A Report
to the
Montana
Legislature

Financial Audit

State of Montana

For the Fiscal Year Ended
June 30, 2012

March 2013

Legislative Audit
Division

11-01B

Legislative Audit Committee

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Financial Audits

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

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these 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, 2011, was issued March 29, 2012. The Single Audit Report for the two fiscal years ended June 30, 2013, will be issued by March 31, 2014. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

Legislative Audit Division
Room 160, State Capitol
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Helena, MT 59620-1705

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

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Cindy Jorgenson
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March 2013

The Legislative Audit Committee
of the Montana State Legislature:

This financial audit report contains our Independent Auditor's Report on the basic financial statements and the Schedule of Expenditures of Federal Awards of the state of Montana for the fiscal year ended June 30, 2012. The basic financial statements were prepared by the State Accounting Division of the Department of Administration. The Schedule of Expenditures of Federal Awards was prepared by the Governor's Office of Budget and Program Planning.

This report contains one recommendation related to a significant control deficiency over the financial statement preparation process.

Department of Administration and Governor's Office officials reviewed the contents of this report. The Department of Administration's response is on B-1. The response from the Governor's Office is on B-18.

We thank the Department of Administration's director, the State Accounting Division staff, and the Governor's Office staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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Elected, Appointed and Administrative Officials

State of Montana	Steve Bullock, Governor
Department of Administration	Sheila Hogan, Director
	State Accounting Division Paul Christofferson, CPA, Administrator (through December 31, 2012) Julie Feldman, Acting Administrator (January 1, 2013)
	Accounting Bureau Julie Feldman, Bureau Chief
	Accounting Principles/Financial Reporting Section Cody Carter Pearce, CPA, Section Supervisor Charles Idehen, CPA, Accountant Heather Jarvis, Accountant Ginger Pfankuch, CPA, Accountant Dan Stanger, MBA, Accountant
Governor's Office	**Office of Budget and Program Planning** Dan Villa, Director Mark Bruno, Single Audit Coordinator

For additional information concerning the basic financial statements, contact:

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Montana Legislative Audit Division

Financial Audit
State of Montana
For the Fiscal Year Ended June 30, 2012

March 2013 11-01B Report Summary

This set of financial statements provides legislators and taxpayers with a summary of the state's financial position. All operations and activities of the state are summarized in these statements. At the end of fiscal year 2011-12, Montana had approximately $451.7 million of unassigned fund balance in the General Fund. This represents an increase of $109.8 million from June 30, 2011.

Context

The basic financial statements include all of the state's financial activity for the fiscal year. The General Fund and Federal Special Revenue Fund make up over 75 percent of the state's governmental revenue and expenditure activity. The Health & Human Services and Education categories account for approximately 60 percent of the state's governmental expenditures.

The Schedule of Expenditures of Federal Awards reports total federal expenditures in fiscal year 2011-12 in excess of $2.8 billion.

An in-depth analysis of the state's financial position as of June 30, 2012, can be reviewed in the Management's Discussion and Analysis section of the report. Additional information is also provided in the Notes to the Financial Statements.

During fiscal year 2010-11, the General Fund became responsible for paying the Montana State Fund (MSF) workers' compensation claims incurred before July 1, 1990, (Old Fund claims) when the Old Fund resources were exhausted. During fiscal year 2011-12, payment of Old Fund claims and administrative expenses required a transfer of approximately $10 million from the General Fund. The estimated claims liability as of July 1, 2012, was approximately $59 million and is an obligation of the General Fund. In our opinion, the accompanying financial statements do not present the estimated claims liability according to Generally Accepted Accounting Principles because they are reported as part of the State Fund component unit rather than as a long-term obligation of the General Fund.

Results

In fiscal year 2011-12, the retirement systems' audits disclosed material noncompliance with the Montana Constitution and state law requiring the systems to be actuarially sound. As of July 1, 2012, the Public Employees' Retirement System – Defined Benefit Retirement Plan, Sheriffs', Game Wardens' and Peace Officers', Highway Patrol Officers', and the Teachers' Retirement Systems were not actuarially sound.

This report also includes a recommendation related to a significant control deficiency over the financial statement preparation process.

(continued on back)

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

For a complete copy of the report (11-01B) 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
http://leg.mt.gov/audit
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail **ladhotline@mt.gov**.

Chapter I – Introduction

Audit Objectives

We performed a financial audit of the state of Montana's basic financial statements for the fiscal year ended June 30, 2012. The objective of the audit was to express opinions on the fair presentation of the state's basic financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and a related opinion on the Schedule of Expenditures of Federal Awards.

The Department of Administration (department) personnel prepared the financial statements based on accounting information from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) with adjustments. Adjustments are made to present financial activity in accordance with generally accepted accounting principles. This report contains a recommendation related to a significant control deficiency over the financial statement preparation process. In accordance with §5-13-307, MCA, we analyzed the costs of implementing this recommendation and do not believe them to be significant. The prior audit did not contain any recommendations.

Introduction

Per §17-2-110, MCA, the department must consolidate every state agency's financial data into an annual financial report. The department prepared the annual financial report, or basic financial statements, from the Statewide Accounting, Budgeting and Human Resources System.

The Independent Auditor's Report is on page A-3, followed by the Management's Discussion and Analysis, the basic financial statements, notes to the financial statements, the Budgetary Comparison Schedule, Pension Plan Information, Other Postemployment Benefits Plan Information, and accompanying notes. The Schedule of Expenditures of Federal Awards begins on page A-139. We issued opinions on the basic financial statements and an in-relation-to opinion on the Schedule of Expenditures of Federal Awards.

Our report on the state of Montana's internal control over financial reporting and on compliance and other matters, which is required by *Government Auditing Standards*, is on page A-1. Auditing standards require us to communicate, in writing, deficiencies in internal control over financial reporting we identified based on an audit of basic financial statements performed in accordance with *Government Auditing Standards* and considered to be significant or material.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or detect and correct misstatements on a timely basis. A material weakness is one or more 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 one or more deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Table 1 outlines the status of significant deficiencies and material weaknesses we identified during this audit.

Table 1
Summary of Deficiencies in Internal Control

Subject	Type of Deficiency	Page
Financial Statement Preparation Process	Significant Deficiency	5

Auditing standards also require us to communicate, in writing, material noncompliance with the provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the determination of financial statement amounts. Our report on the consideration of internal control over financial reporting and on compliance and other matters at page A-1 reports noncompliance with the Montana Constitution and state law regarding actuarial soundness of certain retirement systems. Additional information is provided in the following paragraph.

Prior Audit Recommendations

We performed the prior audit of the state of Montana's basic financial statements for the fiscal year ended June 30, 2011. The prior audit did not contain any recommendations, but disclosed material noncompliance with the Montana Constitution and state law. At June 30, 2011, the Public Employees' Retirement System – Defined Benefit Retirement Plan (PERS-DBRP), Game Wardens' and Peace Officers' (GWPORS), Sheriffs' (SRS), and Highway Patrol Officers' Retirement System (HPORS) retirement systems were not actuarially sound. At July 1, 2011, the Teachers' Retirement System was also not actuarially sound. Actuarial soundness is defined as an amortization period for the Unfunded Actuarial Accrued Liability (UAAL) of 30 years or less. The amortization periods for the unsound systems are shown in Table 2 on the next page. This information is also disclosed in the Public Employees' Retirement Board (12-08A) and Teachers' Retirement System (12-09A) audit reports.

Table 2
Amortization Period for Unsound Systems
at July 1, 2011, and 2012 (in years)

Retirement System	as of July 1, 2011	as of July 1, 2012
TRS	71	Infinite*
Retirement System	**as of June 30, 2011**	**as of June 30, 2012**
PERS-DBRP	Infinite*	Infinite*
SRS	Infinite*	Infinite*
GWPORS	Infinite*	Infinite*
HPORS	48.2	49.7

*Infinite is defined as the liability does not amortize.

Source: Compiled by the Legislative Audit Division from reports 12-08A and 12-09A.

Chapter II – Findings and Recommendations

Internal Controls

The Department of Administration's State Accounting Division (SAD) does not have adequate controls to prevent, or detect in a timely manner, errors in the State's basic financial statements and accompanying note disclosures.

Internal controls over financial reporting provide assurance that errors or omissions will be prevented or detected and corrected on a timely basis. State accounting policy includes an Internal Control Guidebook providing guidance on internal control. The guidebook describes a significant deficiency as "a control deficiency or a combination of control deficiencies that adversely affects an agency's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the State of Montana's Comprehensive Annual Financial Report that is more than inconsequential will not be prevented or detected."

The State's basic financial statements and accompanying notes are compiled from all transactions on the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) as well as other relevant data needed for proper note disclosure. SAD's compilation process also uses established procedures referred to as "adjustments" to properly report and prepare the financial statements and note disclosures. Adjustments to SABHRS are necessary to properly report activity according to Generally Accepted Accounting Principles (GAAP), such as elimination of activity that would otherwise be double reported when accumulated at the state level. SAD's internal controls over the compilation process include written procedures for each necessary adjustment, review of the adjustment, and review of the draft statements and notes. During the course of the audit we identified multiple errors indicating the current internal controls are not adequate. Examples of identified errors are described below. These errors were communicated to SAD. In some cases, errors had to be communicated more than once. The financial statements and notes were ultimately corrected for these items.

- Two separate adjustments made the same net asset classification change, thereby doubling a $158 million adjustment. This caused a misstatement on the Statement of Net Assets, as well as a misstatement on the Reconciliation of the Balance Sheet - Governmental Fund to the Statement of Net Assets in the net assets section in the reconciling columns.
- Note 6 on Retirement Plans incorrectly stated the employee and employer contribution rates for the Optional Retirement Plan. We communicated this error to SAD, who revised the note. However, the revised note still contained incorrect rates which erroneously indicated noncompliance with state law.

- Note 11 on State Debt did not include a disclosure related to a $50 million bond refunding.
- The combining enterprise and internal service fund cash flow statements reported inflows when an outflow was expected or reported an outflow when an inflow was expected based on row descriptions.
- Note 18 on Component Units did not include a subsequent event related to a change in loan processing at the Board of Housing. We communicated this item to SAD, but the revised note included the disclosure as a loan loss contingency rather than a subsequent event. The note was moved to the subsequent events note after a second communication was sent.
- On the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities the following misstatements were noted:
    - ◊ Amounts reported in the Internal Service Fund column were input incorrectly, resulting in multiple misstatements between $13,000 and $50 million.
    - ◊ Amounts were reported in incorrect columns.
    - ◊ A $160 million reconciling item was unsupported.

While the reviews performed by SAD did identify some misstatements prior to our review, based on the above list of errors, the reviews were not adequate to detect all significant errors or omissions. The written procedures used to prepare the reconciliations on pages A-26 and A-30 are general and do not provide the necessary detail for SAD personnel to accurately complete the reconciliations. SAD's internal control procedures should be strengthened to ensure that adjustments are complete and accurate and that reviews ensure identified misstatements are corrected.

Recommendation #1

We recommend State Accounting Division strengthen internal control procedures over the preparation and financial reporting process.

Independent Auditor's Report, Basic Financial Statements, Required Supplementary Information and Schedule of Expenditures of Federal Awards

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

Report on Internal Control Over Financial Reporting and 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 the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2012, which collectively comprise the state of Montana's basic financial statements and have issued our report thereon dated February 14, 2013. Our report includes a reference to 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. Other auditors audited the financial statements of the Montana State University component units and The University of Montana component units, as described in our report on the state of Montana's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Montana State University component units and The University of Montana component units were not audited in accordance with *Government Auditing Standards.*

Internal Control Over Financial Reporting

Management of the state of Montana is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the state of Montana's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the state of Montana's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the state of Montana's internal control over financial reporting.

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 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting, described below that, collectively, we consider to be a significant deficiency in internal control over financial reporting. 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.

1. The State Accounting Division of the Department of Administration is responsible for preparing the basic financial statements and accompanying notes to the financial statements. The division does not have adequate controls in place to prevent or detect in a timely manner errors in the State's basic financial statements and accompanying notes.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the state of Montana's basic financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The identified instances of noncompliance are described below:

1. The Public Employees' Retirement Board administers eight defined benefit retirement systems. The Montana Constitution and state law require these systems to be actuarially sound. The actuarial valuation as of June 30, 2012, indicates the Public Employees' Retirement System-Defined Benefit Retirement Plan, Sheriffs' Retirement System, Highway Patrol Officers' Retirement System, and the Game Wardens' and Peace Officers' Retirement System are not actuarially sound.
2. The Teachers' Retirement Board administers a defined benefit retirement system. The Montana Constitution requires this system to be actuarially sound. The actuarial valuation as of July 1, 2012, indicates the Teachers' Retirement System is not actuarially sound.

We noted certain matters that we reported to the management of the state of Montana during the course of our audit work.

This report is intended solely for the information and use of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

February 14, 2013

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Montana, as of and for the year ended June 30, 2012, which collectively comprise the State's basic financial statements, as follows:

Statement of Net Assets
Statement of Activities
Balance Sheet – Governmental Funds
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Statement of Net Assets – Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds
Statement of Cash Flows – Proprietary Funds
Statement of Fiduciary Net Assets – Fiduciary Funds
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds

These financial statements are the responsibility of the state of Montana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State University component units and The University of Montana component units, which represent 10.5, 23.6, and 5.5 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the university component units, are 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 of material misstatement. The financial statements of the university component units were not audited in accordance with *Government Auditing Standards.* An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management,

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as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

As described in Note 1 to the financial statements, Management has reported the Old Fund and the New Fund as the Montana State Fund component unit. The Old Fund is no longer part of the Montana State Fund component unit for financial reporting purposes because Generally Accepted Accounting Principles (GAAP) requires the primary government to report the activity of the Old Fund since it is now legally obligated to pay the remaining liabilities. In fiscal year 2010-11 the Old Fund's resources were depleted. In fiscal year 2011-12 the General Fund provided the resources to pay approximately $10 million in claims. Under provisions of state law, the General Fund has assumed the remaining estimated $59.1 million in workers' compensation claim liabilities of the Old Fund, making it a general long-term debt of the primary government. GAAP requires the state to report the debt of a component unit as a liability if it is legally obligated to repay it. The General Fund cannot avoid sacrificing resources for the purpose of paying the Old Fund claims. The following table identifies the resulting misstatements (in thousands) on the basic financial statements.

Statement of Net Assets	(Under)Overstated (in thousands)
Governmental Activities Column	
Estimated Future Claim Contribution to Component Units	$ 59,162
Long-Term Liabilities (Due within One Year)	($ 8,493)
Long-Term Liabilities (Due in More than One Year)	($50,669)
Component Units Column	
Estimated Future Claim Contribution From Primary Government	$ 59,162
Long-Term Liabilities (Due within One Year)	$ 8,493
Long-Term Liabilities (Due in More than One Year)	$50,669
Statement of Activities	
Expenses Column	
Governmental Activities: General Government	$ 9,199
Component Units Column	
Payment from State of Montana	$ 9,199

Additionally, Notes 1, 8, and 11 do not disclose the change in reporting entity and the state's resulting general obligation debt for the fiscal year ended June 30, 2012. Note 18A includes the same misstatements reported above in the component unit condensed financial statements in the Montana State Fund column. Note 18E includes information that should be disclosed in Note 8 and Note 18I includes information that should be disclosed in Note 11.

In our opinion, based on our audit and the reports of other auditors, except for the reporting of Old Fund activity as described in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, and the General Fund of the state of Montana, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities, the state special revenue, the federal special revenue, the land grant, the coal severance tax, Unemployment Insurance, and Economic Development Bonds major funds, and the aggregate remaining fund information of the State of Montana, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As shown in Note 18 to the basic financial statements, the state of Montana changed its presentation for discretely presented component units. Prior to the fiscal year ended June 30, 2012, combining statements for the discretely presented components were presented as part of the basic financial statements rather than summarized in a note.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Pension Plan Information, and the Other Post Employment Benefits Plan Information be presented to supplement the basic financial statements. Such information, although not 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the state of Montana's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

At June 30, 2012, the Public Employees' Retirement System – Defined Benefit Retirement Plan, Game Wardens' and Peace Officers', Highway Patrol Officers', and Sheriffs' retirement systems were not actuarially sound. The Unfunded Actuarial Accrued Liability amortization period is infinite for the Public Employees' Retirement System – Defined Benefit Retirement Plan, Game Wardens' and

Peace Officers', and Sheriffs' retirement systems. The amortization period for the Highway Patrol Officers' Retirement System is 49.7 years. At July 1, 2012, the Teachers' Retirement System was also not actuarially sound. The Unfunded Actuarial Accrued Liability amortization period is infinite. The maximum allowable amortization period for each system is 30 years.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2013, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

February 14, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana provides this *Management's Discussion and Analysis* of the State of Montana's basic financial statements included in the Comprehensive Annual Financial Report (CAFR). This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights

The assets of the State exceeded its liabilities at the end of fiscal year 2012 by $7.9 billion (reported as net assets) compared with $7.5 billion at the end of fiscal year 2011. Of this amount, $840.7 million (reported as unrestricted net assets) may be used to meet the government's general obligations to citizens and creditors. Component units reported net assets of $1.6 billion compared with $1.5 billion at fiscal year-end 2011. These are discussed in more detail in the financial statement overview below.

Fund Highlights

As of the close of fiscal year 2012, the State's governmental funds reported combined ending fund balances of $3.9 billion compared with $3.8 billion at fiscal year 2011. Of this amount, $1.4 billion is not in spendable form, primarily as permanent fund principle, and $2.5 billion is available for spending. The fund balance in spendable form is segregated by constraint as follows: $1,077.5 million restricted, $970.5 million committed, $45.9 million assigned and $451.7 million unassigned, primarily in the General Fund. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

The State's business-type activity funds reported net assets at the close of fiscal year 2012 in the amount of $237.8 million compared with the fiscal year-end 2011 net assets of $186.7 million. Of the business-type activity fund equity $15.0 million was invested in capital assets, net of related debt. $222.8 million of net assets was in spendable form with $15.9 million unrestricted and $206.9 million restricted to expenditure for a specific purpose. This represents a $51.7 million (30.2%) increase in spendable net assets from the fiscal year-end 2011 balance of $171.1 million. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

Long-term Debt

The State's total governmental activity bonds and notes payable for governmental activities decreased by $27.9 million, from $358.2 million in fiscal year 2011 to $330.9 million, a 7.6% decrease in fiscal year 2012.

Business-type activities reported bonds and notes payable of $0.13 million at fiscal year-end 2012. This represents a decrease of $0.06 million (31.6%) over the fiscal year-end 2011 reported amount of $0.19 million. For details relating to the states long term debt see Note 11.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Montana's basic financial statements. The State's basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains additional required supplementary information (budgetary schedules and other post employment benefits plan information). These components are described below:

Basic Financial Statements
The basic financial statements include two kinds of financial statements that present different views of the State – the *government-wide financial statements* and the *fund financial statements.* These financial statements also include the *notes to the financial statements* that explain some of the information in the financial statements and provide more detail.

Government-wide Financial Statements
The *government-wide financial statements* provide a broad view of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists in assessing the State's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses, including all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements.

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of state programs or activities. These three types of activities are as follow:

Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with state government fall into this category, including education (support for both K-12 public schools and higher education), general government, health services, legal and judiciary services, museums, natural resources, public safety and defense, regulatory services, social services, and transportation.

Business-type Activities – These functions are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The major business-type activities of the State include the Unemployment Insurance Fund and the Economic Development Bond Program which assists Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Discretely Presented Component Units – These are operations for which the State has financial accountability, but they have certain independent qualities as well. In order to be considered component units these entities must be legally separate to the extent that they may sue, or be sued, in their own right. For the most part, these entities operate similarly to private sector businesses and the business-type activities described above. The State has four authorities and two universities that are reported as discretely presented component units of the State.

Fund Financial Statements (Reporting the State's Major Funds)
A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the State government, reporting the State's operations in more detail than the government-wide statements. All of the funds can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are as follows:

Governmental Funds Financial Statements – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

The State has five governmental funds that are considered major funds for presentation purposes. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The State's five major governmental funds are the General Fund, the State Special Revenue Fund, the Federal Special Revenue Fund, the Coal Severance Tax Fund, and the Land Grant Fund.

Proprietary Funds Financial Statements – When the State charges customers for the service it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize full accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery. An internal service fund reports activities that provide supplies and services for the State's other programs and activities such as the Motor Pool.

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. Fiduciary funds use the full accrual basis of accounting. A retirement fund is an example of a fiduciary fund.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the fiduciary fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section contains a budgetary comparison schedule, which includes the reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund, as presented in the governmental fund financial statements, the schedule of funding progress for the pension plans, and other post employment benefits plan information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position improved from the last fiscal year. This improvement resulted from a continued, modest, economic recovery within the State.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (government and business-type activities) totaled $7.9 billion at the end of fiscal year 2012. Net assets of the governmental activities increased $304.6 million (4.2%), and business-type activities experienced a $51.1 million (27.4%) increase. These changes are explained in detail in the major fund analysis below

A portion of the State's net assets reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets) less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the State's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the State was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Net Assets
As of Fiscal Year Ended June 30
(expressed in thousands)

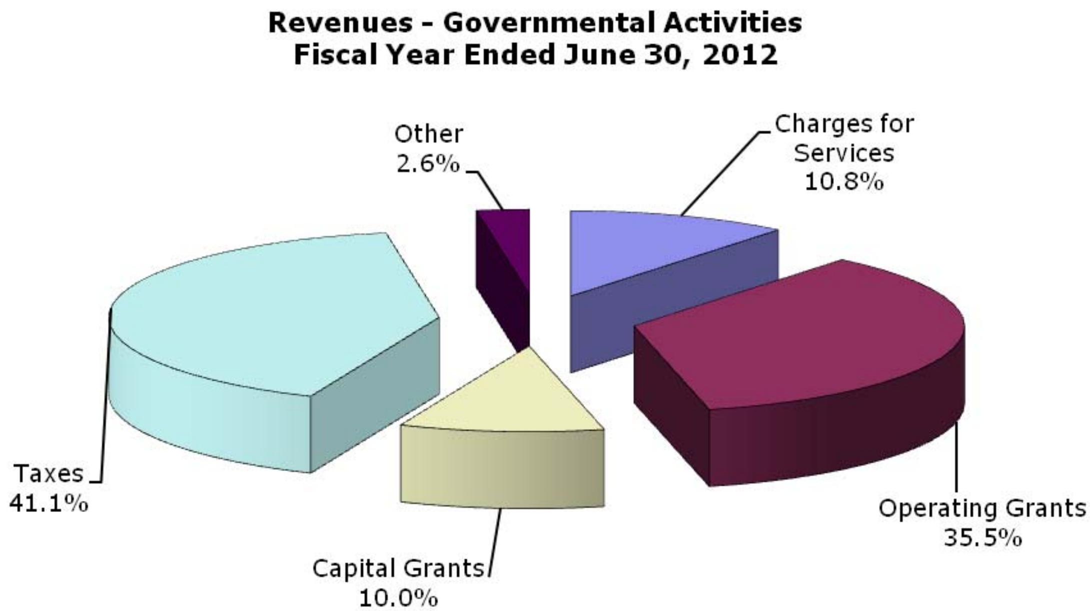
	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2012	2011	2012	2011	2012
Current and other assets	$4,889,350	$4,959,428	$319,281	$372,265	$5,208,631	$5,331,693
Capital assets	4,455,465	4,748,747	15,963	15,314	4,471,428	4,764,061
Total assets	9,344,815	9,708,175	335,244	387,579	9,680,059	10,095,754
Long-term liabilities	861,287	810,121	12,277	12,822	873,564	822,943
Other liabilities	1,135,189	1,245,151	136,302	136,945	1,271,491	1,382,096
Total liabilities	1,996,476	2,055,272	148,579	149,767	2,145,055	2,205,039
Invested in capital assets, net of related debt	4,178,343	4,529,952	15,581	15,011	4,193,924	4,544,963
Restricted	2,292,979	2,298,142	158,735	206,896	2,451,714	2,505,038
Unrestricted	877,017	824,809	12,349	15,905	889,366	840,714
Total net assets	$7,348,339	$7,652,903	$186,665	$237,812	$7,535,004	$7,890,715

The following condensed financial information was derived from the government-wide Statement of Activities, and reflects how the State's net assets changed during the fiscal year:

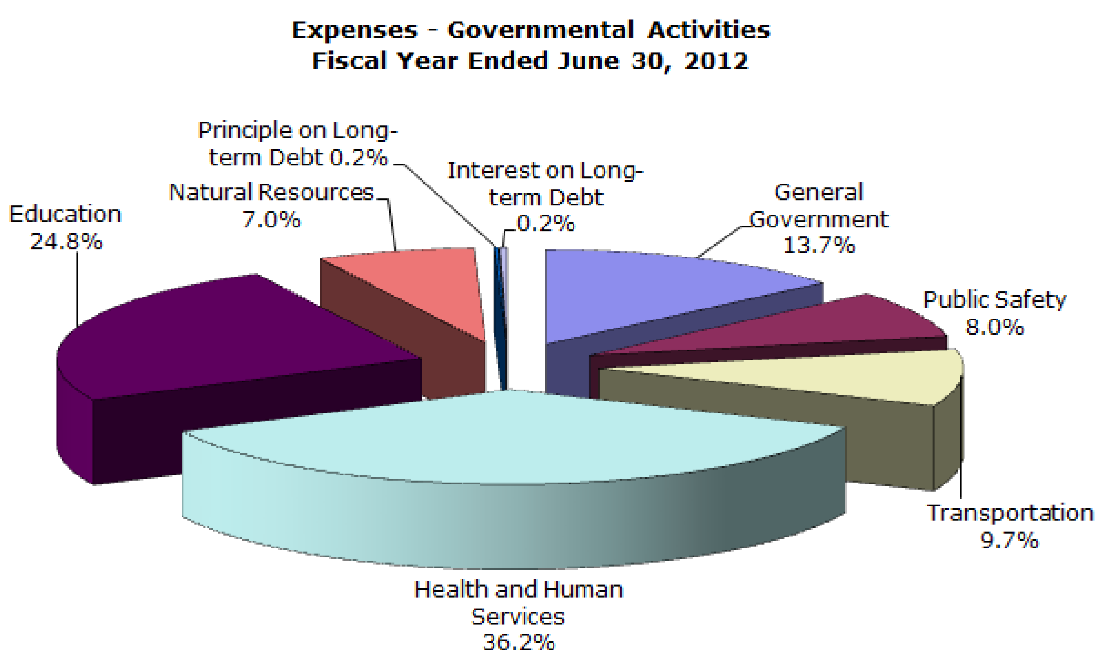
Changes in Net Assets
For Fiscal Year Ended June 30
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2012	2011	2012	2011	2012
Revenues:						
Program revenues						
Charges for services	$ 551,722	$ 557,133	$ 362,776	$ 405,203	$ 914,498	$ 962,336
Operating grants	1,962,876	1,824,334	168,222	134,120	2,131,098	1,958,454
Capital grants	537,194	512,649	281	398	537,475	513,047
General revenues						
Taxes	1,997,392	2,110,146	21,797	23,233	2,019,189	2,133,379
Other	200,294	132,597	5,306	866	205,600	133,463
Total revenues	5,249,478	5,136,859	558,382	563,820	5,807,860	5,700,679
Expenses:						
General government	752,565	660,561			752,565	660,561
Public safety	308,593	387,213			308,593	387,213
Transportation	390,523	468,977			390,523	468,977
Health and human services	1,765,871	1,745,284			1,765,871	1,745,284
Educational	1,209,969	1,192,205			1,209,969	1,192,205
Natural resources	318,954	337,462			318,954	337,462
Principal on long-term debt	6	7,593			6	7,593
Interest on long-term debt	16,314	15,725			16,314	15,725
Unemployment Insurance			278,086	217,829	278,086	217,829
Liquor Stores			63,573	67,863	63,573	67,863
State Lottery			35,481	39,808	35,481	39,808
Economic Dev Bonds			1,126	1,149	1,126	1,149
Hail Insurance			8,379	7,052	8,379	7,052
Gen Govt Services			63,003	62,094	63,003	62,094
Prison Funds			6,149	6,480	6,149	6,480
MUS Group Insurance			63,501	59,577	63,501	59,577
MUS Workers Comp			4,232	4,530	4,232	4,530
Total expenses	4,762,795	4,815,020	523,530	466,382	5,286,325	5,281,402
Increase (decrease) in net assets before transfers	486,683	321,839	34,852	97,438	521,535	419,277
Transfers	40,547	46,361	(40,547)	(46,361)		
Change in net assets	527,230	368,200	(5,695)	51,077	521,355	419,277
Net assets, beg of year (restated)	6,821,109	7,284,703	192,360	186,735	7,013,469	7,471,438
Net assets, end of year	$7,348,339	$7,652,903	$ 186,665	$ 237,812	$7,535,004	$7,890,715

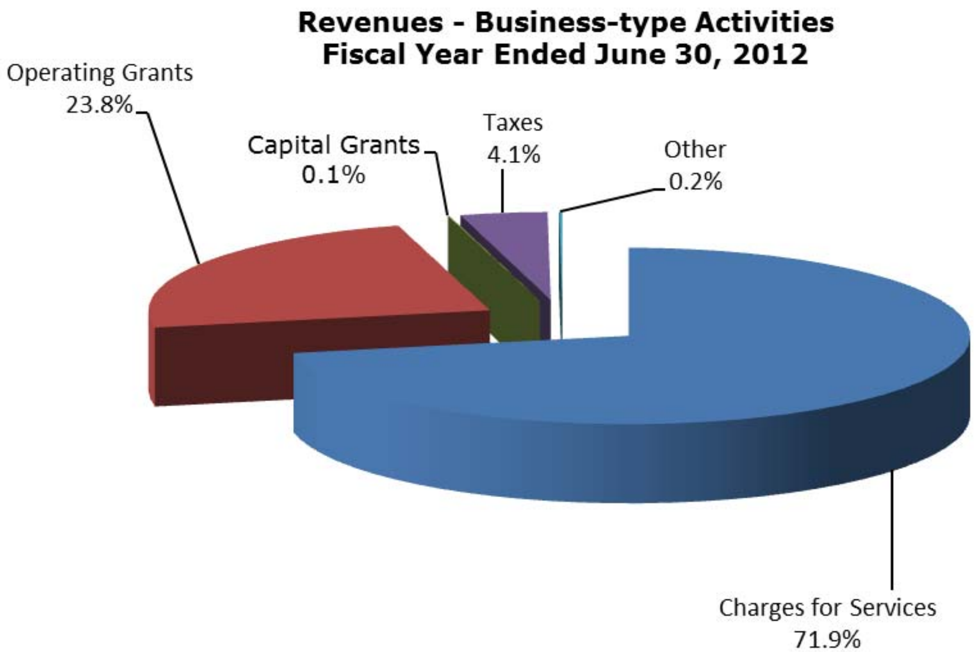
Governmental Activities
The following chart depicts revenues of the governmental activities for the fiscal year:



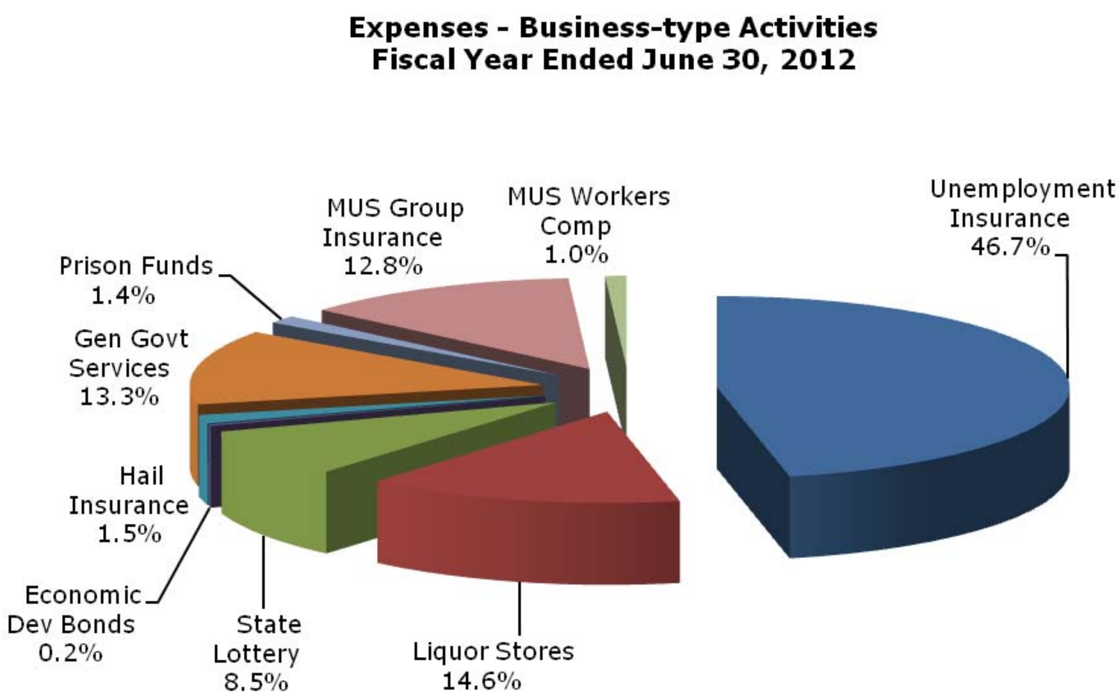
The following chart depicts expenses of the governmental activities for the fiscal year:



Business-type Activities
The following chart depicts revenues of the business-type activities for the fiscal year:



The following chart depicts expenses of the business-type activities for the fiscal year:



FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS

As the State completed the year, its governmental funds reported fund balances of $3.9 billion. Of this total amount, $2.5 billion (65%) constitutes spendable fund balance and $1.4 billion (35%) is classified as non-spendable. The analysis of the following major funds, providing the majority of the net assets for the government, follows.

General Fund Revenues and Expenditures
The General Fund is the chief operating fund of the State. At the end of the current fiscal year, combined unassigned and assigned (spendable) fund balance of the General Fund was $474.3 million. This represents 18.6% of the $2.5 billion spendable governmental fund balances for all governmental funds. The ending General Fund unassigned fund balance of $451.7 million was $262.8 million higher than the anticipated $188.9 million unassigned fund balance estimated by the 62nd Legislature. Unassigned fund balance increased by $109.8 million when compared to the previously reported fund balance of $341.9 million. This increase was primarily the result of higher than anticipated income, corporate and natural resource tax revenues, resulting from a modest economic recovery. General Fund expenditures for fiscal year 2012 increased by $87.3 million (5.3%). This increase in expenditures primarily occurred in the Health and Human Services and Educational/Cultural functions to replace the previously available Federal Recovery Act (ARRA) funding. The increased revenues more than offset the rise in expenditures. The changes in both expenditures and revenues are discussed in detail below.

Higher Revenues Than Anticipated – Total General Fund revenues and transfers in were $1,879.4 million for fiscal year 2012. This was $96.4 million (5.4%) more than fiscal year 2011, and $57.4 million (3.2%) more than what was projected for fiscal year 2012 by the legislature. The increase in revenue from fiscal year 2011 to fiscal year 2012 was primarily in individual and corporate income and property taxes. The continued economic recovery, combined with the a second year of strong crop production along with continued high farm commodity prices, contributed to the income and corporate tax increases. Property revaluations and a strengthening real estate market contributed to the higher property tax revenues.

Higher General Fund Expenditures – General Fund expenditures increased by $87.3 million (5.3%). Two major factors behind this were increases in Medicaid enrollment and the sunset of the Federal American Recovery and Reinvestment Act (ARRA) increased match. Even though the case load increased in 2012, this was not to the level anticipated during the budgetary process resulting in budgetary reversions as discussed below. The other major factor was an increase in Educational expenditures, also primarily resulting from the elimination of ARRA funding in 2012.

General Fund Expenditure Budget Reversions
Much of the unspent funds were attributable to the Office of Public Instruction using $42.7 million of FY 2013 HB 2 authority for K-12 BASE aid to cover the final payment to schools before the final Guarantee Account funding was deposited. The balance of that appropriation will be used in FY 2013, and thereby overstates reversions for FY 2012. Other significant reversions were attributable to statutory debt service and statutory retirement payments, which were less than budgeted. Further detail for these and other Agency's with significant reversions follow.

Department of Public Health and Human Services
The Department of Public Health and Human Services (DPHHS) has unspent appropriation authority of approximately $12.8 million for FY 2012. The significant portions of this unspent appropriation can be attributed to the following:

- Medicaid Benefits and Administration -- $8,216,690
- Facility Operations (MDC, MSH, and MMHNCC) -- $503,492
- Foster Care and Sub-adoption Benefits -- $475,725
- Non-Medicaid Mental Health Services benefits – $507,421

Other unspent appropriation included general fund of $630,176 from Child Support Incentives, which resulted from a change in the "allowable match" made by the federal Office of Child Support Enforcement. General fund could now be spent at a better match rate with federal funds. Additionally, there were savings ($85,000) from reductions in Workers' Compensation rates.

The remaining unspent appropriation (approximately $2.4 million) was attributable to miscellaneous reversions across account types.

Office of Public Instruction
Carryforward authority of $49,047 continues into FY 2013. $42.7 million FY 2013 HB 2 authority for K-12 BASE aid was requested in a BCD to cover the final payment to schools before the final Guarantee Account funding was deposited; $1 million is for Multi-district co-ops that was appropriated as restricted/biennial/OTO in FY 2012, but statute didn't allow for payment until FY 2013; $0.4 million was biennial transportation authority moved from FY 2013 to FY 2012 to cover the final transportation payments and was not expended in FY 2012; $0.127 was biennial state tuition authority moved from FY 2013 to FY 2012 to cover state tuition payments and was not expended in FY 2012; and the remainder of the reversion is biennial authority that will roll into FY 2013 authority except for $31,517 of the agency program 06 authority that is not biennial authority.

Department of Administration
The Department of Administration had unspent appropriations of $4.7 million for FY 2012. The vast majority of this unspent amount is attributable to general fund debt service payments (statutory authority) being less than budgeted, as well as the TRS supplemental contributions (statutory authority) being less than budgeted.

State Special Revenue Fund
At the end of the current fiscal year, the fund balance of the State Special Revenue Fund was $1.5 billion. Fund balance decreased during the fiscal year by $87.0 million (5.4%). This decrease was caused by a combination of higher expenditures, and lower transfers in, and was offset by higher revenue collections. These changes are discussed in detail below.

Increased State Special Revenue Fund Revenues – Overall revenues increased by $34.6 million. A discussion of the causes for the major changes follows:

- Charges for services/fines/forfeits/settlements increased by $11.9 million (12.8%). Factors resulting in this increase include the receipt of the 49 state national mortgage (Abbott) settlement of $6.0 million, increased uninsured employer's fund collections of $2.2 million and the recognition of an additional $1.0 million in Superfund Site Cleanup funds.
- Investment earnings increased by $7.3 million (21.7%) primarily as the result of slowly recovering Short Term Investment Pool (STIP) earnings during fiscal year 2012.
- With the exception of federal, revenues from all other sources increased during fiscal year 2012 to a lesser extent than those discussed above as a result of Montana's modest economic recovery.

Lower State Special Revenue Fund Transfers In - Transfers in decreased significantly in 2012 because the ARRA transfers were eliminated, resulting in a $26.1 (15.7%) million reduction in transfers-in for the year.

Higher State Special Revenue Fund Expenditures - Expenditures within the State Special Revenue Fund increased by $117.2 million (11.7%). The increase was primarily in Education/Cultural Function and Transportation functions.

Spending in the Transportation function increased $53.1 million primarily as a result of additional, non capitalized State Funded highway construction projects and the match required for related non-ARRA funded federal projects.

Educational expenditures increased because expenditures funded by ARRA of $65.3 million in 2011, were instead funded through State resources.

Federal Special Revenue Fund
Fund balance in the Federal Special Revenue Fund decreased by $6.8 million (19.5%) to $28.2 million. Revenues decreased by $230.1 million (9.6%), expenditures decreased by $213.6 million (9.1%) and transfers out decreased by $15.2 million (33.4%). Because most federal programs are expenditure-driven, a direct correlation normally exists between revenues/transfers in and expenditures/transfers out. The decreased expenditure and transfers out levels were offset by a corresponding decrease in revenues resulting in the net decrease in overall fund balance. Programs such as Guaranteed Student Loan, Livestock Shell/Egg and some within the Fish Wildlife and Parks and Crime Control agencies are allowed to carry assets in their federal entities, creating a normal overall positive

balance for the fund as a whole. The federal revenue and expenditure/transfer out changes resulted from the following:

- The transportation related expenditures increased because the final ARRA projects were in the completion stages as the normal Federal Highway construction programs ramped back up.
- The Health and Social Services expenditures decreased primarily as a result of the sunset of the higher federal ARRA matching rates for Medicaid;
- The Education expenditures decreased by $75.5 million as the result of the elimination of ARRA funding. An additional $30.2 million in reductions resulted from the elimination of Education Jobs funding and Discretionary Federal grants were reduced by $11.5 million.

Transfers out from the Federal Fund primarily decreased because ARRA funding was no longer available for transfer to other funds in 2102.

Coal Severance Tax Permanent Fund
Revenue in the Coal Severance Tax Permanent Fund increased by $8.8 million (11.0%) to $88.7 million. Tax revenues decreased $3.7 million (12.6%) due to decreased coal production within the state, while investment earnings increased $12.7 million (25.3%). The decreased coal revenues resulted from a reduction of domestic demand which was almost entirely offset by the demand for Montana's coal in China. The revenues relating to appreciation of investments decreased by $7.5 million (148.9%) as the result of higher projected growth in investment values at the end of the fiscal year, more than offsetting the decreased coal tax revenues. Although there were significant changes in the revenues earned within the fund, fund balance increased by $51.1 million (5.6%). Statutorily defined Transfers from the fund increased by $3.3 million (9.7%) to $37.7 million. By definition, permanent fund transfers out cannot exceed the revenues earned.

Land Grant Permanent Fund
Fund balance in the Land Grant Permanent Fund increased by $48.3 million (9.3%) to $567.1 million. Within this fund, investment earnings increased by $11.0 million (36.8%). This investment revenue increase was primarily the result of investment appreciation of $9.3 million (76.7%) resulting from the economic recovery. The $7.6 million increase in royalties was the result of additional: grazing and agricultural rentals; oil and gas bonus payments; oil and gas leases; and oil royalties. These were partially offset by a decrease in coal royalties. The increase in oil lease activity results from the leases that will be required to develop the projected extensive oil reserves, similar to those currently being developed in north Dakota, that exist under eastern and central Montana. The decreased coal royalties resulted from the lower coal production in the State for 2012.

Transfers out increased by $1.1 million (1.4%) primarily because of additional statutory transfers related to the increased earnings of the fund.

Unemployment Insurance Enterprise Fund
Net assets restricted for unemployment compensation increased by $37.4 million (37.1%). This increase was the first since the recession that began at the end of 2009. This net asset increase reflects the impact of lower unemployment throughout fiscal year 2012 and the increase in the rates charged to employers implemented during fiscal year 2011. Overall unemployment fell from 7.5% in July, 2011, to 6.4% in July 2012.

Economic Development Bonds Enterprise Fund
Net assets increased by $0.3 million (4.2%) in fiscal year 2012. Although the fund's net assets change was positive for the year the overall increase was lower as the result of higher personnel costs results primarily from the filling of positions that were vacant in fiscal year 2011. Lower interest rates that existed during fiscal year 2012 contributed to overall reduced financing income.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets
The State's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounted to $6.7 billion, with related accumulated depreciation of $1.9 billion, leaving a net book value of $4.8 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was approximately $0.2 billion (4.3%) in terms of net book value. Most of the year's capital expenditures were for construction, or reconstruction, of roads and bridges. Additional information relating to the State's capital assets can be found in Note 5 of the notes to the financial statements.

Debt Administration
Montana receives excellent general obligation bond ratings from Moody's Investor Service (Aa2), Standard and Poor's Corporation (AA) and Fitch Ratings (AA).

State debt may be authorized either by a two-thirds vote of the members of each house of the Legislature, or by a favorable vote of a majority of the State's electors voting thereon. There is no constitutional limit on the amount of debt that may be incurred by the State. The Montana Constitution does, however, prohibit the incurring of debt to cover deficits caused by appropriations exceeding anticipated revenue.

The State of Montana's general obligation debt decreased from $174.3 million at June 30, 2011, to $156.9 million at June 30, 2012. $16.2 million is available in debt service funds to service general obligation debt leaving a balance of $140.7 million in net general obligation debt outstanding.

The ratio of general obligation debt to personal income and the amount of net general obligation debt per capita are:

	Amount *(in thousands)*	Percentage of Personal Income (1)	State Debt Per Capita (2)
General obligation debt	$140,665	0.39%	$144

The ratio of all State debt to personal income as included in the Statistical Tables follows:

	Amount *(in thousands)*	Percentage of Personal Income (1)	State Debt Per Capita (2)
Total State debt	$320,651	0.88%	$329

(1) Personal income is for calendar year 2011.
(2) Based on estimated 2012 Montana population.

More detailed information regarding the State's long-term obligations is presented in Note 11 to the financial statements and the statistical tables.

ECONOMIC CONDITION AND OUTLOOK

The unemployment rate for the State of Montana was 6.1% in the second quarter of 2012, which represents a decrease from the rate of 7.5% during the second quarter of 2011. This compares favorably with the U.S. June, 2012, rate of 8.4% but reflects the nature of the moderate economic recovery in Montana's economy. The positive impact of the oil boom in North Dakota continues along with related increases in oil lease activity in Montana which is indicative of future resurgence of the oil industry in this state. Much of the proposed new coal development in the State is dependent on additional rail-line construction and the development of additional port capacity on the coast. Although Montana was impacted by the drought of 2012, the impact was only felt in portions of the State resulting in only minimal impact on portions of the State's agricultural economy. Overall the State's economy appears to be continuing to experience an economic recovery. The status of Montana's economy is discussed in detail in the Transmittal letter.

The 62nd Legislative Session adjourned on April 28, 2011, with a projected unassigned General Fund balance of $188.9 million as of the end of fiscal year 2012. During fiscal year 2012, Montana's economy continued a moderate economic recovery ending the year with the unassigned General Fund balance, as of June 30, 2012, at the $451.7 million level, significantly higher than anticipated in the budget process.

As of June 30, 2012 five of the state retirement systems were not actuarially sound, and had an unfunded actuarially accrued liability. These include the Teachers, Public Employees Defined Benefit Plan, Sheriffs, Game Warden & Peace Officers and Highway Patrol Officers retirement systems. The actuarial condition of these plans are fully disclosed and reported as required by Generally Accepted Accounting Principles (GAAP), and explained in greater detail in Note 6 and Note 19 of the financial statements. The unfunded actuarial liability of these plans is long-term in nature, and does not translate into an inability of the plans to meet their current obligations in the near future. Additionally, two other retirement systems also had an unfunded actuarially accrued liability; Municipal Police Officers and Firefighters Unified. Judges' Retirement System does not have an unfunded actuarially accrued liability.

Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is less than 30 years. The unfunded liabilities in the other state retirement systems amortize in less than 30 years, as of fiscal year end 2012.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Montana's finances for all of Montana's citizens, taxpayers, customers, investors, and creditors. The financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the State of Montana, State Accounting Division, Room 255 Mitchell Building, Capitol Complex, Helena, MT 59620.

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STATEMENT OF NET ASSETS
JUNE 30, 2012
(amounts expressed in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Cash/cash equivalents (Note 3)	$ 1,428,185	$ 239,922	$ 1,668,107	$ 419,637
Receivables (net)	403,060	49,058	452,118	132,730
Due from primary government	-	-	-	1,892
Due from other governments	226,750	1,799	228,549	22,007
Due from component units	958	2,199	3,157	426
Estimated future claim contribution from primary government	-	-	-	59,162
Internal balances	(5,333)	5,333	-	-
Inventories	28,807	4,104	32,911	5,180
Advances to component units	20,427	13,810	34,237	-
Long-term loans/notes receivable	348,988	34,319	383,307	596,679
Equity in pooled investments (Note 3)	2,010,290	-	2,010,290	48,722
Investments (Note 3)	348,041	17,502	365,543	1,720,412
Securities lending collateral (Note 3)	135,206	160	135,366	156,090
Unamortized bond issuance	3,129	1,293	4,422	6,029
Other assets	10,920	2,766	13,686	68,386
Capital assets (net) (Note 5)	4,748,747	15,314	4,764,061	782,033
Total assets	9,708,175	387,579	10,095,754	4,019,385
LIABILITIES				
Accounts payable	528,360	16,758	545,118	64,680
Lottery prizes payable	-	3,615	3,615	-
Due to primary government	-	-	-	3,157
Due to other governments	53,754	84	53,838	295
Due to component units	1,892	-	1,892	426
Advances from primary government	-	-	-	34,237
Estimated future claim contribution to component unit	59,162	-	59,162	-
Deferred revenue	36,252	6,676	42,928	64,602
Amounts held in custody for others	36,971	20	36,991	14,930
Securities lending liability (Note 3)	135,206	160	135,366	156,090
Other liabilities	2,949	-	2,949	7,135
Short-term debt (Note 11)	-	95,030	95,030	-
Long-term liabilities (Note 11):				
Due within one year	196,540	11,196	207,736	223,126
Due in more than one year	810,121	12,822	822,943	1,763,059
OPEB implicit rate subsidy (Note 7)	194,065	3,406	197,471	92,451
Total liabilities	2,055,272	149,767	2,205,039	2,424,188

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET ASSETS				
Invested in capital assets, net of related debt	$ 4,529,952	$ 15,011	$ 4,544,963	$ 520,002
Restricted for:				
General government	8,615	-	8,615	-
Transportation	46,167	-	46,167	-
Health and human services	8,895	-	8,895	-
Natural resources	331,558	-	331,558	-
Public safety	66,773	-	66,773	-
Education	22,182	-	22,182	-
Funds held as permanent investments:				
Nonexpendable	1,366,164	-	1,366,164	258,940
Expendable	447,788	-	447,788	-
Unemployment compensation	-	138,175	138,175	-
Housing authority	-	-	-	160,148
Other purposes	-	68,721	68,721	144,414
Unrestricted	824,809	15,905	840,714	511,693
Total net assets	$ 7,652,903	$ 237,812	$ 7,890,715	$ 1,595,197

The notes to the financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(amounts expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE
Primary government:					
Governmental activities:					
General government	$ 660,561	$ 143,815	$ 193,663	$ 1,343	$ (321,740)
Public safety	387,213	147,070	26,420	8,529	(205,194)
Transportation	468,977	29,256	43,632	493,570	97,481
Health and human services	1,745,284	34,191	1,203,295	-	(507,798)
Education	1,192,205	36,335	188,087	10	(967,773)
Natural resources	337,462	166,466	169,237	9,197	7,438
Principal on long-term debt	7,593	-	-	-	(7,593)
Interest on long-term debt	15,725	-	-	-	(15,725)
Total governmental activities	4,815,020	557,133	1,824,334	512,649	(1,920,904)
Business-type activities:					
Unemployment Insurance	217,829	164,353	90,852	-	37,376
Liquor Stores	67,863	78,384	-	-	10,521
State Lottery	39,808	52,615	-	-	12,807
Economic Development Bonds	1,149	17	1,414	-	282
Hail Insurance	7,052	7,055	-	-	3
General Government Services	62,094	22,303	40,195	398	802
Prison Funds	6,480	7,284	-	-	804
MUS Group Insurance	59,577	69,025	1,608	-	11,056
MUS Workers Compensation	4,530	4,167	51	-	(312)
Total business-type activities	466,382	405,203	134,120	398	73,339
Total primary government	$ 5,281,402	$ 962,336	$ 1,958,454	$ 513,047	$ (1,847,565)
Component units:					
Housing Authority	$ 37,679	$ 483	$ 40,214	$ -	$ 3,018
Facility Finance Authority	454	713	52	-	311
Montana State Fund	180,373	150,495	-	-	(29,878)
Montana State University	498,653	216,018	192,844	21,393	(68,398)
University of Montana	405,180	182,927	134,090	4,669	(83,494)
Total component units	$ 1,122,339	$ 550,636	$ 367,200	$ 26,062	$ (178,441)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Changes in net assets:				
Net (expense) revenue	$ (1,920,904) $	73,339 $	(1,847,565) $	(178,441)
General revenues:				
Taxes:				
Property	257,631	-	257,631	-
Fuel	211,933	-	211,933	-
Natural resource	309,427	-	309,427	-
Individual income	892,560	-	892,560	-
Corporate income	129,668	-	129,668	-
Other (Note 1)	308,927	23,233	332,160	-
Unrestricted grants and contributions	181	-	181	769
Settlements	40,426	-	40,426	-
Unrestricted investment earnings	87,083	54	87,137	76,101
Payment from State of Montana	-	-	-	198,779
Gain (loss) on sale of capital assets	2,179	270	2,449	(9)
Miscellaneous	2,728	542	3,270	659
Contributions to term and permanent endowments	-	-	-	9,439
Transfers	46,361	(46,361)	-	-
Total general revenues, contributions, and transfers	2,289,104	(22,262)	2,266,842	285,738
Change in net assets	368,200	51,077	419,277	107,297
Total net assets - July 1 - as previously reported	7,348,339	186,665	7,535,004	1,500,345
Prior period adjustments (Note 2)	(63,636)	70	(63,566)	(12,445)
Total net assets - July 1 - as restated	7,284,703	186,735	7,471,438	1,487,900
Total net assets - June 30	$ 7,652,903 $	237,812 $	7,890,715 $	1,595,197

The notes to the financial statements are an integral part of this statement.

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012
(amounts expressed in thousands)

		SPECIAL REVENUE	
	GENERAL	STATE	FEDERAL
ASSETS			
Cash/cash equivalents (Note 3)	$ 481,412	$ 694,111	$ 56,931
Receivables (net) (Note 4)	241,902	121,714	18,191
Interfund loans receivable (Note 12)	56,122	61,344	-
Due from other governments	10,709	824	215,216
Due from other funds (Note 12)	48,038	6,981	-
Due from component units	-	867	-
Inventories	2,560	22,487	-
Equity in pooled investments (Note 3)	-	420,490	-
Long-term loans/notes receivable	40	316,365	6,680
Advances to other funds (Note 12)	2,006	15,117	-
Advances to component units	-	13,240	-
Investments (Note 3)	17,146	138,301	342
Securities lending collateral (Note 3)	-	41,701	44
Other assets	2,929	6,829	163
Total assets	$ 862,864	$ 1,860,371	$ 297,567
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable (Note 4)	211,862	128,112	141,744
Interfund loans payable (Note 12)	-	9,084	107,607
Due to other governments	120	50,905	2,729
Due to other funds (Note 12)	1,231	33,440	430
Due to component units	24,197	342	1,337
Advances from other funds (Note 12)	-	19,910	2,485
Deferred revenue	123,002	34,121	12,901
Amounts held in custody for others	22,968	13,883	51
Securities lending liability (Note 3)	-	41,701	44
Other liabilities	-	322	-
Total Liabilities	383,380	331,820	269,328
Fund balances (Note 14):			
Nonspendable	5,158	24,016	56
Restricted	-	1,035,460	28,183
Committed	-	467,719	-
Assigned	22,670	1,356	-
Unassigned	451,656	-	-
Total fund balances	479,484	1,528,551	28,239
Total liabilities and fund balances	$ 862,864	$ 1,860,371	$ 297,567

The notes to the financial statements are an integral part of this statement.

PERMANENT COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
$ 47,893 $	15,341 $	63,072 $	1,358,760
7,859	4,113	6,531	400,310
-	-	-	117,466
-	-	-	226,749
-	-	4,168	59,187
91	-	-	958
-	-	-	25,047
758,203	551,557	280,040	2,010,290
-	-	25,903	348,988
-	-	8,196	25,319
8,290	-	-	21,530
144,199	156	5,761	305,905
39,350	28,573	14,606	124,274
-	-	-	9,921
$ 1,005,885 $	599,740 $	408,277 $	5,034,704
-	4,019	1,857	487,594
-	-	228	116,919
-	-	-	53,754
3,892	-	1,395	40,388
-	-	-	25,876
-	-	16,082	38,477
-	-	470	170,494
-	67	-	36,969
39,350	28,573	14,606	124,274
-	-	-	322
43,242	32,659	34,638	1,095,067
527,904	567,081	269,733	1,393,948
-	-	13,927	1,077,570
434,739	-	68,080	970,538
-	-	21,899	45,925
-	-	-	451,656
962,643	567,081	373,639	3,939,637
$ 1,005,885 $	599,740 $	408,277 $	5,034,704

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012
(amounts expressed in thousands)

	Total Governmental Fund	(A) Internal Service Fund	(B) Capital Assets Balances	(C) Debt Related Balances	(D) Other Measurement Focus Adjustments	(E) Internal Balances Elimination	Statement of Net Assets Totals
ASSETS:							
Cash and cash equivalent	$ 1,358,760 $	69,423 $	- $	- $	2 $	- $	1,428,185
Receivables	400,310	2,750	-	-	-	-	403,060
Interfund loans receivable	117,466	33	-	-	-	(117,499)	-
Due from other governments	226,749	1	-	-	-	-	226,750
Due from other funds	59,187	64	-	-	-	(59,251)	-
Due from component units	958	-	-	-	-	-	958
Inventories	25,047	3,761	-	-	(1)	-	28,807
Internal Balances	-	-	-	-	-	(5,333)	(5,333)
Equity in pooled investments	2,010,290	-	-	-		-	2,010,290
Securities lending collateral	124,274	10,932	-	-	-	-	135,206
Advances to other funds	25,319	400	-	-	-	(25,719)	-
Advances to component units	21,530	-	-	-	(1,103)	-	20,427
Investments	305,905	42,135	-	-	1	-	348,041
Unamortized bonds issuance	-	-	-	-	3,129	-	3,129
Capital assets	-	94,689	4,654,064	-	(6)	-	4,748,747
Long-term loans/notes receivable	348,988	-	-	-	-	-	348,988
Other assets	9,921	998	-	-	1	-	10,920
Total assets	$ 5,034,704 $	225,186 $	4,654,064 $	- $	2,023 $	(207,802) $	9,708,175
LIABILITIES:							
Current liabilities							
Accounts payable	487,594	11,191	-	-	29,575	-	528,360
Interfund loans payable	116,919	652	-	-	-	(117,571)	-
Due to other government	53,754	-	-	-	-	-	53,754
Due to other funds	40,388	1,036	-	-	-	(41,424)	-
Due to component units	25,876	87	-	-	(24,071)	-	1,892
Advances from other funds	38,477	2,821	-	-	7,509	(48,807)	-
Deferred revenue	170,494	2,333	-	-	(136,575)	-	36,252
Amounts held in custody for others	36,969	2	-	-	-	-	36,971
Securities lending liability	124,274	10,932	-	-	-	-	135,206
Other current liabilities	322	-	-	-	2,627	-	2,949
Estimated future claim contribution to component unit	-	-	-	-	59,162	-	59,162
Long term liabilities:							
Due within one year	-	16,986	-	179,553	1	-	196,540
Due in more than one year	-	20,531	-	789,592	(2)	-	810,121
OPEB implicit rate subsidy	-	10,916	-	183,149	-	-	194,065
Total liabilities	$ 1,095,067 $	77,487 $	- $	1,152,294 $	(61,774) $	(207,802) $	2,055,272
NET ASSETS:							
Invested in capital assets, net of related debt	-	94,432	4,654,064	(218,543)	(1)	-	4,529,952
Restricted for:							
General government	10,474	-	-	(257,112)	255,253	-	8,615
Transportation	75,518	-	-	(30,482)	1,131	-	46,167
Health and human services	16,740	-	-	(16,045)	8,200	-	8,895
Natural resources	653,178	-	-	(348,609)	26,989	-	331,558
Public safety	294,520	-	-	(276,923)	49,176	-	66,773
Education	27,140	-	-	(4,580)	(378)	-	22,182
Nonexpendable	1,365,218	-	-	-	946	-	1,366,164
Expendable		-	-	-	447,788	-	447,788
Unrestricted	1,496,849	53,267	-	-	(725,307)	-	824,809
Total net assets	$ 3,939,637 $	147,699 $	4,654,064 $	(1,152,294) $	63,797 $	- $	7,652,903

The notes to the financial statements are an integral part of this statement

Differences between the Balance Sheet- Governmental Funds and Governmental Activities on the Government Wide Statement of Net Assets

(A) Internal services funds (ISF): Management uses ISF to report the charges for and the costs of goods and services sold by state agencies solely within the state. Because the sales are primarily to governmental funds, the assets, liabilities and the net assets of the ISF are included in the governmental activities on the government-wide Statement of Net Assets. ISF are reported using proprietary fund-type accounting in the fund-level financial statements.

(B) Capital assets balances: Capital assets used in governmental activities are not financial resources, and therefore, they are not included in the fund level financial statements. However, capital assets are economic resources and are reported in the government-wide Statement of Net Assets.

(C) Debt related balances: Long term liabilities such as leases, bonds, notes, mortgages, and certificate of participation (including accrued interest) are not due and payable in the current period, and therefore, they are not included in the fund –level financial statements. However, from an economic perspective these liabilities reduce net assets and are reported in the Statement of Net Assets. The portion reported as current in the reconciliation is payable within the following fiscal year. The largest portion of the long-term balance is related to pollution remediation, bonds/notes payables and OPEB implicit rate subsidy.

(D) Other measurement focus adjustments include:

- Interfund balances receivable from or payable to Fiduciary funds are reported on the fund- level Balance Sheet- Governmental funds as due from/to other funds. On the government–wide Statement of Net Assets, these amounts are considered external receivables and payables.
- Long-term assets and long-term taxes receivable are not available to pay for current period expenditures; therefore, the related revenue is reported as deferred revenue on the fund-level Balance Sheet- Governmental Funds. From an economic perspective, this revenue is earned and the related deferred revenue is removed from the government–wide Statement of Net Assets when the revenue is recognized on the government-wide Statement of Activities.
- Compensated absences are a GAAP modification of the full accrual basis of accounting similar to claims and judgments. Therefore, both the current and long-term portions of the liability are shown on the government–wide Statement of Net Assets, but they are not reported on the fund-level Balance Sheet- Governmental Funds.

(E) Internal balances: All interfund activities such as Interfund loan receivable\payables, due from\due to and advances to\from other fund balances shown on the fund-level Balance Sheet–Governmental Funds are reported as internal balances. Per GAAP these balances should be eliminated from the governmental-wide Statement of Net Assets to avoid double counting.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(amounts expressed in thousands)

		SPECIAL REVENUE	
	GENERAL	STATE	FEDERAL
REVENUES (Note 14)			
Licenses/permits	$ 116,733	$ 171,747	$ -
Taxes:			
Natural resource	141,680	133,631	-
Individual income	880,814	-	-
Corporate income	128,628	4	-
Property	241,042	16,589	-
Fuel	-	211,933	-
Other	201,960	104,545	-
Charges for services/fines/forfeits/settlements	38,226	104,547	38,520
Investment earnings	4,093	40,738	312
Securities lending income	245	545	8
Sale of documents/merchandise/property	282	5,408	5
Rentals/leases/royalties	18	782	-
Contributions/premiums	-	21,666	-
Grants/contracts/donations	5,126	19,514	139
Federal	32,770	11,218	2,058,976
Federal indirect cost recoveries	347	44,653	62,446
Other revenues	346	2,399	179
Total revenues	1,792,310	889,919	2,160,585
EXPENDITURES			
Current:			
General government	250,035	241,048	138,601
Public safety	258,404	82,271	12,512
Transportation	80	233,830	111,886
Health and human services	383,303	152,221	1,195,239
Education	821,542	140,016	221,476
Natural resources	29,473	181,667	72,956
Debt service:			
Principal retirement	301	543	93
Interest/fiscal charges	142	878	9
Capital outlay	2,070	87,636	381,966
Securities lending	48	116	2
Total expenditures	1,745,398	1,120,226	2,134,740
Excess of revenue over (under) expenditures	46,912	(230,307)	25,845
OTHER FINANCING SOURCES (USES)			
Inception of lease/installment contract	13	36	-
Insurance proceeds	-	3,565	-
General capital asset sale proceeds	50	389	9
Refunding bond issued	-	50,915	-
Payment to refunding bond escrow agent	-	(58,508)	-
Bond premium	-	8,003	-
Energy conservation loans	-	22,755	-
Transfers in (Note 12)	87,080	140,202	282
Transfers out (Note 12)	(30,966)	(31,603)	(30,261)
Total other financing sources (uses)	56,177	135,754	(29,970)
Net change in fund balances	103,089	(94,553)	(4,125)
Fund balances - July 1 - as previously reported	369,357	1,615,464	35,078
Prior period adjustments (Note 2)	6,950	5,684	(2,714)
Fund balances - July 1 - as restated	376,307	1,621,148	32,364
Increase (decrease) in inventories	88	1,956	-
Fund balances - June 30	$ 479,484	$ 1,528,551	$ 28,239

The notes to the financial statements are in integral part of this statement.

	PERMANENT COAL SEVERANCE TAX	PERMANENT LAND GRANT	NONMAJOR	TOTAL
$	- $	1,703 $	- $	290,183
	25,545	-	8,497	309,353
	-	-	-	880,814
	-	-	-	128,632
	-	-	-	257,631
	-	-	-	211,933
	-	-	1,865	308,370
	-	-	12,581	193,874
	62,717	40,992	32,632	181,484
	476	347	173	1,794
	-	6,431	4,095	16,221
	-	77,146	-	77,946
	-	-	-	21,666
	-	33	-	24,812
	-	-	-	2,102,964
	-	-	-	107,446
	-	-	-	2,924
	88,738	126,652	59,843	5,118,047
	-		3,652	633,336
	-	-	157	353,344
		-	-	345,796
	-	-	3,708	1,734,471
	-	-	22	1,183,056
	-	3,538	2	287,636
	-	-	33,928	34,865
	-	-	15,285	16,314
	-	-	17,286	488,958
	103	76	38	383
	103	3,614	74,078	5,078,159
	88,635	123,038	(14,235)	39,888
	-	-	-	49
	-	-	-	3,565
	-	1,895	-	2,343
	-	-	5,755	56,670
	-	-	(5,913)	(64,421)
	-	-	261	8,264
	-	-	3,416	26,171
	128	106	49,481	277,279
	(37,693)	(76,737)	(27,975)	(235,235)
	(37,565)	(74,736)	25,025	74,685
	51,070	48,302	10,790	114,573
	911,573	518,779	378,298	3,828,549
	-	-	(15,449)	(5,529)
	911,573	518,779	362,849	3,823,020
	-	-	-	2,044
$	962,643 $	567,081 $	373,639 $	3,939,637

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(amounts expressed in thousands)

	Total Governmental Fund	(A) Internal Service Fund	(B) Capital Related Items	(C) Long Term Debt Transactions	(D) Other Measurement Focus	Statement of Activities Total
REVENUES						
License/permits	$ 290,183	$ -	$ -	$ -	$ 634	$ 290,817
Taxes:						
Natural resources	309,353	-	-	-	74	309,427
Individual income	880,814	-	-	-	11,746	892,560
Corporate income	128,632	-	-	-	1,036	129,668
Property	257,631	-	-	-	-	257,631
Fuel	211,933	-	-	-	-	211,933
Other (Note 1)	308,370	-	-	-	557	308,927
Charges for services/fines/forfeits/settlements	193,874	-	-	-	(6,463)	187,411
Investment earnings	181,484	-	-	-	(94,401)	87,083
Securities lending income	1,794	-	-	-	(1,794)	-
Sale of documents/merchandise/property	16,221	-	-	-	1	16,222
Rentals/leases/royalties	77,946	-	-	-	-	77,946
Contributions/premiums	21,666	-	-	-	2	21,668
Insurance proceeds	3,565	1,318	-	-	(1,388)	3,495
Gain (loss) on sale of capital assets	-	-	-	-	2,179	2,179
Operating grants and donations	24,812	-	-	-	86,004	110,816
Federal	2,102,964	-	-	-	(496,893)	1,606,071
Federal indirect cost recoveries	107,446	-	-	-	1	107,447
Capital grants and contributions	-	-	-	-	512,830	512,830
Other revenues	2,924	-	-	-	(196)	2,728
Total revenues	5,121,612	1,318	-	-	13,929	5,136,859
EXPENDITURES						
Current:						
Current	4,537,639	32,027	164,773	-	57,263	4,791,702
Debt service:						
Principal	34,865	-	-	(27,272)	-	7,593
Interest/fiscal charges	16,314	250		-	(839)	15,725
Capital outlay	488,958	-	(488,958)	-	-	-
Securities lending	383	-	-	-	(383)	-
Total expenditures	5,078,159	32,277	(324,185)	(27,272)	56,041	4,815,020
Excess of revenue over (under) expenditures	43,453	(30,959)	324,185	27,272	(42,112)	321,839
OTHER FINANCING SOURCES (USES)						
Inception of lease/installment contract	49	-	-	(49)	-	-
General capital asset sale proceeds	2,343	-	-	(2,343)	-	-
Refunding bonds issued	56,670	-	-	(56,670)	-	-
Payment to refunding bond escrow agent	(64,421)	-	-	64,421	-	-
Bond premium	8,264	-	-	(8,264)	-	-
Energy conservation loans	26,171	-	-	(26,171)	-	-
Transfers (Note 12)	42,044	5,869	-		(1,552)	46,361
Total other financing sources (uses)	71,120	5,869	-	(29,076)	(1,552)	46,361
Net change in fund balance	$ 114,573	$ (25,090)	$ 324,185	$ (1,804)	$ (43,664)	$ 368,200

The notes to the financial statements are an integral part of this statement.

Differences between the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds and Governmental Activities on the Government –Wide Statement of Activities

(A) Internal service funds (ISF): Management uses the ISF to report charges for and the costs of goods and services sold by state agencies solely within the state. ISF are intended to operate on the cost reimbursement basis and should break even each period. If an ISF makes a profit, the other funds of the state have been overcharged. If an ISF has an operating loss the other funds of the state have been undercharged. In order to show the true cost of services purchased from ISF, an adjustment is made that allocates the net revenue/expense of each ISF to the programs that purchased the services. Investment income, debt service, and transfers of the ISF are not allocated.

(B) Capital related items: The following adjustments relate to capital assets:

- Capital assets, received as donations, are not reported on the fund-level statement of revenues, expenditures, and changes in fund balances–Governmental Funds because they are not current financial resources. However, such donations increase net assets and are reported on both the Government – Wide Statement of Net Assets and Statement of Activities.
- Depreciation is not reported on the fund-level statement of revenues, expenditures, and changes in fund balances-Governmental Funds, but it is reported for the economic perspective on which the Government–Wide Statement of Activities is presented.
- Expenditures reported for capital outlay on the fund-level statement of revenues, expenditures and changes in fund balances-Governmental Funds are generally reported as a conversion of cash to a capital asset on the Government-Wide Statement of Net Assets. They are not reported as expenses on the Government–Wide Statement of Activities.
- On the fund –level statement of revenues, expenditures, and changes in fund balances-Governmental Funds all cash received on disposal of capital assets is reported as a gain on sale of capital assets. On the Government-Wide Statement of Activities the reported gain or loss on sale is based on the carrying value of the assets as well as the cash received.

(C) Long term debt: The following adjustments relate to debt issuance and debt service including leases:

- Payments on principal and debt refunding payments are reported as expenditures and other financing uses, respectively on the fund-level statement of revenues, expenditures, and changes in fund balances–Governmental Funds. These payments are reported as reduction of lease, bonds and other debt liability balances on the Government–Wide Statement of Net Assets and are not reported on the Government–Wide Statement of Activities.
- Lease proceeds, issuance of debt, and debt refunding proceeds are all reported as other financing sources at the fund level statement of revenues, expenditures, and changes in fund balances–Governmental Funds. From an economic perspective lease proceeds, debt issuances, and debt refunding proceeds are reported as liabilities on the Government-Wide Statement of Net Assets and are not reported on the Government–Wide Statement of Activities.

(D) Other measurement focus adjustments include;

- Long-term taxes receivable and certain other long-term assets are offset by deferred revenue and are not part of fund balance on the fund-level balance sheet-Governmental Funds; however, from a full accrual perspective, changes in the fund–level deferred revenue balances result in adjustments to revenue that are recognized and reported on the Government-Wide Statement of Activities.
- Expenditures that primarily benefit present period are classified as current expenditures. In governmental funds, capital outlays are included as part of the current expenditures for each functional activity within that fund.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	$ 129,518	$ 15,079	$ 95,325	$ 239,922	$ 69,423
Receivables (net) (Note 4)	11,148	11,821	26,089	49,058	2,750
Interfund loans receivable (Note 12)	-	-	81	81	33
Due from other governments	1,464	-	335	1,799	1
Due from other funds (Note 12)	-	2,939	1	2,940	64
Due from component units	-	2,199	-	2,199	-
Inventories	-	-	4,104	4,104	3,761
Short-term investments (Note 3)	-	4,772	-	4,772	-
Securities lending collateral (Note 3)	-	1	159	160	10,932
Other current assets	-	-	477	477	998
Total current assets	142,130	36,811	126,571	305,512	87,962
Noncurrent assets:					
Advances to other funds (Note 12)	-	15,904	75	15,979	400
Advances to component units	-	13,810	-	13,810	-
Long-term investments (Note 3)	-	638	12,092	12,730	42,135
Long-term notes/loans receivable	-	34,078	241	34,319	-
Deferred charges	-	1,293	-	1,293	-
Other long-term assets	-	-	2,289	2,289	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	3,830	3,830	95
Buildings/improvements	-	-	7,501	7,501	4,704
Equipment	-	1	9,225	9,226	234,411
Infrastructure	-	-	951	951	-
Construction in progress	-	-	1,835	1,835	4,849
Intangible assets	-	-	22	22	1,355
Other depreciable assets	-	-	3,392	3,392	-
Less accumulated depreciation	-	(1)	(12,242)	(12,243)	(150,961)
Total capital assets	-	-	15,314	15,314	94,689
Total noncurrent assets	-	65,723	30,011	95,734	137,224
Total assets	142,130	102,534	156,582	401,246	225,186

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
LIABILITIES					
Current liabilities:					
Accounts payable (Note 4)	$ 3,934 $	99 $	12,725 $	16,758 $	11,191
Lottery prizes payable	-	-	2,072	2,072	-
Interfund loans payable (Note 12)	9	-	-	9	652
Due to other governments	-	-	84	84	-
Due to other funds (Note 12)	-	-	13,258	13,258	1,036
Due to component units	-	-	-	-	87
Deferred revenue	12	-	6,664	6,676	2,333
Lease/installment purchase payable (Note 10)	-	-	81	81	56
Short-term debt (Note 11)	-	95,030	-	95,030	-
Bonds/notes payable - net (Note 11)	-	65	-	65	-
Amounts held in custody for others	-	-	20	20	2
Securities lending liability (Note 3)	-	1	159	160	10,932
Estimated insurance claims (Note 8)	-	-	10,203	10,203	13,594
Compensated absences payable (Note 11)	-	31	816	847	3,335
Total current liabilities	3,955	95,226	46,082	145,263	43,218
Noncurrent liabilities:					
Lottery prizes payable	-	-	1,543	1,543	-
Advances from other funds (Note 12)	-	-	400	400	2,821
Lease/installment purchase payable (Note 10)	-	-	222	222	201
Bonds/notes payable - net (Note 11)	-	70	-	70	-
Estimated insurance claims (Note 8)	-	-	11,737	11,737	17,603
Compensated absences payable (Note 11)	-	92	692	784	2,728
Arbitrage rebate tax payable (Note 11)	-	9	-	9	-
OPEB implicit rate subsidy (Note 7)	-	57	3,349	3,406	10,916
Total noncurrent liabilities	-	228	17,943	18,171	34,269
Total liabilities	3,955	95,454	64,025	163,434	77,487
NET ASSETS					
Invested in capital assets, net of related debt	-	-	15,011	15,011	94,432
Restricted for:					
Unemployment compensation	138,175	-	-	138,175	-
Other purposes	-	3,195	65,526	68,721	-
Unrestricted	-	3,885	12,020	15,905	53,267
Total net assets	$ 138,175 $	7,080 $	92,557 $	237,812 $	147,699

The notes to the financial statements are an integral part of this statement

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
Operating revenues:					
Charges for services	$ -	$ 17	$ 146,732	$ 146,749	$ 128,412
Investment earnings	3,594	68	496	4,158	1,127
Securities lending income	-	-	22	22	64
Financing income	-	1,346	-	1,346	-
Contributions/premiums	164,353	-	93,818	258,171	139,530
Grants/contracts/donations	87,258	-	41,388	128,646	1,425
Other operating revenues	-	-	826	826	2,588
Total operating revenues	255,205	1,431	283,282	539,918	273,146
Operating expenses:					
Personal services	-	275	13,274	13,549	50,268
Contractual services	-	31	17,911	17,942	21,336
Supplies/materials	-	9	68,340	68,349	27,781
Benefits/claims	215,826	8	110,911	326,745	154,563
Capitalized asset/expense	-	-	-	-	-
Depreciation	-	-	1,061	1,061	11,525
Amortization	-	-	29	29	537
Utilities/rent	-	44	1,034	1,078	14,992
Communications	-	9	1,156	1,165	12,552
Travel	-	4	240	244	383
Repairs/maintenance	-	-	806	806	12,281
Grants	-	-	-	-	125
Lottery prize payments	-	-	28,615	28,615	-
Securities lending expense	-	-	4	4	14
Arbitrage rebate tax	-	-	-	-	-
Dividend expense	-	-	1,560	1,560	-
Interest expense	-	742	21	763	236
Other operating expenses	2,003	27	2,242	4,272	4,778
Total operating expenses	217,829	1,149	247,204	466,182	311,371
Operating income (loss)	37,376	282	36,078	73,736	(38,225)
Nonoperating revenues (expenses):					
Tax revenues	-	-	23,233	23,233	-
Insurance proceeds	-	-	9	9	127
Gain (loss) on sale of capital assets	-	-	124	124	909
Federal indirect cost recoveries	-	-	-	-	6,231
Increase (decrease) value of livestock	-	-	(62)	(62)	-
Total nonoperating revenues (expenses)	-	-	23,304	23,304	7,267
Income (loss) before contributions and transfers	37,376	282	59,382	97,040	(30,958)
Capital contributions	-	-	398	398	2,952
Transfers in (Note 12)	-	-	168	168	5,220
Transfers out (Note 12)	-	-	(46,529)	(46,529)	(2,304)
Change in net assets	37,376	282	13,419	51,077	(25,090)
Total net assets - July 1 - as previously reported	100,799	6,798	79,068	186,665	174,356
Prior period adjustments (Note 2)	-	-	70	70	(1,567)
Total net assets - July 1 - as restated	100,799	6,798	79,138	186,735	172,789
Total net assets - June 30	$ 138,175	$ 7,080	$ 92,557	$ 237,812	$ 147,699

The notes to the financial statements are in integral part of this statement.

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	$ 162,946	$ 17	$ 240,845	$ 403,808	$ 266,714
Payments to suppliers for goods and services	-	(125)	(88,471)	(88,596)	(93,152)
Payments to employees	-	(168)	(13,256)	(13,424)	(52,606)
Grant receipts	88,359	-	40,417	128,776	1,300
Cash payments for claims	(218,133)	-	(108,594)	(326,727)	(152,714)
Cash payments for prizes	-	-	(28,258)	(28,258)	
Other operating revenues	-	-	1,011	1,011	8,582
Other operating payments	(2,004)	-	(4,393)	(6,397)	
Net cash provided by (used for) operating activities	31,168	(276)	39,301	70,193	(21,876)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	23,233	23,233	-
Transfers to other funds	-	-	(45,619)	(45,619)	(2,304)
Transfers from other funds	-	-	107	107	6,326
Proceeds from interfund loans/advances	-	-	400	400	323
Payments of interfund loans/advances	(3)	-	(103)	(106)	(1,441)
Payment of principal and interest on bonds and notes	-	(1,289)	-	(1,289)	(237)
Net cash provided by (used for) noncapital financing activities	(3)	(1,289)	(21,982)	(23,274)	2,667
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal and interest on bonds and notes	-	-	(92)	(92)	128
Acquisition of capital assets	-	-	(688)	(688)	(11,326)
Proceeds (Loss) from sale of capital assets	-	-	761	761	1,266
Net cash used for capital and related financing activities	-	-	(19)	(19)	(9,932)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	(6,158)	(10,845)	(17,003)	(3,279)
Proceeds (loss) on sales or maturities of investments	-	3,032	(329)	2,703	-
Proceeds from securities lending transactions	-	-	21	21	461
Interest and dividends on investments	3,594	76	461	4,131	1,141
Payment of securities lending costs	-	-	(4)	(4)	(14)
Collections of principal and interest on loans	-	23,961	-	23,961	-
Cash payment for loans	-	(26,675)	-	(26,675)	-
Net cash provided by (used for) investing activities	3,594	(5,764)	(10,696)	(12,866)	(1,691)
Net increase (decrease) in cash and cash equivalents	34,759	(7,329)	6,604	34,034	(30,832)
Cash and cash equivalents, July 1	94,759	22,408	88,721	205,888	100,255
Cash and cash equivalents, June 30	$ 129,518	$ 15,079	$ 95,325	$ 239,922	$ 69,423

The notes to the financial statements are an integral part of this statement.

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	$ 37,376	$ 282	$ 36,078	$ 73,736	$ (38,225)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	-	-	1,062	1,062	11,525
Amortization	-	-	29	29	537
Interest expense	-	742	20	762	236
Securities lending expense	-	-	4	4	14
Investment Earnings	(3,594)	(68)	(461)	(4,123)	(1,141)
Securities lending income	-	-	(22)	(22)	(64)
Financing income	-	(1,346)	-	(1,346)	-
Federal indirect cost recoveries	-	-	-	-	6,231
Arbitrage rebate tax	-	(2)	-	(2)	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	(1,251)	-	(1,844)	(3,095)	(1,627)
Decr (incr) in due from other funds	-	-	2	2	151
Decr (incr) in due from component units	-	-	-	-	3
Decr (incr) in due from other governments	1,101	-	192	1,293	1
Decr (incr) in inventories	-	-	(704)	(704)	154
Decr (incr) in other assets	-	-	(276)	(276)	(1,013)
Incr (decr) in accounts payable	(2,471)	9	1,617	(845)	1,181
Incr (decr) in lottery prizes payable	-	-	357	357	-
Incr (decr) in due to other funds	-	-	39	39	(926)
Incr (decr) in due to component units	-	-	-	-	87
Incr (decr) in due to other governments	-	-	63	63	-
Incr (decr) in deferred revenue	7	-	1,471	1,478	956
Incr (decr) in amounts held in custody for others	-	-	-	-	(1)
Incr (decr) in compensated absences payable	-	99	(20)	79	(63)
Incr (decr) in OPEB implicit rate subsidy	-	8	653	661	2,207
Incr (decr) in estimated claims	-	-	1,041	1,041	(2,099)
Net cash provided by (used for) operating activities	$ 31,168	$ (276)	$ 39,301	$ 70,193	$ (21,876)
Schedule of noncash transactions:					
Capital asset acquisitions from contributed capital	-	-	-	-	2,952
Capital contributions from other funds	-	-	391	391	-
Incr (decr) in fair value of investments	-	1	-	1	-
Total noncash transactions	$ -	$ 1	$ 391	$ 392	$ 2,952

The notes to the financial statements are an integral part of this statement.

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012
(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE-PURPOSE TRUST FUNDS	INVESTMENT TRUST	AGENCY FUNDS
ASSETS				
Cash/cash equivalents (Note 3)	$ 93,664	$ 153,778	$ 442,925	$ 8,756
Receivables (net):				
Accounts receivable	24,349	-	-	473
Interest	10,562	6	118	-
Due from primary government	24,071	-	-	-
Due from other PERB plans	776	-	-	-
Long-term loans/notes receivable	48	-	-	-
Total receivables	59,806	6	118	473
Investments at fair value:				
Equity in pooled investments (Note 3)	7,700,371	-	-	-
Other investments (Note 3)	463,404	94,527	7,301	5
Total investments	8,163,775	94,527	7,301	5
Securities lending collateral (Note 3)	349,895	49	930	-
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	158	-	-	-
Equipment	190	-	-	-
Accumulated depreciation	(252)	-	-	-
Intangible assets	52	-	-	-
Total capital assets	183	-	-	-
Other assets	-	43,559	-	309
Total assets	8,667,323	291,919	451,274	9,543
LIABILITIES				
Accounts payable	1,735	21	118	1,026
Due to other PERB plans	776	-	-	-
Deferred revenue	3,838	-	-	-
Amounts held in custody for others	5	15,486	-	8,517
Securities lending liability (Note 3)	349,895	49	930	-
Compensated absences payable	507	-	-	-
OPEB implicit rate subsidy	710	-	-	-
Total liabilities	357,466	15,556	1,048	9,543
NET ASSETS				
Held in trust for pension benefits and other purposes	$ 8,309,857	$ 276,363	$ 450,226	$ -

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE-PURPOSE TRUST FUNDS	INVESTMENT TRUSTS
ADDITIONS			
Contributions/premiums:			
Employer	$ 186,495	$ -	$ -
Employee	187,152	-	-
Other contributions	43,610	20,752	891,797
Net investment earnings:			
Investment earnings	238,423	1,013	1,135
Administrative investment expense	(43,118)	-	(130)
Securities lending income	3,142	7	124
Securities lending expense	(702)	(1)	(24)
Charges for services	829	-	-
Other additions	425	6,262	-
Total additions	616,256	28,033	892,902
DEDUCTIONS			
Benefits	585,669	-	-
Refunds	21,012	-	-
Distributions	-	31,607	857,898
Administrative expenses:			
Personal services	3,813	-	-
Contractual services	3,663	394	-
Supplies/materials	147	-	-
Depreciation	27	-	-
Amortization	92	-	-
Utilities/rent	311	-	-
Communications	250	-	-
Travel	79	-	-
Repair/maintenance	19	-	-
Grants	-	1	-
Other operating expenses	245	-	-
Local assistance	13	-	-
Transfers to ORP	123	-	-
Transfers to PERS-DCRP	609	-	-
Total deductions	616,072	32,002	857,898
Change in net assets	184	(3,969)	35,004
Net assets - July 1 - as previously reported	8,309,649	280,249	415,222
Prior period adjustments (Note 2)	24	83	-
Net assets - July 1 - as restated	8,309,673	280,332	415,222
Net assets - June 30	$ 8,309,857	$ 276,363	$ 450,226

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The Montana State Fund (State Fund) component unit presentation included in this report differs from the statements issued by that entity. We continue to include the Old Fund as part of the related statements because the Old Fund claims are a legal liability of the State Fund. We confirmed this in a legal opinion provided by the department's Chief Legal Counsel and a Letter of Advice from the State Attorney General's Office. The letter of advice includes the following statement:

> "While the general fund becomes the funding source to pay claims and expenses against the Old Fund in FY 12, the State Fund not the State of Montana remains the entity legally liable for such claims. This conclusion is supported both by the plain language of section 39-71-2319 and the contingency provision in section 39-71-2352(6). By providing for a transfer from the general fund to the Old Fund account, the Legislature created a payment structure that reflects the intent expressly stated in section 39-71-2319, "the State Fund shall assume liability for all outstanding claims and indebtedness of the previously existing state fund." LAD suggests that section 39-71-2352(6) subrogates the liability for Old Fund claims to the general fund. I do not think the theory of subrogation applies to this issue. Black's Law dictionary defines subrogation to mean "the substitution of one party for another whose debt the party pays, entitling the paying party to rights, remedies, or securities that would otherwise belong to the debtor." Black's Law Dictionary (8fr ed. 2004). In this instance, the State Fund is not substituted as the party bearing responsibility to pay. The State Fund's legal liability did not terminate when the Old Fund liability tax reserves were depleted. The entity responsible for payment of claims-the State Fund-remains the same. It is the funding source for payment of those claims that has changed."

We also confirmed that this presentation is required through an inquiry to the Governmental Accounting and Standards Board (GASB). We believe the State Fund should reissue the related fiscal year 2011 and 2012 statements to include the Old Fund activity as required under GASB standards.

The financial statements contained in Montana's Comprehensive Annual Financial Report were audited by the State's Legislative Audit Division (LAD). The Legislative Auditor is appointed by, and reports to, the Legislative Audit Committee. The Deputy Legislative Auditor issued a qualified opinion on the State's financial statements for fiscal year 2011. The qualified opinion is based on how Montana State Fund (State Fund) is presented within this report in regards to the Old Fund claims. In the LAD opinion, Old Fund should no longer be part of the State Fund component unit for financial reporting purposes and the primary government is legally obligated to pay the remaining liabilities of Old Fund.

Pursuant to advice received from the Governmental Accounting Standards Board (GASB), the Old Fund claims should be reported by the party legally obligated to pay them. We confirmed that the legal liability remained with the State Fund in a legal opinion issued by the Department of Administration (DOA) Chief Legal Counsel and a Letter of Advice from Montana's Attorney General (AG).

State Fund is defined in statute as a single separate legal entity with a contractual relationship to its claimants. State Fund is a single legal entity that meets GASB 14 requirements to be reported as a discretely presented component unit of the State of Montana.

Per 39-71-2321 MCA, State Fund is required to track the Old Fund and New Fund claims separately. The account name "Old Fund" is used to represent claims that occurred before July 1, 1990 and the account name "New Fund" is used to represent claims that occurred beginning July 1, 1990.

The General Fund is routinely required to transfer money to numerous accounts each year. These transfers are considered to be interfund transfers. The General Fund is not required to report a legal liability for those transfers.

The following excerpts are from the AG's Letter of Advice:

> ...The law governing assets and liabilities of the Old Fund clearly provides that the legislature intended for the State Fund to "assume liability for all outstanding claims and indebtedness of the previously existing state fund." Mont. Code Ann. § 39-71-2319. In addition to designating the State Fund as the entity legally liable for outstanding claims and indebtedness of the Old Fund, the Legislature created a separate payment structure and a separate funding source for payment for claims of injury occurring before July 1, 1990 (claims against the Old Fund) and for those claims occurring on or after July 1, 1990 (claims against the State Fund). The legislature also provided for contingency funding in the event that revenue from the Old Fund liability tax did not cover the cost of claims. Section 39-71-2352(6) provides for that contingency, it states "[i]f in any fiscal year after the old fund liability tax is terminated claims for injuries resulting from accidents that occurred before July 1, 1990, are not adequately funded, any amount necessary to pay claims for injuries resulting from accidents that occurred before July 1, 1990, ***must be transferred from the general fund to the fund provided for in 39-71-2321***." (Emphasis added)[...].
>
> [T]he State Fund not the State of Montana remains the entity ***legally*** liable for such claims. This conclusion is supported both by the plain language of section 39-71-2319 and the contingency provision in section 39-71-2352(6). By providing for a transfer from the general fund to the Old Fund account, the Legislature created a payment structure that reflects the intent expressly stated in section 39-71-2319, "the State Fund shall assume liability for all outstanding claims and indebtedness of the previously existing state fund." [...] The State Fund's ***legal*** liability did not terminate when the Old Fund liability tax reserves were depleted. The entity responsible for payment of claims – the State Fund – remains the same. It is the funding source for payment of those claims that has changed.

Additionally, we reported an obligation to the State Fund from the General Fund to provide resources to pay the claims, even though this is not clearly required under current reporting standards. In our opinion this provides valuable information to the financial statement users. Because this is not a long-term liability for the State primary government, as currently defined under GAAP, we did not include this with the long term debt as recommended by LAD, but instead presented this on a separate line. We believe this distinction is necessary for the users of the financial statements.

It is our opinion that the Old Fund reporting contained in this report is in accordance with generally accepted governmental accounting principles and the related audit opinion, as required by generally accepted auditing standards, should be unqualified.

A. Reporting Entity

For financial reporting purposes, the State of Montana has included all funds which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discretely Presented Component Units

These component units are entities that are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The component unit columns of the combined financial statements include the financial data of the following entities.

Housing Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $1.5 billion. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The authority is audited annually by the State's Legislative Audit Division.

Facilities Finance Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. The board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. Individual audit reports are issued every two years by the State's Legislative Audit Division.

Montana State Fund (New Fund and Old Fund) - New Fund and Old Fund are one legally separate entity, thus a single component unit with separate accounting funds. Montana State Fund is a nonprofit, independent public corporation governed by a board of directors appointed by the Governor. State Fund is audited annually by the State's Legislative Audit Division.

New Fund provides workers compensation insurance for claims incurred after June 30, 1990, and is financed by member (employer) premiums. The New Fund is audited annually by the State's Legislative Audit Division.

Old Fund covers worker compensation claims that were incurred before July 1, 1990. Administrative operations and budgets may be reviewed by the Governor and the Legislature, but they have no authority over budgets or costs. In any fiscal year that Old Fund claims are not adequately funded, any amount necessary to pay claims must be transferred from the general fund to Old Fund. For the fiscal year ended June 30, 2012, the general fund was required to transfer $10,041,517 to the Montana State Fund to support their activities to settle Old Fund claims.

Universities and Colleges – The State Board of Regents has responsibility for the following institutions: The University of Montana - Missoula and the units under it including Montana Tech of the University of Montana, The University of Montana - Western and Helena College University of Montana; and Montana State University - Bozeman and the units under it including Montana State University - Billings, Montana State University - Northern, and Great Falls College Montana State University. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. The universities are audited annually by the State's Legislative Audit Division.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation; and (3) the Student Assistance Foundation of Montana, a private non-profit corporation. Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State and Federal support of local public education systems is reported in the General Fund, the State Special Revenue Fund and Federal Special Revenue Fund.

Complete financial statements for each of the individual discretely presented component units may be obtained at the following addresses:

Housing Authority
301 South Park, Room 240
PO Box 200528
Helena, MT 59620-0528

Facilities Financial Authority
2401 Colonial Drive, 3rd Floor
PO Box 200506
Helena, MT 59620-0506

Montana State Fund
855 Front Street
Helena, MT 59604

Universities and Colleges
Commissioner of Higher Education
2500 Broadway Street
Helena, MT 59620-3201

Fiduciary Fund Component Units

Teachers Retirement System (Pension Trust Fund) – This retirement plan is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump-sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers Retirement System are paid from investment earnings of the fund. The plan is funded from employer and employee contributions and investment earnings, and the State's General Fund. The board is a discretely presented component unit. The plan is audited annually by the State's Legislative Audit Division.

Public Employees' Retirement Board (Pension and Other Employee Benefit Trust Funds) – The board is appointed by the Governor and administers ten separate retirement plans for the purpose of providing retirement, disability, death, and lump-sum payments to plan members. These legally separate plans include the Public Employees' Retirement Plan – Defined Benefit and Defined Contribution and the associated education funds; the Judges'; the Highway Patrol Officers'; the Sheriffs'; the Game Wardens' and Peace Officers'; the Municipal Police Officers'; and the Firefighters' Unified Retirement Systems; as well as the Volunteer Firefighters' Compensation Act. The board also administers the State of Montana Deferred Compensation Program (457 Plan).

The Public Employees' Retirement System (PERS) includes the Public Employees' Defined Benefit Retirement Plan and the Public Employees' Defined Contribution Retirement Plan, and is funded by member and employer contributions, investment earnings and contributions from the state General Fund. The PERS also accounts for the administrative costs, paid from investment earnings, of the plan. These are allocated out to all plans. The Judges' Retirement System is funded by member and state employer contributions, and investment earnings. The Highway Patrol Officers' Retirement System is funded by member and state employer contributions, state contributions, and investment earnings. The Sheriffs' Retirement System is funded by member and employer contributions, and investment earnings. The Game Wardens' and Peace Offices' Retirement System is funded by member and employer contributions, and investment earnings. The Municipal Police Officers' Retirement System is funded by member and employer contributions, state General Fund contributions, and investment earnings. The Firefighters' Unified Retirement System is funded by member and employer contributions, and investment earnings, as well as state General Fund contributions from a portion of insurance premium taxes collected by the State of Montana. The Volunteer Firefighters' Compensation Act is funded by the state contributions, from the State General Fund, of a percentage of fire insurance premium taxes collected. The State of Montana Deferred Compensation Program is funded by member contributions and investment earnings; there are four employers, Great Falls Transit, Town of Whitehall, Big Sky Resort Area District and School District 3 Wolf Point, that contribute to the program on behalf of their employees.

The board is a discretely presented component unit responsible for the ten separate public employee retirement plans including the Deferred Compensation Program. These are reported as pension and other employee benefit trust funds. The board is audited annually by the State's Legislative Audit Division.

Complete financial statements for each of the individual fiduciary fund component units may be obtained at the following addresses:

Teachers Retirement System 1500 East Sixth Avenue PO Box 200139 Helena, MT 59620-0139	Public Employees' Retirement System 100 North Park, Suite 200 PO Box 200131 Helena, MT 59620-0131

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the State of Montana and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State of Montana is reported separately from certain legally separate component units for which the State is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expense reported for the individual functions and activities. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Fiduciary fund statements are reported only in the fund financial statements. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide, Proprietary, and Fiduciary Fund Financial Statements
The government-wide, proprietary fund, and fiduciary fund (except for agency fund) financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned; expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements imposed by the provider are met. Agency funds have no measurement focus. These funds report only assets and liabilities, recognizing receivables and payables using the accrual basis of accounting.

Governmental Fund Financial Statements
Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are realizable, measurable, earned, and available. Revenue is considered realizable when it is probable the amount will be collected. Revenue is considered measurable and realizable if the precise amount is known because the transaction is completed, or if there is enough information to provide a reasonable estimate of the net realizable revenue to be received. Revenue is considered to have been earned when the exchange of goods or services has taken place. Revenue is considered to be available if it is collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the State considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

The major revenue sources considered susceptible to accrual are licenses and permits, natural resource taxes, individual income taxes, corporate income taxes, property taxes, fuel taxes, and certain federal revenues (reimbursable grants and U.S. mineral royalties). All other revenue is considered to be measurable and available when the cash is received.

Fund Financial Statements

The State uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the State of Montana are classified into fund categories as described below:

Governmental Funds

General Fund – To account for all governmental financial resources, except those required to be accounted for in another fund.

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects. (1) The State Special Revenue Fund (SSRF) accounts for activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function. Several funds are defined in statute as Permanent Funds, however per GASB 54 these funds should be reported within the SSRF. The respective effect on fund balance is $129 million. (2) The Federal Special Revenue Fund accounts for activities funded from federal sources used in the operation of state government.

Debt Service Funds – To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds – To account for resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary or trust funds.

Permanent Funds – To account for resources that are permanently restricted to the extent those only earnings, not principal, may be used for the purposes of supporting the government's programs. Several funds are defined in statute as Permanent Funds, however per GASB 54 these funds should be reported within the State Special Revenue Fund.

Proprietary Funds

Enterprise Funds – To account for operations (1) financed and operated similar to private business enterprises, where the intent of the Legislature is to finance or recover costs primarily through user charges; (2) where the Legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate; (3) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; (4) when laws or regulations require that the activities' costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The primary focus of fee revenues charged by enterprise funds is users outside of the primary government.

Internal Service Funds – To account for the financing of goods and services provided by one department or agency to other departments, agencies, or other governmental entities on a cost-reimbursement basis.

The State of Montana reports two employee group benefits funds. The MUS Group Insurance Fund primarily charges its fees to Montana State University and the University of Montana. The universities are reported as discretely presented component units, which the State considers to be external users, and as such, reports the MUS Group Insurance Fund as an enterprise fund. The Employee Group Benefits Fund charges its fees to funds of the primary government, and as such, is reported as an internal service fund.

Fiduciary Funds

To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, or other governments. These assets cannot be used to support the government's own programs.

Pension (and Other Employee Benefit) Trust Funds – These funds report resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit plans, defined contribution plans, other retirement plans such as firefighters, police officers, teachers etc., and other post employment benefit plans. Plan members receive retirement, disability, death, and lump-sum payments from the fund. For detail on the individual plans, see Note 6.

Private-Purpose Trust Funds – These funds are used to account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments. Examples include the State's escheated property fund, unliquidated security bonds held on deposit from self-insured employers, environmental reclamation bonds held in trust, and others.

Investment Trust Fund – This fund accounts for the receipt of monies by the Montana Board of Investments for investment in the Short-term Investment Pool (STIP), an external investment pool, and the distribution of related investment earnings to local government agencies.

Agency Funds – Account for assets held by the State as an agent for individuals, private organizations, and other governments. For example, various agencies including State Auditor, Fish, Wildlife and Parks, and the Department of Natural Resources and Conservation hold deposits pending compliance with performance agreements. Other examples include monies belonging to state institution residents and child support payments from parents.

Major Governmental Funds
The General Fund is the State's primary operating fund, as previously defined.

The State Special Revenue Fund accounts for activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

The Federal Special Revenue Fund accounts for activities funded from federal sources used in the operation of state government.

The Coal Tax Trust Permanent Fund, created by Article IX, Section 5 of the Montana State Constitution, receives 50% of all coal tax collections. The principal in this fund can be expended only upon affirmative vote of three-fourths of each house of the Legislature.

The Land Grant Permanent Fund accounts for lands granted to the State for support of public schools and state institutions.

Major Enterprise Funds
The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

The Economic Development Bonds Fund (EDB) accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions. Separately issued EDB financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed by both the government-wide and proprietary fund financial statements to the extent they do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The State has elected not to follow subsequent private sector guidance.

As a general rule, material interfund revenues have been eliminated from the government-wide financial statements. These have not been eliminated where their elimination would distort the direct costs and program revenues of the functions involved.

The State does not allocate indirect expenses to functions in the Statement of Activities.

D. Proprietary Activity Accounting and Financial Reporting

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating.

E. Cash/Cash Equivalents

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. For 2012, certain investments in STIP were reclassified as long-term investments. (See Note 3 Cash/Cash Equivalents).

F. Receivables

This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding, and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. Further detail relating to receivables is provided in Note 4.

G. Inventories

Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as nonspendable, indicating they do not constitute available expendable resources.

Proprietary and fiduciary funds report using the "consumption method," meaning inventories are expensed as used.

H. Restricted Net Assets

Certain investments of the Economic Development Bonds Enterprise Fund are classified as restricted net assets on the Statement of Net Assets for Proprietary Funds because their use is limited by applicable bond indenture agreements.

I. Equity in Pooled Investments

The Montana Board of Investments manages the State's Unified Investment Program, which includes several internal investment pools. Participation in the pools is restricted to permanent funds, private-purpose trust funds, investment trust funds, pension trust funds, Montana University System Units, and specific funds established within the State Special Revenue Fund. The participant investments in the pools are reported at fair value in the assets within the individual funds (See Note 3 on Cash/Cash Equivalents and Investments).

J. Investments

In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Rule," the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value in the Balance Sheet or Statement of Net Assets. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 3 on Cash/Cash Equivalents and Investments).

K. Capital Assets

Capital asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure capital assets are capitalized and reported in the government-wide financial statements. Infrastructure assets of proprietary funds are capitalized on the fund financial statements. Interest incurred during the construction of capital assets for proprietary funds and higher education units is capitalized. The State has chosen to use the depreciation approach for infrastructure assets and is reporting accumulated depreciation in the Statement of Net Assets and depreciation expense in the Statement of Activities for these assets.

Capital assets in proprietary, private-purpose trust, and pension trust funds are accounted for within their respective funds and are depreciated. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 7 to 20 years for building improvements, 3 to 10 years for equipment, and 10 to 50 years for infrastructure. State agencies are also required to extend or shorten the useful lives of capital assets to reflect their actual experience or industry standards when appropriate.

The capitalization limit for buildings and building/land improvements is $25,000. The capitalization threshold for infrastructure & internally-generated software is $500,000. The capitalization threshold for all intangible assets is $100,000. The capitalization limit for other capital assets is set at $5,000. Agencies are allowed to capitalize additions to collections and land acquisitions at any cost. Purchases under these thresholds are recorded as expenditures/expenses in the current period.

L. Deferred Revenue

Deferred revenue in the government-wide, proprietary fund and fiduciary fund financial statements relates to unearned revenue. A liability for unearned revenue is recorded when assets are recognized in connection with a transaction prior to the earnings process being completed.

Deferred revenue in the governmental fund financial statements relates to both unearned revenue (as discussed above) and unavailable revenue. A liability for unavailable revenue is recorded when assets are recognized in connection with a transaction, but those assets are not considered available to finance expenditures of the current fiscal period.

M. Long-term Obligations

Long-term obligations expected to be financed from governmental funds are reported in the government-wide financial statements. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund in the fund financial statements. The remaining portion of such obligations is reported in the government-wide financial statements.

Long-term liabilities expected to be financed from proprietary and fiduciary fund operations are accounted for in those funds. (See Note 10–Leases/Installment Purchases Payable and Note 11–State Debt.)

N. Capital Leases

A capital lease is generally defined by Governmental Accounting Standards Board (GASB) Statement 62, as one which transfers benefits and risks of ownership to the lessee. At the inception of a capital lease, in the government-wide, proprietary fund, and fiduciary fund financial statements, a capital asset and a capital lease liability are recorded at the present value of the future minimum lease payments. In the governmental fund financial statements, because the modified accrual basis of accounting is used, no asset or liability is recorded related to assets under capital leases. Rather, in the governmental fund financial statements, at the inception of a capital lease, capital outlay expenditure and an other financing source (inception of lease/installment contract) are recorded at the net present value of the minimum lease payments.

O. Bond Discounts/Premiums/Issuance Costs

Bond premiums and discounts, as well as issuance costs, are recognized in the current period for governmental funds in the fund financial statements. Bond proceeds and bond premiums are reported as an other financing source, and bond discounts are reported as another financing use. Issuance costs are reported as debt service expenditures whether or not they are withheld from the bond proceeds. In proprietary fund types and in governmental funds as presented in the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds, which approximates the effective interest method. Bonds payable are recorded net of any applicable premium or discount, while issuance costs are reported as deferred charges.

P. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 80 hours of sick or annual leave to a nonrefundable sick leave pool. Excess annual leave that is being forfeited can also be contributed, with no maximum contribution. Based on a review, the adjusted ending balance of the pool for June 30, 2011, was 18,636 hours. For fiscal year 2012, 2,419 sick leave hours, 205 annual leave hours, and 3,539 excess annual leave hours were contributed to the sick leave pool, and 3,492 hours were withdrawn, leaving a balance of 21,307 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to contributors, except by grants approved through an application process.

Vested or accumulated leave for proprietary and fiduciary funds is recorded as an expense and liability of those funds in the fund financial statements. For governmental funds, the liability is not expected to be liquidated with expendable financial resources. The expenditure and liability for the governmental funds is reported only in the government-wide financial statements. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

Q. Fund Balance/Net Assets

Fund Balance
As a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 54, the classifications for fund balance used for governmental funds are reported in two general classifications, nonspendable and spendable.

Nonspendable represents the portion of fund balance that is not in spendable form such as inventories, and, in the general fund, long term notes and loans receivable. Spendable fund balance is further categorized as restricted, committed, assigned, and unassigned.

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by the State constitution and external parties, such as the federal government, or through enabling legislation. For the purpose of determining restricted amounts, enabling legislation does not include commitments resulting from state legislation because these can be removed or changed by the same type of action.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority, the state's legislature, through legislation passed into law.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Assignments of fund balance are created by the executive branch. An example of an assignment is money deposited into an account within the State Special

Revenue fund by the executive branch and later appropriated by the legislature. The revenue source is not restricted or committed by legislation but is assigned by executive branch management and later appropriated by the legislature for a specific purpose. In governmental funds other than the general fund, assigned fund balance also represents the remaining amount that is not restricted or committed. Also included in the assigned fund balance for the general fund are encumbrances and assignments for the portion of current general fund balance that is projected to be used to fund expenditures and other cash outflows in excess of the expected revenues and other cash inflows in fiscal years as needed. An assignment for a FY13 material spend-down of fund balance was not included in this report, as it is not anticipated.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The State of Montana generally segregates restricted, committed, and assigned resources by account (sub-fund) within the governmental funds, other than the general fund. When resources meeting more than one of these spendable classifications are comingled in an account on the state's accounting system the assumed order of spending is restricted first, committed second, and finally assigned. State statute requires non-general fund money be spent first whenever possible so any related available unassigned balance would be spent last.

Minimum General Fund - Fund Balance

The state does not maintain a stabilization fund. However, statute provides a minimum fund balance amount as follows: § 17-7-140, MCA, defines minimum ending fund balance (i.e. "deficit" or 1% of expenditures) and specifies the procedures that must be followed to make expenditure reductions if a projected ending fund balance drops below minimum statutory requirements.

The law requires; if the Budget Director determines that a deficit exists, reductions <u>must</u> be made to assure that the projected ending fund balance is at least 1% of general fund appropriations for the biennium. Under circumstances when a deficit is projected during a biennium, the Governor may direct reductions from any general fund expenditure not exempted by § 17-7-140, MCA, including HB 2 (the State's main appropriation bill), any other appropriation bills, statutory appropriations, or language appropriations. Reductions may not exceed 10% of general fund appropriations for any single "program," as defined in HB 2. If a program has more than one appropriation, the reduction for one or more of the appropriations may exceed 10% as long as the reduction for the program as a whole does not exceed 10%.

The Legislative and Judicial branches, the Montana School for the Deaf and Blind, principal and interest on state debt, salaries of elected officials, and public school BASE funding are exempt, statutorily, from reductions. These exemptions shield approximately 35% of general fund appropriations from reduction. Of the remaining expenditures, the Governor may not direct executive agencies headed by elected officials or the Board of Regents to reduce their expenditures by more than the average reduction percentage imposed upon all other executive branch agencies.

Net Assets

In funds other than governmental, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide Statement of Net Assets reported restricted net assets (in thousands) of $2,505,038.

R. Property Taxes

Real property taxes are normally levied in October and are normally payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due.

Personal property tax levies are set each August, and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice.

Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

S. Other Taxes

On the Statement of Activities, the revenue category "Other Taxes" consists of the following taxes (in thousands):

	General Fund	State Special Revenue Fund	Other Governmental Funds	Business Type	Total
Accommodations	$ 15,392	$ 21,893	$ -	$ 9	$ 37,294
Agriculture sales	-	6,260	-	-	6,260
Cigarette/tobacco	37,215	48,523	1,865	-	87,603
Contractors Gross Receipts	(3,041)	-	-	-	(3,041)
Energy Tax	7,810	-	-	-	7,810
Fire protection	-	3,672	-	-	3,672
Insurance premium	58,932	10,440	-	-	69,372
Liquor tax	5,065	1,985	-	23,224	30,274
Livestock	-	3,828	-	-	3,828
Other taxes	5,849	5,689	-	-	11,538
Public Service Commission	-	2,608	-	-	2,608
Telephone license	21,347	-	-	-	21,347
Video gaming	53,585	10	-	-	53,595
Total other taxes	$ 202,154	$ 104,908	$ 1,865	$ 23,233	$ 332,160

NOTE 2. OTHER ACCOUNTING ISSUES

A. New Accounting Guidance Implemented

For the year ended June 30, 2012, the State of Montana implemented the provisions of GASB Statement No. 64- "Derivative Instruments: Application of Hedge Accounting Termination Provisions- an amendment of GASB Statement No. 53. The objective of this Statement is to clarify whether an effective hedging relationship continues and hedge accounting should continue to be applied.

For the year ended June 30, 2012, the State of Montana implemented the provisions of GASB Statement No. 57 - "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans". The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). In addition, this Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements.

B. Prior Period Adjustments

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors or changes in accounting policy from prior periods. The most significant of these adjustments affected the governmental activities column in the Statement of Activities related to Montana Department of Transportation infrastructure in the amount of $20.9 million. A significant adjustment to the respective fund financial statements was made in a permanent fund for $44.5 million to write off the PPL Settlement due to the U.S. Supreme Court remanding the case back to District Court. The Zortman Landusky Water Treatment was reclassified as a state special revenue fund from a permanent fund in the amount of $9.4 million, due to internally imposed constraints. This reclassification created a prior period adjustment to the respective fund financial statements.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

This note details the following asset classifications (in thousands):

Cash/cash equivalents	$ 2,786,867
Equity in pooled investments	$ 9,759,383
Investments	$ 2,651,192

Carrying amounts for the bank balance for Cash Deposits and fair values for the State's cash equivalents and investments are presented in Tables 1 through 4.

A. General

The Board of Investments (BOI) was created by the Legislature to manage the Unified Investment Program established by the State Constitution. The Investment Program is comprised of all state funds, including pensions, trusts, insurance, and cash. Local government entities may only invest in the Short Term Investment Pool (STIP) portion of the Program. BOI manages the Investment Program pursuant to the "Prudent Expert Principle" mandated by State law, which requires an investment manager to:

1. discharge the duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims;
2. diversify the holdings of each fund within the unified investment program to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so; and
3. discharge the duties solely in the interest of and for the benefit of the funds forming the unified investment program.

Currently, only the nine retirement funds and the Montana State Fund (Workers' Compensation) may invest in stock. All other state funds must be invested in fixed-income type investments. Neither State law nor the State Constitution place restrictions on retirement fund investments. The funds are invested solely at the discretion of BOI pursuant to the "Prudent Expert Principle."

To facilitate management of the Investment Program, the Board created seven investment pools (Pools) that operate similar to mutual funds. All state agencies and many local government entities participate in one or more Pools. By investing in large Pools with other participants the smaller participants are provided broad diversification not otherwise possible. Some Pools are dedicated solely to the state's nine retirement funds, while others are open to other state and local government funds. State agencies, ineligible to participate in a long term investment pool, have direct fixed income, equity and loan investments. These investments are combined and reported as All Other Funds (AOF) Investments Managed. The Pools, AOF Investments Managed, Pool creation date and eligible participants are shown below:

Pool/Investments Managed Name	Creation Date	Eligible Participants
Retirement funds Bond Pool (RFBP)	04/01/95	Nine Retirement Funds Only
Trust Funds Investment Pool (TFIP)	10/01/95	Various State Trust Funds
Montana Domestic Equity Pool (MDEP)	07/01/80	Nine Retirement Funds/Small Trusts
Montana Internation Equity Pool (MTIP)	06/01/96	Nine Retirement Funds Only
Montana Private Equity Pool (MPEP)	05/01/02	Nine Retirement Funds Only
Montana Real Estate Pool (MTRP)	06/01/06	Nine Retirement Funds Only
Short Term Investment Pool (STIP)	07/01/74	All State Funds and Local Governments
All Other Funds (AOF) Investments Managed	NA	Non-Pool State Agency Investments

(1) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in STIP, cash held by trustees, un-deposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer's pooled cash account is invested by BOI in short-term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. In addition to the State Treasurer's pooled cash account, there is the STIP maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short-term, highly liquid investments, the individual fund investments in the STIP are reported as a cash equivalent.

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP is managed in a manner consistent with the SEC Rule 2a7. As a 2a7-like pool, the STIP utilizes an amortized cost unit value to report net assets. The portfolio may include asset-backed securities, commercial paper, corporate, US government direct obligations, US government agency securities, repurchase agreements, institutional money market funds, certificates of deposit and variable-rate (floating-rate) instruments. Investments must have a maximum maturity of 397 days or less unless they have rate reset dates. The portfolio is carried at amortized cost or book value with a constant unit value of $1.00.

State agencies that are allowed to retain their interest earnings within their funds are required to invest in STIP. Local government participation in STIP is voluntary. Separately issued external investment pool financial statements may be obtained by contacting:

Montana Board of Investments
2401 Colonial Drive, 3rd Floor
PO Box 200126
Helena, MT 59620-0126

The State's cash equivalents and investments are detailed in Table 2–Cash Equivalents, Table 3–Equity in Pooled Investments, and Table 4–Investments to disclose the level of investment risk, when applicable, assumed by the State at June 30, 2012.

(2) Investment securities are reported by investment portfolio and type in Table 2–Cash Equivalents, Table 3–Equity in Pooled Investments, and Table 4–Investments. The State may invest in certain types of securities, including US government direct-backed, US government indirect-backed, corporate stock/bonds, foreign government bonds, common stock, municipals, equity index, preferred stock, convertible equity securities, asset-backed securities, American Depositary Receipts (ADRs), equity derivatives, commingled funds, venture capital, leveraged buyout, mezzanine, diversified real estate portfolio, distressed debt, special situation and secondary investments, and cash equivalents, to provide a diversified investment portfolio and an overall competitive rate of return.

The value of stocks and bonds are recorded at both "book" and "fair" value. The book or carrying value of a stock is the average cost of the shares held. If the same stock has been purchased several times, the average of the purchase prices is the book value. The book value of bonds is the "amortized" cost, which represents the original cost, adjusted for premium and discount amortization where applicable. If bonds are purchased at more than the par value, the difference is called a premium. If they are purchased for less than par value, the difference is called discount. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life, or maturity date of the securities. The fair value of publicly traded stocks and bonds is determined by reference to market prices supplied by State Street Bank (the custodial bank). Because a public market does not exist for private equity and real estate investments, the fair value of these investments is the value reported in the most recent external managers' valuation reports. The book or carrying value of these private investments is the capital invested less capital returned. Except for STIP, all investment portfolios presented in the Statement of Net Asset Value are at "fair" value.

Common stock owners may vote on director selection and other important matters and receive dividends if the company pays dividends. Equity index investments are comprised of shares in institutional commingled funds with equity portfolios that match a broad based index or specific industry composite. Preferred stocks pay dividends at a specified rate and have preference in the payment of dividends and liquidation of assets. Preferred stock holders do not usually have voting rights.

Convertible securities permit the holder to exchange, or "convert" the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer's common stock. ADR investments are receipts issued by a US depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. Equity derivatives, such as futures and options, "derive" their value from underlying equity instruments. An institutional commingled fund combines assets from several institutional investors that are blended or pooled together to reduce management and administration costs. The investor buys shares in the fund.

Venture capital represents private equity investments in early stage financing of rapidly growing companies with an innovative product or service. Leveraged buyouts (LBOs) permit an investment group to acquire a company by leveraging debt, as a financing technique, to establish a significant ownership position on behalf of the company's current management team. Mezzanine investments are the subordinated debt and/or equity of privately-owned companies. The debt holder participates in equity appreciation through conversion features, such as rights, warrants, and/or options. These investments are made via limited partnership agreements in which BOI and other institutional investors invest as limited partners in funds managed by a general partner. These investments are riskier with higher potential return than public equity investments, and are less liquid because the funds are usually committed for at least ten years. Because of the risk and illiquidity, these investments are limited to sophisticated investors only.

Diversified real estate portfolio includes investments in private core, value-added, and opportunistic real estate. Core investments are the least risky with the lowest return, and are usually managed in commingled accounts in which the investor purchases shares. Value-added and opportunistic real estate investments provide more risk. Opportunistic investments are less liquid than core investments. These investments are usually made through limited partnership agreements.

Asset-backed securities are debt securities collateralized by a pool of mortgage and non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. Commercial paper is unsecured short-term debt with maturities ranging from 1 to 270 days. US Government direct-backed securities include direct obligations of the US Treasury and obligations explicitly guaranteed by the US Government. US Government indirect-backed obligations include US Government agency and mortgage-backed securities. Repurchase agreements (REPO) represent an agreement between a seller and a buyer, usually of US Government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and stated time. Variable-rate securities pay a variable rate of interest until maturity. The STIP portfolio's variable-rate securities reset to LIBOR (London Interbank Offered Rate).

BOI is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust, "the Bank", to lend 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 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. BOI and the Bank split the earnings, 80/20% respectively, on security lending activities. BOI retains all rights and risks of ownership during the loan period.

During fiscal year 2012, the Bank lent BOI public securities and received as collateral: US dollar cash; US Government and government sponsored agency securities; US corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the G10 nations; and debt securities issued by certain supranational agencies. The Bank does not have the ability to sell collateral securities unless the borrower defaults.

BOI imposed no restrictions on the amount of securities available to lend during fiscal year 2012. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of default of the borrower. There were no losses during fiscal year 2012 resulting from a borrower default.

During fiscal year 2012, BOI and the borrowers maintained the right to terminate all securities lending transactions on notice. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment fund comprised of a liquidity pool and a duration pool. As of June 30, 2012, the Quality D Short Term Investment Fund (STIF) liquidity pool had an average duration of 36 days and an average weighted final maturity of 73 days for US dollar collateral. The duration pool had an average duration of 40 days and an average weighted final maturity of 1329 days for US dollar collateral. As of June 30, 2012, the Securities Lending Quality Trust liquidity pool had an average duration of 25 days and an average weighted final maturity of 61 days for US dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 606 days for US dollar collateral. 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. At year-end 2012, BOI had no credit risk exposure to borrowers. The private equity and real estate pools do not participate in securities lending.

(3) Investment risk disclosures are described in the following paragraphs and are identified by the specific pools or securities to which they pertain, when applicable.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of US Government securities, the pools' fixed income instruments have credit risk as measured by major credit rating services. This is the risk that the issuer of a fixed income security may default with regard to the timely payment of interest and principal. BOI policy requires TFIP fixed income investments "be rated investment grade, or no lower than triple-B minus by one nationally recognized securities rating organization (NRSRO) at time of purchase" and RFBP fixed income investments, at the time of purchase, to be rated "at least by Moody's (Baa3 or better) or by Standard & Poor's (S&P) (BBB- or better) rating services." Credit risk for the internal and external managers for the RFBP is detailed as follows:

1. Core Internal Bond Pool (CIBP) – "Securities must be rated investment grade, or no lower than triple-B-minus, by one NRSO at the time of purchase. Split rated securities may not exceed 3% of portfolio market value."
2. Reams Asset Management Company LLC – "At time of purchase, securities must be rated at least single-B by one major credit rating agency. At least 80% of portfolio holdings shall be rated investment grade by one major credit rating agency at time of purchase."
3. Artio Global Management LLC – "At time of purchase, securities must be rated at least double-B by one major credit rating agency. At least 80% of portfolio holdings shall be rated investment grade by one major credit rating agency at time of purchase."
4. Neuberger Berman Fixed Income LLC – "At time of purchase, securities must be rated at least triple-C by one major credit rating agency. Securities rated below single-B will be limited to 25% of portfolio value."
5. Post Advisory Group LLC – "At time of purchase, securities must be rated at least triple-C by one major credit rating agency. Securities rated below single-B will be limited to 25% of portfolio value."

As stated in the STIP Investment Policy, "the STIP portfolio will minimize credit risk by:

1. limiting investments to those securities, at time of purchase, with high credit ratings provided by S&P such as A1 for commercial paper, bankers acceptances, certificates of deposits and asset backed securities and AA- for corporate and medium term notes
2. prequalifying the financial institutions, brokers/dealers, intermediaries and advisers with whom the STIP will conduct business; and
3. diversifying the portfolio so potential losses on individual securities will be minimized."

The US Government securities are guaranteed directly or indirectly by the US Government. Obligations of the US Government or obligations explicitly guaranteed by the US Government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the tables later in this note are provided by the S&P rating service. If an S&P rating is not available, a Moody's rating has been used.

Neither the MTIP, MDEP or MTRP investment policies address credit risk for the MTIP and MDEP external managers' cash equivalents investment in STIF or the MTRP STIP investment. As of June 30, 2012 the MTIP STIF balance was $5,069,482, while the MDEP STIF balance was $19,955,898. The STIF and STIP cash equivalent funds have not been rated by a NRSRO. One MDEP manager has a $226,737 cash equivalent investment as of June 30, 2012 in the T. Rowe Price Reserve Investment Fund with an average credit rating of AAA.

Of the 19 individual Investment Policy Statements for the funds categorized as the AOF, nine funds have specific policies associated with credit risk. The remaining funds have no policy addressing credit risk. Two funds require "corporate securities be rated A3/A- or higher by Moody's/S&P rating agencies to qualify for purchase." One fund requires fixed income investments, at the time of purchase, to be rated investment grade as defined either by Moody's or by Standard & Poor's (S&P) rating services. The investment policy, revised in February 2011, states "the maximum fixed income credit risk will be limited to 2% of the total securities portfolio in any one name". Five funds require, at the time of purchase, "the quality rate of any corporate bond shall be in the top of the single-A rating classification or better at the time of purchase (e.g. A1/A+ or higher) and have at least two ratings. Exposure to the securities of any one US Agency is limited to 5% and in no event will an agency security be purchased if it carries a rating that is less than top-rated (AAA) at the time of purchase." One fund requires "fixed income securities must be rated at least A- or A3 at time of purchase."

Asset-backed securities held in the Bond Pools, AOF and STIP portfolios are based on the cash flows from principal and interest payments emanating from a trust containing a pool of underlying auto loan, credit card or other receivables. These securities, while sensitive to prepayments due to interest rate changes, generally have less credit risk than unsecured bonds. Their credit risk is based on the structure itself rather than balance sheet risk. This includes such factors as default rates, overcollateralization and quality of collateral.

Custodial Credit Risk

Deposits

Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. As of June 30, 2012, BOI recorded cash deposits of $8,591,635; of this balance, $1,918,995, represented foreign cash deposits, at fair value, held in sub-custodial banks. These deposits are uninsured and the balances are exposed on the basis of no collateralization.

In November 2008, the Federal Deposit Insurance Corporation's (FDIC) Board of Directors established a program called the 'Temporary Liquidity Guarantee Program' (TLGP). This program was designed to assist in the stabilization of the nation's financial system. Under the Transaction Account Guarantee (TAG) program, a component of the TLGP, the FDIC guarantees all funds held in qualifying noninterest bearing transaction accounts at participating insured depository institutions. Effective June 22, 2010, an amendment to the 12 CFR 370, in part, extended the TAG program until December 31, 2010, with the possibility of an additional extension of up to 12 months upon the determination by the FDIC's Board of Directors. Pursuant to the Dodd-Frank Provision, all funds in noninterest bearing accounts are insured in full by the FDIC from December 31, 2010 through December 31, 2012. Excluding the foreign cash deposits, the remaining custodial bank cash deposits are fully insured by the FDIC. The MTRP interest bearing checking account for the direct real estate investments is insured by the FDIC up to $250,000. BOI does not have a policy addressing deposit custodial risk.

Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, BOI may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2012, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for the Montana Board of Investments and held in the possession of BOI's custodial bank, State Street Bank. The Equity Index funds, US Bank repurchase agreement, real estate, mortgage and loan investments were purchased and recorded in BOI's name. Commingled fund investments are registered in the name of the Montana Board of Investments. BOI does not have a policy addressing custodial risk for investments.

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 US Government are excluded from the concentration of credit risk requirement. In October 2008, the US government extended the explicit guarantee to certain government agencies such as Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (FHLMC-Freddie Mac). Given the explicit guarantee extension, BOI had no concentration of credit risk exposure to Fannie Mae and Freddie Mac in either the Bond Pools or STIP.

Bond Pools
Both the RFBP Core Internal Bond Pool and TFIP Investment Policy Statements (IPS) provide for a 2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities. Also per policy, "the RFBP will not make additional purchases in a credit if the credit risk exceeds 2% of the portfolio at the time of purchase except US Government/Agency securities." The four RFBP external managers are limited to debt obligations of domestic and foreign corporations up to 3% of portfolio assets per issuer.

STIP
The STIP Investment Policy specifies concentration of credit risk exposure by limiting portfolio investment types by 2% per issuer or 3% if the amount is greater than 2% and matures within seven days.

AOF
With the exception of eight funds, the 19 investment policy statements for various AOF state agencies do not address concentration of credit risk. One fund provides for a concentration limitation pertaining to repurchase obligations. The policy for another fund states, "the fixed income holdings rated lower than 'A3 or A- are limited to 25% of the fixed income portfolio at the time of purchase. This same fund is limited to stock investments not to exceed 25% of the book value of its total invested assets. In addition, this fund's and another fund's IPS provides for a 2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities." The policy for five funds sets "investment limits to reduce the risk of loss on individual corporate bonds, investment purchases in any one credit will be limited to 1% of the market value of the fund at the date of purchase or 2% of the lowest projected fund balance before the securities mature, whichever is lower. Limits are also set by corporate bond sector for six funds." Investments by various governmental agencies, pooled as AOF, are excluded from the concentration of credit risk requirement.

There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2012. This concentration of credit risk includes the rated securities from Table 2 – Cash Equivalents and Table 4 – Investments.

Foreign Currency Risk
Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Although the MTIP, RFBP and MTRP do not have a formal policy to limit foreign currency risk, the MTIP policy provides for the "external managers to hedge currency in a defensive manner. The managers are not allowed to engage in currency speculation, such as over-hedging, reverse hedging, cross-hedging or other trading activity not specifically aimed at minimizing risk versus their benchmark or preserving the US dollar value of investments." The Managers' Investment Guidelines provide for currency hedging and emerging market limitations. At the pool level, MTIP will be managed on an un-hedged basis. The MPEP policy does not address foreign currency risk, but identifies "country risk as including all of the risks associated with international alternative investments along with the political, economic and currency risks associated with investing outside of the United States." As of the June 30, 2012 exchange date, BOI's foreign currency exposure by forward contracts, deposits and investment type are reported, in US dollars, at fair value in the tables in section C of this note excluding the foreign investments denominated in US dollars for the American Depositary Receipts (ADRs) and commingled index funds.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with GASB Statement 40, BOI uses effective duration as a measure of interest rate risk for the Bond Pool and AOF portfolios. BOI's analytic software uses "an option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is defined as the average percentage change in a bond's price for a given change in interest rates. Prices move inversely to interest rates. The effective duration method incorporates the effect of embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-through securities, CMO, and ARM securities)." The Bond Pools' duration is to remain within 20% of the established Index duration. Duration for two fixed income external managers must be within 25% of the established Index duration. With the exception of two funds, the AOFs' investment policies do not formally address interest rate risk. One fund limits securities three years to maturity and repurchase agreements seven days to maturity. Another fund's policy sets an average duration range of 2-5 years for fixed income securities except in extraordinary

circumstances where a shorter duration may be advisable. Six funds are described as having the "ability to assume interest rate risk." According to the STIP investment policy "the STIP portfolio will minimize interest rate risk by:

1. structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
2. investing funds primarily in short-term maturities of money market securities; and
3. maintaining a dollar-weighted average portfolio maturity (WAM) of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities)."

The MDEP and MTIP investment portfolios include the external managers' cash equivalents invested in the custodial bank's STIF of $19,955,898 and $5,069,482, respectively. The STIF fund has an effective duration of .09. One MDEP investment manager invested $226,737 in the T. Rowe Price Reserve Investment Fund with duration of .11. The MDEP and MTIP investment policy statements do not address interest rate risk for cash equivalent (debt pool) investments.

The Bond Pools and AOF bonds pay a fixed rate of interest until maturity while floating rate securities pay a variable rate of interest until maturity. As of June 30, 2012, these three portfolios and the STIP portfolio held certain variable rate issues. Interest payments on these securities are based on an underlying proxy, e.g., LIBOR.

As of June 30, 2012, the AOF portfolio held a $10 million par synthetic Collateralized Debt Obligations (CDO) variable rate position in Aria II, 0.00%, October 10, 2012. Although the current interest rate is zero, the variable rate is set to float with the six month LIBOR plus a variable spread on a notional amount percent. A CDO is a structured debt security backed by a portfolio consisting of bonds, loans, synthetic instruments or other structured finance securities issued by a variety of corporate or sovereign obligors. The CDO positions are categorized as rated corporate debt.

Bond Pool and AOF investments are categorized to disclose credit and interest rate risk as of June 30, 2012. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated investment types. If duration has not been calculated, duration is indicated by NA (not applicable).

STIP investments are categorized to disclose credit risk as of June 30, 2012. Credit risk reflects the weighted security quality rating by investment type, as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated. With the exception of one long term rating for the other asset backed investment type, short term credit ratings, provided by S&P's rating services, are presented in Table 2. An A1+ rating is the highest short term rating by the S&P rating service. STIP interest rate risk is determined using the weighted average maturity (WAM) method. The WAM measure expresses investment time horizons—the time when investments are due or reset and payable in days, months or years—weighted to reflect the dollar size of the individual investments within an investment type.

Legal and Credit Risk

STIP

In January 2007, BOI purchased a $25 million par issue of Orion Finance USA. In April 2007, BOI purchased two issues of Axon Financial Funding totaling $90 million par and another $25 million par issue of Orion Finance USA. As of June 30, 2007, these Structured Investment Vehicle (SIV) securities held in the STIP portfolio carried a combined amortized cost of $139,991,131 representing 5.02% of the total portfolio. At the time of purchase and as of June 30, 2007, these four issues received the highest investment grade rating of AAA by Standard & Poor's and Aaa by Moody's. Since June 30, 2008 and through June 30, 2010, these issues carried a D rating by Standard & Poor's. On November 20, 2007, an insolvency event was declared by Axon Financial Funding. Orion Finance USA declared an insolvency event on January 14, 2008. On the January and April 2008 maturity dates, these securities matured at their amortized cost of $140 million. BOI has determined that it is currently in the best interest of the STIP to continue to hold these securities in the investment portfolio. These securities are currently generating cash to be applied to the securities.

Axon Financial Funding payments totaled $27,462,743 since November 2008. On July 6, 2010, Axon Financial Funding foreclosed with the issuance of a promissory note for $66,832,436 from AFF Financing LLC with a July 5, 2011 maturity date. Fiscal year 2012 payments from AFF Financing LLC totaled $8,886,677 consisting of $8,750,806 in principal and $135,871 in interest. On June 20, 2012, BOI elected to extend the AFF Financing LLC promissory note maturity date to July 2, 2013. In June and December 2009, BOI applied $13.5 million, in total, from the STIP reserve to the outstanding principal for the Axon Financial Funding securities. As of June 30, 2012, the AFF Financing LLC, classified as a SIV, has an outstanding amortized cost balance of $37,566,658. Refer to Note 17–Subsequent Events for additional information.

On October 14, 2009, BOI received its initial payment from Orion Finance USA. From this date through November 2010, payments from Orion Finance USA included principal of $13,433,642 and interest compensation of $1,804,738 in excess of the $903,922 accrued interest receivable for a total of $16,142,302. In November 2010, Orion Finance Corporation "granted a security interest in substantially all of its assets (the Collateral) to the Bank of New York Mellon, as Security Trustee." On December 8, 2010, the Security Trustee conducted "a public sale of 60 structured credit and 7 financial securities including but not limited to asset backed securities, collateralized debt obligations, collateralized loan obligations and residential mortgage backed securities included within the Collateral." BOI participated in the sale and collectively holds these individual securities as Orion Finance. From December 2010 through June 2012, BOI received principal and interest payments of $7,559,229 and $928,769, respectively. In June and December 2009, BOI applied $7.5 million, in total, from the STIP reserve to the outstanding principal for the Orion Finance USA securities. As of June 30, 2012, the Orion Finance collective holding, classified as Other Asset Backed, has an outstanding amortized cost balance of $21,507,129. Refer to Note 17–Subsequent Events for additional information.

STIP, Bond Pool and AOF
Fannie Mae and Freddie Mac were put into conservatorship on September 7, 2008.

Bond Pool and AOF
On September 14, 2008, Lehman Brothers filed for Chapter 11 bankruptcy. The Bond Pool and AOF portfolios held a $15 million position in a Lehman Brothers Holdings, Inc., variable rate security with a May 25, 2010 maturity. The AOF portfolio also includes a $5 million position in Lehman Brothers Holdings, Inc., 5% rate, and January 14, 2011 maturity. As of September 30, 2008, the book value of these bond positions was written down to 80% of par. On October 30, 2008, the book value of these bonds was further written down to 65% of par. Four additional write downs occurred during fiscal year 2009. In May 2009, the BOI sold a $5 million position in Lehman Brothers Holdings, Inc., variable rate security, held by the RFBP internal bond pool. This holding, written down to $1 million, was sold at a loss of $312,500. As of June 30, 2011, the book value of the remaining bonds represented 20% of par. Refer to Note 17–Subsequent Events for additional information.

Because Lehman reached an agreement on their bankruptcy, the BOI sold the $5 million AOF position in Lehman Brothers Holdings, Inc. 5% rate, January 14, 2011 maturity at a price of $26 on December 6, 2011. Because the bonds were previously written down to a price of $20, this sale generated a gain of $322,300. On April 18, 2012, BOI received bankruptcy principal payments of $300,344 each on the two remaining variable rate Lehman Brothers Holdings, Inc. securities held in the TFIP and AOF portfolios. These two securities carry a book value of $699,666 each as of June 30, 2012.

A foreign currency forward is a contract to purchase one currency and sell another at an agreed upon exchange rate. Fair value represents the unrealized appreciation/depreciation on foreign currency forward transactions pending as of year-end and is the difference between the execution exchange rate and the prevailing exchange rate as of the report date. Index futures long is an agreement to buy, on a stipulated future date, a specific amount of an indexed financial instrument. Rights represent a privilege granted to existing shareholders to subscribe to shares of a certain security at a specified price. Warrants are a security type, usually issued together with a bond or preferred stock, entitling the owner to purchase additional securities from the issuer.

Credit Risk
Credit risk is the risk that the counterparty will not fulfill its obligations.

STIP Reserve

The STIP Reserve account was established in November 2007. Income is distributed to STIP participants based on accrued interest and discount amortization. To avoid distributing cash to participants based on accrued interest on certain SIVs that may be uncollectible; the accrued interest amount was deposited in this account. Additional accrued income was deposited in the account to pay for any incidental direct expenses incurred as a part of any SIV restructuring activity not to be paid from SIV assets. Accrued income was also deposited in the account to offset any potential principal loss on these securities in the future.

B. Cash/Cash Equivalents

(1) Cash Deposits – The State requires collateralization based on the average daily bank balance in the depository bank holding the main State bank account. For other depository banks, state statutes require collateralization at 50% of the bank balance. The cash deposits amount includes both primary government and component unit deposits.

Table 1 – Cash Deposit Amounts
(in thousands)

	Carrying Amount
Cash held by State/State's agent	$143,281
Uninsured and uncollateralized cash	218
Undeposited cash	345
Cash in US Treasury	129,908
Cash in MSU component units	5,955
Cash in UM component units	9,402
Less: outstanding warrants	(86,446)
Total cash deposits	$202,663

As of June 30, 2012, the carrying amount of deposits for component units was $18,623,614 as included in Table 1.

(2) Cash Equivalents – consists of cash in the State Treasury invested by individual funds in the Short-term Investment Pool (STIP), the State Treasurer's pooled cash account, and in identifiable securities and investments considered to be cash equivalents. Cash equivalents, generally, are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents may be under the control of the Board of Investments (BOI) or other agencies, as allowed by law.

Table 2 - Cash Equivalents
(in thousands)

	Fair Value	Credit Quality Rating	WAM in Days
Asset Backed commercial paper	$ 579,229	A1	29
Corporate commercial paper	68,067	A1	116
Corporate - fixed	23,610	B	214
Corporate - variable	419,480	A3	39
Certificate of deposit – fixed	30,065	A1	66
Certificate of deposit – variable	416,233	A3	37
Other asset backed	21,507	BBB-	NA
US government agency fixed	159,621	A1	352
US government agency variable	502,708	A1	19
Money market fund unrated	347,388	NR	1
Money market fund rated	24,000	A1	1
Repurchase agreement (1)	7,741	NR	NA
Structured investment vehicles (SIV)	37,567	NR	NA
Less: STIP included in pooled investment balance	(53,012)	NR	NA
Total cash equivalents	$ 2,584,204		49
Securities lending collateral investment pool (2)	$ 4,930	NR	*

(1) As of June 30, 2012, the repurchase agreement was collateralized at 102% for $7,895,538 by two Federal Loan Mortgage Corporation Gold securities maturing July 1, 2024 and December 1, 2029. These securities carry an AA+ credit quality rating.

(2) As of June 30, 2012, the fair value of the cash equivalents was $4,830,596. Collateral provided for the cash equivalents totaled $4,930,327 in cash. See also the Table 4 disclosed in Note 3 D – Investments.

* As of June 30, 2012, the Securities Lending Quality Trust liquidity pool has an average duration of 25 days and an average weighted final maturity of 61 days for US dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 606 days for US dollar collateral.

As of June 30, 2012, local governments invested $450,226,142 in STIP. As of June 30, 2012, component units of the State of Montana had investments in cash equivalents with a book value and fair value of $494,678,280.

C. Equity in Pooled Investments

These securities consist of investments held by pooled investment funds. The Montana Domestic Equity Pool (MDEP), Trust Funds Investment Pool (TFIP), Retirement Funds Bond Pool (RFBP), Montana International Equity Pool (MTIP), Montana Private Equity Pool (MPEP), and Montana Real Estate Pool (MTRP) were created to allow qualifying funds to participate in diversified investment pools. Purchases are subject to the statutorily mandated "Prudent Expert Principle" (see Table 3 – Equity in Pooled Investments).

Table 3 – Equity in Pooled Investments
(in thousands)

	Carrying Amount	Fair Value
MDEP:		
Domestic equity pool	$2,518,939	$2,887,850
TFIP:		
Core real estate	92,000	109,071
Corporate bonds (rated)	768,892	825,783
Corporate bonds (unrated)	700	1,125
Municipal government bonds (rated)	1,080	1,085
US government direct obligations	340,187	366,507
US government agencies	575,823	606,833
High yield bonds	96,000	101,715
STIP	33,827	33,827
STIP Structured Investment Vehicle	558	558
RFBP:		
Corporate bonds (rated)	976,043	1,000,786
Corporate bonds (unrated)	20,296	19,683
International Government	6,426	6,229
US government direct obligations	322,677	343,944
US government agencies	455,448	473,084
Montana mortgages	19,604	19,409
Common Stock	373	10
Municipal bonds	1,435	1,619
State Street STIP	45,996	45,996
STIP	12,534	12,534
STIP Structured Investment Vehicle	207	207
MTIP:		
International stock pool	1,220,951	1,234,964
MPEP:		
Private equity pool	894,511	1,017,844
MTRP:		
Real estate pool	666,782	619,907
STIP	5,792	5,792
STIP Structured Investment Vehicle	95	95
Total pooled investments	9,077,176	9,736,457
Pool adjustments (net)	22,926	22,926
Total equity in pooled investments	$9,100,102	$9,759,383

As of June 30, 2012, the fair value of the underlying securities on loan was $760,003,647. Collateral provided for the securities on loan totaled $771,017,476, consisting of $456,226,387 in cash and $314,791,092 in securities.

As of June 30, 2012, component units of the State of Montana had equity in pooled investments with a book value of $5,292,752,592 and a fair value of $7,749,092,691, as included in Table 3.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2012, as required for applicable pools. Credit risk reflects the bond quality rating, by investment type, as of June 30, 2012. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated investment types. If duration has not been calculated, duration is indicated by NA (not applicable).

TFIP
Credit Quality Rating and Effective Duration as of June 30, 2012
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Core Real Estate	$ 109,071	NR	NA
Corporate Bonds (rated)	825,783	A	5.08
Corporate Bonds (unrated)	1,125	NR	NA
High Yield Bond Fund	101,715	B	3.17
Municipal Government Bonds (rated)	1,086	AA	0.09
US Government Direct Obligations	366,507	AA+	7.33
US Government Agency	606,833	AA+	3.77
STIP	34,385	NR	.14
Total fixed-income investments	$2,046,505	AA-	4.90
Securities Lending Collateral Investment Pool	$ 106,454	NR	*

*As of June 30, 2012, the Securities Lending Quality Trust liquidity pool had an average duration of .07 and an average weighted final maturity of .17 for US dollar collateral. The duration pool had an average duration of .09 and an average weighted final maturity of 1.66 for US dollar collateral.

RFBP
Credit Quality Rating and Effective Duration as of June 30, 2012
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate Bonds (rated)	$ 1,000,786	A-	4.65
Corporate Bonds (unrated)	6,229	NR	4.93
International Government	19,683	AA-	4.37
Municipal Government Bonds	1,619	AA+	12.01
US Government Direct Obligations	343,944	AA+	8.06
US Government Agency	473,084	AA	3.88
Montana Mortgages	19,409	NR	NA
State Street Short Term Investment Fund (STIF)	45,996	NR	.09
STIP	12,740	NR	.10
Total fixed-income investments	$1,923,490	AA-	4.56
Common Stock **	10		
Total Investment	$1,923,500		
Securities lending collateral investment pool	$ 138,681	NR	*

*As of June 30, 2012, the Securities Lending Quality D Short Term Investment Fund liquidity pool had an average duration of .10 and an average weighted final maturity of .17 for US dollar collateral. The duration pool had an average duration of .11 and an average weighted final maturity of 3.69 for US dollar collateral.

**Due to a May 2012 bankruptcy restructuring, the RFBP received 259 shares of common stock and 400 warrants for its investments in General Marintime Corporation.

Effective June 30, 2010, the BOI implemented the provisions of GASB Statement No. 53–Accounting and Financial Reporting for Derivative Instruments. The derivative instrument disclosures are described in the following paragraphs. The fair value balances and notional amounts of derivative instruments outstanding as of June 30, 2012, classified by type, and the changes in the fair value of such derivative instruments for the year ended June 30, 2012, as reported in the 2012 financial statements, are as follows (in thousands):

	Change in Fair Value		Fair Value at June 30, 2012		
Investment Derivatives	Classification	Amount	Classification	Amount	Notional
Currency forward contracts	Investment Revenue	$ 1,525	LT debt/equity	$ (316)	34,972
Index futures long	Investment Revenue	(452)	Futures	-	7
Index futures short	Investment Revenue	0			
Rights	Investment Revenue	98	Equity	-	-
Warrants	Investment Revenue	9	Equity	-	400
Total derivatives		$ 1,180		$ (316)	

As of the June 30, 2012 exchange date, BOIs' foreign currency exposure by forward contracts, deposits and investment type are reported, in US dollars, at fair value in the tables below excluding the foreign investments denominated in US dollars for the American Depositary Receipts (ADRs) and commingled index funds.

Foreign Currency Exposure by Country

Foreign Currency Denomination	Currency	Fixed Income	Equities	Private Equity	Real Estate
Australian Dollar	$ 27	$3,822	$20,916	-	-
Brazilian Real	38	4,944	7,171	-	-
Canadian Dollar	67	5,646	22,566	-	-
Danish Krone	50	-	4,651	-	-
Euro	246	1,243	89,277	$15,609	$19,638
Hong Kong Dollar	96	-	35,426	-	-
Hungarian Forint	-	-		-	-
Indonesian Rupiah	1	-	1,345	-	-
Israeli Shekel	-	-	63	-	-
Japanese Yen	667	-	71,740	-	-
Korean Fortnit	-		13,258		
Malaysian Ringgit	25	-	3,796	-	-
Mexican Peso	327	4,028	2,689	-	-
New Zealand Dollar	-		-	-	-
Norwegian Krone	14	-	5,618	-	-
Philippine Peso	4	-	57	-	-
Polish Zloty	99		852	-	-
Singapore Dollar	8	-	8,312	-	-
South African Rand	11	-	3,199	-	-
South Korean Won	-	-	-	-	-
Swedish Krona	19	-	5,959	-	-
Swiss Franc	79	-	18,721	-	-
New Taiwan Dollar	1	-	5,918	-	-
Thailand Baht	-	-	7,126	-	-
Turkish Lira	-	-	1,174	-	-
UK Pound Sterling	140		74,490	-	-
Total Cash and Securities	$1,919	$19,683	$404,324	$15,609	$19,638

Maximum Loss before and after Netting and Collateral *(in thousands)*

Maximum amount of loss BOI would face in case of default of all counterparties i.e. aggregated (positive) fair value of Over-the-Counter positions as of June 30, 2012.	$	498
Effect of collateral reducing maximum exposure		-
Liabilities subject to netting arrangements		-
Resulting net exposure	$	498

Counterparty Name	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
Citi Group Global	43%	A-	A	Baa2
State Street Bank	10%	AA-	A+	Aa2
Deutsche Bank London	1%	A+	A+	A2
Credit Suisse London	8%	A+	A	A1
Westpac Banking Corp	8%	AA-	AA-	Aa2
Morgan Stanley Capital	5%	A-	A	Baa1
JP Morgan Chase Bank	25%	A+	A+	Aa3

D. Investments

Article VIII of Montana's Constitution, with supporting statutes, authorizes the Board of Investments (BOI) to manage the State's unified investment program. Long-term investments are administered by the following agencies, as allowed by state law, Title 17, Chapter 6, Part 201, MCA:

Long-term Investments

Department	Percent Administered
Board of Investments	68.77%
PERA (Public Employee Retirement Administration)	18.94
Board of Housing	3.81
College Savings Plan	4.42
Montana State University/University of Montana	1.16
Other (1)	2.90
Total	100.00%

(1) Other consists of the Commissioner of Higher Education, the Department of Administration, the Department of Natural Resources and Conservation, the Department of Public Health and Human Services, and the Department of Revenue.

BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to BOI's custodial bank or trustee. Amortized cost, or carrying value, represents the original cost, adjusted for premium and discount amortization where applicable.

The PERS Defined Contribution Retirement Plan and the deferred compensation plan's fixed assets were invested and managed on behalf of the plans by Pacific Investment Management Company (PIMCO) and State Street Bank Kansas City (SSKC) and a third-party insurer, Aegon. The third party record keeper, Great-West Retirement Services, tracks and reports the daily trading and valuations of all investment options, including the assets held by the individual mutual fund companies. When participants invest in the fixed investment, they are guaranteed a rate of return. The PERS-DCRP fixed money is invested in a PIMCO mutual fund. The minimum average portfolio quality must be an A rating; the minimum issue quality must be a BB- rating; and the minimum commercial paper quality must be A2/P2. Variable investments are held and managed by a selection of retail and institutional mutual funds, which cover all standard asset classes and categories. VEBA (Voluntary Employee Benefit Association) investments are made in mutual fund equities and mutual fund fixed-income funds. The Montana 529 College Savings Plan is invested in Vanguard Group mutual funds and College Savings Bank fixed-income products.

Table 4 – Investments
(in thousands)

	Carrying Amount	Fair Value
Primary government		
Corporate bonds (rated) (1)	$ 50,722	$ 51,624
US govt agency (1)	71,777	76,137
US govt direct (rated) (1)	19,389	20,563
Government securities	51,143	17,273
STIP/SIV investments	8,838	8,838
Mortgages	2,647	2,647
Loans	140,770	140,770
Other equities	13,815	47,687
Total	$ 359,101	$ 365,539
Component units/fiduciary funds		
Corporate bonds (rated) (1)	$ 639,939	$ 682,944
Corporate bonds (unrated)	700	1,125
US govt agency (1)	265,433	287,915
US govt direct (rated) (1)	148,231	168,076
STIP/SIV Investments	11,809	11,809
Other equities	100,063	141,840
Deferred compensation	331,808	376,263
Defined contribution	71,811	83,334
529 College Savings Plan	94,142	94,142
VEBA	2,448	2,595
Investments of MSU component units	149,963	149,963
Investments of UM component units	170,525	170,525
Other	105,035	115,122
Total	$ 2,091,907	$ 2,285,653
Total investments (1)	$ 2,451,008	$ 2,651,192
Securities lending collateral investment pool (2)	$ 183,364	$ 183,364

(1) The credit quality rating and duration are included below for the rated investments.

(2) As of June 30, 2012, the Securities Lending Quality Trust liquidity pool had an average duration of .07 and an average weighted final maturity of .17 for U.S. dollar collateral. The duration pool had an average duration of .09 and an average weighted maturity of 1.66 for U.S. dollar collateral.

As of June 30, 2012, the fair value of the investments on loan was $238,431,373. Collateral provided for the investments on loan totaled $243,704,444 consisting of $183,363,686 in cash and $60,340,758 in securities.

All Other Funds - Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2012
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate Bonds (Rated) (1)	$ 733,456	A	3.66
Corporate Bonds (Unrated) (1)	1,125	NR	NA
US Government Direct Obligations (1)	192,864	AA+	5.13
US Government Agency(1)	395,661	AA+	3.27
US Bank Sweep Repurchase Agreement (1)(2)	7,741	NR	0
Total	$1,330,847	AA-	3.90

(1) These rated securities are reported on both Table 2–Cash Equivalents and Table 4–Investments.

(2) The US Bank repurchase agreement, per contract, was collateralized at 102% for $7,895,538 by two Federal Home Loan Mortgage Corporation Gold securities maturing July 1, 2024 and December 1, 2029. This security carries AA+ credit quality ratings.

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE

A disaggregation of the net receivables and accounts payable (by fund type) as of June 30, 2012, follows (amounts in thousands):

A. Receivables

	Governmental Funds					
	General	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental
Licenses and permits	$ -	$ 4,823	$ -	$ -	$ -	$ -
Taxes	237,875	87,981	-	4,564	-	1,219
Charges for services/ fines/forfeitures	104	11,287	3,905	-	-	-
Investment income	414	4,929	-	3,295	4,113	982
Contributions/ premiums	-	21,129	-	-	-	-
Reimbursements/ overpayments	8,095	6,027	484	-	-	-
Grants/ contracts/ donations	-	32	2	-	-	-
Other	3,124	180	15,595	-	-	4,330
Total receivables	249,612	136,388	19,986	7,859	4,113	6,531
Less: allowance for doubtful accounts	(7,710)	(14,674)	(1,795)	-	-	-
Receivables, net	$ 241,902	$ 121,714	$ 18,191	$ 7,859	$ 4,113	$ 6,531

	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Charges for services	$ -	$ -	$ 21,593	$ 361
Investment income	-	11,821	70	357
Contributions/premiums	5,695	-	4,622	2,023
Reimbursements/ overpayments	13,065	-	-	-
Other	-	-	36	12
Total receivables	18,760	11,821	26,321	2,753
Less: allowance for doubtful accounts	(7,612)	-	(232)	(3)
Receivables, net	$ 11,148	$ 11,821	$ 26,089	$ 2,750

B. Payables

	Governmental Funds				
	General	State Special Revenue	Federal Special Revenue	Land Grant Permanent	Nonmajor Governmental
Tax refunds	$ 137,891	$ -	$ -	$ -	$ -
Vendors/individuals	60,439	115,285	137,048	-	1,842
Payroll	13,532	12,827	4,696	-	15
Accrued interest	-	-	-	4,019	-
Payables, net	$ 211,862	$ 128,112	$ 141,744	$ 4,019	$ 1,857

	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Vendors/individuals	$ 3,934	$ 7	$ 12,197	$ 9,104
Payroll	-	16	527	2,073
Accrued interest	-	76	1	14
Payables, net	$ 3,934	$ 99	$ 12,725	$ 11,191

NOTE 5. CAPITAL ASSETS

Changes in capital asset balances for the fiscal year ended June 30, 2012, are reflected in the following table (in thousands):

Governmental Activities	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not being depreciated:				
Land	$ 582,129	$ 20,453	$ (1,785)	$ 600,797
Construction Work In Progress (2)	506,349	466,919	(301,790)	671,478
Easements	119,021	1,881	-	120,902
Museum & Art	64,505	184	(6)	64,683
Other	10,045	978	-	11,023
Total Capital Assets not being depreciated	1,282,049	490,415	(303,581)	1,468,883
Capital assets being depreciated:				
Infrastructure	4,075,338	434,994	(305,266)	4,205,066
Land Improvements	36,854	4,102	(57)	40,899
Buildings/Improvements	522,108	44,412	(17,450)	549,070
Equipment	333,164	29,724	(15,418)	347,470
Easements - Amortized	1,960	-	(72)	1,888
Other	4,637	424	-	5,061
Total Capital Assets being depreciated	4,974,061	513,656	(338,263)	5,149,454
Less Accumulated Depreciation for:				
Infrastructure	(1,343,982)	(180,509)	148,212	(1,376,279)
Land Improvements	(10,036)	(1,890)	25	(11,901)
Buildings/Improvements	(259,633)	(23,964)	6,093	(277,504)
Equipment	(218,550)	(21,174)	11,834	(227,890)
Other	(4,172)	(186)	-	(4,358)
Total accumulated depreciation	(1,836,373)	(227,723)	166,164	(1,897,932)
Total capital assets being depreciated net	3,137,688	285,933	(172,099)	3,251,522
Intangible Assets	35,728	8,105	(15,491)	28,342
Governmental activities capital assets net	$ 4,455,465	$ 784,453	$ (491,171)	$ 4,748,747

(1) The increases and decreases noted above include adjustments related to prior periods and corrections of errors.
(2) Beginning balance has been adjusted due to error in prior year.

(Continued)

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Business-type activities				
Capital assets not being depreciated:				
Land	$ 800	$ -	$ -	$ 800
Construction Work In Progress	2,703	-	(869)	1,834
Other (2)	3,206	318	(132)	3,392
Total Capital Assets not being depreciated	6,709	318	(1,001)	6,026
Capital assets being depreciated:				
Infrastructure	951	-	-	951
Land Improvements	3,830	-	-	3,830
Buildings/Improvements	7,454	45	-	7,499
Equipment	8,370	1,154	(298)	9,226
Total Capital Assets being depreciated	20,605	1,199	(298)	21,506
Less Accumulated Depreciation for:				
Infrastructure	(611)	(19)	-	(630)
Land Improvements	(872)	(149)	-	(1,021)
Buildings/Improvements	(4,926)	(179)	-	(5,105)
Equipment	(4,993)	(714)	222	(5,485)
Total accumulated depreciation	(11,402)	(1,061)	222	(12,241)
Total capital assets being depreciated net	9,203	138	(76)	9,265
Intangible Assets	51	-	(28)	23
Business Type activities capital assets net	$ 15,963	$ 456	$ (1,105)	$ 15,314

(1) The increases and decreases noted above include adjustments related to prior periods and corrections of errors.

Depreciation expense was charged to governmental functions as follows (in thousands):

	Amount
General government	$ 16,304
Public safety	6,749
Transportation (including depreciation of the highway system maintained by the state)	190,968
Health and human services	410
Education	577
Natural resources (including depreciation of the state's dams)	12,068
Depreciation and amortization on capital assets held by the States internal service funds is charged to the various functions based on their usage of the assets.	647
Total depreciation expense - governmental activities	$ 227,723

Depreciation expense was charged to business-type activities as follows (in thousands):

	Amount
Liquor Stores	$ 110
State Lottery	458
Other Enterprise Funds	214
Prison Funds	279
Total Depreciation Expense - Business-Type Activities	$ 1,061

The Governmental and Business-type depreciation expenses noted above include adjustments related to prior periods and correction of errors.

NOTE 6. RETIREMENT PLANS

A. General

The Public Employees' Retirement Board (PERB), a discretely presented component unit of the State of Montana, administers eight defined benefit plans: Public Employees' Retirement System-Defined Benefit Retirement Plan (PERS-DBRP), Judges' Retirement System (JRS), Highway Patrol Officers' Retirement System (HPORS), Sheriffs' Retirement System (SRS), Game Wardens' and Peace Officers' Retirement System (GWPORS), Municipal Police Officers' Retirement System (MPORS), Firefighters' Unified Retirement System (FURS), and Volunteer Firefighters Compensation Act (VFCA). The PERB also administers two defined contribution plans: The Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) and the Deferred Compensation Plan (457). The PERB prepares a publicly issued comprehensive annual financial report that includes financial statements and required supplementary information for PERS-DBRP, JRS, HPORS, SRS, GWPORS, MPORS, FURS, VFCA, as well as the two defined contribution plans, PERS-DCRP and Deferred Compensation Plan. Separately issued financial statements can be obtained at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131.

The financial statements for PERS-DBRP include activity for the defined benefit and the associated education fund. The PERS-DCRP financial statements include activity for the defined contribution and the associated education and disability funds.

The Teachers Retirement System (TRS) is a discretely presented component unit of the State of Montana and a defined benefit plan, administered by the Teachers Retirement Board. The plan prepares a publicly issued comprehensive annual financial report that includes financial statements and required supplementary information for TRS. Separately issued financial statements can be obtained at 1500 Sixth Avenue, P O Box 200139, Helena, MT 59620-0319.

The funding policies for each plan provide for periodic employer and employee contributions (except VFCA) at rates specified by state law. An actuary determines the actuarial implications of the funding requirement in an annual actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the Entry Age Actuarial Cost Method, with both normal cost and amortization of the unfunded actuarial liability determined as a level percentage of payrolls.

All pension plans provide retirement, disability, and death benefits to the plan members and their beneficiaries. A summary of the plan eligibility and benefits are found on the Summary of Defined Benefit Plan Provisions on the following pages. Benefits are established by state law and can only be amended by the Legislature.

B. Actuarial Status of Plans

The Montana Constitution, Article VIII, Section 15 states that public retirement systems shall be funded on an actuarially sound basis. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost, in addition to amortizing the unfunded liability over a period not to exceed 30 years.

The statutory funding rate is tested in the valuation of each public retirement plan to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. As of June 30, 2012, the Public Employees Retirement System-Defined Benefit Retirement Plan (PERS-DBRP), Sheriffs Retirement System (SRS), Game Warden & Peace Officers Retirement System (GWPORS), Highway Patrol Officers' Retirement System (HPORS) and Teachers Retirement System (TRS) were not in compliance and do not amortize within 30 years.

C. Public Employee Defined Benefit Retirement Plans.

(1) State as the Single Employer

JRS – Judges' Retirement System – The JRS is a single-employer defined benefit plan established in 1967, and governed by Title 19, Chapters 2 & 5 of the MCA. This system provides benefits for all Montana judges of the district courts, justices of the Supreme Court, and the Chief Water Judge or Associate Water Judge. Benefits are established by state law and can only be amended by the Legislature. The JRS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits are on the following pages.

HPORS – Highway Patrol Officers' Retirement System – The HPORS is a single-employer, defined benefit plan established July 1, 1945, and governed by Title 19, Chapters 2 & 6 of the MCA. This system provides retirement benefits to all members of the Montana Highway Patrol, including supervisory personnel. Benefits are established by state law and can only be amended by the Legislature. The HPORS 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 for death and disability are vested immediately. All other rights are vested after five years of service. A brief summary of eligibility and benefits are found on the Summary of Defined Benefit Plan Provisions on the following pages.

Eligible members, retired prior to July 1, 1991, or their survivors may be eligible for an annual supplemental lump-sum payment distributed each September. Many factors must be considered for eligibility, including the number of years the recipient has received a service retirement or disability benefit, the recipient's age, and whether the recipient is employed in a position covered by a retirement system under Title 19. This lump-sum payment is funded by a portion of the fees collected from drivers' license and duplicate drivers' license application fees requested by the PERB from the general fund. The average annual supplemental payment for non-GABA retirees was $2,773 in September 2012. This enhancement is limited to non-GABA (Guaranteed Annual Benefit Adjustment) retirees.

Single Employer Pension Plan
Schedule of Funding Progress
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
JRS						
6/30/2012	63,195	46,190	(17,005)	136.81%	6,193	(274.60)%
HPORS						
6/30/2012	96,655	167,824	71,169	57.59%	13,618	522.62%

Multiyear schedule can be found in the Required Supplemental Information (RSI) section.

Single Employer Systems Pension Plan Information:

	JRS (1)	HPORS
Contributions (in thousands)		
Employer	$ 1,598	$ 4,966
Employee	447	1,272
State (General Fund)		269
Actuarial valuation date	6/30/2012	6/30/2012
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of payroll open	Level percentage of payroll open
Remaining amortization period	0 years	49.7 years
Asset valuation method	4-year smoothed market	4-year smoothed market
Actuarial assumptions:		
Investment rate of return	7.75%	7.75%
Projected salary increases	4.00%	4.00%
includes inflation factor	3.00%	3.00%
Merit	None	0.00%-7.30%
Benefit adjustments		
GABA	3% after 1 year.	3% after 1 year.
Non-GABA	Biennial increase to salary of active member in like position	2% per year of service not to exceed 5% for probationary officer's base pay.

(1) Assets are larger than the past service liability, creating an unfunded credit; the credit is amortized over future costs.

(2) State as an Employer Contributor to Cost-Sharing Multiple-Employer Plan

A summary of government employers participating in PERS-DBRP, SRS, GWPORS, MPORS, FURS, TRS, and VFCA by employer type at June 30, 2012, follows:

Employers	PERS-DBRP	SRS	GWPORS	MPORS	FURS	TRS	VFCA
State agencies	34	1	4		1	9	
Counties	55	56					
Cities/towns	98			31	16		
Rural Fire Districts					7		
Colleges/universities	5		3			5	
Highs School	6						
School districts	230					353	
Other Agencies	110						
Participating Companies							217
Total	538	57	7	31	24	367	217

A brief summary for all pension plans of eligibility and benefits are found on the Summary of Defined Benefit Plan

PERS-DBRP – Public Employees Retirement System - Defined Benefit Retirement Plan – The PERS-Defined Benefit Retirement Plan (DBRP) 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.

All new members from the universities also have a third option to join the university system's Optional Retirement Program (ORP). For members that choose to join the PERS-DCRP or the ORP, a percentage of the employer contribution will be used to maintain the funding of the PERS-DBRP. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

SRS – Sheriffs Retirement System – The SRS is a multiple-employer, cost-sharing defined benefit plan established July 1, 1974, and governed by Title 19, Chapters 2 & 7, MCA. This plan provides retirement benefits to all Department of Justice criminal and gambling investigators hired after July 1, 1993, all detention officers hired after July 1, 2005, and to all Montana sheriffs. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

GWPORS – Game Wardens & Peace Officers Retirement System – The GWPORS is a multiple-employer, cost-sharing defined benefit plan established in 1963 and governed by Title 19, Chapters 2 & 8, MCA. This system provides retirement benefits to all persons employed as a game warden, warden supervisory personnel, or state peace officer. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

MPORS – Municipal Police Officers Retirement System – The MPORS is a multiple-employer, cost-sharing defined benefit plan established in 1974 and is governed by Title 19, Chapters 2 & 9 of the MCA. This plan covers all municipal police officers employed by first- and second-class cities and other cities that adopt the plan. Benefits are based on eligibility, years of service, and compensation. Rights for death and disability are vested immediately for any active member. All other rights are vested after five years of service.

As of July 1, 2002, eligible members of MPORS have the opportunity to participate in the Deferred Retirement Option Plan (DROP) by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 9, part 12, MCA. An eligible member must have completed at least 20 years of membership service. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During the participation in the DROP, all mandatory contributions continue to be made to the retirement plan. A monthly benefit is calculated based on salary and years of service to the date as of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated.

FURS – Firefighters Unified Retirement System – The FURS is a multiple-employer, cost-sharing defined benefit plan established in 1981, and governed by Title 19, Chapters 2 & 13, MCA. This system provides retirement benefits to firefighters employed by first- and second-class cities, other cities and rural fire district departments that adopt the plan, and to firefighters hired by the Montana Air National Guard (MANG) on or after October 1, 2001. Benefits are based on eligibility, years of service, and compensation. Rights for death and disability are vested immediately for any active or retired member. All other member rights are vested after five years of service.

VFCA – Volunteer Firefighters Compensation Act – The VFCA is a statewide retirement and disability plan. This compensation plan was established in 1965 and is governed by Title 19, Chapter 17, MCA. All members are unpaid volunteers and the State of Montana is the only contributor to the plan. The VFCA provides pension, disability, and survivorship benefits for all volunteer firefighters who are members of qualified volunteer fire companies in unincorporated areas, towns or villages and includes volunteer fire departments, fire districts, and fire service areas under the laws of the State of Montana. Benefits are based on eligibility and years of service. Member rights are vested after ten years of credited service. VFCA also provides limited benefits for death or injuries incurred in the line of duty. A member who chooses to retire and draw a pension benefit may return to service with a volunteer fire department without loss of benefits. A returning retired member may not be considered an active member accruing credit for service.

TRS – Teachers Retirement System – The Teachers' Retirement Board is the governing body of a mandatory multiple-employer cost-sharing defined benefit pension plan, which provides retirement services to persons in Montana employed as teachers or professional staff of any public elementary or secondary school, community college, or unit of the university system. TRS as an employer does not participate in the plan and acts only as the administrator of the plan.

The plan's actuary has determined that as of July 1, 2012, the current employer contribution rate of 9.85% plus the General Fund contribution of 2.49% of members' salaries are not sufficient to meet the actuarial cost. The remaining amortization period based on the actuarial asset valuation method is infinite. The July 1, 2012 market value of assets is $80.2 million more than the actuarial value of assets. If the market value of assets was used, the amortization period would be 99 years. The unfunded actuarial accrued liability of $1,962.71 billion is included in the retirement plan's schedule of funding progress.

D. Public Employee Defined Contribution Retirement Plans

PERS-DCRP – Public Employees Retirement System - Defined Contribution Retirement Plan – The PERS Defined Contribution Retirement Plan (DCRP) is a multiple employer plan established July 1, 2002 and governed by Title 19, Chapters 2 & 3, MCA. This plan is available to eligible employees of the State, Montana University System, local governments, and school districts. All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the PERS-DBRP by filing an irrevocable election. Members may not be members of both the defined contribution and defined benefit retirement plans. Member and employer contribution rates are established by state law and may be amended only by the Legislature. At June 30, 2012, there were 2,032 active plan members.

The employer rate of 7.17% is allocated as follows: 4.19% to the member's retirement account, 2.64% to the defined benefit plan choice rate, 0.04% to the defined contribution education fund and 0.30% to the long term disability plan.

457 – Deferred Compensation Plan – The Deferred Compensation (457) Plan is a voluntary supplemental retirement savings plan established in 1974. The Deferred Compensation Plan is governed by Title 19, Chapter 50, MCA, in accordance with Internal Revenue Code (IRC) §457. This plan is available to all employees of the State, Montana University System, and contracting political subdivisions. Assets of the Deferred Compensation Plan are required to be held in trusts, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries.

The record keeper for the plan is Great-West Retirement Services (Great-West). Participants elect to defer a portion of their salary, within Internal Revenue Code limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed, provided IRS-specified criteria are met. At June 30, 2012, there were 8,156 participating plan members.

E. Optional Retirement Program

ORP – Optional Retirement Program – Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, Chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-

CREF); only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members, who did not elect the ORP participate in the Teachers' Retirement System or the Public Employees' Retirement System benefit plans. Beginning July 1, 1993, membership in the ORP was mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan. Each employer in the MUS shall contribute to the TRS a supplemental employer contribution currently at a rate of 4.72% of the total compensation of employees participating in the Optional Retirement Program (ORP).

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. The MUS records employee/employer contributions, and remits monies to TIAA-CREF. Combined contributions cannot exceed 13% of the participants compensation (MCA §19-21-203). Higher education units record employee/employer contribution expenditures in the affected higher education sub-fund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire-transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF.

Employee contributions were 7.044%; employer contributions were 5.956%, including 1% contribution from the Board of Regents. The total contribution was 13%.

F. Summary of Significant Accounting Policies

The pension trust funds' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period in which they are earned and become measurable. Benefits and refund distributions are recognized when due and payable in accordance with the terms of each plan. Expenses are recognized in the period incurred.

G. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments, as authorized by state law, for the defined benefit retirement plans in investment pools. Each plan owns an equity position in the pools and receives proportionate investment income from the pool in accordance with respective ownership. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on a discounted cash flow. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services.

For details on investments, see Note 3, section D.

H. Long-term Contracts for Contributions

The Montana Legislature enacted a provision of the Employee Protection Act (EPA) (Title 19, Chapter 2, Part 706, MCA), related to the Employee Protection Act, allowing state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their employer pay a portion of the total cost of purchasing up to three years of "1-for -5"additional service. The employees participating under section 19-2-706, MCA increased from 209 in fiscal year 2011 to 217 in fiscal year 2012.

The employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the Public Employee Retirement Board (PERB) on the unpaid balance. Total contributions received (including interest) during fiscal year 2012 totaled $128,352. The outstanding balance at June 30, 2012, totaled $48,108.

Schedule of Contribution Rates
Fiscal Year 2012

PERS-DBRP

Member	**6.900%**	For members hired prior to 7/1/ 2011.
	7.900%	For members hired on or after 07/1/ 2011 [19-3-315(1)(a)(i) & (ii), MCA]
Employer	**7.170%**	State & University
	7.070%	Local Governments
	6.800%	School Districts (K-12) [19-3-316, MCA]
State	**0.100%**	Local Government payroll - paid from the General Fund [19-3-319, MCA]
	0.370%	School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]

MPORS

Member	**7.000%**	Hired after 6/30/1975 & prior to 7/1/1979 & not electing GABA [19-9-710(b), MCA]
	8.500%	Hired after 6/30/1979 & prior to 7/1/1997 & not electing GABA [19-9-710 (c) MCA]
	9.000%	Hired after 6/30/1997 & members electing GABA [19-9-710(d), MCA] & 19-9-710(2),MCA]
Employer	**14.410%**	[19-9-703, MCA]
State	**29.370%**	Of salaries paid from the General Fund [19-9-702, MCA]

FURS

Member	**9.500%**	Hired prior to 7/1/1997 & not electing GABA [19-13-601(2)(a), MCA]
	10.700%	Hired after 6/30/1997 & members electing GABA [19-13-601(2)(b), MCA]
Employer	**14.360%**	[19-13-605, MCA]
State	**32.610%**	Of salaries paid from the General Fund [19-13-604, MCA]

SRS

Member	**9.245%**	[19-7-403, MCA]
Employer	**10.115%**	[19-7-404, MCA]
State	**n/a**	

HPORS

Member	**9.000%**	Hired prior to 7/1/1997 & not electing GABA
	9.050%	Hired after 6/30/1997 & members electing GABA [19-6-402, MCA]
Employer	**26.150%**	[19-6-404(1), MCA]
	10.180%	Of salaries paid from the General Fund [19-6-404(2), MCA]
State	**n/a**	

JRS

Member	**7.000%**	[19-5-402, MCA]
Employer	**25.810%**	[19-5-404, MCA]
State	**n/a**	

Schedule of Contribution Rates
Fiscal Year 2012 *(continued)*

GWPORS		
Member	**10.560 %**	[19-8-502, MCA]
Employer	**9.000%**	[19-8-504, MCA]
State	**n/a**	

VFCA		
Member	**n/a**	
Employer	**n/a**	
State	**5.000%**	Of fire insurance premiums - paid from the General Fund [19-17-301, MCA]

PERS-DCRP		
Member	**6.900%**	For members hired prior to 7/1/2011.
	7.900%	For members hired on or after 7/1/ 2011 [19-3-315(1)(a)(i) & (ii), MCA]
Employer	**7.170%**	State & University
	7.070%	Local Governments
	6.800%	School Districts (K-12) [19-3-316, MCA]
State	**0.100%**	Local Government payroll - paid from the General Fund
	0.370%	School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]

TRS		
Member	**7.150%**	[19-20-602, MCA]
Employer	**9.850%**	State & University [19-20-605, MCA]
	7.470%	Contribution of total earned compensation of school district, an education coop., a county, or a community college. [19-20-605, MCA]
State	**0.110%**	Of members' salaries [19-20-604, MCA]
	2.380%	Contribution of the total earned compensation of school district and community college active members [19-20-607, MCA]

Pension Plan Information
Schedules of Employer Contribution and Other Contributing Entities
(in thousands)

System	Fiscal Year Ended June 30	Annual Required Contributions	Percentage Contributed	Annual Required State Contribution	Percentage Contributed
SINGLE EMPLOYER SYSTEMS:					
JRS (1) (2)	2012	137	1,162.61%		
HPORS (2)	2012	4,348	114.21%	269	100.00%
MULTIPLE EMPLOYER SYSTEMS:					
PERS-DBRP	2010	132,004	60.46%	537	100.00%
	2011	144,957	54.56%	546	100.00%
	2012	148,104	53.68%	536	100.00%
SRS	2010	7,735	72.88%		
	2011	8,747	68.75%		
	2012	9,512	63.37%		
GWPORS	2010	4,918	73.45%		
	2011	4,903	71.85%		
	2012	4,843	71.65%		
MPORS	2010	3,897	176.04%	10,932	100.00%
	2011	4,626	122.58%	11,594	100.00%
	2012	5,047	119.97%	12,274	100.00%
FURS	2010	850	603.27%	10,871	100.00%
	2011	1,342	373.29%	11,365	100.00%
	2012	1,512	349.25%	11,797	100.00%
VFCA –	2010			1,575	100.00%
(Nonemployer	2011			1,596	100.00%
Contributor)	2012			1,635	100.00%
TRS	2010	90,947	98.30%		
	2011	91,859	98.30%		
	2012	108,984	81.90%		

(1) The actuarial value of assets is greater than the actuarial accrued liabilities for FY2007- FY2010. The funding excess is large enough so that the sum of normal cost and the amortization of the funding excess are negative. Common actuarial practice is to set the ARC at zero. (No employer contribution would be required for these years.)

(2) Additional years in RSI, for Single Employer Systems.

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2012

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
PERS-DBRP	**Hired prior to 7/1/ 2011** – HAC during any consecutive **36** months or shorter period of total service of compensation paid to the member **Hired on or after 07/1/ 2011** – HAC during any consecutive **60** months Or shorter period of total service of compensation paid to the member	**Hired prior to 7/1/2011** – **Age 60**, **5** years of membership service – **Age 65**, regardless of membership service – **Any age**, 30 years of membership service **Hired on or after 7/1/ 2011** – **Age 65**, **5** years of membership service – **Age 70**, regardless of membership service	– 5 years membership service
MPORS	**Hired prior to 7/1/1977** – Average monthly compensation of final year of service **Hired on or after 7/1/1977** – FAC for last consecutive 36 months	**Service retirement** – **20 year**s of membership service, regardless of age **Early retirement** – **Age 50**, **5** years of membership service	– 5 years membership service
FURS	**Hired prior to 7/1/1981 and not electing GABA** – (HMC) **Hired on or after 7/1/1981 & electing GABA** – HAC during any consecutive 36 months	**Service retirement** – **20 years** of membership service, regardless of age **Early retirement** – **Age 50, 5** years of membership service.	– 5 years membership service
SRS	**Hired prior to 7/1/2011** – HAC during any consecutive 36 months **Hired on or after 7/1/2011** – HAC during any consecutive 60 months	**Service retirement** – **20 years** of membership service regardless of age **Early retirement** – **Age 50, 5** years of membership service, actuarially reduced	– 5 years membership service

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2012 *(continued)*

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
HPORS	– HAC during any consecutive **36** months	**Service retirement** – **20 years** of membership service, regardless of age **Early retirement** – **5 years** of membership service, actuarially reduced from age 60	– 5 years membership service
JRS	**Hired prior to 7/1/1997 and non-GABA** – monthly compensation at time of retirement **Hired on or after 7/1/1997 or electing GABA** – HAC during any consecutive 36 months (relates directly to monthly benefit formula)	**Service retirement** – **Age 60, 5** years of membership service **Involuntary retirement** – **Any age** with **5** years of membership service – involuntary termination, actuarially reduced	– 5 years membership service
GWPORS	**Hired prior to 7/1/2011** – HAC during any consecutive 36 months **Hired on or after 7/1/2011** – HAC during any consecutive 60 months	**Service retirement** – **Age 50, 20** years of membership service; **Early retirement (reduced benefit)** – **Age 55**, vested members who terminate employment prior to **20** years of membership service	– 5 years membership service

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2012 ***(continued)***

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
VFCA		**Normal retirement** – **Age 55, 20** years of credited service (full benefit) – **Age 60, 10** years of credited service (partial benefit) **Additional Benefits** – As of April 25, 2005, all retirees receive a benefit equal to $7.50 per month for each year of credited service, up to 30 years of Service (maximum benefit $225) – Members who retire on or **after** 7/1/2011 and have greater than 30 years of credited service will receive $7.50 per month for each additional year of credited service after 30 years if the pension trust fund is actuarially sound, amortizing any unfunded liabilities in 20 years or less. This determination will be made annually and a member's benefit will remain capped at $225 a month (30 years of credited service) if the amortization period grows to greater than 20 years	– 10 years of credited service
TRS	**FAC** during any consecutive 3 years.	**Normal retirement:** – **Age 60, 5** years of service, or any age with at least with at least 25 years of service. Vested employees may employees may retire at or after age 50 and receive reduced benefits. – Vested employees may retire at or after **age 50** and receive reduced benefits.	– 5 years membership service

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2012 *(continued)*

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
PERS-DBRP	**For members hired prior to July 1, 2011:** **If less than 25 years of membership service the greater of** **- 1/56** of HAC multiplied by years of service credit - or the actuarial equivalent of double the member's regular contributions plus interest plus the actuarial equivalent of any additional contributions plus interest **If 25 years of membership service or more** **- 1/50** of HAC multiplied by years of service credit - or the actuarial equivalent of double the member's regular contributions plus interest plus the actuarial equivalent of any additional contributions plus interest . **For members hired on or after July 1, 2011:** **If less than 10 years of membership service, the greater of** - **1.5%** of HAC multiplied by years of service credit - or the actuarial equivalent of double the members - regular contributions plus the interest plus the - actuarial equivalent of any additional - contributions plus interest.	**For retired members who have been retired year equal to** - **3.0%** for members hired before July 1, 2007 - **1.5%** for members hired on or after July 1, 2007	.

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2012 *(continued)*

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
PERS-DBRP	**If between 10 and 30 years of membership service, the greater of** - **1/56** of HAC multiplied by years of service credit - or the actuarial equivalent of double the members - regular contributions plus the interest plus the - actuarial equivalent of any additional - contributions plus interest. **If 30 Years of membership service or more, the Greater of** - **1/50** of HAC multiplied by years of service credit - or the actuarial equivalent of double the members - regular contributions plus the interest plus the - actuarial equivalent of any additional **For members that retired prior to October 1, 2011** The actuarial equivalent of the accrued portion of the Service retirement benefit that would have been payable to the member commencing at age 60 or upon Completion of 30 years of membership with the exception that the benefit must be reduced by multiplying 0.5% for the first 60 months and 0.3% for the next 60 Months by the number of months by which the Retirement date proceeds the date at which the member would have attained age 60 or completed 30 years of membership service		

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2012 *(continued)*

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
PERS-DBRP	**For members hired on or before June 30, 2011** The actuarial equivalent of the accrued portion of the service retirement benefit that would have been payable to the member commencing at age 60 or upon completion of 30 years of membership service with the exception that the benefit must be reduced using actuarially equivalent factors based on the most. recent valuation **For members hired on or after June 30, 2011** The actuarial equivalent of the accrued portion of the service retirement benefit that would have been payable to the member commencing at age 65 with the exception that the benefit must be reduced using actuarially equivalent factors based on the most recent valuation		
MPORS	**Hired before, July 1, 1977** – **2.5%** of average monthly compensation of final year of service multiplied by years of service credit **Hired on or after , July 1, 1977** – **2.5%** of FAC multiplied by years of service credit	**Hired after June 1, 1997 or those electing GABA** – After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	**Hired before July 1, 1997 and not electing GABA** – the monthly retirement, disability or survivor's benefit may not be less than 1/2 the compensation of a newly confirmed police officer in the current fiscal year in the city or town from which the member was last employed.

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2012 *(continued)*

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
FURS	**Members hired prior to July 1, 1981 and not electing GABA are entitled to the greater of** – **2.5%** of HMC times year of service credit; (1) if less than 20 years of service, 2% of HMC multiplied by years of service credit (2) if greater than or equal to 20 years of service, credit, 50% of HMC plus 2% of HMC multiplied by years of service credit in excess of 20 years. **Members hired on or after July 1, 1981 and those electing GABA** – **2.5%** of HAC multiplied by years of service credit.	**For retired members who became active members on or after July 1, 1997** – Who elected to be covered under this provision and who have been retired at least 12 months, GABA will be made each year equal to 3%	**If hired before July 1, 1997 and member did not elect GABA** – the monthly retirement, disability or survivor's benefit may not be less than ½ the compensation of a newly confirmed firefighter employed by the city that last employed the member.
SRS	– **2.5%** of HAC multiplied by years of service credit	**For retired members who have been retired At least 12 months, GABA equal to** – **3.0%** for members hired **before** July 1, 2007 – **1.5%** for members hired **on** or **after July 1, 2007.**	
GWPORS	– **2.5%** of HAC multiplied by years of service credit	**For retired members who have been retired at least 12 months, GABA will be made each year equal to** – **3.0%** for members hired before July 1, 2007 – **1.5%** for members hired on or after July 1, 2007	

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2012 *(continued)*

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
HPORS	– **2.5%** of HAC multiplied by years of service	**GABA will be made each year equal to 3%** – For retired members who became active members on or after July 1, 1997 – Those who elected to be covered under this provision and who have been retired at least 12 months	**Hired prior to July 1, 1997** – Monthly benefits for non-GABA members are increased each July when they fall below a statutorily guaranteed minimum. – Any annual increase is limited to 5.0% over the current benefit and may not exceed 60% of the current base salary of a probationary officer – For non-GABA members who retired prior to July, 1 1991, and meet eligibility requirements, a lump sum payment will be made each year based on the increase in the Consumer Price Index
JRS	– **3.1/3%** per year of current salary – or (HAC) for the first 15 years of service credit and 1.785% per year of the current salary – or (HAC) for service credit over 15 years	**GABA will be made each year equal to 3%** – For retired members who became active members on or after July 1, 1997 – Those who elected to be covered under this provision and who have been retired at least 12 months	**Hired prior to July 1, 1997** – Who did not elect GABA, the current salary of an active member in the same position is used to recalculate the monthly benefits
VFCA	– **$7.50 per month** for each year of credit for service – For VFCA members retiring **prior** to July 1, 2011 maximum service is 30 years. – For VFCA members retiring **on or after** July 1, 2011, I will receive $7.50 per month for each additional year of credited service after 30 years. – **Restriction**: A retiree's benefit will be capped at or reduced to, $225 a month (30 years of credited service) if at any time the amortization period becomes greater than 20 years. – **Age 55** with **20** years of service credit or age 60 with 10 years of service credit.		

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2012 *(continued)*

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
TRS	– **1.6667%** of average final compensation (AFC) per year of service	**GABA of 1.5% is payable each January** – if the retiree has received at least 36 monthly retirement benefit payments prior to January 1 of the year in which the adjustment is to be made.	

- Final Average Compensation (FAC), Highest Monthly Compensation (HMC), Highest Average Compensation (HAC), Guaranteed Annual Benefit Adjustment (GABA)

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General

The State of Montana and the Montana University System (MUS) provide optional postemployment health care benefits in accordance with Montana Code Annotated, Title 2, Chapter 18, Section 704 to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions, and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement plan (See Note 6). Medical, dental, and vision benefits are available through this plan.

In accordance with Montana Code Annotated, Title 2, Chapter 18, Section, 704, the Montana University System (MUS) provides post-retirement health insurance benefits to employees who are eligible, to receive retirement benefits from the Teachers Retirement System, the Public Employees' Retirement System, or an annuity under the Optional Retirement Plan, and have been employed by the MUS for at least five years, are age 50, or have worked 25 years with the MUS. Spouses, unmarried dependent children, and surviving spouses are also eligible.

B. Plan Description

Both the State of Montana and MUS are agent multiple employer plans. The participating employers under the State Plan are Facility Finance Authority, Housing Authority, Public Employees' Retirement System (PERS), Montana State Fund (New Fund), and Teachers' Retirement System (TRS). The participating employers under the MUS plan are Dawson Community College (Dawson CC), Flathead Valley Community College (Flathead CC), Miles Community College (Miles CC), Office of Commissioner on Higher Education (OCHE), Montana State University – Billings (MSU-Billings), Montana State University – Bozeman (MSU-Bozeman), Great Falls College MSU, Montana State University – Northern (MSU-Northern), University of Montana – Montana Tech (UM-MT Tech), Helena College UM, University of Montana – Missoula (UM-Missoula), and University of Montana – Western (UM-Western). Each participating employer is required by GASB Statement No. 43 to disclose additional information regarding funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

Both of these plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements and footnotes. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the State or any of its component units.

Both plans are reported as agency funds. There are no assets or liabilities as only contributions collected and distributions made are reflected in these funds. See the funding policy that follows.

C. Basis of Accounting

OPEB is recorded on an accrual basis for all enterprise and internal service funds as well as component units. OPEB is recorded on a modified accrual basis for the governmental funds. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The plan document states "an employee enrolled in the State Plan who (a) is eligible to draw a state retirement benefit at the time he or she leaves active state employment; and (b) makes arrangements with the EBB (Employee Benefits Bureau) within 60 days of the date active employee coverage ends to continue post-retirement coverage, may continue with the state group on a self-pay basis, retroactive back to the date active employee coverage was lost." Therefore, the plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2012.

The number of state participants as of December 31, 2011 follows:

	State Plan Participants						
Enrollment	State	Facility Finance Authority	Housing Authority	PERS	Montana State Fund	TRS	Total
Active employees	11,992	3	17	33	255	16	12,316
Retired employees, spouses, and surviving spouses (1)	4,925	-	2	-	18	2	4,947
Total	16,917	3	19	33	273	18	17,263

(1) Due to the inability to determine, without considerable effort, the last place an employee worked before retiring, the bulk of retires are listed as State regardless of their last place of employment; however, on a forward going basis the last place an employee worked before retiring will be identifiable. Since we are unable to account for all retired employees last place of employment cumulatively an allocation method was used based on the accrued liability and ARC for active employees by component unit for the determination of the inactive liability by component unit.

The number of MUS participants as of June 30, 2012 follows:

	MUS Plan Participants										
Enrollment	MSU-Billings	MSU-Bozeman	GFC-MSU	MSU-Northern	OCHE	HC-MSU	UM-Msla	UM-MT Tech	UM-Western	Other	Total
Active employees	479	2,755	112	190	85	85	2,334	403	178	292	6,913
Retired employees, spouses, and surviving spouses	160	800	20	84	32	23	697	127	87	82	2,112
Total	639	3,555	132	274	117	108	3,031	530	265	374	9,025

D. Funding Policy

The State of Montana and MUS pay for postemployment health care benefits on a pay-as-you-go basis. Montana Code Annotated, Title 2, Chapter 18, Part 8 gives authority for establishing and amending the funding policy to the Department of Administration. Montana Code Annotated, Title 20, Chapter 25, Part 13 gives authority for establishing and amending the funding policy to the Board of Regents for the MUS group health insurance plan.

As of June 2012, the State plan's administratively established retiree medical premiums vary between $285 and $982 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between $34.90 and $59.36 and vision premiums vary between $7.64 and $22.26 depending on the coverage selected.

The MUS plan's administratively established retiree medical premiums vary between $278 and $1,051 per month and are revised annually. The plan provides different coinsurance amounts depending on whether members use preferred, non-preferred, or other hospitals. After an annual $500 deductible for most non-Medicare-eligible retirees, the MUS plan reimburses 75% for the first $10,000 in medical claims and 100% thereafter. There is an optional $1,000 deductible plan available to retirees with a reduced premium. After the $1,000 annual deductible, the plan pays 75% of the first $20,000 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2012, 2,112 retirees (policyholders) were enrolled in the MUS plan.

E. Annual Other Postemployment Benefit Cost and Contributions

The annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45, represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The current

State's ARC of $32.975 million is 6.32% of annual covered payroll. The State's annual covered payroll is $521.881 million. The current MUS's ARC of $12.056 million is 3.24% of annual covered payroll. The MUS's annual covered payroll is $371.802 million.

There are no long-term contracts for contributions to either plan. Contributions refer to contributions made in relation to the ARC. Since the State and MUS do not fund their plans, no contributions were made. Though payments are made on behalf of the retiree, the payment amounts are withheld from the retiree's retirement paycheck, thus net contributions on behalf of the retiree are zero.

The following table presents the OPEB cost for the year, the amount contributed, and changes in the OPEB plan for fiscal year 2012 (in thousands):

Annual OPEB Cost

	State	MUS
Annual required contribution/OPEB cost	$ 32,975	$12,056
Interest on net OPEB obligation	6,870	3,310
Annual OPEB cost	39,845	15,366
Contributions made	-	-
Increase in net OPEB obligation	39,845	15,366
Net OPEB obligation – beginning of year	161,652	77,875
Net OPEB obligation – end of year	$201,497	$93,241

Note that the amounts in the State and MUS Annual OPEB Cost table above include component unit portions and therefore, will not match the Statement of Net Assets.

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2012 through 2010 was as follows (in thousands):

Contribution Ratio

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State	6/30/2012	$32,975	0%	$201,497
	6/30/2011	33,986	0%	161,652
	6/30/2010	33,986	0%	122,462
MUS	6/30/2012	12,056	0%	93,241
	6/30/2011	19,290	0%	77,875
	6/30/2010	19,290	0%	56,196

F. Actuarial Methods and Assumptions

As of December 31, 2011, the State's actuarially accrued liability (AAL) for benefits was $337.274 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $337.274 million, and the ratio of the UAAL to the covered payroll was 64.63%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the December 31, 2011, actuarial valuation, the projected unit credit funding method was used for the State. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is initially 10.00% for both medical and prescription drugs. Both medical costs and prescription drugs are reduced by decrements to a rate of 5.00%, medical costs after eleven years and prescription drugs after six years.

As of June 30, 2012, the MUS actuarially accrued liability (AAL) for benefits was $109.831 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $109.831 million, and the ratio of the UAAL to the covered payroll was 29.54%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the June 30, 2012, actuarial valuation, the projected unit credit funding method was used for MUS. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is 10.00% for both medical and prescription drugs, initially. Both medical costs and prescription drugs are reduced by decrements to a rate of 5.00%, medical costs after ten years and prescription drugs after five years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations, and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Projections of benefits for financial reporting progress are based on the substantive plan (the plan as understood by the employer and the plan members), and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

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.

Additional information as of the latest actuarial valuation for the State follows:

Other Postemployment Benefits
State Agent Multiple Employer Plan

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands)		
Before Medicare eligibility	$8,397	$2,823
After Medicare eligibility	3,486	2,753
Actuarial valuation date	1/1/2011 (ARC calculated through December 31, 2011)	
Actuarial cost method	Projected unit credit funding	
Amortization method	Level percent of payroll, open	
Remaining amortization period	30 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 43 or 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	2.50%	
Participation		
Future retirees	55%	
Future eligible spouses	60%	
Marital status at retirement	70%	

Additional information as of the latest actuarial valuation for MUS follows:

Other Postemployment Benefits
MUS Agent Multiple Employer Plan

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands)		
Before Medicare eligibility	$7,035	$2,883
After Medicare eligibility	3,679	2,066
Actuarial valuation date	7/1/2011 (ARC Calculated through June 30, 2012)	
Actuarial cost method	Projected unit credit funding	
Amortization method	Level percent of payroll, open	
Remaining amortization period	30 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 43 or 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	2.50%	
Participation		
Future retirees	55%	
Future eligible spouses	60%	
Marital status at retirement	70%	

G. Termination Benefits

During the year ended June 30, 2012, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for nine employees provided for up to eight months and one-time incentive payments for five employees. In determining termination benefit liability related to the continued coverage of group health insurance benefits, it was assumed that these benefits would be paid for the entire period of the arrangement.

During the year ended June 30, 2012, Component Units of the State made the following termination benefit arrangements: continued coverage of health insurance benefits for three employees provided for up to six months.

During the year ended June 30, 2012, the cost of termination benefits were $76,070 and $13,194 for the State and its Component Units, respectively.

NOTE 8. RISK MANAGEMENT

There are three primary government public entity risk pools and one claims-servicing pool that are reported within the enterprise fund. These pools include Hail Insurance, the Montana University System (MUS) Group Insurance Plan, the MUS Workers Compensation Program, and the Subsequent Injury claims-servicing pool. Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. The primary government reports its own risk management activity within two internal service funds: Employees Group Benefits Plans and Administration Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage for the last three years. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 1,925 policies during the 2012 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain that exceeds 5% destruction by hail.

The fund recorded a liability of $749,855 based on estimated claims through June 30, 2012. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Montana University System (MUS) Group Insurance Plan – This plan was authorized by the Board of Regents to provide medical, dental, prescription drug and related group benefits coverage to employees of the Montana University System and affiliates, as well as their dependents, retirees, and COBRA members. The MUS Group Insurance Plan is fully self-insured, except for life insurance, long-term care, long-term disability, accidental death and dismemberment, and vision insurance. Delta Dental administers the dental plan and MedImpact is the administrator for the prescription drug program. Allegiance Benefit Plan Management is the claims administrator for the self-insured indemnity plan and a managed care plan. New West Health Services, Blue Cross and Blue Shield of Montana, and Peak Health administer claims for the three other managed care plans. Allegiance has a contract for utilization management; the utilization management program consists of hospital pre-authorization and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund. The claims liability is calculated by Actuaries Northwest and estimated to be $6.900 million as of June 30, 2012, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Montana University System (MUS) Workers Compensation Program – This plan was formed to provide self-insured workers compensation coverage for employees of the Montana University System. The Montana University System Board of Regents provides workers compensation coverage under Compensation Plan Number One (Title 39, Chapter 71, Part 2101, MCA). The program is self-insured for workers compensation claims with losses in excess of $500,000 per occurrence and $1,000,000 per aircraft occurrence covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of $1,000,000 above the self-insured amount of $500,000. During fiscal year 2012, the program ceded $249,016 in premiums to reinsurers.

Premium rates for all participating campuses are established by the MUS Workers Compensation Program Committee based on actuarial calculations of premium need and premium rate. Premium rates are adjusted periodically based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the MUS Workers Compensation Program in the period for which coverage is provided. Members may be subject to supplemental assessments in the event of deficiencies. The program considers anticipated investment income in determining if a premium deficiency exists.

The fund recorded a liability of $10.837 million for estimated claims at June 30, 2012. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, and claims reserve development including the effects of inflation and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

(4) Subsequent Injury – This fund provides benefits to certified disabled workers who are subsequently injured on the job and entitled to benefits under the Workers Compensation Act at the time of the subsequent injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104-week time period.

Workers compensation insurance premium experience modification factors are influenced only by the two-year limitation. This fund provides employers with a potential incentive for hiring a person with a certified disability.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding fiscal year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis total population of registered Subsequent Injury Fund participants. As of June 30, 2012, the amount of this liability was estimated to be $3.453 million. Since each insurer is responsible for its own claim liabilities, the pool is acting as a claims service and there is no transfer or pooling of risk.

(5) Changes in Claims Liabilities for the Past Two Years – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

	Hail Insurance		MUS Group Insurance Plan		MUS Workers Compensation	
	2012	2011	2012	2011	2012	2011
Unpaid claims and claim adjustment expenses at beginning of year	$ 164	$ 238	$ 7,600	$ 6,600	$ 9,784	$ 8,801
Incurred claims and claim adjustment expenses: provision for insured events of the current year	4,608	6,309	60,803	67,327	3,158	3,608
Increase (decrease) in provision for Insured events of prior years	173	640	-	-	239	(53)
Total incurred claims and claim adjustment expenses	4,781	6,949	60,803	67,327	3,397	3,555
Payments: Claims and claim adjustment expenses attributable to insured events of the current year	(3,857)	(6,144)	(61,503)	(66,327)	(709)	(742)
Claims and claim adjustment expenses attributable to insured events of prior years	(338)	(879)	-	-	(1,635)	(1,830)
Total payments	(4,195)	(7,023)	(61,503)	(66,327)	(2,344)	(2,572)
Total unpaid claims and claim adjustment expenses at end of year	$ 750	$ 164	$ 6,900	$ 7,600	$ 10,837	$ 9,784

B. Entities Other Than Pools

(1) Employee Group Benefits Plans – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracts with Blue Cross/Blue Shield, New West, and MedImpact for administration of its self-insured plans. Contributions are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments, and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2012, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, as well as other actuarially determined liabilities, were $11.900 million based on a formula provided by Actuaries Northwest, a consulting actuarial firm, of which $10.353 million is estimated to be paid in fiscal year 2013.

(2) Administration Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure of housing units. The State self-insures the $1,000,000 deductible per occurrence for most property insurance, as well as various deductible amounts for other state property. The State also self-insures against losses of property below $1,000,000 of value, with state agencies paying the first $1,000. Commercial property insurance protects approximately $4.8 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of $1,000,000 for earthquake and $1,000,000 for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Internal Service Fund.

An annual actuarial study, prepared by Towers Watson Company, and issued for the accident period July 1, 2002 through June 30, 2012, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2012, estimated claims liability was $19.297 million.

(3) Changes in Claims Liabilities for the Past Two Years – These funds establish liabilities for both reported and incurred, but not reported, claims. Grandfathered claims are not included as they relate to future claims not yet incurred. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands).

	Employees Group Benefits Plans		Administration Insurance Plans	
	2012	2011	2012	2011
Amount of claims liabilities at the beginning of each fiscal year	$ 12,528	$ 11,460	$ 17,962	$ 16,674
Incurred claims:				
Provision for insured events of the current year	135,460	124,335	6,096	5,697
Increases (decreases) in provision for insured events of prior years	(551)	(1,226)	28,893	(53)
Total incurred claims	134,909	123,109	34,989	5,644
Payments:				
Claims attributable to insured events of the current year	(123,994)	(114,349)	(1,026)	(1,560)
Claims attributable to insured events of prior years	(11,643)	(7,692)	(32,628)	(2,796)
Total payments	(135,537)	(122,041)	(33,654)	(4,356)
Total claims liability at end of each fiscal year	$ 11,900	$ 12,528	$ 19,297	$ 17,962

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2012, the Department of Transportation had contractual commitments of approximately $249.1 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matched with state special revenue funds.

B. Capital Construction

At June 30, 2012, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $13.8 million for capital projects construction. The primary government will fund $10.9 million of these projects, with the remaining $2.9 million coming from the state university system.

C. Coal Tax Loan and Mortgage Commitments

The Board of Investments (BOI) makes firm commitments to fund loans from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to BOI policies. As of June 30, 2012, the BOI had committed, but not yet purchased, $9,211,025 in loans from Montana lenders, compared to $15,834,799 as of June 30, 2011. In addition to the above commitments, lenders had reserved $6,775,000 for loans as of June 30, 2012, compared to $8,189,839 on the same date in 2011.

The BOI makes reservations to fund mortgages from the state's pension funds. Prior to May 1, 2011, the Public Employees' and Teachers' retirement funds provided resources for residential mortgage purchases. Effective May 1, 2011, the Montana Retirement Funds Bond Pool holds the residential mortgages in its portfolio. As of June 30, 2012 and 2011, there were no mortgage reservations. Effective December 1, 2005, all BOI residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a mortgage reservation and a funding commitment.

D. Department of Corrections Bond Commitments

At June 30, 2012, the outstanding tax-exempt bonds issued by the Montana Facility Finance Authority were issued in the amount of $29,148,959, of which $3,161,386 is scheduled to be paid by June 30, 2013. These bonds have been issued to facilities operating treatment and prerelease centers. The Department of Corrections agrees to provide payment on behalf of the contractors for the total principal and interest payments in regard to these outstanding bonds.

E. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unrestricted net assets in the accompanying financial statements as follows (in thousands):

Proprietary Fund Commitments

Enterprise funds	Amount
Liquor Warehouse	$ 40
Local Government Audits	25
Prison Industries	50
Secretary of State	13
State of Lottery	83
Other	376
Subtotal-Enterprise funds	$ 587

Internal service funds	
Administration Central Services	43
Administration Supply	75
Buildings & Grounds	629
Commercial Central Services	10
Information Technology Services	798
Labor Central Services	59
Payroll Processing	50
Print and Mail	11
Subtotal-Internal service funds	$ 1,675

F. Encumbrances

As of June 30, 2012, the State of Montana encumbered expenditures as presented in the table below (in thousands):

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Nonmajor Governmental Funds	Total
Encumbrances	$22,670	$30,718	$48,677	$1,273	$103,338

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment, and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected, in the normal course of operations, that most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2012, were as follows (in thousands):

Fiscal Year Ending June 30	Governmental Activities	Business-Type Activities
2013	$ 399	$ 96
2014	212	92
2015	105	88
2016	57	59
2017	39	-
2018-2022	-	-
Total minimum pmts	812	335
Less: interest	(89)	(32)
Present value of minimum payments	$ 723	$ 303

Assets acquired under capital leases for the primary government by asset class were as follows (in thousands):

Asset Class	
Buildings	$ 2,389
Equipment	3,988
Less: Accum Depreciation	(4,158)
Net Book Value	$ 2,219

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2012 totaled $21,306,714. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Governmental Activities	Business-Type Activities
2013	$ 21,212	$ 555
2014	18,389	549
2015	15,570	522
2016	10,195	478
2017	10,599	478
2018-2022	18,939	827
2023-2027	3,439	-
Thereafter	862	-
Total future rental payments	$ 99,205	$ 3,409

NOTE 11. STATE DEBT

A. General Information

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. No state debt shall be created unless authorized by a two-thirds vote of the members of each house of the legislature or a majority of the electors voting thereon. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-term Debt

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes.

During fiscal year 2012, the State issued two revenue anticipation notes one of which will be used for wastewater projects. The proceeds of the other revenue anticipation note was used for water system improvements and to fund local governments to rehabilitate water systems. The State issued two bond anticipation notes and one revenue anticipation note during fiscal year 2011, that were active in fiscal year 2012, which pertained to drinking water and irrigation. The proceeds were used for water system improvements and to loan funds to local governments to rehabilitate irrigation and water systems. The following schedule summarizes the activity for the year ended June 30, 2012 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
BANs				
Irrigation – 2011A	1,179	21	-	1,200
Irrigation – 2011B	1	799	315	485
RANS				
Drinking Water – 2011A	850	150	1000	-
Drinking Water – 2011B	-	550	-	550
Wastewater – 2011C	-	1,900	1,900	-

The Board of Investments (BOI) of the State of Montana is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than $190 million as amended by the 2007 Legislature. The purpose of the bonds is to provide funds for the BOI to make loans to eligible government units. The bonds are limited obligations of the BOI, payable solely from (1) repayments of principal and interest on loans made by the BOI to participating eligible governmental units, (2) investment income under the indenture, and (3) an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and are included in short-term debt. The amounts issued and outstanding at June 30, 2012, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2012
1997	10,000	$ 9,210
1998	12,500	11,875
2000	15,000	14,470
2003	15,000	14,525
2004	18,500	18,200
2007	15,000	14,775
2010	12,000	11,975
Total		$ 95,030

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2012 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	$ 95,530	$ -	$ 500	$ 95,030

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2012, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments Fiscal Year 2013	Principal Payments In Year of Maturity (2)	Balance June 30, 2012
General obligation bonds						
Drinking Water Revolving Fund (3)	1998F	$ 3,065	3.6-4.85	$ 175	185 (2014)	$ 360
Long-Range Bldg Program	2002B	10,475	3.35-4.7	535	480 (2014)	1,015
Hard Rock Mining Reclamation	2002C	2,500	3.5-4.7	115	200 (2023)	1,685
Long-Range Bldg Program	2003A	9,730	2.37-4.0	480	655 (2024)	6,425
Energy Conservation Program (5)	2003B	1,250	2.0-3.0	140	145 (2014)	285
Water Pollution Control Revolving Fund (3)	2003D	2,730	2.0-3.1	185	190 (2014)	375
Drinking Water Revolving Fund (3)	2003E	1,675	2.0-3.1	110	115 (2014)	225
Long-Range Bldg Program Refunding	2003G	26,610	2.0-5.0	1,950	2,310 (2017)	10,630
Long-Range Bldg Program	2004B	3,125	3.0-4.75	180	170 (2025)	1,985
Long-Range Bldg Program Refunding	2005A	14,945	3.0-5.25	1,385	1,205 (2019)	10,580
Long-Range Bldg Program	2005B	1,670	3.25-4.3	70	120 (2026)	1,300
Energy Conservation Program (5)	2005C	2,500	3.25-4.0	260	290 (2016)	1,100
CERCLA Program (6)	2005D	2,000	3.25-4.3	85	140 (2026)	1,550
Drinking Water Revolving Fund (3)	2005F	3,875	4.0-4.75	245	350 (2021)	2,630
Water Pollution Control Revolving Fund (3)	2005G	2,110	4.0-4.75	135	170 (2019)	1,060
Long-Range Bldg Program Refunding	2005H	10,055	3.0-5.0	930	1,300 (2020)	8,805
Long-Range Bldg Program	2006A	31,350	4.0-5.0	1,530	1,930 (2027)	24,815
Energy Conservation Program (5)	2006B	3,750	4.0-6.0	230	330 (2022)	2,780
CERCLA Program (6)	2006C	1,000	4.0	100	120 (2017)	550
Renewable Resource Program (4)	2006D	950	5.6-6.0	55	90 (2022)	720
Long-Range Bldg Program Refunding	2007A	16,740	4.25-5.0	1,935	2,465 (2018)	13,090
Long-Range Bldg Program	2007D	11,720	4.375-4.75	460	3,865 (2028)	10,060
Long-Range Bldg Program	2008D	3,100	3.375-4.35	120	220 (2028)	2,560
Long-Range Bldg Program Refunding	2010A	20,220	2.0-4.0	3,790	710 (2021)	13,885
Drinking Water Revolving Fund Refunding (3)	2010B	5,400	2.0-4.0	420	110 (2026)	4,920
Water Pollution Control Revolving Fund Refunding (3)	2010C	6,450	2.0-4.0	480	210 (2026)	5,920
Trust Land	2010F	21,000	1.55-4.9	835	1,450 (2031)	20,400
Long-Range Bldg Program	2010G	550	1.5-2.7	55	60 (2021)	510
Renewable Resource Program (Taxable) (4)	2010H	1,000	1.0-3.85	95	115 (2021)	930
Long-Range Bldg Program Refunding	2011D	5,755	3.0 – 3.25	40	720 (2023)	5,755
Total general obligation bonds		$ 227,300		$ 17,125		$156,905

Governmental Activities	Series	Amount Issued	Interest Range (%)(1)	Principle Payments Fiscal Year 2013	Principle Payments In Year of Maturity (2)	Balance June 30, 2012
Special revenue bonds						
State Hospital Project (7)	1997	$ 25,915	4.0-5.05	$ 1,170	1,820 (2022)	14,750
Renewable Resource Program (8)	2001B	1,750	5.2-7.1	90	140 (2020)	910
Renewable Resource Program (8)	2001E	885	2.1-4.85	45	50 (2016)	185
Renewable Resource Program (8)	2001F	900	3.3-6.2	45	75 (2022)	575
Developmental Center Project Refunding (7)	2003	11,510	3.0-5.0	745	970 (2019)	5,960
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	135	215 (2024)	2,050
U.S. Highway 93 GARVEES (9)	2005	122,795	3.65-5.19	8,035	8,835 (2015)	25,290
U.S. Highway 93 GARVEES (9)	2008	44,670	3.5-5.0	2,595	3,925 (2023)	35,020
Broadwater Power Proj Refunding (8)	2010A	10,180	3.0-4.0	1,360	1,605 (2018)	8,855
Renewable Resource Program (8)	2010B	1,730	2.0-3.6	70	115 (2031)	1,660
Renewable Resource Program (Taxable) (8)	2010C	6,720	0.9-4.2	335	1,280 (2031)	6,395
U.S. Highway 93 GARVEE (9)	2012	50,915	0.9-1.9	-	11,040 (2020)	50,915
Total special revenue bonds		$ 280,970		$ 14,625		$152,565
Notes payable						
Water Conservation (Petrolia Project) (10)		50	5.0	2	2 (2016)	10
Middle Creek Dam Project (11)		3,272	8.125	60	222 (2034)	2,477
Tongue River Dam Project (12)		11,300	-	290	290 (2038)	7,533
Total notes payable		$ 14,622		$ 352		$ 10,020
Subtotal governmental activities, before deferred balances						319,490
Deferred amount on refunding						(1,420)
Unamortized discount						(22)
Unamortized premium						12,865
Total governmental activities		$ 522,892		$ 32,102		$ 330,913
Business-type Activities						
Bonds/notes payable						
Economic Development Bonds (13)						
Municipal Finance Consolidation Act Bonds (Irrigation Program) (14)	1988	$ 4,976	6.60-7.75	$ 65	70 (2014)	$ 135
Total bonds/notes payable		4,976		65		135
Total business-type activities		$ 4,976		$ 65		$ 135

(1) The interest range is over the life of the obligation.

(2) Year of maturity refers to fiscal year.

(3) These bonds provide matching funds to enable the State to obtain capitalization grants from the U.S Environmental Protection Agency for water system development loans to state political subdivisions.

(4) The general obligation Renewable Resource Program Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. The bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.

(5) Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.

(6) The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42 United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA

Bonds are secured additionally by a pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event cost recovery payments are insufficient.

(7) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana Developmental Center Project and the Montana State Hospital Project.

(8) Issued by the Department of Natural Resources and Conservation and backed by a pledge of coal severance taxes and project revenues.

(9) The U.S. Highway 93 GARVEES (Grant Anticipation Revenue Vehicles) Bonds were issued for the purpose of improving a 44.8-mile stretch of U.S. Highway 93. Repayment of the bonds is secured by a pledge of certain federal aid revenues.

(10) Loans obtained from Farmers Home Administration for the purpose of rehabilitating the Petrolia Reservoir and Canal in the vicinity of Winnett, Montana (Petrolia Project). A portion of the revenues generated by the facilities is pledged for repayment of the loans.

(11) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation.

(12) Northern Cheyenne Tribe loan to the Montana Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.

(13) Economic Development Bonds & Municipal Finance Consolidation Act Bonds – This program is directed by the Board of Investments, which is attached to the Department of Commerce for administrative purposes. The program assists Montana's small businesses and local governments in obtaining low-cost financing.

(14) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds, and the interest thereon, are payable solely from the collection of a special tax or assessment, which is a lien against real property in the Irrigation District. The Irrigation Bonds are limited obligations of the Board of Investments, due to an irrevocable pledge to lend money for deposit by the trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein, on any payment date. The indenture does not permit the issuance of additional bonds.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2012, were as follows (in thousands):

Governmental Activities

Year Ended June 30	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 17,125	$ 6,331	$ 14,625	$ 6,466	$ 353	$ 45
2014	17,690	5,690	15,260	5,803	355	45
2015	15,905	5,043	15,925	5,113	368	45
2016	14,650	4,398	16,745	4,401	370	45
2017	14,975	3,752	17,405	3,691	371	45
2018-2022	44,620	11,430	63,820	8,107	1,910	224
2023-2027	22,390	4,332	7,075	728	2,017	224
2028-2032	9,550	626	1,710	104	2,156	224
2033-2037	-	-	-	-	1,830	90
2038-2042	-	-	-	-	290	-
Total	$156,905	$ 41,602	$152,565	$ 34,413	$ 10,020	$ 987

Business-type Activities

Year Ended June 30	Economic Development Bonds	
	Principal	Interest
2013	$ 65	$ 8
2014	70	2
Total	$ 135	$ 10

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2012, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Governmental activities						
Bonds/notes payable						
General obligation bonds	$ 174,335	$ 5,755	$ 23,185	$ 156,905	$ 17,125	$ 139,780
Special revenue bonds	169,220	-	16,655	152,565	14,625	137,940
Notes payable	10,369	-	349	10,020	353	9,667
	353,924	5,755	40,189	319,490	32,103	287,387
Deferred amount on refunding	(3,514)	2,094	-	(1,420)	-	(1,420)
Unamortized discount	(28)	6	-	(22)	-	(22)
Unamortized premium	7,790	5,075	-	12,865	-	12,865
Total bonds/notes payable	358,172	12,930	40,189	330,913	32,103	298,810
Other liabilities						
Lease/installment purchase payable	1,536	-	813	723	359	364
Operating lease rent holiday	83	116	34	165	34	131
Compensated absences payable (1)	92,830	49,787	48,264	94,353	49,471	44,882
Early retirement benefits payable (1)	26	48	58	16	2	14
Arbitrage rebate tax payable (1)	108	11	12	107	1	106
Estimated insurance claims (1)	32,362	46,385	47,550	31,197	13,594	17,603
Pollution Remediation	523,338	84,780	58,931	549,187	100,976	448,211
OPEB implicit rate subsidy (2)	155,707	38,358	-	194,065	-	194,065
Total other liabilities	805,990	219,485	155,662	869,813	164,437	705,376
Total governmental activities Long-term liabilities	$1,164,162	$ 232,415	$ 195,851	$1,200,726	$ 196,540	$1,004,186
Business-type activities						
Bonds/notes payable						
Economic Development Bonds	$ 195	$ -	$ 60	$ 135	$ 65	$ 70
Total bonds/notes payable	195	-	60	135	65	70
Other liabilities						
Lease/installment purchase payable	382	-	79	303	81	222
Compensated absences payable	1,553	857	779	1,631	847	784
Arbitrage rebate tax payable	11	-	2	9	-	9
Estimated insurance claims	20,899	1,041	-	21,940	10,203	11,737
OPEB implicit rate subsidy (2)	2,746	1,485	825	3,406	-	3,406
Total other liabilities	25,591	3,383	1,685	27,289	11,131	16,158
Total business-type activities Long-term liabilities	$ 25,786	$ 3,383	$ 1,745	$ 27,424	$ 11,196	$ 16,228

(1) The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The early retirement benefits payable will be liquidated by the general, state special revenue, and federal special revenue funds. The arbitrage rebate tax payable will be liquidated by debt service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.

(2) The OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of an “implicit rate” subsidy in the related financial statements. While this liability is disclosed for financial purposes, it does not represent a legal liability of the State, or any of its component units.

F. Refunded and Early Retired Debt

Prepayments
The Department of Natural Resources and Conservation (DNRC) used current available resources to make the following prepayments on outstanding bonds: $395,000 of general obligation series 1998F; $350,000 of general obligation series 2005G; $545,000 of special revenue series 2001C for payoff; $345,000 of special revenue series 2001E; $270,000 of special revenue series 2004B.

The Department of Transportation (DOT) used current available resources to make the following prepayment on an outstanding bond: $450,000 of special revenue series 2005.

Current Refundings
On July 19, 2011, the DNRC issued general obligation series 2011D Bonds in the amount of $5,755,000 to make an advanced refunding of $5,585,718 series 2002B Bonds. The refunding resulted in an economic gain of $221,375 and a difference in cash flow requirements of $220,839. On May 17, 2012, the DOT issued Grant Anticipation Notes (Highway 93 Advance Construction Project) (GARVEES) in the amount of $50,915,000 to make advanced refunding of the 2005 GARVEE Bonds. The refunding resulted in an economic gain of $3,087,267 and a difference in cash flow of $3,082,206.

Defeased Debt Outstanding
The State of Montana has defeased certain general obligation and special revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2012, $63,635,000 of bonds outstanding was considered defeased.

G. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

Montana Board of Investments (BOI)
Under the Economic Development Act, the BOI is authorized to issue stand-alone industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. At June 30, 2012, industrial revenue bonds outstanding aggregated $151.4 million.

The BOI is also authorized to issue Qualified Zone Academy Bonds (QZAB) under the Municipal Finance Consolidation Act. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2012, QZAB debt outstanding aggregated $10.1 million.

The BOI is also authorized to issue Qualified School Construction Bonds (QSCB) under the Municipal Finance Consolidation Act. The revenues of the borrower are pledged to repay the bonds. At June 30, 2012, QSCB debt outstanding aggregated $8.0 million.

The industrial revenue bonds, QZAB debt, and QSCB debt issued by the BOI does not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana.

Beginning Farm Loan Program
The Montana Department of Agriculture is authorized to request issuance of bonds by the BOI to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2012, was as follows: Hershberger Project – issued $129,412, outstanding $86,801.

H. Estimated Pollution Remediation Obligation

Estimated pollution remediation obligations are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The estimates were derived using the expected cash flows method as well as technical estimates from record of decisions, consent decrees and/or settlement agreements. Factors influencing the estimates are not known at this time. Prospective recoveries from other responsible parties may reduce the State's obligation.

The State's estimated pollution remediation liability as of July 1, 2011 was estimated at $523.3 million. The liability as of June 30, 2012 was $549.2 million. Of this liability, $224.8 million resulted in settlement agreements to provide restoration of natural resources, water supplies and natural resource-based recreational opportunities up to the settlement amount; $276.2 million is based on decrees or settlements for remediation activities. Other estimated liabilities have been recorded for soil and PCB contamination. The estimated pollution remediation liability was recorded in compliance with accounting and reporting standards and does not constitute Montana's total acceptance of the liability or responsibility on these matters.

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

Balances due from/to other funds arise when there is a time lag between the dates that reimbursable expenditures and interfund services provided/used are recorded in the accounting system, and the dates on which payments are made. Balances also arise when there is a time lag between the dates that transfers between funds are recorded, and the dates on which payments are made. Balances due from/to other funds also include the current portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program. Balances due from/to other funds are expected to be repaid within one year from the date of the financial statements.

Balances due from/to other funds at June 30, 2012, consisted of the following (in thousands):

	Due to Other Funds				
	Coal Severance Tax Permanent	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds (3)
Due from Other Funds					
Economic Development Bonds	$ -	$ -	$ -	$ 972	$ -
General Fund	3,850	110	-	46	12,785
Internal Service Funds	42	4	12	5	-
Nonmajor Enterprise Funds	-	1	-	-	-
Nonmajor Governmental Funds	-	-	1,099	-	-
State Special Revenue	-	315	120	13	58
Total	$3,892	$430	$1,231	$1,036	$12,843

	Due to Other Funds (cont)		
	Nonmajor Governmental Funds	State Special Revenue	Total
Due from Other Funds (cont)			
Economic Development Bonds	$ 17	$ 1,950	$ 2,939
General Fund	-	31,247	48,038
Internal Service Funds	-	1	64
Nonmajor Enterprise Funds	-	-	1
Nonmajor Governmental Funds (2)	58	242	1,399
State Special Revenue (1)	1,320	-	1,826
Total	$ 1,395	$ 33,440	$54,267

(1) Total due from the state special revenue fund on the fund financial statement is reported as $6,981,000. The difference of $5,155,000 between the amount reported above of $1,826,000 and the amount reported on the fund financial statement relates to long term receivables. The receivables were recorded in the fund financial statement and the long term liabilities were recorded in the government-wide statement.

(2) Total due from the non-major governmental funds on the financial statements is reported as $4,168,000 The difference of $2,769,000 between the amount reported above of $1,399,000 and the amount reported on the financial statements relates to long term receivables. The receivables were recorded in the fund financial statement and the long term liability was recorded in the government-wide statement.

(3) Total due to the non-major enterprise funds on the fund financial statement is reported as $13,258,000. The difference of $415,000 between the amount reported above of $12,843,000 and the amount reported on the fund financial statement relates to loans payable The liabilities were recorded in the fund financial and the receivables were reported in the government-wide statement.

B. Interfund Loans Receivable/Payable

Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. Interfund loans receivable/payable are expected to be repaid within one year from the date of the financial statements.

Interfund loans receivable/payable at June 30, 2012, consisted of the following (in thousands):

	Interfund Loans Payable					
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue	Unemployment Insurance	Total
Interfund Loans Receivable						
General Fund	$ 46,841	$ -	$ 225	$ 9,056	$ -	$ 56,122
Internal Service Funds	5	-	-	28	-	33
Nonmajor Enterprise Funds	81	-	-	-	-	81
State Special Revenue	60,680	652	3	-	9	61,344
Total	$107,607	$ 652	$ 228	$ 9,084	$ 9	$ 117,580

C. Advances To/From Other Funds

Advances to/from other funds represent the portion of interfund loans that are not expected to be repaid within one year from the date of the financial statements. Advances to/from other funds also include the noncurrent portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program.

Advances to/from other funds at June 30, 2012, consisted of the following (in thousands):

	Advances from Other Funds					
	Federal Special Revenue	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Advances to Other Funds						
Economic Development Bonds	$ -	$ 2,521	$ -	$ 2,235	$11,148	$15,904
General Fund	1,440	-	-	-	566	2,006
Internal Service Funds	-	-	400	-	-	400
Nonmajor Enterprise Funds	75	-	-	-	-	75
Nonmajor Governmental Funds	-	-		-	8,196	8,196
State Special Revenue	970	300	-	13,847	-	15,117
Total	$ 2,485	$ 2,821	$ 400	$16,082	$19,910	$41,698

Additional detail for certain advance balances at June 30, 2012, follows (in thousands):

Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program	
Department	**Balance**
Natural Resources and Conservation	$ 2,235
Environmental Quality	550
Justice	10,598
Transportation	2,521
Total	$15,904

D. Interfund Transfers

Routine transfers between funds are recorded to (1) transfer revenues from the fund legally required to receive the revenue to the fund authorized to expend the revenue, (2) transfer resources from the General Fund and special revenue funds to debt service funds to support principal and interest payments, (3) transfer resources from enterprise funds to the General Fund to finance general government expenditures, and (4) provide operating subsidies.

Interfund transfers for the year ended June 30, 2012, consisted of the following (in thousands):

	Transfers In				
	Coal Severance Tax Fund	Federal Special Revenue Fund	General Fund	Internal Service Funds	Land Grant Fund
Transfers Out					
Coal Severance Tax Fund	$ -	$ -	$25,840	$ -	$ -
Federal Special Revenue Fund	-	-	52	-	-
General Fund	-	-	-	820	1
Internal Service Funds (1)	-	-	1,094	50	-
Land Grant Fund	-	-	1	-	-
Nonmajor Enterprise Funds (2)	-	-	40,101	-	-
Nonmajor Governmental Funds	128	-	-	-	-
State Special Revenue Fund	-	282	19,992	4,350	105
Total	$128	$282	$87,080	$5,220	$106

	Transfers In (cont)			
	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue Fund	**Total**
Transfers Out (cont)				
Coal Severance Tax Fund	$ -	$ 517	$ 11,336	$ 37,693
Federal Special Revenue Fund	44	22,030	8,135	30,261
General Fund	17	17,058	13,070	30,966
Internal Service Funds (1)	-	289	23	1,456
Land Grant Fund	-	606	76,130	76,737
Nonmajor Enterprise Funds (2)	-	-	5,875	45,976
Nonmajor Governmental Funds	-	2,214	25,633	27,975
State Special Revenue Fund	107	6,767	-	31,603
Total	$168	$49,481	$140,202	$282,667

(1) Total transfers-out for internal service funds on the financial statements is reported as $2,304,000. The difference of $848,000 between the amount reported above of $1,456,000 and the amount reported on the financial statements relates to the movement of capital assets between a governmental fund type and the internal service fund type. When assets were transferred between these funds, the transferring fund recorded the net book value of the capital asset as a transfer-out, and the receiving fund type recorded the net book value of the capital asset as a capital contribution.

(2) Total transfers-out for nonmajor enterprise funds on the financial statements is reported as $46,529,000. The difference of $553,000 between the amount reported above of $45,976,000 and the amount reported on the financial statements relates to the movement of capital assets between a governmental fund type and the nonmajor enterprise fund type. When assets were transferred between these funds, the transferring fund recorded the net book value of the capital asset as a transfer-out, and the receiving fund type recorded the net book value of the capital asset as a capital contribution.

NOTE 13. FUND DEFICITS

The following funds have a deficit fund balance/net assets position at June 30, 2012, (in thousands):

Fund Type/Fund		**Deficit**
Enterprise Funds		
Subsequent Injury	$	(2,194)
Internal Service Funds		
Admin Insurance		(16,663)
Admin Central Services		(87)
Warrant Processing		(45)
Justice Legal Services		(337)
Personnel Training		(72)

NOTE 14. MAJOR PURPOSE PRESENTATION

Fund Balances Classifications and Special Revenue by Purpose – The Governmental Accounting Standards Board, in Statement No. 54, requires presentation of governmental fund balances and special revenue fund revenues by specific purpose. In the basic financial statements, the fund balance classifications are presented in the aggregate. The tables presented below further display the fund balances by major purpose for the year ending June 30, 2012.

State Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Licenses/permits	$ 58,863	$ 29,004	$ 23,444	$ 1,425	$ 171	$ 58,840	$ 171,747
Taxes	237,346	3,637	211,940	5	14	13,760	466,702
Charges for services	30,420	16,121	4,882	35,053	906	17,165	104,547
Investment earnings	379	15,568	173	317	1,066	23,235	40,738
Securities lending income	22	174	14	19	10	306	545
Sale of documents/ merchandise/property	1,256	2,253	153	85	205	1,456	5,408
Rentals/leases/royalties	213	29	295	27	5	213	782
Contributions/premiums	21,666	-	-	-	-	-	21,666
Grants/contracts/ donations	2,366	2,469	298	9,204	1,545	3,632	19,514
Federal	10,736	56	-	426	-	-	11,218
Federal indirect recoveries	38	-	41,102	6	-	3,507	44,653
Other revenues	717	1,039	922	(436)	-	157	2,399
Transfers in	31,395	3,874	299	6,510	469	97,655	140,202
Total state special revenue	$ 395,417	$ 74,224	$ 283,522	$ 52,641	$ 4,391	$ 219,926	$ 1,030,121

Federal Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Charges for services	$ 697	$ -	$ -	$ 2,647	$ 35,031	$ 145	$ 38,520
Investment earnings	241	14	-	-	57	-	312
Securities lending income	1	1	-	-	6	-	8
Sale of documents/merchandise/ property	-	-	-	-	-	5	5
Grants/contracts/donations	-	-	-	-	-	139	139
Federal	142,894	10,998	495,142	1,132,327	185,029	92,586	2,058,976
Federal indirect cost recoveries	91	-	-	61,330	599	426	62,446
Other revenues	7	6	-	154	2	10	179
Transfers in	-	3	-	243	-	36	282
Total federal special revenue	$ 143,931	$ 11,022	$ 495,142	$ 1,196,701	$ 220,724	$ 93,347	$ 2,160,867

Governmental Fund Balance By Function
June 30, 2012
(in thousands)

	General	Special Revenue: State	Special Revenue: Federal	Permanent: Coal Severance Tax	Permanent: Land Grant	Nonmajor	Total
Fund balances							
Nonspendable							
Inventory	$ 2,560	$ 22,486	$ -	$ -	$ -	$ -	$ 25,046
Permanent fund principal	-	500	-	527,904	567,081	269,733	1,365,218
Long-term notes/receivables	2,146	-	-	-	-	-	2,146
Prepaid expense	452	1,030	56	-	-	-	1,538
Total nonspendable	5,158	24,016	56	527,904	567,081	269,733	1,393,948
Restricted							
General government	-	3,446	6,069	-	-	959	10,474
Transportation	-	75,518	-	-	-	-	75,518
Health and human services	-	10,178	88	-	-	6,473	16,739
Natural resources	-	646,768	1	-	-	6,410	653,179
Public safety	-	293,884	636	-	-	-	294,520
Education	-	5,666	21,389	-	-	85	27,140
Total restricted	-	1,035,460	28,183	-	-	13,927	1,077,570
Committed							
General government	-	154,121	-	434,739	-	36,572	625,432
Transportation	-	4,304	-	-	-	-	4,304
Health and human services	-	43,952	-	-	-	-	43,952
Natural resources	-	235,385	-	-	-	30,869	266,254
Public safety	-	17,523	-	-	-	639	18,162
Education	-	12,434	-	-	-	-	12,434
Total committed	-	467,719	-	434,739	-	68,080	970,538
Assigned							
General government	-	1,270	-	-	-	20,143	21,413
Transportation	-	26	-	-	-	-	26
Natural resources	-	60	-	-	-	-	60
Public safety	-	-	-	-	-	1,756	1,756
Encumbrances	22,670	-	-	-	-	-	22,670
Total assigned	22,670	1,356	-	-	-	21,899	45,925
Unassigned	451,656	-	-	-	-	-	451,656
Total fund balance	$ 479,484	$ 1,528,551	$ 28,239	$ 962,643	$ 567,081	$ 373,639	$ 3,939,637

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents (Regents), an agency within the State, is the guarantor of loans owned by the Montana Education Student Assistance Corporation (MHESAC), a private non-profit. As of June 30, 2012 The Regents and MHESAC no longer have a common voting board member or a common non-voting officer. Approximately 78.82% of the Regents' outstanding loan volume, or $1,288,799,556, is held by MHESAC.

The Regents, which govern the Montana Guaranteed Student Loan Program (MGSLP), also has an agreement with Student Assistance Foundation of Montana (SAF) to share certain costs for the lease of computer equipment; computer and software maintenance costs; and personnel costs for employees of SAF who perform services that are of direct benefit to MGSLP. Certain SAF personnel are authorized to purchase computer equipment for use by both MGSLP and SAF. Costs for these purchases are covered under an agreement for services between the two entities. During fiscal year 2012, MGSLP's portion of shared costs reimbursed to SAF was $375,996.

The Montana Association of Health Care Purchasers (MAHCP) has a member from the Department of Administration (DOA), Health Care and Benefits Division as well as a member from the Montana University System. Both serve on the board of MAHCP and receive no remuneration for their services. DOA pays this association $1.25 per member per year to maintain its membership as well as a monthly fee of $.64 per member. The monthly fees are payment for data analysis, actuarial analysis, and consulting services performed by association staff on behalf of member employers.

The Montana School for the Deaf and Blind is associated with a foundation, which is a nonprofit organization outside of state government. The school's foundation is governed by a board of directors that yearly approves a budget for the financial support to be provided to the school. This budget defines the allowable expense categories for the year. A school employee is the person approving the expenses to be paid by the foundation based on its budget. The employee submits the approved invoices to the foundation's bookkeeper, who then prepares the checks and submits them to a board member who reviews backup documentation and signs the checks.

NOTE 16. CONTINGENCIES

A. Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

In State of Montana v. Philip Morris, Inc., No. CDV 97-306 (Mont. 1st Jud. Dist. Lewis & Clark County), the State of Montana filed various claims against six tobacco manufacturers seeking recovery of an unspecified amount of damages, penalties, and attorney's fees. The lawsuit was resolved eventually through two settlements. The State first settled its claims against one of the manufacturers, Liggett & Meyers, Inc., for $1 million to be paid over a 20-year period. Next, Montana was among the Settling States that signed onto the 1998 Master Settlement Agreement (MSA) and settled its claims against the remaining manufacturers for a base settlement amount of $832 million payable over 26 years. The base amount was augmented by $90 million in 1999, with the additional amount to be paid in equal installments over a 10-year period beginning in 2007.

The settlement provides that the cigarette manufacturers may offset against their payment in any year certain amounts of money if it is found that the original settling manufacturers (known as OPMs) have lost more than 2% of their market share to non-settling manufacturers (known as NPMs), and that the disadvantages imposed by the settlement were a "significant factor" in the market share loss. The settlement further provides that the offset, known as the "NPM adjustment" may not be taken against the payments to any state that has enacted a "qualifying statute" and diligently enforced the statute during the year in question. Montana enacted such a qualifying statute in 1999, Title 16, Chapter 11, Parts 401 – 404, MCA.

In March 2006, a determination was made pursuant to the settlement that the OPMs had lost sufficient market share in 2003 to trigger an NPM adjustment analysis, and that disadvantages caused by the settlement were a significant factor in the market share loss. Similar findings have been made or agreed to for years 2004 through 2006. The State filed a motion in the lawsuit seeking a declaration that it diligently enforced its qualifying statute during 2003. The OPMs moved to compel arbitration of the question. District Court ordered arbitration, but was overruled on appeal to the Montana Supreme Court. Virtually all of the other Settling States filed similar motions or new actions in their various court systems preferring to litigate their diligent enforcement disputes in court rather than in the tobacco companies' proposed nationwide arbitration. Montana was the only state to prevail on its argument against arbitration before its highest state court. Montana then successfully defended the favorable ruling from a petition for rehearing in Montana and ultimately a *certiorari* petition to the U.S. Supreme Court filed by tobacco companies which the Court rejected.

Simultaneously, arbitration between the other Settling States and the tobacco companies commenced and proceeded to discovery. After the U.S. Supreme Court denied *cert* regarding Montana's participation in the arbitration, the tobacco companies sought and received a stay of Montana's litigation pending completion of the nationwide arbitration, effectively shutting Montana out of any opportunity for input or influence over standards for determining what constitutes "diligent enforcement," and potentially subjecting Montana to whatever standards may ultimately result from the ongoing nationwide arbitration for lack of any alternative interpretative precedent. Thereafter, the Montana Supreme Court granted Montana's writ for supervisory control, overturned the stay, and allowed the State's district court action to proceed through discovery.

The Montana litigation ended with entry of a stipulated consent decree on June 25, 2012, reflecting the tobacco companies' determination after discovery that they would not contest Montana's diligent enforcement during 2003. In the nationwide arbitration, and as applied to Montana's consent decree, a "no contest" determination for an individual state means that state will not participate in the NPM Adjustment for 2003, *i.e.* the no contest state will have no reduction to their annual OPM settlement payments for 2003.

However, the "no contest" for 2003 has no precedential effect in any subsequent year for Montana or any other state's case. Accordingly, Montana will not be subject to the 2003 NPM Adjustment, but the consent decree specifically articulates that Defendants' consent to its terms "is not a factual concession that Montana, in fact, did or did not diligently enforce the Montana Qualifying Statute in 2003 or any other year."

Despite Montana's successful defense of its 2003 enforcement actions, no precedential protections exist, and the State remains vulnerable to further expected, though not yet filed, litigation challenging its diligent enforcement in 2004, 2005, and 2006, for which years the PMs have already received a determination that Master Settlement terms were a "substantial factor" reducing their market share and triggering an NPM Adjustment analysis with the potential to reduce annual payments for those Settling States which failed to diligently enforce their statutes.

Factual arguments exist to show that Montana enacted a qualifying statute within the meaning of the Master Settlement Agreement which was in full force and effect and diligently enforced during 2004-2006 and thereafter to date. However, legal and procedural uncertainties exist that make an adverse determination reasonably possible. An adverse determination on the diligent enforcement issue could result in the loss of some or all of the OPM's annual payments to the State for years 2004 through 2006, which would be recouped through an offset of payments due in future years. The OPMs have asserted claims for NPM adjustments for later years as well. The outcome of these claims is also uncertain.

Montana's participation in the 1998 MSA in Phillip Morris also formed the basis for other lawsuits against the State. On July 1, 2002, a group of cigarette manufacturers and marketers filed suit against the Attorneys General of 31 states, including Montana, in the United States District Court for the Southern District of New York, seeking a declaration that Title 16, Chapter 11, Part 4, MCA, violates several provisions of the United States Constitution, and seeking injunctive relief against the enforcement of the statutes. Grand River Enterprises Six Nations, Ltd., v. Pryor et al., Docket No. 02 CV 5068 (U.S. Dist. Ct., S.D.N.Y.) and appeal from that decision in the United States Court of Appeals for the Second Circuit, Docket Nos. 11-1904 cv and 12-840 cv.

On March 12, 2012, the parties filed a Stipulation of Partial Dismissal in both Second Circuit Dockets (Nos. 11-1904 cv and 12-840 cv) dismissing Montana with prejudice from all claims. On March 29, 2012, the parties filed an Assurance of Voluntary Compliance, Cause No. ADV-2012-246 in the First Judicial District Court of Montana pursuant to which Grand River Enterprises paid into escrow for the benefit of Montana $22,857.33 for back escrow due, and an additional $22,857.33 in civil penalties as a condition of being re-listed on the State of Montana's Tobacco Product Directory as an NPM whose products are approved for sale in Montana. No further potential liability to the State is expected relative to this action. A complaint was filed in July 2009, SBC Archway III, LLC v. State of Montana in Montana First Judicial District Court, Lewis and Clark County, Cause No. BDV 1109-688, arising from the State's termination of three, 30-year "build to suit" leases with the developer following the 2009 legislature's rejection of funding for the leases in the 2010-11 biennium. The developer had purchased the property and prepared architectural plans for the building, but had not yet begun construction of the building at the time the leases were terminated. The developer was seeking damages including the cost of the property acquisition (purchase price of $1.9 million, lost profits for the 30-year lease term, delay damages, and other costs incurred prior to lease termination). The State filed a substantive motion to dismiss the complaint, which was denied by the Court. In April 2012, the State agreed to settle the case for $3 million. On April 9, 2012 the Court approved the settlement and issued a Judgment. The State submitted payment and on July 18, 2012 SBC filed a Satisfaction of Judgment, ending the case.

PPL v. Montana involves ownership of sections of riverbed on the Missouri, Clark Fork and Madison rivers. The case originated in 2003, when a group of parents of school age children sued PPL in Federal Court alleging that the company must pay rent for the use of state owned riverbeds to generate hydroelectric power. After the Federal Court dismissed the case for lack of jurisdiction, PPL filed an action in state district court seeking a declaration that the state could not charge them rent for use of the riverbeds at issue. The state intervened in the case and counterclaimed for a declaration that PPL and its co-plaintiffs unlawfully occupied state lands and must compensate the State land trust on behalf of its public beneficiaries for the use of those lands. The legal test for ownership of the riverbeds is whether the rivers at issue were navigable at the time of statehood. Based upon the historical record, the District Court granted the State summary judgment on the question of navigability and the case proceeded to trial on the issue of compensation for use of trust lands. In June of 2008 the Court issued its ruling and ordered that PPL owed the state almost $41 million for past use of the riverbeds.

PPL appealed the decision to the Montana Supreme Court. The case was briefed and argued before the Court, and in March of 2010, the Montana Supreme Court issued a decision upholding the district court's finding of navigability and determination of compensation.

PPL appealed the case to the United States Supreme Court. The case was briefed and argued, and in February of 2012, the Court reversed the Montana Supreme Court's decision. The United States Supreme Court concluded that the Montana courts had applied an incorrect legal standard for determining a river's navigability. The Court clarified that navigability had to be determined on a segment-by-segment basis. The Court remanded the case for further proceedings, and the case currently is pending in the Montana First Judicial District, Lewis and Clark County, Judge Jeffrey Sherlock presiding. The case number is BDV 2004-846.

The most obvious impact of the Supreme Court's decision is that the State is no longer entitled to the $41 million judgment. The monetary amount that the State may be entitled to depends on the navigability of the rivers, which will have to be determined under the Supreme Court's segment-by-segment approach. Going forward, the litigation will focus on applying the Supreme Court's segmentation approach to determine the navigable reaches of the Madison, Clark Fork, and Missouri Rivers. At this stage, it is difficult to predict an outcome on this litigation.

A less obvious financial impact is the bill of costs that PPL submitted to the district court following the remand. PPL requested that the district court tax the State of Montana with $1,234,057.03 for PPL's costs relating to the appellate proceedings. All but approximately $31,000 relate to premiums that PPL paid for a supersedeas bond in support of staying the $41 million judgment. In May 2012, the State filed its response to PPL's bill of costs and agreed to costs for $31,263.03. However, the State moved the court to deny PPL's request for costs related to the supersedeas bond. The parties stipulated to hold this issue in abeyance until the court is able to rule on all remaining matters in the case. Counsel for the State has agreed to release the supersedeas bond. In the opinion of counsel, there are good legal arguments that support the State's position that it should not be required to pay the supersedeas bond premiums; however, legal and procedural uncertainties exist that make an adverse determination reasonably possible.

Spoklie v. Montana Department of Fish, Wildlife and Parks, Sheridan County Docket No. 11013, is the final pending case challenging the constitutionality of Initiative Measure 143, which banned the issuance of new licenses for game farms in Montana, prohibited the transfer of existing licenses, and prohibited game farm licenses from allowing the shooting of game farm animals on a game farm for a fee or other remuneration. The State moved for summary judgment and that motion is still pending. In the opinion of counsel, good defenses exist to all claims, and the possibility of an outcome adverse to the state is very remote.

Spoklie is the last in a long line of case that were filed after passage of I-143. The following cases have been concluded in favor of the state: Kafka v. Montana Department of Fish Wildlife, and Parks, Hill County Docket No. DV-02-059, Buhmann et al. v. State of Montana et al., Lewis and Clark Docket No. DV-2002-555, Royal Tine Ranch v. State, Flathead County Docket No. DV-02-606C, and Mesaros v. Department of Fish, Wildlife and Parks, Cascade County Docket No. BDV 03-0119. Wallace v. State of Montana, Ravalli County Docket No. 02-254, and Bowman v. Montana Fish, Wildlife and Parks, Fergus County Docket No. DV-2002-02, were previously dismissed without prejudice and have not been refilled.

In October 2008 a lawsuit, Diaz et al. v. Blue Cross and Blue Shield of Montana et al., was filed in the Montana First Judicial District Court, Lewis and Clark County, Cause No. BVD-2008-956, by plaintiffs Jeanette Diaz, Leah Hoffman-Bernhardt, Rachel Laudon, individually and on behalf of others similarly situated, naming Blue Cross and Blue Shield of Montana (BCBS), New West Health Services (New West), Montana Comprehensive Health Association, State of Montana (State) as defendants. The complaint alleges that the defendants have violated the made-whole laws of Montana and illegally given themselves subrogation rights.

On June 12, 2009, Plaintiffs filed with the District court a motion for class certification. The District Court Judge denied Plaintiffs' motion for class certification on December 16, 2009. Plaintiffs appealed this decision to the Montana Supreme Court. As part of review of the underlying decision denying class certification, the Montana Supreme Court remanded the case to the District Court to determine the question of whether the made-whole laws codified in §§ 2-18-902 and 33-30-1102, MCA, apply to the various types of third-party administrators (TPAs) at issue in Diaz. The District Court held that these laws do not apply to TPAs. Plaintiffs appealed this decision.

On December 21, 2011 the Supreme Court issued its decision, holding that the District Court abused its discretion in denying a class action and that BCBS and New West, as TPAs of the State's health plan, are not subject to the made-whole laws as "insurers" under §§ 2-18-901 to -902, MCA, or under a third party beneficiary theory.

On June 20, 2012, the District Court ruled on the State's summary judgment motion seeking an order from the court that the State has not violated the made-whole laws in the administration of its health plan. The court denied the State's motion, ruling that the State is an insurer for the purposes of the made-whole laws and that it must conduct a made-whole analysis before exercising and subrogation/coordination of benefits rights. The State filed with the District Court a motion requesting that the court certify its decision to the Montana Supreme Court. The District Court recently granted the motion. Therefore, the District Court's decision on the State's summary judgment motion is now on appeal with the Montana Supreme Court.

Given the Montana Supreme Court's approval of a class action in Diaz and the District Court's denial of the State's summary judgment motion, the potential exposure for damages against the State increases, should it ultimately be determined that the State has violated the applicable made-whole laws. A September 2009 Montana Supreme Court opinion addressed certain exclusions included in BCBS insurance forms. In that case, the Supreme Court found that the exclusions at issue violated the made-whole laws applicable to insurance companies. This decision could adversely affect the State's positions in Diaz. At this time, however, it is difficult to predict an outcome and monetary effect to the State because certain facts in Diaz distinguish it from the 2009 Supreme Court ruling in the case involving BCBS. The State's health plan is different from the forms in the BCBS case because, among other distinctions, the State's health plan is self-funded, and State employees do not pay any premiums for their health benefits provided to them. These payments are made by the State.

A complaint was filed in July 2009, SBC Archway III, LLC v. State of Montana in Montana First Judicial District Court, Lewis and Clark County, Cause No. BDV 1109-688, arising from the State's termination of three, 30-year "build to suit" leases with the developer following the 2009 legislature's rejection of funding for the leases in the 2010-11 biennium. The developer had purchased the property and prepared architectural plans for the building, but had not yet begun construction of the building at the time the leases were terminated. The developer was seeking damages including the cost of the property acquisition (purchase price of $1.9 million, lost profits for the 30-year lease term, delay damages, and other costs incurred prior to lease termination). The State filed a substantive motion to dismiss the complaint, which was denied by the Court. In April 2012, the State agreed to settle the case for $3 million. On April 9, 2012 the Court approved the settlement and issued a Judgment. The State submitted payment and on July 18, 2012 SBC filed a Satisfaction of Judgment, ending the case.

B. Federal Contingencies

Food Distribution Program - The amount reported for Food Distribution programs (CFDA #10.550, #10.567, #10.569, #10.570 and #10.565 and #93.053) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2012, Montana distributed $443,784 of food commodities under CFDA #10.567 to other states.

The State of Montana distributed $8,505,495 in commodities in fiscal year 2012. The value at June 30, 2012 of commodities stored at the state's warehouse is $1,952,607 for which the state is liable in the event of loss. The state has insurance to cover this liability.

C. Miscellaneous Contingencies

Loan Enhancements – As of June 30, 2012, the Board of Investments (BOI) had provided loan enhancements from the Coal Severance Tax Permanent Trust Fund to the Municipal Finance Consolidation Act Bond Fund and the Facility Finance Authority, (a component unit of the State of Montana), totaling $220,454,667. The BOI's exposure to bond issues of the Municipal Finance Consolidation Act Bond Fund was $95,165,000, while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority was $125,289,677.

Gain Contingencies - Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2012 the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	State Special Revenue	Debt Service	Capital Projects	Nonexpendable Trust
Corporation Tax	$ 25,051	$ -	$ -	$ -	$ -
Oil and Gas Production Tax	3,001	505	-	-	-
Coal Severance Tax	620	292	25	311	1,346
Resource Indemnity Trust Tax	-	67	-	-	-
Total	$ 28,672	$ 864	$ 25	$ 311	$ 1,346

Collectability of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. The corporation tax assessments include material estimates that could result in a significant reduction of the tax assessed once actual numbers are provided. Interest related to corporation tax assessments is distributed to the General Fund and is included in the assessment total above.

The oil and gas production tax noted above represents the state portion of the total protested amount of $6,488,286.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2012. The corporations have appealed the department's decision to deny or adjust the refund. As of June 30, 2012, these include $1,022,211 of General Fund corporation tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2012. As of June 30, 2012, these include $6,669,313 of protested property taxes recorded in the General Fund and $7,586,851 recorded in State Special Revenue Funds.

NOTE 17. SUBSEQUENT EVENTS

Bond/Loan Issues

In August 2012, the Department of Natural Resources & Conservation issued a series 2012A Coal Severance Tax Bond Anticipation Note for $2,000,000 and a series 2012B Coal Severance Tax Bond Anticipation Note for $1,000,000. These funds will be used for water, wastewater, and irrigation projects. The Montana Board of Investments has purchased the Bond Anticipation Notes.

Investment Related Issues

From July 1, 2012 through January 7, 2013, AFF Financing LLC payments total $5,866,865 representing $5,801,623 in principal and $65,242 in interest. For the same period, the Board received payments associated with the Orion Finance collective holding of $1,732,737 with $1,129,661 and $603,076 applied to principal and interest, respectively. On October 31, 2012, the Board received a payment of $69,944 from the Orion Finance Escrow account.

On October 1, 2012, the Board of Investments received a bankruptcy principal payment of $382,070 related to the Lehman Brothers Holdings, Inc.

In August 2011, S&P downgraded the U.S. AAA bond rating to AA+.

Other Subsequent Events

In November 2012, the Montana Attorney General's office and 37 other states reached a $90 million Consent Judgment with GlaxoSmithKline LLC to resolve allegations that the drug company unlawfully promoted its drug, Avandia. Montana's share of the settlement is $1.2 million. Under the terms of the settlement, the money may be used to cover the cost of the investigation and litigation, to help fund Montana's consumer protection efforts, or to fund programs related to health care issues affecting Montana consumers, including programs to prevent and treat diabetes.

In February of 2010, the Montana Mental Health Settlement Trust (MMHST) was established, as a Qualified Settlement Fund, by an Order of the United States District Court, Eastern District of New York. The trust has been funded with approximately $9,500,000 of the proceeds from the settlement of a lawsuit in which the State of Montana was plaintiff and Eli Lilly and Company was the defendant.

The Trust was scheduled to terminate as of December 31, 2012. Consequently, on November 30, 2012, the Trustee created a new trust to use the remaining $5,240,000 of funds. The new trust is the Montana Mental Health Trust (MMHT), a separate legal entity organized under Section 501(c)(3) of the United States Internal Revenue Code 26 USC § 501(c).

NOTE 18. COMPONENT UNITS

A. Condensed Financial Statements

Below are the condensed financial statements of the component units for the State of Montana as of June 30, 2012 (expressed in thousands):

Condensed Statement of Net Assets
Component Units

	Housing Authority	Facility Finance Authority	Montana State Fund	Montana State University	University of Montana	Total Component Units
Assets:						
Cash, investments and other assets	$799,078	$4,564	$1,551,164	$459,983	$361,083	$3,175,872
Due from primary government	-	-	-	674	1,218	1,892
Due from component units	-	-	-	18	408	426
Est future claims contribution from primary government	-	-	59,162	-	-	59,162
Capital assets (net) (Note 18C)	2	31	32,351	389,635	360,014	782,033
Total assets	799,080	4,595	1,642,677	850,310	722,723	4,019,385
Liabilities:						
Accounts payable and other current liabilities	3,618	65	205,480	53,640	44,929	307,732
Due to primary government	-	-	-	1,812	1,345	3,157
Due to component units	-	-	-	408	18	426
Advances from primary government	-	-	-	19,592	14,645	34,237
Long-term liabilities (Note 18I)	635,312	77	1,024,978	225,350	192,919	2,078,636
Total liabilities	638,930	142	1,230,458	300,802	253,856	2,424,188
Net Assets:						
Invested in capital, net of related debt	2	31	32,351	263,809	223,809	520,002
Restricted	160,148	-	-	198,115	205,239	563,502
Unrestricted	-	4,422	379,868	87,584	39,819	511,693
Total net assets	$160,150	$4,453	$ 412,219	$549,508	$468,867	$1,595,197

Condensed Statement of Activities
Component Units

	Housing Authority	Facility Finance Authority	Montana State Fund	Montana State University	University of Montana	Total Component Units
Expenses	$ 37,679	$ 454	$180,373	$498,653	$405,180	$1,122,339
Program Revenues:						
Charges of services	483	713	150,495	216,018	182,927	550,636
Operating grants and contributions	40,214	52	-	192,844	134,090	367,200
Capital grants and contributions	-	-	-	21,393	4,669	26,062
Total program revenues	40,697	765	150,495	430,255	321,686	943,898
Net (expense) program revenues	3,018	311	(29,878)	(68,398)	(83,494)	(178,441)
General Revenues:						
Unrestricted grants and contributions	-	-	-	769	-	769
Unrestricted investment earnings	-	1	73,970	3,244	(1,114)	76,101
Payment from State of Montana	-	-	10,042	102,744	85,994	198,780
Gain (loss) on sale of capital assets	-	-	13	112	(135)	(10)
Miscellaneous	609	1	49	-	-	659
Contributions to term and permanent endowments	-	-	-	4,076	5,363	9,439
Total general revenues and contributions	609	2	84,074	110,945	90,108	285,738
Change in net assets	3,627	313	54,196	42,547	6,614	107,297
Total net assets – July 1 – as previously reported	156,526	4,147	370,452	506,967	462,253	1,500,345
Prior period adjustments	(3)	(7)	(12,429)	(6)	-	(12,445)
Total net assets – July 1 – as restated	156,523	4,140	358,023	506,961	462,253	1,487,900
Total net assets – June 30	$160,150	$4,453	$412,219	$549,508	$468,867	$1,595,197

B. Cash/Cash Equivalents and Investments

Due to the integration of funds and combined financial information presented by the Montana Board of Investments, component unit cash and cash equivalents, equity in pooled investments and investments are included with the primary government in Note 3.

C. Capital Assets

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the "Other" caption for this schedule:

	Montana State University	University of Montana	Other	Total
Capital Assets not being depreciated:				
Land	$ 6,933	$ 7,817	$ 1,139	$ 15,889
Construction Work in Progress	34,193	18,419	-	52,612
Capitalized Collections	8,384	17,444	-	25,828
Livestock for educational purposes	3,206	-	-	3,206
Total Capital Assets not being depreciated	52,716	43,680	1,139	97,535
Capital Assets being depreciated:				
Infrastructure	34,836	6,770	-	41,606
Land Improvements	18,834	14,155	-	32,989
Buildings/Improvements	486,426	504,002	27,972	1,018,400
Equipment	137,942	73,492	7,107	218,541
Livestock	-	39	-	39
Library Books	65,420	57,242	-	122,662
Total Capital Assets being depreciated	743,458	655,700	35,079	1,434,237
Total accumulated depreciation	(417,359)	(347,923)	(5,642)	(770,924)
Total Capital Assets being depreciated net	326,099	307,777	29,437	663,313
Intangible Assets	656	3,176	1,808	5,640
MSU Component Unit Capital Assets, net	10,164	-	-	10,164
UM Component Unit Capital Assets, net	-	5,381	-	5,381
Discretely Presented Component Units Capital Assets, net	$ 389,635	$ 360,014	$ 32,384	$ 782,033

D. Other Postemployment Benefits (OPEB)

Non-university component units are included in the State of Montana benefit plan, whereas the Office of the Commissioner of Higher Education (included in the primary government) is included in the Montana University System benefit plan. For these reasons component unit OPEB is included in Note 7.

E. Risk Management

The two component unit pools include Montana State Fund (New Fund) and Montana State Fund (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. In these funds, there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage for the last three years. These funds use the accrual basis of accounting. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

(1) Montana State Fund (New Fund) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990. The New Fund is a self-supporting, competitive State fund, and functions as the guaranteed market. At June 30, 2012, approximately 24,686 employers were insured with the New Fund. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Towers Watson, as of June 30, 2012, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Due to the fact that actual claim costs depend on such complex factors as inflation and changes in the law claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques in order to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2012, $889.940 million of unpaid claims and claim adjustment expenses were presented at face value.

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. New Fund acquisition costs are capitalized and amortized ratably over the subsequent year. The amount of capitalized acquisition costs for the fiscal year ended June 30, 2012, was $4.1 million.

MCA 39-71-2311 requires the New Fund set premiums at least annually at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. It also requires the New Fund to establish a minimum surplus above risk-based capital requirements to support the New Fund against risks inherent in the business of insurance.

For the fiscal year ended June 30, 2012, the New Fund ceded premiums to other reinsurance companies to limit the exposure arising from large losses. These arrangements consist of excess of loss contracts that protect against individual occurrences over stipulated amounts, and an aggregate stop loss contract which protects the New Fund against the potential that aggregate losses will exceed expected levels expressed as a percentage of premium. For fiscal year 2012, the excess of loss contract provides coverage up to $100 million in which New Fund retains the first $5 million for the first layer of reinsurance coverage. The excess of loss protection applies to an individual occurrence with the maximum of $5 million on any one life.

The term of the current aggregate stop loss contract was July 1, 2008 through June 30, 2012. The contract provides coverage based on the New Fund's premium levels not to exceed 15% of the subject net earned premium. In the event reinsurers are unable to meet their obligations, under either the excess of loss contracts or the aggregate stop loss contract, the New fund would remain liable for all losses, as the reinsurance agreements do not discharge the New Fund from its primary liability to the policyholders.

Premium revenue was reduced by premiums paid for reinsurance coverage of $11.5 million in fiscal year 2012.

Estimated claim reserves were reduced by $12.8 million for fiscal year 2012 for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excessive loss reinsurance contract. In fiscal year 2012, estimated claim reserves were reduced by an additional $24.3 million for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the aggregate stop loss contract.

(2) Montana State Fund (Old Fund) – The liability and payment of workers compensation claims for incidents occurring before July 1, 1990, are reported in the Old Fund.

An actuarial study prepared by Towers Watson, as of June 30, 2012, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. At June 30, 2012, $59,162 million of unpaid claims and claim adjustment expenses were reported at face value.

(3) Changes in Claims Liabilities for the Past Two Years – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

	Montana State Fund			
	New Fund		Old Fund	
	2012	2011	2012	2011
Unpaid claims and claim adjustments expenses at beginning of year	$ 874,803	$ 838,765	$ 64,621	$ 71,136
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	125,474	143,338	-	-
Increase (decrease) in provision for insured events of prior years	4,190	7,323	3,297	2,443
Total incurred claims and claim adjustment expenses	129,664	150,661	3,297	2,443
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(24,729)	(27,924)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(89,797)	(86,699)	(8,756)	(8,958)
Total payments	(114,526)	(114,623)	(8,756)	(8,958)
Total unpaid claims and claim adjustment expenses at end of year	$ 889,941	$ 874,803	$ 59,162	$ 64,621

F. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2012, were as follows (in thousands):

Fiscal Year Ending June 30	Discretely Presented Component Units
2013	$ 155
2014	72
2015	53
2016	18
2017	8
2018-2022	-
Total minimum pmts	306
Less: interest	(36)
Present value of minimum payments	$ 270

G. Operating Leases

Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Discretely Presented Component Units
2013	$ 4,574
2014	3,704
2015	3,570
2016	2,835
2017	2,751
2018-2022	5,024
2023-2027	1,239
Thereafter	3,221
Total future rental payments	$ 26,918

H. Debt Service Requirements

Debt service requirements of discretely presented component units at June 30, 2012, were as follows (in thousands):

Year Ended June 30	Housing Authority		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 61,665	$ 27,215	$ 5,774	$ 5,003	$ 6,552	$ 4,645
2014	12,555	26,708	5,995	4,957	6,649	4,494
2015	13,295	26,214	6,295	4,701	6,897	4,227
2016	13,660	25,663	6,460	4,438	7,075	3,966
2017	15,340	25,058	6,785	4,176	7,330	3,727
2018-2022	89,150	113,866	38,075	15,982	41,710	13,658
2023-2027	119,005	89,517	23,725	8,446	33,735	4,754
2028-2032	128,980	58,363	14,180	3,951	8,915	1,043
2033-2037	121,980	28,211	10,025	891	960	38
2038-2042	50,495	5,440	-	-	-	-
2043-2047	3,225	145	-	-	-	-
Total	$629,350	$ 426,400	$ 117,314	$ 52,545	$ 119,823	$ 40,552

I. Summary of Changes in Long-term Liabilities Payable

Long-term liability activity of discretely presented component units for the year ended June 30, 2012, was as follows (in thousands):

	Beginning Balance (3)	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Discretely presented component units						
Bonds/notes payable						
Housing Authority	$ 784,358	$ 58,434	$ 208,257	$ 634,535	$ 61,665	$ 572,870
Montana State University (MSU)	109,028	15,337	5,556	118,809	5,774	113,035
University of Montana (UM)	124,346	41,426	47,674	118,098	6,584	111,514
Total bonds/notes payable (1)	1,017,732	115,197	261,487	871,442	74,023	797,419
Other liabilities						
Lease/installment purch pay	409	80	220	269	136	133
Compensated absences pay	54,136	24,606	23,720	55,022	26,481	28,541
Arbitrage rebate tax payable	845	160	709	296	-	296
Estimated insurance claims	939,424	114,004	104,314	949,114	122,496	826,618
Due to federal government	32,590	147	67	32,670	-	32,670
Derivative swap liability	3,880	2,616	-	6,496	-	6,496
Reinsurance funds withheld	57,888	13,715	2,630	68,973	-	68,973
OPEB implicit rate subsidy (2)	77,054	15,397	-	92,451	-	92,451
Total other liabilities	1,166,226	170,725	131,660	1,205,291	149,113	1,056,178
	$ 2,183,958	$ 285,922	$ 393,147	$ 2,076,733	223,136	1,853,597
Long-term liabilities of Montana University System component units (4)					(10)	1,913
Total discretely presented component units Long-term liabilities					$ 223,126	$ 1,855,510

(1) When applicable, this amount includes deferred refunding costs, unamortized discounts, and unamortized premiums.

(2) The OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of an "implicit rate" subsidy in the related financial statements. While this liability is disclosed for financial purposes, it does not represent a legal liability of the State, or any of its component units. OPEB is reported as a single line item on the financial statements.

(3) Beginning balances are taken from component unit financial statements

(4) Interentity transaction eliminations between Montana University System component units for debt shown in the component unit information can cause negative balances in component unit information.

J. Refunded and Early Retired Debt

Universities

Defeased Debt Outstanding

The University of Montana has defeased certain bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2012, $122,094,145 of bonds outstanding were considered defeased for the University of Montana.

K. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

Facility Finance Authority (FFA)

The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana, with the exception of the State Hospital Project and the Montana Developmental Center Project included in section C. Long-term Debt of the State Debt footnote, Note 11. At June 30, 2012, revenue bonds outstanding aggregated $1.109 billion, and notes payable outstanding aggregated $22.2 million.

The BOI and the FFA have entered into a capital reserve account agreement for certain bond issues. See Note 16 C. (Miscellaneous Contingencies) for more information.

Housing Authority (HA)

HA is authorized to issue bonds and make mortgage loans in order to finance housing which will provide decent, safe, and sanitary housing for persons and families of lower income in the State of Montana. The bonds are special, limited obligations, payable solely from pledged revenues and assets, not general obligations of the HA. The bonds issued by the HA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2012, bonds outstanding aggregated $15,709,662.

L. Derivative Transactions Related to Long-term Debt

Montana State University (MSU) has two interest rate swaps as of June 30, 2012. 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, 2012:

Derivative Description	Trade Date	Effective Date	Termination Date	Counterparty
$25.75 million fixed payer swap	3/10/2005	7/21/2005	*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, 2012, the fixed payer swap is classified as a hedging derivative instrument under Statement No. 53, whereas the million 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 current spread is 0.80%. 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 has the right to terminate the swap at $0 on December 14, 2016 (a European option). Upon entering into the transaction, MSU 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 MSU, 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 year ended June 30, 2012.

		Activity During 2012 – Increase (Decrease)		Fair Values at June 30, 2012—	
Cash flow hedges:	**Notional**	**Classification**	**Amount**	**Classification**	**Amount**
Cash flow hedge – Pay fixed interest rate swap	$ 23,600,000	Interest Expense	$ 18,073	Loan receivable	$ 345,216
		Investment Revenue	650,269	Hybrid instrument liability	426,144
		Deferred outflow	(3,266,717)	Noncurrent liability	6,070,489
				Total liability	6,496,633
Investment derivative – Basis swap	$ 23,600,000	Investment income	$ 444,053	Investment	$ 2,234,252

The objective and terms of MSU's hedging derivative outstanding as of June 30, 2012 is as follows:

Type	Objective	Notional amount (000's)	Effective Date	Termination Date	Cash (Paid)/ Received (000's)	Terms
Pay fixed, cancelable interest rate swap	Hedge interest rate risk on Series J 2005 Bonds	$23,600	7/21/2005	11/15/2035	-	Pay 3.953% Receive SIFMA

It is MSU's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2012, counterparty ratings had been downgraded to A2 and Baa1 by Moody's and A+ and A- by Standard and Poor's. MSU manages credit risk by requiring its counterparties to post collateral in certain events. MSU 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, MSU is entitled to collateral up to 100% of the swap's fair value. MSU is not required to post collateral. The MSU will continue to monitor counterparty credit risk.

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

Interest payments on variable rate debt will typically increase as interest rates increase. MSU 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.

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.

MSU or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, MSU's fixed payer swap counterparty has the right to terminate the derivative if the credit rating of MSU'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, MSU could be forced to terminate the fixed payer swap in a liability position. As of June 30, 2012, MSU's unenhanced long-term revenue bond rating was Aa3 by Moody's.

MSU's hedging derivative includes a cancelation option which allows the counterparty to cancel the swap on 12/14/16. Should the counterparty exercise its option, MSU 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.

All hedging derivatives are denominated in US Dollars and therefore MSU is not exposed to foreign currency risk.

Market access risk is the risk that the MSU 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 MSU is unable to enter credit market, expected cost savings may not be realized.

M. Related Party Transactions

Private nonprofit organizations with relations to the University of Montana (UM) include The UM Alumni Association, the Montana Technology Enterprise Center (MonTEC), the Montana Tech Booster Club and the Montana Tech Alumni Association.

The associations and booster club operate exclusively for the purpose of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with UM. For fiscal year ending June 30, 2012 $86,444 was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, UM provides the associations and booster club with office space, staff and some related office expenses.

MonTEC was established as a nonprofit 501(C) 3 corporation in fiscal year 2001 as a result of an agreement between UM and the Missoula Area Economic Development Foundation (MAEDF). MonTEC provides low cost lease space and business consulting to local "start-up" companies. The corporation's board of directors is comprised equally of members appointed by MAEDF and UM

Private nonprofit organizations affiliated with Montana State University (MSU) include the MSU-Bozeman Bookstore, Friends of KUSM and Friends of KEMC.

Friends of Montana Public Television provided $843,684 during fiscal year 2012 and Friends of KEMC Public Radio provided $500,000 during fiscal year 2012 in support of MSU's television and radio stations.

N. Litigation Contingencies

Lester Roberts v. G & C Industries. Montana State Fund is defending this litigation against a State Fund policyholder that may be covered by the employer's liability coverage of the State Fund's insurance policy. State Fund has an accepted workers' compensation claim based on the injury incurred in this case. The exclusive remedy provisions of MCA Section 39-71-411 should bar this type of tort claim against the policy holder. However, if the plaintiffs are successful in convincing the court that MCA Section 39-71-411 does not provide a defense, then the employer-policyholder may be legally responsible for causing the injuries to its employee. It is reasonably possible that Montana State Fund may be called upon to indemnify the employer-policyholder, up to the policy limits of $1,000,000. The actual potential cost impact to the State Fund is not known at this time.

O. Loan Loss Contingency

On January 12, 2007, the MFFA made a loan to Gateway Community Services to purchase and remodel four condominium units. Funds for the loan came from the Permanent Coal Trust Fund under the Authority's Trust Fund Loan Program. Gateway subsequently defaulted on this loan. As of October 5, 2012, $519,074.68 is due to the Permanent Coal Trust Fund, reflecting $461,859.75 of principal and $57,214.93 of interest. Pursuant to MFFA policy, the MFFA will make the Perm Coal Trust Fund whole and funds have been designated for such an event.

On September 17, 2007, the MFFA made a loan to Gateway Community Services for overages resulting from the remodeling of condominium units referenced above. Funds for the loan came from the Authority's Direct Loan Program. As of October 5, 2012, $82,234.45 is due to the Authority, reflecting $73,170.17of principal and $9,064.28 of interest.

The Authority is engaged in finding a buyer or renter of the condominium units. The eventual sale could potentially result in a loss to the Authority. Such loss is not expected to be greater than $200,000.

P. Subsequent Events

Montana Facility Finance Authority made three loans and closed one bond issue subsequent to June 30, 2012. On July 13, 2012 a $200,000 direct loan was made to Livingston Healthcare to purchase a nuclear medicine system. On October 25, 2012 a $200,000 direct loan was made to Big Horn Hospital Association to purchase generators. On November 6, 2012 a $1,740,000 bond issue was closed for Western Montana Mental Health Center to finance the construction of a 16-bed adult patient addiction treatment facility. On November 29, 2012, the Facility Finance Authority made a direct loan of $77,793 to Fallon Medical Complex to purchase two chemistry analyzers.

On August 2, 2012, the Board of Housing issued $81,280,000 of Single Family Homeownership Bonds Series 2012 A / 2009 D. The bonds will mature on December 1, 2012, through December 1, 2041, with interest rates from 0.375% to 4 .00%. Bond proceeds of $25,000,000 were used to purchase single family mortgage loans for the Board's Homeownership Program. Bond proceeds of $56,280,000 were used to refund existing bond issues.

On December 20, 2012, the Board of Housing converted $25,000,000 of 2009 Series A Single Family Homeownership Bonds (U.S. Department of the Treasury's New Issue Bond Program) to 2009 Series E Single Family Homeownership Bonds. The bonds will mature on December 1, 2041 with interest rates of 0.76% to February 20, 2013, and 2.67% thereafter. Bond proceeds of $25,000,000 were used to purchase single family mortgage loans for the Board's Homeownership Program.

On October 1, 2012, the Board of Housing purchased servicing rights for approximately 3,400 single family program Board loans. Prior to the purchase, the Board held servicing rights to approximately 1,500 single family program Board loans. The combined total, approximately 4,900 loans, is 55% of the Boards single family mortgage loan portfolio. The Board expects to be servicing all loans by the end of fiscal year 2013.

In November 2011, Board of Regents approved the design of a new instructional building at Montana State University to house the College of Business on the Bozeman campus, which is expected to be funded entirely by a $25 million gift which was pledged to the MSU Alumni Foundation in October 2011. The construction has not yet been approved by the state legislature.

In September 2012, Montana State University entered into a space lease agreement with Advanced Technology Inc. for office space. The lease period is for October 31, 2012 to June 30, 2017, with a five-year ,renewal option. Annual rent is currently $67,579.

On October 17, 2012, Montana State University issued Series N 2012 $20.40 million tax-exempt facilities refunding revenue bonds, and Series O 2012 $28.365 million taxable facilities refunding revenue bonds to refund its Series H and Series I debt previously outstanding.

In November 2012, Montana State University issued intercap debt totaling $4.35 million to fund energy efficiency projects in its auxiliary buildings.

NOTE 19. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS

Constitutionality of Retirement Plan Funding

The Montana Constitution, Article VIII, Section 15 states that public retirement systems shall be funded on an actuarially sound basis. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is less than 30 years. As of June 30, 2012, the Public Employees Retirement System-Defined Benefit Retirement Plan (PERS-DBRP), Sheriffs Retirement System (SRS), Game Warden & Peace Officers Retirement System (GWPORS), Highway Patrol Officers' Retirement System (HPORS) and Teachers Retirement System (TRS) were not in compliance and do not amortize within 30 years. Detailed information for the retirement plan can be found in Note 6.

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BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Licenses/permits	$ 116,492	$ 116,492	$ 116,733	$ 241
Taxes:				
Natural resource	125,534	125,534	141,680	16,146
Individual income	809,322	809,322	880,814	71,492
Corporate income	115,086	115,086	128,628	13,542
Property	237,188	237,188	241,042	3,854
Fuel	-	-	-	-
Other	210,113	210,113	201,960	(8,153)
Charges for services/fines/forfeits/settlements	40,181	40,181	38,226	(1,955)
Investment earnings	-	-	4,093	4,093
Sale of documents/merchandise/property	310	310	282	(28)
Rentals/leases/royalties	3	3	18	15
Contributions/premiums	-	-	-	-
Grants/contracts/donations	3,766	3,766	5,126	1,360
Federal	29,775	29,775	32,770	2,995
Federal indirect cost recoveries	284	284	347	63
Other revenues	61	61	346	285
Total revenues	1,688,115	1,688,115	1,792,065	103,950
EXPENDITURES				
Current:				
General government	241,555	241,555	250,035	(8,480)
Public safety	261,525	261,525	258,404	3,121
Transportation	-	-	80	(80)
Health and human services	408,784	408,784	383,303	25,481
Education	702,864	702,864	821,542	(118,678)
Natural resources	31,661	31,661	29,473	2,188
Debt service:				
Principal retirement	785	785	301	484
Interest/fiscal charges	-	-	142	(142)
Capital outlay (Note RS-1)	2,980	2,980	2,070	910
Total expenditures	1,650,154	1,650,154	1,745,350	(95,196)
Excess of revenue over (under) expenditures	37,961	37,961	46,715	8,754
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	6,158	6,158	-	(6,158)
General capital asset sale proceeds	40	40	50	10
Refunding bond issued	-	-	-	-
Payment to refunding bond escrow agent	-	-	-	-
Bond premium	-	-	-	-
Energy conservation loans	-	-	-	-
Transfers in (Note 12)	82,755	82,755	87,080	4,325
Transfers out (Note 12)	(190,319)	(190,319)	(30,966)	159,353
Total other financing sources (uses)	(101,366)	(101,366)	56,164	157,530
Net change in fund balances (Budgetary basis)	(63,405)	(63,405)	102,879	166,284
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	245	245
2. Securities lending costs	-	-	(48)	(48)
3. Inception of lease/installment contract	-	-	13	13
Net change in fund balances (GAAP basis)	(63,405)	(63,405)	103,089	166,494
Fund balance - July 1	-	-	369,357	369,357
Prior period adjustments	-	-	6,950	6,950
Increase (decrease) in inventories	-	-	88	88
Fund balances - June 30	$ (63,405)	$ (63,405)	$ 479,484	$ 542,889

The notes to the required supplementary information are an integral part of this schedule.

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
$ 187,343 $	187,343 $	171,747 $	(15,596) $	- $	- $	- $	-
135,056	135,056	133,631	(1,425)	-	-	-	-
-	-	-	-	-	-	-	-
6	6	4	(2)	-	-	-	-
15,472	15,472	16,589	1,117	-	-	-	-
207,685	207,685	211,933	4,248	-	-	-	-
104,399	104,399	104,545	146	3	3	-	(3)
108,828	108,828	104,547	(4,281)	50,127	50,127	38,520	(11,607)
-	-	40,738	40,738	-	-	312	312
5,107	5,107	5,408	301	2	2	5	3
751	751	782	31	-	-	-	-
19,576	19,576	21,666	2,090	-	-	-	-
16,182	16,182	19,514	3,332	8,976	8,976	139	(8,837)
10,135	10,135	11,218	1,083	2,357,066	2,357,066	2,058,976	(298,090)
53,360	53,360	44,653	(8,707)	150,887	150,887	62,446	(88,441)
-	-	2,399	2,399	-	-	179	179
863,900	863,900	889,374	25,474	2,567,061	2,567,061	2,160,577	(406,484)
						-	
						-	
319,244	319,244	241,048	78,196	172,197	172,197	138,601	33,596
70,312	70,312	82,271	(11,959)	24,093	24,093	12,512	11,581
300,849	300,849	233,830	67,019	477,492	477,492	111,886	365,606
155,558	155,558	152,221	3,337	1,406,712	1,406,712	1,195,239	211,473
128,083	128,083	140,016	(11,933)	251,743	251,743	221,476	30,267
235,145	235,145	181,667	53,478	134,118	134,118	72,956	61,162
3,405	3,405	543	2,862	202	202	93	109
-	-	878	(878)	-	-	9	(9)
132,793	132,793	87,636	45,157	127,119	127,119	381,966	(254,847)
1,345,389	1,345,389	1,120,110	225,279	2,593,676	2,593,676	2,134,738	458,938
(481,489)	(481,489)	(230,736)	(250,753)	(26,615)	(26,615)	25,839	(865,422)
6,303	6,303	3,565	(2,738)	15	15	-	(15)
224	224	389	165	-	-	9	9
-	-	50,915	50,915	-	-	-	-
-	-	(58,508)	(58,508)	-	-	-	-
-	-	8,003	8,003	-	-	-	-
-	-	22,755	22,755	-	-	-	-
217,277	217,277	140,202	(77,075)	14,654	14,654	282	(14,372)
(85,559)	(85,559)	(31,603)	53,956	(86,486)	(86,486)	(30,261)	56,225
138,245	138,245	135,718	(2,527)	(71,817)	(71,817)	(29,970)	41,847
(343,244)	(343,244)	(95,018)	(253,280)	(98,432)	(98,432)	(4,131)	(823,575)
		-				-	
		-				-	
-	-	545	545	-	-	8	8
-	-	(116)	(116)	-	-	(2)	(2)
-	-	36	36	-	-	-	-
(343,244)	(343,244)	(94,553)	(252,815)	(98,432)	(98,432)	(4,125)	(823,569)
		-				-	
-	-	1,615,464	1,615,464	-	-	35,078	35,078
-	-	5,684	5,684	-	-	(2,714)	(2,714)
-	-	1,956	1,956	-	-	-	-
$ (343,244) $	(343,244) $	1,528,551 $	1,370,289 $	(98,432) $	(98,432) $	28,239 $	(791,205)

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-1. BUDGETARY REPORTING

A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The constitution requires that legislative appropriations not exceed available revenues. The Legislature uses revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budget appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor, and the Legislative Fiscal Division receives a copy. The Office of Budget and Program Planning (OBPP) and the Governor analyze the requests, establish priorities, and develop the requests into the executive budget request submitted to the Legislature. Joint appropriations subcommittee hearings are held, and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The Legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. OBPP establishes appropriations for each program by accounting entity (fund) within an agency. The Legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the Legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the Legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2012, reverted governmental fund appropriations were as follows: General Fund - $22.5 million, State Special Revenue Fund - $91.5 million, and Federal Special Revenue Fund - $121.7 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

B. Budget Basis

The Legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in proprietary funds; certain loans from governmental funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.).

REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN INFORMATION

Pension Plan Information
Schedule of Funding Progress
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
Single Employer System						
JRS						
6/30/2010	61,277	42,513	(18,764)	144%	5,687	(330%)
6/30/2011	61,274	43,414	(17,860)	141%	5,645	(316%)
6/30/2012	63,195	46,190	(17,005)	137%	6,193	(275%)
HPORS						
6/30/2010	97,204	151,177	53,973	64%	13,036	414%
6/30/2011	95,274	155,742	60,468	61%	12,472	485%
6/30/2012	96,655	167,824	71,169	58%	13,618	523%
Multiple Employer Systems						
PERS-DBRP						
6/30/2010	3,889,890	5,241,819	1,351,929	74%	1,083,780	125%
6/30/2011	3,800,479	5,410,144	1,609,665	70%	1,071,376	150%
6/30/2012	3,816,920	5,661,281	1,844,361	67%	1,081,288	171%
SRS						
6/30/2010	200,739	246,734	45,995	81%	54,681	84%
6/30/2011	203,689	266,506	62,817	76%	57,041	110%
6/30/2012	211,535	284,559	73,024	74%	59,583	123%
GWPORS						
6/30/2010	85,151	113,855	28,704	75%	39,436	73%
6/30/2011	90,437	119,881	29,444	75%	38,306	77%
6/30/2012	97,691	128,927	31,236	76%	38,317	82%
MPORS						
6/30/2010	217,545	380,393	162,847	57%	37,220	438%
6/30/2011	221,669	401,381	179,712	55%	39,470	455%
6/30/2012	234,025	427,257	193,232	55%	41,745	463%
FURS						
6/30/2010	213,755	335,463	121,708	64%	33,339	365%
6/30/2011	219,959	355,188	135,229	62%	34,852	388%
6/30/2012	233,121	377,211	144,090	62%	36,177	398%
TRS						
7/1/2010	2,956,600	4,518,200	1,561,600	65%	747,000	209%
7/1/2011	2,866,500	4,658,600	1,792,100	62%	746,700	240%
7/1/2012	2,852,000	4,814,700	1,962,700	59%	735,600	267%
Nonemployer Contributor						
VFCA						
6/30/2010	26,575	34,512	7,936	77%	N/A	N/A
6/30/2011	26,183	35,195	9,012	74%	N/A	N/A
6/30/2012	26,531	36,146	9,615	73%	N/A	N/A

REQUIRED SUPPLEMENTARY INFORMATION

OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

The State of Montana and the Montana University System (MUS) implemented Governmental Accounting Standards Board (GASB) Statements 43 and 45 as of June 30, 2008 (see Notes 2 and 7).

The State of Montana and MUS OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements and footnotes. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the State or any of its component units.

In accordance with GASB Statement 45, the following information is presented to reflect the funding progress of the Other Postemployment Benefits Plans.

Other Postemployment Benefits Plan Information (1)
Schedule of Funding Progress
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
State Agent Multiple Employer Plan						
1/1/2007	$ -	$449,321	$449,321	0.00%	$519,969	86.41%
1/1/2009	$ -	$357,664	$357,664	0.00%	$526,794	67.89%
1/1/2011	$ -	$337,274	$337,274	0.00%	$521,881	64.63%
MUS Agent Multiple Employer Plan						
7/1/2007	$ -	$182,597	$182,597	0.00%	$349,259	52.28%
7/1/2009	$ -	$183,230	$183,230	0.00%	$386,751	47.40%
7/1/2011	$ -	$109,831	$109,831	0.00%	$371,802	29.54%

(1) The State and the MUS implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, for the fiscal year ended June 30, 2008. Information for prior years is not available.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2012

PEACE CORPS

		AMOUNT
08.999	Miscellaneous Non-Major Grants	10,761
	TOTAL	**$10,761**

DEPARTMENT OF AGRICULTURE

10.025	Plant and Animal Disease, Pest Control, and Animal Care	1,101,210
10.069	Conservation Reserve Program	4,774
10.072	Wetlands Reserve Program	14,991
10.093	Voluntary Public Access and Habitat Incentive Program	10,114
10.156	Federal-State Marketing Improvement Program	24,564
10.162	Inspection Grading and Standardization	31,048
10.163	Market Protection and Promotion	490,798
10.169	Specialty Crop Block Grant Program	230,623
10.217	Higher Education Challenge Grants	40,835
10.220	Higher Education Multicultural Scholars Program	1,703
10.446	Rural Community Development Initiative: From Ravalli County Econ Dev. Authority	38,157
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	611,564
10.500	Cooperative Extension Service	2,922,028
10.500	Cooperative Extension Service: From Colorado State	19,242
10.500	Cooperative Extension Service: From Kansas State Univ.	31,030
10.500	Cooperative Extension Service: From Fort Belkap Comm. Council	32,374
10.550	Food Donation	3,335,555
10.557	Special Supplemental Nutrition Program for Women, Infants, & Children	15,514,605
10.558	Child and Adult Care Food Program	10,788,634
10.560	State Administrative Expenses for Child Nutrition	1,342,348
10.565	Commodity Supplemental Food Program	2,543,878
10.567	Food Distribution Program on Indian Reservations	3,412,878
10.572	WIC Farmers' Market Nutrition Program (FMNP)	56,801
10.574	Team Nutrition Grants	397,651
10.576	Senior Farmers Market Nutrition Program	99,525
10.578	WIC Grants To States	787
10.578	ARRA WIC Grants to States	196,723
10.579	Child Nutrition Discretionary Grants Limited Availability	117,860
10.582	Fresh Fruit and Vegetable Program	1,586,979

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2012

			AMOUNT
10.601	Market Access Program: From U.S. Livestock Genetics Export		24,260
10.601	Market Access Program: From West US Ag Trade Assn.		9,244
10.652	Forestry Research		302,329
10.664	Cooperative Forestry Assistance		5,029,131
10.672	Rural Development, Forestry, and Communities		44,300
10.676	Forest Legacy Program		5,931,249
10.678	Forest Stewardship Program		8,485
10.680	Forest Health Protection		15,383
10.683	National Fish and Wildlife Foundation: From Sanders County		9,700
10.684	International Forestry Programs		441,473
10.687	ARRA Capital Improvement Maintenance		110,618
10.688	ARRA Wildlife Fire Management		1,004,340
10.901	Resource Conservation and Development		7,832
10.902	Soil and Water Conservation		104,387
10.912	Environmental Quality Incentives Program		2,001,176
10.923	ARRA Emergency Watershed Protection Program		18,518
10.999	Miscellaneous Non-Major Grants		18,397
		TOTAL	**$60,080,101**
CHILD NUTRITION CLUSTER			
10.553	School Breakfast Program		6,785,588
10.555	National School Lunch Program		24,374,944
10.556	Special Milk Program for Children		15,493
10.559	Summer Food Service Program for Children		1,289,302
		TOTAL	**$32,465,327**
EMERGENCY FOOD ASSISTANCE CLUSTER			
10.568	Emergency Food Assistance Program (Administrative Costs)		161,571
10.569	Emergency Food Assistance Program (Food Commodities)		1,062,962
		TOTAL	**$1,224,533**
SCHOOLS AND ROADS CLUSTER			
10.665	Schools and Roads: Grants to States		20,489,381
		TOTAL	**$20,489,381**
SNAP CLUSTER			
10.551	Supplemental Nutrition Assistance Program (SNAP)		190,942,035

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2012

			AMOUNT
10.551	ARRA Supplemental Nutrition Assistance Program (SNAP)		3,566,865
10.561	State Administrative Matching Grants for SNAP Program		12,656,887
		TOTAL	**$207,165,787**

DEPARTMENT OF COMMERCE

11.400	Geodetic Surveys and Services		6,392
11.550	Public Telecommunication Facilities-Planning and Construction		306,334
11.550	Public Telecommunication Facilities-Planning and Construction: From PBS		223,459
11.553	NYC 9/11 Digital Television Program: From PBS		269
11.555	Public Safety Interoperable Communications Grant Program		(165,828)
11.557	ARRA Broadband Technology Opportunities Program (BTOP)		751,278
11.568	ARRA State Broadband Data and Development		38,690
11.609	Measurement and Engineering Research and Standards		1,948
		TOTAL	**$1,162,542**

ECONOMIC DEVELOPMENT CLUSTER

11.307	Economic Adjustment Assistance		84,014
11.307	ARRA Economic Adjustment Assistance		63,298
		TOTAL	**$147,312**

DEPARTMENT OF DEFENSE

12.100	Aquatic Plant Control		2,306
12.112	Payments to States in Lieu of Real Estate Taxes		16,464
12.217	Electronic Absentee Systems for Elections		70,223
12.400	Military Construction National Guard		698,859
12.401	National Guard Military Operations and Maintenance Projects		21,891,997
12.404	National Guard Civilian Youth Opportunities		3,371,922
12.599	Congressionally Directed Assistance		847,286
12.900	Language Grant Program		99,992
12.900	Language Grant Program: From Inst. International Ed., Inc		1,023,929
12.999	Miscellaneous Non-Major Grants		305,071
12.999	Miscellaneous Non-Major Grants: From Washington State Univ.		12,347
12.999	Miscellaneous Non-Major Grants: From Consensus Buildng Institute		14,856
		TOTAL	**$28,355,252**

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		AMOUNT
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
14.103	Interest Reduction Payments Rental and Cooperative Housing for Lower Income Families	201,756
14.169	Housing Counseling Assistance Program	117,120
14.231	Emergency Shelter Grants Program	401,211
14.235	Supportive Housing Program	66,306
14.238	Shelter Plus Care	186,784
14.239	Home Investment Partnerships Program	4,518,994
14.241	Housing Opportunities for Persons with AIDS	967,796
14.257	ARRA Homeless Prevention & Rapid Re-Housing Program	391,601
14.258	ARRA Tax Credit Assistance Program (Recovery Act Funded)	365,689
14.323	Emergency Homeowners' Loan Program	110,937
	TOTAL	**$7,328,194**
CDBG - STATE ADMIN. CDBG CLUSTER		
14.228	Community Development Block Grant/States Program	7,565,106
14.255	ARRA CDBG	20,804
	TOTAL	**$7,585,910**
HOUSING VOUCHER CLUSTER		
14.871	Section 8 Housing Choice Vouchers	19,407,990
	TOTAL	**$19,407,990**
SECTION 8 PROJECT-BASED CLUSTER		
14.195	Section 8 Housing Assistance Payments Program Special Allocations	19,678,020
14.856	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	1,872,516
	TOTAL	**$21,550,536**
DEPARTMENT OF THE INTERIOR		
15.114	Indian Education: Higher Education Grant Program	41,236
15.224	Cultural Resource Management	52,603
15.225	Recreation Resource Management	41,029
15.231	Fish, Wildlife and Plant Conservation Resource Management	301,447
15.231	Fish, Wildlife and Plant Conservation Resource Management: From Pheasants Forever	35,032
15.233	ARRA - Forests and Woodlands Resource Management	90,742

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		AMOUNT
15.234	Secure Rural Schools and Community Self-Determination	91,317
15.236	Environmental Quality and Protection Resource Management	856,680
15.236	ARRA Environmental Quality and Protection Resource Management	1,131,723
15.238	Challenge Cost Share	12,637
15.239	Management Initiatives	14,510
15.242	National Fire Plan - Rural Fire Assistance	264,534
15.250	Regulation Surface Coal Mining and Surface Effects of Underground Coal Mining	1,552,091
15.252	Abandoned Mine Land Reclamation (AMLR) Program	6,948,355
15.427	Federal Oil and Gas Royalty Management	287,738
15.517	Fish and Wildlife Coordination Act	88,701
15.517	ARRA Fish and Wildlife Coordination Act	6,598
15.608	Fish and Wildlife Management Assistance	213,590
15.612	Endangered Species Section 6	161,473
15.615	Cooperative Endangered Species Conservation Fund	760,289
15.623	North American Wetlands Conservation Fund	193,800
15.631	National Fire Plan - Rural Fire Assistance	203
15.632	Conservation Grants Private Stewardship for Imperiled Species	74,400
15.634	State Wildlife Grants	1,055,363
15.634	State Wildlife Grants: From Washington F&W	10,357
15.637	Migratory Bird Joint Ventures	8,109
15.655	Migratory Bird Monitoring, Assessment and Conservation	(1,137)
15.808	U.S. Geological Survey-Research and Data Acquisition	17,291
15.812	Cooperative Research Units Program	5,095
15.814	National Geological and Geophysical Data Preservation Program	3,122
15.904	Historic Preservation Fund Grants-in-Aid	803,439
15.912	National Historic Landmark	22,000
15.916	Outdoor Recreation: Acquisition, Development and Planning	59,000
15.929	Save America's Treasures	131,221
15.943	Challenge Cost Share	14,583
15.945	Cooperative Research and Training Programs - NPS	83,911
15.999	Miscellaneous Non-Major Grants	75,792
	TOTAL	**$15,508,874**

FISH AND WILDLIFE CLUSTER

15.605	Sport Fish Restoration	9,625,239

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		AMOUNT
15.611	Wildlife Restoration	6,944,523
	TOTAL	**$16,569,762**

DEPARTMENT OF JUSTICE

16.001	Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis	14,147
16.001	Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis: From City of Billings	33,305
16.012	Alcohol, Tobacco, and Firearms-Training Assistance	7,986
16.017	Sexual Assault Services Formula Program	183,586
16.200	Community Relations Service	214,544
16.203	Comprehensive Approaches to Sex Offender Management Discretionary Grant	79,080
16.304	Law Enforcement Assistance-National Crime Information Center	31,255
16.523	Juvenile Accountability Incentive Block Grants	385,496
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	621,619
16.541	Part E - Developing, Testing and Demonstrating Promising New Programs	171,131
16.548	Title V Delinquency Prevention	52,812
16.550	State Justice Statistics Program For Statistical Analysis Centers	95,524
16.554	National Criminal History Improvement Program (NCHIP)	84,752
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	71,021
16.575	Crime Victim Assistance	1,877,075
16.576	Crime Victim Compensation	221,425
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Prog	74,529
16.585	Drug Court Discretionary Grant Program	209,788
16.588	Violence Against Women Formula Grants	939,704
16.588	ARRA Violence Against Women Formula Grants	154,133
16.593	Residential Substance Abuse Treatment for State Prisoners	94,951
16.606	State Criminal Alien Assistance Program	38,138
16.607	Bulletproof Vest Partnership Program	22,175
16.609	Community Prosecution and Project Safe Neighborhoods	75,200
16.710	Public Safety Partnership and Community Policing Grants	126,717
16.726	Juvenile Mentoring Program: From National 4H Council	60,663
16.727	Enforcing Underage Drinking Laws Program	362,596
16.731	Tribal Youth Program	132,153
16.741	Forensic DNA Backlog Reduction Program	291,371

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		AMOUNT
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	190,474
16.753	Congressionally Recommended Awards	122,954
16.754	Harold Rogers Prescription Drug Monitoring Program	115,857
16.810	ARRA Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Prg	707,201
16.812	Second Chance Act Prisoner Reentry Initiative	240,794
16.816	John R. Justice Prosecutors and Defenders Incentive Act	102,357
16.922	Equitable Sharing Program	40,915
16.999	Miscellaneous Non-Major Grants: From Salish Kootenai College	17,392
	TOTAL	**$8,264,820**
JAG PROGRAM CLUSTER		
16.738	Edward Byrne Memorial Justice Assistance Grant Program	1,077,998
16.803	ARRA Edward Byrne Memorial Justice Assistance Grant (JAG)	260,168
	TOTAL	**$1,338,166**

DEPARTMENT OF LABOR

17.002	Labor Force Statistics	721,131
17.005	Compensation and Working Conditions Data	79,126
17.225	Unemployment Insurance	221,565,414
17.235	Senior Community Service Employment Program	535,567
17.245	Trade Adjustment Assistance-Workers	2,929,414
17.260	WIA Dislocated Workers	820,679
17.260	ARRA WIA Dislocated Workers	539,007
17.261	Employment and Training Administration Pilots, Demonstrations, and Research Projects	72,144
17.269	Community Based Job Training Grants	637,674
17.269	Community Based Job Training Grants: From Mid-South Community College	2,035
17.271	Work Opportunity Tax Credit Program (WOTC) & Welfare-to-Work Tax Credit (WtWTC)	80,106
17.273	Temporary Labor Certification for Foreign Workers	119,624
17.274	Youthbuild	514,106
17.274	Youthbuild: From Career Training Institute	140,597
17.275	ARRA Comp Grants for Worker Training and Placement in High Growth and Emerging Ind. Sec.	219,590
17.275	ARRA Comp Grants for Worker Training and Placement in High Growth and Emerging Ind. Sec.: From Montana - EJATC	1,805,672

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			AMOUNT
17.504	Consultation Agreements		436,553
17.600	Mine Health and Safety Grants		128,399
17.807	Transition Assistance Program		18,000
		TOTAL	**$231,364,838**
EMPLOYMENT SERVICES CLUSTER			
17.207	Employment Service		5,991,251
17.207	Employment Service: From North Carolina		2,799
17.801	Disabled Veterans Outreach Program (DVOP)		459,864
17.804	Local Veterans' Employment Representative Program		174,443
		TOTAL	**$6,628,357**
WIA CLUSTER			
17.258	WIA Adult Program		2,415,890
17.259	WIA Youth Activities		2,397,148
17.278	WIA Dislocated Worker Formula Grants		2,377,591
		TOTAL	**$7,190,629**
DEPARTMENT OF STATE			
19.009	Academic Exchange Programs - Undergraduate Programs		239,010
19.014	One-Time International Exchange Grant Program		297,579
19.408	Educational Exchange - Teachers from Secondary and Postsecondary Levels: From Intern. Research		182,213
19.415	Professional and Cultural Exchange Programs - Citizen Exchanges		121,803
19.999	Miscellaneous Grants		20,648
		TOTAL	**$861,253**
DEPARTMENT OF TRANSPORTATION			
20.106	Airport Improvement Program		192,852
20.218	National Motor Carrier Safety		1,429,766
20.231	Performance and Registration Information Systems Management		129,615
20.233	Border Enforcement Grants		756,310
20.237	Commercial Vehicle Information Systems and Networks		459,122
20.238	Commercial Drivers License Information System (CDLIS) Modernization Grant		130,589
20.240	Fuel Tax Evasion-Intergovernmental Enforcement Effort		2,388
20.505	Federal Transit Technical Studies Grant		365,290
20.509	Formula Grants for Other Than Urbanized Areas		7,984,854

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			AMOUNT
20.509	ARRA Formula Grants for Other Than Urbanized Areas		1,234,696
20.515	State Planning and Research		37,100
20.605	Saftety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons		329,780
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated		6,006,543
20.614	National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants		77,569
20.700	Pipeline Safety		65,588
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants		125,684
20.999	Miscellaneous Non-Major Grants		26,416
		TOTAL	**$19,354,162**
FEDERAL TRANSIT CLUSTER			
20.500	Federal Transit Capital Improvement Grants		160,017
		TOTAL	**$160,017**
HIGHWAY PLAN. AND CONST. CLUSTER			
20.205	Highway Planning and Construction		468,244,043
20.205	ARRA Highway Planning and Construction		4,242,443
20.219	Recreational Trails Program		1,152,913
		TOTAL	**$473,639,399**
HIGHWAY SAFETY CLUSTER			
20.600	State and Community Highway Safety		1,626,278
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants		1,508,101
20.602	Occupant Protection		178,312
20.610	State Traffic Safety Information System Improvement Grants		599,196
20.611	Incentive Grant Program to Prohibit Racial Profiling		15,913
20.612	Incentive Grant Program to Increase Motorcyclist Safety		179,121
		TOTAL	**$4,106,921**
TRANSIT SERVICES PROGRAM CLUSTER			
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities		84,494
		TOTAL	**$84,494**
TRANSIT SERVICES PROGRAMS CLUSTER			
20.516	Job Access Reverse Commute		486,495
		TOTAL	**$486,495**

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			AMOUNT
DEPARTMENT OF TREASURY			
21.999	Miscellaneous Non-Major Grants		172,888
		TOTAL	**$172,888**
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION			
30.001	Employment Discrimination Title VII of the Civil Rights Act of 1964		56,460
		TOTAL	**$56,460**
GENERAL SERVICES ADMINISTRATION			
39.003	Donation of Federal Surplus Personal Property		74,017
39.011	Election Reform Payments		501,257
		TOTAL	**$575,274**
LIBRARY OF CONGRESS			
42.999	Miscellaneous Non-Major Grants: From National Film Preservation Found.		15,515
		TOTAL	**$15,515**
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
43.001	Aerospace Education Services Program		29,787
43.001	Aerospace Education Services Program: From John Hopkins Univ.		2,257
		TOTAL	**$32,044**
NATIONAL ENDOWMENT FOR THE HUMANITIES			
45.024	Promotion of the Arts-Grants to Organizations and Individuals		35,000
45.025	Promotion of the Arts-Partnership Agreements		848,290
45.129	Promotion of the Humanities-Federal/State Partnership		257,719
45.129	Promotion of the Humanities-Federal/State Partnership: From Hummanties Montana		37,431
45.163	Promotion of the Humanities-Seminars and Institutes		9,523
45.310	State Library Program		1,114,430
45.312	Institute of Museum and Library Services - National Leadership Grants		9,434
45.313	Laura Bush 21st Century Librarian Program		530,500
		TOTAL	**$2,842,327**

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		AMOUNT
NATIONAL SCIENCE FOUNDATION		
47.041	Engineering Grants: From Univesity of Alaska	32,686
47.074	Biological Sciences	56,077
47.075	Social, Behavioral, and Economic Sciences	47,311
47.076	Education and Human Resources	948,793
47.076	Education and Human Resources: From Salish Kootenai College	260,226
47.076	Education and Human Resources: From National Evolutionary Synthesis Ctr	15,500
	TOTAL	**$1,360,593**
SMALL BUSINESS ADMINISTRATION		
59.000	Small Business Administration-Technical Assistance Grant	167,362
59.037	Small Business Development Center	776,839
59.058	Federal and State Technology Partnership Program	48,591
59.061	State Trade and Export Promotion Pilot Grant Program	89,213
	TOTAL	**$1,082,005**
DEPARTMENT OF VETERANS AFFAIRS		
64.014	Veterans State Domiciliary Care	141,244
64.015	Veterans State Nursing Home Care	5,544,715
64.124	All-Volunteer Force Educational Assistance	136,708
	TOTAL	**$5,822,667**
ENVIRONMENTAL PROTECTION AGENCY		
66.040	State Clean Diesel Grant Program	652,111
66.202	Congressionally Mandated Projects	89,309
66.433	State Underground Water Source Protection	107,471
66.454	Water Quality Management Planning	99,984
66.458	Capitalization Grants For State Revolving Funds	2,267,853
66.460	Nonpoint Source Implementation Grants	2,098,939
66.461	Regional Wetland Program Development Grants	139,398
66.468	Capitalization Grants for Drinking Water State Revolving Fund	7,919,521
66.468	ARRA Capitalization Grants for Drinking Water State Revolving Fund	1,008,892

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		AMOUNT
66.471	State Grants to Reimburse Operators of Small Water Sys for Training Certification Costs	106,206
66.474	Water Protection Grants to the States	52,908
66.511	Office of Research and Development Consolidated Research/Training/Fellowships: From Assn of Pesticide Control Officials	1,712
66.514	Science To Achieve Results (STAR) Fellowship Program	71,105
66.605	Performance Partnership Grants	5,992,912
66.608	One Stop Reporting	285,318
66.708	Pollution Prevention Grants Program	15,313
66.716	Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach: From Ntl Assn. of State Depts of Agriculture	1,896
66.802	Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop.	3,235,560
66.804	State Underground Storage Tanks Program	450,701
66.805	Leaking Underground Storage Tank Trust Fund Program	896,476
66.805	ARRA Leaking Underground Storage Tank Trust Fund Program	32,437
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	192,739
66.817	State and Tribal Response Program Grants	674,139
66.951	Environmental Education Grants	11,228
66.999	Miscellaneous Non-Major Grants	135,578
	TOTAL	**$26,539,706**

DEPARTMENT OF ENERGY

81.041	State Energy Program	256,769
81.041	ARRA State Energy Program	9,199,214
81.041	State Energy Program: From Washington State University	44,566
81.042	Weatherization Assistance for Low-Income Persons	1,828,028
81.042	ARRA Weatherization Assistance for Low-Income Persons	5,447,127
81.042	Weatherization Assistance for Low-Income Persons: From University of Nebraska	1,640
81.086	Conservation Research and Development	2,640,898
81.086	Conservation Research and Development: From Kootenai Tribe	56,039
81.087	Renewable Energy Research and Development	1,218,406
81.112	Stewardship Science Grant Program	34,187
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training	17,756
81.119	State Energy Program Special Projects	93,015
81.127	ARRA Energy Efficient Appliance Rebate Program (EEARP)	9,718

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		AMOUNT
81.128	ARRA Energy Efficiency and Conservation Block Grant Program (EECBG)	3,934,679
81.999	Miscellaneous Non-Major Grants	10,834
81.999	ARRA Miscellaneous Non-Major Grants: From Pacific Northwest National Laboratory	38,923
	TOTAL	**$24,831,799**

DEPARTMENT OF EDUCATION

84.002	Adult Education - State Grant Program	1,286,283
84.011	Migrant Education - Basic State Grant Program	1,031,599
84.013	Title I Program for Neglected and Delinquent Children	124,924
84.017	International Research and Studies	10,374
84.048	Vocational Education - Basic Grants to States	5,205,773
84.051	National Vocational Education Research	242,851
84.116	Fund for the Improvement of Postsecondary Education	94,677
84.116	Fund for the Improvement of Postsecondary Education: From New Mexico State University	26,689
84.128	Rehabilitation Services-Service Projects	24,769
84.129	Rehabilitation Long-Term Training	11,916
84.133	National Institute on Disability and Rehabilitation Research	736,797
84.133	National Institute on Disability and Rehabilitation Research: From Meeting The Challenge	6,684
84.144	Migrant Education - Coordination Program(B)	75,987
84.184	Safe and Drug-Free Schools and Communities - National Programs	67,497
84.185	Byrd Honors Scholarships	8,116
84.186	Safe and Drug-Free Schools and Communities - State Grants	69,220
84.187	Supported Employment Services for Individuals with Severe Disabilities	341,548
84.213	Even Start - State Educational Agencies	84,421
84.224	State Grants for Assistive Technology	439,444
84.243	Tech-Prep Education	235,760
84.265	Rehabiliation Training-State Vocational Rehabilitation Unit In-Service	20,615
84.287	Twenty-First Century Community Learning Centers	5,799,211
84.293	Foreign Language Assistance: From Missoula County Public Schools	(3,555)
84.323	Special Education - State Program Improvement Grants for Children with Disabilities	1,256,722
84.325	Special Education - Personnel Preparation to Improve Services and Results for Children	58,660
84.326	Special Education - Technical Assistance and Dissemination to Improve Services an	126,889

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			AMOUNT
84.326	Special Education - Technical Assistance and Dissemination to Improve Services and Results: From CA State University Northridge		179,931
84.330	Advanced Placement Program		36,760
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)		3,201,469
84.335	Child Care Access Means Parents in School		45,233
84.358	Rural Education		258,048
84.359	Early Reading First		1,332,923
84.365	English Language Acquisition Grants		755,170
84.366	Mathematics and Science Partnerships		879,446
84.367	Improving Teacher Quality State Grants		13,480,417
84.368	Grants for Enhanced Assessment Instruments		855
84.369	Grants for State Assessments and Related Activities		3,213,812
84.371	Striving Readers		3,444,349
84.378	College Access Challenge Grant Program		1,643,973
84.410	Education Jobs Fund		452,404
84.998	American Printing House for the Blind		4,006
84.999	Miscellaneous Non-Major Grants		214,749
84.999	Miscellaneous Non-Major Grants: From Univ of CA - Nat. Writing Proj.		35,260
84.999	Miscellaneous Non-Major Grants: From WestEd		30,184
		TOTAL	**$46,592,860**
EARLY INTERVENTION SERVICES (IDEA) CLUSTER			
84.181	Special Education-Grants for Infants and Families with Disabilities		1,387,030
84.393	ARRA Special Education - Grants for Infants and Families		1,428,220
		TOTAL	**$2,815,250**
EDUC. OF HOMELESS CHILDREN AND YOUTH CLUSTER			
84.196	Education for Homeless Children and Youth		197,524
		TOTAL	**$197,524**
EDUCATIONAL TECHNOLOGY STATE GRANTS CLUSTER			
84.318	Education Technology State Grants		396,502
84.386	ARRA Education Technology State Grants		823,864
84.386	Education Technology State Grants: From Bridger School		37,065
84.386	ARRA Education Technology State Grants: From Bridger School		56,259
		TOTAL	**$1,313,690**

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		AMOUNT
INDEP. LIVING SERV. FOR OLDER INDIV. WHO ARE BLIND CLUSTER		
84.177	Rehabilitation Services-Independent Living Services for Older Individuals/Blind	267,233
	TOTAL	**$267,233**
INDEPENDENT LIVING STATE GRANTS CLUSTER		
84.169	Independent Living-State Grants	292,071
84.398	ARRA Independent Living State Grants	141,566
	TOTAL	**$433,637**
SCHOOL IMPROVEMENT GRANTS CLUSTER		
84.377	School Improvement Grants	1,185,354
84.388	ARRA School Improvement Grants, Recovery Act	3,010,118
	TOTAL	**$4,195,472**
SPECIAL EDUCATION CLUSTER		
84.027	Special Education - Grants to States	39,291,452
84.027	Special Education - Grants to States: From VA Commonwealth Univ.	18,682
84.173	Special Education - Preschool Grants	1,195,409
84.391	ARRA Special Education Grants to States	3,242,589
84.392	ARRA Special Education - Preschool Grants, Recovery Act	111,409
	TOTAL	**$43,859,541**
STATEWIDE DATA SYSTEMS CLUSTER		
84.372	Statewide Data Systems	1,456,063
	TOTAL	**$1,456,063**
STUDENT FINANCIAL ASSISTANCE CLUSTER		
84.007	Federal Supplemental Educational Opportunity Grants	1,286,484
84.032	Federal Family Education Loans	1,075,516
84.033	Federal Work - Study Program	1,980,011
84.038	Federal Perkins Loan Program - Federal Capital Contributions	57,978
84.063	Federal Pell Grant Program	65,123,551
84.268	Federal Direct Student Loans	217,356,315
84.375	Academic Competitiveness Grants	375
84.379	Teacher Education Assistance for College and Higher Education Grants	30,500
93.342	Health Professions Student Loans, Including Primary Care Loans	499
93.407	ARRA Scholarships for Disadvantaged Students	77
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds	427,958

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		AMOUNT
	TOTAL	**$287,339,264**
TEACHER QUALITY PARTNERSHIP GRANTS CLUSTER		
84.336	Teacher Quality Enhancement Grants	217,889
	TOTAL	**$217,889**
TITLE 1, PART A CLUSTER		
84.010	Title I Grants To Local Education Agencies	46,579,120
84.389	ARRA Title I Grants to Local Educational Agencies, Recovery Act	3,849,755
	TOTAL	**$50,428,875**
TRIO CLUSTER		
84.042	TRIO-Student Support Services	1,647,378
84.044	TRIO-Talent Search	948,248
84.047	TRIO-Upward Bound	2,041,714
84.066	TRIO-Educational Opportunity Centers	607,193
84.217	McNair Post - Baccalaureate Achievement	210,182
	TOTAL	**$5,454,715**
VOCATIONAL REHABILITATION CLUSTER		
84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States	13,586,541
84.390	ARRA - Rehabilitation Services-Vocational Rehabilitation	371,244
	TOTAL	**$13,957,785**
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION		
89.003	National Historical Publications and Records Grants	81,881
	TOTAL	**$81,881**
ELECTION ASSISTANCE COMMISSION		
90.401	Help America Vote Act Requirements Payments	197,595
	TOTAL	**$197,595**
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.041	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention	13,027
93.042	Special Programs for the Aging-Title VII, Chapter 2-LongTerm Care Ombudsman Services	90,580
93.043	Special Programs for the Aging-Title III, Part D - DiseasePrevention/Health Promotion Serv	104,888
93.048	Special Programs for the Aging - Title IV and Title II Discretionary Projects	270,910

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		AMOUNT
93.052	Nation Family Caregiver Support Program	734,334
93.068	Chronic Diseases: Research, Control, and Prevention: From Nat. Assoc. of Chronic Disease Dir.	15,274
93.069	Public Health Emergency Preparedness	4,823,216
93.070	Environmental Public Health and Emergency Response	623,251
93.072	Lifespan Respite Care Program	58,144
93.090	ARRA Guardianship Assistance	3,021
93.090	Guardian Assistance	767,134
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	330,600
93.110	Maternal and Child Health Federal Consolidated Programs	225,197
93.110	Maternal and Child Health Federal Consolidated Programs: From Utah State University	8,174
93.113	Biological Response to Environmental Health Hazards	54,741
93.116	Project Grant and Cooperative for Tuberculosis Control Program	183,778
93.127	Emergency Medical Services for Children	128,225
93.130	Primary Care Services-Resource Coordination and Development	130,133
93.150	Projects for Assistance in Transition from Homelessness (PATH)	288,305
93.157	Centers of Excellence	360,286
93.165	Grants to States for Loan Repayment Program	71,453
93.184	Disabilities Prevention	504,900
93.184	Disabilities Prevention: From University of Illinois	1,510
93.210	Tribal Self-Governance Program: IHS Compacts/Funding Agreements: From Salish Kootenai College	32,182
93.217	Family Planning Services	2,404,568
93.236	Grants for Dental Public Health Residency Training	102,588
93.241	State Rural Hospital Flexibility Program	993,384
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	914,897
93.249	Public Health Training Centers Grant Program: From University of Washington	(1,535)
93.251	Universal Newborn Hearing Screening	277,744
93.259	Rural Access to Emergency Devices Grant	1,053
93.262	Occupational Safety and Health Program	104,713
93.262	Occupational Safety and Health Program: From Colorado State University	1,541
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	8,290,690

State of Montana
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		AMOUNT
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance: From Assoc. Univ. Centers Disb.	1,593
93.307	Minority Health and Health Disparities Research	9,401,705
93.308	Extramural Loan Repayment for Indiv from Disadvant. Backgrounds Cond Clinical Research	177,624
93.358	Advanced Education Nursing Traineeships	31,156
93.389	National Center for Research Resources	257,898
93.411	ARRA - Equipment to Enhance Training for Health Professionals	381
93.414	ARRA - State Primary Care Offices	119,734
93.448	Food Safety and Security Monitoring Project	101,832
93.449	Ruminant Feed Ban Support Project	23,094
93.500	Pregnancy Assistance Fund Program	771,470
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	2,491,677
93.507	Strengthening Public Health Infrastructure for Improved Health Outcomes	198,612
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	365,330
93.518	Affordable Care Act - Medicare Improvements for Patients and Providers	28,797
93.519	Affordable Care Act (ACA) - Consumer Assistance Program Grants	85,783
93.520	Centers for Disease Control and Prevention -Affordable Care Act (ACA)	54,256
93.521	The Affordable Care Act: Building Epidemiology, Lab, and Health Info Systems Capacity	549,931
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	411,804
93.531	PPHF 2012: Community Transfromation Grants and National Dissemination	170,375
93.536	The Affordable Care Act Medicaid Incentives for Prevention of Chronic Disease	83,163
93.544	The Patient Protection and Affordable Care Act of 2010 -Coordinated Chronic Disease Prev.	164,585
93.556	Promoting Safe and Stable Families	1,081,944
93.563	Child Support Enforcement	10,711,265
93.566	Refugee and Entrant Assistance-State Administered Programs	7,122
93.568	Low Income Home Energy Assistance	23,237,911
93.586	State Court Improvement Program	275,147
93.590	Community-Based Family Resource and Support Grants	171,072
93.597	Grants to States for Access and Visitation Programs	101,786
93.599	Chafee Education and Training Vouchers Program (ETV)	169,897
93.603	Adoption Incentive Payments	(363)

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		AMOUNT
93.617	Voting Access for Individuals with Disabilities - Grants to States	53,266
93.630	Developmental Disabilities Basic Support and Advocacy Grants	275,672
93.632	University Centers for Excellence in Developmental Disabilities Education, Res, and Ser.	522,061
93.643	Children's Justice Grants to States	93,925
93.645	Child Welfare Service-State Grant	702,855
93.648	Child Welfare Serv. Training: From Research Fndn. at SUNY	119,107
93.658	Foster Care Title IV-E	11,115,452
93.658	ARRA Foster Care Title IV-E	214,230
93.659	Adoption Assistance	7,715,572
93.659	ARRA Adoption Assistance	223,937
93.667	Social Services Block Grant	6,921,651
93.669	Child Abuse and Neglect State Grants	173,882
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters	867,785
93.674	Chafee Foster Care Independence Program	497,859
93.701	ARRA Trans-NIH Recovery Act Researcg Support	51,164
93.713	ARRA Child Care and Development Block Grant	1,457
93.717	ARRA Preventing Healthcare-Associated Infections	95,473
93.721	ARRA Health Information Technology Professionals in Health Care: From Bellevue Community College	273,851
93.723	ARRA Emergency Contingency Fund for Temporary Assistance	307,400
93.729	ARRA Health Information Technology and Public Health	222,528
93.767	State Children's Insurance Program	53,396,200
93.768	Medicaid Infrastr, Grants To Support the Competitive Employ of People with Disabilities	400,751
93.789	Alternatives to Psychiatric Residential Treatment Facilities for Children	1,247,330
93.791	Money Follows the Person Rebalancing Demonstration	23,226
93.888	Specially Selected Health Projects	67,743
93.889	National Bioterrorism Hospital Preparedness Program	1,637,467
93.912	Rural Outreach-Rural Network Developmental Program: From ST Lukes Community Hospital	15,151
93.912	Rural Outreach-Rural Network Developmental Program: From Madison Valley Medical Center	1,627
93.913	Grants to States for Operation of Offices of Rural Health	174,293
93.917	HIV Care Formula Grants	1,074,678
93.938	Cooperative Agreements to Support School Health Programs	281,451
93.940	HIV Prevention Activities-Health Department Based	1,421,057

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			AMOUNT
93.944	HIV/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance		85,142
93.958	Block Grants for Community Mental Health Services		1,229,161
93.959	Block Grants for Prevention and Treatment of Substance Abuse		5,921,561
93.969	Geriatric Education Centers		407,771
93.970	Health Professions Recruitment Program for Indians		42,236
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants		362,671
93.991	Preventive Health and Health Services Block Grant		347,281
93.994	Maternal and Child Health Services Block Grant to the States		2,479,524
93.999	Miscellaneous Non-Major Grants		53,219
		TOTAL	**$175,278,154**
AGING CLUSTER			
93.044	Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers		1,745,685
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services		3,202,138
93.053	Nutrition Services Incentive Program		1,238,745
		TOTAL	**$6,186,568**
CCDF CLUSTER			
93.575	Child Care and Development Block Grant		15,806,918
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development		7,775,207
		TOTAL	**$23,582,125**
CSBG CLUSTER			
93.569	Community Services Block Grant		3,052,148
		TOTAL	**$3,052,148**
HEAD START CLUSTER			
93.600	Head Start		141,950
93.708	ARRA Head Start		155,834
		TOTAL	**$297,784**
IMMUNIZATION CLUSTER			
93.268	Immunization Grant		9,194,181
93.712	ARRA Immunization		264,104
		TOTAL	**$9,458,285**
MEDICAID CLUSTER			
93.775	State Medicaid Fraud Control Units		539,654

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			AMOUNT
93.777	State Survey and Certification of Health Care Providers and Suppliers		2,556,910
93.778	Medical Assistance Program		693,993,768
93.778	ARRA Medical Assistance Program		(2,268,197)
		TOTAL	**$694,822,135**
TANF CLUSTER			
93.558	Temporary Assistance for Needy Families (TANF)		30,190,472
93.714	ARRA Emergency Contingency Fund for Temporary Assistance		(460,781)
		TOTAL	**$29,729,691**
CORPORATION FOR NATIONAL & COMMUNITY SERVICE			
94.003	State Commissions		273,452
94.004	Learn and Serve America-School and Community Based Programs		25,431
94.006	AmeriCorps		2,931,075
94.006	AmeriCorps: From Regis University		3,384
94.007	Planning and Program Development Grants		55,785
94.007	Planning and Program Development Grants: From Regis University		84,947
94.007	Planning and Program Development Grants: From Elon University NC		674
94.009	Training and Technical Assistance		55,367
94.013	Volunteers in Service to America		701,735
		TOTAL	**$4,131,850**
SOCIAL SECURITY ADMINISTRATION			
96.008	Social Security-Benefits Planning, Assistance, and Outreach Program		78,405
		TOTAL	**$78,405**
DISABILITY INSURANCE/SSI CLUSTER			
96.001	Social Security - Disability Insurance		7,054,047
		TOTAL	**$7,054,047**
HOMELAND SECURITY			
97.001	Pilot Demonstration or Earmarked Projects		(271,615)
97.012	Boating Safety Financial Assistance		478,878
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants		74,287
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)		187,521
97.026	Emergency Management Institute Training Assistance		(18,127)

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		AMOUNT
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	41,290,133
97.038	First Responder Counter-Terrorism Training Assistance	10,328
97.039	Hazard Mitigation Grant	6,472
97.041	National Dam Safety Program	248,171
97.042	Emergency Management Performance Grants	2,581,092
97.043	State Fire Training Systems Grants	20,267
97.045	Cooperating Technical Partners	917,036
97.046	Fire Management Assistance Grant	789,841
97.047	Pre-Disaster Mitigation	321,270
97.052	Emergency Operations Centers	306,577
97.078	Buffer Zone Protection Plan (BZPP)	186,979
97.082	Earthquake Consortium	51,273
97.120	Border Interoperability Demonstration Project	9,619
	TOTAL	**$47,190,002**
HOMELAND SECURITY CLUSTER		
97.067	Homeland Security Grant Program	2,802,181
	TOTAL	**$2,802,181**

OTHER FEDERAL

95.001	High Intensity Drug Trafficking Areas Program	175,790
95.001	High Intensity Drug Trafficking Areas Program: From City of Billings	3,107
95.001	High Intensity Drug Trafficking Areas Program: From Lewis and Clark County	2,042
95.001	High Intensity Drug Trafficking Areas Program: From Flathead County	21,241
	TOTAL	**$202,180**

State of Montana
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RESEARCH AND DEVELOPMENT CLUSTER

DEPARTMENT OF AGRICULTURE

		AMOUNT
10.001	Agricultural Research-Basic and Applied Research	28,891
10.025	Plant and Animal Disease, Pest Control, and Animal Care	326,500
10.025	Plant and Animal Disease, Pest Control, and Animal Care: From Blackfeet Nation	2,800
10.069	Conservation Reserve Program	8,035
10.156	Federal-State Marketing Improvement Program	12,167
10.200	Grants for Agricultural Research, Special Research Grants	862,217
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Washington	19,195
10.200	Grants for Agricultural Research, Special Research Grants: From Oregon State Univ.	1,019
10.200	Grants for Agricultural Research, Special Research Grants: From North Dakota Univ	9,969
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Idaho	120,116
10.200	Grants for Agricultural Research, Special Research Grants: From South Dakota Univ.	112,606
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Calf. Davis	29,218
10.200	Grants for Agricultural Research, Special Research Grants: From Colorado State Univ.	7,984
10.200	Grants for Agricultural Research, Special Research Grants: From Rutgers University	20,673
10.202	Cooperative Forestry Research	396,951
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	2,060,690
10.206	Grants for Agricultural Research-Competitive Research Grants	725,063
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of Idaho	4,497
10.207	Animal Health and Disease Research	46,442
10.210	Food and Agricultural Sciences National Needs	88,161
10.215	Sustainable Agriculture Research and Education	146
10.215	Sustainable Agriculture Research and Education: From Utah State	164,984
10.215	Sustainable Agriculture Research and Education: From University of Wyoming	1,219
10.217	Higher Education Challenge Grants	71,863
10.221	Tribal Colleges Education Equity Grants: From Fort Peck Community College	41,460
10.227	1994 Institutions Research Program: From Fort Peck Community College	18,166

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		AMOUNT
10.227	1994 Institutions Research Program: From Chief Dull Knife C.C.	8,484
10.227	1994 Institutions Research Program: From Fort Belknap C.C.	29,780
10.303	Integrated Programs	409,777
10.303	Integrated Programs: From Colorado State Univ.	70,722
10.303	Integrated Programs: From Univ. of Calf. Davis	(2)
10.304	Homeland Security - Agricultural: From Kansas State Univ.	53,419
10.309	Specialty Crop Research Initiative: From Washington State	6,386
10.310	Agriculture and Food Research Initiative (AFRI)	306,639
10.310	Agriculture and Food Research Initiative (AFRI): From University of Minnesota	157
10.310	Agriculture and Food Research Initiative (AFRI): From Univ. of Calf. Davis	437,363
10.310	Agriculture and Food Research Initiative (AFRI): From Oregon State	15,314
10.310	Agriculture and Food Research Initiative (AFRI): From Washington State	113,518
10.310	Agriculture and Food Research Initiative (AFRI): From Emory University	78,432
10.443	Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers: From Little Big Horn College	19,057
10.456	Rural Community Development Initiative: From National Center for Appropriate Technology	(74)
10.500	Cooperative Extension Service	842,349
10.500	Cooperative Extension Service: From Oregon State	844
10.500	Cooperative Extension Service: From Colorado State	12,361
10.500	Cooperative Extension Service: From University of Wyoming	14,382
10.500	Cooperative Extension Service: From University of Nebraska	86,288
10.500	Cooperative Extension Service: From North Dakota State	15,855
10.500	Cooperative Extension Service: From University of Arizona	(6,678)
10.500	Cooperative Extension Service: From SARE Progam	62,180
10.500	Cooperative Extension Service: From Kansas State Univ.	156,394
10.500	Cooperative Extension Service: From Auburn University	5,390
10.500	Cooperative Extension Service: From Utah State	9,820
10.500	Cooperative Extension Service: From Fort Peck C.C.	45,777
10.500	Cooperative Extension Service: From Purdue University	40,228
10.500	Cooperative Extension Service: From Mississippi State	1,284
10.652	Forestry Research	5,327,790
10.652	Forestry Research: From A. Carhart	94,460

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		AMOUNT
10.652	Forestry Research: From SUNY Research Inst.	29,748
10.652	Forestry Research: From Nat. Fish & Wildlife Foundation	20,246
10.652	Forestry Research: From Blackfoot Challenge	69,723
10.652	Forestry Research: From Wilderness Society	15,041
10.652	Forestry Research: From Salish Kootenai College	6,356
10.652	Forestry Research: From Nat. Fish & Wildlife Foundation	35,872
10.664	Cooperative Forestry Assistance	60,880
10.674	Forest Products Lab: Technology Marketing Unit	131,141
10.676	Forest Legacy Program	656
10.680	Forest Health Protection	36,277
10.681	Wood Education and Resource Center (WERC)	32,688
10.682	National Forest Foundation: From National Forest Foundation	14,051
10.777	Norman E. Borlaug International Agricultural Science and Technology Fellowship	29,900
10.859	Assistance to High Energy Cost Rural Communities: From University of Nebraska	11
10.902	Soil and Water Conservation	216,842
10.902	Soil and Water Conservation: From Univ. of Wisconsin	106,135
10.902	Soil and Water Conservation: From Pheasants Forever, Inc	9,923
10.912	Environmental Quality Incentives Program	174,375
10.912	Environmental Quality Incentives Program: From Pheasants Forever, Inc	9,923
10.912	Environmental Quality Incentives Program: From Polinator Partnership	7,106
10.914	Wildlife Habitat Incentive Program: From Pheasants Forever, Inc	9,923
10.961	Scientific Cooperation and Research	21,448
10.999	Miscellaneous Non-Major Grants	57,499
	TOTAL	**$14,534,492**

DEPARTMENT OF COMMERCE

11.010	Community Trade Adjustment Assistance: From Bitteroot Economic Development	8,953
11.303	Economic Development-Technical Assistance	128,125
11.307	Economic Adjustment Assistance	14,575
11.439	Marine Mammal Data Program	89,056
11.440	Environmental Sciences, Applications, Data, and Education	445
11.609	Measurement and Engineering Research and Standards	431
11.611	Manufacturing Extension Partnership	492,263

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		AMOUNT
	TOTAL	**$733,848**

DEPARTMENT OF DEFENSE

		AMOUNT
12.002	Procurement Technical Assistance For Business Firms	3,171,378
12.002	Procurement Technical Assistance For Business Firms: From S2 Corp	166,282
12.114	Collaborative Research and Development	875,158
12.114	Collaborative Research and Development: From ADVR Inc.	59,238
12.114	Collaborative Research and Development: From University of Colorado	135,850
12.300	Basic and Applied Scientific Research	1,129,765
12.300	Basic and Applied Scientific Research: From Adv. Accoustics Concepts	65,409
12.300	Basic and Applied Scientific Research: From Impact Tech. LLC	70,038
12.300	Basic and Applied Scientific Research: From Univ. of Oklahoma	383,850
12.300	Basic and Applied Scientific Research: From Aerodyne Research	8,681
12.300	Basic and Applied Scientific Research: From Edison Welding Institute	37,956
12.360	Research on Chemical and Biological Defense	60,254
12.420	Military Medical Research and Development	1,201,005
12.431	Basic Scientific Research	161,237
12.630	Basic, Applied, and Advanced Research in Science and Engineering	611,845
12.800	Air Force Defense Research Sciences Program	1,925,612
12.800	Air Force Defense Research Sciences Program: From South Dakota Univ.	8,958
12.800	Air Force Defense Research Sciences Program: From ALD NanoSolutions Inc.	557
12.800	Air Force Defense Research Sciences Program: From Rutgers University	3
12.800	Air Force Defense Research Sciences Program: From University of Minnesota	142,329
12.910	Reseach and Technology Development	296,767
12.999	Miscellaneous Non-Major Grants	8,196
12.999	Miscellaneous Non-Major Grants: From Bridger Phontics	844
12.999	Miscellaneous Non-Major Grants: From ACI Technologies, Inc.	694,077
12.999	Miscellaneous Non-Major Grants: From Tetratecs	152
12.999	Miscellaneous Non-Major Grants: From UES Inc.	16,302
12.999	Miscellaneous Non-Major Grants: From Lockheed Martin	91,077
12.999	Miscellaneous Non-Major Grants: From S2CORP	89,306
12.999	Miscellaneous Non-Major Grants: From Radiance Technologies	36,824
	TOTAL	**$11,448,950**

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		AMOUNT
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
14.999	ARRA Miscellaneous Non-Major Grants	301,997
	TOTAL	**$301,997**
DEPARTMENT OF THE INTERIOR		
15.034	Agriculture on Indian Lands	20,974
15.224	Cultural Resource Management	82,994
15.228	Wildland Urban Interface Community and Rural Fire Assistance	40,042
15.230	Invasive and Noxious Plant Management	46,977
15.231	Fish, Wildlife and Plant Conservation Resource Management	270,521
15.234	Secure Rural Schools and Community Self-Determination	64,625
15.236	Environmental Quality and Protection Resource Management	209,588
15.238	Challenge Cost Share	103,802
15.239	Management Initiatives	42,315
15.255	Applied Science Program Cooperative Agreements Related to Coal Mining and Reclamation: From Washington State University	23,086
15.299	Miscellaneous Non-Major Grants	68,215
15.524	Recreation Resources Management	2,904
15.608	Fish and Wildlife Management Assistance	91,361
15.608	Fish and Wildlife Management Assistance: From Yellowstone Yukon Cons.	9,036
15.608	Fish and Wildlife Management Assistance: From Univ. of Nebraska	1,847
15.611	Wildlife Restoration: From Washington F&W	18,563
15.615	Cooperative Endangered Species Conservation Fund	1,618
15.615	Cooperative Endangered Species Conservation Fund: From Colorado State	4,317
15.634	State Wildlife Grants	26,051
15.635	Neotropical Migratory Bird Conservation	53,537
15.637	Migratory Bird Joint Ventures: From Duck Unlimited	46,772
15.642	Challenge Cost Share	83
15.649	Service Training and Technical Assistance (Generic Training)	130,369
15.650	Research Grants (Generic)	595,995
15.655	Migratory Bird Monitoring, Assessment and Conservation	50,273
15.657	Endangered Species Conservation - Recovery Implementation Funds	386,704
15.664	Yukon River Salmon Research and Management Assistance	71,795

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		AMOUNT
15.699	USDI/Fish & Wildlife Service	2,904
15.805	Assistance to State Water Resources Research Institutes	75,035
15.807	ARRA Earthquake Hazards Reduction Program	20,578
15.807	Earthquake Hazards Reduction Program	57,491
15.808	U.S. Geological Survey-Research and Data Acquisition	637,821
15.810	National Cooperative Geologic Mapping Program	241,837
15.811	Gap Analysis Program	11,903
15.812	Cooperative Research Units Program	807,891
15.814	National Geological and Geophysical Data Preservation Program	18,550
15.815	National Land Remote Sensing Education Outreach and Research: From American View Inc.	83,266
15.819	Energy Cooperatives to Support the National Coal Resources Data System (NCRDS)	15,730
15.904	Historic Preservation Fund Grants-in-Aid	18,383
15.904	Historic Preservation Fund Grants-in-Aid: From Univ. of Wyoming	6
15.915	Technical Preservation Services	26,441
15.916	Outdoor Recreation: Acquisition, Development and Planning	61,894
15.921	Rivers, Trails and Conservation Assistance	11,408
15.923	National Center for Preservation Technology and Training	(268)
15.926	ARRA American Battlefield Protection	14,226
15.945	Cooperative Research and Training Programs - NPS	1,109,394
15.999	Miscellaneous Non-Major Grants	410,117
	TOTAL	**$6,088,971**

DEPARTMENT OF JUSTICE

16.541	Part E - Developing, Testing and Demonstrating Promising New Programs	134,427
16.710	Public Safety Partnership and Community Policing Grants	273,122
16.727	Enforcing Underage Drinking Laws Program: From Oregon Dept of Health	157,106
16.746	Capital Case Litigation	74,846
	TOTAL	**$639,501**

DEPARTMENT OF STATE

19.500	Middle East Partnership Initiative (MEPI)	180,835
19.999	Miscellaneous Grants	13,614
	TOTAL	**$194,449**

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DEPARTMENT OF TRANSPORTATION

		AMOUNT
20.109	Air Transportation Centers of Excellence: From Aerodyne Res. Incorporated	11,385
20.200	Federal Highway Administration	1,486,680
20.200	Federal Highway Administration: From Univ.of Iowa	107,644
20.200	Federal Highway Administration: From Nat. Academies of Science	75,054
20.200	Federal Highway Administration: From Oregon DOT	233,219
20.200	Federal Highway Administration: From Washington DOT	66,663
20.200	Federal Highway Administration: From California DOT	74,255
20.200	Federal Highway Administration: From Minnesota DOT	48,401
20.200	Federal Highway Administration: From Transporation Research Board	9,187
20.205	Highway Planning and Construction	1,325,767
20.205	Highway Planning and Construction: From Center for Native Ecosystems	150
20.219	Recreational Trails Program	(651)
20.520	Paul S. Sarbanes Transit in the Parks	1,688,777
20.600	State and Community Highway Safety: From Virginia Tech	34,654
20.600	State and Community Highway Safety: From University fo Alaska	29,444
20.610	State Traffic Safety Information System Improvement Grants: From Westat	164,774
20.614	National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants	204,422
20.701	University Transportation Centers Program: From University of Alaska	129,718
20.704	RITA Hydrogen	16,828
20.762	Research Grants	571,921
20.999	Miscellaneous Non-Major Grants: From Aerodyne Research	17,794
	TOTAL	**$6,296,086**

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

		AMOUNT
43.001	Aerospace Education Services Program	4,227,785
43.001	Aerospace Education Services Program: From University of California	29,926
43.001	Aerospace Education Services Program: From Lockheed Martin	1,497,620
43.001	Aerospace Education Services Program: From University of Illinois	26,982
43.001	Aerospace Education Services Program: From California Institute of Tech.	64,523
43.001	Aerospace Education Services Program: From ADNET Systems Inc.	2,125
43.001	Aerospace Education Services Program: From Smithisonian Astophysical	601,111

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		AMOUNT
43.001	Aerospace Education Services Program: From Univ. of North Dakota	33,873
43.001	Aerospace Education Services Program: From John Hopkins Univ.	34,059
43.001	Aerospace Education Services Program: From Univ. Corp. for Atmosph. Res.	62,905
43.001	Aerospace Education Services Program: From Princeton	35,927
43.001	Aerospace Education Services Program: From South Dakota State Unv	13,458
43.001	Aerospace Education Services Program: From University of Kansas	24,531
43.001	Aerospace Education Services Program: From Research Fndn of CUNY	26,523
43.001	Aerospace Education Services Program: From ADVR Inc.	27,655
43.002	Technology Transfer	324,369
43.002	Technology Transfer: From Smithsonian Astrophysical Observ.	188,143
43.002	Technology Transfer: From Carnegie Inst.	50,234
43.002	Technology Transfer: From ADVR Inc.	89,458
43.008	Education	111,872
43.009	Cross Agency Support	236,411
43.999	Miscellaneous Non-Major Grants	738,936
43.999	Miscellaneous Non-Major Grants: From University of Maryland	15
43.999	Miscellaneous Non-Major Grants: From Woods Hole Res. Center	49,843
43.999	Miscellaneous Non-Major Grants: From CA Inst. of Tech.	316,596
43.999	Miscellaneous Non-Major Grants: From Univ. of CA, Irvine	44,238
43.999	Miscellaneous Non-Major Grants: From SW Research Institute	72,819
	TOTAL	**$8,931,937**

NATIONAL ENDOWMENT FOR THE HUMANITIES

45.129	Promotion of the Humanities-Federal/State Partnership: From Hummanties Montana	5,566
45.161	Promotion of the Humanities Research	17,571
45.169	Promotion of the Humanities - Office of Digital Humanities	2,220
	TOTAL	**$25,357**

NATIONAL SCIENCE FOUNDATION

47.041	Engineering Grants	1,113,603
47.041	Engineering Grants: From Bridger Photonics	25,587
47.041	Engineering Grants: From S2CORP	49,586
47.041	Engineering Grants: From MT Microbial Products	12,919

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2012

		AMOUNT
47.041	Engineering Grants: From University of Washington	50,426
47.049	Mathematical and Physical Sciences	2,310,752
47.049	Mathematical and Physical Sciences: From University of Chicago	58,469
47.049	Mathematical and Physical Sciences: From University of Maryland	55,491
47.049	Mathematical and Physical Sciences: From Research in Astronomy Inc.	18,094
47.050	Geosciences	1,916,682
47.050	Geosciences: From University of Georgia	10,845
47.050	Geosciences: From Univ. of Missouri	151,352
47.070	Computer and Information Science and Engineering	147,751
47.074	Biological Sciences	4,015,125
47.074	Biological Sciences: From Washington State	66,781
47.074	Biological Sciences: From Villanova	62,204
47.074	Biological Sciences: From University of Idaho	2,472
47.075	Social, Behavioral, and Economic Sciences	489,685
47.076	Education and Human Resources	1,851,000
47.076	Education and Human Resources: From Salish Kootenai College	186,492
47.076	Education and Human Resources: From Lousiana Tech	37,386
47.078	Polar Programs	1,060,640
47.078	Polar Programs: From University of Colorado	142,613
47.079	International Science and Engineering (OISE)	703,620
47.079	International Science and Engineering (OISE): From UNLV	64,977
47.080	Office of Cyberinfrastructure	494,977
47.081	Office of Experimental Program to Stimulate Competitive Research	1,725,688
47.082	ARRA Trans-NSF Recovery Act Research Support	6,734,689
47.082	ARRA Trans-NSF Recovery Act Research Support: From Univ.of Hawaii - Manoa	29,825
	TOTAL	**$23,589,731**

SMALL BUSINESS ADMINISTRATION

59.006	Business Development Program	2,931
59.058	Federal and State Technology Partnership Program	73,180
59.058	Federal and State Technology Partnership Program: From Defense Alliance of Minnesota	103,784
	TOTAL	**$179,895**

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2012

DEPARTMENT OF VETERANS AFFAIRS

		AMOUNT
64.018	Sharing Specialized Medical Resources	10,908
	TOTAL	**$10,908**

ENVIRONMENTAL PROTECTION AGENCY

		AMOUNT
66.001	Air Pollution Control Program Support: From Aerodyne Research Inc.	8,446
66.034	Surveys, Studies, Invest., Demonst and Special Purp Act Relating to the Clean Air Act	395,738
66.419	Water Pollution Control-State and Interstate Program Support	194,166
66.436	Surveys, Studies, Investigations & Demonstrations of the Clean Water Act	18,897
66.460	Nonpoint Source Implementation Grants: From Clearwater Research Council	4,400
66.461	Regional Wetland Program Development Grants	212,078
66.461	Regional Wetland Program Development Grants: From Fort Peck Tribe	9,563
66.461	Regional Wetland Program Development Grants: From Tetra Tech Inc.	46,957
66.461	Regional Wetland Program Development Grants: From NM Surface Water Quality	1,483
66.509	Science To Achieve Results (STAR) Research Program	199,553
66.509	Science To Achieve Results (STAR) Research Program: From University of New England	21,505
66.512	Regional Environmental Monitoring and Assessment Program	81,472
66.516	P3 Award: National Student Design Competition for Sustainability	(1,306)
66.605	Performance Partnership Grants: From North Cheyene Tribe	405
66.708	Pollution Prevention Grants Program	173,941
66.709	Multi-Media Capacity Building Grants for States and Tribes	(17,361)
66.714	Pesticide Environmental Stewardship Regional Grants	50,819
66.716	Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach	61,341
66.717	Source Reduction Assistance	22,680
	TOTAL	**$1,484,777**

DEPARTMENT OF ENERGY

		AMOUNT
81.041	ARRA State Energy Program: From North American Power Group	19,113
81.049	Office of Science Financial Assistance Program	1,152,664
81.049	Office of Science Financial Assistance Program: From Inland NW Research Alliance	44,823
81.049	Office of Science Financial Assistance Program: From Resonon Inc.	51,236
81.049	Office of Science Financial Assistance Program: From J Craig Venter Inst	8,178

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2012

		AMOUNT
81.049	Office of Science Financial Assistance Program: From Resodnyn Inc.	126,031
81.049	Office of Science Financial Assistance Program: From University of Tennessee	68,538
81.049	Office of Science Financial Assistance Program: From Univ. of Southern California	37,109
81.049	Office of Science Financial Assistance Program: From Los Alamos National Security	151,235
81.049	Office of Science Financial Assistance Program: From UT-Battelle	63,663
81.079	Regional Biomass Energy Programs: From South Dakota State Univ.	22,879
81.086	Conservation Research and Development: From Pacific State Marine	145,386
81.087	ARRA Renewable Energy Research and Development	1,391
81.087	ARRA Renewable Energy Research and Development: From Arizona Geological Survey	93,498
81.087	Renewable Energy Research and Development	804,918
81.087	Renewable Energy Research and Development: From South Dakota State Univ.	33,613
81.087	Renewable Energy Research and Development: From Consort. for Plant Biotech.	43,246
81.089	Fossil Energy Research and Development	7,193,605
81.089	Fossil Energy Research and Development: From Crow Tribe	101,622
81.089	Fossil Energy Research and Development: From Little Big Horn College	15,372
81.089	Fossil Energy Research and Development: From Virginia Polytechnic Institute & State University	104,025
81.112	Stewardship Science Grant Program: From Gonzales Stoller Surv.	49,060
81.112	Stewardship Science Grant Program: From Oregon Dept. of Fish and Wild.	12,012
81.122	ARRA Electricity Delivery and Energy Reliability, Research, Development and Analysis	215,437
81.122	ARRA Electricity Delivery and Energy Reliability, Research, Development and Analysis: From Western Electricity Coordinating Council	413,959
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	196,311
81.133	ARRA Geologic Sequestration Training and Research Grant Program	50,357
81.135	Advanced Research and Projects Agency - Energy Financial Assistance Program: From Don Danforth Plant Center	115,259
81.214	Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response: From Nat. Inst. of Building Sciences	7,832
81.214	Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response: From Vista Clara Inc.	24,136
81.214	Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response: From Aerodyne Research	5,294
81.214	Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response: From Amer. Indian Science & Engineer.	2,615
81.999	Miscellaneous Non-Major Grants: From Inland NW Research Alliance	20,531

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2012

		AMOUNT
81.999	Miscellaneous Non-Major Grants: From Battelle Energy Alliance	164,151
81.999	Miscellaneous Non-Major Grants: From Pacific Northwest National Laboratory	12,937
81.999	Miscellaneous Non-Major Grants: From MSE Technology Applications	17,264
81.999	Miscellaneous Non-Major Grants: From Confed Tribes Of The Umatilla Indian Reser	74,952
81.999	Miscellaneous Non-Major Grants: From Los Alamos National Security	44,399
	TOTAL	**$11,708,651**

DEPARTMENT OF EDUCATION

84.016	Undergraduate International Studies and Foreign Language	5,010
84.031	Higher Education Institutional Aid: From Univ. of California Berkeley	17,805
84.116	Fund for the Improvement of Postsecondary Education	176,687
84.120	Minority Science and Engineering Improvement	12,066
84.133	National Institute on Disability and Rehabilitation Research	70,370
84.133	National Institute on Disability and Rehabilitation Research: From University of Kansas	83,770
84.133	National Institute on Disability and Rehabilitation Research: From Baylor College of Medicine	6,899
84.133	National Institute on Disability and Rehabilitation Research: From Portland State University	23,039
84.184	Safe and Drug-Free Schools and Communities - National Programs	91,146
84.295	Ready-To-Learn Television: From Corp. of Public Broadcasting	48,671
84.299	Indian Education - Special Programs	374,727
84.329	Special Education - Studies and Evaluations: From Colorado State University	27,399
84.367	Improving Teacher Quality State Grants: From National Writing Project	994
84.373	Special Education -Technical Assistance on State Data Collection: From Meeting The Challenge	15,496
84.378	College Access Challenge Grant Program	23,094
	TOTAL	**$977,173**

DEPARTMENT OF HEALTH AND HUMAN SERVICES

93.069	Public Health Emergency Preparedness: From University of Arizona	20,119
93.113	Biological Response to Environmental Health Hazards	1,130,272
93.136	Injury Prevention and Control Research and State and Community Based Programs	129,544
93.136	Injury Prevention and Control Research and State and Community Based Programs: From Mount Sinai School of Medicine	87,785
93.155	Rural Health Research Centers	46,988

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2012

		AMOUNT
93.172	Human Genome Research	182,494
93.172	Human Genome Research: From Stanford University	106,055
93.172	Human Genome Research: From Southern Methodist	35,749
93.178	Nursing Workforce Diversity	198,476
93.213	Research and Training in Complementary and Alternative Medicine	1,409,413
93.217	Family Planning Services: From Planned Parenthood	3,212
93.231	Epidemiology Cooperative Agreements: From MT Wyoming Tribal Leader Council	7,459
93.242	Mental Health Research Grants	498,954
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance: From University of Missouri	50,233
93.247	Advanced Education Nursing Grant Program	478,294
93.262	Occupational Safety and Health Program: From University of Utah	9
93.276	Drug-Free Communities Support Program Grants: From Wyoming Dept of Health	132,683
93.279	Drug Abuse Research Programs	246,045
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance: From Assoc. Univ. Centers Disb.	298,185
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	464,667
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health: From University of Illinios	29,236
93.301	Small Rural Hospital Improvement Grant Program	415,458
93.307	Minority Health and Health Disparities Research	1,536,971
93.307	Minority Health and Health Disparities Research: From Little Big Horn College	55,784
93.359	Nurse Education, Practice and Retention Grants: From University of Washington	2,722
93.361	Nursing Research	12,138
93.389	National Center for Research Resources	10,470,184
93.389	National Center for Research Resources: From ZDye Corporation	42,521
93.389	National Center for Research Resources: From Resonon Inc.	117,868
93.393	Cancer Cause and Prevention Research	43,665
93.393	Cancer Cause and Prevention Research: From Miriam Hospital	17,258
93.395	Cancer Treatment Research	125,524
93.395	Cancer Treatment Research: From Vanderbilt Univ.	46,942
93.395	Cancer Treatment Research: From Univ. of Calf. Santa Barbra	(57)
93.395	Cancer Treatment Research: From SensoPath Technologies	(2)

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2012

		AMOUNT
93.396	Cancer Biology Research	34,578
93.509	Affordable Care Act (ACA) State Health Care Workforce Development Grants	97,697
93.652	Adoption Opportunities	193,471
93.701	ARRA Trans-NIH Recovery Act Researcg Support	3,539,095
93.701	ARRA Trans-NIH Recovery Act Researcg Support: From Harvard University	54,079
93.702	ARRA National Center for Research Resources, Recovery Act Construction Support	11,685,525
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	374,961
93.824	Basic/Core Area Health Education Centers	1,538,164
93.824	Basic/Core Area Health Education Centers: From MT Health Research & Ed. Found.	30,042
93.837	Heart and Vascular Diseases Research	347,397
93.837	Heart and Vascular Diseases Research: From Gramercy Research Group	22,651
93.838	Lung Diseases Research	724,355
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	178,497
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	1,955,621
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders: From Yale University	223,743
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders: From University of California Berkeley	80,060
93.855	Allergy, Immunology and Transplantation Research	3,493,007
93.855	Allergy, Immunology and Transplantation Research: From Sorrento Therapeutics Inc	140,966
93.855	Allergy, Immunology and Transplantation Research: From Agile Sciences INc.	59,990
93.855	Allergy, Immunology and Transplantation Research: From University of Conneticut	119,018
93.855	Allergy, Immunology and Transplantation Research: From Colorado State University	138,662
93.856	Microbiology and Infectious Diseases Research: From Colorado State University	666,623
93.856	Microbiology and Infectious Diseases Research: From SIGA Technologies, Inc.	15,979
93.859	Biomedical Research and Research Training	2,245,761
93.859	Biomedical Research and Research Training: From Ohio University	1,248
93.859	Biomedical Research and Research Training: From University of Conneticut	16,072
93.859	Biomedical Research and Research Training: From University of Washington	361,950
93.859	Biomedical Research and Research Training: From University of Southern California	23,332
93.865	Child Health and Human Development Extramural Research	147,008

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2012

		AMOUNT
93.866	Aging Research	660,303
93.867	Vision Research: From University of Rochester	107,922
93.912	Rural Outreach-Rural Network Developmental Program	239,447
93.959	Block Grants for Prevention and Treatment of Substance Abuse: From Oregon DHS	13,827
93.970	Health Professions Recruitment Program for Indians	671,512
93.974	Family Planning Service Delivery Improvement Research Grants	146,851
93.999	Miscellaneous Non-Major Grants	191,042
	TOTAL	**$48,983,304**

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

98.001	USAID Foreign Assistance for Programs Overseas: From Oregon State Univ.	23,392
	TOTAL	**$23,392**

TOTAL RESEARCH AND DEVELOPMENT CLUSTER	**$136,153,419**
TOTAL EXPENDITURES OF FEDERAL AWARDS	**$2,854,691,339**

STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Note 1. Basis of Accounting

The assistance amounts presented in the accompanying Schedule of Expenditures of Federal Awards of the state of Montana are generally expenditures or reimbursement revenues recorded on the modified accrual basis of accounting. This basis recognizes expenditures in the accounting period in which the liability is incurred and revenues when measurable and available. Assistance amounts reported on a basis other than modified accrual are discussed below.

Enterprise Fund Activity
The Unemployment Insurance, Section 8 Voucher and Section 8 Project-based programs are accounted for as enterprise fund activity. Enterprise funds use the full accrual basis of accounting.

Food Distribution Program
The amount reported for Food Distribution programs (CFDA #10.550, #10.567, #10.569, #10.570 and #10.565 and #93.053) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2012, Montana distributed $443,784 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed $8,505,495 in commodities in fiscal year 2012. The value at June 30, 2012 of commodities stored at the state's warehouse is $1,952,607 for which the state is liable in the event of loss. The state has insurance to cover this liability.

Supplemental Nutrition Assistance Program
The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to

the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual state level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 16.55 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2011.

Federal Surplus Personal Property
In accordance with General Service Administration guidelines, the amount presented for Donations of Federal Surplus Personal Property (CFDA #39.003) is 23.3 percent of the original acquisition cost of the property.

Capitalization Grants for State Revolving Funds
The amount presented for the Capitalization Grants for Water Pollution Control State Revolving Fund (CFDA #66.458) represents federal contributions, plus the administrative costs expended as of June 30, 2012. The amount of loans outstanding as of June 30, 2012 in the Water Pollution Control Revolving Fund Program is $192,029,731.

The amount presented for the Drinking Water State Revolving Fund Program (CFDA #66.468) represents federal contributions, plus administrative costs expended as of June 30, 2012. The amount of loans outstanding for the program as of June 30, 2012 is $109,522,038.

Economic Adjustment Assistance Program
The amount presented for the Economic Adjustment Assistance Program (CFDA #11.307) represents federal contributions, plus the administrative costs expended as of June 30, 2012. The amount of loans outstanding as of June 30, 2012 is $350,190 in non-ARRA funds and $2,659,208 in ARRA funds.

Temporary Assistance to Needy Families Loan Program
The Temporary Assistance to Needy Families (CFDA #93.558) contributes to a housing loan program. The amount of housing loans outstanding as of June 30, 2012 is $572,021.

Federal Family Education Loans
The Montana Guaranteed Student Loan Program (MGSLP) guaranteed no new loans for the Federal Family Education Loans (CFDA #84.032) program during FY2012. The outstanding loan balance (including principal, accrued interest and collection cost) of loans guaranteed in previous years for which the federal government has imposed continuing compliance requirement was $69,397,686 at June 30, 2012. The dollar amount of Default Aversion Fees transferred from the Federal Fund to the Agency's Operating Fund during FY2012 was $352,087 (net). In addition, MGSLP received or accrued revenue from the U.S.

Department of Education in FY2012 of $25,059,956 for reinsurance to pay claims for loans due to death, disability, default and bankruptcy of the debtor.

Federal Perkins Loan Program – Federal Capital Contributions
The amount reported for the Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038) represents federal contributions, plus the administrative costs, plus interest expended as of June 30, 2012. The amount of loans outstanding as of June 30, 2012 is $33,081,807.

Nursing Student Loan Program
The amount of loans outstanding for the Nursing Student Loan Program (CFDA # 93.364) as of June 30, 2012 is $1,856,034.

Nursing Faculty Loan Program
The amount of loans outstanding for the Nursing Faculty Loan Program (CFDA # 93.264) as of June 30, 2012 is $144,195.

Minority Health and Health Disparities Research
The amount reported for the Minority Health and Health Disparities (CFDA #93.307) program includes the initial endowment and interest. The initial endowment was $8,437,500.

Childhood Immunization Grants
The amount reported for the Childhood Immunization Grants (CFDA # 93.268) includes the dollar value of vaccine doses received during FY12. The state used the CDC price list to calculate the value of doses received. During fiscal year 2012, Montana received 165,531 vaccine doses valued at $7,824,343.

Tongue River –Northern Cheyenne Tribal Loan
The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe agreed to loan the state of Montana $11,300,000 federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. No expenditures of tribal loan funds were incurred on project costs during FY 2012. The amount of the loan outstanding as of June 30, 2012 is $7,533,333.

Middle Creek Dam Rehabilitation Project Loan
The Department of Natural Resources and Conservation and the U.S Department of the Interior, Bureau of Reclamation (BOR) entered into an agreement on September 21, 1990. The BOR agreed to loan the state of Montana "…a sum of money not to exceed the lesser of (1) $3,023,925 plus reimbursable interest during construction or (2) the actual cost of the project including reimbursable interest during construction..." The total loan repayable is $2,990,129 and interest during construction is $281,857. The amount, as of June 30, 2012, of loan outstanding is $2,278,341 and of interest during construction outstanding is $198,391.

Note 2. Type A Federal Programs

The State of Montana issues a biennial single audit report. The Single Audit report for the two fiscal years ended June 30, 2013 will be issued by March 31, 2014.

The Type A program threshold will be determined based on actual expenditures incurred during the two fiscal years ended June 30, 2013. The type A program threshold is estimated to be $16,402,237 for the biennial period.

Note 3. CFDA

The CFDA # assigned for each federal program listed in the Schedule of Expenditures of Federal Awards was based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.999. The first two digits represent the federal agency, the third digit represents the division within the federal agency. Also see footnote 10.

Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes.

Note 4. Federal Excess Personal Property

The state of Montana receives Federal Excess Personal Property (FEPP). The title to this property remains with the federal agency. In accordance with General Services Administration guidelines, the amount presented in the FEPP is 23.3 percent of the original acquisition cost of the property. The following is a list of the FEPP received by the state of Montana. The negative amount reflects property sold, and title transferred at public sale.

CFDA # Program	FY 12 Amount	Inventory
10.203 Payments to Ag. Exp. Station	$(25,980)	$176,473
10.500 Cooperative Extension Service	$(5,481)	$3,151
10.664 Cooperative Forestry Assistance	$20,287	$5,985,894
10.999 Agriculture Misc. Non. Major	$0	$160,738

12.999 Defense Misc. Non. Major	$8,563	$62,153
43.999 NASA Misc. Non. Major	$0	$664,050
47.999 NSF Misc. Non. Major	$(13,611)	$253,149

Note 5. Department of Defense (DOD) Firefighting Property (FFP)

The Department of Natural Resources (DNRC) receives DOD Firefighting Property. The title to this property is transferred to the DNRC. In accordance with OMB guidelines, the amounts are presented at fair market value at time of receipt by DNRC. This was determined to be 14% of the original acquisition cost of the property. The following is the value of FFP received by the state of Montana.

CFDA # Program	FY 12 Amount	Inventory
12.999 DOD Firefighter Program	$176,197	$644,338

Note 6. Books for the Blind and Physically Handicapped:

The Montana State Library receives “talking book” machines, cassette books, accessories and magazines from the federal government under the Blind and Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2012, was $1,111,146. The accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 7. Unemployment Benefits

The unemployment compensation system is a federal-state partnership. State unemployment insurance laws must conform to certain provisions of the federal law. Federal funds are expended for administrative costs. State unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund, and are used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards (SEFA).

The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for the Unemployment Insurance Program (CFDA #17.225).

State UI Expenditures	$124,516,458
Federal UI Expenditures	97,048,956
Total	$221,565,414

Note 8. Subgrants to State Agencies

Federal assistance transferred from one Montana state agency to another Montana state agency is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from non-state sources which are considered subgrants by the awarding agency are treated as pass through grants to the state and are reported on the Schedule of Expenditures of Federal Awards.

Note 9. Pass through Awards to Non-State Entities

The following is a list of federal funds passed through from the state of Montana to non-state entities for fiscal year 2012.

CFDA Number	*Program Title*	*Amount Provided To Subrecipient*
10.156	Federal-State Marketing Improvement Program	12,194
10.163	Market Protection and Promotion	111,157
10.169	Specialty Crop Block Grant Program	111,176
10.200	Grants for Agricultural Research, Special Research Grants	363,756
10.206	Grants for Agricultural Research & Competitive Research Grants	2,620
10.210	Food and Agricultural Sciences National Needs Graduate Fellowship Grants	23,044
10.217	Higher Education Challenge Grants	44,451
10.303	Integrated Programs	31,551
10.310	Agriculture and Food Research Initiative (AFRI)	22,739
10.500	Cooperative Extension Service	72,866
10.550	Food Donation	3,335,555
10.553	School Breakfast Program	6,785,588
10.555	National School Lunch Program	24,345,335
10.556	Special Milk Program for Children	15,493
10.557	Special Supplemental Nutrition Program for WIC	4,236,361
10.558	Child and Adult Care Food Program	833,519
10.559	Summer Food Program for Children	1,228,716
10.561	State Administrative Matching Grants for Food Stamp Program	946,037
10.567	Food Distribution Program on Indian Reservations	1,565,150
10.568	Emergency Food Assistance Program (Administrative Costs)	72,620
10.572	WIC Farmers' Market Nutrition Program (FMNP)	99,525
10.579	ARRA Child Nutrition Discretionary Grants Limited Availability	45,029
10.582	Fresh Fruit and Vegetable Program	1,533,581
10.652	Forestry Research	356,200
10.664	Cooperative Forestry Assistance	3,613,233
10.665	Schools and Roads-Grants to States	20,486,737
10.688	ARRA Recovery Act of 2009: Wildland Fire Management	1,028,086
10.912	Environmental Quality Incentives Program	9,601
11.307	Economic Adjustment Assistance	15,546
11.555	Public Safety Interoperable Communications Grant Program	346,473
11.557	ARRA Broadband Technology Opportunities Program (BTOP)	174,779
12.002	Procurement Technical Assistance For Business Firms	689,464
12.114	Collaborative Research and Development	185,052
12.300	Basic and Applied Scientific Research	79,841
12.420	Military Medical Research and Development	337,316
12.800	Air Force Defense Research Sciences Program	91,231
12.999	Defense - Miscellaneous	129,702
14.228	Community Development Block Grant/State's Program	3,909,586
14.239	Home Investment Partnerships Program	4,083,943
15.233	ARRA Forests and Woodlands Resource Management	46,480
15.242	National Fire Plan - Rural Fire Assistance	274,695
15.635	North American Wetlands Conservation Fund	14,127
15.649	Service Training and Technical Assistance (Generic Training)	77,175
15.650	Research Grants (Generic)	35,000
15.812	Cooperative Research Units Program	25,944
15.904	Historic Preservation Fund Grants-In-Aid	87,120
15.916	Outdoor Recreation-Acquisition, Development and Planning	55,000
15.929	ARRA Save America's Treasures	117,294
15.945	Cooperative Research and Training Programs – Resources of the National Park System	125,996
15.999	Miscellaneous Department of the Interior	5,380
16.017	Sexual Assault Services Formula Program	175,872
16.523	Juvenile Accountability Incentive Block Grants	373,128
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	502,988
16.548	Title V Delinquency Prevention Program	50,312
16.575	Crime Victim Assistance	1,794,190
16.588	ARRA Violence Against Women Formula Grant	104,915
16.588	Violence Against Women Formula Grant	780,123
16.593	Residential Substance Abuse Treatment for State Prisoners	76,010
16.609	Community Prosecution and Project Safe Neighborhoods	64,960
16.727	Enforcing Underage Drinking Laws Program	367,943
16.738	Edward Byrne Memorial Justice Assistance Grant Program	851,085
16.803	ARRA - Eward Byrne Memorial Justice Assistance Grant (JAG)	107,741
17.235	Senior Community Service Employment Program	519,978
17.258	WIA Adult Program	717,048
17.259	WIA Youth Activities	2,027,657

CFDA Number	Program Title	Amount Provided To Subrecipient
17.275	ARRA Prg of Compet. Grants for Worker Training and Placement in High Growth & Emerging	204,599
17.278	WIA Dislocated Worker Formula Grants	4,119
19.415	Professional and Cultural Exchange Programs - Citizen Exchanges	6,012
20.200	Federal-Aid Highways-Emergency Relief	77,611
20.205	ARRA Highway Planning and Construction	311,995
20.205	Highway Planning and Construction	15,806,064
20.219	Recreational Trails	1,086,293
20.500	Federal Transit - Capital Investment Grants	746,610
20.505	Federal Transit - Metropolitan Planning Grants	395,320
20.509	ARRA Formula Grants for Other Than Urbanized Areas	1,235,346
20.509	Formula Grants for Other Than Urbanized Areas	6,416,653
20.513	Capital Assistance Program for the Elderly and Persons with Disabilities	249,775
20.515	State Planning and Research	27,204
20.516	Job Access Reverse Commute	607,647
20.520	Paul S. Sarbanes Transit in the Parks	794,003
20.600	State and Community Highway Safety	794,083
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	90,713
20.602	Occupant Protection	128,451
20.610	State Traffic Safety Information System Improvement Grants	62,713
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	122,474
43.001	Aerospace Education Services Program	387,154
43.009	Cross Agency Support	104,256
43.999	Miscellaneous NASA	66,144
45.025	Promotion of the Arts-Partnership Agreements	478,046
45.310	State Library Program	16,885
47.041	Engineering Grants	57,563
47.049	Mathematical and Physical Sciences	36,936
47.050	Geosciences	589
47.074	Biological Sciences	298,067
47.076	Education and Human Resources	458,505
47.078	Polar Programs	340,860
47.079	International Science and Engineering (OISE)	260,881
47.080	Office of Cyberinfrastructure	82,973
47.081	Office of Experimental Program to Stimulate Competitive Research	35,622
47.082	ARRA Trans-NSF Recovery Act Reasearch Support	866,395
59.000	SBDC/Microloan	2,875
66.716	Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach	21,416
81.049	Office of Science Financial Assistance Program	120,397
81.087	Renewable Energy Research and Development	244,135
81.089	Fossil Energy Research and Development	4,120,597
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	386,414
84.002	Adult Education-State Grant Program	1,004,183
84.010	Title I Grants to Local Educational Agencies	44,863,492
84.011	Migrant Education-Basic State Grant Program	913,665
84.013	Title I Program for Neglected and Delinquent Children	124,924
84.027	Special Education - Grants to States	35,825,753
84.048	Vocational Education - Basic Grants to States	3,600,342
84.133	National Institute on Disability and Rehabilitation Research	52,428
84.144	Migrant Education - Coordination Program	75,987
84.173	Special Education - Preschool Grants	1,195,409
84.186	Safe & Drug Free Schools and Communities - State Grants	69,220
84.196	Education for Homeless Children and Youth	147,819
84.213	Even Start - State Educational Agencies	74,348
84.287	Twenty-First Century Community Learning Centers	5,520,646
84.318	Education Technology State Grants	395,779
84.323	Special Education-State Program Improvement Grants for Children with Disabilities	134,641
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	1,017,755
84.358	Rural Education	224,356
84.365	English Language Acquisition Grants	657,833
84.366	Mathematics and Science Partnerships	822,321
84.367	Improving Teacher Quality State Grants	12,912,384
84.371	Striving Readers	3,083,630
84.377	School Improvement Grants	924,439
84.378	College Access Challenge Grant Program	252,000
84.386	ARRA Education Technology State Grants, Recovery Act	781,885

CFDA Number	Program Title	Amount Provided To Subrecipient
84.389	ARRA Title I Grants to Local Educational Agencies, Recovery Act	3,849,755
84.391	ARRA Special Education Grants to States, Recovery Act	3,242,589
84.392	ARRA Special Education - Preschool Grants, Recovery Act	111,409
84.397	ARRA State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	-157,809
84.410	Education Jobs Fund	452,404
93.003	Public Health and Social Services Emergency Fund	119,124
93.041	Special Programs for the Aging -Title VII, Chapter 3: Prevention	13,027
93.042	Special Programs for the Aging -Title VII, Chapter 2: Long Term Care	90,580
93.043	Special Programs for the Aging - Title III, Part D: Disease Prevention	104,888
93.044	Special Programs for the Aging - Title III, Part B: Supportive Services	1,467,506
93.045	Special Programs for the Aging - Title III, Part C: Nutrition Services	2,880,923
93.048	Special Programs for the Aging - Title IV & and Title II - Discretionary Proj.	240,224
93.052	Nation Family Caregiver Support Program	695,658
93.053	Nutrition Services Incentive Program	969,058
93.070	Environmental Public Health and Emergency Response	220,486
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	217,801
93.110	Maternal and Child Health Federal Consolidated Programs	38,112
93.113	Biological Response to Environmental Health Hazards	40,500
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	21,856
93.126	Small Business Innovation Research	70,862
93.135	Centers for Research and Demonstration for Health Promotion and Disease Prevention	410,540
93.150	Projects for Assistance in Transition from Homelessness (PATH)	282,886
93.165	Grants to States for Loan Repayment Program	251,353
93.213	Research and Training in Complementary and Alternative Medicine	8,461
93.217	Family Planning Services	1,934,534
93.236	Grants for Dental Public Health Residency Training	164,987
93.241	State Rural Hospital Flexibility Program	744,941
93.242	Mental Health Research Grants	113,058
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	-72,300
93.268	Immunization Grants	392,504
93.276	Drug-Free Communities Support Program Grants	14,620
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	4,549,203
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	303,148
93.301	Small Rural Hospital Improvement Grants	394,697
93.307	Minority Health and Health Disparities Research	246,571
93.389	National Center for Research Resources	904,142
93.416	ARRA - Health Careers Opportunity Program	20,000
93.500	ARRA Pregnancy Assistance Fund Program	539,320
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	2,329,727
93.507	PPHF 2012 National Public Health Improvement Initiative	16,000
93.518	Affordable Care Act - Medicare Improvements for Patients and Providers	25,686
93.520	Centers for Disease Control and Prevention –Affordable Care Act (ACA) – Communities Putting	47,612
93.531	PPHF 2012: Community Transfromation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Preventinon and Public Health Funds	77,497
93.536	The Affordable Care Act Medicaid Incentives for Prevention of Chronic Disease Demonstration Project	42,205
93.544	The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program	28,250
93.556	Promoting Safe and Stable Families	677,638
93.558	Temporary Assistance for Needy Families (TANF)	3,035,569
93.566	Refugee and Entrant Assistance-State Administered Programs	4,075
93.568	Low-Income Home Energy Assistance	932,960
93.569	Community Services Block Grant	45,000
93.575	Child Care and Development Block Grant	5,890,230
93.590	Community-Based Family Resource and Support Grants	154,029
93.597	Grants to States for Access and Visitation Programs	100,221
93.599	Chafee Education and Training Vouchers Program (ETV)	168,227
93.600	Head Start	40,482
93.630	Developmental Disabilities Basic Support and Advocacy Grants	472,249
93.652	Adoption Opportunities	12,698
93.658	Foster Care Title IV-E	2,785,483
93.671	Family Violence Prevention and Services/Grants for Battered Women	860,249
93.674	Chafee Foster Care Independent Living	408,900
93.701	ARRA Trans-NIH Recovery Act Research Support	825,350
93.708	ARRA - Head Start	129,824
93.717	ARRA - Preventing Healthcare-Associated Infections	1,500

CFDA Number	Program Title	Amount Provided To Subrecipient
93.721	ARRA - Health Information Technology Professionals in Health Care	97,574
93.723	ARRA - Prevention and Wellness-State,	204,118
93.767	State Children's Insurance Program	35,880
93.778	Medical Assistance Program	6,989,608
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	207,740
93.824	Basic/Core Area Health Education Centers	965,079
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	76,081
93.855	Allergy, Immunology and Transplantation Research	274,256
93.859	Biomedical Research and Research Training	197,324
93.917	HIV Care Formula Grants	644,817
93.940	HIV Prevention Activities-Health Department Based	964,946
93.959	Block Grants for Prevention and Treatment of Substance Abuse	1,267,742
93.969	Geriatric Education Centers	22,272
93.974	Family Planning Service Delivery Improvement Research Grants	39,437
93.991	Preventive Health and Health Services Block Grant	205,977
93.994	Maternal and Child Health Services Block Grant to the States	1,158,891
94.004	Learn and Serve America - School and Community Based Program	10,098
94.006	Americorps	2,966,792
94.007	Planning and Program Development Grants	1,781
97.001	Pilot Demonstration or Earmarked Projects	67,382
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	71,942
97.026	Emergency Management Institute_Training Assistance	474,214
97.036	Public Assistance Grants	22,057,759
97.039	Hazard Mitigation Grant	756
97.042	Emergency Management Performance Grants	1,408,052
97.047	Pre-Disaster Mitigation	321,270
97.052	Emergency Operations Center	306,511
97.067	Homeland Security Grant Program	3,667,443
97.078	Buffer Zone Protection Plan (BZPP)	196,595
97.120	Border Interoperability Demonstration Project	5,762
	Total	**332,894,023**

Note 10. Federal Awards not having a CFDA Number

The following schedule contains contract or grant numbers associated with awards that did not have a CFDA number and were assigned a XX.999 number in the Schedule of Expenditures of Federal Awards. Not all XX.999 reported on the SEFA had a grant or contract number.

Schedule of Unknown Federal CFDA Numbers (XX.999)

Federal Agency	*State Agency*	*Contract or Grant Number*	*Amount*
Department of Agriculture (10)			
	University of Montana - MT Tech	05-CS-11010800-010	4,794
	University of Montana - MT Tech	65-0325-09-034	12,646
	University of Montana - MT Tech	10-CS-11015600-060	23,642
	University of Montana - MT Tech	11-JV-11111136-093	29,063
	University of Montana - MT Tech	12-CS-11015600-054	3,570
	University of Montana - Western	09-CS-11011100-035	126
Department of Defense (12)			
	Montana State Univ. - Bozeman	USAF:FA8650-10-C-1722	844
	Montana State Univ. - Bozeman	S2-10-0070-01	89,306
	Montana State Univ. - Bozeman	100-SWW-T26107/PO1061970	152
	Montana State Univ. - Bozeman	P875-4	16,302
	Montana State Univ. - Bozeman	XL3413890E	91,077
	University of Montana - Missoula	HQ0034-10-1-0012	847,286
	University of Montana - Missoula	W912HZ-08-2-0006	159
	University of Montana - Missoula	W912DY-09-2-0001	3,836
	University of Montana - Missoula	W912DW-11-P-0068	4,201
	University of Montana - Missoula	HQ0034-10-1-0012	106,598
	University of Montana - Missoula	118347-G003015	12,347
	University of Montana - Missoula	11-9-11	14,856
	University of Montana - MT Tech	W9113M-09-C-0138	36,824
	University of Montana - MT Tech	N00014-08-D-0758	554,066
	University of Montana - MT Tech	N00014-08-D-0758	-202
	University of Montana - MT Tech	N00014-08-D-0758	140,213
	Dept. of Environmental Quality	FPN E11809	198,473
Department of Housing and Urban Renewal (14)			
	Montana State Univ. - Bozeman	MTLHH0183-08	301,997
Department of the Interior (15)			
	Montana State Univ. - Bozeman	P11AT00109 MSU-234/H1200090004	9,795
	Montana State Univ. - Bozeman	P12AC10060/MSU-239	10,000
	Montana State Univ. - Bozeman	F11PX04134	14,059
	Montana State Univ. - Bozeman	06FC602143	9,236
	Montana State Univ. - Bozeman	J1460060025 MSU-111	663
	Montana State Univ. - Bozeman	L08AC14286	-1
	Montana State Univ. - Bozeman	J1580070530	982
	Montana State Univ. - Bozeman	J1580080407	4,131
	Montana State Univ. - Bozeman	J1212080049	2,744
	Montana State Univ. - Bozeman	J1580080614 MSU-173	50,208
	Montana State Univ. - Bozeman	J1580090215/MSU-180	59,291
	Montana State Univ. - Bozeman	J1580090381/H1200090004/MSU190	210
	Montana State Univ. - Bozeman	J2120090011 MSU-186	1,786
	Montana State Univ. - Bozeman	J1571091020 MSU-191	5
	Montana State Univ. - Bozeman	J1580090462 MSU-200	2,249
	Montana State Univ. - Bozeman	J1580090445 MSU-198	36,393
	Montana State Univ. - Bozeman	J1580100209/MSU-217	7,983
	Montana State Univ. - Bozeman	J2120100010/MSU226/H1200090004	12,197
	Montana State Univ. - Bozeman	J2120100011 MSU-221	30,089
	Montana State Univ. - Bozeman	J2146107010 MSU-224	5,066
	Montana State Univ. - Bozeman	J8136100197 MSU-228	2,105
	Montana State Univ. - Bozeman	J1580100341 MSU-222	7,604

Schedule of Unknown Federal CFDA Numbers (XX.999)

Federal Agency	*State Agency*	*Contract or Grant Number*	*Amount*
	Montana State Univ. - Bozeman	J1580100275 MSU-223	81,357
	Montana State Univ. - Bozeman	J1580100410 MSU-229	12,971
	Montana State Univ. - Bozeman	4W3458 Using the Living Bui	291
	Montana State Univ. - Bozeman	4W3701 Internship Support a	25,977
	University of Montana - Missoula	L08AC14562, L09AC15312	39,836
	University of Montana - Missoula	L08AC14467	15,357
	University of Montana - Missoula	R11PX12007	11,155
	University of Montana - Missoula	121G6000008	1,867
	University of Montana - Missoula	ES09CO0032	904
	University of Montana - Missoula	F11PX02128	2,000
	University of Montana - Missoula	J1242067023, UMT-115	865
	University of Montana - MT Tech	H1580070001	56,580
	Dept. of Environmental Quality	H1580060002	18,541
	Dept. of Natural Resources	H1580070001	22,532
Department of State (19)			
	University of Montana - Missoula	S-BM800-11-GR-022	20,648
	University of Montana - Missoula	USIEF/OSI/2012/04	13,614
Department of Transportation (20)			
	Montana State Univ. - Bozeman	ARI 10686-2	17,794
	Department of Transportation	DTFH70-11-E-00006	26,416
Department of Treasury (21)			
	Department of Commerce	PL110-161:95X1350	171,823
The Library of Congress (42)			
	Montana Historical Society	10-039	40
	Montana Historical Society	11-041	475
	Montana Historical Society	118208M	15,000
National Aeronautics and Space Administration (43)			
	Montana State Univ. - Bozeman	SUBAWARD NO. Z641403	15
	Montana State Univ. - Bozeman	NNA08CN85A	-614
	Montana State Univ. - Bozeman	WHRC-MSU2009	49,843
	University of Montana - Missoula	NNX07AJ28G	66,144
	University of Montana - Missoula	NNX08AG87A	-3,864
	University of Montana - Missoula	NNX08AP59G	37,399
	University of Montana - Missoula	NNX08AQ63A	269,063
	University of Montana - Missoula	NNX09AP52G	122,019
	University of Montana - Missoula	NNX09AQ80G	1,479
	University of Montana - Missoula	NNX10AH57G	42,659
	University of Montana - Missoula	NNX10AN58H	27,961
	University of Montana - Missoula	NNX11AF18G	176,690
	University of Montana - Missoula	1350935	59,821
	University of Montana - Missoula	1364345	54,448
	University of Montana - Missoula	1368208	84,229
	University of Montana - Missoula	1388663	52,186
	University of Montana - Missoula	1400503	8,674
	University of Montana - Missoula	2010-2386	44,238
	University of Montana - Missoula	1405851	72,819
	University of Montana - Missoula	1422120	57,238
Department of Energy (81)			
	Montana State Univ. - Bozeman	60-5004-301	14,605
	Montana State Univ. - Bozeman	60-5004-302	5,926

Schedule of Unknown Federal CFDA Numbers (XX.999)

Federal Agency	*State Agency*	*Contract or Grant Number*	*Amount*
	University of Montana - Missoula	DE-AC52-06NA25396	44,399
	University of Montana - MT Tech	DE-AC07-05ID14517	76,690
	University of Montana - MT Tech	DE-AC05-76RL01830	12,937
	University of Montana - MT Tech	190825	30,463
	University of Montana - MT Tech	DE-AC07-05ID14517	23,279
	University of Montana - MT Tech	DE-AC07-05ID14517	33,719
	University of Montana - MT Tech	S111034	17,264
	Dept. of Environmental Quality	DE-AC05-76RL01830, contract #136136	38,923
	Dept. of Environmental Quality	Case US District Crt Kansas MDL378	5,046
	Dept. of Environmental Quality	Case 78-1035 US District Court DC	5,788
Department of Education (84)			
	Office of Public Instruction	ED-08-CO-0076	214,749
Department of Health and Human Services (93)			
	Montana State Univ. - Bozeman	HISI244201200288P	10,001
	Public Health and Human Services	HHSF223000840148C	43,218
	University of Montana - MT Tech	200-2009-M-29841	-78
	University of Montana - MT Tech	200-2010-M-33703	3,514

State of Montana

Department Response

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE

B-1

STEVE BULLOCK, GOVERNOR — SHEILA HOGAN, DIRECTOR

STATE OF MONTANA

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LEGISLATIVE AUDIT DIV.

February 28, 2013

Tori Hunthausen, Legislative Auditor
State Capitol Building, Room 160
PO Box 201075
Helena MT 59620-1705

RE: Financial Audit: 11-01B State of Montana for the fiscal year ended June 30, 2012

Dear Ms. Hunthausen:

The following is our responses to the above mentioned audit:

Independent Auditor's Report response:
The Department of Administration (DOA) respectfully disagrees with the Legislative Audit Division (LAD) regarding how to report Montana State Fund's Old Fund claims liability. Therefore, we believe there is no basis for issuing a qualified opinion on the basic financial statements.

Pursuant to our interpretation of Generally Accepted Accounting Principles (GAAP), and advice received from the Governmental Accounting Standards Board (GASB) staff, the Old Fund claims should be reported by the party legally obligated to pay them. We confirmed that the legal liability remained with the State Fund in a legal opinion issued by the Department's Chief Legal Counsel and a Letter of Advice from Montana's Attorney General. Both of these documents are enclosed.

The following excerpts are from the Attorney General's Letter of Advice:

> . . . The law governing assets and liabilities of the Old Fund clearly provides that the legislature intended for the State Fund to "assume liability for all outstanding claims and indebtedness of the previously existing state fund." Mont. Code Ann. § 39-71-2319. In addition to designating the State Fund as the entity legally liable for outstanding claims and indebtedness of the Old Fund, the Legislature created a separate payment structure and a separate funding source for payment for claims of injury occurring before July 1, 1990 (claims against the Old Fund) and for those claims occurring on or after

> July 1, 1990 (claims against the State Fund). The legislature also provided for contingency funding in the event that revenue from the Old Fund liability tax did not cover the cost of claims. Section 39-71-2352(6) provides for that contingency, it states "[i]f in any fiscal year after the old fund liability tax is terminated claims for injuries resulting from accidents that occurred before July 1, 1990, are not adequately funded, any amount necessary to pay claims for injuries resulting from accidents that occurred before July 1, 1990, ***must be transferred from the general fund to the fund provided for in 39-71-2321***." (Emphasis added). . . .
>
> The State Fund, not the State of Montana, remains the entity ***legally*** liable for such claims. This conclusion is supported both by the plain language of section 39-71-2319 and the contingency provision in section 39-71-2352(6). By providing for a transfer from the general fund to the Old Fund account, the Legislature created a payment structure that reflects the intent expressly stated in section 39-71-2319, "the State Fund shall assume liability for all outstanding claims and indebtedness of the previously existing state fund.". . . The State Fund's ***legal*** liability did not terminate when the Old Fund liability tax reserves were depleted. The entity responsible for payment of claims – the State Fund – remains the same. It is the funding source for payment of those claims that has changed.

The Old Fund's obligation to their claimants continues to be presented in this report as part of the State Fund, in a manner consistent with prior year reporting, and as required under current GAAP. We do not agree with the LAD recommended State Fund reporting change and qualification of this financial report.

Report on Internal Control Over Financial Reporting and Compliance and Other Matters based on an audit of financial statements performed in accordance with government auditing standards response:

Recommendation #1:

We recommend SAD strengthen internal controls procedures over the financial reporting process.

The State Accounting Division concurs and has already updated applicable Comprehensive Annual Financial Report (CAFR) procedures to strengthen internal controls over the financial reporting process. In addition, we have created several schedules that will provide additional supporting documentation in the workpapers of the CAFR process.

Noncompliance and Other Matters response:
The identified instances of noncompliance pertain to the actuarial soundness of five retirement systems: the Public Employees' Retirement System-Defined Benefit Retirement Plan, Sheriffs' Retirement System, Highway Patrol Officers' Retirement System, and Game Wardens' and Peace Officers' Retirement System as administered by the Public Employees'

Retirement Board and the Teachers' Retirement System as administered by the Teachers' Retirement Board.

While this issue is disclosed and discussed in the financial reporting provided in the CAFR, the resolution of the underlying causes must be addressed by the Executive and Legislative Branches of the State. Both of these branches of State government and the related Retirement Boards are currently studying the issue and working toward solutions that address the underlying causes.

The Department's State Accounting Division staff and I appreciate the audit team's work on the State's financial statements for the year ended June 30, 2012.

Sincerely,

Sheila Hogan

Sheila Hogan
Director

Enclosures: 3

MEMORANDUM

To: Paul Christofferson
Fr: Mike Manion
Re: Old Fund Liability
Date: January 12, 2012

INTRODUCTION

You have sought my opinion regarding what entity is liable for the Old Fund's continuing obligations. These obligations represent claims for injuries arising before July 1, 1990. This issue is ripe because a disagreement exists between your office, on one side, and the Legislative Auditor and the State Fund on the other, and the answer will affect the presentation of the Old Fund obligations in the Comprehensive Annual Financial Report (CAFR).

Your position is that even though the general fund will in FY 2012 and likely beyond pay for the entirety of the Old Fund obligations, the liability remains with the State Fund given the way the statutes are written. The Legislative Auditor and the State Fund contend that since the general fund will into the future pay all the Old Fund Obligations, the general fund has assumed the liability.

FACTS

To date, the State Fund has shouldered the Old Fund liabilities. This has occurred because the Old Fund account had sufficient reserves to pay the Old Fund claims and expenses. These reserves were accumulated due to an Old Fund liability tax. The 1999 Legislature discontinued this tax, determining that the account was adequately funded.

I understand that for FY 2011 the State Fund, via the Old Fund account, paid $16,657,355 of Old Fund claims and expenses, while the general fund transferred $50,000 to the Old Fund account. As noted, for FY 2012 the general fund will transfer an amount necessary to pay all the Old Fund claims and expenses.

RELEVANT STATUTES

Workers' compensation is a statutory creation. It is therefore necessary to focus on the key statutes to help answer your question. These statutes are attached under Exhibit A to this document. I will review each statute cited.

Section 39-71-2313, MCA, establishes the State Fund as an independent public corporation. Accordingly, the State Fund is a single legal entity. There are not two State Funds.

Section 39-71-2319, MCA, mandates that the State Fund receive all the assets and funds of the previous state compensation insurance fund but that it also assume liability for all outstanding claims and indebtedness. This particular statute was passed as a part of a larger enactment restructuring workers' compensation (Chapter No. 613, L. 1989, SB 428). Section 39-71-2319, MCA, was Section 11 Chapter 643. This section, along with several other sections, was effective upon signing of an Executive Order under Section 63 of the chapter or January 1, 1990, whichever occurred earlier. I was unable to locate the applicable Executive Order, so I believe the statute was effective January 1, 1990.

I understand from you that most of the Old Fund claims (more than 90%) accrued before January 1, 1990. Section 39-71-2319, MCA, is important for two reasons: (1) it uses the words "shall assume liability" and (2) it requires that the State Fund assume the outstanding claims and indebtedness of the previous entity, which would include, as I understand it, most of the Old Fund Claims.

Section 39-71-2321, MCA, explains that all State Fund money must be separated into two accounts, depending on whether the money relates to Old Fund claims or claims arising from injuries occurring after July 1, 1990.

Section 39-71-2351, MCA, provides the rationale for why the State Fund money must be separated into two accounts. This section is important because it states that the State Fund incurred the Old Fund liability and that the best way to administer this liability is to separate the liability depending on whether a claim is based on an injury occurring before July 1, 1990 or after that date. On its face, the statute separates the State Fund's liability but does not eliminate it or transfer it to another entity.

Section 39-71-2352, MCA, sheds light on the issue at hand because it states that if the Old Fund claims are not adequately funded after the Old Fund liability tax ends, then any amount to pay these claims must be transferred from the general fund to the Old Fund account.

Finally, while not cited in Exhibit A, §39-71-2502, MCA, (which was repealed in 1997)referenced the State Fund's liability for the Old Fund claims: "Based on current liabilities and actuarial analysis, an unfunded liability presently exists in the state fund with regard to claims for injuries resulting from accidents that occurred before July 1, 1990"; and "While legislative action is required to correct the causes of the unfunded liability, those actions will not provide sufficient funds to permit the state fund to pay its existing liabilities and obligations in a timely manner from premium and investment income available to the state fund." This statute was amended in the May 1990 Special Session to provide for the payroll tax on all employers as a source of supplemental funding for the Old Fund.

LEGISLATIVE HISTORY

I have reviewed the legislative history of the above statutes. The history does not shed any compelling light on this issue. For example, the history of the general fund transfer amendments (August 2002 Special Session) shows that the state was facing budget difficulties. Money was being sought from the Old Fund to fund other state programs, primarily education. One of the tradeoffs for taking money from the Old Fund was that the general fund would transfer money to the Old Fund if the Old Fund tax did not generate enough money to pay the claims. The history does not show that the Legislature intended the general fund would assume the legal liability for the Old Fund claims, but would act as a backstop if a shortfall incurred. (Senator Doherty: the state would be obligated to come back in if the world falls in with the Old Fund claims. *Minutes*, Senate Committee on Finance, August 7, 2002, p. 17).

RULES OF STATUTORY INTERPRETATION

Montana law provides that in the construction of a statute, the court is to simply decide and declare what is in the statute and not insert words that have been omitted or to omit words that have been used. Where there are several provisions or particulars, the court is to try to give effect to all. *1-2-101, MCA.* When a general provision and a particular provision are inconsistent, the particular intent will control a general one that is inconsistent with it. *1-2-102, MCA.*

The Montana Supreme Court has held that it will harmonize statutes relating to the same subject to give effect to each. "Statutory construction is a holistic endeavor and must account for the statute's text, language, structure, and object." *S.L.H. v. State Compensation Mutual Insurance Fund,* 303 Mont. 364, ¶ 16, 15 P.3d 948, ¶ 16 (2000)(citation omitted); *Montana Trout Unlimited v. Beaverhead Water Co.*, 361 Mont. 77, ¶ 31, 255 P.3d 179, ¶ 31 (2011). A court will also read and construe the statute as a whole to avoid an absurd result and to give effect to a statute's purpose. *In re Marriage of Shirilla*, 319 Mont. 385, ¶ 12, 89 P.3d 1, ¶ 12 (2004)(citing § 1-2-102, MCA). A court operates under the presumption that the Legislature does not pass meaningless legislation, and it will harmonize statutes relating to the same subject in order to give effect to each statute. *Oster v. Valley Co.*, 333 Mont. 76, ¶ 17, 140 P.3d 1079, ¶ 17 (2006). The court also presumes that the Legislature acts with deliberation and full knowledge of all existing laws on a subject. *Ross v. City of Great Falls*, 291 Mont. 377, ¶ 17, 967 P.2d 1103, ¶ 17 (1998).

Finally, if a statute is clear and unambiguous, the court will interpret the statute without reference to the statute's legislative history. *State v. Goebel*, 305 Mont. 53, ¶ 21, 31 P.3d 335, ¶ 21(2001).

SUBROGATION DISCUSSION

In arguing that the general fund is now legally liable for the Old Fund claims, the Legislative Audit Division (LAD) relies on the principle of subrogation. LAD states that the Old Fund liability was legislatively subrogated to the State Fund and then the general fund for any short falls, citing §39-71-2352(6), MCA. "Legal subrogation (which is the type we are discussing here) arises by operation of law where one having a liability pays a debt due by another." (*Leg. Aud. Div. Mem.* from Butler to Jorgenson of 11/9/11).

With all due respect, subrogation does not apply here. Subrogation is a substitutionary legal action, where one party acquires the legal rights of another in exchange for assuming the person's risk of loss. *Blue Cross Blue Shield of Montana v. Montana State Auditor*, 352 Mont. 423, ¶ 24, 218 P.3d 475, ¶ 24 (2009). Legal subrogation arises by operation of law, upon the fact of payment made by another. A simple example of legal subrogation follows: State Fund pays its insured for damages sustained in accident caused by another. The State Fund is subrogated to the rights its insured has against the third party who is responsible for the loss. The theory behind subrogation is that the third party would go free despite its legal obligation in connection with the loss, and this would not be equitable.

Here, the general fund is not acquiring any rights of the State Fund. Under §39-71-2352(6), MCA, any shortfall of the Old Fund is transferred from the general fund to the Old Fund account. The general fund is a source of money but does not gain any subrogation rights of the Old Fund to recoup its payment once that payment is made.

LAD cites in its memorandum the workers' compensation subrogation statute (§39-71-414, MCA). This statute explains subrogation in the workers' compensation context. Importantly and tellingly, this statute highlights why subrogation has nothing to do with the issue of who is liable for the Old Fund claims.

ANALYSIS

Section 39-71-2319, MCA, clearly states that the State Fund assumed the liability for all outstanding claims and indebtedness of the old state compensation insurance fund. Section 39-71-2351, MCA, provides that the State Fund incurred the Old Fund liability, and that this liability would be separated—but not eliminated or assumed by a third party-from liability for claims incurred after July 1, 1990. This separation was accomplished by the establishment of two accounts. Equating "separation" with the assumption of Old Fund liability by a third party inserts terms that the Legislature did not use.

Section 39-71-2352(6), MCA, creates the debate because it states that the general fund is responsible for the shortfall. Of note, this statute does not mandate that the general fund assume the State Fund's <u>liability</u> for the Old Fund claims. The language is that if a shortfall occurs, money "…must be transferred from the general fund to the account provided for in 39-71-2321."

As stated, a rule of statutory interpretation is that the court presumes the Legislature acts with deliberation and full knowledge of all existing laws on a subject. In earlier statutes (39-71-2351, MCA, 39-71-2319, MCA,), the Legislature determined that the State Fund had incurred the Old Fund claims and that the State Fund was to assume liability for all outstanding claims and indebtedness of the State Fund's predecessor. If it is presumed that the Legislature passed the general fund shortfall statute knowing about these earlier laws but did not change any of the statutes to state it was requiring the general fund to assume the liability for the Old Fund claims, then the Legislature did not intend this result— that is, it intended for the liability to remain with the State Fund, but that the State Fund could tap the general fund as backstop funding source. See, e.g., *Langemo v. Montana Rail Link, Inc.*, 307 Mont. 293, ¶ 25, 38 P.3d 782, ¶ 25 (2001). ("At no time between 1873 and the time of the collision at issue did the Legislature insert the word "public" so as to restrict application of the whistle statute to public railroad crossings. When the Legislature enacted the original version of § 69-14-562(7), MCA, in 1873, it knew the meaning of the word "public" and how to use it to restrict applicability of railroad statutes. See, e.g., §§ 69-14-554(2), -534, -551, MCA.")

The counter arguments to this position are: (1) although the Legislature did not explicitly state that the general fund would assume the Old Fund liability, the words "any amount necessary to pay [Old Fund claims] must be transferred from the general fund to the [Old Fund account]…." mean the same thing and (2) the general fund shortfall statute impliedly repealed the earlier statutes.

I understand these arguments but do not think they ultimately prevail. First, in passing the general fund shortfall law, the Legislature did not state it was mandating that the general fund assume the Old Fund liability. This is important. Clearly, the Legislature used the word "liability" in the earlier statutes (§§ 39-71-2319 and 39-71-2351). It would not have been difficult for the Legislature to insert a sentence stating that the general fund was to assume the Old Fund legal liability from the State Fund. Another rule of statutory interpretation is that one should not insert words that have been omitted. In arguing that the general fund has assumed this liability from the State Fund, one would be inserting words about a shift in liability that the Legislature chose to omit.

Second, for several reasons the implied repeal position lacks merit. A later general statute does not expressly repeal a prior specific statute unless the intent to do so is manifest or unavoidably implied. *Ross v. City of Great Falls*, 291 Mont. 377, ¶ 18, 967 P.2d 1103, ¶ 18(1998). The Montana Supreme Court has held that repeal of a statute by implication is not favored in Montana. Id. at ¶ 17. The Court presumes that the Legislature does not intend to abrogate or interfere with a former law on a subject unless the repugnancy between the two is irreconcilable. *Id.*

The statute regarding the State Fund's liability is specific regarding the Old Fund claims, while the general fund shortfall statute, as noted, does not mention anything about the liability being assumed by the general fund. In this situation, the general fund is acting more like a bank for a borrower who owes money to a third party. The bank assumes no liability to the third party; the liability remains with the borrower. This construction harmonizes the various statutes.

The bottom line is: to reach a conclusion finding the general fund is legally liable for the Old Fund claims, the earlier statutes regarding the State Fund's liability for these claims have to be ignored or impliedly repealed. The language in all of these statutes and the rules of statutory interpretation, however, do not support this result.

Hopefully, this Memorandum addresses the issue you raised.

ATTORNEY GENERAL
STATE OF MONTANA

Steve Bullock
Attorney General

Department of Justice
215 North Sanders
PO Box 201401
Helena, MT 59620-1401

RECEIVED
MAR 19 2012
DEPT. OF ADMINISTRATION
DIRECTOR'S OFFICE

March 16, 2012

Janet R. Kelly
Director, Department of Administration
Mitchell Building
125 N. Roberts, RM 155
Helena, Montana 59620-0101

Re: Request for Letter of Advice

Dear Director Kelly:

You have written this office seeking a letter of advice. The question you present is related to a dispute that has arisen between the Department of Administration's State Accounting Division (SAD) and the Montana Legislative Audit Division (LAD) on an adjustment proposed by the LAD to Montana's basic financial statements and to this year's Comprehensive Annual Financial Report (CAFR). Specifically, the question presented is:

> Are the outstanding workers' compensation claims for injuries resulting from accidents that occurred before July 1, 1990 (so-called Old Fund Claims) a legal liability of the Montana State fund or a legal liability of the State of Montana?

Because the question you've presented is fact specific to the disagreement between SAD and LAD and because it is a question that is unlikely to re-occur, we agree that a letter of advice is the appropriate response.

In support of your request, you provided a legal memorandum authored by Chief Legal Counsel for your Department. By way of background that legal memo provides that prior to this reporting period, liability for the Old Fund claims and expenses were attributed to the Montana State Fund. Up until FY11, payment of such claims and expenses was made from reserves accumulated in the Old Fund account from the Old Fund liability tax. [1] After a FY 11 payment of $16,657,355, however, the accumulated reserves have been depleted. As a result, payment of claims and expenses for FY12 will require a transfer from the general fund to the Old Fund account.

[1] Determining that the account was adequately funded, the Legislature discontinued the Old Fund Liability tax in 1999.

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Because payment of the Old Fund claims and expenses in FY 12 will require a transfer of general fund dollars to the Old Fund account, LAD has determined the claims should be reported as a general, long-term liability for the State of Montana.

The law governing assets and liabilities of the Old Fund clearly provides that the legislature intended for the State Fund to "assume liability for all outstanding claims and indebtedness of the previously existing state fund." Mont. Code Ann. §39-71-2319. In addition to designating the State Fund as the entity legally liable for outstanding claims and indebtedness of the Old Fund, the Legislature created a separate payment structure and a separate funding source for payment for claims of injury occurring before July 1, 1990 (claims against the Old Fund) and for those claims occurring on or after July 1, 1990 (claims against the State Fund). The legislature also provided for contingency funding in the event that revenue from the Old Fund liability tax did not cover the cost of claims. Section 39-71-2352(6) provides for that contingency, it states "[i]f in any fiscal year after the old fund liability tax is terminated claims for injuries resulting from accidents that occurred before July 1, 1990, are not adequately funded, any amount necessary to pay claims for injuries resulting from accidents that occurred before July 1, 1990, ***must be transferred from the general fund to the fund provided for in 39-71-2321***." (Emphasis added).

As noted above, up until FY 11 revenue generated from the Old Fund liability tax had covered claims associated with injuries occurring before July 1, 1990. In FY 11, the Old Fund liability tax revenues were depleted and pursuant to Mont. Code Ann. §39-71-2352(6), $50,000 was transferred from the general fund to the Old Fund account to cover the full cost of claims. Because the Old Fund liability tax reserves have been fully depleted, after FY 11 all future payments of Old Fund claims will require a transfer from the general fund to the Old Fund account. The LAD has thus concluded that beginning in FY 12, liability for Old Fund claims should be reported as a general, long-term liability for the State of Montana.

While the general fund becomes the funding source to pay claims and expenses against the Old Fund in FY 12, the State Fund not the State of Montana remains the entity ***legally*** liable for such claims. This conclusion is supported both by the plain language of section 39-71-2319 and the contingency provision in section 39-71-2352(6). By providing for a transfer from the general fund to the Old Fund account, the Legislature created a payment structure that reflects the intent expressly stated in section 39-71-2319, "the State Fund shall assume liability for all outstanding claims and indebtedness of the previously existing state fund." LAD suggests that section 39-71-2352(6)subrogates the liability for Old Fund claims to the general fund. I do not think the theory of subrogation applies to this issue. Black's Law dictionary defines subrogation to mean "the substitution of one party for another whose debt the party pays, entitling the paying party to rights, remedies, or securities that would otherwise belong to the debtor." Black's Law Dictionary (8th ed. 2004). In this instance, the State Fund is not substituted as the party bearing responsibility to pay. The State Fund's ***legal*** liability did not terminate when the Old Fund liability tax reserves were depleted. The entity responsible for payment of claims—the State Fund—remains the same. It is the funding source for payment of those claims that has changed.

In a letter submitted in response to your request, LAD suggests that the question at issue is not one of legal liability; rather, it is a more technical question of financial reporting. Because the question you pose is which entity - the State of Montana or the State Fund - has ***legal*** liability that is the question answered in this letter. However, in light of LAD's concern, perhaps the obligation to pay the claims and expenses associated with Old Fund injuries could be reported as an obligation of the State Fund to the claimants, and an obligation of the general fund to the State Fund to provide the resources to pay the claims.

This letter should not be construed as a formal Opinion of the Attorney General.

Sincerely,

Ali Bovingdon

ALI BOVINGDON
Deputy Attorney General

AB:sj

c: File

Department of Administration
Final Response
Corrective Action Plan (CAP): Audit Report #11-01B
Financial Audit for fiscal year ended June 20, 2012
2-27-2013

Agency	Recommendation #	Does this affect a federal program?	CFDA # (if previous YES)	Management View	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
61010	We recommend SAD strengthen internal control procedures over the financial reporting process.	No		Concur	1. The State Accounting Division will update applicable Comprehensive Annual Financial Report (CAFR) procedures to strengthen internal controls. 2. The State Accounting Division will create several schedules that will provide additional supporting documentation in the work-papers of the CAFR process.	DOA - State Accounting Division	3/1/2013 3/15/2013

OFFICE OF THE GOVERNOR
STATE OF MONTANA

STEVE BULLOCK
GOVERNOR

PO BOX 200801
HELENA, MONTANA 59620-0801

March 1, 2013

RECEIVED
FEB 2 6 2013
LEGISLATIVE AUDIT DIV.

Ms. Tori Hunthausen
Legislative Audit Division
Room 160, State Capitol
Helena, MT 59620-1705

RE: State of Montana Financial Audit, (11-01B)

Dear Ms. Hunthausen,

The Governor's Budget Office is pleased with your issuance of an unqualified opinion on our Schedule of Expenditure of Federal Awards (SEFA) in relation to the basic financial statements.

Sincerely,

Dan Villa
Budget Director

cc: Mark Bruno, Single Audit Coordinator