The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.

anderson ZURMUEHLEN

CONSOLIDATED REVENUE BOND REPORT

June 30, 2016

C O N T E N T S

MONTANA STATE UNIVERSITY
CONSOLIDATED REVENUE BOND AUDIT
GENERAL INFORMATION
June 30, 2016

Montana State University is a multi-campus institution with campuses located in Bozeman, Billings, Great Falls and Havre, Montana.

In January 1994, the Montana Board of Regents of Higher Education approved and adopted a proposal to administratively consolidate the various state higher education units into two systems, the Montana State University system and the University of Montana system. The units of Montana State University include:

- Montana State University Bozeman;
- Montana State University Billings, formerly referred to as "Eastern Montana College", and the associated City College, formerly referred to as the College of Technology, also located in Billings;
- Montana State University Northern, formerly referred to as "Northern Montana College" in Havre; and
- Great Falls College MSU, formerly referred to as "Great Falls College of Technology"

Revenue Bond Indentures:

- Series A 1993 – November 9, 1993, Refunding & Construction Revenue Bonds
- Series D 1996 – August 15, 1996, Facilities Refunding Revenue Bonds
- Series B 1996 – October 1, 1996, Facilities Construction Revenue Bonds
- Series E 1998 – June 1, 1998, Stadium Phase II Project
- Series F 1998 – June 1, 1998, Information Technology Project Facilities Improvement Revenue Bonds
- Series G 2003 – October 15, 2003, Facilities Refunding Revenue Bonds
- Series H 2004 – October 13, 2004, Chemistry Research Facility
- Series I 2004 – November 23, 2004, Facilities Refunding Revenue Bonds
- Series J 2005 – July 21, 2005, Facilities Improvement Revenue Bonds
- Series K 2006 – August 17, 2006, Facilities Refunding Revenue Bonds
- Series L 2008 – June 26, 2008, Facilities Refunding Revenue Bonds
- Series M 2011 – October 26, 2011, Facilities Improvement Revenue Bonds
- Series N 2012 – October 17, 2012, Facilities Refunding Revenue Bonds
- Series O 2012 – October 17, 2012, Taxable Facilities Refunding Revenue Bonds
- Series A 2013 – December 31, 2013, Facilities Improvement Revenue Bonds
- Series B 2014 – January 31, 2014, Facilities Improvement Revenue Bonds
- Series C 2016 – February 24, 2016, Facilities Improvement Revenue Bonds

Issuance of Additional Bonds:

Additional Parity Bonds may be issued under the Indenture if certain conditions are met. The most significant condition to be met is that the Net Pledged Revenues of the Additional Facilities to be constructed or financed with the proceeds of the Additional Bonds, when added to the estimated annual Net Pledged Revenue of the then existing Student Housing System Facilities then under construction, shall equal at least 1.20 times the combined Average Annual Debt Service Requirements for all Parity Bonds the outstanding and the Additional Bonds proposed to be issued.

SECTION I: CONSOLIDATED REVENUE BOND AUDIT

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INDEPENDENT AUDITORS' REPORT

Board of Regents of Higher Education
State of Montana
Helena, Montana

We have audited the accompanying consolidated schedules as outlined in Section I of the table of contents regarding Montana State University (the University) as of and for the year ended June 30, 2016 with comparative totals for 2015.

Management's Responsibility for the Consolidated Schedules
Management is responsible for the preparation and fair presentation of these consolidated schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated schedules 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 entity's internal control. 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 evaluating the overall presentation of the consolidated schedules.

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

Opinion
In our opinion, the consolidated schedules present fairly, in all material respects, the balances of the accounts on hand at June 30, 2016 and the results of transactions pertaining to these revenue bond accounts for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information
We have previously audited the University's consolidated revenue bond schedules for the year ended June 30, 2015, and we expressed an unmodified audit opinion on those audited financial schedules in our report dated January 29, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information
Our audit was conducted for the purpose of forming an opinion on the consolidated schedules. The introduction section has not been subjected to the auditing procedures applied in the audit of the consolidated schedules and, accordingly, we do not express an opinion or provide any assurance on it.

The consolidated schedule of University revenues, expenses and changes in net position for the year ended June 30, 2016, has been prepared by management. This consolidated schedule has not been subjected to the auditing procedures applied in the audit of the consolidated schedules and, accordingly, we do not express an opinion or provide any assurance on it.

Anderson ZurMuehlen & Co. P.C.

Butte, Montana
February 10, 2017

MONTANA STATE UNIVERSITY
CONSOLIDATED REVENUE BOND AUDIT
CONSOLIDATED SCHEDULE OF PLEDGED FUND REVENUES AND EXPENSES
For the Year Ended June 30, 2016 with Comparative Totals for 2015

	Years Ended June 30,	
	2016	2015
Housing Operating Revenues		
Residence halls & food services	$ 38,147,387	$ 36,420,261
Family & graduate housing	4,077,121	4,131,548
Total housing operating revenues	42,224,508	40,551,809
Housing Operating Expenses		
Residence halls & food services	27,967,611	24,893,536
Family & graduate housing	2,448,748	2,660,099
Total housing operating expenses	30,416,359	27,553,635
Net revenue from housing operations	11,808,149	12,998,174
Other Revenues		
Facility & administrative cost recoveries	1,386,660	1,380,027
Facilities events revenues	3,582,430	3,205,020
Gross parking revenue	2,378,573	2,250,641
Student fees	9,765,580	9,406,659
Land grant income	2,113,539	3,572,401
Investment income (realized)	603,510	777,720
Museum rent	300,000	300,000
MSU bookstore lease	369,049	400,121
MSU Alumni Foundation contribution to debt service	1,750,822	3,039,053
Total other revenues	22,250,163	24,331,642
Trustee, advisory & audit fees	(107,125)	(97,576)
Net pledged revenues available for debt service	33,951,187	37,232,240
Less University G&A recharges	(2,574,941)	(2,963,626)
Net pledged revenue less G&A recharges	$ 31,376,246	$ 34,268,614

See Accompanying Notes to Schedule.

MONTANA STATE UNIVERSITY
CONSOLIDATED REVENUE BOND AUDIT
CONSOLIDATED SCHEDULE OF PLEDGED FUND ACTIVITY AND BALANCES
As of and For the Year Ended June 30, 2016

	Revenue Fund	Debt Service Fund	Renewal & Replacement Fund	Construction Fund	Total
Net Position, July 1, 2015	$ 25,099,636	$ 5,989,236	$ 15,922,799	$ 19,785,153	$ 66,796,824
Increases:					
Distribution of net revenues	31,808,416	2,009,110	5,879	127,782	33,951,187
Other increases	380	-	-	-	380
Subordinate loan proceeds	-	-	352,092	-	352,092
Transfers in from other programs	130,125	27,615	75,000	220,862	453,602
Inter-fund transfers-in	267,741	13,076,956	3,332,016	902,656	17,579,369
Unrealized gain on non-hedging derivative	-	12,960	-	-	12,960
Bond proceeds, net of bonds refunded	-	205,000	(6,743,680)	11,343,680	4,805,000
Total increases	32,206,662	15,331,641	(2,978,693)	12,594,980	57,154,590
Decreases:					
Bond principal	-	8,470,000	-	-	8,470,000
Bond interest	-	6,186,887	-	-	6,186,887
Bond premium, issue costs & other	-	227,869	-	-	227,869
Construction & Renewal and Replacement	-	-	6,776,112	24,487,280	31,263,392
University G&A recharges	2,574,941	-	-	-	2,574,941
Non-housing losses in pledged funds	461,783	-	-	-	461,783
Inter-fund transfers-out	17,398,626	-	43,919	136,824	17,579,369
Transfers to other programs	9,847,052	300,000	1,375,912	-	11,522,964
Total decreases	30,282,402	15,184,756	8,195,943	24,624,104	78,287,205
Net Position, June 30, 2016	$ 27,023,896	$ 6,136,121	$ 4,748,163	$ 7,756,029	$ 45,664,209
Accounted For By:					
Cash and cash equivalents	$ 24,292,583	$ 5,252,122	$ 1,370,500	$ -	$ 30,915,205
Interest receivable	2,164	4,995	47	9,237	16,443
Accounts receivable, net of allowance	919,659	4,605	-	-	924,264
Investments:					
Short-term	-	-	28,000	8,475,748	8,503,748
Cash equivalents	2,699,300	19,816	3,467,585	600,002	6,786,703
Long-term	1,899,712	1,271,465	-	2,505,423	5,676,600
Inventories	926,680	-	-	-	926,680
Loan receivable	-	268,297	-	-	268,297
Deferred outflows	-	6,097,182	-	-	6,097,182
Unearned revenues	(1,784,367)	-	-	-	(1,784,367)
Accounts payable	(712,924)	-	(117,969)	(3,834,381)	(4,665,274)
Accrued expenses	(9,150)	-	-	-	(9,150)
Deposits payable	(91,703)	-	-	-	(91,703)
Derivative financial instruments, at fair value	-	(6,097,182)	-	-	(6,097,182)
Bond interest payable	-	(685,179)	-	-	(685,179)
Compensated absences	(1,118,058)	-	-	-	(1,118,058)
Total net position	$ 27,023,896	$ 6,136,121	$ 4,748,163	$ 7,756,029	$ 45,664,209

See Accompanying Notes to Schedule.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

In January of 1994, the Montana Board of Regents of Higher Education approved the restructuring of the Montana State University System to merge four separate institutions. The accompanying financial schedules represent the pledged revenue fund activities of the Bozeman, Billings and Northern campuses. The Great Falls College - Montana State University does not have any bonded indebtedness and is not reflected in the accompanying schedules unless otherwise noted.

The University follows U.S. generally accepting accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Boards (GASB) pronouncements, including the provisions of the following GASB pronouncements for the years ended June 30, 2016 and 2015:

> During the year ended June 30, 2016, the University adopted the provisions of GASB *Statement No. 72, Fair Value Measurement and Application*, and *Statement No. 79, Certain External Investment Pools and Pool Participants*, which affected the carrying values and disclosures of investments and hedging derivatives. There would not have been a material change had the University retroactively adopted the statements and as such, the June 30, 2015 balances were not restated.
>
> For the year ended June 30, 2015, management implemented *Statement No. 68, Accounting and Financial Reporting for Pensions*—an amendment of GASB Statement No. 27, in the presentation of its consolidated University-wide financial statements. Because MSU does not allocate the liability at the individual fund level, no pension liability is included in the accompanying schedules for estimated unfunded pension costs related to employees paid from pledged funds.

The Montana University System is a legal and financial component unit of the State of Montana and is governed by the Board of Regents of Higher Education. The Governor appoints board members.

Fund Accounting

The accounts of the University are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the limitations and restrictions placed on their use. Separate accounts are maintained for each fund; however, in the accompanying financial schedules, the accounts related to the pledged revenue of all revenue bonds have been combined into a single fund group for presentation purposes. The schedules are not intended to present the financial activity for all the accounts in the fund or all of the accounts of the University.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued)
The Schedule of Pledged Fund Activity and Balances is presented for in the following four funds:

- Revenue Fund
- Debt Service Fund
- Renewal and Replacement Fund
- Construction Fund

These funds are more fully described in the bond indenture.

Accounts Receivable and Allowance for Uncollectible Amounts
Accounts receivable reported by the pledged funds consist of fees charged to students and auxiliary enterprise services provided to students, faculty and staff. In accordance with University policy, revenue and receivables reported in the pledged revenue funds are recorded within the funds net of management's estimate of uncollectible accounts based on historical experience. The allowance is carried in the University's general operating fund with other University receivables.

Cash and Cash Equivalents
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.

Investments
Investments consist of guaranteed investment contracts managed by the Bond Trustee, the fair value of the University's non-hedging derivative financial instruments, cash on hand invested through the Montana State Board of Investments Trust Fund Investment Pool (TFIP) and Short-Term Investment Pool (STIP), and money market funds held by the Bond Trustee. Except for pooled funds reported at net asset value (NAV) by the Board of Investments, all investments are recorded at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments.* This pronouncement establishes fair value standards for investments in debt securities, which includes U.S. Treasury Obligations. Effective in fiscal 2016, investments are also classified according to the fair value hierarchy established by GASB Statement No. 72 as more fully described below. The University also holds guaranteed investment contracts which are excluded from classification within the fair value hierarchy. These investments are carried at cost. Ordinary income derived from investments is accounted for in the fund owning such investments. All gains and losses from the sale or disposition of investments are included in investment income.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative Financial Instruments

The University has implemented GASB Statement No. 53, *Accounting and Reporting for Derivative Instruments.* Under this standard, derivative financial instruments are reported at fair value and are classified as either hedging derivative instruments if determined to be effective under the standard or as investments. Note 4 more fully discloses the nature and value of the derivative financial instruments held by the pledged funds.

Fair Value Disclosures

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 did not restate its 2015 financial statements to reflect values in accordance with Statements 72 and 79, as the differences when compared with amounts previously presented were not material. As a result, changes in fair value due to implementation of Statements No. 72 and 79 have been recorded in 2016 revenue and expense.

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 in the State of Montana external investment pools. Unit values for these investments are based upon the pledged funds' allocated proportion of the fair value of underlying assets of the pools. Statement No. 72 also excludes money market accounts and guaranteed investment contracts from fair value measurement. The pledged funds report money market accounts at amortized cost and guaranteed investment contracts at cost.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories primarily consist of textbooks, school and food service supplies and are valued according to the first in-first out (FIFO) basis at cost.

Unearned Revenues

Unearned revenues include amounts received from student fees and certain auxiliary activities prior to the end of the fiscal year but related to events occurring in the subsequent accounting period.

Deferred Inflows and Outflows

GASB Statement No. 63 amended the definitions of certain assets and liabilities, resulting in reclassifying certain items previously reported as assets to deferred outflows of resources, and certain items previously reported as liabilities to deferred inflows of resources. As applied to the pledged funds, deferred outflows are limited to the accumulated change in the fair value of the derivative financial instrument classified as a hedging instrument, as more fully disclosed in Note. 4. Deferred inflows and outflows reported in the University-wide financial statements include additional activity related to its capital assets, debt and liabilities which are not reported in a schedule limited to consolidated pledged fund activity and balances.

Compensated Absences

Eligible University employees earn a minimum of 8 hours sick and 10 hours annual leave for each 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% of accumulated annual leave, if not used during employment, is paid upon termination.

Scholarship Support

Residence hall and food service expenses reported in the schedule of pledged fund revenue and expenses include scholarship support. Scholarship support is 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. For the fiscal years ended June 30, 2016 and 2015, scholarship support included in the pledged funds amounted to $294,259 and $313,223, respectively.

Other Net Pledged Operations

Other net pledged operations consist of other auxiliary services on the campuses of MSU Northern and MSU Billings for which the net revenues are pledged for bond retirement, including the campus bookstores. Because these operations generated a net loss in the fiscal years ended June 30, 2016, and 2015, such operations are not reflected in the accompanying Schedule of Pledged Fund Revenues and Expenses for those years.

NOTE 2. PLEDGED REVENUE SOURCES

The following sources of income are pledged to the payment of bonds:

1) Net Revenues of the Student Housing System Facilities
   a) Residence Halls, including all Food Service thereof;
   b) Family and Graduate Housing;

2) Land Grant Income:
   a) Two federal grants totaling 140,000 acres for the Bozeman campus;
   b) One federal grant totaling 31,727 acres for the Billings campus;

3) All lease rentals derived from the lease of the Museum of the Rockies (lease expired in 2016);

4) All money received by the University which is collected each semester from all part-time and full-time (12 credits) student, designated as:

	Fall 2015		
	Bozeman	Billings	Northern
Student building fee - all students	$ 45.00	$ 141.00	$ 130.50
Additional nonresident student building fee	$ 94.20	$ 62.40	$ 53.00
Health and physical education building fee	$ 19.20	$ -	$ -
Student Union O&M fee	$ 39.60	$ 51.50	$ 49.00
Academic Building R & R fee	$ 12.20	$ -	$ -
Health and physical education weight room O&M fee	$ 0.40	$ -	$ -
Fieldhouse fee	$ 8.40	$ -	$ -
Student facilities enhancement project fee	$ 55.80	$ -	$ -
Student athletic fee	$ 75.75	$ -	$ -

5) Gross revenue derived from MSU Bozeman Parking Operations, and from a space lease agreement with the MSU Bookstore, a private non-profit corporation;

6) Proceeds of the Series A – 1993, Series B – 1996, Series D – 1996, Series E – 1998, Series F – 1998, Series G – 2003, Series I – 2004, Series J – 2005, Series K – 2006, Series L – 2008 Bonds; Series M – 2011 Bonds, Series N and O – 2012 Bonds, Series A – 2013 Bonds, Series B – 2014 Bonds and Series C - 2016;

7) Earnings on any funds or accounts created under the Indenture (excluding the escrow accounts as defined in the Indenture), including earnings on any Construction Funds covered by the Indenture;

8) Certain events revenue, including specified Bozeman Athletics events;

9) Limited indirect cost recovery payments relative to the Series H-2004 and Series N-2012 debt service;

NOTE 2. PLEDGED REVENUE SOURCES (CONTINUED)

10) Net revenue from Northern bookstore and Billings rentals, bookstore, student union and parking operations;

11) Payments by the counterparties to interest rate exchange agreements.

NOTE 3. INVESTMENT BALANCES

The University holds investments as described below, including derivative financial instruments which are more fully described in Note 4. The following are required disclosures regarding credit and interest rate risk associated with financial instruments other than derivatives. Note 4 includes required disclosures of risk and fair value related to derivatives.

Permitted Investments
Under the Master Indenture, permitted investments include US Treasury obligations or other fully guaranteed US agency instruments, general obligation bonds of a US municipality or state, certificates of deposit or fully insured deposit accounts, shares of a registered and properly rated money market fund or state-sponsored investment pool, and guaranteed investment contracts approved by the respective bond insurer. The University's pledged fund investments comply with this provision.

Concentration of Credit Risk
The University holds investments in two investment pools managed by the Montana Board of Investments: the Short-Term Investment Pool (STIP) and the Trust Fund Investment Pool (TFIP). Bond proceeds from Series 2013 A are invested temporarily in Guaranteed Investment Contracts (GICs) until needed for construction projects. Credit risk and policies related to these pools is disclosed in the University's consolidated financial statements.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The TFIP investment policy does not formally address interest rate risk.

The State of Montana has selected the effective duration method to disclose interest rate risk. The University's investments are categorized to disclose interest rate and credit risk as of June 30, 2016. Credit risk reflects the security quality rating, by investment security type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. Unrated securities are denoted as NR. Although STIP and TFIP investments have been rated by investment security type, they have not been rated by an NRSRO.

NOTE 3. INVESTMENT BALANCES (CONTINUED)

Interest Rate Risk (Continued)

The following is required disclosure regarding interest rate risk and basis of valuation or fair value level associated with pledged fund investments:

Security Type	Moody's Credit Quality Rating at June 30, 2016	Effective Duration (Years) at June 30, 2016	Basis of Valuation	Liquidity of NAV Assets
STIP	not rated	0.11	Net Asset Value	Daily
TFIP	not rated	5.39	Net Asset Value	Monthly
US Bank Money Market	P-1	N/A	Cash Equivalents at Amortized Cost	N/A
CMS Interest Rate Swap	A3	19.42	Fair Value Level 2	N/A
GICs	A2	0.535	Non-participating, at cost	N/A

The following is a schedule of investments held in the pledged funds at June 30, 2016:

Type of Investment	Type of Instrument	Date Acquired	Interest Rate	Maturity Date	Cost	Unrealized Gain/(Loss)	Basis of Valuation
Revenue Funds:							
Revenue & Fee Accounts	Cash equivalents - Short Term Investment Pool	Various	Variable	N/A	$ 2,699,300	$ -	$ 2,699,300
	Long Term - Trust Fund Investment Pool	Various	Variable	N/A	1,899,712	-	1,899,712
	Sub-Total				4,599,012	-	4,599,012
Debt Service Fund:							
Debt Service Accounts	Long Term - CMS Interest Rate Swap	July 2006	N/A	11/15/2034	-	1,271,465	1,271,465
	Cash Equivelants - Money Market	Various	Variable	N/A	19,816	-	19,816
	Sub-Total				19,816	1,271,465	1,291,281
Construction Fund:							
Construction Accounts	Cash Equivalents - Money Market	Various	Variable	N/A	600,002	-	600,002
	Short Term - Guranteed Investment Contract	March 2014	0.675	06/30/2016	8,475,748	-	8,475,748
	Short Term - Guranteed Investment Contract	March 2014	0.675	12/01/2016	2,505,423	-	2,505,423
	Sub-Total				11,581,173	-	11,581,173
Renewal & Replacement Fund:							
R&R Reserve	Cash Equivalents - Money Market	Various	Variable	N/A	3,467,585	-	3,467,585
	Short Term - Guranteed Investment Contract	March 2014	0.675	06/30/2016	28,000	-	28,000
	Sub-Total				3,495,585	-	3,495,585
Totals - All Funds					$ 19,695,586	$1,271,465	$20,967,051

NOTE 4. DERIVATIVE FINANCIAL INSTRUMENTS

Description

The University has two interest rate swaps as of June 30, 2016 and 2015. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraph 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, 2016:

Derivative Description	Trade Date	Effective Date	Termination Date	Counterparty
$25.75 million fixed payer swap	03/10/2005	07/21/2005	11/15/2035*	Deutsche Bank AG
$25.25 million basis swap	12/19/2006	11/15/2007	11/15/2035	Morgan Stanley Capital Services Inc.

*Counterparty may opt out in 2016

As of June 30, 2016, 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. The option value was estimated using a trinomial option pricing model. Incorporating market volatility data, the trinomial model calculates all possible changes in the value of the underlying swap for each future cash flow period (up, down or unchanged) to form a trinomial tree. This tree is used to calculate the current value of the option.

On September 10, 2010, the Series J bonds were converted to index bonds. While in index mode the interest rate is reset weekly at a rate of SIFMA plus a fixed spread. The spread is based on the long-term, unenhanced rating assigned to the issuer; the spread was 0.65% as of June 30, 2016. 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 counterparty to the fixed payer swap had the right to terminate the swap at $-0- on December 14, 2016 (a European option) but the option was not exercised.

NOTE 4. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Description (Continued)

Upon entering into the transaction, the University received consideration from the counterparty in the form of an off-market (lower) fixed swap rate. A portion of the consideration received was a result of the option being in-the-money at inception; that is, the option had intrinsic value as the cancelable swap's fixed rate of 3.953% was lower than the at-market rate of 4.110% on the trade date. The remainder of the up-front consideration reflects the time value the counterparty pays for holding the option. To the University, the time value portion represents deferred investment revenue. The intrinsic value of the cancelable swap is considered a loan receivable for financial reporting purposes and is treated as an asset in the accompanying financial statements. Interest accrues to the balance of the asset each year and amortizes with each swap payment.

The table below summarizes the reported balances as of and the derivative instrument activity during the years ended June 30, 2016 and 2015.

		Activity During 2016		Fair Value as of June 30, 2016	
Type of derivative	Notional	Classification	Amount	Classification	Amount
Cash flow hedge - Pay fixed interest rate swap	$21,200,000	Interest expense	$ 20,169	Loan receivable	$ 268,297
		Investment income	$ 20,182		
		Deferred outflow increase (decrease)	$ 1,512,100	Derivative liability	$ 6,097,182
Investment derivative - Basis swap	$ 21,200,000	Investment income	$ 15,634	Investment (excluding accrued interest)	$ 1,271,465
		Activity During 2015		**Fair Value as of June 30, 2015**	
Type of derivative	Notional	Classification	Amount	Classification	Amount
Cash flow hedge - Pay fixed interest rate swap	$ 21,800,000	Interest expense	$ 18,394	Loan receivable	$ 288,466
		Investment income	$ 162,064		
		Deferred outflow increase (decrease)	$ 732,736	Derivative liability	$ 4,605,263
Investment derivative - Basis swap	$ 21,800,000	Investment income	$ 279,557	Investment (excluding accrued interest)	$ 1,278,686

The objective and terms of the University's hedging derivative outstanding as of June 30, 2016 is as follows:

Type	Objective	Notional amount (000s)	Effective Date	Termination Date	Cash (Paid)/ Received (000s)	Terms
Fixed payer swap	Hedge interest rate risk on Series J 2005 Bonds	$21,200,000	7/21/2005	11/15/2035	-	Pay 3.953% Receive SIFMA

NOTE 4. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Credit Risk
It is the University's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2016, all interest rate swap counterparties are rated A3 and Baa2 by Moody's, and BBB+ 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 $5 million 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 will 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, 2016, the University's unenhanced long-term revenue bond rating was Aa3 by Moody's and A+ by S&P.

Rollover Risk
The University's hedging derivative includes a cancelation option which allows the counterparty to cancel the swap on December 14, 2016. Should the counterparty exercise its option, the University would be exposed to rollover risk as exercise would only be likely in a rate environment higher than that at the time the trade was originally entered into.

NOTE 4. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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 5. RETIREMENT PLANS AND OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Retirement Plans
GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB No. 68,* were implemented in the University-wide financial statements for the year ended June 30, 2016. Because the University does not expect individual pledged funds to set aside funding for a share of the net pension liability, the net pension liability of $77,006,798 reported in the consolidated University financial statements has not been allocated to the fund level and is therefore not included in the consolidated revenue bond schedules. Pledged fund operating expenses include the required employer contribution under the terms of the various plans in which University employees participate. For the year ended June 30, 2016, these amounts totaled $554,984, of which $475,751 was contributed for pledged fund employees on the Bozeman campus, $49,799 for the Billings campus, and $29,434 on behalf of Northern campus pledged fund employees.

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. Effective July 1, 1993, MUS-RP was made the mandatory retirement plan for new faculty and administrators. More detailed disclosure regarding pension data and liabilities for each of these plans can be found in the University consolidated financial statements for the year ended June 30, 2016, on which an unmodified opinion was issued on December 9, 2016.

NOTE 5. RETIREMENT PLANS AND OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Other Post-Employment Benefits

Montana State law requires state agencies to provide access to health insurance benefits to eligible retirees up to Medicare – eligible age (65) (§2-18-704(1)(a), MCA). The Board of Regents of the Montana University System (MUS), having broad authority to act in the best interests of the MUS, has directed the Office of the Commissioner of Higher Education (OCHE) to provide access to health insurance benefits beyond age 65.

Retirees who are eligible to receive retirement benefits from Teachers Retirement System (TRS) or the Public Employees Retirement System (PERS) at the time employment ceases may participate in the plan. Retirees who are in the Optional Retirement Plan (ORP) (through TIAA-CREF) or any other defined contribution plan associated with the MUS must have worked five or more years and be age 50, or have worked 25 years with the MUS to be eligible for retiree insurance benefits.

The MUS's Interunit Benefits Committee, at the direction of the OCHE, sets the premiums for such participation. Until a retiree reaches age 65, individual retiree participation premiums ranged from $600-$671 per month for July through December and $743-$830 for January through June, depending on the level of deductible and other selected plan features. Upon reaching age 65 (Medicare eligibility), monthly participation premiums ranged from $259-$289 for July through December and $319-$357 for January through December for an individual retiree. Coverage is also extended to dependents and surviving dependents of the employee. Retirees who select a non-MUS Medicare Advantage Program are not considered in the above rates.

The MUS Group Benefits Plan does not issue a standalone financial report, but is subject to audit as part of the State of Montana's Basic Financial Statements, included in its 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.

The Plan is considered to be a multi-employer agent plan. All units of the MUS fund the post-employment benefits on a pay-as-you-go basis from general assets. The University's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The calculated ARC represents an amount that, if funded, would cover normal cost each year and amortize any unfunded actuarial liability over a period of 30 years. Because MSU does not allocate the liability or impose a funding mandate at the individual fund level, and the state does not require funding, no liability for OPEB is included in the accompanying schedules for post-retirement healthcare costs related to employees paid from pledged funds.

NOTE 6. OTHER ADVANCES AND LOANS OUTSTANDING

The University received advances from the Montana Department of Environmental Quality as part of the State Building Energy Conservation Program (SBECP). The program provides funding for projects such as lighting, window replacement and other energy efficiency improvements. The advances are payable in debt service payments of approximately $44,000 annually, and are included in transfers to other programs in the consolidated schedule of pledged fund activity balances. Payment can be made from either net pledged revenue or other sources, at the discretion of the University, but is subordinate to required debt service payments on the bonds issued under the Master Indenture.

The Bozeman campus utilized Intercap proceeds of $132,403 and $1,587,841 in fiscal years 2016 and 2015, respectively, for the SUB ballroom project. In 2016, Billings used Intercap proceeds of $352,092 for the Student Union roof replacement. In 2015, Intercap proceeds of $860,154 were used for the Billings Student Union and Petro Hall roof replacement projects. Loan payments including interest at a variable rate (currently 1.55%) are due semi-annually on February 15th and August 15th. The loans are secured by net pledged revenue, subordinate to the bonds issued under the Master Indenture. In the year ended June 30, 2016, pledged funds of $1,291,082 were used for Intercap loan debt service.

NOTE 7. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 10, 2017, the date which the consolidated schedule was available for issue and has identified the following that warrants disclosure:

- Subsequent to June 30, 2016, the University drew an additional $2.8 million on its Series C bonds, bringing the total outstanding as of February 10, 2017 to $7.6 million. The University is committed to draw a total of $16.455 million through February of 2018, as funds are required to complete its parking garage and new dining hall.

MONTANA STATE UNIVERSITY
CONSOLIDATED REVENUE BOND AUDIT
CONSOLIDATED SCHEDULE OF REVENUE BONDS OUTSTANDING
June 30, 2016

	Original Issue	Redemption Regular	Redemption Defeased and Early	Outstanding June 30, 2016
Bonds in Force				
Indenture - July 13, 2005:				
Series J 2005 (Note 1)	$ 25,750,000	$ 4,550,000	$ -	$ 21,200,000
Indenture - August 17, 2006:				
Series K 2006 (Note 2)	$ 13,705,000	$ 4,460,000	$ -	$ 9,245,000
Indenture - June 26, 2008:				
Series L 2008 (Note 3)	$ 17,590,000	$ 13,985,000	$ -	$ 3,605,000
Indenture - November 1, 2011:				
Series M 2011 (Note 4)	$ 14,100,000	$ 220,000	$ -	$ 13,880,000
Indenture - October 17, 2012:				
Series N 2012 (Note 5)	$ 20,460,000	$ 855,000	$ -	$ 19,605,000
Indenture - October 17, 2012:				
Series O 2012 (Note 5)	$ 28,365,000	$ 2,155,000	$ -	$ 26,210,000
Indenture - December 16, 2013:				
Series A 2013 (Note 6)	$ 55,480,000	$ -	$ -	$ 55,480,000
Indenture - January 31, 2014:				
Series B 2014 (Note 7)	$ 10,000,000	$ 4,675,000	$ -	$ 5,325,000
Indenture - February 24, 2016:				
Series C 2016 (Note 8)	$ 4,805,000	$ -	$ -	$ 4,805,000

See Accompanying Notes to Schedule.

MONTANA STATE UNIVERSITY
CONSOLIDATED REVENUE BOND AUDIT
CONSOLIDATED SCHEDULE OF REDEMPTION REQUIREMENTS – ALL SERIES
As of and for the Year Ended June 30, 2016

Payment Date	December 1	November 15						Janaury 31	November 15	
Calendar Year Due	**Series J 2005**	**Series K 2006**	**Series L 2008**	**Series M 2011**	**Series N 2012**	**Series O 2012**	**Series A 2013**	**Series B 2014**	**Series C 2016**	**Total**
2016	$ 725,000	$ 705,000	$ 3,605,000	$ 65,000	$ 735,000	$ 1,260,000	$ 1,025,000	$ - *	$ -	$ 8,120,000
2017	675,000	1,420,000	-	175,000	755,000	4,195,000	1,055,000	500,000 *	-	8,775,000
2018	775,000	1,480,000	-	185,000	780,000	4,280,000	1,090,000	500,000 *	115,000	9,205,000
2019	800,000	1,550,000	-	195,000	815,000	4,365,000	1,135,000	4,325,000	115,000	13,300,000
2020	775,000	1,620,000	-	190,000	845,000	4,470,000	1,180,000	-	120,000	9,200,000
2021	875,000	1,700,000	-	190,000	880,000	4,580,000	1,230,000	-	125,000	9,580,000
2022	850,000	180,000	-	1,895,000	920,000	730,000	1,280,000	-	125,000	5,980,000
2023	950,000	190,000	-	1,995,000	955,000	755,000	1,330,000	-	130,000	6,305,000
2024	925,000	195,000	-	2,095,000	995,000	775,000	1,395,000	-	135,000	6,515,000
2025	1,025,000	205,000	-	2,205,000	1,035,000	800,000	1,465,000	-	140,000	6,875,000
2026	1,025,000	-	-	2,300,000	1,070,000	-	1,540,000	-	140,000	6,075,000
2027	1,125,000	-	-	2,390,000	1,100,000	-	1,620,000	-	145,000	6,380,000
2028	1,150,000	-	-	-	1,135,000	-	1,705,000	-	150,000	4,140,000
2029	1,175,000	-	-	-	1,170,000	-	1,790,000	-	155,000	4,290,000
2030	1,250,000	-	-	-	1,205,000	-	1,880,000	-	160,000	4,495,000
2031	1,300,000	-	-	-	1,245,000	-	1,980,000	-	165,000	4,690,000
2032	1,375,000	-	-	-	1,280,000	-	2,080,000	-	170,000	4,905,000
2033	1,400,000	-	-	-	1,320,000	-	2,185,000	-	175,000	5,080,000
2034	1,475,000	-	-	-	1,365,000	-	2,290,000	-	180,000	5,310,000
2035	1,550,000	-	-	-	-	-	2,400,000	-	185,000	4,135,000
2036	-	-	-	-	-	-	2,510,000	-	190,000	2,700,000
2037	-	-	-	-	-	-	2,625,000	-	195,000	2,820,000
2038	-	-	-	-	-	-	2,745,000	-	200,000	2,945,000
2039	-	-	-	-	-	-	2,880,000	-	210,000	3,090,000
2040	-	-	-	-	-	-	3,025,000	-	215,000	3,240,000
2041	-	-	-	-	-	-	3,180,000	-	220,000	3,400,000
2042	-	-	-	-	-	-	3,345,000	-	225,000	3,570,000
2043	-	-	-	-	-	-	3,515,000	-	235,000	3,750,000
2044	-	-	-	-	-	-	-	-	240,000	240,000
2045	-	-	-	-	-	-	-	-	245,000	245,000
Total Outstanding June 30, 2016	21,200,000	9,245,000	3,605,000	13,880,000	19,605,000	26,210,000	55,480,000	5,325,000	4,805,000	159,355,000
Previously Redeemed/ Refunded	4,550,000	4,460,000	13,985,000	220,000	855,000	2,155,000	-	4,675,000	-	30,900,000
Total Original Issue	$ 25,750,000	$ 13,705,000	$ 17,590,000	$ 14,100,000	$ 20,460,000	$ 28,365,000	$ 55,480,000	$ 10,000,000	$ 4,805,000	$ 190,255,000

* Minimum of $500,000. See Note 7.

See Accompanying Notes to Schedule.

NOTE 1. SERIES J 2005 BONDS OUTSTANDING

Project

The proceeds were used to:

1) Finance costs of renovating, furnishing and equipping the student union building and the health and physical education complex on the Bozeman campus as well as costs of constructing, furnishing and equipping a new theater on the Bozeman campus; and
2) Pay interest on the Series J 2005 Bonds through February 2006; and
3) Pay costs associated with the issuance of the Series J 2005 Bonds, including the premium for the bond insurance policy.

Description of Issue

On July 21, 2005, the University issued $25,750,000 of Series J 2005 Auction Rate Facilities Improvement Revenue Bonds at an initial rate of 2.35%, to fund the majority of a student facilities enhancement project on the Bozeman campus. The proceeds, together with University funds, are being used to renovate the student fitness center, construct a theater, and renovate portions of the Strand Union Building. An interest rate swap agreement was arranged relative to the debt, with an intended synthetic fixed rate of 3.953%. Principal payments began during the fiscal year ended June 30, 2007 and continue each May and November through November, 2035.

Early Redemption

Outstanding Series J 2005 Bonds are subject to redemption prior to maturity, at the option of the Board, on any date, out of moneys delivered to the Trustee, in whole or in part (and if in part, the Series J 2005 Bonds to be redeemed shall be selected by lot as determined and drawn by the Trustee), at a redemption price equal to the principal amount of Series J 2005 Bonds being redeemed, plus accrued interest to the redemption date, without premium.

Mandatory Sinking Fund Redemption

The Series J 2005 Bonds are subject to mandatory sinking fund redemption prior to maturity at a redemption price equal to 100% of the principal amount thereof, together with interest accrued on such Series J 2005 Bonds to the date fixed for redemption but without premium, on November 15 of the years and in the principal amounts as set forth in the maturity schedule below.

NOTE 1. SERIES J 2005 BONDS OUTSTANDING (CONTINUED)

Year Due (December 1)	Interest Rate	Original Issue	Redeemed	Outstanding June 30, 2016
2006	variable	$ 175,000	$ 175,000	$ -
2007	variable	325,000	325,000	-
2008	variable	275,000	275,000	-
2009	variable	450,000	450,000	-
2010	variable	375,000	375,000	-
2011	variable	550,000	550,000	-
2012	variable	575,000	575,000	-
2013	variable	550,000	550,000	-
2014	variable	675,000	675,000	-
2015	variable	600,000	600,000	-
2016	variable	725,000	-	725,000
2017	variable	675,000	-	675,000
2018	variable	775,000	-	775,000
2019	variable	800,000	-	800,000
2020	variable	775,000	-	775,000
2021	variable	875,000	-	875,000
2022	variable	850,000	-	850,000
2023	variable	950,000	-	950,000
2024	variable	925,000	-	925,000
2025	variable	1,025,000	-	1,025,000
2026	variable	1,025,000	-	1,025,000
2027	variable	1,125,000	-	1,125,000
2028	variable	1,150,000	-	1,150,000
2029	variable	1,175,000	-	1,175,000
2030	variable	1,250,000	-	1,250,000
2031	variable	1,300,000	-	1,300,000
2032	variable	1,375,000	-	1,375,000
2033	variable	1,400,000	-	1,400,000
2034	variable	1,475,000	-	1,475,000
2035	variable	1,550,000	-	1,550,000
TOTALS		$ 25,750,000	$ 4,550,000	$ 21,200,000

Additional Pledged Revenues

In connection with the issuance of the Series J 2005 Bonds, the Net Pledged Revenues available for debt service include a Student Facilities Enhancement Fee until the Series J 2005 Bonds are paid and discharged, Student Union Building Fees which may be released after June 30, 2015, so long as the rate maintenance test under the Indenture has been met for three consecutive fiscal years without including such Student Union Building Fees revenues; payments by the Counterparty pursuant to an Interest Rate Agreement relating to any Series of Bonds; and capitalized interest and earnings on certain funds created under the Indenture.

NOTE 1. SERIES J 2005 BONDS OUTSTANDING (CONTINUED)

2008 Remarketing of Series J 2005 Bonds

On September 11, 2008, the University remarketed its Series J 2005 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 University entered into a Letter of Credit and Reimbursement Agreement with Wachovia Bank, NA (Wachovia), for a term of two years, in which Wachovia assumes a direct-pay responsibility for the bonds. Wachovia was subsequently acquired by Wells Fargo.

2010 Remarketing of Series J 2005 Bonds

Because the Wachovia 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, and re-issued the bonds in whole to Wells Fargo Bank. In place of a letter of credit fee, the University now pays Wells Fargo Bank a pre-determined basis point spread over and above the SIFMA weekly indexed rate.

2013 Series 2005J Direct Purchase Agreement

In September 2013, the University entered into a 5-year renewal of its direct purchase agreement with Wells Fargo Bank, relative to the Series J 2005 bonds, at a rate of .65% above SIFMA, representing a 0.15% decrease in the previous interest rate.

NOTE 2. SERIES K 2006 BONDS OUTSTANDING

Project

The proceeds were used to:

1) Refund portions of the Series E 1998 and Series D 1996 debt and resulted in an economic gain of $510,293;
2) Pay costs associated with bond issuance, including the premium for the bond insurance policy.

NOTE 2. SERIES K 2006 BONDS OUTSTANDING (CONTINUED)

Description of Issue

Proceeds of the Series K 2006 Bonds (net of costs of issuance) were deposited into the Escrow Account created pursuant to the Escrow Agreement dated as of August 15, 2006 (the "Escrow Agreement") between the Board and U.S. Bank National Association (the Escrow Agent). This series is an original issue of $13,705,000 including $2,580,000 for the MSU Billings campus and $11,125,000 for the MSU Bozeman campus of Facilities Refunding Serial Revenue Bonds dated August 17, 2006, consisting of fully registered Bonds in the domination of $5,000 or any integral multiple thereof. Interest is paid on May 15 and November 15 of each year, commencing November 2006. Principal is payable November 15 each year, commencing November 2006 through November 2025. All bonds are unconditionally and irrevocably guaranteed by Ambac Insurance Corporation.

Early Redemption

Outstanding Series K 2006 Bonds with stated maturities on or after November 15, 2017 are subject to redemption prior to maturity, on any date occurring on or after November 15, 2016, at par, plus accrued interest to the redemption date, but without premium.

Year Due (November 15)	Interest Rate	Original Issue	Redeemed	Outstanding June 30, 2016
2006	4.000%	$ 75,000	$ 75,000	$ -
2007	4.000%	80,000	80,000	-
2008	4.000%	125,000	125,000	-
2009	4.000%	530,000	530,000	-
2010	3.750%	550,000	550,000	-
2011	4.000%	570,000	570,000	-
2012	4.000%	590,000	590,000	-
2013	4.000%	620,000	620,000	-
2014	4.000%	645,000	645,000	-
2015	4.000%	675,000	675,000	-
2016	4.050%	705,000	-	705,000
2017	4.125%	1,420,000	-	1,420,000
2018	4.250%	1,480,000	-	1,480,000
2019	4.500%	1,550,000	-	1,550,000
2020	4.500%	1,620,000	-	1,620,000
2021	4.375%	1,700,000	-	1,700,000
2022	4.500%	180,000	-	180,000
2023	4.500%	190,000	-	190,000
2024	4.500%	195,000	-	195,000
2025	4.500%	205,000	-	205,000
TOTALS		$ 13,705,000	$ 4,460,000	$ 9,245,000

NOTE 3. SERIES L 2008 BONDS OUTSTANDING

Project

The proceeds were used to:

1) Refund the Series G 2003 Bonds outstanding.
2) Pay costs associated with bond issuance, including the premium for a bond insurance policy through Assured Guaranty.

Description of Issue

In June 2008, the University refunded its Series G 2003 Auction Rate bonds through the issuance of fixed rate Series L 2008 bonds. Series L bond proceeds were sufficient to legally defease the Series 2003 G bonds. The refunding allowed the University to exit the turbulent auction rate debt market, instead issuing fixed-rate debt. The Series L debt will be repaid beginning November 15, 2008, with final maturity in November of 2016, the same maturity date scheduled for the Series G debt. Repayment is guaranteed by Assured Guaranty. The refunded debt was considered defeased as of June 30, 2008. Such bonds were subsequently called in July 2008 and are no longer outstanding. The Series G debt had been used for a $16,745,000 current refunding of the serial portion of the Series 1993 A bonds. During the year ended June 30, 2015, MSU-Northern completed its redemption of $1,330,000 allocated to its campus.

Early Redemption

The Series L 2008 bonds are not subject to optional redemption prior to maturity.

Year Due (November 15)	Interest Rate	Original Issue	Redeemed	Outstanding June 30, 2016
2008	4.000%	$ 250,000	$ 250,000	$ -
2009	3.500%	200,000	200,000	-
2010	3.500%	200,000	200,000	-
2011	3.500%	200,000	200,000	-
2012	3.500%	3,110,000	3,110,000	-
2013	3.500%	3,215,000	3,215,000	-
2014	3.750%	750,000	750,000	-
2014	4.000%	1,590,000	1,590,000	-
2014	5.000%	1,000,000	1,000,000	-
2015	3.750%	3,470,000	3,470,000	-
2016	3.750%	1,605,000	-	1,605,000
2016	4.000%	2,000,000	-	2,000,000
TOTALS		$ 17,590,000	$ 13,985,000	$ 3,605,000

NOTE 4. SERIES M 2011 BONDS OUTSTANDING

Project

The proceeds were used to:

1) Fund the construction of a new suite-style residence hall as well as renovate public spaces in two existing residence halls and perform energy efficiency improvements, which include window and lighting fixture replacement, on the Bozeman campus.
2) Pay costs associated with bond issuance.

Description of Issue

In October, 2011, the University issued $14,100,000 in Series M 2011 Facilities Improvement Revenue Bonds to fund construction of a residence hall, renovate public spaces in existing residence halls, and perform energy efficiency improvements in existing residence halls. Payments are scheduled each May and November through November, 2027. The bonds are secured by a first lien on and pledge of net pledged revenues.

Early Redemption

The Series M 2011 Bonds maturing on and after November 15, 2022 are subject to optional redemption prior to maturity on any date on or after November 15, 2022, at a redemption price equal to the principal amount being redeemed, plus accrued interest to the redemption date, without premium.

Year Due (November 15)	Interest Rate	Original Issue	Redeemed	Outstanding June 30, 2016
2013	2.000%	$ 75,000	$ 75,000	$ -
2014	2.000%	55,000	55,000	-
2015	2.000%	90,000	90,000	-
2016	2.000%	65,000	-	65,000
2017	2.250%	175,000	-	175,000
2018	2.500%	185,000	-	185,000
2019	3.000%	195,000	-	195,000
2020	3.000%	190,000	-	190,000
2021	3.000%	190,000	-	190,000
2022	5.000%	1,895,000	-	1,895,000
2023	5.000%	1,995,000	-	1,995,000
2024	5.000%	2,095,000	-	2,095,000
2025	5.000%	2,205,000	-	2,205,000
2026	3.750%	2,300,000	-	2,300,000
2027	4.000%	2,390,000	-	2,390,000
TOTALS		$ 14,100,000	$ 220,000	$ 13,880,000

NOTE 5. SERIES N AND O 2012 BONDS OUTSTANDING

Project

Following is a description of these bond series:

1) Series N proceeds were used to refund Series H 2004 bonds outstanding in the amount of $19,620,000 with stated maturity dates in 2015 through 2034, previously issued to fund construction of the chemistry/biochemistry research facility on the Bozeman campus. Series O Taxable Bonds were used to refund Series I bonds outstanding, in the amount of $25,780,000 with stated maturity dates of 2015 through 2025. Series O proceeds in the amount of $7,965,000 were allocated to the Billings campus and proceeds of $20,400,000 were allocated to the Bozeman campus.
2) Pay costs associated with bond issuance.

Description of Issue

In November 2012, the University issued $20,460,000 in Series N 2012 Facilities Refunding Revenue Bonds and $28,365,000 in Series O 2012 Taxable Facilities Refunding Revenue Bonds. Payments are scheduled each May and November through November, 2034 for Series N and through November 2025 for Series O. The bonds are secured by a first lien on and pledge of net pledged revenues.

Early Redemption

The Series N 2012 Bonds maturing on and after November 15, 2023 are subject to optional redemption prior to maturity, on any date on or after November 15, 2022, in whole or in part, at a redemption price equal to the principal amount of Series N 2012 Bonds being redeemed, plus accrued interest to the redemption date, without premium.

The Series O 2012 Bonds maturing on November 15, 2025 are subject to optional redemption prior to maturity, at the option of the Board, on any date on or after November 15, 2021, in whole or in part, at a redemption price equal to the principal amount of Series O 2012 Bonds being redeemed, plus accrued interest to the redemption date, without premium.

Mandatory Sinking Fund Redemption

The Series N 2012 Bonds maturing on November 15, 2031 and 2034 are subject to redemption in part by operation of sinking fund installments, at a redemption price equal to 100% of the principal amount of the Series N 2012 Bonds to be redeemed, together with accrued interest to the date of redemption, beginning in November 2029.

The Series O 2012 Bonds maturing on November 15, 2025 shall be subject to redemption in part by operation of sinking fund installments, at a redemption price equal to 100% of the principal amount of the Series O 2012 Bonds to be redeemed, together with accrued interest to the date of redemption, beginning in November 2022.

NOTE 5. SERIES N AND O 2012 BONDS OUTSTANDING (CONTINUED)

Following is a schedule of Series N outstanding bonds, interest rates and stated maturity dates:

Year Due (November 15)	Interest Rate	Original Issue	Redeemed	Outstanding June 30, 2016
2013	2.000%	$ 75,000	$ 75,000	$ -
2014	2.000%	80,000	80,000	-
2015	4.000%	700,000	700,000	-
2016	3.000%	735,000	-	735,000
2017	3.000%	755,000	-	755,000
2018	4.000%	780,000	-	780,000
2019	4.000%	815,000	-	815,000
2020	4.000%	845,000	-	845,000
2021	4.000%	880,000	-	880,000
2022	4.000%	920,000	-	920,000
2023	4.000%	955,000	-	955,000
2024	4.000%	995,000	-	995,000
2025	4.000%	1,035,000	-	1,035,000
2026	2.750%	1,070,000	-	1,070,000
2027	3.000%	1,100,000	-	1,100,000
2028	3.000%	1,135,000	-	1,135,000
2029	3.000%	1,170,000	-	1,170,000
2030	3.000%	1,205,000	-	1,205,000
2031	3.000%	1,245,000	-	1,245,000
2032	3.125%	1,280,000	-	1,280,000
2033	3.125%	1,320,000	-	1,320,000
2034	3.125%	1,365,000	-	1,365,000
TOTALS		$ 20,460,000	$ 855,000	$ 19,605,000

Following is a schedule of Series O outstanding bonds, interest rates and stated maturity dates:

Year Due (November 15)	Interest Rate	Original Issue	Redeemed	Outstanding June 30, 2016
2013	0.628%	$ 460,000	$ 460,000	$ -
2014	0.886%	460,000	460,000	-
2015	1.142%	1,235,000	1,235,000	-
2016	1.451%	1,260,000	-	1,260,000
2017	1.701%	4,195,000	-	4,195,000
2018	2.057%	4,280,000	-	4,280,000
2019	2.207%	4,365,000	-	4,365,000
2020	2.490%	4,470,000	-	4,470,000
2021	2.690%	4,580,000	-	4,580,000
2022	3.090%	730,000	-	730,000
2023	3.090%	755,000	-	755,000
2024	3.090%	775,000	-	775,000
2025	3.090%	800,000	-	800,000
TOTALS		$ 28,365,000	$ 2,155,000	$ 26,210,000

NOTE 6. SERIES A 2013 BONDS OUTSTANDING

Project
The proceeds are being used to:

1) Fund the construction of a new 400 bed residence hall on the Bozeman campus, as well as renovate and expand the main dining hall, begin construction of a new dining hall, and fund major and deferred maintenance projects in two existing residence halls.
2) Pay costs associated with bond issuance.

Description of Issue
In December 2013, the University issued $55,480,000 in Series A 2013 Facilities Improvement Revenue Bonds to fund construction of a new 400 bed residence hall, renovate three existing dining halls and to fund major maintenance projects on existing residence halls, all 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 net pledged revenues.

Early Redemption
The Series A 2013 Bonds maturing on and after November 15, 2024 are subject to optional redemption prior to maturity on any date on or after November 15, 2023, at a redemption price equal to the principal amount being redeemed, plus accrued interest to the redemption date, without premium.

NOTE 6. SERIES A 2013 BONDS OUTSTANDING (CONTINUED)

Following is a schedule of Series A outstanding bonds, interest rates and stated maturity dates:

Year Due (November 15)	Interest Rate	Original Issue	Redeemed	Outstanding June 30, 2016
2016	2.000%	$ 1,025,000	$ -	$ 1,025,000
2017	3.000%	1,055,000	-	1,055,000
2018	4.000%	1,090,000	-	1,090,000
2019	4.000%	1,135,000	-	1,135,000
2020	4.000%	1,180,000	-	1,180,000
2021	4.000%	1,230,000	-	1,230,000
2022	4.000%	1,280,000	-	1,280,000
2023	4.000%	1,330,000	-	1,330,000
2024	5.000%	1,395,000	-	1,395,000
2025	5.000%	1,465,000	-	1,465,000
2026	5.000%	1,540,000	-	1,540,000
2027	5.000%	1,620,000	-	1,620,000
2028	5.000%	1,705,000	-	1,705,000
2029	5.000%	1,790,000	-	1,790,000
2030	5.000%	1,880,000	-	1,880,000
2031	5.000%	1,980,000	-	1,980,000
2032	5.000%	2,080,000	-	2,080,000
2033	5.000%	2,185,000	-	2,185,000
2034	4.500%	2,290,000	-	2,290,000
2035	4.500%	2,400,000	-	2,400,000
2036	4.500%	2,510,000	-	2,510,000
2037	4.500%	2,625,000	-	2,625,000
2038	4.500%	2,745,000	-	2,745,000
2039	5.000%	2,880,000	-	2,880,000
2040	5.000%	3,025,000	-	3,025,000
2041	5.000%	3,180,000	-	3,180,000
2042	5.000%	3,345,000	-	3,345,000
2043	5.000%	3,515,000	-	3,515,000
TOTALS		$ 55,480,000	$ -	$ 55,480,000

NOTE 7. SERIES B 2014 BONDS OUTSTANDING

Project

The proceeds were used to bridge fund construction of a new gift-funded academic building on the Bozeman campus. A total of approximately $19 million has been budgeted for a new academic building. The donor is providing funds over an up to ten-year time period. The University borrowed the funds necessary to complete the building and debt service will be provided by the Montana State University Alumni Foundation as the gift is received from the donor.

Description of Issue

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 contain an index rate mode whereby the interest rate is reset periodically at SIFMA plus an applicable spread based on the term of the rate period. Payments are scheduled each January and will amortize 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 is no more than $8,000,000 outstanding at the time the index floating rate mode matures. The bonds are secured by a first lien on and pledge of the net pledged revenues.

Following is a schedule of Series B outstanding bonds, interest rates and stated maturity dates, based on the University's fiscal year:

Fiscal Year Due (January 31)	Interest Rate	Original Issue		Redeemed	Outstanding June 30, 2016
2015	Variable	$ 2,975,000		$ 2,975,000	$ -
2016	Variable	1,700,000		1,700,000	-
2017	Variable	500,000	*	-	500,000
2018	Variable	500,000	*	-	500,000
2019	Variable	4,325,000		-	4,325,000
TOTALS		$ 10,000,000		$ 4,675,000	$ 5,325,000

* Minimum of $500,000.

NOTE 8. SERIES C 2016 BONDS OUTSTANDING

Project

The proceeds are to be used to acquire a research building adjacent to the Bozeman campus, and to design, construct and equip a new parking structure and a new dining hall, both located on the Bozeman campus. Bond proceeds will also be used to fund the costs of issuance.

Description of Issue

In February 2016, the University closed on its Series C 2016 Facilities Improvement Revenue bonds. The bonds are draw-down bonds, which means that the $16,455,000 total will be drawn as needed for the construction, subject to certain minimum draws, and with final draws required by February 2018. The bonds bear interest on the outstanding principal balance. The interest rate is set at 2.92% per year 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. 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.

NOTE 8. SERIES C 2016 BONDS OUTSTANDING (CONTINUED)

Following is a schedule of Series C outstanding bonds, interest rates and stated maturity dates, based on the University's fiscal year:

Fiscal Year Due (January 31)	Interest Rate	Original Issue	Redeemed	Outstanding June 30, 2016
2016	2.920%	$ -	$ -	$ -
2017	2.920%	-	-	-
2018	2.920%	115,000	-	115,000
2019	2.920%	115,000	-	115,000
2020	2.920%	120,000	-	120,000
2021	2.920%	125,000	-	125,000
2022	2.920%	125,000	-	125,000
2023	2.920%	130,000	-	130,000
2024	2.920%	135,000	-	135,000
2025	2.920%	140,000	-	140,000
2026	2.920%	140,000	-	140,000
2027	2.920%	145,000	-	145,000
2028	2.920%	150,000	-	150,000
2029	2.920%	155,000	-	155,000
2030	2.920%	160,000	-	160,000
2031	2.920%	165,000	-	165,000
2032	2.920%	170,000	-	170,000
2033	2.920%	175,000	-	175,000
2034	2.920%	180,000	-	180,000
2035	2.920%	185,000	-	185,000
2036	2.920%	190,000	-	190,000
2037	2.920%	195,000	-	195,000
2038	2.920%	200,000	-	200,000
2039	2.920%	210,000	-	210,000
2040	2.920%	215,000	-	215,000
2041	2.920%	220,000	-	220,000
2042	2.920%	225,000	-	225,000
2043	2.920%	235,000	-	235,000
2044	2.920%	240,000	-	240,000
2045	2.920%	245,000	-	245,000
2046	2.920%	-	-	-
TOTALS		$ 4,805,000	$ -	$ 4,805,000

MONTANA STATE UNIVERSITY
CONSOLIDATED REVENUE BOND AUDIT
CONSOLIDATED SCHEDULE OF HOUSING STATISTICS
June 30, 2016

	2012	2013	2014	2015	2016
Bozeman Campus					
Rooms Available	2,001	2,057	2,145	2,145	2,209
Rooms Occupied	1,937	1,992	2,068	2,063	2,127
Percent Room Occupancy	97%	97%	96%	96%	96%
Average Number of Occupants	3,092	3,196	3,330	3,452	3,516
Average Number of Occupants per Room	1.60	1.60	1.61	1.61	1.66
Billings Campus					
Rooms Available	390	390	390	390	390
Rooms Occupied	360	349	328	315	326
Percent Room Occupancy	92%	89%	84%	81%	84%
Average Number of Occupants	567	544	535	462	438
Average Number of Occupants per Room	1.58	1.56	1.63	1.47	1.34
Northern Campus					
Rooms Available	193	193	193	198	196
Rooms Occupied	146	163	172	192	180
Percent Room Occupancy	75%	84%	89%	97%	92%
Average Number of Occupants	182	209	222	261	269
Average Number of Occupants per Room	1.25	1.28	1.29	1.36	1.49

The following family and graduate student apartments were converted to undergraduate housing on the Bozeman campus due to overflow needs:

	Units Converted
2012	62
2013	65
2014	65
2015	81
2016	16

MONTANA STATE UNIVERSITY
CONSOLIDATED REVENUE BOND AUDIT
CONSOLIDATED SCHEDULE OF STUDENT FEES
June 30, 2016 and 2015

	2016	2015
Building Fee	$ 2,385,638	$ 2,479,264
Nonresident Building Fee	1,249,824	965,485
Physical Education Complex Fee	528,422	514,621
Student Union O&M/other Fees	1,551,815	1,522,291
Academic Building Renewal & Replacement Fee	390,232	376,404
Health and Physical Education Weight Room O&M Fee	12,625	12,462
Fieldhouse Fee	231,167	225,201
Student Facilities Enhancement Project Fee	1,556,276	1,524,767
Sub-total Building Fees	7,905,999	7,620,495
Student Athletic Fee	1,859,581	1,786,164
Total Fees	$ 9,765,580	$ 9,406,659

MONTANA STATE UNIVERSITY
CONSOLIDATED REVENUE BOND AUDIT
CONSOLIDATED SCHEDULE OF ENROLLMENT TRENDS
For June 30, 2016

Full-Time Equivalent by Campus, Fall Semester:

	Bozeman	Billings	Northern	Total
2015:				
Resident	8,706	3,052	862	12,620
Nonresident	5,109	432	164	5,705
Total 2015	13,815	3,484	1,026	18,325
2014:				
Resident	8,638	3,314	892	12,844
Nonresident	4,818	510	147	5,475
Total 2014	13,456	3,824	1,039	18,319
2013:				
Resident	8,793	3,497	942	13,232
Nonresident	4,509	515	139	5,163
Total 2013	13,302	4,012	1,081	18,395
2012:				
Resident	8,611	3,593	924	13,128
Nonresident	4,143	500	135	4,778
Total 2012	12,754	4,093	1,059	17,906
2011:				
Resident	8,506	3,819	928	13,253
Nonresident	3,585	464	127	4,176
Total 2011	12,091	4,283	1,055	17,429

MONTANA STATE UNIVERSITY
CONSOLIDATED REVENUE BOND AUDIT
CONSOLIDATED SCHEDULE OF ENROLLMENT TRENDS (CONTINUED)
For June 30, 2016

15th Class Day Census Headcount, Fall Semester:

	Bozeman	Billings	Northern	Total
2015:				
Resident	8,651	3,941	1,066	13,658
Nonresident	7,037	488	168	7,693
Total 2015	15,688	4,429	1,234	21,351
2014:				
Resident	8,846	4,218	1,097	14,161
Nonresident	6,575	563	148	7,286
Total 2014	15,421	4,781	1,245	21,447
2013:				
Resident	9,024	4,379	1,188	14,591
Nonresident	6,270	590	146	7,006
Total 2013	15,294	4,969	1,334	21,597
2012:				
Resident	9,836	4,516	1,141	15,493
Nonresident	4,824	565	141	5,530
Total 2012	14,660	5,081	1,282	21,023
2011:				
Resident	9,890	4,733	1,144	15,767
Nonresident	4,263	541	129	4,933
Total 2011	14,153	5,274	1,273	20,700

CONSOLIDATED SCHEDULE OF LAND GRANT INCOME AND STATE APPROPRIATIONS
June 30, 2016

Land Grant Income

Land Grant income is derived from lands granted by Congress in 1881 to the State (then the Territory) of Montana for the benefit of the State's universities and colleges. The land so granted has been allocated and dedicated to each of the units of the University System by the State Legislature and the income from each unit's allocated land is dedicated to the support of each such unit. Montana State University-Billings has been allocated 31,727 acres; Montana State University-Bozeman has been allocated a total of 140,000 acres. The Land Grant income is derived from two principal sources: (i) leases of trust land (consisting of grazing leases, agricultural leases, oil and gas leases, and recreational leases) and (ii) royalties received from timber harvesting, oil and gas extraction and mining on the land.

State Appropriations and Mil Levy Funding

Total State Appropriations [1] to University
Fiscal Years Ended June 30

Fiscal Year	MSU Bozeman	MSU Billings	MSU Northern	Great Falls College MSU	Montana Extension & Agricultural Research Centers	Total
2012	$ 46,892,409	$ 19,552,428	$ 9,094,922	$ 6,121,433	$ 19,200,662	$ 100,861,854
2013	$ 46,979,055	$ 19,569,809	$ 9,100,500	$ 6,124,436	$ 19,216,875	$ 100,990,675
2014	$ 52,409,004	$ 20,580,150	$ 10,166,240	$ 6,941,133	$ 20,355,283	$ 110,451,810
2015	$ 56,538,513	$ 22,197,045	$ 10,462,946	$ 7,369,367	$ 21,178,965	$ 117,746,836
2016	$ 65,023,475	$ 23,072,666	$ 11,594,453	$ 7,673,111	$ 23,120,167	$ 130,483,872

(1) Excludes tuition and fees.

State law authorizes the University to carry-forward unexpended appropriations into the following fiscal year of a biennium. There are no pledged revenues or Bond Debt at the Great Falls campus or the Extension and Agricultural Research Centers.

CONSOLIDATED SCHEDULE OF EMPLOYEES

June 30, 2016 with Comparative Totals for 2015

Fall 2015 and 2014 employment statistics on a head count basis for Montana State University campuses with bonded indebtedness were as follows:

	Fall 2015				Fall 2014
	Bozeman	Billings	Northern	Total	Total
Faculty/professional	2,106	451	177	2,734	2,678
State classified system	1,161	205	66	1,432	1,446
Temporary hourly, including student workers	2,683	321	173	3,177	3,027
	5,950	977	416	7,343	7,151
Graduate students	685	16	-	701	675
Total	6,635	993	416	8,044	7,826

OTHER INFORMATION

MONTANA STATE UNIVERSITY
CONSOLIDATED REVENUE BOND AUDIT
CONSOLIDATED SCHEDULE OF UNIVERSITY REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2016

	2016 (unaudited)
OPERATING REVENUES	
Tuition and fees (net of $33,030,219 scholarship discount)	$ 170,096,596
Federal appropriations	5,673,782
Federal grants and contracts	72,542,294
State grants and contracts	5,372,056
Non-governmental grants and contracts	10,239,121
Grant and contract facilities and administrative cost recoveries	16,785,836
Educational, public service and outreach revenues	25,855,553
Auxiliary revenues:	
Housing (net of $3,018,555 scholarship discount)	21,827,221
Food services (net of $2,957,108 scholarship discount)	21,035,555
Other auxiliary sales and services (net of $553,913 scholarship discount)	9,816,218
Interest earned on loans	41,986
Other operating revenues	2,328,511
Total operating revenues	361,614,729
OPERATING EXPENSES	
Compensation and benefits, including pension (Note 15)	310,875,481
OPEB expense (Note 15)	5,492,804
Operating expenses (Note 14)	152,223,848
Scholarships and fellowships (net of $39,559,795 scholarship discount)	23,275,776
Depreciation and amortization	32,397,297
Total operating expenses	524,265,206
Operating loss	(162,650,477)
NONOPERATING REVENUES (EXPENSES)	
State and local appropriations	130,900,474
Federal Pell grant revenue	24,926,509
Land grant income (pledged as security for repayment of bonds)	2,113,539
Gifts (expendable)	16,885,173
Investment income	1,842,113
Interest expense	(5,778,183)
Net nonoperating revenues (expenses)	170,889,625
Income before other revenues, expenses, gains and losses	8,239,148
Loss on disposals of capital assets	(278,292)
Additions to permanent endowment	15,230
Capital gifts, grants and contributions	14,230,994
Change in net position	22,207,080
Net position, beginning of year	312,961,846
Net position, end of year	$ 335,168,926

SECTION II: COMPLIANCE EXAMINATION

ANDERSON ZURMUEHLEN & CO., P.C. • CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS
MEMBER: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Board of Regents of Higher Education
of Montana State University
Helena, Montana

We have examined management's assertion that Montana State University (the University) is in compliance with the requirements of the 1993 Master Indenture as amended and restated, and as presented in the accompanying schedules, as of June 30, 2016 and 2015. Management is responsible for the University's compliance with those requirements. Our responsibility is to express an opinion on management's assertion about the University's compliance based on our examinations.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the University's compliance with the specified requirements.

In our opinion, management's assertion that Montana State University complied with the requirements referred to above as of June 30, 2016 and 2015 is fairly stated, in all material respects, based on the criteria set forth above and in management's assertion.

Anderson ZurMuehlen & Co. P.C.

Butte, Montana
February 10, 2017

MONTANA STATE UNIVERSITY
CONSOLIDATED BOND COMPLIANCE EXAMINATION
CONSOLIDATED SCHEDULE OF REQUIREMENTS AND RATIO COMPUTATION
June 30, 2016 and 2015

	Year Ended June 30, 2016	Year Ended June 30, 2015
Distribution of Net Pledged Revenues		
Revenue funds	$ 31,808,416	$ 33,532,079
Debt Service fund	2,009,110	3,385,830
Renewal and Replacement fund	5,879	398
Construction and Equipment fund	127,782	313,933
Total distribution	$ 33,951,187	$ 37,232,240
Earnings Requirement Prior to G&A Recharges		
Actual	$ 33,951,187	$ 37,232,240
Required current year debt service	(14,685,248)	(15,964,296)
Excess	$ 19,265,939	$ 21,267,944
Coverage Ratio Prior to G&A Recharges	2.31	2.33
Earnings Requirement After G&A Recharges		
Actual	$ 31,376,246	$ 34,268,614
Required current year debt service	(14,685,248)	(15,964,296)
Excess	$ 16,690,998	$ 18,304,318
Coverage Ratio	2.14	2.15
Coverage Ratio for 2008 Series L Insurance Provider: Earnings Requirement Prior to G&A Recharges, excluding investment income		
Actual	$ 33,347,677	$ 36,454,520
Required current year debt service	(14,685,248)	(15,964,296)
Excess	$ 18,662,429	$ 20,490,224
Coverage Ratio Prior to Recharges, exclusive of investment income	2.27	2.28

See Accompanying Notes to Schedule.

NOTE 1. EARNINGS REQUIREMENT

Section 6.01 of the Indenture specifies that the application of the annual net pledged revenues shall be sufficient to provide debt service coverage and to provide, when necessary, for the annual repair and replacement deposit. The earnings requirement for the years ended June 30, 2016 and 2015 under this provision is computed as follows:

	2016	2015
Annual debt service	$ 14,685,248	$ 15,964,296
Debt service reserve	-	-
Repair and replacement deposit	-	-
Total earnings requirement	$ 14,685,248	$ 15,964,296

Annual debt service for purposes of this calculation consists of actual cash payments for bond principal and interest expense. The balance per this schedule reconciles to principal and interest payments per the Consolidated Schedule of Pledged Fund Activity as follows:

	2016	2015
Bond principal payments	$ 8,470,000	$ 9,590,000
Bond interest expense		
Per Schedule of Pledged Fund Activity	6,186,887	6,378,871
Change in accrued interest expense	28,361	(4,575)
Actual cash paid for interest	6,215,248	6,374,296
Earnings requirement, per this schedule	$ 14,685,248	$ 15,964,296

NOTE 2. COVERAGE RATIO

The coverage ratio is the ratio of net revenues available for debt service for the fiscal year to the required principal and interest due during the fiscal year.

NOTE 3. AVERAGE ANNUAL DEBT SERVICE

	Scheduled Outstanding Debt Service		Years Remaining	Average Annual Debt Service
Series J 2005	$ 30,703,567	*	20	$ 1,535,178
Series K 2006	10,756,591		10	1,652,696
Series L 2008	3,675,094		1	3,675,094
Series M 2011	19,282,369		12	1,606,864
Series N 2012	26,307,159		19	1,384,587
Series O 2012	28,821,910		10	4,259,966
Series A 2013	100,904,700		28	3,603,739
Series B 2014	5,440,443	**	3	1,813,481
Series C 2016	7,311,748		30	243,725
Total Scheduled Debt Service as of June 30, 2016	$ 233,203,581			$ 19,775,330

* The Series J 2005 Revenue Bonds are variable rate instruments and the applicable interest rate was re-established periodically through June 30, 2016. The University has utilized the synthetic fixed rate of 3.953% for purposes of this calculation.

** The Series B 2014 Revenue Bonds are variable. The June 30, 2016 rate of 1.060% was used for these calculations.

Additional calculations of average annual debt service, as defined in the indenture, would be required should the University wish to issue debt on parity with existing bonds.

NOTE 4. REQUIRED MINIMUM FUND BALANCES

Revenue Fund
The Indenture does not require a specific fund balance.

Bond Fund
The Indenture does not require a specific fund balance.

Debt Service Reserve Fund
Section 5.04 of the Indenture authorizes the University to fund the Debt Service Reserve required, equal to the Combined Average Annual Debt Service, through a surety bond issued and delivered by the Municipal Bond Insurance Association, as the bond insurer. The University procured such a surety bond on the date of the issuance delivery of the Series A 1993 bonds.

NOTE 4. REQUIRED MINIMUM FUND BALANCES (CONTINUED)

Renewal and Replacement Fund

Sections 1.01, 3.06 and 6.01 (d) of the Indenture specify a minimum level of $1,500,000 as computed for all MSU campuses. However, in the event the amount is less than the requirement specified, deposits are to be made annually, by June 30, of amounts equal to not less than one-fifth of the difference then on deposit and the Repair and Replacement Reserve Requirement. Annual deposits are to be made until there is on deposit an amount equal to the Repair and Replacement Reserve Requirement for the bonds then outstanding. The required deposit as of June 30, 2016 under these provisions is zero, computed as follows:

Renewal and Replacement Reserve Requirement		$ 2,150,000
Renewal and Replacement Reserve Funds on deposit:		
Bozeman	2,525,610	
Northern	214,126	
Billings	727,849	3,467,585
Excess (deficiency)		1,317,585
Annual Deposit Required (20% of any deficiency)		$ -

NOTE 4. REQUIRED MINIMUM FUND BALANCES (CONTINUED)

Construction Fund

Sections 1.01 and 5.01 specify that the amount remaining, plus anticipated capitalized interest earnings, be sufficient to pay the cost of the project created or continuing under the Indenture. The required balance on June 30, 2016 under these provisions is computed as follows:

Series	Total Project Cost, Including University Funding Sources	Project Cost To Be Funded With Bond Proceeds & Bond Interest Earnings	Total Project Expenditures Through June 30, 2016	Project Balance To Be Funded With Bond Proceeds	Project Balance To Be Funded With Other Funding Sources	Balance of Unexpended & Undrawn Bond Proceeds
A - 2013	$ 58,000,000	$ 58,000,000	$ 50,814,190	$ 7,185,810	$ -	$ 8,622,387
C- 2016	27,716,500	16,286,500	12,455,820	11,686,500	11,430,000	-
	$ 85,716,500	$ 74,286,500	$ 63,270,010	$ 18,872,310	$ 11,430,000	$ 8,622,387

Bond proceeds are held in the Construction and Renewal and Replacement Funds at June 30, 2016 as follows:

	Series A	Series C
Proceeds Held in Construction Fund:		
Cash and cash equivalents	$ -	$ 600,002
Investments, short-term	8,475,748	-
Investments	2,505,423	-
	10,981,171	600,002
Proceeds Held in Renewal and Replacement Fund:		
Investments	28,000	-
Total proceeds available	11,009,171	600,002
Total proceeds available to be drawn	-	11,445,000
Total available	11,009,171	12,045,002
Less accrued construction costs at June 30, 2016	(3,234,383)	(600,000)
Net funds available	7,774,788	11,445,002
Project balance to be funded with bond proceeds	7,185,810	11,686,500
Balance of funds available	588,978	(241,498)
Transfer excess Series A to fund dining hall	(588,978)	588,978
Excess funds available	$ -	$ 347,480

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