



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

University of Montana

*For the Two Fiscal Years Ended
June 30, 2021*

MARCH 2022

LEGISLATIVE AUDIT
DIVISION

21-10A

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FINANCIAL AUDITS

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

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2019, was issued March 30, 2020. The Single Audit Report for the two fiscal years ended June 30, 2021, will be issued by September 30, 2022.

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

March 2022

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on the University of Montana's (university) consolidated financial statements for the fiscal year ended June 30, 2021, with comparative information for the fiscal year ended June 30, 2020. The statements include financial information from four fund-raising organizations of the university: The University of Montana Foundation, the Montana Tech Foundation, the University of Montana Western Foundation, and the Montana Grizzly Scholarship Association. These entities are component units of the university and were audited by other audit organizations and our opinion on the university's financial statements is based, in part, on the work of these other auditors.

Our audit focused primarily on the university's material operating and nonoperating revenues and expenses, assets, and liabilities, including: tuition and fees, federal grants and contracts, federal CARES Act revenues, state appropriation support revenues, other operating expenses, cash and investments, capital assets, pensions, and other long-term liabilities. We also performed audit procedures over the presentation and disclosure of the financial statements and note disclosures. We completed work necessary to rely on the audit completed by other organizations over the component units. We issued unmodified opinions on the financial statements, which means the reader can rely on the information presented on the financial statements.

Our report contains one recommendation related to improving controls over accounting for capital assets.

We would like to thank President Bodner and his staff for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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ELECTED, APPOINTED AND ADMINISTRATIVE OFFICIALS

	<u>Name</u>	<u>Location</u>	<u>Term Expires</u>
Board of Regents of Higher Education	Casey Lozar, Chair	Helena	February 1, 2025
	Loren Bough	Big Sky	January 31, 2027
	Todd Buchanan	Billings	January 31, 2028
	Joyce Dombrowski	Missoula	February 1, 2026
	Robert A. Nystuen	Lakeside	February 1, 2022
	Brianne Rogers	Bozeman	February 1, 2024
	Amy Sexton, Student Regent	Billings	June 30, 2022
	Clayton Christian, Commissioner of Higher Education*		
	Greg Gianforte, Governor* (as of January 4, 2021)		
	Steve Bullock, Governor* (through January 3, 2021)		
	Elsie Arntzen, Superintendent of Public Instruction*		

*Ex officio members

Office of the Commissioner of Higher Education	Clayton Christian	Commissioner of Higher Education
	Brock Tessman	Deputy Commissioner for Academic and Student Affairs
	Tyler Trevor	Deputy Commissioner for Budget & Planning, Chief of Staff
	Ali Bovingdon	Montana University System (MUS) Chief Legal Counsel
	Margaret Wallace	Director of Assurance and Enterprise Risk

University of Montana	Seth Bodnar	President
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**University of
Montana–Missoula**

Reed Humphrey	Executive Vice President and Acting Provost
Mary Kreta	Associate Vice President for Enrollment Management and Strategic Initiatives
Paul Lasiter	Vice President for Operations and Finance
Scott Whittenburg	Vice President for Research & Creative Scholarship
Zach Rossmiller	Chief Information Officer
Lucy France	Legal Counsel
Dan Jenko	Controller

**Montana Technological
University (Butte)**

Les P. Cook	Chancellor
Steve Gammon	Vice Chancellor for Academic Affairs and Provost
Angela Lueking	Vice Chancellor for Research and Dean of Graduate School
Joe McClafferty	Vice Chancellor for Development and Alumni Engagement
Carleen Cassidy	Director of Finance and Budget
Craig Elliott	Vice Chancellor for Student Affairs and Dean of Students

**University of Montana
Western (Dillon)**

Michael Reid	Chancellor
Ashley Carlson	Interim Provost and Vice Chancellor for Academic and Student Affairs
Johnny MacLean	Vice Chancellor for Academic and Student Affairs (effective January 2022)
Tricia Fiscus	Vice Chancellor of Administration and Finance
Debi Richardson	Director of Business Services/Controller

**Helena College
University of
Montana**

Sandra Bauman	Dean
Tricia Fiscus	Assistant Dean of Administrative Affairs and Transfer
Valerie Curtin	Executive Director of Compliance and Financial Aid
Robyn Kiesling	Executive Director of General Education and Transfer

For additional information concerning the University of Montana (all campuses), contact:

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MONTANA LEGISLATIVE AUDIT DIVISION

University of Montana

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2021

BACKGROUND

The University of Montana (UofM or university) is a multi-campus university. The main campus of the University of Montana is located in Missoula with additional campuses in Missoula (Missoula College), Butte (Montana Technological University and Highlands College), Dillon (University of Montana Western), Helena (Helena College), and Hamilton (Bitterroot College). The university campuses and programs provide undergraduate and graduate academic degrees, two-year vocational and technical programs, as well as occupational certifications.

The university reported 11,913 full-time equivalent students for fiscal year 2021, which is a 6.5 percent decrease from the previous year.

The university's financial statements also include financial activity for the foundations of the Missoula, Butte, and Dillon campuses and the Montana Grizzly Scholarship Association. These entities are component units for the university, and their financial activity comprises the University Component Unit financial statements. Component units are audited by other audit organizations, and our opinion over the component unit financial statements is based, in part, on the work of those other audits.

The university's net position decreased from fiscal year 2020 to 2021 by approximately \$3.80 million. This decrease is attributed to both declining enrollment and the effects of the COVID-19 pandemic. The university reported approximately \$37 million in federal CARES Act grant revenue for fiscal year 2021. This report contains one recommendation related to improving controls over accounting for capital assets.

AUDITOR'S OPINIONS - Consolidated University of Montana Financial Statements and University Component Units (page A-1):

UNMODIFIED

This means you can rely on the financial statements and notes in this report in all material respects.

For the full context of the university's financial activity, see the financial statement and notes beginning on page A-5.

RECOMMENDATIONS:

In this report, we issued the following recommendations:

To the university: 1

To the legislature: 0

RECOMMENDATION #1 (page 3):

Internal Controls

We recommend that the University of Montana enhance, document, and implement internal controls to ensure the completeness and accuracy of capital assets and their related note disclosures on the university's financial statements.

University response: Concur

For the full report or more information, contact the Legislative Audit Division.

leg.mt.gov/lad

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The mission of the Legislative Audit Division is to increase public trust in state government by reporting timely and accurate information about agency operations, technology, and finances to the Legislature and the citizens of Montana.

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SUMMARY OF AUDIT WORK:

Our audit efforts focused on the university's material operating and nonoperating revenues and expenses, assets, and liabilities, including: tuition and fees, federal grants and contracts, federal CARES Act revenues, state appropriation support revenues, other operating expense, cash and investments, capital assets, pensions, and other long-term liabilities. We also performed audit procedures over the presentation and disclosure of the financial statements and note disclosures and work necessary under the audit standards to rely on the audits completed by other organizations over the component units.

REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):

In this report, we identified the following:

Material Weaknesses in Internal Control: 1

Significant Deficiencies in Internal Control: 0

Material Non-Compliance: 0

Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Chapter I – Introduction and Background

Introduction

We performed a financial audit of the University of Montana (university) for the two fiscal years ended June 30, 2021. The objectives of the audit were to:

1. Determine whether the university's financial statements present fairly the university's net position, changes in net position, and cash flows.
2. Obtain an understanding of the university's control systems to the extent necessary to support the audit of the financial statements, and if appropriate, make recommendations for improvement in management and internal controls.
3. Determine the university's compliance with selected laws and regulations recognized to directly affect the determination of material amounts and disclosures in the financial statements.

We focused our audit efforts on tuition and fees, residential, food service, federal grant revenues, federal CARES Act revenues, state appropriation support, compensation and benefits, other operating expenses, cash and investments, long-term obligations, and pension liabilities. The audit work also included a review of the university's financial statement presentation and disclosures and work necessary under the audit standards to rely on the audits completed by other organizations over the component units.

We perform annual financial audits of the university to provide audited financial statements to interested parties and for the university to meet its continuing disclosure requirements associated with its bonds payable. We also conduct separate biennial audits covering the university's compliance with selected state and federal laws and regulations. A compliance audit covering fiscal years 2020 and 2021 is anticipated to be available in June 2022.

Background

The university is funded primarily through student fees, federal grants and contract revenues, and state appropriations. Collectively, the university recorded \$98 million of net tuition and fee revenue, \$80 million of federal grants and contracts revenue, and received approximately \$107 million of state and local appropriations.

In addition, the university received federal Coronavirus Aid, Relief and Economic Security (CARES) Act associated with the COVID-19 pandemic of approximately \$37 million. Use of these funds is limited to costs directly related to COVID-19, including emergency financial aid grants to students and supplementing lost operating revenue.

The unaudited supplemental information on page A-67 summarizes trends in the number of employees, student enrollment, and degrees granted.

The University of Montana is a multi-campus university. The main campus of the University of Montana is located in Missoula with additional campuses in Missoula (Missoula College), Butte (Montana Technological University and Highlands College), Dillon (University of Montana Western),

Helena (Helena College), and Hamilton (Bitterroot College). The campuses of the University of Montana provide a diversity of undergraduate and graduate academic programs. The Northwest Commission on Colleges and Universities accredits the campuses of the University of Montana.

University of Montana in Missoula offers four-year undergraduate programs, masters and doctoral graduate programs. It includes professional schools and significant research activities. The campus is the center of liberal arts education in the Montana University System and operates the only law school in the system. Other schools/colleges include Humanities and Sciences, Business, Education, Forestry and Conservation, Health Professions and Biomedical Sciences, Extended and Lifelong Learning, Honors, Graduate, and Arts and Media. In addition, the campus includes the two-year Missoula and Bitterroot colleges, which provide a broad range of technical, occupational, and workforce development programs. Students of these two colleges receive either a certificate of completion or a two-year degree upon completing the program. The Montana Forest and Conservation Station is associated with this campus.

Montana Technological University (Montana Tech) provides a variety of four-year and graduate programs focusing on engineering, science, energy, health, information services, and technology. It includes the Highlands College, which provides core education courses and two-year degrees in various occupational and technical programs. The Montana Bureau of Mines and Geology (MBMG), the geologic and hydro-geologic research arm of the state of Montana, is a department of Montana Tech and provides service to the public and a variety of constituents within the private sector and federal, state, and local governments. The MBMG develops, gathers, analyzes, catalogs, and disseminates information concerning the location and development of Montana's mineral, energy, and water resources.

University of Montana Western (Montana Western) is the only public university in the United States offering the educational model, Experience One, where students engage in experiential learning, taking only one 4-credit course at a time. Each course meets for three hours per day for eighteen days allowing students to receive the same amount of credit in the same time frame as traditional class systems. The fields of academic study at Montana Western granting two-year and undergraduate degrees include Biology, Business and Technology, Environmental Sciences, Education, English, Equine Studies, Health and Human Performance, Honors, Fine Arts, Mathematics, History, Philosophy, and Social Sciences. In addition, the School of Outreach provides lifelong learning opportunities to citizens of all ages via their Professional Development, Personal Enrichment, and Rhodes Scholar programs.

Helena College University of Montana is a two-year college offering associate degrees and technical proficiency certificates in various occupational and technical programs. Helena College provides core education studies for students who will transfer schools to work on undergraduate and graduate level programs. Helena College also offers noncredit continuing education courses for personal and professional development.

Chapter II – Findings and Recommendation

Internal Controls Over Capital Assets

The University of Montana’s (university) draft financial statement capital assets note and underlying support classified various capital assets in a manner which did not adhere to state accounting policy.

Management is responsible for establishing and maintaining an effective internal control system and part of that responsibility involves establishment of internal control policies and procedures designed to verify the accuracy and reliability of financial data, encourage adherence to prescribed managerial policies, and help to ensure compliance with applicable laws and regulations. During the audit, we identified capital asset misclassifications or discrepancies that indicated existing managerial procedures and internal controls are not effective to provide accurate financial data that adheres to state accounting policy. These discrepancies or misstatements are further described in the three sections below.

Construction Work in Progress Misclassifications

During the audit, we identified several instances totaling approximately \$9.2 million of building improvement and land improvement projects completed and placed in service in fiscal years 2018, 2019, and 2020 still included in the university’s Construction Work in Progress (CWIP) listing. Per state accounting policy, once a project is completed and placed in service, it should be recorded to the appropriate capital asset account. Projects that are completed but remain in CWIP overstate this account and understate the appropriate capital asset account. The university interprets state accounting policy as not explicitly stating what the proper method of recording an asset is when there is an overarching construction project that is broken down into phases. The university made the decision to capitalize all phases of a project when the overall project is completed rather than capitalizing each phase as it is completed and placed into service. One of the projects affected by this decision is a multi-phase renovation project occurring at the Missoula campus. Each phase, based on university description, renovates certain areas of the building. We reviewed evidence provided by both university facilities services and the Architecture & Engineering Division (A&E) of the Department of Administration. Such information reviewed indicates certain phases of the renovation were completed in the middle of fiscal years 2018, 2019, and 2020 and were placed in use at that time.

State accounting policy requires integral parts of a structure, when replaced, be recorded as building improvement costs and recorded as a new capital asset and can be linked to the original building. State accounting policy also specifies once projects are completed and placed in service the project is retired from CWIP and recorded to the appropriate capital asset account. Because certain project phases were completed and placed into use before the current audit period, we interpret accounting policy to direct the university to record the completed phases as building improvements rather than CWIP.

Construction Work in Progress Omissions

Additionally, we identified ongoing projects totaling approximately \$6.1 million listed in the university’s commitment disclosure but not their CWIP listing. The effect of not having projects in the CWIP listing understates CWIP, which has the potential to result in a material misstatement in the

university's financial statements. For projects on the commitments list but not in CWIP, the university believes three projects that included replacing fixed seating, light fixtures, replacing athlete locker room lockers, and upgrading AV equipment totaling \$6.1 million do not meet capital requirements as the university considers them basic repair and maintenance projects that should be expensed in the year incurred. The projects in their entirety do not fall within the repair and maintenance definition. Rather, equipment such as fixed seating, light fixtures, AV equipment and athlete lockers are intended to be used over a longer period and would lose their identify if removed from the building. Thus, they are considered integral parts of the building and the cost should be captured for future capitalization when the projects are complete. We believe that a portion of each project falls under capitalizable building cost items per state policy. The university will need to determine what portion of the \$6.1 million should be capitalized.

Capital Asset Misclassification

Misclassification between capital assets can cause improper calculation and recognition of depreciation expense in the financial statements. During our audit work, we identified \$688 thousand of assets classified as buildings that should be classified as building improvements. While the Statement of Net Position aggregates all capital assets onto one line, the draft Note 8—Capital Assets provided initially to us included detailed information by asset type, which was not accurate based on the misstatements.

Summary

The net effect of the three situations described above results in a net CWIP overstatement up to approximately \$3.1 million and \$688 thousand of misclassified capital assets for the draft fiscal year 2021 financial statements we received.

The university corrected the identified errors as part of the financial statement process. Corrections included reclassifying approximately \$8.7 million from CWIP to building improvements and reclassifying approximately \$688 thousand from buildings to building improvements. While some errors remain on the university's underlying information, the remaining identified errors did not cause us to modify our opinion on the fiscal year 2021 financial statements.

The university should enhance internal controls and procedures over this activity to ensure the accuracy, completeness, and adherence to state accounting policy of capital asset reporting as the university completes its current and upcoming construction and renovation projects. The university recognized the importance of complying with state accounting policy and university policies around capital assets, and the financial managers charged with managing capital assets on each campus will continue to help ensure that capital assets are accounted for properly through periodic review of accounting records and activities. The financial managers should also ensure campus personnel charged with capital asset accounting are properly trained and versed in relevant capital asset policies and procedures.

Inadequate internal controls and managerial procedures that contrast state accounting policy over this activity increase the risk of incomplete or inaccurate financial statements and notes. We consider this issue a material weakness in internal controls as described in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial

Statements Performed in Accordance with *Government Audit Standards* on page B-1, because a material misstatement could occur without the university preventing or detecting it.

RECOMMENDATION #1

We recommend that the University of Montana:

- A. *Enhance, document, and implement internal controls to ensure the completeness and accuracy of capital assets and their related note disclosures on the university's financial statements.*
 - B. *Adhere to state policy when recognizing building improvements as capital assets.*
-

Independent Auditor's Report and University Financial Statements

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Consolidated Statements of Net Position of the University of Montana (university) as of June 30, 2021, and 2020, 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, 2021, and 2020, and the related University Component Units—Combined Statements of Activities for the fiscal years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinions

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Montana as of June 30, 2021, and 2020, and the changes in net position and cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis beginning on page A-5, and the Required Supplementary Information beginning on page A-59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The University of Montana Supplemental Information-All Campuses (unaudited) on page A-67 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2022, on our consideration of the University of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of

internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the university's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 20, 2022

UNIVERSITY OF MONTANA
UNIVERSITY OF MONTANA - MISSOULA
MONTANA TECHNOLOGICAL UNIVERSITY
UNIVERSITY OF MONTANA - WESTERN
HELENA COLLEGE UNIVERSITY OF MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2021 OVERVIEW

The University of Montana (University) is comprised of four campuses: University of Montana - Missoula; Montana Technological University (Montana Tech); University of Montana - Western; and Helena College University of Montana. This discussion addresses the consolidated financial statements for the four campuses.

The discussion and analysis which follows provides a comparative overview of the University's financial position and operating results for the fiscal years ended June 30, 2021, 2020, and 2019, and should be read in conjunction with the fiscal year 2021 financial statements.

FINANCIAL HIGHLIGHTS

The financial highlights for fiscal year 2021 were:

- The University continues to experience record growth in research activities. The University's Missoula campus reported \$138.7 million in research awards in FY21, a 38.0% increase from the previous year's record-breaking research intake of \$100.8 million. Award volume is an indicator of proposal success and serves as a leading indicator of future grant and contract expenditures. Since 2013 the University ranks No. 6 in research growth according to data from the National Science Foundation.
- In FY21, the University's foundations provided \$20.2 million in funding for students, faculty and programs, and \$2.3 million in capital support. During the year the foundations recognized \$30.7 million in contributions from their fundraising efforts. The foundations launched significant fundraising efforts in FY21 to support construction and renovation of campus facilities including, fundraising to secure the remaining \$20.0 million needed to construct the \$45.0 million W.A. Franke College of Forestry and Conservation on the Missoula campus.
- The University's full time equivalent (FTE) student enrollment declined from 12,748 FTE in FY20 to 11,913 FTE in FY21, a decrease of approximately 6.5%, due in part to the impact of COVID-19 on student registration. The University has experienced an ongoing decline in FTE due to decreases in the number of both in-state and out-of-state students seeking undergraduate degrees and a decline in enrollment at the University's two-year colleges. While student enrollment has declined by 3,227 FTE, or by 21.5%, since 2017, the University has begun to see an increase in new student enrollment and retention rates for current students.
- Due to the novel coronavirus (COVID-19) outbreak the University continued remote delivery of courses and did not resume most nonessential operating activities, which contributed to a decline in tuition and fees revenue of \$8.1 million, or approximately 8.0%, and a decline in excess of \$12.9 in sales and service and auxiliary revenues, or over 23.0%. While the University received \$37.1 million from CARES Act (HEERF I, II and III) awards in FY21, the funding was not sufficient to offset all mitigation costs and loss of operating revenues. At the start of FY22 the University returned to delivery of courses face-to-face and resumed normal operations for a majority of operating activities.
- Moody's Investor Services assigned the University's general revenue bonds a credit rating of Aa3 in FY21, reaffirming the credit worthiness of the University judging its securities to be of high quality and subject to low credit risk.

The financial highlights for fiscal year 2020 were:

- The University issued \$146.8 million of taxable and tax exempt general revenue bonds in September, 2020, for the purpose of refinancing approximately \$88.8 million of existing debt and to generate bond proceeds of approximately \$63.4 million to be invested in UM's student-serving infrastructure. These bond proceeds and annual cash flow from debt service savings will be used to revitalize student housing, dining, recreational facilities and educational spaces, as

Management, Discussion and Analysis (continued)

well as completing deferred maintenance projects and plant upgrades on the Missoula campus, which are expected to result in significant energy cost savings.

- Research activity has grown substantially at the University in recent years. In FY20, the Missoula campus reported \$104.7 million in research expenditures to the National Science Foundation's Higher Education Research and Development (HERD) survey. This is a 16% increase over the previous high of \$90.6 million in FY2018 and a 90% increase from FY14. Award volume is an indicator of proposal success and serves as a leading indicator of future grant and contract expenditures. Grant volume increased in FY20 by \$8.8 million to \$100.8 million at the Missoula campus, or an increase of 9.6%.
- The University's foundations provided \$21.7 million in funding for students, faculty and programs, and \$5.3 million in capital support in FY20. The University of Montana Foundation's seven year "Campaign Montana-Think Big, Be Bold" fundraising campaign has raised over \$450.0 million to date, far exceeding the campaign's fundraising goal of \$401.0 million.
- The University's full time equivalent (FTE) student enrollment declined from 13,592 FTE in FY19 to 12,748 FTE in FY20, a decrease of approximately 6.2%. The University has experienced an ongoing decline in FTE due to decreases in the number of both in-state and out-of-state students seeking undergraduate degrees. In-state student FTE has declined from 12,470 FTE in FY15 to 9,429 FTE in FY20, or by 24.4%. Out-of-state student FTE, including WUE students, has declined from 4,247 FTE in FY15 to 3,319 FTE in FY20, or by 21.9%.
- Moody's Investor Services assigned the University's general revenue bonds a credit rating of Aa3 in FY20, reaffirming the credit worthiness of the University judging its securities to be of high quality and subject to low credit risk.
- The University responded to the COVID-19 health crisis by moving to remote delivery of its courses and curtailing nonessential operating activities for much of the 2020 Spring Semester. The financial impact to the University included a decline in auxiliary revenues due to refunds to students for room and board costs associated with moving to online delivery of education and COVID-19 mitigation costs, which were partially offset by CARES Act awards received in FY20.

USING THE FINANCIAL STATEMENTS

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

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

- These are consolidated financial statements representing the University's four campuses.
- The financial statements are prepared using the accrual basis of accounting, which means revenues are reported when earned, and expenses are reported when an obligation has been incurred.
- Assets and liabilities presented in the financial statements are generally measured at current value, although capital assets are stated at historical cost less accumulated depreciation.
- Capital assets are classified as depreciable and non-depreciable. Depreciation is treated as an operating expense.
- Assets and liabilities are treated as current (Due within one year) or as non-current (Due in more than one year), and are presented in the Statement of Net Position in order of liquidity. Deferred outflows of resources represent the consumption of resources that are applicable to a future reporting period but do not require a future exchange of goods or services. Deferred inflows represent the acquisition of resources that are applicable to a future reporting period.
- Revenues and expenses are classified as operating or non-operating. "Operating" is defined as resulting from transactions involving exchanges of goods or services for payment, and directly related to supplying the basic service while "non-operating" is defined as resulting from transactions not derived from the basic operation of the enterprise. As a result, the accompanying Statement of Revenues, Expenses, and Changes in Net Position reflects a substantial operating loss, primarily because accounting standards requires that the State Appropriation, which is used for operations, must be reported as non-operating revenue.

Management, Discussion and Analysis (continued)

- Tuition and fees are reported net of any scholarships or fellowships that were applied directly to a student's account. The reason for "netting" these is to keep the University financial statements from "double counting" this revenue and expense.

STATEMENT OF NET POSITION

The Statement of Net Position reflects the financial position of the University at the end of the fiscal year. The changes in net position that occur over time indicate improvements or deterioration in the University's financial position. A summary of the Statement of Net Position follows:

<u>Description</u>	For the years ended June 30, (in millions)		
	2021	2020	2019
Total current assets	\$ 199.86	\$ 202.90	\$ 121.77
Total non-current assets	446.31	454.94	476.14
Total assets	\$ 646.17	\$ 657.84	\$ 597.91
Deferred outflows of resources	\$ 57.91	\$ 30.02	\$ 29.31
Total current liabilities	\$ 58.38	\$ 67.06	\$ 67.17
Total non-current liabilities	309.03	280.60	217.12
Total liabilities	\$ 367.41	\$ 347.66	\$ 284.29
Deferred inflows of resources	\$ 29.89	\$ 29.64	\$ 20.89
Net invested in capital assets	\$ 259.66	\$ 279.07	\$ 299.00
Restricted:			
Nonexpendable	22.67	19.77	20.50
Expendable	7.72	4.18	4.91
Unrestricted	16.73	7.54	(2.37)
Total net position	\$ 306.78	\$ 310.56	\$ 322.04

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

Events or developments which occurred during 2021 include:

- Current assets decreased by \$3.0 million in FY21, primarily from decreases in cash equivalents and prepaid expenses of \$1.9 million and \$2.2 million, respectively. The decrease in cash and cash equivalents is largely from the increase in net cash used for operations and cash paid for capital projects that totaled \$33.2 million over the prior year. The increase in the use of cash and cash equivalents was offset by proceeds received from the maturities of \$5.0 million of government agency securities that were reinvested in the Short Term Investment Pool (STIP) administered by the Montana Board of Investments (MBOI), and an increase of \$32.3 million in Federal Cares Act grant funding received in FY21. A decrease in prepaid financial aid for Summer Semester 2021 of \$1.1 million was the primary reason for the decrease in prepaid expenses.
- Noncurrent assets decreased by over \$8.6 million in FY21, attributed primarily to a net decrease in capital assets of \$6.9 million, and decreases in investments and beneficial interest and loans to students of \$1.3 million and \$1.1 million, respectively. The \$6.9 million decrease in capital asset in FY21 is largely due to a net increase in accumulated depreciation of \$23.1 million, that was partially offset by \$16.2 million of capital asset additions. The decrease in investments and beneficial interests of \$1.3 million is due largely to the maturity of \$5.0 government agency securities that were reinvested in STIP, a cash equivalent, which was offset by a net increase in the market value of investments of over \$3.1 million.
- Deferred outflow of resources increased in excess of \$27.9 million in FY21, or by 92.9%, due to an increase in deferred outflows of resources for the defined benefit retirement plans and other postemployment for health insurance of \$10.3 million and \$17.9 million, respectively, due primarily to changes in the plans actuarial assumption and other actuarial inputs.
- In FY21, current liabilities decreased by over \$8.7 million, or close to 13.0%, largely from decreases in accounts payable and accrued liabilities, and due to Federal government of \$7.1 million and \$4.3 million, respectively, which was offset by an increase in unearned revenue of \$1.7 million. The University moved faculty and other contract

Management, Discussion and Analysis (continued)

employees who were previously paid monthly to a biweekly schedule during the year, greatly reducing the accrued payroll related liabilities recorded at FYE, and accounting for much of the decrease in accounts payable and accrued liabilities. The University did not have unspent CARES Act HEERF funds at FYE, which was the case in FY20, accounting for much of the decrease in due to Federal government. Variances between other current liability classifications were not considered significant.

- The 10.1% increase in noncurrent liabilities of over \$28.4 million in FY21, is due almost exclusively to increases in the net pension liability and other postemployment benefits liability of \$19.6 million and \$12.9 million, respectively, which was offset in part by a decrease in long-term obligations of approximately \$4.0 million. The increases in the University's proportionate share of both the net pension liability and other postemployment benefits liability can be attributed primarily to changes in the plans actuarial assumptions and other actuarial inputs. Variances between other current liability classifications were not considered significant.
- While the total deferred inflows of resources did not change significantly during FY21, there were notable changes within this financial statement classification including, a \$6.6 million increase in defined benefit retirement plans deferred inflows of resources that was offset by a \$6.1 million decrease in other postemployment benefits deferred inflows of resources attributed largely to changes in each plan's actuarial assumptions and other actuarial inputs.
- Net Position decreased slightly in FY21 by \$3.8 million, or a decrease of just over 1.0%. The most notable change to net position was a decrease in net investment of capital assets of \$19.4 million that was offset by a net increase in restricted and unrestricted net position of \$9.2 million. The decrease in net investment in capital assets was for the most part, due to less capital investment during FY21 compared to the prior year.

Events or developments which occurred during 2020 include:

- Current assets increased by almost \$81.1 million in FY20 primarily from an increase in cash and cash equivalents of \$73.5 million. Other classifications that increased significantly were accounts and grants receivable, due from federal government and prepaid expenses and other charges, which had increases totaling over \$7.6 million. The increase in cash and cash equivalents is largely from \$63.4 million of bond proceeds that will be used for planned capital construction and improvement projects on all four of the University's campuses, and maturities of \$7.5 million in government agency securities that were reinvested in the Montana Board of Investments Short Term Investment Pool. Variances between other current asset classifications were not considered significant.
- The decrease in non-current assets of \$21.2 million in FY20 is largely from a net decrease in capital assets of \$13.1 million and a decrease in long term investments of \$7.4 million. Proceeds from the maturities of \$7.5 million in government agency securities were reinvested in the Montana Board of Investments Short Term Investment Pool, accounting for much of the decrease in other long term investments. Variances between other non-current asset classifications were not considered significant.
- Deferred outflows of resources increased by over \$700 thousand due primarily to increases in the unamortized loss on debt refunding and the University's proportionate share of the deferred outflows attributed to the OPEB health insurance plan of \$745 thousand and \$3.8 million, respectively, which were offset by a decreases in its proportionate share of defined benefit retirement plans deferred outflows of \$3.8 million.
- While current liabilities decreased by just over a \$100 thousand in FY20, there were notable changes within this financial statement classification including, increases in due to Federal government of \$4.6 million primarily from the unspent portion of \$7.7 million CARES Act HEERF funds received in FY20, and unearned revenue of \$2.9 million due to an increase in advance ticket sales from Adam Center events on the Missoula campus. These increases were offset by a \$2.1 million decrease in due to primary government; and a decrease in the current portion of long term obligations of \$7.4 million.
- The increase in noncurrent liabilities of \$63.4 million in FY20 is almost exclusively due to the \$156.3 million in bond proceeds and premiums received from the issuance of Revenue Bonds Series 2019BC, which were used primarily to defease and refund \$88.8 million of outstanding indebtedness and to provide funding for \$63.4 million of capital improvements for the University. The net increase in the University's long-term obligations and advances from primary government of \$73.3 million due to the revenue bond issuance, was offset by decreases in the University's actuarial determined proportionate share of defined benefit plans net pensions liability and other postemployment benefits liability of \$2.0 million and \$7.1 million, respectively.

Management, Discussion and Analysis (continued)

- Deferred inflows of resources increased by \$8.8 million in FY20 due primarily to a \$12.2 million increase in its proportionate share of other postemployment benefits liability, offset by a \$3.3 million decrease in its proportionate share of defined benefit retirement plans deferred inflows.
- The University's net position decreased by approximately \$11.5 million in FY20 largely due to a \$19.9 million decrease in net investment in capital assets resulting from the issuance of Revenue Bonds Series 2019BC, which was offset by a \$9.9 million improvement in its unrestricted net position.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses, and Changes in Net Position present the results of the University's operational activities for the fiscal year, categorizing them as either operating or non-operating items. Consistent with the accrual method of accounting, the current year's revenues and expenses are recognized when they were earned or incurred, regardless of when cash was received or paid.

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

	For the years ended June 30, (in millions)		
	2021	2020	2019
Description			
Operating revenues	\$ 261.06	\$ 270.84	\$ 277.88
Operating expenses	451.11	437.56	424.60
Operating loss	(190.05)	(166.72)	(146.72)
Non-operating revenues	183.59	147.86	145.31
Loss before other revenues	(6.46)	(18.86)	(1.41)
Other revenues	2.68	7.38	22.65
Net increase in net position	(3.78)	(11.48)	21.24
Net Position, beginning of year	310.56	322.04	300.80
Net position, end of year	\$ 306.78	\$ 310.56	\$ 322.04

Management, Discussion and Analysis (continued)

The following provides a comparative analysis of revenues and expenses for the years ended June 30, 2021, 2020, and 2019:

	For the years ended June 30, (in millions)					
	2021		2020		2019	
	Amount	Percent	Amount	Percent	Amount	Percent
REVENUES						
Tuition and fees, net	\$ 98.25	21.7%	\$ 106.40	24.7%	\$ 108.21	24.0%
Federal grants and contracts	80.22	17.7%	70.77	16.4%	65.49	14.6%
State & local grants/contracts	6.31	1.4%	5.81	1.4%	7.91	1.8%
Nongovernmental grants/contracts	13.15	2.9%	13.39	3.1%	14.05	3.1%
Facilities and administrative cost allowances	15.78	3.5%	14.01	3.3%	12.76	2.8%
Sales/services of educational departments	8.66	1.9%	16.96	3.9%	19.45	4.3%
Auxiliary enterprise charges	33.44	7.4%	38.01	8.8%	42.46	9.4%
State appropriations	106.55	23.5%	102.10	23.7%	99.37	22.1%
Federal CARES Act grant	37.11	8.2%	4.84	1.1%	-	0.0%
Federal financial aid grants and contracts	16.10	3.6%	18.80	4.4%	20.23	4.5%
Investment income	4.31	1.0%	3.11	0.7%	4.67	1.0%
Private gifts	22.41	4.9%	21.84	5.1%	23.32	5.2%
Capital grants and gifts	2.61	0.6%	7.26	1.7%	23.06	5.1%
All other sources	7.52	1.7%	7.50	1.7%	9.19	2.1%
Total revenues	\$ 452.42	100.0%	\$ 430.80	100.0%	\$ 450.17	100.0%
EXPENSES						
Compensation and benefits	\$ 267.48	58.6%	\$ 267.00	60.4%	\$ 261.67	61.0%
Pension expense	18.22	4.0%	11.12	2.5%	8.79	2.0%
Other postemployment benefits	1.11	0.2%	0.68	0.1%	1.30	0.3%
Other operating expenses	110.92	24.3%	110.14	24.9%	108.63	25.3%
Scholarships and fellowships	29.50	6.5%	24.35	5.5%	20.01	4.7%
Depreciation and amortization	23.88	5.3%	24.27	5.5%	24.20	5.7%
Interest expense	5.09	1.1%	4.72	1.1%	4.33	1.0%
Total expenses	\$ 456.20	100.0%	\$ 442.28	100.0%	\$ 428.93	100.0%

Events or developments which occurred during 2021 include:

In FY21, the University saw a decrease of \$3.8 million in its net position. Significant factors affecting the University's net position are described below.

- In FY21, operating revenues decreased by \$9.8 million, or by 3.6%, due to declines in revenues for most revenue classifications. The exception was grants and contracts revenue, including facilities and administrative cost allowances, which increased overall by \$11.5 million, or by 11.0%, primarily due to an increase in Federal grants and contracts revenue of \$9.5 million. Notable declines in operating revenues were as follows: Tuitions and fees decreased by \$8.2 million due primarily to a 6.6% decline in student FTE and an increase in tuition discounting of close to 2.1%; Auxiliary enterprise charges declined by \$4.4 million due primarily to the significant impact of the COVID-19 pandemic on operations; sales and service revenue decline by \$8.3 million dollars due almost exclusively to lost revenue of approximately \$7.0 million from the cancellation of athletic events including the football season, due to the pandemic.
- Operating expenses increased by over \$13.5 million in FY21, or by 3.1%, primarily due to an increase in pension expense of \$7.1 million, and an increase in scholarships and fellowships of \$5.2 million. The increase in pension expense is largely due to an increase in the University's proportionate share of the actuarially determined net pension liability, and the related changes in deferred outflows and deferred inflows of its defined benefit pension plans largely attributed to changes in the plans actuarial assumptions and other inputs at the measurement date. The increase in scholarships and fellowships of \$5.2 million is due primarily to the \$6.3 million of CARES Act HEERF emergency student aid funding that was awarded directly to students in FY21.
- Net non-operating revenues (expenses) increased by \$35.7 million, or by about 24.2% in FY21, largely due to increases in state appropriations and CARES Act funding of \$4.5 million and \$32.3 million, respectively. The increases were offset in part by a decrease in Federal financial aid grants and contracts of approximately, \$2.7 million.
- The decrease in other revenues in FY21 of \$4.7 million, or by 63.8%, is primarily due to a decrease in capital grants and gifts of \$4.6 million.

Management, Discussion and Analysis (continued)

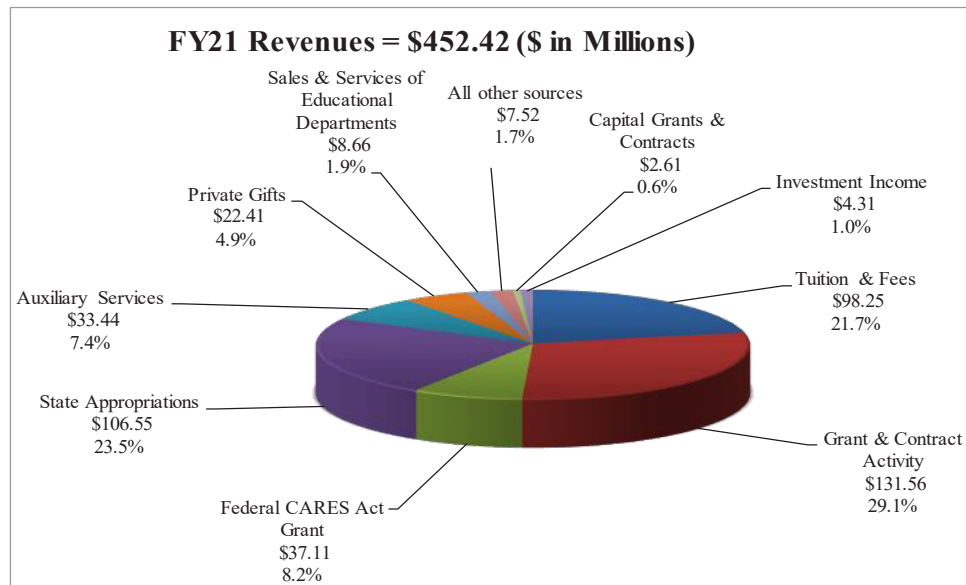
Events or developments which occurred during 2020 include:

In FY20, the University saw a decrease of \$11.5 million in its net position. Significant factors affecting the University's net position are described below.

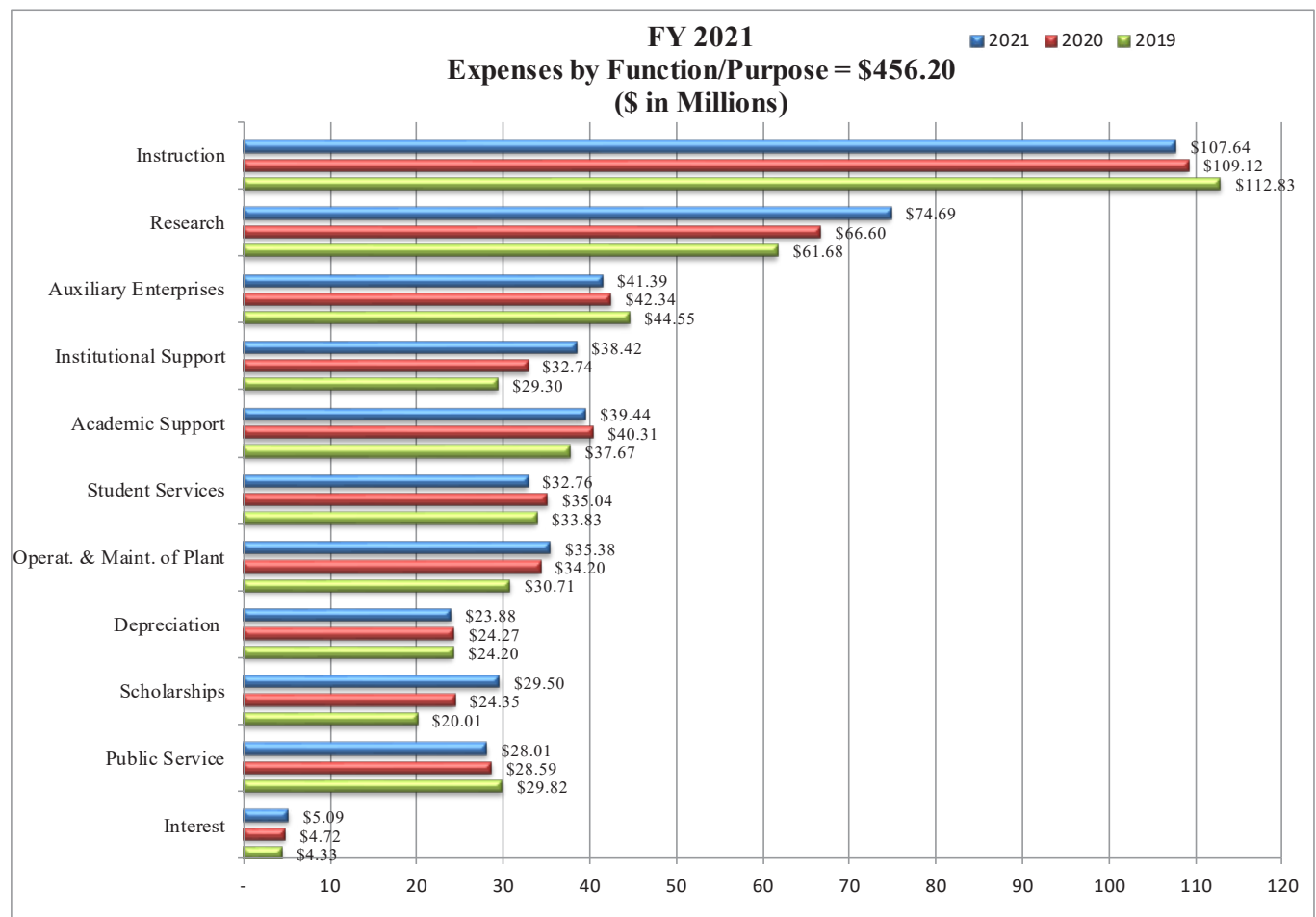
- Operating revenues decreased by \$7.0 million, or by 2.5% in FY20, due to declines in revenues for most revenue classifications. The exception was grants and contracts revenue, including facilities and administrative cost allowances, which increased overall by \$3.8 million, or by 3.8%, primarily due to an increase in Federal grants and contracts revenue of \$5.3 million. Notable declines in operating revenues were as follows: Tuitions and fees decreased by \$1.8 million due primarily to a 6.2% decline in student FTE; Auxiliary enterprise charges declined by \$4.4 million due primarily to the significant impact of the COVID-19 pandemic on operations, particularly affecting residence life and food services, which paid \$2.2 million in refunds to students when the University moved to remote delivery of its courses.
- In FY20, operating expenses increased by almost \$13.0 million, or by 3.1%, primarily due to increases in compensation and employee benefits of \$5.3 million, and pension expense of \$2.3 million, and an increase in scholarships and fellowships of \$4.3 million. Additional explanation about the increases in FY20 operating expenses are provided below:
 - Increases in Compensation and benefits paid for research activities, primarily on the Missoula campus, and for academic support of \$2.9 million and \$1.7 million, respectively, accounts for much of the increase in this classification. While the University saw a net decline of 73 employee FTE in FY20, the effect of the decline was offset by an average 2.0% increase in salaries and wages from the FY20 pay plan, and increases in contract administrator and professional staff of 80 employee FTE.
 - The increase in pension expense is attributed primarily to a change in the University's proportionate share of the actuarially determined net pension liability, and the related changes in deferred outflows and deferred inflows of its defined benefit pension plans.
 - The increase in scholarships and fellowships of \$4.3 million is primarily from the \$2.2 million of CARES Act HEERF emergency student aid funding that was awarded to students, and from a significant decline in tuition and fee waivers, which had the effect of reducing the amount of scholarship allowances recognized in FY20.
- Net non-operating revenues (expenses) increased by \$2.5 million, or by about 2.0% in FY20, which was largely due to an increase in state appropriations of \$2.7 million and CARES Act funding of \$4.8 million. These increases were offset by decreases in Federal financial aid grants and contracts, private gifts, and investment income recognized of \$1.4 million, \$1.5 million and \$1.6 million, respectively.
- Other revenues decreased by \$15.3 million in FY20, primarily from a decrease in capital grants and gifts of \$15.8 million, which reflects a significant decrease in the number of capital construction projects in progress on the University's campuses.

Management, Discussion and Analysis (continued)

The following chart provides a graphical representation of revenue classifications as a percentage of total revenues for fiscal year 2021:



The following chart provides a graphical comparison of operating expenses by function for fiscal years 2021, 2020 and 2019:



Management, Discussion and Analysis (continued)

STATEMENT OF CASH FLOWS

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

<u>Cash Flow Category</u>	For years ended June 30,		
	(in millions)		
	2021	2020	2019
Cash Provided by (Used for):			
Operating Activities	\$ (169.86)	\$ (145.20)	\$ (122.98)
Non-capital Financing Activities	184.36	153.74	144.97
Investing Activities	6.17	10.43	18.63
Capital and Related Financial Activities	(21.96)	54.86	(33.55)
Net Increase (Decrease) in Cash	(1.29)	73.83	7.07
Cash and Cash Equivalents, beginning of year	168.42	94.59	87.52
Cash and Cash Equivalents, end of year	\$ 167.13	\$ 168.42	\$ 94.59

Specific events or cash transactions during fiscal year 2021, which were notable include:

- Net cash used by operating activities of \$169.9 million in FY21, was \$24.7 million more than was used by operating activities in FY20. The primary factors causing the net increase in cash used by operating activities were as follows: Cash provided by operating activities decreased by a net \$6.6 million or by about 2.5%. This includes decreases in cash provided by tuition and fees of about \$7.6 million due to declining enrollments, as well as a net decline in receipts from sales and service, auxiliary enterprises and other operating activities of \$10.8 million primarily due to the impact of COVID -19 on campus operations, that was offset in part by an increase in cash provided by grant and contract of activity of \$10.8 million; Payments used for salaries and benefits increased by \$9.4 million largely from an increase in Federal grants and contracts activity and the University's FY21 pay plan; Scholarships and fellowships payments increased by \$5.1 million due primarily to an increase in CARES Act HEERF emergency student aid funding paid to students of \$6.8 million.
- Net cash flow provided by noncapital financing activities of \$184.4 million increased by \$30.6 million in FY21, or by almost 20.0%, primarily from increases in state appropriation and Federal CARES Act funding received of \$4.4 million, and \$28.0 million respectively, which was offset by a decrease in cash provided by federal financial aid grants and contracts of \$2.7 million.
- In FY21, the net cash flows provided by investing activities totaled \$6.2 million, and consisted of \$5.0 million in proceeds from the maturities of government agency securities and \$1.2 million from earnings received on investments.
- Net cash used by capital and related financing activities of \$21.9 million in FY21 included, payments for capital assets of \$15.8 million, and principal and interest payments for debt service on long term obligations of \$2.4 million and \$5.7 million, respectively.

Specific events or cash transactions during fiscal year 2020, which were notable include:

- In FY20, net cash used by operating activities totaled approximately \$145.2 million, which was \$22.2 million more than was used by operating activities in FY19. The primary factors causing the net increase in cash used by operating activities were as follows: Cash provided by operating activities decreased by a net \$7.1 million or about 2.6%. This includes decreases in cash provided by tuition and fees of about \$1.8 million due largely to declining enrollments, as well as a decline in other operating receipts of \$3.6 million primarily due to the impact of COVID -19 on operating activities; Payments used for salaries and benefits increased by \$4.4 million largely from an increase in Federal grants and contracts activity and the University's pay plan; Payments for operating expense increased by over \$6.1 million due primarily to COVID-19 mitigation costs, and a number of large noncapital renewal and replacement projects on the Missoula campus; Scholarships and fellowships payments increased by \$4.3 million due primarily to \$2.2 million of CARES Act HEERF emergency student aid funding and other aid paid to students due to COVID-19.

Management, Discussion and Analysis (continued)

- Net cash flow provided by noncapital financing activities increased by \$8.8 million in FY20, or by 6.1%, primarily from an increase in state appropriations of \$2.7 million and Federal CARES Act funding received of \$9.1 million, which were offset by decreases in cash provided by federal financial aid grants and contracts and private gifts of \$1.4 million and \$1.5 million, respectively.
- Net cash flow provided by investing activities totaled \$10.4 million in FY20, primarily from \$7.5 million in proceeds from the maturities of government agency securities, and \$2.9 million from earnings received on investments.
- In FY20, net cash provided by capital and related financing activities totaled \$54.9 million compared to \$33.5 million of net cash used for these activities in FY19. A significant source of cash in FY20 was \$156.3 million of Revenue Bonds Series 2019BC proceeds that were used primarily to refund and defease \$88.8 million of outstanding indebtedness, and to provide funding for \$63.4 million of capital improvements for the University. Other uses of cash for capital and related financing activities included cash paid for capital assets and for interest on long term obligations of \$7.2 million and \$5.1 million, respectively, offset by capital gifts received of \$3.5 million.

DISCUSSION OF SIGNIFICANT ECONOMIC AND FINANCIAL ISSUES

The issues we view as significant economic or financial issues for the four campuses of the University are:

- Declining enrollment continues to be a concern for the University, particularly at the flagship campus in Missoula. The campuses affected by declining enrollment have reduced expenses by among other things, adjusting the personnel base to align with enrollment using national norms and past history as a guide, and reducing costs through efficiencies and meeting objectives in less expensive ways. The University as a whole must continue to seek innovative ways to reduce costs by improving operational efficiency and effectiveness.

To address the issue of lower enrollment, the University has undertaken a two year, multi-step process to assess and prioritize its current offerings to build on the institution's strengths and provide the necessary resources to maintain quality. The goal of the University of Montana Strategy for Distinction initiative is to position the Missoula campus for national leadership in areas of academic excellence, to meet the needs of current students, promote faculty and staff professional development opportunities, actively engage the campus in the local community and in the surrounding region, and to address the budget structural deficit over a three year period.

To help ensure success of this initiative, the Missoula campus is enacting concurrent strategies to promote revenue growth through new student recruitment and enhanced persistence and success efforts, reduce administrative costs wherever possible, and consider reductions in faculty through strategic attrition and departures.

- Construction on several significant capital projects have begun or are slated to begin on the University's Missoula campus. The projects include: Construction of a new \$27.0 million state of the art dining facility; \$19.0 million upgrade to the campuses heating and power plant that will provide significant energy cost savings and further reduce the campus' carbon footprint; Construction of a new \$5.0 million facility to house the Montana Museum of Art and Culture; and \$12.0 million renovation and reconfiguration of Knowles Hall, an on campus residence hall. The construction projects will be funded primarily from Series BC 2019 General Revenue Bonds proceeds and private donations.

University of Montana

Consolidated Statements of Net Position

As of June 30,	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents (note 3)	\$ 166,030,789	\$ 167,959,611
Securities lending collateral (note 3)	593,961	606,986
Accounts and grants receivable, net (note 4)	8,223,371	9,230,338
Due from Federal government	16,256,084	14,469,426
Due from primary government	1,682,632	1,047,903
Due from other State of Montana component units	289,484	176,425
Loans to students, net	744,364	788,899
Inventories (note 6)	1,731,389	2,107,477
Prepaid expenses and other charges (note 7)	4,305,559	6,510,115
Total Current Assets	199,857,633	202,897,180
Noncurrent Assets		
Restricted cash and cash equivalents	1,099,434	459,100
Investments and beneficial interest (note 3)	57,412,709	58,487,688
Loans to students, net	6,492,355	7,791,843
Capital assets, net (note 8)	381,312,866	388,208,201
Total Noncurrent Assets	446,317,364	454,946,832
Total Assets	\$ 646,174,997	\$ 657,844,012
DEFERRED OUTFLOW OF RESOURCES (note 9)		
	\$ 57,906,175	\$ 30,020,446
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (note 10)	\$ 19,894,958	\$ 26,992,628
Due to Federal government	370,985	4,647,690
Due to primary government	45,295	59,839
Securities lending liability (note 3)	593,961	606,986
Student and other deposits	3,370,868	2,481,966
Unearned revenue (note 11)	19,143,141	17,449,952
Accrued compensated absences	11,872,195	12,309,754
Current portion of long-term obligations (note 12)	3,090,118	2,507,903
Total Current Liabilities	58,381,521	67,056,718
Non-current Liabilities (note 12)		
Accrued compensated absences	17,003,616	16,184,653
Unearned compensation	488,276	391,045
Long-term obligations	162,023,950	166,001,845
Advances from primary government (note 15)	2,946,018	2,991,313
Net pension liability (note 16)	95,072,551	75,475,995
Other postemployment benefits liability (note 17)	24,425,783	11,514,328
Due to Federal Government	7,069,670	8,042,294
Total Noncurrent Liabilities	309,029,864	280,601,473
Total Liabilities	\$ 367,411,385	\$ 347,658,191
DEFERRED INFLOW OF RESOURCES (note 9)		
	\$ 29,894,904	\$ 29,642,183
NET POSITION		
Net investment in capital assets	\$ 259,660,893	\$ 279,069,998
Restricted for:		
Nonexpendable		
Endowments	21,360,213	18,025,465
Loans	1,299,615	1,748,846
Expendable		
Loans	2,922,998	2,852,958
Scholarships, research, instruction, and other	4,799,834	1,327,927
Unrestricted	16,731,330	7,538,890
Total Net Position	\$ 306,774,883	\$ 310,564,084

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

University of Montana

Consolidated Statements of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30,	2021	2020
OPERATING REVENUES:		
Tuition and fees:		
Tuition (net of scholarship allowances of \$31,823,625 and \$30,966,141, respectively)	\$ 73,225,852	\$ 80,450,319
Fees	25,026,287	25,956,356
Total tuition and fees, net of scholarship allowances	98,252,139	106,406,675
Federal grants and contracts	80,223,475	70,772,056
State and local grants and contracts	6,314,425	5,813,882
Nongovernmental grants and contracts	13,145,067	13,394,310
Grant and contract facilities and administrative cost allowances	15,779,245	14,008,935
Sales and services of educational departments	8,658,233	16,965,779
Auxiliary enterprises charges:		
Residential life (net of scholarship allowances of \$495,503 and \$390,899, respectively)	14,710,209	14,347,859
Food services (net of scholarship allowances of \$495,503 and \$390,899, respectively)	9,465,571	11,939,044
Other auxiliary revenues	9,257,408	11,721,451
Interest earned on loans to students	55,063	51,636
Other operating revenues	5,197,025	5,415,539
Total Operating Revenues	261,057,860	270,837,166
OPERATING EXPENSES:		
Compensation and employee benefits	267,479,081	266,995,284
Pension expense (note 17)	18,224,758	11,121,941
Other postemployment benefits (note 18)	1,105,805	682,436
Other	110,919,114	110,138,589
Scholarships and fellowships	29,502,303	24,354,433
Depreciation and amortization	23,876,618	24,268,549
Total Operating Expenses	451,107,679	437,561,232
OPERATING LOSS	(190,049,819)	(166,724,066)
NON-OPERATING REVENUES (EXPENSES):		
State appropriations	106,551,520	102,099,199
Federal CARES Act grant	37,110,916	4,835,631
Federal financial aid grants and contracts	16,097,567	18,797,527
Land grant revenues	2,188,119	1,903,851
Private gifts	22,413,438	21,835,723
Investment income	4,312,325	3,114,164
Interest expense	(5,087,142)	(4,724,400)
Net Non-Operating Revenues	183,586,743	147,861,695
LOSS BEFORE OTHER REVENUES (EXPENSES)	(6,463,076)	(18,862,371)
OTHER REVENUES (EXPENSES):		
Capital grants and gifts	2,613,022	7,261,214
Gain on disposal of capital assets	60,853	126,354
Total Other Revenues	2,673,875	7,387,568
NET CHANGE IN NET POSITION	(3,789,201)	(11,474,803)
NET POSITION:		
Net position - beginning of year	310,564,084	322,038,887
Net Position - End of Year	\$ 306,774,883	\$ 310,564,084

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

University of Montana

Consolidated Statements of Cash Flows

For the Year Ended June 30,	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 97,956,730	\$ 105,522,225
Federal grants and contracts	78,650,904	69,047,431
State grants and contracts	6,188,840	5,672,205
Nongovernmental grants and contracts	12,887,392	13,067,908
Grant and contract facilities and administrative cost allowances	15,779,245	14,008,935
Sales and services of educational activities	9,143,833	17,668,268
Auxiliary enterprises charges	35,308,302	39,582,136
Interest earned on loans to students	73,358	69,468
Other operating receipts	6,036,527	4,016,847
Payments to employees for salaries and benefits	(284,469,054)	(275,072,043)
Payments for other postemployment benefits (pensions)	(4,506,521)	(1,862,078)
Operating expenses	(114,752,581)	(113,949,745)
Payments for scholarships and fellowships	(29,502,303)	(24,354,433)
Loans made to students	(16,848)	(158,097)
Loan payments received	1,360,872	1,542,378
Net Cash Used by Operating Activities	(169,861,304)	(145,198,595)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	106,551,521	102,099,199
Federal CARES Act grant	37,110,916	9,101,370
Land grants income	2,188,119	1,903,851
Federal financial aid grants and contracts	16,097,567	18,797,527
Private gifts for other than capital purposes	22,413,438	21,835,724
Direct lending proceeds	62,576,224	70,972,217
Direct lending disbursements	(62,576,224)	(70,972,217)
Net Cash Provided by Noncapital Financing Activities	184,361,561	153,737,671
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investments	5,000,000	7,500,000
Earnings received on investments	1,169,165	2,929,506
Net Cash Provided by Investing Activities	6,169,165	10,429,506
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for capital assets	(15,805,687)	(7,187,194)
Private gifts for capital purposes	1,989,130	3,547,477
Proceeds from the issuance of revenue bonds	-	155,654,051
Principal paid on advances from primary government, and capital leases	(44,191)	(16,569,250)
Principal paid on bonds payable	(2,415,000)	(75,467,426)
Interest paid on capital debt and leases	(5,682,162)	(5,121,492)
Net Cash (Used) Provided by Capital and Related Financing Activities	(21,957,910)	54,856,166
Change in Cash and Cash Equivalents	\$ (1,288,488)	\$ 73,824,748
Cash and Cash Equivalents, Beginning of Year	168,418,711	94,593,963
Cash and Cash Equivalents, End of Year	\$ 167,130,223	\$ 168,418,711

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

University of Montana

Consolidated Statements of Cash Flows

For the Year Ended June 30, (Continued)	2021	2020
Reconciliation of Operating Loss to Net Cash Used By Operating Activities:		
Operating loss	\$ (190,049,819)	\$ (166,724,066)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Noncash expense:		
Depreciation and amortization expense	23,876,618	24,268,549
Amortization of net pension liability	2,635,848	(1,420,354)
Amortization of other post employment benefits obligation	1,099,942	1,309,898
Changes in assets and liabilities:		
Accounts receivable	(1,527,479)	(5,317,473)
Loans to students	1,344,024	1,384,281
Inventories	376,088	(81,547)
Prepaid expenses and other charges	2,204,556	(2,442,594)
Accounts payable and accrued expenses	(11,811,954)	643,567
Unearned revenue	1,693,189	2,967,319
Student and other deposits	888,902	546,941
Due to federal government	(972,624)	(1,896,844)
Compensated absences	381,405	1,563,728
Net Cash Used by Operating Activities	\$ (169,861,304)	\$ (145,198,595)
Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions		
Change in fair value of investments recognized as a component of interest income	\$ 3,143,108	\$ 169,639
Fixed assets acquired from capital grants and donations	\$ 684,744	\$ 3,713,737
Premiums and deferred loss on refunding amortized to interest expense	\$ (615,497)	\$ 323,587
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents classified as current assets	\$ 166,030,789	\$ 167,959,611
Cash and cash equivalents classified as noncurrent assets	1,099,434	459,100
Total Cash and Cash Equivalents, End of Year	\$ 167,130,223	\$ 168,418,711

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

University of Montana Component Units

Combined Statements of Financial Position

As of June 30	2021	2020
ASSETS		
Cash and cash equivalents	\$ 16,445,362	\$ 12,195,210
Short-term investments	5,433,869	5,152,773
Accrued dividends and interest	162,146	300,918
Investments	381,274,013	298,539,185
Contributions receivable, net	22,163,470	29,090,108
Student loans and other receivables	270,873	307,968
Beneficial interest in trusts held by others	12,178,007	9,901,611
Property, building and equipment, net of accumulated depreciation	2,434,405	2,454,884
Other assets	2,596,004	2,703,500
Total Assets	\$ 442,958,149	\$ 360,646,157
LIABILITIES		
Accounts payable	\$ 1,146,541	\$ 1,252,120
Accrued expenses	199,387	158,324
Deferred revenue	253,429	159,026
Compensated absences	297,966	279,410
Notes payable-current	1,180	809,776
Long-term notes payable	393,211	340,308
Liabilities to external beneficiaries	18,999,048	16,090,962
Custodial funds	21,334,207	18,478,639
Total Liabilities	42,624,969	37,568,565
NET ASSETS		
Net assets - without donor restrictions	17,674,651	11,394,165
Net assets - with donor restrictions	382,658,529	311,683,427
Total Net Assets	400,333,180	323,077,592
Total Liabilities and Net Assets	\$ 442,958,149	\$ 360,646,157

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

University of Montana Component Units

Combined Statement of Activities

For The Year Ended June 30, 2021	Without Donor Restrictions	With Donor Restrictions	2021 Total
REVENUES:			
Contributions	\$ 1,263,141	\$ 29,477,473	\$ 30,740,614
Interest and dividend income	1,284,130	1,794,786	3,078,916
Net realized and unrealized gains (losses) on investments	4,766,546	62,800,958	67,567,504
Administrative fees	493,687	-	493,687
Gain on Loan Forgiveness	760,000	-	760,000
Support received from university	550,000	-	550,000
Net revaluation of trusts and split-interest agreements	(77,199)	3,833,604	3,756,405
Income from perpetual trust	-	383,858	383,858
Special events	301,137	-	301,137
Other income	478,886	791,542	1,270,428
Net assets released from restrictions	27,965,103	(27,965,103)	-
Total Revenues	37,785,431	71,117,118	108,902,549
EXPENSES:			
Program services			
Academic and institutional	10,822,567	-	10,822,567
Capital expenses	2,337,736	-	2,337,736
Scholarships and awards	9,423,968	-	9,423,968
Total Program Services	22,584,271	-	22,584,271
Operating expenses			
Fundraising efforts	4,083,883	-	4,083,883
General and administrative	4,978,807	-	4,978,807
Total Operating Expenses	9,062,690	-	9,062,690
Change in Net Assets Before Nonoperating Items	6,138,470	71,117,118	77,255,588
NON-OPERATING REVENUES (EXPENSES):			
Gain on disposition of asset	-	-	-
Change in Net Assets	6,138,470	71,117,118	77,255,588
Net Assets - Beginning of Year	11,394,165	311,683,427	323,077,592
Restatement of net assets	142,016	(142,016)	-
Net assets - Beginning of Year as Restated	11,536,181	311,541,411	323,077,592
Net Assets - End of Year	\$ 17,674,651	\$ 382,658,529	\$ 400,333,180

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

University of Montana Component Units

Combined Statement of Activities

For The Year Ended June 30, 2020	Without Donor Restrictions	With Donor Restrictions	2020 Total
REVENUES:			
Contributions	\$ 1,605,794	\$ 37,043,107	\$ 38,648,901
Interest and dividend income	1,066,855	3,163,170	4,230,025
Net realized and unrealized gains (losses) on investments	(621,289)	(6,895,242)	(7,516,531)
Administrative fees	523,152	-	523,152
Support received from university	550,000	-	550,000
Net revaluation of trusts and split-interest agreements	(840)	(455,515)	(456,355)
Income from pertual trust	-	376,807	376,807
Special events	180,058	-	180,058
Other income	326,094	1,437,060	1,763,154
Net assets released from restrictions	33,172,715	(33,172,715)	-
Total Revenues	36,802,539	1,496,672	38,299,211
EXPENSES:			
Program services			
Academic and institutional	11,956,386	-	11,956,386
Capital expenses	5,344,643	-	5,344,643
Scholarships and awards	9,664,956	-	9,664,956
Total Program Services	26,965,985	-	26,965,985
Operating expenses			
Fundraising efforts	4,141,484	-	4,141,484
General and administrative	5,170,308	-	5,170,308
Other miscellaneous	41,972	-	41,972
Total Operating Expenses	9,353,764	-	9,353,764
Change in Net Assets Before Nonoperating Items	482,790	1,496,672	1,979,462
NON-OPERATING REVENUES (EXPENSES):			
Gain on disposition of asset	-	801	801
Change in Net Assets	482,790	1,497,473	1,980,263
Net Assets - Beginning of Year	10,911,375	310,185,954	321,097,329
Net Assets - End of Year	\$ 11,394,165	\$ 311,683,427	\$ 323,077,592

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

UNIVERSITY OF MONTANA FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 1 – ORGANIZATION, REPORTING ENTITY AND BASIS OF PRESENTATION

▪ ORGANIZATION

The University of Montana (University) is a component unit of the State of Montana (State) with an enrollment of approximately 15,200 students on its four campuses. The State of Montana Board of Regents (Board of Regents) is appointed by the Governor of the State and has oversight responsibility with respect to the University. The State allocates and allots funds to each campus separately and requires that the funds be maintained accordingly.

▪ REPORTING ENTITY

The accompanying consolidated financial statements includes activities of the four campuses of the University, the Forestry Experiment Station and the Montana Bureau of Mines. The four campuses of the University are the University of Montana – Missoula, Montana Technological University (Montana Tech), which is located in Butte, the University of Montana – Western, which is located in Dillon, and Helena College University of Montana.

GASB Statement No. 39, “*Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14*” requires that a legally tax exempt organization should be reported as a component unit of a reporting entity if the economic resources received or held by these organizations are entirely or virtually entirely for the direct benefit of the reporting entity or its component units, and the reporting entity is entitled to, or has the means to otherwise access, a majority of the economic resources received or held by the separate organization. The resources of the separate organization must also be significant to the reporting entity. The University has established a threshold minimum of one percent of consolidated net position or one percent of consolidated revenues as an additional requirement for inclusion of an organization as a component unit in its financial statements. In addition, other organizations should be evaluated for inclusion if they are closely related to, or financially integrated with, the reporting entity. All component units and other related organizations will be tested and evaluated on an annual basis for inclusion under GASB No. 39. Accordingly, the University has identified and will present the combined activities of four component units, The University of Montana Foundation, The Montana Tech Foundation, The University of Montana - Western Foundation, and the Montana Grizzly Scholarship Association. For further discussion of accounting for component units, see Consolidated Financial Statements Note 23, “Accounting for Component Units.”

The University is considered a component unit of the State of Montana under GASB No. 14. As such, the financial statements for the University are included as a component part of the State of Montana Basic Financial Statements, which are prepared annually and presented in the Montana Annual Comprehensive Financial Report (ACFR).

The University, as a political subdivision of the State of Montana, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

▪ BASIS OF PRESENTATION

The financial statements have been prepared in accordance with generally accepted accounting principles, as prescribed by the Governmental Accounting Standards Board (GASB). Under the provisions of GASB standards, the University reports as a special-purpose government engaged in business type activities. Accordingly, the basic financial statements the University is required to present are a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. Along with notes to the financial statements, required supplemental information includes a management discussion and analysis. All significant intra-entity transactions have been eliminated in consolidation. Also, in accordance with GASB Statement No. 39, the combined statement of financial position and statement of activities of the four component units referred to above are separately presented following the University financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

▪ BASIS OF ACCOUNTING

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the University’s consolidated financial statements have been prepared using the economic resources measurement focus

Notes to the Consolidated Financial Statements (continued)

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.

▪ ACCOUNTING PRONOUNCEMENTS NOT IMPLEMENTED

GASB issued Statement No. 87, *Leases*, in June, 2017. Statement No. 87 establishes a single model for lease accounting. Leases currently classified as an operating lease will be accounted for and reported in the same manner as capital leases. The University has operating leases, and will convert these leases and record them as a “right to use” asset, with a corresponding liability and deferred outflow of principal and interest amounts. GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* in May, 2020, to provide relief to governments in light of the COVID-19 pandemic. Statement No. 95 postpones the effective date of Statement No. 87, *Leases*, by 18 months therefore, the University will implement the standard July 1, 2021.

In June, 2017, GASB issued Statement No. 84, *Fiduciary Activities*, effective for reporting periods beginning after December 15, 2018, which establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in separate fiduciary fund basic financial statements. The University has determined that it does not have any material activities that meet the criteria established in Statement No. 84.

▪ USE OF ESTIMATES

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

▪ CASH EQUIVALENTS

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

▪ INVESTMENTS

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

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

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

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

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

▪ ACCOUNTS AND GRANTS RECEIVABLE

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

▪ INVENTORIES

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

Notes to the Consolidated Financial Statements (continued)

▪ CASH AND SHORT-TERM INVESTMENTS

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

▪ CAPITAL ASSETS

Capital assets are stated at cost or fair market value at date of purchase or donation. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The following table illustrates the capitalization thresholds which the University uses in considering capitalization:

<u>Capital Asset Category:</u>	<u>Capitalization Threshold Amount:</u>
Equipment	\$ 5,000
Buildings, Building Improvements, Land Improvements	\$ 25,000
Intangibles	\$ 100,000
Intangibles - Internally Generated	\$ 500,000
Infrastructure	\$ 500,000

Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets as follows: buildings – 40 to 70 years; land improvements and infrastructure - 20 and 40 years, respectively; library books - 8 years; and equipment - 3 to 10 years. Amortization is computed on a straight-line basis over the estimated 4 to 20 year useful lives of intangible assets. Intangible assets with indefinite useful lives are not amortized. Historically, the University has capitalized all artwork subject to applicable capitalization policies at the time of donation or purchase. The University has elected to capitalize artwork subject to the current threshold, but without recording depreciation on those items.

▪ DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows represent the consumption of resources that are applicable to a future reporting period but do not require a future exchange of goods or services. The University has reported deferred outflows of resources from the refunding of revenue bond debt, and for its proportionate share of the statewide defined benefit retirement plans and the Montana University System Group Insurance Plan deferred outflows. For revenue bond debt, the unamortized difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a deferred outflow.

▪ UNEARNED REVENUE

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

▪ COMPENSATED LEAVE

Eligible University employees earn eight hours sick leave and ten hours annual leave for each month worked. The accrual rate for annual leave increases with length of service. The maximum annual leave that eligible employees may accumulate is two hundred percent of their annual accrual. Sick leave may accumulate without limitation. Twenty-five percent of accumulated sick leave earned after July 1, 1971, and one hundred percent of accumulated annual leave, if not used during employment, is paid upon termination.

▪ DEFERRED INFLOWS OF RESOURCES

Deferred inflows represent the acquisition of resources that are applicable to a future reporting period. The University has reported deferred inflows of resources for its proportionate share of the statewide defined benefit retirement plans and the Montana University System Group Insurance Plan deferred inflows. In addition, the fair value of the University's beneficial interest in perpetual trust assets is recorded as deferred inflows of resources.

▪ NET POSITION

Components of the University's net position are categorized as follows:

- **Net Investment in capital assets** - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted, nonexpendable** - Net position subject to externally imposed stipulations which require that the University maintains those assets permanently. Such assets include the University's permanent endowment funds.
- **Restricted, expendable** - Net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

Notes to the Consolidated Financial Statements (continued)

- **Unrestricted** – net position whose use by the University is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net position is designated for academic and research programs and initiatives, and capital programs.

■ CLASSIFICATION OF REVENUES

The University has classified its revenues as either operating or non-operating revenues according to the following criteria:

- **Operating revenues** - Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts and federal appropriations, and (4) interest on institutional student loans.
- **Non-operating revenues** - Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, “*Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*,” and GASB No. 34, “*Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*.” Types of revenue sources that fall into this classification are state appropriations, private gifts, investment income, and federal financial aid grants and contracts.

■ USE OF RESTRICTED REVENUES

When the University maintains both restricted and unrestricted funds for the same purpose, the order of use of such funds is determined on a case-by-case basis. Restricted funds remain classified as restricted until they have been expended.

■ SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances are generated by the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students’ behalf. Governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating revenues in the University’s consolidated financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, and cash equivalents consisted of the following at June 30, 2021 and 2020:

	2021	2020
Cash deposits, petty cash and change funds	\$ 70,908,266	\$ 80,220,128
Cash equivalents:		
STIP	54,170,627	28,673,592
Cash held by trustee ⁽¹⁾	40,951,896	59,065,891
	95,122,523	87,739,483
	<u>\$ 166,030,789</u>	<u>\$ 167,959,611</u>

⁽¹⁾ Cash held by Trustee are proceeds from the Series 2019 BC Bond issuance that will fund capital improvements to the University campuses.

■ CASH DEPOSITS

The University must comply with State statutes, which generally require that cash remain on deposit with the State treasury, and as such are subject to the State’s investment policies. Certain exceptions exist, which allow funds to be placed on deposit with trustees to satisfy bond covenants or to maximize investment earnings by placing certain funds with University foundations. Deposits with State treasury and other financial institutions at June 30, 2021 and 2020 totaled \$70,908,266 and \$79,929,394 respectively.

■ CASH EQUIVALENTS

Cash equivalents consist of cash held by trustees and amounts invested in the Short Term Investment Pool (STIP) with the Montana Board of Investments (MBOI).

STIP investments are primarily in short-term, high quality, fixed income securities with a maximum maturity of 397 days or less. Variable securities shall have a maximum maturity of 2 years. The fair values of this investment pool have been determined using the net asset value (NAV) per share (or its equivalent) of the investment. The fair value measurement disclosure within MBOI’s annual financial statements provides information about the underlying investments in the pool and where they are categorized

Notes to the Consolidated Financial Statements (continued)

within the fair value hierarchy. STIP is a commingled pool for investment purposes and participant requested redemptions from the pool are redeemed the next business day.

Cash held by trustees are invested in a money market funds that invest exclusively in short-term U.S. Government securities and repurchase agreements secured by U.S. Government securities. Cash held by trustees may be withdrawn on demand.

▪ SECURITIES LENDING COLLATERAL

The fair value of the MBOI securities lending collateral investment pool at June 30, 2021 and 2020 amounted to \$593,961 and \$606,986 respectively. Securities lending cash collateral is shown at net asset value and is invested in the Navigator Securities Lending Government Money Market portfolio with an average duration of 24 days and the average weighted final maturity was 93 days within the Navigator portfolio. The securities lending collateral investment pool is unrated for credit quality type.

▪ INVESTMENTS

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

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

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

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

Investments consisted of the following at June 30, 2021 and 2020:

Security Type	Fair Value Measurement	Fair Value ⁽⁵⁾		Effective	Credit Quality
				Duration at	Rating at
	Level	2021	2020	June 30, 2021 ⁽¹⁾	June 30, 2020 ⁽³⁾
<u>Noncurrent</u>					
Agency/Government related	Level 2	\$ -	\$ 5,063,400	Not applicable	N/A
Trust Fund Investment Pool (TFIP)	NAV ⁽⁴⁾	32,935,477	33,393,186	5.83 ⁽²⁾	NR
Foundation pooled investments	NAV ⁽⁴⁾	18,975,227	15,320,566	Not applicable	N/A
Life insurance	NAV ⁽⁴⁾	429,796	420,184	Not applicable	N/A
Total noncurrent investments		\$ 52,340,500	\$ 54,197,336		
Beneficial interest	NAV ⁽⁴⁾	5,072,209	4,290,352	Not applicable	N/A
		\$ 57,412,709	\$ 58,487,688		

⁽¹⁾See Interest Rate Risk under the Investment Risks disclosure included in this note.

⁽²⁾Effective duration for the Trust Fund Investment Pool (TFIP) is for the entire portfolio. The University’s ownership represents approximately 1.50 % of the portfolio

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

⁽⁴⁾Fair values of the investments in this type have been determined using the NAV per share of the investments.

⁽⁵⁾Restricted investments fair value amounted to \$21,453,673 and \$16,819,447 at June 30, 2021 and 2020, respectively.

Investments held by the University at June 30, 2021 and 2020 are described further in the paragraphs below.

Notes to the Consolidated Financial Statements (continued)

Investments held by the University at June 30, 2021 and 2020 are described below:

Agency/Government Related

U.S. government sponsored entities securities are mortgage-backed securities purchased and administered by the MBOI, or bond trustee funds managed by U.S. Bank for the University. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages. All of the securities were registered under the nominee's name (MBOI or its custodial bank) on behalf of the University.

Montana Board of Investments Pools

The University at June 30, 2021 and 2020 was a participant in the Trust Fund Investment Pool (TFIP), an external investment pool administered by the MBOI. MBOI manages investments for the TFIP portfolio in accordance with the statutorily mandated "Prudent Expert Principle." TFIP shares can be redeemed monthly but a 30 day redemption notice is required.

TFIP is a commingled pool for investment purposes and invests primarily in investment grade, U.S. dollar denominated fixed income securities. The portfolio has high yield and core real estate exposure.

The University Foundation Pool

This pool consists of endowment funds held in a common investment pool administered by the University of Montana and Montana Tech Foundations. The Foundations portfolio includes cash equivalents, fixed income and equity securities. The University's investment in these pools are intended to be permanent for regular endowment and quasi-endowment funds and accordingly, a liquidity term has not been formally established for these funds. The foundations are component units of the University and relevant information about their investments can be found in Note 23.

Securities Lending Transactions

MBOI is authorized by law to lend its securities and has contracted with the custodial bank, to lend the MBOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. The custodial bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. The MBOI and the custodial bank split the earnings, 80% and 20% respectively, on security lending activities. The MBOI retains all rights and risks of ownership during the loan period. The custodial bank indemnifies the MBOI's credit risk exposure to the borrowers.

During the fiscal year, the custodial bank loaned the Board's public securities and received as collateral either: 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 Group of Ten nations; or debt securities issued by certain supranational agencies. The custodial bank does not have the ability to sell collateral securities unless the borrower defaults.

The MBOI imposed no restrictions on the amount of securities available to lend during fiscal years 2021 and 2020. 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. There were no losses during fiscal years 2021 and 2020 resulting from a borrower default. As of June 30, 2021, 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 2021 and 2020, the MBOI and the borrowers maintained the right to terminate all securities lending transactions on notice. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. The Navigator portfolio had an average duration of 24 days and the average weighted final maturity of 93 days.

Investment Risks

The University's Investments administered by the MBOI for the University are subject to their investment risk policies. The University does not have its own formal investment policy for interest rate risk, credit risk, custodial risk or concentration of credit risk. Detailed asset maturity and other information demonstrating risk associated with the State of Montana Board of Investments STIP and TFIP is contained in the State of Montana Board of Investments financial statements, and may be accessed by contacting the Board of Investments at P.O. Box 200126, Helena, MT 59620-0126.

Notes to the Consolidated Financial Statements (continued)

Investment risks associated with the University's investments are described as follows:

Interest Rate Risk

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

Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated. STIP interest rate risk is determined using the WAM method. The WAM measure expresses investment time horizons – the time when investments are due or reset and payable in days, months or years – weighted to reflect the dollar size of the individual investments within an investment type. Inclusive of cash and cash equivalents, the WAM averages 115 days for the portfolio.

The MBOI has selected the effective duration method as a measure of interest rate risk for all fixed income portfolios. Durations is a measure of a bond or portfolio's sensitivity to changes in interest rates. As duration increases, the bond or portfolio's sensitivity to interest rates increases. The TFIP investment policy requires average duration to be maintained in a range within 20% of the benchmark duration.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, all STIP and TFIP fixed income instruments have credit risk as measured by a nationally recognized statistical rating organization (NRSRO). All STIP money market investments are in U.S. government money markets or in a short-term investment vehicle through the custodial bank. Credit risk is managed by constraining portfolio purchases around investment grade NRSRO ratings as appropriate.

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

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the MBOI will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Per policy, the MBOI's custodial bank must be rated at a minimum at the 6th highest investment grade rating by at least two NRSRO's on an annual basis.

Concentration of Credit Risk

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

The TFIP and STIP investments policies provide detailed guidelines on permitted investments and other investment restrictions to mitigate risks including, the concentration of credit risk.

The concentration of credit risk exposure for U.S. government sponsored entities securities held at June 30, 2020, expressed as a percentage of total investments, was 9.34%.

Beneficial Interests

The University has beneficial interests in donated perpetual trust assets that are administered by an outside management trust company. The beneficial interest assets when recorded were measured at fair value and were re-measured at June 30, 2021 and 2020. Changes in fair value of the beneficial interests are recognized as an increase or a decrease in the related deferred inflow of resources. The primary unobservable inputs used in the fair value measurement of the perpetual trust assets are the underlying securities held by the outside management trust company that are outside the control and management of the University.

Land Grant Earnings

In 1881, the Congress of the United States granted land to the State of Montana for the benefit of the state's universities and colleges. The Enabling Act of 1889 granted 46,563 acres to Missoula, 100,000 acres to Montana Tech and 50,000 acres to Western Montana College. Under provisions of the grants, proceeds from the sale of land and land assets, together with proceeds from the sale of timber, oil royalties and other minerals, must be reinvested, and constitute, along with the balance of unsold land, a perpetual trust fund. The grant is administered as a trust by the State Land Board, which holds title and has the authority to direct, control, lease, exchange and sell these lands. The University, as a beneficiary, does not have title to the assets resulting from the grant, only a right to the earnings generated. The University's share of the trust earnings was \$2,188,119 and \$1,903,851 for the years ended June 30, 2021 and 2020, respectively.

Notes to the Consolidated Financial Statements (continued)

The University's land grant assets are not reflected in the consolidated financial statements, but are included as a component of the State of Montana Basic Financial Statements that are prepared annually and presented in the Montana Annual Comprehensive Financial Report (ACFR).

NOTE 4 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts Receivable consisted of the following at June 30, 2021 and 2020:

	2021	2020
Student tuition and fees	\$ 4,874,884	\$ 4,945,350
Auxiliary enterprises and other operating activities	2,528,679	3,192,902
Private grants and contracts	3,153,575	4,660,070
Other	137,526	126,156
Gross accounts and grants receivable	10,694,664	12,924,478
Less: allowance for doubtful accounts	2,471,293	3,694,140
	<u>\$ 8,223,371</u>	<u>\$ 9,230,338</u>

NOTE 5 – LOANS RECEIVABLE

Student loans made under the Federal Perkins Loan Program constitute the majority of the University's loan receivable balances. Congress did not renew the Federal Perkins Loan Program after September 30, 2017, and no new disbursements are permitted after June 30, 2018. The lack of renewal means that as loans are repaid, participating institutions must return to the Department of Education (Department), the Federal share of the repayment. Institutions that choose to continue servicing their outstanding Perkins Loan portfolios must continue to service these loans in accordance with the Perkins Loan Program regulations. Institutions must also continue to report on their outstanding loan portfolio to the Department annually.

The University of Montana has elected to continue servicing their Perkins Loans. By University estimates, the Perkins Loan portfolio will be collected over approximately 15-20 years. Amounts refundable to the Federal Government for the Perkins Loan portfolio included in non-current liabilities as of June 30, 2021 and 2020, amounted to \$7,069,670 and \$8,042,294, respectively.

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

NOTE 6 – INVENTORIES

Inventories consisted of the following at June 30, 2021 and 2020:

	2021	2020
Bookstore	\$ 562,376	\$ 873,433
Campus Recreation Operations	64,564	33,971
Dining Services	348,619	310,991
Facilities Services	633,325	741,592
Medical/Pharmacy Services	122,505	147,490
	<u>\$ 1,731,389</u>	<u>\$ 2,107,477</u>

NOTE 7 – PREPAID EXPENSES AND OTHER CHARGES

Prepaid expenses and other charges consisted of the following at June 30, 2021 and 2020:

	2021	2020
Financial aid	\$ 948,544	\$ 2,080,971
Library materials	982,840	1,294,658
Technology software	726,453	1,001,035
Student fees	314,647	307,484
Travel and other	1,333,075	1,825,967
	<u>\$ 4,305,559</u>	<u>\$ 6,510,115</u>

Notes to the Consolidated Financial Statements (continued)

NOTE 8 – CAPITAL ASSETS

The following tables present the changes in capital assets at June 30, 2021 and 2020, respectively.

For the year ended June 30, 2021:

	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
Capital assets not being depreciated:					
Land	\$ 8,305,722	\$ -	\$ -	\$ -	\$ 8,305,722
Capitalized collections	28,098,350	10,000	-	-	28,108,350
Construction in progress	10,419,556	10,144,713	-	(9,545,986)	11,018,283
	46,823,628	10,154,713	-	(9,545,986)	47,432,355
Other capital assets:					
Land improvements	16,407,911	-	-	59,825	16,467,736
Infrastructure	9,904,101	-	-	-	9,904,101
Buildings	426,129,452	-	-	9,486,161	435,615,613
Building improvements	234,051,669	2,249	-	-	234,053,918
Furniture and equipment	104,266,259	6,894,859	375,385	-	110,785,733
Library materials	62,582,949	264,023	116,456	-	62,730,516
Livestock and other capital assets	255,268	-	-	-	255,268
	853,597,609	7,161,131	491,841	9,545,986	869,812,885
Less accumulated depreciation for:					
Land improvements	13,012,930	407,687	-	-	13,420,617
Infrastructure	2,594,929	326,732	-	-	2,921,661
Buildings	184,689,736	9,286,918	-	-	193,976,654
Building improvements	179,202,918	7,003,645	-	-	186,206,563
Furniture and equipment	75,205,993	5,436,512	296,046	-	80,346,459
Library materials	59,170,199	872,716	-	-	60,042,915
Livestock and other capital assets	119,580	36,527	-	-	156,107
	513,996,285	23,370,737	296,046	-	537,070,976
Other capital assets, net	339,601,324	(16,209,606)	195,795	9,545,986	332,741,909
Intangible assets	1,783,249	183,534	828,181	-	1,138,602
Total capital assets, net	\$ 388,208,201	\$ (5,871,359)	\$ 1,023,976	\$ -	\$ 381,312,866
Capital Asset Summary:					
Capital assets not being depreciated	\$ 46,823,628	\$ 10,154,713	\$ -	\$ (9,545,986)	\$ 47,432,355
Other capital and intangible assets	855,380,858	7,344,665	1,320,022	9,545,986	870,951,487
	902,204,486	17,499,378	1,320,022	-	918,383,842
Less: accumulated depreciation	513,996,285	23,370,737	296,046	-	537,070,976
Total capital assets, net	\$ 388,208,201	\$ (5,871,359)	\$ 1,023,976	\$ -	\$ 381,312,866

Notes to the Consolidated Financial Statements (continued)

For the year ended June 30, 2020:

	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
Capital assets not being depreciated:					
Land	\$ 8,305,722	\$ -	\$ -	\$ -	\$ 8,305,722
Capitalized collections	28,063,150	35,200	-	-	28,098,350
Construction in progress	7,384,187	4,282,433	-	(1,247,064)	10,419,556
	43,753,059	4,317,633	-	(1,247,064)	46,823,628
Other capital assets:					
Land improvements	16,407,911	-	-	-	16,407,911
Infrastructure	9,904,101	-	-	-	9,904,101
Buildings	424,882,388	-	-	1,247,064	426,129,452
Building improvements	234,009,089	42,580	-	-	234,051,669
Furniture and equipment	98,095,976	6,417,145	246,862	-	104,266,259
Library materials	62,205,494	378,755	1,300	-	62,582,949
Livestock and other capital assets	255,268	-	-	-	255,268
	845,760,227	6,838,480	248,162	1,247,064	853,597,609
Less accumulated depreciation for:					
Land improvements	12,605,464	407,466	-	-	13,012,930
Infrastructure	2,268,197	326,732	-	-	2,594,929
Buildings	175,415,679	9,274,057	-	-	184,689,736
Building improvements	172,075,701	7,127,217	-	-	179,202,918
Furniture and equipment	69,809,061	5,661,100	264,168	-	75,205,993
Library materials	58,262,260	907,939	-	-	59,170,199
Livestock and other capital assets	83,053	36,527	-	-	119,580
	490,519,415	23,741,038	264,168	-	513,996,285
Other capital assets, net	355,240,812	(16,902,558)	(16,006)	1,247,064	339,601,324
Intangible assets	2,358,714	144,876	720,341	-	1,783,249
Total capital assets, net	\$ 401,352,585	\$ (12,440,049)	\$ 704,335	\$ -	\$ 388,208,201
Capital Asset Summary:					
Capital assets not being depreciated	\$ 43,753,059	\$ 4,317,633	\$ -	\$ (1,247,064)	\$ 46,823,628
Other capital and intangible assets	848,118,941	6,983,356	968,503	1,247,064	855,380,858
	891,872,000	11,300,989	968,503	-	902,204,486
Less: accumulated depreciation	490,519,415	23,741,038	264,168	-	513,996,285
Total capital assets, net	\$ 401,352,585	\$ (12,440,049)	\$ 704,335	\$ -	\$ 388,208,201

Notes to the Consolidated Financial Statements (continued)

NOTE 9 – DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Deferred Inflows and outflows of resources consisted of the following at June 30, 2021 and 2020:

	2021	2020
Deferred Outflows of Resources		
Unamortized loss on debt refunding	\$ 2,510,929	\$ 2,868,280
Defined benefit retirement plans (note 16)	32,917,140	22,596,742
Other postemployment benefits for health insurance (note 17)	22,478,106	4,555,424
Total deferred outflows of resources	\$ 57,906,175	\$ 30,020,446
Deferred Inflows of Resources		
Defined benefit retirement plans (note 16)	\$ 5,888,392	\$ 12,528,699
Other postemployment benefits for health insurance (note 17)	18,934,301	12,823,132
Beneficial interest	5,072,211	4,290,352
Total deferred inflows of resources	\$ 29,894,904	\$ 29,642,183

NOTE 10 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2021 and 2020:

	2021	2020
Compensation, benefits and related liabilities	\$ 13,838,401	\$ 20,213,985
Accrued interest expense	355,082	352,230
Accounts payable	727,556	591,669
Vouchers payable	3,552,704	4,716,568
Other accrued liabilities	1,421,215	1,118,176
Total accounts payable and accrued liabilities	\$ 19,894,958	\$ 26,992,628

NOTE 11 – UNEARNED REVENUES

Unearned Revenues consisted of the following at June 30, 2021 and 2020:

	2021	2020
Grant and contract revenue received in advance	\$ 7,571,350	\$ 7,378,842
Summer session payments received in advance	2,399,386	2,984,324
Advance ticket sales	5,115,018	3,843,545
Other unearned revenues	4,057,387	3,243,241
Total unearned revenue	\$ 19,143,141	\$ 17,449,952

Notes to the Consolidated Financial Statements (continued)

NOTE 12 – NON-CURRENT LIABILITIES

The following tables present the changes in long-term liabilities at June 30, 2021 and 2020, respectively:

For the year ended June 30, 2021:

	Beginning Balance	Additions	Reductions	Ending Balance	Less: Current Portion	Long Term Portion
Bonds, notes and capital leases						
Revenue bonds payable, net	\$ 168,235,128	\$ -	\$ 3,370,221	\$ 164,864,907	\$ 3,010,000	\$ 161,854,907
Capital leases payable	274,620	109,810	135,269	249,161	80,118	169,043
	168,509,748	109,810	3,505,490	165,114,068	3,090,118	162,023,950
Other long-term liabilities						
Accrued compensated absences	28,494,407	11,604,759	11,223,355	28,875,811	11,872,195	17,003,616
Unearned compensation	391,045	135,957	38,726	488,276	-	488,276
Advances from primary government	3,035,504	-	44,191	2,991,313	45,295	2,946,018
Other postemployment benefits liability	11,514,328	20,757,650	7,846,195	24,425,783	-	24,425,783
Net pension liability	75,475,995	19,596,556	-	95,072,551	-	95,072,551
Due to Federal Government	12,308,032	17,222,800	22,461,162	7,069,670	-	7,069,670
	131,219,311	69,317,722	41,613,629	158,923,404	11,917,490	147,005,914
Total long-term liabilities	\$ 299,729,059	\$ 69,427,532	\$ 45,119,119	\$ 324,037,472	\$ 15,007,608	\$ 309,029,864

For the year ended June 30, 2020

	Beginning Balance	Additions	Reductions	Ending Balance	Less: Current Portion	Long Term Portion
Bonds, notes and capital leases						
Revenue bonds payable, net	\$ 87,581,020	\$ 169,463,015	\$ 88,808,907	\$ 168,235,128	\$ 2,415,000	\$ 165,820,128
Subordinated bonds payable	55,000	-	55,000	-	-	-
Capital leases payable	313,917	-	39,297	274,620	92,903	181,717
	87,949,937	169,463,015	88,903,204	168,509,748	2,507,903	166,001,845
Other long-term liabilities						
Accrued compensated absences	26,930,679	12,218,955	10,655,227	28,494,407	12,309,754	16,184,653
Unearned compensation	391,045	-	-	391,045	-	391,045
Advances from primary government	19,604,754	-	16,569,250	3,035,504	44,191	2,991,313
Other postemployment benefits liability	18,560,031	1,270,027	8,315,730	11,514,328	-	11,514,328
Net pension liability	77,452,366	-	1,976,371	75,475,995	-	75,475,995
Due to Federal Government	9,939,138	9,101,369	6,732,475	12,308,032	4,265,738	8,042,294
	152,878,013	22,590,351	44,249,053	131,219,311	16,619,683	114,599,628
Total long-term liabilities	\$ 240,827,950	\$ 192,053,366	\$ 133,152,257	\$ 299,729,059	\$ 19,127,586	\$ 280,601,473

Capital Leases

The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2021:

Fiscal Year	Total
2022	\$ 88,021
2023	75,374
2024	46,977
2025	45,601
2026	16,930
Minimum lease payments	272,903
Less: Amount representing interest	23,742
Present value of net minimum lease payments	<u>\$ 249,161</u>

Assets acquired under capital leases consist primarily of photocopiers. Such assets are carried at \$1,224,427 less accumulated depreciation of \$1,060,511 as of June 30, 2021.

Notes to the Consolidated Financial Statements (continued)

NOTE 13 – REVENUE BONDS

Revenue bonds were issued pursuant to an Indenture of Trust dated September 1, 2019, between the Board of Regents of Higher Education for the State of Montana (Board) and U.S. Bank National Association (Trustee). The bonds are secured by a first lien on the combined net pledged revenues of the four campuses of the University. Bonds payable recorded by each campus reflect the liability associated with the bond proceeds deposited into the accounts of the campus and do not necessarily mean that the debt service payments on that liability will be made by that campus.

On September 26, 2019, the Board (on behalf of the University) issued \$54,460,000 of General Revenue Bonds Series 2019B and \$92,355,000 of General Revenue Bonds Series 2019C (Taxable), collectively referred to as Series 2019BC Bonds. The proceeds of the sale of the Series 2019BC (the “Refinancing”), were used to defease and advance refund \$88,778,070 of outstanding indebtedness, pay costs and expenses in connection with the issuance of the Series 2019BC Bonds, and generate proceeds of \$63,380,831 which will be used to fund capital improvements for the University. Such capital improvements may include the renewal and renovation of existing student housing, dining and recreational facilities, deferred maintenance projects, and plant upgrades which are expected to result in significant energy cost savings.

The Refinancing consisted of a defeasance and advance refunding of the following: (i) Refunding taxable and tax exempt Revenue Bonds, Series K 2010 outstanding in the aggregate principal amount of \$19,500,000; (ii) Refunding taxable and tax exempt Revenue Bonds, Series L 2012 outstanding in the aggregate principal amount of \$35,100,000; (iii) Refunding revenue bonds, Series M 2013 outstanding in the aggregate principal amount of \$3,785,706; (iv) Refunding revenue bonds, Series N 2015 outstanding in the aggregate principal amount of \$14,825,000; (v) State of Montana Board of Investments INTERCAP Program loans outstanding in the aggregate principal amount of \$11,475,130; and (vi) State Building Energy Conservation Program (SBECP) loan outstanding in the aggregate principal amount of \$4,002,234.

Simultaneously with the Refinance, the University’s General Revenue Bonds, Series O 2017 outstanding in the amount of \$13,185,000 was exchanged for General Revenue Bonds, Series 2019A in the amount of \$13,185,000. The Series 2019A Bonds were issued under the Indenture of Trust between the Board and the Trustee, and the Series O 2017 Bonds were cancelled.

The total aggregate principal amount originally issued pursuant to the Indenture of Trust and the various supplements to the Indenture for all campuses of the University of Montana was \$160,000,000. The combined principal amount outstanding at June 30, 2021 and 2020 was \$157,040,000 and \$159,455,000, respectively.

The debt service cash flows for the Series BC 2019 General Revenue Bonds (refunding portion) are less than the debt service cash flows for the refunded debt by \$8,805,327. The economic gain for The University of Montana from the refunding was \$7,373,411 (the difference between the present values of the debt service payments on the refunded and refunding debt).

Defeased Bonds

The University has defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University’s consolidated financial statements. As of June 30, 2021 and 2020, \$111,480,421 and \$130,345,804, respectively, of bonds outstanding were considered defeased.

Revenue Bonds Payable

At June 30, 2021 annual principal payments are as follows:

Series 2019A		
Fiscal Year	Interest Rate	Principal
2022	3.390%	\$ 580,000
2023	3.390%	600,000
2024	3.390%	620,000
2025	3.390%	645,000
2026	3.390%	665,000
2027-2031	3.390%	3,675,000
2032-2036	3.390%	4,335,000
2037	3.390%	960,000
		<u>\$ 12,080,000</u>

Notes to the Consolidated Financial Statements (continued)

Series 2019B

Fiscal Year	Interest Rate	Principal
2022	4.000%	\$ 2,430,000
2023	4.000%	2,530,000
2024	4.000%	2,635,000
2025	4.000%	2,735,000
2026	4.000%	2,850,000
2027-2031	5.000%	16,520,000
2032-2036	3.000-5.000%	20,665,000
2037	3.000%	2,240,000
		<u>52,605,000</u>
Add: Net unamortized premium		7,824,907
		<u>\$ 60,429,907</u>

Series 2019C

Fiscal Year	Interest Rate	Principal
2022	3.075-3.225%	\$ -
2023	3.075-3.225%	-
2024	3.075-3.225%	-
2025	3.075-3.225%	-
2026	3.075-3.225%	-
2027-2031	3.075-3.225%	-
2032-2036	3.075-3.225%	-
2037-2041	3.075%	26,145,000
2042-2046	3.225%	34,400,000
2047-2050	3.225%	31,810,000
		<u>\$ 92,355,000</u>

Revenue Bond Payable Summary:

Total revenue bonds	\$ 157,040,000
Add: Net unamortized premiums	7,824,907
Revenue bonds payable, net	<u>\$ 164,864,907</u>

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

Fiscal Year	Principal	Interest	Total Payment
2022	\$ 3,010,000	\$ 5,466,503	\$ 8,476,503
2023	3,130,000	5,347,641	8,477,641
2024	3,255,000	5,224,001	8,479,001
2025	3,380,000	5,095,583	8,475,583
2026	3,515,000	4,962,018	8,477,018
2027-2031	20,195,000	22,188,681	42,383,681
2032-2036	25,000,000	17,383,357	42,383,357
2037-2041	29,345,000	13,047,750	42,392,750
2042-2046	34,400,000	7,974,296	42,374,296
2047-2050	31,810,000	2,092,864	33,902,864
	<u>\$ 157,040,000</u>	<u>\$ 88,782,694</u>	<u>\$ 245,822,694</u>

Notes to the Consolidated Financial Statements (continued)

NOTE 14 – COMPENSATED LEAVE

Employee compensated absences are accrued at year-end for consolidated financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the Statements of Net Position, and as a component of compensation and benefit expense in the Statements of Revenues, Expenses, and Changes in Net Position.

NOTE 15 – ADVANCES FROM PRIMARY GOVERNMENT

Advances at June 30, 2021, consisted of the Montana Science and Technology Alliance (MSTA) loan which was originally issued in 1994, and has a remaining term of 40 years. The interest rate on the loan is variable and adjusted annually.

Outstanding advances at June 30, 2019, from the primary government received through the INTERCAP program and the State Building Energy Conservation Program offered through Montana Board of Investments and the Montana Department of Environmental Quality, respectively, were paid in full in fiscal year 2020, from proceeds of the September 26, 2019, General Revenue Bond Series 2019BC issuance described in Note 13.

The scheduled maturities of the MSTA loan are as follows:

Fiscal Year	Principal	Interest	Total
2022	\$ 45,295	\$ 74,705	\$ 120,000
2023	46,426	73,574	120,000
2024	47,586	72,414	120,000
2025	48,774	71,226	120,000
2026	49,992	70,008	120,000
2027-2031	269,323	335,861	605,184
2032-2036	304,676	305,679	610,355
2037-2041	344,669	268,766	613,435
2042-2046	389,912	219,742	609,654
2047-2051	441,094	179,731	620,825
2052-2056	498,994	140,598	639,592
2057-2061	504,572	87,175	591,747
	<u>\$ 2,991,313</u>	<u>\$ 1,899,479</u>	<u>\$ 4,890,792</u>

NOTE 16 – RETIREMENT PLANS

Overview

University employees eligible to participate in retirement programs are members of either the Public Employees' Retirement System (PERS), Game Wardens' & Peace Officers' Retirement System (GWPORS), or Teachers' Retirement System (TRS). Only faculty and administrators with contracts under the authority of the Board of Regents are enrolled under TRS. Beginning July 1, 1993, state legislation required all new faculty and administrators with contracts under the authority of the Board of Regents to enroll in the Montana University System Retirement Program (MUS-RP), a defined contribution plan.

All Montana University System employees hired into a position covered by the PERS are initially members of the PERS-Defined Benefit Retirement Plan (DBRP) and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-Defined Contribution Retirement Plan (DCRP) by filing an irrevocable election. Members may not be members of both the *defined contribution* and *defined benefit* retirement plans. All new members from the universities also have a third option to join the university system's MUS-RP.

DEFINED BENEFIT PLANS

Combined Net Pension Liability

The University proportionate share of the net pension liability for its defined benefit plans consisted of the following at June 30, 2021 and 2020:

	2021	2020
Public Employees Retirement System	\$ 78,719,997	\$ 60,942,763
Game Wardens and Peace Officers Retirement System	2,398,259	796,316
Teachers Retirement System	13,954,295	13,736,916
	<u>\$ 95,072,551</u>	<u>\$ 75,475,995</u>

Notes to the Consolidated Financial Statements (continued)

Combined Deferred Outflows and Deferred Inflows

At June 30, 2021 and 2020, the University's proportionate share of deferred outflows of resources and deferred inflows of resources for its defined benefit plans were from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,463,041	\$ 2,329,831	\$ 3,087,932	\$ 2,941,675
Changes in actuarial assumptions	7,423,078	16,048	3,319,161	30,798
Difference between projected and actual earnings on pension plan investments	7,941,676	-	888,973	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,250,687	3,542,513	4,091,739	9,556,226
Contributions paid subsequent to the measurement date	11,838,658	-	11,208,937	-
	<u>\$ 32,917,140</u>	<u>\$ 5,888,392</u>	<u>\$ 22,596,742</u>	<u>\$ 12,528,699</u>

▪ Public Employees Retirement System

Plan Description

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

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature.

Summary of Benefits

Eligibility for Benefit

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 (reduced benefit)

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

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

- 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 refund of member's contributions plus return interest (currently 2.02% effective July 1, 2018).
 - No service credit for second employment;
 - Start the same benefit amount the month following termination; and
 - Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.
- Retire before January 1, 2016 and accumulate at least 2 years of additional service credit:
 - A recalculated retirement benefit based on provisions in effect after the initial retirement; and
 - GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.
- Retire on or after January 1, 2016 and accumulate 5 or more years of service credit:
 - The same retirement as prior to the return to service;
 - A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
 - GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

Vesting

- 5 years of membership service

Notes to the Consolidated Financial Statements (continued)

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.

Monthly benefit formula

- Members hired prior to July 1, 2011:
 - Less than 25 years of membership service: 1.785% of HAC per year of service credit;
 - 25 years of membership service or more: 2% of HAC per year of service credit.
- Members hired on or after July 1, 2011:
 - Less than 10 years of membership service: 1.5% of HAC per year of service credit;
 - 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
 - 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)

- After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.
 - 3% for members hired prior to July 1, 2007
 - 1.5% for members hired on or after July 1, 2007 and June 30, 2013
 - Members hired on or after July 1, 2013: 1.5% for each year PERS is funded at or above 90%; 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and 0% whenever the amortization period for PERS is 40 years or more.

Contributions to the Plan

State law for periodic employer and employee contributions specifies rates and are a percentage of employee compensation. The State legislature has the authority to establish and amend contribution rates to the plan. Employer and employee contribution rates for 2021 were 8.87% and 7.90%, respectively and for 2020 were 8.77% and 7.90%, respectively.

- Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
- Employer contributions to the system:
 - Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS- DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.
 - Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
 - The portion of employer contributions allocated to the Plan Choice Rate (PCR) are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
- Non employer contributions
 - Not Special Funding:
 - a. Per Montana law, state agencies and universities paid their own additional contributions. The employer paid contributions are *not* accounted for as special funding for state agencies and universities but are reported as employer contributions.
 - Special Funding:
 - a. The state contributed 0.1% of members' compensation on behalf of local government entities.
 - b. The state contributed 0.37% of members' compensation on behalf of school district entities.
 - c. The state of Montana, as the non-employer contributing entity to the Plan, contributed a Statutory Appropriation from the General Fund of \$33,951,150.
 - d. \$3,902,872 was the University's proportionate share of the state's contribution to the plan.

Notes to the Consolidated Financial Statements (continued)

Actuarial Assumptions

The Total Pension Liability (TPL) used to calculate the Net Pension Liability (NPL) was determined by taking the results of the June 30, 2019, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2020. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The roll forward procedure will include the effects of any assumption changes and legislative changes.

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions:

- Investment Return (net of admin expense) 7.34%
- Admin Expense as % of Payroll 0.30%
- General Wage Growth* 3.50%
- *includes Inflation at 2.40%
- Merit Increases 0% to 4.80%
- Postretirement Benefit Increases
 1. Guaranteed Annual Benefit Adjustment (GABA) each January - after the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other all adjustments to the member's benefit.
 - 3.0% for members hired prior to July 1, 2007
 - 1.5% for members hired between July 1, 2007 and June 30, 2013
 - Members hired on or after July 1, 2013:
 - (a) 1.5% for each year PERS is funded at or above 90%;
 - (b) 1.5% reduced by 0.1% for each 2.0% PERS is funded below 90%; and
 - (c) 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, service retired members and beneficiaries were based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, with males set back one year.
- Mortality assumptions among Disabled Retirees were based on RP 2000 Combined Mortality Tables with no projections.

Discount Rate

The discount rate used to measure the TPL was 7.34%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board's funding policy, which established the contractually required rates under the Montana Code Annotated. The state contributed 0.10% of the salaries paid by local governments and 0.37% paid by school districts. In addition, the state contributed a statutory appropriation from the general fund. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period of July 1, 2010 to June 30, 2016, is outlined in a report dated May 2017, which is located on the MPERA website. The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the Plan. The long-term rate of return as of June 30, 2020, was calculated using the average long-term capital market assumptions published in the *Survey of Capital Market Assumptions 2020 Edition* by Horizon Actuarial Service, LLC, yielding a median real rate of return of 4.94%. The assumed inflation is based on the intermediate inflation of 2.4% in the *2020OASDI Trustees Report* by the Chief Actuary for Social Security to produce 75-year cost projections. Combining these two results yields a nominal return of 7.34%.

Best estimates of arithmetic real rates of return for each major asset class included in the PERS – DBRP target asset allocation as of June 30, 2020, are summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return – Arithmetic Basis
Cash Equivalents	2.0%	0.11%
Domestic Equity	30.0%	6.19%
International Equity	16.0%	6.92%
Private Investments	14.0%	10.37%
Natural Resources	4.0%	3.43%
Real Estate	9.0%	5.74%
Core Fixed Income	20.0%	1.57%
Non-Core Fixed Income	5.0%	3.97%
	100.0%	

Notes to the Consolidated Financial Statements (continued)

Sensitivity Analysis

The following presents the University's sensitivity of the NPL to the discount rate in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.34%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

As of Measurement Date	1.0% Decrease (6.34%)	Current Discount Rate (7.34%)	1.0% Increase (8.34%)
University's proportionate share of the net pension liability	\$108,353,417	\$78,719,997	\$53,828,129

Net Pension Liability

At June 30, 2021 the net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2019 and applying standard roll forward procedures. The employer's proportionate share equals the ratio of the employer's contributions relative to the sum of all employer and non-employer contributions during the measurement period July 1, 2019 through June 30, 2020. The University's proportion of the net pension liability at June 30, 2021 and 2020 was 2.98% and 2.92%, respectively. The state's proportionate share for a particular employer equals the ratio of the contributions for the particular employer to the total state contributions paid. The state's proportion of the net pension liability at June 30, 2021 and 2020 was 0.90% and 0.91%, respectively.

The University and State's proportionate share of the net pension liability consisted of the following at June 30, 2021 and 2020:

	2021	2020
University proportionate share of the net pension liability	\$78,719,997	\$60,942,763
State of Montana's proportionate share of the net pension liability associated with the University	23,864,644	19,099,661
	<u>\$102,584,641</u>	<u>\$80,042,424</u>

For the years ended June 30, 2021 and 2020, the University recognized pension expense of \$12,066,581 and \$5,684,151, respectively. The University also recognized grant revenue for the years ended June 30, 2021 and 2020, of \$3,902,872 and \$1,296,665, respectively, for the support provided by the State of Montana for its proportionate share of the pension expense associated with University.

Changes in Actuarial Assumptions and Methods

The following changes in assumptions or other inputs were made that affected the measurement of the TPL:

1. The discount rate was lowered from 7.65% to 7.34%
2. The investment rate of return was lowered from 7.65% to 7.34%
3. The inflation rate was reduced from 2.75% to 2.40%

Changes in Benefit Terms

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

Changes in Proportionate Share

Between the measurement date of the collective NPL and the employer's reporting date there were no changes in proportion that would have a significant effect on the employer's proportionate share of the collective NPL.

Deferred Outflows and Deferred Inflows

At June 30, 2021 and 2020, the University's proportionate share of PERS-DBRP deferred outflows of resources and deferred inflows of resources were from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,270,702	\$ 2,250,723	\$ 2,889,769	\$ 2,867,602
Difference between projected and actual earnings on pension plan investments	6,816,450	-	738,913	-
Changes in assumptions	5,451,059	-	2,587,206	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	3,485,084	-	9,545,669
Contributions paid to PERS-DBRP subsequent to the measurement date.	5,758,069	-	5,150,470	-
	<u>\$ 19,296,280</u>	<u>\$ 5,735,807</u>	<u>\$ 11,366,358</u>	<u>\$ 12,413,271</u>

Notes to the Consolidated Financial Statements (continued)

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2022	\$(1,050,616)
2023	\$4,768,292
2024	\$2,381,724
2025	\$1,703,004

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.

▪ Game Wardens and Peace Officers Retirement System

Plan Description

The GWPORS is a multiple-employer, cost-sharing defined benefit pension plan established in 1963, and governed by Title 19, chapters 2 & 8, Montana Codes Annotated (MCA), and administered by the Montana Public Employee Retirement Administration (MPERA). This plan provides retirement benefits to all persons employed as a game warden, warden supervisory personnel, or state peace officer. Benefits are established by state law and can only be amended by the Legislature.

The GWPORS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation.

Summary of Benefits

Service retirement and monthly benefit formula

- Age 50 with 20 years of membership service
- 2.5% of HAC x years of service credit

Early retirement

- Age 55 with 5 years up to 20 years of membership service
- A reduced retirement benefit calculated using the HAC and service credit at early retirement.

Second retirement

Applies to retirement system members re-employed in a GWPORS position on or after July 1, 2017:

- 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:
 - is not awarded service credit for the period of reemployment;
 - is refunded the accumulated contributions associated with the period of reemployment;
 - starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and
 - 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.
- 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:
 - is awarded service credit for the period of reemployment;
 - starting the first month following termination of service, receives:
 - (a) the same retirement benefits previously paid to the member; and

Notes to the Consolidated Financial Statements (continued)

- (b) a second retirement benefit for the period of reemployment calculated based on the laws in effect as of the members' rehire date, and
- does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA:
 - (a) on the initial retirement benefit in January immediately following second retirement, and
 - (b) on the second retirement benefit starting in January after receiving that benefit for at least 12 months.
- A member who returns to covered service is not eligible for a disability benefit.

Vesting

- 5 years of membership service

Member's compensation period used in benefit calculation

- Hired prior to July 1, 2011: HAC is average of the highest 36 consecutive months of compensation paid to member.
- Hired on or after July 1, 2011: HAC is average of the highest 60 consecutive months of compensation paid to member

Compensation Cap

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

Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to:

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

Contributions to the Plan

Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan. Contributions are deducted from each member's salary and remitted by participating employers. Employee and employer contribution rates for FY2021 and FY2020 were 10.56% and 9.0%, respectively, for both years.

Actuarial Assumptions

The Total Pension Liability (TPL) used to calculate the Net Pension Liability (NPL) at June 30, 2020, is based on the results of the June 30, 2019, actuarial valuation with update procedures performed to roll forward the liability to the measurement date. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The roll forward procedure will include the effects of any assumption changes and legislative changes.

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions:

- General Wage Growth, including inflation at 2.40% 3.50%
- Merit Increases 0% to 6.30%
- Investment Return (net of admin expense) 7.34%
- Administrative Expense as a Percent of Payroll 0.16%
- Guaranteed Annual Benefit Adjustment (GABA)
 - After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.
 - (a) For members hired prior to July 1, 2007 3.00%
 - (b) For members hired on or after July 1, 2007 1.50%
- Mortality assumptions among service retired members and beneficiaries were based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, set back 1 year for males.
- Mortality assumptions among Disabled Retirees were based on RP 2000 Combined Employee Mortality Tables with no projections.

Discount Rate

The discount rate used to measure the total pension liability was 5.65%. 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 Codes Annotated. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2120. 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. A municipal bond rate of 2.19% was incorporated in the discount rate.

Notes to the Consolidated Financial Statements (continued)

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent study performed for the period covering fiscal years 2011 through 2016, is outlined in a report dated May 5, 2017, and can be located on the MPERA website. The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the Plan. The long-term rate of return as of June 30, 2020, was calculated using the average long-term capital market assumptions published in the *Survey of Capital Market Assumptions 2020 Edition* by Horizon Actuarial Service, LLC, yields a median real return of 4.94%. Assumed inflation is based on the intermediate inflation assumption of 2.4% in the 2020. *OASDI Trustees Report* used by the Chief Actuary for Social Security to produce 75-year cost projections. Combining these two results yields a nominal return of 7.34%. The pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the plan year ending June 30, 2063. Therefore, the long-term expected rate of return on pension plan investments of 7.34% was applied to all periods of projected benefit payments through June 30, 2063 and the applicable municipal bond index rate of 2.19%, based on the *Bond Buyer General Obligation 20-year Municipal Bond Index* published monthly by the Board of Governors of the Federal Reserve System as of June 30, 2020, was applied to all periods of projected benefit payments after June 30, 2063. The Single Equivalent Interest Rate (SEIR) of 5.65% that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability as of June 30, 2020.

Best estimates of arithmetic real rates of return for each major asset class included in the GWPORS target asset allocation as of June 30, 2021, are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return – Arithmetic Basis
Cash	2.0%	0.11%
Domestic Equity	30.0%	6.19%
International Equity	16.0%	6.92%
Private Investments	14.0%	10.37%
Natural Resources	4.0%	3.43%
Real Estate	9.0%	5.74%
Core Fixed Income	20.0%	1.57%
Non-Core Fixed Income	5.0%	3.97%
	100.0%	

Sensitivity Analysis

The following table presents the sensitivity of the University's proportionate share of the GWPORS NPL at June 30, 2021, to the discount rate. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 5.65%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

As of Measurement Date	1.0% Decrease (4.65%)	Current Discount Rate (5.65%)	1.0% Increase (6.65%)
University's proportionate share of the net pension liability	\$3,448,487	\$2,398,259	\$1,555,603

Net Pension Liability

At June 30, 2021 and 2020, the University recorded \$2,398,259 and \$796,316, respectively, for its proportionate share of the net pension liability. At June 30, 2021, the net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2019. The employer's proportion of the net pension liability was based on the employer's contributions received by GWPORS during the measurement period July 1, 2019, through June 30, 2020, relative to the total employer contributions received from all of GWPORS' participating employers. At June 30, 2021 and 2020, the employer's proportion was 1.77% and 1.96%, respectively.

For the year ended June 30, 2021 and 2020, University recognized pension expense of \$464,507 and \$180,329, respectively.

Changes in Actuarial Assumptions and Methods

The following changes in assumptions or other inputs were made that affected the measurement of the TPL.

1. The discount rate was lowered from 7.65% to 5.65%
2. The investment rate of return was lowered from 7.65% to 7.34%
3. The inflation rate was reduced from 2.75% to 2.40%

Notes to the Consolidated Financial Statements (continued)

Changes in Benefit Terms

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

Changes in Proportionate Share

Between the measurement date of the collective NPL and the employer's reporting date there were no changes in proportion that would have a significant effect on the employer's proportionate share of the collective NPL.

Deferred Outflows and Deferred Inflows

At June 30, 2021 and 2020, the University reported its proportionate share of GWPORS deferred outflows of resources and deferred inflows of resources from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 57,067	\$ 79,108	\$ 107,235	\$ 74,073
Difference between projected and actual earnings on pension plan investments	147,667	-	16,900	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	57,429	-	10,557
Changes in assumptions of contributions	1,241,169	-	46,038	-
Contributions paid to GWPORS subsequent to the measurement date	79,093	-	78,447	-
	<u>\$ 1,524,996</u>	<u>\$ 136,537</u>	<u>\$ 248,620</u>	<u>\$ 84,630</u>

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2022	\$342,517
2023	\$326,810
2024	\$318,962
2025	\$321,078

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.

▪ Teachers Retirement System

Plan Description

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

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

Notes to the Consolidated Financial Statements (continued)

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

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

Contributions to the Plan

Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan. Contributions are deducted from each member's salary and remitted by participating employers. The State and University System contribution rates for fiscal year 2021 and 2020 were 11.55% and 11.45%, respectively, and the employee contributions rate for fiscal year 2021 and 2020 was 8.15%.

A portion, of the total required statutory contributions, is provided directly from the State for all employers. The employers are considered to be in a special funding situation and the State is treated as a non-employer contributing entity in the TRS. The plan receives 2.49% of reportable compensation from the State's general fund for School Districts and Other Employers. The plan receives 0.11% of reportable compensation from the State general fund for State agency and university system employers. In addition, the State contributes \$25 million in perpetuity, payable July 1st of each year.

Actuarial Assumptions

The total pension liability recorded at June 30, 2021, was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2020. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2020, valuation was based on the results of the last actuarial experience study, dated May 3, 2018.

Among those assumptions were the following:

- Total Wage Increases* 3.25%-7.76% for Non-University Members and 4.25% for University Members
- Price Inflation 2.40%
- Investment Return 7.34%
- Postretirement Benefit Increases:
 - Tier One Members: If the retiree has received benefits for at least 3 years, the retirement allowance will be increased by 1.5% on January 1st.
 - Tier Two Members, the retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the System to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.
- Mortality among contributing members, service retired members, and beneficiaries:
 - For Males and Females: RP-2000 Healthy Combined Mortality Table projected to 2022 adjusted for partial credibility setback for two years.
- Mortality among disabled members:

Notes to the Consolidated Financial Statements (continued)

- For Males: RP 2000 Disabled Mortality Table for Males, set back three years, with mortality improvements projected by Scale BB to 2022.
- For Females: RP 2000 Disabled Mortality Table for Females, set forward two years, with mortality improvements projected by Scale BB to 2022.

**Total Wage Increases include 3.25% general wage increase assumption*

Discount Rate

The discount rate used to measure the total pension liability was 7.34%. The projection of cash flows used to determine the discount rate assumed that contributions from participating TRS members, employers, and non-employer contributing entities will be made based on the TRB's funding policy, which establishes the contractually required rates under MCA. In addition to these contributions, the State General Fund will contribute \$25 million annually to the TRS payable July 1st of each year. Based on those assumptions, the TRS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2124. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

The long term capital market assumptions published in the Survey of Capital Market Assumptions 2020 Edition by Horizon Actuarial Service, LLC, yield a median real return of 4.94%. Assumed inflation is based on the intermediate inflation assumption of 2.4% in the 2020 OASDI Trustees Report used by the Chief Actuary for Social Security to produce 75 year cost projections. Combining these two results yields a nominal return of 7.34%.

Best estimates of arithmetic real rates of return for each major asset class included in the TRS's target asset allocation as of June 30, 2020, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return – Arithmetic Basis
Domestic Equity	30.0%	6.19%
International Equity	16.0%	6.92%
Private Equity	14.0%	10.37%
Natural Resources	4.0%	3.43%
Real Estate	9.0%	5.74%
Core Fixed Income	20.0%	1.57%
Non-Core Fixed Income	5.0%	3.97%
Cash	2.0%	0.11%
	100.0%	

Sensitivity Analysis

The following presents the University's proportionate share of the TRS net pension liability at June 30, 2021, calculated using the discount rate of 7.34%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.34%) or 1.00% higher (8.34%) than the current rate.

As of Measurement Date	1.0% Decrease (6.34%)	Current Discount Rate (7.34%)	1.0% Increase (8.34%)
University's proportionate share of the net pension liability	\$18,579,725	\$13,954,295	\$10,084,362

Net Pension Liability

In accordance with Statement 68, the System has a special funding situation in which the State of Montana is legally responsible for making contributions directly to TRS that are used to provide pension benefits to the retired members of TRS. Due to the existence of a special funding situation, employers are also required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer. The state's proportion of the net pension liability at June 30, 2021 and 2020, was 0.20% and 0.24%, respectively.

The net pension liability reported by the University at June 30, 2021, was measured as of June 30, 2020, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2020. 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 contributions received by TRS during the measurement period July 1, 2019, through June 30,

Notes to the Consolidated Financial Statements (continued)

2020, relative to total contributions received from all of TRS participating employers. The University's proportionate of the net pension liability at June 30, 2021 and 2020, was 0.62% and 0.71%, respectively.

The University and State's proportionate share of the net pension liability consisted of the following at June 30, 2021 and 2020:

	2021	2020
University proportionate share of the net pension liability	\$ 13,954,295	\$ 13,736,916
State of Montana's proportionate share of the net pension liability associated with the University	4,554,271	4,637,175
	<u>\$ 18,508,566</u>	<u>\$ 18,374,091</u>

For the year ended June 30, 2021 and 2020, University recognized pension expense of \$5,693,670 and \$5,257,461, respectively, and grant revenue for the State's proportionate share of the University's pension expense of \$603,423 and \$565,633, respectively.

Changes in Actuarial Assumptions and Other Inputs

Since the previous measurement date, the following changes to actuarial assumptions were made:

- The discount rate was lowered from 7.50% to 7.34%.
- The investment rate of return assumption was lowered from 7.50% to 7.34%.
- The inflation rate was reduced from 2.50% to 2.40%.

Changes in Benefit Terms:

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

Changes in Proportionate Share

Between the measurement date of the collective NPL and the employer's reporting date there were no changes in proportion that would have a significant effect on the employer's proportionate share of the collective NPL.

Deferred Outflows and Deferred Inflows

At June 30, 2021 and 2020, the University's proportionate share of TRS deferred outflows of resources and deferred inflows of resources were from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 135,272	\$ -	\$ 90,928	\$ -
Changes in actuarial assumptions	730,850	16,048	685,917	30,798
Difference between projected and actual earnings on pension plan investments	977,559	-	133,160	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,250,687	-	4,091,739	-
Contributions paid to TRS subsequent to the measurement date	6,001,496	-	5,980,241	-
	<u>\$ 12,095,864</u>	<u>\$ 16,048</u>	<u>\$ 10,981,985</u>	<u>\$ 30,798</u>

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2022	\$2,983,669
2023	\$1,917,575
2024	\$931,735
2025	\$245,340

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.

Notes to the Consolidated Financial Statements (continued)

▪ Return on Defined Benefit Pension Plan Investments

In FY21, the PERS-DBRP, GWPORS and TRS defined benefit pension plans market value rate of return on plan assets exceeded 27.0%, which was a significant increase over the prior year. The large increase in plan assets from the unrealized investment gains did not affect the University's proportionate share of the plans net pension liability, deferred outflows of resources, and deferred inflows of resources measured as of June 30, 2020, that were reported in the University's consolidated financial statements at June 30, 2021. The effect of the increase in market value rate of return will however, be recognized in subsequent actuarial valuations.

▪ Legal Actuarial Status of Plans

The Montana Constitution, Article VIII, Section 15, states that public retirement systems shall be funded on an actuarially sound basis. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost, in addition to amortizing the unfunded liability over a period not to exceed 30 years.

The statutory funding rate is tested in the valuation of each public retirement plan to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, within 30 years. As of June 30, 2021, the PERS-Defined Benefit Retirement Plan (DBRP) and the Game Warden & Peace Officers Retirement System (GWPORS) were not in compliance and do not amortize within 30 years.

Annual reports that include financial statements and required supplemental information on the plans are available from:

Public Employees' Retirement Administration
P.O. Box 200131
100 North Park, Suite 220
Helena, Montana 59620-0131
Phone: (406) 444-3154
Website: <https://mpera.mt.gov>

Teachers' Retirement Division
P.O. Box 200139
1500 Sixth Avenue
Helena, MT 59620-0139
Phone: (406) 444-3134
Website: <https://trs.mt.gov/TrsInfo/NewsAnnualReports>

DEFINED CONTRIBUTION PLANS

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

Contributions to MUS-RP (TIAA) were as follows:

	Year ending June 30,	
	2021	2020
<u>FACULTY</u>		
Covered Payroll	\$ 107,386,292	\$ 104,979,164
Employer Contributions	\$ 6,395,928	\$ 6,252,559
Percent of Covered Payroll	5.956%	5.956%
Employee Contributions	\$ 7,563,048	\$ 7,394,733
Percent of Covered Payroll	7.044%	7.044%
<u>STAFF</u>		
Covered Payroll	\$ 6,987,063	\$ 6,448,740
Employer Contributions	\$ 620,019	\$ 565,788
Percent of Covered Payroll	8.870%	8.774%
Employee Contributions	\$ 551,979	\$ 509,451
Percent of Covered Payroll	7.900%	7.900%

For the years ended June 30, 2021 and 2020, 4.72%, or \$5,068,633 and \$4,956,873, respectively, was contributed to TRS from MUS-RP faculty employer contributions to amortize past service unfunded liability in accordance with state law.

Annual reports that include financial statements and required supplemental information on the plan are available from:

TIAA
730 Third Avenue
New York, New York 10017-3206
Phone: 1-800-842-2733

Notes to the Consolidated Financial Statements (continued)**NOTE 17 – OTHER POSTEMPLOYMENT BENEFITS - HEALTH INSURANCE**

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*. 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 years ended June 30:

	2021	2020
Net OPEB Liability	\$ 24,425,783	\$ 11,514,328
Deferred OPEB Outflows of Resources	\$ 22,478,106	\$ 4,555,424
Deferred OPEB Inflows of Resources	\$ 18,934,301	\$ 12,823,132
OPEB expense	\$ 1,105,805	\$ 682,435

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, 2021, was based on the actuarial valuation at December 31, 2020, with update procedures to roll forward the TOL to the measurement date of March 31, 2021. 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 as of Report Date

The University's share of the total plan OPEB liability was as follows as of June 30:

	2021	2020
University proportion of the OPEB liability	40.56%	40.71%
University proportionate share of the OPEB liability	\$ 24,425,783	\$ 11,514,328

OPEB Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2021 and 2020 the University's OPEB plan deferred outflows and inflows of resources were from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 14,509,410	\$ -	\$ 7,983,240
Changes in assumptions or other inputs	22,478,106	4,424,891	4,555,424	4,839,892
	\$ 22,478,106	\$ 18,934,301	\$ 4,555,424	\$ 12,823,132

* 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, 2021.

Notes to the Consolidated Financial Statements (continued)

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:

Year ended June 30:	Net Amount to be Recognized as an increase or (decrease to OPEB expense
2022	\$390,488
2023	\$390,488
2024	\$390,488
2025	\$390,488
2026	\$390,488
Thereafter	\$3,147,613

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 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:

	Retiree/Surviving Spouse	Spouse
Contributions		
Before Medicare eligibility	\$11,772	\$9,637
After Medicare eligibility	\$4,416	\$5,205
Actuarial valuation date	December 31, 2020	
Actuarial measurement date ⁽¹⁾	March 31, 2021	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB	
Actuarial assumptions:		
Discount rate	2.23%	
Projected payroll increases	2.50%	
Participation:		
Future retirees	40.00%	
Future eligible spouses	70.00%	
Marital status at retirement	70.00%	

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

Mortality – Healthy

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 RP2000 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 RP2000 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 RP2000 Combined Mortality Table with no projections.

Notes to the Consolidated Financial Statements (continued)

Changes in Actuarial Assumptions and Methods Since Last Measurement Date

There were no changes in actuarial methods since the last measurement date. One of the components of the actuarial assumptions, the interest/discount rate, was changed from 2.75% to 2.23%.

Changes in Benefit Terms since Last Measurement Date

Carrier option was reduced to one since last measurement date.

Sensitivity of the TOL to Changes in the Healthcare Cost Trend Rates:

The following presents the TOL of the MUS OPEB plan, as well as what they would be if calculated using healthcare cost trend rates that are 1-percentage-point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current healthcare cost trend rates:

As of Measurement Date	Assuming 1.0% Decrease (5.0%)	At Current Rate (6.0%)	Assuming 1.0% Increase (7.0%)
University proportion of total OPEB Liability	\$19,070,512	\$24,425,783	\$31,889,394

Sensitivity of the TOL to changes in the discount rate

The following presents the TOL of the MUS OPEB plan, as well as what they would be if calculated using a discount rate that is 1-percentage-point lower (1.23 percent) or 1-percentage-point higher (3.23 percent) than the current discount rate:

As of Measurement Date	Assuming 1.0% Decrease (1.23%)	At Current Rate (2.23%)	Assuming 1.0% Increase (3.23 %)
University proportion of total OPEB Liability	\$31,621,105	\$24,425,783	\$19,116,234

Summary of Significant Accounting Policies

Total OPEB liability is reported on an accrual basis on the financial statements. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The MUS OPEB plan states that an employee enrolled in the plan who (a) at least meets the early retirement criteria defined by Montana Public Employees' Retirement Administration (MPERA); and (b) makes arrangements with their respective benefit office within 60 days of the date active employee coverage ends to continue post-retirement coverage, may continue with the OPEB plan on a self-pay basis, retroactive back to the date active employee coverage was lost. Therefore, the plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2021.

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 Annual Comprehensive Financial Report (ACFR). A copy of the most recent ACFR can be obtained online at <https://sfscd.mt.gov/SAB/acfr/index> or by contacting the Montana Department of Administration, PO Box 200102, Helena, MT 59620-0102.

NOTE 18 – PLEDGED REVENUES

Revenue bonds issued by the University to defease and refund outstanding indebtedness and to fund capital improvements as described in Note 13, are secured by a first lien on the combined pledged revenues of its campuses. As defined in the Indenture for the Series 2019A and Series 2019 BC Bonds, the University has pledged all permitted revenues after certain charges for payment of operation and maintenance expenses. Total principal and interest remaining on the debt at June 30, 2021 is \$245,822,694 with annual debt service requirements ranging from \$8,476,503 in 2022 to \$8,474,483 in 2050, the final year of repayment.

Notes to the Consolidated Financial Statements (continued)

A schedule of revenues pledged as security for Series 2019A and Series 2019 BC Bonds is presented as follows at June 30, 2021 and 2020:

	2021	2020
Net Operating and Non-Operating revenues	\$ 444,644,603	\$ 418,698,861
Tuition	(73,225,852)	(80,450,319)
Student Fees Controlled by Students	(2,347,202)	(2,317,460)
Grants	(136,793,883)	(94,815,879)
State Appropriations	(106,551,520)	(102,099,199)
Federal financial aid grant and contracts	(16,097,567)	(18,797,527)
Restricted gifts	(22,413,438)	(21,835,723)
Interest Expense	5,087,142	4,724,400
Operations and Maintenance expenses for Auxiliary Facilities:		
Dining/Food Services	(13,011,767)	(14,109,850)
Rentals	(632,495)	(854,474)
Student Housing	(16,550,005)	(13,464,772)
Student Unions	(3,061,115)	(3,124,057)
Bookstores	(1,389,665)	(1,513,168)
	(34,645,047)	(33,066,321)
Net Revenues Pledged as Security for Debt	\$ 57,657,236	\$ 70,040,833

NOTE 19 – RISK MANAGEMENT

Due to the diverse risk exposure of the University and its constituent agencies, the insurance portfolio contains a comprehensive variety of coverage. Montana statutes, 2-9-101 through 305, MCA, require participation of all state agencies in the self-insurance plan established by the Montana Department of Administration, Risk Management and Tort Defense Division (RMTDD). The self-insurance program includes coverage for tort general liability, auto liability, professional liability, and errors and omissions exposures. The RMTDD provides coverage, above self-insured retentions, by purchasing other commercial coverage through the state's brokers, Alliant Insurance Services and Willis, for excess liability, property, crime, fidelity, boiler and machinery, fine arts, aircraft-liability and hull coverage. The RMTDD also supplies other commercial insurance coverage for specific risk exposures on an as-needed basis such as the Volunteer Accident and Health, Dismemberment and Accidental Death coverage obtained for all units of the Montana University System. In addition to these basic policies, the University has established guidelines in risk assessment, risk avoidance, risk acceptance and risk transfer.

The Tort Claims Act of the State of Montana in section, 2-9-102, MCA, “provides that Governmental entities are liable for its torts and of those of its employees acting within the course and scope of their employment or duties whether arising out of a governmental or proprietary function, except as specifically provided by the Legislature under Article II, section 19 of The Constitution of the State of Montana”. Accordingly section, 2-9-305, MCA, requires that the state “provide for the immunization, defense and indemnification of its public officers and employees civilly sued for their actions taken within the course and scope of their employment”. The University also has commercial coverage for other risk exposures that are not covered by the State's self-insurance program.

Buildings and Contents – are insured for replacement value. For each loss covered by the state's self-insurance program and commercial coverage, the University has a \$2,500 per occurrence retention.

General Liability and Tort Claim Coverage – include comprehensive general liability, auto liability, personal injury liability, officer's and director's liability, professional liability, aircraft liability, watercraft liability, leased vehicles and equipment liability, and are provided for by the University's participation in the state's self-insurance program. Montana Codes Annotated (2-9-108, MCA) limits awards for damages against the state to \$750,000 per claim, \$1,500,000 per occurrence.

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

Effective July 1, 2003, (for fiscal year 2004), the University's workers' compensation program became self-funded and is provided through membership in the MUS Self Insured Workers' Compensation Program. In fiscal year 2003 the University's workers' compensation coverage was provided for through participation in the state's Compensation Insurance Fund. The MUS self-funded

Notes to the Consolidated Financial Statements (continued)

program is administered by a third party, currently Intermountain Claims, Inc.. The MUS program incorporates a self-insured retention of \$750,000 per claim and excess commercial coverage to statutory limits. Employer's liability is provided with a \$750,000 retention and an excess insurance limit of \$1,000,000. The University provides periodic disbursements to the administrator for claims paid and administrative expenses. Benefits provided are prescribed by state law and include biweekly payments for temporary loss of wages as well as qualifying permanent partial and permanent total disability. Medical and indemnity benefits are statutorily prescribed for qualifying job-related injuries or illnesses.

NOTE 20 – COMMITMENTS AND CONTINGENCIES

At June 30, 2021, the University had the following outstanding commitments under major capital and maintenance projects:

	Budget Authorization *	Total Expenditures through June 2021	Funding Source
Liberal Arts East Side-Phase VI	\$ 2,015,440	\$ 918,270.0	Plant, State Funds
MT Museum of Art and Culture (MMAC)	5,000,000	507,197	Revenue Bond Funds
Heating Plant Combo Heat/Power	19,500,000	4,737,016	Revenue Bond Funds
WGS ADA Elevator	595,000	480,992	Revenue Bond Funds
Social Science 1st Floor Data Center	771,000	626,762	Plant Fund and State Funds
Adams Center Basketball Locker Room Remodel	2,800,000	998,322	Revenue Bond Funds
Pantzer Hall Renovations	4,700,000	4,016,079	Revenue Bond Funds
Urey Remodel	1,300,000	1,077,086	Revenue Bond Funds
WGS Structural Repairs 20-119	1,000,000	513,629	Revenue Bond Funds
Lommasson Corner Store PH2 20-116	790,000	632,275	Revenue Bond Funds
PJW ALI Auditorium Tax Exempt	790,000	734,165	Revenue Bond Funds
Mathews Hall Project	1,000,000	421,402	Auxiliary Funds
Nursing Simulation Center	2,296,000	369,425	Private and State Funds
Steam Distribution Line	6,000,000	106,559	LRBP, State and Auxiliary Funds
	<u>\$ 48,557,440</u>	<u>\$ 16,139,179</u>	

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

The University has commitments under non-cancelable operating leases as follows:

Payable during the year ending June 30,	Total
2022	\$ 179,906
2023	129,268
2024	319
	<u>\$ 309,493</u>

The University is a defendant in several legal actions. While the outcome cannot be determined at this time, management is of the opinion that the liability, if any, from these actions will not have a material effect on the University's financial position.

In the normal course of operations, the University receives grants and other forms of reimbursement from various federal and state agencies. These funds are subject to review and audit by the cognizant agencies. The University does not expect any material adjustments or repayments to result from such audits.

Although the University is exempt from federal income tax as an instrumentality of the State of Montana, certain income may be considered unrelated business income by the Internal Revenue Service (IRS). The Montana University System files appropriate tax returns with the IRS to report such income. Because the tax liability for the System as a whole is not material, no provision is recorded in the accompanying consolidated financial statements.

NOTE 21 – RELATED PARTIES

The University of Montana is a component unit of the State of Montana. The University's consolidated financial statements and the combined financial statements of its component units include only the activities, funds and accounts of the University and the component units. Private nonprofit organizations with relations to the University include The University of Montana Alumni Association, the Montana Technology Enterprise Center (MonTEC), the Montana Tech Booster Club and the Montana Tech Alumni Association.

Notes to the Consolidated Financial Statements (continued)

The associations and booster club operate exclusively for the purpose of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with, the University. For the year ended June 30, 2020 \$300,800 was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. No transfers for scholarships and construction projects were made by the organization in FY21. In exchange, the University provides the associations and booster club with office space, staff and some related office expenses.

MonTEC was established as a nonprofit 501(C) 3 corporation in fiscal year 2001 as a result of an agreement between the University and the Missoula Area Economic Development Foundation (MAEDF). MonTEC provides low cost lease space and business consulting to local “start-up” companies. The corporation’s board of directors is comprised of no less than five members and no more than nine members. MonTEC board members are recommended by current MonTEC board members and appointed by the University of Montana-Missoula President. The President of MonTEC is the University’s Vice President for Research and is a voting member of the board. The University does not provide office space or other services to MonTEC.

NOTE 22 – ACCOUNTING FOR COMPONENT UNITS

The entities included as component units in the financial statements are nonprofit, tax exempt organizations operating exclusively for the purposes of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with the University. Although the University does not control the timing or amount of receipts from these entities, the majority of the revenues or income that the entities hold and invest is restricted to the activities of the University by donors. The entities included as component units in the financial statements are The University of Montana Foundation, The Montana Tech Foundation, The University of Montana – Western Foundation and The Montana Grizzly Scholarship Association.

For the fiscal years ended June 30, 2021 and 2020, the following was transferred to the University for scholarships, academic or institutional support or capital expenses by the University foundations: \$15,816,950 and \$17,748,853, respectively from The University of Montana Foundation (406-243-2593); \$3,138,559 and \$3,911,345, respectively, from the Montana Tech Foundation (406-496-4532); \$963,989 and \$743,793, respectively, from The University of Montana-Western Foundation (406-683-7305). In addition, \$1,383,168 and \$1,332,654 was transferred from the Montana Grizzly Scholarship Association (406-243-6485) for the fiscal years ended June 30, 2021 and 2020, respectively. For the fiscal years ended June 30, 2021 and 2020, the University foundations also expended \$4.4 million and \$4.8 million, respectively, directly to third parties in support of the University. In exchange, the University provides the foundations with office space and an annual contracted fee. Included with the office space are staff and some related office expenses. For each of the fiscal years ended June 30, 2021 and 2020, the University provided \$550,000 and \$750,000, respectively, to its Foundations, which included payments for contracted services and capital campaign support.

Notes to the Consolidated Financial Statements (continued)

Condensed financial information for each of the University's component units is presented below:

STATEMENT OF FINANCIAL POSITION

June 30, 2021

	University of Montana Foundation	Montana Tech Foundation	University of Montana – Western Foundation	Montana Grizzly Scholarship Association	Elimination	Total
ASSETS:						
Cash and investments	\$ 336,145,653	\$ 56,568,980	\$ 10,591,488	\$ 2,551,060	(2,541,791)	\$ 403,315,390
Other receivables, net of allowances	30,401,668	3,794,435	400,897	15,350	-	34,612,350
Fixed assets, net of depreciation	413,234	1,949,127	7,427	64,617	-	2,434,405
Other assets	1,296,580	490,163	-	809,261	-	2,596,004
Total Assets	\$ 368,257,135	\$ 62,802,705	\$ 10,999,812	\$ 3,440,288	\$ (2,541,791)	\$ 442,958,149
LIABILITIES:						
Current liabilities associated with operations	\$ 1,106,094	\$ 229,680	\$ 7,249	\$ 2,905	\$ -	\$ 1,345,928
Other current liabilities	297,966	-	-	253,429	-	551,395
Notes payable-current	-	1,180	-	-	-	1,180
Long-term note payable	-	393,211	-	-	-	393,211
Liabilities to external beneficiaries	18,678,052	320,996	-	-	-	18,999,048
Custodial funds	22,960,352	-	-	915,646	(2,541,791)	21,334,207
Total Liabilities	43,042,464	945,067	7,249	1,171,980	(2,541,791)	42,624,969
NET ASSETS:						
Net assets – Without donor restrictions	12,412,824	2,488,804	1,296,175	1,476,848	-	17,674,651
Net assets – With donor restrictions	312,801,847	59,368,834	9,696,388	791,460	-	382,658,529
Total Net Assets	325,214,671	61,857,638	10,992,563	2,268,308	-	400,333,180
Total Liabilities & Net Assets	\$ 368,257,135	\$ 62,802,705	\$ 10,999,812	\$ 3,440,288	\$ (2,541,791)	\$ 442,958,149

STATEMENT OF FINANCIAL POSITION

June 30, 2020

	University of Montana Foundation	Montana Tech Foundation	University of Montana – Western Foundation	Montana Grizzly Scholarship Association	Elimination	Total
ASSETS:						
Cash and investments	\$ 262,604,139	\$ 43,998,766	\$ 8,402,234	\$ 1,755,820	\$ (572,873)	\$ 316,188,086
Other receivables, net of allowances	35,833,439	3,459,548	-	6,700	-	39,299,687
Fixed assets, net of depreciation	370,614	2,003,393	7,427	73,450	-	2,454,884
Other assets	1,333,247	627,259	-	742,994	-	2,703,500
Total Assets	\$ 300,141,439	\$ 50,088,966	\$ 8,409,661	\$ 2,578,964	\$ (572,873)	\$ 360,646,157
LIABILITIES:						
Current liabilities associated with operations	\$ 1,009,564	\$ 391,436	\$ 7,835	\$ 1,609	\$ -	\$ 1,410,444
Other current liabilities	279,410	-	-	159,026	-	438,436
Notes payable-current	760,000	43,876	5,900	-	-	809,776
Long-term note payable	-	340,308	-	-	-	340,308
Liabilities to external beneficiaries	15,826,350	264,612	-	-	-	16,090,962
Custodial funds	19,051,512	-	-	-	(572,873)	18,478,639
Total Liabilities	36,926,836	1,040,232	13,735	160,635	(572,873)	37,568,565
NET ASSETS:						
Net assets – Without donor restrictions	6,684,136	2,396,008	1,278,979	1,035,042	-	11,394,165
Net assets – With donor restrictions	256,530,467	46,652,726	7,116,947	1,383,287	-	311,683,427
Total Net Assets	263,214,603	49,048,734	8,395,926	2,418,329	-	323,077,592
Total Liabilities & Net Assets	\$ 300,141,439	\$ 50,088,966	\$ 8,409,661	\$ 2,578,964	\$ (572,873)	\$ 360,646,157

Notes to the Consolidated Financial Statements (continued)

STATEMENT OF ACTIVITIES
For the year ended June 30, 2021

	University of Montana Foundation	Montana Tech Foundation	University of Montana – Western Foundation	Montana Grizzly Scholarship Association	Total
<u>REVENUES:</u>					
Contributions	\$ 22,283,641	\$ 5,358,186	\$ 2,121,427	\$ 977,360	\$ 30,740,614
Investment income and unrealized gain(loss) on investments	56,723,008	11,990,130	1,636,788	296,494	70,646,420
Gain on Loan Forgiveness	760,000	-	-	-	760,000
Administrative fees	447,115	-	46,572	-	493,687
Contract for services	550,000	-	-	-	550,000
Net revaluation of trusts and split-interest agreements	3,756,405	-	-	-	3,756,405
Income from perpetual trust	383,858	-	-	-	383,858
Special events	-	-	14,141	286,996	301,137
Other income	824,056	261,228	25,144	160,000	1,270,428
Total revenues	85,728,083	17,609,544	3,844,072	1,720,850	108,902,549
<u>EXPENSES:</u>					
Program services	16,497,967	3,647,355	1,055,781	1,383,168	22,584,271
Supporting services	7,230,048	1,153,285	191,654	487,703	9,062,690
Total expenses	23,728,015	4,800,640	1,247,435	1,870,871	31,646,961
Change in net assets before non-operating items	62,000,068	12,808,904	2,596,637	(150,021)	77,255,588
<u>NON-OPERATING REVENUES (EXPENSES):</u>					
Gain on disposition of asset	-	-	-	-	-
Change in net assets	\$ 62,000,068	\$ 12,808,904	\$ 2,596,637	\$ (150,021)	\$ 77,255,588
Net assets, beginning of fiscal year	263,214,603	49,048,734	8,395,926	2,418,329	\$ 323,077,592
Net assets, end of fiscal year	\$ 325,214,671	\$ 61,857,638	\$ 10,992,563	\$ 2,268,308	\$ 400,333,180

STATEMENT OF ACTIVITIES
For the year ended June 30, 2020

	University of Montana Foundation	Montana Tech Foundation	University of Montana – Western Foundation	Montana Grizzly Scholarship Association	Total
<u>REVENUES:</u>					
Contributions	\$ 29,917,713	\$ 5,582,489	\$ 1,805,624	\$ 1,343,075	\$ 38,648,901
Investment income and unrealized gain(loss) on investments	(3,146,248)	(256,500)	161,311	(45,069)	(3,286,506)
Administrative fees	476,946	-	46,206	-	523,152
Contract for services	550,000	-	-	-	550,000
Net revaluation of trusts and split-interest agreements	(456,355)	-	-	-	(456,355)
Income from perpetual trust	376,807	-	-	-	376,807
Special events	-	-	3,886	176,172	180,058
Other income	1,575,710	162,792	24,652	-	1,763,154
Total revenues	29,294,573	5,488,781	2,041,679	1,474,178	38,299,211
<u>EXPENSES:</u>					
Program services	20,444,150	4,446,251	784,902	1,290,682	26,965,985
Supporting services	7,367,545	1,256,935	211,605	517,679	9,353,764
Total expenses	27,811,695	5,703,186	996,507	1,808,361	36,319,749
Change in net assets before non-operating items	1,482,878	(214,405)	1,045,172	(334,183)	1,979,462
<u>NON-OPERATING REVENUES (EXPENSES):</u>					
Gain on disposition of asset	801	-	-	-	801
Change in net assets	\$ 1,483,679	\$ (214,405)	\$ 1,045,172	\$ (334,183)	\$ 1,980,263
Net assets, beginning of fiscal year	261,730,924	49,263,139	7,350,754	2,752,512	321,097,329
Net assets, end of fiscal year	\$ 263,214,603	\$ 49,048,734	\$ 8,395,926	\$ 2,418,329	\$ 323,077,592

Notes to the Consolidated Financial Statements (continued)

The following table shows the total investments held by the component units at June 30, 2021 and 2020:

	Fair Market Value	
	2021	2020
Investments held by component units:		
Stocks and bonds	\$ 96,951,853	\$ 80,469,017
Money market and certificates of deposit	11,882,582	4,133,227
Alternative investments	243,350,181	186,335,504
Real property	34,523,266	32,754,210
	<u>\$ 386,707,882</u>	<u>\$ 303,691,958</u>

NOTE 23 – COVID – 19

In March, 2020 the World Health Organization declared the novel coronavirus (COVID-19) outbreak a global pandemic. The University responded to the health crisis by moving to remote delivery of its courses and curtailing nonessential operating activities for much of the Spring 2020 Semester. The financial impact to the University included a decline in auxiliary revenues due to refunds to students for room and board, costs associated with moving to online delivery of education, and COVID-19 mitigation costs, which were partially offset by CARES Act awards of \$4.8 million received during FY20.

In FY21 the University continued remote delivery of courses and did not resume most nonessential operating activities, which contributed to a decline in tuition and fees revenue of \$8.1 million, or approximately 8.0%, and a decline in excess of \$12.9 in sales and service and auxiliary revenues, or over 23.0%. While the University received \$37.1 million from CARES Act (HEERF I, II and III) awards in FY21, the funding was not sufficient to offset all mitigation costs and loss of operating revenues. At the start of FY22 the University returned to delivery of courses face-to-face and resumed normal operations for a majority of operating activities.

NOTE 24 – NATURAL CLASSIFICATION WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by natural and functional classifications for the year ended June 30, 2021 were as follows:

Functional Classification:	Natural Classification											
	Compensation & benefits			Other postemployment benefits		Supplies & other services		Utilities	Communication	Scholarships	Depreciation	Total
Instruction	\$ 94,961,830	\$ 6,304,815	\$ 408,714	\$ 5,778,327	\$ 23,959	\$ 161,411	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 107,639,056
Research	48,144,771	682,538	69,727	25,519,752	87,455	184,838	-	-	-	-	-	74,689,081
Public service	21,051,202	324,560	24,448	6,439,617	744	169,485	-	-	-	-	-	28,010,056
Academic support	23,767,674	2,205,302	123,542	13,063,461	14,460	264,535	-	-	-	-	-	39,438,974
Student services	21,262,905	1,595,747	118,346	9,404,928	72,833	309,269	-	-	-	-	-	32,764,028
Institutional support	22,348,070	2,026,521	118,744	12,850,262	1,491	1,075,891	-	-	-	-	-	38,420,979
Operation and maintenance of plant	12,829,246	1,920,616	89,836	15,398,210	5,101,720	38,131	-	-	-	-	-	35,377,759
Scholarships and fellowships	-	-	-	-	-	-	29,502,303	-	-	-	-	29,502,303
Auxiliary enterprises	23,113,383	3,164,659	152,448	11,897,367	2,824,694	236,274	-	-	-	-	-	41,388,825
Depreciation	-	-	-	-	-	-	-	-	23,876,618	-	-	23,876,618
	\$ 267,479,081	\$ 18,224,758	\$ 1,105,805	\$ 100,351,924	\$ 8,127,356	\$ 2,439,834	\$ 29,502,303	\$ 23,876,618	\$ -	\$ -	\$ -	\$ 451,107,679

The University's operating expenses by natural and functional classifications for the year ended June 30, 2020, were as follows:

Functional Classification:	Natural Classification																	
	Compensation & benefits		Pension expense		Other postemployment benefits		Supplies & other services		Utilities		Communication		Scholarships		Depreciation		Total	
Instruction	\$	95,667,573	\$	4,406,343	\$	255,518	\$	8,609,197	\$	30,055	\$	149,090	\$	-	\$	-	\$	109,117,776
Research		45,567,642		507,929		41,805		20,230,178		90,704		158,987		-		-		66,597,245
Public service		20,404,171		175,419		14,282		7,821,267		1,284		169,793		-		-		28,586,216
Academic support		24,690,910		1,426,889		76,632		13,916,064		312		197,109		-		-		40,307,916
Student services		21,794,227		808,577		71,159		11,770,004		82,775		519,469		-		-		35,046,211
Institutional support		20,538,040		1,433,467		68,146		9,675,653		3,255		1,024,802		-		-		32,743,363
Operation and maintenance of plant		12,682,943		895,268		53,907		15,192,578		5,347,402		27,203		-		-		34,199,301
Scholarships and fellowships		-		-		-		-		-		-		24,354,433		-		24,354,433
Auxiliary enterprises		25,649,778		1,468,049		100,987		11,829,811		2,936,120		355,477		-		-		42,340,222
Depreciation		-		-		-		-		-		-		-		24,268,549		24,268,549
	\$	266,995,284	\$	11,121,941	\$	682,436	\$	99,044,752	\$	8,491,907	\$	2,601,930	\$	24,354,433	\$	24,268,549	\$	437,561,232

The University of Montana

Required Supplementary Information

(Unaudited)

Pensions

▪ Public Employees' Retirement System - Defined Benefit Retirement System

Schedule of Proportionate Share of the Net Pension Liability ¹ Measurement Date of June 30

	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability	2.98%	2.92%	2.93%	3.97%	4.17%	4.23%	4.28%
Employer's proportionate share of the net pension liability	\$ 78,719,997	\$60,942,763	\$61,150,041	\$77,373,223	\$71,099,299	\$59,138,504	\$53,314,985
State of Montana's proportionate share of the net pension liability associated with the employer	23,864,644	19,099,661	19,665,918	-	-	-	-
Total	\$102,584,641	\$80,042,424	\$80,815,959	\$77,373,223	\$71,099,299	\$59,138,504	\$53,314,985
Employer's covered-employee payroll	\$ 49,512,641	\$47,565,632	\$47,730,177	\$48,695,988	\$49,401,010	\$48,779,362	\$47,843,696
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	158.99%	128.12%	128.12%	158.89%	143.92%	121.24%	111.44%
Plan fiduciary net position as a percentage of the total pension liability	68.90%	73.84%	73.47%	73.75%	74.71%	78.40%	79.87%

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

	2021	2020*	2019	2018	2017	2016	2015
Contractually required contributions	\$ 4,688,307	\$ 4,340,494	\$ 4,137,369	\$ 4,081,094	\$ 4,124,934	\$ 4,413,046	\$ 4,521,932
Contributions in relation to the contractually required contributions	4,688,307	4,340,494	4,137,369	4,081,094	4,124,934	4,413,046	4,521,932
Contribution deficiency/(excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$52,878,887	\$49,503,716	\$47,565,623	\$47,730,177	\$48,695,988	\$49,401,010	\$48,779,362
Contributions as a percentage of covered-employee payroll	8.87%	8.77%	8.70%	8.55%	8.47%	8.93%	9.27%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available

*Some amounts/percentages restated to agree with actuarial valuation

Notes to Required Supplementary Information For the Year Ended June 30, 2020 (as of Measurement Date)

The following actuarial assumptions were adopted from the June 30, 2019 actuarial valuation:

General Wage Growth*	3.50%
Investment Rate of Return*	7.65%
*Includes inflation at	2.75%
Merit salary increases	0% to 8.47%
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Mortality (Healthy members)	For Males and Females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year
Mortality (Disabled members)	For Males and Females: RP 2000 Combined Mortality Table
Admin Expense as % of Payroll	0.30%

Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount varies from year to year based on the prior year's actual administrative expenses.

Required Supplementary Information (continued)

Changes of Benefit Terms

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

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.

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.

Interest credited to member accounts – Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%.

Lump-sum payouts

Effective July 1, 2017, lump-sum payouts in all systems are limited to the member's accumulated contributions rate than the present value of the member's benefit.

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

Required Supplementary Information (continued)**▪ Game Wardens' and Peace Officers' Retirement System****Schedule of Proportionate Share of the Net Pension Liability ¹
Measurement Date of June 30**

	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability	1.77%	1.96%	1.94%	1.97%	2.15%	2.09%	2.05%
Employer's proportionate share of the net pension liability	\$ 2,398,259	\$ 796,316	\$ 792,743	\$ 735,826	\$ 705,352	\$ 438,071	\$ 309,719
State of Montana's proportionate share of the net pension liability associated with the employer	-	-	-	-	-	-	-
Total	\$ 2,398,259	\$ 796,316	\$ 792,743	\$ 735,826	\$ 705,352	\$ 438,071	\$ 309,719
Employer's covered-employee payroll	\$ 956,673	\$ 1,011,905	\$ 983,942	\$ 969,235	\$ 1,011,526	\$ 935,808	\$ 852,841
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	250.69%	78.69%	80.57%	75.92%	69.73%	46.81%	36.32%
Plan fiduciary net position as a percentage of the total pension liability	61.17%	83.54%	82.54%	82.48%	82.48%	87.60%	90.17%

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

	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 87,006	\$ 86,101	\$ 91,767	\$ 88,555	\$ 87,231	\$ 91,867	\$ 87,061
Contributions in relation to the contractually required contributions	87,006	86,101	91,767	88,555	87,231	91,867	87,061
Contribution deficiency/(excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	967,037	956,672	1,011,905	983,942	969,235	\$1,011,526	\$935,808
Contributions as a percentage of covered-employee payroll	9.00%	9.00%	9.07%	9.00%	9.00%	9.08%	9.30%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2020 (as of Measurement Date)**

The following actuarial methods and assumptions were adopted from the June 30, 2019 actuarial valuation:

General Wage Growth*	3.50%
Investment Rate of Return*	7.65%
*Includes inflation at	2.75%
Merit salary increases	0% to 6.30%
Asset valuation method	Four-year smoothed market
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of pay, open
Mortality (Healthy members)	For Males and Females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year
Mortality (Disabled members)	For Males and Females: RP 2000 Combined Mortality Table
Admin Expense as % of Payroll	0.16%

Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount varies from year to year based on the prior year's actual administrative expenses.

Changes of Benefit Terms

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

2017 Legislative Changes:

General Revisions – House Bill 101, effective July 1, 2017

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.

- 1) Members who return for less than 480 hours in a calendar year:
 - a. May not become an active member in the system; and

Required Supplementary Information (continued)

- b. Are subject to a \$1 reduction in their retirement benefit for each \$3 earned in excess of \$5,000 in the calendar year.
- 2) 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.
- 3) 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

Applies to retirement system members who return on or after July 1, 2017 to active service covered by the system from which they retired.

- 1) 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.
- 2) 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.
- 3) 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.

Interest credited to member accounts

Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%.

Lump-sum payouts

Effective July 1, 2017, lump-sum payouts in all systems are limited to the member's accumulated contributions rate than the present value of the member's benefit.

Required Supplementary Information (continued)**▪ Teachers' Retirement System****Schedule of Proportionate Share of the Net Pension Liability ¹****Measurement Date of June 30**

	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability	0.62%	0.71%	0.84%	1.02%	1.14%	1.29%	1.38%
Employer's proportionate share of the net pension liability	\$ 13,954,295	\$ 13,736,916	\$ 15,509,582	\$ 17,147,199	\$ 20,741,987	\$ 21,139,488	\$ 21,171,694
State of Montana's proportionate share of the net pension liability associated with the employer	4,554,271	4,637,175	5,434,309	6,185,159	7,764,849	8,228,030	8,492,935
Total	\$ 18,508,566	\$ 18,374,091	\$ 20,943,891	\$ 23,332,358	\$ 28,506,836	\$ 29,367,518	\$ 29,664,629
Employer's covered-employee payroll	\$ 6,763,745	\$ 7,642,688	\$ 8,799,902	\$ 10,550,521	\$ 11,559,350	\$ 12,852,552	\$ 13,544,282
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	206.31%	179.74%	176.25%	162.52%	179.44%	164.48%	156.31%
Plan fiduciary net position as a percentage of the total pension liability	64.95%	68.64%	69.09%	70.09%	66.69%	69.30%	70.36%

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

	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 6,001,496	\$ 5,980,242	\$ 6,147,501	\$ 6,906,559	\$ 6,705,145	\$ 6,627,145	\$ 6,383,418
Contributions in relation to the contractually required contributions	6,001,496	5,980,242	6,147,501	6,906,559	6,705,145	6,627,145	6,383,418
Contribution deficiency/(excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 7,031,986	\$ 6,941,990	\$ 7,642,688	\$ 8,799,902	\$ 10,550,521	\$ 11,559,350	\$ 12,852,552
Contributions as a percentage of covered-employee payroll	85.35%	86.15%	80.44%	78.48%	63.55%	57.33%	49.67%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Notes to Required Supplementary Information**For the Year Ended June 30, 2020 (as of Measurement Date)**

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

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	29 years
Asset valuation method	4-year smoothed market
Inflation	2.50 percent
Salary increase	3.25 to 7.76 percent, including inflation for Non-University Members and 4.25% for University Members;
Investment rate of return	7.50 percent, net of pension plan investment expense, and including inflation

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

Required Supplementary Information (continued)

- 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.

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

- (1) Annual State contribution equal to \$25 million paid to the System in monthly installments.
- (2) 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.
- (3) 1% supplemental employer contribution. This will increase the current employer rates:
 - a. School Districts contributions will increase from 7.47% to 8.47%
 - b. The Montana University System and State Agencies will increase from 9.85% to 10.85%.
 - c. 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%.
- (4) 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.
- (5) 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 2020:

- 1) The discount rate was lowered from 7.50% to 7.34%.
- 2) The investment rate of return assumption was lowered from 7.50% to 7.34%.
- 3) The inflation rate was reduced from 2.50% to 2.40%.

The following changes to the actuarial assumptions were adopted in 2019:

- 1) The Guaranteed Annual Benefit Adjustment (GABA) for Tier Two members is a variable rate between 0.50% and 1.50% as determined by the Board. Since an increase in the amount of the GABA is not automatic and must be approved by the Board, the assumed increase was lowered from 1.50% to the current rate of 0.50% per annum.

The following changes to the actuarial assumptions were adopted in 2018:

- 1) Assumed rate of inflation was reduced from 3.25% to 2.50%
- 2) Payroll growth assumption was reduced from 4.00% to 3.25%
- 3) Investment return assumption was reduced from 7.75% to 7.50%.
- 4) Wage growth assumption was reduced from 4.00% to 3.25%
- 5) Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
 - a. For Males and Females: RP-2000 Healthy Combined Mortality Table projected to 2022 adjusted for partial credibility setback for two years. The tables include margins for mortality improvement which is expected to occur in the future.
- 6) Mortality among disabled members was updated to the following:
 - a. For Males: RP 2000 Disabled Mortality Table, set back three years, with mortality improvements projected by Scale BB to 2022.

Required Supplementary Information (continued)

- b. For Females: RP 2000 Disabled Mortality Table, set forward two years, with mortality improvements projected by Scale BB to 2022.

- 7) Retirement rates were updated
- 8) Termination rates were updated
- 9) Rates of salary increases were updated

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

- 1) 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:

- 1) 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.
- 2) 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).
- 3) 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.
- 4) 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:

- 1) Assumed rate of inflation was reduced from 3.50% to 3.25%
- 2) Payroll Growth Assumption was reduced from 4.50% to 4.00%
- 3) Assumed real wage growth was reduced from 1.00% to 0.75%
- 4) Investment return assumption was changed from net of investment and administrative expenses to net of investment expenses only.
- 5) Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
 - a. 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.
 - b. 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.
- 6) Mortality among disabled members was updated to the following:
 - a. For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
 - b. For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

Required Supplementary Information (continued)**Other Postemployment Benefits**▪ **Montana University System Group Insurance Plan****Schedule of Proportionate Share of the OPEB Liability¹
Measurement Date of March 31,**

	2021	2020	2019	2018
University's proportion of the OPEB liability	40.56%	40.71%	45.09%	45.78%
University's share of the OPEB liability	\$ 24,425,784	\$ 11,514,328	\$ 18,560,031	\$ 16,905,803
University's covered employee payroll	\$ 164,312,421	\$ 162,661,884	\$ 160,709,985	\$ 162,897,963
University's share of the OPEB liability as a % of covered employee payroll	14.87%	7.08%	11.55%	10.38%
Plan fiduciary net position as a % of total OPEB liability	0.00%	0.00%	0.00%	0.00%

¹ Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Changes in actuarial assumptions and other inputs:

The following changes to the actuarial assumptions were adopted in 2021:

- 1) An outflow of \$40,203,319 due to no retiree contribution increase.
- 2) An outflow of \$7,609,835 due to a decrease in the interest rate from 2.75% to 2.23%.

Changes of Benefit Terms:

- 1) In FY20, Annual deductible and out-of-pocket maximums were increased since prior actuarial valuation at December 31, 2019.
- 2) In FY21, Reduced carrier options to one on the actuarial valuation at December 31, 2020.

**Note to Required Supplementary Information – OPEB
For the Year Ended June 30, 2021**

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.

The University of Montana

Supplemental Information - All Campuses

(Unaudited)

<u>DESCRIPTION</u>	<u>Fall 2020</u> ⁵	<u>Fall 2019</u> ⁵	<u>Fall 2018</u>	<u>Fall 2017</u>	<u>Fall 2016</u>
Enrollment (Headcount) ¹	15,169	15,653	16,447	17,421	18,125
	<u>FY2021</u>	<u>FY2020</u>	<u>FY2019</u>	<u>FY2018</u>	<u>FY2017</u>
Enrollment (FTE) ²					
Two-year Colleges	1,876	2,033	2,193	2,220	2,342
Undergraduate	8,024	8,727	9,331	10,132	10,878
Graduate	2,013	1,988	2,068	2,069	1,965
	11,913	12,748	13,592	14,421	15,185
Enrollment (FTE) ²					
In-State students	8,817	9,429	10,116	10,709	11,249
Out-of-State students	1,934	2,176	2,426	2,607	2,763
Western Undergraduate Exchange	1,162	1,143	1,050	1,105	1,173
	11,913	12,748	13,592	14,421	15,185
	<u>FY2020</u>	<u>FY2020</u>	<u>FY2019</u>	<u>FY2018</u>	<u>FY2017</u>
Employees (FTE) - All Funds ²					
Contract Faculty	842	937	1,040	1,053	1,053
Contract Admin & Professional	819	788	708	731	756
Classified	976	1,069	1,071	1,146	1,173
GTA/GRA	254	255	259	256	245
Part Time and Other	465	542	587	580	615
	3,357	3,591	3,664	3,767	3,842
	<u>6/30/2020</u>	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2017</u>
Degrees Granted ³					
Certificate ⁴	228	246	222	346	391
Associate	608	702	884	564	609
Undergraduate	2,021	2,148	2,485	2,565	2,556
Graduate	1,318	1,239	1,181	985	920
	4,175	4,335	4,772	4,460	4,476

¹ Source: MUS Data Warehouse

² Source: MUS Data Warehouse | CHE113 Report

³ Source: IPEDS Completions Reports

⁴ Post-masters certificates and post-baccalaureate certificates are reported as graduate degrees. The certificate count only includes 1 and 2 year

⁵ Fall enrollment headcount is a primary driver of subsequent fiscal year operating results

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

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

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of Montana, as of and for the years ended June 30, 2021, and 2020, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated January 20, 2022. Our report includes a reference to other auditors who audited the financial statements of the University of Montana Foundation, the Montana Tech Foundation, the University of Montana-Western Foundation, and the Montana Grizzly Scholarship Association, as described in our report on the university's financial statements. The financial statements of the University of Montana Foundation, the Montana Tech Foundation, the University of Montana-Western Foundation, and the Montana Grizzly Scholarship Association, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses

or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described below, that we consider to be a material weakness.

- ◆ During our audit work over Capital Assets we identified ongoing projects that were listed in the university's commitment disclosures, but not their Construction Work in Progress (CWIP) listing. In addition, we noted several instances where building improvement and land improvement projects completed in prior years were still on the university's CWIP listing. This resulted in a net overstatement of the university's CWIP and understatement of Building Improvements. Misclassifications of capital assets can cause improper recognition of depreciation expense in the financial statements. Additionally, the information included in the initial draft of the notes to the financial statements were incorrect due to asset misclassifications. Management procedures and internal reviews of capital assets and the draft financial statements did not identify these as discrepancies or misstatements.

Compliance and Other Matters

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

University of Montana Response to Findings

The university's response to the findings identified in our audit are described on page C-1 of this report. The university's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 20, 2022

UNIVERSITY OF MONTANA

UNIVERSITY RESPONSE



March 28, 2022

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

RECEIVED
March 29, 2022
LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver:

On behalf of the University of Montana, I want to extend our appreciation to you and your staff for their work on the audit of the University of Montana's financial statements for the fiscal year ending June 30, 2021. The University considers accountability for all funds important and values the input provided by the legislative audit staff.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Seth Bodnar".

Seth Bodnar,
President
University of Montana

c: C. Christian, Commissioner of Higher Education

University of Montana
Response to Financial Statements Audit Recommendation

Recommendation #1

- A. *Enhance, documentation, and implement internal controls to ensure the completeness and accuracy of capital assets and their related note disclosures on the university's financial statements.*

Management concurs that enhancing internal controls and updating documentation is important in a dynamic and changing operational environment. Management believes its documentation and internal controls over capital assets are adequate to ensure that capital assets and related disclosures in its consolidated financial statements are complete and accurate in all material respects. In accordance with Recommendation A, management has implemented a plan to enhance communications between Business Services and Facilities Services personnel involved with capital projects. Management will ensure that key personnel are adequately informed about state capital asset accounting policy by November 1, 2022. These enhancements will help ensure that capital assets are properly accounted for and adhere to accounting standards and applicable state capital policy.

- B. *Adhere to state policy when recognizing building improvements as capital assets.*

Management concurs that applying state policy appropriately helps ensure the completeness and accuracy of capital assets and related disclosures in its Financial Statements. Management has made its determination based on U.S. Generally Accepted Accounting Principles and its understanding of state capital asset policy in preparation of the University's financial statements. State capital asset policy does not explicitly address accounting for capital projects completed in phases such as the multi-phase renovation project on the Missoula campus referenced in the finding. In this specific situation, management actively and intentionally evaluated and used its best judgement based on relevant facts and circumstances, further informed by collaboration with appropriate university personnel, in determining the classification of capital assets. While the University believes the findings described in Chapter II, pages 3-5, do not constitute a material weakness in internal controls, we recognize the LAD's perspective regarding the treatment of asset improvements in a phased approach. The University will amend its practices by November 1, 2022 and will continue to make every effort to ensure that it adheres to state policy regarding building improvements and capital assets.