MONTANA STATE UNIVERSITY
2018 FINANCIAL STATEMENTS

MONTANA STATE UNIVERSITY

Photos by Adrian Sanchez-Gonzalez, MSU

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Angus Maciver, Legislative Auditor
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Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Consolidated Statements of Net Position of Montana State University as of June 30, 2018, and 2017, the related Consolidated Statements of Revenues, Expenses and Changes in Net Position, and Consolidated Statements of Cash Flows for each of the fiscal years then ended, and the University Component Units–Combined Statements of Net Position as of June 30, 2018, and 2017, and the related University Component Units–Combined Statement of Activities for the fiscal years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the university's aggregate discretely presented component units. Those statements, which include Montana State University Foundation, the Museum of the Rockies Incorporated, the Montana State University–Billings Foundation, the Montana State University–Northern Foundation, and the Montana State University Bobcat Club, were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for the component units of the university, as noted above, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The other auditors did not audit the aggregate discretely presented component units' financial statements in accordance with *Government Auditing Standards*.

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 reasonable basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Montana State University as of June 30, 2018, and 2017, 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 Matters

As discussed in Note 1 to the financial statements, in fiscal year 2018, Montana State University adopted the Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis beginning on page 1, and the Required Supplementary beginning on page 69, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018, on our consideration of the Montana State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the university's internal control over financial reporting and compliance. It is included in the Legislative Auditor's separately issued report (17-11B) on the university's financial statements.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 21, 2018

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

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

OPERATIONS

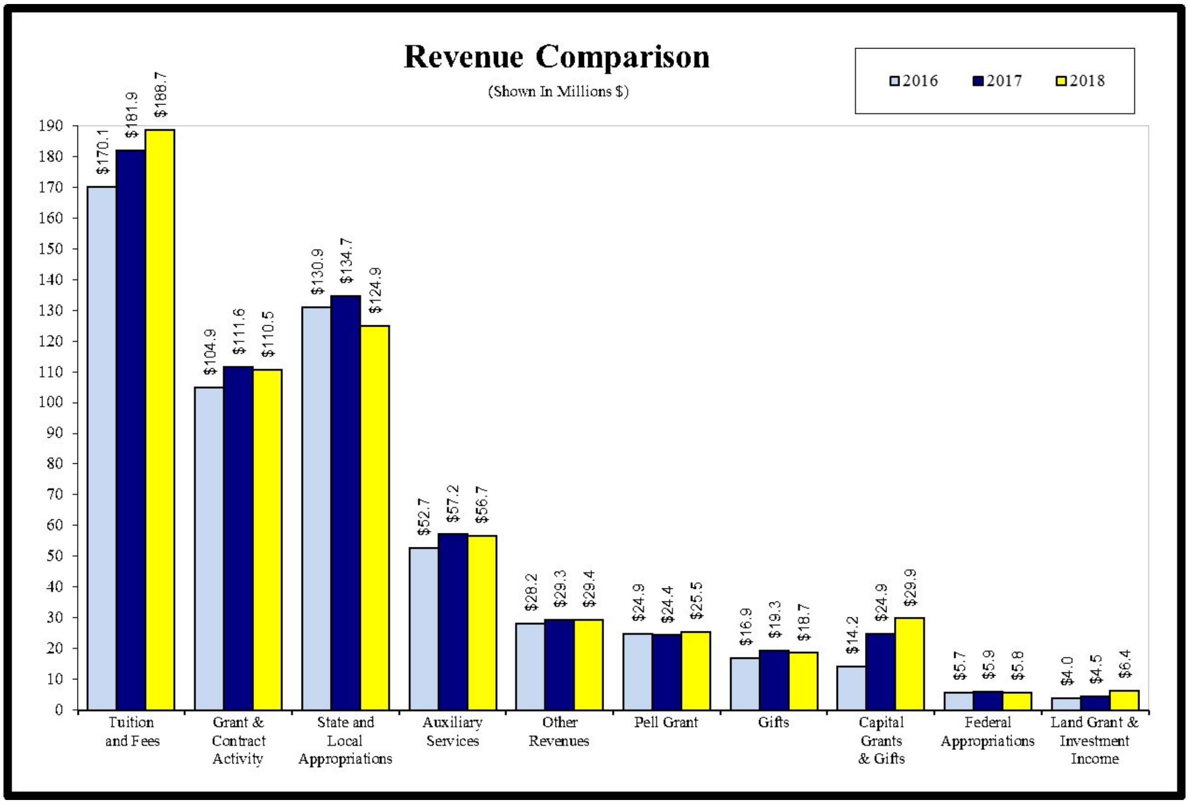
Condensed Statements of Revenues, Expenses and Changes in Net Position
(in millions)

	2018	2017	2016
Operating revenues	$ 391.1	$ 385.9	$ 361.6
Operating expenses	564.9	560.2	524.3
Operating loss	(173.8)	(174.3)	(162.7)
Non-operating revenues and expenses (net)	167.6	177.6	170.9
Income before capital & other items	(6.2)	3.3	8.2
Capital & other items	29.5	24.9	14.0
Change in net position	$ 23.3	$ 28.2	$ 22.2

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 2018 and 2017 Results of Operations

The University's net financial position increased $23.3 million during 2018, resulting primarily from capital grants and contributions of $29.9 million. Of this amount, $21.4 million was received for the expansion of facilities for the college of engineering on the Bozeman campus, and private donors contributed $1.2 million in support of MSU-Northern's Diesel Technology Center; in addition, $2.7 million was expended on the technology center by the State of Montana. Operating expenses exceeded revenues by $6.2 million due primarily to increased accrual-basis pension expense of $5.7 million. This resulted primarily from an increase in the University's proportionate share of the total pension liability.



Operating revenues contain the majority of the University's income, and increased $5.2 million, or 1.3%, from 2017 to 2018.

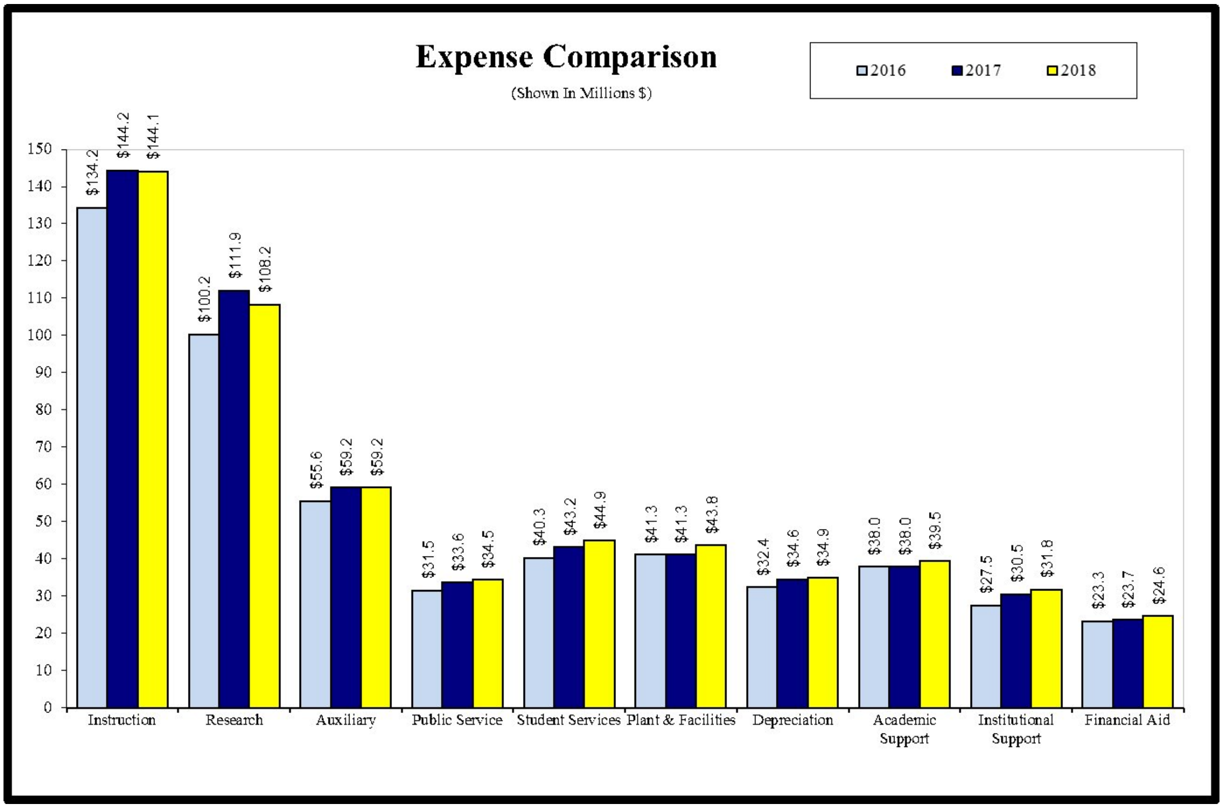
Tuition and fee revenues increased approximately $6.7 million, or 3.7%. Tuition rates were increased by 4% for nonresident undergraduates and 3% for resident undergraduate students at the Bozeman campus; by 3% for nonresident undergraduate students at the Billings campus; and by 5% at the Great Falls campus. The Northern campus eliminated its two-tier rate structure, raising its lower-division tuition rates by up to 25%, and its upper-division rates were left static. Other campuses within the Montana University System adopted similar strategies. The number of full-time-equivalent students enrolled increased from 20,589 to 20,710. Enrollment at the Bozeman campus increased by 295 full-time-equivalents, offset by decreases in enrollment at the Billings, Northern, and Great Falls campuses.

Grant and contract operating revenues, including facility and administrative cost recoveries, decreased 1.0%, to $110.5 million, compared with 2017 revenues of $111.6 million. The decrease in grant revenues was primarily due to the end of the Montana Research and Economic Development Initiative (MREDI) as of June 30, 2017.

Revenues from auxiliary enterprises did not fluctuate significantly as compared with the prior year, as was expected with the University's overall stable enrollment.

Net non-operating revenue decreased $10.0 million from 2017 to 2018, primarily due to an decrease in state appropriations of $9.8 million, or 7.28% to $124.9 million, as compared with $134.7 million in 2017. The State of Montana had provided $5.9 million in one-time research funding for the year ended June 30, 2017, which accounts for the majority of the decrease. In addition, decreases to state budgets were implemented due to lower than anticipated income tax revenues and costs of a particularly bad fire season. Interest expense increased $3.4 million due to two factors-- borrowing of $50 million in January of 2018 for the construction of a new residence hall, and because the University no longer capitalizes any of its interest cost due to early implementation of GASB Statement No. 89, as discussed in the notes to the financial statements. In 2017, the University had capitalized $2.2 million of interest on construction projects underway. This was partially offset by additional investment income, which increased $1.9 million due to earnings on bond proceeds and a rising interest rate environment.

Capital and other items increased from $24.9 million in 2017 to $29.5 million in 2018, a change of $4.6 million, primarily due to capital gifts as described above.



Operating expenses increased $4.8 million, or 0.9%, from 2017 to 2018. The most significant increases were in plant-related expenses, which increased $2.1 million, or 5.0%, student services expenses, which increased $1.6 million, or 3.8% and in academic support, which increased $1.5 million, or 4.0%. These increases were offset by a decrease in research-related expenses of $3.7 million, or 3.3%.

Compensation and benefits expenses increased by $1.3 million over nearly all areas primarily due to staff increases and added class sections to accommodate the University's growing enrollment. Compensation and benefits related to research decreased as discussed below. Pension and OPEB expenses increased $2.1 million overall across all areas of the institution.

The decrease in research expenses was primarily due to a decrease in expenditures for compensation and benefits of $3.0 million. This decrease was primarily due to the ending of the Montana Research and Economic Development Initiative (MREDI) program on June 30, 2017. Increases and decreases in research funding also occur from time to time depending on grant funding and the mix of capital versus operating grants.

Institutional support expenses increased $1.3 million, or 4.2%, primarily due to increases in compensation and benefits of $0.5 million, supplies and services of $0.3 million and in other operating expenses of $0.3 million. The increase in other operating expenses was primarily due to expenses such as rent and maintenance as a result of the need for additional space to accommodate offices and classroom space for the growing enrollment at the Bozeman campus.

Student services and academic support increased a combined $3.1 million, primarily due to increases in compensation and benefits of $0.8 million and supplies and services of $1.0 million. These increases were largely due to additional costs incurred as a result of growing enrollment at the Bozeman campus.

Plant-related expenses increased $2.0 million, or 5.0% primarily because during 2017, the University expended significant funds, including student building fee revenues, to perform maintenance on classrooms and administrative facilities on the Bozeman campus.

Comparison of 2017 and 2016 Results of Operations

The University's net financial position increased $28.2 million during 2017, resulting primarily from capital grants and contributions of $25.8 million. Of this amount, $14.1 million was received for the expansion of facilities for the college of engineering on the Bozeman campus, and $3.3 million was given to construct a collection storage collection facility at Bozeman's Museum of the Rockies. Private donors contributed $2.6 million in support of MSU- Northern's Diesel Technology Center; in addition, $2.3 million was expended on the project by the State of Montana. Revenues in excess of operating expenses contributed an increase of $3.3 million.

Operating revenues contain the majority of the University's income, and increased $24.3 million, or 6.7%, from 2016 to 2017.

Tuition and fee revenues increased approximately $11.8 million, or 7.0%. Tuition rates were increased by 5.0% for nonresident undergraduate students at the Bozeman campus, by 2.2% at the Billings campus and by 1.5% on the Northern campus. The number of full-time-equivalent students enrolled increased from 19,890 to 20,589. Enrollment at the Bozeman campus increased by 904 full-time-equivalents, while enrollment at the Northern campus increase by 26. These increases were offset by decreases in enrollment at the Billings and and Great Falls campuses.

Grant and contract operating revenues, including facility and administrative cost recoveries, increased 6.3%, to $111.6 million, compared with 2016 revenues of $104.9 million. The increase in grant revenues has been achieved due to a proactive approach in seeing out grant opportunities.

Revenues from auxiliary enterprises increased $4.5 million, or 8.6%, to $57.2 million, from $52.7 million in 2016. Occupancy increased on the Bozeman campus primarily due to the opening of the Yellowstone freshman residence hall which added over 400 beds to Auxiliary housing. Freshman students from outside the immediate area are required to live on-campus.

Net non-operating revenue increased $6.7 million from 2016 to 2017, primarily due to an increase in state appropriations of $3.8 million, or 2.88% to $134.7 million, as compared with $130.9 million in 2016. Gift revenue increased $1.5 million or 8.68% primarily due to various gifts received for special projects such as the Bozeman athletics master plan, salary support for Shakespeare in the Parks, and other special events. Interest expense decreased $1.4 million largely due to an increase of $1.1 million in capitalized interest on construction projects underway.

Capital and other items increased from $14.0 million in 2016 to $24.9 million in 2017, a change of $10.9 million, primarily due to capital gifts as described above.

Operating expenses increased $35.9 million, or 6.8%, from 2016 to 2017. The most significant increases were in research expenditures, which increased $11.7 million, or 11.7% and in instructional expenses, which increased $10.0 million, or 7.4%.

Employees in the Montana University System were given annual raises of 50 cents per hour for classified employees and 2% for faculty and professional employees, in addition to certain merit and tenure increases. As such, compensation and benefits expenses increased in nearly all areas. Pension and OPEB expenses increased $4.1 million overall across all areas of the institution.

The increase in research expenses was primarily due to an increase in expenditures for supplies and services of $5.6 million and an increase for compensation and benefits of $5.6 million. Increases and decreases in research funding exist from time to time depending the timing of grant-funding and the mix of capital versus operating grants.

The increase in instructional expense was primarily due to increases in compensation and benefits of $8.7 million largely as a result of salary increases and additional staffing and class sections added to accommodate the Bozeman campus's growing enrollment.

Institutional support expenses increased $3.0 million, or 10.9%, primarily due to increases in compensation and benefits of $1.3 million and an increase in other operating expenses of $0.8 million. The increase in other operating expenses was primarily due to expenses such as rent and maintenance as a result of the need for additional space to accommodate offices and classroom space for the growing enrollment at the Bozeman campus.

Auxiliary expenses increased $3.6 million, or 6.5%, largely due to increases in compensation and benefits of $2.2 million, or 8.4%, and in supplies and services expenses of $1.0 million, or 7.0%. The increase in supplies and services expense was primarily due to additional food and other operating costs incurred as a result of high occupancy rates in the residence halls, the opening of the new Yellowstone residence hall, and increased enrollment at the Bozeman campus.

Public Service expenses increased $2.0 million, or 6.5%, primarily due to an increase in compensation and benefits of $1.6 million, as well as additional grants.

Student services increased a combined $2.9 million, primarily due to increases in compensation and benefits of $1.7 million and supplies and services of $0.7 million. These increases were largely due to additional costs incurred as a result of growing enrollment at the Bozeman campus.

NET POSITION

Condensed Statements of Net Position
(in millions)

ASSETS	2018	2017	2016
Current assets	$ 290.0	$ 259.2	$ 258.6
Capital assets, net	499.3	471.6	451.3
Other noncurrent assets	71.1	50.8	54.5
Total assets	860.4	781.6	764.4
DEFERRED OUTFLOWS	40.7	35.5	29.4
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 901.1	$ 817.1	$ 793.8
LIABILITIES			
Current liabilities	$ 97.7	$ 90.8	$ 98.0
Noncurrent liabilities	368.8	361.7	354.0
Total liabilities	466.5	452.5	452.0
DEFERRED INFLOWS	2.4	1.2	6.6
NET POSITION			
Net investment in capital assets	331.3	301.6	286.4
Restricted, non-expendable	13.4	13.5	13.4
Restricted, expendable	17.4	17.3	17.3
Unrestricted	70.1	31.0	18.1
Total net position	432.2	363.4	335.2
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$ 901.1	$ 817.1	$ 793.8

The ***Statement of Net Position*** is presented in a classified format, which differentiates between current and non-current assets and liabilities, deferred outflows and deferred inflows, and also categorizes net position (formerly called "fund balance") into four categories. The University's overall financial position improved by $68.8 million from 2017 to 2018, as discussed below.

Comparison of 2018 and 2017 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.

The increase of $30.8 million in current assets resulted primarily from increases of $19.9 million in short term investments, $6.5 million in cash and cash equivalents, $2.7 million in accounts and grants receivable and $1.2 million in amounts receivable from the federal government. Investments increased due to unspent bond proceeds which will be used for the construction of a new residence hall on the Bozeman campus. Accounts and grants receivable result primarily from sponsored projects that are payable on a cost-reimbursement basis, and also from student accounts. See Note 2 to the financial statements for more information on cash, cash equivalents and investments.

Capital assets, net increased $27.7 million, resulting from asset additions of $62.2 million, offset by depreciation and amortization expense of $34.9 million, as shown in further detail in Note 7 to the financial statements.

Asset additions included $46.0 million in construction projects. The Bozeman campus continued construction of the Norm Asbjornson Innovation Center for the College of Engineering, expending $23.5 million in 2018 as well as completing construction of a new dining hall, expending $10.1 million in 2018. In addition, the Bozeman campus began construction of a new residence hall, expending $2.0 million in 2018. 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 $9.5 million during 2018. Research and instruction in the sciences require a substantial equipment investment, and many specialized pieces of equipment are grant funded. In 2018, equipment related to research accounted for $3.7 million of the additions. Approximately $1.1 million in library materials were acquired in 2018 as well.

Building and land additions totaled $4.5 million during 2018. These additions resulted primarily from the completion of the Diesel Technology Center at the Northern campus. There were no land purchases in 2018.

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 $20.3 million from 2017, primarily due to unspent bond proceeds which will be used for the construction of a new residence hall on the Bozeman campus. These proceeds have been invested in a series of laddered-maturity US Government obligations.

Deferred outflows represent the University's non-hedging derivative financial instrument value, deferred loss on debt refundings, and pension and OPEB-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. Because current bond interest rates are lower than the fixed amount paid to the counterparty, the market value of the instrument is negative. As such, a liability was recorded and is included in noncurrent liabilities. The offsetting entry is displayed as a deferred outflow rather than being recorded as an expense, because the cash flow hedge is operating as anticipated to achieve the intended synthetic fixed interest rate.

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

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

The OPEB deferred outflow is the portion of the OPEB liabilities not included with OPEB expense and includes transactions subsequent to the measurement date of the OPEB liability. For the year ended June 30, 2018, the University adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which required the University to recognize the deferred outflows and deferred inflows of resources associated with the plan. See note 15 for further information.

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 $6.8 million, or 7.5%, from 2017 to 2018, primarily as a result of increases in accounts payable and accrued liabilities of $2.1 million and amounts payable to primary government of $1.8 million.

The decrease in amounts payable to primary government of $1.8 million was primarily due to the scheduled repayment of Intercap principal balances.

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 will be payable to the Federal government as the University collects repayments from loans outstanding under the Federal Perkins Loan or Nursing Loan programs. These balances increased $7.1 million, or 2.0%, resulting primarily from increases in noncurrent bonds payable of $45.4 million due to the issuance of new bonds and pension liabilities of $8.8 million. These increases were offset by a decrease in OPEB liabilities of $44.8 million as a result of the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other that Pensions*. (See Note 10 to the financial statements for further information on bonds payable and Note 15 for pensions and OPEB).

Deferred Inflows include amounts related to changes in estimates and assumptions which have occurred since the last actuarial valuation for defined benefit pension and OPEB plans. These will be amortized to 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 $29.7 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 $0.1 million, and did not fluctuate significantly as compared with 2017 balances.

Restricted, expendable net assets represent balances that may be expended by the University in accordance with restrictions imposed by an external party, such as a donor, or through a legislative mandate. The University's most significant restricted, expendable balances relate to funds restricted to use for the construction, renewal or replacement of facilities, for the payment of debt and for scholarships. Balances did not fluctuate significantly in comparison with 2017 balances.

Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Unrestricted net assets are designated for specific purposes as described in the notes to the financial statements, and include funds accumulated for employee termination payouts, scholarships, facility renewal and replacement, and certain student projects. Balances increased $39.1 million in comparison with 2017 primarily due to the OPEB restatement resulting from implementation of GASB Statement No. 75, as discussed in the notes to the financial statements. Revenues exceeded expenses, and contributed to additional balances as a result of higher enrollment on the Bozeman campus.

Comparison of 2017 and 2016 Net Position

Current assets include the University's cash and cash equivalents; accounts, grants and loans receivable; inventories; and other assets expected to benefit the University within one year.

Accounts and grants receivable result primarily from sponsored projects that are payable on a cost-reimbursement basis, and also from student accounts. The increase of $0.7 million in current assets resulted primarily from increases of $6.5 million in cash and cash equivalents and $2.3 million in amounts receivable from the federal government offset by a decrease of $8.5 million in short term investments. See Note 2 to the financial statements.

Capital assets, net increased $20.3 million, resulting from asset additions of $56.4 million, offset by depreciation and amortization expense of $34.6 million, as shown in further detail in Note 7 to the financial statements.

Asset additions included $42.5 million in construction projects. The Bozeman campus completed construction of a new residence hall, expending $1.9 million during 2017, and a new parking structure, expending $5.0 million during 2017. In addition, the Bozeman campus continued construction of the Norm Asbjornson Innovation Center for the College of Engineering, expending $12.5 million in 2017 as well as construction of a new dining hall, expending $9.0 million in 2017. In addition, the Bozeman campus began construction on the Museum of the Rockies collections and storage facility, expending $3.4 million in 2017. 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 $8.0 million during 2017. Research and instruction in the sciences require a substantial equipment investment, and many specialized pieces of equipment are grant funded. In 2017, equipment related to research accounted for $3.8 million of the additions. Approximately $1.4 million in library materials were acquired in 2017 as well.

Building and land additions totaled $2.1 million during 2017. These additions resulted primarily from the purchase of buildings at the Ag Experiment Stations. There were no land purchases in 2017.

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 $3.7 million from 2016, primarily due to a $3.2 million decrease in investments which was caused by expending bond proceeds for the construction of a new residence hall on the Bozeman campus.

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

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

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

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

Current liabilities include payroll and related liabilities, amounts payable to suppliers for goods and services received, cash received for which the University has not yet earned the related revenue, securities lending liability, and debt principal payments due within one year. The balance decreased $7.2 million, or (7.3)%, from 2016 to 2017, primarily as a result of decreases in unearned revenues of $6.7 million and amounts payable to primary government of $1.0 million.

The decrease in unearned revenues of $6.7 million was primarily the result of unspent funds related to funding received under the Montana Research and Economic Development Initiative (MREDI) of $5.6 million as of June 30, 2016. The MREDI program ended as of June 30, 2017, therefore there were no unearned revenues related to MREDI as of June 30, 2017.

The decrease in amounts payable to primary government of $1.0 million occurred due to repayment of the June 2016 balances outstanding related to construction projects then underway.

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 $7.6 million, or 2.2%, resulting primarily due to an increase in net pension liability of $11.1 million and an increase of $3.6 million in the University's OPEB liability, which is an actuarially-determined amount related to the participation of retirees on the University's health insurance plan. These increases were offset by a net decrease in debt and leases payable of $4.4 million as the University paid down bonds of $10.2 million and issued $5.7 million in new bonds. (see Note 15 to the financial statements for further information on pensions and OPEB and Note 10 for debt and leases payable).

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

Net investment in capital assets consist of the historical acquisition value of capital assets, reduced by both accumulated depreciation expense charged against assets and debt balances related to capital assets. This balance increases as assets are acquired and debt is repaid, and decreases as assets are depreciated and debt is incurred. Balances increased $15.2 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 $0.1 million, and did not fluctuate significantly as compared with 2016 balances.

Restricted, expendable net assets represent balances that may be expended by the University in accordance with restrictions imposed by an external party, such as a donor, or through a legislative mandate. The University's most significant restricted, expendable balances relate to funds restricted to use for the construction, renewal or replacement of facilities, for the payment of debt and for scholarships. Balances did not fluctuate significantly in comparison with 2016 balances.

Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Unrestricted net assets are designated for specific purposes as described in the notes to the financial statements, and include funds accumulated for employee termination payouts, scholarships, facility renewal and replacement, and certain student projects. Balances increased $12.9 million in comparison with 2016. Revenues exceeded expenses, and contributed to additional balances as a result of higher than anticipated enrollment on the Bozeman campus.

CASH FLOWS

Condensed Statements of Cash Flows
(in millions)

	2018	2017	2016
Cash provided/(used) by:			
Operating activities, net	$ (132.6)	$ (141.7)	$ (118.8)
Noncapital financing activities, net	171.0	171.8	179.6
Capital and related financing activities, net	5.2	(37.3)	(55.4)
Investing activities, net	(37.1)	12.7	21.3
Net change in cash & equivalents	6.5	5.5	26.7
Cash & equivalents, beginning of year	219.3	213.8	187.1
Cash & equivalents, end of year	$ 225.8	$ 219.3	$ 213.8

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 2018 and 2017 Cash Flows

Operating activities used $132.6 million in cash, resulting primarily from an operating loss of $173.9 million. The operating loss was offset by non-cash expenses of $35.9 million, primarily due to $34.9 million in depreciation and amortization. Other, less significant, increases and decreases also contributed to the change. In 2017, operating activities used $141.7 million in cash, with an operating loss of $174.3 million, offset by non-cash expenses of $35.6 million.

Noncapital financing activities provided $171.0 million in cash, resulting from $123.3 million in state and local appropriations, $25.5 million in federal Pell grant revenue, $18.7 million in expendable gifts, and $2.4 million of land grant income. In 2017, noncapital financing activities provided $171.8 million in cash, resulting from $127.1 million in state and local appropriations, $24.4 million in federal Pell grant revenue, $18.4 million in expendable gifts, and $2.4 million of land grant income.

Capital and related financing activities used $5.2 million in cash, resulting primarily from cash expended on capital assets of $58.9 million (see Note 7 to the financial statements), principal debt repayments of $12.5 million, and interest payments of $7.4 million. These uses were offset by restricted gifts received for capital purchases of $27.2 million and proceeds from borrowings of $58.5 million. In 2017, these activities used $37.3 million in cash, resulting primarily from cash expended on capital assets of $49.5 million, principal debt repayments of $10.6 million, and interest payments of $6.7 million. These uses were offset by restricted gifts received for capital purchases of $22.5 million and unexpended proceeds from borrowings of $7.0 million.

Comparison of 2017 and 2016 Cash Flows

Operating activities used $141.7 million in cash, resulting primarily from an operating loss of $174.3 million million. The operating loss was offset by non-cash expenses of $35.6 million, primarily due to $34.6 million in depreciation and amortization. Other, less significant, increases and decreases also contributed to the change. In 2016, operating activities used $118.8 million in cash, with an operating loss of $162.7 million, offset by non-cash expenses of $33.3 million.

Noncapital financing activities provided \$171.8 million in cash, resulting from \$127.1 million in state and local appropriations, \$24.4 million in federal Pell grant revenue, \$18.4 million in expendable gifts, and \$2.4 million of land grant income. In 2016, noncapital financing activities provided \$179.6 million in cash, resulting from \$135.3 million in state and local appropriations, \$24.9 million in federal Pell grant revenue, \$16.9 million in expendable gifts, and \$2.1 million of land grant income.

Capital and related financing activities used \$37.3 million in cash, resulting primarily from cash expended on capital assets of \$49.5 million (see Note 7 to the financial statements), principal debt repayments of \$10.6 million, and interest payments of \$6.7 million. These uses were offset by restricted gifts received for capital purchases of \$22.5 million and unexpended proceeds from borrowings of \$7.0 million. In 2016, these activities used \$55.4 million in cash, resulting primarily from cash expended on capital assets of \$54.1 million, principal debt repayments of \$9.0 million, and interest payments of \$7.0 million. These uses were offset by restricted gifts received for capital purchases of \$11.6 million and unexpended proceeds from borrowings of \$4.8 million.

DEBT AND ADVANCES

As of June 30, 2018, the University had approximately \$207.0 million in outstanding bond, note, and capital lease principal, compared with \$160.4 million at June 30, 2017 (see Note 10 to the financial statements). The balance increased primarily due to the issuance of \$50 million in bonds to fund the construction of a new residence hall on the Bozeman campus and \$6 million drawn to complete construction of a new dining hall, also on the Bozeman campus. These changes were offset by decreases due to scheduled repayments. The majority of bond debt bears interest at fixed rates, while \$19.8 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, 2018, was 3.15%. As of June 30, 2018, the University's bonds are rated Aa3 by Moody's Investor Services and A+ by Standard and Poor's.

ECONOMIC OUTLOOK

Student enrollment has increased in ten of the last 11 years, as the University has gained in market share both state-wide and in the nonresident market. Montana residents represent approximately 2/3 of the University's full-time-equivalent student population.

Overall enrollment is expected to remain stable due to the careful attention management devotes to maintaining an appropriate mix of in- and out-of-state students, as well as initiatives to increase retention, particularly from freshman to sophomore year, including structured tutoring and mentoring opportunities. Encouraging students at the four-year campuses to take a full 15-credit load each semester, as well as improving the experience of selecting and enrolling in classes through technological enhancements, has helped ensure that students persist through graduation. Innovative programs to attract and retain students at the two-year colleges have also been implemented.

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

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

Montana State University
(a component unit of the State of Montana)
Consolidated Statements of Net Position
As of June 30

ASSETS	2018	2017
Current assets:		
Cash and cash equivalents (note 2)	$ 225,720,976	$ 219,213,062
Short term investments	19,880,570	—
Securities lending collateral	230,683	133,984
Accounts and grants receivable, net (note 3)	14,422,739	11,683,450
Amounts receivable from Federal government	17,178,444	15,969,452
Amounts receivable from primary government	393,445	639,859
Amounts receivable from other State of Montana component units	1,154	49,546
Loans receivable, net (note 6)	3,577,285	3,584,291
Inventories (note 4)	2,754,625	3,230,958
Prepaid expenses and other current assets (note 5)	5,868,372	4,730,765
Total current assets	290,028,293	259,235,367
Noncurrent assets		
Restricted cash and cash equivalents	76,390	75,564
Restricted investments	8,519,406	8,503,169
Loans receivable, net (note 6)	21,640,322	20,526,644
Investments	39,717,630	18,836,889
Capital assets, net (note 7)	499,324,558	471,646,538
Other noncurrent assets (note 7)	1,080,547	2,831,202
Total noncurrent assets	570,358,853	522,420,006
Total assets	860,387,146	781,655,373
DEFERRED OUTFLOWS		
Derivative financial instrument (note 10)	3,080,342	4,188,552
Deferred loss on debt refunding (note 11)	2,655,613	2,106,944
Deferred pension and OPEB outflows (note 15)	34,938,875	29,182,608
Total deferred outflows	40,674,830	35,478,104
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 901,061,976	$ 817,133,477
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities (note 8)	$ 46,426,301	$ 44,331,858
Advances (current) and other amounts payable to primary government	4,058,343	2,221,458
Amounts payable to other State of Montana component units	269,530	221,804
Securities lending liability	230,683	133,984
Property held in trust for others	2,979,728	1,845,944
Unearned revenues (note 9)	14,325,330	13,794,711
Current portion compensated absences	17,409,616	17,868,230
Current portion debt and capital lease obligations (note 10)	11,949,288	10,410,731
Total current liabilities	97,648,819	90,828,720
Noncurrent liabilities:		
Advances from primary government	16,737,236	18,573,113
Debt, capital lease, and other obligations (note 10)	195,092,356	149,962,318
Compensated absences	16,461,438	15,272,182
OPEB implicit rate subsidy	18,130,942	62,973,100
Net pension liability	96,956,044	88,135,198
Due to Federal government	22,322,967	22,568,023
Derivative instrument-- swap liability (note 10)	3,080,342	4,188,552
Total noncurrent liabilities	368,781,325	361,672,486
Total liabilities	466,430,144	452,501,206
DEFERRED INFLOWS – Pension and OPEB (note 15)	2,405,829	1,228,619
NET POSITION		
Net investment in capital assets	331,249,558	301,595,162
Restricted - nonexpendable	13,405,450	13,449,034
Restricted - expendable	17,422,179	17,324,805
Unrestricted (note 13)	70,148,816	31,034,651
Total net position	432,226,003	363,403,652
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$ 901,061,976	$ 817,133,477

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

Assets:		**2018**		**2017**
Cash and cash equivalents	$	8,065,464	$	10,963,352
Accrued dividends and interest		89,478		73,789
Investments		282,542,939		279,587,984
Amounts due from the institution or other MSU component units		425,169		645,169
Contributions receivable, net of allowance		19,049,471		21,724,422
Contracts, notes and other receivables		6,191,919		5,614,533
Non-depreciable capital assets		4,290,659		445,255
Depreciable capital assets, net		9,022,360		6,375,461
Other assets		1,958,303		3,807,368
Total assets	$	331,635,762	$	329,237,333
Liabilities and net assets:				
Liabilities				
Accounts payable	$	254,353	$	726,985
Accrued expenses and other liabilities		3,109,408		2,069,405
Compensated absences		319,779		346,638
Notes and bonds payable		5,364,393		6,233,603
Amounts due to the institution or other MSU component units		2,266,873		658,771
Liabilities to external beneficiaries		6,142,005		6,528,766
Custodial funds		12,639,066		12,463,033
Total liabilities		30,095,877		29,027,201
Net assets				
Unrestricted net assets		25,245,969		20,014,041
Temporarily restricted net assets		106,744,885		120,610,649
Permanently restricted net assets		169,549,031		159,585,442
Total net assets		301,539,885		300,210,132
Total liabilities and net assets	$	331,635,762	$	329,237,333

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

	2018	2017
OPERATING REVENUES		
Tuition and fees (net of $36,253,103 and $34,346,316 scholarship discount)	$ 188,665,304	$ 181,933,705
Federal appropriations	5,758,198	5,860,596
Federal grants and contracts	73,497,747	74,672,167
State grants and contracts	6,913,942	7,257,655
Non-governmental grants and contracts	12,104,861	11,561,030
Grant and contract facilities and administrative cost recoveries	17,969,416	18,062,102
Educational, public service and outreach revenues	26,998,914	26,850,358
Auxiliary revenues:		
Housing (net of $3,536,816 and $3,286,811 scholarship discount)	24,290,841	24,026,866
Food services (net of $3,426,208 and $3,321,901 scholarship discount)	23,749,346	23,788,858
Other auxiliary sales and services (net of $340,103 and $500,688 scholarship discount)	8,686,693	9,376,844
Interest earned on loans	58,876	36,814
Other operating revenues	2,362,889	2,444,475
Total operating revenues	391,057,027	385,871,470
OPERATING EXPENSES		
Compensation and benefits, including pensions (note 15)	343,588,112	336,673,509
OPEB amortization (note 15)	1,930,659	5,455,285
Operating expenses (note 14)	159,953,301	159,748,355
Scholarships and fellowships (net of $43,556,230 and $41,455,716 scholarship discount)	24,564,993	23,720,757
Depreciation and amortization	34,888,232	34,561,290
Total operating expenses	564,925,297	560,159,196
Operating loss	(173,868,270)	(174,287,726)
NONOPERATING REVENUES (EXPENSES)		
State and local appropriations	124,860,274	134,669,273
Federal Pell grant revenue	25,481,313	24,431,509
Land grant income (pledged as security for repayment of bonds)	2,427,062	2,407,245
Gifts (expendable)	18,654,942	18,350,603
Investment income	3,950,483	2,066,392
Interest expense	(7,747,103)	(4,371,340)
Net non operating revenues (expenses)	167,626,971	177,553,682
Income before other revenues, expenses, gains and losses	(6,241,299)	3,265,956
Loss on disposals of capital assets	(387,529)	(887,981)
Additions to permanent endowment	31,987	15,837
Capital gifts, grants and contributions	29,898,746	25,840,914
Change in net position	23,301,905	28,234,726
Net position, beginning of year as previously stated	363,403,652	335,168,926
Restatement of beginning net position - OPEB	45,520,446	—
Net position, beginning of year as restated	408,924,098	335,168,926
Net position, end of year	$ 432,226,003	$ 363,403,652

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions	$ 868,673	$ 13,970,142	$ 10,554,644	$ 25,393,459
Investment, interest and dividend income	2,037,983	2,327,000	149	4,365,132
Net realized and unrealized gain (loss) on investments	4,396,193	12,573,133	60,444	17,029,770
Contract support and contributions from University	1,798,204	—	—	1,798,204
Special events	858,426	27,012	—	885,438
Other income	9,453,256	(2,373,752)	(394,919)	6,684,585
Net assets released from restrictions	41,061,952	(40,434,991)	(626,961)	—
Total revenues	60,474,687	(13,911,456)	9,593,357	56,156,588
Expenses:				
Program services				
University support	33,380,245	—	—	33,380,245
Academic and institutional	2,636,605	—	—	2,636,605
Scholarships and awards	8,560,216	—	—	8,560,216
Total program services expense	44,577,066	—	—	44,577,066
Operating expenses				
Fundraising efforts	3,652,417	—	—	3,652,417
General and administrative	4,001,461	—	—	4,001,461
Investment management and subsidiary operations	1,623,924	—	—	1,623,924
Other miscellaneous	1,406,641	—	—	1,406,641
Total operating expenses	10,684,443	—	—	10,684,443
Change in net assets before Nonoperating items	5,213,178	(13,911,456)	9,593,357	895,079
Nonoperating expenses	—	—	(117,353)	(117,353)
Payments to beneficiaries and change in liabilities to external beneficiaries	18,750	45,692	487,585	552,027
Change in net assets	5,231,928	(13,865,764)	9,963,589	1,329,753
Net assets, beginning of year	20,014,041	120,610,649	159,585,442	300,210,132
Net assets, end of year	$ 25,245,969	$ 106,744,885	$ 169,549,031	$ 301,539,885

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions	$ 1,372,142	$ 13,614,230	$ 21,708,552	$ 36,694,924
Investment, interest and dividend income	1,277,158	1,939,822	142	3,217,122
Net realized and unrealized gain (loss) on investments	2,223,190	16,015,983	(23,073)	18,216,100
Contract support and contributions from University	1,793,204	—	—	1,793,204
Special events	984,669	95,402	—	1,080,071
Other income	11,614,716	(5,564,553)	(674,014)	5,376,149
Net assets released from restrictions	33,783,510	(33,903,033)	119,523	—
Total revenues	53,048,589	(7,802,149)	21,131,130	66,377,570
Expenses:				
Program services				
University support	25,325,934	—	—	25,325,934
Academic and institutional	2,377,923	—	—	2,377,923
Scholarships and awards	7,354,611	—	—	7,354,611
Total program services expense	35,058,468	—	—	35,058,468
Operating expenses				
Fundraising efforts	4,096,657	—	—	4,096,657
General and administrative	4,436,448	—	—	4,436,448
Investment management costs	841,309	—	—	841,309
Other miscellaneous	1,319,803	—	—	1,319,803
Total operating expenses	10,694,217	—	—	10,694,217
Change in net assets before Nonoperating items	7,295,904	(7,802,149)	21,131,130	20,624,885
Nonoperating expenses				
Payments to beneficiaries and change in liabilities to external beneficiaries	29,647	20,480	759,758	809,885
Change in net assets	7,325,551	(7,781,669)	21,890,888	21,434,770
Net assets, beginning of year	12,688,490	128,392,318	137,694,554	278,775,362
Net assets, end of year	$ 20,014,041	$ 120,610,649	$ 159,585,442	$ 300,210,132

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

Cash flows from operating activities:	**2018**	**2017**
Tuition and fees	$ 188,228,770	$ 180,837,804
Federal appropriations	5,797,738	5,627,551
Federal grants and contracts	72,308,606	72,924,689
State grants and contracts	7,174,852	6,899,549
Private grants and contracts	11,179,087	11,894,632
Grant and contract facilities and administrative cost recoveries	17,926,541	17,655,748
Educational, public service and outreach revenues	26,709,420	26,903,734
Sales and services of auxiliary enterprises	56,774,041	57,044,565
Interest on loans receivable	308,856	371,351
Other operating receipts	2,362,886	2,444,477
Compensation and benefits	(338,758,499)	(341,671,530)
Operating expenses	(156,330,881)	(157,704,221)
Scholarships and fellowships	(24,564,994)	(23,720,756)
Loans made to students and federal loan funds repaid	(5,241,295)	(5,092,231)
Loan payments received	3,495,669	3,880,246
Net cash used in operating activities	(132,629,203)	(141,704,392)
Cash flows from noncapital financing activities:		
Receipts (disbursements) of funds held in trust for others	1,116,817	(441,021)
Direct lending proceeds	92,973,889	94,519,988
Direct lending disbursements	(92,973,889)	(94,519,988)
State and local appropriations	123,299,124	127,071,334
Federal Pell grant funds received	25,481,314	24,431,508
Gifts and contributions (expendable)	18,729,948	18,350,602
Land grant income (see note 2)	2,427,062	2,407,245
Repayment of long-term operating advance from primary government	(61,559)	(60,058)
Additions to permanent endowment	31,987	15,837
Net cash provided by noncapital financing activities	171,024,693	171,775,447
Cash flows from capital financing activities:		
Purchase of capital assets	(58,942,356)	(49,462,666)
Proceeds from sale of capital assets	378,341	1,069,395
Gifts restricted for capital purchase	27,192,798	22,451,486
Other capital financing activities	(86,743)	(146,651)
Proceeds from borrowings	58,489,336	7,041,251
Debt principal repayment	(12,453,609)	(10,571,594)
Advances from primary government	30,000	971,778
Repayment of advances from primary government	(1,981,794)	(2,041,328)
Interest paid	(7,378,886)	(6,657,866)
Net cash used in capital financing activities	5,247,087	(37,346,195)
Cash flows from investing activities:		
Purchase of investments	(41,184,092)	(1,079,299)
Proceeds from sale of investments	50,605	11,171,365
Investment income	3,999,650	2,648,882
Net cash provided by investing activities	(37,133,837)	12,740,948
Net change in cash and cash equivalents	6,508,740	5,465,808
Cash and equivalents at beginning of year	219,288,626	213,822,818
Cash and equivalents at end of year	$ 225,797,366	$ 219,288,626

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

Reconciliation of Operating Loss to Net Cash Used in Operations

	2018	2017
Operating loss	$ (173,868,270)	$ (174,287,726)
Noncash income and expense:		
Depreciation and amortization on capital assets	34,888,232	34,561,290
Provision for uncollectible accounts	1,003,325	997,705
Changes in operating assets and liabilities, deferred inflows and deferred outflows:		
Accounts and grants receivable	(3,818,827)	(3,501,033)
Loans receivable	(1,126,721)	(922,637)
Inventories	476,333	(45,469)
Prepaid expenses	(1,546,847)	(758,144)
Accounts payable and other accrued liabilities	3,474,236	(580,153)
Net pension obligation and related deferred inflows and outflows	5,084,392	(886,344)
OPEB obligation	1,396,833	3,634,419
Unearned revenue	530,620	(837,308)
Compensated absences	1,122,548	777,269
Amounts due to Federal government	(245,057)	143,739
Net cash used in operations	$ (132,629,203)	$ (141,704,392)

Schedule of noncash financing and investing activities

	2018	2017
Capital assets contributed to the University	$ 4,330,948	$ 5,004,428
State of Montana direct contributions to pension plans	$ 1,561,150	$ 1,725,412
Capital assets acquired through issuance of capital lease obligations	$ 56,161	$ 131,570
Capital assets acquired via trade-in	$ 21,840	$ 37,648
Capitalized interest	$ —	$ 2,248,664
Bond issue costs, discounts, premiums and deferred loss on refunding amortized or written off to interest expense (net)	$ (854,724)	$ (130,655)
Net increase (decrease) in fair value of investments	$ (909,924)	$ (1,210,973)

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

	2018	2017
Cash and cash equivalents classified as current assets	$ 225,720,976	$ 219,213,062
Cash and cash equivalents classified as noncurrent assets	76,390	75,564
Total cash and cash equivalents as reported on the Statements of Cash Flows	$ 225,797,366	$ 219,288,626

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

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

ORGANIZATION

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

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

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

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

BASIS OF PRESENTATION

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

Other Post-Employment Benefits (OPEB) –During the year ended June 30, 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than*

Pensions. The University allows retirees to participate in the Montana University System's self-funded health insurance plan by paying an amount considered by the University to cover their full costs (as calculated using the pooled risk of retirees and active employees). An actuarial study determined that this blended rate structure results in an implicit rate subsidy to retirees, who are considered to be a higher-cost pool of participants. The State of Montana and its component units will amortize the calculated OPEB liability resulting from this implicit rate subsidy over a period of 30 years. The state has not mandated funding of the liability. See note 15 for further details.

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

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

> **Net investment in capital assets** – this represents the University's total investment in capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
>
> **Restricted, nonexpendable** – this represents net balances subject to externally imposed stipulations requiring permanent maintenance. Such assets include the University's permanent endowment funds.
>
> **Restricted, expendable** – this represents balances whose use by the University is subject to externally imposed stipulations as to use of the assets.
>
> **Unrestricted**– this represents balances that are not subject to externally imposed stipulations. Unrestricted balances may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted balances are designated for specific purposes as described in Note 13.

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

> **Operating revenues** – include activities that have the characteristics of exchange transactions, including (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most Federal, state and local grants and contracts and Federal appropriations, and (4) interest on institutional student loans.
>
> **Nonoperating revenues** – include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

Use of restricted revenues – When the University maintains both restricted and unrestricted funds for the same purpose, the order of use of such funds is determined on a case-by-case basis, depending on relevant law and other restrictions. Restricted funds remain classified as restricted until they are expended.

Income taxes – The University, as a political subdivision of the State of Montana, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514. Because tax liabilities are not considered to be material, no provision for income tax expense is reported in the accompanying financial statements.

Scholarship discounts and allowances – Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are computed as the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants are recorded as operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Accounting Standards Recently Adopted – During the year ended June 30, 2014, the University adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of GASB 65 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. 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). See note 15 for further information on pensions.

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

Beginning July 1, 2017, the University adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement established new accounting and financial reporting requirements for governments whose employees are provided with OPEB (postemployment benefits other than pensions), 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. This statement required recording of the University's postretirement health care liability in its entirety, and also changed the methodology used to measure the liability. The result of adoption was to reduce the amount recorded on the balance sheet as a postretirement health care liability by $45.5 million beginning with July 1, 2017. The financial statements for the year ended June 30, 2017 remain unchanged, as actuarial information with which to retroactively adopt Statement No. 75 was not available.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Statement No. 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred, and should no longer be capitalized as part of the cost of an asset. The University adopted Statement No. 89 for the year ended June 30, 2018, which resulted in higher interest cost reported on the Statement of Revenues, Expenses and Changes in Net Position than had been reported in earlier years.

Accounting standards not yet implemented – In June 2017, GASB issued Statement No. 87, *Leases*. Statement No. 87 establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. As a result, upon implementation, most leases currently classified as operating leases will be accounted for and reported in the same manner as capital leases. The University has significant operating leases, as can be seen in Note 17. As a result, upon implementation, significant amounts are expected to be recorded as "right to use" assets, with a corresponding liability and deferred outflow for the principal and interest amounts, respectively. The provisions in Statement No. 87 are effective for reporting periods beginning after December 15, 2019, which is the University's fiscal year ending June 30, 2021.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. Statement No. 88 is intended to improve the information that is disclosed in notes to government financial statements related to debt. The University has determined that Statement No. 88 will have no effect on its financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests*. Statement No. 90 is intended to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The University has determined that Statement No. 90 will have no effect on its financial statements.

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 $98,783,360 at June 30, 2018 and $80,600,237 at June 30, 2017.

Cash equivalents – These amounts consist of cash held by trustees as well as $116,001,534 and $133,642,714 of the amount invested in the Short Term Investment Pool (STIP) with the Montana Board of Investments at June 30, 2018 and 2017, respectively.

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

Investments –GASB Statement No. 72, *Fair Value Measurement and Application*, requires that investments be classified according to a "fair value hierarchy." With respect to Statement No. 72's fair value hierarchy, GASB defines "inputs" as "the assumptions that market participants would use when pricing an asset or liability, including assumptions about risk." Statement No. 72 further categorizes inputs as observable or unobservable: observable inputs are "inputs that are developed using market data, such as publicly available information about actual events or transactions, and which reflect the assumptions that market participants would use when pricing an asset or liability"; unobservable inputs are "inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing an asset or liability." GASB Statement No. 79, *Certain External Investment Pools and Pool Participants,* addresses accounting and disclosure for external investment pools and pool participants. The University participates in external investment pools, and has adopted Statement No. 79.

The University records its investments as noted in the table below, and categorizes them within the fair value hierarchy as follows:

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

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

Cash equivalents and investments are categorized as follows at June 30, 2018:

Security Type	Fair Value	Moody's Credit Quality Rating	Effective Duration (years) or Weighted Average Maturity (days)	Basis of Valuation or Fair Value Level	Liquidity of NAV Assets
State of Montana Short Term Investment Pool	$ 116,001,534	NR***	N/A	Net asset value	Daily
U. S. Bank Money Market Funds collateralized by U.S. Bank pool, not in the University's name)	$ 10,204,921	P-1	N/A	Cash equivalents, carried at amortized cost	
State of Montana Trust Fund Investment Pool*	$ 16,568,109	NR***	N/A	Net asset value	Monthly
Foundation Pooled Cash Equivalents and Investments**	$ 9,871,257	NR***	N/A**	Net asset value	No formal liquidity agreement
Non-hedging derivative investment value	$ 56,181	A3	17.42	Level 2	
US Government Obligations	41,616,032	Aaa	1.06	Level 2	

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

Investments recorded at Net Asset Value

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

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

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

Securities lending transactions – The Board of Investments (BOI) is authorized by law to lend its securities, and has contracted with its custodial bank, State Street Bank and Trust, to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. 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. On any day, including June 30th, markets may move in a positive or negative direction resulting in under or over collateralization. The custodial bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. The BOI and the bank split the earnings 80% and 20% respectively on security lending activities. The Board retains all rights and risks of ownership during the loan period. The custodial bank indemnifies the Board's credit risk exposure to the borrowers. The University's allocated portion of security lending cash collateral was $230,683 at June 30, 2018 and $133,984 at June 30, 2017.

During the fiscal year, the custodial bank loaned the Board's public securities and received as collateral: U.S. dollar cash; U.S. Government and government sponsored agency securities; U.S. corporate debt securities and structured securities rated AA- or Aa3 or higher; sovereign debt securities of the G10 nations; and debt securities issued by certain supernational agencies. The custodial bank does not have the ability to sell collateral securities unless the borrower defaults.

The BOI did not impose any restrictions during fiscal years 2018 and 2017 on the amount of securities available to lend the loans State Street Bank and Trust made on its behalf. However, STIP assets are currently not available for securities lending. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of default of the borrower. Moreover, there were no losses during fiscal years 2018 and 2017 resulting from a borrower default of the borrowers or State Street Bank and Trust. As of June 30, no securities were recalled and not yet returned.

The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in an investment fund, the Navigator Securities Lending Government Money Market (Navigator) portfolio.

During fiscal years 2017, 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 lenders, in two investment funds, the Quality D Short Term Investment Fund and the Security Lending Quality Trust. Pension funds participated in the Quality D Short Term Investment Fund and nonpension entities participated in the Security Lending Quality Trust. During March 2017, participation in both funds was transitioned into the Navigator Securities Lending Government Money Market portfolio.

The Board and the borrowers maintain the right to terminate all securities lending transactions on notice. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. The average duration was 10 days and the average weighted final maturity was 70 days within the Navigator portfolio.

As of October 2016, STIP no longer participated in the securities lending program; as such, STIP no longer has securities on loan, and all of the University's Security Lending transactions arise from its investment in the TFIP.

Investment risks – The University's investments are concentrated primarily with the State of Montana and with US Bank. Investments at US Bank are primarily in US Government Obligations; therefore, discussion of the risks of the applicable State investment products is relevant to the University's investments and is summarized below. Detailed asset maturity and other information demonstrating risk associated with the BOI Unified Investment Program 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 the risk that an issue or other counterparty to an investment will not fulfill its obligation. As the University only invests its funds with the State of Montana, its Foundations and in the case of bond proceeds must be invested in accordance with restrictions in the University's bond indenture, a credit risk policy specific to the University has not been adopted.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Board will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The University invests its funds with the State of Montana, its Foundations and from time to time through other institutions in the case of bond proceeds in accordance with restrictions in the University's bond indenture. As such, a specific custodial credit risk policy has not been adopted. Information with respect to the pooled investments held at the MSU Foundation is included in Note 20 to the financial statements.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributable to the magnitude of any single investment per issuer name. Investments explicitly guaranteed by the U.S. Government are excluded from the concentration of credit risk requirement. The University invests certain funds with its Foundations. Information regarding Foundation investments is available as described in Note 20 to the financial statements.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As the University only invests its funds with the State of Montana, its Foundations and in the case of bond proceeds must be invested in accordance with restrictions in the University's bond indenture, an interest rate risk policy specific to the University has not been adopted.

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

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

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

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

NOTE 3 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts receivable consisted of the following as of June 30:

	2018	2017
Accounts receivable	$ 11,791,209	$ 11,760,764
Other receivables, including private grants and contracts	7,957,858	5,012,360
Gross accounts and grants receivable	19,749,067	16,773,124
Less allowance for uncollectible accounts	(5,326,328)	(5,089,674)
Net accounts and grants receivable	$ 14,422,739	$ 11,683,450

NOTE 4 – INVENTORIES

Inventories consisted of the following as of June 30:

	2018	2017
Bookstore	$ 598,799	$ 892,137
Food services	313,043	376,378
Facilities services	796,404	732,093
Livestock	624,624	750,515
Other	421,755	479,835
Total inventories	$ 2,754,625	$ 3,230,958

NOTE 5 – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses consisted of the following as of June 30:

	2018	2017
Library subscriptions	$ 2,238,805	$ 2,495,278
Other (including summer session payments)	3,629,567	2,235,487
Total prepaid expenses	$ 5,868,372	$ 4,730,765

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, 2018 and 2017 related to the program are $22,322,967 and $22,568,023 that will be repayable to the Federal government as loans are repaid to the University by students. Students whose loans were approved and for whom the first installment disbursed prior to September 30, 2017, continued to receive loans throughout the 2017-2018 academic year. Hereafter, no new loans will be disbursed due to the elimination of the program by the Federal government.

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

NOTE 7 – CAPITAL AND OTHER NON-CURRENT ASSETS

Following are the changes in capital assets during the year ended June 30, 2018 and 2017:

	Year Ended June 30, 2018				
	Balance July 1, 2017	Additions	Retirements	Transfers	Balance June 30, 2018
Capital assets not being depreciated:					
Land	$ 8,322,536	$ —	$ —	$ —	$ 8,322,536
Museum and fine art	5,955,289	141,224	—	8,754	6,105,267
Library special collections	3,708,754	42,011	—	—	3,750,765
Livestock for educational purposes	3,858,315	64,204	(9,120)	—	3,913,399
Construction work-in-progress	38,638,431	46,030,171	(22,558)	(32,266,237)	52,379,807
Total capital assets not being depreciated	**60,483,325**	**46,277,610**	**(31,678)**	**(32,257,483)**	**74,471,774**
Other capital assets:					
Furniture and equipment	162,400,636	9,528,610	(9,540,437)	329,017	162,717,826
Library materials	66,776,459	1,129,617	(127,532)	—	67,778,544
Buildings	373,663,250	4,507,424	(144,211)	27,457,795	405,484,258
Building improvements	279,854,209	221,255	(112,530)	2,601,695	282,564,629
Land improvements	25,033,310	322,520	(202,512)	894,298	26,047,616
Infrastructure	44,819,771	179,531	—	—	44,999,302
Leasehold Improvements	3,245,970	—	—	563,861	3,809,831
Total other capital assets	955,793,605	15,888,957	(10,127,222)	31,846,666	993,402,006
Accumulated depreciation	(546,219,558)	(33,883,106)	9,371,188	—	(570,731,476)
Other capital assets, net	**409,574,047**	**(17,994,149)**	**(756,034)**	**31,846,666**	**422,670,530**
Intangible assets, net	**1,589,166**	**1,187,397**	**(1,005,126)**	**410,817**	**2,182,254**
Capital Assets, net	**$ 471,646,538**	**$ 29,470,858**	**$ (1,792,838)**	**$ —**	**$ 499,324,558**

	Year Ended June 30, 2017				
	Balance July 1, 2016	Additions	Retirements	Transfers	Balance June 30, 2017
Capital assets not being depreciated:					
Land	$ 8,377,036	$ —	$ (54,500)	$ —	$ 8,322,536
Museum and fine art	5,708,829	246,460	—	—	5,955,289
Library special collections	3,538,471	170,283	—	—	3,708,754
Livestock for educational purposes	3,684,913	245,629	(72,227)	—	3,858,315
Construction work-in-progress	54,015,890	42,455,513	(255,459)	(57,577,513)	38,638,431
Total capital assets not being depreciated	**75,325,139**	**43,117,885**	**(382,186)**	**(57,577,513)**	**60,483,325**
Other capital assets:					
Furniture and equipment	162,588,556	8,043,941	(8,854,445)	622,584	162,400,636
Library materials	65,577,048	1,392,907	(193,496)	—	66,776,459
Buildings	324,350,400	2,090,900	(187,549)	47,409,499	373,663,250
Building improvements	276,047,081	957,833	—	2,849,295	279,854,209
Land improvements	22,918,436	596,938	(923,586)	2,441,522	25,033,310
Infrastructure	43,655,242	180,109	—	984,420	44,819,771
Leasehold Improvements	1,261,536	—	—	1,984,434	3,245,970
Total other capital assets	896,398,299	13,262,628	(10,159,076)	56,291,754	955,793,605
Accumulated depreciation	(520,781,786)	(34,030,969)	8,593,197	—	(546,219,558)
Other capital assets, net	**375,616,513**	**(20,768,341)**	**(1,565,879)**	**56,291,754**	**409,574,047**
Intangible assets, net	**376,227**	**504,460**	**(577,280)**	**1,285,759**	**1,589,166**
Capital Assets, net	**$ 451,317,879**	**$ 22,854,004**	**$ (2,525,345)**	**$ —**	**$ 471,646,538**

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 –

Amounts as of June 30, 2018 include a receivable from the MSU Alumni Foundation related to a key employee deferred compensation plan, as described in Note 15. Prior year balances primarily arose from a $10.0 million gift commitment from the MSU Alumni Foundation, which is being paid to the University as needed to repay principal on its Series B debt. The gift and related receivable were recognized in that year. As of June 30, 2018, the MSU Alumni Foundation has made payments to the University of approximately $8.0 million. The remaining balance of the receivable is recorded in the accompanying financial statements as $2.0 million in current receivables. The Series B debt was issued to bridge fund construction of a classroom building until gift proceeds are received from a donor; the MSUAF reports that such payments are on schedule.

NOTE 8 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	2018	2017
Compensation, benefits and related liabilities	$ 21,242,399	$ 21,680,664
Accrued interest expense	959,119	783,708
Accounts payable and other accrued liabilities	24,224,783	21,867,486
Total	$ 46,426,301	$ 44,331,858

NOTE 9 – UNEARNED REVENUES

Unearned revenues consisted of the following as of June 30:

	2018	2017
Grant and contract funds received in advance	$ 5,216,120	$ 5,907,738
Summer session payments received in advance	7,502,026	6,312,941
Other unearned revenues	1,607,184	1,574,032
Total	$ 14,325,330	$ 13,794,711

NOTE 10 – NON-CURRENT LIABILITIES AND DERIVATIVE INSTRUMENTS

Following are the changes in noncurrent liabilities for the years ended June 30, 2018 and 2017:

	Year Ended June 30, 2018				
	Balance June 30, 2017 (restated)	Additions	Reductions	Balance June 30, 2018	Amounts due within one year
Bonds, notes payable, and capital lease obligations					
Bonds payable, net of discount	$ 158,195,430	$ 57,889,483	$ (11,250,717)	$ 204,834,196	$ 10,986,942
Notes and other long-term liabilities	1,972,017	711,920	(652,819)	2,031,118	892,750
Capital lease obligations	205,602	58,818	(88,090)	176,330	69,596
Total bonds, notes and capital lease obligations	$ 160,373,049	$ 58,660,221	$ (11,991,626)	$ 207,041,644	$ 11,949,288
Compensated absence liability	$ 33,140,412	17,160,105	(16,429,463)	$ 33,871,054	$ 17,409,616
Advances from primary government – Intercap	$ 11,490,245	—	(1,469,135)	$ 10,021,110	$ 1,315,578
Advances from primary government - MSTA	$ 4,742,584	—	(61,561)	$ 4,681,023	$ 63,096
Advances from primary government - DEQ	$ 4,383,641	30,000	(512,660)	$ 3,900,981	$ 487,204
Amounts due to Federal government	$ 22,568,023	259,598	(504,654)	$ 22,322,967	$ —
OPEB liability— implicit rate subsidy for retiree health insurance (beginning balance as restated)	$ 17,452,654	1,794,590	(1,116,302)	$ 18,130,942	$ —
Net pension liability	$ 88,135,198	23,432,474	(14,611,628)	$ 96,956,044	$ —
Derivative instrument liability	$ 4,188,552	—	(1,108,210)	$ 3,080,342	$ —

	Year Ended June 30, 2017				
	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Amounts due within one year
Bonds, notes payable, and capital lease obligations					
Bonds payable, net of discount	$ 162,771,698	$ 5,650,000	$ (10,226,268)	$ 158,195,430	$ 9,762,500
Notes and other long-term liabilities	1,167,337	1,603,320	(798,640)	1,972,017	565,980
Capital lease obligations	167,838	131,570	(93,806)	205,602	82,251
Total bonds, notes and capital lease obligations	$ 164,106,873	$ 7,384,890	$ (11,118,714)	$ 160,373,049	$ 10,410,731
Compensated absence liability	$ 32,363,145	17,543,950	(16,766,683)	$ 33,140,412	$ 17,868,230
Advances from primary government – Intercap	$ 12,386,790	659,528	(1,556,073)	$ 11,490,245	$ 1,469,135
Advances from primary government - MSTA	$ 4,802,642	—	(60,058)	$ 4,742,584	$ 61,559
Advances from primary government - DEQ	$ 4,556,647	312,250	(485,256)	$ 4,383,641	$ 512,660
Amounts due to Federal government	$ 22,424,284	318,354	(174,615)	$ 22,568,023	$ —
OPEB liability— implicit rate subsidy for retiree health insurance	$ 59,338,681	5,455,285	(1,820,866)	$ 62,973,100	$ —
Net pension liability	$ 77,006,798	25,282,103	(14,153,703)	$ 88,135,198	$ —
Derivative instrument liability	$ 6,097,182	—	(1,908,630)	$ 4,188,552	$ —

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

Derivative financial instruments –

Description

The University has two interest rate swaps as of June 30, 2018. 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, 2018:

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.

As of June 30, 2018, the fixed payer swap is classified as a hedging derivative instrument under Statement No. 53, whereas the basis swap is an investment derivative instrument because there is no identified financial risk being hedged by the basis swap that can be expressed in terms of exposure to adverse changes in cash flows or fair values. Statement No. 53 includes four methods for evaluating hedge effectiveness; a governmental entity may use any of the evaluation methods outlined in the Statement and is not limited to using the same method from period to period. The four methods described in Statement No. 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. In addition, Statement No. 53 permits a governmental entity to use other quantitative methods that are based on "established principles of financial economic theory." The fixed payer swap passes the established criteria using the regression analysis methodology.

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

The counterparty to the fixed payer swap had the right to terminate the swap at $0 on December 14, 2016 (a European option) but did not exercise the option. As of the trade date, the option's value included intrinsic value and time value. The intrinsic value (calculated as the difference between the at-market rate of 4.11% and the off-market rate of 3.953%) is accounted for as a loan receivable and is repaid by the off-market portion of each swap payment. On September 10, 2010, the Series J bonds were converted to index bonds. While in index mode the interest rate is reset weekly at a rate of the Securities Industry and Financial Markets Association ("SIFMA") rate plus a fixed spread. The spread is based on the long-term, unenhanced rating assigned to the issuer; the current spread as of June 30 was 0.65%. The dependent variable in the regression is the interest rates of the hedged cash flows; the independent variable is the floating rates due under the hedging derivative.

The table below summarizes the reported balances as of and the derivative instrument activity during the years ended June 30, 2018 and 2017.

The fair value of the fixed payer swap liability as of June 30, 2018, is at fair value level 2, and was based on forward SIFMA rates using the three month Libor Zero Curve, and the BMA Swaption Volatility on the AA Rated Muni Revenue Curve. The fair value of the nonhedging derivative investment is also at level 2 (see also note 2), and was based on forward SIFMA rates using the 10-year forward BMA constant maturity swap using the three month Libor Zero Curve, and the BMA Swaption Volatility on the counterparty's credit default swap.

		Activity During 2018		Fair Value as of June 30, 2018	
Type of derivative	Notional	Classification	Amount	Classification	Amount
Cash flow hedge -					
Pay fixed interest rate swap	$ 19,800,000	Interest expense	$ 20,048	Loan receivable	$ 229,912
		Investment income	$ —		
		Deferred outflow increase/ (decrease)	$ (1,108,209)		
				Derivative liability	$ 3,080,342
Investment derivative -					
Basis swap	$ 19,800,000	Investment revenue	$ 411,895	Investment	$ 56,181

		Activity During 2017		Fair Value as of June 30, 2017	
Type of derivative	Notional	Classification	Amount	Classification	Amount
Cash flow hedge -					
Pay fixed interest rate swap	$ 20,475,000	Interest expense	$ 18,337	Loan receivable	$ 249,960
		Investment income	$ —		
		Deferred outflow increase/ (decrease)	$ (1,908,630)		
				Derivative liability	$ 4,188,552
Investment derivative -					
Basis swap	$ 20,475,000	Investment loss	$ 808,490	Investment (excluding interest accrued)	$ 462,877

The objective and terms of the University's hedging derivative outstanding as of June 30, 2018 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	$19,800,000	7/21/2005	11/15/2035	—	Pay 3.953% Receive SIFMA

Credit Risk
As of June 30, 2018, counterparty ratings were A3 and Baa2 by Moody's and A- and BBB+ by Standard and Poor's. The University manages credit risk by requiring its counterparties to post collateral in certain events. The University is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than $5MM and the counterparty is rated A+ or A, by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, the University is entitled to collateral up to 100% of the swap's fair value. The University is not required to post collateral. The University will continue to monitor counterparty credit risk.

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

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

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

Termination Risk
The University or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, the University's fixed payer swap counterparty has the right to terminate the derivative if the credit rating of the University's unenhanced long-term revenue bond rating is withdrawn, suspended or reduced below BBB-, in the case of S&P, or below Baa3 in the case of Moody's. If such an event occurs, the University could be forced to terminate the fixed payer swap in a liability position. As of June 30, 2017, the University's unenhanced long-term revenue bond rating was Aa3 by Moody's and A+ by Standard and Poor's.

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	**2018**	**2017**
Series 2005 J	2.16%*	$ 19,800,000	$ 20,475,000
Series 2006 K	—	—	8,540,000
Series 2011 M	2.50%-3.00%	760,000	13,815,000
Series 2012 N	2.75%-4.00%	18,115,000	18,870,000
Series 2012 O	2.057%-3.09%	20,755,000	24,950,000
Series 2013 A	4.00% – 5.00%	53,400,000	54,455,000
Series 2014 B	2.16%*	2,010,000	3,710,000
Series 2016 C	2.92%	16,455,000	10,455,000
Series 2017 D	2.00% – 5.00%	19,415,000	—
Series 2018 E	3.00%-5.00%	44,800,000	—
Total principal outstanding		$ 195,510,000	$ 155,270,000

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

Revenue bonds are payable as follows:

During the year ending June 30,	Principal	Interest	Net Hedging Derivative Interest	Total
2019	$ 10,986,942	$ 7,316,711	$ 474,325	$ 18,777,978
2020	10,093,617	7,007,657	455,089	17,556,363
2021	10,375,636	6,675,457	435,848	17,486,941
2022	10,793,008	6,337,246	415,703	17,545,957
2023	6,720,744	6,041,574	394,630	13,156,948
2024 - 2028	36,108,267	26,246,364	1,623,881	63,978,512
2029 - 2033	31,130,158	19,871,045	936,907	51,938,110
2034 - 2038	30,476,531	13,711,535	166,263	44,354,329
2039 - 2043	29,561,053	7,701,587	—	37,262,640
2044 - 2048	19,264,044	1,539,656	—	20,803,700
Total cash requirements	195,510,000	$ 102,448,832	$ 4,902,646	$ 302,861,478
Unamortized premium (discount) net	9,324,196			
Bond payable, net	$ 204,834,196			

Description of bonded indebtedness –

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

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

Series C 2016, February 24, 2016 – In February 2016, the University closed on its Series C 2016 Facilities Improvement Revenue draw-down bonds, which were issued to acquire a research building and construct a parking structure and dining hall on the Bozeman campus and fully drawn at $16.455 million during the year ended June 30, 2018. The bonds bear interest on the outstanding principal balance. The interest rate is set at 2.92% until the first reset date, which is November 24, 2031. Thereafter, the rate will be equal to the Wall Street Journal Prime Rate plus 1.00% and will be set each quarter, although the University intends to re-evaluate that arrangement in 2031, likely entering into a long-term arrangement. Payments are scheduled each May and November through November 2045. The bonds are secured by a first lien on and pledge of the net pledged revenues, as described in Note 17.

Series D 2017, July 25, 2017 - The University issued its Series D refunding debt in the principal amount of $21.0 million. The proceeds were used for a current refunding of the Series K 2006 Facilities Refunding Revenue Bonds and an advance refunding of the Series M 2011 Facilities Improvement Revenue Bonds with stated maturities in 2022 and thereafter. The refunding resulted in an economic gain to the University of $1.3 million. The proceeds of the Series D 2017 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 all $8.3 million of the Series K 2006 and $12.7 million of the Series M 2011 bonds with maturities in the year 2022 and thereafter. The refunded Series K 2006 bonds are no longer considered to be outstanding under the Indenture. The portion of the Series M bonds that were not refunded totals $0.9 million. The portion that was advance refunded but remained in escrow and is not reflected in the University's balances is $12.88 million , which has stated maturities as follows, and is callable on November 15, 2021.

Maturity Date	Principal
11/15/2022	1,895,000
11/15/2023	1,995,000
11/15/2024	2,095,000
11/15/2025	2,205,000
11/15/2026	2,300,000
11/15/2027	2,390,000

Series E 2018, February 8, 2018 -The University issued $44.8 million of Series E 2018 Facilities Improvement Revenue Bonds to fund the construction of a new 480-bed residence hall on the Bozeman Campus. Payments are scheduled each May and November through November 2047. The bonds are secured by a first lien on and pledge of the net pledged revenues, as described in Note 17.

Series J 2005, July 21, 2005 – In July 2005, the University issued $25.75 million of Series J 2005 Auction Rate Facilities Improvement Revenue Bonds to fund the majority of a student facilities enhancement project on the

Bozeman campus. The proceeds, together with University funds, were used to renovate the student fitness center, construct a theater, and renovate portions of the Strand Union Building. The bonds are being repaid with a combination of student fees and auxiliary operations revenues. Principal payments continue each May and November through November, 2035. On September 11, 2008, the University remarketed these bonds as Variable Rate Demand Bonds in the daily mode, whereas they had previously been marketed as Municipal Auction Rate Securities in the weekly mode. The bonds were remarketed without bond insurance, because variable rate instruments backed by a direct-pay letter of credit were trading at more attractive rates from the bond issuer's perspective, which is a result of the insurer's downgrading and general market conditions. The bonds are no longer insured by Ambac; instead, the University entered into a Letter of Credit and Reimbursement Agreement with Wachovia Bank, NA ("Wachovia"), for a term of two years, in which Wachovia assumed a direct-pay responsibility for the bonds. Wachovia Bank was subsequently purchased by Wells Fargo. Because the letter of credit was scheduled to terminate in September of 2010, the University sought pricing on a renewed letter of credit as well as a direct-placement transaction. After reviewing several options, the University selected the direct-placement transaction, and on September 10, 2010, amended its bond indenture to permit issuance of the Series J bonds in the indexed floater mode, re-issuing the bonds in whole to Wells Fargo Bank. In place of a letter of credit fee, the University 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. In September 2018, the University refunded the Series J bonds with the issuance of Series F variable rate debt in the same principal amount, as discussed in Note 19.

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. In July 2017, the remaining Series K bonds were refunded.

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 G bonds were called in July, 2008 and are no longer outstanding.The Series L debt were repaid in November of 2016, the same maturity date as the refunded Series G debt. Repayment is guaranteed by Assured Guaranty. 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 $14.1 million 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. In July 2017, a significant portion of the Series M bonds were refunded. See further discussion herein.

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

Deferred Loss on Debt Refunding –

Deferred loss on debt refunding is the excess of the reacquisition price of refunded debt over its net carrying amount. For the year ended June 30, 2014, the University adopted the provisions of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, which required reclassifying deferred loss on debt refunding balances from an offset to long-term debt into a deferred outflow. The deferred loss on refunding balances that were reclassified were related to Series 2004I, Series 2006K, Series 2008L, Series M, Series 2012N and Series 2012O. Deferred loss on debt refunding was $2.7 million as of June 30, 2018 and $2.1 million as of June 30, 2017. 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	2018	2017
Hobson Inc - *Radius Software*	—	10/31/2019	$ 160,710	$ 321,420
PNC Equipment Finance - *Stadium Turf*	—	4/15/2019	371,620	557,430
Kaufmann Hall - *Axiom Software*	—	3/2/2022	400,000	—
EPlus - *Vmware*	—	7/29/2019	199,851	—
Accruent, LLC - *Famis Software*	—	6/30/2020	81,863	107,577
MSU-Northern Foundation - Consolidated Foundation Loan	6.00%	10/01/19	425,169	645,169
Total note principal outstanding			$ 1,639,213	$ 1,631,596

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

	Principal	Interest	Total
2019	$ 892,856	$ 25,510	$ 918,366
2020	518,259	12,310	530,569
2021	128,098	—	128,098
2022	100,000	—	100,000
Total	$ 1,639,213	$ 37,820	$ 1,677,033

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, 2018 was 3.15%.

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

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

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

During the year ending June 30,	Intercap Loans		MSTA Advances		DEQ SBECP		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2019	$1,315,578	$ 303,988	$ 63,096	$ 116,904	$ 487,204	$ 138,725	$ 2,425,495
2020	1,150,392	265,118	64,672	115,328	427,833	118,396	2,141,739
2021	1,168,364	228,748	66,287	113,713	420,703	102,168	2,099,983
2022	1,149,496	191,792	67,942	112,058	436,962	85,909	2,044,159
2023	1,016,098	156,307	69,639	110,361	447,471	68,900	1,868,776
2024 - 2028	3,911,514	347,932	375,169	524,831	1,323,510	159,308	6,642,264
2029 - 2033	309,668	14,670	424,415	475,585	277,349	28,990	1,530,677
2034 - 2038	—	—	480,126	419,874	79,949	6,086	986,035
2039 - 2043	—	—	543,150	356,850	—	—	900,000
2044 - 2048	—	—	614,446	285,554	—	—	900,000
2049 - 2053	—	—	695,101	204,899	—	—	900,000
2054 - 2058	—	—	786,343	113,657	—	—	900,000
2059 - 2063	—	—	430,637	19,363	—	—	450,000
Total	$ 10,021,110	$ 1,508,555	$ 4,681,023	$ 2,968,977	$ 3,900,981	$ 708,482	$ 23,789,128

NOTE 12 – CAPITAL LEASE OBLIGATIONS

The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2018:

Payable during the year ending June 30,	Principal and Interest
2019	$ 80,551
2020	53,956
2021	40,751
2022	18,548
2023	2,342
Total payments	196,148
Less amount representing interest	(19,818)
Principal balance outstanding	$ 176,330

Assets acquired under capital leases consist mainly of photocopiers. Such assets are carried at a cost of $475,036 less accumulated depreciation of $271,173 as of June 30, 2018.

NOTE 13 – NET POSITION

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

	2018	2017
Board of Regents' approved reserves	$ 23,695,581	$ 23,282,772
Other designated purposes	46,453,235	7,751,879
Total unrestricted net position	$ 70,148,816	$ 31,034,651

Board of Regents' approved reserves represent cash and investments held for specific purposes that were generated through state appropriations and student tuition revenue in excess of operating expenses. The remainder of unrestricted net position is designated for other purposes.

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

	2018	2017
Restricted - nonexpendable:		
Endowments	$ 8,620,028	$ 8,632,157
Loans	4,785,422	4,816,877
Total restricted - nonexpendable	$ 13,405,450	$ 13,449,034
Restricted - expendable:		
Scholarships	$ 1,071,966	$ 932,433
Research and other	5,509,717	5,095,478
Loans	407,862	402,464
Construction and renewal of plant facilities	5,001,073	5,081,296
Debt retirement	5,431,561	5,813,134
Total restricted - expendable	$ 17,422,179	$ 17,324,805

NOTE 14 – OPERATING EXPENSES

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

	2018	2017
Instruction	$ 144,124,579	$ 144,186,409
Research	108,233,005	111,940,637
Public service	34,502,790	33,571,067
Academic support	39,485,604	37,979,973
Student services	44,860,520	43,232,574
Institutional support	31,800,072	30,520,518
Plant-related expenses	43,309,523	41,251,023
Auxiliary enterprises	59,155,979	59,194,948
Scholarships and fellowships	24,564,993	23,720,757
Depreciation and amortization	34,888,232	34,561,290
	$ 564,925,297	$ 560,159,196

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

	2018	2017
Compensation and benefits	$ 325,764,912	$ 324,511,960
Pension	17,823,200	12,161,549
OPEB	1,930,659	5,455,285
Supplies and service	88,705,268	90,108,141
Travel	13,013,104	12,607,107
Utilities	9,954,502	10,289,878
Other operating expenses	48,280,427	46,743,229
Scholarship and fellowships	24,564,993	23,720,757
Depreciation and amortization	34,888,232	34,561,290
	$ 564,925,297	$ 560,159,196

NOTE 15 – RETIREMENT, TERMINIATION 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 very few employees participating in the CSRS and FERS plans combined, and information is not available from the federal plan administrator with respect to the proportionate share for these employees. Due to the limited number of personnel involved, disclosure for these plans will be presented as if they were defined contribution plans.

MUS-RP - The MUS-RP is a defined contribution plan, established under authority of Title 19, Chapter 21, MCA. Benefits at retirement depend upon the amount of investment gains and losses and the employee's life expectancy at retirement. Under the MUS-RP, each employee enters into an individual contract with TIAA-CREF. The University records employee/employer contributions, and remits monies to TIAA-CREF. Combined contributions cannot exceed 13% of the participants' compensation (MCA §19-21-203). Individuals are immediately vested with contributions. Annual reports that include financial statements and required supplemental information on the plan are available from TIAA-CREF, 730 Third Avenue, New York, New York 10017-3206, Phone 1-800-842-2733.

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

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

PERS- DCRP - This plan is administered by the Public Employees Retirement Board and is reported as multiple-employer plan established July 1, 2002, governed by Title 19, chapters 2 & 3, MCA. All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Member and employer contribution rates are specified by state law as a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The state Legislature has the authority to establish and amend contribution rates. Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP. At the plan level for the measurement period ended June 30, 2016, the PERS-DCRP employer did not recognize any net pension liability or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 300 employers that have participants in the PERS-DCRP totaled $396,650.

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

Pension data for the year ended June 30, 2018 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	PERS- DCRP
Covered payroll*	$153,460,501	$196,368	$178,757	$2,623,957.9
Employer contributions/expense	$9,442,550	$18,251	$12,209	$224,844
% of covered payroll	5.956%-8.33%	7.00%-8.00%	—	8.57%
Employee contributions	$10,887,268	$22,279	$713	$207,265.17
% of covered payroll	7.044%-7.90%	7.00%-8.00%	—	7.90%

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

Pension data for the year ended June 30, 2017 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	PERS- DCRP
Covered payroll*	$151,244,170	$192,305	$344,317	$2,151,990
Employer contributions/expense	$9,218,416	$28,890	$41,471	$181,992
% of covered payroll	5.956%-8.43%	7.00%-8.00%	—	8.47%
Employee contributions	$10,719,762	$45,024	$2,622	$169,745
% of covered payroll	7.044%-7.9%	7.00%-8.00%	—	7.90%

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

Total payroll for 2018 and 2017 was $256,099,555 and $254,290,283, 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	PERS- DCRP
2015	$17,718,156	$81,840	$49,489	$362,359
2016	$18,643,731	$80,135	$47,750	$336,854
2017	$19,938,178	$73,914	$44,093	$351,737
2018	$20,329,818	$40,530	$12,922	$432,109

Defined Benefit Plans

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

	2018			
	TRS	**PERS**	**GWPORS**	**Total**
Net Pension Liability	$14,368,327	$81,386,415	$1,201,302	$96,956,044
Deferred Outflows of Resources	$14,872,998	$19,566,197	$448,075	$34,887,270
Deferred Inflows of Resources	$145,412	$1,407,301	$82,965	$1,635,678
Pension Expense (including state share paid on behalf of the University)	$6,682,529	$10,918,577	$222,094	$17,823,200

	2017			
	TRS	**PERS**	**GWPORS**	**Total**
Net Pension Liability	$17,469,027	$69,576,861	$1,089,310	$88,135,198
Deferred Outflows of Resources	$16,233,922	$12,545,904	$402,782	$29,182,608
Deferred Inflows of Resources	$157,720	$1,014,141	$56,758	$1,228,619
Pension Expense (including state share paid on behalf of the University)	$5,561,590	$6,417,122	$182,837	$12,161,549

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. As defined by Statement 68, the University has a special funding situation in which the State of Montana is legally responsible for making contributions directly to TRS and PERS that are used to provide pension benefits to the retired members of each of the plans. Due to the existence of a special funding situation, the University is also required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability (NPL) that is associated with the University.

TRS

TRS Plan Description
TRS is a multiple-employer cost-sharing defined-benefit public pension plan that provides retirement services to individuals employed as teachers, administrators, and in other professional and skilled positions employed in public education in Montana. The TRS Board is the governing body, and the TRS staff administers the system in conformity with the laws set forth in Title 19, chapter 20 of the Montana Code Annotated, and administrative rules set forth in Title 2, chapter 44 of the Administrative Rules of Montana. Additional information pertaining to membership, benefit structure, and prior years' actuarial valuations, as well as links to applicable statutes and administrative rules, may be obtained by visiting the TRS web site at trs.mt.gov.

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

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

- Tier Two uses a 5-year average final compensation (as opposed to 3-year AFC in Tier One)
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One)
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One)
- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation - 1.85% x AFC x years of creditable service - for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than 1.6667 x AFC x years of creditable service)

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

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

			Percent of Collective NPL at June 30,		Increase (Decrease) in Percent of Collective NPL
	2018	2017	2018	2017	
University Proportionate Share	$ 14,368,327	$ 17,469,027	0.85%	0.96%	(0.11)%
State of Montana Proportionate Share associated with the University	5,183,426	6,550,303	0.32%	0.36%	(0.04)%
Total	$ 19,551,753	$ 24,019,330	1.17%	1.32%	(0.15)%

The NPL was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. Therefore, no update procedures were used to roll forward the total pension liability to the measurement date. 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, 2016, through June 30, 2017, 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.

TRS Changes since the previous measurement date:
There have been no changes in actuarial assumptions and other inputs since the previous measurement date.

Each employer may have unique circumstances that impact its proportionate share of the collective net pension liability. The University has not been made aware of any unique circumstances expected to significantly affect its net pension liability.

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

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

	2018	2017
University expense	$ 6,285,626	$ 5,055,183
State of Montana expense/ University revenue recognized	396,903	506,407
Total	$ 6,682,529	$ 5,561,590

TRS Deferred Inflows and Outflows

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

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 52,841	$ 21,482	$ 93,403	$ 37,135
Changes in actuarial assumptions	—	60,069	111,170	109,799
Difference between projected and actual investment earnings	—	56,860	1,124,924	—
Difference between actual and expected contributions	6,782,030	7,001	6,586,169	10,786
Contributions paid to TRS subsequent to the measurement date *	8,038,127	—	8,318,256	—
Total	$ 14,872,998	$ 145,412	$ 16,233,922	$ 157,720

*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 ending June 30, 2019.

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
2019	$ 3,256,947
2020	$ 2,462,593
2021	$ 1,223,520
2022	$ (253,600)

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 on July 1st of each year.

As of June 30, 2018, MCA 19-20-605 requires each employer to contribute 11.25% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position. Pursuant to MCA 19-20-609, this amount shall increase by 0.10% each fiscal year through 2024 until the total employer contribution is equal to 11.85% of re-employed retiree compensation.

TRS Actuarial Assumptions

The Total Pension Liability as of June 30, 2017, is based on the results of an actuarial valuation date of July 1, 2017. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2017 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 (include 4% general wage increase assumption) — 5.00% for University members, 4.00%-8.51% for non-University members
- Investment Return — 7.75%
- Price Inflation — 3.25%
- Postretirement Benefit Increases
  - Tier One Members: If the retiree has received benefits for at least 3 years, the retirement allowance will be increased by 1.5% each January 1st.
  - Tier Two Members: The retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the System to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%. (starting three years after retirement)
- Mortality among contributing members, service retired members, and beneficiaries
  - For Males: 1992 Base Rates from the 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: 1992 Base Rates from the 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.

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, the State general fund will contribute $25 million annually. 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 2126. 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	Long Term Expected Real Rate of Return
Broad US Equity	36.00%	4.80%
Broad International Equity	18.00%	6.05%
Private Equity	12.00%	8.50%
Intermediate Bonds	23.40%	1.50%
Core Real Estate	4.00%	4.50%
High Yield Bonds	2.60%	3.25%
Non-Core Real Estate	4.00%	7.50%
	100.00%	

The assumed long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2009 through

2013, is outlined in a report dated May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2017, is summarized in the above table.

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

	Assuming 1.0% Decrease (6.75%)	At Current Discount Rate (7.75%)	Assuming 1.0% Increase (8.75%)
University proportion of Net Pension Liability	$19,799,854	$14,368,327	$9,793,643

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 TRS and additions to/deductions from TRS's fiduciary net position have been determined on the same accrual basis as they are reported by TRS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. TRS adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

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

PERS

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

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

PERS Eligibility for Participation
All new members in covered positions (generally all University classified employees which excludes faculty and professional staff) are defaulted to the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the defined contribution and defined benefit retirement plans. All new members from the University also have a third option to join the Montana University System Retirement Program (MUS-RP). For members that choose to join the PERS-DCRP or the MUS-RP, a percentage of the employer contributions is used to pay down the liability of the PERS-DBRP. A new employee of the University who is already an active or inactive member of one of the PERS Plans may remain in the current retirement option or transfer to the MUS-RP. Written election to move to the MUS-RP must be done within 30 days of becoming eligible to participate, or employees default to their existing retirement plan.

PERS Summary of Benefits
Service retirement:

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

Early retirement, actuarially reduced:

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

Second Retirement (requires returning to PERS-covered employer or PERS service):

1) Retire before January 1, 2016 and accumulate less than 2 years additional service credit or retire on or after January 1, 2016 and accumulate less than 5 years additional service credit:
    a) A refund of members' contributions plus return interest (currently .77% effective July 1, 2017).
    b) No service credit for the second employment;
    c) Start the same benefit amount the month following termination; and
    d) Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.
2) Retire before January 1, 2016 and accumulate at least 2 years of additional service credit:
    a. A recalculated retirement benefit based on provisions in effect after the initial retirement; and
    b. GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.
3) Retire on or after January 1, 2016 and accumulate 5 or more years of service credit:
    a. The same retirement as prior to the return to service;
    b. A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
    c. GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

Vesting period
5 years of membership service

Member's highest average compensation (HAC)
- Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;
- Hired on or after July 1, 2011 - highest average compensation during any consecutive 60 months;

Compensation Cap:
- Hired on or after July 1, 2013 - 110% annual cap on compensation considered as part of a member's highest average compensation.

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.

PERS Guaranteed Annual Benefit Adjustment (GABA)

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

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired July 1, 2007 through June 30, 2013
- Members hired on or after July 1, 2013:
    - 1.5% for each year PERS is funded at or above 90%;
    - 1.5% reduced by 0.1% for each 2% PERS is funded below 90%; and
    - 0% whenever the amortization period for PERS is 40 years or more

PERS Net Pension Liability

As defined by GASB 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 certain 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. The University is required to report the portion of Coal Tax Severance Tax and interest attributable to it.

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

			Percent of Collective NPL at June 30,		Increase (Decrease) in Percent of Collective NPL
	2018	2017	2018	2017	
University Proportionate Share	$ 81,386,415	$ 69,576,861	4.18%	4.08%	0.10%

The NPL was measured as of June 30, 2017, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2016, with update procedures to roll forward the TPL to the measurement date of June 30, 2017. The University's proportion of the NPL was based on the University's contributions received by PERS during the measurement period July 1, 2016, through June 30, 2017, 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 in proportion that would have and effect on the employer's proportionate share of the collective NPL.

PERS Changes since the previous measurement date

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.

- Lowered the interest rate from 7.75% to 7.65%
- Lowered the inflation rate from 3.00% to 2.75%
- Updated non-disabled mortality to the RP-2000 Combined Employee and Annuitant Mortality Table projected to 2020 using scale BB, males set back 1 year
- Increased rates of withdrawal
- Lowered the merit component of the total salary increase
- Lowered the wage base component of the total salary increase from 4.00% to 3.50%
- Decreased the administrative expense load from 0.27% to 0.26%
- Administrative expenses are recognized by an additional amount added to the normal cost contributions rate for the System. This amount will vary from year to year based on the prior year's actual administrative expenses.
- The interest rate credited to member accounts increased from 0.25% to 0.77%.
- Lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.
- Each employer may have unique circumstances that impact its proportionate share of the collective net pension liability. The University has not been made aware of any such unique circumstances.

PERS Pension Expense

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

	2018	2017
University share	$ 9,754,330	$ 5,198,117
State of Montana expense/ University revenue recognized	1,164,247	1,219,005
Total PERS Pension expense recognized	$ 10,918,577	$ 6,417,122

Amounts recognized as revenue relate to a grant from the Montana Coal Trust Fund, which is not considered a special funding situation.

PERS Deferred Inflows and Outflows

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

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 2,004,291	$ 117,801	$ 375,415	$ 230,301
Changes in actuarial assumptions	11,124,672	—	—	—
Difference between projected and actual investment earnings	—	546,596	6,545,794	—
Change in proportionate share	1,865,326	742,904	1,035,450	783,840
Difference in expected versus actual contributions	—	—	—	—
Contributions paid to PERS subsequent to the measurement date *	4,571,908	—	4,589,245	—
Total	$ 19,566,197	$ 1,407,301	$ 12,545,904	$ 1,014,141

*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 ending June 30, 2019.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be fully recognized in pension expense during the years ending June 30:

		Net Amount To Be Recognized as an increase or (decrease) to Pension Expense
2019	$	3,406,940
2020	$	6,600,513
2021	$	5,311,807
2022	$	(1,732,272)

PERS Overview of Contributions

Rates are specified by state law for periodic employer and employee contributions, and are a percentage of the member's compensation. The State legislature has the authority to establish and amend contribution rates to the plan.

PERS Member contributions

- Plan members are required to contribute 7.9% of their compensation. Contributions are deducted from each member’s salary and remitted by participating employers.
- The 7.9% 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 8.57% of members’ compensation.
- Local government entities are required to contribution 8.47% of members’ compensation.
- School district employers contributed 8.20% 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 began increasing an additional 0.1% each year for 10 years, through 2024. The employer additional contributions including 0.27% added in 2007 and 2009, will terminate on January 1 of the year following actuarial 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, employers are required to make contributions on working retirees’ compensation, though member contributions for working retirees are not required.
- Effective July 1, 2013, the additional employer contributions for DCRP and MUS-RP were allocated to the defined benefit plan’s Plan Choice Rate (PCR) unfunded liability. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

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

Actuarial valuations and experience studies can be found at http://mpera.mt.gov.

PERS Actuarial Assumptions

The Total Pension Liability as of June 30, 2017, is based on the results of an actuarial valuation date of June 30, 2016. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the last actuarial experience study, dated May 2017 for the six year period July 1, 2010 to June 30, 2016. Among those assumptions were the following:

- General wage growth* 3.5%
  *includes Inflation at 2.75%
- Merit increases 0% to 4.8%
- Investment return (net of expenses) 7.65%
- Administrative expense as a % of payroll 0.26%
- Post-retirement benefit increases
  - 3% for members hired prior to July 1, 2007
  - 1.5% for members hired between July 1, 2007 and June 30, 2013
  - Members hired on or after July 1, 2013:
    - 1.5% for each year PERS is funded at or above 90%;
    - 1.5% reduced by 0.1% for each 2% PERS is funded below 90%; and
    - 0% whenever the amortization period for PERS is 40 years or more
- Mortality assumptions for healthy members based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back 1 year.
- 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 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the PERS fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2121. 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	Long-Term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%
	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 2011 through 2016, is outlined in a report dated May 2017, 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 for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. Best estimates 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, 2017, is summarized in the above table.

The long-term expected nominal rate of return is an expected portfolio rate of return provided by the Montana Board of Investments; this differs from the total long-term assumed rate of return of 7.65% in the experience study. The assumed investment rate includes a 2.75% inflation rate and a real rate of return of 4.90%.

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

	1.0% Decrease (6.65%)	Current Discount Rate (7.65%)	1.0% Increase (8.65%)
The University's proportion of Net Pension Liability	$118,532,357	$81,386,415	$50,205,209

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

GWPORS

GWPORS Plan Description
The GWPORS is administered by the Montana Public Employee Retirement Administration (MPERA). It is a multiple-employer, cost-sharing defined benefit plan established in 1963, and governed by Title 19, chapters 2 & 8, MCA. Benefits are established by state law and can only be amended by the Legislature. The GWPORS provides retirement, disability and death benefits to those employed as game wardens, warden supervisory personnel, or state peace officers, and their beneficiaries. Member rights are vested after five years of service.

GWPORS Eligibility for Benefits
Age 50, 20 years of membership service.
Age 55, vested members who terminate employment prior to 20 years of membership service.

GWPORS Vesting
Benefits are vested after 5 years of membership service.

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

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

GWPORS Guaranteed Annual Benefit Adjustment (GABA)

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

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

			Percent of Collective NPL at June 30,		Increase (Decrease) in Percent of Collective NPL
	2018	2017	2018	2017	
University Proportionate Share	$ 1,201,302	$ 1,089,310	3.22%	3.32%	(0.10)%

The Net Pension Liability as of June 30, 2017, was determined based on the Total Pension Liability using the actuarial valuation at June 30, 2016, with update procedures to roll forward the TPL to June 30, 2016. The University's proportion of the Net Pension Liability was based on the employer's contributions received by GWPORS during the measurement period June 30, 2017, through June 30, 2016, 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.

Changes since the last measurement date
Certain changes were made with respect to benefit terms, as follows:

- The interest rate credited to member accounts increased from .025% to 0.77%
- Working Retiree Limitations applies to retirement system members who return on or after July 1, 2017 to covered employment in the system from which they retired
- Second Retirement Benefit applies to retirement system members who return after July 1, 2017 to active service covered by the system from which they retired
- Lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit

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.

- Lowered the interest rate from 7.75% to 7.65%
- Lowered the inflation rate from 3.00% to 2.75%
- Updated non-disabled mortality to the RP-2000 Combined Employee and Annuitant Mortality Table projected to 2020 using scale BB, males set back 1 year
- Increased rates of withdrawal
- Lowered the merit component of the total salary increase
- Lowered the wage base component of the total salary increase from 4.00% to 3.50%
- Administrative expenses are recognized by an additional amount added to the normal cost contributions rate for the System. This amount will vary from year to year based on the prior year's actual administrative expenses.
- Each employer may have unique circumstances that impact its proportionate share of the collective net pension liability. The University has not been made aware of any such unique circumstances.

GWPORS Pension Expense

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

	2018	2017
University expense	$ 222,094	$ 182,837

GWPORS Deferred Inflows and Outflows

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

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 167,694	$ —	$ 92,067	$ —
Changes in actuarial assumptions	151,193	—	—	—
Difference between projected and actual investment earnings	—	17,411	167,322	—
Changes in proportionate share	—	65,554	—	56,758
Contributions paid to GWPORS subsequent to the measurement date*	129,188	—	143,393	—
Total	$ 448,075	$ 82,965	$ 402,782	$ 56,758

* 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, 2019.

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
2019	$ 33,914
2020	$ 104,551
2021	$ 75,938
2022	$ 21,519
2023	$ —

GWPORS Overview of Contributions

Contribution 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

Actuarial valuation and experience study can be found at http://mpera.mt.gov/actuarialvaluations.shtml

GWPORS Actuarial Assumptions
The Total Pension Liability is based on the results of an actuarial valuation date of June 30, 2016, with update procedures to roll forward the TPL to June 30, 2017. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the last actuarial experience study, dated May 2017 for the six year period July 1, 2010 to June 30, 2016. Among those assumptions were the following:

- General wage growth (includes inflation at 2.75%) 3.50%
- Merit increases 0% to 6.30%
- Investment return 7.65%
- Administrative expenses as a percent of payroll 0.17%
- Post-retirement 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 2020with scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

GWPORS Discount Rate
The discount rate used to measure the Total Pension Liability was 7.65%. 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 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability**.** No municipal bond rate was incorporated in the discount rate.

GWPORS Target Allocations

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%
	100.00%	

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the GWPORS. The most recent analysis, performed for the period covering fiscal years July 1, 2010 to June 30, 2016, is outlined in a report dated May 2017, 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, 2017, 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 (6.65%)	Current Discount Rate (7.65%)	1.0% Increase (8.65%)
University proportion of Net Pension Liability	$2,252,580	$1,201,302	$345,200

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

Termination Benefits — During the year ended June 30, 2018 and 2017, 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 2018. During the year ended June 30, 2018, incentive pay of $447,879 for voluntary and involuntary terminations plus benefits of $274,118 (including TRS payment of $210,546) were paid to a total of 17 employees, for a total of $721,997 in expenses included in the accompanying financial statements.

Other Post-Employment Benefits — Other postemployment benefits (OPEB) are benefits, such as healthcare benefits, that are paid in the period after employment and that are provided separately from a pension plan. OPEB does not include termination benefits or termination payments for sick leave. During the year ended June 30, 2018, the University adopted GASB statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, also referred to as Other Postemployment Benefits (OPEB). Following is the total of the University's OPEB liabilities, deferred outflows and inflows of resources related to OPEB, and the OPEB expense as reported in accordance with GASB Statement No. 75, for the fiscal year ended June 30, 2018.

	2018
Net OPEB Liability	$ 18,130,942
Deferred OPEB Outflows of Resources	51,605
Deferred OPEB Inflows of Resources	770,150
OPEB expense	1,930,659

Plan Description— The Montana University System (MUS) Group Health Insurance plan is administered by the Office of the Commissioner of Higher Education. The MUS provides optional postemployment healthcare benefits in accordance with Section 2-18-704, MCA to the following employees and dependents who elect to continue coverage and pay administratively established contributions: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Participants must elect to start medical coverage within 63 days of leaving employment. Coverage is effective the first day of the month following termination of employment. Medical, dental, and vision benefits are available through this defined benefit plan. The MUS OPEB plan is not administered through a trust; as such, no plan assets are eligible to be used to offset the total OPEB liability. The MUS group health insurance program operates in accordance with state law requiring it to be actuarially sound (20-25-1310, MCA) and have sufficient reserves to liquidate unrevealed claims liability and other liabilities.

The MUS OPEB plan is reported as single employer plan. The MUS pays for postemployment healthcare benefits on a pay-as-you-go basis from general assets from the MUS group health insurance plan. Section 20-25-1310, MCA gives authority for establishing and amending the funding policy to the Board of Regents for the MUS group health insurance plan. The MUS allows retirees to participate, as a group, at a rate that does not cover all of the related costs when retirees separated from the active participants in the group health insurance plan. This results in the reporting of the total OPEB liability in the related financial statements and note disclosures.

Employer proportionate share of total OPEB liability and basis for allocation:
The total OPEB liability (TOL) as of June 30, 2018, was based on the actuarial valuation at December 31, 2017, with update procedures to roll forward the TOL to March 31, 2018. The University's proportion of the TOL was based upon the total participants in the group health insurance plan. The actuary report presents a valuation of the TOL assigned to each participant in the group health insurance plan.

Proportionate share of collective total OPEB liability:
The University's share of the total plan OPEB liability was as follows :

	2018	
	OPEB Liability	**OPEB Proportionate Share**
Total OPEB Liability	$18,130,942	48.92%

OPEB Deferred Outflows of Resources and Deferred Inflows of Resources were as follows:
The University's OPEB plan deferred outflows and inflows of resources are from the following sources:

	2018	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Changes in actuarial assumptions or other inputs	$ —	$ 93,602
Difference between actual and expected contributions	—	676,548
Transactions subsequent to the measurement date *	51,605	—
Total	$ 51,605	$ 770,150

* Amounts reported as deferred outflows of resources related to OPEB resulting from transactions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows and inflows of resources related to OPEB will be fully recognized in expense during the years ending June 30, as follows:

	Net Amount To Be Recognized as an increase or (decrease) to OPEB Expense	
2019	$	(64,286)
2020	$	(64,286)
2021	$	(64,286)
2022	$	(64,286)
2023	$	(64,286)
Thereafter	$	(448,720)

Actuarial Methods and Assumptions

The total OPEB liability (TOL) measured under GASB Statement No. 75 is based upon service cost and more standardized reporting assumptions than prior GASB Statements. As a pay-as-you-go public entity, GASB 75 requires a 20-year amortization period and a current municipal bond discount rate to establish an Actuarially Determined Contribution (ADC). The GASB 75 valuation is further required to show both historical and projected future net changes in TOL, as well as sensitivity to changes in key underlying assumptions. Actuarially determined amounts are subject to continual revisions being actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Information as of the latest actuarial valuation for the MUS OPEB plan follows:

Average annual contribution:	**Retiree/ Surviving Spouse**	**Spouse**	**Actuarial assumptions:**	
Before Medicare eligibility	$11,264	$4,728	Discount rate	3.89% (3/31/2018 20-year municipal bond index)
After Medicare eligibility	$4,806	$3,620		
			Projected payroll increases	4%
Actuarial valuation date	December 31, 2017		Participation:	
Actuarial measurement date [(1)]	March 31, 2018		Future retirees	55%
Actuarial cost method	Entry age normal funding method		Future eligible spouses	60%
Amortization method	Open basis		Marital status at retirement	70%
Remaining amortization period	20 years			
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 75			

(1) Updated procedures were used to roll forward the total OPEB liability to the measurement date.

Mortality - Health: For TRS and MUS-RP, healthy mortality is assumed to follow the 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 for males, set back two years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, healthy mortality is assumed to follow the RP-2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.

Mortality - Disabled: For TRS and MUS-RP, disabled mortality is assumed to follow the RP-2000 Disabled Mortality Table, set forward one year for males and set forward five years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, disabled mortality is assumed to follow the RP-2000 Combined Mortality Table with no projections.

Changes in actuarial assumptions and methods since last measurement date: Changes in actuarial methods include the adjustment of the amortization period and actuarial cost method to conform with GASB 75 requirements. Changes in actuarial assumptions include revised retirement rates per the retirement system pension valuations as of July 1, 2017; interest rates are based upon the March 31, 2018, 20-year municipal bond index per GASB 75 requirements. Lapse rates were removed to reflect a return to standard retiree contribution levels, added employees covered by the MUS-RP were taken into account; changes in revised rates based on actual data and projected trend and projected healthcare trend rates were updated to follow the Getzen model.

Changes in benefit terms since last measurement date: Changes were implemented to ensure the financial health of the plan, while still providing a rich selection of benefits:

- Increased participant deductible,
- Increased out-of-pocket limits for medical and prescription drub coverage
- Increased visit copays,
- Pharmacy benefits were transitioned from URx to Navitus as of July 1, 2017,
- Employer group waiver program for Medicare retirees became effective July 1, 2017,
- A combined annual visit max of 30 for multiple therapy services, and
- Massage therapy was reclassified as a rehabilitation benefit.

Sensitivity of the TOL to changes in the healthcare cost trend rates:
The following presents the Total OBEP Liability if calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Assuming 1.0% Decrease 6.5%	At Current Rate 7.5%	Assuming 1.0% Increase 8.5%
University proportion of total OPEB Liability	$14,812,038	$18,130,942	$22,527,654

Sensitivity of the TOL to changes in the discount rate: The following presents the Total OBEP Liability if calculated using the 20-year municipal bond rates that are 1-percentage-point lower or 1-percentage-point higher than the March 31, 2018 20-year municipal bond rate:

	Assuming 1.0% Decrease 2.89%	At Current Rate 3.89%	Assuming 1.0% Increase 4.89%
University proportion of total OPEB Liability	$21,975,989	$18,130,942	$14,912,379

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.

Information presented in these financial statements for the year ended June 30, 2017, follows the requirements of GASB Statement No. 45, as information as not available to restate earlier year financial information. As of and for the year ended June 30, 2017, the plan was considered to be a multi-employer agent plan. All units of the MUS funded 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) was 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 represented 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 using the GASB Statement No. 45 methodology was based on plan information as of July 1, 2015. At that time, the number of active University participants in the health insurance plan was 3,097. The total number of inactive (retiree and dependent) participants was 931. During the year ended June 30, 2017, the University contributed $47,749,840, which was calculated based on a contribution rate per actively employed participant, whose annual covered payroll totaled $207,301,264 as of the last actuarial valuation. Included within this amount, the University was deemed to have contributed $1,820,866, for retirees or their dependents during 2017. The percentage of annual OPEB cost contributed to the plan was 34% for 2017. The funded status of the plan as of June 30 was 0% for each of the previous three years.

Actuarial methods and assumptions prior to 2018 — Prior to 2018, the projected unit credit funding method was used to determine the cost of the MUS System Employee Group Benefits Plan. This method's objective is to fund each participant's benefits under the plan as they accrue. The total benefit to which each participant is expected to become entitled at retirement is categorized into units, each associated with a year of past or future credited service. The actuarial assumptions included marital status at retirement, mortality rates and retirement age:

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

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

The University's OPEB obligations were computed as follows as of and for the year ended June 30, 2017:

Year ended June 30,	2017
Annual Required Contribution	$ 4,911,345
Interest on net OPEB Obligation	2,521,895
Amortization of net OPEB Obligation	(1,977,955)
Annual OPEB cost	5,455,285
Contributions made	(1,820,866)
Increase to net OPEB obligation	3,634,419
Net OPEB obligation – beginning of year	59,338,681
Net OPEB obligation – end of year (prior to restatement)	$ 62,973,100

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 Relation Insurance. 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 2017 to fiscal 2018, 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 and provided for by the University's participation in the State's self-insurance program are automobile liability, UAV (drone) liability, and coverage for watercraft and mobile equipment. If the RMTDD pays damages on a claim, the division has the right to recover costs or damages from any party in connection with the claim. There is no agency deductible applied to tort liability claims. There is a $250/$500 deductible for comprehensive/collision claims on state owned, loaned or leased vehicles.

The Tort Claims Act of the State of Montana, Section 2-9-102, MCA, provides that governmental entities are liable for its torts and of those of its employees acting within the course and scope of their employment or duties, whether arising out of a governmental or proprietary function, except as specifically provided by the Legislature. Accordingly, Section 2-9-305, MCA, requires that the State "provide for the immunization, defense and indemnification of its public officers and employees civilly sued for their actions taken within the course and scope of their employment."

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

Effective July 1, 2003, the MUS adopted a self-funded workers' compensation insurance program, provided through membership in the MUS Self-Insured Workers' Compensation Program. The MUS program is funded on an actuarial basis and is administered by an employee at the Office of the Commissioner of Higher Education. 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
2019	$ 3,984,035
2020	4,246,094
2021	3,599,447
2022	2,769,386
2023	2,584,063
2024 - 2028	10,023,571
2029 - 2033	770,963
Total	$ 27,977,559

Payments made under operating leases during the years ended June 2018 and 2017 totaled $4,003,331 and $3,877,104 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, 2018, the University had issued purchase orders committing the expenditure of approximately $9.1 million for equipment, supplies and services which had not yet been received.

Legal actions ─ The University is a defendant in legal actions arising in the normal course of business. While the outcome cannot be determined at this time, management is of the opinion that the liability, if any, from these actions will not have a material effect on the University's net position, results of operations or cash flows.

Refundable and transferable 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, 2018, certain audits were in progress and the University does not expect any material adjustments or repayments to result from such audits. Additionally, in the event that grant activity is moved to another University, as sometimes occurs when researchers leave for a different institution, assets acquired with grant funds may transferred at the request of the sponsoring agency with or without reimbursement.

Capital projects ─ As of June 30, 2018, the University had remaining budget authority on significant capital construction and renovation projects underway of approximately $68.6 million. Certain of the projects are funded wholly or partially by the State's Long Range Building Program, and are administered by the State Architecture and Engineering Division, and do not represent a commitment of funds on the part of the University.

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

All of the above revenues are cross-pledged to repay any and all of the secured debt. The remaining cash requirements to repay bonds, including principal and interest, total $302.9 million from July 1, 2018 through November 15, 2047.

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

	2018			2017		
Description	Pledged Revenue	Total Similar Revenue	% Pledged	Pledged Revenue	Total Similar Revenue	% Pledged
Student fees (no tuition is pledged)	$ 10,651,566	$ 39,201,924	27%	$ 10,623,680	$ 38,465,997	28%
MSU Bozeman Foundation Gift revenue related to Series B debt service	1,754,749	1,754,749	100%	1,679,285	1,679,285	100%
Housing and residence hall dining revenues, net of related expenses	16,975,576	16,975,576	100%	15,090,976	15,090,976	100%
Grant and contract facility and administrative cost recoveries	1,374,946	17,969,416	8%	1,381,732	18,062,102	8%
Bozeman campus athletic events revenue	3,686,355	3,886,280	95%	3,553,638	3,644,227	98%
Bozeman campus parking revenues	2,719,749	2,719,749	100%	2,625,579	2,625,579	100%
Bozeman bookstore and museum lease income	370,378	370,378	100%	372,192	372,192	100%
Land grant income	2,427,062	2,427,062	100%	2,407,245	2,407,245	100%
Investment income	1,124,266	3,950,483	28%	610,254	2,066,392	30%
Total	41,084,647			38,344,581		
Less debt service requirements	(17,241,567)			(15,886,466)		
Excess of pledged revenue over debt service requirements	$ 23,843,080			$ 22,458,115		

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, 2018 and 2017, respectively, the Foundations provided $38,654,563 and $30,344,584 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 $2,375,873 and $2,401,432 during the years ended 2018 and 2017, 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 $327,381 during 2018 and $198,599 during 2017.

Friends of Montana Public Television provided $1,205,679 during 2018 and $988,908 during 2017 and Friends of KEMC Public Radio provided $848,639 during 2018 and $802,600 during 2017 in support of the University’s television and radio stations.

The Museum of the Rockies, Inc. provided $1,883,002 and $4,688,378 during the fiscal years ended June 2018 and 2017, respectively, in support of the University, primarily as reimbursement for Museum staff salaries and benefits as well as improvements to the leased facility in 2017.

The MSU Bobcat Club provided $301,583 and $267,141 in scholarship and other support during the years ended June 30, 2018 and 2017. The University provided $258,809 in salary support to the MSU Bobcat Club during the year ended June 30, 2018 and $259,576 during the year ended June 30, 2016 for services provided.

NOTE 19 – SUBSEQUENT EVENTS

In November 2017, the Board of Regents authorized the issuance of up to $4.5 million in Intercap debt to fund the construction of a student activity complex on the Bozeman campus that includes a turf field, lighting, and restrooms. A new student fee had previously been approved to service the debt. Funds had not yet been drawn as of June 30, 2018, but the University expects to draw $4.0 million during the year ending June 30, 2019.

In July 2018, the University received authorization to refinance the Series J 2005 bonds with the issuance of Series F variable rate debt in the same principal amount of $19.8 million.

In September 2018, MSU Billings received revised authorization to expend up to $17.1 million for design, renovation and construction of its Yellowstone Science and Allied Health Building. The 63rd Montana Legislature had appropriated $10.0 million to the project dependent upon a $5.0 million match at the local level for a total authority of $15.0 million. The $5.0 million gift funding has now been committed by the MSU Billings Foundation, and a portion of the project will also be funded with student fees as was approved by student resolution.

In November 2018, MSU Bozeman notified the Board of Regents of its intent to plan for the construction of a new academic facility, American Indian Hall, to create additional classrooms and student support space. In October 2018, the MSU Alumni Foundation announced an anonymous gift of $12.0 million, which, added to previous donations, totals nearly $16.0 million in private funds. The Associated Students of Montana State University also approved the use of $2.0 million in student building fees for the project in October 2018. The University intends to request approval both to expend the $2.0 in student building fees and approval to expend a maximum of $20.0 million for the project as a whole at the May 2019 meeting.

NOTE 20 – COMPONENT UNITS

Entities included as component units of the University are nonprofit, tax exempt organizations operating exclusively for the purposes of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with the University. Although the University may not control the timing or amount of receipts from these entities, the majority of the revenues or incomes thereon that the entities hold and invest are restricted by donors to the activities of the University. The entities included as component units in the financial statements are the Montana State University Foundation (doing business as the Montana State University Alumni Foundation) (406-994-2053), the MSU-Billings Foundation (406-657-2244), the MSU-Northern Foundation (406-265-3711), the MSU Bobcat Club (406-994-3741), and the Museum of the Rockies, Inc. (406-994-3466).

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

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

Montana State University

Condensed Combining Schedule of Component Unit Statements of Financial Position

As of June 30, 2018 or December 31, 2017*

	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	$ 233,645,699	$ 33,201,114	$ 8,222,059	$ 13,706,992	$ 1,922,017	$ 290,697,881
Amounts due from MSU	—	—	425,169	—	—	425,169
Other receivables, net	21,141,095	1,655,800	1,216,888	1,223,507	4,100	25,241,390
Capital assets, net	7,256,083	1,096,185	68,996	4,891,755	—	13,313,019
Other assets	784,088	48,139	10,000	327,939	788,137	1,958,303
Total assets	$ 262,826,965	$ 36,001,238	$ 9,943,112	$ 20,150,193	$ 2,714,254	$ 331,635,762
Liabilities:						
Accounts payable and other liabilities	$ 1,920,667	$ 1,216,103	$ 8,803	$ 495,115	$ 42,852	$ 3,683,540
Amounts due to MSU	2,092,618	—	—	174,255	—	2,266,873
Notes, bonds and debt obligations	5,364,393	—	—	—	—	5,364,393
Liabilities to external parties	4,606,336	327,809	1,207,860	—	—	6,142,005
Custodial funds	10,732,551	1,805,604	100,911	—	—	12,639,066
Total liabilities	24,716,565	3,349,516	1,317,574	669,370	42,852	30,095,877
Net assets:						
Unrestricted	7,515,952	4,868,371	578,991	11,086,734	1,195,921	25,245,969
Temporarily restricted	88,319,166	11,532,547	2,203,717	4,567,947	121,508	106,744,885
Permanently restricted	142,275,282	16,250,804	5,842,830	3,826,142	1,353,973	169,549,031
Total net assets	238,110,400	32,651,722	8,625,538	19,480,823	2,671,402	301,539,885
Total liabilities and net assets	$ 262,826,965	$ 36,001,238	$ 9,943,112	$ 20,150,193	$ 2,714,254	$ 331,635,762

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

Montana State University

Condensed Combining Schedule of Component Unit Statements of Activities

For the Year Ended June 30, 2018 or December 31, 2017*

	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	$ 19,857,311	$ 3,614,963	$ 1,112,398	$ 369,824	$ 438,963	$ 25,393,459
Investment income and unrealized gain on investments	17,153,644	2,216,001	393,395	1,506,100	125,762	21,394,902
Support from University	1,500,000	116,000	182,204	—	—	1,798,204
Other income	2,368,617	762,492	6,505	3,786,569	645,840	7,570,023
Total revenues	40,879,572	6,709,456	1,694,502	5,662,493	1,210,565	56,156,588
Expenses:						
University support	29,624,578	833,494	806,471	1,532,406	583,296	33,380,245
Scholarships and other program expenses	5,969,464	2,161,350	876,399	1,888,025	301,583	11,196,821
Supporting services	8,130,565	806,090	355,641	1,070,003	322,144	10,684,443
Total expenses	43,724,607	3,800,934	2,038,511	4,490,434	1,207,023	55,261,509
Change in net assets before nonoperating items	(2,845,035)	2,908,522	(344,009)	1,172,059	3,542	895,079
Nonoperating items	552,027	—	(117,353)	—	—	434,674
Change in net assets	(2,293,008)	2,908,522	(461,362)	1,172,059	3,542	1,329,753
Net assets, beginning of fiscal year	240,403,408	29,743,200	9,086,900	18,308,764	2,667,860	300,210,132
Net assets, end of fiscal year	$ 238,110,400	$ 32,651,722	$ 8,625,538	$ 19,480,823	$ 2,671,402	$ 301,539,885

Component Unit Investment Composition*:

	2018	2017
Pooled investments**:		
Equity securities	$ 26,342,128	$ 23,261,829
Debt securities	13,019,584	29,170,009
Alternative investments	98,003,468	93,142,086
Cash equivalents	27,262,911	60,746,214
Other pooled investments	94,085,072	52,563,516
US Treasuries	606,867	483,462
Other real estate	493,767	300,183
Other investments	12,736,252	10,045,885
Investments held in trust for others	9,992,890	9,874,800
Total	$ 282,542,939	$ 279,587,984

Component Unit Promises Receivable*:

	2018	2017
Receivable in one year	$ 6,487,814	$ 5,353,775
Receivable in one to five years	13,760,044	17,383,658
Receivable after five years	559,316	541,000
Less discounts and allowances	(1,757,703)	(1,554,011)
Total	$ 19,049,471	$ 21,724,422

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

**Foundation investment pools are not subject to regulatory oversight.

Montana State University

Condensed Combining Schedule of Component Unit Statements of Financial Position

As of June 30, 2017 or December 31, 2016*

	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	$ 237,305,491	$ 30,702,771	$ 7,830,928	$ 12,878,098	$ 1,907,837	$ 290,625,125
Amounts due from MSU	—	—	645,169	—	—	645,169
Other receivables, net	22,002,836	1,069,884	1,897,055	2,329,916	39,264	27,338,955
Capital assets, net	4,217,084	1,103,358	69,768	1,430,506	—	6,820,716
Other assets	542,408	47,017	10,000	2,462,050	745,893	3,807,368
Total assets	$ 264,067,819	$ 32,923,030	$ 10,452,920	$ 19,100,570	$ 2,692,994	$ 329,237,333
Liabilities:						
Accounts payable and other liabilities	$ 1,461,476	$ 1,092,313	$ —	$ 564,105	$ 25,134	$ 3,143,028
Amounts due to MSU	431,070	—	—	227,701	—	658,771
Notes, bonds and debt obligations	6,233,603	—	—	—	—	6,233,603
Liabilities to external parties	4,931,139	332,518	1,265,109	—	—	6,528,766
Custodial funds	10,607,123	1,754,999	100,911	—	—	12,463,033
Total liabilities	23,664,411	3,179,830	1,366,020	791,806	25,134	29,027,201
Net assets:						
Unrestricted	3,597,931	4,816,067	475,295	9,993,944	1,130,804	20,014,041
Temporarily restricted	103,950,522	9,251,294	2,735,034	4,488,716	185,083	120,610,649
Permanently restricted	132,854,955	15,675,839	5,876,571	3,826,104	1,351,973	159,585,442
Total net assets	240,403,408	29,743,200	9,086,900	18,308,764	2,667,860	300,210,132
Total liabilities and net assets	$ 264,067,819	$ 32,923,030	$ 10,452,920	$ 19,100,570	$ 2,692,994	$ 329,237,333

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

Montana State University

Condensed Combining Schedule of Component Unit Statements of Activities

For the Year Ended June 30, 2017 or December 31, 2016*

	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	$ 25,633,035	$ 4,176,757	$ 2,894,122	$ 3,490,331	$ 500,679	$ 36,694,924
Investment income and unrealized gain on investments	17,165,169	2,873,507	615,852	605,714	172,980	21,433,222
Support from University	1,575,000	36,000	182,204	—	—	1,793,204
Other income	1,587,579	604,692	5,780	3,513,415	744,754	6,456,220
Total revenues	45,960,783	7,690,956	3,697,958	7,609,460	1,418,413	66,377,570
Expenses:						
University support	20,721,284	742,482	2,643,707	951,320	267,141	25,325,934
Scholarships and other program expenses	5,049,034	1,885,108	761,849	1,852,009	184,534	9,732,534
Supporting services	7,586,003	701,580	327,304	1,299,293	780,037	10,694,217
Total expenses	33,356,321	3,329,170	3,732,860	4,102,622	1,231,712	45,752,685
Change in net assets before nonoperating items	12,604,462	4,361,786	(34,902)	3,506,838	186,701	20,624,885
Nonoperating items	809,885	—	—	—	—	809,885
Change in net assets	13,414,347	4,361,786	(34,902)	3,506,838	186,701	21,434,770
Net assets, beginning of fiscal year	226,989,061	25,381,414	9,121,802	14,801,926	2,481,159	278,775,362
Net assets, end of fiscal year	$ 240,403,408	$ 29,743,200	$ 9,086,900	$ 18,308,764	$ 2,667,860	$ 300,210,132

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

**Foundation investment pools are not subject to regulatory oversight.

Required Supplementary Information

Pensions

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

Year	University's Proportion of the NPL	University's Share of the NPL	State of Montana Share of the NPL Associated with the University	Total University Share of the NPL	University's Covered Employee Payroll	University's share of the NPL as a % of Covered Employee Payroll	Plan Fiduciary Net Position as a % of Total Pension Liability
2015	1.24%	$19,038,438	$7,645,390	$26,683,828	$12,179,563	156.31%	70.36%
2016	1.13%	$18,636,406	$7,277,054	$25,913,460	$11,281,960	165.19%	69.30%
2017	0.96%	$17,469,027	$6,550,303	$24,019,330	$9,738,223	179.39%	66.69%
2018	0.85%	$14,368,327	$5,183,426	$19,551,753	$9,353,995	153.61%	70.09%

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

TRS Schedule of University Contributions

Year	Contractually Required Contributions	Contributions Made*	Excess/ (Deficiency)	University's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2015	$8,012,997	$8,012,997	$—	$11,281,960	71.02%
2016	$7,819,626	$7,819,626	$—	$9,738,223	80.30%
2017	$8,318,256	$8,318,256	$—	$9,353,995	88.93%
2018	$8,038,127	$8,038,127	$—	$7,952,741	101.07%

*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

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

Year	University's Proportion of the NPL	University's Share of the NPL	University's Covered Employee Payroll	University's share of the NPL as a % of Covered Employee Payroll	Plan Fiduciary Net Position as a % of Total Pension Liability
2015	4.06%	$50,597,799	$45,405,357	111.44%	79.90%
2016	4.12%	$57,646,591	$47,364,867	121.71%	78.40%
2017	4.08%	$69,576,861	$48,343,193	143.92%	74.71%
2018	4.18%	$81,386,415	$51,513,790	157.99%	73.75%

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

PERS Schedule of University Contributions

Year	Contractually Required Contributions	Contributions Made*	Excess/ (Deficiency)	University's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2015	$4,427,288	$4,427,288	$—	$47,364,867	9.35%
2016	$4,470,903	$4,470,903	$—	$48,343,193	9.25%
2017	$4,589,245	$4,589,245	$—	$51,513,790	8.91%
2018	$4,571,908	$4,571,908	$—	$52,132,694	8.77%

*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

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

Year	University's Proportion of the NPL	University's Share of the NPL	University's Covered Employee Payroll	University's share of the NPL as a % of Covered Employee Payroll	Plan Fiduciary Net Position as a % of Total Pension Liability
2015	3.63%	$548,897	$1,511,439	36.32%	90.20%
2016	3.44%	$723,801	$1,546,185	46.81%	87.60%
2017	3.32%	$1,089,310	$1,562,149	69.73%	82.48%
2018	3.22%	$1,201,302	$1,490,991	80.57%	82.48%

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

GWPORS Schedule of University Contributions

Year	Contractually Required Contributions	Contributions Made	Excess/ (Deficiency)	University's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2015	$139,455	$139,455	$—	$1,546,185	9.02%
2016	$140,761	$140,761	$—	$1,562,149	9.01%
2017	$143,393	$143,393	$—	$1,490,991	9.62%
2018	$129,188	$129,188	$—	$1,450,141	8.91%

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

Notes to Required Supplementary Information—Pensions:

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and wage rates. Amounts determined regarding the plans are subject to continual revision as actual results are compared with past expectations.

TRS

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

Actuarial Valuation Date	Actuarial cost method	Amortization method	Remaining amortization period	Asset valuation method	Inflation	Salary increase—non-University members	Salary increase-University Members	Investment rate of return (shown net of pension plan investment expense, and including inflation)
July 1, 2014	Entry age	Level percentage of pay, open	28 years	4-year smoothed market	3.25%	4.00% - 8.51%	5.00%	7.75%
July 1, 2015	Entry age	Level percentage of pay, open	26 years	4-year smoothed market	3.25%	4.00% - 8.51%	5.00%	7.75%
July 1, 2016	Entry age	Level percentage of pay, open	24 years	4-year smoothed market	3.25%	4.00% - 8.51%	5.00%	7.75%
July 1, 2017	Entry age	Level percentage of pay, open	22 years	4-year smoothed market	3.25%	4.00% - 8.51%	5.00%	7.75%

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

Changes that affect trend data

Changes of Benefit Terms:

The following changes to the plan provisions were made as identified:

The 2013 Montana Legislature passed HB 377 which provides additional revenue and created a two tier benefit structure. A Tier One Member is a person who first became a member before July 1, 2013 and has not withdrawn their member's account balance. A Tier Two Member is a person who first becomes a member on or after July 1, 2013 or after withdrawing their member's account balance, becomes a member again on or after July 1, 2013.

The second tier benefit structure for members hired on or after July 1, 2013 is summarized below.

(1) **Final Average Compensation**: average of earned compensation paid in five consecutive years of full-time service that yields the highest average
(2) **Service Retirement:** Eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55
(3) **Early Retirement**: Eligible to receive an early retirement allowance if a member is not eligible for service retirement but has at least five years of creditable service and attained age 55
(4) **Professional Retirement Option**: if the member has been credited with 30 or more years of service and has attained the age of 60 they are eligible for an enhanced allowance equal to 1.85% of average final compensation times all service at retirement. Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%
(5) **Annual Contribution**: 8.15% of member's earned compensation

(6) **Supplemental Contribution Rate**: On or after July 1, 2023, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met:
   a. The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and
   b. The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and
   c. A State or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board.

(7) **Disability Retirement:** A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination

(8) **Guaranteed Annual Benefit Adjustment (GABA)**:
   a. If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the Board.

House Bill 377 increased revenue from the members, employers and the State as follows:

- One-time contribution payable to the Retirement System by the trustees of a school district maintaining a retirement fund. The one-time contribution to the Retirement System shall be the amount earmarked as an operating reserve in excess of 20% of the adopted retirement fund budget for the fiscal year 2013. The amount received was $22 million in FY 2014.
- 1% supplemental employer contribution. This will increase the current employer rates:
  - School Districts contributions will increase from 7.47% to 8.47%
  - The Montana University System and State Agencies will increase from 9.85% to 10.85%.
  - The supplemental employer contribution will increase by 0.1% each fiscal year for fiscal year 2014 thru fiscal year 2024. Fiscal years beginning after June 30, 2024 the total supplemental employer contribution will be equal to 2%.
- Members hired prior to July 1, 2013 (Tier 1) under HB 377 are required to contribute a supplemental contribution equal to an additional 1% of the member's earned compensation.
- Each employer is required to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position to the System.

Changes in actuarial assumptions and other inputs:

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

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

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

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

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

- Assumed rate of inflation was reduced from 3.50% to 3.25%
- Payroll Growth Assumption was reduced from 4.50% to 4.00%
- Assumed real wage growth was reduced from 1.00% to 0.75%
- Investment return assumption was changed from net of investment and administrative expenses to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:

  For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.

  For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.

- Mortality among disabled members was updated to the following:

  For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.

  For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

PERS

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

<table>
<tr><th>Actuarial Valuation Date</th><th>Actuarial cost method</th><th>Amortization method</th><th>Remaining amortization period</th><th>Asset valuation method</th><th>Inflation</th><th>Salary increase</th><th>Investment rate of return (shown net of pension plan investment expense, including inflation)</th><th>Expenses</th><th>Other</th></tr>
<tr><td>June 30, 2013, rolled forward to 2014</td><td>Entry age</td><td>Level percentage of pay, open</td><td>29.3 years</td><td>4-year smoothed market</td><td>3.0%</td><td>General Wage Growth - 4.00%
Merit –
0% - 6%</td><td>7.75%</td><td rowspan="4">0.27% administrative expenses as a % of payroll</td><td>GABA- 3.0% or 1.5% for hires after July 1, 2007</td></tr>
<tr><td>June 30, 2014, rolled forward to 2015</td><td>Entry age</td><td>Level percentage of pay, open</td><td>30 years</td><td>4-year smoothed market</td><td>3.0%</td><td>General Wage Growth - 4.00%
Merit – 0% - 6%</td><td>7.75%</td><td rowspan="4">GABA- 3.0% or 1.5% for hires after July 1, 2007 and before July 1, 2013; for members hired after July 1, 2013: 1.5% for each ear PERS is funded at or above 90%; 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and, 0% whenever the amortization period for PERS is 40 years or more</td></tr>
<tr><td>June 30, 2015, rolled forward to 2016</td><td>Entry age</td><td>Level percentage of pay, open</td><td>27.2 years</td><td>4-year smoothed market</td><td>3.0%</td><td>General Wage Growth - 4.00%
Merit – 0% - 6%</td><td>7.75%</td></tr>
<tr><td>June 30, 2016, rolled forward to 2017</td><td>Entry age</td><td>Level percentage of pay, open</td><td>26</td><td>4-year smoothed market</td><td>2.75%</td><td>General Wage Growth - 3.5%
Merit – 0% - 4.8%</td><td>7.65%</td></tr>
<tr><td>June 30, 2017, rolled forward to 2018</td><td>Entry age</td><td>Level percentage of pay, open</td><td>30</td><td>4-year smoothed market</td><td>2.75%</td><td>General Wage Growth - 3.5%
Merit – 0% - 4.8%</td><td>7.65%</td><td>0.26% administrative expenses as a % of payroll</td></tr>
</table>

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

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

2015 Legislative Changes:

General Revisions - House Bill 101, effective January 1, 2016

Second Retirement Benefit - for PERS

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

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

2) For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:

- member receives a recalculated retirement benefit based on laws in effect at second retirement; and,
- GABA starts in the January after receiving recalculated benefit for 12 months.

3) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:

- refund of member's contributions from second employment plus regular interest (currently 0.25%);
- no service credit for second employment;
- start same benefit amount the month following termination; and,
- GABA starts again in the January immediately following second retirement.

4) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:

- member receives same retirement benefit as prior to return to service;
- member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
- GABA starts on both benefits in January after member receives original and new benefit for 12 months.

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

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

2017 Legislative Changes:
General Revisions - House Bill 101, effective July 1, 2017

Working Retiree Limitations - for PERS

If a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.

<u>Terminating Employers - Recovery of actuary costs - for PERS</u>
Employers who terminate participation in PERS must pay the actuarial liability associated with that termination. Starting July 1, 2017, the terminating employer must also pay for the cost of the actuarial study used to determine that liability.

<u>Refunds</u>

1) Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
2) Terminating members with accumulated contributions between $200 and $1,000 who wish to rollover their refund must do so within 90 days of termination of service.

3) Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

Family Law Orders

If a Family Law Order (FLO) is silent regarding the apportionment of post-retirement benefit adjustments such as the Guaranteed Annual Benefit Adjustment (GABA), the FLO is presumed to require apportionment of the post-retirement benefit adjustment in the same percentage as the monthly retirement benefit is apportioned.

Disabled PERS Defined Contribution (DC) Members

PERS members hired after July 1, 2011 have a normal retirement age of 65. PERS DC members hired after July 1, 2011 who became disabled were previously only eligible for a disability benefit until age 65. Effective July 1, 2017, these individuals will be eligible for a disability benefit until they reach 70, thus ensuring the same 5-year time period available to PERS DC disabled members hired prior to July 1, 2011 who have a normal retirement age of 60 and are eligible for a disability benefit until age 65.

PERS Statutory Appropriation – House Bill 648, effective July 1, 2017

Revenue from coal severance taxes and interest income from the coal severance tax permanent fund previously statutorily-appropriated to the PERS defined benefit trust fund will be replaced with the following statutory appropriations:

1) FY2018 - $31.386 million
2) FY2019 - $31.958 million
3) Beginning July 1, 2019 through at least June 30, 2025, 101% of the contribution from the previous year from the general fund to the PERS defined benefit trust fund, as follows:
    a. FY2020 - $32.277 million
    b. FY2021 - $32.6 million
    c. FY2022 - $32.926 million
    d. FY2023 - $33.255 million
    e. FY2024 - $33.588 million
    f. FY2025 - $33.924 million

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

Actuarial Valuation Date	Actuarial cost method	Amortization method	Remaining amortization period	Asset valuation method	Inflation	Salary increase	Investment rate of return (net of pension plan investment expense, including inflation)	Other
June 30, 2013, rolled forward to 2014	Entry age normal	Level percentage of pay, open	30 years	4-year smoothed market	3.0%	General Wage Growth - 4.00%	7.75%,	0.17% administrative expenses as a % of payroll
June 30, 2014, rolled forward to 2015	Entry age	Level percentage of pay, open	30 years	4-year smoothed market	3.0%	General Wage Growth - 4.00%	7.75%	0.17% administrative expenses as a % of payroll
June 30, 2015 rolled forward to 2016	Entry age	Level percentage of pay, open	30 years	4-year smoothed market	3.0%	General Wage Growth - 4.00%	7.75%	0.17% administrative expenses as a % of payroll
June 30, 2016 rolled forward to 2017	Entry age	Level percentage of pay, open	30 years	4-year smoothed market	2.75%	General Wage Growth - 3.5%	7.75%	0.17% administrative expenses as a % of payroll
June 30, 2017 rolled forward to 2018	Entry age	Level percentage of pay, open	30 years	4-year smoothed market	2.75%	General Wage Growth - 3.5%	7.65%	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

Changes which may affect trends

2015 Legislative Changes:

Certain changes were made with respect to benefit terms, as follows:

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

2017 Legislative Changes:
General Revisions - House Bill 101, effective July 1, 2017

Working Retiree Limitations - for GWPORS

1) Applies to retirement system members who return on or after July 1, 2017 to covered employment in the system from which they retired.
2) Members who return for less than 480 hours in a calendar year:
   a. May not become an active member in the system; and
   b. Are subject to a $1 reduction in their retirement benefit for each $3 earned in excess of $5,000 in the calendar year.
3) Members who return for 480 or more hours in a calendar year:

a. Must become an active member of the system;
b. Will stop receiving a retirement benefit from the system; and
c. Will be eligible for a second retirement benefit if they earn 5 or more years of service credit through their second employment.

4) Employee, employer and state contributions, if any, apply as follows:
a. Employer contributions and state contributions (if any) must be paid on all working retirees;
b. Employee contributions must be paid on working retirees who return to covered employment for 480 or more hours in a calendar year.

Second Retirement Benefit – for GWPORS

1) Applies to retirement system members who return on or after July 1, 2017 to active service covered by the system from which they retired.
2) If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member:
a. Is not awarded service credit for the period of reemployment;
b. Is refunded the accumulated contributions associated with the period of reemployment;
c. Starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and
d. Does not accrue post-retirement benefit adjustments during the term of reemployment but receives a Guaranteed Annual Benefit Adjustment (GABA) in January immediately following second retirement.

3) If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member:
a. Is awarded service credit for the period of reemployment;
b. Starting the first month following termination of service, receives:
i. The same retirement benefit previously paid to the member, and
ii. A second retirement benefit for the period of reemployment calculated based on the laws in effect as of the member's rehire date; and
c. Does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA:
i. On the initial retirement benefit in January immediately following second retirement, and
ii. On the second retirement benefit starting in January after receiving that benefit for at least 12 months.

4) A member who returns to covered service is not eligible for a disability benefit.

Refunds

1) Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
2) Terminating members with accumulated contributions between $200 and $1,000 who wish to rollover their refund must do so within 90 days of termination of service.
3) Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

Family Law Orders

If a Family Law Order (FLO) is silent regarding the apportionment of post-retirement benefit adjustments such as the Guaranteed Annual Benefit Adjustment (GABA), the FLO is presumed to require apportionment of the post-retirement benefit adjustment in the same percentage as the monthly retirement benefit is apportioned.

Survivor Benefit – for GWPORS

Beneficiaries of vested GWPORS members who die prior to retirement are eligible for either a lump-sum benefit or a monthly survivor benefit. The monthly survivor benefit may be paid out as an option 1, 2, 3 or 4, at the survivor’s discretion. Previously, statute provided for lump-sum payments only.

Other Post-Employment Benefits:

The MUS OPEB plan has not established a trust to accumulate employer contributions; as such, net assets are not considered irrevocable, legally required to be used to provide OPEB to plan members, or protected from creditors.

Schedule of the University's Proportionate Share of the total OPEB Liability

Measurement Year	University's Proportion of the OPEB Liability	University's Share of the OPEB Liability	University's Covered Employee Payroll	University's share of the OPEB Liability as a % of Covered Employee Payroll	Plan Fiduciary Net Position as a % of Total OPEB Liability
2018	48.92%	$18,130,942	$225,842,121	8.03%	0.00%

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

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. Changes to the plan that affect trends will be reported as they occur in the future.

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, 2018

	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
ASSETS									
Current assets:									
Cash and cash equivalents	$ 169,547,639	$ 7,356,152	$ 3,790,804	$ 208,262	$ 31,801,775	$ 7,605,488	$ 5,410,856	$ —	$ 225,720,976
Short term investments	19,880,570	—	—	—	—	—	—	—	19,880,570
Securities lending collateral	230,683	—	—	—	—	—	—	—	230,683
Accounts and grants receivable, net	11,057,987	160,149	180,183	8,622	1,061,027	1,465,386	489,385	—	14,422,739
Amounts receivable from Federal government	16,797,596	—	360,556	—	20,292	—	—	—	17,178,444
Amounts receivable from primary government	325,638	—	—	—	16,850	3,314	47,643	—	393,445
Amounts receivable from Montana component	—	—	—	—	1,154	—	—	—	1,154
Amounts receivable from MSU campuses	—	—	—	—	67,959	—	—	(67,959)	—
Loans receivable, net	2,948,601	—	—	—	415,783	212,901	—	—	3,577,285
Inventories	1,118,489	624,624	—	—	463,054	281,778	266,680	—	2,754,625
Prepaid expenses and other current assets	5,125,574	—	13,223	1,684	588,402	90,128	49,361	—	5,868,372
Total current assets	**227,032,777**	**8,140,925**	**4,344,766**	**218,568**	**34,436,296**	**9,658,995**	**6,263,925**	**(67,959)**	**290,028,293**
Noncurrent assets:									
Restricted cash and cash equivalents	745	—	—	—	12,400	63,245	—	—	76,390
Restricted investments	8,418,495	—	—	—	—	100,911	—	—	8,519,406
Loans receivable, net	17,903,049	—	—	—	2,313,708	1,423,565	—	—	21,640,322
Investments	37,912,026	—	—	—	1,805,604	—	—	—	39,717,630
Capital assets	390,426,580	19,955,658	187,518	228,764	40,872,275	26,634,753	21,019,010	—	499,324,558
Other noncurrent assets	1,080,547	—	—	—	—	—	—	—	1,080,547
Total noncurrent assets	**455,741,442**	**19,955,658**	**187,518**	**228,764**	**45,003,987**	**28,222,474**	**21,019,010**	**—**	**570,358,853**
Total assets	**$ 682,774,219**	**$ 28,096,583**	**$ 4,532,284**	**$ 447,332**	**$ 79,440,283**	**$ 37,881,469**	**$ 27,282,935**	**$ (67,959)**	**$ 860,387,146**
DEFERRED OUTFLOWS	**$ 30,428,130**	**$ 1,887,402**	**$ 1,193,943**	**$ 56,533**	**$ 4,399,215**	**$ 1,410,664**	**$ 1,298,943**	**$ —**	**$ 40,674,830**
LIABILITIES									
Current liabilities:									
Accounts payable and accrued liabilities	$ 36,606,465	$ 1,661,099	$ 1,043,485	$ 60,899	$ 4,154,170	$ 2,142,719	$ 757,464	$ —	$ 46,426,301
Amounts payable to primary government	3,298,306	—	—	—	460,517	235,896	63,624	—	4,058,343
Amounts payable to Montana component units	269,530	—	—	—	—	—	—	—	269,530
Amounts payable to MSU campuses	67,959	—	—	—	—	—	—	(67,959)	—
Securities Lending Liability	230,683	—	—	—	—	—	—	—	230,683
Property held in trust for others	2,696,570	—	—	—	107,767	95,738	79,653	—	2,979,728
Deferred revenues	12,548,224	—	2,073	—	1,380,449	289,719	104,865	—	14,325,330
Compensated absences	12,221,824	1,177,455	840,310	49,387	1,832,660	753,174	534,806	—	17,409,616
Current portion debt and capital lease obligations	10,857,323	3,186	—	—	853,884	225,899	8,996	—	11,949,288
Total current liabilities	**78,796,884**	**2,841,740**	**1,885,868**	**110,286**	**8,789,447**	**3,743,145**	**1,549,408**	**(67,959)**	**97,648,819**
Noncurrent liabilities:									
Advances from primary government	13,271,732	—	—	—	2,382,348	791,410	291,746	—	16,737,236
Debt and capital lease obligations	188,481,983	3,704	—	—	6,381,450	225,219	—	—	195,092,356
Compensated absences	12,166,551	1,172,130	836,509	49,164	1,646,322	452,598	138,164	—	16,461,438
OPEB and Pension liability	77,334,828	5,202,212	2,940,468	150,530	18,481,890	6,767,438	4,209,620	—	115,086,986
Due to Federal government	18,613,456	—	—	—	2,279,660	1,429,851	—	—	22,322,967
Derivative instrument - swap liability	3,080,342	—	—	—	—	—	—	—	3,080,342
Total noncurrent liabilities	**312,948,892**	**6,378,046**	**3,776,977**	**199,694**	**31,171,670**	**9,666,516**	**4,639,530**	**—**	**368,781,325**
Total liabilities	**$ 391,745,776**	**$ 9,219,786**	**$ 5,662,845**	**$ 309,980**	**$ 39,961,117**	**$ 13,409,661**	**$ 6,188,938**	**$ (67,959)**	**$ 466,430,144**
DEFERRED INFLOWS	**$ 1,097,407**	**$ 100,829**	**$ 62,534**	**$ 2,412**	**$ 999,663**	**$ 87,367**	**$ 55,617**	**$ —**	**$ 2,405,829**
NET POSITION									
Net investment in capital assets	$ 233,793,112	$ 19,948,767	$ 187,518	$ 228,764	$ 31,153,715	$ 25,283,038	$ 20,654,644	$ —	$ 331,249,558
Restricted - nonexpendable	12,336,078	—	—	—	654,261	403,811	11,300	—	13,405,450
Restricted - expendable	12,179,351	722,953	(102,336)	—	2,683,873	1,872,580	65,758	—	17,422,179
Unrestricted	62,050,625	(8,350)	(84,334)	(37,291)	8,386,869	(1,764,324)	1,605,621	—	70,148,816
Total net position	**$ 320,359,166**	**$ 20,663,370**	**$ 848**	**$ 191,473**	**$ 42,878,718**	**$ 25,795,105**	**$ 22,337,323**	**$ —**	**$ 432,226,003**

Montana State University

Unaudited Consolidating Statement of Revenues, Expenses and Changes in Net Position

As of and for the Year Ended June 30, 2018

	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	Great Falls College MSU	Intercampus Eliminations	Total
Operating revenues:									
Tuition and fees	$ 159,543,991	$ —	$ —	$ —	$ 19,241,166	$ 5,784,977	$ 4,095,170	$ —	$ 188,665,304
Federal appropriations	—	2,998,840	2,759,358	—	—	—	—	—	5,758,198
Federal grants and contracts	68,423,854	—	(17,261)	—	2,788,730	1,377,914	1,022,659	(98,149)	73,497,747
State grants and contracts	6,415,974	—	21,975	—	233,420	218,847	23,726	—	6,913,942
Non-governmental grants and contracts	11,473,326	—	201,658	—	365,790	32,132	31,955	—	12,104,861
Grant and contract facilities and administrative cost recoveries	17,507,165	—	—	—	343,629	108,506	10,116	—	17,969,416
Educational, public service and outreach revenues	17,807,985	3,212,774	4,808,074	121,488	1,271,079	608,867	225,679	(1,057,032)	26,998,914
Auxiliary - housing	22,073,999	—	—	—	1,581,201	635,641	—	—	24,290,841
Auxiliary - food service	21,889,039	—	—	—	948,885	711,998	199,424	—	23,749,346
Auxiliary - other auxiliary sales and services	5,214,715	24	74	—	2,106,497	568,571	929,786	(132,974)	8,686,693
Interest earned on loans	51,112	—	—	—	7,953	(189)	—	—	58,876
Other operating revenues	1,925,577	72,739	(126)	880	310,961	28,923	23,935	—	2,362,889
Total operating revenues	**332,326,737**	**6,284,377**	**7,773,752**	**122,368**	**29,199,311**	**10,076,187**	**6,562,450**	**(1,288,155)**	**391,057,027**
Operating expenses:									
Compensation and benefits, including pensions	252,309,100	16,480,174	12,004,535	639,022	36,848,266	14,481,342	10,825,673	—	343,588,112
OPEB expense	1,487,843	50,963	36,442	2,810	219,268	72,688	60,645	—	1,930,659
Operating expenses	125,200,545	4,512,493	2,343,222	207,654	17,548,934	7,417,698	4,010,910	(1,288,155)	159,953,301
Scholarships and fellowships	15,390,584	32,065	300	—	4,869,556	1,607,688	2,664,800	—	24,564,993
Depreciation and amortization	26,796,867	1,250,132	48,783	86,622	3,773,206	1,541,805	1,390,817	—	34,888,232
Total operating expenses	**421,184,939**	**22,325,827**	**14,433,282**	**936,108**	**63,259,230**	**25,121,221**	**18,952,845**	**(1,288,155)**	**564,925,297**
Operating loss	**(88,858,202)**	**(16,041,450)**	**(6,659,530)**	**(813,740)**	**(34,059,919)**	**(15,045,034)**	**(12,390,395)**	**—**	**(173,868,270)**
Nonoperating revenues (expenses):									
State and local appropriations	62,043,151	15,819,139	6,453,383	739,809	21,824,799	10,491,010	7,488,983	—	124,860,274
Pell Grants	14,365,733	—	—	—	5,600,504	2,375,680	3,139,396	—	25,481,313
Land grant and timber sales income	2,142,420	—	—	—	284,642	—	—	—	2,427,062
Gifts	14,677,411	27,614	195,386	—	2,351,953	1,107,972	294,606	—	18,654,942
Investment Income	3,109,552	107,308	45,045	3,018	530,905	85,003	69,652	—	3,950,483
Interest expense	(7,301,392)	(579)	—	—	(349,062)	(70,120)	(25,950)	—	(7,747,103)
Net nonoperating revenues (expenses)	**89,036,875**	**15,953,482**	**6,693,814**	**742,827**	**30,243,741**	**13,989,545**	**10,966,687**	**—**	**167,626,971**
Income before other revenues, expenses, gains and losses	**178,673**	**(87,968)**	**34,284**	**(70,913)**	**(3,816,178)**	**(1,055,489)**	**(1,423,708)**	**—**	**(6,241,299)**
Transfers in (out)	388,038	(462,705)	27,477	—	110,524	(11,232)	(52,102)	—	—
Gain or loss on disposal of capital assets	(303,800)	2,049	130	5,200	(57,087)	(32,664)	(1,357)	—	(387,529)
Additions to permanent endowments	31,987	—	—	—	—	—	—	—	31,987
Gifts, capital grants and contributions	25,567,799	—	6,528	—	42,453	4,217,020	64,946	—	29,898,746
Change in net position	**25,862,697**	**(548,624)**	**68,419**	**(65,713)**	**(3,720,288)**	**3,117,635**	**(1,412,221)**	**—**	**23,301,905**
Net position, beginning of year restated	**294,496,469**	**21,211,994**	**(67,571)**	**257,186**	**46,599,006**	**22,677,470**	**23,749,544**	**—**	**408,924,098**
Net position, end of year	**$ 320,359,166**	**$ 20,663,370**	**$ 848**	**$ 191,473**	**$ 42,878,718**	**$ 25,795,105**	**$ 22,337,323**	**$ —**	**$ 432,226,003**

	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	Great Falls College MSU	Intercampus Eliminations	Total
Cash flows from operating activities:									
Cash received for revenues:									
Tuition and fees	$ 159,306,276	$ —	$ —	$ —	$ 19,248,032	$ 5,552,760	$ 4,121,702	$ —	$ 188,228,770
Federal appropriations	—	2,998,840	2,798,898	—	—	—	—	—	5,797,738
Federal grants and contracts	67,084,439	—	(20,876)	—	2,741,475	1,442,569	1,159,147	(98,148)	72,308,606
State grants and contracts	6,588,141	—	21,975	—	321,969	218,847	23,920	—	7,174,852
Private grants and contracts	10,390,478	—	201,658	—	517,556	37,440	31,955	—	11,179,087
Grant and contract indirect cost recoveries	17,464,290	—	—	—	343,629	108,506	10,116	—	17,926,541
Educational, public service and outreach revenues	17,723,391	3,369,460	4,796,713	128,645	1,308,474	210,585	229,184	(1,057,032)	26,709,420
Sales and services of auxiliary enterprises	49,228,918	24	74	—	4,631,066	1,909,880	1,137,053	(132,974)	56,774,041
Interest on loans receivable	267,167	—	—	—	41,689	—	—	—	308,856
Other operating receipts	1,925,576	72,739	(126)	880	310,961	28,923	23,933	—	2,362,886
Cash paid for expenses:									
Compensation and benefits	(247,865,553)	(16,468,342)	(12,083,154)	(612,589)	(36,797,092)	(14,383,955)	(10,547,814)	—	(338,758,499)
Operating expenses	(121,208,487)	(4,125,203)	(2,350,081)	(217,112)	(18,258,070)	(7,272,308)	(4,187,774)	1,288,154	(156,330,881)
Scholarships and fellowships	(15,390,585)	(32,065)	(300)	—	(4,869,556)	(1,607,688)	(2,664,800)	—	(24,564,994)
Loans made to students and federal funds repaid	(4,108,747)	—	—	—	(875,659)	(256,889)	—	—	(5,241,295)
Loan payments received from students	2,772,102	—	—	—	488,537	235,030	—	—	3,495,669
Intercampus payments	44,660	—	—	—	(44,660)	—	—	—	—
Net cash used in operating activities	**(55,777,934)**	**(14,184,547)**	**(6,635,219)**	**(700,176)**	**(30,891,649)**	**(13,776,300)**	**(10,663,378)**	**—**	**(132,629,203)**
Cash flows from noncapital financing activities:									
Receipts (Payments) of funds held in trust for others	1,188,127	—	—	—	(12,315)	(2,254)	(56,741)	—	1,116,817
Direct lending proceeds	68,769,411	—	—	—	15,602,964	3,915,860	4,685,654		92,973,889
Direct lending disbursements	(68,769,411)	—	—	—	(15,602,964)	(3,915,860)	(4,685,654)		(92,973,889)
State and local appropriations	60,925,337	15,819,139	6,453,383	739,809	21,557,507	10,380,799	7,423,150	—	123,299,124
Federal pell grant funds received	14,365,733	—	—	—	5,600,505	2,375,680	3,139,396	—	25,481,314
Gifts and contributions (expendable)	14,752,418	27,613	195,386	—	2,351,953	1,107,972	294,606		18,729,948
Land grant income	2,142,420	—	—	—	284,642		—	—	2,427,062
Repayment of long-term advance from primary	(61,559)				—		—	—	(61,559)
Additions to permanent endowments	31,987	—	—	—	—	—	—	—	31,987
Transfers between campuses and agencies	388,039	(462,705)	27,477	—	110,523	(11,232)	(52,102)	—	—
Net cash flows from noncapital financing activities	**93,732,502**	**15,384,047**	**6,676,246**	**739,809**	**29,892,815**	**13,850,965**	**10,748,309**	**—**	**171,024,693**
Cash flows from capital financing activities:									
Purchase of capital assets	(56,114,982)	(552,598)	(32,678)	—	(588,396)	(1,445,216)	(208,486)	—	(58,942,356)
Proceeds from sale of capital assets	354,912	5,849	2,500	5,200	9,460	—	420	—	378,341
Gifts restricted for capital purchase	27,192,798	—	—	—	—		—	—	27,192,798
Other capital financing activities	(86,743)	—	—	—	—		—	—	(86,743)
Proceeds from borrowings	56,948,378	—	—	—	1,540,958	—	—	—	58,489,336
Debt principal paid	(9,788,276)	(2,978)	—	—	(2,428,202)	(226,460)	(7,693)	—	(12,453,609)
Payment of capitalized debt issue costs	—	—	—	—	—		—	—	—
Advances from primary government	—	—	—	—	—	30,000	—	—	30,000
Repayment of advances from primary government	(1,394,464)	—	—	—	(424,955)	(102,603)	(59,772)	—	(1,981,794)
Interest paid	(7,023,809)	(579)	—	—	(255,166)	(70,120)	(29,212)	—	(7,378,886)
Net cash change from capital financing activities	**10,087,814**	**(550,306)**	**(30,178)**	**5,200**	**(2,146,301)**	**(1,814,399)**	**(304,743)**	**—**	**5,247,087**
Cash flows from investing activities:									
Purchase of investments	(41,133,487)	—	—	—	(50,605)	—	—	—	(41,184,092)
Proceeds from sale of investments	—	—	—	—	50,605	—	—	—	50,605
Investment income	3,231,545	107,308	45,048	3,016	462,819	83,410	66,504	—	3,999,650
Net cash change from investing activities	**(37,901,942)**	**107,308**	**45,048**	**3,016**	**462,819**	**83,410**	**66,504**	**—**	**(37,133,837)**
Net change in cash and cash equivalents	**10,140,440**	**756,502**	**55,897**	**47,849**	**(2,682,316)**	**(1,656,324)**	**(153,308)**	**—**	**6,508,740**
Balances at beginning of year	**159,407,944**	**6,599,650**	**3,734,907**	**160,413**	**34,496,491**	**9,325,057**	**5,564,164**	**—**	**219,288,626**
Balances at end of year	**$ 169,548,384**	**$ 7,356,152**	**$ 3,790,804**	**$ 208,262**	**$ 31,814,175**	**$ 7,668,733**	**$ 5,410,856**	**$ —**	**$ 225,797,366**

Montana State University—All Campuses and Agencies

Overview

The University campuses are accredited by the Northwest Commission on Colleges and Universities 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

	2018	2017	2016
Montana residents			
Undergraduate	**13,247**	13,243	13,110
Graduate	**1,064**	1,064	1,005
Nonresidents			
Undergraduate	**4,462**	4,224	4,052
Graduate	**522**	542	407
Western Undergraduate Exchange	**1,415**	1,516	1,316
Total	**20,710**	20,589	19,890

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 2017-2018 academic year, on a per-semester basis, were as follows:

	Resident Undergraduate—Graduate	Nonresident Undergraduate (WUE)—Graduate
Bozeman Campus	$3,523 – $4,072	$5,040 – $12,568
Billings Campus	$2,913 – $3,432	$4,075 – $9,811
Northern Campus	$2,910 – $3,497	$4,065 – $9,834
Great Falls Campus (1)	$1,627 – N/A	$2,283 – N/A

(1) Undergraduate program only.

Employees and Graduate Assistants

As of Fall 2017, the University had 7,761 employees and utilized 771 graduate assistants at the following degree-granting locations:

	MSU-Bozeman	MSU-Billings	MSU-Northern	Great Falls College MSU	Total
Faculty/Professional	2,153	440	133	151	2,877
State classified system	1,299	201	71	52	1,623
Temporary hourly	260	72	51	23	406
Students	2,456	214	131	54	2,855
Total employees	6,168	927	386	280	7,761
Graduate assistants	756	15	—	—	771

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

MSU- Bozeman

Campus Overview
On February 16, 2018, the University celebrated its 125th anniversary, having been founded in 1893 as the Agricultural College of the State of Montana. The University 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 a division providing for post-graduate advanced degrees, as follows: College of Agriculture; College of Education, Health and Human Development; Norm Asbjornson College of Engineering; College of Letters and Science; Jake Jabs College of Business and Entrepreneurship; College of Nursing; College of Arts and Architecture; University Studies; the Graduate School; and the University Honors College. In addition to a degree in their regular majors, honors students who complete certain curriculum requirements also graduate with a University Honors degree.

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

Located in the City of Bozeman, the campus comprises approximately 1,800 acres and more than 40 classroom and administrative buildings, including a full-service library; eleven residence halls, including a new 400-bed residence hall, to house the University's growing freshman population; one award-winning renovated modern dining hall and one brand new dining hall which opened in August 2018; an animal bioscience facility; 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 completed in 2014, as was a new freshman residence, Yellowstone Hall. The University is the beneficiary of recent capital gifts; a new classroom building housing the Jake Jabs College of Business and Entrepreneurship was completed in summer 2014 after a $25 million gift, and a $70 million project is underway which will include Norm Asbjornson Hall, named for the contributor of a $50 million lead gift.

As the state's Land Grant institution, the campus's mission is to educate students, create knowledge and art, and serve communities by integrating learning, discovery and engagement. The Academic Technology and Outreach office 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 campus's mission. The campus is the hub of a network of extension offices operating in each of Montana's 56 counties, seven Agricultural Research Centers, five extended nursing campuses, a widely utilized teaching and research museum, and a statewide public television network.

Enrollment

		Student FTE for Fiscal Years Ended June 30,				
		2018	**2017**	**2016**	**2015**	**2014**
Resident	Undergraduate	**8,149**	8,032	7,779	7,666	7,852
	Gallatin College	**413**	389	336	330	306
	Graduate	**780**	769	705	757	746
	Total resident	**9,342**	9,190	8,820	8,753	8,904
Nonresident	Undergraduate	**4,093**	3,855	3,676	3,591	3,355
	Gallatin College	**148**	125	108	109	95
	Graduate	**499**	520	386	321	309
	Total nonresident	**4,740**	4,500	4,170	4,021	3,759
Western Undergraduate Exchange		**1,052**	1,149	945	776	711
	Total	**15,134**	**14,839**	**13,935**	**13,550**	**13,374**

	Degrees Granted - Fiscal Years Ended June 30,				
	2018	**2017**	**2016**	**2015**	**2014**
Undergraduate	**2,580**	2,600	2,468	2,421	2,310
Graduate	**653**	580	537	614	563
TOTAL:	**3,233**	**3,180**	**3,005**	**3,035**	**2,873**

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 124 year history, built a national and international reputation for excellence in undergraduate and graduate education in agriculture, business, engineering, biological and physical sciences, architecture, education, health and human development, the liberal arts, nursing, and community outreach. It ranks among the nation's leaders in the number of students awarded Goldwater science, math and engineering scholarships, and has been recognized for the high level of engagement and commitment to diversity. It is an institution committed to positioning today's students for successful and meaningful lives in the global economy of the 21st century.

As the number of high school graduates in north-central and eastern Montana has decreased, it has been important to monitor the campus's mix of in-state, out-of-state, and out-of-area students to maintain a healthy and diverse student population. Access to quality education for Montana students is the focal point, as the state's land grant institution; however, the campus ensures continued attraction of out-of-state and international 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 guide MSU- Bozeman's actions as it serves the citizens of the State of Montana. Management, faculty, staff and student leadership will continue planning and working together, striving for balance by combining appropriate levels of both expenditures and revenues, maintaining quality programs and assuring student access and success.

Montana Agricultural Experiment Station (MAES)

Agency Overview

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

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

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

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

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

Highlights

MAES and the College of Agriculture continue to be successful in securing and leveraging new extramural funding to support research programs. The College of Agriculture, which is collaboratively funded by MAES, has been among the most productive of the academic disciplines in terms of sponsored program expenditures, at approximately $20 million annually. The departments of Microbiology and Immunology, Land Resources and Environmental Science, and Plant Science and Plant Pathology rank in the top five in a field of over 30 MSU departments in terms of sponsored program expenditures.

Outlook

MAES base-funded programs are financed by state (84%) and federal (16%) funding. MAES foresees continued legislative pressure to reduce Federal agricultural research funding, while competitive grant programs at state, regional and national levels are also significantly constrained. These concerns occur concurrently with the continued need for agriculture to succeed as a primary economic engine for Montana.

MSU Extension (ES)

Agency Overview

The mission of Montana State University Extension ("Extension" or "ES") 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 ES combines state general fund, Federal Smith-Lever, and county resources. The state legislature appropriates general funds on a biennial basis. Extension agents' 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 step-families. 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 2016-2017, Montana 4-H reached 20,617 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 3,090 trained adult and youth volunteers who lead local programs and activities.

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

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

Fire Services Training School (FSTS) -

Agency Overview

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

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

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

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

MSU- Billings

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

The University opened in 1927, was initially called Eastern Montana State Normal School, and was established to prepare teachers for elementary schools in eastern Montana. MSU Billings has grown, with the city of Billings and Yellowstone County, into the major comprehensive higher education center of south central and eastern Montana. The University has five colleges: the College of Arts and Sciences (CAS), the College of Business (COB), the College of Education (COE), the College of Allied Health Professions (CAHP), and City College. City College serves the comprehensive two-year mission of the university. MSU Billings offers a full complement of one- and two-year certificate programs, associate, bachelor and master degrees, as well as pre-professional academic offerings in nearly 100 academic areas, featuring 26 online degree programs. Several academic programs are unique to the Montana University System. In addition, MSU Billings offers graduate degrees from the CAS, COE, and CAHP. The MSU Billings Extended Campus provides our community and region with unique educational services, programs and activities.

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

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

Enrollment

	Student FTE for Fiscal Years Ended June 30,				
	2018	2017	2016	2015	2014
Resident					
Undergraduate	**2,083**	2,112	2,244	2,396	2,531
City College	**655**	701	713	751	819
Graduate	**239**	240	236	245	267
Total Resident	**2,977**	3,053	3,193	3,392	3,617
Nonresident					
Undergraduate	**128**	133	158	192	181
City College	**8**	14	15	16	24
Graduate	**22**	21	20	26	25
Total nonresident	**158**	168	193	234	230
Western Undergraduate Exchange					
Main Campus	**212**	193	217	260	262
City College	**28**	34	37	38	44
Total Western Undergraduate Exchange	**240**	227	254	298	306
Total	**3,375**	**3,448**	**3,640**	**3,924**	**4,153**

	Degrees Granted - Fiscal Years Ended June 30,				
	2018	2017	2016	2015	2014
University Campus:					
Associate Degrees	**31**	29	36	105	33
Bachelor's Degrees	**447**	513	579	580	502
Master's Degrees	**131**	107	115	152	127
Total University Campus	**609**	**649**	**730**	**837**	**662**
City College Campus:					
Certificates	**40**	40	22	39	26
Associate Degrees	**187**	193	225	239	240
Total City College	**227**	**233**	**247**	**278**	**266**
Grand Total Degrees	**836**	**882**	**977**	**1,115**	**928**

MSU Billings holds strong as the third largest higher education unit in Montana. Alumni and workforce data shows that graduates from MSU Billings stay in Montana and contribute to the state's economy and betterment of its communities. MSU Billings started the 2018-2019 academic year with 4,315 students, which is short of the prior fall's opening enrollment of 4,401. The number of students from Yellowstone County (2,474) is the highest it has been in four years. MSU Billings has seen a large increase in its Concurrent Enrollment (High School Connections) and University Connections enrollment.

Campus Outlook

MSU Billings continues to serve its students and community with 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.

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. The University recently received notification of a new Department of Education Title III Strengthening Institutions Program (SIP) grant for $2.08 million. This grant aims to provide institutions with resources to better support low-income students. The University's National Institutes of Health grant was also renewed for $395,000 over 3 years. The Montana Center for Inclusive Education received a new award from the National Endowment for the Humanities (NEH) for $17,000K for educator seminars. Continuing major grants include TRIO Talent Search and Student Support Services, NIH, MT Health Care, NSF Robert Noyce STEM, America's Promise, Social Security, OPI, Corporation for Public Broadcasting and INBRE grants.

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

As part of the Governor's "One-Two-Free" initiative to improve Montana's workforce, MSU Billings, along with other MUS institutions, is working with local school districts to expand dual-enrollment programs whereby high school students can take college-level courses taught at their high schools 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 2013 Montana Legislature appropriated $10 million to provide funds for the renovation and expansion of the existing outdated science facility. Recently, the additional $5 million needed for the project was raised through fundraising efforts of the MSU Billings Foundation. The renovated Yellowstone Science and Allied Health Building will provide state-of-the-art facilities for both the College of Arts and Sciences and the College of Allied Health Professions.

City College at MSU Billings has continued its transition to a true "community" college by expanding offerings and programs and focuses on the needs of two-year education in the Billings region.

Support for the University continues to be strong. The Foundation distributed $1.7 million in scholarships for MSU Billings students in FY18.

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 is known for its supportive, student-centered environment in which a unique mix of academic programs are responsive to local, regional, and state workforce needs, offered in an atmosphere that promotes student success. MSU-Northern provides liberal arts, professional and technical programs that serve a diverse student population; promotes a student centered and culturally enriched environment which fosters student success; and partners with external entities to enhance and expand learning experiences.

MSU-Northern is accredited by the Northwest Commission on Colleges and Universities. 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,				
	2018	2017	2016	2015	2014
Resident					
Undergraduate	**862**	886	860	890	943
Graduate	**45**	55	64	68	65
Total resident	**907**	941	924	958	1,008
Nonresident					
Undergraduate	**47**	46	57	52	47
Graduate	**1**	1	1	0	0
Total nonresident	**48**	47	58	52	47
Western Undergraduate Exchange	**118**	133	113	95	93
Total	**1,073**	**1,121**	**1,095**	**1,105**	**1,148**

	Degrees Granted - Fiscal Years Ended June 30,				
	2018	2017	2016	2015	2014
Undergraduate	**217**	281	240	272	247
Graduate	**27**	22	28	23	27
Total:	**244**	**303**	**268**	**295**	**274**

Campus Outlook

MSU-Northern, located in the rural northern region of Montana is deeply committed to providing a supportive, student-centered environment. Northern utilizes innovative teaching, alternate delivery methods and partnerships with tribal colleges across Montana and a number of two-year colleges throughout the Northwest helping these institutions expand their program offerings in the realm of 4-year Baccalaureate degrees. Last year faculty and staff had the great privilege of opening the new Diesel Technology Center, a state of the art facility that provides our students with a truly world-class learning experience. It is a testament to the strong partnerships we have built with the State of Montana and industry and to how much they believe in our students. Together, we ensure that Northern students can attain an Education that Works.

Great Falls College MSU

Campus Overview

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

The college also works with employers to ensure students are getting the knowledge they need to be successful in employment. 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 GFC MSU 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.

GFC MSU 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 GFC MSU is to educate and inspire you.

GFC MSU 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 GFC MSU has remained somewhat stable.

Enrollment

	Student FTE for Fiscal Years Ended June 30,				
	2018	**2017**	**2016**	**2015**	**2014**
Resident					
Undergraduate	**1,085**	1,123	1,178	1,239	1,338
Nonresident					
Undergraduate	**38**	51	38	37	33
Western Undergraduate Exchange	**5**	7	4	6	7
Total	**1,128**	**1,181**	**1,220**	**1,282**	**1,378**

	Degrees Granted - Fiscal Years Ended June 30,				
	2018	**2017**	**2016**	**2015**	**2014**
Certificate of Applied Science	**86**	102	74	91	68
Professional Certificate*	**56**	130	119	46	29
Associate of Science/Arts	**118**	104	100	123	201
Associate of Applied Science	**161**	180	178	167	156
Total	**421**	**516**	**471**	**427**	**454**

Campus Outlook

At the conclusion of spring semester 2018, GFC MSU graduated 323 students, who earned 383 degrees. The 2018 Commencement produced the college's first graduates from Computer Programming. Over the summer of 2018, the Center for Lifelong Learning held Cyber Security Camps in partnership with the Air Force Association for ages 12-18. The camps were designed and offered as part of the Cyber Patriot National Youth Cyber Education program.

Beginning fall semester 2018, GFC MSU implemented the 8-Week Advantage which condenses traditional 16-week courses into two 8-week sessions. The 8-Week Advantage was designed using high impact practices and focuses on credit accumulation, student retention and on-time completion. The GFC MSU nursing program was at full capacity for fall semester 2018 with 62 registered nursing students and 34 practical nursing students, of which 12 were earning their education through a distance model.

The college continues to strengthen its degree and certificate opportunities for students in Health Science, Trades and General Studies. In addition, the College's Center for Lifelong Learning offers students and community members the opportunity to learn new skills, refresh current skills or pursue a new hobby through non-credit courses. The center has also expanded its work in offering customized training to local employers.