A Report
to the
Montana
Legislature

Financial Audit

University of Montana

For the Two Fiscal Years Ended June 30, 2020

February 2021

Legislative Audit
Division

19-10B

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 March 31, 2022.

Audit Staff

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Reports can be found in electronic format at:
https://leg.mt.gov/lad/audit-reports

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

February 2021

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, 2020, with comparative information for the fiscal year ended June 30, 2019. The statements include financial information from four fundraising 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 cash and investments, tuition and fees, federal grants and contracts, residential and food service charges, compensation and employee benefits, state appropriation support, compensation and benefits, and other operating expenses. 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 audits completed by other organizations over the component units. We issued unmodified opinions on the financial statements, which means you can rely on the information they present. Our report does not include any recommendations to the university.

We 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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UNIVERSITY RESPONSE
University of Montana C-1

Elected, Appointed, and Administrative Officials

		Location	Term Expires
Board of Regents of Higher Education	Casey Lozar, Chair	Helena	February 1, 2025
	Paul Tuss, Vice Chair	Havre	February 1, 2027
	Joyce Dombrouski	Missoula	February 1, 2026
	Robert A. Nystuen	Lakeside	February 1, 2022
	Brianne Rogers	Bozeman	February 1, 2024
	Martha Sheehy	Billings	February 1, 2021
	John Miller, Student Regent	Billings	June 30, 2020
	Amy Sexton, Student Regent (beginning July 1, 2020)	Billings	June 30, 2021
	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, Academic and Student Affairs
	Tyler Trevor	Deputy Commissioner for Budget & Planning, Chief of Staff
	Helen Thigpen	Montana University System (MUS) Chief Legal Counsel, Deputy Commissioner
	Diedra Murray	MUS Internal Auditor

University of Montana Missoula	Seth Bodnar	President
	Reed Humphrey	Executive Vice President and Provost
	Mary Kreta	Associate Vice President for Enrollment Management
	Paul Lasiter	Vice President for Operations and Finance
	Scott Whittenburg	Vice President for Research & Creative Scholarship
	Zach Rossmiller	Acting Chief Information Officer
	Lucy France	Legal Counsel
	Dan Jenko	Controller
Montana Technological University (Butte)	Les P. Cook	Chancellor (Effective July 1, 2019)
	Doug Abbott	Provost and Vice Chancellor for Academic Affairs
	Beverly Hartline	Vice Chancellor for Research and Dean of Graduate School
	Joe McClafferty	Vice Chancellor for Development and University Relations
	Carleen Cassidy	Director of Finance and Budget
University of Montana Western (Dillon)	Beth Weatherby	Chancellor and University Executive Vice President
	Deborah Hedeen	Provost and Vice Chancellor for Academic and Student Affairs
	Michael Reid	Vice Chancellor for Administration and Finance
	Debra Richardson	Director of Business and Campus Services

Helena College University of Montana	Sandra Bauman	Dean/CEO
	Robyn Kiesling	Associate Dean for Academic and Student Affairs
	Michael Reid	Acting Assistant Dean of Administrative Affairs
	Traci Merzlak	Interim Director of Financial Aid

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

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Report Summary

Financial Audit 19-10B February 2021

Montana Legislative Audit Division

University of Montana

For the Two Fiscal Years Ended June 30, 2020

During fiscal year 2020, the university issued $146.8 million of bonds 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 the university's student-serving infrastructure. From fiscal year 2019 to 2020, the university's unrestricted net position increased by approximately $9.9 million, attributed in large part to the issuance of bonds and refunding of older debt.

AUDITOR'S OPINION Consolidated University of Montana Financial Statements (page A-1): UNMODIFIED

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

AUDITOR'S OPINIONS: Consolidated financial statements for the University of Montana 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 schedules and notes beginning on page A-5.

RECOMMENDATIONS:

In this report, we issued the following recommendations:
To the university: 0
To the legislature: 0

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 grant and contract, and state appropriation support revenues; compensation and benefits, and other operating expenses; cash and investments and 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.

Background

The University of Montana (UofM or university) includes four campuses located in Missoula, Butte, Dillion, and Helena). The university campuses and programs provide undergraduate and graduate academic degrees, two-year vocational and technical programs, as well as occupational certificates.

The university reported 12,748 full-time equivalents students for 2020, down by 6 percent from the amount reported in 2019. All campuses had a decrease.

The university's financial statements also include financial activity for the foundations of the Missoula, Butte, and Dillion 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. The 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.

(continued on back)

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

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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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(406) 444-4446

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(704) 430-3930

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

In this report, we identified the following:
Material Weaknesses in Internal Control: 0
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, 2020. The objectives of the audit were to:

1. Determine whether the university's financial statements present fairly the university's financial position, changes in financial position, and cash flows for the fiscal year ended June 30, 2020, with comparative financial amounts for the fiscal year ended June 30, 2019.
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 have a direct effect on the determination of material amounts and disclosures in the financial statements.

We focused our audit efforts on activity related to tuition and fees, residential and food service, federal grant revenues, state appropriation support, compensation and benefits, other operating expenses, cash and investments, long-term obligations, and pension liabilities. The audit work also included 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. 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 completed in 2021.

Background

The university is funded primarily through fees charged to students, federal grants and contracts revenues, and state appropriations. Collectively, the university recorded $106 million of net tuition and auxiliary revenues for charges to students during fiscal year 2020 and received approximately $102 million of state and local appropriations.

Through November 30, 2020, the university has expended approximately $11.4 million from federal COVID-19 pandemic funding. Use of these funds is limited to costs directly related to COVID-19, including emergency financial aid grants to students.

The unaudited supplemental information on page A-69 summarizes trends in the number of employees, student enrollment, and degrees granted.

The University of Montana consists of four campuses–University of Montana Missoula, located in Missoula; Montana Technological University, including the Montana Bureau of Mines and Geology, located in Butte; University of Montana Western, located in Dillon; and Helena College University of Montana, located in Helena. All campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The four campuses of the University of Montana provide a diversity of undergraduate and graduate academic programs.

University of Montana in Missoula offers four-year undergraduate programs along with masters and doctoral graduate programs. It includes professional schools and significant research activities. The campus is the center of liberal arts education in the Montana University System and operates the only law school in the system. Other schools/colleges include Humanities and Sciences, Business, Education, 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 completion of a 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 with a focus in engineering, science, energy, health, information services, and technology. It also includes the Highlands College, which provides core education courses and two-year degrees in various occupational and technical programs. The Bureau of Mines and Geology (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 as well as 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 the mineral, energy, and water resources of Montana.

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 2-year and undergraduate degrees include Biology, Business and Technology, Environmental Sciences, Education, English, Equine Studies, Health and Human Performance, Honors, Fine Arts, Mathematics, and 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 a variety of occupational and technical programs. Helena College provides core education studies for students who will transfer schools to work on undergraduate and graduate level programs. Non-credit continuing education courses for personal and professional development are also offered by Helena College.

Independent Auditor's Report and University Financial Statements

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Consolidated Statements of Net Position of the University of Montana as of June 30, 2020, and 2019, 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, 2020, and 2019, and the related University Component Units–Combined Statement of Activities for the fiscal years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Montana as of June 30, 2020, and 2019, and the changes in net position and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis beginning on page A-5, and the Required Supplementary Information beginning on page A-61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Supplemental Information-All Campuses (unaudited) on page A-69 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 15, 2021, 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 15, 2021

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, 2020 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, 2020, 2019, and 2018, and should be read in conjunction with the fiscal year 2020 financial statements.

FINANCIAL HIGHLIGHTS

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 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 campaigns 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 a 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.

Management, Discussion and Analysis (continued)

The financial highlights for fiscal year 2019 were:

- The research enterprise continues to be a strength at the University as reflected in near record-high grant volume expenditures in FY19 at the Missoula campus. During the fiscal year, $92.0 million in grant dollars were awarded and $84.8 million grant dollars were spent. Award volume is an indicator of proposal success and serves as a leading indicator of future grant and contract expenditures. At the Missoula campus, expenditures from awarded grants and contracts have increased by $26.5 million since FY14, or by almost 46.0%.

- The University's foundations provided $31.1 million in funding for students, faculty and programs in FY19, compared to $23.0 million in FY18, which is an increase of $8.1 million, or 35.2% over the prior year. The foundations also provided $10.7 million in capital support in FY19.

- Enrollment at the University decreased by 828 full time equivalent (FTE) students, declining from 14,420 FTE in FY18 to 13,592 FTE in FY19, a decrease of about 5.7%. Much of the decline in FTE is due to a decrease in the number of in-state students seeking undergraduate degrees, which has declined from 12,470 FTE in FY14 to 10,116 FTE in FY19, or a decrease of 18.9%.

- Moody's Investor Services assigned the University's general revenue bonds a credit rating of Aa3 in FY19, reaffirming the credit worthiness of the University judging its securities to be of high quality and subject to very low credit risk

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.

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

Management, Discussion and Analysis (continued)

STATEMENT OF NET POSITION

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

	For the years ended June 30, (in millions)		
	2020	2019	2018*
Description			
Total current assets	$ 202.90	$ 121.77	$ 116.54
Total non-current assets	454.94	476.14	474.26
Total assets	$ 657.84	$ 597.91	$ 590.80
Deferred outflows of resources	$ 30.02	$ 29.31	$ 31.26
Total current liabilities	$ 67.06	$ 67.17	$ 68.95
Total non-current liabilities	280.60	217.12	243.69
Total liabilities	$ 347.66	$284.29	$312.64
Deferred inflows of resources	$ 29.64	$ 20.89	$ 8.62
Net invested in capital assets	$ 279.07	$299.00	$281.44
Restricted:			
Nonexpendable	19.77	20.50	20.96
Expendable	4.18	4.91	4.54
Unrestricted	7.54	(2.37)	(6.14)
Total net postion	$ 310.56	$322.04	$300.80

*Restated

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

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.

Management, Discussion and Analysis (continued)

- 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.

- 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.

Events or developments which occurred during 2019 include:

- Current assets increased by almost $5.2 million in FY19 primarily from an increase in cash and cash equivalents of $7.0 million, offset by a net decrease in accounts and grants receivable of $1.2 million. The increase in cash and cash equivalents is largely from the maturities of $15.0 million in government agency securities that were reinvested in the Montana Board of Investments Short Term Investment Pool, offset by the expenditure of approximately $10.0 million of Series O Revenue Bond proceeds used for the capital construction of the Living Learning center on the MT Tech campus. Variances between other current asset classifications were not considered significant.

- The increase in non-current assets of $1.9 million in FY19 is largely from a net increase in capital assets of 16.7 million, offset by decreases in other long term investments, and loans to students of $13.4 million and $1.3 million, respectively. Proceeds from the maturities of $15.0 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 decreased by almost $2.0 million primarily from a $2.4 million decrease in its proportionate share of actuarially determined defined benefit retirement plans deferred outflows.

- Current liabilities decreased by $1.8 million in FY19 primarily from a decrease in unearned revenue of $3.1 million due to decreases in advance ticket sales from Adam Center events on the Missoula campus, which was offset in part by an increase in accounts payable and accrued liabilities of $0.7 million.

- The decrease in noncurrent liabilities of $26.6 million in FY19 is primarily due to a $17.8 million decrease in the University's actuarial determined proportionate share of defined benefit plans net pension liability, and $9.8 million decrease in long-term obligations.

- Deferred inflows of resources increased by $12.3 million in FY19 due almost exclusively to a $12.1 million increase in its proportionate share of actuarially determined defined benefit retirement plans deferred inflows.

- The University's net position increased by approximately $21.2 million in FY19 primarily due to a $17.6 million increase in net investment in capital assets, and a $3.7 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.

Management, Discussion and Analysis (continued)

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

	For the years ended June 30, (in millions)		
	2020	2019	2018
Description			
Operating revenues	$ 270.84	$ 277.88	$ 285.89
Operating expenses	437.56	424.60	430.27
Operating loss	(166.72)	(146.72)	(144.38)
Non-operating revenues	147.86	145.31	141.53
Loss before other revenues	(18.86)	(1.41)	(2.85)
Other revenues	7.38	22.65	22.91
Net increase in net position	(11.48)	21.24	20.06
Net Position, beginning of year as previously stated	322.04	300.80	244.67
Restatement for OPEB and related expenses	-	-	36.07
Net Position, beginning of year as restated	322.04	300.80	280.74
Net position, end of year	$ 310.56	$ 322.04	$ 300.80

The following provides a comparative analysis of revenues and expenses for the years ended June 30, 2020, 2019, and 2018:

	For the years ended June 30, (in millions)					
	2020		2019		2018	
REVENUES	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Tuition and fees, net	$ 106.40	24.7%	$ 108.21	24.0%	$ 113.89	25.0%
Federal grants and contracts	70.77	16.4%	65.49	14.6%	66.26	14.6%
State & local grants/contracts	5.81	1.4%	7.91	1.8%	7.15	1.6%
Nongovernmental grants/contracts	13.39	3.1%	14.05	3.1%	13.73	3.0%
Facilities and administrative cost allowances	14.01	3.3%	12.76	2.8%	13.09	2.9%
Sales/services of educational departments	16.96	3.9%	19.45	4.3%	19.32	4.2%
Auxiliary enterprise charges	38.01	8.8%	42.46	9.4%	44.72	9.8%
State appropriations	102.10	23.7%	99.37	22.1%	100.04	22.0%
Federal CARES Act grant	4.84	1.1%	-	0.0%	-	0.0%
Federal financial aid grants and contracts	18.80	4.4%	20.23	4.5%	22.44	4.9%
Investment income	3.11	0.7%	4.67	1.0%	1.72	0.4%
Private gifts	21.84	5.1%	23.32	5.2%	20.39	4.5%
Capital grants and gifts	7.26	1.7%	23.06	5.1%	23.88	5.3%
All other sources	7.50	1.8%	9.19	2.0%	8.56	1.9%
Total revenues	$ 430.80	100.0%	$ 450.17	100.0%	$ 455.19	100.0%
EXPENSES	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Compensation and benefits	$ 267.00	60.4%	$ 261.67	61.0%	$ 266.04	61.1%
Pension expense	11.12	2.5%	8.79	2.0%	13.83	3.2%
Other postemployment benefits	0.68	0.2%	1.30	0.3%	1.98	0.5%
Other operating expenses	110.14	24.9%	108.63	25.3%	103.26	23.7%
Scholarships and fellowships	24.35	5.5%	20.01	4.7%	20.40	4.7%
Depreciation and amortization	24.27	5.5%	24.20	5.6%	24.76	5.7%
Interest expense	4.72	1.1%	4.33	1.0%	4.86	1.1%
Total expenses	$ 442.28	100.0%	$ 428.93	100.0%	$ 435.13	100.0%

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

Management, Discussion and Analysis (continued)

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.

Events or developments which occurred during 2019 include:

In FY19, the University saw an increase of $21.2 million in its net position. Significant factors affecting the University's net position are described below.

- Operating revenues decreased by $8.0 million, or by 2.8% in FY19, primarily because of a $5.7 million decrease in tuition and fees revenue, and a $2.3 million decrease in auxiliary enterprises charges, which were due primarily to a 5.8% decline in student FTE. Other operating revenue classifications did not change significantly in FY19.
- In FY19, operating expenses decreased by about $5.7 million, or by 1.3%, primarily due to decreases in compensation and employee benefits of $4.4 million, and pension expense of $5.0 million, which were offset by an increase in other operating expenses of $5.4 million. Additional explanation about the decreases in FY19 operating expenses are provided below:
  - The decrease in compensation and benefits can be attributed primarily to a net decline of 72 in employee FTE in FY19, which decreased from 3,767 FTE in FY18 to 3,695 FTE in FY19, or an almost 2.0% decline over the prior year. Contract faculty, contract administrators and professionals, and classified employees saw a total decline of 111 FTE in FY19.
  - The decrease 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 other operating expenses is largely due to multiple planned maintenance projects that occurred over the year resulting in an increase of $2.3 million in maintenance expense, and a $2.0 million increase in performance fees paid for events held on the University's Missoula campus.

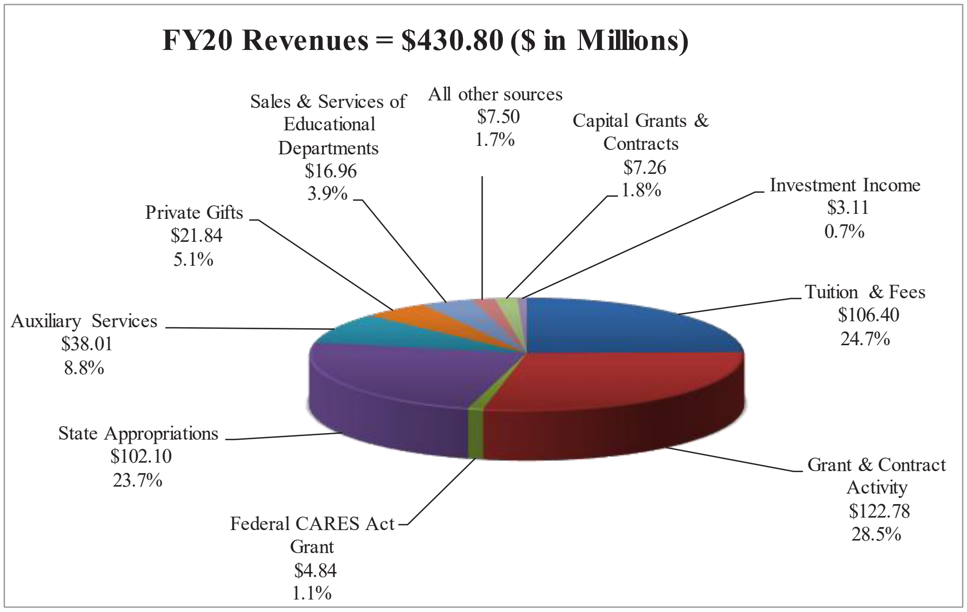
Management, Discussion and Analysis (continued)

- Net non-operating revenues increased by $3.8 million, or by about 2.7%, which is largely due to a $2.9 million increased in investment income.

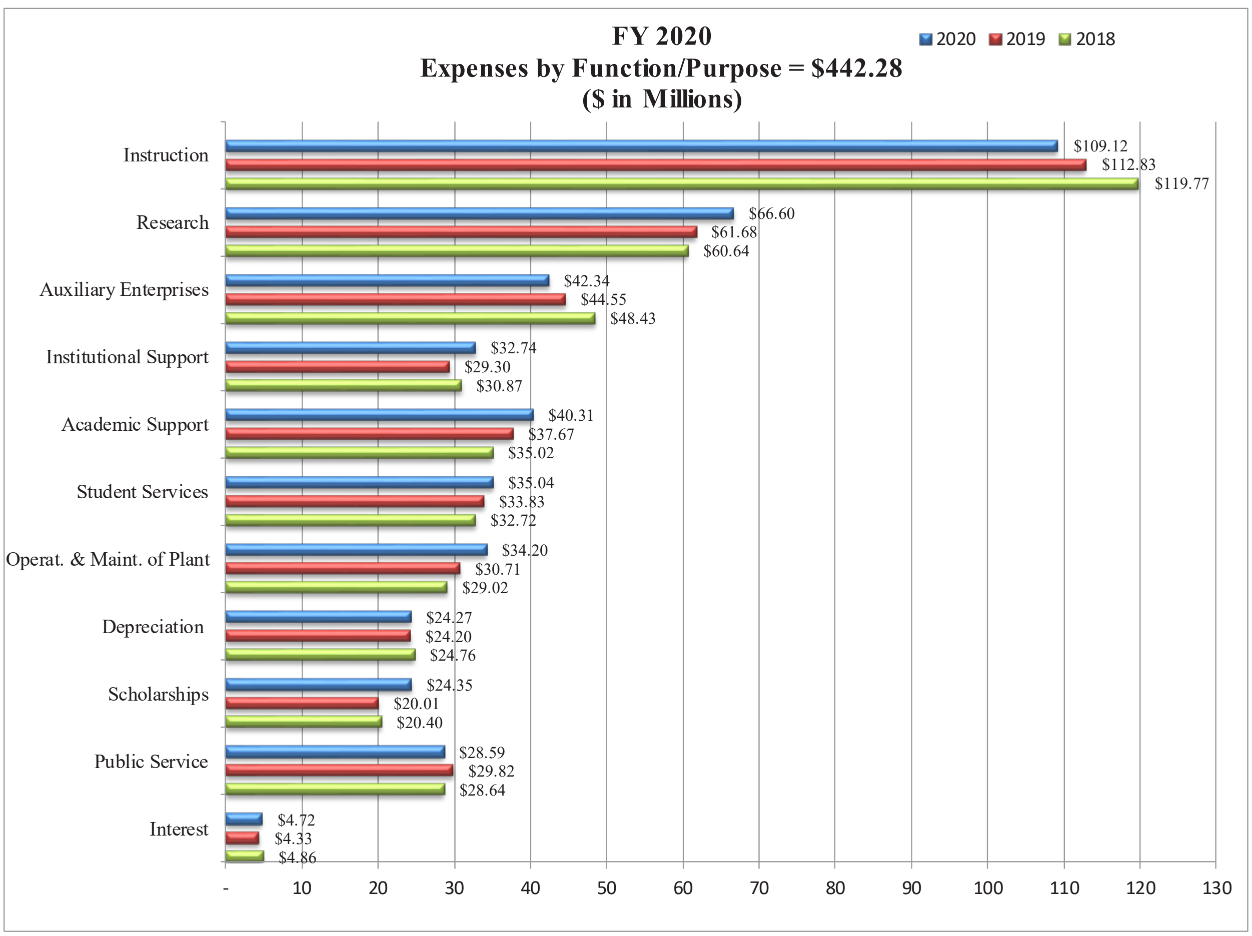
- Other revenues decreased slightly by $0.26 million, or by 1.1%.

Management, Discussion and Analysis (continued)

The following chart provides a graphical representation of revenue classifications as a percentage of total revenues for fiscal year 2020:



The following chart provides a graphical comparison of operating expenses by function for fiscal years 2020, 2019 and 2018:



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.

	For years ended June 30, (in millions)		
	2020	**2019**	**2018**
Cash Flow Category			
Cash Provided by (Used for):			
Operating Activities	$(145.20)	$ (122.98)	$ (104.96)
Non-capital Financing Activities	153.74	144.97	144.67
Investing Activities	10.43	18.63	2.88
Capital and Related Financial Activities	54.86	(33.55)	(13.06)
Net Increase (Decrease) in Cash	73.83	7.07	29.53
Cash and Cash Equivalents, beginning of year	94.59	87.52	57.99
Cash and Cash Equivalents, end of year	$ 168.42	$ 94.59	$ 87.52

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.

- 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.

Specific events or cash transactions during fiscal year 2019, which were notable include:

- In FY19, net cash used by operating activities totaled approximately $123.0 million, which was $18.0 million more than was used by operating activities in FY18. The primary factors causing the net increase in cash used by operating activities were as follows: Cash provided from operating activities from all sources decreased by $15.8 million or about 5.4%. This includes decreases in cash provided by tuition and fees and auxiliary enterprise charges of about $10 million, due largely to declining enrollment; Payments for salaries and benefits, operating expenses and other operating

Management, Discussion and Analysis (continued)

activities increased only slightly by $2.3 million, or less than 1.0%, accounting for a portion of the increase in cash used by operating activities.

- Net cash flow from noncapital financing activities provided net cash of $145.0 million in FY19 primarily from state appropriations of $99.4 million, federal financial aid grants and contracts of $20.2 million and $23.3 million from private grifts. Overall, net cash provided by noncapital financing activities was only slightly higher than in FY18.

- Net cash flow provided by investing activities totaled $18.6 million in FY19, primarily from $15.0 million in proceeds from the maturities of government agency securities, and $3.4 million from earnings received on investments.

- In FY19, net cash used by capital and related financing activities totaled $33.6 million, which was $20.5 million more than in FY18. Notable uses of cash for these activities included $28.4 million paid for capital assets and payments of $15.6 million for principal and interest on long term obligations. Uses of cash for capital and related financing activities were offset by capital gifts received in FY19 of $10.2 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.

- Due to the COVID-19 global pandemic, and not unlike other institutions of higher education, the University has experienced a decline in tuition and fees for the Fall 2020 Semester and also, a significant decline in sales and service and auxiliary revenues during FY21. While the University has received funding through the CARES Act in FY21, it is not sufficient to offset all mitigation costs and loss of operating revenues. There is a high degree of uncertainty about the future impact relating to these events on University operations.

University of Montana

Consolidated Statements of Net Position

As of June 30,	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents (note 3)	$ 167,959,611	$ 94,458,379
Securities lending collateral (note 3)	606,986	367,439
Accounts and grants receivable, net (note 4)	9,230,338	7,392,396
Due from Federal government	14,469,426	11,065,679
Due from primary government	1,047,903	949,558
Due from other State of Montana component units	176,425	198,983
Loans to students, net	788,899	1,239,362
Inventories (note 6)	2,107,477	2,025,930
Prepaid expenses and other charges (note 7)	6,510,115	4,067,521
Total Current Assets	202,897,180	121,765,247
Noncurrent Assets		
Restricted cash and cash equivalents	459,100	135,584
Investments and beneficial interest (note 3)	58,487,688	65,927,051
Loans to students, net	7,791,843	8,725,661
Capital assets, net (note 8)	388,208,201	401,352,585
Total Noncurrent Assets	454,946,832	476,140,881
Total Assets	$ 657,844,012	$ 597,906,128
DEFERRED OUTFLOW OF RESOURCES (note 9)	$ 30,020,446	$ 29,305,284
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (note 10)	$ 26,992,628	$ 26,444,895
Due to Federal government	4,647,690	32,095
Due to primary government	59,839	2,165,842
Due to other State of Montana component units	-	5,143
Securities lending liability (note 3)	606,986	367,439
Student and other deposits	2,481,966	1,935,025
Unearned revenue (note 11)	17,449,952	14,482,633
Accrued compensated absences	12,309,754	11,825,158
Current portion of long-term obligations	2,507,903	9,909,543
Total Current Liabilities	67,056,718	67,167,773
Non-current Liabilities (note 12)		
Accrued compensated absences	16,184,653	15,105,521
Unearned compensation	391,045	391,045
Long-term obligations	166,001,845	78,040,394
Advances from primary government (note 16)	2,991,313	17,631,036
Net pension liability (note 17)	75,475,995	77,452,366
Other postemployment benefits liability (note 18)	11,514,328	18,560,031
Due to Federal Government	8,042,294	9,939,138
Total Non-current Liabilities	280,601,473	217,119,531
Total Liabilities	$ 347,658,191	$ 284,287,304
DEFERRED INFLOW OF RESOURCES (note 9)	$ 29,642,183	$ 20,885,221
NET POSITION		
Net investment in capital assets	$ 279,069,998	$ 298,998,994
Restricted for:		
Nonexpendable		
Endowments	18,025,465	18,942,563
Loans	1,748,846	1,559,343
Expendable		
Loans	2,852,958	2,850,068
Scholarships, research, instruction, and other	1,327,927	2,057,976
Unrestricted	7,538,890	(2,370,057)
Total Net Position	$ 310,564,084	$ 322,038,887

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,	2020	2019
OPERATING REVENUES:		
Tuition and fees:		
Tuition (net of scholarship allowances of $30,966,141 and $34,052,130, respectively)	$ 80,450,319	$ 81,850,625
Fees	25,956,356	26,364,354
Total tuition and fees, net of scholarship allowances	106,406,675	108,214,979
Federal grants and contracts	70,772,056	65,494,676
State and local grants and contracts	5,813,882	7,908,412
Nongovernmental grants and contracts	13,394,310	14,047,883
Grant and contract facilities and administrative cost allowances	14,008,935	12,757,354
Sales and services of educational departments	16,965,779	19,449,874
Auxiliary enterprises charges:		
Residential life (net of scholarship allowances of $390,899 and $419,541, respectively)	14,347,859	15,758,211
Food services (net of scholarship allowances of $390,899 and $419,541, respectively)	11,939,044	13,837,126
Other auxiliary revenues	11,721,451	12,856,431
Interest earned on loans to students	51,636	51,174
Other operating revenues	5,415,539	7,505,614
Total Operating Revenues	270,837,166	277,881,734
OPERATING EXPENSES:		
Compensation and employee benefits	266,995,284	261,674,253
Pension expense (note 17)	11,121,941	8,788,187
Other postemployment benefits (note 18)	682,436	1,296,398
Other	110,138,589	108,632,391
Scholarships and fellowships	24,354,433	20,012,059
Depreciation and amortization	24,268,549	24,198,354
Total Operating Expenses	437,561,232	424,601,642
OPERATING LOSS	(166,724,066)	(146,719,908)
NON-OPERATING REVENUES (EXPENSES):		
State appropriations	102,099,199	99,372,103
Federal CARES Act grant	4,835,631	-
Federal financial aid grants and contracts	18,797,527	20,229,522
Land grant revenues	1,903,851	2,044,428
Private gifts	21,835,723	23,320,689
Investment income	3,114,164	4,672,311
Interest expense	(4,724,400)	(4,328,889)
Net Non-Operating Revenues	147,861,695	145,310,164
LOSS BEFORE OTHER REVENUES (EXPENSES)	(18,862,371)	(1,409,744)
OTHER REVENUES (EXPENSES):		
Capital grants and gifts	7,261,214	23,055,947
Loss on disposal of capital assets	126,354	(406,763)
Total Other Revenues	7,387,568	22,649,184
NET CHANGE IN NET POSITION	(11,474,803)	21,239,440
NET POSITION:		
Net position - beginning of year	322,038,887	300,799,447
Net Position - End of Year	$ 310,564,084	$ 322,038,887

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,	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 105,522,225	$ 110,835,638
Federal grants and contracts	69,047,431	65,250,358
State grants and contracts	5,672,205	7,878,911
Nongovernmental grants and contracts	13,067,908	13,995,479
Grant and contract facilities and administrative cost allowances	14,008,935	12,757,354
Sales and services of educational activities	17,668,268	18,029,282
Auxiliary enterprises charges	39,582,136	39,351,152
Interest earned on loans to students	69,468	110,280
Other operating receipts	4,016,847	7,580,598
Payments to employees for salaries and benefits	(275,072,043)	(270,710,605)
Payments for other postemployment benefits (pensions)	(1,862,078)	(1,765,466)
Operating expenses	(113,949,745)	(107,848,631)
Payments for scholarships and fellowships	(24,354,433)	(20,012,059)
Loans made to students	(158,097)	(8,944)
Loan payments received	1,542,378	1,581,057
Net Cash Used by Operating Activities	(145,198,595)	(122,975,596)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	$ 102,099,199	99,372,102
Federal CARES Act grant	9,101,370	-
Land grants income	1,903,851	2,044,428
Federal financial aid grants and contracts	18,797,527	20,229,522
Private gifts for other than capital purposes	21,835,724	23,320,689
Direct lending proceeds	70,972,217	75,869,525
Direct lending disbursements	(70,972,217)	(75,869,525)
Net Cash Provided by Noncapital Financing Activities	153,737,671	144,966,741
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investments	7,500,000	15,250,122
Earnings received on investments	2,929,506	3,381,177
Net Cash Provided by Investing Activities	10,429,506	18,631,299
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for capital assets	(7,187,194)	(28,375,752)
Private gifts for capital purposes	3,547,477	10,232,582
Proceeds from the issuance of revenue bonds	155,654,051	-
Proceeds from advances from primary government	-	175,000
Principal paid on advances from primary government, and capital leases	(16,569,250)	(1,987,261)
Principal paid on bonds payable	(75,467,426)	(9,385,382)
Interest paid on capital debt and leases	(5,121,492)	(4,209,024)
Net Cash Provided (Used) by Capital and Related Financing Activities	54,856,166	(33,549,837)
Change in Cash and Cash Equivalents	73,824,748	7,072,607
Cash and Cash Equivalents, Beginning of Year	94,593,963	87,521,356
Cash and Cash Equivalents, End of Year	$ 168,418,711	$ 94,593,963

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)	2020	2019
Reconciliation of Operating Loss to Net Cash Used By Operating Activities:		
Operating loss	$ (166,724,066)	$ (146,719,908)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Noncash expense:		
Depreciation and amortization expense	24,268,549	24,198,354
Amortization of net pension liability	(1,420,354)	(3,281,204)
Amortization of other post employment benefits obligation	1,309,898	894,059
Changes in assets and liabilities:		
Accounts receivable	(5,317,473)	804,138
Loans to students	1,384,281	1,572,114
Inventories	(81,547)	(117,087)
Prepaid expenses and other charges	(2,442,594)	555,542
Accounts payable and accrued expenses	643,567	536,312
Unearned revenue	2,967,319	(3,061,636)
Student and other deposits	546,941	65,807
Due to federal government	(1,896,844)	444,313
Compensated absences	1,563,728	1,133,600
Net Cash Used by Operating Activities	$ (145,198,595)	$ (122,975,596)
Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions		
Fixed assets acquired by incurring capital lease obligations	$ -	$ 140,718
Change in fair value of investments recognized as a component of interest income	$ 169,639	$ 1,291,134
Fixed assets acquired from capital grants and donations	$ 3,713,737	$ 12,823,366
Discounts, premiums and deferred loss on refunding amortized to interest expense	$ 323,587	$ 190,508
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents classified as current assets	$ 167,959,611	$ 94,458,379
Cash and cash equivalents classified as noncurrent assets	459,100	135,584
Total Cash and Cash Equivalents, End of Year	$ 168,418,711	$ 94,593,963

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	2020	2019*
ASSETS		
Cash and cash equivalents	$ 12,195,210	$ 16,199,862
Short-term investments	5,152,773	5,412,899
Accrued dividends and interest	300,918	322,052
Investments	298,539,185	295,001,145
Contributions receivable, net	29,090,108	26,349,263
Student loans and other receivables	307,968	297,874
Beneficial interests in trusts held by others	9,901,611	10,466,265
Property, building and equipment, net of accumulated depreciation	2,454,884	2,501,160
Other assets	2,703,500	1,754,328
Total Assets	$ 360,646,157	$ 358,304,848
LIABILITIES		
Accounts payable	$ 1,252,120	$ 1,220,243
Accrued expenses	158,324	107,644
Deferred revenue	159,026	231,760
Compensated absences	279,410	257,820
Notes payable-current	809,776	-
Long-term notes payable	340,308	-
Liabilities to external beneficiaries	16,090,962	16,750,691
Custodial funds	18,478,639	18,639,361
Total Liabilities	37,568,565	37,207,519
NET ASSETS		
Net assets - without donor restrictions	11,394,165	10,911,375
Net assets - with donor restrictions	311,683,427	310,185,954
Total Net Assets	323,077,592	321,097,329
Total Liabilities and Net Assets	$ 360,646,157	$ 358,304,848

Restated to Conform to Current Year Classification

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.

University of Montana Component Units

Combined Statement of Activities

For The Year Ended June 30, 2019	Without Donor Restrictions	With Donor Restrictions	2019 Total
REVENUES:			
Contributions	$ 989,523	$ 35,857,566	$ 36,847,089
Interest and dividend income	1,111,198	5,915,440	7,026,638
Net realized and unrealized gains (losses) on investments	745,734	4,807,758	5,553,492
Administrative fees	1,063,855	-	1,063,855
Support received from university	550,000	-	550,000
Net revaluation of trusts and split-interest agreements	(10,293)	360,298	350,005
Income from pertual trust	-	392,590	392,590
Special events	596,793	-	596,793
Other income	105,051	1,291,279	1,396,330
Net assets released from restrictions	47,786,993	(47,786,993)	-
Total Revenues	52,938,854	837,938	53,776,792
EXPENSES:			
Program services			
Academic and institutional	21,662,571	-	21,662,571
Capital expenses	10,728,994	-	10,728,994
Scholarships and awards	9,461,705	-	9,461,705
Total Program Services	41,853,270	-	41,853,270
Operating expenses			
Fundraising efforts	4,032,436	-	4,032,436
General and administrative	5,168,739	-	5,168,739
Other miscellaneous	43,089	-	43,089
Total Operating Expenses	9,244,264	-	9,244,264
Change in Net Assets Before Nonoperating Items	1,841,320	837,938	2,679,258
NON-OPERATING REVENUES (EXPENSES):			
Loss on disposition of asset	-	3,726	3,726
Change in Net Assets	1,841,320	841,664	2,682,984
Net Assets - Beginning of Year	8,437,513	310,027,054	318,464,567
Restatement of net assets	632,542	(682,764)	(50,222)
Net assets- Beginning of Year as Restated	9,070,055	309,344,290	318,414,345
Net Assets - End of Year	$ 10,911,375	$ 310,185,954	$ 321,097,329

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, 2020 AND 2019

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 15,600 students on its four campuses. The State of Montana Board of Regents (Board of Regents) is appointed by the Governor of the State and has oversight responsibility with respect to the University. The State allocates and allots funds to each campus separately and requires that the funds be maintained accordingly.

- **REPORTING ENTITY**

The accompanying consolidated financial statements include all activities of the four campuses of the University, the Forestry Experiment Station and the Montana Bureau of Mines. The four campuses of the University are the University of Montana – Missoula, Montana 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 Comprehensive Annual Financial Report (CAFR).

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

- **BASIS OF PRESENTATION**

The financial statements have been prepared in accordance with generally accepted accounting principles, as prescribed by the Governmental Accounting Standards Board (GASB). Under the provisions of GASB standards, the University reports as a special-purpose government engaged in business type activities. Accordingly, the basic financial statements the University is required to present are a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. Along with notes to the financial statements, required supplemental information includes a management discussion and analysis. 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.

- **RECENTLY IMPLEMENTED ACCOUNTING PRONOUNCEMENTS**

The University's component units implemented FASB *ASU No. 2016-14* in FY19, applying the changes retrospectively. As required by the new standard, temporarily restricted net asset classes have been combined into a single net asset class titled net assets with donor restrictions on the Statement of Financial Position. The unrestricted net asset class has been renamed net assets without donor restrictions.

- **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 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 COVIC-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.

Notes to the Consolidated Financial Statements (continued)

- **INVENTORIES**

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

- **CASH AND SHORT–TERM INVESTMENTS**

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

- **CAPITAL ASSETS**

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

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

Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets as follows: buildings – 40 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 POSITON**

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

- **Net Investment in capital assets -** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Notes to the Consolidated Financial Statements (continued)

- **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.

- **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, 2020 and 2019:

	2020	2019
Cash deposits, petty cash and change funds	$ 80,220,128	$ 73,549,335
Cash equivalents:		
STIP	28,673,592	20,200,413
Cash held by trustee	59,065,891 [1]	708,631
	87,739,483	20,909,044
	$ 167,959,611	$ 94,458,379

[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, 2020 and 2019 totaled $79,929,394 and $ 73,208,329 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).

Notes to the Consolidated Financial Statements (continued)

STIP investments are primarily in short-term, high quality, fixed income securities with a maximum maturity of 397 days or less. 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 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, 2020 and 2019 amounted to $606,986 and $367,439 respectively. Securities lending cash collateral is shown at net asset value and is invested in the Navigator Securities Lending Government Lending Money Market portfolio with an average duration of 36 days and the average weighted final maturity was 109 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) per share. This includes financial assets in external investment pools administered by the Montana Board of Investments (MBOI), and the University of Montana and Montana Tech Foundations. For 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, 2020 and 2019:

Security Type	Fair Value Measurement Level	Fair Value (5) 2020	Fair Value (5) 2019	Effective Duration at June 30, 2020(1)	Credit Quality Rating at June 30, 2020(3)
Noncurrent					
Agency/Government related	Level 2	$ 5,063,400	$ 12,550,600	0.44	AA+
Trust Fund Investment Pool (TFIP)	NAV(4)	33,393,186	31,924,845	5.38(2)	NR
Foundation pooled investments	NAV(4)	15,320,566	16,689,282	Not applicable	N/A
Life insurance	NAV(4)	420,184	362,970	Not applicable	N/A
Total noncurrent investments		$ 54,197,336	$ 61,527,697		
Beneficial interest	NAV(4)	4,290,352	4,399,354	Not applicable	N/A
		$ 58,487,688	$ 65,927,051		

(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 1.47% 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 $16,819,447 and 19,075,407 at June 30, 2020 and 2019, respectively.

Notes to the Consolidated Financial Statements (continued)

Investments held by the University at June 30, 2020 and 2019 are described further in the paragraphs below.

Agency/Government Related

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

Montana Board of Investments Pools

The University at June 30, 2020 and 2019 was a participant in the Trust Fund Investment Pool (TFIP), an external investment pool administered by the Montana Board of Investments (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, 80/20 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 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 2020 and 2019. 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 2020 and 2019 resulting from a borrower default. As of June 30, 2020 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 2020 and 2019, 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 28 days and the average weighted final maturity of 91 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 a 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 in the following paragraphs:

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

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 46 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. Cash held by trustees are invested in money market funds that have received AAA credit quality ratings from three NRSRO's: Moody's; Standard and Poor's; and Fitch.

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

Custodial Credit Risk
Custodial credit risk 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 have bank ratings from at least two Nationally Recognized Statistical Rating Organization (NRSRO) 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 and 2019, expressed as a percentage of total investments, was 9.69% and 21.19%, respectively.

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, 2020 and 2019. 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 $1,903,851 and $2,044,428 at June 30, 2020 and 2019, 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 Comprehensive Annual Financial Report (CAFR).

NOTE 4 – ACCOUNTS AND GRANTS RECEIVABLE

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

	2020	2019
Student tuition and fees	$ 4,945,350	$ 2,166,195
Auxiliary enterprises and other operating activities	3,192,902	3,604,229
Private grants and contracts	4,660,070	4,104,066
Other	126,156	445,716
Gross accounts and grants receivable	12,924,478	10,320,206
Less: allowance for doubtful accounts	3,694,140	2,927,810
	$ 9,230,338	$ 7,392,396

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, 2020 and 2019, amounted to $8,042,294 and $ $9,939,138, 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, 2020 and 2019:

	2020	2019
Bookstore	$ 873,433	$ 800,392
Campusr Recreation Operations	33,971	33,551
Dining Services	310,991	346,404
Facilities Services	683,729	695,277
Medical/Pharmacy Services	147,490	124,030
Other	57,863	26,276
	$ 2,107,477	$ 2,025,930

NOTE 7 – PREPAID EXPENSES AND OTHER CHARGES

Prepaid expenses and other charges consisted of the following at June 30, 2020 and 2019:

	2020	2019
Financial aid	$ 2,080,971	$ 831,769
Library materials	1,294,658	1,459,807
Technology software	1,001,035	518,895
Student fees	307,484	322,495
Travel & other prepaid expenses	1,825,967	934,555
	$ 6,510,115	$ 4,067,521

Notes to the Consolidated Financial Statements (continued)

NOTE 8 – CAPITAL ASSETS

The following tables present the changes in capital assets at June 30, 2020 and 2019, respectively.

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	16,407,912	-	-	-	16,407,912
Infrastructure	9,904,101	-	-	-	9,904,101
Buildings	424,882,388	-	-	1,247,064	426,129,453
Building improvements	234,009,089	42,581	-	-	234,051,669
Furniture and equipment	98,095,976	6,417,145	246,862	-	104,266,258
Library materials	62,205,494	378,755	1,300	-	62,582,948
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	-	-	2,594,928
Buildings	175,415,679	9,274,057	-	-	184,689,736
Building improvements	172,075,701	7,127,217	-	-	179,202,917
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	2,358,714.09	144,875.63	720,340.79	-	1,783,248.93
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)

For the year ended June 30, 2019:

	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
Capital assets not being depreciated:					
Land	$ 8,305,722	$ -	$ -	$ -	$ 8,305,722
Capitalized collections	18,342,223	9,720,927	-	-	28,063,150
Construction in progress	26,503,082	23,428,695	-	(42,547,589)	7,384,188
	53,151,027	33,149,622	-	(42,547,589)	43,753,060
Other capital assets:					
Land improvements	16,369,899	38,013	-	-	16,407,912
Infrastructure	9,904,101	-	-	-	9,904,101
Buildings	384,641,392	-	-	40,240,996	424,882,388
Building improvements	232,405,866	-	183,812	1,787,034	234,009,088
Furniture and equipment	94,008,715	6,286,484	2,396,849	197,626	98,095,976
Library materials	62,341,022	435,613	571,141	-	62,205,494
Livestock	255,268	-	-	-	255,268
	799,926,262	6,760,110	3,151,802	42,225,656	845,760,226
Less accumulated depreciation for:					
Land improvements	12,198,120	407,345	-	-	12,605,465
Infrastructure	1,941,464	326,732	-	-	2,268,196
Buildings	166,894,005	8,521,675	-	-	175,415,680
Building improvements	164,680,990	7,507,128	112,420	-	172,075,698
Furniture and equipment	65,764,523	6,075,738	2,031,199	-	69,809,062
Library materials	57,834,737	717,748	290,226	-	58,262,260
Livestock	45,694	37,360	-	-	83,054
	469,359,533	23,593,726	2,433,844	-	490,519,414
Other capital assets, net	330,566,729	(16,833,616)	717,958	42,225,656	355,240,811
Intangible assets	941,057	1,411,620	315,896	321,933	2,358,714
Total capital assets, net	$ 384,658,813	$ 17,727,626	$ 1,033,854	$ -	$ 401,352,585
Capital Asset Summary:					
Capital assets not being depreciated	$ 53,151,027	$ 33,149,622	$ -	$ (42,547,589)	$ 43,753,060
Other capital and intangible assets	800,867,319	8,171,730	3,467,698	42,547,589	848,118,940
	854,018,346	41,321,352	3,467,698	-	891,872,000
Less: accumulated depreciation	469,359,533	23,593,726	2,433,844	-	490,519,414
Total capital assets, net	$ 384,658,813	$ 17,727,626	$ 1,033,854	$ -	$ 401,352,585

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, 2020 and 2019:

	2020	2019
Deferred Outflows of Resources		
Unamortized loss on debt refunding	$ 2,868,280	$ 2,122,481
Defined benefit retirement plans	22,596,742	26,434,145
Other postemployement benefits for health insurance	4,555,424	748,658
Total deferred outflows of resources	$ 30,020,446	$ 29,305,284
Deferred Inflows of Resources		
Defined benefit retirement plans	$ 12,528,699	$ 15,810,085
Other postemployement benefits for health insurance	12,823,132	660,762
Benefical interest	4,290,352	4,414,374
Total deferred inflows of resources	$ 29,642,183	$ 20,885,221

NOTE 10 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2020 and 2019:

	2020	2019
Compensation, benefits and related liabilities	$ 20,213,985	$ 20,086,750
Accrued interest expense	352,230	416,002
Accounts payable	591,669	2,403,815
Vouchers payable	4,716,568	1,847,823
Other accrued liabilities	1,118,175	1,690,505
Total accounts payable and accrued liabilities	$ 26,992,628	$ 26,444,895

NOTE 11 – UNEARNED REVENUES

Unearned Revenues consisted of the following at June 30, 2020 and 2019:

	2020	2019
Grant and contract revenue received in advance	$ 7,378,842	$ 5,799,639
Summer session payments received in advance	2,984,324	2,322,742
Advance ticket sales	3,843,545	3,686,497
Other unearned revenues	3,243,241	2,673,755
Total unearned revenue	$ 17,449,952	$ 14,482,633

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, 2020 and 2019, respectively:

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

For the year ended June 30, 2019:

	Beginning Balance	Additions	Deductions	Ending Balance	Less: Current Portion	Long Term Portion
Bonds, notes and capital leases						
Revenue bonds payable, net	$ 97,027,705	$ -	$ 9,446,685	$ 87,581,020	$ 9,764,903	$ 77,816,117
Subordinated bonds payable	90,000	-	35,000	55,000	36,000	19,000
Capital leases payable	259,541	140,718	86,342	313,917	108,640	205,277
	97,377,246	140,718	9,568,027	87,949,937	9,909,543	78,040,394
Other long-term liabilities						
Accrued compensated absences	25,797,079	12,585,107	11,451,508	26,930,679	11,825,158	15,105,521
Unearned compensation	391,045	-	-	391,045	-	391,045
Advances from primary government	21,417,015	175,000	1,987,261	19,604,754	1,973,718	17,631,036
Other postemployment benefits liability	16,905,803	2,290,785	636,557	18,560,031	-	18,560,031
Net pension liability	95,256,248	-	17,803,882	77,452,366	-	77,452,366
Due to Federal Government	9,494,825	444,313	-	9,939,138	-	9,939,138
	169,262,015	15,495,205	31,879,207	152,878,013	13,798,876	139,079,137
Total long-term liabilities	$ 266,639,261	$ 15,635,923	$ 41,447,234	$ 240,827,950	$ 23,708,419	$217,119,531

Capital Leases

The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2020:

Fiscal Year	Total
2021	$ 108,371
2022	76,242
2023	56,970
2024	35,406
2025	19,879
2026	4,227
Minimum lease payments	$ 301,096
Less: Amount representing interest	26,476
Present value of net minimum lease payments	$ 274,620

Assets acquired under capital leases consist primarily of photocopiers. Such assets are carried at $1,204,159 less accumulated depreciation of $1,031,849 as of June 30, 2020.

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 at June 30, 2020 and 2019, was $359,622,783 and $212,807,783, respectively. The combined principal amount outstanding at June 30, 2020 and 2019 was $159,455,000 and $86,485,706, 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, 2020 and 2019, $139,475,707 and, $75,190,001, respectively, of bonds outstanding were considered defeased.

Notes to the Consolidated Financial Statements (continued)

Revenue Bonds Payable

At June 30, 2020 annual principal payments are as follows:

Series 2019A

Fiscal Year	Interest Rate		Principal
2021	3.390%	$	560,000
2022	3.390%		580,000
2023	3.390%		600,000
2024	3.390%		620,000
2025	3.390%		645,000
2026-2030	3.390%		3,555,000
2031-2035	3.390%		4,195,000
2036-2037	3.390%		1,885,000
		$	12,640,000

Series 2019B

Fiscal Year	Interest Rate		Principal
2021	3.000%	$	1,855,000
2022	4.000%		2,430,000
2023	4.000%		2,530,000
2024	4.000%		2,635,000
2025	4.000%		2,735,000
2026-2030	4.000-5.000%		15,730,000
2031-2035	3.000-5.000%		19,895,000
2036-2037	3.000%		6,650,000
			54,460,000
Add: Net unamortized premium			8,780,128
		$	63,240,128

Series 2019C

Fiscal Year	Interest Rate		Principal
2021	3.190%	$	-
2022	3.190%		-
2023	3.190%		-
2024	3.190%		-
2025	3.190%		-
2026-2030	3.190%		-
2031-2035	3.190%		-
2036-2040	3.075%		19,905,000
2041-2045	3.225%		33,310,000
2046-2050	3.225%		39,140,000
		$	92,355,000

Revenue Bond Payable Summary:		
Total revenue bonds outstanding	$	159,455,000
Add: Net unamortized premiums		8,780,128
Revenue bonds payable, net	$	168,235,128

Notes to the Consolidated Financial Statements (continued)

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

Fiscal Year	Principal	Interest	Total Payment
2021	$ 2,415,000	$ 5,561,912	$ 7,976,912
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
2026-2030	19,285,000	23,101,196	42,386,196
2031-2035	24,090,000	18,287,018	42,377,018
2036-2040	28,440,000	13,957,700	42,397,700
2041-2045	33,310,000	9,066,120	42,376,120
2046-2050	39,140,000	3,236,933	42,376,933
	$ 159,455,000	$ 94,344,607	$ 253,799,607

NOTE 14 – SUBORDINATE BONDS PAYABLE

As part of the General Revenue Bond issuance described in Note 13, the Subordinate Bonds Payable were required to be paid in full. The payoff of the Series II Bond outstanding balance at June 30, 2019, of $55,000, was paid from University funds.

NOTE 15 – COMPENSATED LEAVE

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

NOTE 16 – ADVANCES FROM PRIMARY GOVERNMENT

Advances at June 30, 2020, consisted of the Montana Science and Technology Alliance (MSTA) loan which was originally issued in 1994, and has a remaining term of 41 years. The interest rate on the loan is variable and adjusted annually. Total advances payable from the primary government and the current portion of the advances at June 30, 2020, was $3,035,504 and $44,191, respectively.

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
2021	$ 44,191	$ 75,809	$ 120,000
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
2026-2030	262,761	342,423	605,184
2031-2035	297,252	311,544	608,796
2036-2040	336,271	275,238	611,510
2041-2045	380,412	226,887	607,298
2046-2050	430,376	187,616	617,992
2051-2055	486,836	149,301	636,137
2056-2060	550,740	113,164	663,904
2061	58,583	1,417	60,000
	$ 3,035,504	**$ 1,975,317**	**$ 5,010,821**

Notes to the Consolidated Financial Statements (continued)

NOTE 17 – 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, 2020 and 2019:

	2020	2019
Public Employees Retirement System	$ 60,942,763	$ 61,150,041
Game Wardens and Peace Officers Retirement System	796,316	792,743
Teachers Retirement System	13,736,916	15,509,582
	$ 75,475,995	$ 77,452,366

Combined Deferred Outflows and Deferred Inflows

At June 30, 2020 and 2019, 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:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 3,087,932	$ 2,941,675	$ 4,910,506	$ 9,678
Changes in actuarial assumptions	3,319,161	30,798	6,532,442	22,960
Difference between projected and actual earnings on pension plan investments	888,973	-	-	1,114,034
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,091,739	9,556,226	4,085,619	14,663,413
Contributions paid subsequent to the measurement date	11,208,937	-	10,905,578	-
	$ 22,596,742	$ 12,528,699	$ 26,434,145	$ 15,810,085

- **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.

Notes to the Consolidated Financial Statements (continued)

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 .77% effective July 1, 2017).
  - 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

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.

Notes to the Consolidated Financial Statements (continued)

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 2020 were 8.77% and 8.67%, respectively and for 2019 were 8.67% and 8.57%, 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 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.
    b. Contributions of a portion of Coal Severance Tax interest and earnings by the State to PERS from the Coal Tax Severance fund is not considered a special funding situation. The University is required to report the portion of Coal Tax Severance Tax and interest attributable to it.
  - Special Funding:
    a. The state of Montana, as the non-employer contributing entity to the Plan, contributed a Statutory Appropriation from the General Fund of $33,615,000, that qualifies as *special funding*.
    b. $1,296,665 was the University's proportionate share of the state's contribution to the plan.

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, 2018, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2019. 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, 2019 actuarial valuation was determined using the following actuarial assumptions:

- Investment Return (net of admin expense) 7.65%
- Admin Expense as % of Payroll 0.26%
- General Wage Growth* 3.50%
  *includes Inflation at 2.75%
- Merit Increases 0% to 6.30%
- Postretirement Benefit Increases
  1. Guaranteed Annual Benefit Adjustment (GABA) - after the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other all adjustments to the member's benefit.
     - 3.0% for members hired prior to July 1, 2007
     - 1.5% for members hired between July 1, 2007 and June 30, 2013
     - Members hired on or after July 1, 2013:
       (a) 1.5% for each year PERS is funded at or above 90%;
       (b) 1.5% reduced by 0.1% for each 2.0% PERS is funded below 90%; and
       (c) 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, 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.

Notes to the Consolidated Financial Statements (continued)

Discount Rate

The discount rate used to measure the TPL was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities 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 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the 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. Several factors are considered in evaluating the long-term rate of return assumption including historical rates of return, rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the PERS – DBRP target asset allocation as of June 30, 2019, are summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return – Arithmetic Basis
Cash Equivalents	3.0%	4.09%
Domestic Equity	36.0%	6.05%
Foreign Equity	18.0%	7.01%
Fixed Income	23.0%	2.17%
Private Equity	12.0%	10.53%
Real Estate	8.0%	5.65%
	100.0%	

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 7.65%, 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 (6.65%)	Current Discount Rate (7.65%)	1.0% Increase (8.65%)
University's proportionate share of the net pension liability	$87,557,392	$60.942,763	$38,576,537

Net Pension Liability

At June 30, 2020 and 2019, the University recorded $60,492,763 and $61,150,041 , respectively, for its proportionate share of the net pension liability. At June 30, 2020 the net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2018 and applying standard roll forward procedures. The employer's proportion of the net pension liability was based on the employer's contributions received by PERS-DBRP during the measurement period July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERS-DBRP participating employers. The University's proportion of the net pension liability at June 30, 2020 and 2019 was 2.92% and 2.93%, respectively. The state's proportionate share for a particular employer equals the ratio of the contributions for the employer to the total state contributions paid. The state's proportion of the net pension liability at June 30, 2020 and 2019 was 0.91% and 0.94%, respectively.

Notes to the Consolidated Financial Statements (continued)

The University and State's proportionate share of the net pension liability consisted of the following at June 30, 2020 and 2019:

	2020	2019
University proportionate share of the net pension liability	$60,942,763	$61,150,041
State of Montana's proportionate share of the net pension liability associated with the University	19,099,661	19,665,918
	$80,042,424	$80,815,959

For the years ended June 30, 2020 and 2019, the University recognized pension expense of $5,684,151 and 3,927,113, respectively. The University also receives funding that is not special funding whereby the State general fund provides contributions from the Coal Severance Tax Fund. For the years ended June 30, 2020 and 2019, the University recognized $1,296,665 and $1,312,484, respectively, for its proportionate share from this funding source.

Effective July 1, 2017, revenue provided from coal severance taxes and interest income from the coal severance tax permanent fund to the PERS defined benefit trust fund was replaced with the state statutory appropriation. The state statutory appropriation is considered a special funding situation and increased the state's proportionate share. Consequently, the University's proportionate share has decreased as a result of the increased state proportion as compared to prior years.

Changes in Actuarial Assumptions and Methods

There were no changes in assumptions or other inputs that affected the measurement of the TPL.

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 an effect on the employer's proportionate share of the collective NPL.

Deferred Outflows and Deferred Inflows

At June 30, 2020 and 2019, the University's proportionate share of PERS-DBRP deferred outflows of resources and deferred inflows of resources were from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 2,889,769	$ 2,867,602	$ 4,650,050	$ -
Difference between projected and actual earnings on pension plan investments	738,913	-	-	949,660
Changes in assumptions	2,587,206	-	5,199,894	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	9,545,669	-	14,640,272
Contributions paid to PERS-DBRP subsequent to the measurement date.	5,150,470	-	4,673,964	-
	$ 11,366,358	$ 12,413,271	$ 14,523,908	$ 15,589,932

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
2020	$(1,624,246)
2021	$(5,511,188)
2022	$274,878
2023	$663,173
Thereafter	$0

Notes to the Consolidated Financial Statements (continued)

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.

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

Plan Description

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

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

Summary of Benefits

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:
    - the same retirement benefit previously paid to the member; and
    - 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:
    - on the initial retirement benefit in January immediately following second retirement, and
    - 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.

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

Notes to the Consolidated Financial Statements (continued)

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. Employer and employee contribution rates for 2020 and 2019 were 9.0% and 10.56%, respectively.

Actuarial Assumptions

The Total Pension Liability (TPL) used to calculate the Net Pension Liability (NPL) as of June 30, 2019, is based on the results of an actuarial valuation date of June 30, 2018, 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, 2018 actuarial valuation was determined using the following actuarial assumptions:

- General Wage Growth, including inflation at 2.75% — 3.50%
- Merit Increases — 0% to 6.30%
- Investment Return (net of admin expense) — 7.65%
- Administrative Expense as a Percent of Payroll — 0.23%
- 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 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana 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 2119. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability**.** No municipal bond rate was incorporated in the discount rate.

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. Several factors are considered in evaluating the long-term rate of return assumption including historical rates of return, rate of return assumptions adopted by similar public-sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the GWPORS target asset allocation as of June 30, 2019, are summarized in the following table:

Notes to the Consolidated Financial Statements (continued)

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return – Arithmetic Basis
Cash Equivalents	3.0%	4.09%
Domestic Equity	36.0%	6.05%
Foreign Equity	18.0%	7.01%
Fixed Income	23.0%	2.17%
Private Equity	12.0%	10.53%
Real Estate	8.0%	5.65%
	100.0%	

Sensitivity Analysis

The following table presents the sensitivity of the University's proportionate share of the GWPORS NPL at June 30, 2019, 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 7.65%, 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 (6.65,%)	Current Discount Rate (7.65%)	1.0% Increase (8.65%)
University's proportionate share of the net pension liability	$1,519,853	$796,316	$205,399

Net Pension Liability

At June 30, 2020 and 2019, the University recorded $796,316 and $792,743, respectively, for its proportionate share of the net pension liability. At June 30, 2020, the net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2018. 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, 2018, through June 30, 2019, relative to the total employer contributions received from all of GWPORS' participating employers. At June 30, 2020 and 2019, the employer's proportion was 1.96% and 1.94%., respectively.

For the year ended June 30, 2020 and 2019, University recognized pension expense of $180,329 and $138,753, respectively.

Changes in Actuarial Assumptions and Methods

There were no changes in assumptions or other inputs that affected the measurement of the TPL.

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, 2020 and 2019, the University reported its proportionate share of GWPORS deferred outflows of resources and deferred inflows of resources from the following sources:

Notes to the Consolidated Financial Statements (continued)

	2020				2019			
	Deferred Outflows of Resources		Deferred Inflows of Resources		Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual economic experience	$	107,235	$	74,073	$	149,774	$	-
Difference between projected and actual earnings on pension plan investments		16,900		-		-		24,375
Changes in proportion and differences between employer contributions and proportionate share of contributions		-		10,557		-		23,141
Changes in assumptions of contributions		46,038		-		68,274		-
Contributions paid to GWPORS subsequent to the measurement date		78,447		-		84,113		-
	$	248,620	$	84,630	$	302,161	$	47,516

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
2020	$57,393
2021	$24,251
2022	$6,378
2023	$(2,478)
Thereafter	$0

Summary of Significant Accounting Policies

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

- **Teachers Retirement System**

Plan Description

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

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

Summary of Benefits

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

Notes to the Consolidated Financial Statements (continued)

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

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

Contributions to the Plan

Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan. Contributions are deducted from each member's salary and remitted by participating employers. The State and University System contribution rates for fiscal year 2020 and 2019 were 11.45% and 11.35%, respectively, and the employee contributions rate for fiscal year 2020 and 2019 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 and university 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, 2020, was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2019, valuation were 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 2.50%
- Investment Return 7.50%
- 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
  - 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*

Notes to the Consolidated Financial Statements (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. 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 2126. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared every four years for the TRS. The most recent analysis, performed for the period covering fiscal years 2013 through 2017, is outlined in a report dated May 3, 2018. Several factors are considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation). Estimates of variability and correlations for each asset class, were developed by the System's investment consultant. These ranges were combined to develop the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The long-term rate of return assumption is intended to be a long-term assumption (30 to 50 years) and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The long term capital market assumptions published in the Survey of Capital Market Assumptions 2019 Edition by Horizon Actuarial Service, LLC, yield a median real return of 4.91%. The actuary's recommended assumption of 5.00% for the real return reflects granting each source some degree of credibility. Combined with the 2.50% inflation assumption, the resulting nominal return is 7.50%.

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, 2019, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return – Arithmetic Basis
Domestic Equity	35.0%	6.05%
International Equity	18.0%	7.01%
Private Equity	10.0%	10.53%
Natural Resources	3.0%	4.00%
Core Real Estate	7.0%	5.65%
TIPS	3.0%	1.40%
Intermediate Duration Bonds	19.0%	2.17%
High Yield Bonds	3.0%	4.09%
Cash	2.0%	0.78%
	100.0%	

The TRS long-term assumed rate of 7.50% is comprised of a 2.50% inflation rate and a real long-term expected rate of return of 5.00%.

Sensitivity Analysis

The following presents the University's proportionate share of the TRS net pension liability at June 30, 2019, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.50%) or 1.00% higher (8.50%) than the current rate.

As of Measurement Date	1.0% Decrease (6.50%)	Current Discount Rate (7.50%)	1.0% Increase (8.50%)
University's proportionate share of the net pension liability	$18,788,631	$13,736,916	$9,504,404

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

Notes to the Consolidated Financial Statements (continued)

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, 2020 and 2019, was 0.24% and 0.29%, respectively.

The net pension liability reported by the University at June 30, 2020, was measured as of June 30, 2019, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2019. 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, 2018, through June 30, 2019, relative to total contributions received from all of TRS participating employers. The University's proportionate of the net pension liability at June 30, 2020 and 2019, was 0.71% and 0.84%, respectively.

The University and State's proportionate share of the net pension liability consisted of the following at June 30, 2020 and 2019:

	2020	2019
University proportionate share of the net pension liability	$ 13,736,916	$ 15,509,582
State of Montana's proportionate share of the net pension liability associated with the University	4,637,175	5,434,309
	$ 18,374,091	$ 20,943,891

For the year ended June 30, 2020 and 2019, University recognized pension expense of $5,257,461 and $4,722,321, respectively, and grant revenue for the State's proportionate share of the University's pension expense of $565,633 and $452,982, respectively.

Changes in Actuarial Assumptions and Other Inputs

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.

Changes in Benefit Terms:

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

Deferred Outflows and Deferred Inflows

At June 30, 2020 and 2019, the University's proportionate share of TRS deferred outflows of resources and deferred inflows of resources were from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 90,928	$ -	$ 110,682	$ 9,678
Changes in actuarial assumptions	685,917	30,798	1,264,274	22,960
Difference between projected and actual earnings on pension plan investments	133,160	-	-	139,999
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,091,739	-	4,085,619	-
Contributions paid to TRS subsequent to the measurement date	5,980,241	-	6,147,501	-
	$ 10,981,985	$ 30,798	$ 11,608,076	$ 172,637

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
2021	$2,833,727
2022	$1,553,214
2023	$473,750
2024	$110,255
2025	$0
Thereafter	$0

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.

- **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, 2020, 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: http://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.

Notes to the Consolidated Financial Statements (continued)

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

	Year ending June 30, 2020	2019
FACULTY		
Covered Payroll	$ 104,979,164	$113,474,750
Employer Contributions	$ 6,252,559	$ 6,758,556
Percent of Covered Payroll	5.956%	5.956%
Employee Contributions	$ 7,394,733	$ 7,967,690
Percent of Covered Payroll	7.044%	7.020%
STAFF		
Covered Payroll	$ 6,448,740	$ 6,652,351
Employer Contributions	$ 565,788	$ 577,079
Percent of Covered Payroll	8.774%	8.670%
Employee Contributions	$ 509,451	$ 525,535
Percent of Covered Payroll	7.900%	7.899%

For the years ended June 30, 2020 and 2019, 4.72%, or $4,956,873 and $5,356,009, respectively, was contributed to TRS from MUS-RP faculty employer contributions to amortize past service unfunded liability in accordance with state law. In FY19, 0.04% of employer contribution for classified staff were remitted to the PERS Educational Fund, or $2,661. The contribution requirement was eliminated beginning in FY19.

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

NOTE 18 – 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:

	2020	2019
Net OPEB Liability	$ 11,514,328	$ 18,560,031
Deferred OPEB Outflows of Resources	$ 4,555,424	$ 748,658
Deferred OPEB Inflows of Resources	$ 12,823,132	$ 660,763
OPEB expense	$ 682,435	$ 1,296,398

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

Notes to the Consolidated Financial Statements (continued)

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, 2020, was based on the actuarial valuation at December 31, 2019, with update procedures to roll forward the TOL to the measurement date of March 31, 2020. 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:

	2020	2019
University proportion of the OPEB liability	40.71%	45.09%
University proportionate share of the OPEB liability	$ 11,514,328	$ 18,560,031

OPEB Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2020 and 2019 the University's OPEB plan deferred outflows and inflows of resources were from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 7,983,240	$ -	$ 600,808
Changes in assumptions or other inputs	4,555,424	4,839,892	608,272	59,955
Amounts associated with transactions subsequent to the measurement date of the OPEB liability*	-	-	140,386	-
	$ 4,555,424	$ 12,823,132	$ 748,658	$ 660,763

*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, 2020.

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
2020	$562,557
2021	$562,557
2022	$562,557
2023	$562,557
2024	$562,557
2025	$562,557
Thereafter	$3,738,169

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

Notes to the Consolidated Financial Statements (continued)

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 (in thousands):		
Before Medicare eligibility	$11,221	$9,199
After Medicare eligibility	$4,301	$5,295
Actuarial valuation date	December 31, 2019	
Actuarial measurement date (1)	March 31, 2020	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB	
Actuarial assumptions:		
Discount rate	2.75%	
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 – Health

For TRS and MUS-RP, healthy mortality is assumed to follow the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years for males, set back two years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, healthy mortality is assumed to follow the 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.

Changes in Actuarial Assumptions and Methods Since Last Measurement Date

There were no changes in actuarial assumptions since the last measurement date.

Changes in Benefit Terms since Last Measurement Date

Annual deductible and out-of-pocket maximums were increased since prior actuarial valuation.

Sensitivity of the TOL to Changes in the Healthcare Cost Tend 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	$8,616,828	$11,514,328	$15,660,771

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 (2.79 percent) or 1-percentage-point higher (4.79 percent) than the current discount rate:

Notes to the Consolidated Financial Statements (continued)

As of Measurement Date	Assuming 1.0% Decrease (1.75%)	At Current Rate (2.75%)	Assuming 1.0% Increase (3.75%)
University proportion of total OPEB Liability	$15,538,784	$11,514,328	$8,633,681

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, 2020.

Financial and Plan Information

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

NOTE 19 – 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, 2020 is $253,799,607 with annual debt service requirements ranging from $7,976,912 in 2021 to $8,474,483 in 2050, the final year of repayment.

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

	Revenues Pledged as Security for Debt
Net Operating and Non-Operating revenues	$ **418,698,861**
Less:	
Tutition	(80,450,319)
Student Fees Controlled by Students	(2,317,460)
Grants	(94,815,879)
State Appropriations	(102,099,199)
Federal financial aid grant and contracts	(18,797,527)
Restricted gifts	(21,835,723)
Add:	
Interest Expense	4,724,400
Less:	
Expenses from housing, dining and other facilities from which the University derives income from rents, board or both	
Dining/Food Services	(14,109,850)
Rentals	(854,474)
Student Housing	(13,464,772)
Student Unions	(3,124,057)
Bookstores	(1,513,168)
	(33,066,321)
Net Revenues Pledged as Security for Debt	$ **70,040,833**

Revenue Bonds Series issued and outstanding under the Indenture of Trust effective at June 30, 2019, were defeased and refunded in FY20, from proceeds of the Revenue Bond issuance described in Note 13.

Notes to the Consolidated Financial Statements (continued)

NOTE 20 – RISK MANAGEMENT

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

The Tort Claims Act of the State of Montana in section, 2-9-102, MCA, "provides that Governmental entities are liable for its torts and of those of its employees acting within the course and scope of their employment or duties whether arising out of a governmental or proprietary function, except as specifically provided by the Legislature under Article II, section 19 of The Constitution of the State of Montana". Accordingly section, 2-9-305, MCA, requires that the state "provide for the immunization, defense and indemnification of its public officers and employees civilly sued for their actions taken within the course and scope of their employment". The University also has commercial coverage for other risk exposures that are not covered by the State's self-insurance program.
Buildings and Contents – are insured for replacement value. For each loss covered by the state's self-insurance program and commercial coverage, the University has a $2,500 per occurrence retention.

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

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

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

Notes to the Consolidated Financial Statements (continued)

NOTE 21 – COMMITMENTS AND CONTINGENCIES

At June 30, 2020, the University had the following outstanding commitments under major capital and maintenance projects:

	Budget Authorization *	Total Expenditures through June 2020	Funding Source
Liberal Arts East Side-Phase IV	$ 2,893,041	$ 2,111,988	Plant, State Funds
Softball Stadium Improvements	650,000	83,428	Private Funds
MT Museum of Art (MMAC)	5,000,000	148,287	Revenue Bond Funds
Heating Plant Combo Heat/Power	540,000	343,558	Revenue Bond Funds
WGS ADA Elevator	595,000	147,631	Revenue Bond Funds
Social Science 1st Floor Data Center	621,617	193,512	Plant Fund & State Funded
Adams Center Basketball Lockerroom Remodel	1,350,000	403,984	Revenue Bond Funds
Pantzer Hall Renovations	2,000,000	1,960,871	Revenue Bond Funds
Urey Remodel	1,300,000	417,644	Revenue Bond Funds
Mathews Hall Project	1,000,000	119,954	Auxiliary
NRRC 3rd Floor Lab	1,000,000	84,579	Private Funds
	$ 16,949,658	$ 6,015,436	

*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
2021	$ 265,708
2022	179,906
2023	129,268
2024	319
	$ 575,200

In September, 2018, the U.S. Department of Education (Department) informed the University that it was imposing a fine of $966,614 for its failure to comply with the requirements of the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (the Clery Act) in Section 485 (f) of the Higher Education Act of 1965, 20 U.S.C. Section 1092 (f). In October, 2018, the University submitted a letter to appeal the proposed fine action and requested a hearing with the Department's Office of Hearings and Appeals. In January, 2019, the University and the Department agreed to resolve the matter and the fine amount was reduced to $395,000, to be paid in installments over five years. The University subsequently paid off the remaining balance due the Department in July, 2019.

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 22– RELATED PARTIES

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

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 years ended June 30, 2020 and 2019, $300,800 and $229,419, respectively, was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, the University provides the associations and booster club with office space, staff and some related office expenses.

MonTEC was established as a nonprofit 501(C) 3 corporation in fiscal year 2001 as a result of an agreement between the University and the Missoula Area Economic Development Foundation (MAEDF). MonTEC provides low cost lease space and business consulting to local "start-up" companies. The corporation's board of directors is comprised of four members. Two members of the board of directors are University of Montana employees, and two are non-University employees. The University does not provide office space or other services to MonTEC.

NOTE 23 – ACCOUNTING FOR COMPONENT UNITS

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

For the fiscal years ended June 30, 2020 and 2019, the following was transferred to the University for scholarships, academic or institutional support or capital expenses by the University foundations: $17,748,853and $22,347,512, respectively from The University of Montana Foundation (406-243-2593); $3,911,345 and $4,296,153, respectively, from the Montana Tech Foundation (406-496-4532); $743,793 and $727,93, respectively, from The University of Montana-Western Foundation (406-683-7305). In addition, $1,332,654 and $1,614,860 was transferred from the Montana Grizzly Scholarship Association (406-243-6485) for the fiscal years ended June 30, 2020 and 2019, respectively. For the fiscal years ended June 30, 2020 and 2019, the University foundations also expended $4.8 million and $4.7 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, 2020 and 2019, the University provided $750,000 and $550,000, 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, 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

STATEMENT OF FINANCIAL POSITION
June 30, 2019

	University of Montana Foundation	Montana Tech Foundation	University of Montana – Western Foundation	Montana Grizzly Scholarship Association	Elimination	Total*
ASSETS:						
Cash and investments	$ 264,982,857	$ 44,534,042	$ 7,359,013	$ 2,674,580	$ (2,614,534)	$ 316,935,958
Other receivables, net of allowances	34,087,637	3,010,996	-	14,769	-	37,113,402
Fixed assets, net of depreciation	362,871	2,057,959	7,427	72,903	-	2,501,160
Other assets	1,454,910	7,751	-	291,667	-	1,754,328
Total Assets	$ 300,888,275	$ 49,610,748	$ 7,366,440	$ 3,053,919	$ (2,614,534)	$ 358,304,848
LIABILITIES:						
Current liabilities associated with operations	$ 1,117,940	$ 124,614	$ 15,686	$ 69,647	$ -	$ 1,327,887
Other current liabilities	257,820	-	-	231,760	-	489,580
Notes payable-current	-	-	-	-	-	-
Long-term note payable	-	-	-	-	-	-
Liabilities to external beneficiaries	16,527,696	222,995	-	-	-	16,750,691
Custodial funds	21,253,895	-	-	-	(2,614,534)	18,639,361
Total Liabilities	39,157,351	347,609	15,686	301,407	(2,614,534)	37,207,519
NET ASSETS:						
Net assets – Without donor restrictions	7,193,084	2,304,820	277,251	1,136,220	-	10,911,375
Net assets – With donor restrictions	254,537,840	46,958,319	7,073,503	1,616,292	-	310,185,954
Total Net Assets	261,730,924	49,263,139	7,350,754	2,752,512	-	321,097,329
Total Liabilities & Net Assets	$ 300,888,275	$ 49,610,748	$ 7,366,440	$ 3,053,919	$ (2,614,534)	$ 358,304,848

*Restated to conform to FY20 classifications

Notes to the Consolidated Financial Statements (continued)

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
REVENUES:					
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
EXPENSES:					
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
NON-OPERATING EXPENSES:					
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

STATEMENT OF ACTIVITIES

For the year ended June 30, 2019

	University of Montana Foundation	Montana Tech Foundation	University of Montana – Western Foundation	Montana Grizzly Scholarship Association	Total
REVENUES:					
Contributions	$ 29,184,357	$ 4,931,605	$ 808,384	$ 1,922,743	$ 36,847,089
Investment income and unrealized gain(loss) on investments	9,421,865	2,780,611	328,650	49,004	12,580,130
Administrative fees	1,017,548	-	-	-	1,017,548
Contract for services	550,000	-	-	-	550,000
Net revaluation of trusts and split-interest agreements	350,005	-	-	-	350,005
Income from perpetual trust	392,590	-	-	-	392,590
Special events	-	-	8,902	587,891	596,793
Other income	1,393,805	(30,888)	79,720	-	1,442,637
Total revenues	42,310,170	7,681,328	1,225,656	2,559,638	53,776,792
EXPENSES:					
Program services	34,594,764	4,882,999	803,736	1,571,771	41,853,270
Supporting services	6,817,576	1,509,119	208,131	709,438	9,244,264
Total expenses	41,412,340	6,392,118	1,011,867	2,281,209	51,097,534
Change in net assets before non-operating items	897,830	1,289,210	213,789	278,429	2,679,258
NON-OPERATING EXPENSES:					
Gain on Disposition of assset	3,726	-	-	-	3,726
Change in net assets	$ 901,556	$ 1,289,210	$ 213,789	$ 278,429	$ 2,682,984
Net assets, beginning of fiscal year	260,829,368.00	47,973,929.00	7,187,187.00	2,474,083.00	318,464,567.00
Restatement of net assets (see explanation this note)	-	-	-	-	-
Net assets - beginning of year, as restated	260,829,368.00	47,973,929.00	7,187,187.00	2,474,083.00	318,464,567.00
Restatement of net assets	-	-	(50,222)	-	(50,222)
Net assets, end of fiscal year	$ 261,730,924	$ 49,263,139	$ 7,350,754	$ 2,752,512	$ 321,097,329

Notes to the Consolidated Financial Statements (continued)

The following table shows the total investments held by the component units at June 30, 2020 and 2019:

	2020	2019
Investments held by component units:		
Stocks and bonds	$ 80,469,017	$ 79,851,378
Money market and certificates of deposit	4,133,227	7,193,339
Alternative investments	186,335,504	151,656,005
Real property	32,754,210	61,506,537
Other	-	206,785
	$ 303,691,958	$ 300,414,044

NOTE 24 – 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 received during FY20. In FY21, the University has seen a decline in tuition and fees for the Fall 2020 Semester and a year-to-date decrease of over $5.7 million, or approximately 10.0%, in sales and service and auxiliary revenues. While the University has received funding through the CARES Act in FY21, it is not sufficient to offset all mitigation costs and loss of operating revenues. As of January 14, 2021, there is a high degree of uncertainty about the future impact relating to these events on University operations.

Notes to the Consolidated Financial Statements (continued)

NOTE 25 – NATURAL CLASSIFICATION WITH FUNCTIONAL CLASSIFICATIONS

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

	Natural Classification								
Functional 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	45,567,643	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	24,690,911	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	68,147	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	-	-	34,199,300
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	-	-	42,340,223
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's operating expenses by natural and functional classifications for the year ended June 30, 2019, were as follows:

	Natural Classification								
Functional Classification:	Compensation & benefits	Pension expense	Other postemployment benefits	Supplies & other services	Utilities	Communication	Scholarships	Depreciation	Total
Instruction	$ 97,579,395	$ 4,375,946	$ 543,078	$ 10,095,299	$ 31,524	$ 206,168	$ -	$ -	$ 112,831,410
Research	42,650,611	376,344	32,286	18,332,301	100,078	189,352	-	-	61,680,972
Public service	19,578,012	134,650	31,852	9,912,302	1,116	166,942	-	-	29,824,874
Academic support	22,991,310	852,981	143,526	13,437,308	278	246,219	-	-	37,671,622
Student services	20,896,445	546,583	133,336	11,653,610	83,730	511,335	-	-	33,825,039
Institutional support	20,065,172	767,527	125,770	7,033,597	12,928	1,295,724	-	-	29,300,718
Operation and maintenance of plant	12,469,176	623,657	100,841	12,245,526	5,235,728	36,110	-	-	30,711,038
Scholarships and fellowships	-	-	-	-	-	-	20,012,059	-	20,012,059
Auxiliary enterprises	25,444,132	1,110,499	185,709	14,597,662	2,942,981	264,573	-	-	44,545,556
Depreciation	-	-	-	-	-	-	-	24,198,354	24,198,354
	$ 261,674,253	$ 8,788,187	$ 1,296,398	$ 97,307,605	$ 8,408,363	$ 2,916,423	$ 20,012,059	$ 24,198,354	$ 424,601,642

The University of Montana
Required Supplementary Information

Pensions

- **Public Employees' Retirement System - Defined Benefit Retirement System**

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

	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability	2.92%	2.93%	3.97%	4.17%	4.23%	4.28%
Employer's proportionate share of the net pension liability	$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	19,099,661	19,665,918	-	-	-	-
Total	$80,042,424	$80,815,959	$77,373,223	$71,099,299	$59,138,504	$53,314,985
Employer's covered-employee payroll	$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	128.12%	128.12%	158.89%	143.92%	121.24%	111.44%
Plan fiduciary net position as a percentage of the total pension liability	73.84%	73.47%	73.75%	74.71%	78.40%	79.87%

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

	2020	2019*	2018	2017	2016	2015
Contractually required contributions	$ 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	4,340,494	4,137,369	4,081,094	4,124,934	4,413,046	4,521,932
Contribution deficiency/(excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$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	8.77%	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, 2019 (as of Measurement Date)

The following actuarial methods and assumptions were adopted from the June 2016 Experience Study:

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	0.26%

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

	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability	1.96%	1.94%	1.97%	2.15%	2.09%	2.05%
Employer's proportionate share of the net pension liability	$ 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	$ 796,316	$ 792,743	$ 735,826	$ 705,352	$ 438,071	$ 309,719
Employer's covered-employee payroll	$ 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	78.69%	80.57%	75.92%	69.73%	46.81%	36.32%
Plan fiduciary net position as a percentage of the total pension liability	83.54%	82.54%	82.48%	82.48%	87.60%	90.17%

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

	2020	2019*	2018	2017	2016	2015
Contractually required contributions	$ 86,101	$ 91,767	$ 88,555	$ 87,231	$ 91,867	$ 87,061
Contributions in relation to the contractually required contributions	86,101	91,767	88,555	87,231	91,867	87,061
Contribution deficiency/(excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	956,672	1,011,905	983,942	969,235	$1,011,526	$935,808
Contributions as a percentage of covered-employee payroll	9.00%	9.07%	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.*
**Some amounts/percentages restated to agree with actuarial valuation*

Notes to Required Supplementary Information
For the Year Ended June 30, 2019 (as of Measurement Date)

The following actuarial methods and assumptions were adopted from the June 30, 2018 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	0.23%

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 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
   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

	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability	0.71%	0.84%	1.02%	1.14%	1.29%	1.38%
Employer's proportionate share of the net pension liability	$ 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	4,637,175	5,434,309	6,185,159	7,764,849	8,228,030	8,492,935
Total	$ 18,374,091	$ 20,943,891	$ 23,332,358	$ 28,506,836	$ 29,367,518	$ 29,664,629
Employer's covered-employee payroll	$ 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	179.74%	176.25%	162.52%	179.44%	164.48%	156.31%
Plan fiduciary net position as a percentage of the total pension liability	68.64%	69.09%	70.09%	66.69%	69.30%	70.36%

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

	2020	2019*	2018	2017	2016	2015
Contractually required contributions	$ 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	5,980,242	6,147,501	6,906,559	6,705,145	6,627,145	6,383,418
Contribution deficiency/(excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 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	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.*
* *Some amounts/percentages restated to agree with actuarial valuation*

Notes to Required Supplementary Information
For the Year Ended June 30, 2018 (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	31 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

Required Supplementary Information (continued)

2) Service Retirement: Eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55
3) Early Retirement: Eligible to receive an early retirement allowance if a member is not eligible for service retirement but has at least five years of creditable service and attained age 55
4) Professional Retirement Option: if the member has been credited with 30 or more years of service and has attained the age of 60 they are eligible for an enhanced allowance equal to 1.85% of average final compensation times all service at retirement. Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%
5) Annual Contribution: 8.15% of member's earned compensation
6) Supplemental Contribution Rate: On or after July 1, 2023, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met:
    a. The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and
    b. The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and
    c. A State or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board.
7) Disability Retirement: A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination
8) Guaranteed Annual Benefit Adjustment (GABA):
    a. If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the Board.

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 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.

- 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.

Other Postemployment Benefits

- **Montana University System Group Insurance Plan**

Schedule of Proportionate Share of the OPEB Liability [1]
Measurement Date of March 31,

	2020	2019	2018
University's proportion of the OPEB liability	40.71%	45.09%	45.78%
University's share of the OPEB liability	$ 11,514,328	$ 18,560,031	$ 16,905,803
University's covered employee payroll	$ 162,661,884	$ 160,709,985	$ 162,897,963
University's share of the OPEB liability as a % of covered employee payroll	7.08%	11.55%	10.38%
Plan fiduciary net position as a % of total OPEB liability	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.*

Required Supplementary Information (continued)

Changes of Benefit Terms:
Annual deductible and out-of-pocket maximums were increased since prior actuarial valuation.

Note to Required Supplementary Information – OPEB
For the Year Ended June 30, 2020

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)

DESCRIPTION	Fall 2019 [5]	Fall 2018	Fall 2017	Fall 2016	Fall 2015
Enrollment (Headcount) [1]	15,561	16,447	17,421	18,125	18,856
	FY2020	**FY2019**	**FY2018**	**FY2017**	**FY2016**
Enrollment (FTE) [2]					
Two-year Colleges	2,033	2,193	2,220	2,342	2,455
Undergraduate	8,727	9,331	10,132	10,878	11,523
Graduate	1,988	2,068	2,068	1,965	1,909
	12,748	13,592	14,421	15,185	15,887
Enrollment (FTE) [2]					
In-State students	9,429	10,116	10,709	11,249	11,897
Out-of-State students	2,176	2,426	2,607	2,763	2,739
Western Undergraduate Exchange	1,143	1,050	1,105	1,173	1,251
	12,748	13,592	14,421	15,185	15,887
	FY2020	**FY2019**	**FY2018**	**FY2017**	**FY2016**
Employees (FTE) - All Funds [2]					
Contract Faculty	937	1,040	1,053	1,053	1,084
Contract Admin & Professional	788	708	731	756	733
Classified	1,069	1,071	1,146	1,173	1,169
GTA/GRA	255	259	256	245	306
Part Time and Other	542	587	580	615	548
	3,591	3,664	3,767	3,842	3,840
			Fiscal Year Ended		
	6/30/2020	**6/30/2019**	**6/30/2018**	**6/30/2017**	**6/30/2016**
Degrees Granted [3]					
Certificate[4]	222	222	346	391	237
Associate	698	884	564	609	708
Undergraduate	2,148	2,485	2,565	2,556	2,532
Graduate	1,239	1,181	985	920	871
	4,307	4,772	4,460	4,476	4,348

[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 degrees.*
[5] *Fall 2019 enrollment headcount is a primary driver of operating results in FY20*

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

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 year ended June 30, 2020, and 2019, and the related notes to the financial statements, which collectively comprise the University of Montana's basic financial statements, and have issued our report thereon dated January 15, 2021. 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 of Montana'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*, and accordingly, this report does not include reporting on internal control over financial reporting or issues of noncompliance associated with those entities.

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 attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 15, 2021

University of Montana

University Response

UNIVERSITY OF
MONTANA
www.umt.edu

February 16, 2021

RECEIVED
February 23, 2021
LEGISLATIVE AUDIT DIV.

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

Dear Mr. Maciver:

On behalf of the University of Montana, please accept my thanks and appreciation to you and your staff for your work on the University of Montana's Financial Statement Audit for the fiscal year ending June 30, 2020.

The input provided by the legislative audit staff has been helpful to the University in reinforcing the importance of accountability for all administered funds.

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

Sincerely,

Seth Bodnar
President

cc:
Paul Lasiter, Vice President, University of Montana
Dan Jenko, Controller, University of Montana
Anta Coulibaly, Internal Audit, University of Montana
Clayton Christian, Commissioner of Higher Education