



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

Montana State University

*For the Fiscal Year Ended
June 30, 2015*

JANUARY 2016

LEGISLATIVE AUDIT
DIVISION

15-11A

FINANCIAL AUDITS

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

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

Single Audit Coordinator
Office of Budget and Program Planning
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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

January 2016

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on the consolidated financial statements of the Montana State University (MSU) for the fiscal year ended June 30, 2015. During our audit, we reviewed financial records related to MSU's compensation and benefits, student financial aid, tuition and fees, grants and contracts, as well as other account balances and transaction cycles. The report does not contain any recommendations to MSU, and we have issued an unmodified opinion on the financial statements which means you can rely on the information reported on the financial statements.

We thank President Cruzado and her staff for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

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

*Ex officio members

**Effective July 1, 2015

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

Montana State University-- All Campuses	Waded Cruzado	President
	Kellie Peterson	Legal Counsel
	Daniel Adams	Director of Audit Services

Montana State University– Bozeman	Martha Potvin	Provost and Vice President for Academic Affairs
	Terry Leist	Vice President for Administration and Finance
	Renee Reijo Pera	Vice President of Research and Economic Development
	Chris Kearns	Vice President of Student Success
	Laura Humberger	Associate Vice President for Financial Services
	Leslie Schmidt	Assistant Vice President for Research
	Brandi Payne	Director of Financial Aid
	Kathy Attebury	Director of University Budgets
Montana State University– Billings	Mark Nook	Chancellor
	Robert Hoar	Provost and Academic Vice Chancellor
	Terrie Iverson	Vice Chancellor for Administrative Services
	Joe Oravec	Vice Chancellor of Student Affairs
	LeAnn Anderson	Director of Financial Services
	Barb Shafer	Director of Business Services
	Emily Williamson	Director of Financial Aid and Scholarships
	Trudy Collins	University Budget Director
Montana State University– Northern	Greg Kegel	Chancellor
	Brian Simonson	Vice Chancellor for Finance and Administration
	William Rugg	Provost and Vice Chancellor for Academic Affairs
	Alisha Schroeder	Registrar
	Chris Wendland	Director of Financial Services
	Kim Watson	Dean of Student Engagement
	Tracey Jette	Senior Director of Student Success
	Cindy Small	Director of Financial Aid

Great Falls College– Montana State University	Susan Wolff	Dean and CEO
	Darryl Stevens	Associate Dean of Administration and Finance
	Heidi Pasek	Associate Dean and Chief Academic Officer
	Camille Consolvo	Associate Dean of Student Services
	Jillian Ehnot	Controller
Montana Agricultural Experiment Station	Charles Boyer	Vice President for Agriculture
	Jody Barney	Budget and Fiscal Director
Montana State University Extension	Jeff Bader	Director
	Sandra Rahn Gibson	Budget and Fiscal Director

For additional information concerning Montana State University,
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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL AUDIT

Montana State University

For the Fiscal Year Ended June 30, 2015

JANUARY 2016

15-11A

REPORT SUMMARY

The Montana State University student full time equivalent remained consistent between 2014 and 2015. MSU–Billings experienced a 4 percent, or 146, decrease in student FTE while MSU–Bozeman saw a 1 percent, or 137, increase in student FTE. Despite consistent student enrollment, the financial statements show a decrease in unrestricted net position of approximately \$67 million in 2015. This decrease is primarily due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68 which requires MSU to recognize its portion of the defined benefit pension liability and expense and the related deferred outflows and inflows due to its participation in these plans.

Context

The Montana State University (MSU) includes four campuses located in Bozeman, Billings, Great Falls, and Havre. In addition, MSU includes the Montana Agricultural Experiment Station, Montana Extension Service, and the Fire Services Training School. These campuses and programs serve state, national, and international students by providing undergraduate and graduate academic degrees. Two year vocational and technical programs are also provided.

Included in the financial statements for MSU is financial activity for the foundations of the Bozeman, Billings, and Havre campuses, the Museum of the Rockies Incorporated, and the Bozeman Bobcat Club.

Unaudited supplemental information is included in the financial statements. It contains detailed information for each campus, the Agricultural Experiment Station, Montana Extension Service, and the Fire Services Training School.

Results

During our audit, we reviewed financial records related to MSU's compensation and benefits, student financial aid, tuition and fees, grants and contracts, as well as other account balances and transaction cycles. We issued an unmodified opinion on MSU's financial statements and this report does not contain any findings or recommendations.

For a complete copy of the report (#15-11A) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at

<http://leg.mt.gov/audit>

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Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.

Chapter I – Introduction

Audit Scope

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

1. Determine whether the university's consolidated financial statements present fairly, in all material respects, the financial position as of June 30, 2015, and the results of operations, and cash flows of MSU for the fiscal year then ended.
2. Obtain an understanding of the university's internal control systems to the extent necessary to support our audit of the consolidated financial statements.
3. Determine compliance with selected state and federal laws and regulations.

During our audit, we reviewed financial records related to the university's compensation and benefits, student financial aid, tuition and fees, grants and contracts, as well as other account balances and transaction cycles.

We also conduct a compliance audit of MSU to determine compliance with regulations related to contract and grant expenditures, other governmental financial assistance, and selected state laws, regulations, and rules. We issued the compliance audit (15-13) for the two fiscal years 2014 and 2015, in November 2015.

Background

Montana State University consists of four campuses:

- ◆ Montana State University–Bozeman (MSU–Bozeman)
- ◆ Montana State University–Billings (MSU–Billings)
- ◆ Montana State University–Northern (MSU–Northern)
- ◆ Great Falls College–Montana State University (Great Falls College–MSU)

All campuses are accredited by the Northwest Commission on Colleges and Universities. The four campuses of the university provide undergraduate and graduate academic and two-year vocational-technical programs to students.

MSU–Bozeman offers four-year undergraduate programs along with Master's and Doctoral graduate programs. It includes the colleges of Agriculture, Arts and Architecture, Business, Education, Honors, Health and Human Development, Engineering, Letters and Science, Nursing, and Graduate School. Also included as part of the Bozeman campus is the MSU Extension, the Montana Agricultural Experiment

Station, and the Fire Services Training School which provide outreach and continuing education to people in Montana communities.

MSU–Billings consists of five colleges: the College of Arts and Sciences, the College of Business, the College of Education, the City College, and the College of Allied Health Professions. MSU–Billings offers one-year and two-year certificate programs, Associate degrees, Bachelor’s degrees, and Master’s degrees, as well as pre-professional academic offerings in a number of fields.

MSU–Northern is a regional, multipurpose educational center serving students who seek both a technical and liberal arts education. MSU–Northern offers courses at three locations, including Havre, Lewistown, and Great Falls. MSU–Northern offers Associate, Bachelor’s degrees, and Master’s degrees. A Master’s degree program is offered in education, with options in counseling and learning development, and general science.

Great Falls College–MSU serves as a comprehensive two-year college within the Montana University System. Great Falls College offers Associate of Applied Science degrees and certificates preparing students for high-demand careers in Health Sciences, Business, and Technology. In addition, Great Falls College offers an Associate of Arts degree and an Associate of Science degree for students interested in completing the first two years of a Bachelor’s degree in Great Falls.

Additional detailed information for each of the MSU campuses is included in the Unaudited Supplemental Information beginning on page A-76.

Independent Auditor's Report and University Financial Statements

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Consolidated Statements of Net Position of Montana State University as of June 30, 2015, and 2014, the related Consolidated Statements of Revenues, Expenses and Changes in Net Position, and Consolidated Statements of Cash Flows for each of the fiscal years then ended, and the University Component Units—Combined Statements of Financial Position as of June 30, 2015, and 2014, and the related University Component Units—Combined Statements 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 perform the audits in accordance with *Government Auditing Standards*.

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

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

Opinions

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

Emphasis of Matter

As discussed in Notes 1 and 15 to the financial statements, in fiscal year 2015, the Montana State University adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis beginning on page A-5, the Required Supplementary Information related to pensions beginning on page A-72, and the Required Supplementary Information related to Other Post – Employment Benefits on page A-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, beginning on page A-76, 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 16, 2015, 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.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 16, 2015

Montana State University
(a component unit of the State of Montana)
Management's Discussion and Analysis
As of and For Each of the Years Ended June 30, 2015

Montana State University (the "University") is a land grant university that serves state, national and international constituents by providing academic instruction, conducting a very 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)

	2015	2014 <i>(restated)</i>	2013 <i>(restated)</i>
Operating revenues	\$ 349.6	\$ 339.7	\$ 333.6
Operating expenses	507.6	500.6	481.9
Operating loss	(158.0)	(160.9)	(148.3)
Non-operating revenues and expenses (net)	159.7	154.9	142.8
Income before capital & other items	1.7	(6.0)	(5.5)
Capital & other items	8.1	15.8	6.2
Change in net position	\$ 9.8	\$ 9.8	\$ 0.7

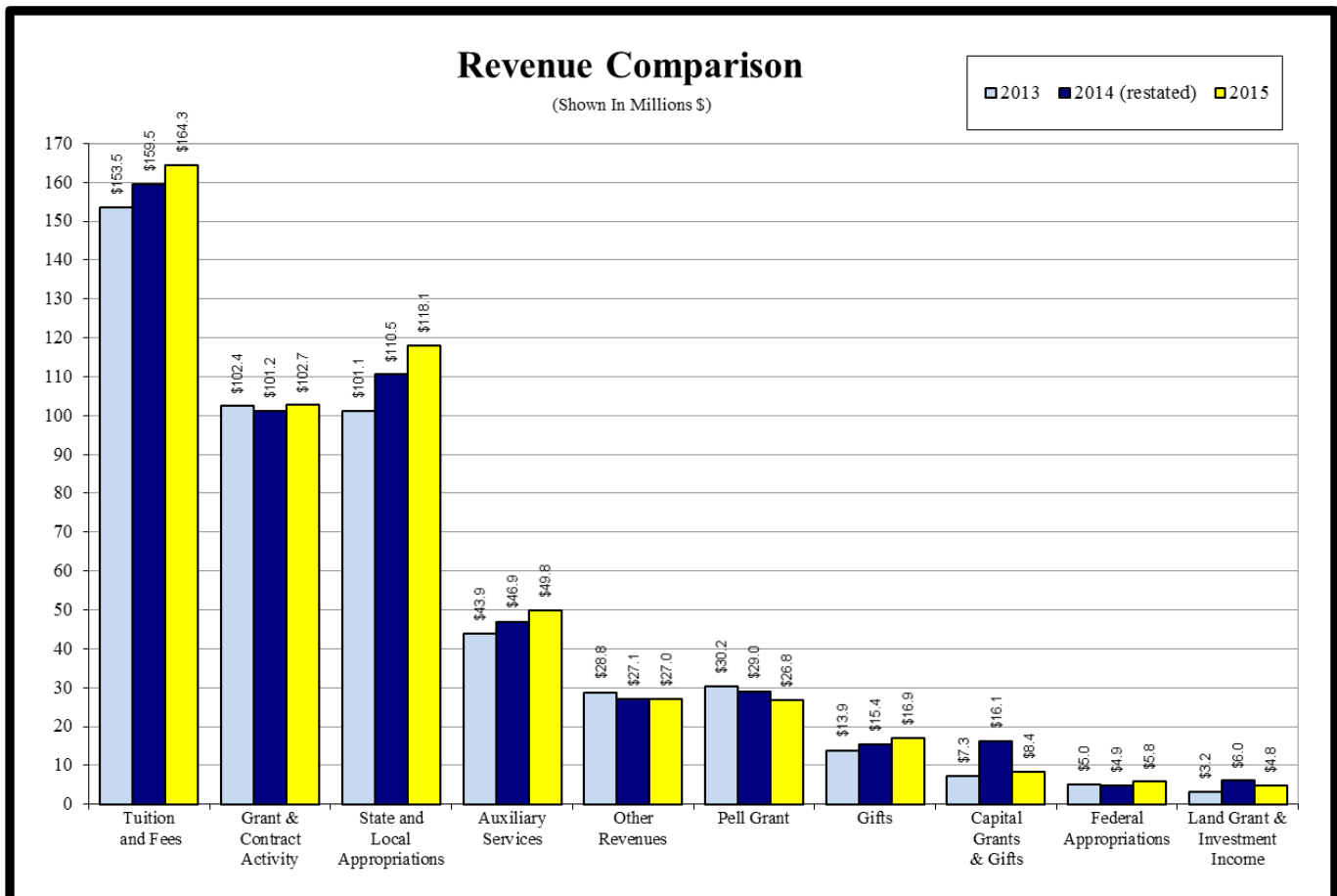
The *Statement of Revenues, Expenses and Changes in Net Position* presents the revenues earned and expenses incurred during the year on a full accrual basis, and classifies activities as either "operating" or "non-operating." This distinction results in operating deficits for those institutions that 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 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.

Montana State University
(a component unit of the State of Montana)
Management's Discussion and Analysis
As of and For Each of the Years Ended June 30, 2015

(continued)



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.

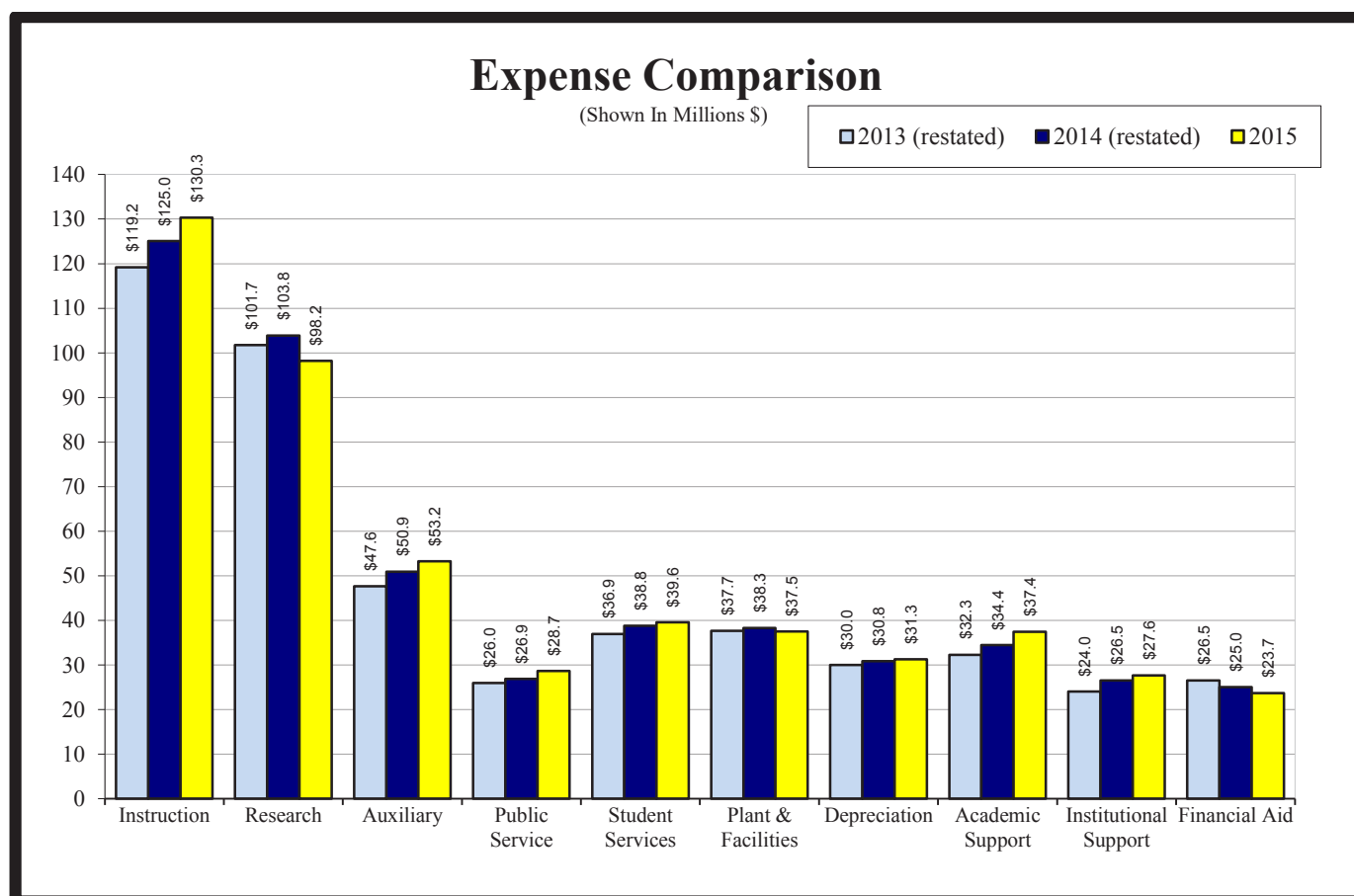
Other operating revenues remained stable between 2015 and 2014.

Montana State University
(a component unit of the State of Montana)
Management's Discussion and Analysis
As of and For Each of the Years Ended June 30, 2015

(continued)

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

Montana State University
(a component unit of the State of Montana)
Management's Discussion and Analysis
As of and For Each of the Years Ended June 30, 2015

(continued)

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.

Comparison of 2014 and 2013 Results of Operations (restated)

The University's net financial position increased \$9.8 million during 2014, resulting primarily from capital grants and contributions of \$12.8 million. Of this balance, \$11.4 million was in support of the Jake Jobs College of Business and Entrepreneurship. Additionally, the State of Montana contributed \$3.3 million for various projects including \$1.7 million for Americans with Disabilities Act (ADA) upgrades to the Creative Arts Complex, \$0.6 million for the welding program at the Great Falls Campus, and energy and other improvements to Leon Johnson Hall on the Bozeman campus. These increases were offset by OPEB expense of \$5.4 million, which is an actuarially-determined amount related to the participation of retirees on the University's health insurance plan.

Operating revenues contain the majority of the University's income, and increased \$6.1 million, or 1.8%, from 2013 to 2014.

Tuition and fee revenues increased approximately \$6.1 million, or 3.9%. Tuition rates were increased by 3.0% and 2.8% for nonresident undergraduate and graduate students, respectively, at the Bozeman campus and by 2.1% and 2.0% for nonresident undergraduate and graduate students, respectively, at the Billings campus. In addition, the number of full-time-equivalent students for all campuses increased by 1.2%, from 19,824 to 20,053.

Montana State University
(a component unit of the State of Montana)
Management's Discussion and Analysis
As of and For Each of the Years Ended June 30, 2015

(continued)

Grant and contract operating revenues, including facility and administrative cost recoveries, decreased 1.2%, to \$101.2 million, compared with 2013 revenues of \$102.4 million, as federal expenditures stabilize.

Revenues from auxiliary enterprises increased \$3.0 million, or 6.9%, to \$46.9 million, from \$43.9 million in 2013. 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.

Other revenues decreased \$1.7 million, or 5.8%, to \$27.1 million, as compared with \$28.8 million in 2013, largely due to \$2.7 million in insurance proceeds received in 2013, compared to \$0.4 million received in 2014.

Net non-operating revenue increased \$12.1 million from 2013 to 2014, primarily due to an increase in state appropriations of \$9.4 million, to \$110.5 million, as compared with \$101.1 million in 2013. The 2013 State Legislature appropriated funds to cover inflationary costs and wage increases for the next two years so that the University could freeze tuition for resident students through spring of 2015.

Capital and other items increased \$9.6 million primarily due to \$11.4 million in gift revenue through the MSU Alumni Foundation in support of the Jake Jobs College of Business and Entrepreneurship during 2014.

Operating expenses increased \$18.7 million, or 3.9%, from 2013 to 2014. The most significant increase was in instructional costs, which increased \$5.9 million, or 4.9%. This was primarily due to an increase in compensation and benefits of \$6.8 million, largely as a result of salary increases and additional staffing and class sections added to accommodate the University's growing enrollment.

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 increased \$2.1 million, or 2.1%, primarily due to an increase of \$2.8 million in expenditures for supplies and services. 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 \$3.3 million, or 6.9%, largely due to an increase in compensation and benefits of \$1.9 million, or 8.4%. In addition, because of high occupancy rates in the residence halls, and due to increased enrollment overall, additional food and other operating costs were incurred.

Student services expenses increased \$1.9 million, or 5.1% primarily due to an increase in compensation and benefits related to student services of \$1.6 million, or 7.0%. Student Services expenses include many different services to students such as financial aid staff, counselors, recruiting and admissions officers, athletics functions, and the dean of students' office. To ensure adequate support for the University's growing student body, additional staff and other expenses were incurred.

Academic support increased \$2.2 million and institutional support increased \$2.5 million, which were primarily the result of increases in compensation and benefits related to salary increases and additional staffing needed to support the University's growing enrollment.

Depreciation expense increased by \$0.8 million, or 2.7%, primarily due to the completion of large construction projects in 2014 including Gallatin Residence Hall, improvements to Linfield hall, and other energy improvements and residence hall upgrades.

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NET POSITION

Condensed Statements of Net Position
(in millions)

	2015	2014 <i>(restated)</i>	2013 <i>(restated)</i>
ASSETS			
Current assets	\$ 240.8	\$ 239.1	\$ 213.0
Capital assets, net	424.5	403.2	394.0
Other noncurrent assets	65.4	90.7	49.7
Total assets	730.7	733.0	656.7
DEFERRED OUTFLOWS	25.5	7.5	8.0
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 756.2	\$ 740.5	\$ 664.7
LIABILITIES			
Current liabilities	\$ 78.7	\$ 75.9	\$ 72.8
Noncurrent liabilities	348.2	285.0	222.1
Total liabilities	426.9	360.9	294.9
DEFERRED INFLOWS	16.4	-	-
NET POSITION			
Net investment in capital assets	276.5	276.2	263.8
Restricted, non-expendable	13.8	13.2	13.0
Restricted, expendable	17.1	17.6	16.1
Unrestricted	5.5	72.6	76.9
Total net position	312.9	379.6	369.8
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$ 756.2	\$ 740.5	\$ 664.7

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 changed significantly due to implementation of GASB Statement Number 68. Net position as of June 30, 2015 is \$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.

Comparison of 2015 and 2014 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

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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 and \$3.9 million in net book value of asset retirements, 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

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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 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 decreased \$0.5 million in comparison with 2014 balances.

Unrestricted net assets 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.

Comparison of 2014 and 2013 Net Position (restated)

- **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

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increase of \$26.1 million in current assets resulted primarily from an increase of \$20.7 million in short term investments as a result of unexpended bond proceeds. See Note 2 to the financial statements.

- **Capital assets, net** increased \$9.2 million, resulting from asset additions of \$40.5 million, offset by depreciation and amortization expense of \$30.8 million and \$6.1 million in net book value of asset retirements, as shown in further detail in Note 7 to the financial statements.

Asset additions included \$30.0 million in construction projects. The Bozeman campus continued the construction of the Jake Jabs College of Business and Entrepreneurship expending \$9.5 million during 2014 and completed the construction of Gallatin Residence Hall with additional costs of \$1.2 million during 2014. Improvements to the Miller Dining Facility added \$2.4 million and the renovation of Linfield Hall in Bozeman added \$1.6 million. Energy efficiency enhancements were also implemented, totaling \$2.5 million in 2014. Additional, smaller projects make up the remaining increase, and include residence hall upgrades, office and lab renovations and other building improvement projects at all of the University's campuses and agencies.

Equipment additions totaled \$7.7 million during 2014. Research and instruction in the sciences require a substantial equipment investment, and many specialized pieces of equipment are grant-funded. In 2014, equipment related to research accounted for \$2.2 million of the additions. Approximately \$0.9 million in library materials were acquired in 2014 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 increased \$40.8 million from 2013, primarily due to a \$32.5 million increase in investments which was primarily the result of unexpended bond proceeds for the future construction of a new residence hall on the Bozeman campus, and an \$8.7 million increase in other noncurrent assets primarily resulting from a \$9.5 million gift receivable from the MSU Alumni Foundation.
- **Deferred outflows** represent both the University's derivative financial instrument and the deferred loss on debt refunding.

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 balance remained stable from 2013 to 2014.

The 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. This reclassification is reflected for all periods presented, including \$3.7 million for the year ended June 30, 2014 and \$4.1 million for the year ended June 30, 2013.

- **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 \$3.1 million, or 4.3%, from 2013 to 2014, primarily as a result of an increase of \$1.3 million in compensated absence liability estimated to be payable within a

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one-year period. The remainder of the increase resulted primarily from the overall growth of the University and related operating expenses.

- **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 \$62.9 million, or 28.3%, resulting primarily from an increase in debt and leases payable of \$60.9 million as the University issued \$65.5 million in new bonds during 2014 to fund a new 400-bed residence hall and a new academic building on the Bozeman campus, and enhance its three dining facilities. 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 \$4.6 million. An actuarially-determined liability of approximately \$49.9 million was calculated, of which the seventh year of a 30-year amortization, plus interest, was recorded during 2014 (see Note 15 to the financial statements). These increases were offset by a decrease in the non-current portion of advances from primary government of \$2.2 million. This decrease was primarily due to \$2.7 million in advances through the state's Intercap loan program being repaid or reclassified to current liabilities, while \$0.5 million was borrowed. Additional information can be found in Note 10 to the financial statements.
- **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 \$12.4 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 \$0.2 million, primarily due an increase in fair market value in the University-owned endowment balances as compared with 2013 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 increased \$1.5 million in comparison with 2013 balances.

Unrestricted net assets 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 \$4.3 million in comparison with 2013 balances.

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CASH FLOWS

Condensed Statements of Cash Flows
(in millions)

	2015	2014	2013
Cash provided/(used) by:			
Operating activities, net	\$ (124.2)	\$ (126.6)	\$ (106.4)
Noncapital financing activities, net	164.3	158.5	146.1
Capital and related financing activities, net	(58.3)	20.1	(46.4)
Investing activities, net	24.2	(51.0)	3.4
Net change in cash	6.0	1.0	(3.3)
Cash, beginning of year	181.1	180.2	183.5
Cash, end of year	\$ 187.1	\$ 181.1	\$ 180.2

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 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 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.

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Comparison of 2014 and 2013 Cash Flows

- **Operating activities** used \$126.6 million in cash, resulting primarily from an operating loss of \$160.9 million. The operating loss was offset by non-cash expenses of \$31.9 million, primarily due to \$30.8 million in depreciation and amortization. Other, less significant, increases and decreases also contributed to the change. In 2013, operating activities used \$106.4 million in cash, with an operating loss of \$148.3 million, offset by non-cash expenses of \$31.2 million.
- **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. In 2013, noncapital financing activities provided \$146.1 million in cash resulting from \$101.1 million in state and local appropriations, \$30.2 million in federal Pell grant revenue, \$13.8 million in expendable gifts, and \$1.9 million of land grant income.
- **Capital and related financing activities** provided \$20.1 million in cash, resulting primarily from cash proceeds from debt refunding and other borrowings which provided \$68.7 million. These changes were offset by cash expended on capital assets of \$36.0, including building construction (see Note 7 to the financial statements). Other uses of cash include \$6.7 million in principal and interest payments of \$5.8 million. In 2013, these activities used \$46.4 million in cash. Uses in 2013 included debt interest, principal and advance payments totaling \$53.9 million and \$40.3 million expended on capital assets. Proceeds from debt refunding and other borrowings provided \$49.1 million and borrowings from the State's Intercap lending program provided \$5.9 million in 2013.

DEBT AND ADVANCES

As of June 30, 2015, the University had approximately \$168.9 million in outstanding bond, note, and capital lease principal, compared with \$179.5 million at June 30, 2014 (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 \$28.8 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, 2015, was 1.25%. As of June 30, 2015, and as of the most recent rating reports received in October, 2013, the University's bonds are rated Aa3 by Moody's Investor Services and A+ by Standard and Poor's.

ECONOMIC OUTLOOK

In May 2013 the Board of Regents adopted a performance-based funding model for fiscal year 2014 and beyond, which affects a portion of the University's state appropriation. The University's four campuses must meet certain targets to receive \$7.5 million in funding for each of the 2016 and 2017 budget years. Performance indicators include graduation rates, freshman-to-sophomore retention, and other measures. Performance through academic year 2014 resulted in additional funding of \$4.3 million allocated to the University for fiscal 2015.

Student enrollment had increased in each of the past seven years as the University gained in market share state-wide and in the nonresident market. As the U.S. labor market has increased demand for workers, 2015 marked the first year that enrollment decreased, primarily at the Billings campus. Tuition increases for nonresident students, combined with increased enrollment at the Bozeman campus, have enabled the University to implement cost-of-living as well as merit, tenure and promotion pay increases. Additionally, modest reserves have been set aside which ensure the availability of

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retirement payout and scholarship funding, and also provide a means to absorb unexpected expenses or decreases in revenue.

Resident enrollment represents over 74% of the University's student full-time-equivalent students. Management continues to focus on the University's recruiting efforts to maintain an appropriate mix of in- and out-of-state students. 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.

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Consolidated Statements of Net Position
As of June 30

ASSETS	2015	2014 (restated)
Current assets:		
Cash and cash equivalents (note 2)	\$ 186,040,700	\$ 180,047,112
Short term investments	18,127,641	20,702,031
Securities lending collateral	928,448	849,459
Accounts and grants receivable, net (note 3)	11,823,567	9,580,002
Amounts receivable from Federal government	12,487,255	15,982,897
Amounts receivable from primary government	301,518	510,233
Amounts receivable from other State of Montana component units	-	5,469
Loans receivable, net (note 6)	4,067,566	3,538,131
Inventories (note 4)	3,498,968	3,519,622
Prepaid expenses and other current assets (note 5)	3,567,227	4,410,685
Total current assets	240,842,890	239,145,641
Noncurrent assets		
Restricted cash and cash equivalents	1,083,590	1,072,977
Restricted investments	7,497,155	7,363,365
Loans receivable, net (note 6)	19,199,638	19,623,952
Investments	31,940,718	52,690,056
Capital assets, net (note 7)	424,526,499	403,200,491
Other noncurrent assets (note 7)	5,692,380	9,841,999
Total noncurrent assets	489,939,980	493,792,840
Total assets	730,782,870	732,938,481
DEFERRED OUTFLOWS		
Derivative financial instrument (note 10)	4,585,081	3,852,345
Deferred loss on debt refunding (note 11)	3,034,444	3,677,924
Deferred outflow on pension (note 15)	17,834,913	-
Total deferred outflows	25,454,438	7,530,269
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 756,237,308	\$ 740,468,750
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities (note 8)	\$ 36,156,281	\$ 36,148,887
Advances and other amounts payable to primary government	2,357,971	2,311,113
Amounts payable to other State of Montana component units	69,286	107,047
Securities lending liability	928,448	849,459
Property held in trust for others	2,083,715	1,845,701
Unearned revenues (note 9)	11,163,586	10,270,306
Current portion compensated absences	16,884,668	16,784,864
Current portion debt and capital lease obligations (note 10)	9,017,588	7,560,876
Total current liabilities	78,661,543	75,878,253
Noncurrent liabilities:		
Advances from primary government	21,242,295	21,050,852
Debt, capital lease, and other obligations (note 10)	159,926,812	171,981,451
Compensated absences	14,233,825	13,807,042
OPEB Implicit Rate Subsidy	55,160,699	51,399,245
Net Pension liability	70,185,134	-
Due to Federal government	22,905,713	22,774,457
Derivative instrument-- swap liability (note 10)	4,605,263	4,034,590
Total noncurrent liabilities	348,259,741	285,047,637
Total liabilities	426,921,284	360,925,890
DEFERRED INFLOWS – Pension (note 15)	16,354,178	-
NET POSITION		
Net investment in capital assets	276,503,567	276,193,219
Restricted - nonexpendable	13,845,480	13,201,116
Restricted - expendable	17,118,740	17,588,099
Unrestricted (note 13)	5,494,059	72,560,426
Total net position	312,961,846	379,542,860
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$ 756,237,308	\$ 740,468,750

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

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UNIVERSITY COMPONENT UNITS-- Combined Statements of Financial Position
As of June 30 or December 31

Assets:	2015	2014
Cash and cash equivalents	\$ 8,306,076	\$ 6,531,364
Accrued dividends and interest	104,897	106,045
Investments	216,707,780	216,914,664
Amounts due from the institution or other MSU component units	1,085,169	1,305,169
Contributions receivable, net of allowance	18,137,149	21,221,893
Contracts, notes and other receivables	4,351,607	4,645,621
Non-depreciable capital assets	442,205	456,581
Depreciable capital assets, net	8,188,137	8,963,748
Other assets	1,895,745	2,030,490
Total assets	\$ 259,218,765	\$ 262,175,575
Liabilities and net assets:		
Liabilities		
Accounts payable	\$ 689,287	\$ 599,079
Accrued expenses and other liabilities	1,410,522	1,224,937
Compensated absences	460,045	457,588
Notes and bonds payable	9,657,225	12,680,581
Amounts due to the institution or other MSU component units	606,148	634,162
Liabilities to external beneficiaries	7,139,956	8,275,099
Custodial funds	12,063,137	12,607,847
Total liabilities	32,026,320	36,479,293
Net assets		
Unrestricted net assets	16,064,372	17,867,161
Temporarily restricted net assets	85,713,746	88,202,975
Permanently restricted net assets	125,414,327	119,626,146
Total net assets	227,192,445	225,696,282
Total liabilities and net assets	\$ 259,218,765	\$ 262,175,575

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

	2015	2014 <i>(restated)</i>
OPERATING REVENUES		
Tuition and fees (net of \$35,062,569 and \$33,958,075 scholarship discount)	\$ 164,318,897	\$ 159,511,110
Federal appropriations	5,786,500	4,931,090
Federal grants and contracts	70,843,895	69,533,147
State grants and contracts	6,222,458	6,120,375
Non-governmental grants and contracts	9,579,921	9,704,352
Grant and contract facilities and administrative cost recoveries	16,027,616	15,861,311
Educational, public service and outreach revenues	25,028,504	24,697,825
Auxiliary revenues:		
Housing (net of \$3,116,373 and \$2,910,883 scholarship discount)	20,427,712	18,333,032
Food services (net of \$2,968,030 and \$2,823,799 scholarship discount)	19,528,349	18,637,625
Other auxiliary sales and services (net of \$686,338 and \$782,912 scholarship discount)	9,837,352	9,968,576
Interest earned on loans	131,726	75,355
Other operating revenues	1,881,776	2,305,523
Total operating revenues	349,614,706	339,679,321
OPERATING EXPENSES		
Compensation and benefits	293,068,733	291,328,431
OPEB expense (note 15)	5,477,672	5,430,244
Defined benefit pension expense (note 15)	6,716,950	-
Operating expenses (note 14)	147,331,848	147,979,316
Scholarships and fellowships (net of \$41,833,310 and \$40,475,669 scholarship discount)	23,711,663	25,003,864
Depreciation and amortization	31,284,509	30,834,839
Total operating expenses	507,591,375	500,576,694
Operating loss	(157,976,669)	(160,897,373)
NONOPERATING REVENUES (EXPENSES)		
State and local appropriations	118,103,009	110,541,580
Federal Pell grant revenue	26,816,113	28,973,682
Land grant income (pledged as security for repayment of bonds)	3,572,401	3,375,355
Gifts (expendable)	16,781,136	15,340,768
Investment income	1,188,545	2,667,274
Interest expense	(6,765,047)	(6,037,446)
Net non operating revenues (expenses)	159,696,157	154,861,213
Income before other revenues, expenses, gains and losses	1,719,488	(6,036,160)
Loss on disposals of capital assets	(505,580)	(348,084)
Additions to permanent endowment	159,707	46,755
Capital gifts, grants and contributions	8,410,485	16,093,525
Change in net position	9,784,100	9,756,036
Net position, beginning of year as previously stated	379,542,860	368,114,049
Prior period adjustment	-	1,672,775
Restatement of beginning Net Position - pensions	(76,365,114)	-
Net position, beginning of year as restated	303,177,746	369,786,824
Net position, end of year	\$ 312,961,846	\$ 379,542,860

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)
UNIVERSITY COMPONENT UNITS-- Combined Statement of Activities
As of and for the Year Ended June 30, 2014 or December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions	\$ 2,428,436	\$ 13,999,544	\$ 10,746,483	\$ 27,174,463
Investment, interest and dividend income	1,461,462	1,858,638	35,330	3,355,430
Net realized and unrealized gain (loss) on investments	2,701,776	18,500,247	133,992	21,336,015
Contract support and contributions from University	1,420,203	-	-	1,420,203
Special events	1,084,165	33,068	-	1,117,233
Other income	7,821,502	(1,959,840)	21,493	5,883,155
Net assets released from restrictions	23,926,765	(24,184,694)	257,929	-
Total revenues	40,844,309	8,246,963	11,195,227	60,286,499
Expenses:				
Program services				
University support	18,234,498	-	-	18,234,498
Academic and institutional	2,554,024	-	-	2,554,024
Scholarships and awards	6,186,665	-	-	6,186,665
Total program services expense	26,975,187	-	-	26,975,187
Operating expenses				
Fundraising efforts	3,733,069	-	-	3,733,069
General and administrative	5,854,885	-	-	5,854,885
Investment management costs	1,020,745	-	-	1,020,745
Other miscellaneous	2,030,082	-	-	2,030,082
Total operating expenses	12,638,781	-	-	12,638,781
Change in net assets before				
Nonoperating items	1,230,341	8,246,963	11,195,227	20,672,531
Nonoperating expenses				
Payments to beneficiaries and change in liabilities to external beneficiaries	(7,965)	(27,404)	713,177	677,808
Change in net assets	1,222,376	8,219,559	11,908,404	21,350,339
Net assets, beginning of year	16,644,785	79,983,416	107,717,742	204,345,943
Net assets, end of year	\$ 17,867,161	\$ 88,202,975	\$ 119,626,146	\$ 225,696,282

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

	2015	2014 (restated)
Cash flows from operating activities:		
Tuition and fees	\$ 163,777,772	\$ 158,907,290
Federal appropriations	5,871,432	5,340,580
Federal grants and contracts	74,202,469	67,530,917
State grants and contracts	6,274,770	6,418,804
Private grants and contracts	9,833,319	10,306,739
Grant and contract facilities and administrative cost	16,003,688	15,130,986
Educational, public service and outreach revenues	25,117,260	23,757,660
Sales and services of auxiliary enterprises	49,664,460	46,761,610
Interest on loans receivable	256,432	280,419
Other operating receipts	1,881,776	2,305,523
Compensation and benefits	(305,858,970)	(289,117,485)
Operating expenses	(147,154,220)	(149,474,147)
Scholarships and fellowships	(23,711,663)	(25,003,864)
Loans made to students	(4,335,591)	(3,484,832)
Loan payments received	4,002,858	3,700,541
Net cash used in operating activities	(124,174,208)	(126,639,259)
Cash flows from noncapital financing activities:		
Receipts (disbursements) of funds held in trust for others	689,812	355,495
Direct lending proceeds	92,113,864	97,212,679
Direct lending disbursements	(92,113,864)	(97,212,679)
State and local appropriations	116,307,416	110,541,580
Federal Pell grant funds received	26,816,113	28,973,682
Gifts and contributions (expendable)	16,781,137	15,289,988
Land grant income (see note 2)	3,572,400	3,375,355
Repayment of long-term advance from primary government	(57,168)	(55,774)
Additions to permanent endowment	159,708	46,755
Net cash provided by noncapital financing activities	164,269,418	158,527,081
Cash flows from capital financing activities:		
Purchase of capital assets	(51,400,991)	(36,028,411)
Proceeds from sale of capital assets	123,202	264,031
Gifts restricted for capital purchase	9,578,658	1,634,500
Other capital financing activities	25,141	90,441
Proceeds from borrowings	336,000	68,700,651
Debt principal repayment	(10,223,959)	(6,694,875)
Payment of capitalized debt issue costs	-	-
Advances from primary government	2,489,995	494,560
Repayment of advances from primary government	(2,178,010)	(2,648,077)
Interest paid	(7,069,404)	(5,755,828)
Net cash provided by (used in) capital financing activities	(58,319,368)	20,056,992
Cash flows from investing activities:		
Purchase of investments	(1,161,195)	(58,357,385)
Proceeds from sale of investments	23,988,140	4,737,715
Investment income	1,401,414	2,636,387
Net cash provided by (used in) investing activities	24,228,359	(50,983,283)
Net change in cash and cash equivalents	6,004,201	961,531
Cash and equivalents at beginning of year	181,120,089	180,158,558
Cash and equivalents at end of year	\$ 187,124,290	\$ 181,120,089

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

	2015	2014
Operating loss	\$ (157,976,669)	\$ (160,897,373)
Noncash income and expense:		
Depreciation and amortization on capital assets	31,284,509	30,834,839
Provision for uncollectible accounts	867,983	1,080,783
Changes in operating assets and liabilities, deferred inflows and deferred outflows:		
Accounts and grants receivable	1,605,914	(2,759,756)
Loans receivable	(123,516)	439,075
Inventories	20,653	(601,305)
Prepaid expenses	780,959	(1,679,429)
Accounts payable and other accrued liabilities	(81,496)	1,028,672
Net pension liability and related deferred inflows and outflows	(5,865,124)	-
OPEB obligation	3,761,454	4,567,354
Unearned revenue	893,280	92,587
Compensated absences	526,589	1,074,077
Amounts due to Federal government	131,256	181,217
Net cash used in operations	\$ (124,174,208)	\$ (126,639,259)

Schedule of noncash financing and investing activities

	2015	2014
Capital assets contributed to the University	\$ 1,806,827	\$ 4,459,526
State of Montana direct contributions to pension plans	\$ 1,795,593	\$ -
Capital assets acquired through issuance of capital lease obligations	\$ 31,483	\$ 137,038
Capital assets acquired via trade-in	\$ 19,000	\$ 119,601
Bond issue costs, discounts, premiums and deferred loss on refunding amortized or written off to interest expense (net)	\$ 325,042	\$ 8,508
Net increase (decrease) in fair value of investments	\$ (362,993)	\$ (53,264)

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

	2015	2014
Cash and cash equivalents classified as current assets	\$ 186,040,700	\$ 180,047,112
Cash and cash equivalents classified as noncurrent assets	1,083,590	1,072,977
Total cash and cash equivalents as reported on the Statements of Cash Flows	\$ 187,124,290	\$ 181,120,089

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

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

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.

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

(continued)

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. A prior year restatement was made because the University had not reported an investment held on its behalf by the MSU Billings Foundation. The investment had previously been reported as an asset of the MSU Billings Foundation, but was found to belong to the University upon review of supporting legal documentation, including the donor's will. As a result, the beginning fund balance as previously reported was increased by \$1.7 million, and the restricted, expendable fund balance was increased correspondingly.

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.

A reclassification in the amount of \$2,198,090 was made, reducing Tuition and Fees revenue as reported in 2014, and reducing Scholarship Expense as reported in 2014 by the same amount. An error was made in the recording of the scholarship discounting elimination in that year, which was discovered subsequent to the issuance of the 2014 financial statements. Because both operating revenue and operating expense were reduced in a like amount, there was no effect on net position.

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*. 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 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.

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

(continued)

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. 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:

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

(continued)

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.

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

(continued)

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 \$72,261,451 at June 30, 2015 and \$121,740,862 at June 30, 2014.

Cash equivalents – These amounts consist of cash held by trustees as well as \$109,050,746 and \$50,896,319 of the amount invested in the Short Term Investment Pool (STIP) with the Montana Board of Investments at June 30, 2015 and 2014, respectively.

STIP participants include both state agencies and local governments. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost or book value rather than fair value to report net assets 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 – These amounts consist of U.S. Government Securities, amounts invested in the Montana Board of Investments Trust Fund Investment Pool (TFIP), certain funds invested in the Montana Board of Investments STIP, funds held in common investment pools administered by the MSU-Bozeman and MSU- Northern Foundations, as well as other funds held with trustees and the market value of the University’s non-hedging derivative financial instrument. Except for funds held in the Montana Board of Investments STIP, as discussed above, investments are recorded at fair value. The MSU Bozeman Foundation’s investment pool totals \$165,075,087, of which the University owns \$8,440,703 or 5.1%. Foundation investment pools are not subject to regulatory oversight.

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 Foundation, in accord with their spending policy, which conforms to UPMIFA.

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 \$928,448 at June 30, 2015 and \$849,459 at June 30, 2014.

The BOI did not impose any restrictions during fiscal years 2015 and 2014 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

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distributions thereon during fiscal years 2015 and 2014. Moreover, there were no losses during fiscal years 2015 and 2014 resulting from a default of the borrowers or State Street Bank and Trust.

During fiscal years 2015 and 2014, 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, 2015 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. With the exception of the U.S. government securities, all TFIP fixed income instruments have credit risk as measured by major credit rating services.

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. The securities in the State of Montana Short Term Investment Pool and the State of Montana Trust Fund Investment Pool 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.

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, it does not maintain its own credit risk policy.

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

The State of Montana has selected the effective duration method to disclose interest rate risk. The University’s investments are categorized below to disclose interest rate and credit risk as of June 30, 2015. Credit risk reflects the security quality rating, by investment security type, as of the report date. Interest rate risk is disclosed using effective duration. If a security investment type is unrated, the quality type is indicated by NR. Although STIP and TFIP investments have been rated by investment security type, neither has been rated by an NRSRO.

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

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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.

Cash equivalents and investments are categorized as follows at June 30, 2015:

Security Type	Fair Value	Moody's Credit Quality Rating	Effective Duration (years)
State of Montana Short Term Investment Pool	\$ 109,995,262	NR***	N/A
U. S. Bank Money Market Funds (collateralized by U.S. Bank pool, not in the University's name)	4,727,850	P-1	N/A
State of Montana Trust Fund Investment Pool*	15,900,464	NR***	5.39
Foundation Pooled Cash Equivalents and Investments**	9,477,687	NR***	N/A**
Non-hedging derivative investment value	1,278,686	A3	20.42
Guaranteed Investment Contract	29,958,135	A2	.377

* 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

NOTE 3 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts receivable consisted of the following as of June 30:

	2015	2014
Accounts receivable	\$ 11,183,112	\$ 10,104,936
Other receivables, including private grants and contracts	4,984,217	3,616,729
Gross accounts and grants receivable	16,167,329	13,721,665
Less allowance for uncollectible accounts	(4,343,762)	(4,141,663)
Net accounts and grants receivable	\$ 11,823,567	\$ 9,580,002

NOTE 4 – INVENTORIES

Inventories consisted of the following as of June 30:

	2015	2014
Bookstore	\$ 994,794	\$ 1,263,738
Food services	263,897	252,097
Facilities services	782,156	700,905
Livestock	1,087,747	907,995
Other	370,374	394,887
Total inventories	\$ 3,498,968	\$ 3,519,622

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NOTE 5 – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses consisted of the following as of June 30:

	<u>2015</u>	<u>2014</u>
Library subscriptions	\$ 1,976,092	\$ 2,298,209
Other (including summer session payments)	1,591,135	2,112,476
Total prepaid expenses	<u>\$ 3,567,227</u>	<u>\$ 4,410,685</u>

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, 2015 and 2014 are \$22,905,713 and \$22,774,457 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.

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NOTE 7 – CAPITAL AND OTHER NON-CURRENT ASSETS

Following are the changes in capital assets during the years ended June 30, 2015 and 2014:

	Year Ended June 30, 2015				Balance June 30, 2015
	Balance July 1, 2014	Additions	Retirements	Transfers	
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
	Year Ended June 30, 2014				
	Balance July 1, 2013 (restated)	Additions	Retirements	Transfers	Balance June 30, 2014
Capital assets not being depreciated:					
Land	\$ 6,669,279	\$ -	\$ -	\$ -	\$ 6,669,279
Museum and fine art	5,153,628	116,200	-	-	5,269,828
Library special collections	3,321,917	30,930	-	-	3,352,847
Livestock for educational purposes	3,372,492	201,625	(1,687)	-	3,572,430
Construction work-in-progress	15,313,481	29,983,043	(33,112)	(23,137,991)	22,125,421
Total capital assets not being depreciated	33,830,797	30,331,798	(34,799)	(23,137,991)	40,989,805
Other capital assets:					
Furniture and equipment	145,345,588	7,788,435	(4,388,473)	9,109	148,754,659
Library materials	64,089,588	947,283	(1,121,331)	-	63,915,540
Buildings	295,543,721	126,543	-	7,591,579	303,261,843
Building improvements	235,932,740	563,146	(474,568)	10,095,327	246,116,645
Land improvements	19,364,245	45	-	2,292,579	21,656,869
Infrastructure	38,521,273	779,090	-	3,143,016	42,443,379
Leasehold Improvements	1,835,505	-	(34,462)	6,381	1,807,424
Total other capital assets	800,632,660	10,204,542	(6,018,834)	23,137,991	827,956,359
Accumulated depreciation	(441,490,375)	(30,334,905)	4,942,944	-	(466,882,336)
Other capital assets, net	359,142,285	(20,130,363)	(1,075,890)	23,137,991	361,074,023
Intangible assets, net	1,049,386	587,212	(499,935)	-	1,136,663
Capital Assets, net	\$ 394,022,468	\$ 10,788,647	\$ (1,610,624)	\$ -	\$ 403,200,491

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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. As of June 30, 2015, the MSU Alumni Foundation has made payments to the University of \$3.0 million. The remaining balance of the gift is recorded in the accompanying financial statements as \$1.7 million in current receivables, and \$5.3 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:

	<u>2015</u>	<u>2014</u>
Compensation, benefits and related liabilities	\$ 22,612,707	\$ 21,628,304
Accrued interest expense	792,395	795,959
Accounts payable and other accrued liabilities	12,751,179	13,724,624
Total	<u>\$ 36,156,281</u>	<u>\$ 36,148,887</u>

NOTE 9 – UNEARNED REVENUES

Unearned revenues consisted of the following as of June 30:

	<u>2015</u>	<u>2014</u>
Grant and contract funds received in advance	\$ 3,430,897	\$ 3,103,104
Summer session payments received in advance	6,215,002	5,728,489
Other unearned revenues	1,517,687	1,438,713
Total	<u>\$ 11,163,586</u>	<u>\$ 10,270,306</u>

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NOTE 10 – NON-CURRENT LIABILITIES AND DERIVATIVE INSTRUMENTS

Following are the changes in noncurrent liabilities for the years ended June 30, 2015 and 2014:

	Year Ended June 30, 2015				
	Balance July 1, 2014 <i>(restated)</i>	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	<u>\$ 179,542,327</u>	<u>\$ 404,838</u>	<u>\$ (11,002,765)</u>	<u>\$ 168,944,400</u>	<u>\$ 9,017,588</u>
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	\$ -
	Year Ended June 30, 2014				
	Balance July 1, 2013 <i>(restated)</i>	Additions	Reductions	Balance June 30, 2014	Amounts due within one year
Bonds, notes payable, and capital lease obligations					
Bonds payable, net of discount	\$ 115,623,105	\$ 68,384,052	\$ (6,596,013)	\$ 177,411,144	\$ 7,115,000
Notes and other long-term liabilities	1,803,974	379,250	(380,030)	1,803,194	325,500
Capital lease obligations	351,845	137,038	(160,894)	327,989	120,376
Total bonds, notes and capital lease obligations	<u>\$ 117,778,924</u>	<u>\$ 68,900,340</u>	<u>\$ (7,136,937)</u>	<u>\$ 179,542,327</u>	<u>\$ 7,560,876</u>
Compensated absence liability	\$ 29,517,828	\$ 16,788,761	\$ (15,714,683)	\$ 30,591,906	\$ 16,784,864
Advances from primary government – InterCap	\$ 14,588,566	\$ 494,560	\$ (2,150,295)	\$ 12,932,831	\$ 1,716,765
Advances from primary government - MSTA	\$ 4,974,180	\$ -	\$ (55,775)	\$ 4,918,405	\$ 57,168
Advances from primary government - DEQ	\$ 5,934,189	\$ -	\$ (497,784)	\$ 5,436,405	\$ 462,857
Amounts due to Federal government	\$ 22,593,240	\$ 195,717	\$ (14,500)	\$ 22,774,457	\$ -
OPEB liability— implicit rate subsidy for retiree health insurance	\$ 46,831,891	\$ 5,430,244	\$ (862,890)	\$ 51,399,245	\$ -
Derivative instrument liability	\$ 4,389,311	\$ -	\$ (354,721)	\$ 4,034,590	\$ -

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

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Derivative financial instruments –**Description**

The University has two interest rate swaps as of June 30, 2015. 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, 2015:

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, 2015, 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. The time value is equal to the option value minus the intrinsic value. The option value was estimated using a trinomial option pricing model. Incorporating market volatility data, the trinomial model calculates all possible changes in the value of the underlying swap for each future cash flow period (up, down or unchanged) to form a trinomial tree. This tree is used to calculate the current value of the option.

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 counterparty to the fixed payer swap has the right to terminate the swap at \$0 on December 14, 2016 (a European option). Upon entering into the transaction, the University received consideration from the counterparty in the form of an off-market (lower) fixed swap rate. A portion of the consideration received was a result of the option being in-the-money at inception; that is, the option had intrinsic value as the cancelable swap’s fixed rate of 3.953% was lower than the at-market rate of 4.110% on the trade date. The remainder of the up-front consideration reflects the time value the counterparty pays for holding the option. To the University, the time value portion represents future investment revenue. The intrinsic value of the cancelable swap is considered a loan receivable for financial reporting purposes and is treated as an asset in the accompanying financial statements. Interest accrues to the balance of the asset each year and amortizes with each swap payment.

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The table below summarizes the reported balances as of and the derivative instrument activity during the years ended June 30, 2015 and 2014.

Type of derivative	Notional	Activity During 2015		Fair Value as of June 30, 2015	
		Classification	Amount	Classification	Amount
Cash flow hedge - Pay fixed interest rate swap	\$ 21,800,000	Interest expense	\$ 18,394	Loan receivable	\$ <u>288,466</u>
		Investment income	\$ 162,064		
		Deferred outflow increase/(decrease)	\$ 732,736	Derivative liability	\$ <u>4,605,263</u>
Investment derivative - Basis swap	\$ 21,800,000	Investment loss	\$ 279,557	Investment (excluding interest accrued)	\$ <u>1,278,686</u>
Type of derivative	Notional	Activity During 2014		Fair Value as of June 30, 2014	
		Classification	Amount	Classification	Amount
Cash flow hedge - Pay fixed interest rate swap	\$ 22,475,000	Interest expense	\$ 20,145	Loan receivable	\$ <u>306,860</u>
		Investment loss	\$ 338,749		
		Deferred outflow increase/(decrease)	\$ (15,972)	Derivative liability	\$ <u>4,034,590</u>
Investment derivative - Basis swap	\$ 22,475,000	Investment loss	\$ 339,870	Investment (excluding interest accrued)	\$ <u>1,556,177</u>

The objective and terms of the University's hedging derivative outstanding as of June 30, 2015 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	\$21,800,000	7/21/2005	11/15/2035	-	Pay 3.953% Receive SIFMA

Credit Risk

It is the University's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2015, counterparty ratings were A2 and Baa1 by Moody's and A+ and A- 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.

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Interest Rate Risk

Interest payments on variable rate debt will 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, 2015, 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 cancellation option which allows the counterparty to cancel the swap on 12/14/16. 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	2015	2014
Series 2004H		\$ -	\$ 600,000
Series 2004I		-	760,000
Series 2005J	0.72% *	21,800,000	22,475,000
Series 2006K	4.00% – 4.50%	9,920,000	10,565,000
Series 2008L	3.75% – 4.00%	7,075,000	10,415,000
Series 2011M	2.00% – 5.00%	13,970,000	14,025,000
Series 2012N	2.75% – 4.00%	20,305,000	20,385,000
Series 2012O	1.142%–3.09%	27,445,000	27,905,000
Series 2013A	2.00% – 5.00%	55,480,000	55,480,000
Series 2014B	0.72%*	7,025,000	10,000,000
Total principal outstanding		\$ 163,020,000	\$ 172,610,000

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

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Revenue bonds are payable as follows:

During the year ending June 30,	Principal	Interest	Net Hedging Derivative Interest	Total
2016	\$ 8,470,000	\$ 5,312,760	\$ 834,941	\$ 14,617,701
2017	8,620,000	5,082,683	809,236	14,511,919
2018	8,775,000	4,864,521	782,047	14,421,568
2019	12,915,000	4,637,257	753,911	18,306,168
2020	8,860,000	4,371,227	723,336	13,954,563
2021-2025	36,945,000	17,930,289	3,128,940	58,004,229
2026-2030	27,030,000	12,156,289	2,172,445	41,358,734
2031-2035	23,630,000	8,293,638	983,484	32,907,122
2036-2040	14,710,000	4,870,952	30,341	19,611,293
2041-2045	13,065,000	1,347,374	-	14,412,374
Total cash requirements	163,020,000	\$ 68,866,990	\$ 10,218,681	\$ 242,105,671
Unamortized premium (discount) net	3,965,117			
Bond payable, net	\$ 166,985,117			

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 three existing dining halls and fund major and deferred maintenance projects in various residence halls. 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 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 Series H bonds were fully retired in November 2014.

Series I 2004, November 23, 2004 — The Series I bonds were refunded in October 2012 upon issuance of the Series O 2012 bonds. The 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

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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

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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 \$3.0 million for the year ended June 30, 2015 and \$3.7 million for the year ended June 30. 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	2015	2014
<i>Academic Analytics</i>				
Information Technology Software License	-	11/01/15	110,600	216,100
Adobe Enterprise License Agreement	-	6/30/17	224,000	-
<i>MSU-Northern Foundation</i>				
Consolidated Foundation Loan	6.00%	10/01/19	1,085,169	1,305,169
Total note principal outstanding			<u>\$ 1,419,769</u>	<u>\$ 1,521,269</u>

Notes are payable as follows:

During the year ending June 30,	Principal	Interest	Total
2016	\$ 442,600	\$ 65,110	\$ 507,710
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	<u>\$ 1,419,769</u>	<u>\$ 193,550</u>	<u>\$ 1,613,319</u>

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, 2015 was 1.25%.

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 (SBCEP). The program provides funding for projects such as lighting,

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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 ending June 30,	Intercap Loans		MSTA Advances		DEQ SBCEP		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2016	\$1,774,915	\$159,355	\$58,595	\$121,405	\$466,653	\$187,031	\$2,767,954
2017	1,568,026	143,676	60,059	119,941	485,255	168,430	2,545,387
2018	1,370,027	124,277	61,559	118,441	500,751	148,932	2,323,987
2019	1,111,809	108,003	63,096	116,904	473,325	128,582	2,001,719
2020	942,277	95,050	64,672	115,328	413,538	108,669	1,739,534
2021-2025	4,635,097	298,157	348,408	551,592	1,895,016	307,834	8,036,104
2026-2030	2,205,619	53,737	394,142	505,858	753,522	54,152	3,967,030
2031-2035	57,903	359	445,879	454,121	27,488	969	986,719
2036-2040	-	-	504,407	395,593	-	-	900,000
2041-2045	-	-	570,618	329,382	-	-	900,000
2046-2050	-	-	645,520	254,480	-	-	900,000
2051-2055	-	-	730,254	169,746	-	-	900,000
2056-2030	-	-	826,110	73,890	-	-	900,000
2061-2065	-	-	87,918	2,082	-	-	90,000
Total	\$ 13,665,673	\$ 982,614	\$4,861,237	\$3,328,763	\$ 5,015,548	\$ 1,104,599	\$ 28,958,434

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, 2015:

Payable during the year ending June 30,	Principal and Interest
2016	\$ 115,289
2017	63,112
2018	43,283
2019	14,902
2020	1,727
Total payments	238,313
Less amount representing interest	(18,079)
Principal balance outstanding	\$ 220,234

Assets acquired under capital leases consist mainly of photocopiers. Such assets are carried at a cost of \$607,035 less accumulated depreciation of \$392,935 as of June 30, 2015.

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NOTE 13 – NET POSITION

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

	2015	2014 <i>(restated)</i>
Board of Regents' approved reserves	\$ 21,060,572	\$ 19,960,000
Other designated purposes	(15,566,513)	52,600,426
Total unrestricted net position	<u>\$ 5,494,059</u>	<u>\$ 72,560,426</u>

Implementation of GASB Statement No. 68 resulted in a significant decrease to unrestricted net position in 2015 as compared with 2014. 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:

	2015	2014
Restricted - nonexpendable:		
Endowments	\$ 8,586,028	\$ 8,441,621
Loans	5,259,452	4,759,495
Total restricted - nonexpendable	<u>\$ 13,845,480</u>	<u>\$ 13,201,116</u>
Restricted - expendable:		
Scholarships	\$ 1,661,744	\$ 1,770,537
Research and other	4,057,455	4,588,027
Loans	398,077	394,105
Construction and renewal of plant facilities	5,012,227	4,845,605
Debt retirement	5,989,237	5,989,825
Total restricted - expendable	<u>\$ 17,118,740</u>	<u>\$ 17,588,099</u>

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NOTE 14 – OPERATING EXPENSES

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

	2015	2014 (restated)
Instruction	\$ 130,320,897	\$ 125,046,854
Research	98,224,604	103,836,945
Public service	28,675,738	26,859,315
Academic support	37,414,585	34,436,609
Student services	39,553,422	38,803,003
Institutional support	27,643,377	26,541,430
Plant-related expenses	37,539,822	38,294,651
Auxiliary enterprises	53,222,758	50,919,184
Scholarships and fellowships	23,711,663	25,003,864
Depreciation and amortization	31,284,509	30,834,839
	<u>\$ 507,591,375</u>	<u>\$ 500,576,694</u>

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

	2015	2014 (restated)
Compensation and benefits	\$ 293,068,733	\$ 291,328,431
OPEB	5,477,672	5,430,244
Pension	6,716,950	-
Supplies and service	80,305,379	79,517,594
Travel	12,224,231	12,181,353
Utilities	9,989,669	10,155,825
Other operating expenses	44,812,569	46,124,544
Scholarship and Fellowships	23,711,663	25,003,864
Depreciation and amortization	31,284,509	30,834,839
	<u>\$ 507,591,375</u>	<u>\$ 500,576,694</u>

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.

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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.

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	\$ 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 2015 and 2014 was \$234,783,809 and \$226,031,786, 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
2013	\$ 15,621,755	\$ 101,325	\$ 96,488
2014	\$ 16,758,410	\$ 93,714	\$ 108,955
2015	\$ 17,718,156	\$ 81,840	\$ 49,489

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Following is the total of the University's share of balances for material defined benefit plans.

	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:

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- 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 - $1.85\% \times \text{AFC} \times \text{years of creditable service}$ - for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than $1.6667 \times \text{AFC} \times \text{years of creditable service}$)

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 calculated prior to July 1, 2013, was 1.5% of the benefit payable as of January 1st. Effective July 1, 2013, the GABA to be calculated for Tier One and Tier Two members each year was to vary from 0.5% to 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation. The legislative enactment that allows for reduction of the GABA for Tier One members was litigated, and subsequent to June 30, 2015, a settlement was reached in which it was determined that for Tier One members, the GABA calculation would remain at 1.5% rather than varying from 0.5% to 1.5% as described above.

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

	2015	2014	Percent of Collective NPL at June 30 2014
University Proportionate Share	\$ 19,038,438	\$ 22,006,014	1.237200%
State of Montana Proportionate Share associated with the University	7,645,390	8,837,099	0.496900%
Total	\$ 26,683,828	\$ 30,843,113	1.734100%

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

- Assumed rate of inflation was reduced from 3.50% to 3.25%
- Payroll Growth Assumption was reduced from 4.50% to 4.00%
- Assumed real wage growth was reduced from 1.00% to 0.75%
- Investment return assumption was changed from net of investment and administrative expensed to net of investment expenses only.

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(continued)

- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
 - For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
 - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members was updated to the following:
 - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
 - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

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

TRS Pension Expense for 2015 totaled \$2,681,648, which included \$2,253,537 for the University share, as well as \$428,111 for the State of Montana's proportionate share associated with the University. The University also recognized non-operating revenue of \$428,111 for the support provided by the State of Montana for its proportionate share of the pension expense.

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.

At June 30, 2015, the University share of deferred outflows of resources and deferred inflows of resources related to TRS was as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 188,334	\$ -
Changes in actuarial assumptions	431,492	-
Difference between projected and actual investment earnings	-	2,948,789
Difference between actual and expected contributions	4,463,777	-
Contributions paid to TRS subsequent to the measurement date *	8,012,997	-
Total	<u>\$ 13,096,600</u>	<u>\$ 2,948,789</u>

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

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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:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Amount To Be Recognized as an increase or (decrease) to Pension Expense
2016	\$ 1,694,534	\$ 737,197	\$ 957,337
2017	\$ 1,694,534	\$ 737,197	\$ 957,337
2018	\$ 1,694,535	\$ 737,197	\$ 957,338
2019	\$ -	\$ 737,198	\$ (737,198)

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.

MCA 19-20-605 requires each employer to contribute 9.85% 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 1.00% for fiscal year 2014 and increase by 0.10% each fiscal year through 2024 until the total employer contribution is equal to 11.85% of re-employed retiree compensation.

TRS Actuarial Assumptions

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

- Total Wage Increases* 8.51%
- Investment Return 7.75%
- Price Inflation 3.25%
- Postretirement Benefit Increases 1.50%
(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.

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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 2116. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

TRS Target Allocations

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis
Broad US Equity	36.00%	4.80%
Broad International Equity	18.00%	6.05%
Private Equity	12.00%	8.50%
Intermediate Bonds	23.40%	1.50%
Core Real Estate	4.00%	4.50%
High Yield Bonds	2.60%	3.25%
Non-Core Real Estate	4.00%	7.50%
	<u>100.00%</u>	

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

TRS Sensitivity Analysis

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

	At Current		
	Assuming 1.0% Decrease (6.75%)	Discount Rate (7.75%)	Assuming 1.0% Increase (8.75%)
University proportion of Net Pension Liability	\$26,450,445	\$19,038,438	\$12,776,431

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

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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; or Any age, 25 years
 of membership service.

Hired on or after July 1, 2011: Age 55, 5 years of membership service.

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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)

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired July 1, 2007 through June 30, 2013
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.
- Between 0% and 1.5% for members hired on or after July 1, 2013, per the terms of House Bill 454 (2013), which was in litigation as of June 30, but settled in August 2015.

As of June 30, 2015, as a result of permanent injunction issued in the *AMRPE vs State* litigation, the GABA rate then in effect was used in the liability calculation.

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.

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

	2015	2014	Percent of Collective NPL at June 30 2014
University Proportionate Share	\$ 50,597,799	\$ 65,111,600	4.060783%

The NPL was measured as of June 30, 2014, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2014. The University's proportion of the NPL was based on the University's contributions received by PERS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERS' participating employers.

PERS Changes between the measurement date and the 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.

PERS Pension Expense for 2015 totaled \$3,907,314, which included \$2,539,832 for the University share, as well as \$1,367,482 for the State of Montana's proportionate share associated with the University. The University also recognized non-operating revenue of \$1,367,482 for the support provided by the State of Montana for its proportionate share of the pension expense.

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.

At June 30, 2015, the University share of deferred outflows of resources and deferred inflows of resources related to PERS was as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	\$ -	13,073,640
Changes in proportionate share	171,570	
Differences between actual contributions and proportionate share contributions		12,767
Contributions paid to PERS subsequent to the measurement date *	4,427,288	-
Total	\$ 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, 2016.

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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:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Amount To Be Recognized as an increase or (decrease) to Pension Expense
2016	\$ 57,190	\$ 3,272,666	\$ (3,215,476)
2017	\$ 57,190	\$ 3,272,666	\$ (3,215,476)
2018	\$ 57,190	\$ 3,272,666	\$ (3,215,476)
2019	\$ -	\$ 3,268,410	\$ (3,268,410)

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 8.27% of members' compensation.
- Local government entities are required to contribute 8.17% of members' compensation.
- School district employers contributed 7.90% 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 unfunded liability.
- Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

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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 on or after July 1, 2007
 - After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.
 - *At this time as a result of permanent injunction issued in the AMRPE vs State litigation, the GABA rate in effect is being used in the calculation. Clarification of the GABA rate for members hired on or after July 1, 2013 is pending.
- 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-

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

PERS Target Allocations

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%
	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 May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the PERS target asset allocation as of June 30, 2014, 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	\$80,495,884	\$50,597,799	\$25,381,709

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

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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

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GWPORS Net Pension Liability

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

	2015	2014	Percent of Collective NPL at June 30 2014
Montana State University Proportionate Share	\$ 548,897	\$ 876,463	3.63008%

The Net Pension Liability was measured as of June 30, 2014, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2014. The University's proportion of the Net Pension Liability was based on the employer's contributions received by GWPORS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of GWPORS' participating employers.

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 for 2015 totaled \$127,988, and represents the University's proportionate share of the GWPORS' Pension Expense.

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, 2015, the University share of deferred outflows of resources and deferred inflows of resources related to GWPORS was as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	\$ -	\$ 318,982
Contributions paid to GWPORS subsequent to the measurement date*	139,455	-
Total	<u>\$ 139,455</u>	<u>\$ 318,982</u>

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

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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
2016	\$ (79,746)
2017	\$ (79,746)
2018	\$ (79,746)
2019	\$ (79,744)

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, 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 (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.

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

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%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%
	<u>100.00%</u>	

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 May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the GWPORS target asset allocation as of June 30, 2014, 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	\$1,414,533	\$548,897	(\$161,164)

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

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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.

Pension data for the year ended June 30, 2014 is as follows:

	PERS	TRS	MUS-RP	CSRS	FERS	GWPORS
Covered payroll**	\$ 48,696,177	\$ 12,626,701	\$ 129,285,453	\$ 478,864	\$ 445,492	\$ 1,522,114
Employer contributions*	\$ 3,987,797	\$ 2,070,669	\$ 7,584,844	\$ 44,789	\$ 47,940	\$ 138,176
% of covered payroll	8.170%	10.850%	4.490%-4.956%	7.00%-8.00%	11.900%	9.000%
Employee contributions	\$ 3,925,869	\$ 1,024,322	\$ 9,173,565	\$ 48,925	\$ 61,015	\$ 159,735
% of covered payroll	7.900%	8.150%	7.044%-7.900%	7.00%-8.00%	0.800%	10.560%
MUS-RP contribution to TRS		\$ 5,733,353				
% of covered payroll		4.720%				
MUS-RP contributions to PERS	\$ 286,090					
% of covered payroll	3.680%					

*Includes TRS Option 1 payments of \$645,985

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

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 \$600-\$671 per month, depending on the level of deductible and other selected plan features. Upon reaching age 65 (Medicare eligibility), monthly participation premiums range from \$259-\$289 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.

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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, 2013. At that time, the number of active University participants in the health insurance plan was 3,513. The total number of inactive (retiree and dependent) participants was 979. During the years ended June 30, 2015, 2014 and 2013, the University contributed \$38,746,697, \$35,014,278, and \$31,509,597, respectively, which was calculated based on a contribution rate per actively employed participants, whose annual covered payroll totaled \$201,051,981 as of the last actuarial valuation. Included within this amount, the University is deemed to have contributed \$1,716,218, \$862,890 and \$474,723, for retirees or their dependents during 2015, 2014 and 2013, respectively.

As of the latest actuarial evaluation, the accrued liability for retiree health benefits was \$49,869,358 all of which was unfunded. The percentage of annual OPEB cost contributed to the plan was 31%, 16% and 7% for 2015, 2014 and 2013 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 2015, 2014 and 2013:

Year ended June 30,	2015	2014	2013 <i>(restated)</i>
Annual Required Contribution	\$ 5,005,586	\$ 5,002,217	\$ 6,469,002
Interest on net OPEB Obligation	2,188,762	1,984,489	1,714,570
Amortization of net OPEB Obligation	<u>(1,716,676)</u>	<u>(1,556,462)</u>	<u>(1,344,761)</u>
Annual OPEB cost	5,477,672	5,430,244	6,838,811
Contributions made	<u>(1,716,218)</u>	<u>(862,890)</u>	<u>(474,723)</u>
Increase to net OPEB obligation	3,761,454	4,567,354	6,364,088
Net OPEB obligation – beginning of year	<u>51,399,245</u>	<u>46,831,891</u>	<u>40,467,803</u>
Net OPEB obligation – end of year	<u>\$ 55,160,699</u>	<u>\$ 51,399,245</u>	<u>\$ 46,831,891</u>

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 2014 - 2019 -4.5% (Medical and Prescription) in 2020 and beyond
Participation	55% 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

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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, 2015 and 2014, 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 2015. During the year ended June 30, 2015, incentive pay of \$614,086 for voluntary and involuntary terminations plus benefits of \$635,804 (including TRS payment of \$530,239) were recorded for a total of 22 employees, for a total of \$1.2 million in expenses included in the accompanying financial statements. Of this total, \$1.2 million was paid, with \$2,456 remaining to be paid, which was accrued as of June 30, 2015.

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 2015 to fiscal 2016, 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."

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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
2016	3,508,795
2017	3,223,786
2018	1,911,504
2019	1,700,802
2020	1,663,276
2021-2025	1,939,607
Total	<u>\$ 13,947,770</u>

Payments made under operating leases during the years ended June 2015 and 2014 totaled \$3,702,826 and \$3,687,366 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, 2015, the University had issued purchase orders committing the expenditure of approximately \$10.0 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, 2015, the University does not expect any material adjustments or repayments to result from such audits.

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Capital projects – As of June 30, 2015, the University had remaining budget authority on significant capital construction and renovation projects of approximately \$115.7 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 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 \$242,105,671 from July 1, 2015 through June 30, 2044.

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

Description	2015			2014		
	Pledged Revenue	Total Similar Revenue	% Pledged	Pledged Revenue	Total Similar Revenue	% Pledged
Student fees (no tuition is pledged)	\$ 9,410,196	\$37,856,446	25%	\$ 9,020,551	\$37,049,930	24%
Housing and residence hall dining revenues, net of related expenses	12,739,569	12,739,569	100%	11,134,821	11,134,821	100%
MSU Bozeman Foundation Gift revenue related to Series B debt service	3,039,053	3,039,053	100%	-	-	-
Grant and contract facility and administrative cost recoveries	1,380,027	16,027,616	9%	1,388,104	15,861,311	9%
Bozeman campus athletic events revenue	3,205,020	3,305,133	97%	3,003,855	3,144,353	96%
Bozeman campus parking revenues	2,250,641	2,250,641	100%	2,155,927	2,155,927	100%
Bozeman bookstore and museum lease income	700,121	700,121	100%	709,739	709,739	100%
Land grant income	3,572,401	3,572,401	100%	3,375,355	3,375,355	100%
Investment income	777,720	1,188,545	65%	678,888	2,369,918	29%
Total	37,074,748			31,467,240		
Less debt service requirements	(16,031,764)			(11,676,936)		
Excess of pledged revenue over debt service requirements	\$ 21,042,984			\$ 19,790,304		

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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, 2015 and 2014, respectively, the Foundations provided \$17,449,214 and \$20,292,081 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 \$2,248,720 and \$2,167,638 during the years ended 2015 and 2014, 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 \$189,995 during 2015 and \$196,520 during 2014.

Friends of Montana Public Television provided \$1,029,483 during 2015 and \$913,625 during 2014 and Friends of KEMC Public Radio provided \$850,000 during 2015 and \$700,000 during 2014 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 \$1,420,912 and \$1,434,961 during the fiscal years ended June 2015 and 2014, 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 \$1,178,730 and \$1,125,000 in scholarship and other support during the years ended June 30, 2015 and 2014. The University provided \$186,217 in salary support to the MSU Bobcat Club during the year ending June 30, 2015.

NOTE 19 – SUBSEQUENT EVENTS

In September of 2014, the Board of Regents authorized the Billings campus to repair and replace the existing roof for the Student Union Building, and seek an InterCap loan in the amount of \$850,000 to finance the project. The loan was approved by the State of Montana Board of Investments. During fiscal 2015, \$483,000 was drawn against this loan with the remainder expected to be drawn during the year ending June 30, 2016 as the project is completed.

In September of 2015, the Board of Regents authorized the Billings campus to execute the purchase of real property in support of its campus master plan. The property will be purchased with non-state funds and the final purchase will be executed by MSU billings upon the review and approval by MSU, MUS Legal Counsel, the President of MSU, and the Commissioner of Higher Education. The offer price is \$315,000.

In September of 2015, the Board of Regents authorized MSU to purchase real property including land and a building designed to house laboratories and offices in Bozeman. The purchase of this property will allow MSU to vacate existing leased space as those leases expire in the next several years. MSU expects to house laboratory and offices in the building. The listed price for the property is \$4.8 million, and the purchase closed at the listed price on November 30, 2015.

In September of 2015, the Board of Regents authorized MSU to proceed with the issuance of debt in an amount up to \$11.5 million to obtain the financing necessary to construct a parking facility and to purchase a building (as listed above) for lab and office space. Debt is expected to be issued in December 2015 or January 2016.

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An additional \$6.0 million of debt was authorized in November of 2015, to construct a new dining hall on the Bozeman campus. In combination with the \$11.5 million debt previously authorized, the University expects to issue debt in December 2015 or January 2016.

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.

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	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.

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Montana State University
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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*:			Component Unit Promises Receivable*:		
	2015	2014		2015	2014
Pooled investments**:					
Equity securities	\$ 19,465,093	\$ 20,769,897	Receivable in one year	\$ 1,247,568	\$ 5,598,900
Debt securities	20,434,968	10,031,154	Receivable in one to five years	15,735,522	14,369,885
Alternative investments	116,653,974	114,398,921	Receivable after five years	667,500	3,271,595
Real Estate	-	27,627	Less discounts and allowances	(1,819,589)	(2,018,487)
Cash equivalents	11,034,022	12,883,975	Total	<u>\$ 15,831,001</u>	<u>\$ 21,221,893</u>
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			

* 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
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30

(continued)

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, 2014 or December 31, 2013*

	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	\$ 179,308,865	\$ 26,417,510	\$ 4,494,540	\$ 11,733,420	\$ 1,597,738	\$ 223,552,073
Amounts due from MSU	-	-	1,305,169	-	-	1,305,169
Other receivables, net	23,787,776	801,000	700,816	559,611	18,311	25,867,514
Capital assets, net	4,798,863	1,285,730	57,489	3,278,247	-	9,420,329
Other assets	419,638	166,678	12,271	603,014	828,889	2,030,490
Total assets	\$ 208,315,142	\$ 28,670,918	\$ 6,570,285	\$ 16,174,292	\$ 2,444,938	\$ 262,175,575
Liabilities:						
Accounts payable and other liabilities	\$ 749,536	\$ 808,421	\$ -	\$ 522,415	\$ 201,232	\$ 2,281,604
Amounts due to MSU	308,180	-	-	325,982	-	634,162
Notes, bonds and debt obligations	12,680,581	-	-	-	-	12,680,581
Liabilities to external parties	6,251,226	375,790	1,648,083	-	-	8,275,099
Custodial funds	10,944,300	1,663,547	-	-	-	12,607,847
Total liabilities	30,933,823	2,847,758	1,648,083	848,397	201,232	36,479,293
Net assets:						
Unrestricted	4,036,349	4,997,655	(989,968)	9,163,808	659,317	17,867,161
Temporarily restricted	72,938,520	7,671,201	2,015,440	5,337,335	240,479	88,202,975
Permanently restricted	100,406,450	13,154,304	3,896,730	824,752	1,343,910	119,626,146
Total net assets	177,381,319	25,823,160	4,922,202	15,325,895	2,243,706	225,696,282
Total liabilities and net assets	\$ 208,315,142	\$ 28,670,918	\$ 6,570,285	\$ 16,174,292	\$ 2,444,938	\$ 262,175,575

*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
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30

(continued)

Montana State University
Condensed Combining Schedule of Component Unit Statements of Activities
For the Year Ended June 30, 2014 or December 31, 2013*

	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	\$ 20,711,370	\$ 2,737,116	\$ 912,969	\$ 1,304,942	\$ 1,508,066	\$ 27,174,463
Investment income and unrealized gain on investments	19,454,660	3,236,941	479,057	1,332,117	188,670	24,691,445
Support from University	1,200,000	50,000	170,203	-	-	1,420,203
Other income	2,264,243	899,590	97,844	3,013,058	725,653	7,000,388
Total revenues	43,630,273	6,923,647	1,660,073	5,650,117	2,422,389	60,286,499
Expenses:						
University support	15,434,814	840,016	113,049	1,527,869	318,750	18,234,498
Scholarships and other program expenses	3,201,470	1,653,421	547,523	2,164,565	1,173,710	8,740,689
Supporting services	9,636,765	747,574	347,000	1,127,690	779,752	12,638,781
Total expenses	28,273,049	3,241,011	1,007,572	4,820,124	2,272,212	39,613,968
Change in net assets before nonoperating items	15,357,224	3,682,636	652,501	829,993	150,177	20,672,531
Nonoperating items	727,404	-	(49,596)	-	-	677,808
Change in net assets	16,084,628	3,682,636	602,905	829,993	150,177	21,350,339
Net assets, beginning of fiscal year	161,296,691	22,140,524	4,319,297	14,495,902	2,093,529	204,345,943
Net assets, end of fiscal year	\$ 177,381,319	\$ 25,823,160	\$ 4,922,202	\$ 15,325,895	\$ 2,243,706	\$ 225,696,282

Component Unit Investment Composition*:

	2014	2013
Pooled investments**:		
Equity securities	\$ 20,769,897	\$ 16,134,294
Debt securities	10,031,154	9,781,743
Alternative investments	114,398,921	97,842,120
Real Estate	27,627	2,441,209
Cash equivalents	12,883,975	4,785,108
Other pooled investments	38,042,865	34,454,006
US Treasuries	388,390	283,756
Other real estate	576,083	811,083
Other investments	9,020,015	8,199,368
Investments held in trust for others	10,775,737	8,780,531
Total	\$ 216,914,664	\$ 183,513,218

Component Unit Promises Receivable*:

	2014	2013
Receivable in one year	\$ 5,598,900	\$ 2,531,276
Receivable in one to five years	14,369,885	14,773,494
Receivable after five years	3,271,595	5,782,756
Less discounts and allowances	(2,018,487)	(2,098,472)
Total	\$ 21,221,893	\$ 20,989,054

* 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
(a component unit of the State of Montana)
Required Supplementary Information
As of and for Each of the Years Ended June 30

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	1.2372%	\$19,038,438	\$7,645,390	\$26,683,828	\$11,796,348	161.4%	70.36%

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	-	\$11,796,348	67.92%

*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	4.060783%	\$50,597,799	\$50,068,702	101.06%	79.9%

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	-	\$50,068,702	8.3%

*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

Montana State University
(a component unit of the State of Montana)
Required Supplementary Information
As of and for Each of the Years Ended June 30

(continued)

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	3.63008%	\$548,897	\$1,550,060	35.41%	90.2%

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	-	\$1,550,060	9.00%

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

Montana State University
(a component unit of the State of Montana)
Required Supplementary Information
As of and for Each of the Years Ended June 30

(continued)

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	Investment rate of return
July 1, 2014	Entry age	Level percentage of pay, open	28 years	4-year smoothed market	3.25%	4.00% - 8.51%, including inflation for Non-University Members 5.00% for University Members;	7.75%, net of pension plan investment expense, and including inflation

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	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%, net of pension plan investment expense, and including inflation	0.27% administrative expenses as a % of payroll GABA- 3.0% or 1.5% for hires after July 1, 2007

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 GWPORS schedules:

Actuarial Valuation Date	Actuarial cost method	Amortization method	Remaining amortization period	Asset valuation method	Inflation	Salary increase	Investment rate of return	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%, net of pension plan investment expense, including inflation	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

Montana State University
(a component unit of the State of Montana)
Required Supplementary Information
As of and for Each of the Years Ended June 30

(continued)

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, 2009	-	\$ 92,634,783	\$ 92,634,783	0.00%	\$ 198,691,532	46.62%
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%

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, 2009	4.25	2.50%	55%
July 1, 2011	4.25	2.50%	55%
July 1, 2013	4.25	2.50%	55%

Montana State University
(a component unit of the State of Montana)
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2015

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, 2015

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	\$ 127,984,119	\$ 5,838,109	\$ 3,567,544	\$ 143,809	\$ 35,443,456	\$ 8,149,519	\$ 4,914,144											\$ 186,040,700
Short term investments	18,127,641	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,127,641
Securities lending collateral	884,158	-	-	-	44,290	-	-	-	-	-	-	-	-	-	-	-	-	928,448
Accounts and grants receivable, net	8,936,804	170,993	253,747	16,743	1,288,626	800,347	356,307	-	-	-	-	-	-	-	-	-	-	11,823,567
Amounts receivable from Federal government	11,617,006	-	187,332	-	38,279	338,391	306,247	-	-	-	-	-	-	-	-	-	-	12,487,255
Amounts receivable from primary government	235,249	-	-	-	12,143	19,355	34,771	-	-	-	-	-	-	-	-	-	-	301,518
Amounts receivable from MSU campuses	3,187,735	-	-	-	32,692	-	-	-	-	-	-	-	-	-	(32,692)	-	-	-
Loans receivable, net	1,010,191	1,087,747	-	-	597,739	282,092	-	-	-	-	-	-	-	-	-	-	-	4,067,566
Inventories	3,233,467	4,124	10,081	-	761,869	291,450	347,711	-	-	-	-	-	-	-	-	-	-	3,498,968
Prepaid expenses and other current assets	175,216,370	7,100,973	4,018,704	160,552	38,348,478	10,015,002	6,015,503	56,323	-	-	-	-	-	-	-	-	-	3,567,227
Total current assets	374,917,601	19,562,177	241,396	269,090	53,263,340	20,404,284	21,282,092	26,088	916,266	640,288	3,828,157	2,385,545	(32,692)	78,661,543				489,939,980
Total assets	\$ 550,133,971	\$ 26,663,150	\$ 4,260,100	\$ 429,642	\$ 91,611,818	\$ 30,419,286	\$ 27,297,595	\$ (32,692)	\$ 916,266	\$ 640,288	\$ 3,828,157	\$ 2,385,545	\$ (32,692)	\$ 730,782,870				\$ 25,454,438
DEFERRED OUTFLOWS	\$ 18,858,399	\$ 1,052,164	\$ 721,650	\$ 26,088	\$ 3,239,583	\$ 916,266	\$ 640,288	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
LIABILITIES																		
Current liabilities:																		
Accounts payable and accrued liabilities	\$ 26,896,952	\$ 1,263,537	\$ 1,056,187	\$ 55,141	\$ 3,485,741	\$ 2,206,651	\$ 1,192,072	-	-	-	-	-	-	-	-	-	-	\$ 36,156,281
Amounts payable to primary government	1,810,402	-	-	-	358,938	135,879	52,752	-	-	-	-	-	-	-	-	-	-	2,357,971
Amounts payable to Montana component units	69,286	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	69,286
Amounts payable to MSU campuses	32,692	-	-	-	-	-	-	-	-	-	-	-	-	-	(32,692)	-	-	-
Securities Lending Liability	884,158	-	-	-	44,290	-	-	-	-	-	-	-	-	-	-	-	-	928,448
Property held in trust for others	1,633,071	-	-	-	107,076	217,867	125,701	-	-	-	-	-	-	-	-	-	-	2,083,715
Deferred revenues	9,021,673	-	6,657	-	1,375,226	335,208	424,822	-	-	-	-	-	-	-	-	-	-	11,163,586
Compensated absences	11,356,260	1,244,814	791,842	29,460	2,163,489	708,605	590,198	-	-	-	-	-	-	-	-	-	-	16,884,668
Current portion debt and capital lease obligations	8,023,829	4,812	-	-	765,000	223,947	-	-	-	-	-	-	-	-	-	-	-	9,017,588
Total current liabilities	59,728,323	2,513,163	1,854,686	84,601	8,299,760	3,828,157	2,385,545	(32,692)	916,266	640,288	3,828,157	2,385,545	(32,692)	78,661,543				78,661,543
Noncurrent liabilities:																		
Advances from primary government	16,697,241	-	-	-	3,305,553	768,207	471,294	-	-	-	-	-	-	-	-	-	-	21,242,295
Debt and capital lease obligations	150,259,786	1,255	-	-	8,794,378	871,393	-	-	-	-	-	-	-	-	-	-	-	159,926,812
Compensated absences	10,053,316	1,028,723	724,394	26,950	1,692,291	601,154	106,997	-	-	-	-	-	-	-	-	-	-	14,233,825
OPEB and Pension liability	81,306,200	5,737,914	3,973,074	187,120	21,817,072	7,915,821	4,408,632	-	-	-	-	-	-	-	-	-	-	125,345,833
Due to Federal government	18,392,589	-	-	-	3,065,375	1,447,749	-	-	-	-	-	-	-	-	-	-	-	22,905,713
Derivative instrument - swap liability	4,605,263	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,605,263
Total noncurrent liabilities	281,314,395	6,767,892	4,697,468	214,070	38,674,669	11,604,324	4,986,923	4,986,923	11,604,324	4,986,923	11,604,324	4,986,923	(32,692)	348,259,741				348,259,741
Total liabilities	\$ 341,042,718	\$ 9,281,055	\$ 6,552,154	\$ 298,671	\$ 46,974,429	\$ 15,432,481	\$ 7,372,468	\$ (32,692)	\$ 916,266	\$ 640,288	\$ 3,828,157	\$ 2,385,545	\$ (32,692)	\$ 426,921,284				\$ 426,921,284
DEFERRED INFLOWS	\$ 10,550,948	\$ 727,469	\$ 373,391	\$ 16,318	\$ 3,147,282	\$ 973,243	\$ 565,527	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NET POSITION																		
Net investment in capital assets	\$ 182,476,257	\$ 19,508,562	\$ 221,539	\$ 268,220	\$ 36,326,757	\$ 16,944,186	\$ 20,758,046	-	-	-	-	-	-	-	-	-	-	\$ 276,503,567
Restricted - nonexpendable	12,271,449	-	-	-	788,188	408,691	377,152	-	-	-	-	-	-	-	-	-	-	13,845,480
Restricted - expendable	12,465,852	707,953	(484,517)	-	2,596,158	1,930,065	(96,771)	-	-	-	-	-	-	-	-	-	-	17,118,740
Unrestricted	10,185,146	(2,509,725)	(1,680,817)	(127,479)	5,018,587	(4,353,114)	(1,038,539)	-	-	-	-	-	-	-	-	-	-	5,494,059
Total net position	\$ 217,398,704	\$ 17,706,790	\$ (1,943,795)	\$ 140,741	\$ 44,729,690	\$ 14,929,828	\$ 19,999,888	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 312,961,846

Montana State University
 Unaudited Consolidating Statement of Revenues, Expenses and Changes in Net Position
 For the Year Ended June 30, 2015

	MSU- Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU- Billings	MSU- Northern	Great Falls College MSU	Inter-campus Eliminations	Total
Operating revenues:									
Tuition and fees	\$ 133,378,019	\$ -	\$ -	\$ -	\$ 21,754,355	\$ 5,702,300	\$ 3,484,223	\$ -	\$ 164,318,897
Federal appropriations	-	2,996,700	2,789,800	-	-	-	-	-	5,786,500
Federal grants and contracts	61,856,328	-	18,197	-	3,034,760	2,550,230	3,422,066	(37,686)	70,843,895
State grants and contracts	4,908,599	-	55,444	-	622,197	394,030	242,188	-	6,222,458
Non-governmental grants and contracts	8,935,886	-	315,970	-	199,982	65,000	63,083	-	9,579,921
Grant and contract facilities and administrative cost recoveries	15,421,193	-	-	-	333,075	194,271	79,077	-	16,027,616
Educational, public service and outreach revenues	16,214,647	3,317,689	4,619,051	144,466	1,272,134	256,807	282,121	(1,078,411)	25,028,504
Auxiliary - housing	18,011,145	-	-	-	1,791,525	625,042	-	-	20,427,712
Auxiliary - food service	17,390,245	-	-	-	1,138,254	739,877	259,973	-	19,528,349
Auxiliary - other auxiliary sales and services	4,375,586	-	-	-	3,740,492	651,632	1,178,293	(108,651)	9,837,352
Interest earned on loans	49,342	-	-	-	81,630	754	-	-	131,726
Other operating revenues	1,580,729	74,686	109	-	171,926	33,239	21,087	-	1,881,776
Total operating revenues	282,121,719	6,389,075	7,798,571	144,466	34,140,330	11,213,182	9,032,111	(1,224,748)	349,614,706
Operating expenses:									
Compensation and benefits	205,072,856	14,323,743	10,989,568	554,190	36,733,357	14,500,594	10,894,425	-	293,068,733
OPEB and Pension expense	8,014,743	603,847	433,881	22,882	2,000,505	700,529	418,235	-	12,194,622
Operating expenses	108,101,157	4,101,644	2,459,991	276,963	20,129,786	7,124,315	6,362,740	(1,224,748)	147,331,848
Scholarships and fellowships	14,265,927	19,966	640	-	4,995,350	1,652,188	2,777,592	-	23,711,663
Depreciation and amortization	23,756,937	1,183,117	58,284	39,411	3,962,242	1,298,931	985,587	-	31,284,509
Total operating expenses	359,211,620	20,232,317	13,942,364	893,446	67,821,240	25,276,557	21,438,579	(1,224,748)	507,591,375
Operating loss	(77,089,901)	(13,843,242)	(6,143,793)	(748,980)	(33,680,910)	(14,063,375)	(12,406,468)	-	(157,976,669)
Nonoperating revenues (expenses):									
State and local appropriations	56,894,686	14,298,458	6,162,235	718,272	22,197,045	10,462,946	7,369,367	-	118,103,009
Pell Grants	14,091,575	-	-	-	6,229,323	2,381,454	4,113,761	-	26,816,113
Land grant and timber sales income	2,957,241	-	-	-	615,160	-	-	-	3,572,401
Gifts	13,083,157	-	216,154	-	2,260,240	1,073,671	147,914	-	16,781,136
Investment Income	1,115,881	8,019	3,547	143	45,343	9,423	6,189	-	1,188,545
Interest expense	(6,137,811)	(576)	-	-	(479,118)	(113,308)	(34,234)	-	(6,765,047)
Net nonoperating revenues (expenses)	82,004,729	14,305,901	6,381,936	718,415	30,867,993	13,814,186	11,602,997	-	159,696,157
Income before other revenues, expenses, gains and losses	4,914,828	462,659	238,143	(30,565)	(2,812,917)	(249,189)	(803,471)	-	1,719,488
Transfers in (out)	(147,698)	(87,431)	(15,399)	104,292	(15,001)	116,237	45,000	-	-
Gain or loss on disposal of capital assets	(150,542)	(3,370)	14,417	-	(301,484)	(46,176)	(18,425)	-	(505,580)
Additions to permanent endowments	159,335	-	-	-	-	372	-	-	159,707
Gifts, capital grants and contributions	8,142,334	27,606	-	-	84,774	99,364	56,407	-	8,410,485
Change in net position	12,918,257	399,464	237,161	73,727	(3,044,628)	(79,392)	(720,489)	-	9,784,100
Net position, beginning of year restated	204,480,447	17,307,326	(2,180,956)	67,014	47,774,318	15,009,220	20,720,377	-	303,177,746
Net position, end of year	\$ 217,398,704	\$ 17,706,790	\$ (1,943,795)	\$ 140,741	\$ 44,729,690	\$ 14,929,828	\$ 19,999,888	\$ -	\$ 312,961,846

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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**

	2015	2014	2013
Montana residents			
Undergraduate	13,272	13,789	13,871
Graduate	1,070	1,078	1,090
Nonresidents			
Undergraduate	3,997	3,735	3,503
Graduate	347	334	334
Western Undergraduate Exchange	1,175	1,117	1,026
Total	19,861	20,053	19,824

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 2014-2015 academic year, on a per-semester basis, were as follows:

	Resident Undergraduate—Graduate	Nonresident Undergraduate (WUE)— Graduate
Bozeman Campus	\$3,400 – \$3,933	\$4,827 – \$11,228
Billings Campus	\$2,890 – \$3,330	\$4,051 – \$9,173
Northern Campus ⁽¹⁾	\$2,633 – \$3,363	\$3,673– \$9,283
Great Falls Campus ⁽²⁾	\$1,547– N/A	\$2,171 – N/A

(1) Average of lower and upper divisions.

(2) Undergraduate program only.

Employees and Graduate Assistants

As of Fall 2014, the University had 7,443 employees and utilized 674 graduate assistants as follows:

	Bozeman	Billings	Northern	Great Falls	Total
Faculty/Professional	2,036	464	178	164	2,842
State classified system	1,163	218	65	61	1,507
Temporary hourly	290	77	41	14	422
Students	2,236	248	135	53	2,672
Total employees	5,725	1,007	419	292	7,443
Graduate assistants	653	21	-	-	674

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.

**Montana State University
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As of and for the Year Ended June 30, 2015**

(continued)

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.

Situated within the City of Bozeman, the campus comprises approximately 1,781 acres and more than 40 classroom and administrative buildings, including a full-service library, ten residence halls, three cafeterias, an animal bioscience facility, historic Hamilton Hall, 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. Additionally, a new classroom building housing the Jake Jabs College of Business and Entrepreneurship was completed in summer 2014. The building and related programs were funded with a \$25 million gift to the MSU Alumni Foundation. Also under construction is a 400-bed residence hall, to house the University's growing freshman population.

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.

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(continued)

Enrollment

		Student FTE for Fiscal Years Ended June 30,				
		2015	2014	2013	2012	2011
Resident	Undergraduate	7,666	7,852	7,798	7,702	7,435
	Gallatin College	330	306	271	254	217
	Graduate	757	746	730	802	801
	Total resident	8,753	8,904	8,799	8,758	8,453
Nonresident	Undergraduate	3,591	3,355	3,132	2,793	2,594
	Gallatin College	109	95	94	77	62
	Graduate	321	309	307	236	274
	Total nonresident	4,021	3,759	3,533	3,106	2,930
Western Undergraduate Exchange		776	711	609	488	438
Total		13,550	13,374	12,941	12,352	11,821

		Degrees Granted - Fiscal Years Ended June 30,				
		2015	2014	2013	2012	2011
	Undergraduate	2,421	2,310	1,980	1,853	1,831
	Graduate	614	563	577	591	548
	TOTAL:	3,035	2,873	2,557	2,444	2,379

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 century-long 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.

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(continued)

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.

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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, Montana 4-H reached 18,700 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 4,000 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.

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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 Lewis & Clark 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.

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MSU- Billings

Campus Overview

Montana State University Billings is a 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 opened in 1927 and 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 campus consists of four colleges: the College of Arts and Sciences, the College of Business, the College of Education and the College of Allied Health Professions. Seven miles west of the university campus sits City College at MSU Billings, which serves the comprehensive two-year mission of the university. MSU Billings offers a full complement of one- and two-year certificate programs, associate degrees bachelor and master degrees, as well as pre-professional academic offerings in nearly 100 academic areas, featuring 24 programs that are completely available online. Several academic programs are unique to the Montana University System. In addition, MSU Billings has myriad graduate degrees in healthcare, public administration and education. The MSU Billings Extended Campus also maintains a presence in Downtown Billings through outreach education to underserved populations, GED preparation, summer programs for children, and short-term training/conference space.

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 National Council for the Accreditation of Teacher Education 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 Excellence and the Montana Board of Nursing.

Public service is integral to the mission of the University. Its two primary public service entities are KEMC/Yellowstone Public Radio and the Montana Center for Inclusive Education, a comprehensive education, rehabilitation, and diagnostic center serving Montanans with disabilities.

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Enrollment

	Student FTE for Fiscal Years Ended June 30,				
	2015	2014	2013	2012	2011
Resident					
Undergraduate	2,396	2,531	2,646	2,731	2,819
City College	751	819	849	947	990
Graduate	245	267	291	314	317
Total Resident	3,392	3,617	3,786	3,992	4,126
Nonresident					
Undergraduate	192	181	168	138	109
City College	16	24	28	24	16
Graduate	26	25	27	28	24
Total nonresident	234	230	223	190	149
Western Undergraduate Exchange					
Main Campus	260	262	263	252	233
City College	38	44	46	44	47
Total Western Undergraduate Exchange	298	306	309	296	280
Total	3,924	4,153	4,318	4,478	4,555

	Degrees Granted - Fiscal Years Ended June 30,				
	2015	2014	2013	2012	2011
University Campus:					
Associate Degrees	105	33	25	32	40
Bachelor's Degrees	580	502	568	510	533
Master's Degrees	152	127	139	152	125
Total University Campus	837	662	732	694	698
City College Campus:					
Certificates	39	26	26	36	29
Associate Degrees	239	240	258	291	212
Total City College	278	266	284	327	241
Grand Total Degrees	1,115	928	1,016	1,021	939

MSU Billings holds strong as the third largest higher education unit in Montana. Alumni 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 2015-2016 academic year with 4,429 students, which is short of last fall's opening enrollment of 4,781. While first-time freshman enrollment decreased nearly 12% from the previous year, transfer students increased nearly 3% from last year, and Early High School and Dual Credit Students increased by nearly 11% from last year. Factors contributing to decreased student FTE for 2014 and 2015 include record graduating classes, declining high school enrollments 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.

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. An Academic Program Prioritization Committee evaluated every academic program from the ground up with the expectation that this evaluation process would result in a clearer understanding of which programs the university recognizes as

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imperative to our future. Conversely, the evaluation will also address programs that have outlived their centrality to the institution's mission. The work of the committee has been completed and continues to be evaluated. Community partnerships continue to grow and are essential to the University. The University has begun 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 realized 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 our belief that we are Eastern Montana's university of choice.

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

Grants and research production continues. MSU Billings TRIO programs for student support services were renewed for \$1.5 million for 5 years. TRIO also received a 230K grant for operations. In addition, the University received a new \$332K NIH research grant for biological and physical sciences, as well as \$580K as a subcontract on the Health Care grant. Continuing major grants include a \$1.2 million NSF Robert Noyce grant, to prepare teachers to educate high-needs Montana districts in Science Technology Engineering and Math; a \$1.5 million subcontract on a Dept. of Labor grant to train and prepare workers for jobs in energy and manufacturing industries; as well as a Montana Board of Research & Commercialization Technology grant and additional INBRE grants. MSU Billings received \$94K from a subcontract with MSU Northern on a biofuels project. MSUB also received \$262,731 for a project titled, "Remediation Technology for Chlorinated Pollutants Based on a Natural Product from Soil Bacteria."

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 College of Allied Health Professions continues growth in enrollments and graduations.

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 and preparing them for college, as well as give 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 our 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 and 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 raised through fundraising efforts of the MSU Billings Foundation before construction begins. The renovated MSU Billings Yellowstone Hall 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.

Support for the University continues to be strong. The MSU Billings Foundation Opportunity Campaign for MSU Billings Scholarships raised over \$7.2 million in gifts and pledges, exceeding the original \$6 million goal. The Foundation distributed \$1.6 million in scholarships in FY15.

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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. Montana State University-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 also includes 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,				
	2015	2014	2013	2012	2011
Resident					
Undergraduate	890	943	942	943	954
Graduate	68	65	69	52	61
Total resident	958	1,008	1,011	995	1,015
Nonresident					
Undergraduate	52	47	44	41	47
Graduate	0	0	0	0	0
Total nonresident	52	47	44	41	47
Western Undergraduate Exchange	95	93	101	89	93
Total	1,105	1,148	1,156	1,125	1,155
	Degrees Granted - Fiscal Years Ended June 30,				
	2015	2014	2013	2012	2011
Undergraduate	272	247	235	259	284
Graduate	23	27	23	10	39
Total:	295	274	258	269	323

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 has begun 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. Northern will also continue to explore expanded program offerings at our sites in Lewistown and Great Falls.

Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2015

(continued)

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 is a progressive public institution offering two-year transfer degrees as well as degrees and certificates that prepare students to enter high-skill, 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, Business Trades, and Technology disciplines. As part of being 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 foster the success of our students and their communities through innovative, flexible learning opportunities for people of all ages, backgrounds, and aspirations resulting in self-fulfillment and competitiveness in an increasingly global society.

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. Since 2010, enrollment at Great Falls College-Montana State University has risen slightly overall with the greatest increase in FTE occurring in 2012. Given the degree of labor market changes during this time period, enrollment at GFCMSU has remained somewhat stable.

Enrollment

	Student FTE for Fiscal Years Ended June 30,				
	2015	2014	2013	2012	2011*
Resident Undergraduate					
Great Falls	1,239	1,338	1,365	1,424	1,387
College of Technology Bozeman	-	-	-	-	-
Nonresident Undergraduate					
Great Falls	37	33	39	35	23
College of Technology Bozeman	-	-	-	-	-
Western Undergraduate Exchange	6	7	5	6	5
Total	1,282	1,378	1,409	1,465	1,415

*Effective July 1, 2010 Gallatin College at MSU Bozeman took over management of certain courses and programs which previously operated under the auspices of GFCMSU, resulting in a decline in enrollment from 2010 to 2011.

Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2015

(continued)

	Degrees Granted - Fiscal Years Ended June 30,				
	2015	2014	2013	2012	2011
Certificate of Applied Science	91	68	51	64	62
Professional Certificate	46	29	25	21	20
Associate of Science/Arts	123	201	156	132	80
Associate of Applied Science	167	156	185	186	179
Total	427	454	417	403	341

Campus Outlook

GFCMSU is participating in a Department of Labor funded grant, which provides remote lab capabilities for online science and health science classes. The Great Falls College MSU North American Network of Science Labs Online (NANSLO) lab is one of only three in the world, and it allows remote delivery of scientific experiments to our students over the internet. The advantages of the remote lab over simulations or lab kits, which also can be used with online science classes, is that students have access to actual high-end laboratory equipment including microscopes, spectrophotometers and gas chromatographs for chemistry, biology and allied health courses. Up to five students can access a lab simultaneously with as many as four labs running concurrently. Real time video feeds allow students a more immersive experience which has been shown to improve the learning experience of online activities when compared to simulations alone.

In the past year, GFCMSU administration has placed a greater emphasis on offering and marketing courses that provide students with the ability of transferring to four year institutions, in order to complete an academic degree. To emphasize this change, the division formerly known as the General Education and Transfer Division was restructured and renamed the General Education, Business, Technology and Transfer Division. The division has expanded course offerings in the Fine Arts and Humanities area. New courses include: College/Community Choir, Spanish, upper level Calculus, and Introduction to Humanities. Fall semester 2014 was the initial semester for students to enroll in courses leading to a 1+3 Civil Engineering transfer option with Montana State University in Bozeman. Expansion of engineering transfer options with other Montana University System institutions are being explored. In addition, the division implemented efforts in several existing courses in order to encourage higher enrollments. The results have been positive; several math and science courses have seen significant increases in enrollments. The division is planning on offering more courses in the future, in order to expand the opportunities for students wishing to take advantage of the transfer mission.

The Business, Trades, and Technology Division has been reorganized. The Division of Trades is a stand-alone division and offers CTS and CAS credentials. The division also revised its former Sustainable Energy Technician program to an Industrial Technician program that expands curriculum in the areas of electrical and mechanical skills to broaden employment opportunities.

At the September 2014 meeting of the Montana University System Board of Regents, the College notified the Board of its intent to have an intake of students into the Associate of Science – Registered Nurse (ASN) program in the fall semester of 2015.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Montana State University, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated December 16, 2015. Our report includes a reference to other auditors who audited the financial statements of the 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, as described in our report on the university's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. Those financial statements were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 16, 2015

MONTANA STATE
UNIVERSITY

UNIVERSITY RESPONSE



January 4, 2016

RECEIVED

JAN 05 2016

LEGISLATIVE AUDIT DIV.

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

Dear Ms. Hunthausen:

Montana State University would like to thank the Legislative Audit Division for auditing our financial statements for the fiscal year ended June 30, 2015. This audit was productive and helpful with continually improving financial reporting for all Montana State University campuses. We look forward to working with you again next year.

Sincerely,

A handwritten signature in black ink, appearing to read 'Waded Cruzado'.

Waded Cruzado
President

Office of the President

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