status as of June 30, 2015.

| Project Name | Estimated Cost | Campus | Status |
|---|---|---|---|
| Missoula College | $32.0 M | Missoula | Under Construction |
| Gilkey Executive Education Center | $8.7M | Missoula | Under Construction |
| Washington Grizzly Champions Center (Locker/Weight Room) | $14.0M | Missoula | Planning |
| Liberal Arts Classroom Renovations | $1.0M | Missoula | Under Construction |
| ISB Lab Build-out | $2.3M | Missoula | Under Construction |
| Natural Resource Research Center | $10.0M | MT Tech | Planning |
| Main Hall Phase III Renovation | $4.5M | Western | Under construction |

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

The 2013 legislative session passed HB 5 which provided $29.0 million in funding for a new Missoula College building to replace an aging facility with outdated classrooms, some of which are housed in trailers and modular units. The Missoula College has seen its student FTE grow from 896 ten years ago to 1,481 for fall semester 2015.

- Declining enrollment continues to be a concern for the University, particular at the flagship campus in Missoula. Enrollment there has declined over the last 5 years from a high of 13,917 FTE in FY11, to 11,823 FTE in FY15, or a decline of over 15.0%. Overall, during the same time period the University's enrollment declined 2,322 FTE from a high of 19,039 FTE in FY11, to 16,717 FTE in FY15, or a decline of over 12.0%.

  The campuses significantly affected by declining enrollment have reduced expenses by among other things, controlling hiring for vacant positions, reducing costs through efficiencies and meeting objectives in less expensive ways. The University will continue to seek innovative ways to reduce costs by improving operational efficiency and effectiveness.

**Management, Discussion and Analysis (continued)**

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

**Recruiting and Marketing -** regain market share of enrollment by increasing the number and quality of contacts with prospective students. UM has invested in a state-of-the-art Enrollment Management Software package. This will help the institution manage name-purchases in more targeted and strategic markets. Recruitment materials have been revamped and prospect-contact protocols have been enhanced. In addition, UM launched a "We Are Montana" tour that brings teams of faculty, administrators, and recruitment specialists to key cities and towns across Montana. A "Broader Impacts Group" was designed for professional UM scientists to personally or virtually meet with high school students with potential interests in science fields.

**Academic Alignment and Innovation Program** – The President appointed a Faculty Fellow to lead a committee in reviewing all academic offerings. The focus of the committee was to strengthen the curricular portfolio to fit UM's mission, align with identified strategic plans and strengthen the liberal arts identity of UM. The results of the initiative identified low enrollment challenged programs, those ready for growth with clear indications of strength and potential programs students would like added.

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

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

- An important part of the University's strategic plan through 2020 is to fully implement the Partnering for Student Success initiative, which is aimed at increasing student retention and graduation rates through improved preparation, comprehensive engagement, and enhanced student support. As the Montana University System continues to phase in a performance based funding model, the successful implementation of this initiative becomes increasingly important.

- The $64^{th}$ session of the Montana Legislature convened in January 5, 2015. The Montana University System's (MUS), primary goals during the session were to: gain support for sufficient inflationary funding in the state appropriation to maintain programs at their current levels and services at the campuses; gain adequate funding for employee pay plan adjustments; obtain research initiative funding that service economic sectors or create jobs through the start-up high-tech industry in Montana; and receive sufficient funding for the states long-range building program for maintenance and renovation of certain campus facilities. The MUS successfully received approval and funding for a nominal pay and health insurance increase for both years of the biennium. In addition, the Legislature provided funding to support research initiatives and funding for inflationary increases.

# The University of Montana

## *A Component Unit of the State of Montana*

## Consolidated Statements of Net Position

## As of June 30, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (note 3) | $ 60,220,525 | $ 51,818,488 |
| Securities lending collateral | 2,170,462 | 14,383,859 |
| Investments | 303,269 | 302,716 |
| Accounts and grants receivable, net | 6,430,392 | 7,241,530 |
| Due from Federal government | 10,790,277 | 9,008,799 |
| Due from primary government | 1,191,688 | 1,374,329 |
| Due from other State of Montana component units | 69,286 | 107,047 |
| Loans to students, net | 1,644,473 | 1,758,146 |
| Inventories | 2,199,326 | 2,153,189 |
| Prepaid expenses and other charges | 5,498,825 | 5,955,527 |
| **Total current assets** | $ 90,518,523 | $ 94,103,630 |
| **Noncurrent Assets** | | |
| Restricted cash and cash equivalents | $ 186,935 | $ 305,343 |
| Restricted investments | 20,165,319 | 21,108,327 |
| Other long term investments | 71,863,255 | 81,811,248 |
| Loans to students, net | 10,066,837 | 9,737,040 |
| Capital assets, net | 339,468,008 | 338,794,664 |
| **Total Noncurrent Assets** | $ 441,750,354 | $ 451,756,622 |
| **Total Assets** | $ 532,268,877 | $ 545,860,252 |
| **DEFERRED OUTFLOW OF RESOURCES** | $ 18,209,632 | $ 3,407,466 |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | $ 29,667,528 | $ 26,681,700 |
| Due to Federal government | 17,089 | 111,453 |
| Due to primary government | 971,080 | 1,204,676 |
| Due to other State of Montana component units | - | 5,468 |
| Securities lending liability | 2,170,462 | 14,383,859 |
| Student and other deposits | 1,894,193 | 3,364,297 |
| Unearned revenue | 11,502,188 | 15,540,928 |
| Accrued compensated absences | 11,080,279 | 10,824,801 |
| Current portion of long-term obligations | 8,115,013 | 7,790,741 |
| **Total Current Liabilities** | $ 65,417,832 | $ 79,907,923 |
| **Noncurrent Liabilities** | | |
| Accrued compensated absences | $ 15,014,227 | $ 15,048,098 |
| Unearned compensation | 371,491 | 293,284 |
| Long term obligations | 100,890,514 | 109,256,717 |
| Advances from primary government | 11,432,617 | 12,804,813 |
| Other post employment benefits obligation (note 18) | 45,950,910 | 42,817,481 |
| Net pension liability (note 17) | 74,796,398 | - |
| Due to Federal Government | 10,295,766 | 10,188,640 |
| **Total Noncurrent Liabilities** | $ 258,751,923 | $ 190,409,033 |
| **Total Liabilities** | $ 324,169,755 | $ 270,316,956 |
| **DEFERRED INFLOW OF RESOURCES** | $ 17,234,904 | $ - |
| **NET POSITION** | | |
| Net investment in capital assets | $ 228,128,009 | $ 214,824,361 |
| Restricted for: | | |
| Nonexpendable | | |
| Endowments | 19,944,470 | 20,951,799 |
| Loans | 1,957,785 | 1,923,548 |
| Expendable | | |
| Loans | 2,313,204 | 2,267,084 |
| Scholarships, research, instruction, and other | 1,810,343 | 3,543,360 |
| Unrestricted | (45,079,961) | 35,440,610 |
| **Total Net Position** | $ 209,073,850 | $ 278,950,762 |

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

# University of Montana

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

**University Component Units - Combined Statements of Financial Position**

**As of June 30, 2015* and**
**June 30, 2014 or December 31, 2013**

| | 2015 | 2014 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 8,501,665 | $ 5,819,628 |
| Short-term investments | 11,835,221 | 5,001,549 |
| Accrued dividends and interest | 134,770 | 136,824 |
| Investments | 250,982,074 | 240,093,160 |
| Contributions receivable, net | 18,980,385 | 7,469,136 |
| Student loans and other receivables | 255,648 | 295,303 |
| Depreciable assets, net of accumulated depreciation | 2,442,965 | 2,462,859 |
| Property held for sale | 3,543,840 | 3,543,840 |
| Other assets | 1,977,559 | 1,997,956 |
| **Total Assets** | $ 298,654,127 | $ 266,820,255 |
| **LIABILITIES** | | |
| Accounts payable | $ 1,396,710 | $ 358,032 |
| Accrued expenses | 172,860 | 155,121 |
| Compensated absences | 195,998 | 227,169 |
| Note payable - bank | - | 17,855 |
| Liabilities to external beneficiaries | 15,562,591 | 2,710,930 |
| Custodial funds | 19,380,786 | 20,256,399 |
| Other liabilities | 350,357 | 342,495 |
| **Total Liabilities** | $ 37,059,302 | $ 24,068,001 |
| **NET ASSETS** | | |
| Net assets - unrestricted | $ 11,891,392 | $ 13,457,634 |
| Net assets - temporarily restricted | 92,204,787 | 84,090,387 |
| Net assets - permanently restricted | 157,498,646 | 145,204,233 |
| **Total Net Assets** | $ 261,594,825 | $ 242,752,254 |
| **Total Liabilities & Net Assets** | $ 298,654,127 | $ 266,820,255 |

** University of Montana - Western Foundation changed to June 30 fiscal period end*

# The University of Montana

*A Component Unit of the State of Montana*

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

## For the Years Ended June 30, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **OPERATING REVENUES:** | | |
| Tuition and fees (net of scholarship allowances in 2015 and 2014 of $34,966,809 and $33,289,593, respectively) | $ 119,117,742 | $ 119,422,415 |
| Federal grants and contracts | 52,379,291 | 46,256,904 |
| State and local grants and contracts | 9,078,600 | 9,045,065 |
| Nongovernmental grants and contracts | 10,329,664 | 8,919,380 |
| Grant and contract facilities and administrative cost allowances | 8,832,222 | 8,279,200 |
| Sales and services of educational departments | 16,660,925 | 15,473,370 |
| Auxiliary enterprises charges: | | |
| Residential life (net of scholarship allowances in 2015 and 2014 of $500,107 and $549,650, respectively) | 16,637,545 | 15,729,892 |
| Food services (net of scholarship allowances in 2015 and 2014 of $500,107 and $549,650, respectively) | 14,872,931 | 12,267,861 |
| Other auxiliary revenues | 12,835,673 | 13,702,898 |
| Interest earned on loans to students | 57,026 | 57,100 |
| Other operating revenues | 8,226,714 | 6,173,208 |
| **Total operating revenues** | $ 269,028,333 | $ 255,327,293 |
| **OPERATING EXPENSES:** | | |
| Compensation and employee benefits | $ 255,225,558 | $ 254,630,505 |
| Pension expense (note 17) | 7,034,321 | - |
| Other post employment benefits (note 18) | 4,563,102 | 4,645,516 |
| Other (note 24) | 94,963,341 | 90,294,360 |
| Scholarships and fellowships | 24,326,584 | 26,489,069 |
| Depreciation and amortization | 23,726,949 | 23,334,553 |
| **Total operating expenses** | $ 409,839,855 | $ 399,394,003 |
| **OPERATING LOSS** | $ (140,811,522) | $ (144,066,710) |
| **NON-OPERATING REVENUES (EXPENSES):** | | |
| State appropriations | $ 99,469,356 | $ 92,524,154 |
| Federal financial aid grants and contracts | 27,797,348 | 29,796,776 |
| Land grant revenues | 2,076,361 | 1,932,977 |
| Private gifts | 17,456,637 | 14,419,132 |
| Investment income | 1,525,988 | 5,164,668 |
| Interest expense | (4,578,417) | (5,286,535) |
| **Net non-operating revenues** | $ 143,747,273 | $ 138,551,172 |
| **INCOME (LOSS) BEFORE OTHER REVENUES (EXPENSES)** | $ 2,935,751 | $ (5,515,538) |
| **OTHER REVENUES (EXPENSES):** | | |
| Capital grants and gifts | $ 10,118,810 | $ 4,291,394 |
| Loss on disposal of capital assets | - | (1,764) |
| **Total other revenues** | $ 10,118,810 | $ 4,289,630 |
| **Net increase (decrease) in net position** | $ 13,054,561 | $ (1,225,908) |
| **NET POSITION:** | | |
| Net position - beginning of year as previously stated | $ 278,950,762 | $ 280,176,670 |
| Restatement for July 1, 2014, net pension liability and related expense | (82,931,473) | - |
| Net position - beginning of year as restated | $ 196,019,289 | $ 280,176,670 |
| **Net position - end of year** | $ 209,073,850 | $ 278,950,762 |

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

# University of Montana

*A Component Unit of the State of Montana*

## University Component Units - Combined Statement of Activities

## For The Year Ended June 30, 2015*

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2015 Total |
|---|---|---|---|---|
| **REVENUES:** | | | | |
| Contributions | $ 1,499,350 | $ 36,073,335 | $ 12,305,767 | $ 49,878,452 |
| Interest and dividend income | 672,362 | 3,061,029 | 1,396 | 3,734,787 |
| Net realized and unrealized gains (losses) on investments | (837,444) | (1,543,906) | 49,707 | (2,331,643) |
| Administrative fees | 511,233 | - | - | 511,233 |
| Support received from university | 500,000 | - | - | 500,000 |
| Special events | 445,842 | - | - | 445,842 |
| Other income | 82,441 | 3,485,264 | - | 3,567,705 |
| Net assets released from restrictions | 31,883,264 | (31,883,264) | - | - |
| **Total revenues** | $ 34,757,048 | $ 9,192,458 | $ 12,356,870 | $ 56,306,376 |
| **EXPENSES:** | | | | |
| **Program services** | | | | |
| Academic and institutional | $ 13,326,667 | $ - | $ - | $ 13,326,667 |
| Capital expenses | 6,453,499 | - | - | 6,453,499 |
| Pledge adjustments | 2,608 | (5,370) | 74,457 | 71,695 |
| Scholarships and awards | 8,550,634 | - | - | 8,550,634 |
| **Total program services** | $ 28,333,408 | $ (5,370) | $ 74,457 | $ 28,402,495 |
| **Operating expenses** | | | | |
| Fundraising efforts | $ 3,722,372 | $ - | $ - | $ 3,722,372 |
| General and administrative | 4,034,084 | - | - | 4,034,084 |
| Investment management costs | 144,713 | - | - | 144,713 |
| Other miscellaneous | 92,191 | - | - | 92,191 |
| **Total operating expenses** | $ 7,993,360 | $ - | $ - | $ 7,993,360 |
| **Change in net assets before nonoperating items** | $ (1,569,720) | $ 9,197,828 | $ 12,282,413 | $ 19,910,521 |
| **NON-OPERATING REVENUES (EXPENSES):** | | | | |
| Payments to beneficiaries and change in liabilities due to external beneficiaries | 3,477 | (1,071,427) | - | (1,067,950) |
| Reclassification of net assets | - | (12,000) | 12,000 | - |
| **Change in net assets** | $ (1,566,243) | $ 8,114,401 | $ 12,294,413 | $ 18,842,571 |
| **Net assets, beginning of year** | 13,457,634 | 84,090,387 | 145,204,233 | 242,752,254 |
| **Net assets, end of year** | $ 11,891,391 | $ 92,204,788 | $ 157,498,646 | $ 261,594,825 |

* University of Montana - Western Foundation changed to a June 30 fiscal period end beginning January 1, 2013.

# The University of Montana

*A Component Unit of the State of Montana*

## University Component Units - Combined Statement of Activities

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

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

**Restated*

The 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**

**As of June 30, 2015 and 2014**

| | 2015 | 2014 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Student tuition and fees | $ 118,893,972 | $ 118,967,195 |
| Federal grants and contracts | 51,718,629 | 44,023,628 |
| State grants and contracts | 8,987,858 | 8,612,619 |
| Nongovernmental grants and contracts | 10,198,759 | 8,488,754 |
| Grant and contract facilities and administrative cost allowances | 8,832,222 | 8,279,200 |
| Sales and services of educational activities | 14,221,296 | 18,305,526 |
| Auxiliary enterprises charges | 41,765,579 | 44,926,749 |
| Interest earned on loans to students | 216,895 | 206,876 |
| Other operating receipts | 8,141,284 | 6,207,825 |
| Payments to employees for salaries and benefits | (265,380,415) | (254,936,644) |
| Payments for other post employement benefits (pensions) | (1,916,490) | - |
| Operating expenses | (94,435,338) | (89,179,254) |
| Payments for scholarships and fellowships | (24,326,584) | (26,489,069) |
| Loans made to students | (2,398,488) | (1,872,791) |
| Loan payments received | 2,182,364 | 2,153,413 |
| **Net Cash Used by Operating Activities** | $ (123,298,457) | $ (112,305,973) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| State appropriations | $ 99,469,356 | $ 92,524,155 |
| Land Grants | 2,076,361 | 1,932,977 |
| Federal financial aid grants and contracts | 27,797,348 | 29,796,776 |
| Private Gifts for other than capital purposes | 17,456,637 | 14,419,132 |
| **Net Cash Provided by Noncapital Financing Activities** | $ 146,799,702 | $ 138,673,040 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of investments | $ (10,038,703) | $ (20,000,000) |
| Proceeds from sales of investments | 20,000,000 | 5,607,289 |
| Cash equivalent investment reclassified to other long term investments | (16,686) | 13,688 |
| Earnings received on investments | 2,508,929 | 3,379,475 |
| **Net Cash Provided (Used) by Investing Activities** | $ 12,453,540 | $ (10,999,548) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Cash paid for capital assets | $ (13,553,108) | $ (13,795,108) |
| Proceeds from the sale of capital assets | 77,505 | 31,105 |
| Proceeds from the issuance of revenue bonds | 20,500,000 | 7,891,000 |
| Payments to advance refund revenue bonds | (20,412,953) | - |
| Proceeds from notes payable and advances from primary government | - | 150,000 |
| Principal paid on notes payable, advance from primary government, and capital leases | (1,986,133) | (1,524,849) |
| Principal paid on bonds payable | (7,828,087) | (6,993,880) |
| Interest paid on capital debt and leases | (4,468,380) | (5,115,154) |
| **Net Cash Used by Capital and Related Financing Activities** | $ (27,671,156) | $ (19,356,886) |
| **Net Decrease in Cash and Cash Equivalents** | $ 8,283,629 | $ (3,989,367) |
| **Cash and Cash Equivalents, Beginning of Year** | $ 52,123,831 | $ 56,113,198 |
| **Cash and Cash Equivalents, End of Year** | $ 60,407,460 | $ 52,123,831 |

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

# The University of Montana

*A Component Unit of the State of Montana*

## Consolidated Statements of Cash Flows

## For the Years Ended June 30, 2015 and 2014
(Continued)

| | 2015 | 2014 |
|---|---|---|
| **Reconciliation of Operating Loss to Net Cash Used By Operating Activities:** | | |
| Operating loss | $ (140,811,522) | $ (144,066,710) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Noncash expense: | | |
| Depreciation and amortization expense | 23,726,949 | 23,334,553 |
| Amortization of net pension liability | (5,675,045) | - |
| Amortization of other post employment benefits obligation | 3,133,429 | 3,907,323 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (749,938) | (1,844,036) |
| Loans to students | (216,124) | 280,622 |
| Inventories | (46,137) | 117,388 |
| Prepaid expenses and other charges | 456,702 | (748,886) |
| Accounts payable and accrued expenses | 2,063,341 | 1,932,422 |
| Unearned revenue | (4,038,740) | 2,719,328 |
| Student and other deposits | (1,470,104) | 1,635,084 |
| Due to federal government | 107,126 | 95,460 |
| Compensated absences | 221,606 | 331,479 |
| **Net Cash Used by Operating Activities** | $ (123,298,457) | $ (112,305,973) |
| **Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions** | | |
| Fixed assets acquired by incurring capital lease obligations | $ 90,879 | $ 69,489 |
| Increase in fair value of investments recognized as a component of interest income | $ 961,651 | $ 1,814,871 |
| Fixed assets acquired from capital grants and donations | $ 10,118,810 | $ 4,291,394 |
| Discounts, premiums and deferred loss on refunding amortized to interest expense | $ 157,087 | $ 171,382 |
| **Reconciliation of Cash and Cash Equivalent to the Statements of Net Position** | | |
| Cash and cash equivalents classified as current assets | $ 60,220,525 | $ 51,818,488 |
| Cash and cash equivalents classified as noncurrent assets | $ 186,935 | $ 305,343 |
| **Total Cash and Cash Equivalents, End of Year** | $ 60,407,460 | $ 52,123,831 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## UNIVERSITY OF MONTANA
## *A COMPONENT UNIT OF THE STATE OF MONTANA*
## FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

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

- **ORGANIZATION**

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

- **REPORTING ENTITY**

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

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

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

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

- **BASIS OF PRESENTATION**

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

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

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

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### ▪ BASIS OF ACCOUNTING

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

### ▪ RECENT ACCOUNTING PRONOUNCEMENTS IMPLEMENTED IN FISCAL YEAR 2015

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, to improve accounting and financial reporting for pensions. This Statement is effective for fiscal years beginning after June 15, 2014. The Statement establishes among other things, standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense. This Statement identifies for defined benefit plans, the methods and assumptions that should be used to project benefit payments, to their actuarial present value and attribute the present value to periods of employee service. Additional note disclosure and required supplementary information about pensions are also required by the Statement. The July 1, 2014, balance of the net pension liability and related deferred outflows of resources and deferred inflows of resources is reported in the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the 2015 Net position, beginning of year. PERS-Defined Benefit Retirement Plant, GWPORS and TRS were not able to provide sufficient information to restate the June 30, 2014, financial statements. The effect of the changes from the implementation of GASB 68 was to reduce the University's previously stated beginning net position of $278,950,762, by $82,931,473.

In November 2013, the GASB issued Statement No. 71, which amends Statement No. 68 to require that, at transition, the University recognize a beginning deferred outflows of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability.

Other accounting standards that have been issued or proposed by the GASB or other standards-setting bodies are not expected to have a material impact on the University's net position, results of operations or cash flows.

### ▪ USE OF ESTIMATES

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

### ▪ CASH EQUIVALENTS

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

### ▪ INVESTMENTS

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

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

- **ACCOUNTS AND GRANTS RECEIVABLE**

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

- **INVENTORIES**

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

- **CASH AND SHORT–TERM INVESTMENTS**

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

- **CAPITAL ASSETS**

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

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

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

- **DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows represent the consumption of resources that is applicable to a future reporting period but do not require a future exchange of goods or services. The University has reported a deferred outflow of resources from the refunding of revenue bond debt, and for contributions in fiscal year 2015 to employee pension plans made subsequent to the plans measurements date of the collective net pension liability. For revenue bond debt refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a deferred outflow.

- **UNEARNED REVENUE**

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

- **COMPENSATED LEAVE**

Eligible University employees earn eight hours sick leave and ten hours annual leave for each month worked. The accrual rate for annual leave increases with length of service. The maximum annual leave that eligible employees may accumulate is two hundred percent of their annual accrual. Sick leave may accumulate without limitation.

## Notes to the Consolidated Financial Statements (continued)

Twenty-five percent of accumulated sick leave earned after July 1, 1971, and one hundred percent of accumulated annual leave, if not used during employment, is paid upon termination.

### ▪ DEFERRED INFLOWS OF RESOURCES

Deferred inflows represent the acquisition of resources that is applicable to a future reporting period. The University has reported its proportionate share of defined benefit retirement plans deferred inflows for the difference between projected and actual earnings on pension plan investments.

### ▪ NET POSITON

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

- **Net Investment in capital assets -** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted, nonexpendable -** Net position subject to externally imposed stipulations which require that the University maintain those assets permanently. Such assets include the University's permanent endowment funds.
- **Restricted, expendable –** Net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.
- **Unrestricted –** net position whose use by the University is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net position is designated for academic and research programs and initiatives, and capital programs.

### ▪ CLASSIFICATION OF REVENUES

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

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

### ▪ USE OF RESTRICTED REVENUES

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

### ▪ SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances are generated by the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either

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

operating or non-operating revenues in the University's consolidated financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

## NOTE 3 – CASH DEPOSITS, CASH EQUIVALENTS AND INVESTMENTS

### ▪ CASH DEPOSITS

The University must comply with State statutes, which generally require that cash remain on deposit with the State treasury, and as such are subject to the State's investment policies. Certain exceptions exist, which allow funds to be placed on deposit with trustees to satisfy bond covenants or to maximize investment earnings by placing certain funds with University foundations. Deposits with State treasury and other financial institutions at June 30, 2015 and 2014 totaled $31,829,468 and $27,660,925, respectively. The University does not have a formal policy that addresses custodial credit risk for cash deposits with other financial institutions.

### ▪ CASH EQUIVALENTS

Cash equivalents consist of $620,418 of cash invested in money market funds with First American Funds and US Bank, and $27,789,253 in the Short Term Investment Pool (STIP) with the Montana Board of Investments. Amounts held in cash equivalents at June 30, 2015 and 2014 were $28,409,671 and $24,302,961, respectively. STIP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle." The STIP portfolio may include asset-backed securities, commercial paper, corporate and government securities, repurchase agreements and variable rate, or floating rate instruments to provide diversification and a competitive rate of return. The First American Funds, Prime Obligations Money Market Fund invests in short-term debt obligations, including commercial paper, U.S. dollar-dominated obligations of domestic and foreign banks, non-convertible corporate debt securities, U.S. government or agency securities, loan participation interests, and repurchase agreements. Investments in STIP and the money market fund may be withdrawn by the University on demand, and as such, are classified as cash equivalents.

### ▪ INVESTMENTS

Investments consisted of the following at June 30, 2015 and 2014:

| | Fair Value | | Effective Duration at | Credit Quality Rating at |
|---|---|---|---|---|
| **Security Type** | **2015** | **2014** | **June 30, 2015[(1)]** | **June 30, 2015[(3)]** |
| Agency/Government Related | $ 42,479,348 | $ 52,340,644 | 1.77 | AA+ |
| Short Term Investment Pool (STIP)[(4)] | 240,692 | 216,791 | Not applicable | NR |
| Trust Fund Investment Pool (TFIP) | 31,070,399 | 31,237,476 | 5.39[(2)] | AA- |
| Montana Domestic Equity Pool (MDEP) | 248,972 | 232,859 | Not applicable | N/A |
| Foundation Pooled Investments | 17,830,134 | 18,778,035 | Not applicable | N/A |
| Certificates of Deposits | 303,269 | 302,716 | Not applicable | N/A |
| Other | 159,029 | 113,769 | Not applicable | N/A |
| **Total investments** | $ 92,331,843 | $ 103,222,290 | | |
| **Securities Lending Collateral Investment Pool** | $ 2,170,462 | $ 14,383,859 | (5) | NR |

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

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

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

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

(5)Securities Lending Quality Trust liquidity pool had an average duration of 30 days and an average weighted final maturity of 115 days for U.S. dollar collateral. Quality D Short Term Investment Fund liquidity pool had an average duration of 28 days and an average weighted final maturity of 109 days for U.S. dollar collateral.

## Notes to the Consolidated Financial Statements (continued)

Investments held by the University at June 30, 2015 and 2014 are described further in the paragraphs below.

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

**Montana Board of Investments Pools**
The University is a participant in certain internal investment pools administered by the Montana Board of Investments (MBOI). MBOI purchases investments for each portfolio in accordance with the statutorily mandated "Prudent Expert Principle." The University was invested in the following internal investment pools at June 30, 2015 and 2014:

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

***Trust Funds Investment Pool (TFIP)***
The TFIP fixed income portfolio include U.S. Treasury securities, U.S. agency and government related securities, asset backed securities, mortgage backed securities, commercial mortgage backed securities, and corporate securities categorized as financial, industrial or utility. The portfolio may include variable-rate (floating rate) instruments with the interest rate tied to a specific rate such as LIBOR (London Interbank Offered Rate). Variable rate securities pay a variable rate of interest until maturity.

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

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

**Securities lending transactions**
The Board is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust, "the Bank", 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. The Bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. The Board of Investments and the Bank split the earnings, 80/20 respectively, on security lending activities. The Board of Investments retains all rights and risks of ownership during the loan period.

The Board imposed no restrictions on the amount of securities available to lend during fiscal years 2015 and 2014. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of Default of the Borrower. There were no losses during fiscal years 2015 and 2014 resulting from a borrower default.

During fiscal years 2015 and 2014, the Board and the borrowers maintained the right to terminate all securities lending transactions on notice. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in two investment funds, the Quality D Short Term Investment Fund and the Security Lending Quality Trust. Each is comprised of a liquidity pool and a duration pool. Pension funds participate in the

## Notes to the Consolidated Financial Statements (continued)

Quality D Short Term Investment Fund and non-pension entities participate in the Security Lending Quality Trust. In March 2015, the Board sold all of the holding within the duration pool of both the Quality D Short Term Investment Fund and the Security Lending Quality Trust, which resulted in a loss of $200 thousand and $26 thousand, respectively. Security lending income offset the entire amount of the loss within each investment fund. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. At year-end 2015 and 2014, State Street Bank indemnified the Board's credit risk exposure to borrowers.

**Investment risks**

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

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

***Interest Rate Risk***

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

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

***Credit Risk***

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

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

***Custodial Credit Risk***

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2015 and 2014, all STIP, MDEP and TFIP securities were registered in the nominee name for the MBOI and held in the possession of the Board's custodial bank, State Street Bank.

***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement. In October 2008, the U.S. government extended the explicit guarantee to certain government agencies such as Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (FHLMC-Freddie Mac). Given the explicit guarantee extension, MBOI and the University had no concentration of credit risk exposure to Fannie Mae and Freddie Mac in

## Notes to the Consolidated Financial Statements (continued)

either the TFIP, STIP or agency/government held securities. MDEP investments in pooled investments are also excluded from the concentration of credit risk requirement.

The TFIP Investment Policy Statement provides for a “2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities.” The STIP Investment Policy specifies concentration of credit risk exposure by limiting portfolio investment types by 2% per non-government issuer except up to 3% may be invested per issuer as long as not more than 2% is invested in securities maturing in more than seven days. The concentration of credit risk exposure for U.S. government sponsored entities securities held at June 30, 2015 and 2014, expressed as a percentage of total investments, was 46.01% and 50.71%, respectively.

**Land grant earnings**

In 1881, the Congress of the United States granted land to the State of Montana for the benefit of the state’s universities and colleges. The Enabling Act of 1889 granted 46,563 acres to Missoula, 100,000 acres to Montana Tech and 50,000 acres to Western Montana College. Under provisions of the grants, proceeds from the sale of land and land assets, together with proceeds from the sale of timber, oil royalties and other minerals, must be reinvested, and constitute, along with the balance of unsold land, a perpetual trust fund. The grant is administered as a trust by the State Land Board, which holds title and has the authority to direct, control, lease, exchange and sell these lands. The University, as a beneficiary, does not have title to the assets resulting from the grant, only a right to the earnings generated. The University's share of the trust earnings was $2,076,362 and $1,932,977 for the years ended June 30, 2015 and 2014, respectively. These earnings are currently pledged to the Series I 2004, Series J 2005, Series K 2010, Series L 2012 Series M 2013 and Series N 2015 revenue bonds.

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

## NOTE 4 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts Receivable consisted of the following at June 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Student tuition and fees | $ 5,928,305 | $ 5,240,274 |
| Auxiliary enterprises and other operating activities | 2,890,848 | 2,626,378 |
| Private grants and contracts | 311,692 | 1,624,162 |
| Other | 351,574 | 75,437 |
| Gross accounts and grants receivable | 9,482,419 | 9,566,251 |
| Less: allowance for doubtful accounts | 3,052,027 | 2,324,721 |
| **Net accounts and grants receivable** | $ 6,430,392 | $ 7,241,530 |

## NOTE 5 – LOANS RECEIVABLE

Student loans made under the Federal Perkins Loan Program constitute the majority of the University’s loan receivable balances. Included in non-current liabilities as of June 30, 2015 and 2014, are $10,295,766 and $10,188,640, respectively, that would be refundable to the Federal Government, should the University choose to cease participation in the Federal Perkins Loan program.

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

## Notes to the Consolidated Financial Statements (continued)

### NOTE 6 – INVENTORIES

Inventories consisted of the following at June 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Bookstore | $ 1,012,665 | $ 898,322 |
| Food services | 319,983 | 308,097 |
| Facilities services | 716,347 | 768,029 |
| Other | 150,331 | 178,742 |
| **Total inventories** | $ 2,199,326 | $ 2,153,189 |

### NOTE 7 – PREPAID EXPENSES AND OTHER CHARGES

Prepaid expenses and other charges consisted of the following at June 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Summer session | $ 582,007 | $ 635,483 |
| Travel advances | 10,825 | 19,704 |
| Other prepaid expenses | 4,905,993 | 5,300,339 |
| **Total prepaid expenses and other charges** | $ 5,498,825 | $ 5,955,526 |

## Notes to the Consolidated Financial Statements (continued)

### NOTE 8 – CAPITAL ASSETS

The following tables present the changes in capital assets for the years ended June 30, 2015 and 2014, respectively.

**For the year ended June 30, 2015:**

| | Beginning Balance | Additions | Deletions | Transfers and Other Changes | Ending Balance |
|---|---|---|---|---|---|
| **Capital assets not being depreciated:** | | | | | |
| Land | $ 8,225,722 | $ - | $ - | $ - | $ 8,225,722 |
| Capitalized collections | 17,692,269 | 130,849 | - | - | 17,823,118 |
| Construction in progress | 8,462,687 | 14,920,389 | - | (7,875,811) | 15,507,265 |
| | 34,380,678 | 15,051,238 | - | (7,875,811) | 41,556,105 |
| **Other capital assets:** | | | | | |
| Land improvements | 14,334,505 | 88,499 | - | 899,139 | 15,322,143 |
| Infrastructure | 8,176,977 | - | - | 165,673 | 8,342,650 |
| Buildings | 314,417,318 | - | - | 887,481 | 315,304,799 |
| Building improvements | 215,398,851 | - | 9,116 | 5,923,518 | 221,313,253 |
| Furniture and equipment | 81,611,089 | 7,766,278 | 1,349,772 | - | 88,027,596 |
| Library materials | 58,432,362 | 1,418,866 | - | - | 59,851,228 |
| Livestock | 10,000 | - | - | - | 10,000 |
| | 692,381,102 | 9,273,644 | 1,358,888 | 7,875,811 | 708,171,669 |
| **Less accumulated depreciation for:** | | | | | |
| Land improvements | 10,726,484 | 322,343 | - | - | 11,048,827 |
| Infrastructure | 868,623 | 171,393 | - | - | 1,040,016 |
| Buildings | 138,216,931 | 6,682,934 | - | - | 144,899,865 |
| Building improvements | 133,576,145 | 8,518,800 | 114 | - | 142,094,831 |
| Furniture and equipment | 54,030,146 | 6,533,741 | 1,033,285 | - | 59,530,602 |
| Library materials | 53,331,617 | 721,839 | - | - | 54,053,456 |
| Livestock | 3,453 | 1,428 | - | - | 4,881 |
| | 390,753,399 | 22,952,479 | 1,033,399 | - | 412,672,480 |
| **Other capital assets, net** | 301,627,703 | (13,678,836) | 325,489 | 7,875,811 | 295,499,189 |
| **Intangible assets** | 2,786,283 | 401,596 | 775,164 | - | 2,412,714 |
| **Total capital assets, net** | $ 338,794,664 | $ 1,773,998 | $ 1,100,653 | $ - | $ 339,468,008 |
| **Capital Asset Summary:** | | | | | |
| Capital assets not being depreciated | $ 34,380,678 | $ 15,051,238 | $ - | $ (7,875,811) | $ 41,556,105 |
| Other capital and intangible assets | 695,167,385 | 9,675,239 | 2,134,052 | 7,875,811 | 710,584,384 |
| | 729,548,063 | 24,726,477 | 2,134,052 | - | 752,140,488 |
| Less: accumulated depreciation | 390,753,399 | 22,952,479 | 1,033,399 | - | 412,672,480 |
| **Total capital assets, net** | $ 338,794,664 | $ 1,773,998 | $ 1,100,653 | $ - | $ 339,468,008 |

## Notes to the Consolidated Financial Statements (continued)

**For the year ended June 30, 2014:**

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

## Notes to the Consolidated Financial Statements (continued)

### NOTE 9 – DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Deferred Inflows and outflows of resources consisted of the following at June 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| **Deferred Outflows of Resources** | | |
| Unamortized loss on debt refunding | $ 3,434,758 | $ 3,407,466 |
| Difference between expected and actual economic experience | 209,437 | - |
| Changes in actuarial assumptions | 479,840 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 3,292,721 | - |
| Contribution payments to pensions subsequent to the measurement date | 10,792,876 | - |
| **Total deferred outflows of resources** | **$ 18,209,632** | **$ 3,407,466** |
| **Deferred Inflows of Resources** | | |
| Difference between projected and actual earnings on pension plan investments | **$ 17,234,904** | **$ -** |

### NOTE 10 – UNEARNED REVENUES

Unearned Revenues consisted of the following at June 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Grant and contract revenue received in advance | $ 2,617,924 | $ 3,066,498 |
| Summer session payments received in advance | 2,707,380 | 2,977,126 |
| Other unearned revenues | 6,176,884 | 9,497,304 |
| **Total unearned revenue** | $ 11,502,188 | $ 15,540,928 |

### NOTE 11 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Compensation, benefits and related liabilities | $ 22,670,928 | $ 18,084,843 |
| Accrued interest expense | 537,894 | 584,945 |
| Accounts payable and other accrued liabilities | 6,458,706 | 8,011,912 |
| **Total accounts payable and accrued liabilities** | $ 29,667,528 | $ 26,681,700 |

## Notes to the Consolidated Financial Statements (continued)

### NOTE 12 – LONG–TERM LIABILITIES

The following tables present the changes in long-term liabilities for the years ended June 30, 2015 and 2014, respectively:

**For the year ended June 30, 2015:**

| | Beginning Balance * | Additions | Deductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| **Bonds, notes and capital leases** | | | | | |
| Revenue bonds payable, net | $ 115,892,395 | $ 20,500,000 | $ 28,024,660 | $ 108,367,735 | $ 7,948,536 |
| Subordinated bonds payable | 224,000 | | 32,000 | 192,000 | 34,000 |
| Multi-year intangible obligation | 332,066 | | 221,933 | 110,133 | - |
| Notes payable | 56,693 | | 56,693 | - | - |
| Capital leases payable | 542,304 | 90,879 | 297,524 | 335,659 | 132,477 |
| | 117,047,458 | 20,590,879 | 28,632,810 | 109,005,527 | 8,115,013 |
| **Other long-term liabilities** | | | | | |
| Accrued compensated absences | 25,872,899 | 11,233,758 | 11,012,151 | 26,094,506 | 11,080,279 |
| Unearned compensation | 293,284 | 78,207 | | 371,491 | - |
| Advances from primary government | 13,992,935 | - | 1,631,915 | 12,361,020 | 928,403 |
| Other postemployment benefits obligation | 42,817,481 | 3,133,429 | | 45,950,910 | - |
| Net pension liability | 76,718,719 | - | 1,922,321 | 74,796,398 | - |
| Due to Federal Government | 10,188,640 | 107,126 | | 10,295,766 | - |
| | 169,883,958 | 14,552,520 | 14,566,387 | 169,870,091 | 12,008,682 |
| **Total long-term liabilities** | $ 286,931,416 | $ 35,143,399 | $ 43,199,197 | $ 278,875,618 | $ 20,123,695 |

* Beginning balance restated for net pension liability at July 1, 2014

**For the year ended June 30, 2014:**

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

Long-term liabilities include:

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

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

**Capital Leases**

The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2015:

| Fiscal Year | | Total |
|---|---|---|
| 2016 | $ | 145,082 |
| 2017 | | 118,772 |
| 2018 | | 68,386 |
| 2019 | | 21,230 |
| 2020 | | 4,940 |
| Minimum lease payments | $ | 358,409 |
| Less: Amount representing interest | | 22,750 |
| Present value of net minimum lease payments | $ | 335,659 |

Assets acquired under capital leases consist mainly of photocopiers. Such assets are carried at $1,320,099 with accumulated depreciation of $801,105 as of June 30, 2015.

## NOTE 13 – REVENUE BONDS

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

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, 2015 and 2014, was $198,862,783 and $178,857,783, respectively. The combined principal amount outstanding at June 30, 2015 and 2014 was $106,788,031 and $114,089,120, respectively.

**Series I 2004**

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

In June, 2012 $9,460,000 of the outstanding balance of Series I bonds was advanced refunded with the issuance of Series L 2012 Revenue Bonds. The bonds are considered legally defeased and accordingly, the liability for those bonds is no longer recorded in the consolidated financial statements. The portion of Series I bonds that were not refunded totaled $11,200,000.

**Series J 2005**

On September 15, 2005, the University of Montana issued $31,095,000 of Series J 2005 Facilities Improvement and Refunding Revenue Bonds, with interest ranging from 3.0 percent to 4.5 percent. The proceeds from the issue, together with certain resources of the University, provided funds to pay and discharge a portion of the Series F 1999 bonds, and finance or refinance, the costs of acquisition, construction, furnishing, equipping, renovation or improvement of certain University facilities.

The University of Montana recorded $11,120,000 of the Series J 2005 Revenue Bonds to advance refund $10,010,000 of outstanding Series F 1999 Revenue Bonds. The interest rates on the advanced refunded revenue bonds ranged from 4.80 percent to 6.00 percent. The Series F bonds are considered legally defeased and accordingly, the liability for those bonds is no longer recorded in the consolidated financial statements.

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

**Series K 2010**

On December 6, 2010, the University issued $48,415,000 of Series K 2010 (Taxable and Tax Exempt) Refunding Revenue Bonds. The interest rates on the Series K bonds range from 1.144% to 4.800%. The proceeds from the sale of the Series K bonds provided funds to advance refund all of outstanding Series E 1998 ($5,760,000) and most of outstanding Series F 1999 bonds. The revenue bonds refunded with the proceeds from Series K are consider legally defeased and accordingly, the liability for those bonds is no longer recorded in the consolidated financial statements. $41,244,997 of Series F bonds were refunded with Series K bond proceeds, leaving $15,290,000 that was not refunded.

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

**Series L 2012**

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

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

**Series M 2013**

On December 17, 2013, the University of Montana issued $7,891,000 of Series M 2013 Tax Exempt Revenue Bonds. The bond proceeds provided funding to cover the cost of construction projects on the Butte and Missoula campuses and to cover the cost of issuance for Series M 2013. The interest rate on the Series M 2013 bonds is 2.500% tax-exempt, fixed rate for the 10 year duration of the issuance, with no penalty for pre-payment. The bond proceeds from the sale of Series M 2013 bonds provided funds for projects approved by the Board of Regents. The projects include the renovation of restrooms in Prosper Residence Halls for $1,246,913 on the Montana Tech campus. Other approved projects are on the Missoula campus and include: the Technology Modular Units for $1,870,791, the Gilkey Executive Education Center for $1,490,000, the Adams Center Basement for $100,000 and the Interdisciplinary Science Building (ISB) for $3,152,526.

**Series N 2015**

On February 18, 2015, the University of Montana issued $20,500,000 of Series N 2015 Tax Exempt Facilities Revenue Refunding Bonds. The proceeds of the issue provided funds to advance refund most of the Series J 2005 Bonds to achieve interest cost savings and pay the costs of issuance of the 2015 financing. The portion of Series J bonds not refunded were paid on the next scheduled principal and interest payment in May, 2015.

The University of Montana recorded $20,500,000 of the Series N bonds to advance refund $20,005,000 of outstanding Series J Facilities Improvement and Refunding Revenue Bonds. The interest rates on the advanced refunded revenue bonds ranged from 4.00 percent to 4.50 percent. The portion of Series J 2005 bonds that were refunded are considered legally defeased, and accordingly, the liability for those bonds is no longer recorded in the consolidated financial statements.

The debt service cash flows for the Series N 2015 Revenue bonds are less than the debt service cash flow for the advance refunded bonds by $2,351,850. The economic gain for the University of Montana from the advanced

## Notes to the Consolidated Financial Statements (continued)

refunding was $1,941,153 (the difference between the net present values of the debt service payment on the old and new debt).

**Defeased Bonds**

The University has defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's consolidated financial statements. As of June 30, 2015 and 2014, $122,981,602 and $109,719,891, respectively, of bonds outstanding were considered defeased.

**Revenue Bonds Payable**

As of June 30, 2015 annual principal payments are as follows:

**Series I 2004**

| Fiscal Year | Interest Rate | | Principal |
|---|---|---|---|
| 2016 | 3.750% | $ | 1,740,000 |
| | | | 1,740,000 |
| Add: net unamortized premium: | | | 95,527 |
| | | $ | 1,835,527 |

**Series K 2010**

| Fiscal Year | Interest Rate | | Principal |
|---|---|---|---|
| 2016 | 3.145-3.634% | $ | 3,560,000 |
| 2017 | 3.634-3.984% | | 5,475,000 |
| 2018 | 3.984-4.368% | | 5,695,000 |
| 2019 | 4.368-4.568% | | 5,935,000 |
| 2020 | 4.568-4.718% | | 6,250,000 |
| 2021-2022 | 4.718-4.800% | | 13,340,000 |
| | | | 40,255,000 |
| Add: unamortized premium: | | | 147,233 |
| | | $ | 40,402,233 |

**Series L 2012**

| Fiscal Year | Interest Rate | | Principal |
|---|---|---|---|
| 2016 | 1.504-5.000% | $ | 610,000 |
| 2017 | 2.175-5.000% | | 645,000 |
| 2018 | 2.175-5.000% | | 670,000 |
| 2019 | 2.175-5.000% | | 700,000 |
| 2020 | 2.964-5.000% | | 735,000 |
| 2021-2025 | 2.250-5.000% | | 25,485,000 |
| 2026-2030 | 3.000-4.000% | | 6,110,000 |
| 2031-2033 | 4.000% | | 2,770,000 |
| | | | 37,725,000 |
| Add: net unamortized premium: | | | 1,336,942 |
| | | $ | 39,061,942 |

## Notes to the Consolidated Financial Statements (continued)

**Series M 2013**

| Fiscal Year | Interest Rate | | Principal |
|---|---|---|---|
| 2016 | 2.500% | $ | 728,536 |
| 2017 | 2.500% | | 747,306 |
| 2018 | 2.500% | | 766,105 |
| 2019 | 2.500% | | 785,377 |
| 2020 | 2.500% | | 804,903 |
| 2021-2024 | 2.500% | | 2,980,804 |
| | | $ | 6,813,031 |

**Series N 2015**

| Fiscal Year | Interest Rate | | Principal |
|---|---|---|---|
| 2016 | 2.550% | $ | 1,310,000 |
| 2017 | 2.550% | | 1,340,000 |
| 2018 | 2.550% | | 1,375,000 |
| 2019 | 2.550% | | 1,405,000 |
| 2020 | 2.550% | | 1,430,000 |
| 2021-2025 | 2.550% | | 7,780,000 |
| 2026-2030 | 2.550% | | 5,615,000 |
| | | $ | 20,255,000 |

| **Revenue Bond Payable Summary:** | | |
|---|---|---|
| Total revenue bonds outstanding | $ | 106,788,031 |
| Add: Net unamortized premiums and discounts | | 1,579,702 |
| **Revenue bonds payable, net** | $ | 108,367,733 |

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

| Fiscal Year | | Principal | | Interest | | Total Payment |
|---|---|---|---|---|---|---|
| 2016 | $ | 7,948,536 | $ | 3,833,481 | $ | 11,782,017 |
| 2017 | | 8,207,306 | | 3,587,193 | | 11,794,499 |
| 2018 | | 8,506,105 | | 3,292,888 | | 11,798,993 |
| 2019 | | 8,825,377 | | 2,963,783 | | 11,789,160 |
| 2020 | | 9,219,903 | | 2,611,198 | | 11,831,101 |
| 2021-2025 | | 49,585,804 | | 7,359,182 | | 56,944,986 |
| 2026-2030 | | 11,725,000 | | 1,543,550 | | 13,268,550 |
| 2031-2033 | | 2,770,000 | | 224,600 | | 2,994,600 |
| **Total** | $ | 106,788,031 | $ | 25,415,875 | $ | 132,203,906 |

## NOTE 14 – SUBORDINATE BONDS PAYABLE

In August, 2009, The Board of Regents of Higher Education adopted the Bond Resolution for the 2009 Series I and 2009 Series II Facility Improvement Bonds and authorized the University of Montana to complete the sale and delivery of bonds in the amount of $750,000 for the purpose of installing water backflow prevention devices on the University of Montana-Missoula campus. The Series I and II 2009 Bonds are subordinate obligations issued under Section 2.07(d) of The Indenture of Trust. The committed amounts for the Series I Bond and the Series II Bond are $416,300 and $333,700, respectively. Upon completion of the project and satisfaction of funding requirements,

## Notes to the Consolidated Financial Statements (continued)

American Recovery and Reinvestment Act (ARRA) stimulus funds paid off the Series I bonds. The Series II bonds will be amortized over 10 years at a fixed rate of 1.75%. The bond proceeds are disbursed only for and after which costs have been incurred on the water improvement project. As of June 30, 2010, $225,988 was disbursed from the Series I Bond. As of June 30, 2011 the remaining funds were disbursed, and the Series I Bond committed amount was repaid as described above. The outstanding balance of the Series II Bond at June 30, 2015 is $192,000.

### NOTE 15 – COMPENSATED LEAVE

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

### NOTE 16 – ADVANCES FROM PRIMARY GOVERNMENT

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

The INTERCAP program lends money to state agencies for the purpose of financing or refinancing the acquisition and installation of equipment or personal and real property and infrastructure improvements. INTERCAP loans have a variable interest, which is based on the underlying bond rate of the Montana Board of Investments INTERCAP bonds, and is adjusted annually in February. The rate at June 30, 2015 was 1.25%.

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

The Montana Science and Technology Alliance (MSTA) loan originates from a loan that was originally issued in 1994, and has a remaining term of 49 years. The interest rates are variable and are adjusted annually.

The scheduled maturities of the INTERCAP loans, SBECP loans and MSTA loan are as follows:

| | INTERCAP Loans | | MSTA Loan | | SBECP Loans | | |
|---|---|---|---|---|---|---|---|
| **Fiscal Year** | **Principal** | **Interest** | **Principal** | **Interest** | **Principal** | **Interest** | **Total** |
| 2016 | $ 374,134 | $ 41,791 | 39,065 | 80,936 | $ 515,204 | $ 180,606 | $ 1,231,735 |
| 2017 | 345,966 | 36,397 | 40,039 | 79,961 | 528,905 | 165,500 | 1,196,769 |
| 2018 | 323,517 | 32,156 | 41,039 | 78,961 | 543,739 | 149,799 | 1,169,212 |
| 2019 | 329,459 | 28,273 | 42,064 | 77,936 | 498,018 | 133,472 | 1,109,221 |
| 2020 | 334,545 | 24,104 | 43,115 | 76,885 | 437,687 | 118,031 | 1,034,368 |
| 2021-2025 | 1,344,505 | 64,751 | 232,272 | 367,728 | 1,787,618 | 367,698 | 4,164,571 |
| 2026-2030 | 388,063 | 4,587 | 262,761 | 337,239 | 1,218,116 | 129,273 | 2,340,038 |
| 2031-2035 | - | - | 297,252 | 302,748 | 150,718 | 4,975 | 755,693 |
| 2036-2040 | - | - | 336,271 | 263,729 | - | - | 600,000 |
| 2041-2045 | - | - | 380,411 | 219,589 | - | - | 600,000 |
| 2046-2050 | - | - | 430,346 | 169,654 | - | - | 600,000 |
| 2051-2055 | - | - | 486,836 | 113,164 | - | - | 600,000 |
| 2056-2060 | - | - | 550,741 | 49,260 | - | - | 600,001 |
| 2061-2064 | - | - | 58,614 | 1,387 | - | - | 60,001 |
| **Total** | **$3,440,189** | **$ 232,058** | **$3,240,826** | **$2,219,177** | **$5,680,005** | **$1,249,354** | **$ 16,061,609** |

Total advances payable from primary government and the current portion of advances at June 30, 2015, was $12,361,020 and $928,403, respectively.

## Notes to the Consolidated Financial Statements (continued)

### NOTE 17 – RETIREMENT PLANS

Eligible employees of the University are either members of the Public Employees' Retirement System (PERS), Game Wardens' & Peace Officers' Retirement System (GWPORS), or Teachers' Retirement System (TRS). Only faculty and administrators with contracts under the authority of the Board of Regents are enrolled under TRS. 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 MUS-RP, a defined contribution plan.

***DEFINED BENEFIT PLANS***

**General**

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 respective retirement systems. The plans provide retirement, disability, and death benefits to plan members and their beneficiaries. PERS, a mandatory system established by the state in 1945, provides retirement benefits 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 Sheriffs' Retirement System, Highway Patrol Officers' Retirement System, and Municipal Police Officers' Retirement System. TRS, established in 1937, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the University System.

- **Public Employees Retirement System – Defined Benefit Retirement Plan**

**Plan Description**

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Codes Annotated (MCA). This plan covers the State, local governments, certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-Defined Contribution Retirement Plan (DCRP) by filing an irrevocable election. Members may not be members of both the *defined contribution* and *defined benefit* retirement plans. All new members from the universities also have a third option to join the university system's Montana University System Retirement Program (MUS-RP). For members that choose to join the PERS-DCRP or the MUS-RP, a percentage of the employer contributions will be used to pay down the liability of the PERS-DBRP.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation.

**Summary of Benefits**

*Member's highest average compensation (HAC)*

- Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;
- Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;
- Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's highest average compensation.

*Eligibility for Benefit*

- Hired prior to July 1, 2011: Age 60, 5 years of membership service;
  - Age 65, regardless of membership service; or
  - Any age, 30 years of membership service.
- Hired on or after July 1, 2011: Age 65, 5 years of membership service;
  - Age 70, regardless of membership service.

## Notes to the Consolidated Financial Statements (continued)

*Early retirement (reduced benefit)*

- Hired prior to July 1, 2011: Age 50, 5 years of membership service; or
  - Any age, 25 years of membership service.
- Hired on or after July 1, 2011: Age 55, 5 years of membership service.

*Vesting*

- 5 years of membership service

*Monthly benefit formula*

- Members hired prior to July 1, 2011:
  - Less than 25 years of membership service: 1.785% of HAC per year of service credit;
  - 25 years of membership service or more: 2% of HAC per year of service credit.
- Members hired on or after July 1, 2011:
  - Less than 10 years of membership service: 1.5% of HAC per year of service credit;
  - 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
  - 30 years or more of membership service: 2% of HAC per year of service credit.

*Guaranteed Annual Benefit Adjustment (GABA)*

- 3% for members hired **prior to** July 1, 2007
- 1.5% for members hired **on or after** July 1, 2007
- After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, **inclusive** of other adjustments to the member's benefit.

**Contributions to the Plan**

Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan. Employer and employee contribution rates for 2015 were 8.27% and 7.90%, respectively and for 2014 were 8.17% and 7.90%, respectively.

- Temporary increases enacted by the 2013 Legislature, to employer and employee contribution rates will decrease 1.27% and 1.0%, respectively on January 1, 2016, if the actuary valuation results show the amortization period has dropped below 25 years and will remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
- Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024.
- Effective July 1, 2013, the additional employer contributions for MUS-RP is allocated to the defined benefit plan's Plan Choice Rate unfunded liability.
- Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
- Non employer contributions by the State to PERS from the Coal Tax Severance fund is not considered special funding.

**Actuarial Assumptions**

The total pension liability as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2013, with update procedures performed to roll forward the liability to the measurement date. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period July 1, 2003 to June 30, 2009.

Among those assumptions were the following:

| | |
|---|---|
| General Wage Growth, including inflation at 3% | 4.00% |
| Merit Increases | 0% to 6% |
| Investment Return | 7.75% |

## Notes to the Consolidated Financial Statements (continued)

- Postretirement Benefit Increases
  - For members hired **prior to** July 1, 2007 3.00%
  - For members hired **on or after** July 1, 2007 1.50%
  - After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, **inclusive** of other adjustments to the member's benefit.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

### Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Codes Annotated. In addition, the State contributes coal severance tax money from the general fund quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability**.** No municipal bond rate was incorporated in the discount rate.

### Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Best estimates of arithmetic real rates of return for each major asset class included in the PERS – DBRP target asset allocation as of June 30, 2014, is summarized in the table below:

| Asset Class | Target Asset Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Cash Equivalents | 2.00% | -0.25% |
| Domestic Equity | 36.00% | 4.80% |
| Foreign Equity | 18.00% | 6.05% |
| Fixed Income | 24.00% | 1.68% |
| Private Equity | 12.00% | 8.50% |
| Real Estate | 8.00% | 4.50% |

## Notes to the Consolidated Financial Statements (continued)

### Sensitivity Analysis

The following presents PERS-DBRP net pension liability and the University's proportionate share of the net pension liability at June 30, 2014, calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

| | 1.0% Decrease (6.75%) | Current Discount Rate | 1.0% Increase (8.75%) |
|---|---|---|---|
| PERS-DBRP Net Pension Liability | $1,982,274,732 | $1,246,010,898 | $625,044,646 |
| University's proportionate share of the net pension liability | $84,818,638 | $53,314,985 | $26,744,747 |

### Net Pension Liability

At June 30, 2015, the University recorded $53,314,985 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2014. The employer's proportion of the net pension liability was based on the employer's contributions received by PERS-DBRP during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERS-DBRP participating employers.  At June 30, 2014, the employer's proportion was 4.28%.

There were no changes in actuarial assumptions and methods, plan benefit terms and the University's share of the net pension liability, between the measurement date of the total pension liability and June 30, 2015.

For the year ended June 30, 2015, University recognized pension expense of $4,134,457.  The University also receives funding that is not special funding whereby the State general fund provides contributions from the Coal Severance Tax and interest. The University recognized $1,440,917 for its proportionate share from this funding source.

### Deferred Outflows and Deferred Inflows

At June 30, 2015, the University's proportionate share of PERS-DBRP deferred outflows of resources and deferred inflows of resources were from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between projected and actual earnings on pension plan investments | $ - | $ 13,775,715 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 219,272 | |
| Contributions paid to PERS-DBRP subsequent to the measurement date. | 4,321,797 | - |
| Total | $ 4,541,069 | $ 13,775,715 |

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

## Notes to the Consolidated Financial Statements (continued)

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30: | Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense |
|---|---|
| 2016 | ($3,370,838) |
| 2017 | ($3,370,838) |
| 2018 | ($3,370,838) |
| 2019 | ($3,343,928) |
| 2020 | NA |
| Thereafter | NA |

- **Game Wardens and Peace Officers Retirement System**

**Plan Description**

The GWPORS is a multiple-employer, cost-sharing defined benefit pension plan established in 1963, and governed by Title 19, chapters 2 & 8, Montana Codes Annotated (MCA), and administered by the Montana Public Employee Retirement Administration (MPERA). This plan provides retirement benefits to all persons employed as a game warden, warden supervisory personnel, or state peace officer. Benefits are established by state law and can only be amended by the Legislature. The GWPORS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation.

**Summary of Benefits**

*Member's highest average compensation (HAC)*

- Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;
- Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;
- Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's highest average compensation.

*Eligibility for benefit*

- Age 50, 20 years of membership service.

*Early Retirement (reduced benefit)*

- Age 55, vested members who terminate employment prior to 20 years of membership service.

*Vesting*

- 5 years of membership service

*Monthly benefit formula*

- 2.5% of HAC per year of service credit

*Guaranteed Annual Benefit Adjustment (GABA)*

- After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, **inclusive** of all other adjustments to the member's benefit.
- 3% for members hired **prior to** July 1, 2007
- 1.5% for members hired **on or after** July 1, 2007

**Contributions to the Plan**

Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan. Contributions are deducted from each member's salary and remitted by participating employers. Employer and employee contribution rates for 2015 and 2014 were 9.00% and 10.56%, respectively.

## Notes to the Consolidated Financial Statements (continued)

### Actuarial Assumptions

The total pension liability as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2013, with update procedures performed to roll forward the liability to the measurement date. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period July 1, 2003 to June 30, 2009.

Among those assumptions were the following:

- General Wage Growth, including inflation at 3% 4.00%
- Merit Increases 0% to 7.3%
- Investment Return 7.75%
- Postretirement Benefit Increases

  For members hired **prior to** July 1, 2007 3.00%

  For members hired **on or after** July 1, 2007 1.50%

  After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, **inclusive** of other adjustments to the member's benefit.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

### Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Codes Annotated. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability**.** No municipal bond rate was incorporated in the discount rate.

### Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

Best estimates are presented as the arithmetic real rates of return for each major asset class included in the GWPORS target asset allocation as of June 30, 2014, is summarized in the following table:

| Asset Class | Target Asset Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Cash Equivalents | 2.00% | -0.25% |
| Domestic Equity | 36.00% | 4.80% |
| Foreign Equity | 18.00% | 6.05% |
| Fixed Income | 24.00% | 1.68% |
| Private Equity | 12.00% | 8.50% |
| Real Estate | 8.00% | 4.50% |

**Sensitivity Analysis**

The following presents GWPORS' net pension liability and the University's proportionate share of the net pension liability at June 30, 2014, calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

| | 1.0% Decrease (6.75%) | Current Discount Rate | 1.0% Increase (8.75%) |
|---|---|---|---|
| GWPORS' Net Pension Liability | $38,967,024 | $15,120,805 | ($4,439,693) |
| University's proportionate share of the net pension liability | $798,161 | $309,719 | ($90,938) |

**Net Pension Liability**

At June 30, 2015, the University recorded $309,719 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2014. The employer's proportion of the net pension liability was based on the employer's contributions received by GWPORS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of GWPORS' participating employers. At June 30, 2014, the employer's proportion was 2.05%.

There were no changes in actuarial assumptions and methods, plan benefit terms and the University's share of the net pension liability, between the measurement date of the total pension liability and June 30, 2015.

For the year ended June 30, 2015, University recognized pension expense of $72,218.

**Deferred Outflows and Deferred Inflows**

At June 30, 2015, the University's proportionate share of GWPORS' deferred outflows of resources and deferred inflows of resources were from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between projected and actual earnings on pension plan investments | $ - | $ 179,988 |
| Contributions paid to GWPORS subsequent to the measurement date | 87,661 | - |
| Total | $ 87,661 | $ 179,988 |

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

## Notes to the Consolidated Financial Statements (continued)

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30: | Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense |
|---|---|
| 2016 | ($44,997) |
| 2017 | ($44,997) |
| 2018 | ($44,997) |
| 2019 | ($44,997) |
| 2020 | NA |
| Thereafter | NA |

- **Teachers Retirement System**

### Plan Description

TRS is a multiple-employer, cost sharing defined-benefit pension plan established in 1937, and governed by Title 19, chapter 20, MCA, administered by the TRS Board and TRS staff. This plan provides retirement services to individuals employed as teachers, administrators, and in other professional and skilled positions employed in public education in Montana.

### Summary of Benefits

Beginning July 1, 2013, the legislature added a second benefit tier ("Tier Two") for new plan members, which differs from benefits for participants (“Tier One”) enrolled prior to this date as follows:

| | Tier One | Tier Two |
|---|---|---|
| Members highest average compensation (HAC) | Average of the highest three consecutive years earned compensation | Average of the highest five consecutive years earned compensation |
| Eligibility for benefits | Minimum of 25 years of service or age 60, 5 years of service | Age 55 with 30 years of creditable service or age 60 with 5 years of creditable service |
| Early retirement (reduced benefit) | Age 50, fully vested | Age 55, fully vested |
| Vesting | 5 years of creditable service | 5 years of creditable service |
| Annual benefit formula | 1.6667% times AFC times years of creditable service | 1.85% times AFC times years of creditable service for members with 30 years of creditable service and 60 years of age. |

A guaranteed annual benefit adjustment (GABA) is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABA calculated prior to July 1, 2013, was 1.5% of the benefit payable as of January 1st. Effective July 1, 2013, the GABA to be calculated for Tier One and Tier Two members each year may vary from 0.5% to 1.5% based on the retirement system’s funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation.

The legislative enactment that allows for reduction of the GABA for Tier One members was litigated and the issue was resolved. On June 30, 2015, the court ruled that the GABA will remain at 1.50% for TRS Tier One members. The adjustable GABA (rate determined based on the funding status of the system) will apply to TRS Tier Two members (members hired on or after July 1, 2013). The State entered a settlement agreement on August 20, 2015, and agreed not to appeal the case to the State Supreme Court nor will either party seek legal fees associated with the matter.

## Notes to the Consolidated Financial Statements (continued)

### Contributions to the Plan

Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan. Contributions are deducted from each member's salary and remitted by participating employers. Employer and employee contribution for fiscal year 2015 and 2014 were 10.85% and 8.15%, respectively.

Section 19-20-605, MCA, requires each employer to contribute 9.85% of total compensation paid to all reemployed TRS retirees employed in a TRS reportable position. Pursuant to §19-20-609, MCA, this amount shall increase by 1.00% for fiscal year 2014 and increase by 0.10% each fiscal year through 2024 until the total employer contribution is equal to 11.85% of reemployed retiree compensation.

A portion, of the total required statutory contributions, is provided directly from the State for all employers. The employers are considered to be in a special funding situation and the State is treated as a nonemployer contributing entity in the TRS. The plan receives 0.11% of reportable compensation from the State general fund for State and university employers. In addition, the State contributes $25 million in perpetuity, payable July 1st of each year.

### Actuarial Assumptions

The total pension liability as of June 30, 2014, is based on the results of an actuarial valuation date of July 1, 2014. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2014, valuation were based on the results of the last actuarial experience study, dated May 1, 2014.

Among those assumptions were the following:

- General Wage Growth 4.00%
- Merit Increases 4.51%
- Price Inflation 3.25%
- Investment Return 7.75%
- Postretirement Benefit Increases (starting three years after retirement) 1.50%
- Mortality among contributing members, service retired members, and beneficiaries
  - For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members
  - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

### Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating TRS members, employers, and nonemployer contributing entities will be made based on the TRB's funding policy, which establishes the contractually required rates under MCA. In addition to these contributions, the State General Fund will contribute $25 million annually to the TRS payable July 1st of each year. Based on those assumptions, the TRS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2116. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

## Notes to the Consolidated Financial Statements (continued)

**Target Allocations**

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared every four years for the TRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the TRS's target asset allocation as of June 30, 2014, is summarized in the table below:

| Asset Class | Target Asset Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Broad US Equity | 36.00% | 4.80% |
| Broad International Equity | 18.00% | 6.05% |
| Private Equity | 12.00% | 8.50% |
| Intermediate Bonds | 23.40% | 1.50% |
| Core Real Estate | 4.00% | 4.50% |
| High Yield Bonds | 2.60% | 3.25% |
| Non-Core Real Estate | 4.00% | 7.50% |

**Sensitivity Analysis**

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability (NPL) to changes in the discount rate, the table below presents the NPL calculated using the discount rate of 7.75%, as well as what the NPL would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

| | 1.0% Decrease (6.75%) | Current Discount Rate | 1.0% Increase (8.75%) |
|---|---|---|---|
| TRS - Net Pension Liability | $2,137,950,777 | $1,538,849,077 | $1,032,700,256 |
| University's proportionate share of the net pension liability | $29,414,217 | $21,171,694 | $14,208,030 |

**Net Pension Liability**

In accordance with GASB 68, employers and nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the TRS. GASB 68 became effective for fiscal year 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions. In accordance with GASB 68, the TRS has a special funding situation in which the State is legally responsible for making contributions directly to the TRS that are used to provide pension benefits to the retired members of the System. Due to the existence of a special funding situation, employers are also required to report the portion of the State's proportionate share of the collective net pension liability that is associated with the employer. Employers also must recognize grant revenue equivalent to the nonemployer's special funding provided on their behalf.

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2014. The University's proportion of the net pension liability was based on contributions received by TRS during the measurement period July 1, 2013,

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

through June 30, 2014, relative to total contributions received from all of TRS participating employers and nonemployer contributing entity.

The University's and State's proportionate share of the net pension liability consisted of the following at June 30, 2015:

| | Total | Percent of TRS Net Pension Liability |
|---|---|---|
| University's proportionate share of the net pension liability | $21,171,694 | 1.3758% |
| State's proportionate share of the of the net pension liability associated with University | 8,492,935 | 0.5519% |
| Total | $29,664,629 | 1.9277% |

For the year ended June 30, 2015, University recognized pension expense of $2,827,646. The University also recognized grant revenue of $474,574 for the support provided by the State for its proportionate share of the University's pension expense.

*Changes in actuarial assumptions and methods:* The following changes in assumptions or other inputs that affected the measurement of the total pension liability have been made since the previous measurement date.

- Assumed rate of inflation was reduced from 3.50% to 3.25%
- Payroll Growth Assumption was reduced from 4.50% to 4.00%
- Assumed real wage growth was reduced from 1.00% to 0.75%
- Investment return assumption was changed from net of investment and administrative expensed to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
  - For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members was updated to the following:
  - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

There were no changes in plan benefit terms and the University's proportionate share of the net pension liability, between the measurement date of the total pension liability and June 30, 2015.

## Notes to the Consolidated Financial Statements (continued)

### Deferred Outflows and Deferred Inflows

At June 30, 2015, the University's proportionate share of TRS deferred outflows of resources and deferred inflows of resources were from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 209,437 | $ - |
| Changes in actuarial assumptions | 479,840 | |
| Difference between projected and actual earnings on pension plan investments | | 3,279,201 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 3,073,449 | - |
| Contributions paid to TRS subsequent to the measurement date | 6,383,418 | - |
| Total | $ 10,146,144 | $ 3,279,201 |

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30: | Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense |
|---|---|
| 2016 | ($434,442) |
| 2017 | ($434,442) |
| 2018 | ($434,442) |
| 2019 | ($819,800) |
| 2020 | $ - |
| Thereafter | $ - |

### Legal Actuarial Status of Plans

The Montana Constitution, Article VIII, Section 15, states that public retirement systems shall be funded on an actuarially sound basis. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost, in addition to amortizing the unfunded liability over a period not to exceed 30 years.

The statutory funding rate is tested in the valuation of each public retirement plan to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. As of June 30, 2015, the Game Warden & Peace Officers Retirement System (GWPORS) was not in compliance and did not amortize within 30 years.

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

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

## Notes to the Consolidated Financial Statements (continued)

***DEFINED CONTRIBUTION PLANS***

MUS-RP was established in 1988, and is underwritten by the Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). The MUS-RP is a defined-contribution plan. Until July 1, 2003, only faculty and staff with contracts under the authority of the Board of Regents were eligible to participate. The plan was changed, effective July 1, 2003, to allow all staff to participate in the MUS-RP. 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 MUS-RP, each employee enters into an individual contract with TIAA-CREF. The University records employee/employer contributions and remits monies to TIAA-CREF. Individuals vest immediately in the employer portion of retirement contributions.

Contributions to MUS-RP (TIAA-CREF) were as follows:

| | Year ending June 30, 2015 | 2014 |
|---|---|---|
| **FACULTY** | | |
| Covered Payroll | $ 91,807,325 | $ 86,618,001 |
| Employer Contributions | $ 4,549,971 | $ 5,158,968 |
| Percent of Covered Payroll | 4.956% | 5.956% |
| Employee Contributions | $ 6,468,635 | $ 6,099,571 |
| Percent of Covered Payroll | 7.046% | 7.042% |
| **STAFF** | | |
| Covered Payroll | $ 9,791,800 | $ 10,451,401 |
| Employer Contributions | $ 439,652 | $ 469,268 |
| Percent of Covered Payroll | 4.490% | 4.490% |
| Employee Contributions | $ 774,478 | $ 820,088 |
| Percent of Covered Payroll | 7.909% | 7.847% |

For the years ended June 30, 2015 and 2014, 4.72%, or $4,346,095 and $4,088,370, respectively, was contributed to TRS from MUS-RP faculty employer contributions to amortize past service unfunded liability in accordance with state law. In addition, 3.68%, or $370,137 and $384,612, respectively, was contributed to PERS from MUS-RP staff employer contributions to amortize past service unfunded liability in accordance with state law.

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

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

## NOTE 18 – OTHER POSTEMPLOYMENT BENEFITS - HEALTH INSURANCE

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

***Plan Description.*** The University is affiliated with the Montana University System Group Insurance Plan (MUSGIP), an agent multiple-employer health care plan administered by the Office of Commissioner of Higher Education. In accordance with section 2-18-702 of the Montana Codes Annotated, the MUSGIP provides optional postemployment health care benefits to eligible University employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the Montana University System (MUS) at least five years, are age 50 or have

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

worked 25 years with the MUS. Spouses, unmarried dependent children, and surviving spouses are also eligible. Premiums rates established by the Inter-Unit Benefits Committee are approved by the Commissioner of Higher Education. Retiree monthly premium rates range from $600 to $1,410 for medical coverage and decrease when a retiree becomes Medicare eligible. Medicare enrolled retiree premium rates range from $259 to $951. Retirees can also elect optional dental and vision coverage. The MUSGIP does not issue a stand-alone financial report but is reported as an enterprise fund in the State of Montana Comprehensive Annual Financial Report (CAFR) which can be viewed online at http://accounting.mt.gov/cafr/cafr.asp.

***Annual OPEB Cost.*** The University's OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that is projected to cover normal cost each year and amortize any unfunded actuarial liability over a period of 30 years. For fiscal year ended June 30, 2015, 2014, and 2013, the University's annual OPEB cost (expense), the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation was as follows:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Annual required contribution | $ 4,169,819 | $ 4,288,320 | $ 5,411,759 |
| Interest on net OPEB obligation | 1,823,403 | 1,656,088 | 1,430,836 |
| Amortization of net OPEB obligation | (1,430,120) | (1,298,892) | (1,122,224) |
| Annual OPEB cost (expense) | 4,563,102 | 4,645,516 | 5,720,371 |
| Contributions made | (1,429,673) | (738,193) | (397,085) |
| Increase in OPEB obligation | 3,133,429 | 3,907,323 | 5,323,286 |
| Net OPEB Obligation Beginning Balance | 42,817,481 | 38,910,158 | 33,586,872 |
| Net OPEB Obligation Ending Balance | $ 45,950,910 | $ 42,817,481 | $ 38,910,158 |
| Percentage of annual OPEB cost contributed | 31.33% | 15.89% | 6.94% |

The actuarial determination was based on plan information as of July 1, 2013. The Montana University System actuarial valuation is required every two years. At the time of the valuation, the number of active University participants in the MUS health insurance plan was 3,016. The total inactive (retiree and dependent) participants was 893. As of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was $39,903,367, a portion of which is funded by employer contributions and is being amortized as a level dollar amount over an open basis of 30 years. The total amount contributed for active participants by the University to the self-funded health insurance plan during fiscal 2015 and 2014 was $31,816,876 and $29,040,377, respectively, on annual covered payroll for the most recent actuarial valuation of $176,743,341. The AAL as a percentage of annual covered payroll was 26.00%.

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

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

## Notes to the Consolidated Financial Statements (continued)

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

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

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

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

## NOTE 19 – PLEDGED REVENUES

Revenue bonds issued by the University to finance capital asset projects as described in Note 12, are secured by a first lien on the gross and net pledged revenues derived primarily from auxiliary facilities on each of its four campuses. Gross pledged revenues include revenue from housing, food service, student union, recreation and field house facility operations. Net pledged revenues are derived mainly from investment income, student fees, events revenue, continuing education (non-credit) and land grant revenue. Total principal and interest remaining on the debt at June 30, 2015 is $132,203,906 with annual debt service requirements ranging from $11.8 million in 2016 to $998,400 in 2033, the final year of repayment.

## Notes to the Consolidated Financial Statements (continued)

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A schedule of revenues pledged as security for revenue bonds is presented as follows at June 30, 2015 and 2014:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Revenues Pledged as Security for Debt | Net Similar Revenues | Revenues Pledged as Security for Debt | Net Similar Revenues |
| Student fees | $ 12,597,309 | $ 119,117,742 | $ 12,251,798 | $ 119,422,415 |
| Sales and services: | | | | |
| Events revenue | 5,929,386 | | 5,593,269 | |
| Continuing education | 3,273,562 | | 2,023,198 | |
| Residence life | 554,525 | | 533,196 | |
| Student union facilities | 556,834 | | 561,438 | |
| Other sources | 15,214 | | - | |
| *Total sales and services* | **10,329,521** | **16,660,925** | **8,711,101** | **15,473,370** |
| Residence life | **15,992,091** | **16,637,545** | **15,690,494** | **15,729,892** |
| Food services | **14,022,913** | **14,872,931** | **12,008,757** | **12,267,861** |
| Other auxiliary revenues: | | | | |
| Residence life | 565,920 | | 559,578 | |
| Food services | 1,090,351 | | 949,218 | |
| Student union facilities | 418,158 | | 429,529 | |
| Student health services | 807,293 | | 787,149 | |
| Parking | 1,759,116 | | 1,764,984 | |
| Recreation facilities | 1,010,399 | | 971,842 | |
| Bookstore | 3,102,073 | | 3,013,086 | |
| Printing services | 519,935 | | 547,090 | |
| Field house facilities | 1,177,297 | | 276,033 | |
| Other sources | 336,199 | | 501,315 | |
| *Total other auxiliary revenues* | **10,786,741** | **12,835,673** | **9,799,824** | **13,702,898** |
| Land grant revenue | **2,076,362** | **2,076,362** | **1,932,977** | **1,932,977** |
| Investment income | **755,882** | **1,525,988** | **662,012** | **5,164,668** |
| **Total pledged revenues** | **$ 66,560,819** | **$ 183,727,166** | **$ 61,056,963** | **$ 183,694,081** |

## NOTE 20 – RISK MANAGEMENT

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

The Tort Claims Act of the State of Montana in section, 2-9-102, MCA, "provides that Governmental entities are liable for its torts and of those of its employees acting within the course and scope of their employment or duties whether arising out of a governmental or proprietary function, except as specifically provided by the Legislature under Article II, section 19 of The Constitution of the State of Montana". Accordingly section, 2-9-305, MCA, requires that the state "provide for the immunization, defense and indemnification of its public officers and employees civilly sued for their actions taken within the course and scope of their employment". The University also has commercial coverage for other risk exposures that are not covered by the State's self-insurance program.

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

## Notes to the Consolidated Financial Statements (continued)

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

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

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

## NOTE 21 – COMMITMENTS AND CONTINGENCIES

At June 30, 2015, the University had the following outstanding commitments under major capital and maintenance projects:

| Project | Budget Authorization * | Total Expenditures through June 2015 | Funding Source |
|---|---|---|---|
| Gilkey Executive Education Ctr | $ 9,300,000 | $ 4,161,458 | Series M Revenue Bonds; Foundation Support |
| Missoula College | $ 32,000,000 | 4,276,585 | LRBP HB0005; Other campus funds |
| Student Athlete Academic Center | $ 3,000,000 | 2,752,206 | 63rd Legislature HB0005 |
| ISB 4th Fl & Bsmt Research Space | $ 900,000 | - | Campus Funds |
| ISB 3rd Fl Research Space | $ 1,500,000 | - | Campus Funds |
| Liberal Arts Classroom Remodeling | $ 500,000 | - | Private Funds |
| Electrical Distrib Upgrade-Aux | $ 720,000 | - | Campus Funds |
| Main Hall Phase III | $ 4,500,000 | 340,502 | A&E, FEMA Grant, other campus funds |
| Mathews Hall Seismic Stabilization | $ 1,143,874 | 90,889 | FEMA grant, auxiliary funds |
| Natural Resources Research Center Addition | $ 10,000,000 | 771,014 | LRBP HB0005; Tech Foundation; DOE, donations |
| | $ 63,563,874 | $ 12,392,654 | |

*Projects disclosed have budget authorization greater than or equal to $500,000

At June 30, 2015, the University had the following outstanding commitments under major capital and maintenance projects: Operating leases – The University has commitments under non-cancelable operating leases as follows:

| Payable during the year ending June 30, | Total |
|---|---|
| 2016 | $ 458,858 |
| 2017 | 52,822 |
| 2018 | 26,658 |
| 2019 | 2,285 |
| 2020 | 520 |
| | $ 541,143 |

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

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

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

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

## NOTE 22– RELATED PARTIES

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

The associations and booster club operate exclusively for the purpose of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with, the University. For the years ended June 30, 2015 and 2014, $108,091 and $132,544, respectively, was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, the University provides the associations and booster club with office space, staff and some related office expenses.

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

## NOTE 23 – ACCOUNTING FOR COMPONENT UNITS

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

For the fiscal years ended June 30, 2015 and 2014, the following was transferred to the University for scholarships, academic or institutional support or capital expenses by the University foundations: $16,175,934 and $10,139,737, respectively with The University of Montana Foundation (406-243-2593), $2,674,383 and $2,965,933, respectively, with the Montana Tech Foundation (406-496-4532); and $257,243 and $232,787 respectively, with The University of Montana-Western Foundation (406-683-7305). In addition, $2,880,133 and $1,448,186 was transferred from the Montana Grizzly Scholarship Association (406-243-6485) for the fiscal years ended June 30, 2015 and 2014, respectively. For the fiscal years ended June 30, 2015 and 2014, the University foundations also expended $6.4 million and $2.7 million, respectively, directly to third parties in support of the University. In exchange, the University provides the foundations with office space and an annually contracted fee, and the association with office space, staff and some related office expenses. For the fiscal years ended June 30, 2015 and 2014, the University provided $500,000 and $450,000, respectively, to its Foundations, which included payments for contracted services, capital campaign support and a lease payment of $1 for a lake lodge used by The University of Montana-Missoula for conferences and other events.

## Notes to the Consolidated Financial Statements (continued)

Condensed financial information for each of the University's component units is presented below. The University of Montana – Western Foundation changed their fiscal period end from December 31 to June 30, beginning January 1, 2013. For the most recent component unit financial information presented, the University of Montana – Western Foundation's statement of financial position is as of June 30, 2015, and statement of activities is for the eighteen months ended June 30, 2015.

**STATEMENT OF FINANCIAL POSITION**
**June 30, 2015**

| | University of Montana Foundation* | Montana Tech Foundation* | University of Montana – Western Foundation** | Montana Grizzly Scholarship Association* | Elimination | Total |
|---|---|---|---|---|---|---|
| **ASSETS:** | | | | | | |
| Cash and investments | $ 229,343,320 | $ 36,137,368 | $ 5,960,856 | $ 3,034,999 | $ (3,022,813) | $ 271,453,730 |
| Other receivables, net of allowances | 14,586,941 | 4,559,606 | 80,000 | 9,486 | - | 19,236,033 |
| Fixed assets, net of depreciation | 75,912 | 2,356,014 | 9,827 | 1,212 | - | 2,442,965 |
| Property held for sale | 3,543,840 | - | - | - | - | 3,543,840 |
| Other assets | 1,713,561 | 101,190 | - | 162,808 | - | 1,977,559 |
| Total Assets | $ 249,263,574 | $ 43,154,178 | $ 6,050,683 | $ 3,208,505 | $ (3,022,813) | $ 298,654,127 |
| **LIABILITIES:** | | | | | | |
| Current liabilities associated with operations | $ 1,547,998 | $ 129,395 | $ 2,438 | $ 240,096 | $ - | $ 1,919,927 |
| Long-term liabilities – other | 195,998 | - | - | - | - | 195,998 |
| Liabilities to external beneficiaries | 15,526,476 | 36,115 | - | - | - | 15,562,591 |
| Custodial funds | 22,403,599 | - | - | - | (3,022,813) | 19,380,786 |
| Total Liabilities | 39,674,071 | 165,510 | 2,438 | 240,096 | (3,022,813) | 37,059,302 |
| **NET ASSETS:** | | | | | | |
| Net assets – unrestricted | 8,105,171 | 2,244,704 | 347,137 | 1,194,380 | - | 11,891,392 |
| Net assets – restricted | 201,484,332 | 40,743,964 | 5,701,108 | 1,774,029 | - | 249,703,433 |
| Total Net Assets | 209,589,503 | 42,988,668 | 6,048,245 | 2,968,409 | - | 261,594,825 |
| Total Liabilities & Net Assets | $ 249,263,574 | $ 43,154,178 | $ 6,050,683 | $ 3,208,505 | $ (3,022,813) | $ 298,654,127 |

**Changed FYE to June 30, 2015 (18 month financials).

**STATEMENT OF FINANCIAL POSITION**
**June 30, 2014 and December 31, 2013**

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

* For the year ended June 30, 2014. **For the year ended December 31, 2013.

## Notes to the Consolidated Financial Statements (continued)

**STATEMENT OF ACTIVITIES**

**For the year ended June 30, 2015**

| | University of Montana Foundation* | Montana Tech Foundation* | University of Montana – Western Foundation** | Montana Grizzly Scholarship Association* | Total |
|---|---|---|---|---|---|
| **REVENUES:** | | | | | |
| Contributions | $ 38,241,998 | $ 8,442,308 | $ 1,362,232 | $ 1,831,914 | $ 49,878,452 |
| Investment income and unrealized gain(loss) on investments | 780,140 | 447,718 | 185,351 | (10,065) | 1,403,144 |
| Administrative fees | 511,233 | - | - | - | 511,233 |
| Contract for services | 500,000 | - | - | - | 500,000 |
| Other income | 3,535,046 | 5,011 | 65,739 | 407,751 | 4,013,547 |
| Total Revenues | $ 43,568,417 | $ 8,895,037 | $ 1,613,322 | $ 2,229,600 | $ 56,306,376 |
| **EXPENSES:** | | | | | |
| Program services | $ 21,157,211 | $ 3,570,892 | $ 842,194 | $ 2,832,198 | $ 28,402,495 |
| Supporting services | 5,830,615 | 1,472,055 | 233,336 | 457,354 | 7,993,360 |
| Total Expenses | $ 26,987,826 | $ 5,042,947 | $ 1,075,530 | $ 3,289,552 | $ 36,395,855 |
| Change in net assets before non-operating items | $ 16,580,591 | $ 3,852,090 | $ 537,792 | $ (1,059,952) | $ 19,910,521 |
| **NON-OPERATING EXPENSES:** | | | | | |
| Payments to beneficiaries and change in liabilities due to external beneficiaries | (1,067,950) | - | - | - | (1,067,950) |
| Change in net assets | $ 15,512,641 | $ 3,852,090 | $ 537,792 | $ (1,059,952) | 18,842,571 |
| Net assets, beginning of fiscal year | 194,076,862 | 39,136,578 | 5,510,453 | 4,028,361 | 242,752,254 |
| Net assets, end of fiscal year | $ 209,589,503 | $ 42,988,668 | $ 6,048,245 | $ 2,968,409 | 261,594,825 |

*For the year ended June 30, 2015 **Changed FYE to June 30, 2015 (18 month financials).

**STATEMENT OF ACTIVITIES**

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

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

* For the year ended June 30, 2014. **For the year ended December 31, 2013.

## Notes to the Consolidated Financial Statements (continued)

The following table shows the total investments held by the component units. The investments for the University of Montana – Western Foundation are as of June 30, 2015 and December 31, 2013 for fiscal years 2015 and 2014, respectively. The financial information for all the other component units is as of June 30, for the years presented.

| | Fair Market Value | |
|---|---|---|
| | 2015 | 2014 |
| **Investments held by component units:** | | |
| Stocks and bonds | $ 86,816,567 | $ 75,418,289 |
| Money market and certificates of deposit | 9,438,275 | 1,696,218 |
| Alternative investments | 135,641,809 | 139,836,608 |
| Real property | 30,562,238 | 28,937,791 |
| Other | 1,908,837 | 1,987,548 |
| | $ 264,367,726 | $ 247,876,454 |

## Notes to the Consolidated Financial Statements (continued)

### NOTE 24 – NATURAL CLASSIFICATION WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by natural and functional classifications for the year ended June 30, 2015, were as follows:

| | Natural Classification | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Functional Classification:** | Compensation & benefits | Pension Expense | Other postemployment benefits | Supplies & other services | Utilities | Communication | Scholarships | Depreciation | Total |
| Instruction | $ 102,695,795 | $ 2,497,205 | $ 1,814,715 | $ 9,140,638 | $ 37,361 | $ 445,154 | $ - | $ - | $ 116,630,868 |
| Research | 33,705,776 | 259,861 | 193,117 | 12,499,863 | 38,344 | 169,212 | - | - | 46,866,173 |
| Public service | 16,174,661 | 176,584 | 104,709 | 6,378,554 | 1,169 | 113,206 | - | - | 22,948,883 |
| Academic support | 23,644,856 | 740,343 | 494,805 | 10,826,983 | - | 225,563 | - | - | 35,932,550 |
| Student services | 18,805,576 | 681,927 | 463,766 | 10,202,067 | 21,981 | 559,734 | - | - | 30,735,051 |
| Institutional support | 20,243,461 | 949,578 | 457,854 | 8,328,621 | 33,333 | 543,408 | - | - | 30,556,256 |
| Operation and maintenance of plant | 13,560,019 | 711,691 | 374,559 | 10,031,496 | 5,818,163 | 248,806 | - | - | 30,744,735 |
| Scholarships and fellowships | - | - | - | - | - | - | 24,326,584 | - | 24,326,584 |
| Auxiliary enterprises | 26,395,414 | 1,017,132 | 659,577 | 15,910,936 | 3,127,661 | 261,086 | - | - | 47,371,806 |
| Depreciation | - | - | - | - | - | - | - | 23,726,949 | 23,726,949 |
| | $ 255,225,558 | $ 7,034,321 | $ 4,563,102 | $ 83,319,158 | $ 9,078,013 | $ 2,566,170 | $ 24,326,584 | $ 23,726,949 | $ 409,839,855 |

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

| | Natural Classification | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Functional Classification:** | Compensation & benefits | Other postemployment benefits | Supplies & other services | Utilities | Communication | Scholarships | Depreciation | Total |
| Instruction | $ 106,090,243 | $ 1,858,206 | $ 8,321,116 | $ 28,271 | $ 466,260 | $ - | $ - | $ 116,764,097 |
| Research | 32,188,394 | 214,623 | 10,747,084 | 27,330 | 185,799 | - | - | 43,363,230 |
| Public service | 14,056,642 | 108,241 | 6,779,336 | 4,052 | 97,543 | - | - | 21,045,814 |
| Academic support | 22,000,046 | 491,031 | 10,079,766 | 605 | 413,478 | - | - | 32,984,927 |
| Student services | 19,034,240 | 460,371 | 10,623,471 | 29,183 | 489,337 | - | - | 30,636,602 |
| Institutional support | 21,615,502 | 477,094 | 6,568,264 | 7,981 | 722,709 | - | - | 29,391,550 |
| Operation and maintenance of plant | 14,129,578 | 392,546 | 10,634,725 | 5,744,835 | 232,081 | - | - | 31,133,765 |
| Scholarships and fellowships | - | - | - | - | - | 26,489,069 | - | 26,489,069 |
| Auxiliary enterprises | 25,515,859 | 643,404 | 14,678,846 | 3,259,375 | 152,913 | - | - | 44,250,397 |
| Depreciation | - | - | - | - | - | - | 23,334,553 | 23,334,553 |
| | $ 254,630,504 | $ 4,645,516 | $ 78,432,610 | $ 9,101,631 | $ 2,760,121 | $ 26,489,069 | $ 23,334,553 | $ 399,394,003 |

# The University of Montana
# Required Supplementary Information

- **Public Employees' Retirement System-Defined Benefit Retirement System**

**Schedule of Proportionate Share of the Net Pension Liability [1]**
**For the Fiscal Year Ended June 30**

| | 2015 |
|---|---|
| Employer's proportion of the net pension liability | 4.28% |
| Employer's proportionate share of the net pension liability | $ 53,314,985 |
| Employer's covered-employee payroll | $ 47,843,696 |
| Employer 's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 111% |
| Plan fiduciary net position as a percentage of the total pension liability | 80% |

**Schedule of Employer Contributions [1]**
**For the Fiscal Year Ended June 30**

| | 2015 |
|---|---|
| Contractually required contributions | $ 4,321,797 |
| Contributions in relation to the contractually required contributions | 4,321,797 |
| Contribution deficiency/(excess) | $ - |
| Covered-employee payroll | $52,755,355 |
| Contributions as a percentage of covered-employee payroll | 8% |

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

**Notes to Required Supplementary Information**

***Method and assumptions used in calculations of contractually determined contributions:*** The contractually required contribution rates were determined on an annual basis for the fiscal year beginning July 1, 2013, with update procedures performed to roll forward required contributions to the measurement date of June 30, 2014.

The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

| | |
|---|---|
| • Actuarial cost method | Entry age normal |
| • Amortization method | Level percentage of pay, open |
| • Remaining amortization period | 30 years |
| • Asset valuation method | 4-year smoothed market |
| • General wage growth | 4.00% |
| • Inflation | 3.00% |
| • Merit salary increases | 0.0 - 6.0% |
| • Investment rate of return | 7.75%, net of pension plan investment expense, and including inflation |

***Changes of assumptions:*** No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

## Required Supplementary Information (continued)

### ▪ Game Wardens' and Peace Officers' Retirement System

**Schedule of Proportionate Share of the Net Pension Liability [1]**
**For the Fiscal Year Ended June 30**

| | 2015 |
|---|---|
| Employer's proportion of the net pension liability | 2.05% |
| Employer's proportionate share of the net pension liability | $ 309,719 |
| Employer's covered-employee payroll | $ 852,841 |
| Employer 's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 36% |
| Plan fiduciary net position as a percentage of the total pension liability | 90% |

**Schedule of Employer Contributions [1]**
**For the Fiscal Year Ended June 30**

| | 2015 |
|---|---|
| Contractually required contributions | $ 87,061 |
| Contributions in relation to the contractually required contributions | 87,061 |
| Contribution deficiency/(excess) | $ - |
| Covered-employee payroll | $974,007 |
| Contributions as a percentage of covered-employee payroll | 9% |

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

**Notes to Required Supplementary Information**
**For the Year Ended June 30, 2015**

***Method and assumptions used in calculations of contractually determined contributions:*** The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2014, determined as of June 30, 2014.

The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

- Actuarial cost method — Entry age normal
- Amortization method — Level percentage of pay, open
- Remaining amortization period — 30 years
- Asset valuation method — 4-year smoothed market
- General wage growth — 4.00%
- Inflation — 3.00%
- Merit salary increases — 0.0 - 7.3%
- Investment rate of return — 7.75%, net of pension plan investment expense, and including inflation

***Changes of assumptions:*** No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

## Required Supplementary Information (continued)

### ▪ Teachers' Retirement System

**Schedule of Proportionate Share of the Net Pension Liability [1]**
**For the Year Ended June 30**

| | 2015 |
|---|---|
| Employer's proportion of the net pension liability | 1.38% |
| Employer's proportionate share of the net pension | $ 21,171,694 |
| Employer's covered-employee payroll | $ 13,529,625 |
| Employer 's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 156% |
| Plan fiduciary net position as a percentage of the total pension liability | 70% |

**Schedule of Employer Contributions [1]**
**For the Fiscal Year Ended June 30**

| | 2015 |
|---|---|
| Contractually required contributions | $ 6,383,418 |
| Contributions in relation to the contractually required contributions | 6,383,418 |
| Contribution deficiency/(excess) | $ - |
| | |
| Covered-employee payroll | $ 12,866,721 |
| Contributions as a percentage of covered-employee payroll | 50% |

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

**Notes to Required Supplementary Information**
**For the Year Ended June 30, 2015**

***Changes of assumptions:*** The following changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date:

- Assumed rate of inflation was reduced from 3.50% to 3.25%
- Payroll Growth Assumption was reduced from 4.50% to 4.00%
- Assumed real wage growth was reduced from 1.00% to 0.75%
- Investment return assumption was changed from net of investment and administrative expensed to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
  - For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members was updated to the following:
  - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

## Required Supplementary Information (continued)

### ▪ Teachers' Retirement System (continued)

***Method and assumptions used in calculations of actuarially determined contributions:*** The actuarially determined contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2014, determined as of June 30, 2014.

The following actuarial methods and assumptions were used to determine actuarial contribution rates reported in that schedule:

- Actuarial cost method — Entry age
- Amortization method — Level percentage of pay, open
- Remaining amortization period — 28 years
- Asset valuation method — 4-year smoothed market
- Salary increase — 4.00 to 8.51 percent, including inflation for Non- University Members and 5.00% for University Members
- Inflation — 3.25 percent
- Investment rate of return — 7.75 percent, net of pension plan investment expense, and including inflation

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

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

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

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

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

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

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

| DESCRIPTION | Fall 2014 | Fall 2013 | Fall 2012 | Fall 2011 | Fall 2010 |
|---|---|---|---|---|---|
| Enrollment (Headcount) [1] | 19,768 | 20,345 | 20,836 | 21,530 | 21,371 |
| | **FY2015** | **FY2014** | **FY2013** | **FY2012** | **FY2011** |
| Enrollment (FTE) [2] | | | | | |
| Two-year Colleges | 2,782 | 3,024 | 3,289 | 3,338 | 3,304 |
| Undergraduate | 12,031 | 12,235 | 12,680 | 13,386 | 13,785 |
| Graduate | 1,904 | 1,880 | 1,908 | 1,985 | 1,950 |
| | 16,717 | 17,139 | 17,877 | 18,709 | 19,039 |
| Enrollment (FTE) [2] | | | | | |
| In-State students | 12,470 | 13,035 | 13,809 | 14,431 | 14,749 |
| Out-of-State students | 3,078 | 2,975 | 2,964 | 3,171 | 3,141 |
| Western Undergraduate Exchange | 1,169 | 1,129 | 1,104 | 1,107 | 1,149 |
| | 16,717 | 17,139 | 17,877 | 18,709 | 19,039 |

| | FY2015 | FY2014 | FY2013 | FY2012 | FY2011 |
|---|---|---|---|---|---|
| Employees (FTE) - All Funds [2] | | | | | |
| Contract Faculty | 1,079 | 1,083 | 1,048 | 1,133 | 1,112 |
| Contract Admin & Professional | 629 | 595 | 603 | 561 | 543 |
| Classified | 1,238 | 1,216 | 1,246 | 1,363 | 1,349 |
| GTA/GRA | 310 | 312 | 199 | 186 | 188 |
| Part Time and Other | 583 | 559 | 682 | 579 | 583 |
| | 3,839 | 3,766 | 3,778 | 3,822 | 3,774 |

| | School Year Ended | | | | |
|---|---|---|---|---|---|
| | 6/30/2015 | 6/30/2014 | 6/30/2013 | 6/30/2012 | 6/30/2011 |
| Degrees Granted [3] | | | | | |
| Certificate | 208 | 205 | 175 | 144 | 182 |
| Associate | 678 | 678 | 692 | 668 | 555 |
| Undergraduate | 2,628 | 2,569 | 2,481 | 2,509 | 2,535 |
| Graduate | 886 | 828 | 888 | 828 | 802 |
| | 4,400 | 4,280 | 4,236 | 4,149 | 4,074 |

[1] *Source: MUS Data Warehouse*
[2] *Source: CHE Operating Reports 2011-2016*
[3] *Source: IPEDS Completions Reports 2011-2016*

# Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver



# Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of Montana (university), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated December 22, 2015. Our report includes a reference to other auditors who audited the financial statements of the University of Montana Foundation, the Montana Tech Foundation, the University of Montana–Western Foundation, and the Montana Grizzly Scholarship Association, as described in our report on the university's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. Those financial statements were not audited in accordance with *Government Auditing Standards*.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the university's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the university's internal control. Accordingly, we do not express an opinion on the effectiveness of the university's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the university's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the university's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the university's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 22, 2015

UNIVERSITY OF MONTANA

# UNIVERSITY RESPONSE

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Legislative Audit Division
Room 135 State Capitol
P. O. Box 201705
Helena, MT 59620-1705

Dear Ms. Hunthausen,

On behalf of the University of Montana community, I want to extend our appreciation to you and the Legislative Audit staff for their work on the University of Montana's Financial Audit for the fiscal year ending June 30, 2015. We always find this process to be helpful and the work by the Legislative Audit staff to be professional. The University takes fiscal accountability and responsibility for expenditure of public funds with the utmost importance.

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

Sincerely,

Royce C Engstrom

Royce C. Engstrom
President
University of Montana

Cc: Clayton Christian, Commissioner of Higher Education

**Office of the President**
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