MONTANA STATE UNIVERSITY

2016 FINANCIAL STATEMENTS

MONTANA STATE UNIVERSITY

MSU BILLINGS

MONTANA STATE UNIVERSITY NORTHERN

GREAT FALLS COLLEGE MONTANA STATE UNIVERSITY

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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 Montana State University as of June 30, 2016, and 2015, the related Consolidated Statements of Revenues, Expenses and Changes in Net Position, and Consolidated Statements of Cash Flows for each of the fiscal years then ended, and the University Component Units–Combined Statements of Net Position as of June 30, 2016, and 2015, and the related University Component Units–Combined Statement of Activities for the fiscal years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the university's aggregate discretely presented component units. Those statements, which include Montana State University Foundation, the Museum of the Rockies Incorporated, the Montana State University–Billings Foundation, the Montana State University-Northern Foundation, and the Montana State University Bobcat Club, 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 audit the aggregate discretely presented component units' financial statements 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 opinion.

Opinion

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Montana State University as of June 30, 2016, and 2015, and the changes in net position and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis beginning on page 1, the Required Supplementary Information related to pensions beginning on page 70, and the Required Supplementary Information related to Other Post–Employment Benefits on page 75 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 Unaudited Supplemental Information–All Campuses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2016, on our consideration of the Montana State University'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. It is included in the Legislative Auditor's separately issued report (15-11B) on the University's financial statements.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 9, 2016

Montana State University (the "University") is a land grant university serving state, national and international constituents by providing academic instruction, conducting a high level of research activity, advancing fundamental knowledge, and by disseminating knowledge to the people of Montana and beyond through community engagement. The University encompasses four campuses located in Bozeman, Billings, Great Falls and Havre, as well as the Montana Agricultural Experiment Station, Montana Extension Service and the Fire Services Training School. The University operates throughout Montana's over 145,000 square miles of urban and rural communities housing a population of just over 1 million.

The University is proud to deliver quality instruction and services to a diverse student population, which is possible because of its dedicated faculty and staff, and because its students recognize quality and value. The University continues to ensure diligent recruiting of in-state students, while managing its mix of in-state, out-of-state, and out-of-area students to ensure a diverse, growing student population.

OPERATIONS

Condensed Statements of Revenues, Expenses and Changes in Net Position

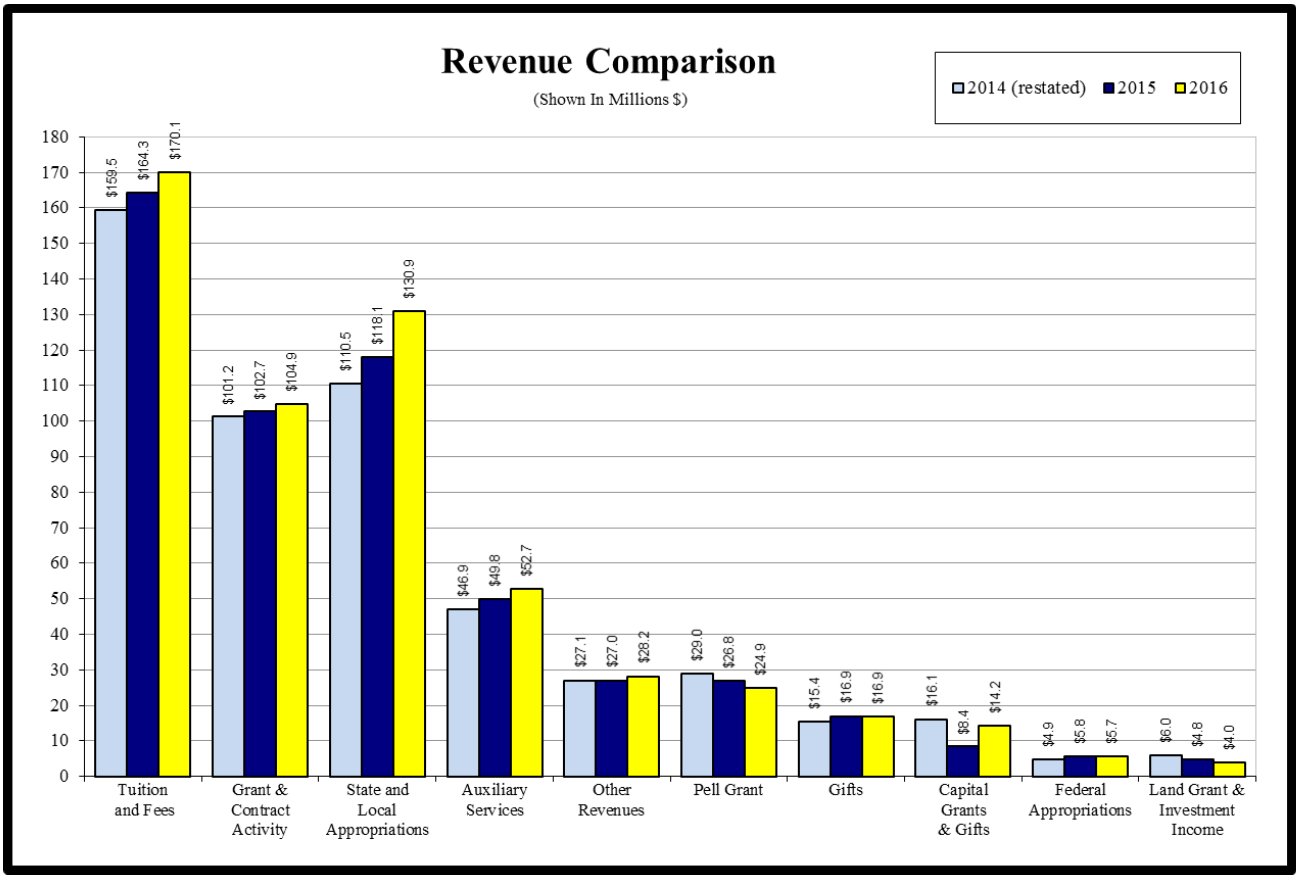
(in millions)

	2016	2015	2014 *(restated)*
Operating revenues	$ 361.6	$ 349.6	$ 339.7
Operating expenses	524.3	507.6	500.6
Operating loss	(162.7)	(158.0)	(160.9)
Non-operating revenues and expenses (net)	170.9	159.7	154.9
Income before capital & other items	8.2	1.7	(6.0)
Capital & other items	14.0	8.1	15.8
Change in net position	$ 22.2	$ 9.8	$ 9.8

The ***Statement of Revenues, Expenses and Changes in Net Position*** presents the revenues earned and expenses incurred during the year on a full accrual basis, and classifies activities as either "operating" or "non-operating." This distinction results in operating deficits for those institutions that depend on gifts and state aid, which are classified as non-operating revenue. The utilization of capital assets is reflected in the financial statements as depreciation, an operating expense, which allocates the cost of assets over their expected useful lives.

Comparison of 2016 and 2015 Results of Operations

The University's net financial position increased $22.2 million during 2016, resulting primarily from capital grants and contributions of $10.6 million. Of this balance, $6.2 million was in support of a new parking structure and $2.3 million was in support of the expansion of facilities for the college of engineering on the Bozeman campus. Revenues in excess of expenses contributed to an increase of $2.7 million in operating reserves, as further discussed in Note 13 to the financial statements.



Operating revenues contain the majority of the University's income, and increased $12.0 million, or 3.4%, from 2015 to 2016.

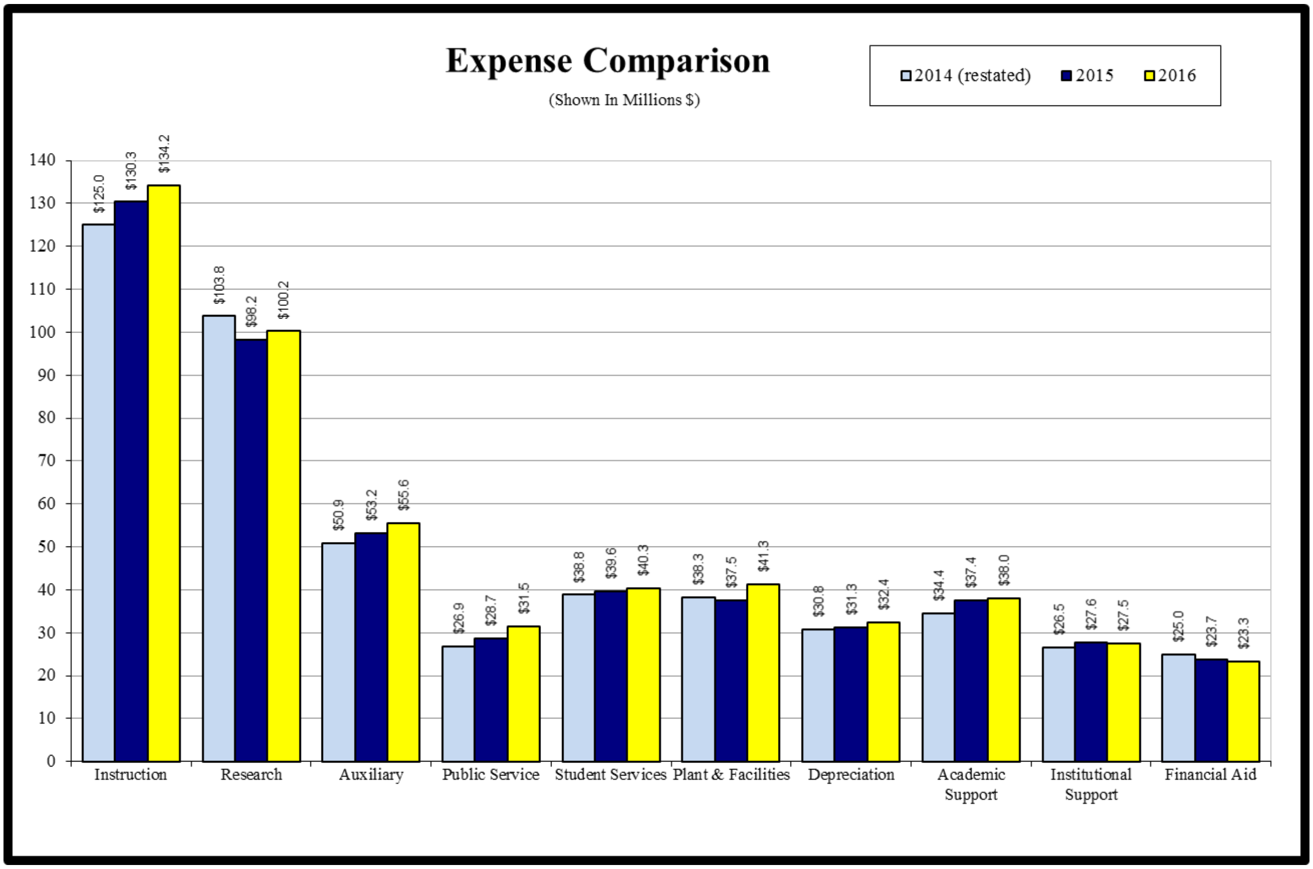
Tuition and fee revenues increased approximately $5.8 million, or 3.5%. Tuition rates were increased by 3.0% for nonresident students at the Bozeman campus, by 2.2% at the Billings campus and by 1.5% on the Northern campus. The number of full-time-equivalent students enrolled increased from 19,861 to 19,890. Enrollment at the Bozeman campus increased by 386 full-time-equivalents, which was offset by decreases at each of the other three campuses.

Grant and contract operating revenues, including facility and administrative cost recoveries, increased 2.2%, to $104.9 million, compared with 2015 revenues of $102.7 million. Stable grant revenues have been achieved even in the face of more competitive federal funding due to a high level of grant applications submitted and awarded.

Revenues from auxiliary enterprises increased $2.9 million, or 5.8%, to $52.7 million, from $49.8 million in 2015. Slight price increases were implemented, and occupancy increased on the Bozeman campus once again due to a large incoming freshman class and retention of upperclassmen. Freshman students from outside the immediate area are required to live on-campus.

Net non-operating revenue increased $11.2 million from 2015 to 2016, primarily due to an increase in state appropriations of $12.8 million, to $130.9 million, as compared with $118.1 million in 2015. The increase in state appropriations was primarily due to appropriations under Montana Research and Economic Development Initiative (MREDI) of approximately $4.6 million. Additional funding will be earned in 2017. The net increase in state appropriations was offset by decreases in Pell grant revenue of $1.9 million and in land grant revenue of $1.5 million. Pell grants decreased to $24.9 million, as compared with $26.8 million in 2015 due to fewer students qualifying for the grants. Land grant revenue decreased to $2.1 million, as compared with $3.6 million in 2015 due to a non-recurring timber sales revenue distribution of $1.3 million in 2015.

Capital and other items increased $5.8 million in 2016, primarily due gifts through the MSU Alumni Foundation in support of a new parking structure, Asbjornson Hall for the College of Engineering and the Honors College, and the Jake Jabs College of Business and Entrepreneurship, all on the Bozeman campus.



Operating expenses increased $16.7 million, or 3.3%, from 2015 to 2016. The most significant increases were in instructional costs, which increased $3.9 million, or 3.0% and in plant-related expenses, which increased $3.7 million, or 9.9%.

Employees in the Montana University System were given annual raises of 50 cents per hour for classified employees and 2% for faculty and professional employees, in addition to certain merit and tenure increases. As such, compensation and benefits expenses increased in nearly all areas. Pension and OPEB expenses increased $1.3 million overall across all areas of the institution.

The increase in instructional costs was primarily due to increases in compensation and benefits of $2.3 million and supplies and services of $1.0 million largely as a result of salary increases and additional staffing and class sections added to accommodate the Bozeman campus's growing enrollment. The increase in plant-related expenses was primarily due to increases in compensation and benefits of $1.3 million and supplies and services of 1.6 million. Updates to campus classrooms and labs has resulted in slightly higher plant expenses.

Auxiliary expenses increased $2.3 million, or 4.4%, largely due to an increase in supplies and services expenses of $1.5 million, or 11.8%. The increase in supplies and services expense was primarily due to additional food and other operating costs incurred as a result of the opening of a new freshman residence hall, high occupancy rates in the residence halls, and increased enrollment at the Bozeman campus.

Research expenses increased $2.0 million, or 2.0%, primarily due to an increase of $3.2 million in compensation and benefits expense offset by a decrease in supplies and services of $1.8 million. Increases and decreases in research funding exist from time to time depending the timing of grant-funding and the mix of capital versus operating grants.

Public Service expenses increased $2.8 million, or 9.9%, primarily due to an increase in compensation and benefits of $1.5 million, as well as additional grants.

Academic support and student services increased a combined $1.3 million, primarily due to increases in supplies and services of $0.5 million and compensation and benefits of $0.5 million. These increases were largely due to additional costs incurred as a result of growing enrollment at the Bozeman campus.

Scholarships and fellowships decreased by $0.4 million, or 1.8% primarily due to reduced Pell grant funding, as fewer students qualified for the grants.

Comparison of 2015 and 2014 Results of Operations

The University's net financial position (after taking into account restated beginning net position) increased $9.8 million during 2015, resulting primarily from capital grants and contributions of $7.5 million. Of this balance, $5.4 million was in support of the Jake Jabs College of Business and Entrepreneurship and $1.2 million was in support of the expansion of facilities for the college of engineering on the Bozeman campus. Revenues in excess of expenses contributed to an increase of $1.1 million in operating reserves, as further discussed in Note 13 to the financial statements.

Operating revenues contain the majority of the University's income, and increased $9.9 million, or 2.9%, from 2014 to 2015.

Tuition and fee revenues increased approximately $4.8 million, or 3.0%. Tuition rates were increased by 3.0% for nonresident students at the Bozeman campus and by 2.2% at the Billings campus. This increase was offset slightly by a decrease in the number of full-time-equivalent students enrolled from 20,053 to 19,861, or 1.2%. Enrollment at the Bozeman campus increased by 176 full-time-equivalents, which was offset by decreases at each of the other three campuses.

Grant and contract operating revenues, including facility and administrative cost recoveries, increased 1.5%, to $102.7 million, compared with 2014 revenues of $101.2 million. Stable grant revenues have been achieved even in the face of more competitive federal funding due to a high level of grant applications submitted and awarded.

Revenues from auxiliary enterprises increased $2.9 million, or 6.1%, to $49.8 million, from $46.9 million in 2014. Slight price increases were implemented, and occupancy increased on the Bozeman campus once again due to a large incoming freshman class and retention of upperclassmen. Freshman students from outside the immediate area are required to live on-campus.

Net non-operating revenue increased $4.8 million from 2014 to 2015, primarily due to an increase in state appropriations of $7.6 million, to $118.1 million, as compared with $110.5 million in 2014. The 2013 State Legislature appropriated funds to cover inflationary costs and wage increases for the 2014 and 2015 so that the University could freeze tuition for resident students through spring of 2015. The increase in state appropriations was offset by a decrease in Pell grant money of $2.2 million, to $26.8 million, as compared with $29.0 million in 2014 due to fewer students qualifying for the grants.

Capital and other items decreased $7.7 million in 2015, primarily due to larger than usual revenue of $11.4 million in 2014. This primarily resulted from gifts through the MSU Alumni Foundation in support of the Jake Jabs College of Business and Entrepreneurship.

Operating expenses increased $7.0 million, or 1.4%, from 2014 to 2015. The most significant increase was in instructional costs, which increased $5.3 million, or 4.2%. This was primarily due to increases in compensation and benefits of $1.5 million and supplies and services of $1.5 million largely as a result of salary increases and additional staffing and class sections added to accommodate the Bozeman campus's growing enrollment. In addition, pension and OPEB expense related to instruction increased $1.8 million.

Pension and OPEB expenses increased $6.8 million overall across all areas of the institution. The increase in Pension and OPEB expenses was primarily the result of the implementation of GASB statement No. 68, *Accounting and Financial Reporting for Pensions*. In past years, pension expense was recorded based on the level of contributions into retirement plans, and was shown in the Compensation and Benefits line in the accompanying financial statements. In 2015, pension expense is reported separately and is based on changes in the net pension liability and related deferred inflows and outflows, rather than based on contributions made. See Note 15 to the accompanying financial statements additional information.

Employees in the Montana University System were given 2.5% plus $250 annual raises, in addition to certain merit and tenure increases. As such, compensation and benefits expenses increased in nearly all areas.

Research expenses decreased $5.6 million, or 5.4%, primarily due to decreases of $2.7 million in expenditures for supplies and services and $2.6 million in expenditures for compensation and benefits. Increases and decreases in research funding exist from time to time depending the timing of grant-funding and the mix of capital versus operating grants.

Auxiliary expenses increased $2.3 million, or 4.5%, largely due to an increase in pension and OPEB expenses of $0.8 million. In addition, because of high occupancy rates in the residence halls, and due to increased enrollment at the Bozeman campus, additional food and other operating costs were incurred. As a result, other auxiliary operating expenses increased $0.7 million, or 6.8% and supplies and services increased 0.4 million, or 3.7%.

Public Service expenses increased $1.8 million, or 6.8%, primarily due to an increase in compensation and benefits of $0.9 million and an increase in pension and OPEB expense of $0.5 million.

Academic support increased $3.0 million, or 8.6%, primarily due to an increases in supplies and services of $1.4 million, compensation and benefits of $0.7 million and pension and OPEB expenses of $0.7 million. These increases were largely due to additional costs incurred as a result of growing enrollment at the Bozeman campus and the implementation of GASB 68.

Institutional support increased $1.1 million, or 4.2%, primarily due to an increase of $0.8 million in pension and OPEB expenses resulting from the implementation of GASB 68.

Scholarships and fellowships decreased by $1.3 million, or 5.2% primarily due to reduced Pell grant funding, as fewer students qualified for the grants.

NET POSITION

Condensed Statements of Net Position
(in millions)

ASSETS	2016	2015	2014 *(restated)*
Current assets	$ 258.6	$ 240.8	$ 239.1
Capital assets, net	451.3	424.5	403.2
Other noncurrent assets	54.5	65.4	90.7
Total assets	764.4	730.7	733.0
DEFERRED OUTFLOWS	29.4	25.5	7.5
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 793.8	$ 756.2	$ 740.5
LIABILITIES			
Current liabilities	$ 98.0	$ 78.7	$ 75.9
Noncurrent liabilities	354.0	348.2	285.0
Total liabilities	452.0	426.9	360.9
DEFERRED INFLOWS	6.6	16.4	-
NET POSITION			
Net investment in capital assets	286.4	276.5	276.2
Restricted, non-expendable	13.4	13.8	13.2
Restricted, expendable	17.3	17.1	17.6
Unrestricted	18.1	5.5	72.6
Total net position	335.2	312.9	379.6
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$ 793.8	$ 756.2	$ 740.5

The ***Statement of Net Position*** is presented in a classified format, which differentiates between current and non-current assets and liabilities, deferred outflows and deferred inflows, and also categorizes net position (formerly called "fund balance") into four categories.

The University's overall financial position improved by $22.3 million from 2015 to 2016, as discussed below.

Comparison of 2016 and 2015 Net Position

- ***Current assets*** include the University's cash and cash equivalents; accounts, grants and loans receivable; inventories; and other assets expected to benefit the University within one year. Accounts and grants receivable result primarily from sponsored projects that are payable on a cost-reimbursement basis, and also from student accounts. The increase of $17.8 million in current assets resulted primarily from increases of $26.7 million in cash and cash equivalents and $1.2 million in amounts receivable from the federal government offset by a decrease of $9.6 million in short term investments. See Note 2 to the financial statements.

- ***Capital assets, net*** increased $26.8 million, resulting from asset additions of $59.6 million, offset by depreciation and amortization expense of $32.4 million, as shown in further detail in Note 7 to the financial statements.

  Asset additions included $40.1 million in construction projects. The Bozeman campus continued construction of a new residence hall, expending $18.3 million during 2016, and began construction of a new parking structure, expending $6.9 million during 2016. In addition, the Bozeman campus began construction of the Norm Asbjornson Innovation Center for the College of Engineering, expending $2.3 million in 2016 as well as construction of a new dining hall, expending $0.6 million in 2016. Improvements to Bozeman's Miller Dining Commons added $2.3 million, and leasehold improvements for the WWAMI program at Bozeman Health Deaconess Hospital added $1.8 million in 2016. Additional, smaller projects making up the remaining increase include residence hall upgrades, office and lab renovations, energy efficiency enhancements and other building improvement projects at all of the University's campuses and agencies.

Equipment additions totaled $12.1 million during 2016. Research and instruction in the sciences require a substantial equipment investment, and many specialized pieces of equipment are grant funded. In 2016, equipment related to research accounted for $3.9 million of the additions. Approximately $0.8 million in library materials were acquired in 2016 as well.

Building and land additions totaled $5.5 million during 2016. These additions resulted primarily from the purchase of real property, including land and a building designed to house laboratories and offices of $4.4 million.

- ***Other noncurrent assets*** include endowment fund and other long term investments, student loans receivable, and donated funds restricted to use for facility construction. The balance decreased $12.1 million from 2015, primarily due to a $9.9 million decrease in investments which was primarily the result of expending bond proceeds for the construction of a new residence hall and renovations to Miller Dining Commons on the Bozeman campus.

- ***Deferred outflows*** represent the University's non-hedging derivative financial instrument value, deferred loss on debt refundings, and pension-related balances.

  Derivative financial instruments are presented as deferred outflows, which offset the University's hedging derivative instrument liability recorded in non-current liabilities. The University pays a variable rate of interest to the holders of its Series J bonds. To hedge against rises in interest rates, a transaction was entered into whereby the counterparty pays to the University that same variable rate of interest, and in return the University pays the counterparty a fixed rate of interest. The counterparty may opt out in December 2016. Because current bond interest rates are lower than the fixed amount paid to the counterparty, the market value of the instrument is negative. As such, a liability was recorded and is included in noncurrent liabilities. The offsetting entry is displayed as a deferred outflow rather than being recorded as an expense, because the cash flow hedge is operating as anticipated to achieve the intended synthetic fixed interest rate.

  The deferred loss on debt refunding represents the excess of the reacquisition price of refunded debt over its net carrying amount. For the year ended June 30, 2014, the University adopted the provisions of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, which required reclassifying deferred loss on debt refunding balances from an offset to long-term debt into a deferred outflow. The deferred loss on refunding balances that were reclassified were related to Series 2004I, Series 2006K, Series 2008L, Series 2012N and Series 2012O.

  The pension deferred outflow is the portion of the net pension liability not included with pension expense and includes employer contributions subsequent to the measurement date of the net pension liability. For the year ended June 30, 2015, the University adopted the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, which required the University to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions. See note 15 for further information on pensions.

- ***Current liabilities*** include payroll and related liabilities, amounts payable to suppliers for goods and services received, cash received for which the University has not yet earned the related revenue, securities lending liability, and debt principal payments due within one year. The balance increased $19.4 million, or 24.6%, from 2015 to 2016, primarily as a result of increases in unearned revenues of $9.3 million and Accounts payable and accrued liabilities of $8.0 million.

  The increase in unearned revenues of $9.3 million was primarily the result of unspent funds related to funding received under the Montana Research and Economic Development Initiative (MREDI). As of June 30, 2016, unspent MREDI funds were approximately $5.6 million.

The increase in accounts payable and accrued liabilities of $8.0 million was primarily the result of liabilities accrued for large construction projects of approximately $6.3 million.

- ***Noncurrent liabilities*** include debt and advance liabilities, the amount of compensated absence liability estimated to be payable after a one-year period, and amounts which would be payable to the Federal government should the University choose to cease participation in the Federal Perkins Loan or Nursing Loan programs. These balances increased $5.8 million, or 2.0%, resulting primarily due to an increase in net pension liability of $6.8 million and an increase of $4.2 million in the University's OPEB liability, which is an actuarially-determined amount related to the participation of retirees on the University's health insurance plan. These increases were offset by a net decrease in debt and leases payable of $5.5 million as the University paid down bonds of $9.0 million and issued $4.8 million in new bonds. (see Note 15 to the financial statements for further information on pensions and OPEB and Note 10 for debt and leases payable).

  Deferred Inflows include amounts related to changes in estimates and assumptions which have occurred since the last actuarial valuation for defined benefit pension plans. These will be amortized to pension expense over a period as determined by actuarial calculations for each of the plans, as discussed in Note 15.

- ***Net investment in capital assets*** consist of the historical acquisition value of capital assets, reduced by both accumulated depreciation expense charged against assets and debt balances related to capital assets. This balance increases as assets are acquired and debt is repaid, and decreases as assets are depreciated and debt is incurred. Balances increased $9.9 million due to asset additions and debt repayment (discussed above), and were decreased by depreciation expense and additional debt and intergovernmental advances incurred.

- ***Restricted, non-expendable*** balances must be held in perpetuity, and include endowment principal as well as certain balances in student loan funds. Balances decreased $0.5 million, and did not fluctuate significantly as compared with 2015 balances.

- ***Restricted, expendable net assets*** represent balances that may be expended by the University in accordance with restrictions imposed by an external party, such as a donor, or through a legislative mandate. The University's most significant restricted, expendable balances relate to funds restricted to use for the construction, renewal or replacement of facilities, for the payment of debt and for scholarships. Balances did not fluctuate significantly in comparison with 2015 balances.

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. Unrestricted net assets are designated for specific purposes as described in the notes to the financial statements, and include funds accumulated for employee termination payouts, scholarships, facility renewal and replacement, and certain student projects. Balances increased $12.6 million in comparison with 2015. Revenues exceeded expenses, and contributed to additional balances as a result of higher than anticipated enrollment on the Bozeman campus.

Comparison of 2015 and 2014 Net Position

The University's overall financial position changed significantly in 2015 due to implementation of GASB Statement Number 68. Net position as of June 30, 2015 was $66.7 million lower than at June 30, 2014 due to a restatement of beginning net position of $76.4 million, offset by positive 2015 contribution to net position of $9.8 million.

Due to the implementation of Governmental Accounting Standards Board Statement Number 65, *Items Previously Reported as Assets and Liabilities*, the University's deferred loss on debt refunding is now presented as a deferred outflow on the Statement of Net Position. The deferred loss on debt refunding is the excess of the reacquisition price of refunded debt over its net carrying amount. Note 11 to the accompanying financial statements provides detail with respect to the reclassification.

Due to the implementation of Governmental Accounting Standards Board Statement Number 68, *Accounting and Financial Reporting for Pensions*, the University's pension amounts are reported on the Statement of Net Position as net pension liabilities as well as related deferred outflows and deferred inflows. See Note 15 to the financial statements for more information on pensions.

- ***Current assets*** include the University's cash and cash equivalents; accounts, grants and loans receivable; inventories; and other assets expected to benefit the University within one year. Accounts and grants receivable result primarily from sponsored projects that are payable on a cost-reimbursement basis, and also from student accounts. The increase of $1.7 million in current assets resulted primarily from increases of $6.0 million in cash and cash equivalents and $2.2 million in accounts and grants receivable offset by decreases of $3.5 million in amounts receivable from the federal government and $2.6 million in short term investments. See Note 2 to the financial statements.

- ***Capital assets, net*** increased $21.3 million, resulting from asset additions of $52.9 million, offset by depreciation and amortization expense of $31.3 million, as shown in further detail in Note 7 to the financial statements.

  Asset additions included $40.7 million in construction projects. The Bozeman campus began construction of a new residence hall, expending $15.4 million during 2015, and completed the construction of the Jake Jabs College of Business and Entrepreneurship with additional expenditures of $6.0 million during 2015. Improvements to Bozeman's Miller Dining Commons added $9.1 million, and renovation of the Strand Union ballrooms and the Brick Breeden Fieldhouse added $2.5 million and $1.9 million, respectively. Additional, smaller projects making up the remaining increase include residence hall upgrades, office and lab renovations, energy efficiency enhancements and other building improvement projects at all of the University's campuses and agencies.

  Equipment additions totaled $9.6 million during 2015. Research and instruction in the sciences require a substantial equipment investment, and many specialized pieces of equipment are grant funded. In 2015, equipment related to research accounted for $1.5 million of the additions. Approximately $1.3 million in library materials were acquired in 2015 as well.

- ***Other noncurrent assets*** include endowment fund and other long term investments, student loans receivable, and donated funds restricted to use for facility construction. The balance decreased $25.2 million from 2014, primarily due to a $20.7 million decrease in investments which was primarily the result of expending bond proceeds for the construction of a new residence hall and renovations to Miller Dining Commons on the Bozeman campus.

- ***Deferred outflows*** represent the University's non-hedging derivative financial instrument value, deferred loss on debt refundings, and pension-related balances.

  Derivative financial instruments are presented as deferred outflows, which offset the University's hedging derivative instrument liability recorded in non-current liabilities. The University pays a variable rate of interest to the holders of its Series J bonds. To hedge against rises in interest rates, a transaction was entered into whereby the counterparty pays to the University that same variable rate of interest, and in return the University pays the counterparty a fixed rate of interest. The counterparty may opt out in 2016. Because current bond interest rates are lower than the fixed amount paid to the counterparty, the market value of the instrument is negative. As such, a liability was recorded and is included in noncurrent liabilities. The offsetting entry is displayed as a deferred outflow rather than being recorded as an expense, because the cash flow hedge is operating as anticipated to achieve the intended synthetic fixed interest rate.

  The deferred loss on debt refunding represents the excess of the reacquisition price of refunded debt over its net carrying amount. For the year ended June 30, 2014, the University adopted the provisions of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, which required reclassifying deferred loss on debt refunding balances from an offset to long-term debt into a deferred outflow. The deferred loss on refunding balances that were reclassified were related to Series 2004I, Series 2006K, Series 2008L, Series 2012N and Series 2012O. This reclassification is reflected for all periods presented.

The pension deferred outflow is the portion of the net pension liability not included with pension expense and includes employer contributions subsequent to the measurement date of the net pension liability. For the year ended June 30, 2015, the University adopted the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, which required the University to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions. See note 15 for further information on pensions.

- ***Current liabilities*** include payroll and related liabilities, amounts payable to suppliers for goods and services received, cash received for which the University has not yet earned the related revenue, securities lending liability, and debt principal payments due within one year. The balance increased $1.3 million, or 1.83%, from 2014 to 2015, primarily as a result of an increase of $0.9 million in unearned revenues.

- ***Noncurrent liabilities*** include debt and advance liabilities, the amount of compensated absence liability estimated to be payable after a one-year period, and amounts which would be payable to the Federal government should the University choose to cease participation in the Federal Perkins Loan or Nursing Loan programs. These balances increased a total of $63.2 million, or 22.2%, resulting primarily from $70.2 million in net pension liability recorded in 2015 due to the implementation of GASB Statement No. 68, Accounting and Financial Reporting and Pensions. In addition, the University's OPEB liability, which is an actuarially-determined amount related to the participation of retirees on the University's health insurance plan increased $3.8 million. These increases were offset by a decrease in debt and leases payable of $12.1 million as the University paid down bonds of $10.4 million. (see Note 15 to the financial statements for further information on pensions and OPEB and Note 10 for debt and leases payable).

  Deferred Inflows include amounts related to changes in estimates and assumptions which have occurred since the last actuarial valuation for defined benefit pension plans. These will be amortized to pension expense over a period as determined by actuarial calculations for each of the plans, as discussed in Note 15.

- ***Net investment in capital assets*** consist of the historical acquisition value of capital assets, reduced by both accumulated depreciation expense charged against assets and debt balances related to capital assets. This balance increases as assets are acquired and debt is repaid, and decreases as assets are depreciated and debt is incurred. Balances increased $0.3 million due to asset additions and debt repayment (discussed above), and were decreased by depreciation expense and additional debt and intergovernmental advances incurred.

- ***Restricted, non-expendable*** balances must be held in perpetuity, and include endowment principal as well as certain balances in student loan funds. Balances increased $0.6 million, and did not fluctuate significantly as compared with 2014 balances.

- ***Restricted, expendable net position*** represent balances that may be expended by the University in accordance with restrictions imposed by an external party, such as a donor, or through a legislative mandate. The University's most significant restricted, expendable balances relate to funds restricted to use for the construction, renewal or replacement of facilities, for the payment of debt and for scholarships. Balances decreased $0.5 million in comparison with 2014 balances.

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. Unrestricted net assets are designated for specific purposes as described in the notes to the financial statements, and include funds accumulated for employee termination payouts, scholarships, facility renewal and replacement, and student organization funds. The University's reserves decreased $67.1 million in comparison with 2014 balances, largely as a result of the implementation of GASB Statement No. 68.

CASH FLOWS

Condensed Statements of Cash Flows
(in millions)

	2016	2015	2014
Cash provided/(used) by:			
Operating activities, net	$ (118.8)	$ (124.2)	$ (126.6)
Noncapital financing activities, net	179.6	164.3	158.5
Capital and related financing activities, net	(55.4)	(58.3)	20.1
Investing activities, net	21.3	24.2	(51.0)
Net change in cash	26.7	6.0	1.0
Cash, beginning of year	187.1	181.1	180.2
Cash, end of year	$ 213.8	$ 187.1	$ 181.1

The ***Statement of Cash Flows*** presents information related to cash inflows and outflows, categorized by operating, noncapital financing, capital financing, and investing activities. The reconciliation of operating loss to cash used in operations explains the relationship between the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position, showing that increases and decreases in operating assets often require the use or receipt of cash, but do not result in recognition of a revenue or an expense.

Comparison of 2016 and 2015 Cash Flows

- ***Operating activities*** used $118.8 million in cash, resulting primarily from an operating loss of $162.7 million. The operating loss was offset by non-cash expenses of $33.3 million, primarily due to $32.4 million in depreciation and amortization. Other, less significant, increases and decreases also contributed to the change. In 2015, operating activities used $124.2 million in cash, with an operating loss of $158.0 million, offset by non-cash expenses of $32.2 million.

- ***Noncapital financing activities*** provided $179.6 million in cash, resulting from $135.3 million in state and local appropriations, $24.9 million in federal Pell grant revenue, $16.8 million in expendable gifts, and $2.1 million of land grant income. In 2015, noncapital financing activities provided $164.3 million in cash, resulting from $116.3 million in state and local appropriations, $26.8 million in federal Pell grant revenue, $16.8 million in expendable gifts, and $3.6 million of land grant income.

- ***Capital and related financing activities*** used $55.4 million in cash, resulting primarily from cash expended on capital assets of $54.1 million (see Note 7 to the financial statements), principal debt repayments of $9.0 million, and interest payments of $6.9 million. These uses were offset by restricted gifts received for capital purchases of $11.6 million and unexpended proceeds from borrowings of $4.8 million. In 2015, these activities used $58.3 million in cash, resulting primarily from cash expended on capital assets of $51.4 million, principal debt repayments of $10.2 million, and interest payments of $7.1 million. These uses were offset by restricted gifts received for capital purchases of $9.6 million.

Comparison of 2015 and 2014 Cash Flows

- ***Operating activities*** used $124.2 million in cash, resulting primarily from an operating loss of $158.0 million. The operating loss was offset by non-cash expenses of $32.2 million, primarily due to $31.3 million in depreciation and amortization. Other, less significant, increases and decreases also contributed to the change. In 2014, operating activities used $126.6 million in cash, with an operating loss of $160.9 million, offset by non-cash expenses of $31.9 million.

- ***Noncapital financing activities*** provided $164.3 million in cash, resulting from $116.3 million in state and local appropriations, $26.8 million in federal Pell grant revenue, $16.8 million in expendable gifts, and $3.6 million of land grant income. In 2014, noncapital financing activities provided $158.5 million in cash resulting from $110.5 million in state and local appropriations, $29.0 million in federal Pell grant revenue, $15.3 million in expendable gifts, and $3.4 million of land grant income.

- ***Capital and related financing activities*** used $58.3 million in cash, resulting primarily from cash expended on capital assets of $51.4 million (see Note 7 to the financial statements), principal debt repayments of $10.2 million, and interest payments of $7.1 million. These uses were offset by restricted gifts received for capital purchases of $9.6 million. In 2014, these activities provided $20.1 million in cash resulting primarily from $68.7 million in debt refunding and other borrowings that were offset by cash expended on capital assets of $36.0, including building construction. Other uses of cash in 2014 included $6.7 million in principal debt repayments and interest payments of $5.8 million.

DEBT AND ADVANCES

As of June 30, 2016, the University had approximately $164.1 million in outstanding bond, note, and capital lease principal, compared with $168.9 million at June 30, 2015 (see Note 10 to the financial statements). The balance decreased due to scheduled repayments, as well as earlier-than-anticipated repayment of a portion of the Series B debt. The majority of bond debt bears interest at fixed rates, while $26.5 million in bonds are reset at a weekly municipal bond index rate. A fixed-payer swap and a constant maturity swap are associated with the Series 2005J variable rate debt, as described in Note 10 to the financial statements. Intercap debt is issued at a variable rate, reset each February, and as of June 30, 2016, was 1.55%. As of June 30, 2016, the University's bonds are rated Aa3 by Moody's Investor Services and A+ by Standard and Poor's.

ECONOMIC OUTLOOK

Student enrollment has increased in eight of the last nine years, as the University has gained in market share state-wide and in the nonresident market. Recently, as the U.S. labor market has increased its demand for workers and the number of Montana high school graduates remains flat or declines, enrollment is expected to remain stable rather than continue growing. This stable outlook is expected due to the careful attention management devotes to maintaining an appropriate mix of in- and out-of-state students. Montana residents represent over 74% of the University's student full-time-equivalent student population.

Modest tuition increases, combined with increased enrollment primarily at the Bozeman campus, have enabled the University to implement cost-of-living as well as merit, tenure and promotion pay increases, which contributes to a stable faculty and staff. Additionally, modest reserves have been set aside which ensure the availability of retirement payout and scholarship funding, and also provide a means to absorb unexpected expenses or decreases in revenue should they occur.

To assist in the allocation of its resources, management evaluates programs regularly, and maintains a budgeting process that is open to the public. Accountability and stewardship of the University's assets are stressed by top management, as is excellence in the programs offered. University management will continue to determine the proper balance between spending and revenue, to ensure that quality programs remain while access to the University is not unduly limited by the cost of attendance.

Montana State University

(a component unit of the State of Montana)

Consolidated Statements of Net Position

As of June 30

ASSETS		**2016**		**2015**
Current assets:				
Cash and cash equivalents (note 2)	$	212,739,442	$	186,040,700
Short term investments		8,503,748		18,127,641
Securities lending collateral		741,071		928,448
Accounts and grants receivable, net (note 3)		11,238,182		11,823,567
Amounts receivable from Federal government		13,671,870		12,487,255
Amounts receivable from primary government		458,375		301,518
Amounts receivable from other State of Montana component units		56,902		-
Loans receivable, net (note 6)		3,996,548		4,067,566
Inventories (note 4)		3,185,489		3,498,968
Prepaid expenses and other current assets (note 5)		3,972,622		3,567,227
Total current assets		258,564,249		240,842,890
Noncurrent assets				
Restricted cash and cash equivalents		1,083,376		1,083,590
Restricted investments		7,498,329		7,497,155
Loans receivable, net (note 6)		19,210,088		19,199,638
Investments		22,081,389		31,940,718
Capital assets, net (note 7)		451,317,879		424,526,499
Other noncurrent assets (note 7)		4,609,030		5,692,380
Total noncurrent assets		505,800,091		489,939,980
Total assets		764,364,340		730,782,870
DEFERRED OUTFLOWS				
Derivative financial instrument (note 10)		6,097,182		4,585,081
Deferred loss on debt refunding (note 11)		2,551,954		3,034,444
Deferred pension outflows (note 15)		20,773,788		17,834,913
Total deferred outflows		29,422,924		25,454,438
TOTAL ASSETS AND DEFERRED OUTFLOWS	**$**	**793,787,264**	**$**	**756,237,308**
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities (note 8)	$	44,118,833	$	36,156,281
Advances (current) and other amounts payable to primary government		3,251,408		2,357,971
Amounts payable to other State of Montana component units		226,060		69,286
Securities lending liability		741,071		928,448
Property held in trust for others		2,234,845		2,083,715
Unearned revenues (note 9)		20,504,543		11,163,586
Current portion compensated absences		17,236,249		16,884,668
Current portion debt and capital lease obligations (note 10)		9,713,419		9,017,588
Total current liabilities		98,026,428		78,661,543
Noncurrent liabilities:				
Advances from primary government		19,644,658		21,242,295
Debt, capital lease, and other obligations (note 10)		154,393,454		159,926,812
Compensated absences		15,126,896		14,233,825
OPEB implicit rate subsidy		59,338,681		55,160,699
Net pension liability		77,006,798		70,185,134
Due to Federal government		22,424,284		22,905,713
Derivative instrument-- swap liability (note 10)		6,097,182		4,605,263
Total noncurrent liabilities		354,031,953		348,259,741
Total liabilities		452,058,381		426,921,284
DEFERRED INFLOWS – Pension (note 15)		6,559,957		16,354,178
NET POSITION				
Net investment in capital assets		286,432,618		276,503,567
Restricted - nonexpendable		13,381,099		13,845,480
Restricted - expendable		17,328,172		17,118,740
Unrestricted (note 13)		18,027,037		5,494,059
Total net position		335,168,926		312,961,846
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	**$**	**793,787,264**	**$**	**756,237,308**

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

Montana State University
(a component unit of the State of Montana)
UNIVERSITY COMPONENT UNITS-- Combined Statements of Financial Position
As of June 30 or December 31

Assets:	**2016**	**2015**
Cash and cash equivalents	$ 8,502,676	$ 8,306,076
Accrued dividends and interest	86,758	104,897
Investments	210,005,141	216,707,780
Amounts due from the institution or other MSU component units	865,169	1,085,169
Contributions receivable, net of allowance	72,887,488	18,137,149
Contracts, notes and other receivables	7,826,177	4,351,607
Non-depreciable capital assets	445,955	442,205
Depreciable capital assets, net	7,302,931	8,188,137
Other assets	1,842,608	1,895,745
Total assets	$ 309,764,903	$ 259,218,765
Liabilities and net assets:		
Liabilities		
Accounts payable	$ 1,157,560	$ 689,287
Accrued expenses and other liabilities	1,668,998	1,410,522
Compensated absences	471,035	460,045
Notes and bonds payable	7,906,180	9,657,225
Amounts due to the institution or other MSU component units	1,124,099	606,148
Liabilities to external beneficiaries	6,799,414	7,139,956
Custodial funds	11,862,255	12,063,137
Total liabilities	30,989,541	32,026,320
Net assets		
Unrestricted net assets	12,688,490	16,064,372
Temporarily restricted net assets	128,392,318	85,713,746
Permanently restricted net assets	137,694,554	125,414,327
Total net assets	278,775,362	227,192,445
Total liabilities and net assets	$ 309,764,903	$ 259,218,765

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

Montana State University

(a component unit of the State of Montana)

Consolidated Statements of Revenues, Expenses and Changes in Net Position

As of and for Each of the Years Ended June 30

	2016	2015
OPERATING REVENUES		
Tuition and fees (net of $33,030,219 and $35,062,569 scholarship discount)	$ 170,096,596	$ 164,318,897
Federal appropriations	5,673,782	5,786,500
Federal grants and contracts	72,542,294	70,843,895
State grants and contracts	5,372,056	6,222,458
Non-governmental grants and contracts	10,239,121	9,579,921
Grant and contract facilities and administrative cost recoveries	16,785,836	16,027,616
Educational, public service and outreach revenues	25,855,553	25,028,504
Auxiliary revenues:		
Housing (net of $3,018,555 and $3,116,373 scholarship discount)	21,827,221	20,427,712
Food services (net of $2,957,108 and $2,968,030 scholarship discount)	21,035,555	19,528,349
Other auxiliary sales and services (net of $553,913 and $686,338 scholarship discount)	9,816,218	9,837,352
Interest earned on loans	41,986	131,726
Other operating revenues	2,328,511	1,881,776
Total operating revenues	361,614,729	349,614,706
OPERATING EXPENSES		
Compensation and benefits, including pensions (note 15)	310,875,481	299,785,683
OPEB amortization (note 15)	5,492,804	5,477,672
Operating expenses (note 14)	152,223,848	147,331,848
Scholarships and fellowships (net of $39,559,795 and $41,833,310 scholarship discount)	23,275,776	23,711,663
Depreciation and amortization	32,397,297	31,284,509
Total operating expenses	524,265,206	507,591,375
Operating loss	(162,650,477)	(157,976,669)
NONOPERATING REVENUES (EXPENSES)		
State and local appropriations	130,900,474	118,103,009
Federal Pell grant revenue	24,926,509	26,816,113
Land grant income (pledged as security for repayment of bonds)	2,113,539	3,572,401
Gifts (expendable)	16,885,173	16,781,136
Investment income	1,842,113	1,188,545
Interest expense	(5,778,183)	(6,765,047)
Net non operating revenues (expenses)	170,889,625	159,696,157
Income before other revenues, expenses, gains and losses	8,239,148	1,719,488
Loss on disposals of capital assets	(278,292)	(505,580)
Additions to permanent endowment	15,230	159,707
Capital gifts, grants and contributions	14,230,994	8,410,485
Change in net position	22,207,080	9,784,100
Net position, beginning of year as previously stated	312,961,846	379,542,860
Restatement of beginning net position - pensions	-	(76,365,114)
Net position, beginning of year as restated	312,961,846	303,177,746
Net position, end of year	$ 335,168,926	$ 312,961,846

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

Montana State University

(a component unit of the State of Montana)

UNIVERSITY COMPONENT UNITS-- Combined Statement of Activities

As of and for the Year Ended June 30, 2016 or December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions	$ 1,635,267	$ 70,557,303	$ 12,642,847	$ 84,835,417
Investment, interest and dividend income	388,105	997,329	372	1,385,806
Net realized and unrealized gain (loss) on investments	(1,325,456)	(3,374,030)	(77,846)	(4,777,332)
Contract support and contributions from University	1,848,579	-	-	1,848,579
Special events	1,012,101	166,020	-	1,178,121
Other income	7,925,076	(2,196,360)	(275,915)	5,452,801
Net assets released from restrictions	23,418,854	(23,478,698)	59,844	-
Total revenues	34,902,526	42,671,564	12,349,302	89,923,392
Expenses:				
Program services				
University support	17,789,363	-	-	17,789,363
Academic and institutional	2,682,660	-	-	2,682,660
Scholarships and awards	6,724,059	-	-	6,724,059
Total program services expense	27,196,082	-	-	27,196,082
Operating expenses				
Fundraising efforts	4,384,388	-	-	4,384,388
General and administrative	4,488,027	-	-	4,488,027
Investment management costs	724,178	-	-	724,178
Other miscellaneous	1,486,675	-	-	1,486,675
Total operating expenses	11,083,268	-	-	11,083,268
Change in net assets before Nonoperating items	(3,376,824)	42,671,564	12,349,302	51,644,042
Nonoperating expenses				
Payments to beneficiaries and change in liabilities to external beneficiaries	942	7,008	(69,075)	(61,125)
Change in net assets	(3,375,882)	42,678,572	12,280,227	51,582,917
Net assets, beginning of year	16,064,372	85,713,746	125,414,327	227,192,445
Net assets, end of year	$ 12,688,490	$ 128,392,318	$ 137,694,554	$ 278,775,362

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

Montana State University

(a component unit of the State of Montana)

UNIVERSITY COMPONENT UNITS-- Combined Statement of Activities

As of and for the Year Ended June 30, 2015 or December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions	$ 2,487,440	$ 17,157,679	$ 6,136,343	$ 25,781,462
Investment, interest and dividend income	564,355	1,634,430	4,611	2,203,396
Net realized and unrealized gain (loss) on investments	(55,307)	654,414	(17,734)	581,373
Contract support and contributions from University	1,546,204	-	-	1,546,204
Special events	1,139,753	82,818	-	1,222,571
Other income	7,961,450	(2,284,889)	(324,890)	5,351,671
Net assets released from restrictions	19,707,185	(19,711,132)	3,947	-
Total revenues	33,351,080	(2,466,680)	5,802,277	36,686,677
Expenses:				
Program services				
University support	14,861,169	-	-	14,861,169
Academic and institutional	2,569,149	-	-	2,569,149
Scholarships and awards	6,414,470	-	-	6,414,470
Total program services expense	23,844,788	-	-	23,844,788
Operating expenses				
Fundraising efforts	3,803,527	-	-	3,803,527
General and administrative	5,106,431	-	-	5,106,431
Investment management costs	838,687	-	-	838,687
Other miscellaneous	1,537,367	-	-	1,537,367
Total operating expenses	11,286,012	-	-	11,286,012
Change in net assets before Nonoperating items	(1,779,720)	(2,466,680)	5,802,277	1,555,877
Nonoperating expenses				
Payments to beneficiaries and change in liabilities to external beneficiaries	(23,069)	(22,549)	(14,096)	(59,714)
Change in net assets	(1,802,789)	(2,489,229)	5,788,181	1,496,163
Net assets, beginning of year	17,867,161	88,202,975	119,626,146	225,696,282
Net assets, end of year	$ 16,064,372	$ 85,713,746	$ 125,414,327	$ 227,192,445

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

Montana State University
(a component unit of the State of Montana)
Consolidated Statements of Cash Flows
As of and for Each of the Years Ended June 30

	2016	2015
Cash flows from operating activities:		
Tuition and fees	$ 170,859,612	$ 163,777,772
Federal appropriations	5,783,165	5,871,432
Federal grants and contracts	71,856,798	74,202,469
State grants and contracts	5,119,632	6,274,770
Private grants and contracts	12,648,180	9,833,319
Grant and contract facilities and administrative cost recoveries	16,403,953	16,003,688
Educational, public service and outreach revenues	25,917,708	25,117,260
Sales and services of auxiliary enterprises	52,595,946	49,664,460
Interest on loans receivable	370,504	256,432
Other operating receipts	2,328,513	1,881,776
Compensation and benefits	(312,671,814)	(305,858,970)
Operating expenses	(145,800,560)	(147,154,220)
Scholarships and fellowships	(23,275,776)	(23,711,663)
Loans made to students and federal loan funds repaid	(4,996,633)	(4,335,591)
Loan payments received	4,073,524	4,002,858
Net cash used in operating activities	(118,787,248)	(124,174,208)
Cash flows from noncapital financing activities:		
Receipts (disbursements) of funds held in trust for others	471,791	689,812
Direct lending proceeds	88,765,913	92,113,864
Direct lending disbursements	(88,765,913)	(92,113,864)
State and local appropriations	135,274,160	116,307,416
Federal Pell grant funds received	24,926,510	26,816,113
Gifts and contributions (expendable)	16,885,171	16,781,137
Land grant income (see note 2)	2,113,539	3,572,400
Repayment of long-term advance from primary government	(58,595)	(57,168)
Additions to permanent endowment	15,230	159,708
Net cash provided by noncapital financing activities	179, 627,806	164,269,418
Cash flows from capital financing activities:		
Purchase of capital assets	(54,116,801)	(51,400,991)
Proceeds from sale of capital assets	102,203	123,202
Gifts restricted for capital purchase	11,640,828	9,578,658
Other capital financing activities	(118,627)	25,141
Proceeds from borrowings	4,805,000	336,000
Debt principal repayment	(9,023,307)	(10,223,959)
Advances from primary government	607,718	2,489,995
Repayment of advances from primary government	(2,345,502)	(2,178,010)
Interest paid	(6,968,020)	(7,069,404)
Net cash used in capital financing activities	(55,416,508)	(58,319,368)
Cash flows from investing activities:		
Purchase of investments	(646,215)	(1,161,195)
Proceeds from sale of investments	20,041,070	23,988,140
Investment income	1,879,623	1,401,414
Net cash provided by investing activities	21,274,478	24,228,359
Net change in cash and cash equivalents	26,698,528	6,004,201
Cash and equivalents at beginning of year	187,124,290	181,120,089
Cash and equivalents at end of year	$ 213,822,818	$ 187,124,290

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

Montana State University
(a component unit of the State of Montana)
Consolidated Statements of Cash Flows (continued)
As of and for Each of the Years Ended June 30

Reconciliation of Operating Loss to Net Cash Used in Operations

	2016	2015
Operating loss	$ (162,650,477)	$ (157,976,669)
Noncash income and expense:		
Depreciation and amortization on capital assets	32,397,297	31,284,509
Provision for uncollectible accounts	874,734	867,983
Changes in operating assets and liabilities, deferred inflows and deferred outflows:		
Accounts and grants receivable	(2,677,977)	1,605,914
Loans receivable	40,400	(123,516)
Inventories	313,479	20,653
Prepaid expenses	(405,396)	780,959
Accounts payable and other accrued liabilities	8,759,006	(81,496)
Net pension obligation and related deferred inflows and outflows	(4,412,594)	(5,865,124)
OPEB obligation	4,177,982	3,761,454
Unearned revenue	3,468,432	893,280
Compensated absences	1,244,651	526,589
Amounts due to Federal government	83,215	131,256
Net cash used in operations	$ (118,787,248)	$ (124,174,208)

Schedule of noncash financing and investing activities

	2016	2015
Capital assets contributed to the University	$ 4,290,166	$ 1,806,827
State of Montana direct contributions to pension plans	$ 1,498,839	$ 1,795,593
Capital assets acquired through issuance of capital lease obligations	$ 52,531	$ 31,483
Capital assets acquired via trade-in	$ 55,213	$ 19,000
Capitalized interest	$ 1,109,673	$ -
Bond issue costs, discounts, premiums and deferred loss on refunding amortized or written off to interest expense (net)	$ (65,928)	$ 325,042
Net increase (decrease) in fair value of investments	$ 405,508	$ (362,993)

Reconciliation of cash and cash equivalents as shown on the Statements of Cash Flows to cash as shown in the Statements of Net Position

	2016	2015
Cash and cash equivalents classified as current assets	$ 212,739,442	$ 186,040,700
Cash and cash equivalents classified as noncurrent assets	1,083,376	1,083,590
Total cash and cash equivalents as reported on the Statements of Cash Flows	$ 213,822,818	$ 187,124,290

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

NOTE 1 – ORGANIZATION, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

The accompanying financial statements include all activities of the four Montana State University campuses, the Montana Agricultural Experiment Station, Montana Extension Service and the Fire Services Training School, collectively referred to as the "University." The four campuses of the University are Montana State University– Bozeman, Montana State University– Billings, Montana State University– Northern (located in Havre) and Montana State University College of Technology– Great Falls. Significant interagency transactions have been eliminated in consolidation.

The University is the State's land grant university, serving the state, national and international communities by providing its students with academic instruction, conducting a high level of research activity, performing other activities that advance fundamental knowledge, and by disseminating knowledge to the people of Montana.

A financial reporting entity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, the financial statements for the University are included as a component unit of the State of Montana Basic Financial Statements, which are prepared annually and presented in the Montana Comprehensive Annual Financial Report (CAFR).

In May 2002, the Governmental Accounting Standards Board (GASB) issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14*. The statement was clarified by the issuance of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—An Amendment of GASB Statements No. 14 and No. 34*, which modifies certain requirements for inclusion of component units in the financial reporting entity. The statements require that a legally tax exempt organization 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. In addition, organizations are evaluated for inclusion if they are closely related to, or financially integrated with, the reporting entity, and qualify as presenting a financial benefit or burden relationship. The University has established a threshold minimum of 1% - 2% of consolidated net position or 1% - 2% of consolidated revenues as an initial requirement for inclusion of an organization as a component unit in its financial statements. Other entities may be included, though, if the University determines that to exclude the entity would be misleading, according to clarified criteria presented on statement No. 61. For further discussion of component units, see Note 20.

BASIS OF PRESENTATION

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This was followed in November, 1999 by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. As a component unit of the State of Montana, the University was also required to adopt GASB Statements No. 34 and No. 35. The latter statement was adopted as amended by GASB Statements No. 37 and No. 38.

The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net position, revenues, expenses, changes in net position, and cash flows, and replaces the fund-group perspective previously required.

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 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.

Certain prior year amounts have been reclassified or restated. Effective July 1, 2014, the University implemented the requirements of GASB Statement Number 68, *Accounting and Financial Reporting for Pensions*, which resulted in a reduction of fund balance at that date of $76,365,114. See Note 15 for further details.

SIGNIFICANT ACCOUNTING POLICIES

Cash equivalents – For purposes of the statement of cash flows, the University considers its unrestricted, highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Certain funds on deposit with trustees, as well as funds invested in the Short Term Investment Pool with the Montana Board of Investments are considered cash equivalents, unless the Montana Board of Investments management determines that a portion of its portfolio is sufficiently illiquid and should be considered investments. In such cases, each participant in the pool is allocated its pro-rata share of illiquid funds.

Investments – The University accounts for its investments at fair value in accordance with GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 72, *Fair Value Measurement and Application,* which was implemented during 2016. Investment income is recorded on the accrual basis. All investment income, including unrealized gains and losses on the carrying value of investments, is reported as a component of investment income. Investments include derivatives that do not qualify for hedge accounting in accordance with GASB Statement No. 53.

Accounts and grants receivable – Accounts receivable include tuition and fees charged to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are reported net of estimated uncollectible amounts.

Allowances for uncollectible accounts – The University estimates the value of its receivables that will ultimately prove uncollectible, and has reported a provision for such as an expense in the accompanying financial statements.

Inventories – Inventories include consumable supplies, livestock, and food items and items held for resale or recharge within the University. Inventories are valued at lower of cost or market value, using First In First Out (FIFO) or specific identification methods.

Restricted cash and investments – Cash and investments that are externally restricted as to use are classified as noncurrent assets in the accompanying statement of net position. Such assets include endowment fund cash and investments.

Capital assets – Capital assets are stated at cost for purchased or constructed assets, and at estimated fair value for donated assets. Renovations to buildings, infrastructure, and land improvements that significantly increase the value, change the use, or extend the useful life of the structure are capitalized. Routine repairs and maintenance and minor renovations are charged to operating expense in the year in which the expense is incurred. Capitalization thresholds range from $5,000 for equipment to $500,000 for infrastructure.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the respective assets, ranging from 3 years for certain software to 75 years for certain infrastructure assets. The University has elected to capitalize museum, fine art and special library collections, but does not record depreciation on those items.

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

Compensated absences – Eligible University employees earn a minimum of 8 hours sick and 10 hours annual leave for each month worked, with additional annual leave accruals based on longevity, up to 16 hours per month worked. Eligible employees may accumulate annual leave up to twice their annual accrual, while sick leave may accumulate without limitation. Twenty-five percent of accumulated sick leave earned after July 1, 1971 and 100 percent of accumulated annual leave, if not used during employment, is paid upon termination.

Other Post-Employment Benefits (OPEB) –During the year ended June 30, 2008, the University adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. The University allows retirees to participate in the Montana University System's self-funded health insurance plan by paying an amount considered by the University to cover their full costs (as calculated using the pooled risk of retirees and active employees). An actuarial study determined that this blended rate structure results in an implicit rate subsidy to retirees, who are considered to be a higher-cost pool of participants. The State of Montana and its component units will amortize the calculated OPEB liability resulting from this implicit rate subsidy over a period of 30 years. The state has not mandated funding of the liability. See note 15 for further details.

Pensions-During the year ended June 30, 2015, the University adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which required the University to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions. See note 15 for further information on pensions.

Net position – Resources are classified in one of the following four categories:

> **Net investment in capital assets** – this represents the University's total investment in capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
>
> **Restricted, nonexpendable** – this represents net balances subject to externally imposed stipulations requiring permanent maintenance. Such assets include the University's permanent endowment funds.
>
> **Restricted, expendable** – this represents balances whose use by the University is subject to externally imposed stipulations as to use of the assets.
>
> **Unrestricted**– this represents balances that are not subject to externally imposed stipulations. Unrestricted balances 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 balances are designated for specific purposes as described in Note 13.

Classification of revenues – The University has classified its revenues as either operating or nonoperating according to the following criteria:

> **Operating revenues** – include activities that have the characteristics of exchange transactions, including (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.
>
> **Nonoperating revenues** – include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental*

Entities That Use Proprietary Fund Accounting, and GASB No. 34, such as state appropriations and investment income.

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, depending on relevant law and other restrictions. Restricted funds remain classified as restricted until they are expended.

Income taxes – 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. Because tax liabilities are not considered to be material, no provision for income tax expense is reported in the accompanying financial statements.

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 statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are computed as 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 are recorded as operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Accounting Standards Recently Adopted – During the year ended June 30, 2014, the University adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The University's implementation of GASB No. 65 required debt issuance costs to be expensed. The University recorded approximately $0.8 million in professional services expense during fiscal 2014 year for debt issuance costs which had been previously capitalized, as it was not deemed an amount significant enough to warrant restating prior periods.

Implementation of GASB 65 also resulted in reclassifying the University's deferred loss on debt refunding balances from an offset to long-term debt into a deferred outflow. The deferred loss on debt refunding is the excess of the reacquisition price of refunded debt over its net carrying amount. The deferred loss on refunding balances that were reclassified were related to Series 2004I, Series 2006K, Series 2008L, Series 2012N and Series 2012O. Deferred loss on debt refunding is further described in note 11.

During the year ended June 30, 2015, the University adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. These statements require the University to report its share of the defined benefit pension liabilities and expense, as well as the related deferred outflows of resources and deferred inflows of resources, allocated to it by the State of Montana Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS) and Game Warden and Peace Officers' Retirement System (GWPORS). The July 1, 2014, balance of the net pension liability and related deferred outflows of resources and deferred inflows of resources is reported in the Statement of Revenues, Expenses and Changes in Net Position as a restatement to the 2015 Net position—beginning of year. Sufficient information was not available to restate the balances as of July 1, 2013, so the fiscal year 2014 statements were not restated. See note 15 for further information on pensions.

During the year ended June 30, 2016, the University adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, and Statement No. 79, *Certain External Investment Pools and Pool Participants*, which affected the carrying values and disclosures of investments and hedging derivatives. There would not have been a material change had the University retroactively adopted the statements and as such, the June 30, 2015 balances were not restated.

Accounting standards not yet implemented – In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These statements establish new accounting and financial reporting requirements for governments whose employees are provided with OPEB (other postemployment benefits), as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. These statements will require the University to record its postretirement health care liability in its entirety. The University expects that the amount recorded on the balance sheet as a postretirement health care liability will increase when Statement No. 75 is implemented, but the amount cannot be calculated until a new actuarial valuation is performed under the new standards.

NOTE 2 –CASH DEPOSITS, CASH EQUIVALENTS AND INVESTMENTS

Cash deposits –The University must comply with State statutes, which generally require that cash and investments 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 through placing certain funds with recognized University foundations. Deposits with the State treasury and other financial institutions totaled $79,216,602 at June 30, 2016 and $72,261,451 at June 30, 2015.

Cash equivalents – These amounts consist of cash held by trustees as well as $129,812,421 and $109,050,746 of the amount invested in the Short Term Investment Pool (STIP) with the Montana Board of Investments at June 30, 2016 and 2015, respectively.

STIP participants include both state agencies and local governments. STIP uses net asset value to compute unit values. As described in the notes to the Montana Board of Investments Consolidated Unified Investment Program Financial Statements, investments must have a maximum maturity of 397 or fewer days unless they have reset dates.

Investments –GASB Statement No. 72, *Fair Value Measurement and Application*, requires that 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." GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses accounting and disclosure for external investment pools and pool participants. The University participates in external investment pools, and has adopted Statement No. 79.

The University did not restate its 2015 statement of net assets to reflect values in accordance with Statements 72 and 79, as the differences when compared with amounts previously presented were not material. As a result, changes in fair value due to implementation of Statements No. 72 and 79 have been recorded in 2016 revenue and expense.

The University records its investments as noted in the table below, and categorizes them 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.

In addition, certain investments are classified as NAV, meaning Net Asset Value per share. This includes pooled investments, such as those held at the University's supporting foundations and in the State of Montana external investment pools. Unit values for these investments are based upon the University's allocated proportion of the fair value of underlying assets of the pools.

Cash equivalents and investments are categorized as follows at June 30, 2016:

Security Type	Fair Value	Moody's Credit Quality Rating	Effective Duration (years)	Basis of Valuation or Fair Value Level	Liquidity of NAV Assets
State of Montana Short Term Investment Pool	$ 129,839,292	NR***	.11	Net Asset Value	Daily
U. S. Bank Money Market Funds collateralized by U.S. Bank pool, not in the University's name)	4,087,406	P-1	N/A	Cash equivalents, carried at amortized cost	-
State of Montana Trust Fund Investment Pool*	16,393,163	NR***	5.39	Net Asset Value	Monthly
Foundation Pooled Cash Equivalents and Investments**	9,403,641	NR***	N/A**	Net Asset Value	No Formal Liquidity Agreement
Non-hedging derivative investment value	1,271,465	A3	19.42	Fair Value Level 2	-
Guaranteed Investment Contract	11,009,171	A2	.535	Non-participating, carried at cost	-

* TFIP and Foundation investments are intended to be permanent investments.
** The Foundation investment pool is not considered a debt pool, and as such, a duration calculation is not applicable.
*** Not rated

Investments recorded at Net Asset Value

State of Montana Short Term Investment Pool (STIP) and State of Montana Trust Fund Investment Pool (TFIP)
STIP and TFIP are external investment pools managed and administered under the direction of the Montana Board of Investments as statutorily authorized by the Unified Investment Program. Each is a commingled pool for investment purposes and participant requested redemptions from the pool are redeemed the next business day (STIP) or on a monthly basis (TFIP). The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the investment. Refer to the fair value measurement note disclosures within BOI's annual financial statements for the underlying investments within the fair value hierarchy. The BOI annual financial information is available from the BOI at 2401 Colonial Drive 3rd Floor, PO Box 200126, Helena, MT 59620-0126 or by calling 406-444-0001. The BOI's annual financial statements can be found on BOI's website at www.investmentmt.com.

Foundation Investment Pools
Foundation pools are external investment pools managed by the MSU Alumni Foundation, the MSU-Billings Foundation, and the MSU-Northern Foundation. The University's investment in these pools is intended to be permanent, for endowment and quasi-endowment funds, which make up the majority of the balance; as such, a liquidity term has not been formally established for these funds. Financial statements of the foundations, which are all component units, which include relevant investment disclosures, can be found as discussed in Note 20.

Endowment spending policy – The State of Montana has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), including the provision that the appropriation for expenditure of an amount greater than 7% of the fair market value of an endowment fund (calculated on the basis of market values averaged over a period of not less than three preceding years) creates a rebuttable presumption of imprudence. A majority of the University's endowment funds are managed by the MSU Bozeman Alumni Foundation, in accord with their spending policy, which conforms to UPMIFA. Appreciation on permanent endowments owned by the University is not available for spending; only realized earnings may be expended, and are reflected as restricted, expendable net position in the accompanying statements.

Securities lending transactions –The Board of Investments (BOI) is authorized by law to lend its securities, and has contracted with its custodial bank, State Street Bank and Trust, to lend the BOI's securities to broker-dealers and other entities. The custodial bank is required to maintain collateral equal to 102% of the fair value of domestic securities and 105% of the fair value of international securities while the securities are on loan. The BOI and the bank split the earnings 80% and 20% respectively on security lending activities. The University's allocated portion of security lending cash collateral was $741,071 at June 30, 2016 and $928,448 at June 30, 2015.

The BOI did not impose any restrictions during fiscal years 2016 and 2015 on the amount of the loans State Street Bank and Trust made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2016 and 2015. Moreover, there were no losses during fiscal years 2016 and 2015 resulting from a default of the borrowers or State Street Bank and Trust.

During fiscal years 2016 and 2015, the BOI and the borrowers maintained the right to terminate all securities lending transactions on notice. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment fund comprised of a liquidity pool and a duration pool. As of June 30, 2016 the BOI had no credit risk exposure to borrowers. The private equity and real estate pools do not participate in securities lending.

Investment risks – The University's investments are concentrated primarily with the State of Montana; therefore, discussion of the risks of the applicable State investment products is summarized below. Detailed asset maturity and other information demonstrating risk associated with the BOI STIP and TFIP is contained in the BOI financial statements, and may be accessed by contacting the Board of Investments at P.O. Box 200126, Helena, MT 59620-0126. Investment risks are described in the following paragraphs. Risks specific to derivative financial instruments are discussed in Note 10.

Credit Risk – Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The BOI's policy requires TFIP fixed income investments to be invested in investment grade securities (Baa3/BBB- or higher) with the exception of non-rated securities issued or guaranteed by agencies or instrumentalities of the US Government. The STIP investment policy specifies that STIP securities have a minimum of two separate credit ratings as provided by Standard and Poor's, Moody's, or Fitch that meet the minimum as stated in the STIP investment policy depending on the type of investment..

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. Because most of the University's cash equivalents and certain investments are held in the State of Montana STIP and TFIP, the state's policies regarding custodial risk are relevant. The securities in STIP and TFIP are held in name of the BOI or were registered in the nominee name for the BOI and held in possession of the BOI custodial bank. Per policy, the BOI's custodial institution must hold short-term and long-term credit rating by at least one Nationally Recognized Statistical Rating Organization with a minimum requirement of A1/P1 (short term) and A3/A-1 (long-term).

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. Because the University is limited to investing in certain funds and with certain entities by state statute or as determined appropriate by its bond trustee, it does not maintain its own credit risk policy. Because most of the University's cash equivalents consist of an investment in STIP, an external investment pool, the state policy governing STIP is relevant. 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. Concentration risk in 2016 was within the policy as set by the board.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk is managed using parameters that the BOI sets regarding acceptable effective duration of its various investment pools.

Land grant earnings – The University benefits from two separate land grants which total 240,000 acres. The first granted 90,000 acres for the University under provisions of the Morrill Act of 1862. The second, under the Enabling Act of 1889, granted an additional 50,000 acres for agricultural institutions and 100,000 acres for state normal schools.

Under provisions of both grants, income from the sale of land and land assets must be reinvested and constitutes, along with the balance of the unsold land, a perpetual endowment fund. The State of Montana, Board of Land Commissioners, administers both grants and holds all endowed assets. The University's land grant assets are not reflected in these financial statements, but are included as a component of the State of Montana Basic Financial Statements that are prepared annually and presented in the Montana Comprehensive Annual Financial Report.

Investment income from the perpetual endowment is distributed periodically to the University by the State of Montana, Board of Land Commissioners, and is reported as revenue in the accompanying financial statements. The University has currently pledged such income to the retirement of revenue bond indebtedness; after satisfying the liens of the indenture, the University may expend the funds for any lawful purpose.

In addition to distributed endowment income, the University also receives revenue generated from trust land timber sales. The University has the flexibility to designate timber sales revenues as either distributable or for reinvestment, should it choose to expend the funds for certain specified purposes.

NOTE 3 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts receivable consisted of the following as of June 30:

	2016	2015
Accounts receivable	$ 10,666,307	$ 11,183,112
Other receivables, including private grants and contracts	5,237,856	4,984,217
Gross accounts and grants receivable	15,904,163	16,167,329
Less allowance for uncollectible accounts	(4,665,981)	(4,343,762)
Net accounts and grants receivable	$ 11,238,182	$ 11,823,567

NOTE 4 – INVENTORIES

Inventories consisted of the following as of June 30:	2016	2015
Bookstore	$ 935,295	$ 994,794
Food services	352,119	263,897
Facilities services	817,041	782,156
Livestock	676,492	1,087,747
Other	404,542	370,374
Total inventories	$ 3,185,489	$ 3,498,968

NOTE 5 – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses consisted of the following as of June 30:	2016	2015
Library subscriptions	$ 2,121,444	$ 1,976,092
Other (including summer session payments)	1,851,178	1,591,135
Total prepaid expenses	$ 3,972,622	$ 3,567,227

NOTE 6 – LOANS RECEIVABLE

Student loans made under the Federal Perkins Loan Program constitute the majority of the University's loan balances. Included in noncurrent liabilities as of June 30, 2016 and 2015 are $22,424,284 and $22,905,713 that would be repayable to the Federal government, should the University choose to cease participation in the Federal Perkins Loan program.

The Federal portions of interest income and loan program expenses are shown as additions to and deductions from the amount due to the Federal government, and not as operating transactions, in the accompanying financial statements.

NOTE 7 – CAPITAL AND OTHER NON-CURRENT ASSETS

Following are the changes in capital assets during the years ended June 30, 2016 and 2015:

	Year Ended June 30, 2016				
	Balance July 1, 2015	Additions	Retirements	Transfers	Balance June 30, 2016
Capital assets not being depreciated:					
Land	$ 6,669,279	$ 1,707,757	$ -	$ -	$ 8,377,036
Museum and fine art	5,731,779	35,300	(58,250)	-	5,708,829
Library special collections	3,352,847	185,624	-	-	3,538,471
Livestock for educational purposes	3,660,770	38,206	(14,063)	-	3,684,913
Construction work-in-progress	30,580,501	40,116,089	(48,868)	(16,631,832)	54,015,890
Total capital assets not being depreciated	**49,995,176**	**42,082,976**	**(121,181)**	**(16,631,832)**	**75,325,139**
Other capital assets:					
Furniture and equipment	155,108,771	12,123,846	(4,747,290)	103,229	162,588,556
Library materials	64,985,567	781,966	(190,485)	-	65,577,048
Buildings	320,395,330	3,765,378	-	189,692	324,350,400
Building improvements	260,501,561	2,957	(552,457)	16,095,020	276,047,081
Land improvements	22,285,495	389,050	-	243,891	22,918,436
Infrastructure	43,211,818	448,924	(5,500)	-	43,655,242
Leasehold Improvements	1,451,316	29,285	(219,065)	-	1,261,536
Total other capital assets	867,939,858	17,541,406	(5,714,797)	16,631,832	896,398,299
Accumulated depreciation	(494,245,121)	(31,936,936)	5,400,271	-	(520,781,786)
Other capital assets, net	**373,694,737**	**(14,395,530)**	**(314,526)**	**16,631,832**	**375,616,513**
Intangible assets, net	**836,586**	**-**	**(460,359)**	**-**	**376,227**
Capital Assets, net	**$ 424,526,499**	**$ 27,687,446**	**$ (896,066)**	**$ -**	**$ 451,317,879**

	Year Ended June 30, 2015				
	Balance July 1, 2014	Additions	Retirements	Transfers	Balance June 30, 2015
Capital assets not being depreciated:					
Land	$ 6,669,279	$ -	$ -	$ -	$ 6,669,279
Museum and fine art	5,269,828	461,951	-	-	5,731,779
Library special collections	3,352,847	-	-	-	3,352,847
Livestock for educational purposes	3,572,430	88,340	-	-	3,660,770
Construction work-in-progress	22,125,421	40,714,604	(118,059)	(32,141,465)	30,580,501
Total capital assets not being depreciated	**40,989,805**	**41,264,895**	**(118,059)**	**(32,141,465)**	**49,995,176**
Other capital assets:					
Furniture and equipment	148,754,659	9,610,528	(2,532,942)	(723,474)	155,108,771
Library materials	63,915,540	1.282,581	(212,554)	-	64,985,567
Buildings	303,261,843	-	(253,454)	17,386,941	320,395,330
Building improvements	246,116,645	28,762	(357,909)	14,714,063	260,501,561
Land improvements	21,656,869	176,755	(19,330)	471,201	22,285,495
Infrastructure	42,443,379	490,428	(14,723)	292,734	43,211,818
Leasehold Improvements	1,807,424	-	(356,108)	-	1,451,316
Total other capital assets	827,956,359	11,589,054	(3,747,020)	32,141,465	867,939,858
Accumulated depreciation	(466,882,336)	(30,621,844)	3,259,059	-	(494,245,121)
Other capital assets, net	**361,074,023**	**(19,032,790)**	**(487,961)**	**32,141,465**	**373,694,737**
Intangible assets, net	**1,136,663**	**393,600**	**(693,677)**	**-**	**836,586**
Capital Assets, net	**$ 403,200,491**	**$ 22,625,705**	**$ (1.299,697)**	**$ -**	**$ 424,526,499**

Historical records are not available for certain of the University's assets. As such, some values have been estimated based on insurance values, industry-accepted valuation techniques, or estimates made by University personnel knowledgeable as to the assets' values. Livestock held for educational purposes consist primarily of cattle herds. Breeding cattle are routinely replaced in the herds by their offspring; additions and deductions from the asset cost are not reported for reproducing cattle replaced in this manner.

Other non-current assets –

During the year ended June 30, 2014, the MSU Alumni Foundation committed to a $10 million gift, which will be paid to the University as needed to repay principal on its Series B debt. The gift and related receivable were recognized in that year. As of June 30, 2016, the MSU Alumni Foundation has made payments to the University of $4.7 million. The remaining balance of the receivable is recorded in the accompanying financial statements as $1.2 million in current receivables, and $4.1 million in long-term assets. The Series B debt was issued to bridge fund construction of a classroom building until gift proceeds are received.

NOTE 8 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following as of June 30:

	2016	2015
Compensation, benefits and related liabilities	$ 25,112,964	$ 22,612,707
Accrued interest expense	756,994	792,395
Accounts payable and other accrued liabilities	18,248,875	12,751,179
Total	$ 44,118,833	$ 36,156,281

NOTE 9 – UNEARNED REVENUES

Unearned revenues consisted of the following as of June 30:

	2016	2015
Grant and contract funds received in advance	$ 12,077,953	$ 3,430,897
Summer session payments received in advance	6,871,925	6,215,002
Other unearned revenues	1,554,665	1,517,687
Total	$ 20,504,543	$ 11,163,586

NOTE 10 – NON-CURRENT LIABILITIES AND DERIVATIVE INSTRUMENTS

Following are the changes in noncurrent liabilities for the years ended June 30, 2016 and 2015:

	Year Ended June 30, 2016				
	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Amounts due within one year
Bonds, notes payable, and capital lease obligations					
Bonds payable, net of discount	$ 166,985,117	$ 4,805,000	$ (9,018,419)	$ 162,771,698	$ 9,310,000
Notes and other long-term liabilities	1,739,049	-	(571,712)	1,167,337	332,000
Capital lease obligations	220,234	52,531	(104,927)	167,838	71,419
Total bonds, notes and capital lease obligations	$ 168,944,400	$ 4,857,531	$ (9,695,058)	$ 164,106,873	$ 9,713,419
Compensated absence liability	$ 31,118,493	$ 17,132,825	$ (15,888,173)	$ 32,363,145	$ 17,236,249
Advances from primary government – Intercap	$ 13,665,673	$ 599,968	$ (1,878,851)	$ 12,386,790	$ 1,556,103
Advances from primary government - MSTA	$ 4,861,237	$ -	$ (58,595)	$ 4,802,642	$ 60,059
Advances from primary government - DEQ	$ 5,015,548	$ 7,750	$ (466,651)	$ 4,556,647	$ 485,255
Amounts due to Federal government	$ 22,905,713	$ 313,367	$ (794,796)	$ 22,424,284	$ -
OPEB liability— implicit rate subsidy for retiree health insurance	$ 55,160,699	$ 5,492,804	$ (1,314,822)	$ 59,338,681	$ -
Net pension liability	$ 70,185,134	$ 20,900,243	$ (14,078,579)	$ 77,006,798	$ -
Derivative instrument liability	$ 4,605,263	$ 1,491,919	$ -	$ 6,097,182	$ -

	Year Ended June 30, 2015				
	Balance July 1, 2014 *(restated)*	Additions	Reductions	Balance June 30, 2015	Amounts due within one year
Bonds, notes payable, and capital lease obligations					
Bonds payable, net of discount	$ 177,411,144	$ -	$ (10,426,027)	$ 166,985,117	$ 8,470,000
Notes and other long-term liabilities	1,803,194	373,355	(437,500)	1,739,049	442,600
Capital lease obligations	327,989	31,483	(139,238)	220,234	104,988
Total bonds, notes and capital lease obligations	$ 179,542,327	$ 404,838	$ (11,002,765)	$ 168,944,400	$ 9,017,588
Compensated absence liability	$ 30,591,906	$ 16,112,393	$ (15,585,806)	$ 31,118,493	$ 16,884,668
Advances from primary government – Intercap	$ 12,932,831	$ 2,447,995	$ (1,715,153)	$ 13,665,673	$ 1,774,915
Advances from primary government - MSTA	$ 4,918,405	$ -	$ (57,168)	$ 4,861,237	$ 58,595
Advances from primary government - DEQ	$ 5,436,405	$ 42,000	$ (462,857)	$ 5,015,548	$ 466,653
Amounts due to Federal government	$ 22,774,457	$ 131,256	$ -	$ 22,905,713	$ -
OPEB liability— implicit rate subsidy for retiree health insurance	$ 51,399,245	$ 5,477,672	$ (1,716,218)	$ 55,160,699	$ -
Net pension liability	$ 87,602,081	$ 11,969,791	$ (29,386,738)	$ 70,185,134	$ -
Derivative instrument liability	$ 4,034,590	$ 570,673	$ -	$ 4,605,263	$ -

Amounts not due within one year are reflected in the noncurrent liabilities section of the accompanying Statement of Net Position.

Derivative financial instruments –

Description
The University has two interest rate swaps as of June 30, 2016. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraphs 27 (a) and (b) of Governmental Accounting Standards Board Statement Number 53, or as investment derivative instruments if they do not.

The following table summarizes the interest rate swaps outstanding as of June 30, 2016:

Derivative Description	Trade Date	Effective Date	Termination Date	Terms	Counterparty
$25.75 million fixed payer swap	3/10/2005	7/21/2005	11/15/2035*	Pay 3.953%, Receive SIFMA	Deutsche Bank AG
$25.25 million basis swap	12/19/2006	11/15/2007	11/15/2035	Pay SIFMA, Receive 86.8% of 10-year SIFMA	Morgan Stanley Capital Services Inc.

*Counterparty may opt out in 2016

As of June 30, 2016, the fixed payer swap is classified as a hedging derivative instrument under Statement No. 53, whereas the basis swap is an investment derivative instrument because there is no identified financial risk being hedged by the basis swap that can be expressed in terms of exposure to adverse changes in cash flows or fair values. Statement No. 53 includes four methods for evaluating hedge effectiveness; a governmental entity may use any of the evaluation methods outlined in the Statement and is not limited to using the same method from period to period. The four methods described in Statement No. 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. In addition, Statement No. 53 permits a governmental entity to use other quantitative methods that are based on "established principles of financial economic theory." The fixed payer swap passes the established criteria using the regression analysis methodology.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. To measure non-performance risk for a derivative liability, credit spreads implied by the credit rating for debt issues by entities with similar credit characteristics were used. This is the best method available under current market conditions since the University has no credit default swaps that actively trade in the marketplace. For a derivative asset, the adjustment for non-performance risk of counterparties was determined by analyzing counterparty-specific credit default swaps, if available. If not available, credit default swaps in the market for entities of similar type and rating were used, along with information found in various public and private information services. This analysis is used to construct a credit curve that is applied to the discount curve on the net settlement payments of the derivative.

The counterparty to the fixed payer swap has the right to terminate the swap at $0 on December 14, 2016 (a European option). The value of the cancelation option was included within the derivative structure, resulting in an off-market (i.e., lower) fixed swap rate. As of the trade date, the option's value included intrinsic value and time value. The option's intrinsic value (calculated as the difference between the at-market rate of 4.11% and the off-market rate of 3.953%) is accounted for as a loan receivable and is repaid by the off-market portion of each swap payment. The option's time value, which will always be negative to MSU and will equal $0 on the option's expiration date, is reported as deferred investment revenue. On September 10, 2010, the Series J bonds were converted to index bonds. While in index mode the interest rate is reset weekly at a rate of the Securities Industry and Financial Markets Association ("SIFMA") rate plus a fixed spread. The spread is based on the long-term, unenhanced rating assigned to the issuer; the current spread as of June 30 was 0.65%. The dependent variable in the regression is the interest rates of the hedged cash flows; the independent variable is the floating rates due under the hedging derivative.

The table below summarizes the reported balances as of and the derivative instrument activity during the years ended June 30, 2016 and 2015.

The fair value of the fixed payer swap liability as of June 30, 2016, is at fair value level 2, and was based on forward SIFMA rates using the three month Libor Zero Curve, and the BMA Swaption Volatility on the AA Rated Muni Revenue Curve. The fair value of the nonhedging derivative investment is also at level 2 (see also note 2), and was based on forward SIFMA rates using the 10-year forward BMA constant maturity swap using the three month Libor Zero Curve, andthe BMA Swaption Volatility on the counterparty's credit default swap.

		Activity During 2016		Fair Value as of June 30, 2016	
Type of derivative	Notional	Classification	Amount	Classification	Amount
Cash flow hedge - Pay fixed interest rate swap	$ 21,200,000	Interest expense	$ 20,169	Loan receivable	$ 268,297
		Investment income	$ 20,182		
		Deferred outflow increase/(decrease)	$ 1,512,100		
				Derivative liability	$ 6,097,182
Investment derivative - Basis swap	$ 21,200,000	Investment revenue	$ 15,634	Investment (excluding interest accrued)	$ 1,271,465

		Activity During 2015		Fair Value as of June 30, 2015	
Type of derivative	Notional	Classification	Amount	Classification	Amount
Cash flow hedge - Pay fixed interest rate swap	$ 21,800,000	Interest expense	$ 18,394	Loan receivable	$ 288,466
		Investment loss	$ 162,064		
		Deferred outflow increase/(decrease)	$ 732,736		
				Derivative liability	$ 4,605,263
Investment derivative - Basis swap	$ 21,800,000	Investment loss	$ 279,557	Investment (excluding interest accrued)	$ 1,278,686

The objective and terms of the University's hedging derivative outstanding as of June 30, 2016 is as follows:

Type	Objective	Notional amount	Effective Date	Termination Date	Cash (Paid)/ Received	Terms
Pay fixed, cancelable interest rate swap	Hedge interest rate risk on Series J 2005 Bonds	$21,200,000	7/21/2005	11/15/2035	-	Pay 3.953% Receive SIFMA

Credit Risk

As of June 30, 2016, counterparty ratings were A3 and Baa2 by Moody's and BBB+ and BBB+ by Standard and Poor's. The University manages credit risk by requiring its counterparties to post collateral in certain events. The University is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than $5MM and the counterparty is rated A+ or A, by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, the University is entitled to collateral up to 100% of the swap's fair value. The University is not required to post collateral. The University will continue to monitor counterparty credit risk.

The University enters into derivative agreements with multiple counterparties to limit concentration of credit risk. Currently, the University has interest rate swaps with two different counterparties and each counterparty accounts for approximately 50% of outstanding notional. The University monitors counterparty credit risk on an ongoing basis.

Interest Rate Risk
Interest payments on variable rate debt typically increase as interest rates increase. The University believes it has significantly reduced interest rate risk by entering into a pay-fixed, receive floating interest rate swap. As interest rates increase, net swap payments decrease so that changes in hedged variable-rate debt interest payments, attributable to SIFMA, are largely offset by the net swap payments.

Basis Risk
The variable-rate cash flows being hedged by the pay-fixed swap will increase or decrease as SIFMA rates increase or decrease. Because the hedged cash flows are SIFMA based and the floating receipts of the pay-fixed swap are SIFMA based, there is no basis risk.

Termination Risk
The University or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, the University's fixed payer swap counterparty has the right to terminate the derivative if the credit rating of the University's unenhanced long-term revenue bond rating is withdrawn, suspended or reduced below BBB-, in the case of S&P, or below Baa3 in the case of Moody's. If such an event occurs, the University could be forced to terminate the fixed payer swap in a liability position. As of June 30, 2016, the University's unenhanced long-term revenue bond rating was Aa3 by Moody's and A+ by Standard and Poor's.

Rollover Risk
The University's hedging derivative includes a cancelation option which allows the counterparty to cancel the swap on December 14, 2016. Should the counterparty exercise its option, the University would be exposed to rollover risk as exercise would only be likely in a rate environment higher than that at the time the trade was originally entered into.

Foreign Currency Risk
All hedging derivatives are denominated in US Dollars and therefore the University is not exposed to foreign currency risk.

Market Access Risk
Market access risk is the risk that the University will not be able to enter credit markets or that credit will become more costly. For example, to complete a derivative instrument's objective, an issuance of refunding bonds may be planned in the future. If at that time the University is unable to enter credit market, expected cost savings may not be realized.

NOTE 11 – BONDS, NOTES, ADVANCES PAYABLE AND DEFERRED LOSS ON DEBT REFUNDING

Revenue bond principal outstanding was as follows as of June 30:

	Coupon rate	**2016**	**2015**
Series 2005J	1.06% *	$ 21,200,000	$ 21,800,000
Series 2006K	4.05% – 4.50%	9,245,000	9,920,000
Series 2008L	3.75% – 4.00%	3,605,000	7,075,000
Series 2011M	2.00% – 5.00%	13,880,000	13,970,000
Series 2012N	2.75% – 4.00%	19,605,000	20,305,000
Series 2012O	1.451%–3.09%	26,210,000	27,445,000
Series 2013A	2.00% – 5.00%	55,480,000	55,480,000
Series 2014B	1.06%*	5,325,000	7,025,000
Series 2016C	2.92%	4,805,000	-
Total principal outstanding		$ 159,355,000	$ 163,020,000

* The interest rate on the Series J and Series B debt is variable, and adjusted weekly

Revenue bonds are payable as follows:

During the year ending June 30,	Principal	Interest	Net Hedging Derivative Interest	Total
2017	$ 9,310,000	$ 5,303,959	$ 738,378	$ 15,352,337
2018	8,775,000	5,081,827	713,570	14,570,397
2019	12,340,000	4,846,825	687,898	17,874,723
2020	8,975,000	4,569,833	660,000	14,204,833
2021	9,200,000	4,298,649	632,095	14,130,744
2022-2026	35,255,000	17,524,812	2,695,568	55,475,380
2027-2031	25,380,000	11,947,865	1,783,405	39,111,270
2032-2036	24,120,000	7,993,350	651,175	32,764,525
2037-2041	14,795,000	4,482,819	-	19,277,819
2042-2046	11,205,000	856,693	-	12,061,693
Total cash requirements	159,355,000	$ 66,906,632	$ 8,562,089	$ 234,823,721
Unamortized premium (discount) net	3,416,698			
Bond payable, net	$ 162,771,698			

Description of bonded indebtedness–

Series A 2013, December 31, 2013 – In December 2013, the University issued $55,480,000 in Series A 2013 Facilities Improvement Revenue Bonds to fund the construction of a new 400-bed residence hall on the Bozeman campus, as well as renovate an existing dining hall, partially fund a new dining hall, and fund major maintenance projects in one residence hall on the Bozeman campus. Payments are scheduled each May and November through November, 2043. The bonds are secured by a first lien on and pledge of the net pledged revenues, as described in Note 17.

Series B 2014, January 31, 2014 – In January 2014, the University issued $10,000,000 in Series B 2014 Facilities Improvement Revenue Bonds to fund the construction of a new academic building on the Bozeman campus. The bonds were a direct placement with Wells Fargo Bank. The bonds contain an index rate mode whereby the interest rate is reset periodically at SIFMA plus an applicable spread based on the term of the rate period. Payments are scheduled each January and will amortize over a 5-year term at the greater of: 1) a minimum of $500,000 per year, or 2) 85% of pledge receipts, so long as there is no more than $8,000,000 outstanding at the time the index floating rate mode matures. The bonds are secured by a first lien on and pledge of the net pledged revenues, as described in Note 17.

Series C 2016, February 24, 2016 – In February 2016, the University closed on its Series C 2016 Facilities Improvement Revenue bonds, which were issued to acquire a research building and construct a parking structure and dining hall on the Bozeman campus. The bonds are draw-down bonds, which means that the $16,455,000 total will be drawn as needed for the construction, subject to certain minimum draws, and with final draws required by February 2018. The bonds bear interest on the outstanding principal balance. The interest rate is set at 2.92% per year until the first reset date, which is November 24, 2031. Thereafter, the rate will be equal to the Wall Street Journal Prime Rate plus 1.00% and will be set each quarter, although the University intends to re-evaluate that arrangement in 2031. Payments are scheduled each May and November through November 2045. The bonds are secured by a first lien on and pledge of the net pledged revenues, as described in Note 17.

Series H 2004, October 14, 2004 – A majority of the Series H bonds were refunded in October 2012 upon issuance of the Series N 2012 bonds. The remaining Series H bonds were fully retired in November 2014.

Series I 2004, November 23, 2004 – A majority of the Series I bonds were refunded in October 2012 upon issuance of the Series O 2012 bonds. The remaining Series I bonds were fully retired in November 2014.

Series J 2005, July 21, 2005 – In July 2005, the University issued $25,750,000 of Series J 2005 Auction Rate Facilities Improvement Revenue Bonds to fund the majority of a student facilities enhancement project on the Bozeman campus. The proceeds, together with University funds, were used to renovate the student fitness center, construct a theater, and renovate portions of the Strand Union Building. The bonds are being repaid with a combination of student fees and auxiliary operations revenues. Principal payments continue each May and November through November, 2035. On September 11, 2008, the University remarketed these bonds as Variable Rate Demand Bonds in the daily mode, whereas they had previously been marketed as Municipal Auction Rate Securities in the weekly mode. The bonds were remarketed without bond insurance, because variable rate instruments backed by a direct-pay letter of credit were trading at more attractive rates from the bond issuer's perspective, which is a result of the insurer's downgrading and general market conditions. The bonds are no longer insured by Ambac; instead, the University entered into a Letter of Credit and Reimbursement Agreement with Wachovia Bank, NA ("Wachovia"), for a term of two years, in which Wachovia assumed a direct-pay responsibility for the bonds. Wachovia Bank was subsequently purchased by Wells Fargo. Because the letter of credit was scheduled to terminate in September of 2010, the University sought pricing on a renewed letter of credit as well as a direct-placement transaction. After reviewing several options, the University selected the direct-placement transaction, and on September 10, 2010, amended its bond indenture to permit issuance of the Series J bonds in the indexed floater mode, re-issuing the bonds in whole to Wells Fargo Bank. In place of a letter of credit fee, the University now pays Wells Fargo Bank a pre-determined basis point spread over and above the SIFMA weekly indexed rate. Principal payment amounts and dates remained the same as they were prior to the remarketing.
In September 2013, the University entered into a 5-year renewal of its direct purchase agreement with Wells Fargo Bank relative to its Series J 2005 bonds, at a rate of 0.65% above SIFMA.

Series K 2006, July 26, 2006 – In July 2006, the University issued its Series K refunding debt in the principal amount of $13.71 million. The proceeds were used to refund portions of the Series E 1998 and Series D 1996 debt, and resulted in an economic gain to the University of $704,468. The proceeds of the Series K 2006 bonds were used to acquire United States Government Obligations, the maturing principal and interest on which are calculated to be sufficient to pay, when due, at maturity or upon redemption, the principal of and interest on the $7,315,000 Series D 1996 bonds maturing on and after November 15, 2007 (which were redeemed at par on November 15, 2006), and to pay, when due, at maturity or upon redemption, the principal of and interest on the $5,840,000 Series E 1998 bonds that were refunded. The refunded Series D 1996 bonds and Series E 1998 bonds are no longer considered to be outstanding under the Indenture.

Series L 2008, June 26, 2008 – In June 2008, the University refunded its Series G 2003 Auction Rate Bonds through the issuance of fixed rate Series L 2008 bonds in the amount of $17.59 million. Series L bond proceeds were sufficient to legally defease the Series 2003 G bonds. The Series L debt will be repaid by November of 2016, the same maturity date as the refunded Series G debt. Repayment is guaranteed by Assured Guaranty. The Series G bonds were called in July, 2008 and are no longer outstanding. The original proceeds of the refunded debt had been used for a $16,745,000 current refunding of the serial portion of the Series 1993-A bonds, and $2,015,000 had been used for an advance refunding of the Series 1994 C bonds.

Series M 2011, October 26, 2011– In October 2011, the University issued $14,100,000 in Series M 2011 Facilities Improvement Revenue Bonds to fund the construction of a new suite-style residence hall on the Bozeman campus, as well as renovate public spaces in two existing residence halls and perform energy efficiency improvements including window and lighting fixture replacement. Payments are scheduled each May and November through November, 2027. The bonds are secured by a first lien on and pledge of the net pledged revenues, as described in Note 17.

Series N 2012, October 17, 2012 – In October 2012, the University issued its Series N refunding debt in the principal amount of $20.5 million. The proceeds were used to refund the Series H 2004 Facilities Improvement Revenue Bonds with stated maturities in the year 2015 and thereafter. The refunding resulted in an economic gain to the University of $2.2 million. The proceeds of the Series N 2012 bonds were used to acquire direct general obligations, the maturing principal and interest on which are calculated to be sufficient to pay, when due, at maturity or upon redemption, the principal of and interest on the $19.6 million Series H 2004 bonds with maturities in the year 2015 and thereafter. The refunded Series H 2004 bonds are no longer considered to be outstanding under the Indenture. The portion of the Series H bonds that were not refunded totals $1.2 million. This portion matured in the year 2015 and was retired in accordance with the original repayment schedule.

Series O 2012, October 17, 2012 – In October 2012, the University issued its Series O 2012 refunding debt in the principal amount of $28.4 million. The proceeds were used to refund the Series I 2004 Facilities Revenue Refunding Bonds with stated maturities in the year 2015 and thereafter. The refunding resulted in an economic gain to the University of $1.6 million. The proceeds of the Series O 2012 bonds were used to acquire direct general obligations, the maturing principal and interest on which are calculated to be sufficient to pay, when due, at maturity or upon redemption, the principal of and interest on the $25.8 million Series I 2004 bonds with maturities in the year 2015 and thereafter. The refunded Series I 2004 bonds are no longer considered to be outstanding under the Indenture. The portion of the Series I bonds that were not refunded totals $1.5 million. This portion matured in the year 2015 and was retired in accordance with the original repayment schedule.

Deferred Loss on Debt Refunding –

Deferred loss on debt refunding is the excess of the reacquisition price of refunded debt over its net carrying amount. For the year ended June 30, 2014, the University adopted the provisions of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, which required reclassifying deferred loss on debt refunding balances from an offset to long-term debt into a deferred outflow. The deferred loss on refunding balances that were reclassified were related to Series 2004I, Series 2006K, Series 2008L, Series 2012N and Series 2012O. Deferred loss on debt refunding was $2.6 million as of June 30, 2016 and $3.0 million as of June 30, 2015. Though the transactions resulted in an accounting loss, the refundings resulted in an economic gain, in that future principal plus interest (including issuance costs) will be less than the principal and interest that would have been paid had the original debt been paid out to its scheduled maturity. This occurs due to lower interest costs over the life of the debt.

Notes payable – consisted of the following as of June 30:

	Interest Rate	Maturity Date	2016	2015
Academic Analytics				
Information Technology Software License	-	11/01/15	-	110,600
Adobe Enterprise License Agreement	-	6/30/17	112,000	224,000
MSU-Northern Foundation				
Consolidated Foundation Loan	6.00%	10/01/19	865,169	1,085,169
Total note principal outstanding			$ 977,169	$ 1,419,769

Notes are payable during the year ending June 30, as follows:

	Principal	Interest	Total
2017	$ 332,000	$ 51,910	$ 383,910
2018	220,000	38,710	258,710
2019	220,000	25,510	245,510
2020	205,169	12,310	217,479
Total	$ 977,169	$ 128,440	$ 1,105,609

Advances payable to primary government – The University participates in the State's Intercap loan program. Intercap loans contain a variable interest rate, which is based on the underlying bond rate of the Montana Board of Investments Intercap bonds, and is adjusted each February. The rate as of June 30, 2016 was 1.55%.

Other advances were made during the mid- 1990s by the Montana Science and Technology Alliance (MSTA) to stimulate research and creative activities in Montana. Such loans were subsequently assumed by the State of Montana Board of Investments. Amounts are expected to be repaid as follows; however, actual payments are allocated between three of the state institutions of higher education based on relative proportions of annual Research and Creative Activities expenditures, and actual repayments and the timing thereof may vary.

Advances were made to the University by the State Department of Environmental Quality (DEQ) as part of its State Building Energy Conservation Program (SBECP). The program provides funding for projects such as lighting, window replacement, and other energy-efficiency initiatives. The projects selected for funding under the program are done so only if utility savings resulting from the improvements are expected to offset the cost of the projects.

Amounts due to the State of Montana are scheduled to be repaid as follows:

During the year	Intercap Loans		MSTA Advances		DEQ SBECP		
ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Total
2017	$ 1,556,103	$ 185,928	$ 60,059	$ 119,941	$ 485,255	$ 168,430	$ 2,575,716
2018	1,402,237	161,980	61,559	118,441	501,039	149,165	2,394,421
2019	1,179,123	141,034	63,096	116,904	473,622	128,806	2,102,585
2020	1,010,507	123,927	64,672	115,328	413,844	108,884	1,837,162
2021	1,024,966	108,213	66,287	113,713	406,293	93,077	1,812,549
2022-2026	4,743,259	310,202	357,109	542,891	1,808,146	239,949	8,001,556
2027-2031	1,470,595	36,994	403,985	496,015	460,827	31,477	2,899,893
2032-2036	-	-	457,014	442,986	7,129	433	907,562
2037-2041	-	-	517,004	382,996	492	16	900,508
2042-2046	-	-	584,868	315,132	-	-	900,000
2047-2051	-	-	661,641	238,359	-	-	900,000
2052-2056	-	-	748,491	151,509	-	-	900,000
2057-2061	-	-	756,857	53,143	-	-	810,000
Total	$ 12,386,790	$ 1,068,278	$ 4,802,642	$ 3,207,358	$ 4,556,647	$ 920,237	$ 26,941,952

NOTE 12 - CAPITAL LEASE OBLIGATIONS

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

Payable during the year ending June 30,	Principal and Interest
2017	$ 80,285
2018	55,884
2019	27,503
2020	14,326
2021	7,368
Total payments	185,366
Less amount representing interest	(17,528)
Principal balance outstanding	$ 167,838

Assets acquired under capital leases consist mainly of photocopiers. Such assets are carried at a cost of $577,851 less accumulated depreciation of $354,181 as of June 30, 2016.

NOTE 13 – NET POSITION

As of June 30, the University's unrestricted balances were as follows:

	2016	2015
Board of Regents' approved reserves	$ 23,789,807	$ 21,060,572
Other designated purposes	(5,762,770)	(15,566,513)
Total unrestricted net position	$ 18,027,037	$ 5,494,059

Board of Regents' approved reserves represent cash and investments held for specific purposes, while the remainder of unrestricted net position, including accrued liabilities related to post-employment benefits, compensated absences and pensions, is negative.

As of June 30, the University's restricted balances were as follows:

	2016	2015
Restricted - nonexpendable:		
Endowments	$ 8,587,008	$ 8,586,028
Loans	4,794,091	5,259,452
Total restricted - nonexpendable	$ 13,381,099	$ 13,845,480
Restricted - expendable:		
Scholarships	$ 1,206,581	$ 1,661,744
Research and other	4,323,026	4,057,455
Loans	399,381	398,077
Construction and renewal of plant facilities	5,263,062	5,012,227
Debt retirement	6,136,122	5,989,237
Total restricted - expendable	$ 17,328,172	$ 17,118,740

NOTE 14 –OPERATING EXPENSES

Operating expenses were incurred in performance of the following during the years ended June 30:

	2016	2015
Instruction	$ 134,211,741	$ 130,320,897
Research	100,222,402	98,224,604
Public service	31,523,240	28,675,738
Academic support	37,987,803	37,414,585
Student services	40,282,620	39,553,422
Institutional support	27,525,571	27,643,377
Plant-related expenses	41,269,099	37,539,822
Auxiliary enterprises	55,569,657	53,222,758
Scholarships and fellowships	23,275,776	23,711,663
Depreciation and amortization	32,397,297	31,284,509
	$ 524,265,206	$ 507,591,375

Operating expenses were incurred in the following categories during the years ended June 30:

	2016	2015
Compensation and benefits	$ 302,856,785	$ 293,068,733
OPEB	5,492,804	5,477,672
Pension	8,018,696	6,716,950
Supplies and service	83,734,146	80,305,379
Travel	12,795,563	12,224,231
Utilities	9,952,179	9,989,669
Other operating expenses	45,741,960	44,812,569
Scholarship and Fellowships	23,275,776	23,711,663
Depreciation and amortization	32,397,297	31,284,509
	$ 524,265,206	$ 507,591,375

NOTE 15 – RETIREMENT PLANS AND OTHER POST-EMPLOYMENT BENEFITS

Retirement plans –
University employees eligible to participate in retirement programs are members of either the Montana Public Employees' Retirement System (PERS), the Game Wardens' and Peace Officers' Retirement System (GWPORS), Montana Teachers' Retirement System (TRS) the Montana University System Retirement Program (MUS-RP), Federal Employees' Retirement System (FERS) or the U.S. Civil Service Retirement System (CSRS). All are defined benefit plans except for the MUS-RP. Effective July 1, 1993, MUS-RP was made the mandatory retirement plan for new faculty and administrative staff.

There are only seven employees participating in the CSRS and FERS plans combined, and information is not available from the federal plan administrator with respect to the proportionate share for these employees. Due to the limited number of personnel involved, disclosure for these plans will be presented as if they were defined contribution plans.

MUS-RP - The MUS-RP is a defined contribution plan, established under authority of Title 19, Chapter 21, MCA. Benefits at retirement depend upon the amount 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. Combined contributions cannot exceed 13% of the participants' compensation (MCA §19-21-203). Individuals are immediately vested with contributions. 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.

FERS - This plan commenced in 1986 and is available to Federal employees joining the Extension Service staff that either had no prior covered service under CSRS or had a break in service. This retirement plan contains defined benefit plan components, a Basic Benefit Plan and Social Security, and a defined contribution component, the Thrift Savings Plan (TSP). Basic benefits can be received at age 55 with as little as 10 years of service, and minimum retirement benefits at age 62 with 5 years of service. The formula for basic benefits is 1% of the highest consecutive three-year-average salary multiplied by the number of years of service. The formula changes slightly if over 62 and over 20 years of service. At age 62, retirees are eligible for cost of living adjustments on retirement benefits. The employer is required to make at least a 1% contribution to the TSP. The TSP benefits at retirement depend upon the amount of employer contributions, employee voluntary contributions and investment gains and losses. Further information regarding the Federal Employees Retirement System can be obtained from the U.S. Office of Personnel Management, 1900 E Street NW, Washington, DC 20415.

CSRS - This retirement plan is authorized under the Smith-Lever Act of 1914 as amended and is available to Federal employees who first entered covered service before January 1, 1987 and who are joining the Extension Service staff without a break in service. CSRS is a defined benefit plan. The retirement benefits are based upon the highest consecutive three-year-average salary. Retirees are eligible for cost of living adjustments the year after retirement. Benefits can be received at age 55 with 30 years of service, age 60 with 20 years of service, or age 62 with five years of service. Further information regarding the Civil Service Retirement System can be obtained from the U.S. Office of Personnel Management, 1900 E Street NW, Washington, DC 20415.

Key Employee Plans – One defined benefit plan and one defined contribution plan exist for a key employee of the University, each for a payment of $500,000 plus applicable employer payroll taxes. The defined benefit plan has vested, while the defined contribution plan has not. The MSU Alumni Foundation has agreed to reimburse the University for the total $1,000,000 base wage of the plans, which together provide for payments beginning upon the employee's retirement. Expenses associated with the plan have been fully accrued for the vested portion, and are being accrued throughout the vesting period for the remainder. The University is funding the plan with an outside administrator, to the extent that the IRS allows tax-advantaged contributions, with certain contributions occurring during the employee's tenure and others which may occur within up to 5 years after retirement. Because the University is progressing on a funding plan with reimbursement occurring from the MSU Alumni Foundation, a significant liability and effect on net position does not exist; therefore, balances related to these plans are not included within the net pension liability calculations or other disclosures below.

Pension data for the year ended June 30, 2016 for defined contribution and federal plans is as follows. Employer contributions for these plans are included within compensation and benefits in the accompanying financial statements.

	MUS-RP	CSRS	FERS
Covered payroll*	$ 142,923,197	$ 185,531	$ 420,524
Employer contributions/expense	$ 8,523,810	$ 29,881	$ 44,685
% of covered payroll	4.490%-4.956%	7.00%-8.00%	11.900%
Employee contributions	$ 10,119,921	$ 50,254	$ 3,065
% of covered payroll	7.044%-7.900%	7.00%-8.00%	0.800%

*Covered payroll excludes students employed under the College Work Study programs and part-time employees.

Pension data for the year ended June 30, 2015 for defined contribution and federal plans is as follows. Employer contributions for these plans are included within compensation and benefits in the accompanying financial statements.

	MUS-RP	CSRS	FERS
Covered payroll*	$ 137,191,973	$ 182,247	$ 413,748
Employer contributions/expense	$ 8,002,646	$ 30,000	$ 46,310
% of covered payroll	4.490%-4.956%	7.00%-8.00%	11.900%
Employee contributions	$ 9,715,510	$ 51,839	$ 3,178
% of covered payroll	7.044%-7.900%	7.00%-8.00%	0.800%

*Covered payroll excludes students employed under the College Work Study programs and part-time employees.

Total payroll for 2016 and 2015 was $240,664,052 and $234,783,809, respectively. Amounts contributed to retirement plans during the past three years were equal to the required contribution each year. Federal plan administrators have not provided information with respect to net pension liability. Because only seven individuals employed by the University participate in these plans, the University believes the balances are not material to its financial position or results of operations.

The amounts contributed by the University and its employees were as follows for the years ended June 30:

	MUS-RP	CSRS	FERS
2014	$ 16,758,410	$ 93,714	$ 108,955
2015	$ 17,718,156	$ 81,840	$ 49,489
2016	$ 18,643,731	$ 80,135	$ 47,750

Following is the total of the University's share of balances for material defined benefit plans as of and for the years ended June 30:

	2016			
	TRS	**PERS**	**GWPORS**	**Total**
Net Pension Liability	$18,636,406	$57,646,591	$723,801	$77,006,798
Deferred Outflows of Resources	$15,023,626	$5,587,823	$162,339	$20,773,788
Deferred Inflows of Resources	$1,040,118	$5,377,458	$142,381	$6,559,957
Pension Expense (including state share paid on behalf of the University)	$3,697,281	$4,205,236	$116,179	$8,018,696

	2015			
	TRS	**PERS**	**GWPORS**	**Total**
Net Pension Liability	$19,038,438	$50,597,799	$548,897	$70,185,134
Deferred Outflows of Resources	$13,096,600	$4,598,858	$139,455	$17,834,913
Deferred Inflows of Resources	$2,948,789	$13,086,407	$318,982	$16,354,178
Pension Expense (including state share paid on behalf of the University)	$2,681,648	$3,907,314	$127,988	$6,716,950

In accordance with Statement on Governmental Accounting Standard No. 68, Accounting and Financial Reporting for Pensions (Statement 68), employers are required to recognize and report certain amounts associated with their participation in retirement plans. Statement 68 became effective June 30, 2015 and includes requirements to record and report the University's proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions. In accordance with Statement 68, the University has a special funding situation in which the State of Montana is legally responsible for making contributions directly to TRS and PERS that are used to provide pension benefits to the retired members of each of the plans. Due to the existence of a special funding situation, the University is also required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability (NPL) that is associated with the University.

TRS

TRS Plan Description
TRS is a multiple-employer cost-sharing defined-benefit public pension plan 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, 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.

TRS Eligibility for Participation
Membership in TRS is compulsory for all K-12 public educators, except for persons teaching fewer than thirty days in each fiscal year. A University faculty member who is already an active, inactive or retired member of TRS, if hired into a position that was previously covered by TRS, may have a choice to remain in TRS or transfer to the Montana University System Retirement Program (MUS-RP). University employees not already members of TRS, or that are members of TRS but are hired into a position that was not previously covered by TRS, will become members of the MUS-RP.

TRS 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.

The University's net pension liability (NPL) related to TRS was as follows for the years ended June 30,

	2016	2015	Percent of Collective NPL at June 30, 2016	Percent of Collective NPL at June 30, 2015	Increase (Decrease) in Percent of Collective NPL
University Proportionate Share	$ 18,636,406	$ 19,038,438	1.13%	1.24%	-0.10%
State of Montana Proportionate Share associated with the University	7,277,054	7,645,390	0.44%	0.50%	-0.05%
Total	$ 25,913,460	$ 26,683,828	1.58%	1.73%	-0.16%

The NPL was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The university's proportion of the net pension liability was based on the university's contributions received by TRS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of TRS' participating employers.

TRS Changes between the measurement date and reporting date
There were no changes between the measurement date of the collective net pension liability and the University's reporting date that are expected to have a significant effect on the University's proportionate share of the collective NPL.

The following changes in assumptions or other inputs that affected the measurement of the Total Pension Liability have been made since the previous measurement date.

- 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 have been no changes in benefit terms since the previous measurement date.

TRS Pension Expense

The University's pension expense related to TRS was as follows for the years ended June 30,

	2016	2015
University expense	$ 3,581,898	$ 2,253,537
State of Montana expense/ University revenue recognized	115,383	428,111
Total	$ 3,697,281	$ 2,681,648

TRS Deferred Inflows and Outflows

The University recognized a beginning deferred outflow of resources as of July 1, 2014, for the University's 2014 contributions of $7,355,927.

The University share of deferred outflows of resources and deferred inflows of resources related to TRS was as follows:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 196,519	$ 0	$ 188,334	$ -
Changes in actuarial assumptions	263,736	39,359	431,492	-
Difference between projected and actual investment earnings	0	1,000,759	0	2,948,789
Difference between actual and expected contributions	6,743,745	0	4,463,777	-
Contributions paid to TRS subsequent to the measurement date *	7,819,626	0	8,012,997	-
Total	$15,023,626	$ 1,040,118	$13,096,600	$ 2,948,789

*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 fully recognized in pension expense during the year ending June 30:

	Net Amount To Be Recognized as an increase or (decrease) to Pension Expense
2017	$ 2,576,509
2018	$ 2,576,509
2019	$ 754,144
2020	$ 256,719

TRS Overview of Contributions
TRS receives a portion of the total required statutory contributions directly from the State for all employers. The employers are considered to be in a special funding situation as defined by GASB 68 and the State is treated as a

non-employer contributing entity. TRS receives 2.49% of reportable compensation from the State's general fund for School Districts and Other Employers. TRS also receives 0.11% of reportable compensation from the State's general fund for State and University Employers. Finally, the State is also required to contribute $25 million annually to TRS in perpetuity, payable July 1st of each year.

As of June 30, 2016, MCA 19-20-605 requires each employer to contribute 11.05% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position. Pursuant to MCA 19-20-609, this amount shall increase by 0.10% each fiscal year through 2024 until the total employer contribution is equal to 11.85% of re-employed retiree compensation.

TRS Actuarial Assumptions
The Total Pension Liability as of June 30, 2015, is based on the results of an actuarial valuation date of July 1, 2015. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2015 valuation were based on the results of the last actuarial experience study, dated May 1, 2014. Among those assumptions were the following:

- Total Wage Increases* — 5.00% for University members, 4.00%-8.51% for non-University members
- Investment Return — 7.75%
- Price Inflation — 3.25%
- 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%. (starting three years after retirement)
- 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.

*Total Wage Increases include 4.00% general wage increase assumption and 4.51% merit and longevity increases.

TRS 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 Code Annotated. In addition to the contributions the State general fund will contribute $25 million annually to TRS payable July 1st of each year. Based on those assumptions, the TRS fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members

through the year 2119. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability**.** No municipal bond rate was incorporated in the discount rate.

TRS Target Allocations

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return*
Broad US Equity	36.00%	4.80%	1.73%
Broad International Equity	18.00%	6.05%	1.09%
Private Equity	12.00%	8.50%	1.02%
Intermediate Bonds	23.40%	1.50%	0.35%
Core Real Estate	4.00%	4.50%	0.18%
High Yield Bonds	2.60%	3.25%	0.08%
Non-Core Real Estate	4.00%	7.50%	0.30%
	100.00%		4.75%
Inflation			3.25%
Expected arithmetic nominal return			8.00%

*The long-term expected nominal rate of return above of 8.00% differs from the total TRS long-term rate of return assumption of 7.75%. The assumed rate comprises a 3.25% inflation rate and a real long-term expected rate of return of 4.50%.

The assumed 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 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 System's target asset allocation as of June 30, 2015, is summarized in the above table.

TRS Sensitivity Analysis
Below is information regarding the net pension liability calculated using the current and two additional rates:

	Assuming 1.0% Decrease (6.75%)	At Current Discount Rate (7.75%)	Assuming 1.0% Increase (8.75%)
University proportion of Net Pension Liability	$25,604,921	$18,636,406	$12,772,800

TRS Summary of Significant Accounting Policies
TRS prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position of the Teachers' Retirement System (TRS) and additions to/deductions from TRS's fiduciary net position have been determined on the same accrual basis as they are reported

by TRS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. TRS adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

TRS' stand-alone financial statements, actuarial valuations and experience studies can be found online at https://trs.mt.gov/TrsInfo/NewsAnnualReports

PERS

PERS 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 Code Annotated (MCA). This plan covers the State, local governments, certain employees of the Montana University System, and school districts.

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

PERS Eligibility for Participation

All new members in covered positions (generally all University classified employees which excludes faculty and professional staff) are defaulted to the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-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 University also have a third option to join the 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 is used to pay down the liability of the PERS-DBRP. A new employee of the University who is already an active or inactive member of one of the PERS Plans may remain in the current retirement option or transfer to the MUS-RP. Written election to move to the MUS-RP must be done within 30 days of becoming eligible to participate, or employees default to their existing retirement plan.

PERS Summary of Benefits

Service retirement:	
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, actuarially reduced:	
Hired prior to July 1, 2011:	Age 50, 5 years of membership service Any age, 25 years of membership service.
Hired on or after July 1, 2011:	Age 55, 5 years of membership service.

PERS 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.

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.

PERS 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 July 1, 2007 through 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

PERS Net Pension Liability
In accordance with Statement 68, PERS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS on behalf of the employers. Due to the existence of this special funding situation, local governments and school districts are 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. This arrangement does not apply to the University, so a state share of pension liability is not reported.

The State of Montana also has a funding arrangement that is not considered a special funding situation whereby the State General Fund provides contributions from the Coal Severance Tax and interest. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer.

The University's net pension liability related to PERS was as follows for the years ended June 30,

	2016	2015	Percent of Collective NPL at June 30, 2016	Percent of Collective NPL at June 30, 2015	Increase (Decrease) in Percent of Collective NPL
University Proportionate Share	$ 57,646,591	$ 50,597,799	4.12%	4.06%	0.06%

The NPL was measured as of June 30, 2015, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to the measurement date of June 30, 2015. The University's proportion of the NPL was based on the University's contributions received by PERS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERS' participating employers.

PERS Changes
There were no changes in assumptions, other inputs, or benefit terms since the previous measurement date. Between the measurement date of the collective Net Pension Liability and the University's reporting date, there were changes that may affect the university's proportionate share of the collective Net Pension Liability.

PERS Pension Expense for 2016 totaled $4,205,236, which included $2,821,780 paid by the University, as well as $1,383,456 in revenue recognized for amounts received as a grant from the Montana Coal Trust Fund. PERS pension expense for 2015 totaled $3,907,314, which included $2,539,832 paid by the University, as well as $1,367,482 in revenue recognized for amounts received as a grant from the Montana Coal Trust Fund.

PERS Deferred Inflows and Outflows
The University recognized a beginning deferred outflow of resources as of July 1, 2014, for the University's 2014 contributions of $3,744,469.

The University share of deferred outflows of resources and deferred inflows of resources related to PERS was as follows:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 348,765	$ -	$ -
Changes in actuarial assumptions	-	-	-	-
Difference between projected and actual investment earnings	-	4,880,397	-	13,073,640
Change in proportionate share	1,116,920	148,296	171,570	
Difference between actual and expected contributions	-	-	-	12,767
Contributions paid to PERS subsequent to the measurement date*	4,470,903	-	4,427,288	-
Total	$ 5,587,823	$ 5,377,458	$ 4,598,858	$ 13,086,407

*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 fully recognized in pension expense during the year ending June 30:

	Net Amount To Be Recognized as an increase or (decrease) to Pension Expense	
2017	$	(1,825,634)
2018	$	(1,825,634)
2019	$	(1,878,568)
2020	$	1,269,298

PERS Overview of Contributions
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.

PERS Member contributions

- Plan members are required to contribute 7.90% of members' compensation. Contributions are deducted from each member's salary and remitted by participating employers.

- The 7.90% member contribution rate is temporary and will be decreased to 6.9% on January 1 in the year following an actuarial valuation in which 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.

PERS Employer contributions

- State and University employers are required to contribute 8.37% of members' compensation.
- Local government entities are required to contribution 8.27% of members' compensation.
- School district employers contributed 8.00% of members' compensation.
- Following the 2013 Legislative Session, PERS-employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates.
- Effective July 1, 2013, the additional employer contributions for DCRP and MUS-RP is allocated to the defined benefit plan's Plan Choice Rate (PCR) unfunded liability. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
- Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

PERS Non Employer Contributions

- Special Funding
  - The State contributes 0.1% of members' compensation on behalf of local government entities.
  - The State contributes 0.37% of members' compensation on behalf of school district entities.

- Not Special Funding
  - The State contributes from the Coal Tax Severance fund

PERS Stand-Alone Statements
The PERS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report for the fiscal year ended. It is available from the PERB at 100 North Park, PO Box 200131, Helena, MT 59620-0131, 406-444-3154.

CAFR information including stand alone financial statements can be found at http://mpera.mt.gov/annualReports.shtml

The latest actuarial valuation and experience study can be found at http://mpera.mt.gov/actuarialValuations.asp

PERS Actuarial Assumptions
The Total Pension Liability as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2014. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- General Wage Growth* 4.00%
  *includes Inflation at 3.00%
- Merit Increases 0% to 6%
- Investment Return 7.75%
- Postretirement Benefit Increases
  - 3% 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:
    - 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
- 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.

PERS 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 Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions,

the PERS fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

PERS Target Allocations

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%
	100.00%	

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for PERS. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the PERS target asset allocation as of June 30, 2015, is summarized in the above table.

PERS Sensitivity Analysis
Below is information regarding the net pension liability calculated using the current and two additional rates:

	1.0% Decrease (6.75%)	Current Discount Rate (7.75%)	1.0% Increase (8.75%)
The University's proportion of Net Pension Liability	$88,878,569	$57,646,591	$31,271,909

PERS Summary of Significant Accounting Policies
The Montana Public Employee Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, Pension Expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in

accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

GWPORS

GWPORS Plan Description
The GWPORS is administered by the Montana Public Employee Retirement Administration (MPERA). It is a multiple-employer, cost-sharing defined benefit plan established in 1963, and governed by Title 19, chapters 2 & 8, MCA. 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. Member rights are vested after five years of service.

GWPORS Eligibility for Participation
The GWPORS provides retirement benefits to all persons employed as game wardens, warden supervisory personnel, or state peace officers.

GWPORS Eligibility for Benefits
Regular Retirement
Age 50, 20 years of membership service.

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

GWPORS Monthly benefit formula
2.5% of HAC per year of service credit

GWPORS 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.

GWPORS 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

GWPORS Net Pension Liability
The University's net pension liability related to GWPORS was as follows for the years ended June 30,

	2016	2015	Percent of Collective NPL at June 30, 2016	Percent of Collective NPL at June 30, 2015	Increase (Decrease) in Percent of Collective NPL
University Proportionate Share	$ 723,801	$ 548,897	3.44%	3.63%	-0.19%

The Net Pension Liability as of June 30, 2016, was determined based on the Total Pension Liability using the actuarial valuation at June 30, 2014, with update procedures to roll forward the TPL to June 30, 2015. The University's proportion of the Net Pension Liability was based on the employer's contributions received by GWPORS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of GWPORS' participating employers.

GWPORS Changes between the measurement date and reporting date
There were no changes between the measurement date of the collective Net Pension Liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL. There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability, and there have been no changes in benefit terms since the previous measurement date.

GWPORS Pension Expense

The University's proportionate share of the pension expense related to GWPORS was as follows for the years ended June 30,

	2016	2015
University expense	$ 116,179	$ 127,988

GWPORS Deferred Inflows and Outflows
The University recognized a beginning deferred outflow of resources for the University's 2014 contributions of $136,571.

At June 30, 2016, the University share of deferred outflows of resources and deferred inflows of resources related to GWPORS was as follows:

	2016		2015	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual economic experience	$ 21,578	$ -	$ -	$ -
Difference between projected and actual investment earnings	-	104,410	-	318,982
Changes in proportionate share	-	37,971	-	-
Contributions paid to GWPORS subsequent to the measurement date*	140,761	-	139,455	-
Total	$ 162,339	$ 142,381	$ 139,455	$ 318,982

*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 fully recognized in pension expense during the year ending June 30:

	Net Amount To Be Recognized as an increase or (decrease) to Pension Expense
2017	$ (47,753)
2018	$ (47,753)
2019	$ (47,753)
2020	$ 27,920
2021	$ (2,732)
2022	$ (2,732)

GWPORS Overview of Contributions
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. Plan members are required to contribute 10.56% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. Each state agency and university employers are required to contribute 9.0% of members' compensation.

GWPORS Stand-Alone Statements
The GWPORS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report for the fiscal year ended. It is available from the PERB at 100 North Park, PO Box 200131, Helena, MT 59620-0131, 406-444-3154.

CAFR information including stand alone financial statements can be found at http://mpera.mt.gov/annualReports.shtml The latest actuarial valuation and experience study can be found at http://mpera.mt.gov/actuarialvaluations.shtml

GWPORS Actuarial Assumptions

The Total Pension Liability as of June 30, 2015, is based on the results of an actuarial valuation date of June 30, 2014, with update procedures to roll forward the TPL to June 30, 2015. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2015 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:

- General Wage Growth (includes inflation at 3%) 4.00%
- Merit Increases 0% to 7.3%
- Investment Return 7.75%
- Postretirement Benefit Increases
  - For members hired **prior to** July 1, 2007 3.00%
  - For members hired **on or after** July 1, 2007 1.50%

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, **inclusive** of other adjustments to the member's benefit.

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.

- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

GWPORS 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 Code Annotated. Based on those assumptions, the GWPORS fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability**.** No municipal bond rate was incorporated in the discount rate.

GWPORS Target Allocations

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%
	100.00%	

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the GWPORS. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the GWPORS target asset allocation as of June 30, 2015, is summarized in the above table.

GWPORS Sensitivity Analysis
Below is information regarding the net pension liability calculated using the current and two additional rates:

	1.0% Decrease (6.75%)	Current Discount Rate (7.75%)	1.0% Increase (8.75%)
University proportion of Net Pension Liability	$ 1,610,030	$ 723,801	$ (4,309)

In accordance with Statement 68 regarding the disclosure of the sensitivity of the Net Pension Liability to changes in the discount rate, the above table presents the Net Pension Liability 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.

GWPORS Summary of Significant Accounting Policies
The GWPORS prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, Pension Expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by GWPORS. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. The GWPORS adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

Other Post-Employment Benefits (OPEB) —

Authorization— Montana State law requires state agencies to provide access to health insurance benefits to eligible retirees up to Medicare – eligible age (65) (§2-18-704(1)(a), MCA). The Board of Regents of the Montana University System (MUS), having broad authority to act in the best interests of the MUS, has directed the Office of the Commissioner of Higher Education (OCHE) to provide access to health insurance benefits beyond age 65. Eligible University retirees may participate in the health insurance plan, provided that they contribute to the cost of the plan.

Eligibility— Retirees who are eligible to receive retirement benefits from Teachers Retirement System (TRS) or the Public Employees Retirement System (PERS) at the time employment ceases may participate in the plan. Retirees who are in the Montana University System Retirement Plan MUS-RP) (through TIAA-CREF) or any other defined contribution plan associated with the MUS must have worked five or more years and be age 50, or have worked 25 years with the MUS to be eligible for retiree insurance benefits. The MUS's Interunit Benefits Committee, at the direction of the OCHE, sets the premiums for such participation. Until a retiree reaches age 65, individual retiree participation premiums range from $646-$722 per month, depending on the level of deductible and other selected plan features. Upon reaching age 65 (Medicare eligibility), monthly participation premiums range from $278-$310 for an individual retiree. Coverage is also extended to dependents and surviving dependents of the employee. Retirees who select a non-MUS Medicare Advantage Program are not considered in the above rates.

Financial and plan information— The MUS Group Benefits Plan does not issue a stand-alone financial report, but is subject to audit as part of the State of Montana's Basic Financial Statements, included in the Comprehensive Annual Financial Report (CAFR). A copy of the most recent CAFR can be obtained online at http://afsd.mt.gov/CAFR/CAFR.asp or by contacting the Montana Department of Administration, PO Box 200102, Helena, MT 59620-0102.

A schedule of funding progress contained in the Required Supplementary Information immediately following the notes to the financial statements presents multi-year trend information.

The plan is considered to be a multi-employer agent plan. All units of the MUS fund the post-employment benefits on a pay-as-you-go basis from general assets. The University's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The calculated ARC represents an amount that, if funded, would cover normal cost each year and amortize any unfunded actuarial liability over a period of 30 years. The most recent actuarial determination was based on plan information as of July 1, 2015. At that time, the number of active University participants in the health insurance plan was 3,097. The total number of inactive (retiree and dependent) participants was 931. During the years ended June 30, 2016, 2015 and 2014, the University contributed $39,518,632, $38,746.697, and $35,014,278, respectively, which was calculated based on a contribution rate per actively employed participants, whose annual covered payroll totaled $207,301,264 as of the last actuarial valuation. Included within this amount, the University is deemed to have contributed $1,314,823, $1,716,218, and $862,890, for retirees or their dependents during 2016, 2015 and 2014, respectively.

As of the latest actuarial evaluation, the accrued liability for retiree health benefits was $54,239,400 all of which was unfunded. The percentage of annual OPEB cost contributed to the plan was 24%, 31% and 16% for 2016, 2015 and 2014 respectively. The funded status of the plan as of June 30 was 0% for each of the previous three years.

The University's OPEB obligations were computed as follows for 2016, 2015 and 2014:

Year ended June 30,	**2016**	**2015**	**2014**
Annual Required Contribution	$ 4,984,775	$ 5,005,586	$ 5,002,217
Interest on net OPEB Obligation	2,355,410	2,188,762	1,984,489
Amortization of net OPEB Obligation	(1,847,381)	(1,716,676)	(1,556,462)
Annual OPEB cost	5,492,804	5,477,672	5,430,244
Contributions made	(1,314,822)	(1,716,218)	(862,890)
Increase to net OPEB obligation	4,177,982	3,761,454	4,567,354
Net OPEB obligation – beginning of year	55,160,699	51,399,245	46,831,891
Net OPEB obligation – end of year	$ 59,338,681	$ 55,160,699	$ 51,399,245

Actuarial methods and assumptions –– The projected unit credit funding method was used to determine the cost of the MUS System Employee Group Benefits Plan. 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 actuarial assumptions included marital status at retirement, mortality rates and retirement age:

Method	30-year, level percent of pay amortization on an open basis
Interest/Discount rate	4.25%
Projected payroll increases	2.50%
Healthcare cost trend rate	-8.0% (Medical and Prescription) for the initial year; -Rates decreasing from 7.5% to 5.0% for years 2016 - 2021 -4.5% (Medical and Prescription) in 2022 and beyond
Participation	50% of future retirees are assumed to elect coverage at the time of retirement, 60% of future eligible spouses of future retirees are assumed to elect coverage

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Such events include assumptions about future employment, mortality rates, and healthcare cost trends. Amounts are subject to continual review and revision as actual results are compared with past expectations and new estimates are made. Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and on the pattern of sharing of costs between the employer and plan members to that point. Calculations reflect a long-term perspective, and as such, may include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Termination Benefits — During the year ended June 30, 2016 and 2015, certain employees were involuntarily terminated. The University agreed to contribute to their health insurance for a specified period of time as severance. Additionally, certain employees were offered a one-time payment as incentive to retire. Certain employees had elected the Teachers' Retirement System Option 1 payout during the fiscal year ended June 2016. During the year ended June 30, 2016, incentive pay of $229,238 for voluntary and involuntary terminations plus benefits of $243,122 (including TRS payment of $204,559) were recorded for a total of 10 employees, for a total of $472,360 in expenses included in the accompanying financial statements. Of this total, $470,313 was paid, with $2,047 remaining to be paid, which was accrued as of June 30, 2016.

NOTE 16 – 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, Sections 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 automobile physical damage, aircraft physical damage and liability, general liability and property exposures. The RMTDD provides coverage, above self-insured retentions, by purchasing other commercial coverage using Alliant Insurance Services as the primary insurance broker for volunteer accidental death & dismemberment, boiler & machinery, business interruption, cyber/data information security, fine art, foreign liability and special risks, inland marine, student medical and non-medical professional liability, excess property, and special events coverage. The insurance broker for crime insurance is HUB International, and coverage for aviation excess liability and aircraft hull (physical damage) is held through a specialty broker, Mountain Air Aviation. MSU secures athletic injury and catastrophic sports injury insurance for its NCAA programs through Bene Marc, Inc. and Summit America Insurance Services. In addition to these basic policies, the University's Department of Safety and Risk Management establishes guidelines and provides consultation in risk assessment, avoidance, acceptance and transfer. There have been no significant reductions in commercial property insurance protection from fiscal 2016 to fiscal 2017, and there were no instances in which settlements exceeded insurance coverage for the past three fiscal years.

Buildings and contents – are insured for replacement cost value. For each loss covered by the State's self- insurance program and commercial coverage, MSU elects a $1,000 per occurrence retention.

General liability and tort claim coverage – includes comprehensive liability for personal injury or property damage that may arise from a negligent act or omission of the state. Also included are automobile liability, watercraft and mobile equipment, and are provided for by the University's participation in the State's self-insurance program. If the RMTDD pays damages on a claim, the division has the right to recover costs or damages from any party in connection with the claim. There is no agency deductible applied to tort liability claims. There is a $250/$500 deductible for comprehensive/collision claims on state owned, loaned or leased vehicles.

The Tort Claims Act of the State of Montana, 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. 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."

Self-Funded Programs – The University's employee 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 considers premiums and University contributions sufficient to pay current and future claims.

Effective July 1, 2003, the MUS adopted a self-funded workers' compensation insurance program, provided through membership in the MUS Self-Insured Workers' Compensation Program. The MUS program is funded on an actuarial basis and utilizes an OCHE employee as an in-house administrator. 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.

The MUS program incorporates a self-insured retention of $750,000 per occurrence and excess commercial coverage to statutory limits. Employer's liability coverage has a $750,000 per occurrence retention with a per occurrence insurance limit of $1,000,000. The University makes monthly contributions to the self-funded program utilizing the MUS Workers' Compensation Board-recommended rates for premium payments. The MUS Workers' Compensation Board annually utilizes actuarially recommendations based upon the National Council for Compensation Insurance (NCCI) rates per $100 in University payroll.

NOTE 17 – COMMITMENTS AND CONTINGENT LIABILITIES

Operating leases – The University is committed under non-cancelable operating leases as follows:

Minimum rental payments for operating leases are due in the years ending June 30,	Amount
2017	3,568,096
2018	2,154,777
2019	1,943,149
2020	1,910,770
2021	945,424
2022-2026	1,285,135
Total	$ 11,807,351

Payments made under operating leases during the years ended June 2016 and 2015 totaled $3,602,669 and $3,702,826 respectively. Certain space lease agreements, which comprise the majority of the commitments, contain escalation clauses based on the consumer price index.

Other commitments:

Encumbrances – As of June 30, 2016, the University had issued purchase orders committing the expenditure of approximately $8.1 million for equipment, supplies and services which had not yet been received.

Legal actions – The University is a defendant in legal actions arising in the normal course of business. 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 net position, results of operations or cash flows.

Refundable grants – The University receives grants and other forms of reimbursement from various Federal and State agencies. These funds are subject to review and audit by cognizant agencies. As of June 30, 2016, certain audits were in progress and the University does not expect any material adjustments or repayments to result from such audits.

Capital projects – As of June 30, 2016, the University had remaining budget authority on significant capital construction and renovation projects of approximately $116.6 million. Certain of the projects are funded wholly or partially by the State's Long Range Building Program, and are administered by the State Architecture and Engineering Division, and do not represent a commitment of funds on the part of the University.

Pledged revenues – The University's bonded indebtedness, as described in Note 11, is payable from and secured by a parity first lien on and pledge of certain gross and net revenues, which comprise: 1) all student building fees and certain student union use fees assessed against students attending the University; 2) net student housing system pledged revenues, after the payment of operation and maintenance expenses of such facilities: 3) certain rental and other income generated by the pledged facilities; 4) lease rentals from the Museum of the Rockies; 5) all Land Grant income; 6) certain student athletic fees; 7) certain Health & Physical Education fees; 8) MSU- Bozeman Fieldhouse fees; 9) capitalized interest and earnings on certain funds created under the Indenture; 10) certain Grant-related Facilities & Administrative Costs with respect to the Series H 2004 and Series N 2012 debt; 11) revenue generated from the student facility enhancement fee; 12) lease income generated from the University's lease with the ASMSU Bookstore; 13) student fees generated by the student union building fees; and 14) debt service payments relative to the Series B bonds, as received from the MSU Foundation. None of the net pledged revenues are derived from facilities or fees relating to the Great Falls campus, the MSU Extension Service, the Montana Agricultural Experiment Station, or the Fire Services Training School.

All of the above revenues are cross-pledged to repay any and all of the secured debt. The remaining cash requirements to repay bonds, including principal and interest, total $234.8 million from July 1, 2016 through June 30, 2046.

Amounts of pledged revenue were as follows in the years ended June 30:

	2016			2015		
Description	Pledged Revenue	Total Similar Revenue	% Pledged	Pledged Revenue	Total Similar Revenue	% Pledged
Student fees (no tuition is pledged)	$ 9,767,142	$36,889,119	26%	$ 9,410,196	$37,856,446	25%
Housing and residence hall dining revenues, net of related expenses	10,322,531	10,322,531	100%	12,739,569	12,739,569	100%
MSU Bozeman Foundation Gift revenue related to Series B debt service	1,750,822	1,750,822	100%	3,039,053	3,039,053	100%
Grant and contract facility and administrative cost recoveries	1,386,660	16,785,836	8%	1,380,027	16,027,616	9%
Bozeman campus athletic events revenue	3,582,430	3,693,315	97%	3,205,020	3,305,133	97%
Bozeman campus parking revenues	2,378,573	2,378,573	100%	2,250,641	2,250,641	100%
Bozeman bookstore and museum lease income	669,049	669,049	100%	700,121	700,121	100%
Land grant income	2,113,539	2,113,539	100%	3,572,401	3,572,401	100%
Investment income	603,512	1,842,113	33%	777,720	1,188,545	65%
Total	32,574,258			37,074,748		
Less debt service requirements	(14,908,055)			(16,031,764)		
Excess of pledged revenue over debt service requirements	$ 17,666,203			$ 21,042,984		

NOTE 18 – RELATED PARTIES

Private nonprofit organizations affiliated with the University include the MSU Foundation, the MSU-Billings Foundation, the MSU-Northern Foundation, the MSU-Bozeman Alumni Association, the MSU Bobcat Club, the MSU-Bozeman Bookstore, Friends of KUSM, Friends of KEMC and the Museum of the Rockies, Inc. As discussed in note 20, certain of the parties are considered Component Units of the University. During 2012, the MSU-Bozeman Alumni Association was merged into the MSU Foundation, and the name of the combined entity was changed to the MSU Alumni Foundation.

During the years ended June 30, 2016 and 2015, respectively, the Foundations provided $21,367,791 and $17,449,214 in scholarship, in-kind capital donations, and other gift support directly to the University, in addition to significant payments made to others in support of the University. The University paid to its Foundations $2,462,786 and $2,248,720 during the years ended 2016 and 2015, respectively, which included payments for contracted services, capital campaign support, and operating leases.

MSU- Bozeman leased certain office space from the MSU Alumni Foundation's wholly owned subsidiary, Advanced Technology Inc. (ATI). Rental and other payments to ATI totaled $185,767 during 2016 and $189,995 during 2015.

Friends of Montana Public Television provided $1,096,908 during 2016 and $1,029,483 during 2015 and Friends of KEMC Public Radio provided $865,000 during 2016 and $850,000 during 2015 in support of the University's television and radio stations.

The Museum of the Rockies, Inc. paid $300,000 per year to the University for facility rental, and provided $1,621,660 and $1,420,912 during the fiscal years ended June 2016 and 2015, respectively, in support of the University, primarily as reimbursement for Museum staff salaries and benefits as well as improvements to the leased facility. The Museum of the Rockies lease continues at a rate of $300,000 per year through 2016.

The MSU Bobcat Club provided $387,395 and $1,178,730 in scholarship and other support during the years ended June 30, 2016 and 2015. The University provided $204,792 in salary support to the MSU Bobcat Club during the year ending June 30, 2016.

NOTE 19 – SUBSEQUENT EVENTS

In November 2016, the University received approval from the Board of Regents' to negotiate a long-term land and building lease at a cost of approximately $2 million per year for up to ten years, with renewal options at a land-lease only rate for five or more years thereafter. The leased facility will be used to conduct classified research that is expected to be funded by governmental grants. Lease negotiations were not yet complete as of December 9, 2016.

Subsequent to June 30, 2016, the University drew an additional $2.8 million on its Series C bonds, bringing the total outstanding as of December 9, 2016, to $7.6 million. The University is committed to draw a total of $16.455 million through February of 2018, as funds are required to complete its parking garage and new dining hall.

The University entered into three leases at a combined annual cost of approximately $80,000. The lease terms range from one to four years.

NOTE 20 – COMPONENT UNITS

Entities included as component units of the University 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 may not control the timing or amount of receipts from these entities, the majority of the revenues or incomes thereon that the entities hold and invest are restricted by donors to the activities of the University. The entities included as component units in the financial statements are the Montana State University Foundation (doing business as the Montana State University Alumni Foundation) (406-994-2053), the MSU-Billings Foundation (406-657-2244), the MSU-Northern Foundation (406-265-3711), the MSU Bobcat Club (406-994-3741), and the Museum of the Rockies, Inc. (406-994-3466).

The Foundations and the Museum of the Rockies, Inc., meet the test for component units based on the materiality of the support provided to the university. The Montana State University Bobcat Club has been included as a component unit because management believes it would be misleading to exclude it. Support received from this entity is significant and critical in relation to the operations of the individual sports it supports; additionally, many financial statement readers do not differentiate between the University and its sports support organizations, and would expect their financial information to be included within the University's audited statements.

Condensed financial information for each of the University's component units follows.

Montana State University
Condensed Combining Schedule of Component Unit Statements of Financial Position
As of June 30, 2016 or December 31, 2015*

	Montana State University Alumni Foundation	Montana State University-Billings Foundation	Montana State University-Northern Foundation	Museum of the Rockies, Inc.	Montana State University Bobcat Club	Combined
Assets:						
Cash and investments	$ 169,636,763	$ 26,402,340	$ 8,003,946	$ 12,701,795	$ 1,849,731	$ 218,594,575
Amounts due from MSU	-	-	865,169	-	-	865,169
Other receivables, net	77,925,674	741,484	1,582,028	449,079	15,400	80,713,665
Capital assets, net	4,428,938	1,157,909	70,639	2,091,400	-	7,748,886
Other assets	561,146	92,382	10,000	464,169	714,911	1,842,608
Total assets	$ 252,552,521	$ 28,394,115	$ 10,531,782	$ 15,706,443	$ 2,580,042	$ 309,764,903
Liabilities:						
Accounts payable and other liabilities	$ 1,570,739	$ 1,.045,663	$ -	$ 582,308	$ 98,883	$ 3,297,593
Amounts due to MSU	801,890	-	-	322,209	-	1,124,099
Notes, bonds and debt obligations	7,906,180	-	-	-	-	7,906,180
Liabilities to external parties	5,116,111	374,234	1,309,069	-	-	6,799,414
Custodial funds	10,168,540	1,592,804	100,911	-	-	11,862,255
Total liabilities	25,563,460	3,012,701	1,409,980	904,517	98,883	30,989,541
Net assets:						
Unrestricted	(1,165,305)	4,467,525	(319,907)	8,811,447	894,730	12,688,490
Temporarily restricted	110,769,662	7,102,060	5,119,552	5,164,588	236,456	128,392,318
Permanently restricted	117,384,704	13,811,829	4,322,157	825,891	1,349,973	137,694,554
Total net assets	226,989,061	25,381,414	9,121,802	14,801,926	2,481,159	278,775,362
Total liabilities and net assets	$ 252,552,521	$ 28,394,115	$ 10,531,782	$ 15,706,443	$ 2,580,042	$ 309,764,903

*The Museum of the Rockies, Inc. maintains a December 31 year-end. All other component units' year-ends coincide with the University's June 30 fiscal year.

Montana State University

Condensed Combining Schedule of Component Unit Statements of Activities

For the Year Ended June 30, 2016 or December 31, 2015*

	Montana State University Alumni Foundation	Montana State University-Billings Foundation	Montana State University-Northern Foundation	Museum of the Rockies, Inc.	Montana State University Bobcat Club	Combined
Revenues:						
Contributions	$ 79,190,896	$ 2,142,166	$ 1,398,580	$ 1,423,300	$ 680,475	$ 84,835,417
Investment income and unrealized gain on investments	(3,432,318)	(289,776)	22,097	91,176	217,295	(3,391,526)
Support from University	1,575,000	91,000	182,579	-	-	1,848,579
Other income	1,835,592	714,973	19,763	3,268,357	792,237	6,630,922
Total revenues	79,169,170	2,658,363	1,623,019	4,782,833	1,690,007	89,923,392
Expenses:						
University support	15,271,168	717,452	96,376	1,432,077	272,290	17,789,363
Scholarships and other program expenses	4,117,148	2,108,918	715,009	2,101,900	363,744	9,406,719
Supporting services	8,119,427	632,338	335,942	1,166,761	828,800	11,083,268
Total expenses	27,507,743	3,458,708	1,147,327	4,700,738	1,464,834	38,279,350
Change in net assets before nonoperating items	51,661,427	(800,345)	475,692	82,095	225,173	51,644,042
Nonoperating items	(61,125)	-	-	-	-	(61,125)
Change in net assets	51,600,302	(800,345)	475,692	82,095	225,173	51,582,917
Net assets, beginning of fiscal year	175,388,759	26,181,759	8,646,110	14,719,831	2,255,986	227,192,445
Net assets, end of fiscal year	$ 226,989,061	$ 25,381,414	$ 9,121,802	$ 14,801,926	$ 2,481,159	$ 278,775,362

Component Unit Investment Composition*:

	2016	2015
Pooled investments**:		
Equity securities	$ 19,550,691	$ 19,465,093
Debt securities	13,944,967	20,434,968
Alternative investments	111,891,882	116,653,974
Real Estate	-	-
Cash equivalents	12,466,705	11,034,022
Other pooled investments	31,103,727	27,699,158
US Treasuries	546,698	486,026
Other real estate	300,183	514,883
Other investments	11,053,227	10,983,000
Investments held in trust for others	9,147,061	9,436,656
Total	$ 210,005,141	$ 216,707,780

Component Unit Promises Receivable*:

	2016	2015
Receivable in one year	$ 32,405,859	$ 1,247,568
Receivable in one to five years	40,088,211	15,735,522
Receivable after five years	571,000	667,500
Less discounts and allowances	(2,491,681)	(1,819,589)
Total	$ 70,573,389	$ 15,831,001

* The Museum of the Rockies, Inc. maintains a December 31 year-end. All other component units' year-ends coincide with the University's June 30 fiscal year.
**Foundation investment pools are not subject to regulatory oversight.

Montana State University
Condensed Combining Schedule of Component Unit Statements of Financial Position
As of June 30, 2015 or December 31, 2014*

	Montana State University Alumni Foundation	Montana State University-Billings Foundation	Montana State University-Northern Foundation	Museum of the Rockies, Inc.	Montana State University Bobcat Club	Combined
Assets:						
Cash and investments	$ 177,313,753	$ 26,864,144	$ 7,347,467	$ 12,076,795	$ 1,516,594	$ 225,118,753
Amounts due from MSU	-	-	1,085,169	-	-	1,085,169
Other receivables, net	19,688,771	871,500	1,629,896	256,317	42,272	22,488,756
Capital assets, net	4,622,144	1,204,051	56,628	2,747,519	-	8,630,342
Other assets	452,859	93,761	10,000	455,653	883,472	1,895,745
Total assets	$ 202,077,527	$ 29,033,456	$ 10,129,160	$ 15,536,284	$ 2,442,338	$ 259,218,765
Liabilities:						
Accounts payable and other liabilities	$ 1,010,390	$ 834,460	$ -	$ 528,652	$ 186,352	$ 2,559,854
Amounts due to MSU	318,347	-	-	287,801	-	606,148
Notes, bonds and debt obligations	9,657,225	-	-	-	-	9,657,225
Liabilities to external parties	5,312,444	344,462	1,483,050	-	-	7,139,956
Custodial funds	10,390,362	1,672,775	-	-	-	12,063,137
Total liabilities	26,688,768	2,851,697	1,483,050	816,453	186,352	32,026,320
Net assets:						
Unrestricted	2,143,059	4,846,602	(343,619)	8,720,862	697,468	16,064,372
Temporarily restricted	67,630,046	7,927,464	4,770,264	5,173,364	212,608	85,713,746
Permanently restricted	105,615,654	13,407,693	4,219,465	825,605	1,345,910	125,414,327
Total net assets	175,388,759	26,181,759	8,646,110	14,719,831	2,255,986	227,192,445
Total liabilities and net assets	$ 202,077,527	$ 29,033,456	$ 10,129,160	$ 15,536,284	$ 2,442,338	$ 259,218,765

*The Museum of the Rockies, Inc. maintains a December 31 year-end. All other component units' year-ends coincide with the University's June 30 fiscal year.

Montana State University

Condensed Combining Schedule of Component Unit Statements of Activities

For the Year Ended June 30, 2015 or December 31, 2014*

	Montana State University Alumni Foundation	Montana State University-Billings Foundation	Montana State University-Northern Foundation	Museum of the Rockies, Inc.	Montana State University Bobcat Club	Combined
Revenues:						
Contributions	$ 17,087,770	$ 1,969,679	$ 4,459,604	$ 677,257	$ 1,587,152	$ 25,781,462
Investment income and unrealized gain on investments	1,313,104	864,941	126,925	458,689	21,110	2,784,769
Support from University	1,200,000	176,000	170,204	-	-	1,546,204
Other income	2,095,584	680,622	12,316	2,984,763	800,957	6,574,242
Total revenues	21,696,458	3,691,242	4,769,049	4,120,709	2,409,219	36,686,677
Expenses:						
University support	12,128,566	809,452	100,302	1,510,111	312,738	14,861,169
Scholarships and other program expenses	3,266,816	1,808,052	654,941	2,103,095	1,150,715	8,983,619
Supporting services	8,240,526	715,139	283,294	1,113,567	933,486	11,286,012
Total expenses	23,635,908	3,332,643	1,038,537	4,726,773	2,396,939	35,130,800
Change in net assets before nonoperating items	(1,939,450)	358,599	3,730,512	(606,064)	12,280	1,555,877
Nonoperating items	(53,110)	-	(6,604)	-	-	(59,714)
Change in net assets	(1,992,560)	358,599	3,723,908	(606,064)	12,280	1,496,163
Net assets, beginning of fiscal year	177,381,319	25,823,160	4,922,202	15,325,895	2,243,706	225,696,282
Net assets, end of fiscal year	$ 175,388,759	$ 26,181,759	$ 8,646,110	$ 14,719,831	$ 2,255,986	$ 227,192,445

Component Unit Investment Composition*:

	2015	2014
Pooled investments**:		
Equity securities	$ 19,465,093	$ 20,769,897
Debt securities	20,434,968	10,031,154
Alternative investments	116,653,974	114,398,921
Real Estate	-	27,627
Cash equivalents	11,034,022	12,883,975
Other pooled investments	27,699,158	38,042,865
US Treasuries	486,026	388,390
Other real estate	514,883	576,083
Other investments	10,983,000	9,020,015
Investments held in trust for others	9,436,656	10,775,737
Total	$ 216,707,780	$ 216,914,664

Component Unit Promises Receivable*:

	2015	2014
Receivable in one year	$ 1,247,568	$ 5,598,900
Receivable in one to five years	15,735,522	14,369,885
Receivable after five years	667,500	3,271,595
Less discounts and allowances	(1,819,589)	(2,018,487)
Total	$ 15,831,001	$ 21,221,893

* The Museum of the Rockies, Inc. maintains a December 31 year-end. All other component units' year-ends coincide with the University's June 30 fiscal year.
**Foundation investment pools are not subject to regulatory oversight.

Required Supplementary Information

Pensions

Schedule of the University's Proportionate Share of the Net Pension Liability for TRS

Year	University's Proportion of the NPL	University's Share of the NPL	State of Montana Share of the NPL Associated with the University	Total University Share of the NPL	University's Covered Employee Payroll	University's share of the NPL as a % of Covered Employee Payroll	Plan Fiduciary Net Position as a % of Total Pension Liability
2015	1.24%	$19,038,438	$7,645,390	$26,683,828	$12,179,563	156.31%	70.36%
2016	1.13%	$18,636,406	$7,277,054	$25,913,460	$11,281,960	165.19%	69.30%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available

Schedule of University Contributions to TRS

Year	Contractually Required Contributions	Contributions Made*	Excess/ (Deficiency)	University's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2015	$8,012,997	$8,012,997	-	$11,281,960	71.02%
2016	$7,819,626	$7,819,626	-	$ 9,738,223	80.30%

*Includes contributions made as a percent of MUS-RP covered payroll as well as TRS covered payroll at statutory rates.

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available

Schedule of the University's Proportionate Share of the Net Pension Liability for PERS

Year	University's Proportion of the NPL	University's Share of the NPL	University's Covered Employee Payroll	University's share of the NPL as a % of Covered Employee Payroll	Plan Fiduciary Net Position as a % of Total Pension Liability
2015	4.06%	$50,597,799	$45,405,357	111.44%	79.90%
2016	4.12%	$57,646,591	$47,364,867	121.71%	78.40%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available

Schedule of University Contributions to PERS

Year	Contractually Required Contributions	Contributions Made*	Excess/ (Deficiency)	University's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2015	$4,427,288	$4,427,288	-	$47,364,867	9.35%
2016	$4,470,903	$4,470,903	-	$48,343,193	9.25%

*Includes contributions made as a percent of MUS-RP covered payroll as well as PERS covered payroll at statutory rates.

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available

Schedule of the University's Proportionate Share of the Net Pension Liability for GWPORS

Year	University's Proportion of the NPL	University's Share of the NPL	University's Covered Employee Payroll	University's share of the NPL as a % of Covered Employee Payroll	Plan Fiduciary Net Position as a % of Total Pension Liability
2015	3.63%	$548,897	$1,511,439	36.32%	90.20%
2016	3.44%	$723,801	$1,546,185	46.81%	87.60%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available

Schedule of University Contributions to GWPORS

Year	Contractually Required Contributions	Contributions Made	Excess/ (Deficiency)	University's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2015	$139,455	$139,455	-	$1,546,185	9.02%
2016	$140,761	$140,761	-	$1,562,149	9.01%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available

Notes to Required Supplementary Information—Pensions:

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. Examples include assumptions about future employment, mortality, and wage rates. Amounts determined regarding the plans are subject to continual revision as actual results are compared with past expectations.

The following actuarial methods and assumptions were used to determine actuarial contribution rates reported in the TRS schedules:

Actuarial Valuation Date	Actuarial cost method	Amortization method	Remaining amortization period	Asset valuation method	Inflation	Salary increase—non-University members	Salary increase-University Members	Investment rate of return (shown net of pension plan investment expense, and including inflation)
July 1, 2014	Entry age	Level percentage of pay, open	28 years	4-year smoothed market	3.25%	4.00% - 8.51%	5.00%	7.75%
July 1, 2015	Entry age	Level percentage of pay, open	26 years	4-year smoothed market	3.25%	4.00% - 8.51%	5.00%	7.75%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available

The following actuarial methods and assumptions were used to determine actuarial contribution rates reported in the PERS schedules:

Actuarial Valuation Date	Actuarial cost method	Amortization method	Remaining amortization period	Asset valuation method	Inflation	Salary increase	Investment rate of return (shown net of pension plan investment expense, including inflation)	Other
June 30, 2013, rolled forward to 2014	Entry age	Level percentage of pay, open	29.3 years	4-year smoothed market	3.0%	General Wage Growth - 4.00% (including inflation at 3.00%) Merit – 0% - 6%	7.75%	0.27% administrative expenses as a % of payroll GABA- 3.0% or 1.5% for hires after July 1, 2007
June 30, 2014, rolled forward to 2015	Entry age	Level percentage of pay, open	30 years	4-year smoothed market	3.0%		7.75%	0.27% administrative expenses as a % of payroll GABA- 3.0% or 1.5% for hires after July 1, 2007 and before July 1, 2013; for members hired after July 1, 2013: 1.5% for each ear 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

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available

Guaranteed Annual Benefit Adjustment (GABA) - for PERS
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 and before July 1, 2013
- Members hired on or after July 1, 2013
    a. 1.5% each year PERS is funded at or above 90%;
    b. 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and,
    c. 0% whenever the amortization period for PERS is 40 years or more.

<u>2015 Legislative Changes</u>:
General Revisions - House Bill 101, effective January 1, 2016

Second Retirement Benefit - for PERS

1) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:

- refund of member's contributions from second employment plus regular interest (currently 0.25%);
- no service credit for second employment;
- start same benefit amount the month following termination; and

- GABA starts again in the January immediately following second retirement.

2) For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:
   - member receives a recalculated retirement benefit based on laws in effect at second retirement; and,
   - GABA starts in the January after receiving recalculated benefit for 12 months.

3) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:
   - refund of member's contributions from second employment plus regular interest (currently 0.25%);
   - no service credit for second employment;
   - start same benefit amount the month following termination; and,
   - GABA starts again in the January immediately following second retirement.

4) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:
   - member receives same retirement benefit as prior to return to service;
   - member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
   - GABA starts on both benefits in January after member receives original and new benefit for 12 months.

Revise DC Funding Laws - House Bill 107, effective July 1, 2015Employer Contributions and the Defined Contribution Plan – for PERS and MUS-RP

The PCR was paid off effective March 2016 and the contributions of 2.37%, .47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

The following actuarial methods and assumptions were used to determine actuarial contribution rates reported in the GWPORS schedules:

Actuarial Valuation Date	Actuarial cost method	Amortization method	Remaining amortization period	Asset valuation method	Inflation	Salary increase	Investment rate of return (net of pension plan investment expense, including inflation)	Other
June 30, 2013, rolled forward to 2014	Entry age normal	Level percentage of pay, open	30 years	4-year smoothed market	3.0%	General Wage Growth - 4.00%	7.75%,	0.17% administrative expenses as a % of payroll
June 30, 2014, rolled forward to 2015	Entry age	Level percentage of pay, open	30 years	4-year smoothed market	3.0%	General Wage Growth - 4.00%	7.75%	0.17% administrative expenses as a % of payroll

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available

Other Post-Employment Benefits:

Schedule of Funding Progress For Other Post Retirement Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a) / c)
July 1, 2011	-	$ 55,421,239	$ 55,421,239	0.00%	$ 183,870,217	30.14%
July 1, 2013	-	$ 49,869,358	$ 49,869,358	0.00%	$ 201,051,981	24.80%
July 1, 2015	-	$ 54,239,400	$ 54,239,400	0.00%	$ 207,301,264	26.16%

Note to Required Supplementary Information— OPEB

Other Post - Employment Benefits (OPEB) Trend Data

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. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. See assumptions below.

Actuarial Valuation Date	Interest Rate	Payroll Increase	Participant Percentage
July 1, 2011	4.25	2.50%	55%
July 1, 2013	4.25	2.50%	55%
July 1, 2015	4.25	2.50%	50%

Unaudited Supplemental Information

MONTANA STATE UNIVERSITY—ALL CAMPUSES AND AGENCIES

MSU- BOZEMAN

MONTANA AGRICULTURAL EXPERIMENT STATION (MAES)

MSU EXTENSION (ES)

FIRE SERVICES TRAINING SCHOOL (FSTS)

MSU- BILLINGS

MSU- NORTHERN

GREAT FALLS COLLEGE MSU

Montana State University
Unaudited Consolidating Statements of Net Position
As of June 30, 2016

ASSETS	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	Great Falls College MSU	Intercampus Eliminations	MSU Consolidated Total
Current assets:									
Cash and cash equivalents	$ 151,249,815	$ 6,739,336	$ 3,952,157	$ 155,267	$ 35,851,506	$ 9,115,412	$ 5,675,949	$ -	$ 212,739,442
Short term investments	8,503,748	-	-	-	-	-	-	-	8,503,748
Securities lending collateral	669,217	-	-	-	71,854	-	-	-	741,071
Accounts and grants receivable, net	8,326,139	354,338	147,863	6,841	1,117,545	853,826	431,630	-	11,238,182
Amounts receivable from Federal government	13,206,539	-	162,709	-	79,600	162,530	60,492	-	13,671,870
Amounts receivable from primary government	397,310	-	-	-	17,943	9,344	33,778	-	458,375
Amounts receivable from Montana component units	-	-	-	-	56,902	-	-	-	56,902
Amounts receivable from MSU campuses	-	-	-	-	4,048	-	-	(4,048)	-
Loans receivable, net	3,177,173	-	-	-	607,531	211,844	-	-	3,996,548
Inventories	1,159,413	676,492	-	-	758,621	300,017	290,946	-	3,185,489
Prepaid expenses and other current asets	3,564,274	13,673	23,628	-	137,943	133,823	99,281	-	3,972,622
Total current assets	**190,253,628**	**7,783,839**	**4,286,357**	**162,108**	**38,703,493**	**10,786,796**	**6,592,076**	**(4,048)**	**258,564,249**
Noncurrent assets:									
Restricted cash and cash equivalents	1,008,100	-	-	-	12,400	62,876	-	-	1,083,376
Restricted investments	7,397,418	-	-	-	-	100,911	-	-	7,498,329
Loans receivable, net	15,424,484	-	-	-	2,416,052	1,369,552	-	-	19,210,088
Investments	20,488,585	-	-	-	1,592,804	-	-	-	22,081,389
Capital assets	343,235,838	19,226,662	181,035	369,388	46,678,273	18,768,578	22,858,105	-	451,317,879
Other noncurrent assets	4,609,030	-	-	-	-	-	-	-	4,609,030
Total noncurrent assets	**392,163,455**	**19,226,662**	**181,035**	**369,388**	**50,699,529**	**20,301,917**	**22,858,105**	**-**	**505,800,091**
Total assets	**$ 582,417,083**	**$ 27,010,501**	**$ 4,467,392**	**$ 531,496**	**$ 89,403,022**	**$ 31,088,713**	**$ 29,450,181**	**$ (4,048)**	**$ 764,364,340**
DEFERRED OUTFLOWS	**$ 22,268,826**	**$ 1,211,412**	**$ 849,691**	**$ 31,089**	**$ 2,912,148**	**$ 1,191,299**	**$ 958,459**	**$ -**	**$ 29,422,924**
LIABILITIES									
Current liabilities:									
Accounts payable and accrued liabilities	$ 34,122,819	$ 1,644,440	$ 1,024,780	$ 47,157	$ 3,993,304	$ 2,251,603	$ 1,034,730	-	$ 44,118,833
Amounts payable to primary government	2,629,274	-	-	-	430,786	116,806	74,542	-	3,251,408
Amounts payable to Montana component units	226,060	-	-	-	-	-	-	-	226,060
Amounts payable to MSU campuses	4,048	-	-	-	-	-	-	(4,048)	-
Securities Lending Liability	669,217	-	-	-	71,854	-	-	-	741,071
Property held in trust for others	1,925,584	-	-	-	127,828	55,126	126,307	-	2,234,845
Deferred revenues	17,748,168	8,934	15,271	-	1,714,572	398,622	618,976	-	20,504,543
Compensated absences	11,689,389	1,343,075	855,678	30,775	2,031,315	763,320	522,697	-	17,236,249
Current portion debt and capital lease obligations	8,703,056	1,255	-	-	785,000	224,108	-	-	9,713,419
Total current liabilities	**77,717,615**	**2,997,704**	**1,895,729**	**77,932**	**9,154,659**	**3,809,585**	**2,377,252**	**(4,048)**	**98,026,428**
Noncurrent liabilities:									
Advances from primary government	15,326,443	-	-	-	3,242,665	660,408	415,142	-	19,644,658
Debt and capital lease obligations	145,736,280	-	-	-	8,009,889	647,285	-	-	154,393,454
Compensated absences	10,605,774	1,218,571	776,356	27,922	1,721,367	610,686	166,220	-	15,126,896
OPEB and Pension liability	88,719,573	6,215,820	4,267,374	199,165	23,081,615	8,797,767	5,064,165	-	136,345,479
Due to Federal government	18,095,012	-	-	-	2,899,659	1,429,613	-	-	22,424,284
Derivative instrument - swap liability	6,097,182	-	-	-	-	-	-	-	6,097,182
Total noncurrent liabilities	**284,580,264**	**7,434,391**	**5,043,730**	**227,087**	**38,955,195**	**12,145,759**	**5,645,527**	**-**	**354,031,953**
Total liabilities	**$ 362,297,879**	**$ 10,432,095**	**$ 6,939,459**	**$ 305,019**	**$ 48,109,854**	**$ 15,955,344**	**$ 8,022,779**	**$ (4,048)**	**$ 452,058,381**
DEFERRED INFLOWS	**$ 4,128,946**	**$ 311,315**	**$ 144,524**	**$ 8,113**	**$ 1,324,131**	**$ 398,757**	**$ 244,171**	**$ -**	**$ 6,559,957**
NET POSITION									
Net investment in capital assets	$ 192,432,650	$ 19,203,957	$ 181,035	$ 369,388	$ 34,738,447	$ 17,120,314	$ 22,386,827	-	$ 286,432,618
Restricted - nonexpendable	12,205,143	-	-	-	759,981	404,675	11,300	-	13,381,099
Restricted - expendable	12,329,791	745,429	(412,881)	-	2,457,135	2,243,139	(34,441)	-	17,328,172
Unrestricted	21,291,500	(2,470,883)	(1,535,054)	(119,935)	4,925,622	(3,842,217)	(221,996)	-	18,027,037
Total net position	**$ 238,259,084**	**$ 17,478,503**	**$ (1,766,900)**	**$ 249,453**	**$ 42,881,185**	**$ 15,925,911**	**$ 22,141,690**	**$ -**	**$ 335,168,926**

Montana State University
Unaudited Consolidating Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	Great Falls College MSU	Intercampus Eliminations	Total
Operating revenues:									
Tuition and fees	$ 140,505,246	$ -	$ -	$ -	$ 20,363,908	$ 5,670,508	$ 3,556,934	$ -	$ 170,096,596
Federal appropriations	-	3,039,879	2,633,903	-	-	-	-	-	5,673,782
Federal grants and contracts	62,953,553	-	-	-	3,002,864	2,605,073	4,035,965	(55,161)	72,542,294
State grants and contracts	4,597,824	-	69,956	-	362,405	272,519	69,352	-	5,372,056
Non-governmental grants and contracts	9,686,445	-	170,652	-	261,842	8,450	111,732	-	10,239,121
Grant and contract facilities and administrative cost recoveries	16,151,874	-	-	-	349,272	162,824	121,866	-	16,785,836
Educational, public service and outreach revenues	16,996,211	3,330,418	4,779,935	127,887	1,212,275	273,606	338,375	(1,203,154)	25,855,553
Auxiliary - housing	19,385,558	-	-	-	1,791,669	649,994	-	-	21,827,221
Auxiliary - food service	18,855,362	-	-	-	1,150,317	772,391	257,485	-	21,035,555
Auxiliary - other auxiliary sales and services	4,651,292	-	-	-	3,421,520	680,569	1,174,748	(111,911)	9,816,218
Interest earned on loans	53,898	-	-	-	3,239	(15,151)	-	-	41,986
Other operating revenues	2,036,378	47,331	268	-	191,430	30,418	22,686	-	2,328,511
Total operating revenues	**295,873,641**	**6,417,628**	**7,654,714**	**127,887**	**32,110,741**	**11,111,201**	**9,689,143**	**(1,370,226)**	**361,614,729**
Operating expenses:									
Compensation and benefits, including pensions	221,541,951	15,551,530	11,548,487	576,347	35,873,936	14,751,856	11,031,374	-	310,875,481
OPEB expense	3,708,696	249,026	219,530	10,255	792,157	327,904	185,236	-	5,492,804
Operating expenses	112,995,046	5,040,358	2,383,559	226,149	19,603,541	7,583,618	5,761,803	(1,370,226)	152,223,848
Scholarships and fellowships	14,713,832	14,862	-	-	4,610,698	1,548,081	2,388,303	-	23,275,776
Depreciation and amortization	24,340,588	1,263,518	59,505	62,355	4,123,628	1,383,801	1,163,902	-	32,397,297
Total operating expenses	**377,300,113**	**22,119,294**	**14,211,081**	**875,106**	**65,003,960**	**25,595,260**	**20,530,618**	**(1,370,226)**	**524,265,206**
Operating loss	**(81,426,472)**	**(15,701,666)**	**(6,556,367)**	**(747,219)**	**(32,893,219)**	**(14,484,059)**	**(10,841,475)**	**-**	**(162,650,477)**
Nonoperating revenues (expenses):									
State and local appropriations	65,440,077	15,896,949	6,471,485	751,733	23,072,666	11,594,453	7,673,111	-	130,900,474
Pell Grants	13,480,577	-	-	-	5,513,380	2,331,623	3,600,929	-	24,926,509
Land grant and timber sales income	1,816,734	-	-	-	296,805	-	-	-	2,113,539
Gifts	12,824,917	51,121	256,487	-	2,453,136	1,079,889	219,623	-	16,885,173
Investment Income	1,662,068	28,972	12,372	650	88,086	25,850	24,115	-	1,842,113
Interest expense	(5,223,107)	(262)	-	-	(429,583)	(91,483)	(33,748)	-	(5,778,183)
Net nonoperating revenues (expenses)	**90,001,266**	**15,976,780**	**6,740,344**	**752,383**	**30,994,490**	**14,940,332**	**11,484,030**	**-**	**170,889,625**
Income before other revenues, expenses, gains and losses	**8,574,794**	**275,114**	**183,977**	**5,164**	**(1,898,729)**	**456,273**	**642,555**	**-**	**8,239,148**
Transfers in (out)	400,638	(506,258)	(14,503)	103,548	(16,575)	(16,575)	49,725	-	-
Gain or loss on disposal of capital assets	(135,113)	2,857	7,421	-	(124,043)	(11,415)	(17,999)	-	(278,292)
Additions to permanent endowments	15,230	-	-	-	-	-	-	-	15,230
Gifts, capital grants and contributions	12,004,831	-	-	-	190,842	567,800	1,467,521	-	14,230,994
Change in net position	**20,860,380**	**(228,287)**	**176,895**	**108,712**	**(1,848,505)**	**996,083**	**2,141,802**	**-**	**22,207,080**
Net position, beginning of year restated	**217,398,704**	**17,706,790**	**(1,943,795)**	**140,741**	**44,729,690**	**14,929,828**	**19,999,888**	**-**	**312,961,846**
Net position, end of year	**$ 238,259,084**	**$ 17,478,503**	**$ (1,766,900)**	**$ 249,453**	**$ 42,881,185**	**$ 15,925,911**	**$ 22,141,690**	**$ -**	**$ 335,168,926**

Montana State University
Unaudited Selected Cash Flow Information
For the year ended June 30, 2016

	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	Great Falls College MSU	Intercampus Eliminations	MSU Consolidated
Cash flows from operating activities:									
Cash received for revenues:									
Tuition and fees	$ 141,226,083	$ -	$ -	$ -	$ 20,292,023	$ 5,628,777	$ 3,712,729	$ -	$ 170,859,612
Federal appropriations	-	3,039,879	2,743,286	-	-	-	-	-	5,783,165
Federal grants and contracts	61,833,450	8,934	11,748	-	2,991,830	2,784,276	4,281,721	(55,161)	71,856,798
State grants and contracts	4,377,533	-	69,956	-	311,324	290,474	70,345	-	5,119,632
Private grants and contracts	12,060,953	-	170,652	-	296,393	8,450	111,732	-	12,648,180
Grant and contract indirect cost recoveries	15,769,991	-	-	-	349,272	162,824	121,866	-	16,403,953
Educational, public service and outreach revenues	17,127,440	3,147,072	4,797,923	137,790	1,296,745	283,425	330,468	(1,203,155)	25,917,708
Sales and services of auxiliary enterprises	42,889,531	-	-	-	6,332,444	2,080,928	1,404,954	(111,911)	52,595,946
Interest on loans receivable	320,965	-	-	-	49,539	-	-	-	370,504
Other operating receipts	2,036,378	47,331	269	-	191,430	30,418	22,687	-	2,328,513
Cash paid for expenses:					-				
Compensation and benefits	(222,226,575)	(15,328,848)	(11,741,816)	(591,138)	(36,537,141)	(14,965,296)	(11,281,000)	-	(312,671,814)
Operating expenses	(107,570,154)	(4,538,844)	(2,401,522)	(228,472)	(19,175,247)	(7,509,692)	(5,746,856)	1,370,227	(145,800,560)
Scholarships and fellowships	(14,713,832)	(14,862)	-	-	(4,610,698)	(1,548,081)	(2,388,303)	-	(23,275,776)
Loans made to students and federal funds repaid	(4,018,997)	-	-	-	(661,408)	(316,228)	-	-	(4,996,633)
Loan payments received from students	3,261,884	-	-	-	498,095	313,545	-	-	4,073,524
Intercampus payments	(28,644)	-	-	-	28,644	-	-	-	-
Net cash used in operating activities	**(47,653,994)**	**(13,639,338)**	**(6,349,504)**	**(681,820)**	**(28,346,755)**	**(12,756,180)**	**(9,359,657)**	**-**	**(118,787,248)**
Cash flows from noncapital financing activities:									
Receipts (disbursements) of funds held in trust for others	533,211	-	-	-	20,752	(82,777)	605	-	471,791
Direct lending proceeds	62,626,960	-	-	-	16,215,676	4,132,148	5,791,129		88,765,913
Direct lending disbursements	(62,626,960)	-	-	-	(16,215,676)	(4,132,148)	(5,791,129)		(88,765,913)
State and local appropriations	70,003,401	15,896,950	6,471,485	751,732	23,064,756	11,480,701	7,605,135	-	135,274,160
Federal pell grant funds received	13,480,578	-	-	-	5,513,380	2,331,623	3,600,929	-	24,926,510
Gifts and contributions (expendable)	12,824,916	51,121	256,486	-	2,453,136	1,079,889	219,623		16,885,171
Land grant income	1,816,734	-	-	-	296,805	-	-	-	2,113,539
Repayment of long-term advance from primary government	(58,595)				-		-	-	(58,595)
Additions to permanent endowments	15,230	-	-	-	-	-	-	-	15,230
Transfers between campuses and agencies	400,638	(506,258)	(14,503)	103,548	(16,575)	(16,575)	49,725	-	-
Net cash flows from noncapital financing activities	**99,016,113**	**15,441,813**	**6,713,468**	**855,280**	**31,332,254**	**14,792,861**	**11,476,017**	**-**	**179,627,806**
Cash flows from capital financing acitvities:									
Purchase of capital assets	(49,178,581)	(985,959)	(28,300)	(163,522)	(1,817,664)	(652,383)	(1,290,392)	-	(54,116,801)
Proceeds from sale of capital assets	50,519	13,265	16,720	-	21,699	-	-	-	102,203
Gifts restricted for capital purchase	11,640,828	-	-	-	-	-	-	-	11,640,828
Other capital financing activities	(118,627)	-	-	-	-	-	-	-	(118,627)
Proceeds from borrowings	4,805,000	-	-	-	-	-	-	-	4,805,000
Debt principal paid	(8,029,546)	(4,813)	-	-	(765,000)	(223,948)	-	-	(9,023,307)
Payment of capitalized debt issue costs	-	-	-	-	-	-	-	-	-
Advances from primary government	247,876	-	-	-	352,092	7,750	-	-	607,718
Repayment of advances from primary government	(1,809,561)	-	-	-	(348,453)	(134,736)	(52,752)	-	(2,345,502)
Interest paid	(6,499,661)	(262)	-	-	(342,867)	(91,482)	(33,748)	-	(6,968,020)
Net cash change from capital financing activities	**(48,891,753)**	**(977,769)**	**(11,580)**	**(163,522)**	**(2,900,193)**	**(1,094,799)**	**(1,376,892)**	**-**	**(55,416,508)**
Cash flows from investing activities:									
Purchase of investments	(646,215)	-	-	-	-	-	-	-	(646,215)
Proceeds from sale of investments	19,808,315	47,548	19,857	870	164,480	-	-	-	20,041,070
Investment income	1,633,281	28,973	12,372	650	158,264	23,746	22,337	-	1,879,623
Net cash change from investing activities	**20,795,381**	**76,521**	**32,229**	**1,520**	**322,744**	**23,746**	**22,337**	**-**	**21,274,478**
Net change in cash and cash equivalents	**23,265,747**	**901,227**	**384,613**	**11,458**	**408,050**	**965,628**	**761,805**	**-**	**26,698,528**
Balances at beginning of year	**128,992,168**	**5,838,109**	**3,567,544**	**143,809**	**35,455,856**	**8,212,660**	**4,914,144**	**-**	**187,124,290**
Balances at end of year	**$ 152,257,915**	**$ 6,739,336**	**$ 3,952,157**	**$ 155,267**	**$ 35,863,906**	**$ 9,178,288**	**$ 5,675,949**	**$ -**	**$ 213,822,818**

Montana State University—All Campuses and Agencies

Overview

The University is accredited by the Northwest Association of Schools and Colleges and, in addition, by national professional accrediting organizations in teacher education, nursing, environmental health, engineering, engineering technologies, architecture, foods and nutrition, chemistry, art, music and business.

Enrollment

Annual Full Time Equivalent Students

	2016	2015	2014
Montana residents			
Undergraduate	**13,110**	13,272	13,789
Graduate	**1,005**	1,070	1,078
Nonresidents			
Undergraduate	**4,052**	3,997	3,735
Graduate	**407**	347	334
Western Undergraduate Exchange	**1,316**	1,175	1,117
Total	**19,890**	19,861	20,053

Tuition and Fees

Tuition and fees vary from campus to campus, and on each campus differ for residents and nonresidents and for undergraduate students and graduate students. The ranges of tuition and fees charged for full-time students during the 2015-2016 academic year, on a per-semester basis, were as follows:

	Resident Undergraduate—Graduate	Nonresident Undergraduate (WUE)—Graduate
Bozeman Campus	$3,425 – $3,957	$4,876 – $11,573
Billings Campus	$2,904 – $3,344	$4,066 – $9,361
Northern Campus (1)	$2,660 – $3,390	$3,701 – $9,428
Great Falls Campus (2)	$1,565 – N/A	$2,189 – N/A

(1) Average of lower and upper divisions.
(2) Undergraduate program only.

Employees and Graduate Assistants

As of Fall 2015, the University had 7,635 employees and utilized 701 graduate assistants as follows:

	Bozeman	Billings	Northern	Great Falls	Total
Faculty/Professional	2,106	451	177	164	2,898
State classified system	1,161	205	66	61	1,493
Temporary hourly	320	65	41	14	440
Students	2,363	256	132	53	2,804
Total employees	5,950	977	416	292	7,635
Graduate assistants	685	16	-	-	701

Nearly all faculty and classified employees at the University are members of and represented by various collective bargaining units. Currently, part-time employees and administrative professionals are not represented by any of the collective bargaining units.

MSU- Bozeman

Campus Overview

On February 16, 1893, the Agricultural College of the State of Montana was founded in Bozeman as the state's land grant institution, and was the first unit of higher education of the of the state of Montana. Later renamed The Montana College of Agriculture and Mechanic Arts, the institution was popularly known as Montana Agricultural College, or MAC. By the 1920s, the institution's preferred name was Montana State College and so it remained until July 1, 1965, when, in recognition of the enormous advances in the College's commitment to scientific and humanistic research, the thirty-ninth legislative assembly of the State of Montana changed MSC's name to Montana State University. In 1994, the Board of Regents approved a restructuring plan that created a four-campus Montana State University and gave the Bozeman campus administrative oversight of the, now, MSU-Billings, Great Falls College MSU and MSU-Northern. Statutory authority for Montana State University- Bozeman is contained in Title 20, Chapter 25, Section 201 Montana Code Annotated.

The curricula offered are organized into eleven undergraduate colleges, including a workforce development program (Gallatin College), as well as a division providing for post-graduate advanced degrees, as follows: College of Agriculture; College of Education, Health and Human Development; College of Engineering; College of Letters and Science; College of Business; College of Nursing; College of Arts and Architecture; University Studies; the Graduate School; and the University Honors College. In addition to a degree in their regular majors, honors students who complete certain curriculum requirements also graduate with a University Honors degree.

The campus offers a curriculum leading to associates' degrees in three areas, bachelor's degrees in over 50 fields, master's degrees in over 40 fields and doctorate degrees in nearly 20 fields, as well as maintaining an active role in research through individual departments and programs.

Located in the City of Bozeman, the campus comprises approximately 1,800 acres and more than 40 classroom and administrative buildings, including a full-service library; eleven residence halls, including a new 400-bed residence hall, to house the University's growing freshman population; three cafeterias; an animal bioscience facility; the recently-renovated Gaines Hall, a heavily used chemistry classroom building; the Museum of the Rockies; and numerous other classroom buildings and special laboratories. A federally-funded $17 million renovation of one of the University's most active research laboratory facilities was recently completed, as was a suite-style residence hall for upperclassmen. The University is the beneficiary of recent capital gifts; a new classroom building housing the Jake Jabs College of Business and Entrepreneurship was completed in summer 2014 after a $25 million gift, and a $70 million project is underway which will include Norm Asbjornson Hall, named for the contributor of a $50 million lead gift.

As the state's Land Grant institution, the University's mission is to educate students, create knowledge and art, and serve communities by integrating learning, discovery and engagement. The Extended University provides educational opportunities to the citizens of the State by providing off-campus instruction in the form of courses, institutes and conferences for individuals not regularly enrolled at the University. Public service and outreach are central to the Bozeman campus's mission. The campus is the hub of a network of extension offices operating in each of Montana's 56 counties, seven Agricultural Research Centers, five extended nursing campuses, a widely utilized teaching and research museum, and a statewide public television network.

Enrollment

		Student FTE for Fiscal Years Ended June 30,				
		2016	**2015**	**2014**	**2013**	**2012**
Resident	Undergraduate	**7,779**	7,666	7,852	7,798	7,702
	Gallatin College	**336**	330	306	271	254
	Graduate	**705**	757	746	730	802
	Total resident	**8,820**	8,753	8,904	8,799	8,758
Nonresident	Undergraduate	**3,676**	3,591	3,355	3,132	2,793
	Gallatin College	**108**	109	95	94	77
	Graduate	**386**	321	309	307	236
	Total nonresident	**4,170**	4,021	3,759	3,533	3,106
Western Undergraduate Exchange		**945**	776	711	609	488
	Total	**13,935**	**13,550**	**13,374**	**12,941**	**12,352**

	Degrees Granted - Fiscal Years Ended June 30,				
	2016	**2015**	**2014**	**2013**	**2012**
Undergraduate	**2,468**	2,421	2,310	1, 980	1,853
Graduate	**537**	614	563	577	591
TOTAL:	**3,005**	**3,035**	**2,873**	**2,557**	**2,444**

Campus Outlook

MSU-Bozeman embraces five core themes in the accomplishment of its mission; education; the creation of knowledge and art; community service; the integration of learning, discovery and engagement; and stewardship. MSU- Bozeman has, over its 123 year history, built a national and international reputation for excellence in undergraduate and graduate education in agriculture, business, engineering, biological and physical sciences, architecture, education, health and human development, the liberal arts, nursing, and community outreach. It ranks among the nation’s leaders in the number of students awarded Goldwater science, math and engineering scholarships, and has been recognized for the high level of engagement and commitment to diversity. It is an institution committed to positioning today's students for successful and meaningful lives in the global economy of the 21st century.

As the number of high school graduates in north-central and eastern Montana has decreased, it has been important to monitor the campus’s mix of in-state, out-of-state, and out-of-area students to maintain a healthy and diverse student population. The provision of education to Montana students is the focal point, as the state’s land grant institution; however, the campus ensures continued attraction of out-of-state students as well, both because the campus values the diversity these students bring to the college experience for our Montana students, and because of the financial benefits derived from their enrollment by both the campus and the community.

In accomplishing its mission, MSU-Bozeman remains committed to the wise stewardship of resources through meaningful assessment and public accountability. A dynamic strategic planning process and its related assessments guides MSU- Bozeman’s actions as it serves the citizens of the State of Montana. Management, faculty, staff and student leadership will continue planning and working together, striving for balance by combining appropriate levels of both expenditures and revenues, maintaining quality programs and assuring student access and success.

Montana Agricultural Experiment Station (MAES)

Agency Overview
The Hatch Act of 1887 created the Montana State Agricultural Experiment Station system. This unique federal/state partnership, supporting agricultural and natural resource research and outreach, is a contract for maintaining viable agricultural and natural resource communities and an affordable supply of food and fiber for America.

In 1893, Montana endorsed the terms of the Morrill Act, creating the land-grant university and the designation of the Montana Agricultural Experiment Station (MAES). The MAES operates under these enabling Acts and subsequent federal and state legislation and amendments through the authority of the MAES Director as approved by USDA. MAES houses people and programs at its research centers throughout Montana and at the Bozeman campus.

The research center system consist of: Northern Agricultural Research Center (ARC) at Havre, Northwestern ARC at Creston, Western ARC at Corvallis, Central ARC at Moccasin, Southern ARC at Huntley, Western Triangle ARC at Conrad, and Eastern ARC at Sidney. The research center are located so they address the diverse climatological, ecological and environmental challenges of Montana's largest economic sector. Individual research center priorities reflect challenges faced by producers in that region The oldest research centers, Central and Western, were established in 1907 with the most recent, Western Triangle, established in 1978. MAES also cooperates with the federal USDA ARS Fort Keogh Livestock and Range Research Laboratory at Miles City, a partnership that has been in place since 1924 and the USDA ARS research programs at Sidney.

The Bozeman MAES component includes research in the academic departments of Agricultural Economics and Economics, Animal and Range Sciences, Land Resources and Environmental Sciences, Plant Sciences and Plant Pathology, and Microbiology and Immunology, a collaboration between the MAES and the College of Letters and Science. The majority of the MAES faculty are located on the MSU-Bozeman campus, with split appointments between research, teaching and some extension service, which provides unique and high quality educational opportunities on- and off-campus that are appropriate for the region, and also appeal to students and clientele from around the world.

MAES cooperates with state, regional and federal agencies on research to generate and disseminate superior knowledge and produce advances in technology that increase the competitiveness and profitability in agricultural and natural resource systems. MAES aids agriculture in competing and succeeding in a global environment, preserving environmental quality, improving the quality of life, and adding value to state, regional and national resources within the global economy, as well as developing cutting-edge outreach and education programs.

Highlights
MAES and the College of Agriculture continue to be successful in securing and leveraging new extramural funding to support research programs. The College of Agriculture, which is collaboratively funded by MAES, has been among the most productive of the academic disciplines in terms of sponsored program expenditures, at approximately $20 million annually. The departments of Microbiology and Immunology, Land Resources and Environmental Science, and Plant Science and Plant Pathology rank in the top five in a field of over 30 MSU departments in terms of sponsored program expenditures. MAES received funding during the recent legislative session to hire personnel with specialties in horticulture, animal science, wildlife habitat ecology, plant physiology and pulse crops. Funding agencies include national, regional and state from multiple sources. Research programs have impact in Montana, the region and nation.

Outlook
MAES base-funded programs are financed by state (84%) and federal (16%) funding. Recent appropriation funding will support the operations and maintenance of new buildings across the MAES system and maintain an internal equipment fund. MAES foresees continued pressure to reduce Federal agricultural research funding through the upcoming farm bill. Competitive grant programs at state, regional and national levels are also significantly constrained. These concerns occur concurrently with an increased need for agriculture to succeed as a primary economic engine for Montana.

MSU Extension (ES)

Agency Overview

The mission of Montana State University Extension is to improve the lives of Montana citizens by providing unbiased research-based education and information that integrates learning, discovery and engagement to strengthen the social, economic and environmental well-being of individuals, families, and communities. To meet the educational needs of Montanans, Extension coordinates educational and research resources in the region through campus-based specialists and 54 local Extension offices providing outreach to all 56 Montana counties and 7 reservations. Because Montana's communities are as diverse as its landscape, the structure of our organization--MSU faculty living in Montana's small towns and cities--ensures that programs are in tune with local issues and can adapt quickly to changing needs.

The unique funding structure of Montana State University Extension combines state general fund, Federal Smith-Lever and county resources. The state legislature appropriates general funds on a biennial basis. Extension agent salaries are paid from both Federal Smith-Lever and county funding sources, while Extension specialists are paid from state general funds. Extension funds the payroll benefit costs for all employees hired on state funding, while county agents' benefits are paid from a blend of Federal Smith-Lever and state general fund dollars. Operational allocations are made to specialists based on a pre-established formula, and other operating dollars are allocated to support staff development, program development, personnel recruitment and general operating purposes.

To deliver the practical advice and information needed by Montana's agricultural community, Extension taps into the resources of the entire university system. Research results from the ARCs and funding through USDA assist in developing programmatic responses. Primary concerns related to sustainability and profitability, natural resources and the environment, and technology transfer/value-added opportunities are addressed through outreach efforts across the state.

Extension's Family & Consumer Sciences program area serves a wide variety of people and families, providing specialized programs including those targeted toward the elderly, children, single parents and stepfamilies. Topics include food and nutrition, housing, health, family issues, personal finance, environmental health and many other subjects useful to Montanans. One special program emphasizes nutrition education for families with limited resources.

Extension agents also work with Montana 4-H programs to serve youth throughout the state. In 2014-2015, Montana 4-H reached 18,242 Montana youth, ages 6-19. Approximately 50 percent of these youth are involved in year-long community clubs, while the rest are active through a variety of short term and special interest education programs. These youth are supported by nearly 3,200 trained adult and youth volunteers who lead local programs and activities.

Local community and economic viability efforts continue to be an area of major emphasis for Extension's Community Development program. Extension continues to collaborate with a variety of state and federal agencies to provide local governance, strategic planning, and leadership development education for local communities and individuals. The MSU Extension – Local Government Center provides the only extensive education and training for Montana's elected and government officials at the local and county level.

Montana State University Extension's strategic plan complements the university's strategic plan by focusing on engagement within Montana communities and the integration of learning, discovery, and engagement. Montana State University Extension is successful throughout the state in meeting and excelling at this tripartite mission. Within Montana State University's strategic plan, Montana State University Extension has a clear leadership role in increasing its capacity as a statewide resource for collaborating to respond to local needs and address the state's greatest challenges.

Fire Services Training School (FSTS)

Agency Overview

The Fire Services Training School (FSTS) is an educational outreach program of Montana State University's Extension Service. The FSTS is authorized in 20-31-102, MCA. The purpose of the FSTS is to provide fire service personnel with professional training, identify new methods of fire prevention and suppression and disseminate information about them, provide a resource center for use by local fire services, provide testing and certification for personnel and apparatus, and coordinate fire services training in the state.

These goals are accomplished by building capacity in local governments for protecting citizens' lives and property, and safeguarding the community tax base and infrastructure from harm caused by fires, accidents, injuries, hazardous materials incidents and other emergencies. FSTS trainers provide instruction and resources to local fire and rescue services and are strategically located in Cascade, Custer, Valley, Flathead, Missoula, and Yellowstone counties.

The FSTS audience consists of 10,000 fire fighters in more than 380 organizations, 96 percent of whom are volunteers. The FSTS provides 69 percent of its services to all- volunteer fire companies, 20 percent to combination (with both paid and volunteer firefighters) fire companies, and 11 percent to all- paid fire companies.

The FSTS curriculum includes entry level recruit academies, hazardous materials and technical rescue courses, leadership and management, as well as tactical and strategic level incident operations courses. The FSTS continues to introduce new methods and technology into local fire service organizations, and has resulted in enhanced firefighter safety, a higher level of citizen protection, and significantly reduced costs for fire insurance premiums in many communities.

MSU- Billings

Campus Overview
Montana State University Billings is a regional comprehensive public four-year higher education institution located in Montana's largest population center, whose faculty is actively engaged in teaching, research, creative endeavors and public service. MSU Billings is unique in that it is one of a select few higher education institutions that also boasts an embedded two-year community college.

The University, which opened in 1927, was initially called Eastern Montana State Normal School, and was established to prepare teachers for elementary schools in eastern Montana. MSU Billings has grown, with the city of Billings and Yellowstone County, into the major urban comprehensive higher education center of south central and eastern Montana. The University has five colleges: the College of Arts and Sciences, the College of Business, the College of Education, the College of Allied Health Professions and City College. City College serves the comprehensive two-year mission of the university. MSU Billings offers a full complement of one- and two-year certificate programs, associate, bachelor and master degrees, as well as pre-professional academic offerings in nearly 100 academic areas, featuring 24 online degree programs. Several of its academic programs are unique to the Montana University System. In addition, MSU Billings offers graduate degrees in healthcare and education. The MSU Billings Extended Campus provides the community and region with unique educational services, programs and activities delivered in alternative formats and locations.

MSU Billings is accredited by the Northwest Commission on Colleges & Universities. The MSU Billings College of Business is accredited by the Association to Advance Collegiate Schools of Business, whose standards are used as the basis to evaluate a business school’s mission, operations, faculty qualifications and contributions, programs, and other critical areas. The MSU Billings College of Education is accredited by the Council for the Accreditation of Educator Preparation for preparing elementary and secondary teachers and school counselors through the Bachelor of Science and Master of Education degrees, and the Master of Science in Special Education degree. Disciplinary departments that have received national accreditation include the Music Department (National Association of Schools of Music), the Art Department (National Association of Schools of Art and Design), the Department of Health and Human Performance (Commission on Accreditation of Athletic Training Education), and the Department of Rehabilitation and Human Services (Council on Rehabilitation Education). City College programs are approved by the National Institute for Automotive Service Excellence, the National Automotive Technicians Education Foundation, the Montana Board of Nursing, the Committee on Accreditation of Allied Health Education Programs, and the Committee on Accreditation of Educational Programs for the EMS Professions.

Public service is integral to the mission of the University. Its two primary public service entities are KEMC/Yellowstone Public Radio, serving Montana and Northern Wyoming with local, regional and nationally acclaimed educational programming, including NPR; and the Montana Center for Inclusive Education, a comprehensive education, rehabilitation, and diagnostic center serving Montanans with disabilities.

Enrollment

	Student FTE for Fiscal Years Ended June 30,				
	2016	**2015**	**2014**	**2013**	**2012**
Resident					
Undergraduate	**2,244**	2,396	2,531	2,646	2,731
City College	**713**	751	819	849	947
Graduate	**236**	245	267	291	314
Total Resident	**3,193**	3,392	3,617	3,786	3,992
Nonresident					
Undergraduate	**158**	192	181	168	138
City College	**15**	16	24	28	24
Graduate	**20**	26	25	27	28
Total nonresident	**193**	234	230	223	190
Western Undergraduate Exchange					
Main Campus	**217**	260	262	263	252
City College	**37**	38	44	46	44
Total Western Undergraduate Exchange	**254**	298	306	309	296
Total	**3,640**	**3,924**	**4,153**	**4,318**	**4,478**

	Degrees Granted - Fiscal Years Ended June 30,				
	2016	**2015**	**2014**	**2013**	**2012**
University Campus:					
Associate Degrees	**105**	105	33	25	32
Bachelor's Degrees	**580**	580	502	568	510
Master's Degrees	**152**	152	127	139	152
Total University Campus	**837**	**837**	**662**	**732**	**694**
City College Campus:					
Certificates	**39**	39	26	26	36
Associate Degrees	**239**	239	240	258	291
Total City College	**278**	**278**	**266**	**284**	**327**
Grand Total Degrees	**1,115**	**1,115**	**928**	**1,016**	**1,021**

MSU Billings continues as the third largest higher education unit in Montana. Alumni and workforce data shows that graduates from MSU Billings stay in Montana and contribute to the state's economy and betterment of its communities. MSU Billings started the 2016-2017 academic year with 4,366 students, which is short of the prior fall's opening enrollment of 4,429. Over half (54.1%) of those students come from Yellowstone County, with another 33.3% from other Montana counties. MSU Billings has seen a large increase in its Concurrent Enrollment (High School Connections) and University Connections enrollment, growing from a total of 243 students in the Fall of 2015 to 362 students in the Fall of 2016. Factors contributing to decreased student FTE for 2015 and 2016 include a record graduating class in 2015, a declining number of high school graduates in Montana, and a strong economic growth in eastern Montana. To help address this, the University created a Student Success Committee focusing on student success, enrollment, retention, and ensuring students meet their education and professional goals. A year later, these strategic efforts have proven successful, as the retention rate saw an increase for the first time in four years. Retained first-time full-time students were 54.5 percent, up from fall 2014's mark of 52.7 percent.

Campus Outlook

MSU Billings continues to serve our students and community with superior levels of excellence and efficiency. Base budgets have been reallocated to develop a student-centered learning environment using continuous assessment of learner growth, student outcomes and increased academic student support services. The University initiated a comprehensive community and regional discussion centered on MSU Billings' evolution as it enters its second century. Harkening back to the early 1920's, when a burgeoning Billings recognized the necessity to create an institution to educate teachers, MSU Billings is once again calling on the region's entrepreneurial spirit to help with *Building a Foundation for the Next Century*. The initiative will help galvanize that we are Eastern Montana's university of choice.

MSU Billings has made a substantial investment in distance learning by offering fully online degree programs as well as general education courses. This investment will continue in order to provide educational offerings to Montana citizens who are place or time bound. Increasing opportunities for students to participate in internships and cooperative education experiences continues to be a priority for the University.

Grant and research production continues. The TRIO $1.4 million Talent Search grant was recently renewed for 5 years. In addition, the University received a new $700 thousand award to assist with pre-employment transition services for students with disabilities. Continuing major grants include TRIO Upward Bound and Student Support Services, NIH, MT Health Care, NSF Robert Noyce STEM, Deptartment of Labor TAACCCT, Montana Board of Research & Commercialization Technology, Social Security, OPI, Corporation for Public Broadcasting and INBRE grants. MSU Billings also received $357 thousand from the Montana Research and Economic Development Initiative for biofuels research and remediation technology for chlorinated pollutants research.

Because Billings is the primary healthcare center of the region, MSU Billings partnered with the healthcare industry to meet its educational needs and established the College of Allied Health Professions with key programs in athletic training, health and human performance and rehabilitation and human services. The Board of Regents recently approved a new four-year RN to BSN nursing program, housed in the College of Allied Health professions. The program will be delivered online beginning the fall semester of 2017 and will help to place more highly-trained nurses in Montana's medical facilities.

As part of the Governor's initiative to improve Montana's workforce, MSU Billings is working with local school districts to expand dual-enrollment programs whereby high school students can take college level courses taught at their high school and receive credit at both institutions. This gives students a chance to experience a college class and helps to open doors to further education—d preparing them for college, as well as giving them a head start when they do attend college. MSU Billings also offers a Connections program for high school students to participate in classes at the University.

The College of Business recently instituted a hall of fame to recognize our state's most respected and influential leaders for their commitment and investment in their communities. The hall of fame is designed to honor, preserve and perpetuate the names and outstanding accomplishments of Montana business leaders who have enhanced the state's business climate, made significant contributions to their communities, and who serve as role models for Montana's business students.

The 2013 Montana Legislature appropriated $10 million to provide funds for the renovation and expansion of the existing outdated science facility. An additional $5 million needed for the project will be obtained through fundraising efforts of the MSU Billings Foundation before construction begins. At present, the Foundation has garnered nearly $2 million for the project. The renovated Yellowstone Science and Allied Health Building will provide state-of-the-art facilities for both the College of Arts and Sciences and the College of Allied Health Professions.

City College at MSU Billings has continued its transition to a true "community" college by expanding offerings and programs and focuses on the needs of two-year education in the Billings region. City College, in conjunction with Missoula College, will offer a new Pharmacy Tech program.

Support for the University continues to be strong. The Foundation distributed $1.7 million in scholarships for MSU Billings students during the year ended June 30, 2016.

MSU- Northern

Campus Overview

Founded by the Legislative Assembly of the State of Montana in 1913, "The Northern Montana Agricultural and Manual Training School" opened in 1929 under the name "The Northern Montana School." In 1931, the common use of "Northern Montana College" came into existence. In 1994, Northern Montana College became Montana State University-Northern (MSU-Northern) as part of the restructuring of the Montana University System. MSU-Northern offers liberal arts, professional and technical education programs ranging from certificates through master's degrees.

The university promotes a student centered and culturally enriched environment endorsing lifelong learning, personal growth, and responsible citizenship. The university partners with a variety of community and external entities to enhance collaborative learning, provide applied research opportunities, stimulate economic development, and expand student learning experiences.

MSU-Northern is accredited by the Northwest Association of Schools and Colleges. MSU-Northern's programmatic accreditations include the Accreditation Commission for Education in Nursing (ACEN), the Montana State Board of Nursing, the Engineering Technology Accreditation Commission/Accreditation Board of Engineering Technology (ETAC/ABET), the National Automobile Technicians Education Foundation (NATEF) and the Montana Office of Public Instruction.

MSU-Northern values individualized attention to its students, experientially based learning, and creating a culturally rich and intellectually stimulating environment. From its main campus on the Montana Hi-Line, the University serves as a regional cultural center and maintains strong partnerships with communities, education, business and industry.

Enrollment

	Student FTE for Fiscal Years Ended June 30,				
	2016	**2015**	**2014**	**2013**	**2012**
Resident					
Undergraduate	**860**	890	943	942	943
Graduate	**64**	68	65	69	52
Total resident	**924**	958	1,008	1,011	995
Nonresident					
Undergraduate	**57**	52	47	44	41
Graduate	**1**	0	0	0	0
Total nonresident	**58**	52	47	44	41
Western Undergraduate Exchange	**113**	95	93	101	89
Total	**1,095**	**1,105**	**1,148**	**1,156**	**1,125**

	Degrees Granted - Fiscal Years Ended June 30,				
	2016	**2015**	**2014**	**2013**	**2012**
Undergraduate	**207**	272	247	235	259
Graduate	**28**	23	27	23	10
Total:	**235**	**295**	**274**	**258**	**269**

Campus Outlook

MSU-Northern is located in the rural, northern region of Montana. With decreasing populations in certain areas of the state, MSU-Northern understands the importance of careful monitoring of expenses and strategic investments in areas that will help attract and retain students. Student enrollment drives a large portion of operating revenues, and also affects the University's level of state funding. Northern continues to utilize partnerships, innovative teaching, and alternate delivery methods. Partnerships with tribal colleges across Montana and a number of two-year colleges throughout the northwest help these institutions expand their program offerings in the realm of 4-year baccalaureate degrees. MSU-Northern will also continue to explore expanded program offerings at our sites in Lewistown and Great Falls.

Great Falls College MSU

Campus Overview

Great Falls College Montana State University (GFCMSU), an affiliated campus of Montana State University, is an independently accredited, comprehensive two-year college primarily serving north-central Montana. GFCMSU prides itself on being a student-centered two-year college providing quality educational opportunities responsive to community needs. GFCMSU is a progressive public institution offering two-year transfer degrees as well as degrees and certificates preparing students to enter high-skill, high-wage, high-demand careers. Transfer degrees include general education (Associate of Arts, Associate of Science, and the Montana University System Core) offerings. The Certificate and Associate of Applied Science degrees include one- and two-year applied programs in Health Sciences, Accounting, Trades, and Technology disciplines.

The college also works with employers to ensure students are getting the knowledge they need to be successful in employment. As a comprehensive two-year college, additional offerings related to workforce development, customized and contracted training, and community enrichment are provided as part of economic and community development. Several of the Health Sciences and Trades programs are unique to the state and the region.

In partnership with the Great Falls Public Schools, the Adult Basic Education (ABE) program is also housed on the Great Falls College MSU campus. A College Pathway Advisor is co-located at the two high schools in Great Falls and at GFCMSU to advise Great Falls Public School students in developing career pathways and academic plans for post-secondary education. The College has a full complement of student, academic and administrative services reflective of a larger campus.

GFCMSU began as the Great Falls Vocational – Technical Center, established by the Montana State Legislature in 1969 to offer employment training in vocational and technical fields. In January 1994, the Montana Board of Regents of Higher Education approved the restructuring of the Montana University System. Montana State University-Bozeman, Montana State University-Billings, Montana State University-Northern and Great Falls College Montana State University are related through common management; however, they are separate and distinct entities. The mission of GFCMSU is "to educate and inspire you."

GFCMSU is regionally accredited by the Northwest Commission on Colleges and Universities (NWCCU). Various academic programs are accredited individually as well, primarily those within medical fields.

Enrollment

	Student FTE for Fiscal Years Ended June 30,				
	2016	**2015**	**2014**	**2013**	**2012**
Resident Undergraduate					
Great Falls	**1,178**	1,239	1,338	1,365	1,424
College of Technology Bozeman	**-**	-	-	-	-
Nonresident Undergraduate					
Great Falls	**38**	37	33	39	35
College of Technology Bozeman	**-**	-	-	-	-
Western Undergraduate Exchange	**4**	6	7	5	6
Total	**1,220**	**1,282**	**1,378**	**1,409**	**1,465**

	Degrees Granted - Fiscal Years Ended June 30,				
	2016	**2015**	**2014**	**2013**	**2012**
Certificate of Applied Science	**74**	91	68	51	64
Professional Certificate*	**119**	46	29	25	21
Associate of Science/Arts	**100**	123	201	156	132
Associate of Applied Science	**178**	167	156	185	186
Total	**471**	**427**	**454**	**417**	**403**

*Students may earn more than one credential, which has resulted in an increase in the number of professional certificates.

Campus Outlook
In the past year, GFCMSU has undergone a program prioritization process, to ensure that GFCMSU's programs offer sought-after credentials that will enable students to find high-wage jobs in the local community   Through this process, certain programs will be eliminated at the end of Spring 2017, so efforts can be focused more appropriately. Programs to be discontinued are as follows: Business Management, Business Fundamentals, Business Entrepreneurship, Graphic Design, Web Design, Healthcare Office, Medical Billing and Coding, Medical Billing Specialist, and Medical Transcription. In addition to closing these programs, the Carpentry program was closed and is being transitioned to a customized training program with a local employer.

In Spring 2017, GFCMSU will begin offering a state approved Practical Nurse program. A Computer Programming degree was established with an intake of students Fall 2016. A number of programs are now available through a course sharing agreement with Flathead Valley Community College (FVCC) including: Electronics Technician, Industrial Maintenance and Machinist Technician. The fabrication area and testing center of the Welding and Fabrication program is near completion and will allow GFCMSU to offer greater opportunities to students and community partners in the area of fabrication and testing in the upcoming year.