A Report
to the
Montana
Legislature

Financial Audit

University of Montana

For the Two Fiscal Years Ended June 30, 2019

February 2020

Legislative Audit
Division

19-10A

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Financial Audits

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

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

Audit Staff

Mary Currin	Chris G. Darragh
Jenny Erdahl	Leslie Lahti
Alexa O'Dell	Delsi Osmanson

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LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

February 2020

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on the University of Montana's consolidated financial statements for the fiscal year ended June 30, 2019, with comparative information for the fiscal year ended June 30, 2018. The statements include financial information from four fund-raising organizations of the university: the University of Montana Foundation, the Montana Tech Foundation, the University of Montana Western Foundation, and the Montana Grizzly Scholarship Association. These entities are component units of the university and were audited by other audit organizations.

Our audit focused primarily on tuition and fees, residential and food service, federal grant revenues, state appropriation support, compensation and benefits, scholarships and fellowships, operating expenses, investments, bonds payable, and pension liabilities. We also performed audit procedures over the presentation and disclosure of the financial statements and note disclosures. We completed work necessary to rely on the 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 contains no recommendations to the university.

We thank the president and university staff for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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Table of Contents

Appointed and Administrative Officials

		Term Expires
Board of Regents of Higher Education	Casey Lozar, Chair	February 1, 2025
	Paul Tuss, Vice Chair	February 1, 2020
	Joyce Dombrouski	February 1, 2026
	Robert A. Nystuen	February 1, 2022
	Brianne Rogers	February 1, 2024
	Martha Sheehy	February 1, 2021
	John Miller, Student Regent	June 30, 2020
	Clayton Christian, Commissioner of Higher Education*	
	Steve Bullock, Governor*	
	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
	Vivian Hammill	Montana University System (MUS) Chief Legal Counsel, Deputy Commissioner
	Diedra Murray	MUS Internal Auditor

University of Montana–Missoula	Seth Bodnar	President
	Jon Harbor	Executive Vice President and Provost
	Cathy Cole	Vice President for Enrollment Management and Strategic Communication
	Paul Lasiter	Vice President for Operations and Finance (Effective 1/14/19)
	Scott Whittenburg	Vice President for Research & Creative Scholarship
	Renae Scott	Chief Information Officer
	Lucy France	Legal Counsel
	Dan Jenko	Controller
Montana Technologic University (Butte)	Donald M. Blackketter	Chancellor(Retired June 3, 2019)
	Les P. Cook	Chancellor (Effective July 1, 2019)
	Doug Abbott	Provost and Vice Chancellor for Academic Affairs (Effective December 2019)
	Steve Gammon	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
	Vacant	Vice Chancellor for Administration and Finance
	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
	Liane Forrester	Director of Business and Campus Services

Helena College University of Montana	Kirk Lacy	Interim Dean/CEO
	Laura Vosejpka	Dean/CEO (Effective August 12, 2019)
	Sandra Bauman	Associate Dean for Academic and Student Affairs
	Valerie Curtin	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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Financial Audit
University of Montana
For the two Fiscal Years Ended June 30, 2019

February 2020 19-10A Report Summary

The University of Montana (university) continues to see declines in enrollment resulting in a $5.6 million decline in tuition and fee revenue. In fiscal year 2018 voluntary termination plans were taken by almost 100 employees. As a result, personal service costs are down by around $4.3 million in fiscal year 2019. This decrease along with a decrease in pension expense and increases in gifts and investment income resulted in an overall increase in net position of $21 million.

Context

The university includes four campuses which are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The four campuses of the university are comprised of University of Montana-Missoula, Montana Technological University, University of Montana-Western, and Helena College University of Montana. The campuses provide diverse programs leading to associate, undergraduate, and graduate degrees, as well as occupational certificates.

The university's primary source of revenue is tuition, fees, auxiliary services charged to students and the state appropriation. Charges to students make up $150 million or 54 percent of operating revenue. State support contributed almost $100 million toward operations.

Results

We focused our audit work on activity related to tuition and fees, residential and food service, federal grant revenues, state appropriation support, compensation and benefits, scholarships and fellowships, operating expenses, investments, bonds payable, and pension liabilities. The audit work also included review of the university's financial statement process and preparation including audit procedures over the presentation and disclosure of the financial statements and note disclosures. We performed the 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 contains no recommendations to the university.

For a complete copy of the report (19-10A) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to **lad@mt.gov**; or check the web site at **https://leg.mt.gov/lad/audit-reports**
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail **LADHotline@mt.gov.**

Chapter I – Introduction and Background

Audit Objectives

We performed a financial audit of the University of Montana (university) for the two fiscal years ended June 30, 2019. 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, 2019, with comparative financial amounts for the fiscal year ended June 30, 2018.
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.
4. Determine the status of the prior audit recommendation.

To address objectives #1 and #2, we obtained an understanding of the university's controls over the significant activity and balances, as well as the university's primary accounting system, BANNER. 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, scholarships and fellowships, operating expenses, investments, bonds payable, and pension liabilities. The audit work also included review of the university's financial statement process and preparation.

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. We will issue the compliance audit (19-12) for the fiscal years 2018 and 2019, in April 2020.

Background

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 provide a diversity of undergraduate and graduate academics.

University of Montana in Missoula offers 4-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 2-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 2-year degree upon completion of a program. The Montana Forest and Conservation Station and Flathead Lake Bio Station are associated with this campus.

Montana Technological University (Montana Tech) provides a variety of 4-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 2-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 3 hours per day for 18 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 2-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. Noncredit continuing education courses for personal and professional development are also offered by Helena College.

The supplemental information on page A-70 summarizes trends in the number of employees, student enrollment and degrees granted.

Prior Audit Recommendation

The prior audit report included one recommendation related to an internal control deficiency over tuition and fees. The university reinstated their control procedures and the recommendation is fully implemented.

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
Joe Murray

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Consolidated Statements of Net Position of the University of Montana as of June 30, 2019, and 2018, the related Consolidated Statements of Revenues, Expenses and Changes in Net Position, and Consolidated Statements of Cash Flows for each of the fiscal years then ended, and the University Component Units–Combined Statements of Financial Position as of June 30, 2019, and 2018, and the related University Component Units–Combined Statements of Activities for the fiscal years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the university's aggregate discretely presented component units. Those statements, which include 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.

Opinions

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Montana as of June 30, 2019, and 2018, and the changes in financial position and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 23 to the financial statements, in fiscal year 2019, the university's discretely presented component units adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, Presentation of Financial Statements for Not-for-Profit-Entities. This standard was retroactively applied to fiscal year 2018. Our opinion is not modified with respect to this matter.

For fiscal year 2019, the university elected to change its presentation of certain investments on the Consolidated Statement of Net Position. Previously, the university reported a separate line for Restricted Investments, Other Long Term Investments, and Beneficial Interest. Note 3 discloses the restricted investment amounts. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis beginning on page A-5, and the Required Supplementary Information beginning on page A-62 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 consolidated financial statements as a whole. The Supplemental Information–All Campuses (unaudited) beginning on page A-70 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated 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 29, 2020, 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 29, 2020

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, 2019 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, 2019, 2018, and 2017, and should be read in conjunction with the fiscal year 2019 financial statements.

FINANCIAL HIGHLIGHTS

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.

The financial highlights for fiscal year 2018 were:

- In FY18, the University issued $14,125,000 of Series O 2017 Private Placement Revenue Bonds. The proceeds of the issue provided funds to construct a $24.0 million Living Learning Center on the University of Montana Tech campus in Butte. The first two floors of the three-story Living Learning Center will be a new residential hall for Montana Tech students. The third floor of the new facility will provide space for the Student Success Center, which will service all students on the Butte campus. Over 40.0% of the total project costs, or about $10.0 million, is being funded with private gifts. Also during the fiscal year, construction began on the $18.0 million expansion of the Phyllis J. Washington Education Center on the Missoula campus. The three story addition will provide 35,000 square feet of instructional and collaborative space. Included in the new wing is a 500-seat auditorium, the largest on campus. $10.0 million of the total project costs is being funded with a private gift.

- In response to declining enrollment, the University's Missoula campus implemented two voluntary termination plans in an effort to reduce the percentage of its budget spent on personnel costs.

Management, Discussion and Analysis (continued)

- Voluntary Employment Retirement Incentive Program (VERIP) offered to eligible faculty members was accepted by 14 tenured faculty for a total cost to the University of $1.6 million, all of which was recognized in FY18.

- Voluntary Severance Option (VSO) was extended to currently employed, full-time (1.0 FTE) classified staff, contract professionals, and contract administrators, whose positions were funded by general funds. The VSO offer was accepted by 84 employees, and the University recognized most of $3.8 million cost of the plan in FY18. Missoula campus anticipates it will realize a significant reduction in its general fund personnel costs beginning in FY19, from the voluntary termination plans.

- Enrollment at the University decreased by 764 full time equivalent (FTE) students in FY18; declining from 15,184 FTE in FY17 to 14,420 FTE, or a decrease of about 5.0%. The Missoula campus, which has experienced the most significant decline in enrollment, has addressed its budget shortfall by reducing operating expenses across all campus units.

- Moody's Investor Services assigned the University's general revenue bonds a credit rating of Aa3 in FY18, 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, (stated in millions)		
	2019	2018	2017*
Description			
Total current assets	$ 121.77	$ 116.54	$ 89.72
Total non-current assets	476.14	474.26	463.64
Total assets	$ 597.91	$ 590.80	$ 553.36
Deferred outflows of resources	$ 29.31	$ 31.26	$ 27.28
Total current liabilities	$ 67.17	$ 68.95	$ 55.48
Total non-current liabilities	217.12	243.69	275.13
Total liabilities	$ 284.29	$ 312.64	$ 330.61
Deferred inflows of resources	$ 20.89	$ 8.62	$ 5.36
Net invested in capital assets	$ 299.00	$ 281.44	$ 264.07
Restricted:			
Nonexpendable	20.50	20.96	21.35
Expendable	4.91	4.54	4.93
Unrestricted	(2.37)	(6.14)	(45.68)
Total net postion	$ 322.04	$ 300.80	$ 244.67

*Restated

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

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.

Management, Discussion and Analysis (continued)

- 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.

Events or developments which occurred during 2018 include:

- Current assets increased by almost $26.8 million in FY18 primarily from an increase in cash and cash equivalents of $29.5 million, offset by decreases in due from federal government, and prepaid and other charges of $2.2 million and $1.9 million, respectively. The increase in cash and cash equivalents is primarily from unspent Series O Revenue Bond proceeds of $10.0 million to be used for construction of the Living Learning Center on the University's MT Tech campus, and $9.5 million for payroll related liabilities disbursed after fiscal year-end.

- The increase in noncurrent assets of $10.6 million in FY18 is largely from a net increase in capital assets of $11.7 million. Variances between other non-current asset classifications were not considered significant.

- Deferred outflows of resources increased by over $3.9 million largely because of changes in actuarial assumptions, offset by a decrease in the difference between projected and actual investment earnings on investments as of the most recent measurement date for the pension plans.

- Current liabilities increased by over $13.5 million in FY18 primarily from increases in accounts payable and accrued liabilities and unearned revenue of $9.2 million and $5.7 million, respectively, offset by a $2.3 million decrease in student and other deposits. Payroll related liabilities from the final payrolls of FY18 were not paid until after fiscal year-end, accounting for most of the increase in accounts payable and accrued liabilities. An increase of $2.7 million in grant and contract revenue received in advance and about $2.6 million from the presale for tickets for FY19 concerts on the University's Missoula campus, are the principal reasons for the increase in unearned revenue.

- The decrease in noncurrent liabilities of over $34.4 million in FY18 is largely due to a $35.6 million decrease in the other postemployment benefits liability (OPEB), offset by increases in long-term debt obligations and net pension liability of $4.2 million and $2.7 million, respectively. Implementation of the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans* in FY18, and changes to benefits provided to retirees by the MUS Group Benefits Plan, contributed to the large decrease in the OPEB liability.

- Deferred inflows of resources increased by $3.2 million in FY18 due primarily to changes in the University's proportionate share of the defined benefit retirement plans deferred inflows of resources, which increased by over $2.5 million. The University also recorded deferred inflows resources of just over $720 thousand from the implementation of the provisions of GASB Statement No. 75.

- The University's net position increased by approximately $56.1 million in FY18 primarily due to a $36.1 million restatement of unrestricted net position from implementation of the provisions of GASB Statement No. 75 and a $17.4 million increase net investment in capital assets.

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, (stated in millions)		
	2019	2018	2017
Description			
Operating revenues	$ 277.88	$ 285.89	$ 284.12
Operating expenses	424.60	430.27	440.44
Operating loss	(146.72)	(144.38)	(156.32)
Non-operating revenues (expenses)	145.31	141.53	142.63
Loss before other revenues	(1.41)	(2.85)	(13.69)
Other revenues	22.65	22.91	20.94
Net increase in net position	21.24	20.06	7.25
Net Position, beginning of year as previously stated	300.80	244.67	237.42
Restatement for OPEB and related expenses	-	36.07	-
Net Position, beginning of year as restated	300.80	280.74	237.42
Net position, end of year	$ 322.04	$ 300.80	$ 244.67

The following provides a comparative analysis of revenues and expenses for the years ended June 30, 2019, 2018, and 2017:

	For the years ended June 30, (stated in millions)					
	2019		2018		2017	
REVENUES	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Tuition and fees, net	$ 108.21	24.0%	$ 113.89	25.0%	$ 114.27	25.3%
Federal grants and contracts	65.49	14.6%	66.26	14.6%	67.39	14.9%
State & local grants/contracts	7.91	1.8%	7.15	1.6%	8.89	2.0%
Nongovernmental grants/contracts	14.05	3.1%	13.73	3.0%	12.15	2.7%
Facilities and administrative cost allowances	12.76	2.8%	13.09	2.9%	13.08	2.9%
Sales/services of educational departments	19.45	4.3%	19.32	4.2%	16.98	3.8%
Auxiliary enterprise charges	42.46	9.4%	44.72	9.8%	44.26	9.8%
State appropriations	99.37	22.1%	100.04	22.0%	101.54	22.5%
Federal financial aid grants and contracts	20.23	4.5%	22.44	4.9%	22.87	5.1%
Investment income	4.67	1.0%	1.72	0.4%	1.93	0.4%
Private gifts	23.32	5.2%	20.39	4.5%	18.48	4.1%
Capital grants and gifts	23.06	5.1%	23.88	5.3%	21.84	4.8%
All other sources	9.19	2.1%	8.56	1.9%	8.18	1.8%
Total revenues	$ 450.17	100.0%	$ 455.19	100.0%	$ 451.86	100.0%
EXPENSES	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Compensation and benefits	$ 261.67	61.0%	$ 266.04	61.1%	$ 270.41	60.8%
Pension expense	8.79	2.0%	13.83	3.2%	9.76	2.2%
Other postemployment benefits	1.30	0.3%	1.98	0.5%	4.54	1.0%
Other operating expenses	108.63	25.3%	103.26	23.7%	109.93	24.7%
Scholarships and fellowships	20.01	4.7%	20.40	4.7%	21.68	4.9%
Depreciation and amortization	24.20	5.6%	24.76	5.7%	24.11	5.4%
Interest expense	4.33	1.0%	4.86	1.1%	4.18	0.9%
Total expenses	$ 428.93	100.0%	$ 435.13	100.0%	$ 444.61	100.0%

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:

Management, Discussion and Analysis (continued)

- 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.

➢ 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%.

Events or developments which occurred during 2018 include:

In FY18, the University saw a net increase of $20.1 million in its net position. Significant factors affecting the University's net position are described below:

➢ Operating revenues increased slightly by $1.8 million, or less than 1.0%, in FY18, primarily because of a $2.3 million increase in revenue from sales and service of educational departments. Tuition and fees revenue remained virtually flat at $113.9 million, while grant and contract revenue after several years of increases declined by $1.3 million, or by 1.3%. Other operating revenue classifications did not change significantly in FY18.

➢ In FY18, operating expenses decreased by just over 10.1 million, or by 2.3%, primarily due to decreases in compensation and employee benefits of $4.3 million, other expenses of $6.7 million, and scholarships and fellowships of $1.3 million, which were offset by a net increase of $2.2 million in pension and OPEB expenses. Additional explanation about the decreases in FY18 operating expenses are provided below:

- The decrease in compensation and benefits can be attributed primarily to a reduction of 75 employee FTE in FY18. Contract administrators and professionals, and classified employees saw a 52 FTE decline, while contract faculty remained the same at 1,053 employee FTE. The University's total FTE in FY18 was 3,767.

- The 6.1% decline in operating expenses is primarily due to $5.3 million decrease in expenditures for the operations and maintenance of plant, or a decrease of 15.5%,

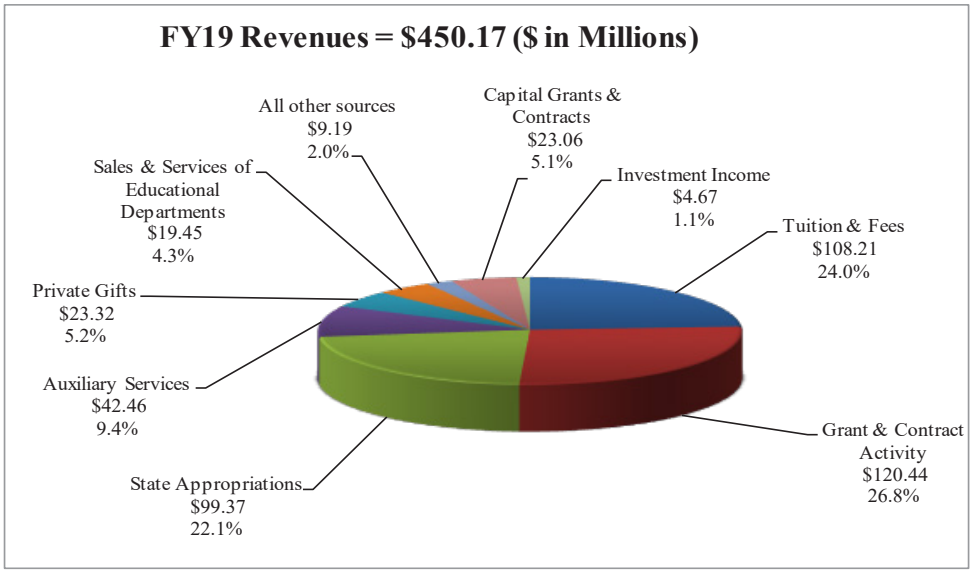
- The decline in scholarship and fellowship expense of close to 6.0% is directly related to a 764 decline in student FTE in FY18.

➢ Net non-operating revenues declined by close to $1.1 million in FY18, or by about 1.0%. The state appropriations declined by $1.5 million, or by 1.5%, which was offset by a $1.9 million increase in private gifts, or a 10.3% increase. Other non-operating revenue categories declined by less than $1.0 million in total.

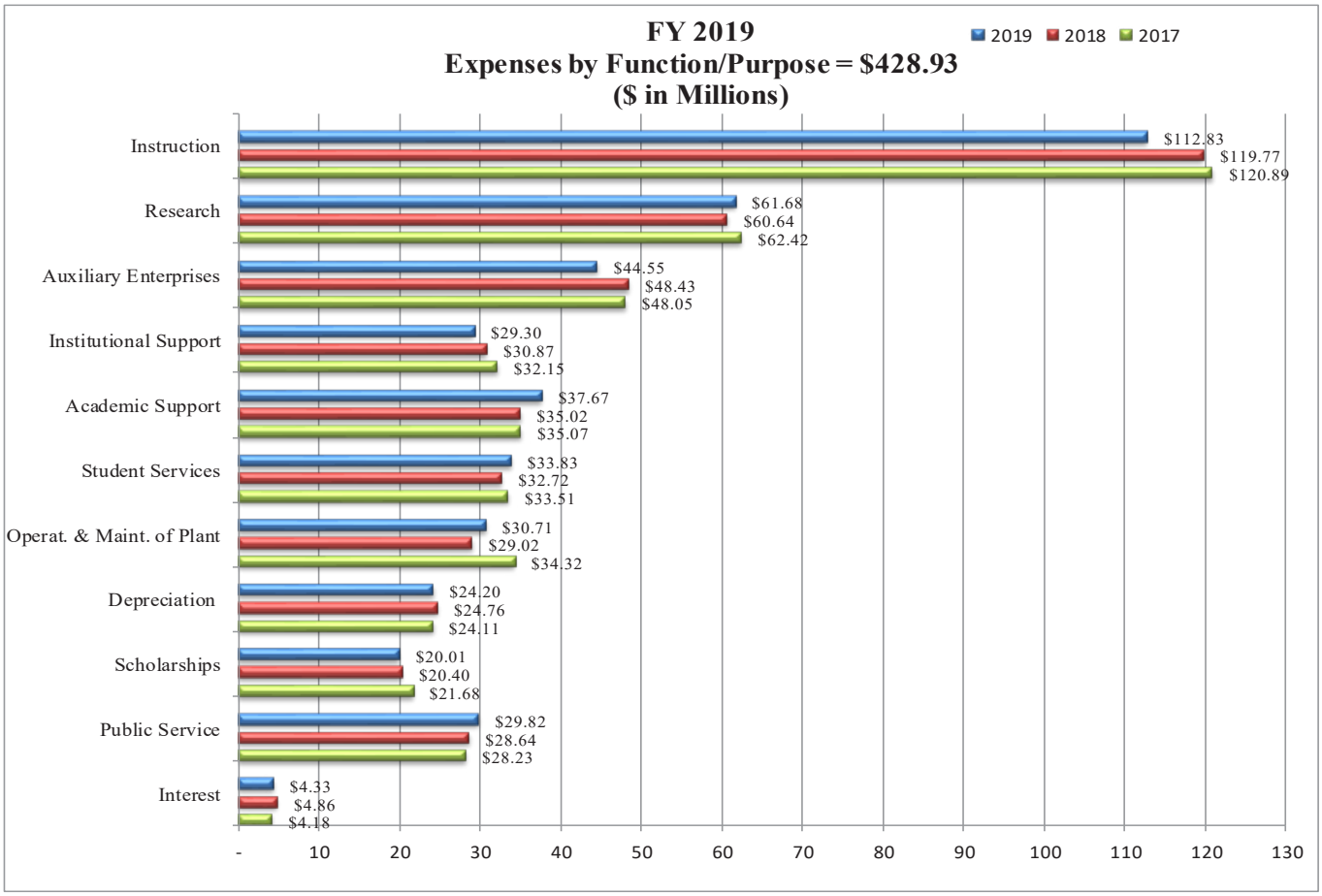
➢ The increase in other revenues of approximately $1.9 million is largely due to a $2.0 million increase in capital grants and gifts received for large capital construction projects. Major capital projects in progress at the University in FY18 include the $24.0 million Living Learning Center on the Montana Tech Campus and the $18.0 million addition to the Phyllis J. Washington Education Building on the Missoula campus. Both projects are substantially funded by private capital gifts.

Management, Discussion and Analysis (continued)

The following chart provides a graphical representation of revenue classifications as a percentage of total revenues for fiscal year 2019:



The following chart provides a graphical comparison of operating expenses by function for fiscal years 2019, 2018 and 2017:



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, (stated in millions)		
	2019	**2018**	**2017**
Cash Flow Category			
Cash Provided by (Used for):			
Operating Activities	$ (122.98)	$ (104.96)	$ (139.06)
Non-capital Financing Activities	144.97	144.67	144.88
Investing Activities	18.63	2.88	17.06
Capital and Related Financial Activities	(33.55)	(13.06)	(23.28)
Net Increase (Decrease) in Cash	7.07	29.53	(0.40)
Cash and Cash Equivalents, beginning of year	87.52	57.99	58.39
Cash and Cash Equivalents, end of year	$ 94.59	$ 87.52	$ 57.99

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 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.

Specific events or cash transactions during fiscal year 2018, which were notable include:

- In FY18, net cash used by operating activities totaled approximately $105.0 million, which was $34.1 million less than was used by operating activities in FY17. Significant decreases in cash used in operating activities were in payments for salary and benefits and operating expenses, which decreased by $17.4 million and $8.9 million, respectively. Cash provided by operating activities totaled $291.5 million in FY18, an increase of $7.1 million, which was in addition to the $27.0 million decrease in cash used by operating activities.

- Net cash flows from noncapital financing activities provided net cash of $144.7 million in FY18 primarily from state appropriations of $100.0 million, federal financial aid grants and contracts of $22.4 million and $20.4 million from private gifts. Overall, net cash provided by noncapital financing activities decreased only slightly from the prior year.

- Net cash flows provided by investing activities totaled $2.9 million in FY18, which was $14.1 million less than in the prior year primarily because proceeds from the maturity of federal agency securities of $15.0 million were reinvested in other fixed income securities. However, cash flows from earnings received on investments increased by over $800 thousand, or by 39.6%, from the prior year.

Management, Discussion and Analysis (continued)

- In FY18, net cash used by capital and related financing activities totaled $13.1 million, which was $10.2 million less that in FY17. Notable uses of cash were $25.6 million paid for capital assets and payments of $15.4 million for principal and interest on long term obligations. Significant sources of cash from capital and related financing activities were from the issuance of $14.1 million of Series O 2017 Revenue Bonds and capital gifts received in FY18 of $13.0 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. Enrollment there has declined by over 33% since FY11, declining from a record high of 13,917 FTE to 9247 FTE in FY19. Overall, during the same time period total enrollment for all of the University's campuses declined by 5,087 FTE from 19,039 in FY11 to 13,952 FTE in FY19, or by almost 27%.

  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 at the Missoula campus, the University has undertaken a two year, multi-step process to assess and prioritize its current offerings to build on the institutions 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

  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.

- Taking advantage of historically low interest rates, the University issued $146.8 million of taxable and tax exempt general revenue bonds in September, 2019, for the purpose of refinancing approximately $75.6 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 future 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, expected to result in significant energy cost savings.

University of Montana

Consolidated Statements of Net Position

As of June 30,	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (note 3)	$ 94,458,379	$ 87,452,335
Securities lending collateral (note 3)	367,439	425,491
Investments (note 3)	-	304,045
Accounts and grants receivable, net (note 4)	7,392,396	8,605,214
Due from Federal government	11,065,679	10,746,615
Due from primary government	949,558	789,395
Due from other State of Montana component units	198,983	269,530
Loans to students, net	1,239,362	1,414,859
Inventories (note 6)	2,025,930	1,908,844
Prepaid expenses and other charges (note 7)	4,067,521	4,623,063
Total Current Assets	121,765,247	116,539,391
Noncurrent Assets		
Restricted cash and cash equivalents	135,584	69,021
Investments and beneficial interest (note 3)	65,927,051	79,407,303
Loans to students, net	8,725,661	10,122,278
Capital assets, net (note 8)	401,352,585	384,658,812
Total Noncurrent Assets	476,140,881	474,257,414
Total Assets	$ 597,906,128	$ 590,796,805
DEFERRED OUTFLOW OF RESOURCES (note 9)	$ 29,305,284	$ 31,266,007
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (note 10)	$ 26,444,895	$ 25,721,506
Due to Federal government	32,095	103,776
Due to primary government	2,165,842	2,319,525
Due to other State of Montana component units	5,143	1,154
Securities lending liability (note 3)	367,439	425,491
Student and other deposits	1,935,025	1,869,218
Unearned revenue (note 11)	14,482,633	17,544,269
Accrued compensated absences	11,825,158	11,478,294
Current portion of long-term obligations	9,909,543	9,488,430
Total Current Liabilities	67,167,773	68,951,663
Non-current Liabilities (note 12)		
Accrued compensated absences	15,105,521	14,318,785
Unearned compensation	391,045	391,045
Long-term obligations	78,040,394	87,888,816
Advances from primary government (note 16)	17,631,036	19,434,248
Net pension liability (note 17)	77,452,366	95,256,248
Other postemployment benefits liability (note 18)	18,560,031	16,905,803
Due to Federal Government	9,939,138	9,494,825
Total Non-current Liabilities	217,119,531	243,689,770
Total Liabilities	$ 284,287,304	$ 312,641,433
DEFERRED INFLOW OF RESOURCES (note 9)	$ 20,885,221	$ 8,621,932
NET POSITION		
Net investment in capital assets	$ 298,998,994	$ 281,439,855
Restricted for:		
Nonexpendable		
Endowments	18,942,563	19,108,626
Loans	1,559,343	1,855,779
Expendable		
Loans	2,850,068	2,437,409
Scholarships, research, instruction, and other	2,057,976	2,105,323
Unrestricted	(2,370,057)	(6,147,545)
Total Net Position	$ 322,038,887	$ 300,799,447

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,	2019	2018
OPERATING REVENUES:		
Tuition and fees:		
Tuition (net of scholarship allowances of $34,052,130 and $33,517,545, respectively)	$ 81,850,625	$ 86,342,960
Fees	26,364,354	27,547,843
Total tuition and fees, net of scholarship allowances	108,214,979	113,890,803
Federal grants and contracts	65,494,676	66,257,781
State and local grants and contracts	7,908,412	7,150,226
Nongovernmental grants and contracts	14,047,883	13,728,567
Grant and contract facilities and administrative cost allowances	12,757,354	13,090,495
Sales and services of educational departments	19,449,874	19,320,539
Auxiliary enterprises charges:		
Residential life (net of scholarship allowances of $419,541 and $386,228, respectively)	15,758,211	16,761,062
Food services (net of scholarship allowances of $419,541 and $336,228, respectively)	13,837,126	13,991,778
Other auxiliary revenues	12,856,431	13,963,235
Interest earned on loans to students	51,174	56,190
Other operating revenues	7,505,614	7,678,920
Total Operating Revenues	277,881,734	285,889,596
OPERATING EXPENSES:		
Compensation and employee benefits	261,674,253	266,037,533
Pension expense (note 17)	8,788,187	13,830,240
Other postemployment benefits (note 18)	1,296,398	1,981,139
Other	108,632,391	103,261,410
Scholarships and fellowships	20,012,059	20,400,136
Depreciation and amortization	24,198,354	24,760,529
Total Operating Expenses	424,601,642	430,270,987
OPERATING LOSS	(146,719,908)	(144,381,391)
NON-OPERATING REVENUES (EXPENSES):		
State appropriations	99,372,103	100,043,738
Federal financial aid grants and contracts	20,229,522	22,441,958
Land grant revenues	2,044,428	1,799,843
Private gifts	23,320,689	20,384,596
Investment income	4,672,311	1,724,409
Interest expense	(4,328,889)	(4,862,736)
Net Non-Operating Revenues	145,310,164	141,531,808
INCOME BEFORE OTHER REVENUES (EXPENSES)	(1,409,744)	(2,849,583)
OTHER REVENUES (EXPENSES):		
Capital grants and gifts	23,055,947	23,876,130
Loss on disposal of capital assets	(406,763)	(971,135)
Total Other Revenues	22,649,184	22,904,995
NET INCREASE IN NET POSITION	21,239,440	20,055,412
NET POSITION:		
Net position - beginning of year as previously stated	300,799,447	244,669,442
Restatement for July 1, 2017, other postemployment benefits liability and related expense	-	36,074,593
Net position - beginning of year as restated	300,799,447	280,744,035
Net Position - End of Year	$ 322,038,887	$ 300,799,447

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,	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 110,835,638	$ 113,570,845
Federal grants and contracts	65,250,358	69,036,560
State grants and contracts	7,878,911	7,450,100
Nongovernmental grants and contracts	13,995,479	14,304,331
Grant and contract facilities and administrative cost allowances	12,757,354	13,090,495
Sales and services of educational activities	18,029,282	20,069,225
Auxiliary enterprises charges	39,351,152	46,448,858
Interest earned on loans to students	110,280	197,919
Other operating receipts	7,580,598	7,371,527
Payments to employees for salaries and benefits	(270,710,605)	(269,730,066)
Payments for other postemployment benefits (pensions)	(1,765,466)	(1,531,171)
Operating expenses	(107,848,631)	(104,984,524)
Payments for scholarships and fellowships	(20,012,059)	(20,400,136)
Loans made to students	(8,944)	(1,823,903)
Loan payments received	1,581,057	1,971,634
Net Cash Used by Operating Activities	(122,975,596)	(104,958,306)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	99,372,102	100,043,739
Land grants income	2,044,428	1,799,843
Federal financial aid grants and contracts	20,229,522	22,441,958
Private gifts for other than capital purposes	23,320,689	20,384,596
Direct lending proceeds	75,869,525	80,900,148
Direct lending disbursements	(75,869,525)	(80,900,148)
Net Cash Provided by Noncapital Financing Activities	144,966,741	144,670,136
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	-	(15,000,000)
Proceeds from maturities of investments	15,250,122	15,000,000
Earnings received on investments	3,381,177	2,881,996
Net Cash Provided by Investing Activities	18,631,299	2,881,996
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for capital assets	(28,375,752)	(25,564,162)
Private gifts for capital purposes	10,232,582	12,959,887
Proceeds from the sale of capital assets	-	43,928
Proceeds from the issuance of revenue bonds	-	14,125,000
Proceeds from advances from primary government	175,000	800,000
Principal paid advance from primary government, and capital leases	(1,987,261)	(1,829,814)
Principal paid on bonds payable	(9,385,382)	(8,955,102)
Interest paid on capital debt and leases	(4,209,024)	(4,646,454)
Net Cash Used by Capital and Related Financing Activities	(33,549,837)	(13,066,717)
Net Change in Cash and Cash Equivalents	7,072,607	29,527,109
Cash and Cash Equivalents, Beginning of Year	87,521,356	57,994,247
Cash and Cash Equivalents, End of Year	$ 94,593,963	$ 87,521,356

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)	2019	2018
Reconciliation of Operating Loss to Net Cash Used By Operating Activities:		
Operating loss	$ (146,719,908)	$ (144,381,391)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Noncash expense:		
Depreciation and amortization expense	24,198,354	24,760,529
Amortization of net pension liability	(3,281,204)	985,013
Amortization of other post employment benefits obligation	894,059	1,193,737
Changes in assets and liabilities:		
Accounts receivable	804,138	781,899
Loans to students	1,572,114	147,731
Inventories	(117,087)	38,494
Prepaid expenses and other charges	555,542	1,896,206
Accounts payable and accrued expenses	536,312	8,411,072
Unearned revenue	(3,061,636)	5,658,790
Student and other deposits	65,807	(2,322,476)
Due to federal government	444,313	(446,546)
Compensated absences	1,133,600	(1,681,364)
Net Cash Used by Operating Activities	$ (122,975,596)	$ (104,958,306)
Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions		
Fixed assets acquired by incurring capital lease obligations	$ 140,718	$ 33,966
Change in fair value of investments recognized as a component of interest income	$ 1,291,134	$ (1,157,187)
Fixed assets acquired from capital grants and donations	$ 12,823,366	$ 10,916,243
Discounts, premiums and deferred loss on refunding amortized to interest expense	$ 190,508	$ 191,504
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents classified as current assets	$ 94,458,379	$ 87,452,335
Cash and cash equivalents classified as noncurrent assets	135,584	69,021
Total Cash and Cash Equivalents, End of Year	$ 94,593,963	$ 87,521,356

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	2019	2018*
ASSETS		
Cash and cash equivalents	$ 16,199,862	$ 11,415,120
Short-term investments	5,412,899	11,863,568
Accrued dividends and interest	322,052	232,286
Investments	295,001,145	278,783,726
Contributions receivable, net	26,349,263	41,997,032
Student loans and other receivables	297,874	362,619
Beneficial interests in trusts held by others	10,466,265	8,720,098
Property, building and equipment, net of accumulated depreciation	2,501,160	2,599,525
Other assets	1,754,328	1,350,947
Total Assets	$ 358,304,848	$ 357,324,921
LIABILITIES		
Accounts payable	$ 1,220,243	$ 2,086,609
Accrued expenses	107,644	94,131
Compensated absences	257,820	228,348
Liabilities to external beneficiaries	16,750,691	17,089,506
Custodial funds	18,639,361	19,178,473
Other liabilities	231,760	233,509
Total Liabilities	37,207,519	38,910,576
NET ASSETS		
Net assets - without donor restrictions	10,911,375	8,387,291
Net assets - with donor restrictions	310,185,954	310,027,054
Total Net Assets	321,097,329	318,414,345
Total Liabilities and Net Assets	$ 358,304,848	$ 357,324,921

Restated

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.

University of Montana Component Units

Combined Statement of Activities

For The Year Ended June 30, 2018	Without Donor Restrictions	With Donor Restrictions	2018* Total
REVENUES:			
Contributions	$ 1,490,734	$ 37,300,672	$ 38,791,406
Interest and dividend income	902,606	2,589,166	3,491,772
Net realized and unrealized gains (losses) on investments	194,373	11,496,515	11,690,888
Administrative fees	907,295	-	907,295
Support received from university	550,000	-	550,000
Net revaluation of trusts and split-interest agreements	(664)	570,176	569,512
Income from perpetual trust	-	417,688	417,688
Special events	384,562	-	384,562
Other income	190,803	2,364,463	2,555,266
Net assets released from restrictions	55,684,575	(55,684,575)	-
Total Revenues	60,304,284	(945,895)	59,358,389
EXPENSES:			
Program services			
Academic and institutional	14,199,629	-	14,199,629
Capital expenses	29,145,879	-	29,145,879
Scholarships and awards	8,757,660	-	8,757,660
Total Program Services	52,103,168	-	52,103,168
Operating expenses			
Fundraising efforts	3,517,005	-	3,517,005
General and administrative	5,019,796	-	5,019,796
Other miscellaneous	40,328	-	40,328
Total Operating Expenses	8,577,129	-	8,577,129
Change in Net Assets Before Nonoperating Items	(376,013)	(945,895)	(1,321,908)
NON-OPERATING REVENUES (EXPENSES):			
Loss on disposition of asset	(844,212)	-	(844,212)
Change in Net Assets	(1,220,225)	(945,895)	(2,166,120)
Net assets - Beginning of Year	9,607,516	310,972,949	320,580,465
Net assets - End of Year	$ 8,387,291	$ 310,027,054	$ 318,414,345

Restated to conform to current year classifications.

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, 2019 AND 2018

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 16,500 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**

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans,* to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). This statement is effective for fiscal years beginning after June 15, 2017. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense. Additional note disclosure and required supplementary information about the OPEB liability are also required by the Statement. The July 1, 2017, balance of the OPEB liability and related deferred outflows of resources and deferred inflows of resources is reported in the Consolidated Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the 2018 net position, beginning of the year. The effect of the changes from the implementation of GASB 75 was to increase the University's previously stated beginning net position of $244,669,442, by $36,074,593.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period,* to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be recorded in the historical cost of a capital asset. The statement is effective for reporting periods beginning after December 15, 2019, and the requirement of the statement should be applied prospectively. The University elected to early implement the provisions of GASB 89 for the fiscal year ended June 30, 2018. The effect of the changes from the early implementation of GASB 89 was to recognize interest expense of $446,447, incurred in fiscal year 2018 on Series O Private Placement Revenue Bonds that were issued to construct the Living Learning Center on the University's Montana Tech campus.

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. The provisions in Statement No. 87 are effective for reporting periods beginning after December 15, 2019. Therefore, the University will implement the standard July 1, 2020. 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.

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

- **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.

Notes to the Consolidated Financial Statements (continued)

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

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

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

▪ **ACCOUNTS AND GRANTS RECEIVABLE**

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

▪ **INVENTORIES**

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

▪ **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:		
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.

Notes to the Consolidated Financial Statements (continued)

- **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.

- **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.

Notes to the Consolidated Financial Statements (continued)

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, and cash equivalents consisted of the following at June 30, 2019 and 2018:

	2019	2018
Cash deposits, petty cash and change funds	$ 73,549,335	$ 56,945,770
Cash equivalents:		
STIP	20,200,413	19,955,928
Cash held by trustees	708,631	10,550,637
	20,909,044	30,506,565
	$ 94,458,379	$ 87,452,335

- **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, 2019 and 2018 totaled $73,208,329 and $56,728,844, respectively.

- **CASH EQUIVALENTS**

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

STIP investments are primarily in short-term, high quality, fixed income securities with a maximum maturity of 397 days or less. 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, 2019 and 2018 amounted to $367,439 and $425,491, 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.

Notes to the Consolidated Financial Statements (continued)

Investments consisted of the following at June 30, 2019 and 2018:

Security Type	Fair Value Measurement Level	Fair Value [5] 2019	Fair Value [5] 2018	Effective Duration at June 30, 2019[1]	Credit Quality Rating at June 30, 2019[3]
Current					
Certificates of deposits	N/A	$ -	$ 304,045	Not applicable	N/A
Noncurrent					
Agency/Government related	Level 2	$ 12,550,600	$ 27,197,375	1.41	AA-
Trust Fund Investment Pool (TFIP)	NAV[4]	31,924,845	30,642,663	5.30[2]	NR
Foundation pooled investments	NAV[4]	16,689,282	17,020,023	Not applicable	N/A
Life insurance	NAV[4]	362,970	307,960	Not applicable	N/A
Total noncurrent investments		$ 61,527,697	$ 75,168,021		
Beneficial interest	NAV[4]	4,399,354	4,239,282	Not applicable	N/A
		$ 65,927,051	$ 79,407,303		

[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 1.31% 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 $19,075,407 and $19,301,630 at June 30, 2019 and 2018, respectively.

Investments held by the University at June 30, 2019 and 2018 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, 2019 and 2018 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.

Notes to the Consolidated Financial Statements (continued)

The MBOI imposed no restrictions on the amount of securities available to lend during fiscal years 2019 and 2018. 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 2019 and 2018 resulting from a borrower default. As of June 30, 2019 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 2019 and 2018, 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 36 days and the average weighted final maturity of 109 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.

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 41 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 hold short-term and long-term credit rating by at least one Nationally Recognized Statistical Rating Organization (NRSRO) with a minimum requirement of A1/P1 (short-term) and A3/A-1 (long-term).

Notes to the Consolidated Financial Statements (continued)

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, 2019 and 2018, expressed as a percentage of total investments, was 21.19% and 35.05%, 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, 2019 and 2018. Changes in fair value of the beneficial interests are recognized as an increase or a decrease in the related deferred inflow of resources. The primary unobservable inputs used in the fair value measurement of the perpetual trust assets are the underlying securities held by the outside management trust company that are outside the control and management of the University.

Land Grant Earnings

In 1881, the Congress of the United States granted land to the State of Montana for the benefit of the state's universities and colleges. The Enabling Act of 1889 granted 46,563 acres to Missoula, 100,000 acres to Montana Tech and 50,000 acres to Western Montana College. Under provisions of the grants, proceeds from the sale of land and land assets, together with proceeds from the sale of timber, oil royalties and other minerals, must be reinvested, and constitute, along with the balance of unsold land, a perpetual trust fund. The grant is administered as a trust by the State Land Board, which holds title and has the authority to direct, control, lease, exchange and sell these lands. The University, as a beneficiary, does not have title to the assets resulting from the grant, only a right to the earnings generated. The University's share of the trust earnings was $2,044,428 and $1,799,843 at June 30, 2019 and 2018, respectively.

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, 2019 and 2018:

	2019	2018
Student tuition and fees	$ 2,166,195	$ 4,710,862
Auxiliary enterprises and other operating activities	3,604,229	3,253,244
Private grants and contracts	4,104,066	2,870,967
Other	445,716	376,096
Gross accounts and grants receivable	10,320,206	11,211,169
Less: allowance for doubtful accounts	2,927,810	2,605,955
	$ 7,392,396	$ 8,605,214

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, 2019 and 2018, amounted to $9,613,880 and $9,488,430, 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.

Notes to the Consolidated Financial Statements (continued)

NOTE 6 – INVENTORIES

Inventories consisted of the following at June 30, 2019 and 2018:

	2019	2018*
Bookstore	$ 800,392	$ 774,420
Campus recreation operations	33,551	32,463
Dining services	346,404	304,408
Facilities services	695,277	639,724
Medical/Pharmacy services	124,030	134,970
Other	26,276	22,859
	$ 2,025,930	$ 1,908,844

*Restated to conform to current fiscal year presentation.

NOTE 7 – PREPAID EXPENSES AND OTHER CHARGES

Prepaid expenses and other charges consisted of the following at June 30, 2019 and 2018:

	2019	2018*
Financial aid	$ 831,769	$ 1,027,853
Library materials	1,459,807	1,168,248
Technology software	518,895	994,921
Student fees	322,495	73,110
Travel and other prepaid expenses	934,555	1,358,931
	$ 4,067,521	$ 4,623,063

*Restated to conform to current fiscal year presentation.

Notes to the Consolidated Financial Statements (continued)

NOTE 8 – CAPITAL ASSETS

The following tables present the changes in capital assets at June 30, 2019 and 2018, respectively.

At 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	16,369,898	38,014	-	-	16,407,912
Infrastructure	9,904,100	-	-	-	9,904,100
Buildings	384,641,392	-	-	40,240,997	424,882,389
Building improvements	232,405,867	-	183,812	1,787,033	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 and other fixed assets	255,267	-	-	-	255,267
	799,926,261	6,760,111	3,151,802	42,225,656	845,760,225
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 and other fixed assets	45,694	37,360	-	-	83,054
	469,359,533	23,593,726	2,433,844	-	490,519,414
Other capital assets, net	330,566,728	(16,833,615)	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	$ 384,658,812	$ 17,727,627	$ 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	800,867,318	8,171,731	3,467,698	42,547,589	848,118,939
	854,018,345	41,321,353	3,467,698	-	891,871,999
Less: accumulated depreciation	469,359,533	23,593,725	2,433,844	-	490,519,414
Total capital assets, net	$ 384,658,812	$ 17,727,627	$ 1,033,854	$ -	$ 401,352,585

Notes to the Consolidated Financial Statements (continued)

At June 30, 2018:

	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
Capital assets not being depreciated:					
Land	$ 8,225,722	$ 80,000	$ -	$ -	$ 8,305,722
Capitalized collections	18,300,435	41,788	-	-	18,342,223
Construction in progress	10,548,319	30,588,033	-	(14,633,270)	26,503,082
	37,074,476	30,709,821	-	(14,633,270)	53,151,027
Other capital assets:					
Land improvements	15,892,600	477,298	-	-	16,369,898
Infrastructure	9,904,100	-	-	-	9,904,100
Buildings	370,395,969	-	-	14,245,423	384,641,392
Building improvements	232,075,604	660,839	330,576	-	232,405,867
Furniture and equipment	92,214,569	6,248,237	4,557,250	103,158	94,008,715
Library materials	61,867,391	509,533	35,902	-	62,341,022
Livestock and other fixed assets	255,268	-	-	-	255,268
	782,605,501	7,895,907	4,923,728	14,348,581	799,926,261
Less accumulated depreciation for:					
Land improvements	11,795,347	402,772	-	-	12,198,120
Infrastructure	1,614,733	326,732	-	-	1,941,465
Buildings	158,732,871	8,161,134	-	-	166,894,005
Building improvements	157,439,905	7,571,662	330,576	-	164,680,990
Furniture and equipment	61,860,145	6,628,519	2,724,617	476	65,764,523
Library materials	56,641,051	1,193,686	-	-	57,834,737
Livestock and other fixed assets	7,739	37,955	-	-	45,694
	448,091,791	24,322,459	3,055,193	476	469,359,533
Other capital assets, net	334,513,710	(16,426,552)	1,868,536	14,348,105	330,566,728
Intangible assets	1,359,758	18,300	437,001	-	941,057
Total capital assets, net	$ 372,947,944	$ 14,301,569	$ 2,305,536	$ (285,165)	$ 384,658,812
Capital Asset Summary:					
Capital assets not being depreciated	$ 37,074,476	$ 30,709,821	$ -	$ (14,633,270)	$ 53,151,027
Other capital and intangible assets	783,965,259	7,914,207	5,360,729	14,348,581	800,867,318
	821,039,735	38,624,028	5,360,729	(284,689)	854,018,345
Less: accumulated depreciation	448,091,791	24,322,459	3,055,193	476	469,359,533
Total capital assets, net	$ 372,947,944	$ 14,301,569	$ 2,305,536	$ (285,165)	$ 384,658,812

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, 2019 and 2018:

	2019	2018
Deferred Outflows of Resources		
Unamortized loss on debt refunding	$ 2,122,481	$ 2,409,292
Defined benefit retirement plans	26,434,145	28,808,270
Other postemployement benefits for health insurance	748,658	48,445
	$ 29,305,284	$ 31,266,007
Deferred Inflows of Resources		
Defined benefit retirement plans	$ 15,810,085	$ 3,661,532
Other postemployement benefits for health insurance	660,762	720,718
Benefical interest	4,414,374	4,239,682
	$ 20,885,221	$ 8,621,932

NOTE 10 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2019 and 2018:

	2019	2018*
Compensation, benefits and related liabilities	$ 20,086,750	$ 19,270,180
Accrued interest expense	416,002	486,645
Accounts payable	2,403,815	1,344,536
Vouchers payable	1,847,823	3,188,556
Other accrued liabilities	1,690,505	1,431,589
	$ 26,444,895	$ 25,721,506

*Restated to conform to current fiscal year presentation.

NOTE 11 – UNEARNED REVENUES

Unearned Revenues consisted of the following at June 30, 2019 and 2018:

	2019	2018*
Grant and contract revenue received in advance	$ 5,799,639	$ 5,461,894
Summer session payments received in advance	2,405,208	2,409,306
Advanced ticket sales	3,457,664	6,439,984
Other unearned revenues	2,820,122	3,243,085
	$14,482,633	$ 17,554,269

*Restated to conform to current fiscal year presentation.

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, 2019 and 2018, respectively:

At June 30, 2019:

	Beginning Balance	Additions	Reductions	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 non-current liabilities						
Accrued compensated absences	25,797,079	12,585,107	11,451,507	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 non-current liabilities	$ 266,639,261	$ 15,635,923	$ 41,447,234	$ 240,827,950	$ 23,708,419	$ 217,119,531

At June 30, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Less: Current Portion	Long Term Portion
Bonds, notes and capital leases						
Revenue bonds payable, net	$ 91,922,129	$ 14,125,000	$ 9,019,424	$ 97,027,705	$ 9,350,377	$ 87,677,328
Subordinated bonds payable	124,000	-	34,000	90,000	35,000	55,000
Capital leases payable	250,480	33,966	24,905	259,541	103,053	156,488
	92,296,609	14,158,966	9,078,329	97,377,246	9,488,430	87,888,816
Other non-current liabilities						
Accrued compensated absences	27,478,443	10,861,360	12,542,725	25,797,079	11,478,294	14,318,785
Unearned compensation	391,045	-	-	391,045	-	391,045
Advances from primary government	22,446,829	800,000	1,829,814	21,417,015	1,982,767	19,434,248
Other postemployment benefits liability	52,458,930	521,466	36,074,593	16,905,803	-	16,905,803
Net pension liability	92,546,638	2,709,610	-	95,256,248	-	95,256,248
Due to Federal Government	9,941,371	-	446,546	9,494,825	-	9,494,825
	205,263,256	14,892,436	50,893,678	169,262,015	13,461,061	155,800,954
Total non-current liabilities	$ 297,559,865	$ 29,051,402	$ 59,972,007	$ 266,639,261	$ 22,949,491	$ 243,689,770

Capital Leases

The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2019:

Fiscal Year	Total
2020	$ 120,733
2021	87,735
2022	64,236
2023	39,931
2024	19,879
2025	4,227
Minimum lease payments	$ 336,741
Less: Amount representing interest	22,824
Present value of net minimum lease payments	$ 313,917

Assets acquired under capital leases consist primarily of photocopiers. Such assets are carried at $1,038,131 less accumulated depreciation of $744,489 as of June 30, 2019.

Notes to the Consolidated Financial Statements (continued)

NOTE 13 – REVENUE BONDS

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

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, 2019 and 2018, was $212,807,783. The combined principal amount outstanding at June 30, 2019 and 2018 was $86,485,706 and $95,836,083 respectively.

Series K 2010

On December 6, 2010, the University issued $48,415,000 of Series K 2010 (Taxable and Tax Exempt) Refunding Revenue Bonds. The interest rates on the Series K bonds range from 1.144% to 4.800%. The proceeds from the sale of the Series K bonds provided funds to advance refund all of outstanding Series E 1998 ($5,760,000) and most of outstanding Series F 1999 bonds. The revenue bonds refunded with the proceeds from Series K are consider legally defeased and accordingly, the liability for those bonds is no longer recorded in the consolidated financial statements. $41,244,997 of Series F bonds were refunded with Series K bond proceeds, leaving $15,290,000 that was not refunded.

The debt service cash flows for the Series K 2010 Revenue bonds (Refunding portion) were less than the debt service cash flow for the advanced refunded bonds by $3,669,560. The economic gain for The University of Montana from the advanced refunding was $2,980,499 (the difference between the present values of the debt service payments on the old and new debt).

Series L 2012

On June 12, 2012, the University issued $39,415,000 of Series L 2012 (Taxable and Tax Exempt) Refunding Revenue Bonds. The interest rates on the Series L 2012 bonds range from 2.175% to 5.000%. The proceeds from the sale of the Series L Revenue Bonds provided funds to advance refund all of the $15,290,000 outstanding Series F 1999 Bonds, all of the $15,175,000 outstanding Series G 2002 Bonds and a portion of the outstanding Series I 2004 Bonds. Prior to the advance refunding, the Series I outstanding balance was $20,660,000. $9,460,000 of the Series I bonds were refunded, leaving a balance of $11,200,000 outstanding. As a result of the Series L issuance, and advance refunding, the bonds are considered legally defeased and as a result, the liability for those bonds is no longer recorded in the consolidated financial statements.

The debt service cash flows for the Series L 2012 Revenue Bonds (refunding portion) were less than the debt service cash flows for the advance refunded bonds by $8,247,250. The economic gain for The University of Montana from the advanced refunding was $6,589,962 (the difference between the present values of the debt service payments on the old and new debt)

Series M 2013

On December 17, 2013, the University issued $7,891,000 of Series M 2013 Tax Exempt Revenue Bonds. The bond proceeds provided funding to cover the cost of construction projects on the Butte and Missoula campuses and to cover the cost of issuance for Series M 2013. The interest rate on the Series M 2013 bonds is 2.500% tax-exempt, fixed rate for the 10 year duration of the issuance, with no penalty for pre-payment. The bond proceeds from the sale of Series M 2013 bonds provided funds for projects approved by the Board of Regents. The projects include the renovation of restrooms in Prospector Residence Halls for $1,246,913 on the Montana Tech campus. Other approved projects are on the Missoula campus and include: the Technology Modular Units for $1,870,791, the Gilkey Executive Education Center for $1,490,000, the Adams Center Basement for $100,000 and the Interdisciplinary Science Building (ISB) for $3,152,526.

Series N 2015

On February 18, 2015, the University issued $20,500,000 of Series N 2015 Tax Exempt Facilities Revenue Refunding Bonds. The proceeds of the issue provided funds to advance refund most of the Series J 2005 Bonds to achieve interest cost savings and pay the costs of issuance of the 2015 financing. The portion of Series J bonds not refunded were paid on the next scheduled principal and interest payment in May, 2015.

The University recorded $20,500,000 of the Series N bonds to advance refund $20,005,000 of outstanding Series J Facilities Improvement and Refunding Revenue Bonds. The interest rates on the advanced refunded revenue bonds ranged from 4.00 percent to 4.50 percent. The portion of Series J 2005 bonds that were refunded are considered legally defeased, and accordingly, the liability for those bonds is no longer recorded in the consolidated financial statements.

Notes to the Consolidated Financial Statements (continued)

The debt service cash flows for the Series N 2015 Revenue bonds were less than the debt service cash flow for the advance refunded bonds by $2,351,850. The economic gain for the University of Montana from the advanced refunding was $1,941,153 (the difference between the net present values of the debt service payment on the old and new debt).

Series O 2017

On July 24, 2017, the University issued $14,125,000 of Series O 2017 Private Placement Revenue Bonds. The proceeds of the issue provided funds to construct a Living Learning Center on the University's Montana Tech campus in Butte.

In fiscal year 2018, the University recorded $14,125,000 Series O bonds payable. The interest rate on the revenue bonds is fixed at 3.390% over the 20-year term of the bonds.

The $14,125,000 Series O revenue bonds will be re-paid from new net revenue generated by the Living Learning Center. Debt Service payments for the new facility are estimated at $1.0 million per year for 20 years. Revenue committed toward the payment of debt are currently generating funds in excess of recurring operating and debt service requirements. This allows for the re-direction of funds to the new Series O 2017 debt. The Montana Tech campus's obligation for other outstanding revenue bond debt is fully paid in fiscal year 2024, and will provide additional revenues to commit to the $14,125,000 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, 2019 and 2018, $75,190,001 and $85,185,001, respectively, of bonds outstanding were considered defeased.

Revenue Bonds Payable

At June 30, 2019 annual principal payments are as follows:

Series K 2010

Fiscal Year	Interest Rate		Principal
2020	4.568-4.718%	$	6,250,000
2021	4.718-4.730%		6,485,000
2022	4.730-4.800%		6,855,000
			19,590,000
Add: unamortized premium:			63,100
		$	19,653,100

Series L 2012

Fiscal Year	Interest Rate		Principal
2020	2.175-5.000%	$	735,000
2021	2.964-5.000%		770,000
2022	2.250-2.964%		815,000
2023	2.964-4.000%		8,260,000
2024	3.014-4.000%		8,515,000
2025-2029	4.000%		11,940,000
2030-2033	3.125-4.000%		4,065,000
			35,100,000
Add: net unamortized premium:			1,032,216
		$	36,132,216

Series M 2013

Fiscal Year	Interest Rate		Principal
2020	2.500%	$	804,903
2021	2.500%		825,383
2022	2.500%		846,146
2023	2.500%		867,432
2024	2.500%		441,842
		$	3,785,706

Notes to the Consolidated Financial Statements (continued)

Series N 2015

Fiscal Year	Interest Rate	Principal
2020	2.550%	$ 1,430,000
2021	2.550%	1,485,000
2022	2.550%	1,515,000
2023	2.550%	1,550,000
2024	2.550%	1,605,000
2025-2029	2.550%	6,215,000
2030	2.550%	1,025,000
		$ 14,825,000

Series O 2017

Fiscal Year	Interest Rate	Principal
2020	3.390%	$ 545,000
2021	3.390%	560,000
2022	3.390%	580,000
2023	3.390%	600,000
2024	3.390%	620,000
2025-2029	3.390%	3,440,000
2030-2034	3.390%	4,060,000
2035-2037	3.390%	2,780,000
		$ 13,185,000

Revenue Bond Payable Summary:	
Total revenue bonds outstanding	$ 86,485,706
Add: Net unamortized premiums and discounts	1,095,314
Revenue bonds payable, net	$ 87,581,020

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

Fiscal Year	Principal	Interest	Total Payment
2020	$ 9,764,903	$ 3,058,169	$ 12,823,072
2021	10,125,383	2,655,978	12,781,361
2022	10,611,146	2,237,847	12,848,993
2023	11,277,432	1,810,603	13,088,035
2024	11,181,842	1,472,482	12,654,324
2025-2029	21,595,000	3,662,639	25,257,639
2030-2034	9,150,000	1,295,102	10,445,102
2035-2037	2,780,000	190,688	2,970,688
	$ 86,485,706	$ 16,383,508	$ 102,869,214

NOTE 14 – SUBORDINATE BONDS PAYABLE

In August, 2009, The Board of Regents of Higher Education adopted the Bond Resolution for the 2009 Series I and 2009 Series II Facility Improvement Bonds and authorized the University of Montana to complete the sale and delivery of bonds in the amount of $750,000 for the purpose of installing water backflow prevention devices on the University of Montana-Missoula campus. The Series I and II 2009 Bonds are subordinate obligations issued under Section 2.07(d) of The Indenture of Trust. The committed amounts for the Series I Bond and the Series II Bond are $416,300 and $333,700, respectively. Upon completion of the project and satisfaction of funding requirements, American Recovery and Reinvestment Act (ARRA) stimulus funds paid off the Series I bonds. The Series II bonds will be amortized over 10 years at a fixed rate of 1.75%. At June 30, 2010, $225,988 was disbursed from the Series I Bond. At June 30, 2011, the remaining funds were disbursed, and the Series I Bond committed amount was repaid as described above. The outstanding balance of the Series II Bond at June 30, 2019 is $55,000.

Notes to the Consolidated Financial Statements (continued)

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 from the primary government are received through the INTERCAP Program and State Building Energy Conservation Program offered through the Montana Board of Investments and Montana Department of Environmental Quality, respectively.

The INTERCAP program lends money to state agencies for the purpose of financing or refinancing the acquisition and installation of equipment or personal and real property and infrastructure improvements. INTERCAP loans have a variable interest rate, which is based on the underlying bond rate of the Montana Board of Investments INTERCAP bonds, and is adjusted annually in February. The rate at June 30, 2019 was 3.37%.

The State Building Energy Conservation Program (SBECP) lends money to state agencies to fund projects that create energy cost savings for state owned buildings. The program is financed through General Obligation Bonds, American Recovery and Reinvestment Act funds and state general fund appropriations.

The Montana Science and Technology Alliance (MSTA) loan was originally issued in 1994, and has a remaining term of 42 years. The interest rates are variable and are adjusted annually.

The scheduled maturities of the INTERCAP loans, MSTA loan and SBECP loans are as follows:

	INTERCAP Loans		MSTA Loan		SBECP Loans		
Fiscal Year	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Total**
2020	$ 1,456,668	$ 398,928	$ 43,115	$ 76,885	$ 473,935	$ 139,950	$ 2,589,481
2021	1,459,180	340,369	44,191	75,809	489,436	123,059	2,532,043
2022	1,343,527	292,777	45,295	74,705	459,376	105,491	2,321,170
2023	954,732	256,090	46,426	73,574	347,710	88,253	1,766,785
2024	926,727	222,791	47,586	72,414	358,582	77,381	1,705,481
2025-2029	4,168,415	675,285	256,359	343,641	1,525,289	236,320	7,205,309
2030-2034	1,892,106	139,347	290,010	309,990	613,980	47,859	3,293,292
2035-2039			328,078	271,922	56,473	1,695	658,168
2040-2044	-	-	371,143	228,857	-	-	600,000
2045-2049	-	-	419,861	180,139	-	-	600,000
2050-2054	-	-	474,974	125,026	-	-	600,000
2055-2059	-	-	537,321	62,679	-	-	600,000
2060-2061	-	-	174,261	5,739	-	-	180,000
	$ 12,201,355	**$ 2,325,587**	**$ 3,078,619**	**$ 1,901,381**	**$ 4,324,780**	**$ 820,008**	**$ 24,651,729**

Total advances payable from primary government and the current portion of advances at June 30, 2019, was $19,604,754 and $1,973,718, respectively.

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.

Notes to the Consolidated Financial Statements (continued)

DEFINED BENEFIT PLANS

- **Public Employees Retirement System**

Plan Description

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

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

Summary of Benefits

Eligibility for Benefit

Service retirement

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

Early retirement (reduced benefit)

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

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

- Retire before January 1, 2016 and accumulate less than 2 years additional service credit or retire on or after January 1, 2016 and accumulate less than 5 years additional service credit:
  - A refund of member's contributions plus return interest (currently .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.

Notes to the Consolidated Financial Statements (continued)

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

Guaranteed Annual Benefit Adjustment (GABA)

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

Contributions to the Plan

State law for periodic employer and employee contributions specifies rates and are a percentage of employee compensation. The State legislature has the authority to establish and amend contribution rates to the plan. Employer and employee contribution rates for 2019 were 8.67% and 7.90%, respectively and for 2018 were 8.57% and 7.90%, respectively.

- Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
- Employer contributions to the system:
  - Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS- DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.
  - Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
  - The portion of employer contributions allocated to the 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 $33,454,182, that qualifies as *special funding*.
    b. $978,696 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, 2017, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2018. 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:

- 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 4.80%

Notes to the Consolidated Financial Statements (continued)

- 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, terminated vested 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 Employee and Annuitant Mortality Tables with no projections. No future mortality improvements were assumed.

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 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the 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 rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and 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, 2018, are summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return – Arithmetic Basis
Cash Equivalents	2.6%	4.00%
Domestic Equity	36.0%	4.55%
Foreign Equity	18.0%	6.35%
Fixed Income	23.4%	1.00%
Private Equity	12.0%	7.75%
Real Estate	8.0%	4.00%
	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	$88,437,121	$61,150,041	$38,742,999

Notes to the Consolidated Financial Statements (continued)

Net Pension Liability

At June 30, 2019 and 2018, the University recorded $61,150,041 and $77,373,223, respectively, for its proportionate share of the net pension liability. At June 30, 2019 the net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2017. 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERS-DBRP participating employers. 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 University and State's proportionate share of the net pension liability consisted of the following at June 30, 2019 and 2018:

	2019	2018
University proportion of the net pension liability	2.9298%	3.9727%
University proportionate share of the net pension liability	$ 61,150,041	$ 77,373,223
State of Montana's proportion of the net pension liability	3.7815 %	0.0000%
State of Montana's proportionate share of the net pension liability associated with the University	19,665,918	-
	$ 80,815,959	$ 77,373,223

For the years ended June 30, 2019 and 2018, the University recognized pension expense of $3,927,113 and $8,573,779, 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, 2019 and 2018, the University recognized $1,312,484 and $1,106,838, 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.

Notes to the Consolidated Financial Statements (continued)

Deferred Outflows and Deferred Inflows

At June 30, 2019 and 2018, the University's proportionate share of PERS-DBRP deferred outflows of resources and deferred inflows of resources were from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 4,650,050	$ -	$ 1,905,459	$ 111,993
Difference between projected and actual earnings on pension plan investments	-	949,660	-	519,644
Changes in assumptions	5,199,894	-	10,576,110	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	14,640,272	-	2,833,203
Contributions paid to PERS-DBRP subsequent to the measurement date.	4,673,964	-	4,682,615	-
	$ 14,523,908	$ 15,589,932	$ 17,164,184	$ 3,464,840

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
2019	$54,432
2020	($747,156)
2021	($4,657,057)
2022	($390,206)
2023	$0
Thereafter	$0

Summary of Significant Accounting Policies

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

- **Game Wardens and Peace Officers Retirement System**

Plan Description

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

Summary of Benefits

Service retirement and monthly benefit formula

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

Early retirement

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

Notes to the Consolidated Financial Statements (continued)

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

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 2019 and 2018 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, 2018, is based on the results of an actuarial valuation date of June 30, 2017, 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 — 0.17%
- 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%

Notes to the Consolidated Financial Statements (continued)

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 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 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

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, 2018, are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return – Arithmetic Basis
Cash Equivalents	2.6%	4.00%
Domestic Equity	36.0%	4.55%
Foreign Equity	18.0%	6.35%
Fixed Income	23.4%	1.00%
Private Equity	12.0%	7.75%
Real Estate	8.0%	4.00%
	100.0%	

Sensitivity Analysis

The following table presents the sensitivity of the University's proportionate share of the GWPORS NPL at June 30, 2018, 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	$1,485,079	$792,743	$228,401

Net Pension Liability

At June 30, 2019 and 2018, the University recorded $792,743 and $735,826, respectively, for its proportionate share of the net pension liability. At June 30, 2019, the net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2017. 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of GWPORS' participating employers. At June 30, 2019 and 2018, the employer's proportion was 1.94% and 1.97%., respectively.

For the year ended June 30, 2019 and 2018, University recognized pension expense of $138,753 and $140,264, respectively.

Notes to the Consolidated Financial Statements (continued)

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, 2019 and 2018, the University reported its proportionate share of GWPORS deferred outflows of resources and deferred inflows of resources from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 149,774	$ -	$ 102,717	$ -
Difference between projected and actual earnings on pension plan investments	-	24,375	-	10,664
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	23,141	-	20,847
Changes in assumptions of contributions	68,274	-	92,609	-
Contributions paid to GWPORS subsequent to the measurement date	84,113	-	88,685	-
	$ 302,161	$ 47,516	$ 284,011	$ 31,511

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
2019	$76,340
2020	$59,112
2021	$26,346
2022	$8,734
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.

Notes to the Consolidated Financial Statements (continued)

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:

- 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 2019 and 2018 were 11.35% and 11.25%, respectively, and the employee contributions rate for fiscal year 2019 and 2018 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, 2019, was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2018, 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%.

Notes to the Consolidated Financial Statements (continued)

- 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

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 average long term capital market assumptions published in the Survey of Capital Market Assumptions 2017 Edition by Horizon Actuarial Service, LLC, yield a median real return of 5.07%. 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, 2018, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return – Arithmetic Basis
Domestic Equity	35.0%	6.68%
International Equity	18.0%	6.98%
Private Equity	10.0%	10.15%
Natural Resources	3.0%	4.09%
Core Real Estate	7.0%	5.38%
TIPS	3.0%	1.78%
Intermediate Duration Bonds	19.0%	2.15%
High Yield Bonds	3.0%	4.36%
Cash	2.0%	0.81%
	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, 2018, 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.

Notes to the Consolidated Financial Statements (continued)

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	$21,326,145	$15,509,582	$10,637,746

Net Pension Liability

In accordance with Statement 68, the System has a special funding situation in which the State of Montana is legally responsible for making contributions directly to TRS that are used to provide pension benefits to the retired members of TRS. Due to the existence of a special funding situation, employers are also required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer.

The net pension liability reported by the University at June 30, 2019, was measured as of June 30, 2018, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2018. The University's proportion of the net pension liability was based on contributions received by TRS during the measurement period July 1, 2017, through June 30, 2018, relative to total contributions received from all of TRS participating employers and non-employer contributing entities.

The University and State's proportionate share of the net pension liability consisted of the following at June 30, 2019 and 2018:

	2019	2018
University proportion of the net pension liability	0.8356%	1.0170%
University proportionate share of the net pension liability	$ 15,509,582	$ 17,147,199
State of Montana's proportion of the net pension liability	0.2928 %	0.3668%
State of Montana's proportionate share of the net pension liability associated with the University	5,434,309	6,185,159
	$ 20,943,891	$ 23,332,358

For the year ended June 30, 2019 and 2018, University recognized pension expense of $4,722,321 and $5,116,361, respectively, and grant revenue for the State's proportionate share of the University's pension expense of $452,982 and $424,333, respectively.

Changes in Actuarial Assumptions and Other Inputs

As a result of the recent actuarial experience study, dated May 3, 2018, the following changes to the actuarial assumptions were made since the previous measurement date:

- Assumed rate of inflation was reduced from 3.25% to 2.50%
- Payroll growth assumption was reduced from 4.00% to 3.25%
- Investment return assumption was reduced from 7.75% to 7.50%.
- Wage growth assumption was reduced from 4.00% to 3.25%
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
  - 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.
- Mortality among disabled members was updated to the following:
  - For Males: RP 2000 Disabled Mortality Table, set back three years, with mortality improvements projected by Scale BB to 2022.
  - For Females: RP 2000 Disabled Mortality Table, set forward two years, with mortality improvements projected by Scale BB to 2022.
- Retirement rates were updated
- Termination rates were updated
- Rates of salary increases were updated

Changes in Benefit Terms:

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

Notes to the Consolidated Financial Statements (continued)

Deferred Outflows and Deferred Inflows

At June 30, 2019 and 2018, the University's proportionate share of TRS deferred outflows of resources and deferred inflows of resources were from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 110,682	$ 9,678	$ 63,061	$ 25,636
Changes in actuarial assumptions	1,264,274	22,960	-	71,687
Difference between projected and actual earnings on pension plan investments	-	139,999	-	67,858
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,085,619	-	4,390,455	-
Contributions paid to TRS subsequent to the measurement date	6,147,501	-	6,906,559	-
	$ 11,608,076	$ 172,637	$ 11,360,075	$ 165,181

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	$2,842,848
2021	$1,934,686
2022	$582,613
2023	($72,209)
2024	$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, over no more than 30 years. As of June 30, 2019, all of the retirement plans were in compliance with this requirement.

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

Notes to the Consolidated Financial Statements (continued)

DEFINED CONTRIBUTION PLANS

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

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

	Year ending June 30,	
	2019	**2018**
FACULTY		
Covered Payroll	$ 113,474,750	$ 114,398,637
Employer Contributions	$ 6,758,556	$ 6,813,583
Percent of Covered Payroll	5.956%	5.956%
Employee Contributions	$ 7,967,690	$ 8,009,179
Percent of Covered Payroll	7.020%	7.000%
STAFF		
Covered Payroll	$ 6,652,351	$ 7,107,647
Employer Contributions	$ 577,079	$ 606,282
Percent of Covered Payroll	8.670%	8.530%
Employee Contributions	$ 525,535	$ 561,503
Percent of Covered Payroll	7.899%	7.899%

For the years ended June 30, 2019 and 2018, 4.72%, or $5,356,009 and $5,399,616, 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. For FY18, 4.72% or $335,481 was contributed to PERS from MUS-RP staff employer contributions to amortize past service unfunded liability in accordance with state law. 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:

	2019	**2018**
Net OPEB Liability	$ 18,560,031	$ 16,905,803
Deferred OPEB Outflows of Resources	$ 748,658	$ 48,445
Deferred OPEB Inflows of Resources	$ 660,763	$ 720,718
OPEB expense	$ 1,296,398	$ 1,981,139

Notes to the Consolidated Financial Statements (continued)

Plan Description

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

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

Employer Proportionate Share of Total OPEB Liability and Basis for Allocation

The total OPEB liability (TOL) as of June 30, 2019, was based on the actuarial valuation at December 31, 2017, with update procedures to roll forward the TOL to the measurement date of March 31, 2019. 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:

	2019	2018
University proportion of the OPEB liability	45.09%	45.78%
University proportionate share of the OPEB liability	$ 18,560,032	$ 16,905,803

OPEB Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2019 and 2018 the University's OPEB plan deferred outflows and inflows of resources were from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 600,808	$ -	$ -
Differences betweem actual and expected contributions				633,123
Changes in assumptions or other inputs	608,272	59,955	-	87,595
Amounts associated with transactions subsequent to the measurement date of the OPEB liability*	140,386	-	48,446	-
	$ 748,658	$ 660,763	$ 48,446	$ 720,718

*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.

Notes to the Consolidated Financial Statements (continued)

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

	Net Amount To Be Recognized as an increase or (decrease) to OPEB Expense
2020	($5,590)
2021	($5,590)
2022	($5,590)
Thereafter	($25,515)

Actuarial Methods and Assumptions

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

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

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands):		
Before Medicare eligibility	$11,264	$4,728
After Medicare eligibility	$4,806	$3,620
Actuarial valuation date	December 31, 2017	
Actuarial measurement date [1]	March 31, 2019	
Actuarial cost method	Entry age normal funding method	
Amortization method	Open basis	
Remaining amortization period	20 year period	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB	
Actuarial assumptions:		
Discount rate	3.79%	
Projected payroll increases	4.00%	
Participation:		
Future retirees	55.00%	
Future eligible spouses	60.00%	
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.

Notes to the Consolidated Financial Statements (continued)

Changes in Actuarial Assumptions and Methods Since Last Measurement Date
Changes in actuarial assumptions include interest rates based upon the March 31, 2019, 20-year municipal bond index per GASB 75 requirements.

Changes in Benefit Terms since Last Measurement Date
There were no changes in benefit terms since the last measurement date.

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 (6.0%)	At Current Rate (7.0%)	Assuming 1.0% Increase (8.0%)
University proportion of total OPEB Liability	$15,273,306	$18,560,031	$22,885,609

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:

As of Measurement Date	Assuming 1.0% Decrease (2.79%)	At Current Rate (3.79%)	Assuming 1.0% Increase (4.79%)
University proportion of total OPEB Liability	$22,339,557	$18,560,031	$15,610,979

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, and adheres to these provisions. 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, 2019.

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 finance capital asset projects as described in Note 13, are secured by a first lien on the gross and net pledged revenues derived primarily from auxiliary facilities on each of its four campuses. Gross pledged revenues include revenue from housing, food service, student union, recreation and field house facility operations. Net pledged revenues are derived mainly from investment income, student fees, events revenue, continuing education (non-credit) and land grant revenue. Total principal and interest remaining on the debt at June 30, 2019 is $102,869,214 with annual debt service requirements ranging from $13.1 million in 2023 to $992,544 in 2037, the final year of repayment.

Notes to the Consolidated Financial Statements (continued)

A schedule of revenues pledged as security for revenue bonds is presented as follows at June 30, 2019 and 2018:

	2019		2018	
	Revenues Pledged as Security for Debt	Net Similar Revenues	Revenues Pledged as Security for Debt	Net Similar Revenues
Student fees	$ 11,412,807	$ 108,214,979	$ 11,574,012	$ 113,890,803
Sales and services:				
Events revenue	5,578,617		5,931,732	-
Continuing education	5,225,572		4,504,913	-
Residence life	598,956		718,000	-
Student union facilities	354,154		578,512	-
Other sources	735,338		1,322,516	-
Total sales and services	12,492,637	19,449,874	13,055,673	19,320,539
Residence life	15,489,147	15,758,211	16,143,062	16,761,062
Food services	11,614,209	11,848,209	13,757,833	13,991,778
Other auxiliary revenues:				
Residence life	315,342		521,213	-
Food services	2,048,186		1,599,442	-
Student union facilities	188,837		709,622	-
Student health services	915,865		887,031	-
Parking	2,226,170		2,278,486	-
Recreation facilities	957,970		1,184,901	-
Bookstore	2,001,281		2,356,382	-
Printing services	49,914		360,146	-
Field house facilities	596,057		889,977	-
Other sources	1,757,220		704,697	-
Total other auxiliary revenues	11,056,842	14,845,348	11,491,897	13,963,235
Land grant revenue	2,044,428	2,044,428	1,799,843	1,799,843
Investment income	1,048,553	4,672,311	897,035	1,724,409
	$ 65,158,623	$ 176,833,360	$ 68,719,355	$ 181,451,669

In addition to revenue bonds issuances, the University has entered into debt arrangements with the Montana Board of Investments (MBOI) under its INTERCAP loan program for the purpose of financing the acquisition or construction of capital assets.

In fiscal year 2017, the MBOI approved a $5.0 million INTERCAP loan, with a term of fifteen years, as part of the total funding for the construction of the $14.0 million Washington-Grizzly Champions Center on the University's Missoula campus. In the INTERCAP loan application, the University identified sources of revenues that would be pledged toward the INTERCAP loan debt repayment. One revenue source is a portion of athletic ticket sales. For fiscal year 2019, the total amount of ticket revenue pledged toward the Washington-Grizzly Champions Center INTERCAP loan repayment was $220,652.

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.

Notes to the Consolidated Financial Statements (continued)

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

NOTE 21 – COMMITMENTS AND CONTINGENCIES

At June 30, 2019, the University had the following outstanding commitments under major capital and maintenance projects:

	Budget Authorization *	Total Expenditures through June 2019	Funding Source
PJW Education Add'n Plan	$ 18,000,000	$ 16,197,399	Private Funds
LA West Remodel Classrooms & Bathrooms	2,000,000	1,528,108	Private Funds
Softball Stadium Improvements	650,000	83,428	Private Funds
Main Hall Phase III	4,500,000	4,177,004	A&E, FEMA Grant, other campus funds
Living Learning Center	24,000,000	22,317,336	Plant, Private, Series O
	$ 49,150,000	$ 44,303,275	

*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
2020	$ 265,708
2021	179,906
2022	129,268
2023	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.

Notes to the Consolidated Financial Statements (continued)

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.

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, 2019 and 2018, $229,419 and $237,754, 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, 2019 and 2018, the following was transferred to the University for scholarships, academic or institutional support or capital expenses by the University foundations: $22,347,512 and $24,042,295, respectively with The University of Montana Foundation (406-243-2593); $4,296,153 and $6,660,650, respectively, with the Montana Tech Foundation (406-496-4532); and $727,938 and $358,038 respectively, with The University of Montana-Western Foundation (406-683-7305). In addition, $1,614,860 and $2,572,973 was transferred from the Montana Grizzly Scholarship Association (406-243-6485) for the fiscal years ended June 30, 2019 and 2018, respectively. For the fiscal years ended June 30, 2019 and 2018, the University foundations also expended $4.7 million and $4.8 million, respectively, directly to third parties in support of the University. In exchange, the University provides the foundations with office space and an annual contracted fee. Included with the office space are staff and some related office expenses. For each of the fiscal years ended June 30, 2019 and 2018, the University provided $550,000 and $700,000, 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, 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
Long-term liabilities – other	257,820	-	-	231,760	-	489,580
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

STATEMENT OF FINANCIAL POSITION
6/30/2018*

	University of Montana Foundation	Montana Tech Foundation	University of Montana – Western Foundation	Montana Grizzly Scholarship Association	Elimination	Total
ASSETS:						
Cash and investments	$ 251,217,161	$ 43,928,666	$ 7,138,804	$ 2,558,819	$ (2,548,750)	$ 302,294,700
Other receivables, net of allowances	48,874,194	2,184,717	-	20,838	-	51,079,749
Fixed assets, net of depreciation	397,639	2,114,390	7,427	80,069	-	2,599,525
Other assets	1,292,857	-	-	58,090	-	1,350,947
Total Assets	$ 301,781,851	$ 48,227,773	$ 7,146,231	$ 2,717,816	$ (2,548,750)	$ 357,324,921
LIABILITIES:						
Current liabilities associated with operations	$ 2,106,880	$ 54,370	$ 9,266	$ 243,733	$ -	$ 2,414,249
Long-term liabilities – other	228,348	-	-	-	-	228,348
Liabilities to external beneficiaries	16,890,032	199,474	-	-	-	17,089,506
Custodial funds	21,727,223	-	-	-	(2,548,750)	19,178,473
Total Liabilities	40,952,483	253,844	9,266	243,733	(2,548,750)	38,910,576
NET ASSETS:						
Net assets – Without donor restrictions	4,841,213	2,511,766	263,092	771,220	-	8,387,291
Net assets – With donor restrictions	255,988,155	45,462,163	6,873,873	1,702,863	-	310,027,054
Total Net Assets	260,829,368	47,973,929	7,136,965	2,474,083	-	318,414,345
Total Liabilities & Net Assets	$ 301,781,851	$ 48,227,773	$ 7,146,231	$ 2,717,816	$ (2,548,750)	$ 357,324,921

* The component units implemented FASB ASU no. 2016-14 in FY19 and applied the changes retrospectively. The Statement of Financial Positions has been restated to conform to the new standards.

Notes to the Consolidated Financial Statements (continued)

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:					
Loss on disposition of asset	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	47,973,929	7,187,187	2,474,083	318,464,567
Restatement of net assets	-	-	(50,222)	-	(50,222)
Net assets- Beginning of fiscal year as restated	260,829,368	47,973,929	7,136,965	2,474,083	318,414,345
Net assets, end of fiscal year	$ 261,730,924	$ 49,263,139	$ 7,350,754	$ 2,752,512	$ 321,097,329

STATEMENT OF ACTIVITIES

For the year ended June 30, 2018

	University of Montana Foundation	Montana Tech Foundation	University of Montana – Western Foundationz*	Montana Grizzly Scholarship Association	Total
REVENUES:					
Contributions	$ 30,049,223	$ 5,911,802	$ 1,080,440	$ 1,749,941	$ 38,791,406
Investment income and unrealized gain(loss) on investments	11,133,781	3,577,427	374,426	97,026	15,182,660
Administrative fees	845,834	-	61,461	-	907,295
Contract for services	550,000	-	-	-	550,000
Net Revaluation of Trusts and Split-Interest Agreements	569,512	-	-	-	569,512
Income from perpetual trust	417,688	-	-	-	417,688
Special Events	-	-	10,832	373,730	384,562
Other income	2,672,255	(146,570)	29,581	-	2,555,266
Total Revenues	46,238,293	9,342,659	1,556,740	2,220,697	59,358,389
EXPENSES:					
Program services	41,744,360	7,192,674	633,489	2,532,645	52,103,168
Supporting services	6,382,506	1,528,006	293,364	373,253	8,577,129
Total Expenses	48,126,866	8,720,680	926,853	2,905,898	60,680,297
Change in net assets before non-operating items	(1,888,573)	621,979	629,887	(685,201)	(1,321,908)
NON-OPERATING EXPENSES:					
Loss on Disposition of assset	(844,212)	-	-	-	(844,212)
Change in net assets	$ (2,732,785)	$ 621,979	$ 629,887	$ (685,201)	$ (2,166,120)
Net assets, beginning of fiscal year	263,562,153	47,351,950	6,507,078	3,159,284	320,580,465
Net assets, end of fiscal year	$ 260,829,368	$ 47,973,929	$ 7,136,965	$ 2,474,083	$ 318,414,345

* Restated

Notes to the Consolidated Financial Statements (continued)

The following table shows the total investments held by the component units at June 30, 2019 and 2018:

	Fair Market Value	
	2019	2018
Investments held by component units:		
Stocks and bonds	$ 79,851,378	$ 89,666,864
Money market and certificates of deposit	7,193,339	5,175,045
Alternative investments	151,656,005	152,502,725
Real property	61,506,537	41,201,866
Other	206,785	213,909
	$ 300,414,044	$ 288,760,409

NOTE 24 – VOLUNTARY TERMINATION BENEFITS

In response to declining enrollment, the University of Montana's Missoula campus implemented voluntary termination plans in an effort to reduce the percentage of its budget spent on personnel costs.

Voluntary Employment Retirement Incentive Program (VERIP)

The first of two VERIP offerings was announced in May, 2017. In order to participate in the plan, faculty members had to meet the following eligibility requirements:

- were full-time tenured faculty and were age 65 years of age or older as of May 12, 2017, and,
- were eligible to retire under Montana Teacher's Retirement System or the MUS-RP as of May 12, 2017.

Eligible faculty members who accepted the offer by July 17, 2017, received a lump sum payment equal to 50% of the their FY2016-2017 general fund contract base salary.

The second VERIP offering was announced in June, 2017. In order to participate in the plan, faculty members had to meet the following eligibility requirements:

- were full-time tenured faculty and were age 60-64 years of age as of May 12, 2017, and,
- were eligible to retire under Montana Teacher's Retirement System or the MUS-RP as of May 12, 2017.

Eligible faculty members who accepted the offer by July 28, 2017, could elect to receive either of the following:

- lump sum payment equal to 50% of the their FY2016-2017 general fund contract base salary, or,
- lump sum payment outlined above, less any deductions for the University retiree health insurance plan coverage premiums until their 65th birthday.

Faculty members who accepted the May, 2017 or June, 2017 VERIP offering were terminated on July 17, 2017 or July 28, 2017, respectively. The total cost to the University for the 14 tenured faculty who accepted the VERIP offer was approximately $1.6 million, and was recognized in fiscal year 2018.

Voluntary Severance Option (VSO)

The University announced the VSO in October, 2017, which was extended to currently employed, full-time (1.0 FTE) classified staff, contract professionals, and contract administrators, whose positions were funded by general funds and had an initial employment date no later than October 17, 2015. The offer extended to December 6, 2017, and employees who accepted the VSO were terminated on December 31, 2017. The VSO provided the following:

- Employee will be paid the equivalent of six months of wages at their stated salary level as of December 6, 2017, in January 2018 as severance.
- Employee will remain on medical and dental coverage until December 31, 2018; or,
- Employee may elect to receive a lump sum payment of $12,648 (the value of 12 months of health insurance), plus their severance payment, in lieu of remaining on the health insurance plan.

The VSO offer was accepted by 84 employees and the voluntary termination plan's cost of approximately $3.8 million, was recognized primarily in fiscal year 2018.

Notes to the Consolidated Financial Statements (continued)

NOTE 25 – SUBSEQUENT EVENT

General Revenue Bonds Issuances

On September 5, 2019, on behalf of the University, the Board of Regents of Higher Education for the State of Montana (the Board) priced $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 bond issuance closed on September 26, 2019. The proceeds of the sale of the Series 2019BC (the "Refinancing"), were used to defease and 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 refunding of the following: (i) Refunding taxable and tax exempt Revenue Bonds, Series K 2010 outstanding in the aggregate principal amount of $19,590,000; (ii) Refunding taxable and tax exempt Revenue Bonds, Series L 2012 outstanding in the aggregate principal amount of $35,100,000; (iii) 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) loans outstanding in the aggregate principal amount of $4,002,234.

Concurrently with the Refinancing, the Board exchanged the University's General Revenue Bonds, Series 2019A in the amount of $13,185,000, for its Revenue Bonds, Series O 2017 outstanding in the amount of $13,185,000. The Series 2019A Bonds were issued under the Indenture of Trust (Indenture) between the Board and the Trustee, and the Series O 2017 Bonds were cancelled.

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.

NOTE 26 – NATURAL CLASSIFICATION WITH FUNCTIONAL CLASSIFICATIONS

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
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
Public service	19,578,012	134,650	31,852	9,912,302	1,116	166,942	-	-	29,824,874
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's operating expenses by natural and functional classifications for the year ended June 30, 2018, were as follows:

	Natural Classification								
Functional Classification:	Compensation & benefits	Pension expense	Other postemployment benefits	Supplies & other services	Utilities	Communication	Scholarships	Depreciation	Total
Instruction	$ 102,867,401	$ 4,954,412	$ 1,065,606	$ 10,627,532	$ 42,025	$ 209,244	$ -	$ -	$ 119,766,220
Research	41,672,811	637,958	215,249	17,794,754	79,312	245,991	-	-	60,646,075
Academic support	21,869,394	1,398,585	131,640	11,356,395	-	265,887	-	-	35,021,901
Student services	20,654,435	1,113,258	121,762	10,315,605	68,967	447,010	-	-	32,721,037
Institutional support	20,496,580	1,771,426	128,059	7,440,257	20,651	1,010,422	-	-	30,867,395
Operation and maintenance of plant	13,069,892	1,306,897	95,797	9,069,988	5,370,934	106,550	-	-	29,020,058
Scholarships and fellowships	-	-	-	-	-	-	20,400,136	-	20,400,136
Auxiliary enterprises	25,898,448	2,358,919	189,924	16,641,887	3,098,272	240,037	-	-	48,427,488
Public service	19,508,572	288,785	33,102	8,647,497	1,184	161,010	-	-	28,640,150
Depreciation	-	-	-	-	-	-	-	24,760,529	24,760,529
	$ 266,037,533	$ 13,830,240	$ 1,981,139	$ 91,893,916	$8,681,345	$ 2,686,150	$20,400,136	$24,760,529	$ 430,270,987

The University of Montana
Required Supplementary Information
(Unaudited)

Pensions

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

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

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

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

	2019	2018*	2017	2016	2015
Contractually required contributions	$ 3,837,240	$ 4,081,094	$ 4,124,934	$ 4,413,046	$ 4,521,932
Contributions in relation to the contractually required contributions	3,837,240	4,081,094	4,124,934	4,413,046	4,521,932
Contribution deficiency/(excess)	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$44,258,815	$47,730,177	$48,695,988	$49,401,010	$48,779,362
Contributions as a percentage of covered-employee payroll	8.67%	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, 2018

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 6.30%
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, 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	0.26%

Required Supplementary Information (continued)

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

Changes of Benefit Terms

The following changes to the plan 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

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

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

	2019	2018	2017	2016	2015
Contractually required contributions	$ 83,981	$ 88,555	$ 87,231	$ 91,867	$ 87,061
Contributions in relation to the contractually required contributions	83,981	88,555	87,231	91,867	87,061
Contribution deficiency/(excess)	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	933,126	983,942	969,235	$1,011,526	$935,808
Contributions as a percentage of covered-employee payroll	9.00%	9.00%	9.00%	9.08%	9.30%

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

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

The following actuarial methods and assumptions were adopted from the June 30, 2017 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 – for GWPORS
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 – for GWPORS
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

	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability	83.56%	1.02%	1.14%	1.29%	1.38%
Employer's proportionate share of the net pension liability	$ 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	5,434,309	6,185,159	7,764,849	8,228,030	8,492,935
Total	$ 20,943,891	$ 23,332,358	$ 28,506,836	$ 29,367,518	$ 29,664,629
Employer's covered-employee payroll	$ 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	176.25%	162.52%	179.44%	164.48%	156.31%
Plan fiduciary net position as a percentage of the total pension liability	69.09%	70.09%	66.69%	69.30%	70.36%

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

	2019	2018	2017	2016	2015
Contractually required contributions	$ 6,147,501	$ 6,906,559	$ 6,705,145	$ 6,627,145	$ 6,383,418
Contributions in relation to the contractually required contributions	6,147,501	6,906,559	6,705,145	6,627,145	6,383,418
Contribution deficiency/(excess)	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 8,814,217	$ 8,799,902	$ 10,550,521	$ 11,559,350	$ 12,852,552
Contributions as a percentage of covered-employee payroll	69.75%	78.48%	63.55%	57.33%	49.67%

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

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

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	22 years
Asset valuation method	4-year smoothed market
Inflation	3.25 percent
Salary increase	4.00 to 8.51 percent, including inflation for Non-University Members and 5.00% for University Members;
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation

Changes of Benefit Terms:
The following changes to the plan provisions were made as identified:

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

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

(1) **Final Average Compensation**: average of earned compensation paid in five consecutive years of full-time service that yields the highest average
(2) **Service Retirement:** Eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55

Required Supplementary Information (continued)

(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:

- Annual State contribution equal to $25 million paid to the System in monthly installments.
- One-time contribution payable to the Retirement System by the trustees of a school district maintaining a retirement fund. The one-time contribution to the Retirement System shall be the amount earmarked as an operating reserve in excess of 20% of the adopted retirement fund budget for the fiscal year 2013. The amount received was $22 million in FY 2014.
- 1% supplemental employer contribution. This will increase the current employer rates:
    - School Districts contributions will increase from 7.47% to 8.47%
    - The Montana University System and State Agencies will increase from 9.85% to 10.85%.
    - The supplemental employer contribution will increase by 0.1% each fiscal year for fiscal year 2014 thru fiscal year 2024. Fiscal years beginning after June 30, 2024 the total supplemental employer contribution will be equal to 2%.
- Members hired prior to July 1, 2013 (Tier 1) under HB 377 are required to contribute a supplemental contribution equal to an additional 1% of the member's earned compensation.
- Each employer is required to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position to the System.

Changes in actuarial assumptions and other inputs:
The following changes to the actuarial assumptions were adopted in 2018:

- Assumed rate of inflation was reduced from 3.25% to 2.50%
- Payroll growth assumption was reduced from 4.00% to 3.25%
- Investment return assumption was reduced from 7.75% to 7.50%.
- Wage growth assumption was reduced from 4.00% to 3.25%
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
    - 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.
- Mortality among disabled members was updated to the following:
    - For Males: RP 2000 Disabled Mortality Table, set back three years, with mortality improvements projected by Scale BB to 2022.
    - For Females: RP 2000 Disabled Mortality Table, set forward two years, with mortality improvements projected by Scale BB to 2022.
- Retirement rates were updated
- Termination rates were updated
- Rates of salary increases were updated

Required Supplementary Information (continued)

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

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

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

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

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

- Assumed rate of inflation was reduced from 3.50% to 3.25%
- Payroll Growth Assumption was reduced from 4.50% to 4.00%
- Assumed real wage growth was reduced from 1.00% to 0.75%
- Investment return assumption was changed from net of investment and administrative expenses to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
  - For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members was updated to the following:
  - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

Other Postemployment Benefits

- **Montana University System Group Insurance Plan**

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

	2019	2018
University's proportion of the OPEB liability	45.09%	45.78%
University's share of the OPEB liability	$ 18,560,031	$ 16,905,803
University's covered employee payroll	$ 160,709,985	$ 162,897,963
University's share of the OPEB liability as a % of covered employee payroll	11.55%	10.38%
Plan fiduciary net position as a % of total OPEB liability	0.00%	0.00%

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

Changes of Benefit Terms:
No changes in assumptions or other inputs have been made since the prior measurement date.

Required Supplementary Information (continued)

Note to Required Supplementary Information – OPEB
For the Year Ended June 30, 2018

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 2018 [5]	Fall 2017	Fall 2016	Fall 2015	Fall 2014
Enrollment (Headcount) [1]	16,447	17,421	18,125	18,856	19,768

	FY2019	FY2018	FY2017	FY2016	FY2015
Enrollment (FTE) [2]					
Two-year Colleges	2,193	2,220	2,342	2,455	2,782
Undergraduate	9,331	10,132	10,878	11,523	12,031
Graduate	2,068	2,068	1,965	1,909	1,904
	13,592	14,421	15,185	15,887	16,717
Enrollment (FTE) [2]					
In-State students	10,116	10,709	11,249	11,897	12,470
Out-of-State students	2,426	2,607	2,763	2,739	3,078
Western Undergraduate Exchange	1,050	1,104	1,172	1,251	1,169
	13,592	14,420	15,184	15,887	16,717

	FY2019	FY2018	FY2017	FY2016	FY2015
Employees (FTE) - All Funds [2]					
Contract Faculty	1,040	1,053	1,053	1,076	1,079
Contract Admin & Professional	708	731	756	697	629
Classified	1,071	1,146	1,173	1,151	1,238
GTA/GRA	290	256	245	306	310
Part Time and Other	587	580	615	548	583
	3,695	3,767	3,842	3,778	3,839

	Fiscal Year Ended				
	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015
Degrees Granted [3]					
Certificate[4]	222	346	391	237	208
Associate	884	564	609	708	678
Undergraduate	2,485	2,565	2,556	2,532	2,628
Graduate	1,181	985	920	871	886
	4,772	4,460	4,476	4,348	4,400

[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 2018 enrollment headcount is a primary driver of operating results in FY19.*

Report on Internal Control and Compliance

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

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

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, 2019, and 2018, 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 29, 2020. 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*.

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 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 29, 2020

University of Montana

University Response

UNIVERSITY OF MONTANA
umt.edu

RECEIVED
February 24, 2020
LEGISLATIVE AUDIT DIV.

February 24, 2020

Angus Maciver
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, I want to extend our appreciation to you and your staff for their work on the University of Montana's Financial Statement Audit for the fiscal year ending June 30, 2019. The University considers accountability for all funds important and values the input provided by the legislative audit staff.

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

Sincerely,

Seth Bodnar
President
University of Montana

c: C. Christian, Commissioner of Higher Education

Office of the President
University Hall 109 | Missoula, Montana 59812-3324 | t: 406.243.2311 | f: 406.243.2797 | e: prestalk@umontana.edu