A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

University of Montana

For the Two Fiscal Years Ended June 30, 2017

FEBRUARY 2018

LEGISLATIVE AUDIT
DIVISION

17-10A

Legislative Audit Committee

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Members serve until a member's legislative term of office ends or until a successor is appointed, whichever occurs first.

§5-13-202(2), MCA

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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) certificates.

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 reporting 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.

Audit Staff

Jeane Carstensen-Garrett
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LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

February 2018

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, 2017, with comparative information for the fiscal year ended June 30, 2016. The statements include financial information from four fund-raising 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 effort on activity related to tuition and fees, federal grants and contracts, compensation and benefits, 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	Fran M. Albrecht, Chair	February 1, 2019
	Robert A. Nystuen, Vice Chair	February 1, 2022
	William Johnstone	February 1, 2024
	Casey Lozar	February 1, 2018
	Martha Sheehy	February 1, 2021
	Paul Tuss	February 1, 2020
	Chase Greenfield, Student Regent	June 30, 2018
	Clayton Christian, Commissioner of Higher Education*	
	Steve Bullock, Governor*	
	Elsie Arntzen, Superintendent of Public Instruction*	

*Ex officio members

Office of the Commissioner of Higher Education	Clayton Christian	Commissioner of Higher Education
	John Cech	Deputy Commissioner for Academic and Student Affairs
	Vivian Hammill	Montana University System Chief Legal Counsel, Deputy Commissioner
	Kevin McRae	Deputy Commissioner for Communications and Human Resources
	Tyler Trevor	Deputy Commissioner for Budget and Planning, Chief of Staff
	Frieda Houser	Director of Fiscal Affairs

University of Montana	Seth Bodnar	President (effective January 2018)
	Sheila Stearns	President (January 2017 - January 2018)
	Beverly Edmond	Interim Provost and Vice President for Academic Affairs
	Thomas Crady	Vice President for Enrollment Management and Student Affairs
	Rosi Keller	Vice President for Administration and Finance (effective September 2017)
	Scott Whittenburg	Vice President for Research & Creative Scholarship
	Matthew Riley	Chief Information Officer
	Lucy France	Legal Counsel
	John McCormick	Director, Business Services
	Dan Jenko	Controller
Montana Tech of the University of Montana	Donald M. Blackketter	Chancellor, University Executive Vice President
	Doug Abbott	Provost and Vice Chancellor for Academic Affairs
	Brant Wright	Vice Chancellor for Administration and Finance
	Beverly Hartline	Vice Chancellor for Research and Dean of Graduate School
	Joe McClafferty	Vice Chancellor for Development and University Relations
	Carleen Cassidy	Director of Finance and Budget
University of Montana–Western	Beth Weatherby	Chancellor, University Executive Vice President
	Deborah Hedeen	Provost and Vice Chancellor for Academic Affairs, University Associate Vice President
	Susan D. Briggs	Vice Chancellor, Administration/Finance and Student Affairs, University Associate Vice President
	Liane Forrester	Director of Business and Campus Services

Helena College University of Montana	Jane Baker	Interim 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 (all campuses), contact:

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Montana Legislative Audit Division

Financial Audit
University of Montana
For the Two Fiscal Years Ended June 30, 2017

February 2018 17-10A Report Summary

Student enrollment has continued to decline, from a full-time equivalent of 15,887 in fiscal year 2016 to 15,185 in fiscal year 2017. Most of the decline was at the Missoula campus and led to a budget shortfall. In response, the University of Montana's Missoula campus offered voluntary termination and severance plans in an effort to reduce the percentage of its budget spent on personnel costs. A total of 98 employees accepted the offers in fiscal years 2017 and 2018. Additional information on terms and costs are discussed in Note 24 to the financial statements.

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 fund-raising 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 $320.6 million at June 30, 2017, comparable to the university's net position of $244.7 million.

We performed an annual financial statement audit of the university to provide an independent assessment on whether the university's financial statements reliably represent the financial position of the university as of June 30, 2017, and 2016, as well as the results of operations and cash flows for the years then ended.

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, cash and investments, as well as other account balances and transaction cycles.

Results

We issued unmodified opinions 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. This means you can rely on the statements and notes contained in this report.

For a complete copy of the report (17-10A) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to **lad@mt.gov**; or check the web site at **http://leg.mt.gov/audit**
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail **lad@mt.gov.**

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, 2017. 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, 2017, with comparative financial amounts for the fiscal year ended June 30, 2016.
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 these objectives, 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, cash and investments, as well as other account balances and transaction cycles. The audit work also included review of the university's 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 issued the compliance audit (17-12) for the two fiscal years 2017 and 2016, in December 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 programs to students.

University of Montana in 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 Humanities and Sciences, Business, 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. The Montana Forest and Conservation Station is associated with this campus.

Montana Tech of the University of Montana in Butte provides a variety of four-year and graduate programs with a focus on mineral, geological, environmental, petroleum, mining, and other engineering and science programs. It also includes the Highlands College, which provides core education courses and two-year degrees in various occupational and technical programs. The Bureau of Mines and Geology provides advisory, technical, and informational services on the state's geologic, mineral, energy, and water resources.

University of Montana–Western in Dillon 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 two-year college offering associate degrees and technical proficiency certificates. Helena College also provides studies toward upper-level and graduate level programs.

The supplemental information on page A-63 summarizes trends in the number of employees, student enrollment and degrees granted.

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 of the University of Montana as of June 30, 2017, and 2016, 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, 2017, and 2016, and the related University Component Units–Combined Statement of Activities for the fiscal years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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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 opinions.

Opinions

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Montana as of June 30, 2017, and 2016, 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-59, and the Required Supplementary Information related to Other Post–Employment Benefits on page A-62 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 Supplemental Information–All Campuses on page A-63 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 January 9, 2018, 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

January 9, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2017 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, 2017, 2016, and 2015, and should be read in conjunction with the fiscal year 2017 financial statements.

FINANCIAL HIGHLIGHTS

The financial highlights for fiscal year 2017 were:

- The research enterprise at the University continues to show strong growth. Grant and contract revenue totaled $88.4 million in FY17, $67.4 million of which was from Federal grants and contracts, and is a 11.6% increase over FY16. In FY17, the Missoula campus realized another record year of research awards amounting to $89.0 million of funding and a record $88.2 million for expenditures for those grants and contracts. Award volume is an indicator of proposal success and serves as a leading indicator of future grant and contract expenditures.

- The construction of a new Missoula College building to replace an aging facility with outdated classrooms, was completed in FY17. The new facility, with more than 115,000 square feet, will house a variety of training programs, including culinary arts, health professions and applied computing.

  In FY17, the University was granted authority to construct a $20.0 million expansion to the Phyllis J. Washington Education Center on the Missoula campus, and a new $24.0 million Living Learning Center on the Montana Tech campus. Almost 70% of the projects costs are being funded with private gifts, and the remaining funding for the Living Learning Center will come from the proceeds of a Revenue Bonds issuance in FY18.

- Enrollment at the University decreased by 702 full time equivalent (FTE) students in FY17, declining from 15,887 FTE in FY16 to 15,185 FTE, or a decrease of 4.4%. The decline in enrollment was the most pronounced at the Missoula campus, which declined by 648 FTE in FY17, to 11,249 FTE. The decline in enrollment at the Missoula campus created a significant budget shortfall for academic units and administrative services in FY17, which was addressed through one time only funding from internal and external sources, and by reducing operating expenses across all campus units.

- Through the University's foundations fund raising efforts, private support to the University increased by $38.0 million from $32.6 million in FY16, to $70.6 million in FY17. The University of Montana Foundation recognized $61.0 million in contributions in FY17. Approximately, 69% of the fund raising total was directed toward academic and institutional support; 21% for scholarships; and 10% directed toward capital expenditures in support of the Missoula campus.

- The University received an indicative credit ratings of A+ and A1 from Standard and Poor's and Moody's, respectively, in FY17.

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.

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)		
Description	**2017**	**2016**	**2015**
Total current assets	$ 89.72	$ 87.26	$ 90.52
Total non-current assets	459.44	458.80	441.75
Total assets	$ 549.16	$ 546.06	$ 532.27
Deferred outflows of resources	$ 27.28	$ 18.84	$ 18.21
Total current liabilities	$ 55.48	$ 60.83	$ 65.42
Total non-current liabilities	275.13	259.48	258.75
Total liabilities	$ 330.61	$ 320.31	$ 324.17
Deferred inflows of resources	$ 1.16	$ 7.17	$ 17.24
Net invested in capital assets	$ 264.07	$ 249.19	$ 228.13
Restricted:			
Nonexpendable	21.35	20.47	21.90
Expendable	4.93	4.29	4.12
Unrestricted	(45.68)	(36.53)	(45.08)
Total net postion	$ 244.67	$ 237.42	$ 209.07

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

Events or developments which occurred during 2017 include:

- Current assets increased by almost $2.5 million primarily because of increases in due from federal government of $2.4 million and prepaid and other charges of $1.7 million, respectively, which were offset by a net decrease in other current asset classifications of $1.6 million. The increase in due from federal government can be attributed largely to a 11.6% increase in federal grants and contracts revenue in FY17 of over $7.0 million.

- While noncurrent assets increased by less than $1.0 million in FY17, notable changes in this financial statement classification included a decrease in long term investments of $15.9 million and an increase in capital assets, net, of $16.2 million. The University did not reinvest $15.0 million of government agency securities that matured during the fiscal year, accounting for much of the decrease in investments. The increase in capital assets in FY17 is primarily from construction costs associated with completion of the $30 million Missoula College building located near the Missoula mountain campus, and the $10.0 million Natural Resource Research Center located on the Montana Tech campus.

- Deferred outflows of resources increased by over $8.4 million, which is due primarily to a change in the University's proportionate share of the difference between projected and actual investment earnings on pension plan investments calculated as of the most recent measurement date for the retirement plans.

- The decrease in current liabilities of $5.4 million in FY17 is largely due to an $8.1 million decrease in accounts payable and accrued liabilities, offset by a $2.2 million increase in student and other deposits. Accounts payable and accrued liabilities decreased over the prior year primarily because of timing differences in the payment of payroll related liabilities. The increase in student and other deposits is because payment for student health insurance premiums for spring semester were not made until after fiscal year end.

- Noncurrent liabilities increased in FY17 by $15.7 million, which is largely due from increases in advances from primary government of $8.7 million, other postemployment benefit obligations of $3.0 million, and net pension liability of $11.8 million, which were offset by an $8.7 million decrease in long term obligations. Other postemployment benefit obligations and net pension liability as of fiscal year end are based on actuarial valuations. The University increased advances from primary government, for the most part, to fund capital projects and equipment acquisitions on the Missoula campus.

Management, Discussion and Analysis (continued)

- Deferred inflows of resources decreased by just over 6.0 million, which is due primarily to a change in the University's proportionate share of the difference between projected and actual earnings on pension plan investments calculated as of the most recent measurement date for the retirement plans.

- The University's net position increased by $7.2 million in FY17, largely because of $14.8 million increase in net investment in capital assets, which was offset by a $9.1 million decrease in unrestricted net position. The increase in net investment in capital assets can be attributed primarily to a net increase in plant and equipment of $16.9 million, offset by a slight net increase in long term obligations of approximately $1.0 million. The University received over $21.8 million in capital contributions in FY17.

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 change 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.

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	**2017**	**2016**	**2015**
Operating revenues	$ 284.12	$ 272.93	$ 269.03
Operating expenses	440.44	419.67	409.84
Operating loss	(156.32)	(146.74)	(140.81)
Non-operating revenues (expenses)	142.63	147.41	143.74
(Loss) income before other revenues	(13.69)	0.67	2.93
Other revenues	20.94	27.68	10.12
Net (decrease) increase in net position	7.25	28.35	13.05
Net Position, beginning of year as previously stated	237.42	209.07	278.95
Restatement for net pension liability and related expenses	-	-	(82.93)
Net Position, beginning of year as restated	237.42	209.07	196.02
Net position, end of year	$ 244.67	$ 237.42	$ 209.07

The following provides a comparative analysis of revenues and expenses for the years ended June 30, 2017, 2016, and 2015:

	For the years ended June 30, (stated in millions)					
	2017		**2016**		**2015**	
REVENUES	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Tuition and fees, net	$ 114.27	25.29%	$ 114.90	25.39%	$ 119.12	27.87%
Federal grants and contracts	67.39	14.91%	60.37	13.34%	52.38	12.26%
State & local grants/contracts	8.89	1.97%	8.21	1.81%	9.08	2.12%
Nongovernmental grants/contracts	12.15	2.69%	12.09	2.67%	10.33	2.42%
Facilities and administrative cost allowances	13.08	2.89%	10.81	2.39%	8.83	2.07%
Sales/services of educational departments	16.98	3.76%	16.83	3.72%	16.66	3.90%
Auxiliary enterprise charges	44.26	9.80%	42.78	9.45%	44.34	10.37%
State appropriations	101.54	22.47%	105.08	23.22%	99.47	23.27%
Federal financial aid grants and contracts	22.87	5.06%	25.47	5.63%	27.80	6.50%
Investment income	1.93	0.43%	2.05	0.45%	1.53	0.36%
Private gifts	18.48	4.09%	17.66	3.90%	17.45	4.08%
Capital grants and gifts	21.84	4.83%	27.96	6.18%	10.12	2.37%
All other sources	8.18	1.83%	8.27	1.83%	10.36	2.42%
Total revenues	$ 451.86	100.02%	$ 452.48	99.98%	$ 427.47	100.01%
EXPENSES	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Compensation and benefits	$ 270.41	60.82%	$ 260.93	61.52%	$ 255.23	61.59%
Pension expense	9.76	2.20%	7.14	1.68%	7.03	1.70%
Other postemployment benefits	4.54	1.02%	4.57	1.08%	4.56	1.10%
Other operating expenses	109.93	24.73%	100.77	23.76%	94.96	22.91%
Scholarships and fellowships	21.68	4.88%	23.16	5.46%	24.33	5.87%
Depreciation and amortization	24.11	5.42%	23.09	5.44%	23.73	5.73%
Interest expense	4.18	0.94%	4.47	1.05%	4.58	1.11%
Total expenses	$ 444.61	100.00%	$ 424.13	100.00%	$ 414.42	100.00%

Events or developments which occurred during 2017 include

In FY17, the University saw an increase of $7.2 million in its net position. Significant factors affecting the University's net position are described below:

- Operating revenues increased by $11.1 million in FY17, primarily due to a $10.1 million, or a 11.0%, increase in grants and contracts revenues. The Missoula campus was awarded over $89.0 million in external funding at the end of FY17, or an 8.5% increase over the prior year. The consistently high level of awards to the University is a significant reason for the increase in grant and contract revenue recognized in FY17. The net increase in other operating revenue by classifications were not significant but account for the remaining 1.0 million increase . Though enrollment dropped in FY17 to 15,184, or by 703 (FTE), the effect of the reduction on net tuition and fees revenue was largely mitigated by a 4.0% increase in tuition and fees charged out-of-state students and also, by a slight increase in their FTE.

- In FY17, operating expenses increased by almost $20.8 million, or by 5.0%, primarily due to increases in compensation and employee benefits of $9.5 million, pension expense of $2.6 million, and other expenses of $9.2 million, which were offset by a $1.5 million decrease in scholarships and fellowships expense. Additional explanation for the increases and decrease in FY17 operating expenses are provided below:

  - The 3.6% increase in compensation and employee benefits is largely due to the FY17 pay plan, which increased staff wages by $0.50 per hour, and contract faculty, contract administrators/professionals salaries by about 2.0%. In addition, the University's contribution for health benefits increased by $167 per month for eligible employees, or by over $2,000 annually per FTE.

  - Changes to the University's proportionate share of the collective net pension liability for its defined benefits plans as of the measurement date of June 30, 2017, and related deferred outflows and inflows of resources, was the primary reason for the 36.7% increase in pension expense.

  - Other expenses increase by 9.1% in FY17 largely due to a $2.5 million increase in payments to subcontractors for grant and contracts activity, and a 3.0 million increase in consulting and professional services cost associated with construction projects, and for a new academic program at the Missoula campus.

  - The decline in scholarship and fellowship expense of around 6.4% is directly related to a 703 decline in student FTE in FY17.

- Non–operating revenues (expenses) decreased by close to $5.0 million, or 3.2%, in FY17, primarily due to a decline in state appropriations of $3.5 million and a $2.6 million decrease in Federal financial aid grants and contracts. The latter decrease is related to a decline in enrollment, primarily at the Missoula campus, A $4.4 million decline in one-time-only funding accounts for most of the 3.4% decline in state appropriations to the University.

- The decrease in other revenues (expenses) of approximately $6.7 million is largely due to a decrease in capital grants and gifts of $6.1 million received for large capital construction projects. The $32.0 million Missoula College facility completed in FY17, and funded by a legislative appropriation, was the largest of the projects.

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.

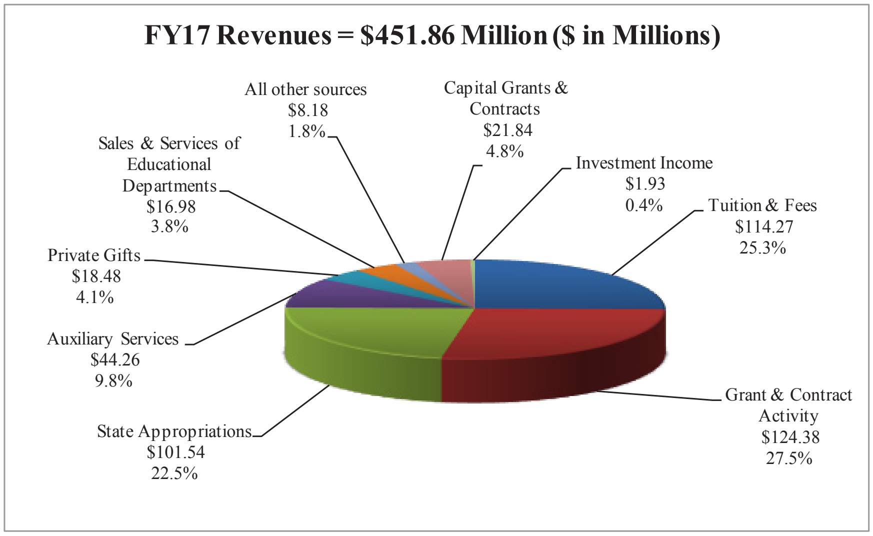
  The increase in other expenses of $5.8 million is largely from increases in payments for consultant and professional services, and payments to subcontractors associated with grant and contract activity on the Missoula campus.

Management, Discussion and Analysis (continued)

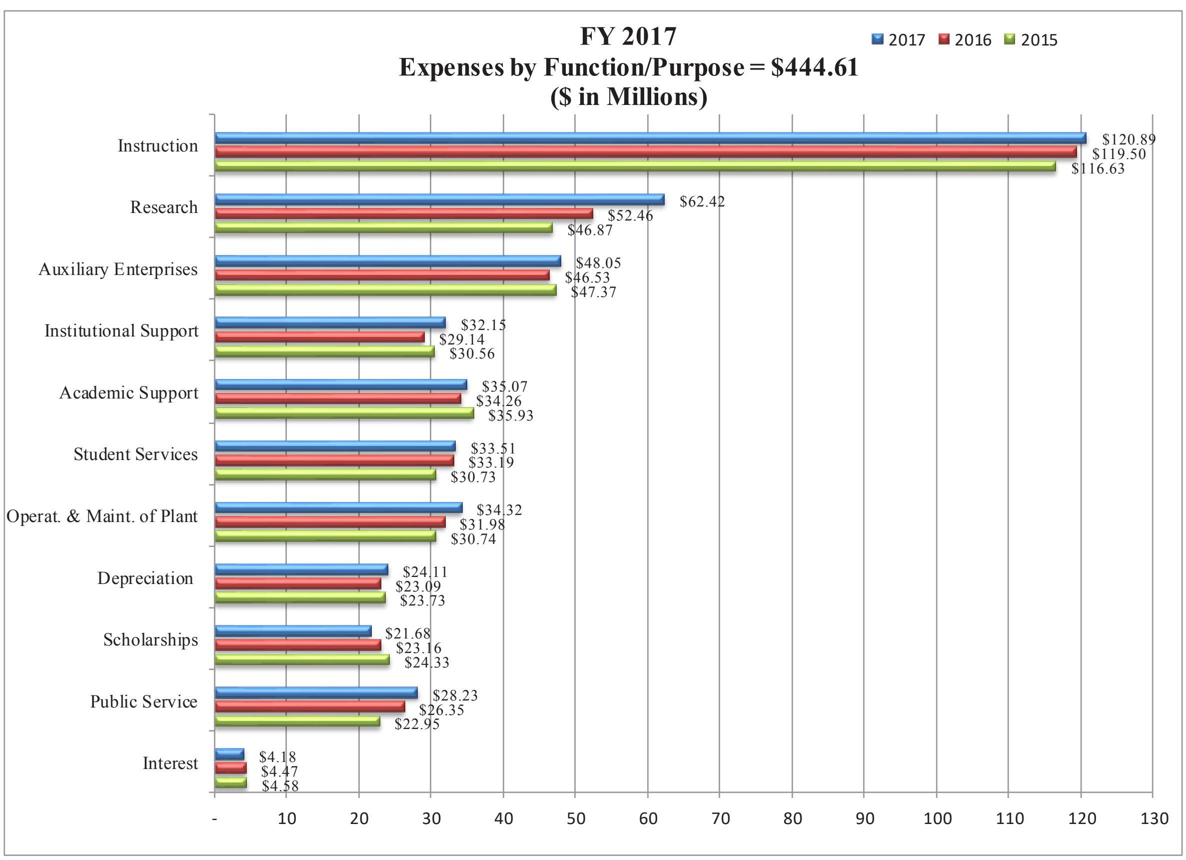
- Non–operating revenues (expenses) increased by $3.6 million in FY16, primarily from an increase in state appropriation of $5.7 million, or 5.6%, offset by an over $2.3 million decline in Federal financial aid due to declining enrollments at the Missoula campus.

- 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.

The following chart provides a graphical representation of revenue classifications as a percentage of total revenues for fiscal year 2017:



The following chart provides a graphical comparison of operating expenses by function for fiscal years 2017, 2016 and 2015:



Management, Discussion and Analysis (continued)

STATEMENT OF CASH FLOWS

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

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	For years ended June 30, (stated in millions)		
	2017	**2016**	**2015**
Cash Flow Category			
Cash Provided by (Used for):			
Operating Activities	$ (139.06)	$ (129.38)	$ (123.30)
Non-capital Financing Activities	144.88	149.30	146.80
Capital and Related Financial Activities	(23.28)	(24.55)	(27.67)
Investing Activities	17.06	2.61	12.46
Net Increase (Decrease) in Cash	(0.40)	(2.02)	8.29
Cash and Cash Equivalents, beginning of year	58.39	60.41	52.12
Cash and Cash Equivalents, end of year	$ 57.99	$ 58.39	$ 60.41

Specific events or cash transactions during fiscal year 2017, which were notable included

- In FY17, net cash used by operating activities totaled $139.1 million, which was $9.7 million more than cash used in FY16. Payments to employees for salaries and benefits totaled $287.2 million, an increase by $12.7 million, due primarily to the University's FY17 pay plan that increased staff wages by $0.50 per hour, and faculty, and contract administrator/professional salaries by an average of 2.0%. In addition, cash used for operating expenses increased by $11.6 million to $113.9 million in FY17, largely because of increases in grant and contract activity and payments for consulting and professional services. Cash provided by operating activities totaled $284.4 million in FY17, an increase of $11.9 million, but not by enough to offset the total increase in cash used by operating activities of $21.5 million.

- Cash flows from noncapital financing activities provided net cash of $144.9 million in FY17 primarily from state appropriations of $101.5 million, federal financial aid grants and contracts of $22.9 million and $18.5 million from private gifts. Overall, cash provided by noncapital financing activities decreased by $4.4 million, or 3.1% from the prior year, primarily because of decreases in one-time-only state appropriations of $3.5 million and a decline in federal financial aid grants and contracts of $2.6 million due to declining enrollment.

- Cash provided by investing activities totaled $17.1 million in FY17 and was $14.4 million more than in the prior year primarily because proceeds from the maturity of federal agency securities of $15.0 million were not reinvested in other fixed income securities.

- Net cash used by capital and related financing activities in FY17 totaled $23.3 million, which was only slightly higher than in FY16. Notable uses of cash for this activity included $28.7 million paid for capital assets, $10.3 million from the issuance of long term obligations, and payments of $13.5 million for principal and interest on long term obligations. Uses of cash for capital and related financing activities was offset by capital gifts received in FY17 of $8.3 million

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.

Management, Discussion and Analysis (continued)

- 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.

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, 2017, there were a number of major construction projects that are being planned or are in progress at campuses of the University. The following is a summary of the projects, estimated costs and their status as of June 30, 2017.

Project Name	Estimated Cost	Campus	Status
Washington Grizzly Champions Center (Locker/Weight Room)	$14.0M	Missoula	Under Construction
Liberal Arts Entryway and Basement	$2.2M	Missoula	Under Construction
Main Hall Phase III Renovation	$4.5M	Western	Under Construction
Living Learning Center	$24.0M	Mt Tech	Planning
Phyllis J. Washington Education Center Expansion	$18.0M	Missoula	Planning
Liberal Arts Class Rooms Remodel	$2.0M	Missoula	Planning

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

- Declining enrollment continues to be a concern for the University, particular at the flagship campus in Missoula. Enrollment there has declined by 25% since FY11, declining from a record high of 13,917 FTE to 10,369 FTE in FY17. Overall, during the same time period the University's enrollment declined 3,854 FTE from 19,039 to 15,184 FTE in FY17, or by over 20%.

  The campuses 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, and reducing costs through efficiencies and meeting objectives in less expensive ways. The University as a whole must continue to seek innovative ways to reduce costs by improving operational efficiency and effectiveness.

  The Missoula campus in response to its prolonged period of declining enrollment, implemented voluntary termination plans for faculty, as well as for staff and contract administrators/professionals in FY18. The Voluntary Employee Retirement Incentive Plan (VERIP) offered to faculty was accepted by 14 full-time tenured faculty. The Voluntary Severance Offer (VSO) that was extended to staff and contract administrators/professionals was accepted by 84 full-time employees. A portion of the positions that were vacated as a result of VERIP and VSO will need to be filled. However, the Missoula campus anticipates it will realize a significant reduction in its general fund personnel costs beginning in FY19.

  The Missoula campus, 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.

Academic Program and Administrative Prioritization (APASP) – perform a full review of all programs and services in which UM invests resources. APASP is a process that many colleges and universities have undertaken nation-wide to refocus their curriculum and gain efficiencies. This process will identify programs and services to invest in and strengthen, and others to disinvest in to make their financial resources available for reallocation. The APASP will also help identify outdated or inefficient processes and systems to improve. A goal of APASP is to help ensure that essential, productive, and high-quality units have the resources they need to flourish. Phase 1 of the APASP initiative was completed in Fall semester 2017.

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 is increasingly important.

The University of Montana

A Component Unit of the State of Montana

Consolidated Statements of Net Position

As of June 30, 2017and 2016

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (note 3)	$ 57,969,960	$ 58,355,407
Securities lending collateral	246,770	465,738
Investments	303,657	303,269
Accounts and grants receivable, net	7,010,668	7,439,989
Due from Federal government	12,917,725	10,576,521
Due from primary government	1,042,456	1,341,305
Due from other State of Montana component units	221,804	226,059
Loans to students, net	1,540,525	1,517,341
Inventories	1,947,338	2,259,107
Prepaid expenses and other charges	6,519,269	4,774,109
Total current assets	$ 89,720,172	$ 87,258,845
Noncurrent Assets		
Restricted cash and cash equivalents	$ 24,287	$ 34,368
Restricted investments	19,528,283	18,728,352
Other long term investments	56,797,313	72,728,434
Loans to students, net	10,144,343	10,595,969
Capital assets, net	372,947,944	356,714,160
Total Noncurrent Assets	$ 459,442,170	$ 458,801,283
Total Assets	$ 549,162,342	$ 546,060,128
DEFERRED OUTFLOW OF RESOURCES	$ 27,283,563	$ 18,845,122
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 16,556,566	$ 24,612,120
Due to Federal government	23,717	29,804
Due to primary government	1,930,338	1,119,961
Due to other State of Montana component units	49,546	56,902
Securities lending liability	246,770	465,738
Student and other deposits	4,191,693	1,979,650
Unearned revenue	11,885,479	12,438,719
Accrued compensated absences	11,944,004	11,738,725
Current portion of long-term obligations	8,649,502	8,389,190
Total Current Liabilities	$ 55,477,615	$ 60,830,809
Noncurrent Liabilities		
Accrued compensated absences	$ 15,534,439	$ 14,584,616
Unearned compensation	391,045	391,045
Long-term obligations	83,647,107	92,379,203
Advances from primary government	20,617,014	11,894,974
Other postemployment benefits obligation (note 18)	52,458,930	49,431,324
Net pension liability (note 17)	92,546,638	80,716,063
Due to Federal Government	9,941,371	10,077,569
Total Noncurrent Liabilities	$ 275,136,544	$ 259,474,794
Total Liabilities	$ 330,614,159	$ 320,305,603
DEFERRED INFLOW OF RESOURCES	$ 1,162,304	$ 7,174,846
NET POSITION		
Net investment in capital assets	$ 264,065,345	$ 249,191,102
Restricted for:		
Nonexpendable		
Endowments	19,385,942	18,521,249
Loans	1,966,091	1,948,019
Expendable		
Loans	2,286,898	2,272,709
Scholarships, research, instruction, and other	2,642,755	2,024,615
Unrestricted	(45,677,589)	(36,532,893)
Total Net Position	$ 244,669,442	$ 237,424,801

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, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	19,972,484	$ 13,854,437
Short-term investments	7,727,443	5,806,410
Accrued dividends and interest	200,397	118,722
Investments	262,471,551	244,187,138
Contributions receivable, net	43,318,948	8,955,763
Student loans and other receivables	284,304	252,334
Beneficial Interests in Trusts Held by Others	8,628,183	8,158,072
Property, Building and Equipment, net of accumulated depreciation	13,444,102	2,673,065
Property held for sale	2,349,060	3,290,000
Other assets	1,447,169	1,723,812
Total Assets	$ 359,843,641	$ 289,019,753
LIABILITIES		
Accounts payable	$ 2,743,608	$ 534,064
Accrued expenses	93,415	81,125
Compensated absences	265,557	278,684
Liabilities to external beneficiaries	17,015,677	16,034,540
Custodial funds	18,921,915	18,045,860
Other liabilities	223,004	230,325
Total Liabilities	$ 39,263,176	$ 35,204,598
NET ASSETS		
Net assets - unrestricted	$ 9,607,516	$ 11,382,912
Net assets - temporarily restricted	113,701,798	74,763,597
Net assets - permanently restricted	197,271,151	167,668,646
Total Net Assets	$ 320,580,465	$ 253,815,155
Total Liabilities & Net Assets	$ 359,843,641	$ 289,019,753

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 Revenues, Expenses and Changes in Net Position

For the Years Ended June 30, 2017 and 2016

	2017	2016
OPERATING REVENUES:		
Tuition and fees (net of scholarship allowances in 2017 and 2016 of $32,597,545 and $32,949,588, respectively)	$ 114,268,066	$ 114,902,231
Federal grants and contracts	67,389,950	60,369,886
State and local grants and contracts	8,889,383	8,210,726
Nongovernmental grants and contracts	12,151,817	12,088,863
Grant and contract facilities and administrative cost allowances	13,080,499	10,812,939
Sales and services of educational departments	16,981,332	16,834,262
Auxiliary enterprises charges:		
Residential life (net of scholarship allowances in 2017 and 2016 of $532,158 and $560,62, respectively)	16,426,841	15,531,389
Food services (net of scholarship allowances in 2017 and 2016 of $532,158 and $560,625, respectively)	13,749,213	13,388,596
Other auxiliary revenues	14,080,922	13,855,831
Interest earned on loans to students	52,595	48,871
Other operating revenues	7,047,994	6,883,653
Total operating revenues	$ 284,118,612	$ 272,927,247
OPERATING EXPENSES:		
Compensation and employee benefits	$ 270,411,088	$ 260,930,563
Pension expense (note 17)	9,764,430	7,144,580
Other postemployment benefits (note 18)	4,544,455	4,575,710
Other (note 25)	109,926,435	100,768,883
Scholarships and fellowships	21,682,552	23,157,452
Depreciation and amortization	24,110,717	23,087,332
Total operating expenses	$ 440,439,677	$ 419,664,520
OPERATING LOSS	$ (156,321,065)	$ (146,737,273)
NON-OPERATING REVENUES (EXPENSES):		
State appropriations	$ 101,539,599	$ 105,080,305
Federal financial aid grants and contracts	22,869,748	25,471,954
Land grant revenues	1,982,462	1,626,437
Private gifts	18,484,537	17,656,885
Investment income	1,933,692	2,043,854
Interest expense	(4,181,891)	(4,466,586)
Net non-operating revenues	$ 142,628,147	$ 147,412,849
INCOME BEFORE OTHER REVENUES (EXPENSES)	$ (13,692,918)	$ 675,576
OTHER REVENUES (EXPENSES):		
Capital grants and gifts	$ 21,838,197	$ 27,963,712
Loss on disposal of capital assets	(900,638)	(288,337)
Total other revenues	$ 20,937,559	$ 27,675,375
NET INCREASE IN NET POSITION	$ 7,244,641	$ 28,350,951
NET POSITION:		
Net position - beginning of year	$ 237,424,801	$ 209,073,850
Net position - end of year	$ 244,669,442	$ 237,424,801

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, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total
REVENUES:				
Contributions	$ 1,786,952	$ 38,338,599	$ 30,493,476	$ 70,619,027
Interest and dividend income	753,515	2,248,644	1,254	3,003,413
Net realized and unrealized gains (losses) on investments	1,994,321	17,029,660	296,212	19,320,193
Administrative fees	633,171	-	-	633,171
Support received from university	550,000	-	-	550,000
Net revaluation of trusts and split-interest agreements	1,145	15,850	893,121	910,116
Income from perpetual trust	-	355,504	-	355,504
Special events	527,536	-	-	527,536
Other income	368,180	7,738,593	35,716	8,142,489
Net assets released from restrictions	33,762,049	(33,762,049)	-	-
Total revenues	$ 40,376,869	$ 31,964,801	$ 31,719,779	$ 104,061,449
EXPENSES:				
Program services				
Academic and institutional	$ 11,797,479	$ -	$ -	$ 11,797,479
Capital expenses	7,777,572	-	-	7,777,572
Scholarships and awards	8,897,219	-	-	8,897,219
Total program services	$ 28,472,270	$ -	$ -	$ 28,472,270
Operating expenses				
Fundraising efforts	$ 3,998,150	$ -	$ -	$ 3,998,150
General and administrative	5,282,315	-	-	5,282,315
Investment management costs	189,901	-	-	189,901
Other miscellaneous	62,683	-	-	62,683
Total operating expenses	$ 9,533,049	$ -	$ -	$ 9,533,049
Change in net assets before nonoperating items	$ 2,371,550	$ 31,964,801	$ 31,719,779	$ 66,056,130
NON-OPERATING REVENUES (EXPENSES):				
Impairment Loss	(940,940)	-	-	(940,940)
Reclassification of net assets	-	(54,520)	54,520	-
Change in net assets	$ 1,430,610	$ 31,910,281	$ 31,774,299	$ 65,115,190
Net assets - beginning of year as previously stated	$11,382,911	$74,763,598	$167,668,646	$253,815,155
Restatement of net assets (see Note 23)	(3,206,006)	7,027,920	(2,171,794)	1,650,120
Net assets - beginning of year as, restated	$8,176,905	$81,791,518	$165,496,852	$255,465,275
Net assets - end of year	$9,607,515	$113,701,799	$ 197,271,151	$320,580,465

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

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, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 116,381,392	$ 114,548,470
Federal grants and contracts	65,272,777	60,232,006
State grants and contracts	8,605,263	8,194,407
Nongovernmental grants and contracts	11,763,424	12,064,837
Grant and contract facilities and administrative cost allowances	13,080,499	10,812,939
Sales and services of educational activities	17,175,825	17,027,944
Auxiliary enterprises charges	44,763,867	43,050,816
Interest earned on loans to students	186,087	48,871
Other operating receipts	7,175,722	6,535,113
Payments to employees for salaries and benefits	(287,150,239)	(274,436,100)
Payments for other postemployment benefits (pensions)	(1,180,932)	(1,593,255)
Operating expenses	(113,877,170)	(102,308,202)
Payments for scholarships and fellowships	(21,682,552)	(23,157,452)
Loans made to students	(1,691,499)	(2,431,236)
Loan payments received	2,119,941	2,029,236
Net Cash Used by Operating Activities	$ (139,057,595)	$ (129,381,606)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	$ 101,539,599	$ 105,080,305
Land Grants	1,982,462	1,626,437
Federal financial aid grants and contracts	22,869,748	25,471,953
Private Gifts for other than capital purposes	18,484,538	17,120,939
Net Cash Provided by Noncapital Financing Activities	$ 144,876,347	$ 149,299,634
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	$ -	$ (17,949,330)
Proceeds from sales of investments	15,000,000	17,989,663
Earnings received on investments	2,064,496	2,575,311
Net Cash Provided by Investing Activities	$ 17,064,496	$ 2,615,644
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for capital assets	$ (28,715,799)	$ (20,658,726)
Private gifts for capital purposes	8,329,331	7,874,115
Proceeds from the sale of capital assets	28,861	39,837
Proceeds from notes payable and advances from primary government	10,596,220	1,502,545
Principal paid on notes payable, advance from primary government, and capital leases	(1,240,102)	(1,083,946)
Principal paid on bonds payable	(8,241,306)	(7,982,539)
Interest paid on capital debt and leases	(4,035,981)	(4,242,643)
Net Cash Used by Capital and Related Financing Activities	$ (23,278,776)	$ (24,551,357)
Net Decrease in Cash and Cash Equivalents	$ (395,528)	$ (2,017,685)
Cash and Cash Equivalents, Beginning of Year	$ 58,389,775	$ 60,407,460
Cash and Cash Equivalents, End of Year	$ 57,994,247	$ 58,389,775

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, 2017 and 2016
(Continued)

	2017	2016
Reconciliation of Operating Loss to Net Cash Used By Operating Activities:		
Operating loss	$ (156,321,065)	$ (146,737,273)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Noncash expense:		
Depreciation and amortization expense	24,110,717	23,087,332
Amortization of net pension liability	(2,900,028)	(5,231,903)
Amortization of other post employment benefits obligation	3,027,606	3,480,414
Changes in assets and liabilities:		
Accounts receivable	(1,608,779)	(1,102,231)
Loans to students	428,442	(402,000)
Inventories	311,769	(59,781)
Prepaid expenses and other charges	(1,745,160)	724,716
Accounts payable and accrued expenses	(7,038,804)	(4,173,507)
Unearned revenue	(553,240)	936,531
Student and other deposits	2,212,043	85,458
Due to federal government	(136,198)	(218,197)
Compensated absences	1,155,102	228,835
Net Cash Used by Operating Activities	$ (139,057,595)	$ (129,381,606)
Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions		
Fixed assets acquired by incurring capital lease obligations	$ 23,391	$ 202,522
Change in fair value of investments recognized as a component of interest income	$ (130,802)	$ 550,376
Fixed assets acquired from capital grants and donations	$ 13,508,864	$ 20,918,883
Discounts, premiums and deferred loss on refunding amortized to interest expense	$ 181,298	$ 264,581
Reconciliation of Cash and Cash Equivalent to the Statements of Net Position		
Cash and cash equivalents classified as current assets	$ 57,969,960	$ 58,355,407
Cash and cash equivalents classified as noncurrent assets	$ 24,287	$ 34,368
Total Cash and Cash Equivalents, End of Year	$ 57,994,247	$ 58,389,775

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, 2017 AND 2016

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 position 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.

▪ 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 following table illustrates the capitalization thresholds:

Notes to the Consolidated Financial Statements (continued)

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.

Notes to the Consolidated Financial Statements (continued)

- **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, private gifts, 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, 2017 and 2016 totaled $36,723,769 and $37,593,306, 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 $606,869 of cash invested in money market funds with First American Funds and US Bank, and $20,425,413 in the Short Term Investment Pool (STIP) with the Montana Board of Investments (MBOI). Amounts held in cash equivalents at June 30, 2017 and 2016 were $21,032,282 and $20,617,286, respectively. STIP investments are purchased in accordance with the, statutorily mandated "Prudent Expert Principle." The STIP invests primarily in short-term, high quality, fixed income securities with a maximum maturity of 397 days or less. The STIP portfolio may include asset-backed securities, commercial paper, corporate and government securities, money market funds 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 values of this investment pool have been determined using the net asset value (NAV) per share (or its equivalent) of the investment. 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. Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated.

- **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, 2017 and 2016:

Security Type	Fair Value Measurement Level	Fair Value 2017	Fair Value 2016	Effective Duration at June 30, 2017[1]	Credit Quality Rating at June 30, 2017[3]
Agency/Government Related	Level 2	$ 27,400,273	$ 42,639,865	1.40	AAA
Trust Fund Investment Pool (TFIP)[6]	NAV[5]	31,442,039	32,241,535	5.82[2]	NR
Foundation Pooled Investments	NAV[5]	17,227,554	16,369,121	Not applicable	N/A
Certificates of Deposits	NAV	303,657	303,269	Not applicable	N/A
Life insurance	NAV	255,730	206,265	Not applicable	N/A
Total investments		$ 76,629,253	$ 91,760,055		
Securities Lending Collateral Investment Pool	NAV	$ 246,770	$ 465,738	[4]	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 1.35% of the portfolio

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

(4)Securities Lending cash collateral invested in the Navigator Securities Lending Government Lending Money Market portfolio had an average duration of 8 days and the average weighted final maturity was 49 days within the Navigator portfolio.

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

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

Investments held by the University at June 30, 2017 and 2016 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 at June 30, 2017 and 2016 was a participant in the Trust Funds Investment Pool (TFIP), an internal investment pool administered by the Montana Board of Investments (MBOI). MBOI purchases investments for the TFIP portfolio in accordance with the statutorily mandated "Prudent Expert Principle."

The TFIP fixed income portfolio includes 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.

Notes to the Consolidated Financial Statements (continued)

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 2017 and 2016. 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 2017 and 2016 resulting from a borrower default.

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. Pension funds participated in the Quality D Short Term Investment Fund and non-pension entities participated in the Security Lending Quality Trust. During March 2017, participation in both funds was transitioned into the Navigator Securities Lending Government Money Market portfolio.

During fiscal years 2017 and 2016, the MBOI and the borrowers maintained the right to terminate all securities lending transactions on notice. 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. The average duration was 8 days and the average weighted final maturity was 49 days within the Navigator portfolio.

Investment risks

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

According to 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 average duration to be maintained in a range within 20% of the benchmark duration.

Credit Risk

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

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

Custodial Credit Risk
Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2017 and 2016, all STIP and TFIP securities were registered in the nominee name for the MBOI and held in the possession of the Board's custodial bank, State Street Bank.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement.

The TFIP Investment Policy Statement provides for a "2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities." The STIP Investment Policy limits concentration of credit risk exposure by limiting portfolio investment types to 3% in any issuer with the exception of US Treasury and US Agency securities as well as any repurchase agreements with a financial institution.

The concentration of credit risk exposure for U.S. government sponsored entities securities held at June 30, 2017 and 2016, expressed as a percentage of total investments, was 35.76% and 46.48%, 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 $1,982,462 and $1,626,437 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016:

	2017	2016
Student tuition and fees	$ 5,025,033	$ 5,888,824
Auxiliary enterprises and other operating activities	2,992,578	2,906,529
Private grants and contracts	1,253,771	1,022,732
Other	315,861	175,373
Gross accounts and grants receivable	9,587,243	9,993,458
Less: allowance for doubtful accounts	2,576,575	2,553,469
Net accounts and grants receivable	$ 7,010,668	$ 7,439,989

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, 2017 and 2016, are $9,941,371 and $10,077,569, respectively, that would be refundable to the Federal Government, should the program terminate or if the University chooses 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, 2017 and 2016:

	2017	2016
Bookstore	$ 821,644	$ 1,093,809
Food services	278,981	274,397
Facilities services	632,667	700,535
Other	214,046	190,367
Total inventories	$ 1,947,338	$ 2,259,107

NOTE 7 – PREPAID EXPENSES AND OTHER CHARGES

Prepaid expenses and other charges consisted of the following at June 30, 2017 and 2016:

	2017	2016
Summer session	$ 385,365	$ 495,912
Travel advances	23,207	25,320
Other prepaid expenses	6,110,697	4,252,877
Total prepaid expenses and other charges	$ 6,519,269	$ 4,774,109

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, 2017 and 2016, respectively.

For the year ended June 30, 2017:	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
Capital assets not being depreciated:					
Land	$ 8,225,722	$ -	$ -	$ -	$ 8,225,722
Capitalized collections	18,108,845	203,300	11,710	-	18,300,435
Construction in progress	46,218,713	29,460,218	-	(65,130,612)	10,548,319
	72,553,280	29,663,518	11,710	(65,130,612)	37,074,476
Other capital assets:					
Land improvements	15,421,694		-	470,906	15,892,600
Infrastructure	8,342,650	1,086,740	-	474,710	9,904,100
Buildings	316,493,241	318,990	35,320	53,619,058	370,395,969
Building improvements	221,631,747	212,013	334,094	10,565,939	232,075,604
Furniture and equipment	92,004,770	9,729,575	9,519,776	-	92,214,569
Library materials	61,234,066	1,990,946	1,357,621	-	61,867,391
Livestock and Other Fixed Assets	10,000	245,268	-	-	255,268
	715,138,168	13,583,531	11,246,810	65,130,612	782,605,501
Less accumulated depreciation for:					
Land improvements	11,418,823	376,524	-	-	11,795,347
Infrastructure	1,355,122	259,611	-	-	1,614,733
Buildings	151,567,707	7,165,164	-	-	158,732,871
Building improvements	149,875,056	7,580,231	15,383	-	157,439,905
Furniture and equipment	63,691,703	6,679,768	8,511,326	-	61,860,145
Library materials	54,939,532	1,701,519	-	-	56,641,051
Livestock and Other Fixed Assets	6,310	1,429	-	-	7,739
	432,854,253	23,764,247	8,526,709	-	448,091,791
Other capital assets, net	282,283,915	(10,180,716)	2,720,102	65,130,612	334,513,710
Intangible assets	1,876,965	416,366	587,102	(346,471)	1,359,758
Total capital assets, net	$ 356,714,160	$ 19,899,169	$ 3,318,914	$ (346,471)	$ 372,947,944
Capital Asset Summary:					
Capital assets not being depreciated	$ 72,553,280	$ 29,663,518	$ 11,710	$ (65,130,612)	$ 37,074,476
Other capital and intangible assets	717,015,133	13,999,897	11,833,912	64,784,141	783,965,259
	789,568,413	43,663,416	11,845,622	(346,471)	821,039,735
Less: accumulated depreciation	432,854,253	23,764,247	8,526,709	-	448,091,791
Total capital assets, net	$ 356,714,160	$ 19,899,169	$ 3,318,914	$ (346,471)	$ 372,947,944

Notes to the Consolidated Financial Statements (continued)

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)

NOTE 9 – DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Deferred Inflows and outflows of resources consisted of the following at June 30, 2017 and 2016:

	2017	2016
Deferred Outflows of Resources		
Revenue Bonds:		
Unamortized loss on debt refunding	$ 2,699,118	$ 2,978,738
Defined Benefit Plans:		
Difference between expected and actual economic experience	554,148	235,974
Changes in actuarial assumptions	131,997	299,158
Difference between projected and actual earnings on pension plan investments	8,133,057	7,504
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,483,661	4,737,597
Contribution payments to pensions subsequent to the measurement date	11,281,582	10,586,151
	24,584,445	15,866,384
Total deferred outflows of resources	$ 27,283,563	$ 18,845,122
Deferred Inflows of Resources		
Defined Benefit Plans:		
Difference between expected and actual economic experience	$ 279,433	$ 357,791
Changes in actuarial assumptions	130,370	44,645
Changes in proportion and differences between employer contributions and proportionate share of contributions	752,501	567,341
Difference between projected and actual earnings on pension plan investments	-	6,205,069
Total deferred inflows of resources	$ 1,162,304	$ 7,174,846

NOTE 10 – UNEARNED REVENUES

Unearned Revenues consisted of the following at June 30, 2017 and 2016:

	2017	2016
Grant and contract revenue received in advance	$ 2,773,304	$ 3,057,922
Summer session payments received in advance	2,110,927	3,016,423
Other unearned revenues	7,001,248	6,364,374
Total unearned revenue	$ 11,885,479	$ 12,438,719

NOTE 11 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2017 and 2016:

	2017	2016
Compensation, benefits and related liabilities	$ 9,565,254	$ 20,709,432
Accrued interest expense	461,869	497,256
Accounts payable and other accrued liabilities	6,529,444	3,405,432
Total accounts payable and accrued liabilities	$ 16,556,566	$ 24,612,120

Notes to the Consolidated Financial Statements (continued)

NOTE 12 – LONG–TERM LIABILITIES

The following tables present the changes in long-term liabilities for the years ended June 30, 2017 and 2016, respectively:

For the year ended June 30, 2017:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds, notes and capital leases					
Revenue bonds payable, net	$ 100,227,758		$ 8,305,629	$ 91,922,129	$ 8,506,104
Subordinated bonds payable	158,000		34,000	124,000	34,000
Capital leases payable	382,635	23,974	156,129	250,480	109,398
	100,768,393	23,974	8,495,758	92,296,609	8,649,502
Other long-term liabilities					
Accrued compensated absences	26,323,341	12,129,947	10,974,846	27,478,443	11,944,004
Unearned compensation	391,045			391,045	-
Advances from primary government	12,935,165	10,596,220	1,084,556	22,446,829	1,829,815
Other postemployment benefits obligation	49,431,324	4,544,455	1,516,849	52,458,930	-
Net pension liability	80,716,063	11,830,575		92,546,638	-
Due to Federal Government	10,077,569		136,198	9,941,371	
	179,874,507	39,101,197	13,712,449	205,263,256	13,773,819
Total long-term liabilities	$ 280,642,900	$ 39,125,171	$ 22,208,207	$ 297,559,865	$ 22,423,321

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	-	-
Notes payable				-	-
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	11,735,725
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	4,575,710	1,095,296	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	24,287,751	14,283,335	179,874,507	12,778,916
Total long-term liabilities	$ 278,875,618	$ 24,490,273	$ 22,722,991	$ 280,642,900	$ 21,168,106

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.

Notes to the Consolidated Financial Statements (continued)

Capital Leases

The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2017:

2018	$	120,500
2019		77,623
2020		53,503
2021		17,966
2022		2,755
Minimum lease payments	$	272,347
Less: Amount representing interest		21,867
Present value of net minimum lease payments	$	250,480

Assets acquired under capital leases consist mainly of photocopiers. Such assets are carried at $903,323 with accumulated depreciation of $658,213 as of June 30, 2017.

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, 2017 and 2016, was $198,862,783. The combined principal amount outstanding at June 30, 2017 and 2016 was $90,632,189 and $98,839,494 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

Notes to the Consolidated Financial Statements (continued)

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, 2017 and 2016, $98,272,041 and $113,605,870, respectively, of bonds outstanding were considered defeased.

Revenue Bonds Payable As of June 30, 2017 annual principal payments are as follows:

Series K 2010

Fiscal Year	Interest Rate		Principal
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
			31,220,000
Add: unamortized premium:			105,167
		$	31,325,167

Series L 2012

Fiscal Year	Interest Rate		Principal
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	2.250-2.964%		815,000
2023-2027	2.964-4.000%		26,230,000
2028-2032	3.125-4.000%		5,590,000
2033	4.000%		960,000
			36,470,000
Add: net unamortized premium:			1,184,774
		$	37,654,774

Notes to the Consolidated Financial Statements (continued)

Series M 2013

Fiscal Year	Interest Rate	Principal
2018	2.500%	$ 766,105
2019	2.500%	785,377
2020	2.500%	804,903
2021	2.500%	825,383
2022	2.500%	846,146
2023-2024	2.500%	1,309,275
		$ 5,337,189

Series N 2015

Fiscal Year	Interest Rate	Principal
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	2.550%	1,515,000
2023-2027	2.550%	7,400,000
2028-2030	2.550%	2,995,000
		$ 17,605,000

Revenue Bond Payable Summary:	
Total revenue bonds outstanding	$ 90,632,189
Add: Net unamortized premiums and discounts	1,289,941
Revenue bonds payable, net	$ 91,922,130

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

Fiscal Year	Principal	Interest	Total Payment
2018	$ 8,506,105	$ 3,292,888	$ 11,798,993
2019	8,825,377	2,963,782	11,789,159
2020	9,219,903	2,611,197	11,831,100
2021	9,565,383	2,227,482	11,792,865
2022	10,031,146	1,828,334	11,859,480
2023-2027	34,939,275	4,122,022	39,061,297
2028-2032	8,585,000	911,092	9,496,092
2033	960,000	38,400	998,400
Total	$ 90,632,189	$ 17,995,197	$ 108,627,386

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, 2017 is $124,000.

Notes to the Consolidated Financial Statements (continued)

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, 2017 was 2.500%.

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 44 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**
2018	$ 1,210,870	$ 280,457	41,039	78,961	$ 577,906	$ 173,799	$ 2,363,032
2019	1,376,433	285,245	42,064	77,936	533,210	156,447	2,471,335
2020	1,402,563	250,924	43,115	76,885	473,935	139,950	2,387,373
2021	1,403,395	217,700	44,191	75,809	489,436	123,059	2,353,591
2022	1,286,007	186,311	45,295	74,705	459,376	105,491	2,157,184
2023-2027	4,359,798	608,148	244,018	355,982	1,632,333	334,909	7,535,189
2028-2032	2,611,322	166,509	276,049	323,951	1,105,169	106,629	4,589,630
2033-2037	198,823	7,399	312,285	287,715	164,531	9,970	980,723
2038-2042	-	-	353,277	246,723	-	-	600,000
2043-2047	-	-	399,650	200,350	-	-	600,000
2048-2052	-	-	452,110	147,890	-	-	600,000
2053-2057	-	-	511,456	88,544	-	-	600,000
2058-2061	-	-	397,173	22,828	-	-	420,000
Total	**$ 13,849,212**	**$ 2,002,696**	**$ 3,161,722**	**$ 2,058,278**	**$ 5,435,895**	**$ 1,150,255**	**$ 27,658,057**

Total advances payable from primary government and the current portion of advances at June 30, 2017, was $22,446,830 and $1,829,815, 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.

Summary of Benefits

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

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.

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)

- 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.
  - 3% for members hired **prior to** July 1, 2007
  - 1.5% for members hired **on or after** July 1, 2007 and June 30, 2013

- 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.

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 2017 were 8.47% and 7.90%, respectively and for 2016 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.
- Employer contributions to the system:
  - 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, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
  - The Plan Choice Rate (PCR), that directed a portion of employer contributions for DCRP members to the PERS defined benefit plan, are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts
- Non employer contributions of a portion of Coal Severance Tax interest and earnings by the State to PERS from the Coal Tax Severance fund is not considered special funding.

Actuarial Assumptions

- The Total Pension Liability (TPL0 used to calculate the Net Pension Liability (NPL) was determined by taking the results of the June 30, 2015, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2016. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of the last actuarial experience study, dated June 2010, for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:
  - Investment Return (net of admin expense) 7.75%
  - Admin Expense as % of Payroll 0.27%
  - General Wage Growth* 4.00%
  - *includes Inflation at 3.00%
  - Merit Increases 0% to 6.00%
  - Postretirement Benefit Increases
- Guaranteed Annual Benefit Adjustment (GABA) - after the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, **inclusive** of other all adjustments to the member's benefit.
  - 3.0% for members hired **prior to** July 1, 2007
  - 1.5% for members hired between July 1, 2007 and June 30, 2013
  - Members hired on or after July 1, 2013:
    (a) 1.5% for each year PERS is funded at or above 90%;
    (b) 1.5% reduced by 0.1% for each 2.0% PERS is funded below 90%; and
    (c) 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries were based on RP 2000 Combined Employee and Annuitant MortalityTables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees were based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvements were 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 2117. 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.

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, 2016, are summarized in the table below:

Asset Class	Target Asset Allocation (a)	Real Rate of Return – Arithmetic Basis (b)	Long-Term Expected Real Rate of Return (a) x (b)
Cash Equivalents	2.6%	4.00%	0.10%
Domestic Equity	36.0%	4.55%	1.64%
Foreign Equity	18.0%	6.35%	1.14%
Fixed Income	23.4%	1.00%	0.23%
Private Equity	12.0%	7.75%	0.93%
Real Estate	8.0%	4.00%	0.32%
	100.0%		4.36%
Inflation			3.00%
Portfolio Return Expectation			7.37%

Sensitivity Analysis

The following presents the University's proportionate share of the PERS-DBRP net pension liability at June 30, 2016, 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	$103,170,327	$71,099,299	$43,473,251

Net Pension Liability

At June 30, 2017 and 2016, the University recorded $71,099,299 and $59,138,504, respectively, for its proportionate share of the net pension liability. At June 30, 2017 the net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2015. 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERS-DBRP participating employers. At June 30, 2017 and 2016, the employer's proportionate share was 4.17%. and 4.23%, 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, 2017.

For the years ended June 30, 2017 and 2016, the University recognized pension expense of $5,588,205 and $3,810,180, respectively. The University also receives funding that is not special funding whereby the State general fund provides contributions from the Coal Severance Tax Fund. For the years ended June 30, 2017 and 2016, the University recognized $1,245,678 and $1,419,260, respectively, for its proportionate share from this funding source.

Notes to the Consolidated Financial Statements (continued)

Deferred Outflows and Deferred Inflows
At June 30, 2017, 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	$ 383,630	$ 235,341
Difference between projected and actual earnings on pension plan investments	6,689,025	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	752,501
Contributions paid to PERS-DBRP subsequent to the measurement date.	4,488,444	-
Total	$ 11,561,099	$ 987,842

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	$323,845
2018	$323,845
2019	$3,801,128
2020	$2,388,498
2021	NA
Thereafter	NA

- **<u>Game Wardens and Peace Officers Retirement System</u>**

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.
- 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 (TPL) used to calculate the Net Pension Liability (NPL) as of June 30, 2016, is based on the results of an actuarial valuation date of June 30, 2015, 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, 2016 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%
- Guaranteed Annual Benefit Adjustment (GABA)
  - 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.
    (a) For members hired **prior to** July 1, 2007 — 3.00%
    (b) For members hired **on or after** July 1, 2007 — 1.50%
- 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 2117. 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, and can be located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These, ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Notes to the Consolidated Financial Statements (continued)

Best estimates are presented as the arithmetic real rates of return for each major asset class included in the GWPORS target asset allocation as of June 30, 2016, is summarized in the following table:

Asset Class	Target Asset Allocation (a)	Real Rate of Return – Arithmetic Basis (b)	Long-Term Expected Real Rate of Return (a) x (b)
Cash Equivalents	2.6%	4.00%	0.10%
Domestic Equity	36.0%	4.55%	1.64%
Foreign Equity	18.0%	6.35%	1.14%
Fixed Income	23.4%	1.00%	0.23%
Private Equity	12.0%	7.75%	0.93%
Real Estate	8.0%	4.00%	0.32%
	100.0%		4.36%
Inflation			3.00%
Portfolio Return Expectation			7.37%

Sensitivity Analysis

The following presents the University's proportionate share of the GWPORS net pension liability at June 30, 2016, 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	$1,305,527	$705,352	$206,449

Net Pension Liability

At June 30, 2017 and 2016, the University recorded $705,352 and $438,071, respectively, for its proportionate share of the net pension liability. At June 30, 2017, the net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2015. 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of GWPORS' participating employers. At June 30, 2017 and 2016, the employer's proportion was 2.15% and 2.09%., respectively.

There were no changes in actuarial assumptions and methods, and the University's proportionate share of the net pension liability, between the measurement date of the total pension liability and June 30, 2017.

2015 Montana Legislature made the following changes to GWPORS benefit terms, effective January 1, 2016, which may affect the measurement of the University's NPL at June 30, 2017:

- If a PERS member transfers employment to a GWPORS covered position and fails to elect GWPORS membership within 90 days, the default is PERS membership.
- If a GWPORS member dies before retirement with more than 25 years of service credit, the survivor benefit is 2.5% of the Highest Average Compensation.

For the year ended June 30, 2017 and 2016, University recognized pension expense of $130,757 and $76,277, respectively.

Notes to the Consolidated Financial Statements (continued)

Deferred Outflows and Deferred Inflows

At June 30, 2017, 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	$ 59,615	$ -
Difference between projected and actual earnings on pension plan investments	108,344	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	18,414	-
Contributions paid to GWPORS subsequent to the measurement date	87,361	-
Total	$ 273,734	$ -

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
2018	$20,201
2019	$20,201
2020	$67,371
2021	$48,264
2022	$11,293
Thereafter	NA

- **Teachers Retirement System**

Plan Description

TRS is a multiple-employer, cost sharing defined-benefit pension plan established in 1937, that provides retirement services to individuals employed as teachers, administrators, and in other professional and skilled positions employed in public education in Montana.

The TRS Board is the governing body of the System and the TRS staff administers the system in conformity with the laws set forth in Title 19, chapter 20 of the Montana Code Annotated, and administrative rules set forth in Title 2, chapter 44 of the Administrative Rules of Montana. Additional information pertaining to membership, benefit structure, and prior years' actuarial valuations, as well as links to applicable statutes and administrative rules, may be obtained by visiting the TRS web site at trs.mt.gov.

Summary of Benefits

Through June 30, 2013, all members enrolled in TRS participated in a single-tiered plan ("Tier One"). Employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to creditable service years divided by 60 times the average final compensation. Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Beginning July 1, 2013, new members in TRS participate in a second benefit tier ("Tier Two"), which differs from Tier One as follows:

- Tier Two uses a 5-year average final compensation (as opposed to 3-year AFC in Tier One)
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One)
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One)

- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation - 1.85% x AFC x years of creditable service - for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than 1.6667 x AFC x years of creditable service)

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 for Tier One members is 1.5% of the benefit payable as of January 1st. For Tier Two members the GABA 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 2017 and 2016 were 11.15% and 11.05%, respectively, and the employee contributions rate for fiscal year 2017 and 2016 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, 2016, is based on the results of an actuarial valuation date of July 1, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2016, 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%
- 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.

Notes to the Consolidated Financial Statements (continued)

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 non-employer 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 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared 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, 2016, is summarized in the table below:

Asset Class	Target Asset Allocation (a)	Real Rate of Return – Arithmetic Basis (b)	Long-Term Expected Real Rate of Return* (a) x (b)
Broad U.S. Equity	36.0%	4.80%	1.73%
Broad International Equity	18.0%	6.05%	1.09%
Private Equity	12.0%	8.50%	1.02%
Intermediate Bonds	23.4%	1.50%	0.35%
Core Real Estate	4.0%	4.50%	0.18%
High Yield Bonds	2.6%	3.25%	0.08%
Non-Core Real Estate	4.0%	7.50%	0.30%
	100.0%		4.75%
Inflation			3.25%
Portfolio Return Expectations			8.00%

Sensitivity Analysis

The following presents the University's proportionate share of the TRS net pension liability at June 30, 2016, 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	$27,829,987	$20,741,987	$14,774,676

Net Pension Liability

In accordance with Statement 68, the System has a special funding situation in which the State of Montana is legally responsible for making contributions directly to TRS that are used to provide pension benefits to the retired members of TRS. Due to the existence of a special funding situation, employers are also required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer.

Notes to the Consolidated Financial Statements (continued)

The net pension liability reported by the University at June 30, 2017, was measured as of June 30, 2016, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2016. The University's proportion of the net pension liability was based on contributions received by TRS during the measurement period July 1, 2015, through June 30, 2016, relative to total contributions received from all of TRS participating employers and nonemployer contributing entities.

The University and State's proportionate share of the net pension liability consisted of the following at June 30, 2017 and 2016:

	2017	2016
University proportion of the net pension liability	1.1354%	1.2866%
University proportionate share of the net pension liability	$ 20,741,987	$ 21,139,488
State of Montana's proportionate share of the net pension liability associated with the University	7,764,849	8,228,030
Total	$ 28,506,836	$ 29,367,518

For the year ended June 30, 2017 and 2016, University recognized pension expense of $4,045,452 and $3,084,178, respectively, and grant revenue for the State's proportionate share of the University's pension expense of ($64,746) and $173,955 respectively.

Changes in actuarial assumptions and methods

The following changes to the actuarial assumptions were adopted in 2016:

- The normal cost method has been updated to align the calculation of the projected compensation and the total present value of plan benefits so that the normal cost rate reflects the most appropriate allocation of plan costs over future compensation.

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.

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, 2017.

Notes to the Consolidated Financial Statements (continued)

Deferred Outflows and Deferred Inflows
At June 30, 2017, 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	110,903	44,092
Changes in actuarial assumptions	131,997	130,370
Difference between projected and actual earnings on pension plan investments	1,335,688	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,465,247	-
Contributions paid to TRS subsequent to the measurement date	6,705,777	-
Total	$ 12,749,612	$ 174,462

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
2018	$2,718,599
2019	$1,413,098
2020	$1,258,213
2021	$479,464
2022	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, 2017, 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	Teachers' Retirement Division
P.O. Box 200131	P.O. Box 200139
100 North Park, Suite 220	1500 Sixth Avenue
Helena, Montana 59620-0131	Helena, MT 59620-0139
Phone: (406) 444-3154	Phone: (406) 444-3134

Notes to the Consolidated Financial Statements (continued)

DEFINED CONTRIBUTION PLANS

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

	Year ending June 30,	
	2017	**2016**
FACULTY		
Covered Payroll	$ 104,819,285	$ 101,375,360
Employer Contributions	$ 6,243,037	$ 5,024,163
Percent of Covered Payroll	5.956%	4.956%
Employee Contributions	$ 7,385,199	$ 7,145,948
Percent of Covered Payroll	7.046%	7.049%
STAFF		
Covered Payroll	$ 6,957,918	$ 7,414,231
Employer Contributions	$ 312,411	$ 347,727
Percent of Covered Payroll	4.490%	4.690%
Employee Contributions	$ 549,668	$ 585,723
Percent of Covered Payroll	7.899%	7.899%

For the years ended June 30, 2017 and 2016, 4.72%, or $4,947,470 and $4,784,917, 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 $256,051 and $272,844, 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 $1,006 to $2,244 for medical coverage and decrease when a retiree becomes Medicare eligible. Medicare enrolled retiree premium rates range from $394 to $1,514. 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.

Notes to the Consolidated Financial Statements (continued)

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, 2017, 2016, and 2015, 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:

	2017	2016	2015
Annual required contribution	$ 4,091,340	$ 4,152,502	$ 4,169,819
Interest on net OPEB obligation	2,100,834	1,962,147	1,823,403
Amortization of net OPEB obligation	(1,647,712)	(1,538,939)	(1,430,120)
Annual OPEB cost (expense)	4,544,462	4,575,710	4,563,102
Contributions made	(1,516,856)	(1,095,296)	(1,429,673)
Increase in OPEB obligation	3,027,606	3,480,414	3,133,429
Net OPEB Obligation Beginning Balance	49,431,324	45,950,910	42,817,481
Net OPEB Obligation Ending Balance	$ 52,458,930	$ 49,431,324	$ 45,950,910
Percentage of annual OPEB cost contributed	33.38%	23.94%	31.33%

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 2017 and 2016 was $38,426,808 and $32,413,831, 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.

Notes to the Consolidated Financial Statements (continued)

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, 2017 is $108,627,386 with annual debt service requirements ranging from $11.8 million in 2018 to $998,400 in 2033, the final year of repayment.

A schedule of revenues pledged as security for revenue bonds is presented as follows at June 30, 2017 and 2016:

	2017		2016	
	Revenues Pledged as Security for Debt	**Net Similar Revenues**	**Revenues Pledged as Security for Debt**	**Net Similar Revenues**
Student fees	**$ 12,310,508**	**$ 114,268,066**	**$ 11,855,560**	**$ 114,902,231**
Sales and services:				
Events revenue	5,937,589		5,919,825	
Continuing education	4,006,240		4,082,234	
Residence life	689,443		512,050	
Student union facilities	581,465		604,708	
Other sources	176,813		297,371	
Total sales and services	**11,391,550**	**16,981,332**	**11,416,188**	**16,834,262**
Residence life	**15,808,841**	**16,426,841**	**14,913,512**	**15,531,389**
Food services	**13,515,268**	**13,749,213**	**13,180,603**	**13,388,596**
Other auxiliary revenues:				
Residence life	401,448		554,987	
Food services	1,614,739		1,738,059	
Student union facilities	438,554		412,137	
Student health services	804,693		849,124	
Parking	1,935,065		1,929,303	
Recreation facilities	1,123,735		1,042,481	
Bookstore	2,653,836		2,938,355	
Printing services	493,828		477,396	
Field house facilities	783,893		970,927	
Other sources	707,947		352,039	
Total other auxiliary revenues	**10,957,738**	**14,080,922**	**11,264,808**	**13,855,831**
Land grant revenue	**1,982,462**	**1,982,462**	**1,626,437**	**1,626,437**
Investment income	**756,530**	**1,933,692**	**721,818**	**2,043,854**
Total pledged revenues	**$ 66,722,897**	**$ 179,422,528**	**$ 64,978,926**	**$ 178,182,600**

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, 2017, the University had the following outstanding commitments under major capital and maintenance projects:

Project	Budget Authorization *	Total Expenditures through June 2017	Funding Source
LA Basement & Rm 011 Reno	$ 2,300,000	$ 1,457,031	Private Funds
PJW Education Add'n Plan	$ 18,000,000	1,041,211	Private Funds
Health Sciences CTM Lab	$ 500,000	366,284	Grant F&A
LA West Remodel Classrooms & Bathrooms	$ 2,000,000	-	Private Funds
Softball Stadium Improvements	$ 650,000	-	Private Funds
Main Hall Phase III	$ 4,500,000	4,176,225	A&E, FEMA Grant, other campus funds
Mathews Hall Bathroom Remodel	$ 1,200,000	101,478	Intercap loan, auxiliary funds
Living Learning Center	$ 24,000,000	1,640,124	Plant, Private, Series O
	$ 53,150,000	$ 8,782,355	

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

At June 30, 2017, 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
2018	$ 431,932
2019	32,203
2020	12,079
2021	308
	$ 476,522

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.

Notes to the Consolidated Financial Statements (continued)

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, 2017 and 2016, $283,181 and $112,412, 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. The University does not provide office space or other services to MonTEC.

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, 2017 and 2016, the following was transferred to the University for scholarships, academic or institutional support or capital expenses by the University foundations: $16,815,554 and $15,418,159, respectively with The University of Montana Foundation (406-243-2593), $5,945,072 and $4,404,952, respectively, with the Montana Tech Foundation (406-496-4532); and $929,514 and $531,946 respectively, with The University of Montana-Western Foundation (406-683-7305). In addition, $1,644,415 and $1,821,492 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, 2017 and 2016, the University foundations also expended $4.4 and $6.4 million, respectively, directly to third parties in support of the University. In exchange, the University provides the foundations with office space and an annually contracted fee. Included with the office space are staff and some related office expenses. For each of the fiscal years ended June 30, 2017 and 2016, the University provided $550,000 to its Foundations, which included payments for contracted services and capital campaign support.

In fiscal year 2014, the Montana Board of Regents authorized the University to construct the Washington-Grizzly Champion Center on the Missoula Campus. In accordance with MCA 20-25-309 the University entered into an agreement in March, 2015 with the University of Montana Foundation (the Foundation) to, among other things, lease land for the purpose of constructing the $14.0 million athletic facility. Upon completion of the project any right, title or interest in the facility that was granted by the agreement reverts back to the University. The project is being funded primarily with private donations. For the fiscal year ended June 30, 2017, the Foundation recorded approximately $10.7 million of construction in process in their statement of financial position.

The Foundation restated its net assets as of July 1, 2016. The total amount of the restatement was $1,650,120, and increased temporarily restricted net assets. In fiscal year 2016, the Foundation expensed the costs associated with construction of the Washington-Grizzly Champion Center. These expenditures should have been presented on the balance sheet as a construction in process asset. The temporary restricted net assets were increased as the construction project is restricted because it will be donated to the University upon completion.

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, 2017

	University of Montana Foundation	Montana Tech Foundation	University of Montana – Western Foundation	Montana Grizzly Scholarship Association	Elimination	Total
ASSETS:						
Cash and investments	$ 240,462,597	$ 43,396,321	$ 6,491,048	$ 3,167,542	$ (3,145,633)	$ 290,371,875
Other receivables, net of allowances	50,376,821	1,818,864	20,000	15,750	-	52,231,435
Fixed assets, net of depreciation	11,177,281	2,172,001	7,427	87,393	-	13,444,102
Property held for sale	2,349,060	-	-	-	-	2,349,060
Other assets	1,232,104	100,659	-	114,406	-	1,447,169
Total Assets	$ 305,597,863	$ 47,487,845	$ 6,518,475	$ 3,385,091	$ (3,145,633)	$ 359,843,641
LIABILITIES:						
Current liabilities associated with operations	$ 2,727,769	$ 95,054	$ 11,397	$ 225,807	$ -	$ 3,060,027
Long-term liabilities – other	265,557	-	-	-	-	265,557
Liabilities to external beneficiaries	16,974,836	40,841	-	-	-	17,015,677
Custodial funds	22,067,548	-	-	-	(3,145,633)	18,921,915
Total Liabilities	42,035,710	135,895	11,397	225,807	(3,145,633)	39,263,176
NET ASSETS:						
Net assets – unrestricted	5,723,178	2,292,580	273,849	1,317,909	-	9,607,516
Net assets – restricted	257,838,975	45,059,370	6,233,229	1,841,375	-	310,972,949
Total Net Assets	263,562,153	47,351,950	6,507,078	3,159,284	-	320,580,465
Total Liabilities & Net Assets	$ 305,597,863	$ 47,487,845	$ 6,518,475	$ 3,385,091	$ (3,145,633)	$ 359,843,641

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

Notes to the Consolidated Financial Statements (continued)

STATEMENT OF ACTIVITIES

For the year ended June 30, 2017

	University of Montana Foundation*	Montana Tech Foundation	University of Montana – Western Foundation	Montana Grizzly Scholarship Association	Total
REVENUES:					
Contributions	$ 60,985,155	$ 6,619,990	$ 1,319,807	$ 1,694,075	$ 70,619,027
Investment income and unrealized gain(loss) on investments	16,886,950	4,811,280	463,225	162,151	$ 22,323,606
Administrative fees	599,413	-	-	-	599,413
Contract for services	550,000	-	-	-	550,000
Net Revaluation of Trusts and Split-Interest Agreements	910,116	-	-	-	910,116
Income from perpetual trust	355,504	-	-	-	355,504
Special Events	-	-	11,152	516,384	527,536
Other income	7,851,903	264,103	60,241	-	8,176,247
Total Revenues	$ 88,139,041	$ 11,695,373	$ 1,854,425	$ 2,372,610	$ 104,061,449
EXPENSES:					
Program services	$ 20,970,632	$ 4,788,271	$ 1,107,600	$ 1,605,767	$ 28,472,270
Supporting services	6,868,385	1,983,286	221,051	460,327	9,533,049
Total Expenses	$ 27,839,017	$ 6,771,557	$ 1,328,651	$ 2,066,094	$ 38,005,319
Change in net assets before non-operating items	$ 60,300,024	$ 4,923,816	$ 525,774	$ 306,516	$ 66,056,130
NON-OPERATING EXPENSES:					
Impairment Loss	(940,940)	-	-	-	-
Change in net assets	$ 59,359,084	$ 4,923,816	$ 525,774	$ 306,516	65,115,190
Net assets, beginning of fiscal year as previously stated	202,552,949	42,428,134	5,981,304	2,852,768	253,815,155
Restatement of net assets (see explanation this note)	1,650,120	-	-	-	1,650,120
Net assets - beginning of year, as restated	204,203,069	42,428,134	5,981,304	2,852,768	255,465,275
Net assets, end of fiscal year	$ 263,562,153	$ 47,351,950	$ 6,507,078	$ 3,159,284	320,580,465

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

Notes to the Consolidated Financial Statements (continued)

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

	Fair Market Value	
	2017	**2016**
Investments held by component units:		
Stocks and bonds	$ 80,890,282	$ 83,887,376
Money market and certificates of deposit	3,597,649	3,230,376
Alternative investments	145,591,489	129,126,142
Real property	38,114,796	31,878,227
Other	2,004,778	1,871,427
	$ 270,198,994	$ 249,993,548

NOTE 24 – SUBSEQUENT EVENTS

Series O 2017

On July 24, 2017, the University issued $14,125,000 of Series O 2017 Private Placement Revenue Bonds. The proceeds of the issue provide funds to construct a Living Learning Center on the University of Montana Tech campus in Butte.

In fiscal year 2018, the University recorded $14,125,000 of the Series O bonds payable. The interest rate on the revenue bonds is 3.390% over the 20-Year Term of the bonds.

The Living Learning Center (LLC) is a three-story new construction building. The first two floors make up a new residential hall for Montana Tech student residents. The third floor of the new space is known as the Student Success Center (SSC). This new space will service all students on the Butte campus. Additional operation and maintenance costs for the residential hall living space are forecasted at $320,833 annually; beginning Fall 2019. All operations and maintenance costs for the residential hall and dining space will be paid from Auxiliary funds.

The $14,125,000 Series O revenue bond will be re-paid from new net revenue (both residence life and dining) generated by the Living Learning Center. Debt Service payments for the new facility are estimated at $1.0 million per year for 20 years. Revenue committed toward the payment of debt are currently generating funds in excess of recurring operating and debt service requirements. This situation allows for the re-direction of these funds to the new Series O debt. The existing debt is fully paid in fiscal year 2024 providing additional revenues to commit to the $14,125,000 debt.

Voluntary Termination Plans

In response to declining enrollment, the University of Montana's Missoula campus implemented voluntary termination plans in an effort to reduce the percentage of its budget spent on personnel costs.

Voluntary Employment Retirement Incentive Program (VERIP)

The first of two VERIP offerings was announced in May, 2017. In order to participate in the plan, faculty members had to meet the following eligibility requirements:

- were full-time tenured faculty and were age 65 years of age or older as of May 12, 2017, and,
- were eligible to retire under Montana Teacher's Retirement System or the MUS-RP as of May 12, 2017.

Eligible faculty members who accepted the offer by July 17, 2017, received a lump sum payment equal to 50% of the their FY2016-2017 general fund contract base salary.

The second VERIP offering was announced in June, 2017. In order to participate in the plan, faculty members had to meet the following eligibility requirements:

- were full-time tenured faculty and were age 60-64 years of age as of May 12, 2017, and,
- were eligible to retire under Montana Teacher's Retirement System or the MUS-RP as of May 12, 2017.

Eligible faculty members who accepted the offer by July 28, 2017, could elect to receive either of the following:

- lump sum payment equal to 50% of the their FY2016-2017 general fund contract base salary, or,
- lump sum payment outlined above, less any deductions for the University retiree health insurance plan coverage premiums until their 65th birthday.

Faculty members who accepted the May, 2017 or June, 2017 VERIP offering were terminated on July 17, 2017 or July 28, 2017, respectively. The total cost to the University for the 14 tenured faculty who accepted the VERIP offer was approximately $1.6 million, which will be recognized in fiscal year 2018.

Notes to the Consolidated Financial Statements (continued)

Voluntary Severance Option (VSO)

The University announced the VSO in October, 2017, which was extended to currently employed, full-time (1.0 FTE) classified staff, contract professionals, and contract administrators, whose positions were funded by general funds and had an initial employment date no later than October 17, 2015. The offer extended to December 6, 2017, and employees who accepted the VSO were terminated on December 31, 2017. The VSO provided the following:

- Employee will be paid the equivalent of six months of wages at their stated salary level as of December 6, 2017, in January 2018 as severance.
- Employee will remain on medical and dental coverage until December 31, 2018; or,
- Employee may elect to receive a lump sum payment of $12,648 (the value of 12 months of health insurance), plus their severance payment, in lieu of remaining on the health insurance plan.

The VSO offer was accepted by 84 employees and the University expects the cost of the plan to be approximately $3.8 million, which will be recognized primarily in fiscal year 2018.

NOTE 25 – NATURAL CLASSIFICATION WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by natural and functional classifications for the year ended June 30, 2017, were as follows:

Natural Classification

Functional Classification:	Compensation & benefits	Pension expense	Other postemployment benefits	Supplies & other services	Utilities	Communication	Scholarships	Depreciation	Total
Instruction	$ 103,628,445	$ 3,801,573	$ 1,784,569	$ 11,252,529	$ 39,049	$ 382,618	$ -	$ -	$ 120,888,782
Research	43,240,606	444,078	263,339	18,210,502	70,468	190,794	-	-	62,419,787
Public service	19,718,974	179,833	106,108	8,088,659	-	140,844	-	-	28,234,419
Academic support	22,328,935	905,511	470,629	10,932,205	1,080	430,605	-	-	35,068,965
Student services	20,772,166	846,477	437,047	10,953,024	42,924	456,827	-	-	33,508,464
Institutional support	20,980,747	1,201,151	458,267	8,704,313	31,831	775,160	-	-	32,151,469
Operation and maintenance of plant	13,305,487	881,073	353,015	13,940,145	5,619,905	227,511	-	-	34,327,136
Scholarships and fellowships	-	-	-	-	-	-	21,682,552	-	21,682,552
Auxiliary enterprises	26,435,728	1,504,734	671,481	15,899,454	3,215,827	320,162	-	-	48,047,386
Depreciation	-	-	-	-	-			24,110,717	24,110,717
	$ 270,411,088	$ 9,764,430	$ 4,544,455	$ 97,980,830	$ 9,021,084	$ 2,924,521	$ 21,682,552	$ 24,110,717	$ 440,439,677

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 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

	2017	2016	2015
Employer's proportion of the net pension liability	4.17%	4.23%	4.28%
Employer's proportionate share of the net pension liability	$ 71,099,299	$ 59,138,504	$ 53,314,985
Employer's covered-employee payroll	$ 49,401,010	$ 48,779,362	$ 47,843,696
Employer 's proportionate share of the net pension liability as a percentage of its covered-employee payroll	144%	121%	111%
Plan fiduciary net position as a percentage of the total pension liability	75%	78%	80%

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

	2017	2016	2015
Contractually required contributions	$ 4,620,645	$ 4,398,648	$ 4,321,797
Contributions in relation to the contractually required contributions	4,620,645	4,398,648	4,321,797
Contribution deficiency/(excess)	$ -	$ -	$ -
Covered-employee payroll	$51,498,331	$49,401,010	$52,755,355
Contributions as a percentage of covered-employee payroll	9%	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, 2017

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, 2015, with update procedures performed to roll forward required contributions to the measurement date of June 30, 2016.

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

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

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

Required Supplementary Information (continued)

▪ Game Wardens' and Peace Officers' Retirement System

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

	2017	2016	2015
Employer's proportion of the net pension liability	2.15%	2.09%	2.05%
Employer's proportionate share of the net pension liability	$ 705,352	$ 438,071	$ 309,719
Employer's covered-employee payroll	$ 1,011,526	$ 935,808	$ 852,841
Employer 's proportionate share of the net pension liability as a percentage of its covered-employee payroll	70%	47%	36%
Plan fiduciary net position as a percentage of the total pension liability	82%	88%	90%

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

	2017	2016	2015
Contractually required contributions	$ 86,846	$ 91,867	$ 87,061
Contributions in relation to the contractually required contributions	86,846	91,867	87,061
Contribution deficiency/(excess)	$ -	$ -	$ -
Covered-employee payroll	970,674	$1,011,526	$974,007
Contributions as a percentage of covered-employee payroll	9%	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, 2017

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, 2015, with update procedures performed to roll forward required contributions to the measurement date of June 30, 2016.

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

	2017	2016	2015
Employer's proportion of the net pension liability	1.14%	1.29%	1.38%
Employer's proportionate share of the net pension liability	$ 20,741,987	$ 21,139,488	$ 21,171,694
State of Montana's proportionate share of the net pension liability associated with the employer	7,764,849	8,228,030	8,492,935
Total	$ 28,506,836	$ 29,367,518	$ 29,664,629
Employer's covered-employee payroll	$ 11,559,350	$ 12,852,552	$ 13,529,625
Employer 's proportionate share of the net pension liability as a percentage of its covered-employee payroll	179%	164%	156%
Plan fiduciary net position as a percentage of the total pension liability	67%	69%	70%

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

	2017	2016	2015
Contractually required contributions	$ 6,123,994	$ 6,627,145	$ 6,383,418
Contributions in relation to the contractually required contributions	6,123,994	6,627,145	6,383,418
Contribution deficiency/(excess)	$ -	$ -	$ -
Covered-employee payroll	$ 10,546,525	$ 11,559,350	$ 12,866,721
Contributions as a percentage of covered-employee payroll	58%	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, 2017

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

- The normal cost method has been updated to align the calculation of the projected compensation and the total present value of plan benefits so that the normal cost rate reflects the most appropriate allocation of plan costs over future compensation.

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
• Remaining amortization period	24 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

Required Supplementary Information (continued)

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 2016	Fall 2015	Fall 2014	Fall 2013	Fall 2012	Fall 2011
Enrollment (Headcount) [1]	18,125	18,856	19,768	20,345	20,836	21,530

	FY2017	FY2016	FY2015	FY2014	FY2013	FY2012
Enrollment (FTE) [2]						
Two-year Colleges	2,342	2,455	2,782	3,024	3,289	3,338
Undergraduate	10,878	11,523	12,031	12,235	12,680	13,386
Graduate	1,965	1,909	1,904	1,880	1,908	1,985
	15,185	15,887	16,717	17,139	17,877	18,709
Enrollment (FTE) [2]						
In-State students	11,249	11,897	12,470	13,035	13,809	14,431
Out-of-State students	2,763	2,739	3,078	2,975	2,964	3,171
Western Undergraduate Exchange	1,172	1,251	1,169	1,129	1,104	1,107
	15,184	15,887	16,717	17,139	17,877	18,709

	FY2017	FY2016	FY2015	FY2014	FY2013	FY2012
Employees (FTE) - All Funds [2]						
Contract Faculty	1,053	1,076	1,079	1,083	1,048	2,138
Contract Admin & Professional	756	697	629	595	603	1,067
Classified	1,173	1,151	1,238	1,216	1,246	2,608
GTA/GRA	245	306	310	312	199	373
Part Time and Other	615	548	583	559	682	1,117
	3,842	3,778	3,839	3,766	3,778	7,302

		School Year Ended				
	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012
Degrees Granted [3]						
Certificate	391	237	208	205	175	144
Associate	609	708	678	678	692	668
Undergraduate	2,556	2,532	2,628	2,569	2,481	2,509
Graduate	920	871	886	828	888	828
	4,476	4,348	4,400	4,280	4,236	4,149

[1] *Source: MUS Data Warehouse*
[2] *Source: MUS Data Warehouse*
[3] *Source: IPEDS Completions Reports*

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

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, 2017, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated January 9, 2018. Our report includes a reference to other auditors who audited the financial statements of the University of Montana Foundation, the Montana Tech Foundation, the University of Montana–Western Foundation, and the Montana Grizzly Scholarship Association, as described in our report on the university's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. Those financial statements were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 of 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

January 9, 2018

University of Montana

University Response

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February 21, 2018

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Legislative Audit Division
Room 135 State Capitol
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 Statement Audit for the fiscal year ending June 30, 2017. We find this process to be beneficial and the Legislative Audit staff to be professional. The University considers accountability of public funds critically important.

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

Sincerely,

Seth Bodnar
President
University of Montana

SB/cw
Bodnarlet18

Cc: Clay Christian, Commissioner of Higher Education

Office of the President

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