



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

University of Montana

*For the Fiscal Year Ended
June 30, 2018*

FEBRUARY 2019

LEGISLATIVE AUDIT
DIVISION

17-10B

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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. Most 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.

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

February 2019

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on the University of Montana's (university) consolidated financial statements for the fiscal year ended June 30, 2018, with comparative information for the fiscal year ended June 30, 2017. The statements include financial information from four fundraising organizations of the university, the University of Montana Foundation, the Montana Tech Foundation, the University of Montana Western Foundation, and the Montana Grizzly Scholarship Association. The foundations are component units of the university.

This report contains one recommendation to the university related to monitoring changes to student account tuition and fees in the university's accounting system. Due to staff turnover related to the voluntary termination plans offered in fiscal year 2018, the control was not in place for the second half of fiscal year 2018.

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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University of Montana	C-1

APPOINTED AND ADMINISTRATIVE OFFICIALS

		<u>Term Expires</u>
Board of Regents of Higher Education	Fran M. Albrecht, Chair	February 1, 2019
	Robert A. Nystuen, Vice Chair	February 1, 2022
	Casey Lozar	February 1, 2025
	Brianne Rogers	February 1, 2024
	Martha Sheehy	February 1, 2021
	Paul Tuss	February 1, 2020
	Dalton Johnson, Student Regent	June 30, 2019
	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 for Academic and Student Affairs
	Vivian Hammill	Montana University System Chief Legal Counsel, Deputy Commissioner
	Kevin McRae	Deputy Commissioner for Communications and Human Resources
	Tyler Trevor	Deputy Commissioner for Budget and Planning, Chief of Staff
	Frieda Houser	Director of Fiscal Affairs (Through January 2019)

University of Montana Administrative Officials	Seth Bodnar	President (effective January 2018)
	Sheila Stearns	President (January 2017 - January 2018)
University of Montana (Missoula)	Jon Harbor	Executive Vice President and Provost
	Cathy Cole	Vice President for Enrollment Management and Strategic Communications
	Rosi Keller	Vice President for Administration and Finance (Interim)
	Paul Lasiter	Vice President for Operations and Finance (effective January 2019)
	Scott Whittenburg	Vice President for Research & Creative Scholarship
	Rena Scott	Chief Information Officer (Interim)
	Lucy France	Legal Counsel
	Dan Jenko	Controller
Montana Tech (Butte)	Donald M. Blackketter	Chancellor
	Doug Abbott	Provost and Vice Chancellor for Academic Affairs
	Brant Wright	Vice Chancellor for Administration and Finance
	Beverly Hartline	Vice Chancellor for Research and Dean of Graduate School
	Joe McClafferty	Vice Chancellor for Development and University Relations
	Carleen Cassidy	Director of Finance and Budget
University of Montana Western (Dillon)	Beth Weatherby	Chancellor and University Executive Vice President
	Deborah Hedeem	Provost and Vice Chancellor for Academic and Student Affairs
	Michael Reid	Vice Chancellor for Administration and Finance (Effective July 2018)
	Susan D. Briggs	Vice Chancellor for Administration, Finance and Student Affairs (University Associate Vice President) (Retired June 2018)
	Liane Forrester	Director of Business and Campus Services

**Helena College
University of
Montana**

Kirk Lacy	Interim Dean/CEO
Sandra Bauman	Associate Dean for Academic Affairs and Student Affairs
Russ Fillner	Assistant Dean for Fiscal and Plant Operations
Valerie Curtin	Director of Financial Aid

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL AUDIT

University of Montana

For the Fiscal Year Ended June 30, 2018

FEBRUARY 2019

17-10B

REPORT SUMMARY

Student enrollment continued to decline in fiscal year 2018. Most of the decline occurred at the Missoula campus and led to a budget shortfall. In response, the University of Montana's Missoula campus offered voluntary termination plans in an effort to reduce personnel costs. Ninety-eight total employees accepted the offers in fiscal year 2018, for a total cost of \$5.4 million. Employees were offered a choice of lump sum payments or an extension of medical benefits. Savings are anticipated to be realized in future fiscal years. Staff turnover led to a recommendation related to monitoring changes to student account tuition and fees in the university's accounting system.

Context

The University of Montana (university) is comprised of University of Montana Missoula, Montana Technological University (Montana Tech), University of Montana Western, and Helena College University of Montana. The financial statements include financial information from four fundraising organizations which are the University of Montana Foundation, the Montana Tech Foundation, the University of Montana Western Foundation, and the Montana Grizzly Scholarship Association. These foundations had combined net worth of \$318.5 million at June 30, 2018, comparable to the university's of \$300.8 million.

We performed a financial statement audit of the university to provide an independent assessment on whether the university's financial statements reliably represent the financial position of the university as of June 30, 2018, and 2017, as well as the results of operations and cash flows for the years then ended.

In performing this audit, we obtained an understanding of the university's controls

over the significant activity and balances. We focused our audit efforts on activity related to tuition and fees, federal grants and contracts, compensation and benefits, cash and investments, as well as other account balances and transaction cycles.

Results

We issued an unmodified opinion on the university's financial statements, meaning a reader can rely on the information they present. The component unit audit opinions were also unmodified. The component unit statements were audited by other auditors, and we relied on their work.

This report contains one recommendation to the university related to monitoring changes to student account tuition and fees in the university's accounting system. Due to staff turnover related to the voluntary termination plans offered in fiscal year 2018, the control was not in place for the second half of fiscal year 2018. The prior audit report did not contain any recommendations.

(continued on back)

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (17-10B) 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

Audit and Objectives

We performed a financial audit of the University of Montana (university) for the two fiscal years ended June 30, 2018. The objectives of the audit were to:

1. Determine whether the university's financial statements present fairly the financial position, changes in financial position, and cash flows for the fiscal year ended June 30, 2018, with comparative financial amounts for the fiscal year ended June 30, 2017.
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.

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, federal grants and contracts, compensation and benefits, cash and investments, as well as other account balances and transaction cycles.

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 issued the compliance audit (17-12) for the two fiscal years 2017 and 2016, in December 2017. We will complete the compliance audit (19-12) for the two fiscal years 2018 and 2019, in calendar year 2019.

Background

The University of Montana consists of four campuses. University of Montana Missoula is located in Missoula. Montana Tech is located in Butte and includes the Montana Bureau of Mines and Geology. University of Montana Western is located in Dillon. Helena College University of Montana is located in Helena.

All campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The four campuses of the University of Montana provide a diversity of undergraduate and graduate academics.

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

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

University of Montana Western (Montana Western) is the only public university in the United States offering the educational model, Experience One, where students engage in experiential learning, taking only one course at a time rather than the typical four or five simultaneously. Each four-credit course meets for three hours per day for eighteen days. Montana Western offers undergraduate degrees in education, the arts and sciences, and professional programs.

Helena College University of Montana is a two-year college offering associate degrees and technical proficiency certificates. Helena College also provides studies toward upper-level and graduate level programs.

Chapter II – Findings and Recommendations

Unassigned Monitoring Control

Business Services monitoring of manual changes to student accounts was not completed for the second half of fiscal year 2018.

The University of Montana (university) uses Banner as its primary accounting system. In support of our opinion on the university's financial statements, we considered the university's internal controls over Banner data and its processing, including controls over access and modifications to student accounts receivable data. State policy requires management to establish and maintain internal controls that provide reasonable assurance the objectives of an entity will be achieved. Part of management's responsibility is to establish internal controls to verify the accuracy and reliability of financial data. The university is also responsible for ensuring it receives all revenue to which it is entitled.

Many employees' job duties across university functions require assessing or adjusting tuition and fees. Student employees may also have this access, if it is required for their job duties. Given the necessity of extensive access, we inquired with university personnel regarding controls over modifications to the accounts. We were told there was an overall monitoring control in place, designed to review manual tuition and fee changes made to student accounts and to detect inappropriate adjustments. We attempted to observe the control, but discovered it was not performed for the second half of fiscal year 2018, due to staff turnover during the fiscal year. Three business services employees accepted the voluntary termination offerings in fiscal year 2018. For Business Services, the turnover was significant and sudden, and the monitoring control was not reassigned to remaining university staff. University personnel who relied on the control did not know the reviews were not occurring until we brought it to their attention. Manual adjustments of tuition and fees are risky, and absent this monitoring control, there is risk inappropriate changes to tuition and fees were not detected. There is also risk the university did not receive all revenue to which it was entitled.

An employee has since been assigned this monitoring responsibility. The missing reports were run, and spot checks of the reports have been completed by the university. University staff did not note any inappropriate activity in the spot checks. There were two reports run each month, one for business services employees and one for the rest of the campus. University management also noted, however, they do not consider the missing control to be a key control, but rather a secondary detection control. They noted the respective fee owners monitor their employee's activity and revenue,

reviewing for anomalies and appropriateness. However, per our review, the fee owner in student accounts depended on the Business Services review for at least some of their monitoring. This means the review was an important element of the university's controls. The report over business services employees was not run until the lack of the monitoring control was discovered as part of the audit.

We consider the absence of the monitoring control to be a control deficiency. 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. We also considered whether this control deficiency rises to the level of a significant deficiency or material weakness. A material weakness is a deficiency 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. We believe the other controls in place at the university including regular monitoring of the significant financial activity at the university would prevent or detect changes that would have a material impact on student accounts receivable, and as such do not consider the absence of the control for the last half of the audit period to be a material weakness.

However, we believe this issue merits the attention of those charged with governance, given the reliance on the control and the number of employees, including student employees, with access to student accounts. In addition, tuition and fees revenue is the most significant operating revenue for the Missoula campus at approximately \$86 million in fiscal year 2018. As such, we consider the deficiency to be a significant deficiency, and have reported it as such in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* on page B-1.

The voluntary termination affected other areas of the Missoula campus, with 98 faculty and staff members leaving in fiscal year 2018. There is risk the voluntary termination turnover has allowed the accidental loss of other designed controls. University of Montana Missoula management should evaluate control procedures and determine if there are other missing responsibilities that need to be assigned to an employee.

RECOMMENDATION #1

We recommend the University of Montana Missoula:

- A. Resume monitoring of manual fee adjustments in Banner.*
 - B. Evaluate control procedures at the university and determine if there are other designed controls not assigned to an employee.*
-

Independent Auditor's Report and University Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes 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 in accordance with auditing standards generally accepted in the United States, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the university, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The other auditors did not perform the audits in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 opinions.

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Montana as of June 30, 2018, and 2017, and the changes in net position and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis beginning on page A-5, the Required Supplementary Information related to pensions beginning on page A-62, and the Required Supplementary Information related to Other Post-Employment Benefits on page A-69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018, on our consideration of the 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

December 21, 2018

UNIVERSITY OF MONTANA
UNIVERSITY OF MONTANA - MISSOULA
MONTANA TECH OF THE UNIVERSITY OF MONTANA
UNIVERSITY OF MONTANA - WESTERN
HELENA COLLEGE UNIVERSITY OF MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2018 OVERVIEW

The University of Montana (University) is comprised of four campuses: University of Montana - Missoula; Montana Tech of the University of Montana; University of Montana - Western; and Helena College University of Montana. This discussion addresses the consolidated financial statements for the four campuses, and included are three basic statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

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, 2018, 2017, and 2016, and should be read in conjunction with the fiscal year 2018 financial statements.

FINANCIAL HIGHLIGHTS

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.
 - 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.
- The University received an indicative credit ratings of A+ and A1 from Standard and Poor's and Moody's, respectively, in FY18.

Management, Discussion and Analysis (continued)

The financial highlights for fiscal year 2017 were:

- The research enterprise at the University continues to show strong growth. Grant and contract revenue totaled \$88.4 million in FY17, \$67.4 million of which was from Federal grants and contracts, and is a 11.6% increase over FY16. In FY17, the Missoula campus realized another record year of research awards amounting to \$89.0 million of funding and a record \$88.2 million for expenditures for those grants and contracts. Award volume is an indicator of proposal success and serves as a leading indicator of future grant and contract expenditures.
- The construction of a new Missoula College building to replace an aging facility with outdated classrooms, was completed in FY17. The new facility, with more than 115,000 square feet, will house a variety of training programs, including culinary arts, health professions and applied computing.
- In FY17, the University was granted authority to construct a \$20.0 million expansion to the Phyllis J. Washington Education Center on the Missoula campus, and a new \$24.0 million Living Learning Center on the Montana Tech campus. Almost 70% of the projects costs are being funded with private gifts, and the remaining funding for the Living Learning Center will come from the proceeds of a Revenue Bonds issuance in FY18.
- Enrollment at the University decreased by 702 full time equivalent (FTE) students in FY17, declining from 15,887 FTE in FY16 to 15,185 FTE, or a decrease of 4.4%. The decline in enrollment was the most pronounced at the Missoula campus, which declined by 648 FTE in FY17, to 11,249 FTE. The decline in enrollment at the Missoula campus created a significant budget shortfall for academic units and administrative services in FY17, which was addressed through one time only funding from internal and external sources, and by reducing operating expenses across all campus units.
- Through the University's foundations fund raising efforts, private support to the University increased by \$38.0 million from \$32.6 million in FY16, to \$70.6 million in FY17. The University of Montana Foundation recognized \$61.0 million in contributions in FY17. Approximately, 69% of the fund raising total was directed toward academic and institutional support; 21% for scholarships; and 10% directed toward capital expenditures in support of the Missoula campus.
- The University received an indicative credit ratings of A+ and A1 from Standard and Poor's and Moody's, respectively, in FY17.

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 is applicable to a future reporting period.
- Revenues and expenses are classified as operating or non-operating. "Operating" is defined as resulting from transactions involving exchanges of goods or services for payment, and directly related to supplying the basic service while "non-operating" is defined as resulting from transactions not derived from the basic operation of the enterprise. As a result, the accompanying Statement of Revenues, Expenses, and Changes in Net Position reflects a substantial operating loss, primarily because accounting standards requires that the State Appropriation, which is used for operations, must be reported as non-operating revenue.

Management, Discussion and Analysis (continued)

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

STATEMENT OF NET POSITION

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

<u>Description</u>	For the years ended June 30, (stated in millions)		
	2018	2017*	2016*
Total current assets	\$ 116.54	\$ 89.72	\$ 87.26
Total non-current assets	474.26	463.64	462.73
Total assets	\$ 590.80	\$ 553.36	\$ 549.99
Deferred outflows of resources	\$ 31.26	\$ 27.28	\$ 18.84
Total current liabilities	\$ 68.95	\$ 55.48	\$ 60.83
Total non-current liabilities	243.69	275.13	259.48
Total liabilities	\$ 312.64	\$ 330.61	\$ 320.31
Deferred inflows of resources	\$ 8.62	\$ 5.36	\$ 11.10
Net invested in capital assets	\$ 281.44	\$ 264.07	\$ 249.19
Restricted:			
Nonexpendable	20.96	21.35	20.47
Expendable	4.54	4.93	4.29
Unrestricted	(6.14)	(45.68)	(36.53)
Total net position	\$ 300.80	\$ 244.67	\$ 237.42

*Restated

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

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,

Management, Discussion and Analysis (continued)

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.

Events or developments which occurred during 2017 include:

- Current assets increased by almost \$2.5 million primarily because of increases in due from federal government of \$2.4 million and prepaid and other charges of \$1.7 million, respectively, which were offset by a net decrease in other current asset classifications of \$1.6 million. The increase in due from federal government can be attributed largely to a 11.6% increase in federal grants and contracts revenue in FY17 of over \$7.0 million.
- While noncurrent assets increased by less than \$1.0 million in FY17, notable changes in this financial statement classification included a decrease in long term investments of \$15.9 million and an increase in capital assets, net, of \$16.2 million. The University did not reinvest \$15.0 million of government agency securities that matured during the fiscal year, accounting for much of the decrease in investments. The increase in capital assets in FY17 is primarily from construction costs associated with completion of the \$30 million Missoula College building located near the Missoula mountain campus, and the \$10.0 million Natural Resource Research Center located on the Montana Tech campus.
- Deferred outflows of resources increased by over \$8.4 million, which is due primarily to a change in the University's proportionate share of the difference between projected and actual investment earnings on pension plan investments calculated as of the most recent measurement date for the retirement plans.
- The decrease in current liabilities of \$5.4 million in FY17 is largely due to an \$8.1 million decrease in accounts payable and accrued liabilities, offset by a \$2.2 million increase in student and other deposits. Accounts payable and accrued liabilities decreased over the prior year primarily because of timing differences in the payment of payroll related liabilities. The increase in student and other deposits is because payment for student health insurance premiums for spring semester were not made until after fiscal year end.
- Noncurrent liabilities increased in FY17 by \$15.7 million, which is largely due from increases in advances from primary government of \$8.7 million, other postemployment benefit obligations of \$3.0 million, and net pension liability of \$11.8 million, which were offset by an \$8.7 million decrease in long term obligations. Other postemployment benefit obligations and net pension liability as of fiscal year end are based on actuarial valuations. The University increased advances from primary government, for the most part, to fund capital projects and equipment acquisitions on the Missoula campus.
- Deferred inflows of resources decreased by just over 6.0 million, which is due primarily to a change in the University's proportionate share of the difference between projected and actual earnings on pension plan investments calculated as of the most recent measurement date for the retirement plans.
- The University's net position increased by \$7.2 million in FY17, largely because of \$14.8 million increase in net investment in capital assets, which was offset by a \$9.1 million decrease in unrestricted net position. The increase in net investment in capital assets can be attributed primarily to a net increase in plant and equipment of \$16.9 million, offset by a slight net increase in long term obligations of approximately \$1.0 million. The University received over \$21.8 million in capital contributions in FY17.

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:

<u>Description</u>	For the years ended June 30,		
	(stated in millions)		
	2018	2017	2016
Operating revenues	\$ 285.89	\$ 284.12	\$ 272.93
Operating expenses	430.27	440.44	419.67
Operating loss	(144.38)	(156.32)	(146.74)
Non-operating revenues (expenses)	141.53	142.63	147.41
(Loss) income before other revenues	(2.85)	(13.69)	0.67
Other revenues	22.91	20.94	27.68
Net (decrease) increase in net position	20.06	7.25	28.35
Net Position, beginning of year as previously stated	244.67	237.42	209.07
Restatement for OPEB and related expenses	36.07	-	-
Net Position, beginning of year as restated	280.74	237.42	209.07
Net position, end of year	\$ 300.80	\$ 244.67	\$ 237.42

The following provides a comparative analysis of revenues and expenses for the years ended June 30, 2018, 2017, and 2016:

	For the years ended June 30,					
	(stated in millions)					
	2018		2017		2016	
	Amount	Percent	Amount	Percent	Amount	Percent
REVENUES						
Tuition and fees, net	\$ 113.89	25.02%	\$ 114.27	25.29%	\$ 114.90	25.39%
Federal grants and contracts	66.26	14.56%	67.39	14.91%	60.37	13.34%
State & local grants/contracts	7.15	1.57%	8.89	1.97%	8.21	1.81%
Nongovernmental grants/contracts	13.73	3.02%	12.15	2.69%	12.09	2.67%
Facilities and administrative cost allowances	13.09	2.88%	13.08	2.89%	10.81	2.39%
Sales/services of educational departments	19.32	4.24%	16.98	3.76%	16.83	3.72%
Auxiliary enterprise charges	44.72	9.82%	44.26	9.80%	42.78	9.45%
State appropriations	100.04	21.98%	101.54	22.47%	105.08	23.22%
Federal financial aid grants and contracts	22.44	4.93%	22.87	5.06%	25.47	5.63%
Investment income	1.72	0.38%	1.93	0.43%	2.05	0.45%
Private gifts	20.39	4.48%	18.48	4.09%	17.66	3.90%
Capital grants and gifts	23.88	5.25%	21.84	4.83%	27.96	6.18%
All other sources	8.56	1.90%	8.18	1.83%	8.27	1.83%
Total revenues	\$ 455.19	100.03%	\$ 451.86	100.02%	\$ 452.48	99.98%
EXPENSES						
Compensation and benefits	\$ 266.04	61.14%	\$ 270.41	60.82%	\$ 260.93	61.52%
Pension expense	13.83	3.18%	9.76	2.20%	7.14	1.68%
Other postemployment benefits	1.98	0.46%	4.54	1.02%	4.57	1.08%
Other operating expenses	103.26	23.73%	109.93	24.73%	100.77	23.76%
Scholarships and fellowships	20.40	4.69%	21.68	4.88%	23.16	5.46%
Depreciation and amortization	24.76	5.69%	24.11	5.42%	23.09	5.44%
Interest expense	4.86	1.12%	4.18	0.94%	4.47	1.05%
Total expenses	\$ 435.13	100.00%	\$ 444.61	100.00%	\$ 424.13	100.00%

Events or developments which occurred during 2018 include:

In FY18, the University saw a net increase of \$20.06 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.

Management, Discussion and Analysis (continued)

- 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 for 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.

Events or developments which occurred during 2017 include:

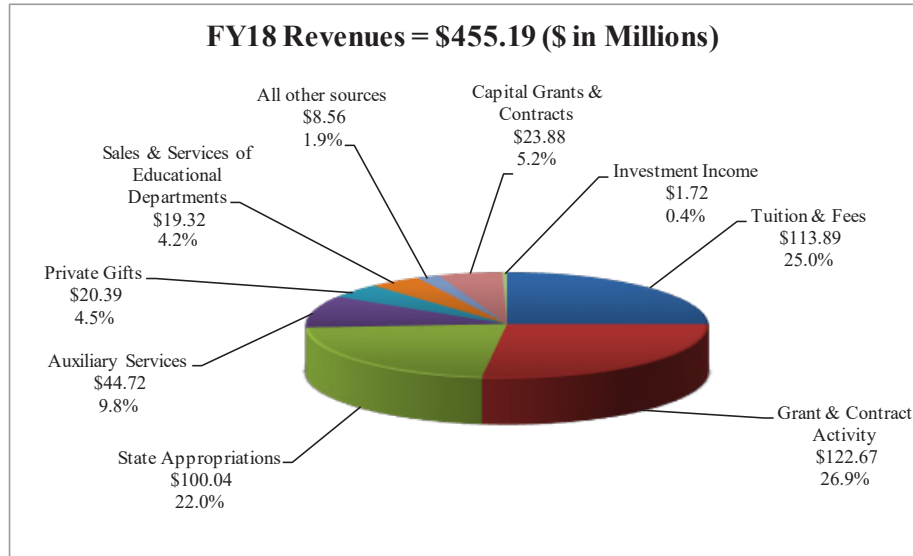
In FY17, the University saw an increase of \$7.2 million in its net position. Significant factors affecting the University's net position are described below:

- Operating revenues increased by \$11.1 million in FY17, primarily due to a \$10.1 million, or a 11.0%, increase in grants and contracts revenues. The Missoula campus was awarded over \$89.0 million in external funding at the end of FY17, or an 8.5% increase over the prior year. The consistently high level of awards to the University is a significant reason for the increase in grant and contract revenue recognized in FY17. The net increase in other operating revenue by classifications were not significant but account for the remaining 1.0 million increase. Though enrollment dropped in FY17 to 15,184, or by 703 (FTE), the effect of the reduction on net tuition and fees revenue was largely mitigated by a 4.0% increase in tuition and fees charged out-of-state students and also, by a slight increase in their FTE.
- In FY17, operating expenses increased by almost \$20.8 million, or by 5.0%, primarily due to increases in compensation and employee benefits of \$9.5 million, pension expense of \$2.6 million and other expenses of \$9.2 million, which were offset by a \$1.5 million decrease in scholarships and fellowships expense. Additional explanation for the increases and decrease in FY17 operating expenses are provided below:
 - The 3.6% increase in compensation and employee benefits is largely due to the FY17 pay plan, which increased staff wages by \$0.50 per hour, and contract faculty, contract administrators/professionals salaries by about 2.0%. In addition, the University's contribution for health benefits increased by \$167 per month for eligible employees, or by over \$2,000 annually per FTE.
 - Changes to the University's proportionate share of the collective net pension liability for its defined benefits plans as of the measurement date of June 30, 2017, and related deferred outflows and inflows of resources, was the primary reason for the 36.7% increase in pension expense.
 - Other expenses increase by 9.1% in FY17 largely due to a \$2.5 million increase in payments to subcontractors for grant and contracts activity, and a 3.0 million increase in consulting and professional services cost associated with construction projects, and for a new academic program at the Missoula campus.
 - The decline in scholarship and fellowship expense of around 6.4% is directly related to a 703 decline in student FTE in FY17.

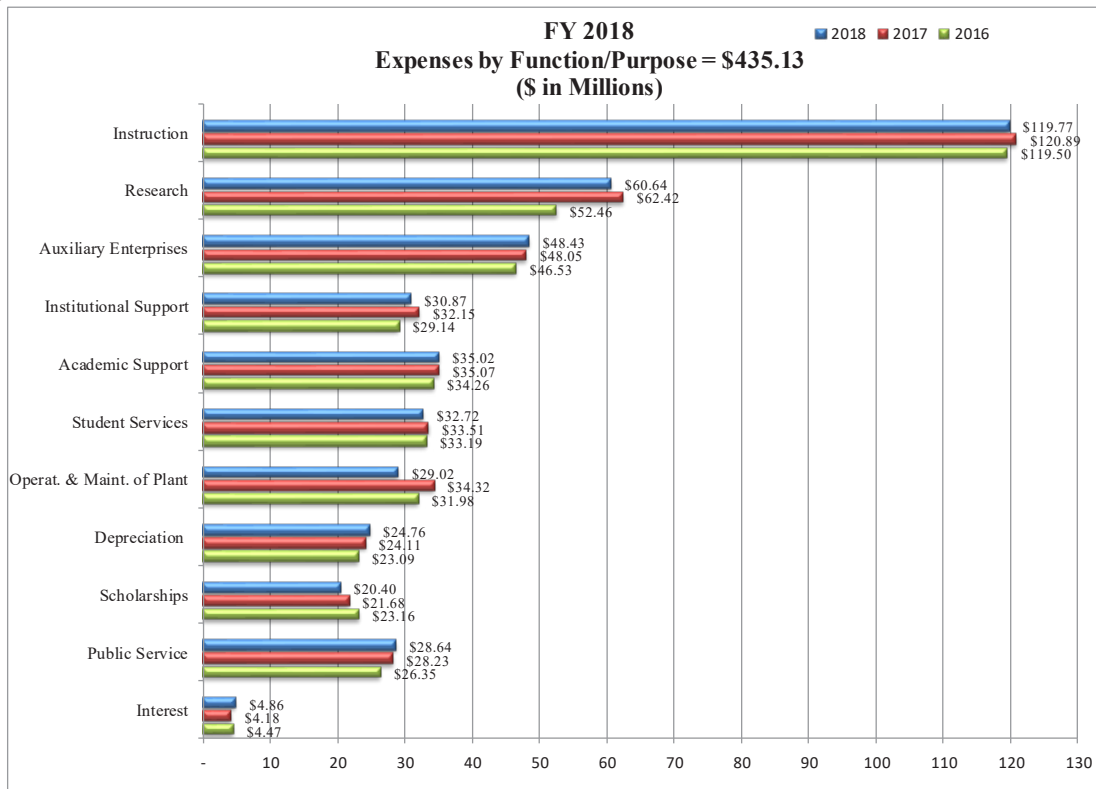
Management, Discussion and Analysis (continued)

- Non-operating revenues (expenses) decreased by close to \$5.0 million, or 3.2%, in FY17, primarily due to a decline in state appropriations of \$3.5 million and a \$2.6 million decrease in Federal financial aid grants and contracts. The latter decrease is related to a decline in enrollment, primarily at the Missoula campus, A \$4.4 million decline in one-time-only funding accounts for most of the 3.4% decline in state appropriations to the University.
- The decrease in other revenues (expenses) of approximately \$6.7 million is largely due to a decrease in capital grants and gifts of \$6.1 million received for large capital construction projects. The \$32.0 million Missoula College facility completed in FY17, and funded by a legislative appropriation, was the largest of the projects.

The following chart provides a graphical representation of revenue classifications as a percentage of total revenues for fiscal year 2018:



The following chart provides a graphical comparison of operating expenses by function for fiscal years 2018, 2017 and 2016:



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)		
	2018	2017	2016
<u>Cash Flow Category</u>			
Cash Provided by (Used for):			
Operating Activities	\$ (104.96)	\$ (139.06)	\$ (129.38)
Non-capital Financing Activities	144.67	144.88	149.30
Capital and Related Financial Activities	(13.06)	(23.28)	(24.55)
Investing Activities	2.88	17.06	2.61
Net Increase (Decrease) in Cash	29.53	(0.40)	(2.02)
Cash and Cash Equivalents, beginning of year	57.99	58.39	60.41
Cash and Cash Equivalents, end of year	\$ 87.52	\$ 57.99	\$ 58.39

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.
- In FY18, net cash used by capital and related financing activities totaled \$13.1 million, which was \$10.2 million less than 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.

Specific events or cash transactions during fiscal year 2017, which were notable included:

- In FY17, net cash used by operating activities totaled \$139.1 million, which was \$9.7 million more than cash used in FY16. Payments to employees for salaries and benefits totaled \$287.2 million, an increase by \$12.7 million, due primarily to the University's FY17 pay plan that increased staff wages by \$0.50 per hour, and faculty, and contract administrator/professional salaries by an average of 2.0%. In addition, cash used for operating expenses increased by \$11.6 million to \$113.9 million in FY17, largely because of increases in grant and contract activity and payments for consulting and professional services. Cash provided by operating activities totaled \$284.4 million in FY17, an increase of \$11.9 million, but not by enough to offset the total increase in cash used by operating activities of \$21.5 million.
- Cash flows from noncapital financing activities provided net cash of \$144.9 million in FY17 primarily from state appropriations of \$101.5 million, federal financial aid grants and contracts of \$22.9 million and \$18.5 million from private gifts. Overall, cash provided by noncapital financing activities decreased by \$4.4 million, or 3.1% from the prior year, primarily because of decreases in one-time-only state appropriations of \$3.5 million and a decline in federal financial aid grants and contracts of \$2.6 million due to declining enrollment.

Management, Discussion and Analysis (continued)

- Cash provided by investing activities totaled \$17.1 million in FY17 and was \$14.4 million more than in the prior year primarily because proceeds from the maturity of federal agency securities of \$15.0 million were not reinvested in other fixed income securities.
- Net cash used by capital and related financing activities in FY17 totaled \$23.3 million, which was only slightly higher than in FY16. Notable uses of cash for this activity included \$28.7 million paid for capital assets, \$10.3 million from the issuance of long term obligations, and payments of \$13.5 million for principal and interest on long term obligations. Uses of cash for capital and related financing activities was offset by capital gifts received in FY17 of \$8.3 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:

- At the end of FY18 there were a number of major construction projects were in progress at campuses of the University. The following is a summary of the projects as of June 30, 2018:

<u>Project Name</u>	<u>Estimated Cost</u>	<u>Campus</u>	<u>Status</u>
Living Learning Center	\$24.0M	Mt Tech	Under Constructions
Phyllis J. Washington Education Center Expansion	\$16.0M	Missoula	Under Construction
Liberal Arts Class Rooms Remodel	\$2.0M	Missoula	Under Construction

These projects are being funded from a variety of sources including, private donations and state funding.

- Declining enrollment continues to be a concern for the University, particular at the flagship campus in Missoula. Enrollment there has declined by over 29% since FY11, declining from a record high of 13,917 FTE to 9840 FTE in FY18. Overall, during the same time period total enrollment for all of the University’s campuses declined 4,618 FTE from 19,039 to 14,421 FTE in FY18, or by over 24%.

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 provides 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, and to address a \$10.0 million structural deficit over the next three years.

To help ensure success of the Strategy for Distinction 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.

- In November, 2018, Montana’s governor released a budget that proposes a \$34.7 million increase in state funding for higher education for the 2020-2021 biennium, or a 8.60% increase. If the budget is approved in the upcoming 2019 legislative session, the governor’s proposal would put \$24.0 million toward a tuition freeze and \$5.0 million towards need based aid.

University of Montana
A Component Unit of the State of Montana
Consolidated Statements of Net Position
As of June 30, 2018 and 2017

	2018	2017*
ASSETS		
Current Assets		
Cash and cash equivalents (note 3)	\$ 87,452,335	\$ 57,969,960
Securities lending collateral	425,491	246,770
Investments	304,045	303,657
Accounts and grants receivable, net	8,605,214	7,010,668
Due from Federal government	10,746,615	12,917,725
Due from primary government	789,395	1,042,456
Due from other State of Montana component units	269,530	221,804
Loans to students, net	1,414,859	1,540,525
Inventories	1,908,844	1,947,338
Prepaid expenses and other charges	4,623,063	6,519,269
Total current assets	\$ 116,539,391	\$ 89,720,172
Noncurrent Assets		
Restricted cash and cash equivalents	\$ 69,021	\$ 24,287
Restricted investments	19,301,630	19,528,283
Other long term investments	55,866,391	56,797,313
Beneficial interest	4,239,282	4,196,284
Loans to students, net	10,122,278	10,144,343
Capital assets, net	384,658,812	372,947,944
Total Noncurrent Assets	\$ 474,257,414	\$ 463,638,454
Total Assets	\$ 590,796,805	\$ 553,358,626
DEFERRED OUTFLOW OF RESOURCES		
	\$ 31,266,007	\$ 27,283,563
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 25,721,506	\$ 16,556,566
Due to Federal government	103,776	23,717
Due to primary government	2,319,525	1,930,338
Due to other State of Montana component units	1,154	49,546
Securities lending liability	425,491	246,770
Student and other deposits	1,869,218	4,191,693
Unearned revenue	17,544,269	11,885,479
Accrued compensated absences	11,478,294	11,944,004
Current portion of long-term obligations	9,488,430	8,649,502
Total Current Liabilities	\$ 68,951,663	\$ 55,477,615
Noncurrent Liabilities		
Accrued compensated absences	\$ 14,318,785	\$ 15,534,439
Unearned compensation	391,045	391,045
Long-term obligations	87,888,816	83,647,107
Advances from primary government	19,434,248	20,617,014
Other postemployment benefits liability (note 18)	16,905,803	52,458,930
Net pension liability (note 17)	95,256,248	92,546,638
Due to Federal Government	9,494,825	9,941,371
Total Noncurrent Liabilities	\$ 243,689,770	\$ 275,136,544
Total Liabilities	\$ 312,641,433	\$ 330,614,159
DEFERRED INFLOW OF RESOURCES		
	\$ 8,621,932	\$ 5,358,588
NET POSITION		
Net investment in capital assets	\$ 281,439,855	\$ 264,065,345
Restricted for:		
Nonexpendable		
Endowments	19,108,626	19,385,942
Loans	1,855,779	1,966,091
Expendable		
Loans	2,437,409	2,286,898
Scholarships, research, instruction, and other	2,105,323	2,642,755
Unrestricted	(6,147,545)	(45,677,589)
Total Net Position	\$ 300,799,447	\$ 244,669,442

* Restated

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

University of Montana

A Component Unit of the State of Montana

University Component Units - Combined Statements of Financial Position

As of June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 11,465,342	\$ 19,972,484
Short-term investments	11,863,568	7,727,443
Accrued dividends and interest	232,286	200,397
Investments	278,783,726	262,471,551
Contributions receivable, net	41,997,032	43,318,948
Student loans and other receivables	362,619	284,304
Beneficial Interests in Trusts Held by Others	8,720,098	8,628,183
Property, Building and Equipment, net of accumulated depreciation	2,599,525	13,444,102
Property held for sale	-	2,349,060
Other assets	1,350,947	1,447,169
Total Assets	\$ 357,375,143	\$ 359,843,641
LIABILITIES		
Accounts payable	\$ 2,086,609	\$ 2,743,608
Accrued expenses	94,131	93,415
Compensated absences	228,348	265,557
Liabilities to external beneficiaries	17,089,506	17,015,677
Custodial funds	19,178,473	18,921,915
Other liabilities	233,509	223,004
Total Liabilities	\$ 38,910,576	\$ 39,263,176
NET ASSETS		
Net assets - unrestricted	\$ 8,437,513	\$ 9,607,516
Net assets - temporarily restricted	101,168,139	113,701,798
Net assets - permanently restricted	208,858,915	197,271,151
Total Net Assets	\$ 318,464,567	\$ 320,580,465
Total Liabilities & Net Assets	\$ 357,375,143	\$ 359,843,641

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

University of Montana
A Component Unit of the State of Montana
Consolidated Statements of Revenues, Expenses
As of June 30, 2018 and 2017

	2018	2017
OPERATING REVENUES:		
Tuition and fees (net of scholarship allowances in 2018 and 2017 of \$33,517,578 and \$32,597,545, respectively)	\$ 113,890,803	\$ 114,268,066
Federal grants and contracts	66,257,781	67,389,950
State and local grants and contracts	7,150,226	8,889,383
Nongovernmental grants and contracts	13,728,567	12,151,817
Grant and contract facilities and administrative cost allowances	13,090,495	13,080,499
Sales and services of educational departments	19,320,539	16,981,332
Auxiliary enterprises charges:		
Residential life (net of scholarship allowances in 2018 and 2017 of \$386,228 and \$532,158, respectively)	16,761,062	16,426,841
Food services (net of scholarship allowances in 2018 and 2017 of \$386,228 and \$532,158, respectively)	13,991,778	13,749,213
Other auxiliary revenues	13,963,235	14,080,922
Interest earned on loans to students	56,190	52,595
Other operating revenues	7,678,920	7,047,994
Total operating revenues	\$ 285,889,596	\$ 284,118,612
OPERATING EXPENSES:		
Compensation and employee benefits	\$ 266,037,533	\$ 270,411,088
Pension expense (note 17)	13,830,240	9,764,430
Other postemployment benefits (note 18)	1,981,139	4,544,455
Other (note 25)	103,261,410	109,926,435
Scholarships and fellowships	20,400,136	21,682,552
Depreciation and amortization	24,760,529	24,110,717
Total operating expenses	\$ 430,270,987	\$ 440,439,677
OPERATING LOSS	\$ (144,381,391)	\$ (156,321,065)
NON-OPERATING REVENUES (EXPENSES):		
State appropriations	\$ 100,043,738	\$ 101,539,599
Federal financial aid grants and contracts	22,441,958	22,869,748
Land grant revenues	1,799,843	1,982,462
Private gifts	20,384,596	18,484,537
Investment income	1,724,409	1,933,692
Interest expense	(4,862,736)	(4,181,891)
Net non-operating revenues	\$ 141,531,808	\$ 142,628,147
INCOME BEFORE OTHER REVENUES (EXPENSES)	\$ (2,849,583)	\$ (13,692,918)
OTHER REVENUES (EXPENSES):		
Capital grants and gifts	\$ 23,876,130	\$ 21,838,197
Loss on disposal of capital assets	(971,135)	(900,638)
Total other revenues	\$ 22,904,995	\$ 20,937,559
NET INCREASE IN NET POSITION	\$ 20,055,412	\$ 7,244,641
NET POSITION:		
Net position - beginning of year as previously stated	\$ 244,669,442	\$ 237,424,801
Restatement for July 1, 2017, other postemployment benefits liability and related expense	36,074,593	-
Net position - beginning of year as restated	\$ 280,744,035	\$ 237,424,801
Net position - end of year	\$ 300,799,447	\$ 244,669,442

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

University of Montana

A Component Unit of the State of Montana

University Component Units - Combined Statement of Activities

For The Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total
REVENUES:				
Contributions	\$ 1,540,956	\$ 26,514,712	\$ 10,785,960	\$ 38,841,628
Interest and dividend income	902,606	2,587,953	1,213	3,491,772
Net realized and unrealized gains (losses) on investments	194,373	11,268,491	228,024	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)	13,477	556,699	569,512
Income from perpetual trust	-	417,688	-	417,688
Special events	384,562	-	-	384,562
Other income	190,803	2,348,595	15,868	2,555,266
Net assets released from restrictions	55,684,575	(55,684,575)	-	-
Total revenues	\$ 60,354,506	\$ (12,533,659)	\$ 11,587,764	\$ 59,408,611
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	4,878,489	-	-	4,878,489
Investment management costs	141,307	-	-	141,307
Other miscellaneous	40,328	-	-	40,328
Total operating expenses	\$ 8,577,129	\$ -	\$ -	\$ 8,577,129
Change in net assets before nonoperating items	\$ (325,791)	\$ (12,533,659)	\$ 11,587,764	\$ (1,271,686)
NON-OPERATING REVENUES (EXPENSES):				
Loss on disposition of asset	(844,212)	-	-	(844,212)
Change in net assets	\$ (1,170,003)	\$ (12,533,659)	\$ 11,587,764	\$ (2,115,898)
Net assets - beginning of year	9,607,516	113,701,798	197,271,151	320,580,465
Net assets - end of year	\$ 8,437,513	\$101,168,139	\$208,858,915	\$ 318,464,567

University of Montana

A Component Unit of the State of Montana

University Component Units - Combined Statement of Activities

For The Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total
REVENUES:				
Contributions	\$ 1,786,952	\$ 38,338,599	\$ 30,493,476	\$ 70,619,027
Interest and dividend income	753,515	2,248,644	1,254	3,003,413
Net realized and unrealized gains (losses) on investments	1,994,321	17,029,660	296,212	19,320,193
Administrative fees	633,171	-	-	633,171
Support received from university	550,000	-	-	550,000
Net revaluation of trusts and split-interest agreements	1,145	15,850	893,121	910,116
Income from perpetual trust	-	355,504	-	355,504
Special events	527,536	-	-	527,536
Other income	368,180	7,738,593	35,716	8,142,489
Net assets released from restrictions	33,762,049	(33,762,049)	-	-
Total revenues	\$ 40,376,869	\$ 31,964,801	\$ 31,719,779	\$ 104,061,449
EXPENSES:				
Program services				
Academic and institutional	\$ 11,797,479	\$ -	\$ -	\$ 11,797,479
Capital expenses	7,777,572	-	-	7,777,572
Scholarships and awards	8,897,219	-	-	8,897,219
Total program services	\$ 28,472,270	\$ -	\$ -	\$ 28,472,270
Operating expenses				
Fundraising efforts	\$ 3,998,150	\$ -	\$ -	\$ 3,998,150
General and administrative	5,282,315	-	-	5,282,315
Investment management costs	189,901	-	-	189,901
Other miscellaneous	62,683	-	-	62,683
Total operating expenses	\$ 9,533,049	\$ -	\$ -	\$ 9,533,049
Change in net assets before nonoperating items	\$ 2,371,550	\$ 31,964,801	\$ 31,719,779	\$ 66,056,130
NON-OPERATING REVENUES (EXPENSES):				
Impairment Loss	(940,940)	-	-	(940,940)
Reclassification of net assets	-	(54,520)	54,520	-
Change in net assets	\$ 1,430,610	\$ 31,910,281	\$ 31,774,299	\$ 65,115,190
Net assets - beginning of year as previously stated	\$ 11,382,911	\$ 74,763,598	\$ 167,668,646	\$ 253,815,155
Restatement of net assets (see Note 23)	(3,206,006)	7,027,920	(2,171,794)	1,650,120
Net assets - beginning of year as, restated	\$ 8,176,905	\$ 81,791,518	\$ 165,496,852	\$ 255,465,275
Net assets - end of year	\$ 9,607,515	\$ 113,701,799	\$ 197,271,151	\$ 320,580,465

University of Montana
A Component Unit of the State of Montana
Consolidated Statements of Cash Flows

As of June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 113,570,845	\$ 116,381,392
Federal grants and contracts	69,036,560	65,272,777
State grants and contracts	7,450,100	8,605,263
Nongovernmental grants and contracts	14,304,331	11,763,424
Grant and contract facilities and administrative cost allowances	13,090,495	13,080,499
Sales and services of educational activities	20,069,225	17,175,825
Auxiliary enterprises charges	46,448,858	44,763,867
Interest earned on loans to students	197,919	186,087
Other operating receipts	7,371,527	7,175,722
Payments to employees for salaries and benefits	(269,730,066)	(287,150,239)
Payments for other postemployment benefits (pensions)	(1,531,171)	(1,180,932)
Operating expenses	(104,984,524)	(113,877,170)
Payments for scholarships and fellowships	(20,400,136)	(21,682,552)
Loans made to students	(1,823,903)	(1,691,499)
Loan payments received	1,971,634	2,119,941
Net Cash Used by Operating Activities	\$ (104,958,306)	\$ (139,057,595)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 100,043,739	\$ 101,539,599
Land Grants	1,799,843	1,982,462
Federal financial aid grants and contracts	22,441,958	22,869,748
Private Gifts for other than capital purposes	20,384,596	18,484,538
Net Cash Provided by Noncapital Financing Activities	\$ 144,670,136	\$ 144,876,347
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	\$ (15,000,000)	\$ -
Proceeds from maturities of investments	15,000,000	15,000,000
Earnings received on investments	2,881,996	2,064,496
Net Cash Provided by Investing Activities	\$ 2,881,996	\$ 17,064,496
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for capital assets	\$ (25,564,162)	\$ (28,715,799)
Private gifts for capital purposes	12,959,887	8,329,331
Proceeds from the sale of capital assets	43,928	28,861
Proceeds from the issuance of revenue bonds	14,125,000	-
Proceeds from advances from primary government	800,000	10,596,220
Principal paid advance from primary government, and capital leases	(1,829,814)	(1,240,102)
Principal paid on bonds payable	(8,955,102)	(8,241,306)
Interest paid on capital debt and leases	(4,646,454)	(4,035,981)
Net Cash Used by Capital and Related Financing Activities	\$ (13,066,717)	\$ (23,278,776)
Net Change in Cash and Cash Equivalents	\$ 29,527,109	\$ (395,528)
Cash and Cash Equivalents, Beginning of Year	\$ 57,994,247	\$ 58,389,775
Cash and Cash Equivalents, End of Year	\$ 87,521,356	\$ 57,994,247

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

University of Montana
A Component Unit of the State of Montana
Consolidated Statements of Cash Flows

As of June 30, 2018 and 2017
(Continued)

	2018	2017
Reconciliation of Operating Loss to Net Cash Used By Operating Activities:		
Operating loss	\$ (144,381,391)	\$ (156,321,065)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Noncash expense:		
Depreciation and amortization expense	24,760,529	24,110,717
Amortization of net pension liability	985,013	(2,900,028)
Amortization of other post employment benefits obligation	1,193,737	3,027,606
Changes in assets and liabilities:		
Accounts receivable	781,899	(1,608,779)
Loans to students	147,731	428,442
Inventories	38,494	311,769
Prepaid expenses and other charges	1,896,206	(1,745,160)
Accounts payable and accrued expenses	8,411,072	(7,038,804)
Unearned revenue	5,658,790	(553,240)
Student and other deposits	(2,322,476)	2,212,043
Due to federal government	(446,546)	(136,198)
Compensated absences	(1,681,364)	1,155,102
Net Cash Used by Operating Activities	\$ (104,958,306)	\$ (139,057,595)
Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions		
Fixed assets acquired by incurring capital lease obligations	\$ 33,966	\$ 23,391
Change in fair value of investments recognized as a component of interest income	\$ (1,157,187)	\$ (130,802)
Fixed assets acquired from capital grants and donations	\$ 10,916,243	\$ 13,508,864
Discounts, premiums and deferred loss on refunding amortized to interest expense	\$ 191,504	\$ 181,298
Reconciliation of Cash and Cash Equivalent to the Statements of Net Position		
Cash and cash equivalents classified as current assets	\$ 87,452,335	\$ 57,969,960
Cash and cash equivalents classified as noncurrent assets	\$ 69,021	\$ 24,287
Total Cash and Cash Equivalents, End of Year	\$ 87,521,356	\$ 57,994,247

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

UNIVERSITY OF MONTANA A COMPONENT UNIT OF THE STATE OF MONTANA FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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 17,000 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 Tech of the University of Montana, 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 upon 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 respective 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.

Notes to the Consolidated Financial Statements (continued)

Accordingly, the University's consolidated financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

▪ RECENT ACCOUNTING PRONOUNCEMENTS IMPLEMENTED IN FISCAL YEAR 2018

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 Montana University System Group Insurance Plan (MUSGIP) was not able to provide sufficient information to restate the June 30, 2017, financial statements. 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 March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This statement is effective for periods beginning after December 15, 2016, and its provisions have been applied retroactively by the University. The effect of the changes from the implementation of GASB 81 was to restate the Consolidated Statement of Net Position as of June 30, 2017, for interests in donated perpetual trust assets that are administered by a third party, at their fair value of \$4,196,284, and to record a corresponding deferred inflow of resources in the same amount.

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 has 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.

▪ USE OF ESTIMATES

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

▪ CASH EQUIVALENTS

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

▪ INVESTMENTS

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

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

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

- Market Approach – Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sales transactions, market trades or other sources.

Notes to the Consolidated Financial Statements (continued)

- 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:

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

Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets as follows: buildings - 40 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 (note 9) represent the consumption of resources that are applicable to a future reporting period but do not require a future exchange of goods or services. The University has reported deferred outflows of resources from the refunding of revenue bond debt, and for its proportionate share of the statewide defined benefit retirement plans and the Montana University System Group Insurance Plan deferred outflows. For revenue bond debt, the unamortized difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a deferred outflow.

▪ UNEARNED REVENUE

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

Notes to the Consolidated Financial Statements (continued)

▪ 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 (note 9) represent the acquisition of resources that are applicable to a future reporting period. The University has reported deferred inflows of resources for its proportionate share of the statewide defined benefit retirement plans and the Montana University System Group Insurance Plan deferred inflows. In addition, the fair value of the University's beneficial interest in perpetual trust assets is recorded as deferred inflows of resources.

▪ NET POSITION

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

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

▪ 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, 2018 and 2017 totaled \$56,728,844 and \$36,723,769, respectively. The University does not have a formal policy that addresses custodial credit risk for cash deposits with other financial institutions.

▪ CASH EQUIVALENTS

At June 30, 2018, Cash equivalents consist of \$10,550,637 of cash invested in money market funds with First American Funds and US Bank, and \$19,955,928 in the Short Term Investment Pool (STIP) with the Montana Board of Investments (MBOI). The total amounts held in cash equivalents at June 30, 2018 and 2017 were \$30,506,565 and \$21,032,282, respectively. STIP investments are purchased in accordance with the, statutorily mandated "Prudent Expert Principle." The STIP invests primarily in short-term, high quality, fixed income securities with a maximum maturity of 397 days or less. The STIP portfolio may include asset-backed securities, commercial paper, corporate and government securities, money market funds to provide diversification and a competitive rate of return. The First American Funds, Prime Obligations Money Market Fund invests in short-term debt obligations, including commercial paper, U.S. dollar denominated obligations of domestic, non-convertible corporate debt securities, U.S. government or agency securities, loan participation interests, and repurchase agreements. Investments in STIP and the money market fund may be withdrawn by the University on demand, and as such, are classified as cash equivalents.

STIP is a commingled pool for investment purposes and participant requested redemptions from the pool are redeemed the next business day. 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 of the underlying investments in the pool and where they are categorized within the fair value hierarchy. Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated for credit quality.

▪ 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, 2018 and 2017:

Security Type	Fair Value Measurement Level	Fair Value		Effective Duration at June 30, 2018 ⁽¹⁾	Credit Quality Rating at June 30, 2018 ⁽³⁾
		2018	2017		
Agency/Government Related	Level 2	\$ 27,197,375	\$ 27,400,273	1.89	AA+
Trust Fund Investment Pool (TFIP) ⁽⁶⁾	NAV ⁽⁵⁾	30,642,663	31,442,039	5.92 ⁽²⁾	NR
Foundation Pooled Investments	NAV ⁽⁵⁾	17,020,023	17,227,554	Not applicable	N/A
Certificates of Deposits	NAV	304,045	303,657	Not applicable	N/A
Life insurance	NAV	307,960	255,730	Not applicable	N/A
Total investments		<u>\$ 75,472,066</u>	<u>\$ 76,629,253</u>		
Beneficial Interest	NAV ⁽⁵⁾	4,239,282	4,196,284	Not applicable	N/A
Total		<u>\$ 79,711,348</u>	<u>\$ 80,825,537</u>		
Securities Lending Collateral Investment Pool	NAV	<u>\$ 425,491</u>	<u>\$ 246,770</u>	(4)	NR

⁽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 1.46% of the portfolio

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

⁽⁴⁾Securities Lending cash collateral invested in the Navigator Securities Lending Government Lending Money Market portfolio had an average duration of 10 days and the average weighted final maturity was 70 days within the Navigator portfolio.

⁽⁵⁾Fair values of the investments in this type have been determined using the NAV per share of the investments.

⁽⁶⁾TFIP shares can be redeemed monthly but a 30 day redemption notice is required.

Investments held by the University at June 30, 2018 and 2017 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 State Street Bank) on behalf of the University.

Montana Board of Investments Pool

The University at June 30, 2018 and 2017 was a participant in the Trust Funds Investment Pool (TFIP), an internal 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."

The TFIP invests primarily in investment grade, U.S. dollar denominated fixed income securities. The TFIP fixed income portfolio includes U.S. Treasury securities, U.S. agency and government related securities, asset backed securities, mortgage backed securities, commercial mortgage backed securities, and corporate securities categorized as financial, industrial or utility. 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.

Certificates of Deposit

Certificates of deposit serve as collateral for loans made to students with disabilities for the purchase of specialized equipment necessary to complete their education. The certificate of deposit, including interest earned, is reinvested upon maturity.

Securities Lending Transactions

MBOI is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust, "the 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 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 MBOI and the 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 Bank indemnifies the MBOI's credit risk exposure to borrowers.

Notes to the Consolidated Financial Statements (continued)

The MBOI imposed no restrictions on the amount of securities available to lend during fiscal years 2018 and 2017. 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 2018 and 2017 resulting from a borrower default.

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 2018 and 2017, 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 average duration was 10 days and the average weighted final maturity was 70 days within the Navigator portfolio.

Investment Risks

University implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosures", in fiscal year 2005. 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 or custodial 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.

According to the STIP investment policy "the STIP portfolio will minimize interest rate risk by: structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity; maintaining a dollar-weighted average portfolio maturity (WAM) of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities; and the STIP will maintain a reserve account".

In accordance with GASB Statement No. 40, the State of Montana has selected the effective duration method as a measure of interest rate risk for fixed income portfolios. Duration is defined as the average percentage change in a bond's price for a given change in interest rates. Prices move inversely to interest rates. The effective duration method uses the present value of the cash flows from the investment, weighting those cash flows as a percentage of the investment's full price. 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 securities and TFIP fixed income instruments have credit risk as measured by major credit rating services. The First American money market fund has received AAA credit quality ratings from three NSRO'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).

As of June 30, 2018, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for the Montana Board of Investments and held in the possession of the MBOI's custodial bank. The equity index funds, securities held at the State's depository bank, real estate, mortgage and loan investments were purchased and recorded in the MBOI's name. Commingled fund investments are registered in the name of the

Notes to the Consolidated Financial Statements (continued)

Montana Board of Investments. Investments in money market funds are registered in the name of Board of Regents of Higher Education for the State of Montana.

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 risk including, the concentration of credit risk.

The concentration of credit risk exposure for U.S. government sponsored entities securities held at June 30, 2018 and 2017, expressed as a percentage of total investments, was 35.05% and 35.76%, 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, 2018 and 2017. Changes in fair value of the beneficial interests are recognized as an increase or a decrease in the related deferred inflow of resources. The primary unobservable inputs used in the fair value measurement of the perpetual trust assets are the underlying securities held by the outside management trust company that are outside the control and management of the University.

Land Grant Earnings

In 1881, the Congress of the United States granted land to the State of Montana for the benefit of the state's universities and colleges. The Enabling Act of 1889 granted 46,563 acres to Missoula, 100,000 acres to Montana Tech and 50,000 acres to Western Montana College. Under provisions of the grants, proceeds from the sale of land and land assets, together with proceeds from the sale of timber, oil royalties and other minerals, must be reinvested, and constitute, along with the balance of unsold land, a perpetual trust fund. The grant is administered as a trust by the State Land Board, which holds title and has the authority to direct, control, lease, exchange and sell these lands. The University, as a beneficiary, does not have title to the assets resulting from the grant, only a right to the earnings generated. The University's share of the trust earnings was \$1,799,843 and \$1,982,462 for the years ended June 30, 2018 and 2017, respectively. These earnings are currently pledged to the Series K 2010, Series L 2012, Series M 2013, Series N 2015, and Series O 2017 revenue bonds.

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Student tuition and fees	\$ 4,710,862	\$ 5,025,033
Auxiliary enterprises and other operating activities	3,253,244	2,992,578
Private grants and contracts	2,870,967	1,253,771
Other	376,096	315,861
Gross accounts and grants receivable	<u>11,211,169</u>	<u>9,587,243</u>
Less: allowance for doubtful accounts	2,605,955	2,576,575
Net accounts and grants receivable	<u><u>\$ 8,605,214</u></u>	<u><u>\$ 7,010,668</u></u>

NOTE 5 – LOANS RECEIVABLE

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

Notes to the Consolidated Financial Statements (continued)

The University of Montana has elected to continue servicing their Perkins Loans. By University estimates, the current Perkins Loan portfolio collections will take approximately 15-20 years. Included in non-current liabilities as of June 30, 2018 and 2017, were \$9,494,825 and \$9,941,371, respectively, that is refundable to the Federal Government.

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

NOTE 6 – INVENTORIES

Inventories consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Bookstore	\$ 774,420	\$ 821,644
Food services	304,408	278,981
Facilities services	639,724	632,667
Other	190,292	214,046
Total inventories	<u>\$ 1,908,844</u>	<u>\$ 1,947,338</u>

NOTE 7 – PREPAID EXPENSES AND OTHER CHARGES

Prepaid expenses and other charges consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Summer session	\$ -	\$ 385,365
Travel advances	17,498	23,207
Other prepaid expenses	4,605,566	6,110,697
Total prepaid expenses and other charges	<u>\$ 4,625,081</u>	<u>\$ 6,521,286</u>

Notes to the Consolidated Financial Statements (continued)

NOTE 8 – CAPITAL ASSETS

The following tables present the changes in capital assets for the years ended June 30, 2018 and 2017, respectively.

For the year ended 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)

For the year ended June 30, 2017:

	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
Capital assets not being depreciated:					
Land	\$ 8,225,722	\$ -	\$ -	\$ -	\$ 8,225,722
Capitalized collections	18,108,845	203,300	11,710	-	18,300,435
Construction in progress	46,218,713	29,460,218	-	(65,130,612)	10,548,319
	72,553,280	29,663,518	11,710	(65,130,612)	37,074,476
Other capital assets:					
Land improvements	15,421,694	-	-	470,906	15,892,600
Infrastructure	8,342,650	1,086,740	-	474,710	9,904,100
Buildings	316,493,241	318,990	35,320	53,619,058	370,395,969
Building improvements	221,631,747	212,013	334,094	10,565,939	232,075,604
Furniture and equipment	92,004,770	9,729,575	9,519,776	-	92,214,569
Library materials	61,234,066	1,990,946	1,357,621	-	61,867,391
Livestock	10,000	245,268	-	-	255,268
	715,138,168	13,583,531	11,246,810	65,130,612	782,605,501
Less accumulated depreciation for:					
Land improvements	11,418,823	376,524	-	-	11,795,347
Infrastructure	1,355,122	259,611	-	-	1,614,733
Buildings	151,567,707	7,165,164	-	-	158,732,871
Building improvements	149,875,056	7,580,231	15,383	-	157,439,905
Furniture and equipment	63,691,703	6,679,768	8,511,326	-	61,860,145
Library materials	54,939,532	1,701,519	-	-	56,641,051
Livestock	6,310	1,429	-	-	7,739
	432,854,253	23,764,247	8,526,709	-	448,091,791
Other capital assets, net	282,283,915	(10,180,716)	2,720,102	65,130,612	334,513,710
Intangible assets	1,876,965	416,366	587,102	(346,471)	1,359,758
Total capital assets, net	\$ 356,714,160	\$ 19,899,169	\$ 3,318,914	\$ (346,471)	\$ 372,947,944
Capital Asset Summary:					
Capital assets not being depreciated	\$ 72,553,280	\$ 29,663,518	\$ 11,710	\$ (65,130,612)	\$ 37,074,476
Other capital and intangible assets	717,015,133	13,999,897	11,833,912	64,784,141	783,965,259
	789,568,413	43,663,416	11,845,622	(346,471)	821,039,735
Less: accumulated depreciation	432,854,253	23,764,247	8,526,709	-	448,091,791
Total capital assets, net	\$ 356,714,160	\$ 19,899,169	\$ 3,318,914	\$ (346,471)	\$ 372,947,944

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Deferred Outflows of Resources		
Unamortized loss on debt refunding	\$ 2,409,292	\$ 2,699,118
Defined benefit retirement plans	28,808,270	24,584,445
Other postemployment benefits for health insurance	48,445	-
Total deferred outflows of resources	<u>\$ 31,266,007</u>	<u>\$ 27,283,563</u>
Deferred Inflows of Resources		
Defined benefit retirement plans	\$ 3,661,532	\$ 1,162,304
Other postemployment benefits for health insurance	720,718	-
Beneficial interest	4,239,682	4,196,284
Total deferred inflows of resources	<u>\$ 8,621,932</u>	<u>\$ 5,358,588</u>

NOTE 10 – UNEARNED REVENUES

Unearned Revenues consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Grant and contract revenue received in advance	\$ 5,461,894	\$ 2,773,304
Summer session payments received in advance	2,409,306	2,110,927
Other unearned revenues	9,673,069	7,001,248
Total unearned revenue	<u>\$17,544,269</u>	<u>\$ 11,885,479</u>

NOTE 11 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Compensation, benefits and related liabilities	\$ 19,270,180	\$ 9,565,254
Accrued interest expense	486,645	461,868
Accounts payable and other accrued liabilities	5,964,681	6,529,444
Total accounts payable and accrued liabilities	<u>\$ 25,721,506</u>	<u>\$ 16,556,566</u>

Notes to the Consolidated Financial Statements (continued)

NOTE 12 – LONG-TERM LIABILITIES

The following tables present the changes in long-term liabilities for the years ended June 30, 2018 and 2017, respectively:

For the year ended June 30, 2018:

	Beginning Balance	Additions	Deductions	Ending Balance	Current 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
Subordinated bonds payable	124,000		34,000	90,000	35,000
Capital leases payable	250,480	33,966	24,905	259,541	103,053
	92,296,609	14,158,966	9,078,329	97,377,246	9,488,430
Other long-term liabilities					
Accrued compensated absences	27,478,443	10,861,360	12,542,724	25,797,080	11,478,294
Unearned compensation	391,045			391,045	-
Advances from primary government	22,446,829	800,000	1,829,814	21,417,015	1,982,767
Other postemployment benefits liability	52,458,930	521,466	36,074,593	16,905,803	-
Net pension liability	92,546,638	2,709,610		95,256,248	-
Due to Federal Government	9,941,371		446,546	9,494,825	-
	205,263,256	14,892,436	50,893,677	169,262,016	13,461,061
Total long-term liabilities	\$ 297,559,865	\$ 29,051,402	\$ 59,972,006	\$ 266,639,262	\$ 22,949,491

For the year ended June 30, 2017:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds, notes and capital leases					
Revenue bonds payable, net	\$ 100,227,758		\$ 8,305,629	\$ 91,922,129	\$ 8,506,104
Subordinated bonds payable	158,000		34,000	124,000	34,000
Capital leases payable	382,635	23,974	156,129	250,480	109,398
	100,768,393	23,974	8,495,758	92,296,609	8,649,502
Other long-term liabilities					
Accrued compensated absences	26,323,341	12,129,947	10,974,846	27,478,443	11,944,004
Unearned compensation	391,045			391,045	-
Advances from primary government	12,935,165	10,596,220	1,084,556	22,446,829	1,829,815
Other postemployment benefits liability	49,431,324	4,544,455	1,516,849	52,458,930	-
Net pension liability	80,716,063	11,830,575		92,546,638	-
Due to Federal Government	10,077,569		136,198	9,941,371	-
	179,874,507	39,101,197	13,712,449	205,263,256	13,773,819
Total long-term liabilities	\$ 280,642,900	\$ 39,125,171	\$ 22,208,207	\$ 297,559,865	\$ 22,423,321

Long-term liabilities include:

- capital lease obligations, principal amounts of subordinated bonds payable, revenue bonds payable, and notes payable with contractual maturities greater than one year;
- estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year;
- other postemployment benefits obligation for health benefits and net pension liability.
- other liabilities that, although payable within one year, are to be paid from funds that are classified as non-current assets.

Notes to the Consolidated Financial Statements (continued)**Capital Leases**

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

<u>Fiscal Year</u>	<u>Total</u>
2019	\$ 117,341
2020	80,575
2021	49,963
2022	28,949
2023	5,313
Minimum lease payments	\$ 282,141
Less: Amount representing interest	22,600
Present value of net minimum lease payments	<u>\$ 259,541</u>

Assets acquired under capital leases consist mainly of photocopiers. Such assets are carried at \$897,413 with accumulated depreciation of \$687,279 as of June 30, 2018.

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, 2018 and 2017, was \$212,807,783 and \$198,682,783, respectively. The combined principal amount outstanding at June 30, 2018 and 2017 was \$95,836,083 and \$90,632,189 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 considered 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).

Notes to the Consolidated Financial Statements (continued)

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 Prosper 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.

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, 2018 and 2017, \$85,185,001 and \$98,272,041, respectively, of bonds outstanding were considered defeased.

Revenue Bonds Payable

As of June 30, 2018 annual principal payments are as follows:

Series K 2010

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Principal</u>
2019	4.368-4.568%	\$ 5,935,000
2020	4.568-4.718%	6,250,000
2021	4.718-4.730%	6,485,000
2022	4.730-4.800%	6,855,000
		25,525,000
Add: unamortized premium:		84,136
		\$ 25,609,136

Notes to the Consolidated Financial Statements (continued)

Series L 2012

Fiscal Year	Interest Rate	Principal
2019	2.175-5.000%	\$ 700,000
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
2024-2028	3.014-4.000%	19,195,000
2029-2033	3.125-4.000%	5,325,000
		<u>35,800,000</u>
Add: net unamortized premium:		1,107,486
		<u><u>\$ 36,907,486</u></u>

Series M 2013

Fiscal Year	Interest Rate	Principal
2019	2.500%	\$ 785,377
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
		<u>\$ 4,571,083</u>

Series N 2015

Fiscal Year	Interest Rate	Principal
2019	2.550%	\$ 1,405,000
2020	2.550%	1,430,000
2021	2.550%	1,485,000
2022	2.550%	1,515,000
2023	2.550%	1,550,000
2024-2028	2.550%	6,825,000
2029-2030	2.550%	2,020,000
		<u>\$ 16,230,000</u>

Series O 2017

Fiscal Year	Interest Rate	Principal
2019	3.390%	\$ 525,000
2020	3.390%	545,000
2021	3.390%	560,000
2022	3.390%	580,000
2023	3.390%	600,000
2024-2028	3.390%	3,325,000
2029-2033	3.390%	3,930,000
2034-2037	3.390%	3,645,000
		<u>\$ 13,710,000</u>

Revenue Bond Payable Summary:

Total revenue bonds outstanding	\$ 95,836,083
Add: Net unamortized premiums and discounts	1,191,622
Revenue bonds payable, net	<u><u>\$ 97,027,705</u></u>

Notes to the Consolidated Financial Statements (continued)

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

Fiscal Year	Principal	Interest	Total Payment
2019	\$ 9,350,377	\$ 3,428,552	\$ 12,778,929
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
2024-2028	29,786,842	4,636,246	34,423,088
2029-2033	11,275,000	1,670,412	12,945,412
2034-2037	3,645,000	314,252	3,959,252
Total	\$ 95,836,083	\$ 19,812,059	\$ 115,648,142

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%. The bond proceeds are disbursed only for and after which costs have been incurred on the water improvement project. As of June 30, 2010, \$225,988 was disbursed from the Series I Bond. As of 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, 2018 is \$90,000.

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, 2018 was 3.15%.

The State Building Energy Conservation Program (SBCEP) 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 44 years. The interest rates are variable and are adjusted annually.

Notes to the Consolidated Financial Statements (continued)

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

Fiscal Year	INTERCAP Loans		MSTA Loan		SBECF Loans		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2019	\$ 1,407,493	\$ 304,392	42,064	77,936	533,210	156,447	\$ 2,521,542
2020	1,447,838	270,148	43,115	76,885	473,935	139,950	2,451,871
2021	1,449,992	235,792	44,161	75,809	489,436	123,059	2,418,250
2022	1,333,967	202,039	45,295	74,705	459,376	105,491	2,220,872
2023	944,786	178,179	46,426	73,574	347,710	88,253	1,678,928
2024-2028	4,367,580	557,473	250,113	352,416	1,589,110	284,739	7,401,431
2029-2033	2,486,688	129,434	282,944	322,573	853,914	73,482	4,149,034
2034-2038			320,084	287,411	111,299	5,034	723,828
2039-2043	-	-	362,100	254,906	-	-	617,006
2044-2048	-	-	409,661	166,510	-	-	576,170
2049-2053	-	-	463,401	163,365	-	-	626,766
2054-2058	-	-	524,229	122,535	-	-	646,764
2059-2063	-	-	287,091	39,420	-	-	326,511
Total	\$ 13,438,344	\$ 1,877,458	\$ 3,120,683	\$ 2,088,044	\$ 4,857,989	\$ 976,455	\$ 26,358,971

Total advances payable from primary government and the current portion of advances at June 30, 2018, was \$21,417,015 and \$1,982,767, respectively.

NOTE 17 – RETIREMENT PLANS

Eligible employees of the University are either members of the Public Employees' Retirement System (PERS), Game Wardens' & Peace Officers' Retirement System (GWORS), 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 MUS-RP, a defined contribution plan.

DEFINED BENEFIT PLANS

General

PERS, GWORS and TRS are statewide, cost-sharing, multiple-employer defined benefit retirement plans. The plans are established under state law and are administered by the respective retirement systems. The plans provide retirement, disability, and death benefits to plan members and their beneficiaries. PERS, a mandatory system established by the state in 1945, provides retirement benefits to substantially all public employees. GWORS, established in 1963, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel, and state police officers not eligible to join the Sheriffs' Retirement System, Highway Patrol Officers' Retirement System, and Municipal Police Officers' Retirement System. TRS, established in 1937, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the University System.

▪ 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.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-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 Montana University System Retirement Program (MUS-RP0).

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

Notes to the Consolidated Financial Statements (continued)

Summary of Benefits

Eligibility for Benefit

Service retirement

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

Early retirement (reduced benefit)

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

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

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

Vesting

- 5 years of membership service

Member's highest average compensation (HAC)

- Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;
- Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;

Compensation cap

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

Monthly benefit formula

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

Guaranteed Annual Benefit Adjustment (GABA)

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

Notes to the Consolidated Financial Statements (continued)

Contributions to the Plan

State law for periodic employer and employee contributions specifies rates and are a percentage of employee compensation. The State legislature has the authority to establish and amend contribution rates to the plan. Employer and employee contribution rates for 2018 were 8.57% and 7.90%, respectively and for 2017 were 8.47% 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.
- Non employer 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 special funding.

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, 2016, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2017. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study, dated May 2017, for the six year period of July 1, 2010 to June 30, 2016. Among those assumptions were the following:
 - 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%
 - Postretirement Benefit Increases
- 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 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. The state contributed .10% of the salaries paid by local governments and .37% paid by school districts. In addition, the State contributes coal severance tax money from the general fund quarterly. Based on those assumptions, the System'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 total pension liability. No municipal bond rate was incorporated in the discount rate.

Notes to the Consolidated Financial Statements (continued)

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent 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 then 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, 2017, are summarized in the table below:

Asset Class	Target Asset Allocation	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%	

The total long-term assumed investment rate of return of 7.65% is comprised of a 2.75% inflation rate and a real rate of return of 4.90%.

Sensitivity Analysis

The following presents the University's proportionate share of the PERS-DBRP net pension liability at June 30, 2017, calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

	1.0% Decrease (6.65%)	Current Discount Rate (7.65%)	1.0% Increase (8.65%)
University's proportionate share of the net pension liability	\$112,687,486	\$77,373,223	\$47,729,573

Net Pension Liability

At June 30, 2018 and 2017, the University recorded \$77,373,223 and \$71,099,299, respectively, for its proportionate share of the net pension liability. At June 30, 2018 the net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2016. 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERS-DBRP participating employers. At June 30, 2018 and 2017, the employer's proportionate share was 3.97% and 4.17%, respectively.

For the years ended June 30, 2018 and 2017, the University recognized pension expense of \$8,573,779 and \$5,588,205, 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, 2018 and 2017, the University recognized \$1,106,838 and \$1,245,678, respectively, for its proportionate share from this funding source.

Changes in Actuarial Assumptions and Methods

Effective July 1, 2017, the following assumption changes were used:

- Lowered the interest rate from 7.75% to 7.65%.
- Lowered the inflation rate from 3.00% to 2.75%.
- Updated non-disabled mortality to the RP-2000 Combined Employee and Annuitant Mortality Table projected to 2020 using scale BB, males set back 1 year.
- Increased rates of withdrawal.
- Lowered the merit component of the total salary increase.
- Lowered the wage base component of the total salary increase from 4.00% to 3.50%.
- Decreased the administrative expense load from 0.27% to 0.26%.

Notes to the Consolidated Financial Statements (continued)

Effective July 1, 2017, the following method changes were used:

- Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount will vary from year to year based on the prior year's actual administrative expenses.
- To be consistent with the wage base growth change, the payroll growth assumption for amortization as a level percent of pay was reduced from 4.00% to 3.50%.

Changes in Benefit Terms

Effective July 1, 2017, the following benefit changes were:

- The interest rate credited to member accounts increased from 0.25% to 0.77%.
- Lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

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, 2018 and 2017, the University's proportionate share of PERS-DBRP deferred outflows of resources and deferred inflows of resources were from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,905,459	\$ 111,993	\$ 383,630	\$ 235,341
Difference between projected and actual earnings on pension plan investments	-	519,644	6,689,025	-
Changes in assumptions of contributions	10,576,110	-	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	2,833,203	-	752,501
Contributions paid to PERS-DBRP subsequent to the measurement date.	4,682,615	-	4,488,444	-
Total	<u>\$ 17,164,184</u>	<u>\$ 3,464,840</u>	<u>\$ 11,561,099</u>	<u>\$ 987,842</u>

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

Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2018	\$1,647,788
2019	\$5,085,156
2020	\$3,930,639
2021	(\$1,646,854)
2022	NA
Thereafter	NA

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.

Notes to the Consolidated Financial Statements (continued)

▪ 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

Member's highest average compensation (HAC)

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

Eligibility for benefit

- Service retirement - Age 50, 20 years of membership service.
- Early retirement - Age 55 with 5 years of membership service

Vesting

- 5 years of membership service

Monthly benefit formula

- 2.5% 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 year equal to:
 - 3% 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 2018 and 2017 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, 2017, is based on the results of an actuarial valuation date of June 30, 2016, with update procedures performed to roll forward the liability to the measurement date. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the last actuarial experience study, dated May 2017 for the six year period July 1, 2010 to June 30, 2016.

Among those assumptions were the following:

- General Wage Growth, including inflation at 2.75% 3.50%
- Merit Increases 0% to 4.80%
- Investment Return 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%
- 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.

Notes to the Consolidated Financial Statements (continued)**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 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

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 covering fiscal years July 1, 2010 through June 30th, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These, ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

Best estimates are presented as the arithmetic real rates of return for each major asset class included in the GWPORS target asset allocation as of June 30, 2017, is summarized in the following table:

Asset Class	Target Asset Allocation	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%	

The total long-term assumed investment rate of return of 7.65% is comprised of a 2.75% inflation rate and a real rate of return of 4.90%.

Sensitivity Analysis

The following presents the University's proportionate share of the GWPORS net pension liability at June 30, 2017, calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

	1.0% Decrease (6.65%)	Current Discount Rate (7.65%)	1.0% Increase (8.65%)
University's proportionate share of the net pension liability	\$1,379,758	\$735,826	\$211,443

Net Pension Liability

At June 30, 2018 and 2017, the University recorded \$735,826 and \$705,352, respectively, for its proportionate share of the net pension liability. At June 30, 2018, the net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2016. 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of GWPORS' participating employers. At June 30, 2018 and 2017, the employer's proportion was 1.97% and 2.15%, respectively.

For the year ended June 30, 2018 and 2017, University recognized pension expense of \$140,264 and \$130,757, respectively.

Notes to the Consolidated Financial Statements (continued)

Changes in Actuarial Assumptions and Methods

Effective July 1, 2017, the following assumption changes were used:

- Lowered the interest rate from 7.75% to 7.65%.
- Lowered the inflation rate from 3.00% to 2.75%.
- Updated non-disabled mortality to the RP-2000 Combined Employee and Annuitant Mortality Table projected to 2020 using scale BB, males set back 1 year.
- Increased rates of withdrawal.
- Lowered the merit component of the total salary increase.
- Lowered the wage base component of the total salary increase from 4.00% to 3.50%.
- Decreased the administrative expense load from 0.27% to 0.26%.

Effective July 1, 2017, the following method changes were used:

- Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount will vary from year to year based on the prior year's actual administrative expenses.
- To be consistent with the wage base growth change, the payroll growth assumption for amortization as a level percent of pay was reduced from 4.00% to 3.50%.

Changes in Benefit Terms

Effective July 1, 2017, the following benefit changes were:

- The interest rate credited to member accounts increased from 0.25% to 0.77%.
- Working Retiree Limitations applies to retirement system members who return on or after July 1, 2017 to covered employment in the system from which they retired.
- Second Retirement Benefit applies to retirement system members who return on or after July 1, 2017 to active service covered by the system from which they retired.
- Lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

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, 2018 and 2017, the University reported its proportionate share of GWPORS deferred outflows of resources and deferred inflows of resources from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 102,717	\$ -	\$ 59,615	\$ -
Difference between projected and actual earnings on pension plan investments	-	10,664	108,344	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	20,847	-	-
Changes in assumptions of contributions	92,609	-	18,414	-
Contributions paid to GWPORS subsequent to the measurement date	88,685	-	87,361	-
Total	\$ 284,011	\$ 31,511	\$ 273,734	\$ -

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
2018	\$25,600
2019	\$68,867
2020	\$51,341
2021	\$18,007
Thereafter	NA

Notes to the Consolidated Financial Statements (continued)**Summary of Significant Accounting Policies**

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

- **Teachers Retirement System**

Plan Description

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

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

Summary of Benefits

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

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

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

Contributions to the Plan

Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan. Contributions are deducted from each member's salary and remitted by participating employers. The State and University System contribution rates for fiscal year 2018 and 2017 were 11.25% and 11.15%, respectively, and the employee contributions rate for fiscal year 2018 and 2017 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 nonemployer contributing entity in the TRS. 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.

Notes to the Consolidated Financial Statements (continued)

Actuarial Assumptions

The total pension liability recorded at June 30, 2018, was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2017, valuation were based on the results of the last actuarial experience study, dated May 1, 2014.

Among those assumptions were the following:

- Total Wage Increases* 4%-8.51% for Non-University Members and 5.00% for University Members
- General Wage Growth 4.00%
- Price Inflation 3.25%
- Investment Return 7.75%
- Postretirement Benefit Increases
 - Tier One Members: If the retiree has received benefits for at least 3 years, the retirement allowance will be increased by 1.5% on January 1st.
 - Tier Two Members, the retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the System to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.
- Mortality among contributing members, service retired members, and beneficiaries
 - For Males: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
 - For Females: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018
- Mortality among disabled members
 - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
 - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

*Total Wage Increases include 4.00% general wage increase assumption

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating 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 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

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 2009 through 2013, is outlined in a report dated May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Notes to the Consolidated Financial Statements (continued)

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, 2017, is summarized in the table below:

Asset Class	Target Asset Allocation	Real Rate of Return – Arithmetic Basis
Broad U.S. Equity	36.0%	4.80%
Broad International Equity	18.0%	6.05%
Private Equity	12.0%	8.50%
Intermediate Bonds	23.4%	1.50%
Core Real Estate	4.0%	4.50%
High Yield Bonds	2.6%	3.25%
Non-Core Real Estate	4.0%	7.50%
	100.0%	

The TRS long-term assumed rate of 7.75% is comprised of a 3.25% inflation rate and a real long-term expected rate of return of 4.50%.

Sensitivity Analysis

The following presents the University's proportionate share of the TRS net pension liability at June 30, 2017, calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	1.0% Decrease (6.75%)	Current Discount Rate (7.75%)	1.0% Increase (8.75%)
University's proportionate share of the net pension liability	\$23,629,375	\$17,147,199	\$11,687,847

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, 2018, was measured as of June 30, 2017, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2017. The University's proportion of the net pension liability was based on contributions received by TRS during the measurement period July 1, 2016, through June 30, 2017, relative to total contributions received from all of TRS participating employers and nonemployer contributing entities.

The University and State's proportionate share of the net pension liability consisted of the following at June 30, 2018 and 2017:

	2018	2017
University proportion of the net pension liability	1.0170%	1.1354%
University proportionate share of the net pension liability	\$ 17,147,199	\$ 20,741,987
State of Montana's proportion of the net pension liability	0.3668 %	0.4250%
State of Montana's proportionate share of the net pension liability associated with the University	6,185,159	7,764,849
Total	\$ 23,332,358	\$ 28,506,836

For the year ended June 30, 2018 and 2017, University recognized pension expense of \$5,116,361 and \$4,045,452, respectively, and grant revenue for the State's proportionate share of the University's pension expense of \$424,333 and (\$64,746), respectively.

Changes in Actuarial Assumptions and Other Inputs

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

Notes to the Consolidated Financial Statements (continued)

Changes in Benefit Terms:

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

Deferred Outflows and Deferred Inflows

At June 30, 2018 and 2017, the University's proportionate share of TRS deferred outflows of resources and deferred inflows of resources were from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 63,061	\$ 25,636	\$ 110,903	\$ 44,092
Changes in actuarial assumptions	-	71,687	131,997	130,370
Difference between projected and actual earnings on pension plan investments	-	67,858	1,335,688	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,390,455	-	4,465,247	-
Contributions paid to TRS subsequent to the measurement date	6,906,559	-	6,705,777	-
Total	\$ 11,360,075	\$ 165,181	\$ 12,749,612	\$ 174,462

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	\$1,994,492
2020	\$1,769,584
2021	\$826,909
2022	\$(302,649)
2023	NA
Thereafter	NA

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, 2018, the Game Warden & Peace Officers Retirement System (GWPORS) was not in compliance and did not amortize within 30 years.

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

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

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

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:

	<u>Year ending June 30,</u>	
	<u>2018</u>	<u>2017</u>
FACULTY		
Covered Payroll	\$ 114,398,637	\$ 104,819,285
Employer Contributions	\$ 6,813,583	\$ 6,243,037
Percent of Covered Payroll	5.956%	5.956%
Employee Contributions	\$ 8,009,179	\$ 7,385,199
Percent of Covered Payroll	7.000%	7.046%
STAFF		
Covered Payroll	\$ 7,107,647	\$ 6,957,918
Employer Contributions	\$ 606,282	\$ 312,411
Percent of Covered Payroll	8.530%	4.490%
Employee Contributions	\$ 561,503	\$ 549,668
Percent of Covered Payroll	7.899%	7.899%

For the years ended June 30, 2018 and 2017, 4.72%, or \$5,399,616 and \$4,947,470, respectively, was contributed to TRS from MUS-RP faculty employer contributions to amortize past service unfunded liability in accordance with state law. Beginning FY18, the percentage amount remitted to PERS for classified staff changed to 0.04%, or \$2,843. For FY17, 3.68% or \$256,051 was contributed to PERS from MUS-RP staff employer contributions to amortize past service unfunded liability in accordance with state law.

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

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

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*, also referred to as Other Postemployment Benefits (OPEB). Following is the total of the University's OPEB liabilities, deferred outflows and inflows of resources related to OPEB, and the OPEB expense as reported in accordance with GASB Statement No. 75, for the fiscal year ended June 30, 2018.

	<u>2018</u>
Net OPEB Liability	\$ 16,905,803
Deferred OPEB Outflows of Resources	\$ 48,445
Deferred OPEB Inflows of Resources	\$ 720,718
OPEB expense	\$ 1,981,139

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

Notes to the Consolidated Financial Statements (continued)

month following termination of employment. Medical, dental, and vision benefits are available through this defined benefit plan. The MUS OPEB plan is not administered through a trust; as such, no plan assets are eligible to be used to offset the total OPEB liability. The MUS group health insurance program operates in accordance with state law requiring it to be actuarially sound (20-25-1310, MCA) and have sufficient reserves to liquidate unrevealed claims liability and other liabilities.

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

Employer Proportionate Share of Total OPEB Liability and Basis for Allocation

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

Proportionate Share of Collective Total OPEB Liability as of Report Date

The University's share of the total plan OPEB liability was as follows as of June 30, 2018:

	OPEB Liability	OPEB Proportionate Share
Total OPEB Liability	\$ 16,905,803	45.78%

OPEB Deferred Outflows of Resources and Deferred Inflows of Resources

At March 31, 2018, the University's OPEB plan deferred outflows and inflows of resources were from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in actuarial assumptions or other inputs	\$ -	\$ 87,595
Difference between actual and expected contributions	-	633,123
Transactions subsequent to the measurement date*	48,446	
Total	\$ 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, 2019.

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

	Net Amount To Be Recognized as an increase or (decrease) to OPEB Expense
2019	(\$61,172.00)
2020	(\$61,172.00)
2021	(\$61,172.00)
2022	(\$61,172.00)
Thereafter	(\$480,028.00)

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

Notes to the Consolidated Financial Statements (continued)

historical and projected future net changes in TOL, as well as sensitivity to changes in key underlying assumptions. Actuarially determined amounts are subject to continual revisions being actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

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

	Retiree/ Surviving Spouse	Spouse
Contributions:		
Before Medicare eligibility	\$11,264	\$4,728
After Medicare eligibility	\$4,806	\$3,620
Actuarial valuation date	December 31, 2017	
Actuarial measurement date ⁽¹⁾	March 31, 2018	
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 75	
Actuarial assumptions:		
Discount rate	3.89% (3/31/2018 20-year municipal bond index)	
Projected payroll increases	4%	
Participation:		
Future retirees	55	
Future eligible spouses	60	
Marital status at retirement	70	

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

Mortality - Health

For TRS and MUS-RP, healthy mortality is assumed to follow the RP-2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP-2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years for males, set back two years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, healthy mortality is assumed to follow the RP-2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.

Mortality - Disabled

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

Changes in Actuarial Assumptions and Methods Since Last Measurement Date

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

Changes in Benefit Terms since Last Measurement Date

Changes were implemented to ensure the financial health of the plan, while still providing a rich selection of benefits:

- Increased participant deductible,
- Increased out-of-pocket limits for medical and prescription drug coverage
- Increased visit copays,
- Pharmacy benefits were transitioned from URx to Navitus as of July 1, 2017,
- Employer group waiver program for Medicare retirees became effective July 1, 2017,

Notes to the Consolidated Financial Statements (continued)**Sensitivity of the TOL to Changes in the Healthcare Cost Trend Rates:**

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

	Assuming 1.0% Decrease (6.5%)	At Current Rate (7.5%)	Assuming 1.0% Increase (8.5%)
University proportion of total OPEB Liability	\$13,978,072	\$16,905,803	\$20,750,463

Sensitivity of the TOL to changes in the discount rate

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

	Assuming 1.0% Decrease (2.89%)	At Current Rate (3.89%)	Assuming 1.0% Increase (4.89%)
University proportion of total OPEB Liability	\$20,288,315	\$16,905,803	\$14,265,516

Financial and Plan Information—

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

Information presented in these financial statements for the year ended June 30, 2017, follows the requirements of GASB Statement No. 45. As of and for the year ended June 30, 2017, the plan was considered to be a multi- employer agent plan. All units of the MUS funded the post-employment benefits on a pay-as-you-go basis from general assets. The University's annual other post-employment benefit (OPEB) cost (expense) was calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The calculated ARC represented an amount that, if funded, would cover normal cost each year and amortize any unfunded actuarial liability over a period of 30 years. The most recent actuarial determination using the GASB Statement No. 45 methodology was based on plan information as of July 1, 2015. At that time, the number of active University participants in the health insurance plan was 2,724. The total number of inactive (retiree and dependent) participants was 887. For the year ended June 30, 2017 the University contributed \$38,426,808, which was calculated based on a contribution rate per actively employed participant, whose annual covered payroll totaled \$172,163,503 as of the last actuarial valuation. Included within this amount, the University is deemed to have contributed \$1,516,856 for retirees or their dependents during 2017.

The percentage of annual OPEB cost contributed to the plan was 33.38% and 23.94% for 2017 and, 2016, respectively. The funded status of the plan as of June 30 was 0% for each of the previous three years.

Prior to adoption of GASB Statement No. 75, the University's OPEB obligations for fiscal year ended June 30, 2017, was computed as follows :

	2017
Annual required contribution	\$ 4,091,340
Interest on net OPEB obligation	2,100,834
Amortization of net OPEB obligation	(1,647,712)
Annual OPEB cost (expense)	4,544,462
Contributions made	(1,516,856)
Increase in OPEB obligation	3,027,606
Net OPEB Obligation Beginning Balance	49,431,324
Net OPEB Obligation Ending Balance	\$ 52,458,930

Notes to the Consolidated Financial Statements (continued)**Actuarial Methods and Assumptions Prior to 2018**

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

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

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

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, 2018 is \$115,648,142 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, 2018 and 2017:

	2018		2017	
	Revenues Pledged as Security for Debt	Net Similar Revenues	Revenues Pledged as Security for Debt	Net Similar Revenues
Student fees	\$ 11,574,012	\$ 113,890,803	\$ 12,310,508	\$ 114,268,066
<u>Sales and services:</u>				
Events revenue	5,931,732	-	5,937,589	-
Continuing education	4,504,913	-	4,006,240	-
Residence life	718,000	-	689,443	-
Student union facilities	578,512	-	581,465	-
Other sources	1,322,516	-	176,813	-
<i>Total sales and services</i>	13,055,673	19,320,539	11,391,550	16,981,332
Residence life	16,143,062	16,761,062	15,808,841	16,426,841
Food services	13,757,833	13,991,778	13,515,268	13,749,213
<u>Other auxiliary revenues:</u>				
Residence life	521,213	-	401,448	-
Food services	1,599,442	-	1,614,739	-
Student union facilities	709,622	-	438,554	-
Student health services	887,031	-	804,693	-
Parking	2,278,486	-	1,935,065	-
Recreation facilities	1,184,901	-	1,123,735	-
Bookstore	2,356,382	-	2,653,836	-
Printing services	360,146	-	493,828	-
Field house facilities	889,977	-	783,893	-
Other sources	704,697	-	707,947	-
<i>Total other auxiliary revenues</i>	11,491,897	13,963,235	10,957,738	14,080,922
Land grant revenue	1,799,843	1,799,843	1,982,462	1,982,462
Investment income	897,035	1,724,409	756,530	1,933,692
Total pledged revenues	\$ 68,719,355	\$ 181,451,669	\$ 66,722,897	\$ 179,422,528

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 2018, the total amount of ticket revenue pledged toward the Washington-Grizzly Champions Center INTERCAP loan repayment was \$200,893.

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 \$500,000 per claim and excess commercial coverage to statutory limits. Employer’s liability is provided with a \$500,000 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, 2018, the University had the following outstanding commitments under major capital and maintenance projects:

	Budget Authorization *	Total Expenditures through June 2018	Funding Source
LA Basement & Rm 011 Reno	\$ 2,300,000	\$ 2,290,605	Private Funds
PJW Education Add'n Plan	\$ 18,000,000	7,505,433	Private Funds
Health Sciences CTM Lab	\$ 500,000	500,000	Grant F&A
LA West Remodel Classrooms & Bathrooms	\$ 2,000,000	397,962	Private Funds
Softball Stadium Improvements	\$ 650,000	81,372	Private Funds
Main Hall Phase III	\$ 4,500,000	4,177,004	A&E, FEMA Grant, other campus funds
Mathews Hall Bathroom Remodel	\$ 1,200,000	1,011,898	Inter-cap loan, auxiliary funds
Summer Boiler	\$ 503,127	493,933	Reverted appropriation, other campus funds
Living Learning Center	\$ 24,000,000	12,039,787	Plant, Private, Series O
	<u>\$ 53,653,127</u>	<u>\$ 28,497,995</u>	

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

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

Payable during the year ending June 30,	Total
2019	\$ 239,498
2020	174,976
2021	162,729
2022	90,036
2023	319
	<u>\$ 667,558</u>

In September, 2018, the Department of Education 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). The University is appealing the fine amount to the U.S. Department of Education through the appeal procedures set out in 34 C.F.R. Part 668, Subpart G.

Notes to the Consolidated Financial Statements (continued)

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

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

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

NOTE 22– RELATED PARTIES

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

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, 2018 and 2017, \$237,754 and \$283,181, 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 are comprised equally of members appointed by MAEDF and the University. 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, 2018 and 2017, the following was transferred to the University for scholarships, academic or institutional support or capital expenses by the University foundations: \$24,042,295 and \$16,815,554, respectively with The University of Montana Foundation (406-243-2593); \$6,660,650 and \$5,945,072, respectively, with the Montana Tech Foundation (406-496-4532); and \$358,038 and \$929,514 respectively, with The University of Montana-Western Foundation (406-683-7305). In addition, \$2,572,973 and \$1,644,415 was transferred from the Montana Grizzly Scholarship Association (406-243-6485) for the fiscal years ended June 30, 2018 and 2017, respectively. For the fiscal years ended June 30, 2018 and 2017, the University foundations also expended \$4.8 million and \$4.4 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, 2018 and 2017, the University provided \$700,000 and \$750,000, respectively, to its Foundations, which included payments for contracted services and capital campaign support.

In fiscal year 2014, the Montana Board of Regents authorized the University to construct the Washington-Grizzly Champion Center on the Missoula Campus. In accordance with MCA 20-25-309 the University entered into an agreement in March, 2015 with the University of Montana Foundation (the Foundation) to, among other things, lease land for the purpose of constructing the \$14.0 million athletic facility. Upon completion of the project any right, title or interest in the facility that was granted by the agreement reverts back to the University. The project, funded primarily from private donations and proceeds from a \$5.0 million INTERCAP loan, was completed in fiscal year 2018, and the noncash asset was transferred to the University. The total construction costs of \$14.0 million that the University recorded as a capital asset, included a capital contribution from the Foundation of \$9.0 million.

Notes to the Consolidated Financial Statements (continued)

The Foundation restated its net assets as of July 1, 2016. The total amount of the restatement was \$1,650,120, and increased temporarily restricted net assets. In fiscal year 2016, the Foundation expensed the costs associated with construction of the Washington-Grizzly Champion Center. These expenditures should have been presented on the balance sheet as a construction in process asset. The temporary restricted net assets were increased as the construction project is restricted because it will be donated to the University upon completion.

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

STATEMENT OF FINANCIAL POSITION

June 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	\$ 7,189,026	\$ 2,558,819	\$ (2,548,750)	\$ 302,344,922
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
Property held for sale	-	-	-	-	-	-
Other assets	1,292,857	-	-	58,090	-	1,350,947
Total Assets	\$ 301,781,851	\$ 48,227,773	\$ 7,196,453	\$ 2,717,816	\$ (2,548,750)	\$ 357,375,143
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 – unrestricted	4,841,213	2,511,766	313,314	771,220	-	8,437,513
Net assets – restricted	255,988,155	45,462,163	6,873,873	1,702,863	-	310,027,054
Total Net Assets	260,829,368	47,973,929	7,187,187	2,474,083	-	318,464,567
Total Liabilities & Net Assets	\$ 301,781,851	\$ 48,227,773	\$ 7,196,453	\$ 2,717,816	\$ (2,548,750)	\$ 357,375,143

STATEMENT OF FINANCIAL POSITION

June 30, 2017

	University of Montana Foundation	Montana Tech Foundation	University of Montana – Western Foundation	Montana Grizzly Scholarship Association	Elimination	Total
ASSETS:						
Cash and investments	\$ 240,462,597	\$ 43,396,321	\$ 6,491,048	\$ 3,167,542	\$ (3,145,633)	\$ 290,371,875
Other receivables, net of allowances	50,376,821	1,818,864	20,000	15,750	-	52,231,435
Fixed assets, net of depreciation	11,177,281	2,172,001	7,427	87,393	-	13,444,102
Property held for sale	2,349,060	-	-	-	-	2,349,060
Other assets	1,232,104	100,659	-	114,406	-	1,447,169
Total Assets	\$ 305,597,863	\$ 47,487,845	\$ 6,518,475	\$ 3,385,091	\$ (3,145,633)	\$ 359,843,641
LIABILITIES:						
Current liabilities associated with operations	\$ 2,727,769	\$ 95,054	\$ 11,397	\$ 225,807	\$ -	\$ 3,060,027
Long-term liabilities – other	265,557	-	-	-	-	265,557
Liabilities to external beneficiaries	16,974,836	40,841	-	-	-	17,015,677
Custodial funds	22,067,548	-	-	-	(3,145,633)	18,921,915
Total Liabilities	42,035,710	135,895	11,397	225,807	(3,145,633)	39,263,176
NET ASSETS:						
Net assets – unrestricted	5,723,178	2,292,580	273,849	1,317,909	-	9,607,516
Net assets – restricted	257,838,975	45,059,370	6,233,229	1,841,375	-	310,972,949
Total Net Assets	263,562,153	47,351,950	6,507,078	3,159,284	-	320,580,465
Total Liabilities & Net Assets	\$ 305,597,863	\$ 47,487,845	\$ 6,518,475	\$ 3,385,091	\$ (3,145,633)	\$ 359,843,641

Notes to the Consolidated Financial Statements (continued)

STATEMENT OF ACTIVITIES
For the year ended June 30, 2018

	University of Montana Foundation	Montana Tech Foundation	University of Montana – Western Foundation	Montana Grizzly Scholarship Association	Total
REVENUES:					
Contributions	\$ 30,049,223	\$ 5,911,802	\$ 1,130,662	\$ 1,749,941	\$ 38,841,628
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	\$ 1,606,962	\$ 2,220,697	\$ 59,408,611
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	\$ 680,109	\$ (685,201)	\$ (1,271,686)
NON-OPERATING EXPENSES:					
Loss on disposition of asset	(844,212)	-	-	-	(844,212)
Change in net assets	\$ (2,732,785)	\$ 621,979	\$ 680,109	\$ (685,201)	(2,115,898)
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	\$ 7,187,187	\$ 2,474,083	318,464,567

STATEMENT OF ACTIVITIES
For the year ended June 30, 2017

	University of Montana Foundation	Montana Tech Foundation	University of Montana – Western Foundation	Montana Grizzly Scholarship Association	Total
REVENUES:					
Contributions	\$ 60,985,155	\$ 6,619,990	\$ 1,319,807	\$ 1,694,075	\$ 70,619,027
Investment income and unrealized gain(loss) on investments	16,886,950	4,811,280	463,225	162,151	22,323,606
Administrative fees	599,413	-	-	-	599,413
Contract for services	550,000	-	-	-	550,000
Net Revaluation of Trusts and Split-Interest Agreements	910,116	-	-	-	910,116
Income from perpetual trust	355,504	-	-	-	355,504
Special Events	-	-	11,152	516,384	527,536
Other income	7,851,903	264,103	60,241	-	8,176,247
Total Revenues	\$ 88,139,041	\$ 11,695,373	\$ 1,854,425	\$ 2,372,610	\$ 104,061,449
EXPENSES:					
Program services	\$ 20,970,632	\$ 4,788,271	\$ 1,107,600	\$ 1,605,767	\$ 28,472,270
Supporting services	6,868,385	1,983,286	221,051	460,327	9,533,049
Total Expenses	\$ 27,839,017	\$ 6,771,557	\$ 1,328,651	\$ 2,066,094	\$ 38,005,319
Change in net assets before non-operating items	\$ 60,300,024	\$ 4,923,816	\$ 525,774	\$ 306,516	\$ 66,056,130
NON-OPERATING EXPENSES:					
Payments to beneficiaries and change in liabilities due to external beneficiaries	(940,940)	-	-	-	(940,940)
Change in net assets	\$ 59,359,084	\$ 4,923,816	\$ 525,774	\$ 306,516	65,115,190
Net assets, beginning of fiscal year as previously stated	202,552,949	42,428,134	5,981,304	2,852,768	253,815,155
Restatement of net assets (see explanation this note)	1,650,120	-	-	-	1,650,120
Net assets, beginning of fiscal year	204,203,069	42,428,134	5,981,304	2,852,768	255,465,275
Net assets, end of fiscal year	\$ 263,562,153	\$ 47,351,950	\$ 6,507,078	\$ 3,159,284	320,580,465

Notes to the Consolidated Financial Statements (continued)

The following table shows the total investments held by the component units as of June 30, 2018 and 2017:

	Fair Market Value	
	2018	2017
Investments held by component units:		
Stocks and bonds	\$ 89,666,864	\$ 80,890,282
Money market and certificates of deposit	5,175,045	3,597,649
Alternative investments	152,502,725	145,591,489
Real property	41,201,866	38,114,796
Other	2,100,794	2,004,778
	<u>\$ 290,647,294</u>	<u>\$ 270,198,994</u>

NOTE 24 – VOLUNTARY TERMINATION PLANS

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 – NATURAL CLASSIFICATION WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by natural and functional classifications for the year ended June 30, 2018, were as follows:

Functional Classification:	Natural Classification										Total
	Compensation & benefits	Pension expense	Other postemployment benefits	Supplies & other services	Utilities	Communication	Scholarships	Depreciation			
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
Public service	19,508,572	288,785	33,102	8,647,497	1,184	161,010	-	-			28,640,150
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
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's operating expenses by natural and functional classifications for the year ended June 30, 2017, were as follows:

Functional Classification:	Natural Classification										Total
	Compensation & benefits	Pension expense	Other postemployment benefits	Supplies & other services	Utilities	Communication	Scholarships	Depreciation			
Instruction	\$ 103,628,445	\$ 3,801,573	\$ 1,784,569	\$ 11,252,529	\$ 39,049	\$ 382,618	\$ -	\$ -			\$ 120,888,782
Research	43,240,606	444,078	263,339	18,210,502	70,468	190,794	-	-			62,419,787
Public service	19,718,974	179,833	106,108	8,088,659	-	140,844	-	-			28,234,419
Academic support	22,328,935	905,511	470,629	10,932,205	1,080	430,605	-	-			35,068,965
Student services	20,772,166	846,477	437,047	10,953,024	42,924	456,827	-	-			33,508,464
Institutional support	20,980,747	1,201,151	458,267	8,704,313	31,831	775,160	-	-			32,151,469
Operation and maintenance of plant	13,305,487	881,073	353,015	13,940,145	5,619,905	227,511	-	-			34,327,136
Scholarships and fellowships	-	-	-	-	-	-	21,682,552	-			21,682,552
Auxiliary enterprises	26,435,728	1,504,734	671,481	15,899,454	3,215,827	320,162	-	-			48,047,386
Depreciation	-	-	-	-	-	-	-	24,110,717			24,110,717
	\$ 270,411,088	\$ 9,764,430	\$ 4,544,455	\$ 97,980,830	\$ 9,021,084	\$ 2,924,521	\$ 21,682,552	\$ 24,110,717			\$ 440,439,677

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

	2017	2016*	2015*	2014*
Employer's proportion of the net pension liability	3.97%	4.17%	4.23%	4.28%
Employer's proportionate share of the net pension liability	\$ 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	-	-	-	-
Total	\$ 77,373,223	\$ 71,099,299	\$ 59,138,504	\$ 53,314,985
Employer's covered-employee payroll	\$ 48,695,988	\$ 49,401,010	\$ 48,779,362	\$ 47,843,696
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	158.89%	143.92%	121.24%	111.44%
Plan fiduciary net position as a percentage of the total pension liability	73.75%	74.71%	78.40%	79.87%

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

	2018	2017*	2016*	2015*
Contractually required contributions	\$ 4,065,337	\$ 4,124,934	\$ 4,413,046	\$ 4,521,932
Contributions in relation to the contractually required contributions	4,065,337	4,124,934	4,413,046	4,521,932
Contribution deficiency/(excess)	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$47,434,703	\$48,695,988	\$49,401,010	\$48,779,362
Contributions as a percentage of covered-employee payroll	8.57%	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 used to determine contractual contribution rates reported in that schedule:

General Wage Growth*	3.50%
Investment Rate of Return*	7.65%
*Includes inflation at	2.75%
Merit salary increases	0% to 4.80%
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)

Changes of Benefit Terms

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

2015 Legislative Changes:

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

Second Retirement Benefit – for PERS

- 1) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:
 - Refund of member's contributions from second employment plus regular interest (currently 0.25%);
 - No service credit for second employment;
 - Start same benefit amount the month following termination; and
 - GABA starts again the January immediately following second retirement.
- 2) For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:
 - Member receives a recalculated retirement benefit based on laws in effect at second retirement; and
 - GABA starts the January after receiving recalculated benefit for 12 months.
- 3) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:
 - Refund of member's contributions from second employment plus regular interest (currently 0.25%);
 - No service credit for second employment;
 - Start same benefit amount the month following termination; and
 - GABA starts again the January immediately following second retirement.
- 4) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:
 - Member receives the same retirement benefit as prior to return to service;
 - Member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
 - GABA starts on both benefits in January after member receives original and new benefit for 12 months.

Revise DC Funding Laws – House Bill 107, effective July 1, 2015

Employer Contributions and the Defined Contribution Plan – for PERS and MUS-RP

The PCR was paid off effective March 2016 and the contributions of 2.37%, .47% and the 1.00% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

2017 Legislative Changes:

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

Working Retiree Limitations – for PERS

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

Terminating Employers – Recovery of actuary costs – for PERS

Employers who terminate participation in PERS must pay the actuarial liability associated with that termination. Starting July 1, 2017, the terminating employer must also pay for the cost of the actuarial study used to determine that liability.

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.

Required Supplementary Information (continued)**Family Law Orders**

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

Disabled PERS Defined Contribution (DC) Members

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

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

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

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

▪ **Game Wardens' and Peace Officers' Retirement System**

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

	2017	2016*	2015*	2014*
Employer's proportion of the net pension liability	1.97%	2.15%	2.09%	2.05%
Employer's proportionate share of the net pension liability	\$ 735,826	\$ 705,352	\$ 438,071	\$ 309,719
State of Montana's proportionate share of the net pension liability associated with the employer	-	-	-	-
Total	\$ 735,826	\$ 705,352	\$ 438,071	\$ 309,719
Employer's covered-employee payroll	\$ 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	75.92%	69.73%	46.81%	36.32%
Plan fiduciary net position as a percentage of the total pension liability	82.48%	82.48%	87.60%	90.17%

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

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

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

*Some amounts/percentages restated to agree with actuarial valuation

Required Supplementary Information (continued)

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

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

General Wage Growth*	3.50%
Investment Rate of Return*	7.65%
*Includes inflation at	2.75%
Merit salary increases	0% to 4.80%
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	0.17%

Changes of Benefit Terms

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

2015 Legislative Changes:

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

- If a PERS member transfers employment to a GWPORS covered position and fails to elect GWPORS membership within 90 days, the default is PERS membership.

Factor Change

- If a GWPORS member dies in the line of duty before retirement with more than 25 years of service credit, the survivor benefit is 2.5% of the Highest Average Compensation (HAC), not 2%.

2017 Legislative Changes:

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

Working Retiree Limitations – for GWPORS

- 1) Applies to retirement system members who return on or after July 1, 2017 to covered employment in the system from which they retired.
- 2) Members who return for less than 480 hours in a calendar year:
 - a. May not become an active member in the system; and
 - b. Are subject to a \$1 reduction in their retirement benefit for each \$3 earned in excess of \$5,000 in the calendar year.
- 3) Members who return for 480 or more hours in a calendar year:
 - a. Must become an active member of the system;
 - b. Will stop receiving a retirement benefit from the system; and
 - c. Will be eligible for a second retirement benefit if they earn 5 or more years of service credit through their second employment.
- 4) Employee, employer and state contributions, if any, apply as follows:
 - a. Employer contributions and state contributions (if any) must be paid on all working retirees;
 - b. Employee contributions must be paid on working retirees who return to covered employment for 480 or more hours in a calendar year.

Second Retirement Benefit – for GWPORS

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

Required Supplementary Information (continued)

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

Refunds

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

Family Law Orders

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

Survivor Benefit – for GWPORS

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

▪ **Teachers' Retirement System**

Schedule of Proportionate Share of the Net Pension Liability¹
Measurement Date of June 30

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

Schedule of Employer Contributions¹
For the Fiscal Year Ended June 30

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

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

*Some amounts/percentages restated to agree with actuarial valuation

Required Supplementary Information (continued)

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
- (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%.

Required Supplementary Information (continued)

- The supplemental employer contribution will increase by 0.1% each fiscal year for fiscal year 2014 thru fiscal year 2024. Fiscal years beginning after June 30, 2024 the total supplemental employer contribution will be equal to 2%.
- Members hired prior to July 1, 2013 (Tier 1) under HB 377 are required to contribute a supplemental contribution equal to an additional 1% of the member's earned compensation.
- Each employer is required to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position to the System.

Changes in actuarial assumptions and other inputs:

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

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

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

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

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

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

Required Supplementary Information (continued)**Other Postemployment Benefits**▪ **Montana University System Group Insurance Plan****Schedule of Proportionate Share of the OPEB Liability ¹
Measurement Date of March 31,**

	2018
University's proportion of the OPEB liability	45.78%
University's share of the OPEB liability	16,905,803
University's covered employee payroll	183,321,884
University's share of the OPEB liability as a % of covered employee payroll	9.22%
Plan fiduciary net position as a % of total OPEB liability	0.00%

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

**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)

<u>DESCRIPTION</u>	<u>Fall 2017</u>	<u>Fall 2016</u>	<u>Fall 2015</u>	<u>Fall 2014</u>	<u>Fall 2013</u>	<u>Fall 2012</u>
Enrollment (Headcount) ¹	17,421	18,125	18,856	19,768	20,345	20,836
	<u>FY2018</u>	<u>FY2017</u>	<u>FY2016</u>	<u>FY2015</u>	<u>FY2014</u>	<u>FY2013</u>
Enrollment (FTE) ²						
Two-year Colleges	2,220	2,342	2,455	2,782	3,024	3,289
Undergraduate	10,132	10,878	11,523	12,031	12,235	12,680
Graduate	2,068	1,965	1,909	1,904	1,880	1,908
	14,420	15,185	15,887	16,717	17,139	17,877
Enrollment (FTE) ²						
In-State students	10,709	11,249	11,897	12,470	13,035	13,809
Out-of-State students	2,607	2,763	2,739	3,078	2,975	2,964
Western Undergraduate Exchange	1,104	1,172	1,251	1,169	1,129	1,104
	14,420	15,184	15,887	16,717	17,139	17,877
	<u>FY2018</u>	<u>FY2017</u>	<u>FY2016</u>	<u>FY2015</u>	<u>FY2014</u>	<u>FY2013</u>
Employees (FTE) - All Funds ²						
Contract Faculty	1,053	1,053	1,076	1,079	1,083	1,048
Contract Admin & Professional	731	756	697	629	595	603
Classified	1,146	1,173	1,151	1,238	1,216	1,246
GTA/GRA	256	245	306	310	312	199
Part Time and Other	581	615	548	583	559	682
	3,767	3,842	3,778	3,839	3,766	3,778
	<u>School Year Ended</u>					
	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>	<u>6/30/2013</u>
Degrees Granted ³						
Certificate	346	391	237	208	205	175
Associate	564	609	708	678	678	692
Undergraduate	2,565	2,556	2,532	2,628	2,569	2,481
Graduate	985	920	871	886	828	888
	4,460	4,476	4,348	4,400	4,280	4,236

¹ Source: MUS Data Warehouse

² Source: MUS Data Warehouse | CHE113 Report

³ Source: IPEDS Completions Reports

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, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated December 21, 2018. Our report includes a reference to other auditors who audited the financial statements of the University of Montana Foundation, the Montana Tech Foundation, the University of Montana Western Foundation, and the Montana Grizzly Scholarship Association, as described in our report on the university's financial statements. The financial statements of the University of Montana Foundation, the Montana Tech Foundation, the University of Montana Western Foundation, and the Montana Grizzly Scholarship Association were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a deficiency in internal control, described below, that we consider to be a significant deficiency.

- ◆ As summarized on p. 3, a monitoring control reviewing manual fee changes in student accounts receivable was not performed for the last half of fiscal year 2018.

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*.

University Response to Findings

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

Purpose of this Report

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

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 21, 2018

UNIVERSITY OF MONTANA

UNIVERSITY RESPONSE

February 19, 2019

Legislative Audit Division
Room 135 State Capitol
P. O. Box 201705
Helena, MT 59620-1705

RECEIVED
FEB 20, 2019
LEGISLATIVE

Dear Mr. Maciver:

On behalf of the University of Montana community, I want to extend our appreciation to you and the Legislative Audit staff for their work on the University of Montana's Financial Statement Audit for the fiscal year ending June 30, 2018. We find this process to be valuable and continue to work with the Legislative Audit staff to address any areas where the University can improve on the accountability and reporting of public funds.

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

Sincerely,



Seth Bodnar
President

c: C. Christian, Commissioner of Higher Education

SB/kw
Bodnarlet59

University of Montana

Response to Legislative Audit Division

Financial Audit

For the Fiscal Year Ended June 30, 2018

February 19, 2019

RECOMMENDATION #1

WE RECOMMEND THE UNIVERSITY OF MONTANA MISSOULA:

A. RESUME MONITORING OF MANUAL FEE ADJUSTMENTS TO BANNER.

B. EVALUATE CONTROL PROCEDURES AT THE UNIVERSITY AND

DETERMINE IF THERE OTHER DESIGNATED CONTROLS NOT ASSIGNED TO AN EMPLOYEE.

The University concurs with the recommendation. As noted in the report, in November 2018 Business Services personnel generated and reviewed reports for the time period the control had not been performed and found fee revenue had been properly recorded and no errors or irregularities occurred. A Business Services accountant has been assigned this control activity and monitors the manual fee adjustments on a regular basis.

Business Services personnel will review the defined key control documents by the end of March 2019 and gain assurance those controls have been operating as intended.