A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

Montana State University

For the Fiscal Year Ended June 30, 2021

MARCH 2022

LEGISLATIVE AUDIT
DIVISION

21-11A

Financial Audits

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

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

Audit Staff

Jeane Carstensen-Garrett
Miki Cestnik
Mary Currin
Jennifer Erdahl
Katie Majerus
Flora Waske

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LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

March 2022

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on the consolidated financial statements of the Montana State University for the fiscal year ended June 30, 2021. The financial statements include financial information from five related organizations, comprised of the foundations at MSU Bozeman, MSU Billings, and MSU Northern, the MSU Bobcat Club, and the Museum of the Rockies Incorporated. These entities are considered component units of the university. The organizations were audited by other audit organizations, and our opinion on the university's financial statements is based, in part, on the work of these other auditors.

Our audit efforts focused on the university's material financial activity and balances including: tuition and fees, federal grant and contract revenues, and Federal CARES Act revenues; state appropriation support; scholarships and fellowships, and operating expenses; and capital assets, and bonds payable. We also performed audit procedures over the presentation and disclosure of the financial statements and note disclosures and work necessary under the audit standards to rely on the audits completed by other organizations over the component units. We issued unmodified opinions on the financial statements, which means you can rely on the information presented. Our report contains one recommendation to the university related to internal controls their system used to manage capital assets.

We thank President Cruzado and her staff for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

Table of Contents

Elected, Appointed, and Administrative Officials

		Location	Term Expires
Board of Regents of Higher Education	Casey Lozar, Chair	Helena	February 1, 2025
	Loren Bough	Big Sky	January 31, 2027
	Todd Buchanan	Billings	January 31, 2028
	Joyce Dombrouski	Missoula	February 1, 2026
	Jeff Southworth	Lewistown	January 31, 2029
	Brianne Rogers	Bozeman	February 1, 2024
	Amy Sexton, Student Regent	Billings	June 30, 2022

Clayton Christian, Commissioner of Higher Education*

Greg Gianforte, Governor*

Elsie Arntzen, Superintendent of Public Instruction*

*Ex officio members

Office of the Commissioner of Higher Education	Clayton Christian	Commissioner of Higher Education
	Brock Tessman	Deputy Commissioner, Academic, Research & Student Affairs
	Tyler Trevor	Deputy Commissioner for Budget & Planning, Chief of Staff
	Ali Bovingdon	MUS Chief Legal Counsel
	Margaret Wallace	Director of Assurance and Enterprise Risk
Montana State University All Campuses	Waded Cruzado	President
	Kellie Peterson	Legal Counsel
	Daniel Adams	Director of Audit Services (through February 2022)
Montana State University Bozeman	Terry Leist	Vice President for Administration and Finance
	Robert Mokwa	Vice President for Academic Affairs and Provost

Montana State University Bozeman (con't)	Jason Carter	Vice President of Research, Economic Development, and Graduate Education
	Ryan Knutson	Vice President of Information Technology (as of July 2021)
	Chris Kearns	Vice President of Student Success
	Aaron Mitchell	Assistant Vice President for Financial Services
	Leslie Schmidt	Associate Vice President for Research
	James Broscheit	Director of Financial Aid
	Megan Lasso	Director of University Budget Office
Montana State University Billings	Stefani Hicswa	Chancellor (as of January 2021)
	Dan Edelman	Chancellor (through December 2020)
	Sep Eskandari	Provost and Vice Chancellor for Academic Affairs (as of July 2021)
	Melinda Arnold	Provost and Vice Chancellor for Academic Affairs (Through June 2021)
	Susan Simmers	Vice Chancellor for Administration and Finance
	Kimberly Hayworth	Vice Chancellor of Student Access and Success
	Heather Hanna	Director of Financial Services
	Barb Shafer	Director of Business Services
	Thomas Valles	Director of Financial Aid and Scholarships
Montana State University Northern	Greg Kegel	Chancellor
	Vacant	Vice Chancellor for Finance and Administration
	R. Neil Moisy	Vice Chancellor for Academic Affairs
	Maura Gatch	Vice Chancellor of Enrollment Management
	Chris Wendland	Controller (through October 2021)
	Alisha Schroeder	Registrar

Montana State University Northern (con't)	Steven Wise	Dean of Students
	Cindy Small	Director of Financial Aid
Great Falls College Montana State University	Stephanie Erdmann	CEO/Dean (as of July 1, 2021)
	Susan Wolff	CEO/Dean (through June 2021)
	Carmen Roberts	Director of Operations
	Mary Kay Bonilla	Chief Student Affairs and Human Resources Officer
	Oceane Weldele	Accounting Manager
Montana Agricultural Experiment Station	Sreekala Bajwa	Vice President for Agriculture
	Jody Barney	Budget and Fiscal Director
Montana State University Extension	Cody Stone	Director
	Sandra Rahn Gibson	Budget and Fiscal Director
Montana State University Fire Services Training School	John Culbertson	Director

For additional information concerning Montana State University, contact:

Ila Saunders, Interim Director of Audit Services
Culbertson Hall, Room 334
Bozeman, MT 59717
(406) 994-7969

e-mail: isaunder@montana.edu

Financial Audit 21-11A March 2022

Montana Legislative Audit Division

Montana State University

For the Fiscal Year Ended June 30, 2021

Background

Montana State University (MSU or University) includes four campuses located in Bozeman, Billings, Great Falls, and Havre. Additionally, MSU includes the Montana Agricultural Experiment Station, Montana Extension Services, and the Fire Services Training School. The MSU campuses and programs provide undergraduate and graduate academic degrees, as well as two-year vocational and technical programs, to state, national, and international students.

The university's financial statements also include financial activity for the foundations of the Bozeman, Billings, Great Falls, and Havre campuses, the Museum of the Rockies Incorporated, and the MSU Bobcat Club. These entities are component units for the university, and their financial activity comprises the University Component Unit financial statements. The component units are audited by other audit organizations, and our opinion over the component unit financial statements is based on the results of those other audits.

The university's net position increased by approximately \$57.6 million between fiscal years 2020 and 2021. This was due primarily to increased research activity, conservative spending during the pandemic, approximately \$47.9 million in Federal CARES Act funding, and minimal enrollment losses. This report contains one recommendation to the university related to internal controls over capital assets reported on the financial statements.

AUDITOR'S OPINION - Consolidated Montana State University Financial Statements (page A-1): UNMODIFIED
An unmodified opinion means the reader can rely on the information contained in the financial statements for decision making purposes.

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

RECOMMENDATIONS:
In this report, we issued the following recommendations:
To the university: 1
To the legislature: 0

Recommendation #1 (page 4):
Internal Controls
We recommend Montana State University establish and maintain adequate internal controls over capital asset activity to ensure complete and accurate financial reporting.

University response: Concur

SUMMARY OF AUDIT WORK:
Our audit efforts focused on the university's material revenues, expenses, assets, and liabilities, including: tuition and fees, federal grant and contract revenues, and Federal CARES Act revenues; state appropriation support; scholarships and fellowships, and operating expenses; and capital assets and bonds payable. We also performed audit procedures over the presentation and disclosure of the financial statements and note disclosures and work necessary under the audit standards to rely on the audits completed by other organizations over the component units.

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

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Room 160, State Capitol
PO Box 201705
Helena, MT 59620-1705
(406) 444-3122

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

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(704) 430-3930

REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):
In this report, we identified the following:
Material Weaknesses in Internal Control: 0
Significant Deficiencies in Internal Control: 1
Material Non-Compliance: 0
Other Matters: 0

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

Chapter I – Introduction and Background

Introduction

We performed a financial audit of Montana State University (MSU or university) for the fiscal year ended June 30, 2021. The objectives of our audit were to:

1. Determine whether the university's consolidated financial statements present fairly, in all material respects, the financial position and the results of operations and cash flows of the university.
2. Obtain an understanding of the university's internal control systems to the extent necessary to support our audit of the consolidated financial statements.
3. Determine compliance with state and federal laws and regulations determined to have a direct effect on the determination of material amounts on the financial statements.

Our audit efforts focused on the university's material revenues, expenses, assets, and liabilities, including: tuition and fees, federal grant and contract revenues, and Federal Coronavirus Aid, Relief and Economic Security (CARES) Act revenues; state appropriation support; scholarships and fellowships, and operating expenses; and capital assets and bonds payable. We also performed audit procedures over the presentation and disclosure of the financial statements and note disclosures and work necessary under the audit standards to rely on the audits completed by other organizations over the component units. We issued unmodified opinions on the financial statements, which means you can rely on the information they present. Our report contains one recommendation to the university related to internal controls over capital asset activity reported on the financial statements.

We also conduct a biennial compliance audit of the university to determine compliance with regulations related to contract and grant expenditures, other governmental financial assistance, and selected state laws, regulations, and rules. We anticipate the compliance audit (21-13) for the two fiscal years 2020 and 2021 will be issued by June 2022.

The University received CARES funding associated with the COVID-19 pandemic of approximately $7.9 million in fiscal year 2020 and $47.9 million in fiscal year 2021. CARES funding was used for COVID-19 mitigation and testing, replacing lost revenue due to the pandemic, and distributing grant aid for COVID-19 impacts to students. CARES revenues are expected to decrease significantly in 2022 as the grants are expected to be fully expended.

Background

Montana State University consists of four campuses:

- Montana State University Bozeman (MSU Bozeman)
- Montana State University Billings (MSU Billings)
- Montana State University Northern (MSU Northern)
- Great Falls College Montana State University (Great Falls College MSU)

All campuses are accredited by the Northwest Commission on Colleges and Universities. The four campuses of the university provide undergraduate, graduate, or two-year vocational-technical programs to students.

MSU Bozeman offers four-year undergraduate programs along with master's and doctoral graduate programs. It includes the colleges of Agriculture, Arts and Architecture, Business and Entrepreneurship, Education, Honors, Health and Human Development, Engineering, Letters and Science, Nursing, Graduate School, and Gallatin College. The Bozeman campus also includes the MSU Extension, the Montana Agricultural Experiment Station, and the Fire Services Training School, which provide outreach and continuing education to people in Montana communities.

MSU Billings consists of five colleges: The College of Liberal Arts & Social Sciences, the College of Business, the College of Education, the College of Health Professions & Science, and City College. MSU Billings offers one-year and two-year certificate programs, associate degrees, bachelor's degrees, and master's degrees, as well as pre-professional academic offerings in several fields.

MSU Northern is a regional, multipurpose educational center serving students who seek both a technical and liberal arts education. MSU Northern offers courses at two locations, including Havre and Great Falls. MSU Northern offers associate degrees, bachelor's degrees, and master's degrees. The master's degree program is in education, with options in counseling and learning development, and general science.

Great Falls College MSU serves as a comprehensive two-year college within the Montana University System. Great Falls College MSU offers Associate of Applied Science degrees and certificates preparing students for high-demand careers in health sciences, business, and technology. In addition, Great Falls College MSU offers an Associate of Arts degree and an Associate of Science degree for students interested in completing the first two years of a bachelor's degree in Great Falls.

Additional detailed information for each of the MSU campuses is included in the Unaudited Supplemental Information beginning on page A-70.

Chapter II – Finding and Recommendation

Capital Asset Controls

The university does not have controls in place to ensure capital assets reported on the financial statements are complete and accurate.

Montana State University has approximately $562 million in capital assets, net of depreciation, including buildings, infrastructure, and equipment. The university contracts with a software vendor for an asset management system. The university has contracted with the service organization since 2013. The asset management system is used to track the acquisition of capital assets, disposal of capital assets, and the related depreciation. The data tracked and calculated by the system is used as a basis to record accounting entries related to capital assets. The university does not ensure that the data processed by the asset management system is complete and accurate, increasing the risk that errors may not be identified or detected in a timely manner in the financial records.

State Accounting policy states that part of the university's responsibility in achieving its goals and objectives is establishing internal control policies and procedures. This includes internal controls over activity reported on their financial statements, including capital assets. While the university does not have controls in place to ensure capital assets reported on the financial statements are complete and accurate, we did not identify any errors in the amount reported.

The software vendor is considered a service organization as they are providing service to the university as a user entity. These services are relevant to the university's internal control for financial reporting. A common method to ensure a service organization is achieving its obligations is to obtain an examination of the controls and processes of the service organization. This generally occurs by contracting with a certified public accounting firm who conducts the examination and discusses the results, which are accumulated into a System and Organization Controls (SOC) report.

The university has consistently obtained a SOC report from the vender, however, it is a SOC 2 report, which does not provide any assurance over data processing and controls relevant to financial reporting. A SOC 2 report addresses risk associated with security, availability, processing integrity, and confidentiality. As such, the university does not have any assurance that the system is processing data completely and accurately. Staff indicated that while they requested a SOC report, they were not aware of the different kinds of reports and the one they received did not provide the type of assurance needed. Additionally, they have not received training about SOC reports.

If the university chooses to use a SOC report as assurance over service organization controls to address their control issue, they should obtain a SOC 1 report, which is used to evaluate internal controls over financial reporting. The focus of a SOC 1 report is on controls that are useful to user entities or their auditors. In addition to obtaining the SOC 1 report, the university needs to review the report's contents. Without proper review of the report, the university would not be aware of any deficiencies identified and additional user entity controls the university is responsible to implement. If the university does not choose a SOC report as assurance, they will need to implement compensating controls.

Recommendation #1

We recommend Montana State University establish and maintain adequate internal controls over capital asset activity to ensure complete and accurate financial reporting.

Independent Auditor’s Report and University Financial Statements

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Consolidated Statement of Net Position of Montana State University as of June 30, 2021, the related Consolidated Statement of Revenues, Expenses and Changes in Net Position, and Consolidated Statement of Cash Flows for the fiscal year then ended, and the University Component Units–Combined Statement of Net Position as of June 30, 2021, and the related University Component Units–Combined Statement of Activities for the fiscal year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to

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the university's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the university's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana State University as of June 30, 2021, and the changes in net position and cash flows for the fiscal year 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, Required Supplementary Information–Pensions beginning on page A-61, and Required Supplementary Information–Other Post-Employment Benefits beginning 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 Unaudited Supplemental Information beginning on page A-70 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 March 2, 2022, on our consideration of the Montana State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the university's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 2, 2022

Montana State University (the "University") is a land grant university serving state, national, and international constituents by providing academic instruction, conducting a high level of research activity, advancing fundamental knowledge, and by disseminating knowledge to the people of Montana and beyond through community engagement. The University encompasses four campuses located in Bozeman, Billings, Great Falls, and Havre, as well as the Montana Agricultural Experiment Station, Montana Extension Service, and the Fire Services Training School. The University operates throughout the State of Montana, which covers 147,000 square miles of vast landscapes and urban and rural communities containing over 1 million citizens.

The University is proud to deliver high-quality instruction and educational services to a diverse student population, which is made possible not only through its dedicated faculty and staff but also through students that recognize a great education at an exceptional value. The University continues to ensure diligent recruiting of in-state students, while managing its mix of in-state, out-of-state, and out-of-area students to ensure a diverse, growing student population.

OPERATIONS

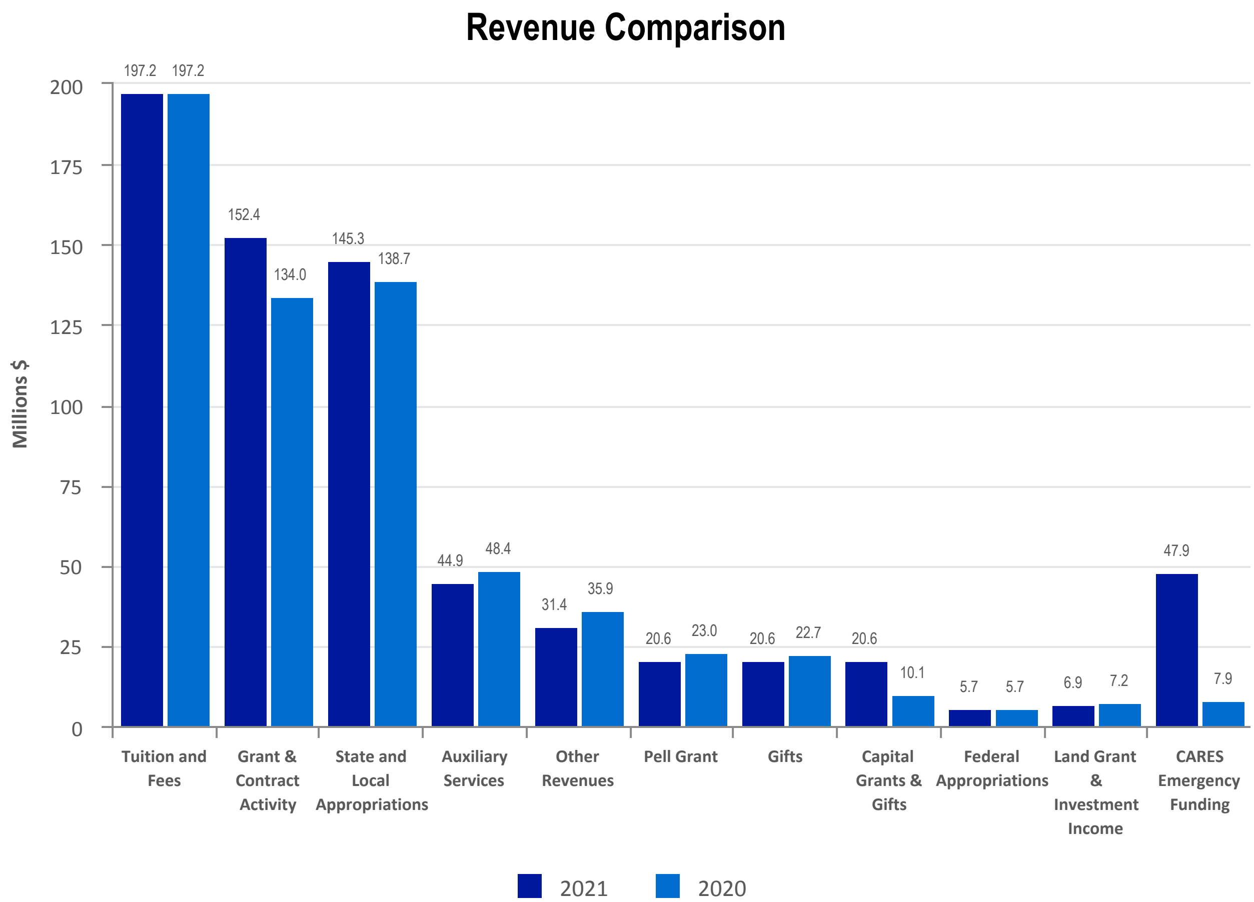
Condensed Statements of Revenues, Expenses, and Changes in Net Position
(in millions)

	2021	2020
Operating revenues	$ 431.7	$ 421.2
Operating expenses	628.7	609.3
Operating loss	(197.1)	(188.1)
Non-operating revenues and expenses (net)	234.2	191.9
Income before capital & other items	37.2	3.8
Capital & other items	20.4	9.0
Change in net position	57.6	12.8

The ***Statement of Revenues, Expenses and Changes in Net Position*** presents the revenues earned and expenses incurred during the year on a full accrual basis, and classifies activities as either "operating" or "non-operating." This distinction results in operating deficits for those institutions that depend on gifts and state aid, which are classified as non-operating revenue. The utilization of capital assets is reflected in the financial statements as depreciation, an operating expense, which allocates the cost of assets over their expected useful lives.

Comparison of 2021 and 2020 Results of Operations

The University's net financial position increased $57.6 million during 2021, resulting from strong revenues due to minimal enrollment losses and increased research activity, conservative spending practices due to the pandemic, and $47.9 million in Federal CARES emergency funding.



Operating revenues contain the majority of the University's income, and increased $10.5 million, or 2.5%, from 2020 to 2021.

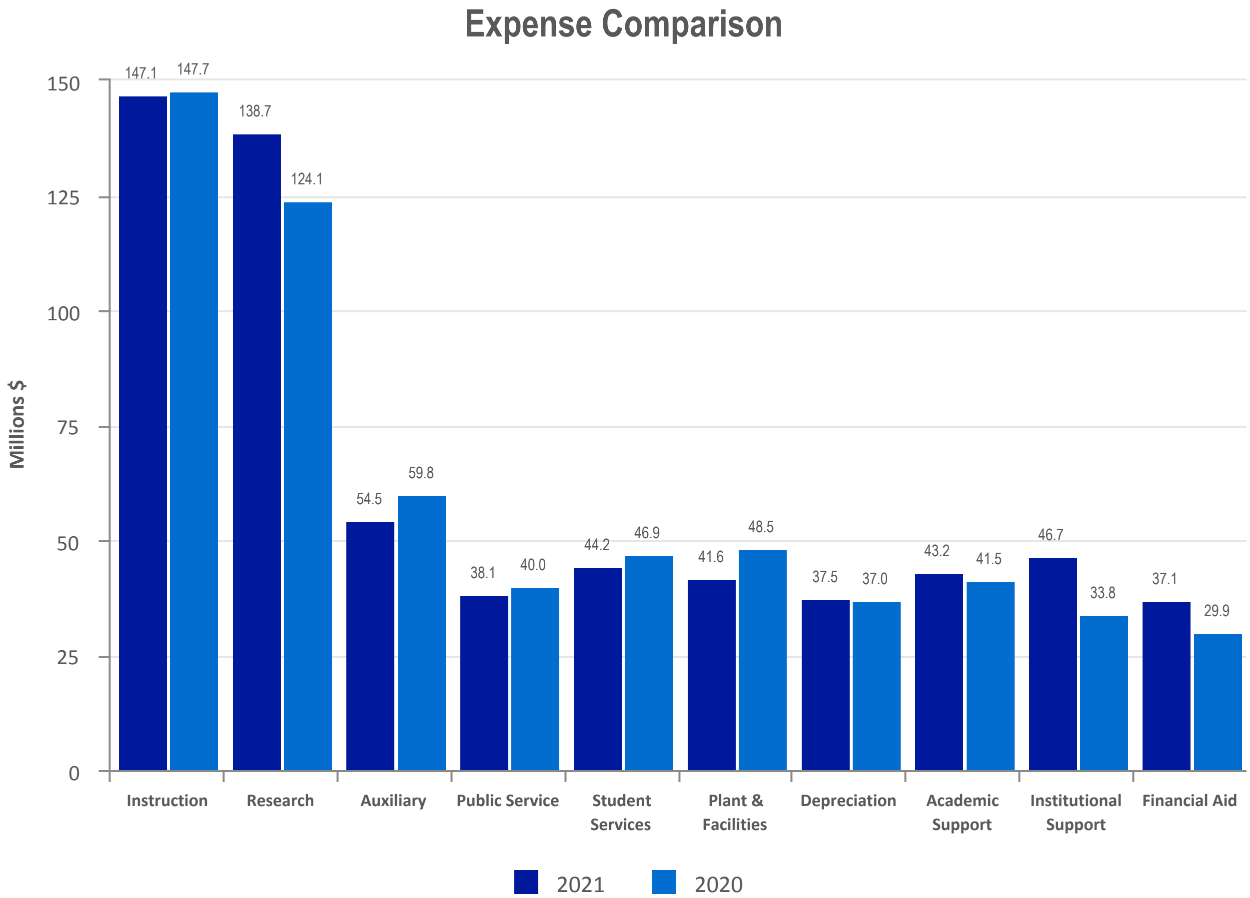
Tuition and fee revenues remained strong in 2021 at approximately $197.2 million. Tuition rates were increased by 5.0% for nonresident undergraduates and 4.8% for nonresident graduate students at the Bozeman campus; all other tuition rates remained the same across the MSU campuses.

The number of full-time-equivalent students enrolled decreased from 20,262 to 19,304. All four campuses had decreased enrollment, with the MSU Bozeman campus reporting 240 less full-time equivalents and the Billings campus reporting 465 less full-time equivalents.

Grant and contract operating revenues, including facility and administrative cost recoveries, increased 13.7%, to $152.4 million, compared with 2020 revenues of $134.0 million. The increase in grant revenues was primarily due to a proactive approach in seeking out grant opportunities and a high level of grant applications being awarded.

Net non-operating revenue increased $42.4 million from 2020 to 2021, primarily due to an increase in Federal CARES emergency grants to $47.9 million, as compared with $7.9 million in 2020. The Universities also received an increase in State and local appropriations of $6.6 million, or 4.7%, from 2020.

Capital and other items increased from $9.1 million in 2020 to $20.4 million in 2021, a change of $11.3 million, primarily due to capital contributions towards the construction of American Indian Hall on the Bozeman campus.



Operating expenses increased $19.4 million, or 3.2%, from 2020 to 2021. The most significant changes were to research-related expenses, increasing by $14.6 million, or 11.8%. Institutional support expenses increased by $12.8 million, or 38%, and scholarship and fellowship expenses increased by $7.2 million, or 23.9%. These increases were partially offset by a $5.3 million, or 8.9%, decrease to auxiliaries expenses and a $6.9 million, or 14.2%, decrease to plant related expenses.

Compensation and benefits expenses increased over nearly all areas primarily due to most employees in the Montana University System receiving a Board of Regents raise in FY21. All classified employees who were employed on or before 12/31 were given an increase of $.50 per hour or 2%, whichever was greater. Certain merit and tenure increases were also given throughout the year. Pension and OPEB expenses increased collectively across all areas of the institution.

The increase in research-related expenses was primarily due to increases in expenditures for compensation and benefits of $6.0 million and supplies and services of $7.9 million, offset by a decrease in travel of $2.1 million due to travel restrictions related to the pandemic. Increases and decreases in research funding also occur from time to time depending on grant funding and the mix of capital versus operating grants.

Auxiliary operating expenses decreased $5.4 million, or 7.3%, primarily due decreased utilities and supplies expenses related to the Covid-19 global pandemic and reduced operations due to social distancing and space constraints.

Instructional operating expenses decreased slightly in 2021 by $0.5 million. Increases to supplies of $0.9 million were offset by decreases to travel expenses, $0.9 million.

The increase in scholarship expense is due to Federal CARES emergency grants given to students.

Public service operating expenses decreased in 2021 by $1.8 million. This decrease was primarily due to decreases in travel expenses, $0.7 million, and service expenses of $1.6 million.

Plant-related operating expenses also realized decreases in 2021. In total, plant-related operating expenses decreased by $8.5 million primarily due to decreased supplies of $3.0 million and decreased maintenance expenses by $5.5 million due to campus disruptions related to the COVID-19 pandemic.

NET POSITION

Condensed Statements of Net Position
(in millions)

ASSETS		**2021**		**2020**
Current assets	$	307.7	$	281.7
Capital assets, net		562.1		545.4
Other noncurrent assets		42.6		44.6
Total assets		912.4		871.7
DEFERRED OUTFLOWS		75.0		43.6
TOTAL ASSETS AND DEFERRED OUTFLOWS	$	987.4	$	915.3
LIABILITIES				
Current liabilities	$	80.7	$	97.9
Noncurrent liabilities		362.3		333.2
Total liabilities		443.0		431.1
DEFERRED INFLOWS		25.1		22.5
NET POSITION				
Net investment in capital assets		382.3		352.6
Restricted, non-expendable		11.3		12.8
Restricted, expendable		18.0		19.5
Unrestricted		107.7		76.8
Total net position		519.3		461.7
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	$	987.4	$	915.3

The ***Statement of Net Position*** is presented in a classified format, which differentiates between current and non-current assets and liabilities, deferred outflows and deferred inflows, and also categorizes net position (formerly called "fund balance") into four categories. The University's overall financial position increased by $57.6 million from 2020 to 2021, as discussed below.

Comparison of 2021 and 2020 Net Position

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

The increase of $26.0 million in current assets resulted primarily from an increase of $31.7 million in cash and cash equivalents. The increase to cash and cash equivalents was offset by a decrease in net accounts receivable of $6.1 million. Accounts receivable result primarily from student account's balances related to tuition and fees.

Capital assets, net increased $16.7 million, resulting from asset additions of $54.5 million, offset by depreciation and amortization expense of $37.5 million, as shown in further detail in Note 7 to the financial statements.

Asset additions included $35.3 million in construction projects. The Bozeman campus continued construction of American Indian Hall, expending $8.6 million in 2021. In addition, the Bozeman campus continued the renovation of Romney Hall, expending $9.8 million in 2021. The Billings campus continued construction of the new Science and Allied Health building, spending $8.8 million in 2021. Additional, smaller projects making up the remaining increase include residence hall and classroom upgrades, office and lab renovations, energy efficiency enhancements and other building improvement projects at all of the University's campuses and agencies.

Equipment additions totaled $13.5 million during 2021. Research and instruction in the sciences require a substantial equipment investment, and many specialized pieces of equipment are grant funded. In 2021, equipment related to research accounted for $9.5 million of the additions. Approximately $0.5 million in library materials were acquired in 2021 as well.

Building and land additions totaled $51.8 million during 2021. These additions resulted primarily from the completion of Yellowstone Residence Hall . There were no land purchases in 2021.

Other noncurrent assets include endowment fund and other long term investments, student loans receivable, and donated funds restricted to use for facility construction. The balance of Other Noncurrent Assets remained steady at $1.0 million in 2021.

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

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

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

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

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

Current liabilities include payroll and related liabilities, amounts payable to suppliers for goods and services received, cash received for which the University has not yet earned the related revenue, securities lending liability, and debt principal payments due within one year. The balance decreased $17.3 million, or 17.6%, from 2020 to 2021, primarily as a result of a $15.9 million decrease in accounts payable and a $4.3 million decrease in the current portion of compensated absences.

Noncurrent liabilities include debt and advance liabilities, the amount of compensated absence liability estimated to be payable after a one-year period, and amounts which will be payable to the Federal government as the University collects repayments from loans outstanding under the Federal Perkins Loan or Nursing Loan programs. These balances increased $29.1 million, or 8.7%, resulting primarily from increases to OPEB liability of $17.2 million and pension liability of $25.3 million. These increases were offset by a decrease in debt, capital lease, and other obligations of $11.9 million (Note 10).

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

Net investment in capital assets consist of the historical acquisition value of capital assets, reduced by both accumulated depreciation expense charged against assets and debt balances related to capital assets. This balance increases as assets are acquired and debt is repaid, and decreases as assets are depreciated and debt is incurred. Balances increased $29.6 million due to asset additions and debt repayment.

Restricted, non-expendable balances must be held in perpetuity, and include endowment principal as well as certain balances in student loan funds. Balances decreased $1.5 million as compared with 2020 balances.

Restricted, expendable net assets represent balances that may be expended by the University in accordance with restrictions imposed by an external party, such as a donor, or through a legislative mandate. The University's most significant restricted, expendable balances relate to funds restricted to use for the construction, renewal or replacement of facilities, for the payment of debt, and for scholarships.

Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Unrestricted net assets are designated for specific purposes as described in the notes to the financial statements, and include funds accumulated for employee termination payouts, scholarships, facility renewal and replacement, and certain student projects. Balances increased $30.9 million in comparison with 2020. Revenues exceeded expenses, and contributed to additional balances as a result of steady enrollment on the Bozeman campus and conservative budgeting and spending across all campuses.

CASH FLOWS

Condensed Statements of Cash Flows
(in millions)

	2021	2020
Cash provided/(used) by:		
Operating activities, net	$ (153.4)	$ (152.4)
Noncapital financing activities, net	244.7	194.4
Capital and related financing activities, net	(62.2)	(70.5)
Investing activities, net	2.7	28.8
Net change in cash & equivalents	31.8	0.3
Cash & equivalents, beginning of year	236.8	236.8
Cash & equivalents, end of year	$ 268.6	$ 237.1

The ***Statement of Cash Flows*** presents information related to cash inflows and outflows, categorized by operating, noncapital financing, capital financing, and investing activities. The reconciliation of operating loss to cash used in operations explains the relationship between the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position, showing that increases and decreases in operating assets often require the use or receipt of cash, but do not result in recognition of a revenue or an expense.

Comparison of 2021 and 2020 Cash Flows

Operating activities in 2021 used $153.4 million in cash, resulting primarily from an operating loss of $197.1 million. The operating loss was offset by non-cash expenses of $38.4 million, primarily due to $37.5 million in depreciation and amortization. Other less significant increases and decreases also contributed to the change. In 2020, operating activities used $152.4 million in cash, with an operating loss of $188.1 million, offset by non-cash expenses of $38.2 million.

Noncapital financing activities provided $244.7 million in cash, resulting from $145.3 million in state and local appropriations, $20.6 million in federal Pell grant revenue, $20.5 million in expendable gifts, $47.9 million in federal CARES Act grant revenue, and $3.0 million of land grant income. In 2020, noncapital financing activities provided $194.4 million in cash, resulting from $138.7 million in state and local appropriations, $23.0 million in federal Pell grant revenue, $22.7 million in expendable gifts, $7.9 million in federal CARES Act revenue, and $2.4 million of land grant income.

Capital and related financing activities used $62.2 million in cash, resulting primarily from cash expended on capital assets of $41.8 million (see Note 7 to the financial statements), principal debt repayments of $19.2 million, and interest payments of $7.6 million. These uses were offset by restricted gifts received for capital purchases of $7.9 million. In 2020, these activities used $70.5 million in cash, resulting primarily from cash expended on capital assets of $59.5 million, principal debt repayments of $11.0 million, and interest payments of $8.3 million.

DEBT AND ADVANCES

As of June 30, 2021, the University had approximately $171.1 million in outstanding bond, note, and capital lease principal, compared with $183.1 million at June 30, 2020 (see Note 10 to the financial statements). The balance decreased due to scheduled repayments. The majority of bond debt bears interest at fixed rates, while $17.5 million in bonds are reset at a weekly municipal bond index rate. A fixed-payer swap and a constant maturity swap are associated with the Series 2018F variable rate debt, as described in Note 10 to the financial statements. Intercap debt is issued at a variable rate, reset each February, and as of June 30, 2021, was 1.65%. As of June 30, 2021, the University's bonds are rated Aa3 by Moody's Investor Services and A+ by Standard and Poor's.

ECONOMIC OUTLOOK

Montana State University's enrollment remains strong. The Bozeman campus experienced 11 continuous years of enrollment growth from 2007 to 2018, and after a 3% decline in 2020 -- likely due to uncertainties presented from the COVID-19 pandemic – the university reported 16,841 enrolled students for the fall semester 2021. The enrollment numbers represent the second largest in MSU history and a 4% increase over the previous fall. To put MSU's enrollment success into context, in August 2019 The Chronicle of Higher Education ranked MSU as the 24th fastest growing public, doctoral-granting university in the United States out of 211 universities. In addition, the College Gazette ranked Montana State University as one of the top 10 public universities on the rise across the nation.

Overall enrollment is expected to remain stable due to the careful attention devoted to maintaining an appropriate mix of in- and out-of-state students, as well as initiatives to increase retention, particularly from freshman to sophomore year, including structured tutoring and mentoring opportunities. For the fall semester 2021, the university reported 3,277 first-time, full-time undergraduate students—the largest incoming class in its history.

MSU's retention rate – the percentage of first-year students returning for their second year – after a record high in 2020 of 78.2%, dropped slightly below the 10-year average at 75.5%. First-to-second-year retention is a key indicator as it is highly predictive of how many students will continue to graduation.

Of equal importance, the university is graduating more students and doing so in a shorter period than at any time in modern history — meaning more students enter their post-graduation work lives and pursuits earlier. This summer, MSU recorded a well above institutional average four-year graduation rate. The four-year graduation rate was 34.1%, which matched the MSU modern-era record from the prior year. The six-year rate — which is commonly looked at in federal statistics — was slightly below the 5-year average at 54.0%.

The demand for Gallatin College MSU students in the Bozeman area is expected to remain extremely strong as the city and the county both experience unprecedented population and economic growth. The university currently leases space for the majority of programs offered at Gallatin College MSU and, due to its continued growth, the university has placed a new building for Gallatin College MSU among its top priorities for legislative funding requests.

A combination of modest tuition increases, as well as stable state appropriations and increased enrollment, have contributed to financial growth. The university has set aside modest reserves to ensure the availability of retirement payout funds and scholarship funding and to provide a means to absorb unexpected expenses or decreases in revenue, should they occur.

To assist in the allocation of its resources, university management evaluates programs regularly and maintains a transparent budgeting process, stressing accountability and stewardship of the university's assets, as well as excellence in the programs offered. Management will continue to balance spending and revenue to maintain quality programs without unduly limiting student access to the university through the cost of attendance.

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

ASSETS		2021
Current assets:		
Cash and cash equivalents (note 2)	$	268,603,669
Securities lending collateral		322,240
Accounts and grants receivable, net (note 3)		7,058,920
Amounts receivable from Federal government		20,216,997
Amounts receivable from primary government		635,410
Loans receivable, net (note 6)		2,714,642
Inventories (note 4)		2,775,955
Prepaid expenses and other current assets (note 5)		5,338,881
Total current assets		307,666,714
Noncurrent assets		
Restricted cash and cash equivalents		79,009
Restricted investments		8,540,713
Loans receivable, net (note 6)		12,782,916
Investments		20,165,563
Capital assets, net (note 7)		562,138,060
Other noncurrent assets (note 7)		1,005,722
Total noncurrent assets		604,711,983
Total assets		912,378,697
DEFERRED OUTFLOWS		
Derivative financial instrument (note 10)		1,919,387
Deferred loss on debt refunding (note 11)		1,289,360
Deferred pension and OPEB outflows (note 15)		71,773,070
Total deferred outflows		74,981,817
TOTAL ASSETS AND DEFERRED OUTFLOWS	$	987,360,514
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities (note 8)	$	33,213,544
Advances (current) and other amounts payable to primary government		1,953,079
Amounts payable to other State of Montana component units		289,484
Securities lending liability		322,240
Property held in trust for others		1,791,586
Unearned revenues (note 9)		18,241,487
Current portion compensated absences		13,911,334
Current portion debt and capital lease obligations (note 10)		10,957,190
Total current liabilities		80,679,944
Noncurrent liabilities:		
Advances from primary government		15,107,745
Debt, capital lease, and other obligations (note 10)		160,188,849
Compensated absences		25,619,547
OPEB implicit rate subsidy		32,324,640
Net pension liability		110,264,114
Due to Federal government (note 6)		16,838,214
Derivative instrument-- swap liability (note 10)		1,919,387
Total noncurrent liabilities		362,262,496
Total liabilities		442,942,440
DEFERRED INFLOWS – Pension and OPEB (note 15)		25,151,677
NET POSITION		
Net investment in capital assets		382,252,004
Restricted - nonexpendable		11,308,146
Restricted - expendable		18,042,179
Unrestricted (note 13)		107,664,068
Total net position		519,266,397
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$	987,360,514

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

Montana State University (a component unit of the State of Montana)
University Component Units
Combined Statement of Financial Position
As of June 30 or December 31

		2021
Assets:		
Cash and cash equivalents	$	8,892,663
Accrued dividends and interest		25,574
Investments		363,463,274
Amounts due from the institution or other MSU component units		1,032
Contributions receivable, net of allowance		11,885,494
Contracts, notes and other receivables		22,310,064
Non-depreciable capital assets		4,178,803
Depreciable capital assets, net		20,942,008
Other assets		2,239,772
Total assets	$	433,938,684
Liabilities and net assets:		
Liabilities		
Accounts payable	$	1,408,679
Accrued expenses and other liabilities		3,770,569
Compensated absences		208,036
Notes and bonds payable		4,730,419
Amounts due to the institution or other MSU component units		265,283
Liabilities to external beneficiaries		8,352,090
Custodial funds		14,245,270
Total liabilities		32,980,346
Net assets		
Without donor restrictions - undesignated		18,398,976
Without donor restrictions - designated		17,545,582
With restrictions		365,013,780
Total net assets		400,958,338
Total liabilities and net assets	$	433,938,684

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

Montana State University (a component unit of the State of Montana)
Consolidated Statement of Revenues, Expenses and Changes in Net Position
As of and for the Year Ended June 30

	2021
OPERATING REVENUES	
Tuition and fees (net of $46,878,893 scholarship discount)	$ 197,213,766
Federal appropriations	5,745,750
Federal grants and contracts	107,644,322
State grants and contracts	6,587,479
Non-governmental grants and contracts	12,985,207
Grant and contract facilities and administrative cost recoveries	25,137,090
Educational, public service and outreach revenues	27,998,389
Auxiliary revenues:	
Housing (net of $3,690,276 scholarship discount)	22,011,188
Food services (net of $3,830,414 scholarship discount)	16,474,093
Other auxiliary sales and services (net of $281,035 scholarship discount)	6,436,479
Interest earned on loans	68,257
Other operating revenues	3,373,027
Total operating revenues	431,675,047
OPERATING EXPENSES	
Compensation and benefits, including pensions (note 15)	384,644,564
OPEB amortization (note 15)	1,956,790
Operating expenses (note 14)	167,625,428
Scholarships and fellowships (net of $54,680,618 scholarship discount)	37,021,695
Depreciation and amortization	37,477,341
Total operating expenses	628,725,818
Operating loss	(197,050,771)
NONOPERATING REVENUES (EXPENSES)	
State and local appropriations	145,296,102
Federal Pell grant revenue	20,568,036
Federal CARES Act grant	47,931,912
Land grant income (pledged as security for repayment of bonds)	2,964,657
Gifts (expendable)	20,528,662
Investment income	3,914,332
Interest expense	(6,976,012)
Net non operating revenues (expenses)	234,227,689
Income before other revenues, expenses, gains and losses	37,176,918
Loss on disposals of capital assets	(275,242)
Additions to permanent endowment	30,263
Capital gifts, grants and contributions	20,642,976
Change in net position	57,574,915
Net position, beginning of year as previously stated	461,658,146
Restatement of beginning net position - OPEB	33,336
Net position, beginning of year as restated	461,691,482
Net position, end of year	$ 519,266,397

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

Montana State University (a component unit of the State of Montana)
University Component Units
Combined Statement of Activities
As of and for the Year Ended June 30, 2021 or December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
Contributions	$ 1,065,685	$ 25,540,340	$ 26,606,025
Investment, interest and dividend income	2,061,849	4,245,366	6,307,215
Net realized and unrealized gain (loss) on investments	7,467,643	56,042,514	63,510,157
Contract support and contributions from University	2,097,204	—	2,097,204
Special events	415,773	5,110	420,883
Other income	9,072,994	(4,574,447)	4,498,547
Net assets released from restrictions	30,202,957	(30,202,957)	—
Total revenues	52,384,105	51,055,926	103,440,031
Expenses:			
Program services			
University support	23,534,754	—	23,534,754
Academic and institutional	1,230,186	—	1,230,186
Scholarships and awards	8,247,570	—	8,247,570
Total program services expense	33,012,510	—	33,012,510
Operating expenses			
Fundraising efforts	3,384,168	—	3,384,168
General and administrative	4,494,166	—	4,494,166
Investment management and subsidiary operations	767,408	—	767,408
Other miscellaneous	1,077,605	—	1,077,605
Total operating expenses	9,723,347	—	9,723,347
Change in net assets before nonoperating items	9,648,248	51,055,926	60,704,174
Nonoperating expenses			
Payments to beneficiaries and change in liabilities to external beneficiaries	63,776	3,139,673	3,203,449
Change in net assets	9,712,024	54,195,599	63,907,623
Net assets, beginning of year, as previously stated	26,232,534	310,818,181	337,050,715
Reclassification Due to Adoption of Standard	—	—	—
Net assets, beginning of year, as reclassified	26,232,534	310,818,181	337,050,715
Net assets, end of year	$ 35,944,558	$ 365,013,780	$ 400,958,338

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

Montana State University (a component unit of the State of Montana)
Consolidated Statement of Cash Flows
As of and for the Year Ended June 30

	2021
Cash flows from operating activities:	
Tuition and fees	$ 202,464,895
Federal appropriations	6,063,480
Federal grants and contracts	104,697,182
State grants and contracts	6,228,100
Private grants and contracts	12,082,387
Grant and contract facilities and administrative cost recoveries	25,253,116
Educational, public service and outreach revenues	28,650,128
Sales and services of auxiliary enterprises	45,952,441
Interest on loans receivable	68,257
Other operating receipts	(6,176,644)
Compensation and benefits	(370,551,327)
Operating expenses	(174,363,351)
Scholarships and fellowships	(37,021,697)
Loans made to students and federal loan funds repaid	(270,498)
Loan payments received	3,509,064
Net cash used in operating activities	(153,414,467)
Cash flows from noncapital financing activities:	
Receipts (disbursements) of funds held in trust for others	7,456,352
Direct lending proceeds	79,336,847
Direct lending disbursements	(79,336,847)
State and local appropriations	145,296,102
Federal CARES Act Grant	47,931,912
Federal Pell grant funds received	20,568,036
Gifts and contributions	20,528,662
Land grant income (see note 2)	2,964,657
Repayment of long-term operating advance from primary government	(66,287)
Additions to permanent endowment	30,263
Net cash provided by noncapital financing activities	244,709,697
Cash flows from capital financing activities:	
Purchase of capital assets	(41,819,024)
Proceeds from sale of capital assets	40,917
Gifts restricted for capital purchase	7,948,013
Other capital financing activities	83,403
Proceeds from borrowings	—
Debt principal repayment	(19,170,262)
Advances from primary government	7,047
Repayment of advances from primary government	(1,773,954)
Interest paid	(7,556,652)
Net cash provided by (used in) capital financing activities	(62,240,512)
Cash flows from investing activities:	
Purchase of investments	(425,000)
Proceeds from sale of investments	2,763,364
Investment income	325,534
Net cash provided by (used in) investing activities	2,663,898
Net change in cash and cash equivalents	31,718,616
Cash and equivalents at beginning of year	236,964,063
Cash and equivalents at end of year	$ 268,682,679

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

Montana State University (a component unit of the State of Montana)
Consolidated Statement of Cash Flows (continued)
As of and for the Year Ended June 30

Reconciliation of Operating Loss to Net Cash Used in Operations

		2021
Operating loss	$	(197,050,771)
Noncash income and expense:		
Depreciation and amortization on capital assets		37,477,341
Provision for uncollectible accounts		954,066
Changes in operating assets and liabilities, deferred inflows and deferred outflows:		
Accounts and grants receivable		4,543,693
Loans receivable		3,329,423
Inventories		174,605
Prepaid expenses		(180,942)
Accounts payable and other accrued liabilities		(15,737,208)
Net pension obligation and related deferred inflows and outflows		9,956,570
Unearned revenue		3,548,550
Compensated absences		1,945,516
Amounts due to Federal government		(2,375,310)
Net cash used in operations	$	(153,414,467)

Schedule of noncash financing and investing activities

		2021
Capital assets contributed to the University	$	3,107,317
State of Montana direct contributions to pension plans		
Capital assets acquired through issuance of capital lease obligations	$	6,987
Capital assets acquired via trade-in	$	24,989.61
Bond issue costs, discounts, premiums and deferred loss on refunding amortized or written off to interest expense (net)	$	513,711.91
Net increase (decrease) in fair value of investments	$	1,773,954

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

		2021
Cash and cash equivalents classified as current assets	$	268,603,669
Cash and cash equivalents classified as noncurrent assets		79,009
Total cash and cash equivalents as reported on the Statements of Cash Flows	$	268,682,679

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

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

ORGANIZATION

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

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

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

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

BASIS OF PRESENTATION

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

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

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

Certain prior year amounts have been reclassified or restated.

SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

Other Post-Employment Benefits (OPEB) – During the year ended June 30, 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. The University allows retirees to participate in the Montana University System's self-funded health insurance plan by paying an amount considered by the University to cover their full costs (as calculated using the pooled risk of retirees and active employees). An actuarial study determined that this blended rate structure results in an implicit rate subsidy to retirees, who are considered to be a higher-cost pool of participants. The unfunded actuarial accrued liability is amortized over a 20-year period on an open basis beginning December 31, 2017. The state has not mandated funding of the liability. See note 15 for further details.

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

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

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

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

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

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

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

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

Accounting standards recently adopted – In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). This accounting standard was issued to create a single framework for recognizing revenue from contracts with customers that fall within its scope. Effective January 1, 2019, Montana State University's component units have implemented ASU 2014-09 and have adjusted the presentation in the consolidated statements accordingly. The ASU has been applied retrospectively to all periods presented.

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

In January 2020, the GASB issued Statement No. 92, Omnibus 2020, which provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. The university has determined that Statement No. 92 will have not have a material financial impact on the financial statements, but will rather change the term derivative and derivatives to derivative instrument and derivative instruments. Refer to Note 10.

In May 2020, the GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The objective of this Statement is to provide temporary relief in the form of delayed effective reporting periods for the upcoming GASB pronouncements known to effect University's financial statements. Guidance addressed in this Statements will help to safeguard the reliability of financial statements, which in turn will benefit the users of the financial statements.

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

NOTE 2 –CASH DEPOSITS, CASH EQUIVALENTS AND INVESTMENTS

Cash deposits – The University must comply with State statutes, which generally require that cash and investments remain on deposit with the State treasury, and as such are subject to the State's investment policies. Certain exceptions exist, which allow funds to be placed on deposit with trustees to satisfy bond covenants or to maximize investment earnings through placing certain funds with recognized University foundations. Deposits with the State treasury and other financial institutions totaled $108,681,739 at June 30, 2021.

Cash equivalents – These amounts consist of cash held by trustees as well as $154,181,078 of the amount invested in the Short Term Investment Pool (STIP) with the BOI at June 30, 2021.

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

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

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

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

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

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

Security Type		Fair Value	Moody's Credit Quality Rating at June 30, 2021	Effective Duration (years) or Weighted Average Maturity (days) at June 30, 2021	Basis of Valuation or Fair Value Level	Liquidity of NAV Assets
State of Montana Short Term Investment Pool	$	154,181,078	NR***	Weighted average maturity for the pool 115	Net Asset Value	Daily
U. S. Bank Money Market Funds collateralized by U.S. Bank pool, not in the University's name)	$	4,533,569	P-1	N/A	Cash equivalents, carried at amortized cost	
State of Montana Trust Fund Investment Pool*	$	17,842,296	NR***	5.95	Net Asset Value	Monthly
Foundation Pooled Cash Equivalents and Investments**	$	10,856,742	NR***	N/A**	Net Asset Value	No formal liquidity agreement
Non-hedging derivative investment value	$	1,211	A1	14.38	Level 2	

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

Investments Recorded at Net Asset Value

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

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

Endowment spending policy – The State of Montana has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). A majority of the University's endowment funds are managed by the MSU Bozeman Alumni Foundation, in accord with their spending policy, which conforms to UPMIFA. The Foundation's spending policy is based on a 12-quarter weighted average of the endowment's market value multiplied by the Foundation's spending rate of 4%. Certain limits are applied: 1) the expendable amount cannot exceed 5% of the endowment's market value, and 2) assuming there is not a prohibition in the donor agreement against the use of the original gift, spending is curtailed when the value of the endowment drops to the 80% of the original contribution amount. Appreciation on permanent endowments owned by the University is not available for spending; only realized earnings may be expended, and are reflected as restricted, expendable net position in the accompanying statements.

Securities lending transactions – The BOI is authorized by law to lend its securities, and has contracted with its custodial bank, to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank is required to maintain collateral equal to 102% of the fair value of domestic securities and 105% of the fair value of international securities while the securities are on loan. On any day, including June 30th, markets may move in a positive or negative direction resulting in under or over collateralization. The custodial bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. The BOI and the bank split the earnings 80% and 20% respectively on security lending activities. The BOI retains all rights and risks of ownership during the loan period. The custodial bank indemnifies the BOI's credit risk exposure to the borrowers. The University's allocated portion of security lending cash collateral was $322,240 at June 30, 2021.

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

The BOI did not impose any restrictions during fiscal year 2021 on the amount of securities available to lend the loans the custodial bank made on its behalf. However, STIP assets are currently not available for securities lending. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of default of the borrower. Moreover, there were no losses during fiscal year 2021 resulting from a borrower default of the borrowers or the custodial bank. As of June 30, no securities were recalled and not yet returned.

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

The BOI and the borrowers maintain the right to terminate all securities lending transactions on notice. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. The average duration was 24 days and the average weighted final maturity was 93 days within the Navigator portfolio in 2021.

Investment risks – The University's investments are concentrated primarily with the State of Montana. A discussion of the risks of the applicable State investment products is relevant to the University's investments and is summarized below. Detailed asset maturity and other information demonstrating risk associated with the BOI Unified Investment Program is contained in the BOI financial statements, and may be accessed by contacting the BOI at P.O. Box 200126, Helena, MT 59620-0126. Investment risks are described in the following paragraphs. Risks specific to derivative financial instruments are discussed in Note 10.

Credit Risk – Credit risk is 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 BOI STIP and TFIP fixed income instruments have credit risk as measured by a nationally recognized statistical rating organization (NRSRO). All STIP money market investments are in U.S. government money markets. Cash held by trustees are invested in money market funds that have received AAA credit quality ratings from three NRSRO's: Moody's; Standard and Poor's; and Fitch.

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

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The University holds funds at the BOI, in addition to, its foundations and trustee. Per BOI policy, the BOI's custodial bank must be rated at a minimum at the 6th highest investment grade rating by at least two Nationally Recognized Statistical Rating Organizations (NRSROs) on an annual basis.

As of June 30th, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for the BOI and held in the possession of the BOI'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 BOI's name. Commingled fund investments are also registered in the name of the BOI. Therefore, the BOI is not subject to custodial credit risk.

For funds held by the University's foundations or its trustee for cases where bond proceeds are held in accordance with restrictions set forth in the University's bond indenture, a specific custodial credit risk policy has not been adopted. Information with respect to pooled investments held at the MSU Foundation is included in Note 20 of the financial statements.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributable to the magnitude of any single investment per issuer name. Investments explicitly guaranteed by the U.S. Government are excluded from the concentration of credit risk requirement. The University invests funds at the BOI, specifically with TFIP and STIP, where concentration of credit risk is addressed with all investment policy statements as set by the BOI. The University also invests certain funds with its Foundations and trustees, where a concentration of credit risk policy has not been adopted by the University. Information regarding Foundation investments is available as described in Note 20 to the financial statements.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University invests funds with the BOI, which addresses interest rate risk in the investment policy statements as set by the BOI. Although the STIP investments held by the BOI have been rated by investment security type, STIP, as an external investment pool, has not been rated. STIP interest rate risk is determined using the WAM method. The WAM measure expresses investment time horizons – the time when investments are due or reset and payable in days, months or years – weighted to reflect the dollar size of the individual investments within an investment type. Inclusive of cash and cash equivalents, the WAM averages 115 days for the portfolio.

The BOI has selected the effective duration method as a measure of interest rate risk for all fixed income portfolios. The TFIP investment policy requires average duration of the non-core income asset class will be maintained in a range within 25% of the index duration. The TFIP investment policy requires the average duration of any internally managed portfolio will be maintained in a range within 20% of the Benchmark duration.

For funds held by the University's foundations or its trustee for cases where bond proceeds are held in accordance with restrictions set forth in the University's bond indenture, a specific interest rate risk policy has not been adopted by the University.

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

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

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

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

NOTE 3 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts receivable consisted of the following as of June 30:

		2021
Accounts receivable	$	7,927,123
Other receivables, including private grants and contracts		5,134,703
Gross accounts and grants receivable		13,061,826
Less allowance for uncollectible accounts		(6,002,906)
Net accounts and grants receivable	$	7,058,920

NOTE 4 – INVENTORIES

Inventories consisted of the following as of June 30:

		2021
Bookstore	$	537,616
Food services		258,096
Facilities services		774,743
Livestock		814,276
Other		391,224
Total inventories	$	2,775,955

NOTE 5 – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses consisted of the following as of June 30:

		2021
Library subscriptions	$	2,025,264
Other (including summer session payments)		3,313,617
Total prepaid expenses	$	5,338,881

NOTE 6 – LOANS RECEIVABLE

Student loans made under the Federal Perkins Loan Program constitute the majority of the University's loan balances. Included in non-current liabilities as of June 30, 2021 related to the program is $16,838,214 that will be repayable to the Federal government as loans are repaid to the University by students. Students whose loans were approved and for whom the first installment disbursed prior to September 30, 2017, continued to receive loans throughout the 2017-2018 academic year. Hereafter, no new loans will be disbursed due to the elimination of the program by the Federal government.

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

NOTE 7 – CAPITAL AND OTHER NON-CURRENT ASSETS

Following are the changes in capital assets during the year ended June 30, 2021:

	Balance July 1, 2020	Additions	Retirements	Transfers	Balance June 30, 2021
Capital assets not being depreciated:					
Land	$ 8,202,536	$ —	$ —	$ —	$ 8,202,536
Museum and fine art	6,099,767	—	—	—	6,099,767
Library special collections	3,810,093	20,976	—	—	3,831,069
Livestock for educational purposes	4,197,814	51,224	—	—	4,249,038
Construction work-in-progress	72,292,203	35,262,777	(19,310)	(54,584,214)	52,951,456
Total capital assets not being depreciated	**94,602,413**	**35,334,977**	**(19,310)**	**(54,584,214)**	**75,333,866**
Other capital assets:					
Equipment	167,970,384	13,486,756	(4,305,822)	1,002,142	178,153,460
Library materials	67,680,393	512,739	(780,656)	—	67,412,476
Buildings	458,914,504	1,866,563	(40,000)	49,891,823	510,632,890
Building improvements	290,781,933	180,471	(304,037)	3,283,455	293,941,822
Land improvements	31,699,880	3,002,606	—	406,794	35,109,280
Infrastructure	44,993,403	128,231	—	—	45,121,634
Leasehold Improvements	8,784,141	—	(116,155)	—	8,667,986
Total other capital assets	1,070,824,638	19,177,366	(5,546,670)	54,584,214	1,139,039,548
Accumulated depreciation	(621,188,142)	(36,886,688)	5,225,157	—	(652,849,673)
Other capital assets, net	**449,636,496**	**(17,709,322)**	**(321,513)**	**54,584,214**	**486,189,875**
Intangible assets, net	**1,205,298**	**—**	**(590,979)**	**—**	**614,319**
Capital Assets, net	**$ 545,444,207**	**$ 17,625,655**	**$ (931,802)**	**$ —**	**$ 562,138,060**

Historical records are not available for certain of the University's assets. As such, some values have been estimated based on insurance values, industry-accepted valuation techniques, or estimates made by University personnel knowledgeable as to the assets' values. Livestock held for educational purposes consist primarily of cattle herds. Breeding cattle are routinely replaced in the herds by their offspring; additions and deductions from the asset cost are not reported for reproducing cattle replaced in this manner.

Other non-current assets – Amounts as of June 30, 2021 include a receivable from the MSU Alumni Foundation related to a key employee deferred compensation plan, as described in Note 15.

NOTE 8 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	2021
Compensation, benefits and related liabilities	$ 14,254,063
Accrued interest expense	820,197
Accounts payable and other accrued liabilities	18,139,284
Total	$ 33,213,544

NOTE 9 – UNEARNED REVENUES

Unearned revenues consisted of the following as of June 30:

	2021
Grant and contract funds received in advance	$ 9,506,602
Summer session payments received in advance	6,427,624
Other unearned revenues	2,307,260
Total	$ 18,241,486

NOTE 10 – NON-CURRENT LIABILITIES AND DERIVATIVE INSTRUMENTS

Following are the changes in non-current liabilities for the year ended June 30, 2021:

	June 30, 2020	Additions	Reductions	June 30, 2021	Amounts due within one year
Bonds, notes payable, and capital lease obligations					
Bonds payable, net of discount	$ 166,050,770	$ —	$ (10,843,025)	$ 155,207,745	$ 10,360,000
Bonds payable, direct placement	15,649,441	—	(420,636)	15,228,805	433,008
Notes and other long-term liabilities	1,304,670	98,117	(774,596)	628,191	118,022
Capital lease obligations	135,721	6,896	(61,319)	81,298	46,159
Total bonds, notes and capital lease obligations	$ 183,140,602	$ 105,013	$ (12,099,576)	$ 171,146,039	$ 10,957,189
Compensated absence liability	$ 37,615,175	14,798,768	(12,883,060)	$ 39,530,883	$ 13,911,334
Advances from primary government – Intercap	$ 11,374,166	7,047	(1,481,785)	$ 9,899,428	$ 1,384,015
Advances from primary government - MSTA	$ 4,553,256	—	(66,287)	$ 4,486,969	$ 67,942
Advances from primary government - DEQ	$ 3,037,042	—	(423,693)	$ 2,613,349	$ 440,042
Amounts due to Federal government	$ 19,213,525	43,872	(2,419,183)	$ 16,838,214	$ —
OPEB liability— implicit rate subsidy for retiree health insurance (beginning balance as restated)	$ 15,052,050	26,620,431	(9,347,841)	$ 32,324,640	$ —
Net pension liability	$ 84,906,888	49,690,710	(24,333,484)	$ 110,264,114	$ —
Derivative instrument liability	$ 5,499,340	—	(3,579,952)	$ 1,919,388	$ —

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

Derivative financial instruments

Description – The University has two interest rate swaps as of June 30, 2021. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraphs 27 (a) and (b) of Governmental Accounting Standards Board Statement Number 53, or as investment derivative instruments if they do not.

The following table summarizes the interest rate swaps outstanding as of June 30, 2021:

Derivative Description	Trade Date	Effective Date	Termination Date	Terms	Counterparty
$25.75 million fixed payer swap	3/10/2005	7/21/2005	11/15/2035	Pay 3.953%, Receive SIFMA	Deutsche Bank AG
$25.25 million basis swap	12/19/2006	11/15/2007	11/15/2035	Pay SIFMA, Receive 86.8% of 10-year SIFMA	Morgan Stanley Capital Services Inc.

As of June 30, 2021, the fixed payer swap is classified as a hedging derivative instrument under Statement No. 53, whereas the basis swap is an investment derivative instrument because there is no identified financial risk being hedged by the basis swap that can be expressed in terms of exposure to adverse changes in cash flows or fair values. Statement No. 53 includes four methods for evaluating hedge effectiveness; a governmental entity may use any of the evaluation methods outlined in the Statement and is not limited to using the same method from period to period. The four methods described in Statement No. 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. In addition, Statement No. 53 permits a governmental entity to use other quantitative methods that are based on "established principles of financial economic theory." The fixed payer swap passes the established criteria using the regression analysis methodology.

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

The counterparty to the fixed payer swap had the right to terminate the swap at $0 on December 14, 2016 (a European option) but did not exercise the option. As of the trade date, the option's value included intrinsic value and time value. The intrinsic value (calculated as the difference between the at-market rate of 4.11% and the off-market rate of 3.953%) is accounted for as a loan receivable and is repaid by the off-market portion of each swap payment. On September 10, 2010, the Series J bonds were converted to index bonds. On September 4, 2018, the original Series J bonds were refunded in full with proceeds from the Series F 2018 bonds which were issued in a "SIFMA Index Rate" mode. While in the SIFMA Index Rate, and through the Index Interest Rate Period which spans from September 4, 2018 through and including September 1, 2023, the interest rate is reset weekly at a rate of the Securities Industry and Financial Markets Association ("SIFMA") rate plus a fixed spread. The spread is based on the long-term, unenhanced rating assigned to the University with the current spread as of June 30 of 0.45% which remains constant through the Index Interest Rate Period. The dependent variable in the regression is the interest rates of the hedged cash flows; the independent variable is the floating rates due under the hedging derivative.

The table below summarizes the reported balances as of and the derivative instrument activity during the year ended June 30, 2021.

The fair value of the fixed payer swap liability as of June 30, 2021, is at fair value level 2, and was based on forward SIFMA rates using the three month Libor Zero Curve, and the BMA Swaption Volatility on the AA Rated Muni Revenue Curve. The fair value of the nonhedging derivative instrument investment is also at level 2 (see also note 2), and was based on forward SIFMA rates using the 10-year forward BMA constant maturity swap using the three month Libor Zero Curve, and the BMA Swaption Volatility on the counterparty's credit default swap.

		Activity During 2021		**Fair Value as of June 30, 2021**	
Type of derivative instrument	Notional	Classification	Amount	Classification	Amount
Cash flow hedge -					
Pay fixed interest rate swap	$ 17,450,000	Interest expense	$ 19,265	Loan receivable	$ 174,679
		Investment income	$ —		
		Deferred outflow increase/ (decrease)	$ (1,124,536)		
				Derivative liability	$ 1,919,387
Investment derivative -				Derivative borrowing	$ 2,196,374
Basis swap	$ 17,450,000	Investment revenue	$ 18,911	Investment	$ 1,211

The objective and terms of the University's hedging derivative instrument outstanding as of June 30, 2021 is as follows:

Type	Objective	Notional amount	Effective Date	Termination Date	Cash (Paid)/ Received	Terms
Pay fixed, cancelable interest rate swap	Hedge interest rate risk on Series F 2018 Bonds	$17,450,000	7/21/2005	11/15/2035	—	Pay 3.953% Receive SIFMA

Credit Risk – As of June 30, 2021, counterparty ratings were A2 by Moody's and BBB+ by Standard and Poor's. The University manages credit risk by requiring its counterparties to post collateral in certain events. The University is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than $5MM and the counterparty is rated A+ or A, by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, the University is entitled to collateral up to 100% of the swap's fair value. The University is not required to post collateral. The University will continue to monitor counterparty credit risk.

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

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

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

Termination Risk – The University or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, the University's fixed payer swap counterparty has the right to terminate the derivative instrument if the credit rating of the University's unenhanced long-term revenue bond rating is withdrawn, suspended or reduced below BBB-, in the case of S&P, or below Baa3 in the case of Moody's. If such an event occurs, the University could be forced to terminate the fixed payer swap in a liability position. As of June 30, 2021, the University's unenhanced long-term revenue bond rating was Aa3 by Moody's and A+ by Standard and Poor's.

Foreign Currency Risk – All hedging derivative instruments are denominated in US Dollars and therefore the University is not exposed to foreign currency risk.

Market Access Risk – Market access risk is the risk that the University will not be able to enter credit markets or that credit will become more costly. For example, to complete a derivative instrument's objective, an issuance of refunding bonds may be planned in the future. If at that time the University is unable to enter credit market, expected cost savings may not be realized.

NOTE 11 – BONDS, NOTES, ADVANCES PAYABLE AND DEFERRED LOSS ON DEBT REFUNDING

Revenue bond principal outstanding was as follows as of June 30:

	Coupon rate		2021
Series 2011 M	3.00%		190,000
Series 2012 N	2.74%-4.00%		15,675,000
Series 2012 O	2.49%-2.69%		7,640,000
Series 2013 A	4.00% – 5.00%		49,995,000
Series 2016 C	2.92%		15,228,804
Series 2017 D	2.00% – 5.00%		14,800,000
Series 2018 E	3.00%-5.00%		43,075,000
Series 2018 F*	.58%		17,450,000
Total principal outstanding		$	164,053,804

* The interest rate on Series 2018 F is variable and adjusted weekly.

Revenue bonds are payable as follows:

	Bonds Payable		Direct Placement Bonds		Net Hedging Derivative	
During the year ending June 30,	Principal	Interest	Principal	Interest	Interest	Total
2022	$ 10,360,000	$ 6,239,993	$ 433,008	$ 441,543	$ 668,173	$ 18,142,717
2023	6,275,000	5,936,047	445,744	428,807	634,301	13,719,899
2024	6,580,000	5,686,536	458,855	415,696	598,977	13,740,064
2025	6,770,000	5,419,301	472,351	402,200	562,160	13,626,012
2026	7,155,000	6,775,349	486,245	388,306	523,890	15,328,790
2027 - 2031	29,465,000	20,324,496	2,654,354	1,718,401	1,976,550	56,138,801
2032 - 2036	30,970,000	14,429,752	3,068,368	1,304,388	721,697	50,494,205
2037 - 2041	23,325,000	9,433,832	3,546,958	825,797		37,131,587
2042 - 2046	22,225,000	3,315,249	3,662,921	272,560		29,475,730
2047 - 2051	5,700,000	194,063	—	0		5,894,063
Total cash requirements	148,825,000	$ 77,754,618	15,228,804	$ 6,197,698	$ 5,685,748	$ 253,691,868
Unamortized premium (discount) net	6,406,707		—			
Bond payable, net	$ 155,231,707		$ 15,228,804			

Description of bonded indebtedness

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

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

Series D 2017, July 25, 2017 – The University issued its Series D refunding debt in the principal amount of $21.0 million. The proceeds were used for a current refunding of the Series K 2006 Facilities Refunding Revenue Bonds and an advance refunding of the Series M 2011 Facilities Improvement Revenue Bonds with stated maturities in

2022 and thereafter. The refunding resulted in an economic gain to the University of $1.3 million. The proceeds of the Series D 2017 bonds were used to acquire direct general obligations, the maturing principal and interest on which are calculated to be sufficient to pay, when due, at maturity or upon redemption, the principal of and interest on all $8.3 million of the Series K 2006 and $12.7 million of the Series M 2011 bonds with maturities in the year 2022 and thereafter. The refunded Series K 2006 bonds are no longer considered to be outstanding under the Indenture. The portion of the Series M bonds that were not refunded totals $0.9 million. The portion that was advance refunded but remained in escrow and is not reflected in the University's balances is $12.88 million , which has stated maturities as follows, and is callable on November 15, 2021.

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

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

Series F 2018, September 4, 2018 – The University issued its Series 2018 F refunding debt in the principal amount of $19.8 million. The proceeds were used for a refunding of the Series 2005 J Facilities Improvement Revenue Bonds, with stated maturities in November of the year 2018 and thereafter. The refunding was on a par-to-par basis at a rate of 0.45% above SIFMA. The proceeds of the Series F 2018 bonds were used to acquire direct general obligations, the maturing principal and interest on which are calculated to be sufficient to pay, when due, at maturity or redemption, the principal of and interest on all $19.8 million Series 2005J bonds with maturities in November 2018 and thereafter. The refunded Series 2005J bonds are no longer considered to be outstanding under the Indenture.

Series M 2011, October 26, 2011 – In October 2011, the University issued $14.1 million in Series M 2011 Facilities Improvement Revenue Bonds to fund the construction of a new suite-style residence hall on the Bozeman campus, as well as renovate public spaces in two existing residence halls and perform energy efficiency improvements including window and lighting fixture replacement. Payments are scheduled each May and November through November, 2027. The bonds are secured by a first lien on and pledge of the net pledged revenues, as described in Note 17. In July 2017, a significant portion of the Series M bonds were refunded.

Series N 2012, October 17, 2012 – In October 2012, the University issued its Series N refunding debt in the principal amount of $20.5 million. The proceeds were used to refund the Series H 2004 Facilities Improvement Revenue Bonds with stated maturities in the year 2015 and thereafter. The refunding resulted in an economic gain to the University of $2.2 million. The proceeds of the Series N 2012 bonds were used to acquire direct general obligations, the maturing principal and interest on which are calculated to be sufficient to pay, when due, at maturity or upon redemption, the principal of and interest on the $19.6 million Series H 2004 bonds with maturities in the year 2015 and thereafter. The refunded Series H 2004 bonds are no longer considered to be outstanding under the Indenture. The portion of the Series H bonds that were not refunded totals $1.2 million. This portion matured in the year 2015 and was retired in accordance with the original repayment schedule.

Series O 2012, October 17, 2012 – In October 2012, the University issued its Series O 2012 taxable refunding debt in the principal amount of $28.4 million. The proceeds were used to refund the Series I 2004 Facilities Revenue Refunding Bonds with stated maturities in the year 2015 and thereafter. The refunding resulted in an economic gain to the University of $1.6 million. The proceeds of the Series O 2012 bonds were used to acquire direct general obligations, the maturing principal and interest on which are calculated to be sufficient to pay, when due, at maturity or upon redemption, the principal of and interest on the $25.8 million Series I 2004 bonds with maturities in the year 2015 and thereafter. The refunded Series I 2004 bonds are no longer considered to be outstanding under the Indenture. The portion of the Series I bonds that were not refunded totals $1.5 million. This portion matured in the year 2015 and was retired in accordance with the original repayment schedule.

Deferred Loss on Debt Refunding – Deferred loss on debt refunding is the excess of the reacquisition price of refunded debt over its net carrying amount. Deferred loss on debt refunding was $1.3 million as of June 30, 2021. Though the transactions resulted in an accounting loss, the refundings resulted in an economic gain, in that future principal plus interest (including issuance costs) will be less than the principal and interest that would have been paid had the original debt been paid out to its scheduled maturity. This occurs due to lower interest costs over the life of the debt.

Notes payable – consisted of the following as of June 30**:**

	Interest Rate	Maturity Date	2021
Kaufmann Hall - *Axiom Software*	—	3/2/2022	100,000
Deere Credit Inc - *tractor*	—	6/30/2024	36,044
Total note principal outstanding			$ 136,044

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

	Principal	Interest	Total
2022	$ 118,022	—	$ 118,022
2023	18,022	—	18,022
Total	$ 136,044	$ —	$ 136,044

Advances payable to primary government – The University participates in the State's Intercap loan program. Intercap loans contain a variable interest rate, which is based on the underlying bond rate of the BOI Intercap bonds, and is adjusted each February. The rate as of June 30, 2021 was 1.65%. Intercap loans are secured by the pledge of net income from revenue-producing facilities and student fees.

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

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

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

During the year ending June 30,	Intercap Loans		MSTA Advances		DEQ SBECP		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2022	$ 1,384,015	$ 157,403	$ 67,942	$ 112,058	$ 440,042	$ 87,353	$ 2,248,813
2023	1,256,617	142,497	69,639	110,361	450,644	70,248	2,100,006
2024	1,199,319	120,383	71,378	108,622	347,072	52,798	1,899,572
2025	1,191,236	98,784	73,161	106,839	327,617	42,406	1,840,043
2026	1,269,471	81,170	74,988	105,012	337,917	32,114	1,900,672
2027 - 2031	2,783,302	171,722	403,985	496,015	571,121	61,294	4,487,439
2032 - 2036	815,467	20,352	457,014	442,986	118,051	13,048	1,866,918
2037 - 2041	—	—	517,004	382,996	20,883	626	921,509
2042 - 2046	—	—	584,868	315,132	—	—	900,000
2047 - 2051	—	—	661,641	238,359	—	—	900,000
2052 - 2056	—	—	748,491	151,509	—	—	900,000
2057 - 2061	—	—	756,857	53,143	—	—	810,000
2062 - 2066	—	—	—	—	—	—	—
2067 - 2071	—	—	—	—	—	—	—
Total	$ 9,899,427	$ 792,311	$ 4,486,968	$ 2,623,032	$ 2,613,347	$ 359,887	$ 20,774,972

NOTE 12 – CAPITAL LEASE OBLIGATIONS

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

Payable during the year ending June 30,	Principal and Interest
2022	$ 49,836
2023	27,346
2024	7,770
2025	1,719
2026	2
Total payments	86,673
Less amount representing interest	(5,374)
Principal balance outstanding	$ 81,299

Assets acquired under capital leases consist mainly of photocopiers. Such assets are carried at a cost of $308,082 less accumulated depreciation of $239,624 as of June 30, 2021.

NOTE 13 – NET POSITION

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

	2021
Board of Regents’ approved reserves	$ 47,479,221
Other designated purposes	60,184,847
Total unrestricted net position	$ 107,664,068

Board of Regents’ approved reserves represent cash and investments held for specific purposes that were generated through state appropriations and student tuition revenue in excess of operating expenses. The remainder of unrestricted net position is designated for other purposes that support the educational and general operations of the University. These resources also include those from auxiliary services, which are substantially self-supporting activities that provide services for students, faculty, and staff.

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

		2021
Restricted - nonexpendable:		
Endowments	$	8,073,040
Loans		3,235,107
Total restricted - nonexpendable	$	11,308,146
Restricted - expendable:		
Scholarships	$	1,068,691
Research and other		11,480,334
Loans		(209,487)
Construction and renewal of plant facilities		3,981,356
Debt retirement		1,721,285
Total restricted - expendable	$	18,042,179

NOTE 14 – OPERATING EXPENSES

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

		2021
Instruction	$	147,145,581
Research		138,738,280
Public service		38,108,369
Academic support		43,218,488
Student services		44,157,128
Institutional support		46,689,687
Plant-related expenses		41,586,664
Auxiliary enterprises		54,529,793
Scholarships and fellowships		37,074,487
Depreciation and amortization		37,477,341
Total	$	628,725,818

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

		2021
Compensation and benefits	$	357,611,829
Pension		27,032,735
OPEB		1,956,790
Supplies and service		105,472,186
Travel		2,811,621
Utilities		8,887,659
Other operating expenses		50,454,911
Scholarship and fellowships		37,020,746
Depreciation and amortization		37,477,341
Total	$	628,725,818

NOTE 15 – RETIREMENT, TERMINATION AND OTHER POST-EMPLOYMENT BENEFITS

Retirement Plans

University employees eligible to participate in retirement programs are members of either the Montana Public Employees' Retirement System (PERS), the Game Wardens' and Peace Officers' Retirement System (GWPORS), Montana Teachers' Retirement System (TRS), the Montana University System Retirement Program (MUS-RP), Federal Employees' Retirement System (FERS), or the U.S. Civil Service Retirement System (CSRS). All are defined benefit plans except for the MUS-RP. Membership in the MUS-RP is compulsory for new faculty and administrative staff.

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

MUS-RP – The MUS-RP is a defined contribution plan, established in 1988 under authority of Title 19, Chapter 21, MCA and is underwritten by the Teachers' Insurance and Annuity Association (TIAA). Benefits at retirement depend upon the amount of investment gains and losses and the employee's life expectancy at retirement. Under the MUS-RP, each employee enters into an individual contract with TIAA. The University records employee/ employer contributions, and remits monies to TIAA. Combined contributions cannot exceed 13% of the participants' compensation (MCA §19-21-203). Individuals are immediately vested with contributions. Annual reports that include financial statements and required supplemental information on the plan are available from TIAA, 730 Third Avenue, New York, New York 10017-3206, phone 1-800-842-2733.

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

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

PERS-DCRP – This plan is administered by the Public Employees Retirement Board and is reported as multiple-employer plan established July 1, 2002, governed by Title 19, chapters 2 & 3, MCA. All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Member and employer contribution rates are specified by state law as a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The state Legislature has the authority to establish and amend contribution rates. Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.

Key Employee Plans – One defined benefit plan and two defined contribution plans exist for a key employee of the University. The defined benefit plan and one defined contribution plan each will provide $500,000 plus applicable employer payroll taxes. The defined benefit plan has vested, while the first defined contribution plan has not. The MSU Alumni Foundation has agreed to reimburse the University $500,000 for the combined total $1,000,000 base wage of the plans, which together provide for payments beginning upon the employee's retirement. Expenses associated with the plan have been fully accrued for the vested portion and are being accrued throughout the vesting period for the remainder. The University is funding the plan with an outside administrator, to the extent that the IRS allows tax-advantaged contributions, with certain contributions occurring during the employee's tenure and others which may occur within up to 5 years after retirement. Because the University is funding a substantial proportion of the plan with reimbursement occurring from the MSU Alumni Foundation, a significant liability and effect on net position does not exist; therefore, balances related to these plans are not included within the net pension liability calculations or other disclosures below. The remaining defined contribution plan exists to provide $56,600 annually in deferred compensation to the key employee.

Pension data for the year ended June 30, 2021 for defined contribution and federal plans is as follows. Employer contributions for these plans are included within compensation and benefits in the accompanying financial statements.

	MUS-RP	CSRS	FERS	PERS- DCRP
Covered payroll*	$177,410,937	$233,955	$106,855	$3,793,225
Employer contributions/expense	$10,903,736	$15,005	$5,107	$336,459
% of covered payroll	5.99%-6.16%	6.41%	—	8.87 %
Employee contributions	$12,611,145	$15,005	$2,083	$299,665
% of covered payroll	7.06%-7.11%	6.41%	—	7.90 %

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

Total payroll for 2021 was $262,257,849. Amounts contributed to retirement plans during the past three years were equal to the required contribution each year. Federal plan administrators have not provided information with respect to net pension liability. Because only three individuals employed by the University participate in these plans, the University believes the balances are not material to its financial position or results of operations.

The amounts contributed by the University and its employees were as follows for the years ended June 30:

	MUS-RP	CSRS	FERS	PERS- DCRP
2017	$19,938,178	$73,914	$44,093	$351,737
2018	$20,329,818	$40,530	$12,922	$432,109
2019	$21,261,078	$27,584	$6,606	$506,089
2020	$22,265,354	$27,584	$7,101	$532,826
2021	$23,514,881	$30,011	$7,190	$636,123

Defined Benefit Plans

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

	2021			
	TRS	**PERS**	**GWPORS**	**Total**
Net Pension Liability	$14,952,221	$90,852,389	$4,459,503	$110,264,113
Deferred Outflows of Resources	$19,354,713	$20,940,404	$2,876,771	$43,171,888
Deferred Inflows of Resources	$64,495	$4,538,030	$157,186	$4,759,711
Pension Expense (including state share paid on behalf of the University)	$8,972,531	$17,169,844	$890,360	$27,032,735

In accordance with Statement on Governmental Accounting Standard No. 68, Accounting and Financial Reporting for Pensions (Statement 68), employers are required to recognize and report certain amounts associated with their participation in retirement plans. Statement 68 became effective June 30, 2015 and includes requirements to record and report the University's proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows, and Deferred Outflows of resources associated with pensions. As defined by Statement 68, the University has a special funding situation in which the State of Montana is legally responsible for making contributions directly to TRS and PERS that are used to provide pension benefits to the retired members of each of the plans. Due to the existence of a special funding situation, the University is also required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability (NPL) that is associated with the University.

Teachers' Retirement System (TRS)

TRS Plan Description

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

TRS Eligibility for Participation

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

TRS Summary of Benefits

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

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

A guaranteed annual benefit adjustment (GABA) is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABA for Tier One members is 1.5% of the benefit payable as of January 1st. For Tier Two members, the GABA is a variable rate between 0.50% and 1.50% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation.

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

	2021	2020	Percent of Collective NPL at June 30, 2021	Percent of Collective NPL at June 30, 2020	Increase (Decrease) in Percent of Collective NPL
University Proportionate Share	$ 14,952,221	$ 13,638,368	0.66 %	0.71 %	(0.05)%
State of Montana Proportionate Share associated with the University	4,875,285	4,607,737	0.22 %	0.24 %	(0.02)%
Total	$ 19,827,506	$ 18,246,105	0.88 %	0.95 %	(0.07)%

The NPL was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2020. Therefore, no update procedures were used to roll forward the total pension liability to the measurement date. The University's proportion of the net pension liability was based on the university's contributions received by TRS during the measurement period July 1, 2019, through June 30, 2020, relative to the total employer contributions received from all of TRS' participating employers.

TRS Changes Between the Measurement Date and Reporting Date

Between the measurement date of the collective net pension liability and the University's reporting date, the investment rate of return of TRS was substantially higher than the investment rate of return assumption. Therefore, the University's proportionate share of the collective net pension liability is expected to decrease.

TRS Pension Expense

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

	2021
University expense	$ 8,326,574
State of Montana expense/ University revenue recognized	645,956
Total	$ 8,972,530

TRS Deferred Inflows and Outflows

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

	2021 Deferred Outflows of Resources	2021 Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 144,945	$ —
Changes in actuarial assumptions	783,115	17,195
Difference between projected and actual investment earnings	1,047,468	—
Difference between actual and expected contributions	8,732,467	47,300
Contributions paid to TRS subsequent to the measurement date *	8,646,718	—
Total	$ 19,354,713	$ 64,495

*Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022.

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

	Net Amount To Be Recognized as an increase or (decrease) to Pension Expense	
2022	$	5,528,117
2023	$	3,408,611
2024	$	1,443,889
2025	$	262,884

TRS Overview of Contributions
TRS receives a portion of the total required statutory contributions directly from the State for all employers. The employers are considered to be in a special funding situation as defined by GASB 68 and the State is treated as a non-employer contributing entity. TRS receives 2.49% of reportable compensation from the State's general fund for School Districts and Other Employers. TRS also receives 0.11% of reportable compensation from the State's general fund for State and University employers. Finally, the State is also required to contribute $25 million annually to TRS in perpetuity, payable on July 1st of each year.

TRS Actuarial Assumptions
The Total Pension Liability as of June 30, 2020, is based on the results of an actuarial valuation date of July 1, 2020. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2020 valuation were based on the results of the last actuarial experience study, dated May 3, 2018. Among those assumptions were the following:

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

*Total Wage Increases include 3.25% general wage increase assumption

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

TRS Target Allocations

Asset Class	Target Asset Allocation	Long Term Expected Real Rate of Return
Domestic Equity	30.00%	6.19%
International Equity	16.00%	6.92%
Private Equity	14.00%	10.37%
Natural Resources	4.00%	3.43%
Real Estate	9.00%	5.74%
Core Fixed Income	20.00%	1.57%
Non-Core Fixed Income	5.00%	3.97%
Cash	2.00%	0.11%
	100.00%	

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

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

	Assuming 1.0% Decrease (6.34%)	At Current Discount Rate (7.34%)	Assuming 1.0% Increase (8.34%)
University proportion of Net Pension Liability	$19,908,434	$14,952,221	$10,805,535

TRS Summary of Significant Accounting Policies
TRS prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position of the TRS and additions to/deductions from TRS's fiduciary net position have been determined on the same accrual basis as they are reported by TRS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. TRS adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

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

Public Employees' Retirement System (PERS)

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

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

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

PERS Summary of Benefits
Service retirement:

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

Early retirement, actuarially reduced:

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

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

- Retired before January 1, 2016 and accumulate less than 2 years additional service credit or retired on or after January 1, 2016 and accumulate less than 5 years additional service credit:
    - A refund of member's contributions plus return interest (currently 2.02% effective July 1, 2018)
    - No service credit for second employment
    - Start the same benefit amount the month following termination
    - Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement
- Retired 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
    - GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months
- Retired 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
    - GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months

Member's highest average compensation (HAC)

- Hired prior to July 1, 2011 – HAC during any consecutive 36 months
- Hired on or after July 1, 2011 – HAC during any consecutive 60 months

Compensation Cap

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

PERS Monthly benefit formula

Members hired prior to July 1, 2011:

- Less than 25 years of membership service: 1.785% of HAC per year of service credit
- 25 years of membership service or more: 2% of HAC per year of service credit

Members hired on or after July 1, 2011:

- Less than 10 years of membership service: 1.5% of HAC per year of service credit
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit
- 30 years or more of membership service: 2% of HAC per year of service credit

PERS Guaranteed Annual Benefit Adjustment (GABA)

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

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

PERS Net Pension Liability

As defined by GASB Statement 68, the State of Montana contributed additional contributions, as the non-employer contributing entity, that qualify as special funding. The state contributed a Statutory Appropriation from the General Fund of $33,951,150 that was paid to the plan. Those employers who received special funding are all participating employers. Due to the existence of the this special funding situation, all participating employers, including the University, are required to report the portion of the State of Montana's proportionate share of the collective net Pension Liability that is associated with the employer. The State of Montana's proportionate share of net pension liability associated with the university is $27.5 million. This equals the ratio of state statutory contributions for the university to the total state contributions paid.

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

			Percent of Collective NPL at June 30,		Increase (Decrease) in Percent of Collective NPL
	2021	2020	2021	2020	
University Proportionate Share	$ 90,852,389	$ 70,034,424	3.44 %	3.35 %	0.09 %
State of Montana Proportionate Share associated with the University	27,542,683	21,949,017	1.04 %	1.05 %	(0.01)%
Total	$118,395,072	$ 91,983,441	4.48 %	4.40 %	0.08 %

The Net Pension Liability as of June 30, 2021, was determined based on the Total Pension Liability using the actuarial valuation at June 30, 2019, with update procedures to roll forward the TPL to June 30, 2020. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The University's proportion of the NPL was based on the University's contributions received by PERS during the measurement period July 1, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERS' participating employers.

PERS Changes Between the Measurement Date and the Reporting Date

Between the measurement date of the collective net pension liability and the University's reporting date, the investment rate of return of PERS was substantially higher than the investment rate of return assumption. Therefore, the University's proportionate share of the collective net pension liability is expected to decrease.

PERS Pension Expense

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

		2021
University share	$	12,665,458
State of Montana expense/ University revenue recognized		4,504,385
Total PERS Pension expense recognized	$	17,169,843

PERS Deferred Inflows and Outflows

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

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 1,466,543	$ 2,597,606
Changes in actuarial assumptions	6,291,181	—
Difference between projected and actual investment earnings	7,867,007	—
Change in proportionate share	—	1,940,424
Difference in expected versus actual contributions	—	—
Contributions paid to PERS subsequent to the measurement date *	5,315,673	—
Total	$ 20,940,404	$ 4,538,030

*Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022.

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

		Net Amount To Be Recognized as an increase or (decrease) to Pension Expense
2021	$	774,461
2022	$	5,597,971
2023	$	2,748,798
2024	$	1,965,472

PERS Overview of Contributions

Rates are specified by Montana Statutes and are a percentage of the member's compensation. The State legislature has the authority to establish and amend contribution rates to the plan.

PERS Member contributions

- Plan members are required to contribute 7.9% of their compensation. Contributions are deducted from each member's salary and remitted by participating employers.
- The 7.9% member contribution rate is temporary and will be decreased to 6.9% on January 1 in the year following an actuarial valuation in which results show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

PERS Employer contributions

- State and University employers are required to contribute 8.87% of members' compensation.
- Local government entities are required to contribute 8.77% of members' compensation.

- School district employers are required to contribute 8.50% of members' compensation.
- Following the 2013 Legislative Session, PERS-employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions began increasing an additional 0.1% each year for 10 years, through 2024. The employer additional contributions including 0.27% added in 2007 and 2009, will terminate on January 1 of the year following actuarial valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates.
- Effective July 1, 2013, employers are required to make contributions on working retirees' compensation, though member contributions for working retirees are not required.
- Effective July 1, 2013, the additional employer contributions for DCRP and MUS-RP were allocated to the defined benefit plan's Plan Choice Rate (PCR) unfunded liability. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

PERS Non Employer Contributions
Special Funding: The state of Montana, as the non-employer contributing entity, paid to the Plan, additional contributions that qualify as special funding. Those employers who received special funding are all participating employers.

Not Special Funding: Per Montana law, state agencies and universities paid their own additional contributions. The employer paid contributions are not accounted for as special funding for state agencies and universities but are reported as employer contributions.

PERS Stand-Alone Statements
The PERS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report for the fiscal year ended. It is available from the PERB at 100 North Park, PO Box 200131, Helena, MT 59620-0131, 406-444-3154.

ACFR information including stand alone financial statements, actuarial valuations, and experience studies can be found at https://mpera.mt.gov/about/annualreports1/annualreports.

PERS Actuarial Assumptions
The Total Pension Liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions.

- General wage growth* 3.5%
  *includes Inflation at 2.40%
- Merit increases 0% to 4.80%
- Investment return (net of expenses) 7.34%
- Administrative expense as a % of payroll 0.30%
- Post-retirement benefit increases
  Guaranteed Annual Benefit Adjustment (GABA) each January after the member has completed 12 full months of retirement, inclusive of all other adjustments to the member's benefit
  - 3% for members hired prior to July 1, 2007
  - 1.5% for members hired between July 1, 2007 and June 30, 2013
  - Members hired on or after July 1, 2013:
    - 1.5% for each year PERS is funded at or above 90%;
    - 1.5% reduced by 0.1% for each 2% PERS is funded below 90%; and
    - 0% whenever the amortization period for PERS is 40 years or more
- Mortality assumptions for contributing members, service retired members, and beneficiaries based on RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back one year.
- Mortality assumptions among Disabled Retirees are based on RP-2000 Combined Mortality Tables with no projections.

PERS Discount Rate
The discount rate used to measure the Total Pension Liability was 7.34%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries paid by local governments and 0.37% paid by school districts. In addition, the State contributes a statutory appropriation from

the general fund. Based on those assumptions, the PERS fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

PERS Target Allocations

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash	2.00%	0.11%
Domestic Equity	30.00%	6.19%
Foreign Equity	16.00%	6.92%
Private Investments	14.00%	10.37%
Natural Resources	4.00%	3.43%
Real Estate	9.00%	5.74%
Core Fixed Income	20.00%	1.57%
Non-Core Fixed Income	5.00%	3.97%
	100.00%	

The most recent experienced study, performed for the period covering fiscal years 2011 through 2016, is outlined in a report dated May 2017, which is located on the MPERA website. The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for PERS. Several factors are considered in evaluating the long-term rates of return assumption including historical rates of return, rates of return assumptions adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the PERS target asset allocation as of June 30, 2020, are summarized in the above table.

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

	1.0% Decrease (6.34%)	Current Discount Rate (7.34%)	1.0% Increase (8.34%)
The University's proportion of Net Pension Liability	$125,052,936	$90,852,389	$62,124,165

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

Game Wardens' and Peace Officers' Retirement System (GWPORS)

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

GWPORS Service Retirement and Monthly Benefit Formula:
Age 50 with 20 years of membership service.
2.5% of highest average compensation (HAC) x years of service credit

GWPORS Early Retirement
Age 55, vested members who terminate employment prior to 20 years of membership service.
A reduced retirement benefit calculated using the HAC and service credit at early retirement.

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

- If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member:
  - is not awarded service credit for the period of reemployment
  - is refunded the accumulated contributions associated with the period of reemployment
  - starting the first month following termination of service, receives the same retirement benefit previously paid to the member
  - does not accrue post-retirement benefit adjustments during the term of reemployment but receives a Guaranteed Annual Benefit Adjustment (GABA) in January immediately following second retirement
- If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member:
  - is awarded service credit for the period of reemployment
  - starting the first month following termination of service, receives
    - the same retirement benefit previously paid to the member
    - a second retirement benefit for the period of reemployment calculated based on the laws in effect as of the members' rehire date
  - does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA:
    - on the initial retirement benefit in January immediately following second retirement
    - on the second retirement benefit starting in January after receiving that benefit for at least 12 months
- A member who returns to covered service is not eligible for a disability benefit

GWPORS Member's Highest Average Compensation (HAC)

- Hired prior to July 1, 2011 – HAC is the average during any consecutive 36 months
- Hired on or after July 1, 2011 – HAC is the average during any consecutive 60 months

Compensation Cap

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

GWPORS Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit:

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

GWPORS Net Pension Liability

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

			Percent of Collective NPL at June 30,		Increase (Decrease) in Percent of Collective NPL
	2021	2020	2021	2020	
University Proportionate Share	$ 4,459,503	$ 1,234,096	3.30%	3.03%	0.27%

The Net Pension Liability as of June 30, 2021, was determined based on the Total Pension Liability using the actuarial valuation at June 30, 2019, with update procedures to roll forward the TPL to June 30, 2020.

GWPORS Changes Between the Measurement Date and Reporting Date

Between the measurement date of the collective net pension liability and the University's reporting date, the investment rate of return of GWPORS was substantially higher than the investment rate of return assumption. Therefore, the University's proportionate share of the collective net pension liability is expected to decrease.

Changes Since the Last Measurement Date

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

GWPORS Pension Expense

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

	2021
University expense	$ 890,360

GWPORS Deferred Inflows and Outflows

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

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 106,115	$ 147,100
Changes in actuarial assumptions	2,307,923	—
Difference between projected and actual investment earnings	274,584	—
Changes in proportionate share	38,250	10,086
Contributions paid to GWPORS subsequent to the measurement date*	149,899	—
Total	$ 2,876,771	$ 157,186

* Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022.

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

	Net Amount To Be Recognized as an increase or (decrease) to Pension Expense	
2021	$	663,520
2022	$	641,013
2023	$	624,743
2024	$	640,411
Thereafter	$	—

GWPORS Overview of Contributions

The State legislature has the authority to establish and amend contribution rates to the plan. Contribution rates are specified by Montana Statutes and are a percentage of the member's compensation. Plan members are required to contribute 10.56% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. Each state agency and university employers are required to contribute 9.0% of members' compensation.

GWPORS Stand-Alone Statements

The GWPORS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report for the fiscal year ended. It is available from the PERB at 100 North Park, PO Box 200131, Helena, MT 59620-0131, 406-444-3154.

ACFR information including stand alone financial statements, actuarial valuation, and experience study can be found at https://mpera.mt.gov/about/annualreports1/annualreports.

GWPORS Actuarial Assumptions

The Total Pension Liability in the June 30, 2020, actuarial valuation was determined using the following assumptions:

- General wage growth (includes inflation at 2.40%) 3.50%
- Merit increases 0% to 6.30%
- Investment return 7.34%
- Administrative expenses as a percent of payroll 0.16%
- Guaranteed Annual Benefit Adjustment (GABA)
  Requires 12 full months of retirement before GABA will be made
  - For members hired prior to July 1, 2007 3.00%
  - For members hired on or after July 1, 2007 1.50%
- Mortality assumptions among service retired members and beneficiaries based on RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP-2000 Combined Employee and Annuitant Mortality Tables with no projections.

GWPORS Discount Rate

The discount rate used to measure the Total Pension Liability was 5.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. Based on those assumptions, the GWPORS fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2120. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability**.** A municipal bond rate of 2.19% was incorporated in the discount rate.

GWPORS Target Allocations

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash	2.00%	0.11%
Domestic Equity	30.00%	6.19%
Foreign Equity	16.00%	6.92%
Private Investments	14.00%	10.37%
Natural Resources	4.00%	3.43%
Real Estate	9.00%	5.74%
Core Fixed Income	20.00%	1.57%
Non-Core Fixed Income	5.00%	3.97%
	100.00%	

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

GWPORS Sensitivity Analysis

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

	1.0% Decrease (4.65%)	Current Discount Rate (5.65%)	1.0% Increase (6.65%)
University proportion of Net Pension Liability	$6,412,375	$4,459,503	$2,892,604

GWPORS Summary of Significant Accounting Policies

The GWPORS prepares its financial statements using the accrual basis of accounting. For the purposes of determining 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 recognized on the same accrual basis as they are reported by GWPORS. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. The GWPORS adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

Termination Benefits

During the year ended June 30, 2021, certain employees were involuntarily terminated. The University agreed to contribute to their health insurance for a specified period of time as severance. Additionally, certain employees were offered a one-time payment as incentive to retire. Certain employees had elected the Teachers' Retirement

System Option 1 payout during the fiscal year ended June 2021. During the year ended June 30, 2021, incentive pay of $28,180 for voluntary and involuntary terminations plus benefits of $156,510 (including TRS payment of $143,237) were paid to a total of 7 employees, for a total of $184,690 in expenses included in the accompanying financial statements.

Other Post-Employment Benefits

Other post-employment 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. 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, 2021.

	2021
Total OPEB Liability	32,324,640
Deferred OPEB Outflows of Resources	28,601,181
Deferred OPEB Inflows of Resources	20,391,967
OPEB expense	1,956,790

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 post-employment 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 60 days of leaving employment. Coverage is effective the first day of the month following termination of employment. Medical, dental, and vision benefits are available through this defined benefit plan. The MUS OPEB plan is not administered through a trust; as such, no plan assets are eligible to be used to offset the total OPEB liability. The MUS group health insurance program operates in accordance with state law requiring it to be actuarially sound (20-25-1310, MCA) and have sufficient reserves to liquidate unrevealed claims liability and other liabilities.

The MUS OPEB plan is reported as single employer plan. The MUS pays for post-employment 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) was based on the actuarial valuation as of December 31, 2020, with a measurement date of March 31, 2021. The University's proportion of the TOL was based upon the total participants in the group health insurance plan. The actuary report presents a valuation of the TOL assigned to each participant in the group health insurance plan.

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

	2021		**2020**	
	OPEB Liability	**OPEB Proportionate Share**	**OPEB Liability**	**OPEB Proportionate Share**
Total OPEB Liability	$32,324,640	53.68%	$15,052,050	53.22%

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

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ —	$ (16,762,332)
Changes in actuarial assumptions or other inputs	31,683,928	$ (6,747,270)
Prior Period Amortization	(571,199)	1,258,842
FY21 Amortization	(2,511,548)	1,858,793
Total	$ 28,601,181	$ (20,391,967)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Amount To Be Recognized as an increase or (decrease) to OPEB Expense
2022	$ 69,115	$ (43,553)	$ 25,562
2023	$ 69,115	$ (43,553)	$ 25,562
2024	$ 69,115	$ (43,553)	$ 25,562
2025	$ 69,115	$ (43,553)	$ 25,562
2026	$ 69,115	$ (43,553)	$ 25,562
Thereafter	$ 441,496	$ (261,815)	$ 179,681

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

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

Average annual contribution:	Retiree/ Surviving Spouse	Spouse	Actuarial assumptions:	
Before Medicare eligibility	$11,772	$9,637	Discount rate	2.23%
After Medicare eligibility	$4,416	$5,205		
			Projected payroll increases	2.5 %
Actuarial valuation date	December 31, 2020		Participation:	
Actuarial measurement date [(1)]	March 31, 2021		Future retirees	40 %
Actuarial cost method	Entry age normal funding method		Future eligible spouses	70 %
Amortization method	Level percent of pay		Marital status at retirement	70 %
Amortization period	20 years			
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 75			

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

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

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

Changes in actuarial assumptions and methods since last measurement date: No changes to methodology since the prior valuation. Changes to assumptions included a decrease to the interest/discount rate based on the average of multiple 03/31/2021 municipal bond rate sources.

Changes in benefit terms since last measurement date: Reduced carrier options to one.

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 5.0%	At Current Rate 6.0%	Assuming 1.0% Increase 7.0%
University proportion of total OPEB Liability	$24,951,222	$32,324,640	$42,698,965

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, 2019 20-year municipal bond rate:

	Assuming 1.0% Decrease 1.23%	At Current Rate 2.23%	Assuming 1.0% Increase 3.23%
University proportion of total OPEB Liability	$42,217,680	$32,324,640	$25,078,845

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

NOTE 16 – RISK MANAGEMENT

Due to the diverse risk exposure of the University and its constituent agencies, the insurance portfolio contains a comprehensive variety of coverage. Montana statutes, Sections 2-9-101 through 305, MCA, require participation of all state agencies in the self-insurance plan established by the Montana Department of Administration, Risk Management and Tort Defense Division (RMTDD). The self-insurance program includes coverage for automobile physical damage, aircraft physical damage and liability, general liability, and property exposures. The RMTDD provides coverage above self-insured retentions by purchasing other commercial coverage using Alliant Insurance Services as the primary insurance broker. Those coverages include Active Shooter coverage, volunteer accidental death & dismemberment, boiler & machinery, business interruption, crime, cyber/data information security, fine art, foreign liability and special risks, inland marine, student medical and non-medical professional liability, excess property, special events coverage, and Summer Camps Accident and Injury. The insurance broker for aviation excess liability and aircraft hull (physical damage) is held through a specialty broker, Mountain Air Aviation. MSU secures athletic injury and catastrophic sports injury insurance for its NCAA programs through AIG Insurance Company. In addition to these basic policies, the University's Department of Safety and Risk Management establishes guidelines and provides consultation in risk assessment, avoidance, acceptance, and transfer. There have been no significant reductions in commercial property insurance protection from fiscal 2020 to fiscal 2021, and there were no instances in which settlements exceeded insurance coverage for the past three fiscal years.

Buildings and contents are insured for replacement cost value. For each loss covered by the State's self-insurance program and commercial coverage, MSU elects a $1,000 per occurrence retention.

General liability and tort claim coverage includes comprehensive liability for personal injury or property damage that may arise from a negligent act or omission of the state. Also included and provided for by the University's participation in the State's self-insurance program are automobile liability, UAV (drone) liability, and coverage for watercraft and mobile equipment. If the RMTDD pays damages on a claim, the division has the right to recover costs or damages from any party in connection with the claim. There is no agency deductible applied to tort liability claims. There is a $250/$500 deductible for comprehensive/collision claims on state owned, loaned, or leased vehicles.

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

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

The MUS provides workers' compensation coverage through the MUS Self-Funded Workers' Compensation Program (WC Program). The WC Program covers all Montana employees of the MUS while they are working within the course & scope of their MUS employment, including while in travel status inside & outside the U.S. The Program is self-insured for workers' compensation claims to a maximum of $750,000 per occurrence after July 1, 2013. Prior to July 1, 2013, the Program was self-insured for workers' compensation claims to a maximum of $500,000 per occurrence. Losses more than those limits, or $1,000,000 for an aircraft-related claim, are covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of $1,000,000 above the self-insured amount. The MUS also purchases state-specific workers' compensation insurance policies for its permanent, non-MT employees.

The WC Program is administered by staff at the Office of the Commissioner of Higher Education. The Director reports to a governing Committee comprised of campus and OCHE representatives. Campuses pay work comp premiums to fund the Program based on risk class rates applied to payroll.

The WC Program utilizes a Third-Party Administrator with experienced senior staff to manage claims, and an actuary with experience in workers' compensation to calculate its claim liability and to ensure adequate premium rates and reserving for the liability. The Program and its actuary will continue to incorporate Montana University System claim data, trends, and experience into the estimate of current and non-current claims liability and adjust accordingly. The Program and its actuary monitor its potential liabilities and work collaboratively with campus safety and risk managers to identify and mitigate risks and with along with internal and external partners to secure the fiscal health of the Program.

Premium rates for all members are established by the WC Program's governing Committee based upon anticipated premiums needed as determined by the actuary. Premium rates are adjusted annually based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the period for which coverage is provided. Members may be subject to supplemental assessments in the event of deficiencies and in the event of increased costs due to changes in law or excessive claims costs. The Program considers anticipated investment income in determining if a premium deficiency exists.

NOTE 17 – COMMITMENTS AND CONTINGENT LIABILITIES

Operating leases – The University is committed under non-cancelable operating leases as follows:

Minimum rental payments for operating leases are due in the years ending June 30,		Amount
2022	$	4,209,447
2023		3,936,259
2024		3,283,577
2025		3,285,380.3
2026		2,490,104
2027 - 2031		9,091,271.08
Total	$	26,296,038

Payments made under operating leases during the year ended June 2021 totaled $4,632,421. Certain space lease agreements, which comprise the majority of the commitments, contain escalation clauses based on the consumer price index.

Other Commitments

Encumbrances – As of June 30, 2021, the University had issued purchase orders committing the expenditure of approximately $23.1 million for equipment, supplies and services which had not yet been received.

Legal actions – Montana State University is a defendant in legal actions arising in the normal course of business. While outcomes cannot be determined at this time, management is of the opinion that the liability from these actions will not have a material impact on the University's financial position.

In addition, MSU has been named as a defendant in a class action lawsuit alleging that students are due a refund for their paid tuition and fees based on the switch to remote learning in the spring 2020 due to the COVID-19 pandemic. The University denies these claims and will actively defend them. At this time, it is too early to determine the financial impacts, if any, of a potential adverse outcome.

Refundable and transferable grants – The University receives grants and other forms of reimbursement from various Federal and State agencies. These funds are subject to review and audit by cognizant agencies. As of June 30, 2021, certain audits were in progress and the University does not expect any material adjustments or repayments to result from such audits. Additionally, in the event that grant activity is moved to another University, as sometimes occurs when researchers leave for a different institution, assets acquired with grant funds may transferred at the request of the sponsoring agency with or without reimbursement.

Capital projects – As of June 30, 2021, the University had remaining budget authority on significant capital construction and renovation projects underway of approximately $41.1 million. Select projects are funded wholly or partially by the State's Long Range Building Program, and are administered by the State Architecture and Engineering Division, and do not represent a commitment of funds on the part of the University.

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

All of the above revenues are cross-pledged to repay any and all of the secured debt. The remaining cash requirements to repay bonds, including principal and interest, total $253.7 million from July 1, 2021 through November 15, 2047.

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

	2021		
Description	Pledged Revenue	Total Similar Revenue	% Pledged
Student fees (no tuition is pledged)	$ 10,855,266	$ 37,965,729	29%
Housing and residence hall dining revenues, net of related expenses	16,604,378	16,604,378	100%
Grant and contract facility and administrative cost recoveries	1,386,066	25,137,090	6%
Bozeman campus athletic events revenue	2,750	19,700	14%
Bozeman campus parking revenues	2,677,579	2,677,579	100%
Bozeman bookstore and museum lease income	194,583	250,503	78%
Land grant income	2,964,657	2,964,657	100%
Investment income	258,373	3,914,332	7%
Total	34,943,652		
Less debt service requirements	(17,444,577)		
Excess of pledged revenue over debt service requirements	$ 17,499,075		

NOTE 18 – RELATED PARTIES

Private nonprofit organizations affiliated with the University include the MSU Foundation, the MSU-Billings Foundation, the MSU-Northern Foundation, the MSU Bobcat Club, the MSU-Bozeman Bookstore, Friends of KUSM, Friends of KEMC and the Museum of the Rockies, Inc. As discussed in note 20, certain parties are considered Component Units of the University.

During the year ended June 30, 2021, the Foundations provided $23,612,290 in scholarship, in-kind capital donations, and other gift support directly to the University, in addition to significant payments made to others in support of the University. The University paid to its Foundations $2,097,204 during the year ended 2021, which included payments for contracted services, capital campaign support, and operating leases.

MSU-Bozeman leased certain office space from the MSU Foundation's wholly owned subsidiary, Advanced Technology Inc. (ATI). Rental and other payments to ATI totaled $429,209 during 2021. Additional payments from the University to the Foundations for other operating items and capital contributions totaled $4,137,352.

Friends of Montana Public Television provided $1,772,793 during 2021 and Friends of KEMC Public Radio provided $1,198,254 during 2021 in support of the University's television and radio stations.

The Museum of the Rockies, Inc. provided $1,569,072 during the fiscal year ended June 2021 in support of the University, primarily as reimbursement for Museum staff salaries and benefits.

The MSU Bobcat Club provided $134,902 in scholarship and other support during the fiscal year ended June 30, 2021. The University provided $204,957 in salary support to the MSU Bobcat Club during the year ended June 30, 2021 for services provided.

NOTE 19 – SUBSEQUENT EVENTS

On August 30, 2021, MSU announced a $101 million philanthropic gift to the College of Nursing from Mark and Robyn Jones to address healthcare access to rural communities. This gift, the largest in MSU history, will provide funding for new nursing education facilities across Montana in addition to scholarships and endowed professorships.

On October 19, 2021, MSU issued new debt and restructured portions of existing debt, non-taxable Series G 2021 ($45.565 million) and taxable Series H 2021 ($72.15 million). With the proceeds, $40.245 million of new debt will go towards the construction of the upcoming Student Wellness Center and the remainder being a refunding of Series' 2012N, 2012O, 2013A, and 2016C. This transaction also enabled MSU to adopt and to operate under an Amended and Restated Indenture of Trust, 2021, that modernizes and broadens the MSU revenue pledge to include auxiliary facility gross pledged revenues, land grant income, indirect cost recovery payments, and all other unrestricted revenues of the university but excluding tuition, student association controlled activity fees, ad valor em property taxes, and State grants and appropriations.

On December 31, 2021, the MSU-Northern Foundation received a charitable gift of 42.969 acres of real property valued at $1.918 million. The gift is for the Foundation to leverage the property to assist MSU-Northern in executing the build out of a proposed equine center.

On February 25, 2022, MSU announced a $50 million philanthropic gift from the Gianforte Family Foundation. The gift is dedicated to constructing a new building to house the Gianforte School of Computing and computing-related fields such as cybersecurity, optics and photonics, electrical and computer engineering, and creative industries. The gift ties for the second largest in the university's history and is one of the largest philanthropic gifts in the history of Montana.

NOTE 20 – COMPONENT UNITS

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

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

Montana State University

Condensed Combining Schedule of Component Unit Statements of Financial Position

As of June 30, 2021 or December 31, 2020*

	Montana State University Alumni Foundation	Montana State University-Billings Foundation	Montana State University-Northern Foundation	Museum of the Rockies, Inc.	Montana State University Bobcat Club	Combined
Assets:						
Cash and investments	$ 297,633,005	$ 40,623,916	$ 12,775,697	$ 19,115,910	$ 2,232,983	$ 372,381,511
Amounts due from MSU	1,032	—	—	—	—	1,032
Other receivables, net	30,737,935	1,661,383	1,772,454	3,786	20,000	34,195,558
Capital assets, net	19,835,712	949,540	66,883	4,268,676	—	25,120,811
Other assets	971,243	112,556	8,533	197,200	950,240	2,239,772
Total assets	$ 349,178,927	$ 43,347,395	$ 14,623,567	$ 23,585,572	$ 3,203,223	$ 433,938,684
Liabilities:						
Accounts payable and other liabilities	$ 3,431,664	$ 1,212,042	$ 67,345	$ 640,033	$ 36,200	$ 5,387,284
Amounts due to MSU	—	—	—	265,283	—	265,283
Notes, bonds and debt obligations	3,060,997	150,000	1,369,522	149,900	—	4,730,419
Liabilities to external parties	6,954,155	419,335	978,600	—	—	8,352,090
Custodial funds	11,807,652	2,336,707	100,911	—	—	14,245,270
Total liabilities	25,254,468	4,118,084	2,516,378	1,055,216	36,200	32,980,346
Net assets:						
Without donor restrictions - undesignated	6,550,087	2,885,511	1,008,404	6,844,503	1,110,471	18,398,976
Without donor restrictions - designated	8,216,861	2,917,390	—	6,086,992	324,339	17,545,582
With restrictions	309,157,511	33,426,410	11,098,785	9,598,861	1,732,213	365,013,780
Total net assets	323,924,459	39,229,311	12,107,189	22,530,356	3,167,023	400,958,338
Total liabilities and net assets	$ 349,178,927	$ 43,347,395	$ 14,623,567	$ 23,585,572	$ 3,203,223	$ 433,938,684

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

Montana State University

Condensed Combining Schedule of Component Unit Statements of Activities

For the Year Ended June 30, 2021 or December 31, 2020*

	Montana State University Alumni Foundation	Montana State University-Billings Foundation	Montana State University-Northern Foundation	Museum of the Rockies, Inc.	Montana State University Bobcat Club	Combined
Revenues:						
Contributions	$ 21,606,558	$ 2,250,171	$ 1,832,153	$ 461,951	$ 455,192	$ 26,606,025
Investment income and unrealized gain on investments	56,471,804	8,072,858	2,874,905	1,899,792	498,013	69,817,372
Support from University	1,700,000	215,000	182,204	—	—	2,097,204
Other income	1,170,431	1,041,713	212,995	2,364,276	130,015	4,919,430
Total revenues	80,948,793	11,579,742	5,102,257	4,726,019	1,083,220	103,440,031
Expenses:						
University support	13,450,449	4,766,975	3,501,127	1,687,214	128,989	23,534,754
Scholarships and other program expenses	5,745,128	2,010,423	706,603	880,700	134,902	9,477,756
Supporting services	7,495,079	950,847	435,556	634,355	207,510	9,723,347
Total expenses	26,690,656	7,728,245	4,643,286	3,202,269	471,401	42,735,857
Change in net assets before nonoperating items	54,258,137	3,851,497	458,971	1,523,750	611,819	60,704,174
Nonoperating items	3,203,449	—	—	—	—	3,203,449
Change in net assets	57,461,586	3,851,497	458,971	1,523,750	611,819	63,907,623
Net assets, beginning of fiscal year	266,462,873	35,377,814	11,648,218	21,006,606	2,555,204	337,050,715
Prior period adjustment	—	—	—	0	—	0
Net assets, beginning of fiscal year, as restated	266,462,873	35,377,814	11,648,218	21,006,606	2,555,204	337,050,715
Net assets, end of fiscal year	$ 323,924,459	$ 39,229,311	$ 12,107,189	$ 22,530,356	$ 3,167,023	$ 400,958,338

Component Unit Investment Composition*:

	2021
Pooled investments**:	
Equity securities	$ 43,979,194
Debt securities	16,758,222
Alternative investments	105,983,695
Real Estate	98,371
Cash equivalents	11,520,454
Other pooled investments	168,115,168
US Treasuries	508,667
Other real estate	328,550
Other investments	561,653
Investments held in trust for others	15,609,300
Total	$ 363,463,274

Component Unit Promises Receivable*:

	2021
Receivable in one year	$ 6,937,811
Receivable in one to five years	4,661,266
Receivable after five years	1,356,000
Less discounts and allowances	(1,069,583)
Total	$ 11,885,494

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

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

NOTE 21 – COVID-19 AND FEDERAL CARES LEGISLATION

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a global pandemic. The University responded to the health crisis by moving to remote delivery of its courses and curtailing nonessential operating activities for much of the Spring 2020 semester. The financial impact to the University included a decline in auxiliary revenues due to refunds to students for room and board, costs associated with moving to online delivery of education, and COVID-19 mitigation costs, which were partially offset by CARES Act awards received during FY20 and FY21. In the Fall 2020, the University largely shifted back to normal class schedules and student living arrangements with an emphasis on social distancing and mitigation strategies. Efforts proved successful as the University welcomed a record incoming freshman class and its second largest enrollment in its history for the Fall 2021 census.

Expenditures for the CARES Act grants included COVID-19 mitigation and testing, replacing lost revenue due to the pandemic, and distributing grant aid for COVID-19 impacts to students. In 2020, the four MSU campuses recorded $7.9 million in CARES Act revenues. In 2021, CARES Act revenues increased to $47.9 million. CARES Act revenues are expected to decrease significantly in 2022 where the grants are expected to be fully expended.

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

Montana State University (a component unit of the State of Montana)
Required Supplementary Information
As of and for the Year Ended June 30

PENSIONS

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

Year	University's Proportion of the NPL	University's Share of the NPL	State of Montana Share of the NPL Associated with the University	Total University Share of the NPL	University's Covered Employee Payroll	University's share of the NPL as a % of Covered Employee Payroll	Plan Fiduciary Net Position as a % of Total Pension Liability
2015	1.24%	$19,038,438	$7,645,390	$26,683,828	$12,179,563	156.31%	70.36%
2016	1.13%	$18,636,406	$7,277,054	$25,913,460	$11,281,960	165.19%	69.30%
2017	0.96%	$17,469,027	$6,550,303	$24,019,330	$9,738,223	179.39%	66.69%
2018	0.85%	$14,368,327	$5,183,426	$19,551,753	$9,353,995	153.61%	70.09%
2019	0.76%	$14,016,684	$4,927,408	$18,944,092	$7,852,741	176.69%	69.09%
2020	0.71%	$13,638,368	$4,607,737	$18,246,105	$7,587,849	179.74%	68.64%
2021	0.66%	$14,952,221	$4,875,285	$19,827,506	$7,247,446	206.31%	64.95%

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

TRS Schedule of University Contributions

Year	Contractually Required Contributions	Contributions Made*	Excess/ (Deficiency)	University's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2015	$8,012,997	$8,012,997	$—	$11,281,960	71.02%
2016	$7,819,626	$7,819,626	$—	$9,738,223	80.30%
2017	$8,318,256	$8,318,256	$—	$9,353,995	88.93%
2018	$8,038,127	$8,038,127	$—	$8,840,624	101.07%
2019	$8,181,048	$8,181,048	$—	$7,952,741	107.48%
2020	$8,527,968	$8,527,968	$—	$7,587,849	112.39%
2021	$8,646,718	$8,646,718	$—	$7,247,446	119.31%

*Includes contributions made as a percent of MUS-RP covered payroll as well as TRS covered payroll at statutory rates.

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

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

Year	University's Proportion of the NPL	University's Share of the NPL	State of Montana Share of the NPL Associated with the University	Total University Share of the NPL	University's Covered Employee Payroll	University's share of the NPL as a % of Covered Employee Payroll	Plan Fiduciary Net Position as a % of Total Pension Liability
2015	4.06%	$50,597,799	—	$50,597,799	$45,405,357	111.44%	79.90%
2016	4.12%	$57,646,591	—	$57,646,591	$47,364,867	121.71%	78.40%
2017	4.08%	$69,576,861	—	$69,576,861	$48,343,193	143.92%	74.71%
2018	4.18%	$81,386,415	—	$81,386,415	$51,513,790	157.99%	73.75%
2019	3.22%	$67,104,384	$21,580,841	$88,685,225	$52,551,576	127.69%	73.47%
2020	3.35%	$70,034,424	$21,949,017	$91,983,441	$54,692,819	128.02%	73.85%
2021	3.44%	$90,852,389	$27,542,683	$118,395,072	$57,257,359	158.67%	68.90%

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

PERS Schedule of University Contributions

Year	Contractually Required Contributions	Contributions Made	Excess/ (Deficiency)	University's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2015	$4,427,288	$4,427,288	$—	$47,364,867	9.35%
2016	$4,470,903	$4,470,903	$—	$48,343,193	9.25%
2017	$4,589,245	$4,589,245	$—	$51,513,790	8.91%
2018	$4,571,908	$4,571,908	$—	$52,132,694	8.77%
2019	$5,022,398	$5,022,398	$—	$52,551,576	9.56%
2020	$5,329,618	$5,329,618	$—	$54,692,819	9.74%
2021	$5,315,673	$5,315,673	$—	$57,257,359	9.28%

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

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

Year	University's Proportion of the NPL	University's Share of the NPL	University's Covered Employee Payroll	University's share of the NPL as a % of Covered Employee Payroll	Plan Fiduciary Net Position as a % of Total Pension Liability
2015	3.63%	$548,897	$1,511,439	36.32%	90.20%
2016	3.44%	$723,801	$1,546,185	46.81%	87.60%
2017	3.32%	$1,089,310	$1,562,149	69.73%	82.48%
2018	3.22%	$1,201,302	$1,490,991	80.57%	82.48%
2019	3.18%	$1,303,370	$1,617,730	80.57%	82.54%
2020	3.03%	$1,234,096	$1,570,338	78.69%	83.54%
2021	3.30%	$4,459,503	$1,773,943	251.39%	61.17%

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

GWPORS Schedule of University Contributions

Year	Contractually Required Contributions	Contributions Made	Excess/ (Deficiency)	University's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2015	$139,455	$139,455	$—	$1,546,185	9.02%
2016	$140,761	$140,761	$—	$1,562,149	9.01%
2017	$143,393	$143,393	$—	$1,490,991	9.62%
2018	$129,188	$129,188	$—	$1,450,141	8.91%
2019	$141,072	$141,072	$—	$1,617,730	8.72%
2020	$159,872	$159,872	$—	$1,570,338	10.18%
2021	$149,899	$149,899	$—	$1,773,943	8.45%

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

Notes to Required Supplementary Information – Pensions

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

TRS

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

Actuarial valuation date	Actuarial cost method	Amortization method	Remaining amortization period	Asset valuation method	Inflation	Salary increase for non-University members	Salary increase for University Members	Investment rate of return (shown net of pension plan investment expense, and including inflation)
July 1, 2014	Entry age	Level percentage of pay, open	28 years	4-year smoothed market	3.25%	4.00% - 8.51%	5.00%	7.75%
July 1, 2015	Entry age	Level percentage of pay, open	26 years	4-year smoothed market	3.25%	4.00% - 8.51%	5.00%	7.75%
July 1, 2016	Entry age	Level percentage of pay, open	24 years	4-year smoothed market	3.25%	4.00% - 8.51%	5.00%	7.75%
July 1, 2017	Entry age	Level percentage of pay, open	22 years	4-year smoothed market	3.25%	4.00% - 8.51%	5.00%	7.75%
July 1, 2018	Entry age	Level percentage of pay, open	22 years	4-year smoothed market	3.25%	4.00% - 8.51%	5.00%	7.75%
July 1, 2019	Entry age	Level percentage of pay, open	31 years	4-year smoothed market	2.50%	3.25% - 7.76%	4.25%	7.50%
July 1, 2020	Entry age	Level percentage of pay, open	29 years	4-year smoothed market	2.50%	3.25% - 7.76%	4.25%	7.50%

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

Changes That Affect Trend Data

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

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

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

1) **Final Average Compensation**: average of earned compensation paid in five consecutive years of full-time service that yields the highest average
2) **Service Retirement:** Eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55
3) **Early Retirement**: Eligible to receive an early retirement allowance if a member is not eligible for service retirement but has at least five years of creditable service and attained age 55
4) **Professional Retirement Option**: if the member has been credited with 30 or more years of service and has attained the age of 60, they are eligible for an enhanced allowance equal to 1.85% of average final compensation times all service at retirement. Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%
5) **Annual Contribution**: 8.15% of member's earned compensation
6) **Supplemental Contribution Rate**: On or after July 1, 2023, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met:
    a. The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and
    b. The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and

c. A State or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board.

7) **Disability Retirement:** A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination
8) **Guaranteed Annual Benefit Adjustment (GABA)**:
   a. If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the Board.

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

- Annual State contribution equal to $25 million paid to the System in monthly installments.
- One-time contribution payable to the Retirement System by the trustees of a school district maintaining a retirement fund. The one-time contribution to the Retirement System shall be the amount earmarked as an operating reserve in excess of 20% of the adopted retirement fund budget for the fiscal year 2013. The amount received was $22 million in FY 2014.
- 1% supplemental employer contribution. This will increase the current employer rates:
  - School Districts contributions will increase from 7.47% to 8.47%
  - The Montana University System and State Agencies will increase from 9.85% to 10.85%.
  - The supplemental employer contribution will increase by 0.1% each fiscal year for fiscal year 2014 through fiscal year 2024. For 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 2020:

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

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

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

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

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

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 8.50% to reflect the assumed rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.
- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the $500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to "retain membership in the System" are covered by the $500 death benefit after termination.

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

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

PERS

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

Actuarial Valuation Date	Actuarial cost method	Amortization method	Remaining amortization period	Asset valuation method	Inflation	Salary increase	Investment rate of return (shown net of pension plan investment expense, including inflation)	Expenses	Other
June 30, 2013, rolled forward to 2014	Entry age	Level percentage of pay, open	29.3 years	4-year smoothed market	3.0%	General Wage Growth: 4.0% Merit: 0% - 6%	7.75%	0.27% administrative expenses as a % of payroll	GABA- 3.0% or 1.5% for hires after July 1, 2007
June 30, 2014, rolled forward to 2015	Entry age	Level percentage of pay, open	30 years	4-year smoothed market	3.0%	General Wage Growth: 4.0% Merit: 0% - 6%	7.75%	0.27% administrative expenses as a % of payroll	GABA- 3.0% or 1.5% for hires after July 1, 2007 and before July 1, 2013; for members hired after July 1, 2013: 1.5% for each 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
June 30, 2015, rolled forward to 2016	Entry age	Level percentage of pay, open	27.2 years	4-year smoothed market	3.0%	General Wage Growth: 4.0% Merit: 0% - 6%	7.75%	0.27% administrative expenses as a % of payroll	
June 30, 2016, rolled forward to 2017	Entry age	Level percentage of pay, open	26 years	4-year smoothed market	2.75%	General Wage Growth: 3.5% Merit: 0% - 4.8%	7.65%	0.27% administrative expenses as a % of payroll	
June 30, 2017, rolled forward to 2018	Entry age	Level percentage of pay, open	30 years	4-year smoothed market	2.75%	General Wage Growth: 3.5% Merit: 0% - 4.8%	7.65%	0.26% administrative expenses as a % of payroll	
June 30, 2018, rolled forward to 2019	Entry age	Level percentage of pay, open	30 years	4-year smoothed market	2.75%	General Wage Growth: 3.5% Merit: 0% - 6.3%	7.65%	0.26% administrative expenses as a % of payroll	
June 30, 2019, rolled forward to 2020	Entry age	Level percentage of pay, open	30 years	4-year smoothed market	2.75%	General Wage Growth: 3.5% Merit: 0% - 8.47%	7.65%	0.26% administrative expenses as a % of payroll	
June 30, 2020, rolled forward to 2021	Entry age	Level percentage of pay, open	30 years	4-year smoothed market	2.75%	General Wage Growth: 3.5% Merit: 0% - 8.47%	7.65%	0.30% administrative expenses as a % of payroll	

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

Changes That Affect Trend Data

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

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

Refunds

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

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

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

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

GWPORS

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

Actuarial Valuation Date	Actuarial cost method	Amortization method	Remaining amortization period	Asset valuation method	Inflation	Salary increase	Investment rate of return (net of pension plan investment expense, including inflation)	Other
June 30, 2013, rolled forward to 2014	Entry age normal	Level percentage of pay, open	30 years	4-year smoothed market	3.0%	General Wage Growth - 4.00%	7.75%,	0.17% administrative expenses as a % of payroll
June 30, 2014, rolled forward to 2015	Entry age	Level percentage of pay, open	30 years	4-year smoothed market	3.0%	General Wage Growth - 4.00%	7.75%	0.17% administrative expenses as a % of payroll
June 30, 2015 rolled forward to 2016	Entry age	Level percentage of pay, open	30 years	4-year smoothed market	3.0%	General Wage Growth - 4.00%	7.75%	0.17% administrative expenses as a % of payroll
June 30, 2016 rolled forward to 2017	Entry age	Level percentage of pay, open	30 years	4-year smoothed market	2.75%	General Wage Growth - 3.5%	7.75%	0.17% administrative expenses as a % of payroll
June 30, 2017 rolled forward to 2018	Entry age	Level percentage of pay, open	30 years	4-year smoothed market	2.75%	General Wage Growth - 3.5%	7.65%	0.17% administrative expenses as a % of payroll
June 30, 2018 rolled forward to 2019	Entry age	Level percentage of pay, open	30 years	4-year smoothed market	2.75%	General Wage Growth - 3.5%	7.65%	0.23% administrative expenses as a % of payroll
June 30, 2019 rolled forward to 2020	Entry age	Level percentage of pay, open	30 years	4-year smoothed market	2.75%	General Wage Growth - 3.5%	7.65%	0.23% administrative expenses as a % of payroll
June 30, 2020 rolled forward to 2021	Entry age	Level percentage of pay, open	30 years	4-year smoothed market	2.75%	General Wage Growth - 3.5%	7.65%	0.16% administrative expenses as a % of payroll

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

Changes That Affect Trend Data

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

Working Retiree Limitations for GWPORS

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

Second Retirement Benefit for GWPORS

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

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

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

Other Post-Employment Benefits

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

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

Measurement Year	University's Proportion of the OPEB Liability	University's Share of the OPEB Liability	University's Covered Employee Payroll	University's share of the OPEB Liability as a % of Covered Employee Payroll	Plan Fiduciary Net Position as a % of Total OPEB Liability
2018	48.92%	$18,130,942	$225,842,121	8.03%	0.00%
2019	54.44%	$20,363,797	$225,896,948	9.01%	0.00%
2020	53.22 %	$15,052,050	$239,454,928	6.29%	0.00%
2021	53.68%	$32,324,640	$247,082,152	13.08%	0.00%

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

Note to Required Supplementary Information – OPEB

Other Post-Employment Benefits (OPEB) Trend Data
Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Changes to the plan that affect trends will be reported as they occur in the future.

Unaudited Supplemental Information

MONTANA STATE UNIVERSITY—ALL CAMPUSES AND AGENCIES

MSU-BOZEMAN

MONTANA AGRICULTURAL EXPERIMENT STATION (MAES)

MSU EXTENSION (ES)

FIRE SERVICES TRAINING SCHOOL (FSTS)

MSU-BILLINGS

MSU-NORTHERN

GREAT FALLS COLLEGE MSU

Montana State University Unaudited Consolidating Statements of Net Position As of June 30, 2021	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	Great Falls College MSU	Intercampus Eliminations	MSU Consolidated Total
ASSETS									
Current assets:									
Cash and cash equivalents	$ 205,029,242	$ 9,163,563	$ 4,227,913	$ 169,626	$ 33,397,913	$ 10,033,027	$ 6,582,384	$ —	$ 268,603,668
Short term investments									—
Securities lending collateral	322,240	—	—	—	—	—	—	—	322,240
Accounts and grants receivable, net	5,521,909	41,062	202,443	4,240	583,691	595,003	110,573	—	7,058,921
Amounts receivable from Federal government	19,880,378	40,701	—	—	149,613	44,285	102,020	—	20,216,997
Amounts receivable from primary government	571,524	—	—	—	18,443	286	45,158	—	635,411
units	—	—	—	—	—	—	—	—	—
Amounts receivable from MSU campuses	—	—	—	—	—	—	—	—	—
Loans receivable, net	2,336,600	—	—	—	215,446	162,597	—	—	2,714,643
Inventories	1,157,412	814,276	—	—	326,832	196,371	281,065	—	2,775,956
Prepaid expenses and other current assets	4,565,786	752	7,938	—	619,597	102,757	42,050	—	5,338,880
Total current assets	**239,385,091**	**10,060,354**	**4,438,294**	**173,866**	**35,311,535**	**11,134,326**	**7,163,250**	**—**	**307,666,716**
Noncurrent assets:									
Restricted cash and cash equivalents	2,097	—	—	—	12,400	64,512	—	—	79,009
Restricted investments	8,439,802	—	—	—	—	100,911	—	—	8,540,713
Loans receivable, net	10,552,070	—	—	—	1,497,596	733,249	—	—	12,782,915
Investments	17,828,856	—	—	—	2,336,707	—	—	—	20,165,563
Capital assets	443,520,548	19,053,725	114,370	338,866	49,748,777	26,964,822	22,396,951	—	562,138,059
Other noncurrent assets	1,005,722	—	—	—	—	—	—	—	1,005,722
Total noncurrent assets	**481,349,095**	**19,053,725**	**114,370**	**338,866**	**53,595,480**	**27,863,494**	**22,396,951**	**—**	**604,711,981**
Total assets	**$ 720,734,186**	**$ 29,114,079**	**$ 4,552,664**	**$ 512,732**	**$ 88,907,015**	**$ 38,997,820**	**$ 29,560,201**	**$ —**	**$ 912,378,697**
DEFERRED OUTFLOWS	**$ 54,592,501**	**$ 3,316,427**	**$ 2,469,644**	**$ 122,538**	**$ 9,274,545**	**$ 3,243,319**	**$ 1,962,843**	**$ —**	**$ 74,981,817**
LIABILITIES									
Current liabilities:									
Accounts payable and accrued liabilities	$ 25,923,093	$ 545,515	$ 583,310	$ 21,969	$ 3,392,776	$ 1,726,700	$ 1,020,180	$ —	$ 33,213,543
Amounts payable to primary government	1,415,108	—	—	—	399,395	61,835	76,741	—	1,953,079
Amounts payable to Montana component units	289,484	—	—	—	—	—	—	—	289,484
Amounts payable to MSU campuses	—	—	—	—	—	—	—	—	—
Securities Lending Liability	322,240	—	—	—	—	—	—	—	322,240
Property held in trust for others	1,541,666	—	—	—	98,119	73,769	78,031	—	1,791,585
Deferred revenues	16,807,485	—	48,173	—	1,100,372	292,204	(6,748)	—	18,241,486
Compensated absences	9,467,678	817,119	596,585	33,429	2,069,870	439,825	486,827	—	13,911,333
Current portion debt and capital lease obligations	10,039,460	20,301	—	—	891,146	6,282	—	—	10,957,189
Total current liabilities	**65,806,214**	**1,382,935**	**1,228,068**	**55,398**	**7,951,678**	**2,600,615**	**1,655,031**	**—**	**80,679,939**
Noncurrent liabilities:									
Advances from primary government	13,126,386	—	—	—	1,239,619	666,554	75,187	—	15,107,746
Debt and capital lease obligations	156,533,841	20,824	—	—	3,632,593	1,591	—	—	160,188,849
Compensated absences	20,074,646	1,732,566	1,264,960	70,881	1,278,450	941,462	256,582	—	25,619,547
OPEB implicit rate subsidy	23,246,497	1,341,825	1,242,681	64,608	4,121,660	1,425,603	881,766	—	32,324,640
Net pension liability	76,951,235	4,921,786	2,483,249	137,709	16,004,345	6,065,647	3,700,142	—	110,264,113
Due to Federal government	13,754,006	—	—	—	1,598,158	1,486,050	—	—	16,838,214
Derivative instrument - swap liability	1,919,387	—	—	—	—	—	—	—	1,919,387
Total noncurrent liabilities	**305,605,998**	**8,017,001**	**4,990,890**	**273,198**	**27,874,825**	**10,586,907**	**4,913,677**	**—**	**362,262,496**
Total liabilities	**$ 371,412,212**	**$ 9,399,936**	**$ 6,218,958**	**$ 328,596**	**$ 35,826,503**	**$ 13,187,522**	**$ 6,568,708**	**$ —**	**$ 442,942,435**
DEFERRED INFLOWS	**$ 16,808,365**	**$ 985,651**	**$ 848,618**	**$ 45,440**	**$ 4,364,835**	**$ 1,341,217**	**$ 757,552**	**$ —**	**$ 25,151,678**
NET POSITION									
Net investment in capital assets	$ 270,258,685	$ 19,012,600	$ 114,370	$ 338,866	$ 43,733,565	$ 26,228,819	$ 22,565,099	$ —	$ 382,252,004
Restricted - nonexpendable	10,429,325	—	—	—	448,707	418,815	11,300	—	11,308,147
Restricted - expendable	9,656,264	953,168	16,509	—	4,247,349	1,962,041	1,206,848	—	18,042,179
Unrestricted	96,761,834	2,079,152	(176,147)	(77,632)	9,560,601	(897,277)	413,536	—	107,664,067
Total net position	**$ 387,106,108**	**$ 22,044,920**	**$ (45,268)**	**$ 261,234**	**$ 57,990,222**	**$ 27,712,398**	**$ 24,196,783**	**$ —**	**$ 519,266,397**

Montana State University

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

As of and for the Year Ended June 30, 2021

	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	Great Falls College MSU	Intercampus Eliminations	Total
Operating revenues:									
Tuition and fees	$ 172,729,600	$ —	$ —	$ —	$ 16,841,994	$ 4,819,693	$ 2,862,660	$ (40,182)	$ 197,213,765
Federal appropriations	—	3,182,622	2,563,128	—	—	—	—	—	5,745,750
Federal grants and contracts	102,908,800	40,701	—	—	3,226,508	1,357,583	334,563	(223,833)	107,644,322
State grants and contracts	6,141,925	—	28,601	—	340,428	65,844	10,681	—	6,587,479
Non-governmental grants and contracts	12,295,356	—	226,426	—	439,866	13,060	10,500	—	12,985,208
Grant and contract facilities and administrative cost recoveries	24,705,389	—	—	—	310,276	106,023	15,402	—	25,137,090
Educational, public service and outreach revenues	15,935,080	3,044,574	4,561,845	68,466	4,854,903	147,928	96,466	(710,874)	27,998,388
Auxiliary - housing	20,374,684	1,200	—	—	1,119,442	515,862	—	—	22,011,188
Auxiliary - food service	15,093,398	—	—	—	844,851	464,300	71,544	—	16,474,093
Auxiliary - other auxiliary sales and services	4,275,148	139	—	—	1,325,420	374,576	613,620	(152,423)	6,436,480
Interest earned on loans	68,597	—	—	—	—	(339)	—	—	68,258
Other operating revenues	2,623,936	477,864	440	12	246,431	11,705	12,638	—	3,373,026
Total operating revenues	**377,151,913**	**6,747,100**	**7,380,440**	**68,478**	**29,550,119**	**7,876,235**	**4,028,074**	**(1,127,312)**	**431,675,047**
Operating expenses:									
Compensation and benefits, including pensions	292,397,398	16,871,299	12,986,667	600,814	37,602,340	14,588,984	9,597,062	—	384,644,564
OPEB expense	1,422,407	82,104	76,037	3,953	228,338	78,410	65,541	—	1,956,790
Operating expenses	133,208,478	4,097,107	1,875,341	181,309	18,568,734	7,897,250	2,924,520	(1,127,312)	167,625,427
Scholarships and fellowships	26,984,349	13,680	—	—	5,556,207	1,984,106	2,483,355	—	37,021,697
Depreciation and amortization	30,289,900	1,238,210	34,280	83,086	3,028,214	1,674,101	1,129,551	—	37,477,342
Total operating expenses	**484,302,532**	**22,302,400**	**14,972,325**	**869,162**	**64,983,833**	**26,222,851**	**16,200,029**	**(1,127,312)**	**628,725,820**
Operating loss	**(107,150,619)**	**(15,555,300)**	**(7,591,885)**	**(800,684)**	**(35,433,714)**	**(18,346,616)**	**(12,171,955)**	**—**	**(197,050,773)**
Nonoperating revenues (expenses):									
State and local appropriations	77,189,447	17,119,610	6,998,963	772,681	24,166,047	11,153,909	7,895,445	—	145,296,102
Pell Grants	12,251,696	—	—	—	4,709,891	1,836,874	1,769,575	—	20,568,036
Federal CARES Act grant	31,883,934	—	—	—	9,370,255	4,307,312	2,370,411	—	47,931,912
Land grant and timber sales income	2,415,708	—	—	—	548,949	—	—	—	2,964,657
Gifts	13,361,623	35,839	519,907	—	5,189,885	1,235,588	185,821	—	20,528,663
Investment Income	3,249,228	18,395	7,831	254	612,636	14,452	11,535	—	3,914,331
Interest expense	(6,713,825)	(248)	—	—	(227,126)	(24,335)	(10,478)	—	(6,976,012)
Net nonoperating revenues (expenses)	**133,637,811**	**17,173,596**	**7,526,701**	**772,935**	**44,370,537**	**18,523,800**	**12,222,309**	**—**	**234,227,689**
Income before other revenues, expenses, gains and losses	**26,487,192**	**1,618,296**	**(65,184)**	**(27,749)**	**8,936,823**	**177,184**	**50,354**	**—**	**37,176,916**
Transfers in (out)	19,338	(440,423)	(22,458)	243,544	—	200,000	—	—	1
Gain or loss on disposal of capital assets	(234,536)	(24,296)	718	2,888	(5,793)	(19,310)	5,087	—	(275,242)
Additions to permanent endowments	30,263	—	—	—	—	—	—	—	30,263
Gifts, capital grants and contributions	8,013,638	19,691	—	—	5,328,839	3,283,994	3,996,814	—	20,642,976
Change in net position	**34,315,895**	**1,173,268**	**(86,924)**	**218,683**	**14,259,869**	**3,641,868**	**4,052,255**	**—**	**57,574,914**
Net position, beginning of year restated	**352,790,213**	**20,871,652**	**41,656**	**42,551**	**43,730,353**	**24,070,530**	**20,144,528**	**—**	**461,691,483**
Net position, end of year	**$ 387,106,108**	**$ 22,044,920**	**$ (45,268)**	**$ 261,234**	**$ 57,990,222**	**$ 27,712,398**	**$ 24,196,783**	**$ —**	**$ 519,266,397**

Montana State University

Unaudited Selected Cash Flow Data

As of And For the Year Ended June 30, 2021

	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	Great Falls College MSU	Intercampus Eliminations	Total
Cash flows from operating activities:									
Cash received for revenues:									
Tuition and fees	$ 176,116,747	$ —	$ —	$ —	$ 18,551,306	$ 5,054,004	$ 2,783,020	$ (40,182)	$ 202,464,895
Federal appropriations	—	3,182,622	2,880,858	—	—	—	—	—	6,063,480
Federal grants and contracts	100,340,296	—	43,253	(8,176)	2,907,816	1,384,510	253,315	(223,833)	104,697,181
State grants and contracts	5,813,749	—	28,601	—	325,760	65,559	(5,568)	—	6,228,101
Private grants and contracts	11,322,799	—	226,426	—	509,602	13,060	10,500	—	12,082,387
Grant and contract indirect cost recoveries	24,821,415	—	—	—	310,276	106,023	15,402	—	25,253,116
Educational, public service and outreach revenues	16,649,650	3,036,950	4,493,491	66,816	4,883,407	147,928	82,760	(710,874)	28,650,128
Sales and services of auxiliary enterprises	40,479,223	1,339	440	—	3,566,780	1,375,236	681,847	(152,423)	45,952,442
Interest on loans receivable	68,597	—	—	—	—	(339)	—	—	68,258
Other operating receipts	6,472,518	477,864	(13,062,704)	12	(120,119)	70,004	(14,218)	—	(6,176,643)
Cash paid for expenses:									
Compensation and benefits	(287,984,570)	(17,247,445)	(2,304,698)	(638,310)	(38,631,029)	(14,346,529)	(9,398,747)	—	(370,551,328)
Operating expenses	(140,448,152)	(4,313,317)	31,243	(184,077)	(19,796,903)	(8,039,009)	(2,740,447)	1,127,311	(174,363,351)
Scholarships and fellowships	(26,984,349)	(13,680)	—	—	(5,556,207)	(1,984,106)	(2,483,355)	—	(37,021,697)
Loans made to students and federal funds repaid	(330,193)	—	—	—	50,185	9,510	—	—	(270,498)
Loan payments received from students	2,958,290	—	—	—	316,528	234,247	—	—	3,509,065
Intercampus payments	(4,520)	—	—	—	—	4,520	—	—	—
Net cash used in operating activities	**(70,708,500)**	**(14,875,667)**	**(7,663,090)**	**(763,735)**	**(32,682,598)**	**(15,905,382)**	**(10,815,491)**	**(1)**	**(153,414,464)**
Cash flows from noncapital financing activities:									
Receipts (Payments) of funds held in trust for others	7,411,458	—	—	—	24,894	9,846	10,154		7,456,352
Direct lending proceeds	61,161,235	—	—	—	11,968,908	3,465,458	2,741,246		79,336,847
Direct lending disbursements	(61,161,235)	—	—	—	(11,968,908)	(3,465,458)	(2,741,246)		(79,336,847)
State and local appropriations	77,189,447	17,119,610	6,998,963	772,681	24,166,047	11,153,909	7,895,445		145,296,102
Federal CARES Act Grant	31,883,934	—	—	—	9,370,255	4,307,312	2,370,411		47,931,912
Federal Pell grant funds received	12,251,696	—	—	—	4,709,891	1,836,874	1,769,575		20,568,036
Gifts and contributions (expendable)	13,361,623	35,839	519,907	—	5,189,885	1,235,588	185,821		20,528,663
Land grant income	2,415,708	—	—	—	548,949	—	—		2,964,657
government	(66,287)	—	—	—	—	—	—		(66,287)
Additions to permanent endowments	30,263	—	—	—	—	—	—		30,263
Transfers between campuses and agencies	19,338	(440,423)	(22,458)	243,544	—	200,000	—		1
Net cash flows from noncapital financing activities	**144,497,180**	**16,715,026**	**7,496,412**	**1,016,225**	**44,009,921**	**18,743,529**	**12,231,406**	**—**	**244,709,699**
Cash flows from capital financing activities:									
Purchase of capital assets	(35,041,423)	(979,404)	—	(286,899)	(3,996,030)	(851,136)	(664,132)	—	(41,819,024)
Proceeds from sale of capital assets	22,257	350	3,944	2,888	3,703	—	7,775	—	40,917
Gifts restricted for capital purchase	7,940,182	—	7,831	—	—	—	—	—	7,948,013
Other capital financing activities	83,403	—	—	—	—	—	—	—	83,403
Proceeds from borrowings	—	—	—	—	—	—	—	—	—
Debt principal paid	(18,240,607)	40,831	—	—	(838,960)	(59,434)	(72,092)	—	(19,170,262)
Payment of capitalized debt issue costs	—	—	—	—	—	—	—	—	—
Advances from primary government	—	—	—	—	7,047	—	—	—	7,047
Repayment of advances from primary government	(1,302,712)	—	—	—	(471,242)	—	—	—	(1,773,954)
Interest paid	(7,284,863)	(248)	—	—	(231,033)	(26,101)	(14,408)	—	(7,556,653)
Net cash change from capital financing activities	**(53,823,763)**	**(938,471)**	**11,775**	**(284,011)**	**(5,526,515)**	**(936,671)**	**(742,857)**	**—**	**(62,240,513)**
Cash flows from investing activities:									
Purchase of investments	(425,000)	—	—	—	—	—	—	—	(425,000)
Proceeds from sale of investments	3,249,228	—	—	—	(485,864)	—	—	—	2,763,364
Investment income	(342,581)	18,395	—	254	619,656	16,706	13,104	—	325,534
Net cash change from investing activities	**2,481,647**	**18,395**	**—**	**254**	**133,792**	**16,706**	**13,104**	**—**	**2,663,898**
Net change in cash and cash equivalents	**22,446,564**	**919,283**	**(154,903)**	**(31,267)**	**5,934,600**	**1,918,182**	**686,162**	**(1)**	**31,718,620**
Balances at beginning of year	**182,584,778**	**8,244,281**	**4,382,818**	**200,894**	**27,475,711**	**8,179,359**	**5,896,222**	**—**	**236,964,063**
Balances at end of year	**$ 205,031,342**	**$ 9,163,564**	**$ 4,227,915**	**$ 169,627**	**$ 33,410,311**	**$ 10,097,541**	**$ 6,582,384**	**$ (1)**	**$ 268,682,683**

Montana State University—All Campuses and Agencies

Overview

The University campuses are accredited by the Northwest Commission on Colleges and Universities and, in addition, by national professional accrediting organizations in teacher education, nursing, environmental health, engineering, engineering technologies, architecture, foods and nutrition, chemistry, art, music and business.

Enrollment

Annual Full Time Equivalent Students

	2021	2020	2019
Montana residents			
Undergraduate	10,597	12,460	12,916
Graduate	962	1,038	1,036
Nonresidents			
Undergraduate	4,980	4,869	4,703
Graduate	596	500	500
Western Undergraduate Exchange	2,169	1,395	1,404
Total	19,304	20,262	20,559

Tuition and Fees

Tuition and fees vary from campus to campus, and on each campus differ for residents and nonresidents and for undergraduate students and graduate students. The ranges of tuition and fees charged for full-time students during the 2020-2021 academic year, on a per-semester basis, were as follows:

	Resident Undergraduate		Resident Graduate	Nonresident Undergraduate (WUE)		Nonresident Graduate
Bozeman Campus	$3,663	-	$4,228	$5,223	-	$13,493
Billings Campus	$2,997	-	$3,553	$4,184	-	$10,125
Northern Campus	$2,978	-	$3,601	$4,157	-	$10,127
Great Falls Campus [(1)]	$1,709	-	N/A	$2,397	-	N/A

(1) Undergraduate program only.

Employees and Graduate Assistants

As of Fall 2020, the University had 6,674 employees and utilized 826 graduate assistants at the following degree-granting locations:

	MSU-Bozeman	MSU-Billings	MSU-Northern	Great Falls College MSU	Total
Faculty/Professional	2,142	325	146	119	2,732
State classified system	1,276	192	61	50	1,579
Temporary hourly	120	68	7	14	209
Students	1,894	153	91	16	2,154
Total employees	5,432	738	305	199	6,674
Graduate assistants	809	17	—	—	826

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

MSU-Bozeman

Campus Overview

Montana State University was founded in 1893 as the Agricultural College of the State of Montana. By the 1920s, the institution's preferred name was Montana State College, and so it remained until July 1, 1965, when, in recognition of the advances in the college's commitment to scientific and humanistic research, the 39th Montana Legislature changed MSC's name to Montana State University. Located in Bozeman, the campus comprises approximately 1,800 acres and more than 40 academic and administrative buildings.

In 1994, the Montana Board of Regents approved a restructuring plan that created a four-campus Montana State University. The Bozeman campus was given administrative oversight of the what became MSU Billings, Great Falls College MSU and MSU-Northern. Statutory authority for Montana State University-Bozeman is contained in Title 20, Chapter 25, Section 201 of Montana Code Annotated.

MSU is organized into seven undergraduate colleges: College of Agriculture; College of Arts and Architecture; College of Education, Health and Human Development; Jake Jabs College of Business and Entrepreneurship; College of Letters and Science; Norm Asbjornson College of Engineering; and College of Nursing. Post-graduate master’s and doctoral degrees are offered through the Graduate School. One-year and two-year degrees, as well as certificates, are offered through Gallatin College MSU. The university’s Honors College offers curriculum for students to qualify for one of three honors designations on their transcripts in addition to the degree in their chosen major of academic study.

The campus offers more than 250 academic programs including 68 master’s degrees, three education specialist degrees, 35 doctoral degree options and many certificate options. In the 2021 fiscal year, Montana State University awarded 3,347 degrees, including 502 master’s degrees and 90 doctorates.

The university’s annual research expenditures — almost entirely federal dollars competitively won — set a record in fiscal year 2021 with total expenditures tallying more than $193 million. That figure marks a 16% increase over the previous year's total expenditures of $167 million reported to the National Science Foundation and adds to more than a decade of research expenditures topping $100 million. The university is home to 300 laboratories, 44 research centers and seven agricultural research stations. MSU is the only university in Montana, Wyoming, Idaho, North and South Dakota classified as R1, or having “very high research activity,” by the Indiana University Center for Post-secondary Research’s Carnegie Classification of Institutions of Higher Education, more frequently known as simply the "Carnegie Classification." There are only 131 universities nationally with the "very high" designation, and MSU is one of just two that also have the profile of "Very High Undergraduate" enrollment.

MSU continues to be one of the top institutions in producing Goldwater scholars, currently ranked 10th nationally. The Goldwater Scholarship is a competitive national award given to math, science and engineering students. For the third year in a row MSU had four Goldwater recipients, which is the most that any institution can nominate annually. Since the scholarship's inception in 1989, 82 MSU students have become Goldwater scholars. MSU's number of scholarships leads other prominent schools like Johns Hopkins, Yale and MIT.

MSU also attracted the most recipients of the prestigious Montana University System Honors Scholarship – 62% of the 244 total recipients statewide – which grants four years of tuition at an eligible state campus.

MSU Athletics' 120 years of competition are intertwined with the University's land grant and academic missions. MSU is a member of the NCAA Division I Big Sky Conference and women compete in nine intercollegiate sports and men compete in eight. Programs include men's football (I-AA), basketball, women's volleyball, indoor and outdoor track, cross country, alpine and nordic skiing, tennis, and women's golf. Rodeo competition for men and women is conducted through the Big Sky Region of the National Intercollegiate Rodeo Association.

In addition to its mission of educating students, MSU is home to numerous entities that help strengthen the state through outreach efforts. First among them is MSU Extension. Programs of the Extension Service are funded cooperatively through a legal partnership among federal, state, and county governments. Extension offices are located in 53 counties and 7 tribal reservations and agents serve all of Montana in the areas of youth development, agriculture, community development, and family and consumer science.

MSU is also home to the Montana Manufacturing Extension Center, a statewide manufacturing outreach and assistance center whose professional staff have extensive experience in manufacturing and business in a variety of industries. Other examples of the university's statewide reach include its Center for American Indian and Rural Health Equity, Center for Mental Health Research and Recovery, MontanaPBS and the Museum of the Rockies.

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Enrollment

		Student FTE for Fiscal Years Ended June 30,				
		2021	**2020**	**2019**	**2018**	**2017**
Resident	Undergraduate	6,632	7,999	8,149	8,032	7,779
	Gallatin College	406	432	413	389	336
	Graduate	748	766	780	769	705
	Total resident	7,786	9,197	9,342	9,190	8,820
Nonresident	Undergraduate	4,579	4,338	4,093	3,855	3,676
	Gallatin College	228	167	148	125	108
	Graduate	561	487	499	520	386
	Total nonresident	5,368	4,992	4,740	4,500	4,170
Western Undergraduate Exchange		**1,859**	**1,064**	**1,052**	**1,149**	**945**
	Total	**15,013**	**15,253**	**15,134**	**14,839**	**13,935**

	Degrees Granted - Fiscal Years Ended June 30,				
	2021	**2020**	**2019**	**2018**	**2017**
Undergraduate	2,869	2,820	2,580	2,600	2,468
Graduate	603	542	653	580	537
TOTAL:	3,472	3,362	3,233	3,180	3,005

Other highlights from MSU's enrollment headcount included:

- The number of veteran students enrolled increased 15% to 526 from 456 last year.

- MSU saw increases among the student populations of under-represented groups. The number of American Indian/Alaska Native students increased 5% to 755; Asian students increased 6% to 641; and Hispanic students increased 6% to 809. The numbers of African American and Native Hawaiian/Pacific Islander students each held steady at 238 and 122, respectively.
- The total number of degrees awarded at MSU increased by 3% to 3,472. Among those, bachelor's degrees numbered 2,683, an increase of 5 percent over the prior year; associates degrees totaled 120, up from 106; and doctoral degrees were up 22% to 104 total.
- Even in the face of the pandemic, the vast majority of Fall classes were scheduled to have an in-person component, particularly those classes traditionally taken by new undergraduate students. These classes were scheduled in larger rooms with appropriate spacing, or with blended delivery to foster face-to-face interactions and engagement with the university, while minimizing risk of transmission.

Campus Outlook

In January 2019, the university adopted a new, seven-year strategic plan, Choosing Promise. The plan has three areas of focus – teaching/learning, discovery/scholarship and outreach/engagement - that also align with university's historic mission as articulated by the Morrill Land Grant Act of 1862 and the subsequent Hatch and Smith-Lever acts passed by the U.S. Congress. Central to all parts of the plan is an emphasis to improve Montana, its people, its environment and its economy.

Few programs better epitomize the university's new strategic plan than its Hilleman Scholars program, named after Maurice Hilleman – an MSU alumnus widely recognized as the most prolific vaccinologist in history. Now [FC1] in its fifth year, the Hilleman Scholars program seeks Montana high school students who may not have performed well on traditional academic measures, but who have shown grit and promise. Each year, MSU selects 50 Hilleman Scholars from across Montana. The Hilleman story is one of how nurturing the promise in hard-working Montanans of ordinary or humble means can transform them, their families, the state and even the world.

Change is occurring rapidly at Montana State University to accommodate the tremendous growth the university has experienced over the last decade. Norm Asbjornson Hall was opened in the spring semester 2019, completing a $50 million privately funded classroom and teaching lab construction project that promotes inter-curricular instruction and also houses the MSU Honors College along with the Dean of the Norm Asbjornson College of Engineering. Hyalite Hall, a $50 million student residence project with six stories and 510 beds opened in the fall semester 2020.

The university successfully completed private funding efforts and broke ground on the $20 million American Indian Hall. American Indian Hall is a 25,000 square foot facility that will house the Department of Native American Studies as well as providing a gathering point for students from regional Native American tribes and general classroom space for all students.

In addition to new construction, the university is also renovating existing space on campus. A renovation is underway of the MSU Bozeman original gymnasium, Romney Hall, built in 1922, transforming it into instructional space, adding 19 classrooms and 1,000 classroom seats to the campus inventory. In addition, three high impact student centers will be housed in the renovated facility: a new veterans center, writing center and math center. Overall, the Romney Hall renovation is a $25 million project with funding approved by the 2019 Montana Legislature. Project completion is estimated to be January 2022.

MSU is planning the design and construction of an expansion of its Health and Wellness facilities. In March 2019, MSU lost two of its recreational gymnasiums due to a roof collapse caused by overloaded snow. The Montana Board of Regents subsequently approved a $60 million project for MSU to replace the lost gymnasium space and to integrate a new home for its student health services. The proposed facility, scheduled to break ground in 2021, would conveniently co-locate all student health, counseling, recreation and fitness and other wellness services into a single facility.

All of MSU's physical growth is an attestation to its increased student population. The enrollment in the fall semester 2020 is the fifth highest in MSU's 127-year history, with the record set in fall 2018 at 16,902. MSU's fall 2020 retention rate – the percentage of first-year students returning for their second year – hit its highest mark in more than 30 years of modern record keeping at 78.2% percent. In addition, graduate enrollment is improving. The number of MSU graduate students grew to 2,009 in the fall 2020 semester, an increase of 3% over the prior fall.

MSU also attracted 158 recipients of the prestigious Montana University System Honors Scholarship – an all-time high for MSU and 74% of the total recipients statewide – which grants four years of tuition at an eligible state campus. MSU also welcomed eight National Merit Finalists among its incoming class.

Montana Agricultural Experiment Station (MAES)

Agency Overview

The Hatch Act of 1887 created the Montana State Agricultural Experiment Station system. This unique federal/state partnership, supporting agricultural and natural resource research and outreach, is a contract for maintaining viable agricultural and natural resource communities and an affordable supply of food and fiber for America. In 1893, Montana endorsed the terms of the Morrill Act, creating the land-grant university and the designation of the Montana Agricultural Experiment Station (MAES). The MAES operates under these enabling Acts and subsequent federal and state legislation and amendments through the authority of the MAES Director as approved by USDA. MAES houses people and programs at its research centers throughout Montana and the main station at the Bozeman campus.

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

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

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

Highlights

MAES and the College of Agriculture continue to be successful in securing and leveraging new extramural funding to support research programs. The College of Agriculture, which is collaboratively funded by MAES, has been among the most productive of the academic disciplines in terms of research expenditures with a total of $45.8 million for FY2021. This represents a 4% increase in sponsored research from the prior year.

Outlook

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

MSU Extension (ES)

Agency Overview

The mission of Montana State University Extension ("Extension" or "ES") is to improve the lives of Montana citizens by providing unbiased, research-based education and information that integrates learning, discovery and engagement to strengthen the social, economic and environmental well-being of individuals, families and communities.

To meet the educational needs of Montanans, Extension coordinates educational and research resources in the region through campus-based specialists and 54 local Extension offices, providing outreach to all 56 Montana counties and all seven Indian reservations. Because Montana's communities are as diverse as its landscape, the structure of Extension — MSU faculty living in Montana's small towns and cities — ensures that programs are in tune with local issues and can adapt quickly to changing needs.

The unique funding structure of ES combines state general fund, federal Smith-Lever and county resources. The state Legislature appropriates general funds on a biennial basis. Extension agents' salaries are paid from both federal Smith-Lever and county funding sources, while Extension specialists are paid from state general funds. Extension funds the payroll benefit costs for all employees hired on state funding, while county agents' benefits are paid from a blend of Federal Smith-Lever and state general fund dollars. Operational allocations are made to specialists based on a pre-established formula, and other operating dollars are allocated to support staff development, program development, personnel recruitment and general operating purposes.

To deliver the practical advice and information needed by Montana's agricultural community, Extension taps into the resources of the entire university system. Research results from the Agricultural Research Centers and funding through USDA assist in developing programmatic responses. Primary concerns related to sustainability and profitability, natural resources and the environment, and technology transfer/value-added opportunities are addressed through outreach efforts across the state.

Extension's Family & Consumer Sciences program area serves a wide variety of people and families and provides specialized programs, including those targeted toward the elderly, children, single parents and stepfamilies. Topics include food and nutrition, housing, health, family issues, personal finance, environmental health and many other subjects useful to Montanans. One special program emphasizes nutrition education for families with limited resources.

Extension agents also work with Montana 4-H programs to serve youth throughout the state. In 2020-2021, Montana 4-H reached 12,636 Montana youth, ages 6-19. Approximately 50% of these youth are involved in yearlong community clubs, while the remainder are active through a variety of short-term and special interest education programs. The COVID-19 pandemic greatly impacted the many 4-H program and school collaborations. Enrollment numbers are expected to rise as these partnerships become possible again. Montana 4-H youth are supported by 2,603 trained adult and youth volunteers who lead local programs and activities.

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

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

Fire Services Training School (FSTS)

Agency Overview

The Fire Services Training School (FSTS) is state-level agency and is attached to MSU Extension. The FSTS is authorized in 20-31-102 of the Montana Code Annotated. Its purpose is to provide fire service personnel with professional training; identify new methods of fire prevention and suppression, and disseminate information; provide a resource center for use by local fire services; provide testing and certification for personnel and apparatus; and coordinate fire services training in the state. FSTS certifications are internationally accredited by two different accrediting agencies.

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

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

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

MSU-Billings

Campus Overview

Montana State University Billings is a regional comprehensive public four-year higher education institution located in Montana's largest population center, whose faculty is actively engaged in teaching, research, creative endeavors and public service. MSU Billings is unique in that it is one of a select few higher education institutions that also boasts an embedded two-year community college. The university's mission is to deliver a transformative education that empowers students from diverse backgrounds to succeed.

The institution, founded in 1927, was initially called Eastern Montana Normal School, and was established to prepare teachers for elementary schools in eastern Montana. It was again renamed in 1965 as Eastern Montana College (EMC). It merged into the Montana University System in 1994 under its present name. MSU Billings has grown, with the city of Billings and Yellowstone County, into the major comprehensive higher education center of south central and eastern Montana. The University has five colleges: the College of Liberal Arts & Social Sciences (CLASS), the College of Business (COB), the College of Education (COE), the College of Health Professions and Science (CHPS), and City College. City College serves the comprehensive two-year mission of the university. MSU Billings offers a full complement of certificate programs, associate, bachelor and master degrees, as well as pre-professional academic offerings in many academic areas, featuring 26 online degree programs. Several academic programs are unique to the Montana University System. In addition, MSU Billings offers graduate degrees from the CLASS, COE, and CHPS.

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

The Association for Behavior Analysis International (ABAI) Accreditation Board has awarded MSU Billings' Master of Science in Special Education Advanced Studies Applied Behavior Analysis (MSSED ABA) degree program a five-year accreditation.

City College programs are accredited and approved by the Montana Board of Nursing, the National League for Nursing Commission for Nursing Education Accreditation, the Committee on Accreditation of Allied Health Education Programs, the Committee on Accreditation of Educational Programs for the EMS Professions, the Joint Review Committee on Education in Radiologic Technology, and International Fire Service Accreditation Congress.

Public service is integral to the mission of the University. Its two primary public service entities are Yellowstone Public Radio (KEMC), serving Montana and Northern Wyoming with local, regional and nationally acclaimed educational programming, including NPR; and the Montana Center for Inclusive Education (MCIE), which serves the diverse population of Montana and provides continuing professional development opportunities for educators and direct service providers.

Enrollment

	Student FTE for Fiscal Years Ended June 30,				
	2021	2020	2019	2018	2017
Resident					
Undergraduate	1,649	2,031	2,094	2,083	2,112
City College	549	597	589	655	701
Graduate	191	243	232	239	240
Total Resident	2,389	2,871	2,915	2,977	3,053
Nonresident					
Undergraduate	104	102	115	128	133
City College	13	12	9	8	14
Graduate	34	16	13	22	21
Total nonresident	151	130	137	158	168
Western Undergraduate Exchange					
Main Campus	188	188	191	212	193
City College	31	35	32	28	34
Total Western Undergraduate Exchange	219	223	223	240	227
Total	2,759	3,224	3,275	3,375	3,448

	Degrees Granted - Fiscal Years Ended June 30,				
	2021	2020	2019	2018	2017
University Campus:					
Associate Degrees	33	30	36	31	29
Bachelor's Degrees	438	458	439	447	516
Master's Degrees	104	115	110	131	109
Total University Campus	575	603	585	609	654
City College Campus:					
Certificates	44	48	42	40	40
Associate Degrees	188	180	206	187	194
Total City College	232	228	248	227	234
Grand Total Degrees	807	831	833	836	888

MSU Billings is the third largest public university in Montana. Alumni and workforce data show that graduates from MSU Billings stay in Montana and contribute to the state's economy and betterment of its communities. MSU Billings started the 2021-2022 academic year with 4,112 students, which is an increase from the prior year's fall opening enrollment of 4,000. The enrollment data shows a 10% increase in first-time freshmen enrollment from last fall semester. Of the 4,112 students, 2,375 are at University Campus and 1,737 are at City College. The number of Dual Enrollment students increased significantly, which speaks to the strong partnership MSUB has with School District 2 and other Yellowstone County schools.

Fall 2021 enrollment data showed notable areas of growth for MSU Billings compared to fall 2020 semester including, 22% increase in American Indian graduate students, 13% increase in new Yellowstone County student enrollment, 7% increase in overall undergraduate transfer students, and 5% increase in degree seeking graduate student enrollment. Programs with significant enrollment growth include: Welding and Metal Fabrication Certificate 120%, Welding and Fabrication (AAS) 13%, Business Administration (BS) 29%, General Business (AAS) 29%, Environmental Studies (BS) 38%, Health and Human Performance (BS, MS) 42%, Outdoor Adventure Leadership (BS) 40%, Psychology (BA) 40%, Psychology (BS) 37%, Psychiatric Rehabilitation (BS) 10%, Health Administration (BS) 6%.

Campus Outlook

MSU Billings continues to serve our students and community with superior levels of excellence and efficiency. MSU Billings has invested in distance learning by developing full degree programs, and general education, online. This investment continues in order to provide educational offerings to Montana citizens who are place bound or time bound. Increasing opportunities for students to participate in internships and cooperative education experiences also continue to be a priority for the University.

Grants and research production continues. The University's Main Campus SSS TRIO grant was renewed for $1,183,700 over 5 years. Also, the University received a new SSS TRIO grant for City College totaling $1,309,440 over 5 years. The University recently received notification of a new Department of Education grant for $338,799 over 3 years. This grant is for undergraduate international studies and foreign language programs. Continuing major grants include TRIO – UPWARD BOUND, Talent Search, NIH, Social Security, OPI, Corporation for Public Broadcasting, iEMBER, CCAMPIS, INBRE and Title III.

As part of the Governor's "One-Two-Free" initiative to improve Montana's workforce, MSU Billings, along with other MUS institutions, is working with local school districts to expand dual-enrollment programs whereby high school students can take college-level courses taught at their high schools and receive credit at both institutions. With High School Connections, students have a chance to take two free college classes, opening the door to further education and preparing them for college. MSU Billings also offers the University Connections program for high school students to participate in classes at the University.

The newly renovated Yellowstone Science and Health Building was opened in the fall semester of 2021, which will house the College of Health Professions and Science. The new building comes with an expansion of 30,000 square feet of instructional and research space and includes: 16 labs dedicated solely to teaching, 11 labs dedicated to research, including a separate athletic training lab, state of the art facilities in a LEED certified building, tripled lab hood space, shared use equipment housed in a central communal space, and bright and welcoming dedicated student study spaces and lounges.

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

Support for the University continues to be strong. The Foundation distributed $1.8 million in scholarships for MSU Billings students in FY21.

MSU-Northern

Campus Overview

Founded by the Legislative Assembly of the State of Montana in 1913, "The Northern Montana Agricultural and Manual Training School" opened in 1929 in Havre, Montana, under the name "The Northern Montana School." In 1931, the common use of "Northern Montana College" came into existence. In 1994, Northern Montana College became Montana State University-Northern (MSU-Northern) as part of the restructuring of the Montana University System.

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

MSU-Northern programs are in the disciplines of business, nursing, engineering and mechanical technology, teacher education, natural sciences, and humanities. Applied research and service functions are aligned with many of the university's disciplines and respond directly to the region's economic and societal needs.

MSU-Northern is accredited by the Northwest Commission on Colleges and Universities. The university’s programmatic accreditations also include the Accreditation Commission for Education in Nursing (ACEN), the Montana State Board of Nursing, the Engineering Technology Accreditation Commission/Accreditation Board of Engineering Technology (ETAC/ABET), the National Automobile Technicians Education Foundation (NATEF) and the Montana Office of Public Instruction.

MSU-Northern values individualized attention to its students, experiential learning, and creating a culturally rich and intellectually stimulating environment. From its main campus on the Montana Hi-Line, the university serves as a regional cultural center and maintains strong partnerships with communities, education, business and industry.

Enrollment

	Student FTE for Fiscal Years Ended June 30,				
	2021	**2020**	**2019**	**2018**	**2017**
Resident					
Undergraduate	672	786	808	863	888
Graduate	23	44	38	45	56
Total resident	695	830	846	908	944
Nonresident					
Undergraduate	39	47	46	47	46
Graduate	1	0	0	1	1
Total nonresident	40	47	46	48	47
Western Undergraduate Exchange	87	110	111	118	133
Total	822	987	1,003	1,074	1,124

	Degrees Granted - Fiscal Years Ended June 30,				
	2021	**2020**	**2019**	**2018**	**2017**
Undergraduate	262	296	272	217	281
Graduate	17	18	16	27	22
Total:	279	314	288	244	303

Campus Outlook

Located in Havre, Montana, Montana State University-Northern is north central Montana's comprehensive university offering programs and services at the associate, baccalaureate, and master's levels. Degree programs range from teacher education to engineering technology, emphasizing both technology and liberal arts education. MSU-Northern programs are in the disciplines of business, nursing, engineering and mechanical technology, teacher education, natural sciences, and humanities. Applied research and service functions are aligned with many of the university's disciplines and respond directly to the region's economic and societal needs.

Specializing in serving a large geographic region, MSU-Northern serves an area that includes four Native American reservations along with Montana's smallest and largest towns. The University functions as an important cultural resource and continuing education center.

A significant number of MSU-Northern graduates start college in the bottom 20% of income distribution and go on to reach the top 20%. MSU-Northern graduates also have better workforce outcomes right out of college than graduates from other four-year colleges in the state.

Even so, over the past five years MSU-Northern has experienced a decline in enrollment, a trend that is consistent with enrollment trends in higher education across the nation. The drop in Montana is attributed in part to a drop in high school enrollment across the state, which has been on a decline for the past five years and is not projected to increase until 2025.

MSU-Northern is determined to overcome these trends. We are focused on educating a broader pool of prospective students about the value of the Northern degree, especially those who may not consider themselves “college ready.” The university is also committed to helping students complete college by providing excellent support services across the entire campus and beyond.

The August 2021 articulation agreement between Great Falls College MSU and MSU-Northern is a prime example of the commitment to supporting central Montana students and filling the critical need of quality instructors in Great Falls and throughout north central Montana. The partnership also strengthens the bond between MSU institutions.

Great Falls College MSU

Campus Overview

Great Falls College Montana State University (GFC MSU), an affiliated campus of Montana State University, is an independently accredited, comprehensive two-year college primarily serving north-central Montana. GFC MSU prides itself on being a student-centered two-year college, providing quality educational opportunities responsive to community needs.

GFC MSU is a progressive public institution offering two-year transfer degrees as well as degrees and certificates preparing students to enter high-skill, high-wage, high-demand careers. Transfer degrees include general education (Associate of Arts, Associate of Science and the Montana University System Core) offerings. The Certificate and Associate of Applied Science degrees include one- and two-year applied programs in Health Sciences, Accounting, Trades, and Technology disciplines.

The college also works with employers to ensure students are getting the knowledge they need to be successful in employment. As a comprehensive two-year college, additional offerings related to workforce development, customized and contracted training, and community enrichment are provided as part of economic and community development. Several of the health sciences and trades programs are unique to the state and the region.

In partnership with Great Falls Public Schools, the Career and College Readiness program is also housed on the Great Falls College MSU campus. The college has a full complement of student, academic and administrative services reflective of a larger campus.

GFC MSU began as the Great Falls Vocational - Technical Center, established by the Montana Legislature in 1969 to offer employment training in vocational and technical fields with governance provided by the local school districts. In July 1989, the governance of the center and the other Montana vocational technical centers was transferred to the Montana Board of Regents. In January 1994, the Regents approved the restructuring of the Montana University System. Montana State University-Bozeman, Montana State University-Billings, Montana State University-Northern and Great Falls College Montana State University are related through common management; however, they are separate and distinct entities.

GFC MSU is regionally accredited by the Northwest Commission on Colleges and Universities. Various academic programs are accredited individually as well, primarily those within medical fields. Since 2017, Great Falls College Montana State University has seen a steady decline in enrollment. This fits with national trends of a strong economy having negative impacts on overall enrollment at two-year institutions.

Enrollment

	Student FTE for Fiscal Years Ended June 30,				
	2021	2020	2019	2018	2017
Resident					
Undergraduate	787	831	996	1,085	1,123
Nonresident					
Undergraduate	18	24	28	38	51
Western Undergraduate Exchange	11	4	6	5	7
Total	816	859	1,030	1,128	1,181

	Degrees Granted - Fiscal Years Ended June 30,				
	2021	2020	2019	2018	2017
Certificate of Applied Science	70	64	102	86	102
Professional Certificate*	22	14	44	56	130
Associate of Science/Arts	81	114	124	118	104
Associate of Applied Science	142	93	142	161	180
Total	315	285	412	421	516

Campus Outlook

Great Falls College is wrapping up its seven-year strategic plan and is beginning to shape a new strategic plan that will look at programming mix and aligning resources and personnel to three areas of emphasis: increasing opportunities by expanding enrollment and engaging the community through branding, marketing, and alumni relations; becoming more inclusive by removing barriers and providing support in academics, non-instructional support, and forging a stronger campus community; and pursuing excellence by through learning, assessing and innovating by improving processes, and aligning resources. The college also is preparing a comprehensive facilities plan.

The college completed the expansion of its dental clinic in August 2021. The expansion was funded by a $4.25 million appropriation from the 2019 Legislature thanks to wide bi-partisan support from all corners of Montana. The 12,000-square-foot addition that also features 6,600 square feet of renovated space will enable the state's only Dental Hygiene program to increase capacity from 18 to 25 students each year in addition to the 18 possible students in Dental Assisting. The increased capacity will allow Great Falls College to help the workforce shortage of hygienists and assistants throughout Montana, the region and the nation.

Great Falls College MSU will continue to provide excellent instruction to its students as it helps them move through the COVID-19 pandemic. The Teaching and Learning Center will continue to provide workshops and individualized training to support faculty's online teaching efforts. Several faculty are implementing a HyFlex teaching model in which students can participate in a class in-person, remotely synchronously, and remotely asynchronously.

In addition, the college will be strengthening its marketing efforts, community outreach, and development of internships for the Accounting and Computer Technology programs as they provide good wages and employment opportunities for students. The Respiratory Care program will be removed from moratorium and renamed Respiratory Therapy. The program will be revitalized through a three-campus partnership between Great Falls College MSU, City College, and Gallatin College. The program will be offered using remote technologies, similar to Surgical Technology and the Practical Nursing program to provide access to more communities and health care partners. The Trades division will continue to strengthen its dual credit program with the Great Falls Public Schools, develop new ties to industry for internships and expand concurrent enrollment opportunities with local school districts. The Trades program will support the customized training programs offered by the Lifelong Learning Center.

The Lifelong Learning Center provides community and continuing education programs plus customized training to business, community, and military partners. In the summer, several kids career exploration camps are held.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Montana State University, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the university's basic financial statements, and have issued our report thereon dated March 2, 2022. Our report includes a reference to other auditors who audited the financial statements of the Montana State University Alumni Foundation, the Museum of the Rockies Incorporated, the Montana State University Billings Foundations, the Montana State University Northern Foundations, and the Montana State University Bobcat Club, as described in our report on the university's financial statements. The financial statements of the Montana State University Alumni Foundation, the Museum of the Rockies Incorporated, the Montana State University Billings Foundation, the Montana State University Northern Foundation, and the Montana State University Bobcat Club were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of noncompliance associated with those entities.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the university's internal control over financial reporting as a basis for designing 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.

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described below, that we consider to be a significant deficiency.

> As described in recommendation 1, the department lacks sufficient internal controls over the completeness and accuracy of capital asset data processed by their asset management system.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the university's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.*

Montana State University Response to Findings

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

Purpose of this Report

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

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 2, 2022

Montana State University

University Response

MONTANA
STATE UNIVERSITY

March 21, 2022

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LEGISLATIVE AUDIT DIV.

Angus Maciver
Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena, MT 59620-1705

Dear Mr. Maciver,

This letter is issued in response to the audit opinion issued for Montana State University's financial statements for the year ending June 30, 2021. We appreciate the diligent work of the Legislative Audit Division to ensuring the accuracy and completeness of our annual financial statements and its recommendation for improving the internal controls surrounding the preparation of our annual financial statements.

The University and its personnel look forward to future engagements and working together to provide complete and timely financial information to stakeholders of Montana State University.

Sincerely,

Waded Cruzado
President

Office of the President
216 Montana Hall
P.O. Box 172420
Bozeman, MT 59717-2420
www.montana.edu

Tel 406-994-2341
Fax 406-994-1893

Mountains & Minds

MONTANA STATE UNIVERSITY
Response to Legislative Audit Division Financial Audit
For the Fiscal Year Ending June 30, 2021

Recommendation #1

We recommend Montana State University establish and maintain adequate internal controls over capital asset activity to ensure complete and accurate financial reporting.

MSU concurs with the recommendation.

MSU will strengthen compensating controls surrounding capital asset activity to ensure that the calculations and financial information provided by financial software are accurate and complete when vendor supplied SOC 1 reports are not available.