A Report
to the
Montana
Legislature

Financial Audit

University of Montana

For the Two Fiscal Years Ended June 30, 2016

January 2017

Legislative Audit Division

15-10B

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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 the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 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, 2015, was issued March 29, 2016. The Single Audit Report for the two fiscal years ended June 30, 2017, will be issued by March 31, 2018. 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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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

January 2017

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, 2016, with comparative information for the fiscal year ended June 30, 2015. The statements include financial information from four fundraising organizations of the university.

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

Angus Maciver
Legislative Auditor

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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
	Levi Birky, Student Regent	June 30, 2017
	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
	Chuck Jensen	Deputy Commissioner for Administration and Finance
	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
	Sheila Stearns	Interim President (as of January 1, 2017)
	Beverly Edmond	Interim Provost and Vice President for Academic Affairs, University Provost (effective July 2016)

	Thomas Crady	Vice President for Enrollment Management and Student Affairs (effective July 2016)
	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
	Deborah Hedeen	Academic Affairs, University Associate Vice President (effective July 2016)
	Susan D. Briggs	Vice Chancellor, Administration/Finance and Student Affairs, University Associate Vice President
	Liane Forrester	Director of Business and Campus Services

Helena College University of Montana	Daniel Bingham	Dean/CEO
	Chad Hickox	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 Two Fiscal Years Ended June 30, 2016

January 2017 15-10B Report Summary

Student enrollment has continued to decline in fiscal year 2016 to 15,887 from 16,717 in fiscal year 2015. During fiscal year 2016, the full-time equivalent employees at the University of Montana decreased by 292. There was a significant increase in external funding to the University of Montana, including the research and program funding.

Context

The University of Montana (university) is comprised of University of Montana–Missoula, Montana Tech of the University of Montana, University of Montana–Western, and Helena College University of Montana. 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 $253.8 million at June 30, 2016, comparable to the university's net position of $237.4 million.

We performed an annual financial statement audit of the 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, 2016, as well as the results of operations and cash flows for the year then ended.

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 an unmodified opinion on the university's financial statements. The audit report does not contain any recommendations to the university. The prior audit report did not contain any recommendations.

Chapter I – Introduction

Audit and Objectives

We performed a financial audit of the University of Montana (university) for the two fiscal years ended June 30, 2016. 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, 2016, with comparative financial amounts for the fiscal year ended June 30, 2015.
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, federal 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.

We perform annual financial audits of the university to provide audited financial statements to interested parties. We also conduct separate biennial audits covering the university's compliance with selected state and federal laws and regulations. We anticipate issuing the compliance audit (17-10) for the two fiscal years 2016 and 2017, in the fall of 2017.

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-62.

Independent Auditor's Report and University Financial Statements

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Consolidated Statements of Net Position the University of Montana, a component unit of the state of Montana, as of June 30, 2016, and 2015, 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 Net Position as of June 30, 2016, and 2015, 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 the 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

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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 audits and the report 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, 2016, and 2015, 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.

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-54, and the Required Supplementary Information related to Other Post–Employment Benefits on page A-57 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 5, 2016, 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 5, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2016 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, 2016, 2015, and 2014, and should be read in conjunction with the fiscal year 2016 financial statements.

FINANCIAL HIGHLIGHTS

The financial highlights for fiscal year 2016 were:

- Research and creative scholarship activity has increased significantly at the University over the last several years, particularly on the Missoula campus. Grant and contract revenue totaled $80.6 million in FY16, $60.4 million of which was from Federal grants and contracts, and is a 12.4% increase over FY15. The award volume in FY16 on the Missoula campus was almost $87.0 million, surpassing the FY15 record award volume of close to $83.0 million. Award volume is an indicator of proposal success and serves as a leading indicator of future grant and contract expenditures.

- The total amount of outstanding revenue bond debt at the University has seen a marked decrease over the past 10 years, from a high of $152.7 million in FY06, to an outstanding balance of $98.8 million at the end of FY16, a decline of $53.9 million. The University has been able to accomplish this through sound debt management practices, and securing funding for major capital projects through the fund raising efforts of its foundations and through the State legislative process.

- During the fiscal year, the University's enrollment decreased by 830 full time equivalent students (FTE) from 16,717 in FY15, to 15,887 in FY16, or a 5.0% decline. Since FY11, enrollment has declined by 3,159 FTE, or by 15.6%. FTE at the MT Tech and Western campuses has remained relatively steady during this time period, while Missoula and Helena College FTE has declined by 2,860 and 321, respectively. The decline in enrollment on the Missoula campus created a budget shortfall of approximately $6.0 million in FY16, which was addressed through one time only funding from internal sources, and by reducing faculty and staff FTE and operating expenses across all campus units.

- As a result of Fundraising by the University's foundations, private support to the University in FY16 topped $53.0 million, primarily to fund scholarships. In addition, recent large gifts have provided significant funding for major capital projects that are currently under construction or in the planning stage. They include, $5.0 million in matching funds received to construct a Natural Resources Research Center on the MT Tech campus and a $5.0 million gift for planned construction of a state-of-the-art auditorium for the College of Education and Human Sciences on the Missoula campus.

- The University received an indicative credit ratings of A+ and A1 from Standard and Poor's and Moody's, respectively, in FY16.

The financial highlights for fiscal year 2015 were:

- 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.

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

USING THE FINANCIAL STATEMENTS

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

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

- These are consolidated financial statements representing the University's four campuses.

- The financial statements are prepared using the accrual basis of accounting, which means revenues are reported when earned, and expenses are reported when an obligation has been incurred.

- Assets and liabilities presented in the financial statements are generally measured at current value, although capital assets are stated at historical cost less accumulated depreciation.

- Capital assets are classified as depreciable and non-depreciable. Depreciation is treated as an operating expense.

- Assets and liabilities are treated as current (Due within one year) or as non-current (Due in more than one year), and are presented in the Statement of Net Position in order of liquidity. Deferred outflows of resources represent the consumption of resources that are applicable to a future reporting period but do not require a future exchange of goods or services. Deferred inflows represent the acquisition of resources that is applicable to a future reporting period.

- 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.

Management, Discussion and Analysis (continued)

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)		
	2016	**2015**	**2014**
Description			
Total current assets	$ 87.26	$ 90.52	$ 94.10
Total non-current assets	458.80	441.75	451.76
Total assets	$ 546.06	$ 532.27	$ 545.86
Deferred outflows of resources	$ 18.84	$ 18.21	$ 3.41
Total current liabilities	$ 60.83	$ 65.42	$ 79.91
Total non-current liabilities	259.48	258.75	190.41
Total liabilities	$ 320.31	$ 324.17	$ 270.32
Deferred inflows of resources	$ 7.17	$ 17.24	$ -
Net invested in capital assets	$ 249.19	$ 228.13	$ 214.82
Restricted:			
Nonexpendable	20.47	21.90	22.88
Expendable	4.29	4.12	5.81
Unrestricted	(36.53)	(45.08)	35.44
Total net postion	$ 237.42	$ 209.07	$ 278.95

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

Events or developments which occurred during 2016 include:

- Current assets decreased by over $3.2 million largely due to decreases in cash and cash equivalents of $1.9 million, securities lending collateral of $1.7 million and prepaid expenses of $700 thousand. The decreases in current assets were offset by an increase in accounts receivable and grants receivable of over $1.0 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 that hold securities lending collateral at fiscal year-end. The investment in MBOI's short-term investment pool declined by $7.8 million over the prior year, significantly decreasing the University's allocation of securities lending collateral at the end of FY16. Variances between other current asset classifications were not considered significant.

- An increase in capital assets of $17.2 million, net of the increase in accumulated depreciation of $20.1 million, accounts for most of the almost $14.0 million increase in noncurrent assets in FY16. The University capitalized over $32.5 million attributed to a number of large construction projects on the University's Missoula, MT Tech and Western campuses. The increase in capital assets was offset by a decrease of $1.4 million in fair value of investments in FY16. Variances between other noncurrent asset classifications were not considered significant.

- Current liabilities decreased by almost $4.6 million due largely to a $5.1 million decrease in accounts payable and accrued liabilities, and a $1.7 million decrease in MBOI's allocation of securities lending liability to the University. Increases to other noncurrent liability classifications that offset the increases described above were not as significant.

- While noncurrent liabilities increased by less than $1.0 million in FY16, there were several notable changes within this financial statement classification. During the year the other postemployment benefits obligation and the net pension liability increased by $3.4 million and $5.9 million, respectively, which were offset by a net decrease in long-term obligations and advances from primary government of $7.6 million. The University issued less than $1.5 million in additional long-term obligations during FY16.

- Deferred inflows of resources decreased by close to $10.1 million due primarily to a decrease in the University's proportionate share of the difference between projected and actual earnings on pension plan investments, based on the most recent actuarial valuations for the retirement plans.

- The net position of the University increased by $28.4 million in FY16 due primarily to an improvement in unrestricted negative net position of $8.5 million and an increase in net investment in capital assets of $21.1 million. The increase in net investment in capital assets is primarily due to a net decrease in long-term obligations and advances from primary government of $7.6 million, and an increase in capital grants and gifts of $17.8 million.

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

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.

Management, Discussion and Analysis (continued)

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

	For the years ended June 30, (stated in millions)		
Description	**2016**	**2015**	**2014**
Operating revenues	$ 272.93	$ 269.03	$ 255.33
Operating expenses	419.67	409.84	399.39
Operating loss	(146.74)	(140.81)	(144.06)
Non-operating revenues (expenses)	147.41	143.74	138.55
(Loss) income before other revenues	0.67	2.93	(5.51)
Other revenues	27.68	10.12	4.28
Net (decrease) increase in net position	28.35	13.05	(1.23)
Net Position, beginning of year as previously stated	209.07	278.95	280.18
Restatement for net pension liability and related expenses	-	(82.93)	-
Net Position, beginning of year as restated	209.07	196.02	280.18
Net position, end of year	$ 237.42	$ 209.07	$ 278.95

The following provides a comparative analysis of revenues and expenses for the years ended June 30, 2016, 2015, and 2014:

	For the years ended June 30, (stated in millions)					
	2016		**2015**		**2014**	
REVENUES	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Tuition and fees, net	$ 114.90	25.39%	$ 119.12	27.87%	$ 119.42	29.60%
Federal grants and contracts	60.37	13.34%	52.38	12.25%	46.26	11.48%
State & local grants/contracts	8.21	1.81%	9.08	2.12%	9.05	2.24%
Nongovernmental grants/contracts	12.09	2.67%	10.33	2.42%	8.92	2.21%
Facilities and administrative cost allowances	10.81	2.39%	8.83	2.07%	8.28	2.05%
Sales/services of educational departments	16.83	3.72%	16.66	3.90%	15.47	3.83%
Auxiliary enterprise charges	42.78	9.45%	44.34	10.37%	41.70	10.34%
State appropriations	105.08	23.22%	99.47	23.27%	92.52	22.93%
Federal financial aid grants and contracts	25.47	5.63%	27.80	6.50%	29.80	7.39%
Investment income	2.05	0.45%	1.53	0.36%	5.16	1.28%
Private gifts	17.66	3.90%	17.45	4.08%	14.42	3.57%
Capital grants and gifts	27.96	6.18%	10.12	2.37%	4.29	1.06%
All other sources	8.27	1.85%	10.36	2.42%	8.16	2.02%
Total revenues	$ 452.48	100.00%	$ 427.47	100.00%	$ 403.45	100.00%
EXPENSES	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Compensation and benefits	$ 260.93	61.52%	$ 255.23	61.59%	$ 254.63	62.92%
Pension expense	7.14	1.68%	7.03	1.70%	-	0.00%
Other postemployment benefits	4.57	1.08%	4.56	1.10%	4.65	1.15%
Other operating expenses	100.77	23.76%	94.96	22.91%	90.29	22.31%
Scholarships and fellowships	23.16	5.46%	24.33	5.87%	26.49	6.55%
Depreciation and amortization	23.09	5.44%	23.73	5.73%	23.33	5.77%
Interest expense	4.47	1.05%	4.58	1.11%	5.29	1.31%
Total expenses	$ 424.13	100.00%	$ 414.42	100.00%	$ 404.68	100.00%

Events or developments which occurred during 2016 include:

In FY16, the University saw an increase of $28.4 million in its net position. Significant factors affecting the University's net position are described below:

- Operating revenues increased by $3.9 million in FY16, primarily due to a $10.9 million, or 12.4%, increase in grants and contracts revenues. The Missoula campus was awarded almost $87.0 million in external funding at the end of FY16, which includes a large number of new awards during the year. The substantial increase in awards over the past two fiscal years, was a significant reason for the increase in grant and contract revenue recognized in FY16. This increase was offset by decreases in revenues from tuition and fees ($4.2 million), auxiliary operations ($1.6 million) and other operating revenues ($1.3 million). Enrollment dropped again in FY16 by 833 full time equivalent students, which significantly decreased both tuition and fee and auxiliary operations revenues.

- Overall, operating expenses increased by over $9.8 million in FY16, or 2.4%, primarily due to increases in compensation and employee benefits of $5.7 million and other expenses of $5.8 million, offset by a $1.2 million decrease in the cost of scholarships and fellowships.

  Research and public service programs compensation and benefits increased in FY16, by $3.6 million and $2.8 million, respectively, which is due in large part to the increase in grants and contract activity at the Missoula campus. Other programs compensation and benefits saw a net decrease of over $1.0 million, offsetting the above increases. A wage increase negotiated with University employee bargaining units, and a similar wage increase for University administrators and contract professionals, increased compensation and employee benefits but the impact was offset by a decrease of 292 employee FTE, primarily at the Missoula campus.

  The increase in other expenses of $5.8 million is largely from increases in payments for consultant and professional services, and payments to subcontractors associated with grant and contract activity on the Missoula campus.

- Non–operating revenues (expenses) increased by $3.6 million in FY16, primarily from an increase in state appropriation of $5.7 million, or 5.6%, offset by an over $2.3 million decline in Federal financial aid due to declining enrollments at the Missoula campus.

- Other revenues increased by over $17.5 million in FY16, due almost entirely to an increase in capital grants and gifts. During the year the University received $21.0 million and $7.0 million from the State and its foundations, respectively, to fund a number of large capital projects on the Missoula, Montana Tech and Western campuses.

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.

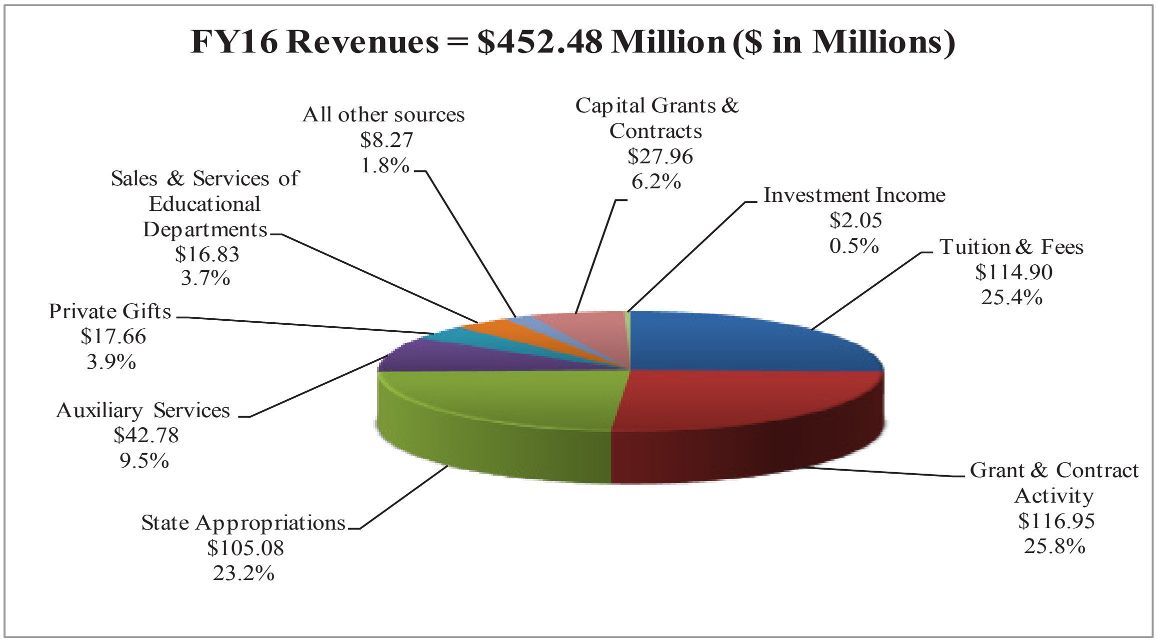
- The overall increase in operating expenses of $10.5 in FY15, was primarily due to recording $7.0 million in pension expense from implementing GASB 68, and a $4.7 increase in other expenses largely from a substantial increase in grant and contract activity. Offsetting the increase to operating expenses 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 decreased employee benefit expense by over $10.7 million and largely mitigating the effect of employee wage increases.

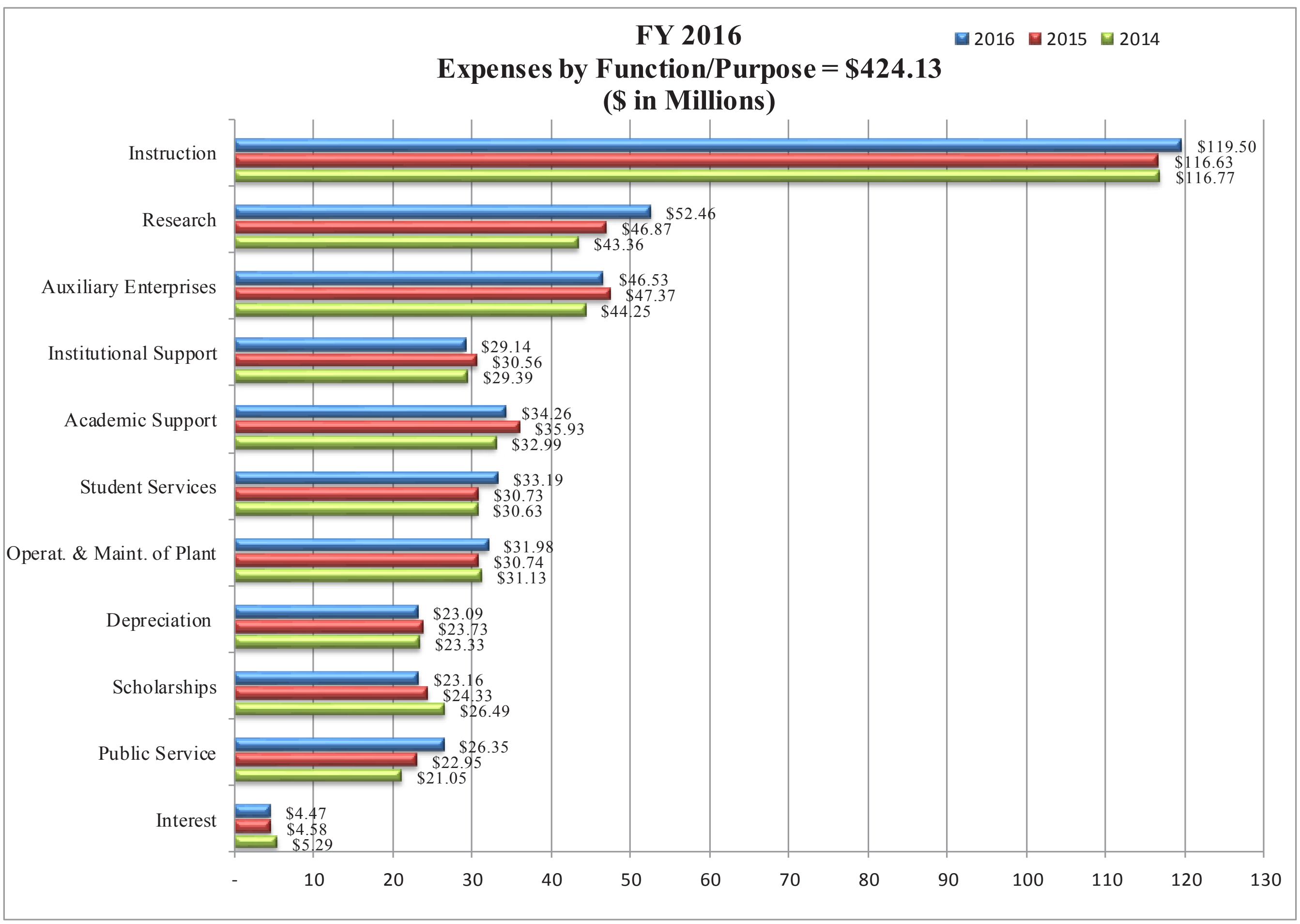
- Non-operating revenues (expenses) increased by almost $5.2 million mainly from a $6.9 million increase in state appropriations and a $3.0 million increase in private gifts, offset by a decrease in Federal Pell Grant funding and investment earnings of $2.0 million and $3.6 million, respectively. Much 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.

The following chart provides a graphical representation of revenue classifications as a percentage of total revenues for fiscal year 2016:



The following chart provides a graphical comparison of operating expenses by function for fiscal years 2016, 2015 and 2014:



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.

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	For years ended June 30, (stated in millions)		
	2016	2015	2014
Cash Flow Category			
Cash Provided by (Used for):			
Operating Activities	$ (129.38)	$ (123.30)	$ (112.30)
Non-capital Financing Activities	149.30	146.80	138.67
Capital and Related Financial Activities	(24.55)	(27.67)	(19.36)
Investing Activities	2.61	12.46	(11.00)
Net Increase (Decrease) in Cash	(2.02)	8.29	(3.99)
Cash and Cash Equivalents, beginning of year	60.41	52.12	56.11
Cash and Cash Equivalents, end of year	$ 58.39	$ 60.41	$ 52.12

Specific events or cash transactions during fiscal year 2016, which were notable included:

- Net cash used by operating activities totaled $129.4 million in FY16, which was a $6.1 million, or a 4.9%, increase over the prior year, primarily due to a decrease in cash provided by tuition and fees of $4.3 million and increases in cash used for salaries and benefits and other expenses of approximately $2.2 million. A decrease in payments for scholarships and fellowships of $1.2 million helped offset the impact of less revenue from students and higher operating costs.

- Noncapital financing activities provided $149.3 million in cash during FY16, primarily from state appropriations of $105.1 million, Federal financial aid of $25.5 million and $17.1 million received in private gifts. Overall, cash provided by noncapital financing activities increased by $2.5 million, or 1.7%, compared to FY15, largely because of a $5.6 million increase in state appropriations, offset by a decrease in Federal financial aid received of $2.3 million.

- Cash provided by investing activities totaled $2.6 million in FY16, mainly from earnings received on investments of $2.6 million, which showed a slight increase over the prior year. The University had on average, $75.0 million invested in fixed income securities in FY16, including U.S. government sponsored entity securities, which represented over 80% of the total institutional investments.

- In FY16, the University used net cash of $24.6 million for capital and related financing activities. Notable capital and related financing activities include $20.6 million paid for capital assets, which was funded in part with cash received from capital gifts and proceeds from debt issuance of $7.9 million and $1.5 million, respectively. The University also made over $13.3 million in debt service payments, primarily on capital debt, which included $9.1 million and $4.2 million paid on principal and interest, respectively.

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.

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, 2016, 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, 2016.

Project Name	Estimated Cost	Campus	Status
Missoula College	$32.0 M	Missoula	Under Construction
Washington Grizzly Champions Center (Locker/Weight Room)	$14.0M	Missoula	Under Construction
Liberal Arts Entryway and Basement	$2.2M	Missoula	Planning
Interdisciplinary Science Building Lab Build-out	$2.3M	Missoula	Under Construction
Natural Resource Research Center	$10.0M	MT Tech	Under Construction
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 new Missoula College facility, with more than 115,000 square feet, is expected to open for FY17 summer session and will house a variety of training programs, including culinary arts, health professions and applied computing. Missoula college has seen its student FTE grow from 896 over ten years ago to 1,233 for fall semester 2016.

- Declining enrollment continues to be a concern for the University, particular at the flagship campus in Missoula. Enrollment declined significantly over the last 5 years from a high of 13,917 FTE in FY11, to 11,057 FTE in FY16, or a decrease of around 19.0%. Overall, during the same time period the University's enrollment declined 2,322 FTE from a high of 19,039 FTE in FY11, to 15,887 FTE in FY16, or a decrease of over 15.6%.

The campuses significantly affected by declining enrollment have reduced expenses by among other things, adjusting the personnel base to align with enrollment using national norms and past history as a guide, reducing costs through efficiencies and meeting objectives in less expensive ways. The University must continue to seek innovative ways to reduce costs by improving operational efficiency and effectiveness.

The Missoula campus in particular, is pursuing 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.

Programmatic Alignment – adjust the academic portfolio to be increasingly attractive, relevant and outcomes-based while not losing site of the liberal arts identity of UM. Over a five year period, UM will focus on strengthening programing in the following strategic areas for the purpose of growing enrollment: Healthcare and Human Development; Data and Computational Science; Business and Entrepreneurship; Ecology and the Environment; and Workforce Specific Programs

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 Campaigns – in partnership with the UM Foundation, increase the level of 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 emphasize a performance based funding model, the successful implementation of this initiative becomes increasingly important.

- The Montana University System (MUS) is preparing for the 65th session of the Montana Legislature that will convene on January 2, 2017. The State has experienced a decline in tax revenues, which will make achieving funding goals for the 2018 – 2019 biennium more challenging. Primary goals for the session include: 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 University of Montana

A Component Unit of the State of Montana

Consolidated Statements of Net Position

As of June 30, 2016 and 2015

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (note 3)	$ 58,355,407	$ 60,220,525
Securities lending collateral	465,738	2,170,462
Investments	303,269	303,269
Accounts and grants receivable, net	7,439,989	6,430,392
Due from Federal government	10,576,521	10,790,277
Due from primary government	1,341,305	1,191,688
Due from other State of Montana component units	226,059	69,286
Loans to students, net	1,517,341	1,644,473
Inventories	2,259,107	2,199,326
Prepaid expenses and other charges	4,774,109	5,498,825
Total current assets	$ 87,258,845	$ 90,518,523
Noncurrent Assets		
Restricted cash and cash equivalents	$ 34,368	$ 186,935
Restricted investments	18,728,352	20,165,319
Other long term investments	72,728,434	71,863,255
Loans to students, net	10,595,969	10,066,837
Capital assets, net	356,714,160	339,468,008
Total Noncurrent Assets	$ 458,801,283	$ 441,750,354
Total Assets	$ 546,060,128	$ 532,268,877
DEFERRED OUTFLOW OF RESOURCES	$ 18,845,122	$ 18,209,632
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 24,612,120	$ 29,667,528
Due to Federal government	29,804	17,089
Due to primary government	1,119,961	971,080
Due to other State of Montana component units	56,902	-
Securities lending liability	465,738	2,170,462
Student and other deposits	1,979,650	1,894,193
Unearned revenue	12,438,719	11,502,188
Accrued compensated absences	11,738,725	11,080,279
Current portion of long-term obligations	8,389,190	8,115,013
Total Current Liabilities	$ 60,830,809	$ 65,417,832
Noncurrent Liabilities		
Accrued compensated absences	$ 14,584,616	$ 15,014,227
Unearned compensation	391,045	371,491
Long-term obligations	92,379,203	100,890,514
Advances from primary government	11,894,974	11,432,617
Other postemployment benefits obligation (note 18)	49,431,324	45,950,910
Net pension liability (note 17)	80,716,063	74,796,398
Due to Federal Government	10,077,569	10,295,766
Total Noncurrent Liabilities	$ 259,474,794	$ 258,751,923
Total Liabilities	$ 320,305,603	$ 324,169,755
DEFERRED INFLOW OF RESOURCES	$ 7,174,846	$ 17,234,904
NET POSITION		
Net investment in capital assets	$ 249,191,102	$ 228,128,009
Restricted for:		
Nonexpendable		
Endowments	18,521,249	19,944,470
Loans	1,948,019	1,957,785
Expendable		
Loans	2,272,709	2,313,204
Scholarships, research, instruction, and other	2,024,615	1,810,343
Unrestricted	(36,532,893)	(45,079,961)
Total Net Position	$ 237,424,801	$ 209,073,850

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, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	$ 13,854,437	$ 8,501,665
Short-term investments	5,806,410	11,835,221
Accrued dividends and interest	118,722	134,770
Investments	244,187,138	250,982,074
Contributions receivable, net	17,113,835	18,980,385
Student loans and other receivables	252,334	255,648
Property, Building and Equipment, net of accumulated depreciation	2,673,065	2,442,965
Property held for sale	3,290,000	3,543,840
Other assets	1,723,812	1,977,559
Total Assets	$ 289,019,753	$ 298,654,127
LIABILITIES		
Accounts payable	$ 534,064	$ 1,396,710
Accrued expenses	81,125	172,860
Compensated absences	278,684	195,998
Liabilities to external beneficiaries	16,034,540	15,562,591
Custodial funds	18,045,860	19,380,786
Other liabilities	230,325	350,357
Total Liabilities	$ 35,204,598	$ 37,059,302
NET ASSETS		
Net assets - unrestricted	$ 11,382,912	$ 11,891,392
Net assets - temporarily restricted	74,763,597	92,204,787
Net assets - permanently restricted	167,668,646	157,498,646
Total Net Assets	$ 253,815,155	$ 261,594,825
Total Liabilities & Net Assets	$ 289,019,753	$ 298,654,127

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, 2016 and 2015

	2016	2015
OPERATING REVENUES:		
Tuition and fees (net of scholarship allowances in 2016 and 2015 of $32,949,588 and $34,966,809, respectively)	$ 114,902,231	$ 119,117,742
Federal grants and contracts	60,369,886	52,379,291
State and local grants and contracts	8,210,726	9,078,600
Nongovernmental grants and contracts	12,088,863	10,329,664
Grant and contract facilities and administrative cost allowances	10,812,939	8,832,222
Sales and services of educational departments	16,834,262	16,660,925
Auxiliary enterprises charges:		
Residential life (net of scholarship allowances in 2016 and 2015 of $560,625 and $500,107, respectively)	15,531,389	16,637,545
Food services (net of scholarship allowances in 2016 and 2015 of $560,625 and $500,107, respectively)	13,388,596	14,872,931
Other auxiliary revenues	13,855,831	12,835,673
Interest earned on loans to students	48,871	57,026
Other operating revenues	6,883,653	8,226,714
Total operating revenues	$ 272,927,247	$ 269,028,333
OPERATING EXPENSES:		
Compensation and employee benefits	$ 260,930,563	$ 255,225,558
Pension expense (note 17)	7,144,580	7,034,321
Other postemployment benefits (note 18)	4,575,710	4,563,102
Other (note 24)	100,768,883	94,963,341
Scholarships and fellowships	23,157,452	24,326,584
Depreciation and amortization	23,087,332	23,726,949
Total operating expenses	$ 419,664,520	$ 409,839,855
OPERATING LOSS	$ (146,737,273)	$ (140,811,522)
NON-OPERATING REVENUES (EXPENSES):		
State appropriations	$ 105,080,305	$ 99,469,356
Federal financial aid grants and contracts	25,471,954	27,797,348
Land grant revenues	1,626,437	2,076,361
Private gifts	17,656,885	17,456,637
Investment income	2,043,854	1,525,988
Interest expense	(4,466,586)	(4,578,417)
Net non-operating revenues	$ 147,412,849	$ 143,747,273
INCOME BEFORE OTHER REVENUES (EXPENSES)	$ 675,576	$ 2,935,751
OTHER REVENUES (EXPENSES):		
Capital grants and gifts	$ 27,963,712	$ 10,118,810
Loss on disposal of capital assets	(288,337)	-
Total other revenues	$ 27,675,375	$ 10,118,810
NET INCREASE IN NET POSITION	$ 28,350,951	$ 13,054,561
NET POSITION:		
Net position - beginning of year	$ 209,073,850	$ 196,019,289
Net position - end of year	$ 237,424,801	$ 209,073,850

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, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total
REVENUES:				
Contributions	$ 986,689	$ 21,285,930	$ 10,323,137	$ 32,595,756
Interest and dividend income	659,772	3,071,969	831	3,732,572
Net realized and unrealized gains (losses) on investments	(221,018)	(7,860,338)	(114,923)	(8,196,279)
Administrative fees	499,476	-	-	499,476
Support received from university	550,000	-	-	550,000
Special events	410,724	-	-	410,724
Other income	(211,613)	1,768,617	-	1,557,004
Net assets released from restrictions	33,181,839	(33,181,839)	-	-
Total revenues	$ 35,855,869	$ (14,915,661)	$ 10,209,045	$ 31,149,253
EXPENSES:				
Program services				
Academic and institutional	$ 11,265,742	$ -	$ -	$ 11,265,742
Capital expenses	7,663,756	-	-	7,663,756
Pledge adjustments	1,402	488,291	21,144	510,837
Scholarships and awards	8,770,608	-	-	8,770,608
Total program services	$ 27,701,508	$ 488,291	$ 21,144	$ 28,210,943
Operating expenses				
Fundraising efforts	$ 3,896,573	$ -	$ -	$ 3,896,573
General and administrative	4,541,290	-	-	4,541,290
Investment management costs	139,891	-	-	139,891
Other miscellaneous	82,954	-	-	82,954
Total operating expenses	$ 8,660,708	$ -	$ -	$ 8,660,708
Change in net assets before nonoperating items	$ (506,347)	$ (15,403,952)	$ 10,187,901	$ (5,722,398)
NON-OPERATING REVENUES (EXPENSES):				
Payments to beneficiaries and change in liabilities due to external beneficiaries	(2,133)	(2,055,139)	-	(2,057,272)
Reclassification of net assets	-	17,901	(17,901)	-
Change in net assets	$ (508,480)	$ (17,441,190)	$ 10,170,000	$ (7,779,670)
Net assets, beginning of year	11,891,391	92,204,788	157,498,646	261,594,825
Net assets, end of year	$ 11,382,911	$ 74,763,598	$ 167,668,646	$ 253,815,155

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 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, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 114,548,470	$ 118,893,972
Federal grants and contracts	60,232,006	51,718,629
State grants and contracts	8,194,407	8,987,858
Nongovernmental grants and contracts	12,064,837	10,198,759
Grant and contract facilities and administrative cost allowances	10,812,939	8,832,222
Sales and services of educational activities	17,027,944	14,221,296
Auxiliary enterprises charges	43,050,816	41,765,579
Interest earned on loans to students	48,871	216,895
Other operating receipts	6,535,113	8,141,284
Payments to employees for salaries and benefits	(274,436,100)	(265,380,415)
Payments for other postemployment benefits (pensions)	(1,593,255)	(1,916,490)
Operating expenses	(102,308,202)	(94,435,338)
Payments for scholarships and fellowships	(23,157,452)	(24,326,584)
Loans made to students	(2,431,236)	(2,398,488)
Loan payments received	2,029,236	2,182,364
Net Cash Used by Operating Activities	$ (129,381,606)	$ (123,298,457)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	$ 105,080,305	$ 99,469,356
Land Grants	1,626,437	2,076,361
Federal financial aid grants and contracts	25,471,953	27,797,348
Private Gifts for other than capital purposes	17,120,939	17,456,637
Net Cash Provided by Noncapital Financing Activities	$ 149,299,634	$ 146,799,702
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	$ (17,949,330)	$ (10,038,703)
Proceeds from sales of investments	17,989,663	20,000,000
Cash equivalent investment reclassified to other long term investments	-	(16,686)
Earnings received on investments	2,575,311	2,508,929
Net Cash Provided by Investing Activities	$ 2,615,644	$ 12,453,540
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for capital assets	$ (20,658,726)	$ (13,553,108)
Private gifts for capital purposes	7,874,115	-
Proceeds from the sale of capital assets	39,837	77,505
Proceeds from the issuance of revenue bonds	-	20,500,000
Payments to advance refund revenue bonds	-	(20,412,953)
Proceeds from notes payable and advances from primary government	1,502,545	-
Principal paid on notes payable, advance from primary government, and capital leases	(1,083,946)	(1,986,133)
Principal paid on bonds payable	(7,982,539)	(7,828,087)
Interest paid on capital debt and leases	(4,242,643)	(4,468,380)
Net Cash Used by Capital and Related Financing Activities	$ (24,551,357)	$ (27,671,156)
Net Increase (Decrease) in Cash and Cash Equivalents	$ (2,017,685)	$ 8,283,629
Cash and Cash Equivalents, Beginning of Year	$ 60,407,460	$ 52,123,831
Cash and Cash Equivalents, End of Year	$ 58,389,775	$ 60,407,460

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, 2016 and 2015
(Continued)

	2016	2015
Reconciliation of Operating Loss to Net Cash Used By Operating Activities:		
Operating loss	$ (146,737,273)	$ (140,811,522)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Noncash expense:		
Depreciation and amortization expense	23,087,332	23,726,949
Amortization of net pension liability	(5,231,903)	(5,675,045)
Amortization of other post employment benefits obligation	3,480,414	3,133,429
Changes in assets and liabilities:		
Accounts receivable	(1,102,231)	(749,938)
Loans to students	(402,000)	(216,124)
Inventories	(59,781)	(46,137)
Prepaid expenses and other charges	724,716	456,702
Accounts payable and accrued expenses	(4,173,507)	2,063,341
Unearned revenue	936,531	(4,038,740)
Student and other deposits	85,458	(1,470,104)
Due to federal government	(218,197)	107,126
Compensated absences	228,835	221,606
Net Cash Used by Operating Activities	$ (129,381,606)	$ (123,298,457)
Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions		
Fixed assets acquired by incurring capital lease obligations	$ 202,522	$ 90,879
Increase in fair value of investments recognized as a component of interest income	$ 550,376	$ 961,651
Fixed assets acquired from capital grants and donations	$ 20,918,883	$ 10,118,810
Discounts, premiums and deferred loss on refunding amortized to interest expense	$ 264,581	$ 157,087
Reconciliation of Cash and Cash Equivalent to the Statements of Net Position		
Cash and cash equivalents classified as current assets	$ 58,355,407	$ 60,220,525
Cash and cash equivalents classified as noncurrent assets	$ 34,368	$ 186,935
Total Cash and Cash Equivalents, End of Year	$ 58,389,775	$ 60,407,460

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

UNIVERSITY OF MONTANA
A COMPONENT UNIT OF THE STATE OF MONTANA
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

▪ BASIS OF ACCOUNTING

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

▪ USE OF ESTIMATES

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

▪ CASH EQUIVALENTS

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

▪ NEW ACCOUNTING STANDARD IMPLEMENTED IN FISCAL YEAR 2016

The University has implemented GASB Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. In accordance with Statement No. 72, the University has classified its investments as *Level 1*, *Level 2*, or *Level 3*, to indicate the degree of certainty around the assets' underlying values.

The University did not restate its 2015 statement of net assets to reflect values in accordance with Statement No. 72, as the differences compared with amounts previously reported were not material. Accordingly, changes in fair value due to implementation of Statement No. 72 have been recorded in 2016 revenues and expenses.

▪ INVESTMENTS

The University accounts for its investments at fair value. In accordance with GASB 72, *Fair Value Measurement and Application*, investments are classified within a fair value hierarchy as follows:

- Level 1—Fair value is determined using quoted prices for identical assets or liabilities in active markets.
- Level 2—Fair value is determined using inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.
- Level 3 – Values are determined using unobservable inputs.

There are three general valuation techniques that may be used to measure fair value, as described below:

- Market Approach – Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sales transactions, market trades or other sources.
- Cost Approach – Based on the amount that currently would be required to replace the service capacity of an asset (replacement costs).
- Income Approach – Uses valuation techniques to convert future amounts to a single present amount based on current market expectation about the future amounts (includes present value techniques). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

Investment income is recorded on the accrual basis. All investment income, including changes in unrealized gain (loss) on the carrying value of investments, is reported as a component of investment income.

▪ ACCOUNTS AND GRANTS RECEIVABLE

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

▪ INVENTORIES

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

- **CASH AND SHORT–TERM INVESTMENTS**

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

- **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 deferred outflows of resources from the refunding of revenue bond debt and for its proportionate share of the statewide defined benefit retirement plans deferred outflows (note 9). 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. 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 deferred inflows of resources for its proportionate share of the statewide defined benefit retirement plans deferred inflows (note 9).

- **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 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, 2016 and 2015 totaled $37,593,306 and $31,829,468, 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 $606,111 of cash invested in money market funds with First American Funds and US Bank, and $20,011,175 in the Short Term Investment Pool (STIP) with the Montana Board of Investments (MBOI). Amounts held in cash equivalents at June 30, 2016 and 2015 were $20,617,286 and $28,409,671, 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.

STIP is a commingled pool for investment purposes and participant requested redemptions from the pool are redeemed the next business day. The fair value of the STIP portfolio was determined using the net asset value (NAV) per share (or its equivalent) at June 30, 2016, and amortized cost at June 30, 2015. The fair value measurement disclosure within MBOI's annual financial statements provides information of the underlying investments in the pool and where they are categorized within the fair value hierarchy

- **INVESTMENTS**

Investments are stated at fair values determined through the application of GASB Statement No. 72, *Fair Value Measurement and Application*, that requires investments be classified according to a "fair value hierarchy." With respect to Statement No. 72's fair value hierarchy, GASB defines "inputs" as "the assumptions that market participants would use when pricing an asset or liability, including assumptions about risk." Statement No. 72 further categorizes inputs as observable or unobservable: observable inputs are "inputs that are developed using market data, such as publicly available information about actual events or transactions, and which reflect the assumptions that market participants would use when pricing an asset or liability"; unobservable inputs are "inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing an asset or liability."

The University investments are categorized within the fair value hierarchy as follows:

- Level 1—Fair value is determined using quoted prices for identical assets or liabilities in active markets.
- Level 2—Fair value is determined using inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.
- Level 3 – Values are determined using unobservable inputs.

The fair value of certain investments that do not have a readily determinable fair value are classified at Net Asset Value (NAV) per share. This includes financial assets in external investment pools administered by the Montana Board of Investments (MBOI), and the University of Montana and Montana Tech Foundations. For investment pools administered by MBOI, refer to their annual financial statements for disclosure of underlying investments in the pools and where they are categorized within the fair value hierarchy.

Investments consisted of the following at June 30, 2016 and 2015:

Security Type	Fair Value Measurement Level	Fair Value 2016	Fair Value 2015	Effective Duration at June 30, 2016[(1)]	Credit Quality Rating at June 30, 2016[(3)]
Agency/Government Related	Level 2	$ 42,639,865	$ 42,479,348	1.49	AA+
Short Term Investment Pool (STIP)[(4)]	NAV[(6)]	-	240,692	WAM	NR
Trust Fund Investment Pool (TFIP)[(7)]	NAV[(6)]	32,241,535	31,070,399	5.54[(2)]	AA-
Montana Domestic Equity Pool (MDEP)	NAV[(6)]	-	248,972	Not applicable	N/A
Foundation Pooled Investments	NAV[(6)]	16,369,121	17,830,134	Not applicable	N/A
Certificates of Deposits	NAV	303,269	303,269	Not applicable	N/A
Life insurance	NAV	206,265	159,029	Not applicable	N/A
Total investments		$ 91,760,055	$ 92,331,843		
Securities Lending Collateral Investment Pool	NAV	$ 465,738	$ 2,170,462	(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. 37% of the portfolio

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

(4)Structured Investment Vehicle (SIV) investments in STIP portfolio reclassified from cash and cash equivalents. MBOI wrote off the SIV investments in fiscal year 2016.

(5)Securities Lending Quality Trust liquidity pool had an average duration of 32 days and an average weighted final maturity of 92 days for U.S. dollar collateral. Quality D Short Term Investment Fund liquidity pool had an average duration of 43 days and an average weighted final maturity of 83 days for U.S. dollar collateral.

(6)Fair values of the investments in this type have been determined using the NAV per share of the investments.

(7)TFIP shares can be redeemed monthly but a 30 day redemption notice is required.

Investments held by the University at June 30, 2016 and 2015 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 external investment pools administered by the Montana Board of Investments (MBOI) as statutorily authorized by the Unified Investment Program. MBOI purchases investments for each portfolio in accordance with the statutorily mandated "Prudent Expert Principle."

The MBOI annual financial information, including information about investment risk, is available from the Board of Investments at 2401 Colonial Drive, 3rd Floor, P.O. Box 200126, Helena, MT 59620-0126, or on their website at http://investmentmt.com/AnnualReportsAudits.

The University was invested in the following external investment pools at June 30, 2016 and 2015:

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

MBOI 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 MBOI'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 MBOI and the Bank split the earnings, 80/20 respectively, on security lending activities. The MBOI retains all rights and risks of ownership during the loan period.

The MBOI imposed no restrictions on the amount of securities available to lend during fiscal years 2016 and 2015. 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 2016 and 2015 resulting from a borrower default.

During fiscal years 2016 and 2015, the MBOI 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 Quality D Short Term Investment Fund and non-pension entities participate in the Security Lending Quality Trust. In March 2015, the MBOI 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 MBOI'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.

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 the STIP investment policy "the STIP portfolio will minimize interest rate risk by: structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity; maintaining a dollar-weighted average portfolio maturity (WAM) of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities; and STIP will maintain a reserve account".

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.

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. Investments issued by U.S. government/government-sponsored agencies are implicitly guaranteed by the U.S. Government.

The concentration of credit risk exposure for U.S. government sponsored agency securities held at June 30, 2016 and 2015, expressed as a percentage of total investments, was 46.48% and 46.01%, respectively.

Land grant earnings

In 1881, the Congress of the United States granted land to the State of Montana for the benefit of the state's universities and colleges. The Enabling Act of 1889 granted 46,563 acres to Missoula, 100,000 acres to Montana Tech and 50,000 acres to Western Montana College. Under provisions of the grants, proceeds from the sale of land and land assets, together with proceeds from the sale of timber, oil royalties and other minerals, must be reinvested, and constitute, along with the balance of unsold land, a perpetual trust fund. The grant is administered as a trust by the State Land Board, which holds title and has the authority to direct, control, lease, exchange and sell these lands. The University, as a beneficiary, does not have title to the assets resulting from the grant, only a right to the earnings generated. The University's share of the trust earnings was $1,626,437 and $2,076,361 for the years ended June 30, 2016 and 2015, respectively. These earnings are currently pledged to the 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, 2016 and 2015:

	2016	2015
Student tuition and fees	$ 5,888,824	$ 5,928,305
Auxiliary enterprises and other operating activities	2,906,529	2,890,848
Private grants and contracts	1,022,732	311,692
Other	175,373	351,574
Gross accounts and grants receivable	9,993,458	9,482,419
Less: allowance for doubtful accounts	2,553,469	3,052,027
Net accounts and grants receivable	$ 7,439,989	$ 6,430,392

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, 2016 and 2015, are $10,077,569 and $10,295,766, respectively, that would be refundable to the Federal Government, should the University choose to cease participation in the Federal Perkins Loan program.

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

NOTE 6 – INVENTORIES

Inventories consisted of the following at June 30, 2016 and 2015:

	2016	2015
Bookstore	$ 1,093,809	$ 1,012,665
Food services	274,397	319,983
Facilities services	700,535	716,347
Other	190,367	150,331
Total inventories	$ 2,259,107	$ 2,199,326

NOTE 7 – PREPAID EXPENSES AND OTHER CHARGES

Prepaid expenses and other charges consisted of the following at June 30, 2016 and 2015:

	2016	2015
Summer session	$ 495,912	$ 582,007
Travel advances	25,320	10,825
Other prepaid expenses	4,252,877	4,905,993
Total prepaid expenses and other charges	$ 4,774,109	$ 5,498,825

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, 2016 and 2015, respectively.

For the year ended June 30, 2016:

	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
Capital assets not being depreciated:					
Land	$ 8,225,722	$ -	$ -	$ -	$ 8,225,722
Capitalized collections	17,823,118	285,727	-	-	18,108,845
Construction in progress	15,507,265	32,242,105	-	(1,530,657)	46,218,713
	41,556,105	32,527,832	-	(1,530,657)	72,553,280
Other capital assets:					
Land improvements	15,322,143	-	-	99,551	15,421,694
Infrastructure	8,342,650	-	-	-	8,342,650
Buildings	315,304,799	80,000	-	1,108,442	316,493,241
Building improvements	221,313,253	-	4,170	322,664	221,631,747
Furniture and equipment	88,027,596	6,730,209	2,753,035	-	92,004,770
Library materials	59,851,228	1,382,838	-	-	61,234,066
Livestock	10,000	-	-	-	10,000
	708,171,669	8,193,047	2,757,205	1,530,657	715,138,168
Less accumulated depreciation for:					
Land improvements	11,048,828	369,995	-	-	11,418,823
Infrastructure	1,040,016	315,106	-	-	1,355,122
Buildings	144,899,865	6,667,842	-	-	151,567,707
Building improvements	142,094,832	7,874,276	94,052	-	149,875,056
Furniture and equipment	59,530,602	6,242,577	2,081,476	-	63,691,703
Library materials	54,053,456	886,076	-	-	54,939,532
Livestock	4,881	1,429	-	-	6,310
	412,672,480	22,357,301	2,175,528	-	432,854,253
Other capital assets, net	295,499,189	(14,164,254)	581,677	1,530,657	282,283,915
Intangible assets	2,412,714	215,626	-	(751,375)	1,876,965
Total capital assets, net	$ 339,468,008	$ 18,579,204	$ 581,677	$ (751,375)	$ 356,714,160
Capital Asset Summary:					
Capital assets not being depreciated	$ 41,556,105	$ 32,527,832	$ -	$ (1,530,657)	$ 72,553,280
Other capital and intangible assets	710,584,383	8,408,673	2,757,205	779,282	717,015,133
	752,140,488	40,936,505	2,757,205	(751,375)	789,568,413
Less: accumulated depreciation	412,672,480	22,357,301	2,175,528	-	432,854,253
Total capital assets, net	$ 339,468,008	$ 18,579,204	$ 581,677	$ (751,375)	$ 356,714,160

Notes to the Consolidated Financial Statements (continued)

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

NOTE 9 – DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Deferred Inflows and outflows of resources consisted of the following at June 30, 2016 and 2015:

	2016	2015
Deferred Outflows of Resources		
Unamortized loss on debt refunding	$ 2,978,738	$ 3,434,758
Difference between expected and actual economic experience	235,974	209,437
Changes in actuarial assumptions	299,158	479,840
Difference between projected and actual earnings on pension plan investments	7,504	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,737,597	3,292,721
Contribution payments to pensions subsequent to the measurement date	10,586,151	10,792,876
Total deferred outflows of resources	**$ 18,845,122**	**$ 18,209,632**
Deferred Inflows of Resources		
Difference between expected and actual economic experience	$ 357,791	$ -
Changes in actuarial assumptions	44,645	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	567,341	-
Difference between projected and actual earnings on pension plan investments	6,205,069	17,234,904
Total deferred inflows of resources	**$ 7,174,846**	**$ 17,234,904**

NOTE 10 – UNEARNED REVENUES

Unearned Revenues consisted of the following at June 30, 2016 and 2015:

	2016	2015
Grant and contract revenue received in advance	$ 3,057,922	$ 2,617,924
Summer session payments received in advance	3,016,423	2,707,380
Other unearned revenues	6,364,374	6,176,884
Total unearned revenue	$ 12,438,719	$ 11,502,188

NOTE 11 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2016 and 2015:

	2016	2015
Compensation, benefits and related liabilities	$ 20,709,432	$ 22,670,928
Accrued interest expense	497,256	537,894
Accounts payable and other accrued liabilities	3,405,432	6,458,706
Total accounts payable and accrued liabilities	$ 24,612,120	$ 29,667,528

NOTE 12 – LONG–TERM LIABILITIES

The following tables present the changes in long-term liabilities for the years ended June 30, 2016 and 2015, respectively:

For the year ended June 30, 2016:

.	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds, notes and capital leases					
Revenue bonds payable, net	$ 108,367,735		$ 8,139,977	$ 100,227,758	$ 8,207,307
Subordinated bonds payable	192,000		34,000	158,000	34,000
Multi-year intangible obligation	110,133		110,133	-	-
Capital leases payable	335,659	202,522	155,546	382,635	147,883
	109,005,527	202,522	8,439,656	100,768,393	8,389,190
Other long-term liabilities					
Accrued compensated absences	26,094,506	12,270,277	12,041,442	26,323,341	11,738,725
Unearned compensation	371,491	19,554		391,045	-
Advances from primary government	12,361,020	1,502,545	928,400	12,935,165	1,040,191
Other postemployment benefits obligation	45,950,910	3,480,414		49,431,324	-
Net pension liability	74,796,398	5,919,665		80,716,063	-
Due to Federal Government	10,295,766		218,197	10,077,569	-
	169,870,091	23,192,455	13,188,039	179,874,507	12,778,916
Total long-term liabilities	$ 278,875,618	$ 23,394,977	$ 21,627,695	$ 280,642,900	$ 21,168,106

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

Long-term liabilities include:

- capital lease obligations, principal amounts of subordinated 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.

Capital Leases

The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2016:

Fiscal Year		Total
2017	$	169,195
2018		118,861
2019		69,918
2020		47,864
2021		12,327
Minimum lease payments	$	418,165
Less: Amount representing interest		35,530
Present value of net minimum lease payments	$	382,635

Assets acquired under capital leases consist mainly of photocopiers. Such assets are carried at $1,360,604 with accumulated depreciation of $888,256 as of June 30, 2016.

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, 2016 and 2015, was $198,862,783. The combined principal amount outstanding at June 30, 2016 and 2015 was $98,839,494 and $106,788,031, respectively.

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 2.175% 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 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, 2016 and 2015, $113,605,870 and $122,981,602, respectively, of bonds outstanding were considered defeased.

Revenue Bonds Payable

As of June 30, 2016 annual principal payments are as follows:

Series K 2010

Fiscal Year	Interest Rate	Principal
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	4.718-4.730%	6,485,000
2022	4.730-4.800%	6,855,000
		36,695,000
Add: unamortized premium:		126,200
		$ 36,821,200

Series L 2012

Fiscal Year	Interest Rate	Principal
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	2.964-5.000%	770,000
2022-2026	2.250-4.000%	25,860,000
2027-2031	3.000-4.000%	5,850,000
2032-2033	4.000%	1,885,000
		37,115,000
Add: net unamortized premium:		1,262,064
		$ 38,377,064

Series M 2013

Fiscal Year	Interest Rate		Principal
2017	2.500%	$	747,306
2018	2.500%		766,105
2019	2.500%		785,377
2020	2.500%		804,903
2021	2.500%		825,383
2022-2024	2.500%		2,155,420
		$	6,084,494

Series N 2015

Fiscal Year	Interest Rate		Principal
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	2.550%		1,485,000
2022-2026	2.550%		7,960,000
2027-2030	2.550%		3,950,000
		$	18,945,000

Revenue Bond Payable Summary:		
Total revenue bonds outstanding	$	98,839,494
Add: Net unamortized premiums and discounts		1,388,264
Revenue bonds payable, net	$	100,227,758

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

Fiscal Year		Principal		Interest		Total Payment
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		9,565,384		2,227,482		11,792,866
2022-2026		42,830,419		5,585,158		48,415,577
2027-2031		9,800,000		1,200,892		11,000,892
2032-2033		1,885,000		113,800		1,998,800
Total	$	98,839,494	$	21,582,394	$	120,421,888

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, 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, 2016 is $158,000.

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 rate, 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, 2016 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 was originally issued in 1994, and has a remaining term of 45 years. The interest rates are variable and are adjusted annually.

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

	INTERCAP Loans		MSTA Loan		SBECP Loans		
Fiscal Year	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Total**
2017	$ 471,245	$ 49,141	40,039	79,961	$ 528,907	$ 165,500	$ 1,334,793
2018	573,390	32,156	41,039	78,961	577,906	173,799	1,477,252
2019	582,507	28,273	42,064	77,936	533,210	156,447	1,420,437
2020	591,431	24,104	43,115	76,885	473,935	139,950	1,349,421
2021	574,889	19,962	44,161	75,809	489,436	123,059	1,327,316
2022-2026	1,344,797	48,010	238,073	361,927	1,672,886	347,688	4,013,381
2027-2031	202,886	1,366	269,323	330,677	1,100,922	92,600	1,997,774
2032-2036	-	-	304,676	295,324	15,056	445	615,501
2037-2041	-	-	344,669	255,331	-	-	600,000
2042-2046	-	-	389,912	210,088	-	-	600,000
2047-2051	-	-	441,124	158,906	-	-	600,030
2052-2056	-	-	498,994	101,006	-	-	600,000
2057-2061	-	-	504,571	35,429	-	-	540,000
Total	**$ 4,341,147**	**$ 203,012**	**$ 3,201,761**	**$ 2,138,239**	**$ 5,392,257**	**$ 1,199,489**	**$ 16,475,904**

Total advances payable from primary government and the current portion of advances at June 30, 2016, was $12,935,165 and $1,040,191, respectively.

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.

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
- Members hired on or after July 1, 2013: 1.5% for each year PERS is funded at or above 90%; 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and 0% whenever the amortization period for PERS is 40 years or more.
- 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

State law for periodic employer and employee contributions specifies rates and are a percentage of employee compensation. The State legislature has the authority to establish and amend contribution rates to the plan. Employer and employee contribution rates for 2016 were 8.37% and 7.90%, respectively and for 2015 were 8.27% and 7.90%, respectively.

- Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
- Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS- DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.
- 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, 2015, is based on the results of an actuarial valuation date of June 30, 2014, 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%
Postretirement Benefit Increases:	
- For members hired **prior to** July 1, 2007	3.00%
- For members hired **on or after** July 1, 2007	1.50%

- Members hired on or after July 1, 2013: 1.5% for each year PERS is funded at or above 90%; 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and 0% whenever the amortization period for PERS is 40 years or more.
- 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 2123. 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, 2015, 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%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis

The following presents the University's proportionate share of the PERS-DBRP net pension liability at June 30, 2015, 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%)
University's proportionate share of the net pension liability	$91,178,777	$59,138,504	$32,081,237

Net Pension Liability

At June 30, 2016 and 2015, the University recorded $59,138,504 and $53,314,985, respectively, for its proportionate share of the net pension liability. At June 30, 2016 the net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERS-DBRP participating employers. At June 30, 2016 and 2015, the employer's proportion share was 4.23%. and 4.28%, respectively.

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, 2016.
For the years ended June 30, 2016 and 2015, the University recognized pension expense of $3,810,180 and $4,134,457, respectively. The University also receives funding that is not special funding whereby the State general fund provides contributions from the Coal Severance Tax and interest. For the years ended June 30, 2016 and 2015, the University recognized $1,419,260 and $1,440,917, respectively, for its proportionate share from this funding source.

Deferred Outflows and Deferred Inflows
At June 30, 2016, 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
Differences between expected and actual economic experience	$ -	$ 357,791
Difference between projected and actual earnings on pension plan investments	-	$ 5,006,704
Changes in proportion and differences between employer contributions and proportionate share of contributions	329,925	567,341
Contributions paid to PERS-DBRP subsequent to the measurement date.	3,868,321	-
Total	$ 4,198,246	$ 5,931,836

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, 2017.

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
2017	($2,276,989)
2018	($2,276,989)
2019	($2,350,080)
2020	($1,302,148)
2021	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 2016 and 2015 were 9.00% and 10.56%, respectively.

Actuarial Assumptions

The total pension liability as of June 30, 2015, is based on the results of an actuarial valuation date of June 30, 2014, 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 2123. 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 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, 2015, 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%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis

The following presents the University's proportionate share of the GWPORS net pension liability at June 30, 2015, 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%)
University's proportionate share of the net pension liability	$974,449	$438,071	($2,608)

Net Pension Liability

At June 30, 2016 and 2015, the University recorded $438,071 and $309,719, respectively, for its proportionate share of the net pension liability. At June 30, 2016, the net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of GWPORS' participating employers. At June 30, 2015 and 2014, the employer's proportion was 2.08% and 2.05%., respectively.

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, 2016.

For the year ended June 30, 2016 and 2015, University recognized pension expense of $76,227 and $72,218, respectively.

Deferred Outflows and Deferred Inflows

At June 30, 2016, 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
Differences between expected and actual economic experience	$ 13,060	$ -
Difference between projected and actual earnings on pension plan investments	7,504	63,193
Contributions paid to GWPORS subsequent to the measurement date	90,052	-
Total	$ 110,616	$ 63,193

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
2017	($23,821)
2018	($23,821)
2019	($23,821)
2020	$21,980
2021	$3,427
Thereafter	$3,427

- **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.

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. The State and University System contribution rates for fiscal year 2016 and 2015 were 11.05% and 10.95%, respectively, and the employee contributions rate for fiscal year 2016 and 2015 was 8.15%.

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, 2015, is based on the results of an actuarial valuation date of July 1, 2015. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2015, valuation were based on the results of the last actuarial experience study, dated May 1, 2014.

Among those assumptions were the following:

- Total Wage Increases* 4%-8.51% for Non-University Members and 5.00% for University Members
- General Wage Growth 4.00%
- Merit Increases 4.51%
- Price Inflation 3.25%
- Investment Return 7.75%
- Postretirement Benefit Increases
  - Tier One Members: If the retiree has received benefits for at least 3 years, the retirement allowance will be increased by 1.5% on January 1st.
  - Tier Two Members, the retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the System to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.
- 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 2119. 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 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, 2015, 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

The following presents the University's proportionate share of the TRS net pension liability at June 30, 2015, 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%)
University's proportionate share of the net pension liability	$29,043,954	$21,139,488	$14,488,332

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, 2015, 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, through June 30, 2014, relative to total contributions received from all of TRS participating employers and nonemployer contributing entity.

The University and State's proportionate share of the net pension liability consisted of the following at June 30, 2016 and 2015:

	2016	2015
University proportion of the net pension liability	1.2866%	1.3758%
University proportionate share of the net pension liability	$ 21,139,488	$ 21,171,694
State of Montana's proportionate share of the net pension liability associated with the University	8,228,030	8,492,935
Total	$ 29,367,518	$ 29,664,629

For the year ended June 30, 2016 and 2015, University recognized pension expense of $3,084,178 and $2,827,646, respectively, and grant revenue for the State's proportionate share of the University's pension expense of $173,995 and $474,574, respectively.

Changes in actuarial assumptions and methods

The following changes to the actuarial assumptions were adopted in 2015:

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three year COLA deferral period for Tier 2 Members.

- The 0.63% load applied to the projected retirement benefits of the university members "to account for larger than average annual compensation increases observed in the years immediately preceding retirement" is not applied to benefits expected to be paid to university members on account of death, disability and termination (prior to retirement eligibility.
- The actuarial valuation was updated to reflect the assumed rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.
- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the $500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to "retain membership in the System" are covered by the $500 death benefit after termination.

The following changes to the actuarial assumptions were adopted in 2014:

- 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, 2016.

Deferred Outflows and Deferred Inflows

At June 30, 2016, 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	$ 222,914	$ -
Changes in actuarial assumptions	299,158	44,645
Difference between projected and actual earnings on pension plan investments		1,135,172
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,407,672	-
Contributions paid to TRS subsequent to the measurement date	6,627,778	-
Total	$ 11,557,552	$ 1,179,817

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	$1,596,512
2017	$1,596,592
2018	$265,622
2019	$291,203
2020	NA
Thereafter	NA

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, 2016, 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

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

	Year ending June 30, 2016	2015
FACULTY		
Covered Payroll	$ 101,375,360	$ 91,807,325
Employer Contributions	$ 5,024,163	$ 4,549,971
Percent of Covered Payroll	4.956%	4.956%
Employee Contributions	$ 7,145,948	$ 6,468,635
Percent of Covered Payroll	7.049%	7.046%
STAFF		
Covered Payroll	$ 7,414,231	$ 9,791,800
Employer Contributions	$ 347,727	$ 439,652
Percent of Covered Payroll	4.690%	4.490%
Employee Contributions	$ 585,723	$ 774,478
Percent of Covered Payroll	7.899%	7.909%

For the years ended June 30, 2016 and 2015, 4.72%, or $4,784,917 and $4,346,095, 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 $272,844 and $370,137, 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 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 $646 to $1,654 for medical coverage and decrease when a retiree becomes Medicare eligible. Medicare enrolled retiree premium rates range from $278 to $1,115. 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, 2016, 2015, and 2014, 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:

	2016	2015	2014
Annual required contribution	$ 4,152,502	$ 4,169,819	$ 4,288,320
Interest on net OPEB obligation	1,962,147	1,823,403	1,656,088
Amortization of net OPEB obligation	(1,538,939)	(1,430,120)	(1,298,892)
Annual OPEB cost (expense)	4,575,710	4,563,102	4,645,516
Contributions made	(1,095,296)	(1,429,673)	(738,193)
Increase in OPEB obligation	3,480,414	3,133,429	3,907,323
Net OPEB Obligation Beginning Balance	45,950,910	42,817,481	38,910,158
Net OPEB Obligation Ending Balance	$ 49,431,324	$ 45,950,910	$ 42,817,481
Percentage of annual OPEB cost contributed	23.94%	31.33%	15.89%

The actuarial determination was based on plan information as of July 1, 2015. 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 2,724. The total inactive (retiree and dependent) participants was 887. As of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was $49,787,480, 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 2016 and 2015 was $32,413,831 and

$31,816,876, respectively, on annual covered payroll for the most recent actuarial valuation of $172,163,503. The AAL as a percentage of annual covered payroll was 28.92%.

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, 2013 and 2015.

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

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

Actuarial Valuation Date:	**July 1, 2015**
Interest/Discount rate	4.25%
Projected payroll increases	2.50%
Participant Percentage:	
Future retirees assumed to elect coverage at retirement	50.00%
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 13, 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, 2016 is $120,421,888 with annual debt service requirements ranging from $11.8 million in 2017 to $1.2 million in 2033, the final year of repayment.

A schedule of revenues pledged as security for revenue bonds is presented as follows at June 30, 2016 and 2015:

	2016		2015	
	Revenues Pledged as Security for Debt	Net Similar Revenues	Revenues Pledged as Security for Debt	Net Similar Revenues
Student fees	$ 11,855,560	$ 114,902,231	$ 12,597,309	$ 119,117,742
Sales and services:				
Events revenue	5,919,725		5,929,386	
Continuing education	4,082,234		3,273,562	
Residence life	512,050		554,525	
Student union facilities	604,708		556,834	
Other sources	297,371		15,214	
Total sales and services	**11,416,088**	**16,834,262**	**10,329,521**	**16,660,925**
Residence life	**14,913,512**	**15,531,389**	**15,992,091**	**16,637,545**
Food services	**13,180,603**	**13,388,596**	**14,022,913**	**14,872,931**
Other auxiliary revenues:				
Residence life	554,987		565,920	
Food services	1,738,059		1,090,351	
Student union facilities	412,137		418,158	
Student health services	849,124		807,293	
Parking	1,929,303		1,759,116	
Recreation facilities	1,042,481		1,010,399	
Bookstore	2,938,355		3,102,073	
Printing services	477,396		519,935	
Field house facilities	970,927		1,177,297	
Other sources	352,039		336,199	
Total other auxiliary revenues	**11,264,808**	**13,855,831**	**10,786,741**	**12,835,673**
Land grant revenue	**1,626,437**	**1,626,437**	**2,076,362**	**2,076,362**
Investment income	**721,818**	**2,043,854**	**755,882**	**1,525,988**
Total pledged revenues	**$ 64,978,826**	**$ 178,182,600**	**$ 66,560,819**	**$ 183,727,166**

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.

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, 2016, the University had the following outstanding commitments under major capital and maintenance projects:

Project	Budget Authorization *	Total Expenditures through June 2016	Funding Source
Gilkey Executive Education Ctr	$ 9,300,000	$ 8,548,775	Series M Revenue Bonds; Foundation Support
Missoula College	$ 32,000,000	21,779,507	LRBP HB0005; Other campus funds
Student Athlete Academic Center	$ 3,000,000	2,995,020	Private Funds
ISB 4th Fl & Bsmt Research Space	$ 900,000	534,024	Campus Funds
ISB 3rd Fl Research Space	$ 1,500,000	1,250,349	Campus Funds
ISB 3rd Floor Completion (Phase 2)	$ 1,100,000	64,299	Private Funds
Adams Center Basement Locker Room	$ 1,500,000	172,794	Private And Campus Funds, Intercap loan
Electrical Distrib Upgrade-Aux	$ 740,000	422,452	Campus Funds
Main Hall Phase III	$ 4,500,000	3,471,661	A&E, FEMA Grant, other campus funds
Mathews Hall Bathroom Remodel	$ 1,200,000	11,344	Intercap loan, auxiliary funds
Natural Resources Research Center	$ 10,000,000	5,264,425	LRBP HB0005; Tech Foundation; DOE, donations
NRRC-energy improvement	$ 800,000	227,455	SBECP loan
CBB energy conservation project	$ 1,311,839	367,315	Intercap loan
HPER swimming pool	$ 500,000	47,387	Plant funds
	$ 68,351,839	$ 45,156,807	

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

At June 30, 2016, 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
2017	$ 482,370
2018	26,514
2019	12,308
2020	3,777
2021	231
	$ 525,200

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, 2016 and 2015, $112,412 and $108,091, 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, 2016 and 2015, the following was transferred to the University for scholarships, academic or institutional support or capital expenses by the University foundations: $15,418,159 and $16,175,934, respectively with The University of Montana Foundation (406-243-2593), $4,404,952 and $2,674,383, respectively, with the Montana Tech Foundation (406-496-4532); and $531,946 and $257,243 respectively, with The University of Montana-Western Foundation (406-683-7305). In addition, $1,821,492 and $2,880,133 was transferred from the Montana Grizzly Scholarship Association (406-243-6485) for the fiscal years ended June 30, 2016 and 2015, respectively. For the fiscal years ended June 30, 2016 and 2015, the University foundations also expended $6.4 million directly to third parties in support of the University. In exchange, the University provides the foundations with office space and an annually contracted fee. Included with the office space are staff and some related office expenses. For the fiscal years ended June 30, 2016 and 2015, the University provided $550,000 and $500,000, 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:

STATEMENT OF FINANCIAL POSITION
June 30, 2016

	University of Montana Foundation	Montana Tech Foundation	University of Montana – Western Foundation	Montana Grizzly Scholarship Association	Elimination	Total
ASSETS:						
Cash and investments	$ 220,850,760	$ 37,139,038	$ 5,938,883	$ 2,887,883	$ (2,849,857)	$ 263,966,707
Other receivables, net of allowances	14,263,388	3,052,668	40,000	10,113	-	17,366,169
Fixed assets, net of depreciation	348,136	2,224,724	7,427	92,778	-	2,673,065
Property held for sale	3,290,000	-	-	-	-	3,290,000
Other assets	1,456,366	172,057	-	95,389	-	1,723,812
Total Assets	$ 240,208,650	$ 42,588,487	$ 5,986,310	$ 3,086,163	$ (2,849,857)	$ 289,019,753
LIABILITIES:						
Current liabilities associated with operations	$ 488,355	$ 118,758	$ 5,006	$ 233,395	$ -	$ 845,514
Long-term liabilities – other	278,684	-	-	-	-	278,684
Liabilities to external beneficiaries	15,992,945	41,595	-	-	-	16,034,540
Custodial funds	20,895,717		-	-	(2,849,857)	18,045,860
Total Liabilities	37,655,701	160,353	5,006	233,395	(2,849,857)	35,204,598
NET ASSETS:						
Net assets – unrestricted	7,728,299	2,299,107	344,397	1,011,109	-	11,382,912
Net assets – restricted	194,824,650	40,129,027	5,636,907	1,841,659	-	242,432,243
Total Net Assets	202,552,949	42,428,134	5,981,304	2,852,768	-	253,815,155
Total Liabilities & Net Assets	$ 240,208,650	$ 42,588,487	$ 5,986,310	$ 3,086,163	$ (2,849,857)	$ 289,019,753

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).

Notes to the Consolidated Financial Statements (continued)

STATEMENT OF ACTIVITIES
For the year ended June 30, 2016

	University of Montana Foundation	Montana Tech Foundation	University of Montana – Western Foundation	Montana Grizzly Scholarship Association	Total
REVENUES:					
Contributions	$ 22,999,306	$ 6,930,270	$ 936,113	$ 1,730,067	$ 32,595,756
Investment income and unrealized gain(loss) on investments	(3,551,896)	(831,518)	(36,642)	(43,651)	(4,463,707)
Administrative fees	499,476		-		499,476
Contract for services	550,000				550,000
Other income	1,572,196	(28,562)	36,053	388,041	1,967,728
Total Revenues	$ 22,069,082	$ 6,070,190	$ 935,524	$ 2,074,457	$ 31,149,253
EXPENSES:					
Program services	$ 20,584,980	$ 5,052,187	$ 801,257	$ 1,772,519	$ 28,210,943
Supporting services	6,463,384	1,578,537	201,208	417,579	8,660,708
Total Expenses	$ 27,048,364	$ 6,630,724	$ 1,002,465	$ 2,190,098	$ 36,871,651
Change in net assets before non-operating items	$ (4,979,282)	$ (560,534)	$ (66,941)	$ (115,641)	$ (5,722,398)
NON-OPERATING EXPENSES:					
Payments to beneficiaries and change in liabilities due to external beneficiaries	(2,057,272)	-	-		(2,057,272)
Change in net assets	$ (7,036,554)	$ (560,534)	$ (66,941)	$ (115,641)	(7,779,670)
Net assets, beginning of fiscal year	209,589,503	42,988,668	6,048,245	2,968,409	261,594,825
Net assets, end of fiscal year	$ 202,552,949	$ 42,428,134	$ 5,981,304	$ 2,852,768	253,815,155

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).

The following table shows the total investments held by the component units as of June 30:

`	Fair Market Value	
	2016	2015*
Investments held by component units:		
Stocks and bonds	$ 83,887,376	$ 85,266,136
Money market and certificates of deposit	3,230,376	9,438,275
Alternative investments	129,126,142	135,641,809
Real property	31,878,227	30,562,238
Other	1,871,427	1,908,837
	$ 249,993,548	$ 262,817,295

*Restated to Conform to current year classifications

NOTE 24 – NATURAL CLASSIFICATION WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by natural and functional classifications for the year ended June 30, 2016, were as follows:

	Natural Classification								
Functional Classification:	Compensation & benefits	Pension expense	Other postemployment benefits	Supplies & other services	Utilities	Communication	Scholarships	Depreciation	Total
Instruction	$ 103,066,499	$ 2,854,921	$ 1,817,350	$ 11,293,852	$ 48,961	$ 421,786	$ -	$ -	$ 119,503,369
Research	37,393,174	347,661	225,896	14,220,726	68,181	205,793	-	-	52,461,431
Public service	18,941,233	137,311	104,051	7,039,527	-	129,052	-	-	26,351,174
Academic support	22,084,747	733,233	490,303	10,602,980	1,678	344,328	-	-	34,257,269
Student services	20,416,750	645,716	462,493	11,053,659	29,664	585,213	-	-	33,193,495
Institutional support	19,902,482	771,659	448,841	7,187,891	24,385	807,441	-	-	29,142,699
Operation and maintenance of plant	13,106,410	626,917	363,446	12,011,830	5,711,822	164,213	-	-	31,984,638
Scholarships and fellowships	-	-	-	-	-	-	23,157,452	-	23,157,452
Auxiliary enterprises	26,019,268	1,027,162	663,330	15,341,364	3,153,932	320,605	-	-	46,525,661
Depreciation	-	-	-	-	-	-	-	23,087,332	23,087,332
	$ 260,930,563	$ 7,144,580	$ 4,575,710	$ 88,751,829	$ 9,038,623	$ 2,978,431	$ 23,157,452	$ 23,087,332	$ 419,664,520

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 of Montana
Required Supplementary Information
(Unaudited)

- **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

	2016	2015
Employer's proportion of the net pension liability	4.23%	4.28%
Employer's proportionate share of the net pension liability	$ 59,138,504	$ 53,314,985
Employer's covered-employee payroll	$ 48,779,362	$ 47,843,696
Employer 's proportionate share of the net pension liability as a percentage of its covered-employee payroll	121%	111%
Plan fiduciary net position as a percentage of the total pension liability	78%	80%

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

	2016	2015
Contractually required contributions	$ 4,398,648	$ 4,321,797
Contributions in relation to the contractually required contributions	4,398,648	4,321,797
Contribution deficiency/(excess)	$ -	$ -
Covered-employee payroll	$49,401,010	$52,755,355
Contributions as a percentage of covered-employee payroll	9%	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
For the Year Ended June 30, 2016

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, 2014, with update procedures performed to roll forward required contributions to the measurement date of June 30, 2015.

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.

▪ Game Wardens' and Peace Officers' Retirement System

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

	2016	2015
Employer's proportion of the net pension liability	2.08%	2.05%
Employer's proportionate share of the net pension liability	$ 438,071	$ 309,719
Employer's covered-employee payroll	$ 935,808	$ 852,841
Employer 's proportionate share of the net pension liability as a percentage of its covered-employee payroll	47%	36%
Plan fiduciary net position as a percentage of the total pension liability	88%	90%

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

	2016	2015
Contractually required contributions	$ 91,867	$ 87,061
Contributions in relation to the contractually required contributions	91,867	87,061
Contribution deficiency/(excess)	$ -	$ -
Covered-employee payroll	$1,011,526	$974,007
Contributions as a percentage of covered-employee payroll	9%	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, 2016

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, 2014, with update procedures performed to roll forward required contributions to the measurement date of June 30, 2015.

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

	2016	2015
Employer's proportion of the net pension liability	1.29%	1.38%
Employer's proportionate share of the net pension liability	$ 21,139,488	$ 21,171,694
State of Montana's proportionate share of the net pension liability associated with the employer	8,228,030	8,492,935
Total	$ 29,367,518	$ 29,664,629
Employer's covered-employee payroll	$ 12,852,552	$ 13,529,625
Employer 's proportionate share of the net pension liability as a percentage of its covered-employee payroll	164%	156%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%

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

	2016	2015
Contractually required contributions	$ 6,627,145	$ 6,383,418
Contributions in relation to the contractually required contributions	6,627,145	6,383,418
Contribution deficiency/(excess)	$ -	$ -
Covered-employee payroll	$ 11,559,350	$ 12,866,721
Contributions as a percentage of covered-employee payroll	57%	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, 2016

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

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three year COLA deferral period for Tier 2 Members.
- The 0.63% load applied to the projected retirement benefits of the university members "to account for larger than average annual compensation increases observed in the years immediately preceding retirement" is not applied to benefits expected to be paid to university members on account of death, disability and termination (prior to retirement eligibility.
- The actuarial valuation was updated to reflect the assumed rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.
- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the $500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to "retain membership in the System" are covered by the $500 death benefit after termination.

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, 2015, determined as of June 30, 2015.

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

- **Teachers' Retirement System (continued)**

• Remaining amortization period	26 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, 2011, 2013 and 2015 were as follows:

	2011	2013	2015
Actuarial accrued liability (AAL)	$ 48,159,444	$ 44,830,573	$ 49,787,480
Actuarial value of plan assets	-	-	-
Unfunded actuarial accrued liability (UAAL)	$ 48,159,444	$ 44,830,573	$ 49,787,480
Funded ratio (actuarial value of plan assets/AAL)	0.00%	0.00%	0.00%
Covered payroll (active plan members)	$ 166,132,779	$ 176,743,341	$ 172,163,503
UAAL as a percentage of covered payroll	28.99%	25.36%	28.92%

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, 2011	July 1, 2013	July 1, 2015
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	55.00%	55.00%	50.00%
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 2015	Fall 2014	Fall 2013	Fall 2012	Fall 2011	Fall 2010
Enrollment (Headcount) [1]	18,856	19,768	20,345	20,836	21,530	21,371

	FY2016	FY2015	FY2014	FY2013	FY2012	FY2011
Enrollment (FTE) [2]						
Two-year Colleges	2,455	2,782	3,024	3,289	3,338	3,304
Undergraduate	11,523	12,031	12,235	12,680	13,386	13,785
Graduate	1,909	1,904	1,880	1,908	1,985	1,950
	15,887	16,717	17,139	17,877	18,709	19,039
Enrollment (FTE) [2]						
In-State students	11,897	12,470	13,035	13,809	14,431	14,749
Out-of-State students	2,739	3,078	2,975	2,964	3,171	3,141
Western Undergraduate Exchange	1,251	1,169	1,129	1,104	1,107	1,149
	15,887	16,717	17,139	17,877	18,709	19,039

	FY2016	FY2015	FY2014	FY2013	FY2012	FY2011
Employees (FTE) - All Funds [2]						
Contract Faculty	994	1,079	1,083	1,048	1,133	1,112
Contract Admin & Professional	662	629	595	603	561	543
Classified	1,062	1,238	1,216	1,246	1,363	1,349
GTA/GRA	306	310	312	199	186	188
Part Time and Other	523	583	559	682	579	583
	3,547	3,839	3,766	3,778	3,822	3,774

	School Year Ended					
	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012	6/30/2011
Degrees Granted [3]						
Certificate	237	208	205	175	144	182
Associate	708	678	678	692	668	555
Undergraduate	2,532	2,628	2,569	2,481	2,509	2,535
Graduate	871	886	828	888	828	802
	4,348	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

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

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, 2016, 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 5, 2016. 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. 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 5, 2016

University of Montana

University Response

UNIVERSITY OF MONTANA

January 9, 2016

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

Dear Mr. Maciver,

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, 2016. We always find this process to be helpful and work by the Legislative Audit staff to be professional. The University considers fiscal responsibility and accountability of public funds extremely serious and of the utmost importance.

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

Sincerely,

Sheila M. Stearns

Sheila M. Stearns
President

Cc: Clayton Christian, Commissioner of Higher Education
Kathy Burgmeier, Director of Internal Audit

Office of the President

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