A Report
to the
Montana
Legislature

Financial Audit

Montana State University

For the Two Fiscal Years Ended June 30, 2019

February 2020

Legislative Audit
Division

19-11A

Legislative Audit Committee

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Members serve until a member's legislative term of office ends or until a successor is appointed, whichever occurs first.

§5-13-202(2), MCA

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Financial Audits

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

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

Audit Staff

Jennifer Erdahl
John Fine
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LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

February 2020

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on the consolidated financial statements of the Montana State University for the fiscal year ended June 30, 2019, with comparative information for the fiscal year ended June 30, 2018. The financial statements include financial information from five related organizations, comprised of the foundations at MSU Bozeman, MSU Billings, and MSU Northern, the Bobcat Club at MSU Bozeman, and the Museum of the Rockies. These entities are also considered component units for the university, and their financial information is audited by other audit organizations.

Our audit efforts focused on the university's material revenues, expenses, assets, and liabilities, including: tuition and fee and federal grant and contract revenues; state appropriation support; compensation and benefits, scholarships and fellowships, and operating expenses; and investments, bonds payable, and pension liabilities. We also performed audit procedures over the presentation and disclosure of the financial statements and note disclosures, and work necessary to rely on the audits completed by other organizations over the component units. We issued unmodified opinions on the financial statements, which means you can rely on the information they present. Our report contains no recommendations to the university.

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

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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Appointed and Administrative Officials

		Term Expires
Board of Regents of Higher Education	Casey Lozar, Chair	February 1, 2025
	Paul Tuss, Vice Chair	February 1, 2020
	Joyce Dombrouski	February 1, 2026
	Robert A. Nystuen	February 1, 2022
	Brianne Rogers	February 1, 2024
	Martha Sheehy	February 1, 2021
	John Miller, Student Regent	June 30, 2020
	Clayton Christian, Commissioner of Higher Education*	
	Steve Bullock, Governor*	
	Elsie Arntzen, Superintendent of Public Instruction*	
	*Ex officio members	

Office of the Commissioner of Higher Education	Clayton Christian	Commissioner of Higher Education
	Brock Tessman	Deputy Commissioner, Academic & Student Affairs
	Tyler Trevor	Deputy Commissioner for Budget & Planning, Chief of Staff
	Vivian Hammill	MUS Chief Legal Counsel, Deputy Commissioner
	Diedra Murray	MUS Internal Auditor

Montana State University All Campuses	Waded Cruzado	President
	Kellie Peterson	Legal Counsel
	Daniel Adams	Director of Audit Services

Montana State University Bozeman	Robert Mokwa	Executive Vice President for Academic Affairs and Provost
	Terry Leist	Vice President for Administration and Finance
	Jason Carter	Vice President of Research, Economic Development, and Graduate Education
	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	Dan Edelman	Chancellor
	Melinda Arnold	Provost and Vice Chancellor for Academic Affairs
	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 Moisey	Vice Chancellor for Academic Affairs
	Alisha Schroeder	Registrar
	Chris Wendland	Controller
	Steven Wise	Dean of Students
	Maura Gath	Executive Director of Enrollment Management
	Cindy Small	Director of Financial Aid

Great Falls College Montana State University	Susan Wolff	CEO/Dean
	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:

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Montana Legislative Audit Division

Financial Audit
Montana State University
For the Two Fiscal Years Ended June 30, 2019

February 2020 19-11A Report Summary

Montana State University reported 20,559 annual full-time equivalent students for 2019, down slightly from the 20,710 reported in 2018. MSU Bozeman saw a continued increase in student enrollment, with growth in the number of nonresident students offsetting a small decrease in the resident student count. All other campuses saw a decrease in student counts from 2018 to 2019. The university's net position increased by approximately $16.8 million from fiscal year 2018 to 2019, attributed largely to capital gifts, grants, and contributions.

Context

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 Service, 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 operations are funded largely through fees charged to students, federal grants and contracts revenues, and state appropriations. Collectively, the university recorded $252.4 million of net tuition and auxiliary revenues for charges to students during fiscal year 2019, and received approximately $128.1 million of state and local appropriations. From fiscal year 2018 to 2019, the university's net position increased by approximately $16.8 million, attributed in large part to capital gifts, grants, and contributions.

The university's financial statements also include financial activity for the foundations of the Bozeman, Billings, and Havre campuses, the Museum of the Rockies Incorporated, and the Bozeman 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 audits.

Our report also includes MSU's unaudited supplemental information, which provides student enrollment and degree information by campus, as well as the detailed financial information broken-down by each campus, the Montana Agricultural Experiment Station, Montana Extension Service, and the Fire Services Training School.

Results

Our audit efforts focused on the university's most significant revenues, expenses, assets, and liabilities, including: tuition and fee and federal grant and contract revenues; state appropriation support; compensation and benefits, scholarships and fellowships, and operating expenses; and investments,

(continued on back)

bonds payable, and pension liabilities. We also performed audit procedures over the presentation and disclosure of the financial statements and note disclosures, and work necessary to rely on the audits completed by other organizations over the component units. We issued unmodified opinions on the financial statements, which means you can rely on the information they present. Our report contains no recommendations to the university.

For a complete copy of the report (19-11A) or for further information, contact the
Legislative Audit Division at 406-444-3122; e-mail to **lad@mt.gov**; or check the web site at
https://leg.mt.gov/lad/audit-reports
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail **LADHotline@mt.gov.**

Chapter I – Introduction and Background

Audit Scope

We performed a financial audit of Montana State University (MSU or university) for the two fiscal years ended June 30, 2019. 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 as of June 30, 2019, with comparative information for the fiscal year ended June 30, 2018, and the results of operations and cash flows of the university for the fiscal years then ended.
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 in the financial statements

Our audit efforts focused on the university's most significant revenues, expenses, assets, and liabilities, including: tuition and fee and federal grant and contract revenues; state appropriation support; compensation and benefits, scholarships and fellowships, and operating expenses; and investments, bonds payable, and pension liabilities. We also performed audit procedures over the presentation and disclosure of the financial statements and note disclosures, and work necessary to rely on the audits completed by other organizations over the component units. We issued unmodified opinions on the financial statements, which means you can rely on the information they present. Our report contains no recommendations to the university.

We also conducted 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 issued the compliance audit (19-13) for the two fiscal years ended June 30, 2018, and 2019, in December 2019.

Background

Montana State University consists of four campuses:

- Montana State University Bozeman
- Montana State University Billings
- Montana State University 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 and graduate academic and 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, 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 Arts and Sciences, the College of Business, the College of Education, the City College, and the College of Allied Health Professions. MSU Billings offers one-year and two-year certificate programs, Associate's degrees, Bachelor's degrees, and Master's degrees, as well as pre-professional academic offerings in a number of 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 three locations, including Havre, Lewistown, and Great Falls. MSU Northern offers Associate's degrees, Bachelor's degrees, and Master's degrees. The campus also offers a Master's degree program 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 degree in Great Falls.

Additional detailed information for each of the MSU campuses is included in the Unaudited Supplemental Information beginning on page A-82.

Independent Auditor’s Report and University Financial Statements

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matters

As discussed in Note 1 to the financial statements, in fiscal year 2019, the university's discretely presented component units adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, Presentation of Financial Statements for Not-for-Profit-Entities. This standard was retroactively applied to fiscal year 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis beginning on page A-5, and the Required Supplementary Information beginning on page A-71 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-82 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2020, on our consideration of 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 Montana State University's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 24, 2020

Montana State University
(a component unit of the State of Montana)
Management's Discussion and Analysis
As of and For Each of the Years Ended June 30, 2019

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 Montana's over 145,000 square miles of urban and rural communities housing a population of just over 1 million.

The University is proud to deliver quality instruction and services to a diverse student population, which is possible because of its dedicated faculty and staff, and because its students recognize quality and 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

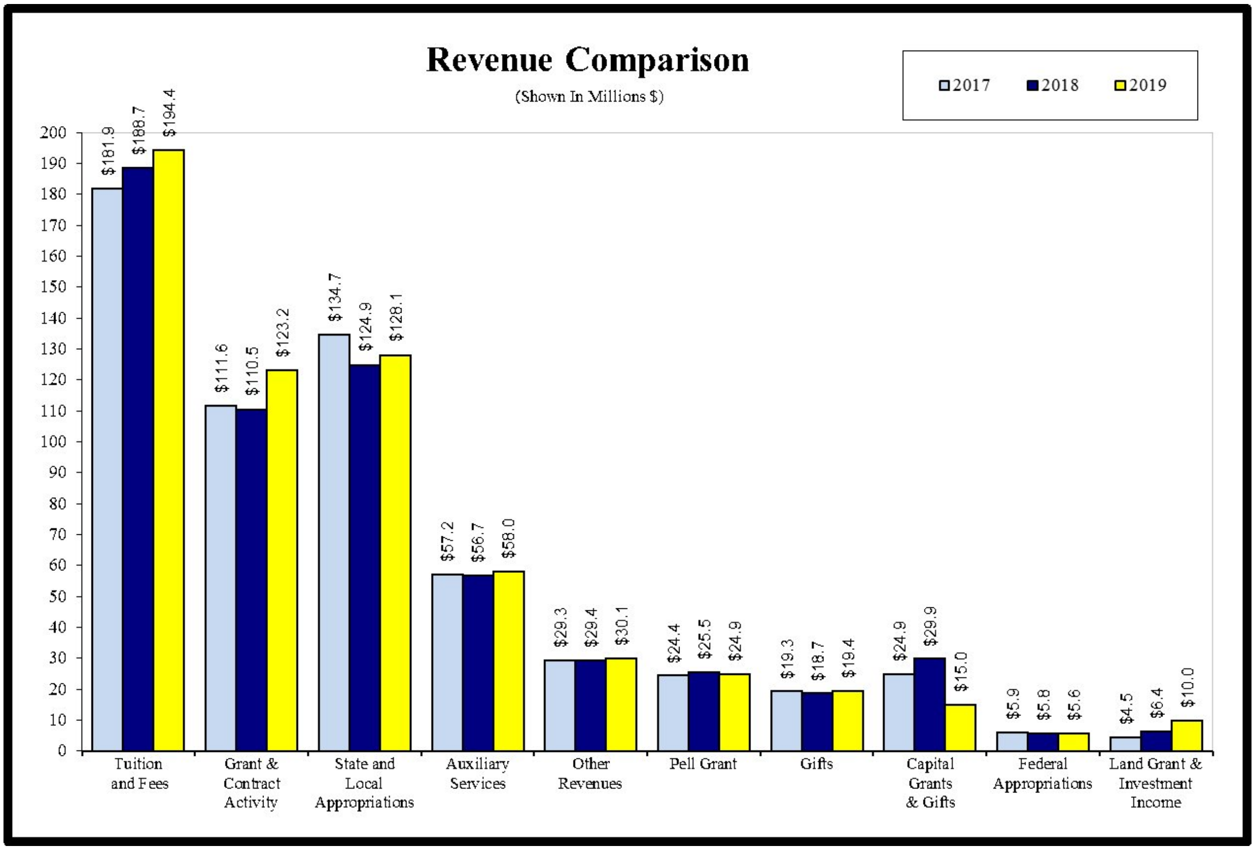
Condensed Statements of Revenues, Expenses and Changes in Net Position
(in millions)

	2019	2018	2017
Operating revenues	$ 411.2	$ 391.1	$ 385.9
Operating expenses	583.16	564.9	560.2
Operating loss	(171.9)	(173.8)	(174.3)
Non-operating revenues and expenses (net)	174.3	167.6	177.6
Income before capital & other items	2.4	(6.2)	3.3
Capital & other items	14.4	29.5	24.9
Change in net position	$ 16.8	$ 23.3	$ 28.2

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 2019 and 2018 Results of Operations

The University's net financial position increased $16.8 million during 2019, resulting primarily from capital grants and contributions of $15.0 million. Of this amount, $12.0 million was received for the completion of facilities for the College of Engineering on the Bozeman campus. Revenues in excess of operating expenses contributed to a increase of $2.4 million.



Operating revenues contain the majority of the University's income, and increased $20.2 million, or 5.2%, from 2018 to 2019.

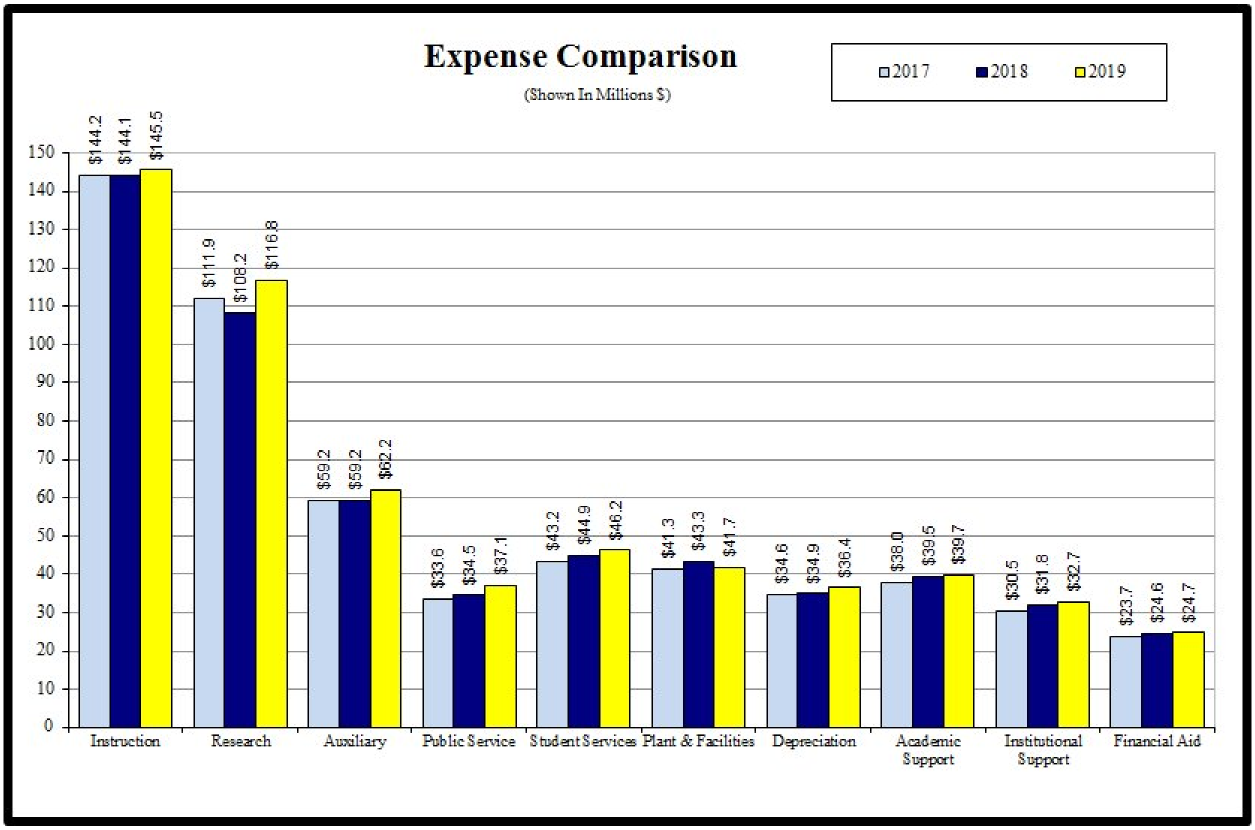
Tuition and fee revenues increased approximately $5.7 million, or 3.0%. Tuition rates were increased by 4% for nonresident undergraduates and 3% for resident undergraduate students at the Bozeman campus; by 3% for resident and nonresident undergraduate students at the Billings campus; and by 5% at the Great Falls campus. The Northern campus raised its resident undergraduate tuition rates by 2.1% and its resident and nonresident graduate tuition rates by 3%.

The number of full-time-equivalent students enrolled decreased from 20,710 to 20,559. Enrollment at the Bozeman campus increased by 119 full-time-equivalents, offset by decreases in enrollment at the Billings, Northern, and Great Falls campuses.

Grant and contract operating revenues, including facility and administrative cost recoveries, increased 11.5%, to $123.2 million, compared with 2018 revenues of $110.5 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 $6.7 million from 2018 to 2019, primarily due to an increase in state appropriations of $3.2 million, or 2.60% to $128.1 million, as compared with $124.9 million in 2018. In addition, investment income increased $3.5 million from $4.0 million in 2018 to $7.5 million in 2019 primarily due to increased tuition revenue and a higher rate of return.

Capital and other items decreased from $29.5 million in 2018 to $14.4 million in 2019, a change of $15.1 million, primarily due to the completion of the College of Engineering on the Bozeman campus.



Operating expenses increased $18.2 million, or 3.2%, from 2018 to 2019. The most significant increases were in research-related expenses of $8.5 million, or 7.9%, auxiliary expenses of $3.0 million, or 5.1%, public service expenses of $2.6 million, or 7.5%, instructional expenses of $1.4 million, or 1.0%, student services expenses of $1.4 million or 3.1%.

Compensation and benefits expenses increased over nearly all areas primarily due to staff increases and added class sections to accommodate the University's growing enrollment. In addition, employees in the Montana University System who were classified employees covered under the MFPE bargaining unit, were given annual raises of 50 cents per hour and faculty and professional employees received 2%. Certain merit and tenure increases are also given throughout the year.

The increase in research-related expenses was primarily due to increases in expenditures for compensation and benefits of $4.6 million and supplies and services of $4.5 million offset by a decrease in other operating expenses of $0.6 million. 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 expenses increased $3.0 million, or 5.1% primarily due to increases in compensation and benefits of $2.5 million and supplies and services of $1.5 million. These increases were primarily due to additional staff, food and other operating costs resulting from the opening of an additional dining hall on the Bozeman campus during fiscal year 2019. High occupancy rates in the residence halls and increased enrollment on the Bozeman campus also contributed to the overall increase in auxiliary expenses.

The increase in instructional expense was primarily due to an increase in compensation and benefits of $3.5 million offset by decreases in supplies and services of $0.5 million and other operating expenses of $0.4 million. The increase was largely a result of salary increases and staffing for additional class sections needed to accommodate the Bozeman campus's growing enrollment.

Institutional support expenses increased $0.9 million, or 2.9%, primarily due to increases in compensation and benefits of $1.3 million and supplies and services of $0.3 million. These increases were largely due to additional costs incurred as a result of growing enrollment at the Bozeman campus.

Student services and academic support increased a combined $1.6 million, primarily due to increases in other operating expenses of $1.1 million. These increases were largely due to additional costs incurred as a result of recruiting efforts, growing enrollment at the Bozeman campus and expenses incurred as a result of the gym collapses as discussed in Note 7.

Comparison of 2018 and 2017 Results of Operations

The University's net financial position increased $23.3 million during 2018, resulting primarily from capital grants and contributions of $29.9 million. Of this amount, $21.4 million was received for the expansion of facilities for the college of engineering on the Bozeman campus, and private donors contributed $1.2 million in support of MSU-Northern's Diesel Technology Center; in addition, $2.7 million was expended on the technology center by the State of Montana. Operating expenses exceeded revenues by $6.2 million due primarily to increased accrual-basis pension expense of $5.7 million. This resulted primarily from an increase in the University's proportionate share of the total pension liability.

Operating revenues contain the majority of the University's income, and increased $5.2 million, or 1.3%, from 2017 to 2018.

Tuition and fee revenues increased approximately $6.7 million, or 3.7%. Tuition rates were increased by 4% for nonresident undergraduates and 3% for resident undergraduate students at the Bozeman campus; by 3% for nonresident undergraduate students at the Billings campus; and by 5% at the Great Falls campus. The Northern campus eliminated its two-tier rate structure, raising its lower-division tuition rates by up to 25%, and its upper-division rates were left static. Other campuses within the Montana University System adopted similar strategies. The number of full-time-equivalent students enrolled increased from 20,589 to 20,710. Enrollment at the Bozeman campus increased by 295 full-time-equivalents, offset by decreases in enrollment at the Billings, Northern, and Great Falls campuses.

Grant and contract operating revenues, including facility and administrative cost recoveries, decreased 1.0%, to $110.5 million, compared with 2017 revenues of $111.6 million. The decrease in grant revenues was primarily due to the end of the Montana Research and Economic Development Initiative (MREDI) as of June 30, 2017.

Revenues from auxiliary enterprises did not fluctuate significantly as compared with the prior year, as was expected with the University's overall stable enrollment.

Net non-operating revenue decreased $10.0 million from 2017 to 2018, primarily due to an decrease in state appropriations of $9.8 million, or 7.28% to $124.9 million, as compared with $134.7 million in 2017. The State of Montana had provided $5.9 million in one-time research funding for the year ended June 30, 2017, which accounts for the majority of the decrease. In addition, decreases to state budgets were implemented due to lower than anticipated income tax revenues and costs of a particularly bad fire season. Interest expense increased $3.4 million due to two factors-- borrowing of $50 million in January of 2018 for the construction of a new residence hall, and because the University no longer capitalizes any of its interest cost due to early implementation of GASB Statement No. 89, as discussed in the notes to the financial statements. In 2017, the University had capitalized $2.2 million of interest on construction projects underway. This was partially offset by additional investment income, which increased $1.9 million due to earnings on bond proceeds and a rising interest rate environment.

Capital and other items increased from $24.9 million in 2017 to $29.5 million in 2018, a change of $4.6 million, primarily due to capital gifts as described above.

Operating expenses increased $4.8 million, or 0.9%, from 2017 to 2018. The most significant increases were in plant-related expenses, which increased $2.1 million, or 5.0%, student services expenses, which increased $1.6 million, or 3.8% and in academic support, which increased $1.5 million, or 4.0%. These increases were offset by a decrease in research-related expenses of $3.7 million, or 3.3%.

Compensation and benefits expenses increased by $1.3 million over nearly all areas primarily due to staff increases and added class sections to accommodate the University's growing enrollment. Compensation and benefits related to research decreased as discussed below. Pension and OPEB expenses increased $2.1 million overall across all areas of the institution.

The decrease in research expenses was primarily due to a decrease in expenditures for compensation and benefits of $3.0 million. This decrease was primarily due to the ending of the Montana Research and Economic Development

Initiative (MREDI) program on June 30, 2017. Increases and decreases in research funding also occur from time to time depending on grant funding and the mix of capital versus operating grants.

Institutional support expenses increased $1.3 million, or 4.2%, primarily due to increases in compensation and benefits of $0.5 million, supplies and services of $0.3 million and in other operating expenses of $0.3 million. The increase in other operating expenses was primarily due to expenses such as rent and maintenance as a result of the need for additional space to accommodate offices and classroom space for the growing enrollment at the Bozeman campus.

Student services and academic support increased a combined $3.1 million, primarily due to increases in compensation and benefits of $0.8 million and supplies and services of $1.0 million. These increases were largely due to additional costs incurred as a result of growing enrollment at the Bozeman campus.

Plant-related expenses increased $2.0 million, or 5.0% primarily because during 2017, the University expended significant funds, including student building fee revenues, to perform maintenance on classrooms and administrative facilities on the Bozeman campus.

NET POSITION

Condensed Statements of Net Position
(in millions)

ASSETS	**2019**	**2018**	**2017**
Current assets	$ 300.4	$ 290.0	$ 259.2
Capital assets, net	523.6	499.3	471.6
Other noncurrent assets	48.1	71.1	50.8
Total assets	872.1	860.4	781.6
DEFERRED OUTFLOWS	40.4	40.7	35.5
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 912.5	$ 901.1	$ 817.1
LIABILITIES			
Current liabilities	$ 101.2	$ 97.7	$ 90.8
Noncurrent liabilities	348.7	368.8	361.7
Total liabilities	449.9	466.5	452.5
DEFERRED INFLOWS	13.5	2.4	1.2
NET POSITION			
Net investment in capital assets	341.7	331.3	301.6
Restricted, non-expendable	13.4	13.4	13.5
Restricted, expendable	17.7	17.4	17.3
Unrestricted	76.3	70.1	31.0
Total net position	449.1	432.2	363.4
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$ 912.5	$ 901.1	$ 817.1

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 improved by $16.8 million from 2018 to 2019, as discussed below.

Comparison of 2019 and 2018 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 $10.3 million in current assets resulted primarily from increases of $11.0 million in cash and cash equivalents, $3.0 million in short term investments and $1.7 million in amounts receivable from the federal government. These increases were offset by a decrease in net accounts and grants receivable of $4.6 million. Accounts and grants receivable result primarily from sponsored projects that are payable on a cost-reimbursement basis, and also from student accounts. See Note 2 to the financial statements for more information on cash, cash equivalents and investments.

Capital assets, net increased $24.2 million, resulting from asset additions of $61.9 million, offset by depreciation and amortization expense of $36.4 million, as shown in further detail in Note 7 to the financial statements.

Asset additions included $49.5 million in construction projects. The Bozeman campus completed construction of the Norm Asbjornson Innovation Center for the College of Engineering, expending an additional $9.8 million in 2019. In addition, the Bozeman campus began construction of a new residence hall, expending $24 million in 2019. Additional, smaller projects making up the remaining increase include residence hall 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 $9.4 million during 2019. Research and instruction in the sciences require a substantial equipment investment, and many specialized pieces of equipment are grant funded. In 2019, equipment related to research accounted for $2.6 million of the additions. Approximately $0.7 million in library materials were acquired in 2019 as well.

Building and land additions totaled $50.0 million during 2019. These additions resulted primarily from the completion of the Norm Asbjornson Innovation Center for the College of Engineering at the Bozeman campus.There were no land purchases in 2019.

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 decreased $22.8 million from 2018, primarily due to a large balance of unspent bond proceeds in 2018, which have been used during 2019 for the construction of a new residence hall on the Bozeman campus. The remaining bond proceeds have been invested in a series of laddered-maturity US Government obligations.

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 increased $3.6 million, or 3.7%, from 2018 to 2019, primarily as a result of increases in accounts payable and accrued liabilities of $6.7 million offset by a decrease in amounts payable to primary government of $1.9 million.

The decrease in amounts payable to primary government of $1.9 million was primarily due to the scheduled repayment of Intercap principal balances.

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 decreased $20.1 million, or (5.5)%, resulting primarily from decreases in noncurrent bonds payable of $11.5 million and pension liabilities of $14.5 million.

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 $10.5 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 did not fluctuate significantly as compared with 2018 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 $6.2 million in comparison with 2018. Revenues exceeded expenses, and contributed to additional balances as a result of higher enrollment on the Bozeman campus.

Comparison of 2018 and 2017 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 $30.8 million in current assets resulted primarily from increases of $19.9 million in short term investments, $6.5 million in cash and cash equivalents, $2.7 million in accounts and grants receivable and $1.2 million in amounts receivable from the federal government. Investments increased due to unspent bond proceeds which will be used for the construction of a new residence hall on the Bozeman campus. Accounts and grants receivable result primarily from sponsored projects that are payable on a cost-reimbursement basis, and also from student accounts. See Note 2 to the financial statements for more information on cash, cash equivalents and investments.

Capital assets, net increased $27.7 million, resulting from asset additions of $62.2 million, offset by depreciation and amortization expense of $34.9 million, as shown in further detail in Note 7 to the financial statements.

Asset additions included $46.0 million in construction projects. The Bozeman campus continued construction of the Norm Asbjornson Innovation Center for the College of Engineering, expending $23.5 million in 2018 as well as completing construction of a new dining hall, expending $10.1 million in 2018. In addition, the Bozeman campus began construction of a new residence hall, expending $2.0 million in 2018. Additional, smaller projects making up the remaining increase include residence hall 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 $9.5 million during 2018. Research and instruction in the sciences require a substantial equipment investment, and many specialized pieces of equipment are grant funded. In 2018, equipment related to research accounted for $3.7 million of the additions. Approximately $1.1 million in library materials were acquired in 2018 as well.

Building and land additions totaled $4.5 million during 2018. These additions resulted primarily from the completion of the Diesel Technology Center at the Northern campus. There were no land purchases in 2018.

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 increased $20.3 million from 2017, primarily due to unspent bond proceeds which will be used for the construction of a new residence hall on the Bozeman campus. These proceeds have been invested in a series of laddered-maturity US Government obligations.

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 increased $6.8 million, or 7.5%, from 2017 to 2018, primarily as a result of increases in accounts payable and accrued liabilities of $2.1 million and amounts payable to primary government of $1.8 million.

The decrease in amounts payable to primary government of $1.8 million was primarily due to the scheduled repayment of Intercap principal balances.

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 $7.1 million, or 2.0%, resulting primarily from increases in noncurrent bonds payable of $45.4 million due to the issuance of new bonds and pension liabilities of $8.8 million. These increases were offset by a decrease in OPEB liabilities of $44.8 million as a result of the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other that Pensions*. (See Note 10 to the financial statements for further information on bonds payable and Note 15 for pensions and OPEB).

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 $29.7 million due to asset additions and debt repayment (discussed above), and were decreased by depreciation expense and additional debt and intergovernmental advances incurred.

Restricted, non-expendable balances must be held in perpetuity, and include endowment principal as well as certain balances in student loan funds. Balances increased $0.1 million, and did not fluctuate significantly as compared with 2017 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. Balances did not fluctuate significantly in comparison with 2017 balances.

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 $39.1 million in comparison with 2017 primarily due to the OPEB restatement resulting from implementation of GASB Statement No. 75, as discussed in the notes to the financial statements. . Revenues exceeded expenses, and contributed to additional balances as a result of higher enrollment on the Bozeman campus.

CASH FLOWS

Condensed Statements of Cash Flows
(in millions)

	2019	2018	2017
Cash provided/(used) by:			
Operating activities, net	$ (124.2)	$ (132.6)	$ (141.7)
Noncapital financing activities, net	172.3	171.0	171.8
Capital and related financing activities, net	(62.0)	5.2	(37.3)
Investing activities, net	24.9	(37.1)	12.7
Net change in cash & equivalents	11.0	6.5	5.5
Cash & equivalents, beginning of year	225.8	219.3	213.8
Cash & equivalents, end of year	$ 236.8	$ 225.8	$ 219.3

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 2019 and 2018 Cash Flows

Operating activities used $124.2 million in cash, resulting primarily from an operating loss of $171.9 million. The operating loss was offset by non-cash expenses of $37.3 million, primarily due to $36.4 million in depreciation and amortization. Other, less significant, increases and decreases also contributed to the change. In 2018, operating activities used $132.6 million in cash, with an operating loss of $173.9 million, offset by non-cash expenses of $35.9 million.

Noncapital financing activities provided $172.3 million in cash, resulting from $126.3 million in state and local appropriations, $24.9 million in federal Pell grant revenue, $19.4 million in expendable gifts, and $2.4 million of land grant income. In 2018, noncapital financing activities provided $171.0 million in cash, resulting from $123.3 million in state and local appropriations, $25.5 million in federal Pell grant revenue, $18.7 million in expendable gifts, and $2.4 million of land grant income.

Capital and related financing activities used $62.0 million in cash, resulting primarily from cash expended on capital assets of $60.0 million (see Note 7 to the financial statements), principal debt repayments of $15.8 million, and interest payments of $8.6 million. These uses were offset by restricted gifts received for capital purchases of $13.2 million and proceeds from borrowings of $4.2 million. In 2018, these activities provided $5.2 million in cash, resulting primarily from restricted gifts received for capital purchases of $27.2 million and unexpended proceeds from borrowings of $58.5 million offset by cash expended on capital assets of $58.9 million, principal debt repayments of $12.5 million, and interest payments of $7.4 million.

Comparison of 2018 and 2017 Cash Flows

Operating activities used $132.6 million in cash, resulting primarily from an operating loss of $173.9 million. The operating loss was offset by non-cash expenses of $35.9 million, primarily due to $34.9 million in depreciation and amortization. Other, less significant, increases and decreases also contributed to the change. In 2017, operating activities used $141.7 million in cash, with an operating loss of $174.3 million, offset by non-cash expenses of $35.6 million.

Noncapital financing activities provided $171.0 million in cash, resulting from $123.3 million in state and local appropriations, $25.5 million in federal Pell grant revenue, $18.7 million in expendable gifts, and $2.4 million of land grant income. In 2017, noncapital financing activities provided $171.8 million in cash, resulting from $127.1 million in state and local appropriations, $24.4 million in federal Pell grant revenue, $18.4 million in expendable gifts, and $2.4 million of land grant income.

Capital and related financing activities used $5.2 million in cash, resulting primarily from cash expended on capital assets of $58.9 million (see Note 7 to the financial statements), principal debt repayments of $12.5 million, and interest payments of $7.4 million. These uses were offset by restricted gifts received for capital purchases of $27.2 million and proceeds from borrowings of $58.5 million. In 2017, these activities used $37.3 million in cash, resulting primarily from cash expended on capital assets of $49.5 million, principal debt repayments of $10.6 million, and interest payments of $6.7 million. These uses were offset by restricted gifts received for capital purchases of $22.5 million and unexpended proceeds from borrowings of $7.0 million.

DEBT AND ADVANCES

As of June 30, 2019, the University had approximately $194.6 million in outstanding bond, note, and capital lease principal, compared with $207.0 million at June 30, 2018 (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 $19.0 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, 2019, was 3.37%. As of June 30, 2019, 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 had 11 continuous years of enrollment growth from 2007 to 2018. To put this into context, The Chronicle of Higher Education ranked MSU as the 24th fastest growing public, doctoral-granting university in the United States in August 2019 out of 211 universities.

The fall of 2019 was the second highest enrollment on record with a headcount of 16,766. Of those, 9,911 are Montana residents, representing 59% of the student population.

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.

Overall enrollment is expected to remain stable due to the careful attention management devotes 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. New initiatives are also being implemented to address fall to spring retention to complement fall returner efforts.

An area of growth opportunity is in the university's workforce programs provided by Gallatin College MSU. This is the fastest growing unit at the university, having gone from 228 students in the fall of 2012 to more than 800 students in the fall of 2019. 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 as its top priority for legislative funding.

The 2017-2018 academic year saw the lowest number of Montana high school graduates since 2007-2008. The number of Montana high school graduates is expected to grow modestly for the next seven years, which will create opportunities for the university to continue its strong enrollment.

A combination of modest tuition increases, as well 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, 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, management evaluates programs regularly and maintains a transparent budgeting process. Accountability and stewardship of the university's assets are stressed by top management, as is excellence in the programs offered. University management will continue to determine the proper balance between spending and revenue to ensure that quality programs remain while access to the university by students is not unduly limited by the cost of attendance.

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

ASSETS		2019		2018
Current assets:				
Cash and cash equivalents (note 2)	$	236,693,698	$	225,720,976
Short term investments		22,898,397		19,880,570
Securities lending collateral		199,163		230,683
Accounts and grants receivable, net (note 3)		9,819,423		14,422,739
Amounts receivable from Federal government		18,879,741		17,178,444
Amounts receivable from primary government		389,786		393,445
Amounts receivable from other State of Montana component units		5,143		1,154
Loans receivable, net (note 6)		2,998,428		3,577,285
Inventories (note 4)		2,858,652		2,754,625
Prepaid expenses and other current assets (note 5)		5,609,621		5,868,372
Total current assets		300,352,052		290,028,293
Noncurrent assets				
Restricted cash and cash equivalents		77,828		76,390
Restricted investments		8,416,000		8,519,406
Loans receivable, net (note 6)		19,159,065		21,640,322
Investments		19,369,533		39,717,630
Capital assets, net (note 7)		523,553,280		499,324,558
Other noncurrent assets (note 7)		1,122,527		1,080,547
Total noncurrent assets		571,698,233		570,358,853
Total assets		872,050,285		860,387,146
DEFERRED OUTFLOWS				
Derivative financial instrument (note 10)		4,227,433		3,080,342
Deferred loss on debt refunding (note 11)		2,122,437		2,655,613
Deferred pension and OPEB outflows (note 15)		34,066,621		34,938,875
Total deferred outflows		40,416,491		40,674,830
TOTAL ASSETS AND DEFERRED OUTFLOWS	$	912,466,776	$	901,061,976
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities (note 8)	$	53,082,653	$	46,426,301
Advances (current) and other amounts payable to primary government		2,114,000		4,058,343
Amounts payable to other State of Montana component units		198,983		269,530
Securities lending liability		199,163		230,683
Property held in trust for others		2,354,549		2,979,728
Unearned revenues (note 9)		14,055,900		14,325,330
Current portion compensated absences		18,218,377		17,409,616
Current portion debt and capital lease obligations (note 10)		11,007,617		11,949,288
Total current liabilities		101,231,242		97,648,819
Noncurrent liabilities:				
Advances from primary government		18,964,341		16,737,236
Debt, capital lease, and other obligations (note 10)		183,577,775		195,092,356
Compensated absences		16,526,656		16,461,438
OPEB implicit rate subsidy		20,363,797		18,130,942
Net pension liability		82,424,424		96,956,044
Due to Federal government		22,596,074		22,322,967
Derivative instrument-- swap liability (note 10)		4,227,433		3,080,342
Total noncurrent liabilities		348,680,500		368,781,325
Total liabilities		449,911,742		466,430,144
DEFERRED INFLOWS – Pension and OPEB (note 15)		13,498,685		2,405,829
NET POSITION				
Net investment in capital assets		341,729,147		331,249,558
Restricted - nonexpendable		13,380,001		13,405,450
Restricted - expendable		17,655,542		17,422,179
Unrestricted (note 13)		76,291,659		70,148,816
Total net position		449,056,349		432,226,003
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$	912,466,776	$	901,061,976

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 Statements of Financial Position
As of June 30 or December 31

	2019	2018
Assets:		
Cash and cash equivalents	$ 7,934,547	$ 8,065,464
Accrued dividends and interest	78,790	89,478
Investments	285,622,335	282,542,939
Amounts due from the institution or other MSU component units	205,169	425,169
Contributions receivable, net of allowance	26,217,099	19,049,471
Contracts, notes and other receivables	20,506,724	6,191,919
Non-depreciable capital assets	4,193,955	4,290,659
Depreciable capital assets, net	8,886,694	9,022,360
Other assets	2,035,282	1,958,303
Total assets	$ 355,680,595	$ 331,635,762
Liabilities and net assets:		
Liabilities		
Accounts payable	$ 184,265	$ 254,353
Accrued expenses and other liabilities	2,922,559	3,109,408
Compensated absences	300,842	319,779
Notes and bonds payable	3,256,029	5,364,393
Amounts due to the institution or other MSU component units	747,844	2,266,873
Liabilities to external beneficiaries	6,091,610	6,142,005
Custodial funds	12,212,420	12,639,066
Total liabilities	25,715,569	30,095,877
Net assets		
Without donor restrictions - undesignated	11,055,663	16,859,403
Without donor restrictions - designated	14,445,353	8,499,963
With restrictions	304,464,010	276,180,519
Total net assets	329,965,026	301,539,885
Total liabilities and net assets	$ 355,680,595	$ 331,635,762

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

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

	2019	2018
OPERATING REVENUES		
Tuition and fees (net of $41,275,138 and $36,253,103 scholarship discount)	$ 194,382,007	$ 188,665,304
Federal appropriations	5,551,885	5,758,198
Federal grants and contracts	83,907,569	73,497,747
State grants and contracts	7,398,120	6,913,942
Non-governmental grants and contracts	11,684,550	12,104,861
Grant and contract facilities and administrative cost recoveries	20,220,370	17,969,416
Educational, public service and outreach revenues	25,356,397	26,998,914
Auxiliary revenues:		
Housing (net of $3,963,248 and $3,536,816 scholarship discount)	24,904,558	24,290,841
Food services (net of $3,738,362 and $3,426,208 scholarship discount)	23,985,970	23,749,346
Other auxiliary sales and services (net of $416,478 and $340,103 scholarship discount)	9,127,734	8,686,693
Interest earned on loans	66,178	58,876
Other operating revenues	4,660,100	2,362,889
Total operating revenues	411,245,438	391,057,027
OPERATING EXPENSES		
Compensation and benefits, including pensions (note 15)	353,571,835	343,588,112
OPEB amortization (note 15)	1,796,245	1,930,659
Operating expenses (note 14)	166,626,983	159,953,301
Scholarships and fellowships (net of $49,393,226 and $43,556,230 scholarship discount)	24,729,321	24,564,993
Depreciation and amortization	36,437,652	34,888,232
Total operating expenses	583,162,036	564,925,297
Operating loss	(171,916,598)	(173,868,270)
NONOPERATING REVENUES (EXPENSES)		
State and local appropriations	128,105,008	124,860,274
Federal Pell grant revenue	24,934,250	25,481,313
Land grant income (pledged as security for repayment of bonds)	2,444,006	2,427,062
Gifts (expendable)	19,367,829	18,654,942
Investment income	7,527,753	3,950,483
Interest expense	(8,061,629)	(7,747,103)
Net non operating revenues (expenses)	174,317,217	167,626,971
Income before other revenues, expenses, gains and losses	2,400,619	(6,241,299)
Loss on disposals of capital assets	(620,043)	(387,529)
Additions to permanent endowment	16,043	31,987
Capital gifts, grants and contributions	15,033,727	29,898,746
Change in net position	16,830,346	23,301,905
Net position, beginning of year as previously stated	432,226,003	363,403,652
Restatement of beginning net position - OPEB	—	45,520,446
Net position, beginning of year as restated	432,226,003	408,924,098
Net position, end of year	$ 449,056,349	$ 432,226,003

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, 2019 or December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
Contributions	$ 884,623	$ 53,857,803	$ 54,742,426
Investment, interest and dividend income	883,245	1,992,346	2,875,591
Net realized and unrealized gain (loss) on investments	631,019	4,480,251	5,111,270
Contract support and contributions from University	1,822,204	—	1,822,204
Special events	772,126	44,339	816,465
Other income	10,317,220	(3,241,399)	7,075,821
Net assets released from restrictions	29,137,430	(29,137,430)	—
Total revenues	44,447,867	27,995,910	72,443,777
Expenses:			
Program services			
University support	22,657,039	—	22,657,039
Academic and institutional	2,008,652	—	2,008,652
Scholarships and awards	8,812,466	—	8,812,466
Total program services expense	33,478,157	—	33,478,157
Operating expenses			
Fundraising efforts	3,941,281	—	3,941,281
General and administrative	4,464,333	—	4,464,333
Investment management and subsidiary operations	880,338	—	880,338
Other miscellaneous	1,540,792	—	1,540,792
Total operating expenses	10,826,744	—	10,826,744
Change in net assets before Nonoperating items	142,966	27,995,910	28,138,876
Nonoperating expenses	—	—	—
Payments to beneficiaries and change in liabilities to external beneficiaries	(1,316)	287,581	286,265
Change in net assets	141,650	28,283,491	28,425,141
Net assets, beginning of year	25,359,366	276,180,519	301,539,885
Net assets, end of year	$ 25,501,016	$ 304,464,010	$ 329,965,026

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, 2018 or December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
Contributions	$ 868,673	$ 24,524,786	$ 25,393,459
Investment, interest and dividend income	1,995,890	2,369,242	4,365,132
Net realized and unrealized gain (loss) on investments	4,396,193	12,633,577	17,029,770
Contract support and contributions from University	1,798,204	—	1,798,204
Special events	858,426	27,012	885,438
Other income	9,452,353	(2,767,768)	6,684,585
Net assets released from restrictions	41,062,855	(41,062,855)	—
Total revenues	60,432,594	(4,276,006)	56,156,588
Expenses:			
Program services			
University support	33,380,245	—	33,380,245
Academic and institutional	2,636,605	—	2,636,605
Scholarships and awards	8,560,216	—	8,560,216
Total program services expense	44,577,066	—	44,577,066
Operating expenses			
Fundraising efforts	3,652,417	—	3,652,417
General and administrative	4,001,461	—	4,001,461
Investment management costs	1,623,924	—	1,623,924
Other miscellaneous	1,406,641	—	1,406,641
Total operating expenses	10,684,443	—	10,684,443
Change in net assets before Nonoperating items	5,171,085	(4,276,006)	895,079
Nonoperating expenses	—	(117,353)	(117,353)
Payments to beneficiaries and change in liabilities to external beneficiaries	18,750	533,277	552,027
Change in net assets	5,189,835	(3,860,082)	1,329,753
Net assets, beginning of year as previously stated	20,014,041	280,196,091	300,210,132
Reclassification Due to Adoption of Standard	155,490	(155,490)	—
Net assets, beginning of year, as reclassified	20,169,531	280,040,601	300,210,132
Net assets, end of year	$ 25,359,366	$ 276,180,519	$ 301,539,885

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

Montana State University
(a component unit of the State of Montana)
Consolidated Statements of Cash Flows
As of and for Each of the Years Ended June 30

	2019	2018
Cash flows from operating activities:		
Tuition and fees	$ 195,755,503	$ 188,228,770
Federal appropriations	5,650,820	5,797,738
Federal grants and contracts	82,541,184	72,308,606
State grants and contracts	7,492,523	7,174,852
Private grants and contracts	11,762,177	11,179,087
Grant and contract facilities and administrative cost recoveries	19,710,820	17,926,541
Educational, public service and outreach revenues	25,735,026	26,709,420
Sales and services of auxiliary enterprises	58,440,823	56,774,041
Interest on loans receivable	322,368	308,856
Other operating receipts	4,660,100	2,362,886
Compensation and benefits	(351,901,091)	(338,758,499)
Operating expenses	(162,559,735)	(156,330,881)
Scholarships and fellowships	(24,729,322)	(24,564,994)
Loans made to students and federal loan funds repaid	(681,655)	(5,241,295)
Loan payments received	3,591,311	3,495,669
Net cash used in operating activities	(124,209,148)	(132,629,203)
Cash flows from noncapital financing activities:		
Receipts (disbursements) of funds held in trust for others	(680,417)	1,116,817
Direct lending proceeds	90,476,617	92,973,889
Direct lending disbursements	(90,476,617)	(92,973,889)
State and local appropriations	126,254,008	123,299,124
Federal Pell grant funds received	24,934,250	25,481,314
Gifts and contributions	19,367,827	18,729,948
Land grant income (see note 2)	2,444,006	2,427,062
Repayment of long-term operating advance from primary government	(63,096)	(61,559)
Additions to permanent endowment	16,043	31,987
Net cash provided by noncapital financing activities	172,272,621	171,024,693
Cash flows from capital financing activities:		
Purchase of capital assets	(59,989,220)	(58,942,356)
Proceeds from sale of capital assets	622,257	378,341
Gifts restricted for capital purchase	13,198,559	27,192,798
Other capital financing activities	1,922,549	(86,743)
Proceeds from borrowings	4,236,070	58,489,336
Debt principal repayment	(15,757,956)	(12,453,609)
Advances from primary government	4,232,106	30,000
Repayment of advances from primary government	(1,853,911)	(1,981,794)
Interest paid	(8,634,177)	(7,378,886)
Net cash provided by (used in) capital financing activities	(62,023,723)	5,247,087
Cash flows from investing activities:		
Purchase of investments	(1,208,543)	(41,184,092)
Proceeds from sale of investments	19,921,427	50,605
Investment income	6,221,525	3,999,650
Net cash provided by (used in) investing activities	24,934,409	(37,133,837)
Net change in cash and cash equivalents	10,974,159	6,508,740
Cash and equivalents at beginning of year	225,797,366	219,288,626
Cash and equivalents at end of year	$ 236,771,525	$ 225,797,366

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

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

Reconciliation of Operating Loss to Net Cash Used in Operations

	2019	2018
Operating loss	$ (171,916,598)	$ (173,868,270)
Noncash income and expense:		
Depreciation and amortization on capital assets	36,437,652	34,888,232
Provision for uncollectible accounts	861,645	1,003,325
Changes in operating assets and liabilities, deferred inflows and deferred outflows:		
Accounts and grants receivable	57,498	(3,818,827)
Loans receivable	3,041,978	(1,126,721)
Inventories	(104,027)	476,333
Prepaid expenses	304,322	(1,546,847)
Accounts payable and other accrued liabilities	4,660,537	3,474,236
Net pension obligation and related deferred inflows and outflows	1,528,349	6,481,225
Unearned revenue	(267,067)	530,620
Compensated absences	911,435	1,122,548
Amounts due to Federal government	275,128	(245,057)
Net cash used in operations	$ (124,209,148)	$ (132,629,203)

Schedule of noncash financing and investing activities

	2019	2018
Capital assets contributed to the University	$ 586,224	$ 4,330,948
State of Montana direct contributions to pension plans	$ 1,850,997	$ 1,561,150
Capital assets acquired through issuance of capital lease obligations	$ 84,287	$ 56,161
Capital assets acquired via trade-in	$ 55,951	$ 21,840
Bond issue costs, discounts, premiums and deferred loss on refunding amortized or written off to interest expense (net)	$ (607,895)	$ (854,724)
Net increase (decrease) in fair value of investments	$ 1,224,188	$ (909,924)

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

	2019	2018
Cash and cash equivalents classified as current assets	$ 236,693,698	$ 225,720,976
Cash and cash equivalents classified as noncurrent assets	77,828	76,390
Total cash and cash equivalents as reported on the Statements of Cash Flows	$ 236,771,526	$ 225,797,366

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 interentity 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 Comprehensive Annual Financial Report (CAFR).

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. Effective July 1, 2014, the University implemented the requirements of GASB Statement Number 68, *Accounting and Financial Reporting for Pensions*, which resulted in a reduction of fund balance at that date of $76,365,114. See Note 15 for further details.

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 are considered cash equivalents, unless the Montana Board of Investments 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 derivatives 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 noncurrent 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, nonexpendable – 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 nonoperating 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.

Nonoperating revenues – include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable 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 –

Beginning July 1, 2017, the University adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement established new accounting and financial reporting requirements for governments whose employees are provided with OPEB (postemployment benefits other than pensions), as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This statement required recording of the University's postretirement health care liability in its entirety, and also changed the methodology used to measure the liability. The result of adoption was to reduce the amount recorded on the balance sheet as a postretirement health care liability by $45.5 million beginning with July 1, 2017.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Statement No. 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred, and should no longer be capitalized as part of the cost of an asset. The University adopted Statement No. 89 for the year ended June 30, 2018, which resulted in higher interest cost reported on the Statement of Revenues, Expenses and Changes in Net Position than had been reported in earlier years.

In August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Montana State University's component units have implemented ASU 2016-14 in FY19 and have adjusted the presentation in the consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

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. The provisions in Statement No. 87 are effective for reporting periods beginning after December 15, 2019, which is the University’s fiscal year ending June 30, 2021.

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.

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 $97,421,239 at June 30, 2019 and $98,783,360 at June 30, 2018.

Cash equivalents – These amounts consist of cash held by trustees as well as $132,330,863 and $116,001,534 of the amount invested in the Short Term Investment Pool (STIP) with the Montana Board of Investments at June 30, 2019 and 2018, respectively.

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 Montana Board of Investments 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, 2019 and 2018:

	Fair Value		Moody's Credit Quality Rating at June 30, 2019	Effective Duration (years) or Weighted Average Maturity (days) at June 30,2019	Basis of Valuation or Fair Value Level	Liquidity of NAV Assets
Security Type	**2019**	**2018**				
State of Montana Short Term Investment Pool	$ 132,330,863	$ 116,001,534	NR***	Weighted average maturity for the pool 41 days	Net Asset Value	Daily
U. S. Bank Money Market Funds collateralized by U.S. Bank pool, not in the University's name)	$ 6,542,965	$ 10,204,921	P-1	N/A	Cash equivalents, carried at amortized cost	
State of Montana Trust Fund Investment Pool*	$ 17,304,297	$ 16,568,109	NR***	5.45	Net Asset Value	Monthly
Foundation Pooled Cash Equivalents and Investments**	$ 9,827,622	$ 9,871,257	NR***	N/A**	Net Asset Value	No formal liquidity agreement
Non-hedging derivative investment value	$ 255,743	$ 56,181	A3	16.38	Level 2	
US Government Obligations	$ 23,290,240	$ 41,616,032	Aaa	0.92	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), including the provision that the appropriation for expenditure of an amount greater than 7% of the fair market value of an endowment fund (calculated on the basis of market values averaged over a period of not less than three preceding years) creates a rebuttable presumption of imprudence. 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. 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 Board of Investments (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 Board retains all rights and risks of ownership during the loan period. The custodial bank indemnifies the Board's credit risk exposure to the borrowers. The University's allocated portion of security lending cash collateral was $199,163 at June 30, 2019 and $230,683 at June 30, 2018.

During the fiscal year, the custodial bank loaned the Board'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 years 2019 and 2018 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 years 2019 and 2018 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 Board 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 36 days and the average weighted final maturity was 109 days within the Navigator portfolio in 2019 and the average duration was 10 days and the average weighted final maturity was 70 days within the Navigator portfolio for 2018.

As of October 2016, STIP no longer participated in the securities lending program; as such, STIP no longer has securities on loan, and all of the University's Security Lending transactions arise from its investment in the TFIP.

Investment risks – The University's investments are concentrated primarily with the State of Montana and with US Bank. Investments at US Bank are primarily in US Government Obligations; therefore, 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 Board of Investments 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 the risk that an issue or other counterparty to an investment will not fulfill its obligation. As the University only invests its funds with the State of Montana, its Foundations and in the case of bond proceeds must be invested in accordance with restrictions in the University's bond indenture, a credit risk policy specific to the University has not been adopted.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Board 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 invests its funds with the State of Montana, its Foundations and from time to time through other institutions in the case of bond proceeds in accordance with restrictions in the University's bond indenture. As such, a specific custodial credit risk policy has not been adopted. Information with respect to the pooled investments held at the MSU Foundation is included in Note 20 to 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 certain funds with its Foundations. 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. As the University only invests its funds with the State of Montana, its Foundations and in the case of bond proceeds must be invested in accordance with restrictions in the University's bond indenture, an interest rate risk policy specific to the University has not been adopted.

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:

	2019	2018
Accounts receivable	$ 11,740,252	$ 11,791,209
Other receivables, including private grants and contracts	3,703,684	7,957,858
Gross accounts and grants receivable	15,443,936	19,749,067
Less allowance for uncollectible accounts	(5,624,513)	(5,326,328)
Net accounts and grants receivable	$ 9,819,423	$ 14,422,739

NOTE 4 – INVENTORIES

Inventories consisted of the following as of June 30:

	2019	2018
Bookstore	$ 657,775	$ 598,799
Food services	297,349	313,043
Facilities services	818,752	796,404
Livestock	706,864	624,624
Other	377,912	421,755
Total inventories	$ 2,858,652	$ 2,754,625

NOTE 5 – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses consisted of the following as of June 30:

	2019	2018
Library subscriptions	$ 2,251,464	$ 2,238,805
Other (including summer session payments)	3,358,157	3,629,567
Total prepaid expenses	$ 5,609,621	$ 5,868,372

NOTE 6 – LOANS RECEIVABLE

Student loans made under the Federal Perkins Loan Program constitute the majority of the University's loan balances. Included in noncurrent liabilities as of June 30, 2019 and 2018 related to the program are $22,596,074 and $22,322,967 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 years ended June 30, 2019 and 2018:

	Year Ended June 30, 2019				
	Balance July 1, 2018	Additions	Retirements	Transfers	Balance June 30, 2019
Capital assets not being depreciated:					
Land	$ 8,322,536	$ —	$ —	$ —	$ 8,322,536
Museum and fine art	6,105,267	—	(5,500)	—	6,099,767
Library special collections	3,750,765	32,512	—	—	3,783,277
Livestock for educational purposes	3,913,399	185,890	(6,781)	—	4,092,508
Construction work-in-progress	52,379,807	49,541,572	(19,207)	(64,722,550)	37,179,622
Total capital assets not being depreciated	**74,471,774**	**49,759,974**	**(31,488)**	**(64,722,550)**	**59,477,710**
Other capital assets:					
Furniture and equipment	162,717,826	9,390,465	(6,554,604)	58,740	165,612,427
Library materials	67,778,544	726,574	(853,619)	—	67,651,499
Buildings	405,484,258	18,406	(1,618,375)	49,957,908	453,842,197
Building improvements	282,564,629	493,635	(3,515,865)	6,106,650	285,649,049
Land improvements	26,047,616	53,593	(644,730)	5,062,279	30,518,758
Infrastructure	44,999,302	—	—	—	44,999,302
Leasehold Improvements	3,809,831	—	(29,284)	3,536,973	7,317,520
Total other capital assets	993,402,006	10,682,673	(13,216,477)	64,722,550	1,055,590,752
Accumulated depreciation	(570,731,476)	(34,834,583)	12,005,667	—	(593,560,392)
Other capital assets, net	**422,670,530**	**(24,151,910)**	**(1,210,810)**	**64,722,550**	**462,030,360**
Intangible assets, net	**2,182,254**	**1,466,025**	**(1,603,069)**	**—**	**2,045,210**
Capital Assets, net	**$ 499,324,558**	**$ 27,074,089**	**$ (2,845,367)**	**$ —**	**$ 523,553,280**

	Year Ended June 30, 2018				
	Balance July 1, 2017	Additions	Retirements	Transfers	Balance June 30, 2018
Capital assets not being depreciated:					
Land	$ 8,322,536	$ —	$ —	$ —	$ 8,322,536
Museum and fine art	5,955,289	141,224	—	8,754	6,105,267
Library special collections	3,708,754	42,011	—	—	3,750,765
Livestock for educational purposes	3,858,315	64,204	(9,120)	—	3,913,399
Construction work-in-progress	38,638,431	46,030,171	(22,558)	(32,266,237)	52,379,807
Total capital assets not being depreciated	**60,483,325**	**46,277,610**	**(31,678)**	**(32,257,483)**	**74,471,774**
Other capital assets:					
Furniture and equipment	162,400,636	9,528,610	(9,540,437)	329,017	162,717,826
Library materials	66,776,459	1,129,617	(127,532)	—	67,778,544
Buildings	373,663,250	4,507,424	(144,211)	27,457,795	405,484,258
Building improvements	279,854,209	221,255	(112,530)	2,601,695	282,564,629
Land improvements	25,033,310	322,520	(202,512)	894,298	26,047,616
Infrastructure	44,819,771	179,531	—	—	44,999,302
Leasehold Improvements	3,245,970	—	—	563,861	3,809,831
Total other capital assets	955,793,605	15,888,957	(10,127,222)	31,846,666	993,402,006
Accumulated depreciation	(546,219,558)	(33,883,106)	9,371,188	—	(570,731,476)
Other capital assets, net	**409,574,047**	**(17,994,149)**	**(756,034)**	**31,846,666**	**422,670,530**
Intangible assets, net	**1,589,166**	**1,187,397**	**(1,005,126)**	**410,817**	**2,182,254**
Capital Assets, net	**$ 471,646,538**	**$ 29,470,858**	**$ (1,792,838)**	**$ —**	**$ 499,324,558**

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.

Physical Damage-Gyms with Structural Damage

On March 7, 2019 the south gym roof collapsed and on Saturday, March 9, 2019, the north gym roof due to snow pack. Management of the university considers the event to be both unusual in nature and infrequent in occurrence, as defined by GASB 42. The gyms were constructed in 1973 at a cost of $1,545,300 and in 2008 a substantial improvement was constructed for $14,684,289. In 2019, after 46 years of service, the excessive snowpack caused severe structural problems to both gyms and a wall to the building improvement was damaged. Due to safety concerns, the gyms were demolished, and a portion of the fitness center was closed pending reconstruction of the wall and was subsequently reopened in the fall of 2019. The cost to rebuild the gyms is covered by insurance as described in Note 16-Risk Management.

The magnitude of the physical damage is considered significant. Both the ongoing costs associated with the gyms and the estimated repair costs are considered significant in relation to the service period, because the gyms cannot be used until structural repairs are made. The repairs are expected to take years. Roof collapse caused by snowpack is not considered part of the normal life cycle of a building. Impairment loss using the restoration costs approach is determined as follows:

Year built:		2008
Historical cost:	$	14,684,289
Accumulated depreciation:		10,931,637
Carrying value, March 2019	$	3,752,652
Replacement cost (est):		24,200,000
Restoration cost (est):		1,350,000
Ratio:		5.58%
Impairment loss (CV x ratio):	$	209,398

Insurance proceeds received as of June 30, 2019 were related to operating expenses incurred. No insurance proceeds related to reconstruction were received.

Other non-current assets –

Amounts as of June 30, 2019 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:

	2019	2018
Compensation, benefits and related liabilities	$ 22,241,497	$ 21,242,399
Accrued interest expense	920,251	959,119
Accounts payable and other accrued liabilities	29,920,905	24,224,783
Total	$ 53,082,653	$ 46,426,301

NOTE 9 – UNEARNED REVENUES

Unearned revenues consisted of the following as of June 30:

	2019	2018
Grant and contract funds received in advance	$ 5,341,211	$ 5,216,120
Summer session payments received in advance	6,980,483	7,502,026
Other unearned revenues	1,734,206	1,607,184
Total	$ 14,055,900	$ 14,325,330

NOTE 10 – NON-CURRENT LIABILITIES AND DERIVATIVE INSTRUMENTS

Following are the changes in noncurrent liabilities for the years ended June 30, 2019 and 2018:

	Year Ended June 30, 2019				
	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019	Amounts due within one year
Bonds, notes payable, and capital lease obligations					
Bonds payable, net of discount	$ 188,379,196	$ —	$ (11,659,137)	$ 176,720,059	$ 9,685,000
Bonds payable, direct placement	16,455,000	—	(396,942)	16,058,058	408,617
Notes and other long-term liabilities	2,031,118	348,139	(754,481)	1,624,776	847,850
Capital lease obligations	176,330	84,287	(78,118)	182,499	66,150
Total bonds, notes and capital lease obligations	$ 207,041,644	$ 432,426	$ (12,888,678)	$ 194,585,392	$ 11,007,617
Compensated absence liability	$ 33,871,054	18,054,161	(17,180,182)	$ 34,745,033	$ 18,218,377
Advances from primary government – Intercap	$ 10,021,110	4,178,106	(1,366,708)	$ 12,832,508	$ 1,458,466
Advances from primary government - MSTA	$ 4,681,023	—	(63,095)	$ 4,617,928	$ 64,672
Advances from primary government - DEQ	$ 3,900,981	54,000	(487,203)	$ 3,467,778	$ 430,736
Amounts due to Federal government	$ 22,322,967	275,258	(2,151)	$ 22,596,074	$ —
OPEB liability— implicit rate subsidy for retiree health insurance (beginning balance as restated)	$ 18,130,942	2,713,008	(480,153)	$ 20,363,797	$ —
Net pension liability	$ 96,956,044	58,529	(14,590,135)	$ 82,424,438	$ —
Derivative instrument liability	$ 3,080,342	1,147,091	—	$ 4,227,433	$ —

	Year Ended June 30, 2018				
	Balance June 30, 2017 (restated)	Additions	Reductions	Balance June 30, 2018	Amounts due within one year
Bonds, notes payable, and capital lease obligations					
Bonds payable, net of discount	$ 147,740,430	$ 51,889,483	$ (11,250,717)	$ 188,379,196	$ 10,590,000
Bonds payable, direct placement	10,455,000	$ 6,000,000	$ —	16,455,000	396,942
Notes and other long-term liabilities	1,972,017	711,920	(652,819)	2,031,118	892,750
Capital lease obligations	205,602	58,818	(88,090)	176,330	69,596
Total bonds, notes and capital lease obligations	$ 160,373,049	$ 58,660,221	$ (11,991,626)	$ 207,041,644	$ 11,949,288
Compensated absence liability	$ 33,140,412	17,160,105	(16,429,463)	$ 33,871,054	$ 17,409,616
Advances from primary government – Intercap	$ 11,490,245	—	(1,469,135)	$ 10,021,110	$ 1,315,578
Advances from primary government - MSTA	$ 4,742,584	—	(61,561)	$ 4,681,023	$ 63,096
Advances from primary government - DEQ	$ 4,383,641	30,000	(512,660)	$ 3,900,981	$ 487,204
Amounts due to Federal government	$ 22,568,023	259,598	(504,654)	$ 22,322,967	$ —
OPEB liability— implicit rate subsidy for retiree health insurance	$ 17,452,654	1,794,590	(1,116,302)	$ 18,130,942	$ —
Net pension liability	$ 88,135,198	23,432,474	(14,611,628)	$ 96,956,044	$ —
Derivative instrument liability	$ 4,188,552	—	(1,108,210)	$ 3,080,342	$ —

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

Derivative financial instruments –

Description

The University has two interest rate swaps as of June 30, 2019. 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, 2019:

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, 2019, 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 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.

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 years ended June 30, 2019 and 2018.

The fair value of the fixed payer swap liability as of June 30, 2019, 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 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 2019		Fair Value as of June 30, 2019	
Type of derivative	Notional	Classification	Amount	Classification	Amount
Cash flow hedge -					
Pay fixed interest rate swap	$ 19,025,000	Interest expense	$ 18,136	Loan receivable	$ 211,776
		Investment income	$ —		
		Deferred outflow increase/ (decrease)	$ 1,147,091		
				Derivative liability	$ 4,227,433
Investment derivative -					
Basis swap	$ 19,025,000	Investment expense	$ 199,562	Investment	$ 255,743

		Activity During 2018		Fair Value as of June 30, 2018	
Type of derivative	Notional	Classification	Amount	Classification	Amount
Cash flow hedge -					
Pay fixed interest rate swap	$ 19,800,000	Interest expense	$ 20,048	Loan receivable	$ 229,912
		Investment income	$ —		
		Deferred outflow increase/ (decrease)	$ (1,108,209)		
				Derivative liability	$ 3,080,342
Investment derivative -					
Basis swap	$ 19,800,000	Investment loss	$ 411,895	Investment (excluding interest accrued)	$ 56,181

The objective and terms of the University's hedging derivative outstanding as of June 30, 2019 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 J 2005 Bonds	$19,025,000	7/21/2005	11/15/2035	—	Pay 3.953% Receive SIFMA

Credit Risk
As of June 30, 2019, counterparty ratings were A3 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 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 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, 2019, 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 derivatives 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	2019	2018
Series 2005 J	2.16%*	$ —	$ 19,800,000
Series 2011 M	3.00%	575,000	760,000
Series 2012 N	2.75%-4.00%	17,335,000	18,115,000
Series 2012 O	2.057%-3.09%	16,475,000	20,755,000
Series 2013 A	4.00% – 5.00%	52,310,000	53,400,000
Series 2014 B	2.16%*	—	2,010,000
Series 2016 C	2.92%	16,058,058	16,455,000
Series 2017 D	2.00% – 5.00%	17,945,000	19,415,000
Series 2018 E	3.00%-5.00%	44,800,000	44,800,000
Series 2018 F	2.35%*	19,025,000	—
Total principal outstanding		$ 184,523,058	$ 195,510,000

* The interest rate on the Series J, Series B and Series F is variable and adjusted weekly.

Revenue bonds are payable as follows:

	Bonds Payable		Direct Placement Bonds			
During the year ending June 30,	Principal	Interest	Principal	Interest	Net Hedging Derivative Interest	Total
2020	$ 9,684,999	$ 6,521,791	$ 408,617	$ 465,934	$ 382,439	$ 17,463,780
2021	9,955,000	6,202,452	420,636	453,915	366,269	17,398,272
2022	10,360,001	5,877,495	433,008	441,543	349,340	17,461,387
2023	6,275,000	5,595,483	445,744	428,807	331,631	13,076,665
2024	6,580,000	5,368,821	458,855	415,696	313,163	13,136,535
2025 - 2029	32,300,000	22,540,399	2,504,837	1,867,918	1,258,932	60,472,086
2030 - 2034	29,695,000	17,358,955	2,895,530	1,477,226	656,482	52,083,193
2035 - 2039	25,700,000	11,675,286	3,347,161	1,025,595	63,128	41,811,170
2040 - 2044	26,975,000	5,835,873	3,869,236	503,520	—	37,183,629
2045 - 2049	10,940,000	844,065	1,274,434	37,393	—	13,095,892
Total cash requirements	168,465,000	$ 87,820,620	16,058,058	$ 7,117,547	$ 3,721,384	$ 283,182,609
Unamortized premium (discount) net	8,255,059		—			
Bond payable, net	$ 176,720,059		$ 16,058,058			

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 B 2014, January 31, 2014 – In January 2014, the University issued $10,000,000 in Series B 2014 Facilities Improvement Revenue Bonds to fund the construction of a new academic building on the Bozeman campus. The bonds were a direct placement with Wells Fargo Bank. The bonds contained an index rate mode whereby the interest rate was reset periodically at SIFMA plus an applicable spread based on the term of the rate period. Payments were scheduled each January and amortized over a 5-year term at the greater of: 1) a minimum of $500,000 per year, or 2) 85% of pledge receipts, so long as there was no more than $8,000,000 outstanding at the time the index floating rate mode matures. The bonds were secured by a first lien on and pledge of the net pledged revenues, as described in Note 17. These bonds were fully redeemed in fiscal year 2019.

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 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 J 2005, July 21, 2005 – In July 2005, the University issued $25.75 million of Series J 2005 Auction Rate Facilities Improvement Revenue Bonds to fund the majority of a student facilities enhancement project on the Bozeman campus. The proceeds, together with University funds, were used to renovate the student fitness center, construct a theater, and renovate portions of the Strand Union Building. The bonds are being repaid with a combination of student fees and auxiliary operations revenues. Principal payments continue each May and November through November, 2035. On September 11, 2008, the University remarketed these bonds as Variable Rate Demand Bonds in the daily mode, whereas they had previously been marketed as Municipal Auction Rate Securities in the weekly mode. The bonds were remarketed without bond insurance, because variable rate instruments backed by a direct-pay letter of credit were trading at more attractive rates from the bond issuer's perspective, which is a result of the insurer's downgrading and general market conditions. The bonds are no longer insured by Ambac; instead, the University entered into a Letter of Credit and Reimbursement Agreement with Wachovia Bank, NA ("Wachovia"), for a term of two years, in which Wachovia assumed a direct-pay responsibility for the bonds. Wachovia Bank was subsequently purchased by Wells Fargo. Because the letter of credit was scheduled to terminate in September of 2010, the University sought pricing on a renewed letter of credit as well as a direct-placement transaction. After reviewing several options, the University selected the direct-placement transaction, and on September 10, 2010, amended its bond indenture to permit issuance of the Series J bonds in the indexed floater mode, re-issuing the bonds in whole to Wells Fargo Bank. In place of a letter of credit fee, the University pays Wells Fargo Bank a pre-determined basis point spread over and above the SIFMA weekly indexed rate. Principal payment amounts and dates remained the same as they were prior to the remarketing.

In September 2013, the University entered into a 5-year renewal of its direct purchase agreement with Wells Fargo Bank relative to its Series J 2005 bonds, at a rate of 0.65% above SIFMA. In September 2018, the University refunded the Series J bonds with the issuance of Series F variable rate debt in the same principal amount.

Series K 2006, July 26, 2006 – In July 2006, the University issued its Series K refunding debt in the principal amount of $13.71 million. The proceeds were used to refund portions of the Series E 1998 and Series D 1996 debt, and resulted in an economic gain to the University of $704,468. The proceeds of the Series K 2006 bonds were used to acquire United States Government 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 $7,315,000 Series D

1996 bonds maturing on and after November 15, 2007 (which were redeemed at par on November 15, 2006), and to pay, when due, at maturity or upon redemption, the principal of and interest on the $5,840,000 Series E 1998 bonds that were refunded. The refunded Series D 1996 bonds and Series E 1998 bonds are no longer considered to be outstanding under the Indenture. In July 2017, the remaining Series K bonds were refunded.

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. See further discussion herein.

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 $2.1 million as of June 30, 2019 and $2.7 million as of June 30, 2018. 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	2019	2018
Hobson Inc - *Radius Software*	—	10/31/2019	$ —	$ 160,710
PNC Equipment Finance - *Stadium Turf*	—	4/15/2019	185,810	371,620
Kaufmann Hall - *Axiom Software*	—	3/2/2022	300,000	400,000
EPlus - *Vmware*	—	7/29/2019	199,851	199,851
Topaz Technology - *Protocol Software*	—	12/31/2020	27,500	—
Campus Labs - *Idea Course Software*	—	6/30/2021	128,085	—
Campus Labs - *Engage Software*	—	12/31/2021	80,485	—
Accruent, LLC - *Famis Software*	—	6/30/2020	55,484	81,863
MSU-Northern Foundation - Consolidated Foundation Loan	6.00%	10/01/19	205,169	425,169
Total note principal outstanding			$ 1,182,384	$ 1,639,213

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

	Principal	Interest	Total
2020	$ 847,850	$ 12,310	$ 860,160
2021	234,534	—	234,534
2022	100,000	—	100,000
Total	$ 1,182,384	$ 12,310	$ 1,194,694

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 Montana Board of Investments Intercap bonds, and is adjusted each February. The rate as of June 30, 2019 was 3.37%. 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 Board of Investments. 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
2020	$1,458,466	$ 419,074	$ 64,672	$ 115,328	$ 430,736	$ 120,017	$ 2,608,293
2021	1,481,875	370,771	66,287	113,713	423,693	103,701	2,560,040
2022	1,385,125	321,306	67,942	112,058	440,042	87,353	2,413,826
2023	1,256,850	275,379	69,639	110,361	450,645	70,248	2,233,122
2024	1,199,571	234,176	71,378	108,622	347,072	52,798	2,013,617
2025 - 2029	4,448,532	615,278	384,538	515,462	1,141,626	123,237	7,228,673
2030 - 2034	1,602,089	127,209	435,015	464,985	173,123	22,565	2,824,986
2035 - 2039	—	—	492,117	407,883	60,841	3,686	964,527
2040 - 2044	—	—	556,714	343,286	—	—	900,000
2045 - 2049	—	—	629,791	270,209	—	—	900,000
2050 - 2054	—	—	712,461	187,539	—	—	900,000
2055 - 2059	—	—	805,981	94,019	—	—	900,000
2060 - 2064	—	—	261,393	8,607	—	—	270,000
Total	$ 12,832,508	$ 2,363,193	$ 4,617,928	$ 2,852,072	$ 3,467,778	$ 583,605	$ 26,717,084

NOTE 12 – CAPITAL LEASE OBLIGATIONS

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

Payable during the year ending June 30,	Principal and Interest
2020	$ 76,446
2021	60,470
2022	38,225
2023	22,013
2024	5,066
Total payments	202,220
Less amount representing interest	(19,721)
Principal balance outstanding	$ 182,499

Assets acquired under capital leases consist mainly of photocopiers. Such assets are carried at a cost of $381,301 less accumulated depreciation of $184,646 as of June 30, 2019.

NOTE 13 – NET POSITION

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

	2019	2018
Board of Regents' approved reserves	$ 24,946,279	$ 23,695,581
Other designated purposes	51,345,380	46,453,235
Total unrestricted net position	$ 76,291,659	$ 70,148,816

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.

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

	2019	2018
Restricted - nonexpendable:		
Endowments	$ 8,541,893	$ 8,620,028
Loans	4,838,108	4,785,422
Total restricted - nonexpendable	$ 13,380,001	$ 13,405,450
Restricted - expendable:		
Scholarships	$ 814,186	$ 1,071,966
Research and other	6,117,961	5,509,717
Loans	408,085	407,862
Construction and renewal of plant facilities	4,963,139	5,001,073
Debt retirement	5,352,171	5,431,561
Total restricted - expendable	$ 17,655,542	$ 17,422,179

NOTE 14 – OPERATING EXPENSES

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

	2019	2018
Instruction	$ 145,505,313	$ 144,124,579
Research	116,750,882	108,233,005
Public service	37,099,176	34,502,790
Academic support	39,745,158	39,485,604
Student services	46,248,698	44,860,520
Institutional support	32,737,629	31,800,072
Plant-related expenses	41,747,435	43,309,523
Auxiliary enterprises	62,160,772	59,155,979
Scholarships and fellowships	24,729,321	24,564,993
Depreciation and amortization	36,437,652	34,888,232
	$ 583,162,036	$ 564,925,297

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

	2019	2018
Compensation and benefits	$ 340,072,953	$ 325,764,912
Pension	13,498,882	17,823,200
OPEB	1,796,245	1,930,659
Supplies and service	96,349,392	88,705,268
Travel	12,934,480	13,013,104
Utilities	9,433,498	9,954,502
Other operating expenses	47,909,613	48,280,427
Scholarship and fellowships	24,729,321	24,564,993
Depreciation and amortization	36,437,652	34,888,232
	$ 583,162,036	$ 564,925,297

NOTE 15 – RETIREMENT, TERMINIATION 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 one defined contribution plan exist for a key employee of the University, each for a payment of $500,000 plus applicable employer payroll taxes. The defined benefit plan has vested, while the defined contribution plan has not. The MSU Alumni Foundation has agreed to reimburse the University for the 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.

Pension data for the year ended June 30, 2019 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*	$160,421,723	$197,983	$99,582	$3,055,613
Employer contributions/expense	$9,862,538	$13,792	$4,737	$264,804
% of covered payroll	5.956%-8.67%	7.00%-8.00%	—	8.67%
Employee contributions	$11,398,540	$13,792	$1,869	$241,285
% of covered payroll	7.044%-7.90%	7.00%-8.00%	—	7.90%

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

Pension data for the year ended June 30, 2018 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*	$153,460,501	$196,368	$178,757	$2,623,958
Employer contributions/expense	$9,442,550	$18,251	$12,209	$224,844
% of covered payroll	5.956%-8.33%	7.00%-8.00%	—	8.57%
Employee contributions	$10,887,268	$22,279	$713	$207,265
% of covered payroll	7.044%-7.90%	7.00%-8.00%	—	7.90%

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

Total payroll for 2019 and 2018 was $263,935,823 and $256,099,555, respectively. 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
2015	$17,718,156	$81,840	$49,489	$362,359
2016	$18,643,731	$80,135	$47,750	$336,854
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

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:

	2019			
	TRS	**PERS**	**GWPORS**	**Total**
Net Pension Liability	$14,016,684	$67,104,384	$1,303,370	$82,424,438
Deferred Outflows of Resources	$16,878,007	$15,831,157	$499,482	$33,208,646
Deferred Inflows of Resources	$332,672	$12,363,668	$96,495	$12,792,835
Pension Expense (including state share paid on behalf of the University)	$6,422,284	$6,871,425	$205,173	$13,498,882

	2018			
	TRS	**PERS**	**GWPORS**	**Total**
Net Pension Liability	$14,368,327	$81,386,415	$1,201,302	$96,956,044
Deferred Outflows of Resources	$14,872,998	$19,566,197	$448,075	$34,887,270
Deferred Inflows of Resources	$145,412	$1,407,301	$82,965	$1,635,678
Pension Expense (including state share paid on behalf of the University)	$6,682,529	$10,918,577	$222,094	$17,823,200

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 each year may vary from 0.5% to 1.5% based on the retirement system’s funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation.

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

			Percent of Collective NPL at June 30,		Increase (Decrease) in Percent of Collective NPL
	2019	2018	2019	2018	
University Proportionate Share	$ 14,016,684	$ 14,368,327	0.76%	0.85%	(0.09)%
State of Montana Proportionate Share associated with the University	4,927,408	5,183,426	0.27%	0.32%	(0.05)%
Total	$ 18,944,092	$ 19,551,753	1.03%	1.17%	(0.14)%

The NPL was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018. 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of TRS' participating employers.

TRS Changes between the measurement date and reporting date

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

TRS Pension Expense

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

	2019	2018
University expense	$ 6,011,555	$ 6,285,626
State of Montana expense/ University revenue recognized	410,729	396,903
Total	$ 6,422,284	$ 6,682,529

TRS Deferred Inflows and Outflows

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

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 100,026	$ 8,747	$ 52,841	$ 21,482
Changes in actuarial assumptions	1,142,580	20,750	—	60,069
Difference between projected and actual investment earnings	—	126,524	—	56,860
Difference between actual and expected contributions	7,454,353	176,651	6,782,030	7,001
Contributions paid to TRS subsequent to the measurement date *	8,181,048	—	8,038,127	—
Total	$ 16,878,007	$ 332,672	$ 14,872,998	$ 145,412

*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, 2020.

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	
2020	$	4,259,717
2021	$	3,039,099
2022	$	1,130,532
2023	$	(65,258)

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.

As of June 30, 2019, MCA 19-20-605 requires each employer to contribute 11.35% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position. Pursuant to MCA 19-20-609, this amount shall increase by 0.10% each fiscal year through 2024 until the total employer contribution is equal to 11.85% of re-employed retiree compensation.

TRS Actuarial Assumptions

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

- Total Wage Increases* — 4.25% for University members, 3.25%-7.76% for non-University members
- Investment Return — 7.50%
- Price Inflation — 2.50%
- 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 7.50%. 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 2126. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability**.** No municipal bond rate was incorporated in the discount rate.

TRS Target Allocations

Asset Class	Target Asset Allocation	Long Term Expected Real Rate of Return
Domestic Equity	35.00%	6.68%
International Equity	18.00%	6.98%
Private Equity	10.00%	10.15%
Natural Resources	3.00%	4.09%
Core Real Estate	7.00%	5.38%
TIPS	3.00%	1.78%
Intermediate Duration Bonds	19.00%	2.15%
High Yield Bonds	3.00%	4.36%
Cash	2.00%	0.81%
	100.00%	

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2013 through 2017, as outlined in a report dated May 3, 2018. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation). Estimates of variability and correlations for each asset class were developed by the systems investment consultant. These ranges were combined to develop the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The long-term rate of return assumption is intended to be a long-term assumption (30 to 50 years) and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The average long-term capital market assumptions published in the Survey of Capital Market Assumptions 2017 Edition by Horizon Actuarial Service, LLC, yield a median real return of 5.07%.

TRS Sensitivity Analysis

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

	Assuming 1.0% Decrease (6.50%)	At Current Discount Rate (7.50%)	Assuming 1.0% Increase (8.50%)
University proportion of Net Pension Liability	$19,273,367	$14,016,684	$9,613,795

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, 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 .77% effective July 1, 2017).
  - No service credit for second employment;
  - Start the same benefit amount the month following termination; and
  - Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.
- 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; and
  - 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; and
  - 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%; and
  - 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 $33,454,182 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 $21.6 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
	2019	2018	2019	2018	
University Proportionate Share	$ 67,104,384	$ 81,386,415	3.22%	4.18%	(0.96)%

The NPL was measured as of June 30, 2018, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2018, with update procedures to roll forward the TPL to the measurement date of June 30, 2019. The University's proportion of the NPL was based on the University's contributions received by PERS during the measurement period July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERS' participating employers.

PERS Changes between the measurement date and the reporting date

There were no changes in proportion that would have and effect on the employer's proportionate share of the collective NPL.

PERS Pension Expense

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

	2019	2018
University share	$ 5,431,141	$ 9,754,330
State of Montana expense/ University revenue recognized	1,440,284	1,164,247
Total PERS Pension expense recognized	$ 6,871,425	$ 10,918,577

PERS Deferred Inflows and Outflows

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

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 5,102,839	$ —	$ 2,004,291	$ 117,801
Changes in actuarial assumptions	5,705,920	—	11,124,672	—
Difference between projected and actual investment earnings	—	1,042,129	—	546,596
Change in proportionate share	—	11,321,539	1,865,326	742,904
Difference in expected versus actual contributions	—	—	—	—
Contributions paid to PERS subsequent to the measurement date *	5,022,398	—	4,571,908	—
Total	$ 15,831,157	$ 12,363,668	$ 19,566,197	$ 1,407,301

*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, 2020.

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
2020	$ 2,100,654
2021	$ 1,138,063
2022	$ (4,365,123)
2023	$ (428,202)
2024	$ (428,202)

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 that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

PERS Employer contributions

- State and University employers are required to contribute 8.67% of members' compensation.
- Local government entities are required to contribution 8.57% of members' compensation.
- School district employers contributed 8.30% 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.

CAFR information including stand alone financial statements can be found at http://mpera.mt.gov/annualReports.shtml

Actuarial valuations and experience studies can be found at http://mpera.mt.gov.

PERS Actuarial Assumptions

The Total Pension Liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions.

- General wage growth* 3.5%
  *includes Inflation at 2.75%
- Merit increases 0% to 4.8%
- Investment return (net of expenses) 7.65%
- Administrative expense as a % of payroll 0.26%
- 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
- Post-retirement benefit increases
  - 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 7.65%. 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. 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 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

PERS Target Allocations

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%
	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, 2018, 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 (6.65%)	Current Discount Rate (7.65%)	1.0% Increase (8.65%)
The University's proportion of Net Pension Liability	$97,048,481	$67,104,384	$42,515,509

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 Peach 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, 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.

Second retirement:

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

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

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% 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
	2019	**2018**	**2019**	**2018**	
University Proportionate Share	$ 1,303,370	$ 1,201,302	3.18%	3.22%	(0.04)%

The Net Pension Liability as of June 30, 2019, was determined based on the Total Pension Liability using the actuarial valuation at June 30, 2018, with update procedures to roll forward the TPL to June 30, 2019.

GWPORS Changes between the measurement date and reporting date

There were no changes between the measurement date of the collective Net Pension Liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

Changes since the last measurement date

There were no changes made since the previous measurement date.

GWPORS Pension Expense

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

	2019	**2018**
University expense	$ 205,173	$ 222,094

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:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 246,157	$ —	$ 167,694	$ —
Changes in actuarial assumptions	112,253	—	151,193	—
Difference between projected and actual investment earnings	—	40,077	—	17,411
Changes in proportionate share	—	56,418	—	65,554
Contributions paid to GWPORS subsequent to the measurement date*	141,072	—	129,188	—
Total	$ 499,482	$ 96,495	$ 448,075	$ 82,965

* 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, 2020.

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
2020	$ 118,965
2021	$ 90,640
2022	$ 36,768
2023	$ 15,632
2024	$ —

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 members 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.

CAFR information including stand alone financial statements can be found at http://mpera.mt.gov/annualReports.shtml

Actuarial valuation and experience study can be found at http://mpera.mt.gov/actuarialvaluations.shtml

GWPORS Actuarial Assumptions

The Total Pension Liability is based on the results of an actuarial valuation date of June 30, 2018, with update procedures to roll forward the TPL to June 30, 2019. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2018 valuation were based on the results of the last actuarial experience study, dated May 2017 for the six year period July 1, 2010 to June 30, 2016. Among those assumptions were the following:

- General wage growth (includes inflation at 2.75%) 3.50%
- Merit increases 0% to 6.30%
- Investment return 7.65%
- Administrative expenses as a percent of payroll 0.17%
- 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 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana 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 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability**.** A municipal bond rate was not incorporated in the discount rate.

GWPORS Target Allocations

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%
	100.00%	

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the GWPORS. The most recent analysis, performed for the period covering fiscal years July 1, 2010 to June 30, 2016, is outlined in a report dated May 2017, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including historical rates of return, rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the GWPORS target asset allocation as of June 30, 2018, is summarized in the above table.

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

	1.0% Decrease (6.65%)	Current Discount Rate (7.65%)	1.0% Increase (8.65%)
University proportion of Net Pension Liability	$2,441,659	$1,303,370	$375,521

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, 2019 and 2018, 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 2019. During the year ended June 30, 2019, incentive pay of $353,014 for voluntary and involuntary terminations plus benefits of $320,858 (including TRS payment of $287,293) were paid to a total of 17 employees, for a total of $673,872 in expenses included in the accompanying financial statements. During the year ended June 30, 2018, incentive pay of $447,879 for voluntary and involuntary terminations plus benefits of $274,118 (including TRS payment of $210,546) were paid to a total of 17 employees, for a total of $721,997 in expenses included in the accompanying financial statements.

Other Post-Employment Benefits — Other postemployment benefits (OPEB) are benefits, such as healthcare benefits, that are paid in the period after employment and that are provided separately from a pension plan. OPEB does not include termination benefits or termination payments for sick leave. 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, 2019.

	2019	2018
Total OPEB Liability	$ 20,363,397	$ 18,130,942
Deferred OPEB Outflows of Resources	857,975	51,605
Deferred OPEB Inflows of Resources	705,850	770,150
OPEB expense	1,796,245	1,930,659

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

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

Employer proportionate share of total OPEB liability and basis for allocation:
The total OPEB liability (TOL) as of June 30, 2018, was based on the actuarial valuation at December 31, 2017, with update procedures to roll forward the TOL to March 31, 2019. The University's proportion of the TOL was based upon the total participants in the group health insurance plan. The actuary report presents a valuation of the TOL assigned to each participant in the group health insurance plan.

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

	2019		2018	
	OPEB Liability	OPEB Proportionate Share	OPEB Liability	OPEB Proportionate Share
Total OPEB Liability	$20,363,397	54.44%	$18,130,942	48.92%

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:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	—	—		676,548
Changes in actuarial assumptions or other inputs	$ 734,392	$ 705,850	$ —	$ 93,602
Transactions subsequent to the measurement date *	123,583	—	51,605	
Total	$ 857,975	$ 705,850	$ 51,605	$ 770,150

* Amounts reported as deferred outflows of resources related to OPEB resulting from transactions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020.

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

	Net Amount To Be Recognized as an increase or (decrease) to OPEB Expense
2020	$ 64,757
2021	$ 64,757
2022	$ 64,757
2023	$ 540,121
2024	$ —
Thereafter	$ —

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. The unfunded actuarial accrued liability is amortized over a 20-year period on an open basis beginning December 31, 2017. 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
Before Medicare eligibility	$11,264	$4,728
After Medicare eligibility	$4,806	$3,620
Actuarial valuation date	December 31, 2017	
Actuarial measurement date [(1)]	March 31, 2019	
Actuarial cost method	Entry age normal funding method	
Amortization method	Open basis	
Amortization period	20 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 75	

Actuarial assumptions:	
Discount rate	3.79% (3/31/2019 20-year municipal bond index)
Projected payroll increases	4%
Participation:	
Future retirees	55%
Future eligible spouses	60%
Marital status at retirement	70%

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

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

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

Changes in actuarial assumptions and methods since last measurement date: Changes in actuarial methods include the adjustment of the amortization period and actuarial cost method to conform with GASB 75 requirements. Changes in actuarial assumptions include revised retirement rates per the retirement system pension valuations as of July 1, 2017; interest rates are based upon the March 31, 2019, 20-year municipal bond index per GASB 75 requirements. Lapse rates were removed to reflect a return to standard retiree contribution levels, added employees covered by the MUS-RP were taken into account; changes in revised rates based on actual data and projected trend and projected healthcare trend rates were updated to follow the Getzen model.

Changes in benefit terms since last measurement date: Changes were implemented to ensure the financial health of the plan, while still providing a rich selection of benefits:

- Increased participant deductible,
- Increased out-of-pocket limits for medical and prescription drug coverage
- Increased visit copays,
- Pharmacy benefits were transitioned from URx to Navitus as of July 1, 2017,
- Employer group waiver program for Medicare retirees became effective July 1, 2017,
- A combined annual visit max of 30 for multiple therapy services, and
- Massage therapy was reclassified as a rehabilitation benefit.

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

	Assuming 1.0% Decrease 6.0%	At Current Rate 7.0%	Assuming 1.0% Increase 8.0%
University proportion of total OPEB Liability	$16,547,655	$20,363,397	$25,435,800

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 2.79%	At Current Rate 3.79%	Assuming 1.0% Increase 4.79%
University proportion of total OPEB Liability	$24,767,830	$20,363,397	$16,953,116

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

NOTE 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 for volunteer accidental death & dismemberment, boiler & machinery, business interruption, cyber/data information security, fine art, foreign liability and special risks, inland marine, student medical and non-medical professional liability, excess property, and special events coverage. The insurance broker for crime insurance is HUB International, and coverage 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 Relation Insurance. 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 2018 to fiscal 2019, 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 – 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 University believes that sufficient reserves exist to pay run-off claims related to prior years, and considers premiums and University contributions sufficient to pay current and future claims.

Effective July 1, 2003, the MUS adopted a self-funded workers' compensation insurance program, provided through membership in the MUS Self-Insured Workers' Compensation Program. The MUS program is funded on an actuarial basis and is administered by an employee at the Office of the Commissioner of Higher Education. Benefits provided are prescribed by state law and include biweekly payments for temporary loss of wages as well as qualifying permanent partial and permanent total disability. Medical and indemnity benefits are statutorily prescribed for qualifying job-related injuries or illnesses.

The MUS program incorporates a self-insured retention of $750,000 per occurrence and excess commercial coverage to statutory limits. Employer's liability coverage has a $750,000 per occurrence retention with a per occurrence insurance limit of $1,000,000. The University makes monthly contributions to the self-funded program utilizing the MUS Workers' Compensation Board recommended rates for premium payments. The MUS Workers' Compensation Board annually utilizes actuarially recommendations based upon the National Council for Compensation Insurance (NCCI) rates per $100 in University payroll.

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
2020	$ 2,621,642
2021	1,900,254
2022	1,070,782
2023	885,448
2024	347,168
2025 - 2029	1,120,537
2030 - 2034	1,939
Total	$ 7,947,770

Payments made under operating leases during the years ended June 2019 and 2018 totaled $2,815,791 and $4,003,331 respectively. 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, 2019, the University had issued purchase orders committing the expenditure of approximately $12.9 million for equipment, supplies and services which had not yet been received.

Legal actions – The University is a defendant in legal actions arising in the normal course of business. While the outcome cannot be determined at this time, management is of the opinion that the liability, if any, from these actions will not have a material effect on the University's net position, results of operations or cash flows.

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, 2019, 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, 2019, the University had remaining budget authority on significant capital construction and renovation projects underway of approximately $86.5 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) lease rentals from the Museum of the Rockies; 5) all Land Grant income; 6) certain student athletic fees; 7) certain Health & Physical Education fees; 8) MSU- Bozeman Fieldhouse fees; 9) capitalized interest and earnings on certain funds created under the Indenture; 10) certain Grant-related Facilities & Administrative Costs with respect to Series N 2012 debt; 11) revenue generated from the student facility enhancement fee; 12) lease income generated from the University's lease with the ASMSU Bookstore; 13) student fees generated by the student union building fees; and 14) debt service payments relative to the Series B bonds, as received from the MSU Foundation. 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 $283.2 million from July 1, 2019 through November 15, 2047.

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

	2019			2018		
Description	Pledged Revenue	Total Similar Revenue	% Pledged	Pledged Revenue	Total Similar Revenue	% Pledged
Student fees (no tuition is pledged)	$ 10,714,522	$ 39,987,831	27%	$ 10,651,566	$ 39,201,924	27%
MSU Bozeman Foundation Gift revenue related to Series B debt service	2,030,891	2,030,891	100%	1,754,749	1,754,749	100%
Housing and residence hall dining revenues, net of related expenses	15,168,462	15,168,462	100%	16,975,576	16,975,576	100%
Grant and contract facility and administrative cost recoveries	1,373,077	20,220,370	7%	1,374,946	17,969,416	8%
Bozeman campus athletic events revenue	3,422,469	3,690,528	93%	3,686,355	3,886,280	95%
Bozeman campus parking revenues	3,127,790	3,127,790	100%	2,719,749	2,719,749	100%
Bozeman bookstore and museum lease income	338,225	338,225	100%	370,378	370,378	100%
Land grant income	2,444,006	2,444,006	100%	2,427,062	2,427,062	100%
Investment income	2,319,680	7,527,753	31%	1,124,266	3,950,483	28%
Total	40,939,122			41,084,647		
Less debt service requirements	(18,983,209)			(17,241,567)		
Excess of pledged revenue over debt service requirements	$ 21,955,913			$ 23,843,080		

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-Bozeman Alumni Association, 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 of the parties are considered Component Units of the University.

During the years ended June 30, 2019 and 2018, respectively, the Foundations provided $28,136,389 and $38,654,563 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 $1,822,204 and $2,375,873 during the years ended 2019 and 2018, respectively, which included payments for contracted services, capital campaign support, and operating leases.

MSU- Bozeman leased certain office space from the MSU Alumni Foundation's wholly owned subsidiary, Advanced Technology Inc. (ATI). Rental and other payments to ATI totaled $482,771 during 2019 and $327,381 during 2018.

Friends of Montana Public Television provided $1,444,752 during 2019 and $1,205,679 during 2018 and Friends of KEMC Public Radio provided $900,015 during 2019 and $848,639 during 2018 in support of the University's television and radio stations.

The Museum of the Rockies, Inc. provided $1,862,973 and $1,883,002 during the fiscal years ended June 2019 and 2018, respectively, in support of the University, primarily as reimbursement for Museum staff salaries and benefits as well as improvements to the leased facility in 2017.

The MSU Bobcat Club provided $408,143 and $301,583 in scholarship and other support during the fiscal years ended June 30, 2019 and 2018, respectively. The University provided $233,812 in salary support to the MSU Bobcat Club during the year ended June 30, 2019 and $258,809 during the year ended June 30, 2018 for services provided.

NOTE 19 – SUBSEQUENT EVENTS

In July 2019, the University received authorization from the Board of Regents to expend up to $1.5 million for the planning and design of the Bobcat Athletic Complex and Academic Excellence Center, a 40,000 square-foot addition to the north end of Bobcat Stadium in Bozeman. The project will be financed with private donations of $15.0 million and $3.0 million from university non-state funds. Construction is expected to begin after the 2019 football season and expected to be open for the 2021 football season.

In July 2019, the University received authorization from the Board of Regents to lease the Bobcat Stadium and surrounding area to the MSU Alumni Foundation (MSUAF) for the purpose of constructing the Bobcat Athletics Complex and enter into a Memorandum of Understanding with MSUAF for this project.

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 (doing business as the Montana State University Alumni 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.

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

Montana State University

Condensed Combining Schedule of Component Unit Statements of Financial Position

As of June 30, 2019 or December 31, 2018*

	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	$ 232,650,031	$ 35,926,126	$ 9,049,395	$ 14,265,456	$ 1,744,664	$ 293,635,672
Amounts due from MSU	—	—	205,169	—	—	205,169
Other receivables, net	43,543,058	1,284,800	1,637,506	244,614	13,845	46,723,823
Capital assets, net	7,061,872	1,034,417	294,872	4,689,488	—	13,080,649
Other assets	757,563	48,940	5,584	386,015	837,180	2,035,282
Total assets	$ 284,012,524	$ 38,294,283	$ 11,192,526	$ 19,585,573	$ 2,595,689	$ 355,680,595
Liabilities:						
Accounts payable and other liabilities	$ 1,854,951	$ 1,142,534	$ 5,050	$ 386,609	$ 18,522	$ 3,407,666
Amounts due to MSU	449,371	—	—	298,473	—	747,844
Notes, bonds and debt obligations	3,256,029	—	—	—	—	3,256,029
Liabilities to external parties	4,635,210	348,478	1,107,922	—	—	6,091,610
Custodial funds	10,250,884	1,860,625	100,911	—	—	12,212,420
Total liabilities	20,446,445	3,351,637	1,213,883	685,082	18,522	25,715,569
Net assets:						
Without donor restrictions - undesignated	1,224,016	2,471,907	692,409	5,813,004	854,327	11,055,663
Without donor restrictions - designated	6,654,680	2,451,613	—	4,966,084	372,976	14,445,353
With restrictions	255,687,383	30,019,126	9,286,234	8,121,403	1,349,864	304,464,010
Total net assets	263,566,079	34,942,646	9,978,643	18,900,491	2,577,167	329,965,026
Total liabilities and net assets	$ 284,012,524	$ 38,294,283	$ 11,192,526	$ 19,585,573	$ 2,595,689	$ 355,680,595

*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
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and For Each of the Years Ended June 30 **(continued)**

Montana State University

Condensed Combining Schedule of Component Unit Statements of Activities

For the Year Ended June 30, 2019 or December 31, 2018*

	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	$ 48,156,987	$ 3,301,685	$ 2,372,154	$ 270,623	$ 640,977	$ 54,742,426
Investment income and unrealized gain on investments	6,329,569	1,676,119	477,643	(542,694)	46,224	7,986,861
Support from University	1,500,000	140,000	182,204	—	—	1,822,204
Other income	2,771,013	716,311	5,950	3,929,880	469,132	7,892,286
Total revenues	58,757,569	5,834,115	3,037,951	3,657,809	1,156,333	72,443,777
Expenses:						
University support	19,152,107	798,713	419,806	1,753,976	532,437	22,657,039
Scholarships and other program expenses	6,273,756	1,928,081	828,405	1,382,733	408,143	10,821,118
Supporting services	8,162,292	816,397	436,635	1,101,432	309,988	10,826,744
Total expenses	33,588,155	3,543,191	1,684,846	4,238,141	1,250,568	44,304,901
Change in net assets before nonoperating items	25,169,414	2,290,924	1,353,105	(580,332)	(94,235)	28,138,876
Nonoperating items	286,265	—	—	—	—	286,265
Change in net assets	25,455,679	2,290,924	1,353,105	(580,332)	(94,235)	28,425,141
Net assets, beginning of fiscal year	238,110,400	32,651,722	8,625,538	19,480,823	2,671,402	301,539,885
Net assets, end of fiscal year	$ 263,566,079	$ 34,942,646	$ 9,978,643	$ 18,900,491	$ 2,577,167	$ 329,965,026

Component Unit Investment Composition*:

	2019	2018
Pooled investments**:		
Equity securities	$ 26,631,089	$ 26,342,128
Debt securities	13,561,404	13,019,584
Alternative investments	98,427,755	98,003,468
Cash equivalents	24,882,811	27,262,911
Other pooled investments	96,530,874	94,085,072
US Treasuries	588,206	606,867
Other real estate	493,767	493,767
Other investments	14,073,917	12,736,252
Investments held in trust for others	10,432,512	9,992,890
Total	$ 285,622,335	$ 282,542,939

Component Unit Promises Receivable*:

	2019	2018
Receivable in one year	$ 8,650,161	$ 6,487,814
Receivable in one to five years	18,141,974	13,760,044
Receivable after five years	931,500	559,316
Less discounts and allowances	(1,506,536)	(1,757,703)
Total	$ 26,217,099	$ 19,049,471

*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.

Montana State University

Condensed Combining Schedule of Component Unit Statements of Financial Position

As of June 30, 2018 or December 31, 2017*

	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	$ 233,645,699	$ 33,201,114	$ 8,222,059	$ 13,706,992	$ 1,922,017	$ 290,697,881
Amounts due from MSU	—	—	425,169	—	—	425,169
Other receivables, net	21,141,095	1,655,800	1,216,888	1,223,507	4,100	25,241,390
Capital assets, net	7,256,083	1,096,185	68,996	4,891,755	—	13,313,019
Other assets	784,088	48,139	10,000	327,939	788,137	1,958,303
Total assets	$ 262,826,965	$ 36,001,238	$ 9,943,112	$ 20,150,193	$ 2,714,254	$ 331,635,762
Liabilities:						
Accounts payable and other liabilities	$ 1,920,667	$ 1,216,103	$ 8,803	$ 495,115	$ 42,852	$ 3,683,540
Amounts due to MSU	2,092,618	—	—	174,255	—	2,266,873
Notes, bonds and debt obligations	5,364,393	—	—	—	—	5,364,393
Liabilities to external parties	4,606,336	327,809	1,207,860	—	—	6,142,005
Custodial funds	10,732,551	1,805,604	100,911	—	—	12,639,066
Total liabilities	24,716,565	3,349,516	1,317,574	669,370	42,852	30,095,877
Net assets:						
Without donor restrictions - undesignated	7,515,952	2,433,791	578,991	5,021,351	1,309,318	16,859,403
Without donor restrictions - designated	—	2,434,580		6,065,383		8,499,963
With restrictions	230,594,448	27,783,351	8,046,547	8,394,089	1,362,084	276,180,519
Total net assets	238,110,400	32,651,722	8,625,538	19,480,823	2,671,402	301,539,885
Total liabilities and net assets	$ 262,826,965	$ 36,001,238	$ 9,943,112	$ 20,150,193	$ 2,714,254	$ 331,635,762

*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, 2018 or December 31, 2017*

	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	$ 19,857,311	$ 3,614,963	$ 1,112,398	$ 369,824	$ 438,963	$ 25,393,459
Investment income and unrealized gain on investments	17,153,644	2,216,001	393,395	1,506,100	125,762	21,394,902
Support from University	1,500,000	116,000	182,204	—	—	1,798,204
Other income	2,368,617	762,492	6,505	3,786,569	645,840	7,570,023
Total revenues	40,879,572	6,709,456	1,694,502	5,662,493	1,210,565	56,156,588
Expenses:						
University support	29,624,578	833,494	806,471	1,532,406	583,296	33,380,245
Scholarships and other program expenses	5,969,464	2,161,350	876,399	1,888,025	301,583	11,196,821
Supporting services	8,130,565	806,090	355,641	1,070,003	322,144	10,684,443
Total expenses	43,724,607	3,800,934	2,038,511	4,490,434	1,207,023	55,261,509
Change in net assets before nonoperating items	(2,845,035)	2,908,522	(344,009)	1,172,059	3,542	895,079
Nonoperating items	552,027	—	(117,353)	—	—	434,674
Change in net assets	(2,293,008)	2,908,522	(461,362)	1,172,059	3,542	1,329,753
Net assets, beginning of fiscal year	240,403,408	29,743,200	9,086,900	18,308,764	2,667,860	300,210,132
Net assets, end of fiscal year	$ 238,110,400	$ 32,651,722	$ 8,625,538	$ 19,480,823	$ 2,671,402	$ 301,539,885

*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.

Required Supplementary Information

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	$7,952,741	176.69%	69.09%

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%

*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	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	$45,405,357	111.44%	79.90%
2016	4.12%	$57,646,591	$47,364,867	121.71%	78.40%
2017	4.08%	$69,576,861	$48,343,193	143.92%	74.71%
2018	4.18%	$81,386,415	$51,513,790	157.99%	73.75%
2019	3.22%	$67,104,384	$52,551,576	127.69%	73.47%

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

Montana State University
(a component unit of the State of Montana)
Required Supplementary Information
As of and for Each of the Years Ended June 30 **(continued)**

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%

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%

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%

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—non-University members	Salary increase-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%

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

Changes in actuarial assumptions and other inputs:

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

- Assumed rate of inflation was reduced from 3.25% to 2.50%
- Payroll growth assumption was reduced from 4.00% to 3.25%
- Investment return assumption was reduced from 7.75% to 7.50%.
- Wage growth assumption was reduced from 4.00% to 3.25%
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:

  For Males and Females: RP-2000 Healthy Combined Mortality Table projected to 2022 adjusted for partial credibility setback for two years.

  The tables include margins for mortality improvement which is expected to occur in the future.

- Mortality among disabled members was updated to the following:

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

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

- Retirement rates were updated
- Termination rates were updated
- Rates of salary increases were updated

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

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

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

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

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

- Assumed rate of inflation was reduced from 3.50% to 3.25%
- Payroll Growth Assumption was reduced from 4.50% to 4.00%
- Assumed real wage growth was reduced from 1.00% to 0.75%
- Investment return assumption was changed from net of investment and administrative expenses to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:

  For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.

  For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members was updated to the following:

  For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.

  For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

Montana State University
(a component unit of the State of Montana)
Required Supplementary Information
As of and for Each of the Years Ended June 30 **(continued)**

PERS

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

<table>
<tr><th>Actuarial Valuation Date</th><th>Actuarial cost method</th><th>Amortization method</th><th>Remaining amortization period</th><th>Asset valuation method</th><th>Inflation</th><th>Salary increase</th><th>Investment rate of return (shown net of pension plan investment expense, including inflation)</th><th>Expenses</th><th>Other</th></tr>
<tr><td>June 30, 2013, rolled forward to 2014</td><td>Entry age</td><td>Level percentage of pay, open</td><td>29.3 years</td><td>4-year smoothed market</td><td>3.0%</td><td>General Wage Growth - 4.00%
Merit –
0% - 6%</td><td>7.75%</td><td rowspan="4">0.27% administrative expenses as a % of payroll</td><td>GABA- 3.0% or 1.5% for hires after July 1, 2007</td></tr>
<tr><td>June 30, 2014, rolled forward to 2015</td><td>Entry age</td><td>Level percentage of pay, open</td><td>30 years</td><td>4-year smoothed market</td><td>3.0%</td><td>General Wage Growth - 4.00%
Merit –
0% - 6%</td><td>7.75%</td><td rowspan="5">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</td></tr>
<tr><td>June 30, 2015, rolled forward to 2016</td><td>Entry age</td><td>Level percentage of pay, open</td><td>27.2 years</td><td>4-year smoothed market</td><td>3.0%</td><td>General Wage Growth - 4.00%
Merit –
0% - 6%</td><td>7.75%</td></tr>
<tr><td>June 30, 2016, rolled forward to 2017</td><td>Entry age</td><td>Level percentage of pay, open</td><td>26</td><td>4-year smoothed market</td><td>2.75%</td><td>General Wage Growth - 3.5%
Merit –
0% - 4.8%</td><td>7.65%</td></tr>
<tr><td>June 30, 2017, rolled forward to 2018</td><td>Entry age</td><td>Level percentage of pay, open</td><td>30</td><td>4-year smoothed market</td><td>2.75%</td><td>General Wage Growth - 3.5%
Merit –
0% - 4.8%</td><td>7.65%</td><td>0.26% administrative expenses as a % of payroll</td></tr>
<tr><td>June 30, 2018, rolled forward to 2019</td><td>Entry age</td><td>Level percentage of pay, open</td><td>30</td><td>4-year smoothed market</td><td>2.75%</td><td>General Wage Growth - 3.5%
Merit –
0% - 6.3%</td><td>7.65%</td><td>0.26% administrative expenses as a % of payroll</td><td></td></tr>
</table>

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

2017 Legislative Changes:

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

Working Retiree Limitations - for PERS

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

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

Refunds

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

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

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

PERS Statutory Appropriation – House Bill 648, effective July 1, 2017
Revenue from coal severance taxes and interest income from the coal severance tax permanent fund previously statutorily-appropriated to the PERS defined benefit trust fund will be replaced with the following statutory appropriations:

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

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

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

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

Changes which may affect trends

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

Refunds

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

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 that the present value of the member's benefit.

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

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

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%

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.

Montana State University
(a component unit of the State of Montana)
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2019

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, 2019

	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	$ 181,290,971	$ 6,715,497	$ 4,102,992	$ 189,330	$ 30,778,234	$ 7,914,746	$ 5,701,928	$ —	$ 236,693,698
Short term investments	22,898,397	—	—	—	—	—	—	—	22,898,397
Securities lending collateral	199,163	—	—	—	—	—	—	—	199,163
Accounts and grants receivable, net	6,758,727	205,398	150,864	8,447	1,273,742	1,217,504	204,741	—	9,819,423
Amounts receivable from Federal government	18,507,966	9,018	258,364	—	67,479	36,914	—	—	18,879,741
Amounts receivable from primary government	350,480	—	—	—	10,246	2,975	26,085	—	389,786
Amounts receivable from Montana component	—	—	—	—	—	5,143	—	—	5,143
Amounts receivable from MSU campuses	—	—	—	—	—	—	—	—	—
Loans receivable, net	2,565,482	—	—	—	242,729	190,217	—	—	2,998,428
Inventories	1,192,322	706,864	—	—	348,772	239,425	371,269	—	2,858,652
Prepaid expenses and other current assets	5,112,453	8,112	6,763	1,784	320,386	120,104	40,019	—	5,609,621
Total current assets	**238,875,961**	**7,644,889**	**4,518,983**	**199,561**	**33,041,588**	**9,727,028**	**6,344,042**	**—**	**300,352,052**
Noncurrent assets:									
Restricted cash and cash equivalents	1,215	—	—	—	12,400	64,213	—	—	77,828
Restricted investments	8,315,090	—	—	—	—	100,910	—	—	8,416,000
Loans receivable, net	15,815,469	—	—	—	2,173,118	1,170,478	—	—	19,159,065
Investments	17,508,908	—	—	—	1,860,625	—	—	—	19,369,533
Capital assets	418,855,004	19,574,454	140,166	175,104	38,809,477	26,344,088	19,654,987	—	523,553,280
Other noncurrent assets	1,122,527	—	—	—	—	—	—	—	1,122,527
Total noncurrent assets	**461,618,213**	**19,574,454**	**140,166**	**175,104**	**42,855,620**	**27,679,689**	**19,654,987**	**—**	**571,698,233**
Total assets	**$ 700,494,174**	**$ 27,219,343**	**$ 4,659,149**	**$ 374,665**	**$ 75,897,208**	**$ 37,406,717**	**$ 25,999,029**	**$ —**	**$ 872,050,285**
DEFERRED OUTFLOWS	**$ 30,388,632**	**$ 1,869,900**	**$ 1,227,755**	**$ 54,122**	**$ 4,571,839**	**$ 1,292,933**	**$ 1,011,310**	**$ —**	**$ 40,416,491**
LIABILITIES									
Current liabilities:									
Accounts payable and accrued liabilities	$ 42,915,758	$ 1,349,793	$ 1,165,396	$ 63,262	$ 4,013,725	$ 2,437,117	$ 1,137,602	$ —	$ 53,082,653
Amounts payable to primary government	1,500,561	—	—	—	487,864	57,849	67,726	—	2,114,000
Amounts payable to Montana component units	198,983	—	—	—	—	—	—	—	198,983
Amounts payable to MSU campuses	—	—	—	—	—	—	—	—	—
Securities Lending Liability	199,163	—	—	—	—	—	—	—	199,163
Property held in trust for others	2,054,577	—	—	—	97,786	101,709	100,477	—	2,354,549
Deferred revenues	12,294,254	—	2,236	—	1,412,143	291,495	55,772	—	14,055,900
Compensated absences	12,962,398	1,224,631	830,855	56,755	1,982,671	671,489	489,578	—	18,218,377
Current portion debt and capital lease obligations	9,918,270	3,410	—	—	874,744	211,193	—	—	11,007,617
Total current liabilities	**82,043,964**	**2,577,834**	**1,998,487**	**120,017**	**8,868,933**	**3,770,852**	**1,851,155**	**—**	**101,231,242**
Noncurrent liabilities:									
Advances from primary government	15,857,287	—	—	—	2,095,470	787,564	224,020	—	18,964,341
Debt and capital lease obligations	178,087,444	295	—	—	5,476,010	14,026	—	—	183,577,775
Compensated absences	12,521,437	1,182,971	802,591	54,824	1,224,531	576,617	163,685	—	16,526,656
OPEB and Pension liability	69,285,137	4,760,042	2,748,342	131,055	16,695,851	5,671,340	3,496,454	—	102,788,221
Due to Federal government	18,840,526	—	—	—	2,310,637	1,444,911	—	—	22,596,074
Derivative instrument - swap liability	4,227,433	—	—	—	—	—	—	—	4,227,433
Total noncurrent liabilities	**298,819,264**	**5,943,308**	**3,550,933**	**185,879**	**27,802,499**	**8,494,458**	**3,884,159**	**—**	**348,680,500**
Total liabilities	**$ 380,863,228**	**$ 8,521,142**	**$ 5,549,420**	**$ 305,896**	**$ 36,671,432**	**$ 12,265,310**	**$ 5,735,314**	**$ —**	**$ 449,911,742**
DEFERRED INFLOWS	**$ 8,747,205**	**$ 539,849**	**$ 279,851**	**$ 21,498**	**$ 2,429,181**	**$ 938,624**	**$ 542,477**	**$ —**	**$ 13,498,685**
NET POSITION									
Net investment in capital assets	$ 247,061,201	$ 19,553,450	$ 140,166	$ 175,104	$ 30,162,527	$ 25,273,458	$ 19,363,241	$ —	$ 341,729,147
Restricted - nonexpendable	12,299,466	—	—	—	659,618	409,617	11,300	—	13,380,001
Restricted - expendable	12,332,004	830,690	(61,210)	—	2,708,663	1,789,571	55,824	—	17,655,542
Unrestricted	69,579,702	(355,888)	(21,323)	(73,711)	7,837,626	(1,976,930)	1,302,183	—	76,291,659
Total net position	**$ 341,272,373**	**$ 20,028,252**	**$ 57,633**	**$ 101,393**	**$ 41,368,434**	**$ 25,495,716**	**$ 20,732,548**	**$ —**	**$ 449,056,349**

Montana State University

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

As of and for the Year Ended June 30, 2019

	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	$ 167,689,638	$ —	$ —	$ —	$ 18,456,506	$ 5,332,133	$ 2,923,170	$ (19,440)	$ 194,382,007
Federal appropriations	—	2,565,707	2,986,178	—	—	—	—	—	5,551,885
Federal grants and contracts	79,331,710	9,018	15,464	—	3,006,332	1,338,578	432,784	(226,317)	83,907,569
State grants and contracts	6,461,836	—	23,505	—	482,578	224,077	206,124	—	7,398,120
Non-governmental grants and contracts	11,178,050	—	207,989	—	224,057	48,280	26,174	—	11,684,550
Grant and contract facilities and administrative cost recoveries	19,805,169	—	—	—	311,271	91,265	12,665	—	20,220,370
Educational, public service and outreach revenues	16,716,232	2,636,770	4,832,506	124,946	1,580,679	229,009	196,508	(960,253)	25,356,397
Auxiliary - housing	22,694,106	—	—	—	1,544,302	666,150	—	—	24,904,558
Auxiliary - food service	22,189,872	—	—	—	948,963	675,978	171,157	—	23,985,970
Auxiliary - other auxiliary sales and services	6,442,922	99	61	—	1,550,199	494,917	760,609	(121,073)	9,127,734
Interest earned on loans	55,645	—	—	—	8,676	1,857	—	—	66,178
Other operating revenues	4,346,149	67,619	50	—	196,727	22,818	26,737	—	4,660,100
Total operating revenues	**356,911,329**	**5,279,213**	**8,065,753**	**124,946**	**28,310,290**	**9,125,062**	**4,755,928**	**(1,327,083)**	**411,245,438**
Operating expenses:									
Compensation and benefits, including pensions	264,350,876	16,310,746	12,290,646	639,252	35,989,627	13,716,510	10,274,178	—	353,571,835
OPEB expense	1,248,472	99,345	68,501	4,282	239,000	79,945	56,700	—	1,796,245
Operating expenses	133,756,713	4,431,672	2,502,430	235,296	17,182,413	6,556,450	3,289,092	(1,327,083)	166,626,983
Scholarships and fellowships	16,800,803	30,318	393	—	4,683,076	1,503,995	1,710,736	—	24,729,321
Depreciation and amortization	28,500,159	1,226,908	41,010	84,315	3,480,424	1,703,159	1,401,677	—	36,437,652
Total operating expenses	**444,657,023**	**22,098,989**	**14,902,980**	**963,145**	**61,574,540**	**23,560,059**	**16,732,383**	**(1,327,083)**	**583,162,036**
Operating loss	**(87,745,694)**	**(16,819,776)**	**(6,837,227)**	**(838,199)**	**(33,264,250)**	**(14,434,997)**	**(11,976,455)**	**—**	**(171,916,598)**
Nonoperating revenues (expenses):									
State and local appropriations	64,946,325	16,012,631	6,490,616	743,484	22,446,778	9,949,327	7,515,847	—	128,105,008
Pell Grants	14,243,493	—	—	—	5,681,868	2,311,626	2,697,263	—	24,934,250
Land grant and timber sales income	2,018,956	—	—	—	425,050	—	—	—	2,444,006
Gifts	15,290,958	31,023	316,404	—	2,259,449	1,216,171	253,824	—	19,367,829
Investment Income	6,303,239	154,907	67,353	4,635	735,631	148,181	113,807	—	7,527,753
Interest expense	(7,657,885)	(370)	(5)	—	(327,782)	(55,008)	(20,579)	—	(8,061,629)
Net nonoperating revenues (expenses)	**95,145,086**	**16,198,191**	**6,874,368**	**748,119**	**31,220,994**	**13,570,297**	**10,560,162**	**—**	**174,317,217**
Income before other revenues, expenses, gains and losses	**7,399,392**	**(621,585)**	**37,141**	**(90,080)**	**(2,043,256)**	**(864,700)**	**(1,416,293)**	**—**	**2,400,619**
Transfers in (out)	160,810	(147,159)	8,349	—	(22,000)	—	—	—	—
Gain or loss on disposal of capital assets	(437,878)	9,626	420	—	7,709	(10,038)	(189,882)	—	(620,043)
Additions to permanent endowments	16,043	—	—	—	—	—	—	—	16,043
Gifts, capital grants and contributions	13,774,840	124,000	10,875	—	547,263	575,349	1,400	—	15,033,727
Change in net position	**20,913,207**	**(635,118)**	**56,785**	**(90,080)**	**(1,510,284)**	**(299,389)**	**(1,604,775)**	**—**	**16,830,346**
Net position, beginning of year restated	**320,359,166**	**20,663,370**	**848**	**191,473**	**42,878,718**	**25,795,105**	**22,337,323**	**—**	**432,226,003**
Net position, end of year	**$ 341,272,373**	**$ 20,028,252**	**$ 57,633**	**$ 101,393**	**$ 41,368,434**	**$ 25,495,716**	**$ 20,732,548**	**$ —**	**$ 449,056,349**

Montana State University

Unaudited Selected Cash Flow Data

As of And For the Year Ended June 30, 2019

	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	$ 169,122,432	$ —	$ —	$ —	$ 18,296,956	$ 5,228,817	$ 3,126,738	$ (19,440)	$ 195,755,503
Federal appropriations	—	2,565,707	3,085,113	—	—	—	—	—	5,650,820
Federal grants and contracts	78,093,998	—	15,627	—	2,928,111	1,296,981	432,784	(226,317)	82,541,184
State grants and contracts	6,506,843	—	23,505	—	510,567	223,927	227,681	—	7,492,523
Private grants and contracts	11,206,484	—	207,989	—	273,250	48,280	26,174	—	11,762,177
Grant and contract indirect cost recoveries	19,295,619	—	—	—	311,271	91,265	12,665	—	19,710,820
Educational, public service and outreach revenues	16,915,297	2,591,521	4,865,082	125,121	1,547,710	452,091	198,457	(960,253)	25,735,026
Sales and services of auxiliary enterprises	51,735,193	99	61	—	4,022,012	1,841,759	962,773	(121,074)	58,440,823
Interest on loans receivable	282,715	—	—	—	39,653	—	—	—	322,368
Other operating receipts	4,346,149	67,619	50	—	196,727	22,818	26,737	—	4,660,100
Cash paid for expenses:									
Compensation and benefits	(261,767,896)	(16,407,354)	(12,299,391)	(633,668)	(36,746,355)	(13,765,489)	(10,280,938)	—	(351,901,091)
Operating expenses	(130,282,361)	(4,763,698)	(2,485,809)	(227,850)	(16,978,230)	(6,226,287)	(2,922,584)	1,327,084	(162,559,735)
Scholarships and fellowships	(16,800,804)	(30,318)	(393)	—	(4,683,076)	(1,503,995)	(1,710,736)	—	(24,729,322)
Loans made to students and federal funds repaid	(655,190)	—	—	—	(3,780)	(22,685)	—	—	(681,655)
Loan payments received from students	2,975,432	—	—	—	317,423	298,456	—	—	3,591,311
Intercampus payments	(67,959)	—	—	—	67,959	—	—	—	—
Net cash used in operating activities	**(49,094,048)**	**(15,976,424)**	**(6,588,166)**	**(736,397)**	**(29,899,802)**	**(12,014,062)**	**(9,900,249)**	**—**	**(124,209,148)**
Cash flows from noncapital financing activities:									
Receipts (Payments) of funds held in trust for others	(692,014)	—	—	—	(9,981)	755	20,823	—	(680,417)
Direct lending proceeds	68,098,398	—	—	—	15,020,132	3,644,643	3,713,444	—	90,476,617
Direct lending disbursements	(68,098,398)	—	—	—	(15,020,132)	(3,644,643)	(3,713,444)	—	(90,476,617)
State and local appropriations	63,595,153	16,012,628	6,490,616	743,484	22,131,862	9,834,668	7,445,597	—	126,254,008
Federal pell grant funds received	14,243,493	—	—	—	5,681,868	2,311,626	2,697,263	—	24,934,250
Gifts and contributions (expendable)	15,290,958	31,025	316,404	—	2,259,445	1,216,171	253,824		19,367,827
Land grant income	2,018,956	—	—	—	425,050	—	—	—	2,444,006
Repayment of long-term advance from primary	(63,096)	—	—	—	—	—	—	—	(63,096)
Additions to permanent endowments	16,043	—	—	—	—	—	—	—	16,043
Transfers between campuses and agencies	160,810	(147,159)	8,349	—	(22,000)	—	—	—	—
Net cash flows from noncapital financing activities	**94,570,303**	**15,896,494**	**6,815,369**	**743,484**	**30,466,244**	**13,363,220**	**10,417,507**	**—**	**172,272,621**
Cash flows from capital financing activities:									
Purchase of capital assets	(57,223,312)	(725,145)	3,712	(30,655)	(930,534)	(853,199)	(230,087)	—	(59,989,220)
Proceeds from sale of capital assets	534,307	13,068	3,050	—	67,880	—	3,952	—	622,257
Gifts restricted for capital purchase	13,181,669	—	10,875	—	—	6,015	—	—	13,198,559
Other capital financing activities	1,922,549	—	—	—	—	—	—	—	1,922,549
Proceeds from borrowings	4,236,070	—	—	—	—	—	—	—	4,236,070
Debt principal paid	(14,665,992)	(3,185)	—	—	(853,884)	(225,899)	(8,996)	—	(15,757,956)
Payment of capitalized debt issue costs	—	—	—	—	—	—	—	—	—
Advances from primary government	4,000,000	—	—	—	178,106	54,000	—	—	4,232,106
Repayment of advances from primary government	(1,244,568)	—	—	—	(437,075)	(108,644)	(63,624)	—	(1,853,911)
Interest paid	(8,248,880)	(370)	(5)	—	(289,647)	(55,008)	(40,267)	—	(8,634,177)
Net cash change from capital financing activities	**(57,508,157)**	**(715,632)**	**17,632**	**(30,655)**	**(2,265,154)**	**(1,182,735)**	**(339,022)**	**—**	**(62,023,723)**
Cash flows from investing activities:									
Purchase of investments	(1,208,543)	—	—	—	—	—	—	—	(1,208,543)
Proceeds from sale of investments	19,921,427	—	—	—	—	—	—	—	19,921,427
Investment income	5,062,820	154,907	67,353	4,635	675,171	143,803	112,836	—	6,221,525
Net cash change from investing activities	**23,775,704**	**154,907**	**67,353**	**4,635**	**675,171**	**143,803**	**112,836**	**—**	**24,934,409**
Net change in cash and cash equivalents	**11,743,802**	**(640,655)**	**312,188**	**(18,933)**	**(1,023,541)**	**310,226**	**291,072**	**—**	**10,974,159**
Balances at beginning of year	**169,548,384**	**7,356,152**	**3,790,804**	**208,262**	**31,814,175**	**7,668,733**	**5,410,856**	**—**	**225,797,366**
Balances at end of year	**$ 181,292,186**	**$ 6,715,497**	**$ 4,102,992**	**$ 189,329**	**$ 30,790,634**	**$ 7,978,959**	**$ 5,701,928**	**$ —**	**$ 236,771,525**

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

	2019	2018	2017
Montana residents			
Undergraduate	**12,916**	13,247	13,243
Graduate	**1,036**	1,064	1,064
Nonresidents			
Undergraduate	**4,703**	4,462	4,224
Graduate	**500**	522	542
Western Undergraduate Exchange	**1,404**	1,415	1,516
Total	**20,559**	20,710	20,589

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 2018-2019 academic year, on a per-semester basis, were as follows:

	Resident Undergraduate—Graduate	Nonresident Undergraduate (WUE)—Graduate
Bozeman Campus	$3,639 – $4,204	$5,196 – $13,062
Billings Campus	$2,964 – $3,520	$4,148 – $10,089
Northern Campus	$2,978 – $3,601	$4,157 – $10,127
Great Falls Campus (1)	$1,693 – N/A	$2,380 – N/A

(1) Undergraduate program only.

Employees and Graduate Assistants

As of Fall 2018, the University had 7,808 employees and utilized 779 graduate assistants at the following degree-granting locations:

	MSU-Bozeman	MSU-Billings	MSU-Northern	Great Falls College MSU	Total
Faculty/Professional	2,180	431	128	138	2,877
State classified system	1,346	203	65	53	1,667
Temporary hourly	253	65	46	18	382
Students	2,474	247	123	38	2,882
Total employees	6,253	946	362	247	7,808
Graduate assistants	764	15	—	—	779

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

Now 126 years old, the 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 legislative assembly of the State of Montana changed MSC's name to Montana State University. Located in the City of Bozeman, the campus comprises approximately 1,800 acres and now has more than 40 classroom and administrative buildings.

In 1994, the Board of Regents approved a restructuring plan that created a four-campus Montana State University and gave the Bozeman campus administrative oversight of the, now, 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 Montana Code Annotated.

The curricula offered at MSU are organized into seven undergraduate colleges: College of Agriculture; College of Education, Health and Human Development; Norm Asbjornson College of Engineering; College of Letters and Science; Jake Jabs College of Business and Entrepreneurship; College of Nursing; College of Arts and Architecture. Additionally, 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, which is in addition to the degree in their chosen major of academic study.

The campus offers more than 250 academic programs including 61 master's degree options, 44 doctoral degree options and many certificate options. In the spring of 2019, MSU had its largest graduating class in the university's history with 3,362 students.

The university's annual research expenditures - almost entirely federal dollars competitively won - average more than $120 million with a new record set in 2019 of $138.8 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 to be classified as having "very high research activity," by the Carnegie Classification of Institutions of Higher Education. There are only 130 universities nationally with the "very high" designation, and MSU is one of only three that also have the profile of "very high undergraduate."

MSU is tied for 9^{th} in the nation with John Hopkins University for the number of Goldwater Scholarship winners it has produced over the years, but is ahead of Cornell, Yale and Northwestern. The Goldwater Scholarship is a competitive national award given to math, science and engineering students.

In 2018, MSU won the Connections Award by The Association of Public and Land-grant Universities in recognition of its economic engagement efforts, specifically its work with public- and private-sector partners in Montana and the region to support economic development through innovation and entrepreneurship, technology transfer, talent and workforce development and community development.

In addition to its academic mission of educating students, MSU is home to numerous entities that help strengthen the state through outreach efforts. First among them is MSU Extension, which has agents serving all 56 Montana counties in the areas of youth development, agriculture, community development, and family and consumer science. MSU is also home to the Montana Manufacturing Extension Center, statewide manufacturing outreach and assistance center staffed by full-time professionals with extensive experience in manufacturing and business in a variety of industries. Other examples of the university's statewide reach to Montana citizens include its Center for Mental Health Research and Recovery, Montana PBS and the Museum of the Rockies.

Enrollment

		Student FTE for Fiscal Years Ended June 30,				
		2019	**2018**	**2017**	**2016**	**2015**
Resident	Undergraduate	**7,999**	8,149	8,032	7,779	7,666
	Gallatin College	**432**	413	389	336	330
	Graduate	**766**	780	769	705	757
	Total resident	**9,197**	9,342	9,190	8,820	8,753
Nonresident	Undergraduate	**4,338**	4,093	3,855	3,676	3,591
	Gallatin College	**167**	148	125	108	109
	Graduate	**487**	499	520	386	321
	Total nonresident	**4,992**	4,740	4,500	4,170	4,021
Western Undergraduate Exchange		**1,064**	1,052	1149	945	776
	Total	**15,253**	**15,134**	**14,839**	**13,935**	**13,550**

	Degrees Granted - Fiscal Years Ended June 30,				
	2019	**2018**	**2017**	**2016**	**2015**
Undergraduate	**2,820**	2,580	2,600	2,468	2,421
Graduate	**542**	653	580	537	614
TOTAL:	**3,362**	**3,233**	**3,180**	**3,005**	**3,035**

Campus Outlook

In January 2019, the university adopted a new, seven-year strategic plan, “Choosing Promise.” The plan has three areas of focus - teaching, research and outreach - 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. Now in its fourth 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 scholarship program is named after Maurice Hilleman, who was born in Miles Cityand graduated from MSU at the top of his class. He and went on to become the most prolific vaccinologist in history, discovering many of the vaccines we still use today. When he passed away in 2015, medical leaders credited Hilleman with saving more lives than any other scientist in the 20th century.

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.

It is this belief that MSU’s mission is to find and develop the promise in Montana’s citizens, rather than chase after prestige, that drives its financial decisions and structure.

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.

The university successfully completed private funding efforts and broke ground on the $20 million American Indian Hall that will provide a gathering point for the students from tribes in the region and general classroom space for all students.

The University was successful in securing $25 million in funding from the 2019 Montana Legislature to renovate Romney Hall. When complete in 2021, the building will serve 1,000 students each hour in classroom settings.

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 at the Bozeman campus.

The research center system consist 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 Sidney.

The Bozeman MAES component includes research in the academic departments of Agricultural Economics and Economics, Agricultural Education, Animal and Range Sciences, Land Resources and Environmental Sciences, Plant Sciences and Plant Pathology, and Microbiology and Immunology, a collaboration between the MAES and the College of Letters and Science. The majority of the MAES faculty are located on the MSU-Bozeman campus, with split appointments between research, teaching and some 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 and profitability in agricultural and natural resource systems. MAES aids agriculture 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 sponsored program expenditures, at approximately $20 million annually. The departments of Microbiology and Immunology, Land Resources and Environmental Science, and Plant Science and Plant Pathology rank in the top five in a field of over 30 MSU departments in terms of sponsored program expenditures.

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 7 reservations. Because Montana's communities are as diverse as its landscape, the structure of our organization--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 ARCs 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, providing specialized programs including those targeted toward the elderly, children, single parents and step-families. 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 2017-2018, Montana 4-H reached 18,704 Montana youth, ages 6-19. Approximately 50 percent of these youth are involved in year-long community clubs, while the rest are active through a variety of short term and special interest education programs. These youth are supported by 3,277 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 a variety of state and federal agencies to provide local governance, strategic planning, and leadership development education for local 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.

Montana State University Extension's strategic plan complements the university's strategic plan by focusing on engagement within Montana communities and the integration of learning, discovery, and engagement. Montana State University Extension is successful throughout the state in meeting and excelling at this tripartite mission. Within Montana State University's strategic plan, Montana State University Extension has a clear leadership role in increasing its capacity as a statewide resource for collaborating to 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 Montana State University's Extension Service. The FSTS is authorized in 20-31-102, Montana Code Annotated. The purpose of the FSTS is to provide fire service personnel with professional training, identify new methods of fire prevention and suppression and disseminate information about them, 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, and Yellowstone counties.

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

The FSTS curriculum includes entry level recruit academies, hazardous materials and technical rescue courses, 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, and has resulted 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 was 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 Arts and Sciences (CAS), the College of Business (COB), the College of Education (COE), the College of Allied Health Professions (CAHP), 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 over 100 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 CAS, COE, and CAHP.

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 on Rehabilitation Education), 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. Only twenty other master's programs have been recognized with this honor internationally. City College programs are approved by the National Institute for Automotive Service Excellence, the National Automotive Technicians Education Foundation, the Montana Board of Nursing, the Committee on Accreditation of Allied Health Education Programs, the Committee on Accreditation of Educational Programs for the EMS Professions, and International Fire Service Accreditation Congress. In addition, the RN to baccalaureate degree in nursing program has been accredited by the Commission on Collegiate Nursing Education (CCNE).

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

Montana State University
Unaudited Supplemental Information
As of and for the Year Ended June 30, 2019 **(continued)**

Enrollment

	Student FTE for Fiscal Years Ended June 30,				
	2019	**2018**	**2017**	**2016**	**2015**
Resident					
Undergraduate	**2,094**	2,083	2,112	2,244	2,396
City College	**589**	655	701	713	751
Graduate	**232**	239	240	236	245
Total Resident	**2,915**	2,977	3,053	3,193	3,392
Nonresident					
Undergraduate	**115**	128	133	158	192
City College	**9**	8	14	15	16
Graduate	**13**	22	21	20	26
Total nonresident	**137**	158	168	193	234
Western Undergraduate Exchange					
Main Campus	**191**	212	193	217	260
City College	**32**	28	34	37	38
Total Western Undergraduate Exchange	**223**	240	227	254	298
Total	**3,275**	**3,375**	**3,448**	**3,640**	**3,924**

	Degrees Granted - Fiscal Years Ended June 30,				
	2019	**2018**	**2017**	**2016**	**2015**
University Campus:					
Associate Degrees	**36**	31	29	36	105
Bachelor’s Degrees	**439**	447	513	579	580
Master’s Degrees	**110**	131	107	115	152
Total University Campus	**585**	**609**	**649**	**730**	**837**
City College Campus:					
Certificates	**42**	40	40	22	39
Associate Degrees	**206**	187	193	225	239
Total City College	**248**	**227**	**233**	**247**	**278**
Grand Total Degrees	**833**	**836**	**882**	**977**	**1,115**

MSU Billings is the third largest public university in Montana. Alumni and workforce data shows that graduates from MSU Billings stay in Montana and contribute to the state’s economy and betterment of its communities. MSU Billings started the 2019-2020 academic year with 4,416 students, which is an increase of the prior fall’s opening enrollment of 4,315. Of the 4,416 students, 2,691 are at University Campus and 1,725 are at City College. Dual enrollment has remained strong representing 11 high schools.

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 continue. The University recently received notification of a new Department of Education CCAMPIS grant for $196,368 over 4 years. This grant aims to provide childcare for low-income students. The University's INBRE grant was renewed for $450,000 over 5 years. Continuing major grants include TRIO, Talent Search and Student Support Services, NIH, MT Health Care, America's Promise, Social Security, OPI, Corporation for Public Broadcasting and Title III.

Because Billings is the primary healthcare center of the region, MSU Billings partnered with the healthcare industry to meet its educational needs and established the College of Allied Health Professions with key programs in athletic training, health and human performance, and rehabilitation and human services, as well as a RN to BSN nursing program. The program is being delivered online and helps to put more highly trained nurses in our medical facilities.

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 2013 Montana Legislature appropriated $10 million to provide funds for the renovation and expansion of the existing outdated science facility. In 2018, the additional $5 million needed for the project was raised through fundraising efforts of the MSU Billings Foundation. The renovated Yellowstone Science and Allied Health Building will provide state-of-the-art facilities for both the College of Arts and Sciences and the College of Allied Health Professions. Construction on this building commenced in September 2019.

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 FY19.

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 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. Montana State University-Northern offers liberal arts, professional and technical education programs ranging from certificates through master's degrees.

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, offered in an atmosphere that promotes student success. MSU-Northern provides liberal arts, professional and technical programs 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 is accredited by the Northwest Commission on Colleges and Universities. MSU-Northern's programmatic accreditations also includes 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, experientially based 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,				
	2019	2018	2017	2016	2015
Resident					
Undergraduate	**806**	862	886	860	890
Graduate	**38**	45	55	64	68
Total resident	**844**	907	941	924	958
Nonresident					
Undergraduate	**46**	47	46	57	52
Graduate	**0**	1	1	1	0
Total nonresident	**46**	48	47	58	52
Western Undergraduate Exchange	**111**	118	133	113	95
Total	**1,001**	**1,073**	**1,121**	**1,095**	**1,105**

	Degrees Granted - Fiscal Years Ended June 30,				
	2019	2018	2017	2016	2015
Undergraduate	**272**	217	281	240	272
Graduate	**16**	27	22	28	23
Total:	**288**	**244**	**303**	**268**	**295**

Campus Outlook

MSU-Northern, located in the rural northern region of Montana is deeply committed to providing a supportive, student-centered environment. Northern utilizes innovative teaching, alternate delivery methods and partnerships with tribal colleges across Montana and a number of two-year colleges throughout the Northwest helping these institutions expand their program offerings in the realm of 4-year Baccalaureate degrees. Recently we had the great privilege of opening the new Diesel Technology Center, a state of the art facility that provides our students with a truly world-class learning experience. It is a testament to the strong partnerships we have built with the State of Montana and industry and to how much they believe in our students. Together, we ensure that Northern students can attain an Education that Works.

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 the 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 State 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, along with the other Montana Vocational Technical Centers, was transferred to the Montana Board of Regents. In January 1994, the Montana Board of Regents of Higher Education 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 (NWCCU). Various academic programs are accredited individually as well, primarily those within medical fields.

Since 2012, 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 2-year institutions.

Enrollment

	Student FTE for Fiscal Years Ended June 30,				
	2019	**2018**	**2017**	**2016**	**2015**
Resident					
Undergraduate	**996**	1,085	1,123	1,178	1,239
Nonresident					
Undergraduate	**28**	38	51	38	37
Western Undergraduate Exchange	**6**	5	7	4	6
Total	**1,030**	**1,128**	**1,181**	**1,220**	**1,282**

	Degrees Granted - Fiscal Years Ended June 30,				
	2019	**2018**	**2017**	**2016**	**2015**
Certificate of Applied Science	**102**	86	102	74	91
Professional Certificate*	**44**	56	130	119	46
Associate of Science/Arts	**124**	118	104	100	123
Associate of Applied Science	**142**	161	180	178	167
Total	**412**	**421**	**516**	**471**	**427**

Campus Outlook

The 2019-2020 academic year is focused on scaling an integrative educational model, The 8-week Advantage. The model focuses on student success and completion. It is supported by the use of best practices from several Montana State University (MSU) and the Montana University System (MUS) initiatives, including, One MSU, Complete College Montana, and the National Association of System Head's Taking Student Success to Scale.

The 8-Week Advantage ensures every student will have a purpose, plan and path for on-time completion. It is supported by the implementation of eight-week blocked scheduling, and the use of high quality, high impact practices, such as learning communities, high impact practices and clear pathways to success in college.

The college is wrapping up a yearlong effort to revise the mission statement and strategic plan. The Montana Board of Regents will review the new mission statement and consider it for approval at the November 2019 meeting. The strategic plan will be launched shortly thereafter.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

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

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

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

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Montana State University, as of and for the year ended June 30, 2019, and 2018, and the related notes to the financial statements, which collectively comprise Montana State University's basic financial statements, and have issued our report thereon dated January 24, 2020. 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 Foundation, the Montana State University-Northern Foundation, and the Montana State University Bobcat Club, as described in our report on Montana State 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*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 24, 2020

University Response

Montana State University

MONTANA
STATE UNIVERSITY

RECEIVED
FEB 27 2020
LEGISLATIVE AUDIT DIV.

February 24, 2020

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

Dear Mr. Maciver:

On behalf of Montana State University, I'd like to thank you and your team from the Legislative Audit Division for your work on the financial audit of MSU for the two fiscal years ended June 30, 2019. Your efforts towards ensuring the accuracy and proper presentation of our financial information have not gone unnoticed and are very much appreciated. We look forward to working with you and your team again next year and the continued success of delivering quality, audited financial information to our stakeholders.

Sincerely,

Waded Cruzado
President

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