A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

State of Montana

For the Fiscal Year Ended June 30, 2013

MARCH 2014

LEGISLATIVE AUDIT DIVISION

13-01A

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:

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Budget and Program Planning Office
Room 277, State Capitol
P.O. Box 200802
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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
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Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

March 2014

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, 2013. The basic financial statements were prepared by the State Financial Services 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 disclosure issue related to Old Fund estimates and one recommendation related to a material weakness in internal control over the Schedule of Expenditures of Federal Awards 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-17.

We thank the Department of Administration's director, the State Financial Services 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 Financial Services Division Cheryl Grey, CPA, Administrator
	Accounting Bureau Julie Feldman, State Accountant
	Accounting Principles/Financial Reporting Section Cody Carter Pearce, CPA, Section Supervisor Neil Fryer, Accountant Bill Hall, Accountant Ginger Pfankuch, CPA, Accountant Kristin Reynolds, CPA, Accountant Dan Stanger, MBA, Accountant
Governor's Office	**Budget and Program Planning Office** Dan Villa, Director Sonia Powell, CPA, Single Audit Coordinator

For additional information concerning the basic financial statements, contact:

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For additional information concerning the Schedule of Expenditures of Federal Awards, contact:

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Montana Legislative Audit Division

Financial Audit
State of Montana
For the Fiscal Year Ended June 30, 2013

March 2014 13-01A Report Summary

This set of financial statements provides legislators and taxpayers with a summary of the state's overall financial position. All operations and activities of the state government are summarized in these statements. At the end of fiscal year 2013, Montana had approximately $538 million of unassigned fund balance in the General Fund. This represents an increase of $86 million from June 30, 2012. The Schedule of Expenditures of Federal Awards summarizes the state's $2.7 billion in federal funds by grant and is also included in this report.

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 amount to approximately 80 percent of the state's governmental revenue and expenditure activity. The Health & Human Services and Education categories account for approximately 65 percent of the state's governmental expenditures.

The Schedule of Expenditures of Federal Awards reports total federal expenditures, including noncash assistance, in fiscal year 2013 in excess of $2.7 billion.

Results

In fiscal year 2013, Department of Administration management reported the Old Fund liabilities as part of Montana State Fund. However, the Old Fund liabilities have not been part of the Montana State Fund since June 2011 when the General Fund provided the resources to pay the remaining Old Fund liabilities. As a result, we issued modified opinions on the state's financial statements.

The audit report also includes a disclosure issue related to estimated Old Fund liabilities.

In fiscal year 2013, the Sheriffs', Game Wardens' and Peace Officers', and Highway Patrol Officers' retirement plans were not adequately funded. The information was disclosed in the Public Employees' Retirement System (PERS) audit and is considered material noncompliance with the Montana Constitution and state law.

This audit report also contains one recommendation related to a material weakness in internal control over the preparation of the state's Schedule of Expenditures of Federal Awards.

Recommendation Concurrence	
Concur	0
Partially Concur	1
Do Not Concur	0

Source: State audit responses included in final report.

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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, 2013. 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 state's Schedule of Expenditures of Federal Awards.

This report contains one recommendation related to a material weakness in internal control over the Schedule of Expenditures of Federal Awards preparation process. In addition, this report includes a disclosure issue related to Old Fund liability estimates.

Introduction

Per §17-2-110, MCA, the Department of Administration (department) must consolidate every state agency's financial data into an annual financial report. The 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 the financial activity in accordance with generally accepted accounting principles and include some of the following: correcting errors identified in our agency audits, preparation of the notes to the financial statements, and eliminating internal balances that roll together for presentation purposes.

Report Organization

The Independent Auditor's Report is on page A-5, 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-145.

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.

Internal Control

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 material weakness and significant deficiency we identified during this audit.

Table 1
Summary of Deficiencies in Internal Control

Subject	Type of Deficiency	Page
Schedule of Expenditures of Federal Awards Preparation Process	Material Weakness	5
Infrastructure Valuation	Significant Deficiency	A-2

Source: Compiled by the Legislative Audit Division.

Our consideration of internal control was not for the purpose of expressing an opinion on the effectiveness of internal controls. Therefore, material weaknesses or significant deficiencies may exist that were not identified.

Material Noncompliance

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 page A-1 describes noncompliance with the Montana Constitution and state law regarding actuarial soundness of certain retirement systems.

The prior report disclosed material noncompliance with the Montana Constitution and state law. At June 30, 2012, the Public Employees' Retirement System – Defined Benefit Retirement Plan, Game Wardens' and Peace Officers' (GWPORS), Sheriffs' (SRS), and Highway Patrol Officers' (HPORS) retirement systems were not actuarially sound. At fiscal year-end 2013, GWPORS, SRS, and HPORS continue to be unsound. The amortization periods for the unsound systems are shown in the following Table 2. This information is also disclosed in the Public Employees' Retirement Board (12-08B) report.

At July 1, 2012, the Teachers' Retirement System was also not actuarially sound, but at fiscal year-end 2013 was sound. Actuarial soundness is defined as an amortization period for the Unfunded Actuarial Accrued Liability (UAAL) of 30 years or less.

Table 2
Amortization Period for Unsound Systems
at July 1, 2012, and 2013 (in years)

Retirement System	as of June 30, 2012	as of June 30, 2013
SRS	Infinite*	Infinite*
GWPORS	Infinite*	Infinite*
HPORS	49.7	44.6

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

*Infinite is defined as the liability does not amortize.

Lawsuits contesting the legality of the Guaranteed Annual Benefit Adjustment (GABA) reductions for both the Public Employees' and the Teachers' retirement systems resulted in a temporary injunction against implementing the reductions until the lawsuits are settled. According to the actuaries, if the GABA remains at 3 percent, the unfunded liability increases, as does the amortization period.

Prior Audit Recommendations

We performed the prior audit of the state of Montana's basic financial statements for the fiscal year ended June 30, 2012. The prior audit contained one recommendation related to internal controls over the financial statement preparation process, which was fully implemented.

Chapter II – Findings and Recommendations

Internal Controls

The Office of Budget and Program Planning does not have adequate controls to prevent, or detect in a timely manner, errors in the Schedule of Expenditures of Federal Awards and accompanying note disclosures.

Office of Management and Budget (OMB) Circular A-133 requires the state prepare a Schedule of Expenditures of Federal Awards (SEFA) to identify all federal awards received and expended, as well as the federal programs under which they were received. It further requires entities to identify expenditures of American Recovery and Reinvestment Act (ARRA) awards separately on the SEFA.

Circular A-133 defines a cluster of programs as a grouping of closely related federal programs that share common compliance requirements. Some awards are required to be grouped together and presented as a cluster on the SEFA.

State accounting policy defines internal control as a coordinated set of policies and procedures used by managers and line workers to ensure their agencies, programs, or functions operate efficiently and effectively in conformance with applicable laws and regulations, and that related transactions are accurate, properly recorded, and executed in accordance with management's directions.

The state's SEFA is compiled by the Office of Budget and Program Planning (OBPP) from information prepared and submitted by each individual agency. The information provided to OBPP includes an agency SEFA, a reconciliation of the SEFA to the Statewide Accounting, Budgeting, and Human Resources System (SABHRS), and if applicable, note disclosure and a sub-recipient schedule. OBPP's internal controls over compiling and reporting the state's SEFA include reviewing the agency submissions and loading the information into a database that allows OBPP to consolidate the data by federal award number, as required, for SEFA reporting. The consolidated file is then tied back to the individual agency to verify accuracy and completeness. During the course of our audit we identified multiple errors indicating the current internal controls are not adequate. The list below describes some of the errors we identified and communicated to OBPP. The SEFA starting on page A-145 was corrected by OBPP personnel for the errors we identified.

- Pass-through awards to nonstate entities did not agree to the supporting totals reported to OBPP. The SEFA excluded one subgrant reported by an agency, resulting in an understatement of $1,121,807.

- The Minority Health and Health Disparities Research Program SEFA amount was understated by approximately $8.4 million.
- Sixteen ARRA awards were not identified as such on the SEFA. The misclassified ARRA expenditures totaled $5,621,117. In addition, OBPP reported four awards totaling $1,254,923 as ARRA when the agency documentation did not support the funds as ARRA.
- Four errors were identified within clusters reported by OBPP. Three award numbers were not included in the appropriate cluster and one cluster was incorrectly titled.

Based on the nature and size of errors listed above, internal controls do not ensure the SEFA is prepared as required by federal regulations, and we consider this to be a material weakness in internal control. During fiscal year 2013, OBPP experienced some turnover which revealed a lack of documented internal controls and procedures that would assist successor employees in accurately preparing the SEFA. In addition, OBPP changed the database used in the preparation and reporting process this year, which caused further complications. Internal controls can be further strengthened with the implementation of a review process.

Recommendation #1

We recommend the Office of Budget and Program Planning strengthen internal control procedures over the preparation of the Schedule of Expenditures of Federal Awards to ensure accurate reporting.

Chapter III – Disclosure Issue

Estimated Old Fund Liabilities

Section 39-71-2362, MCA, requires the legislative auditor to review rates established by the Montana State Fund (MSF) board to determine if the rates are excessive, inadequate, or unfairly discriminatory. In order to comply with this section of law in fiscal year 2013, the Legislative Auditor entered into a contract with an independent actuary. Under the contract, the actuary performs the following services:

1. To determine if rates established by MSF for workers' compensation insurance are excessive, inadequate, or unfairly discriminatory in accordance with §39-71-2362, MCA, and
2. To determine the adequacy of amounts reserved by MSF at June 30 and the reasonableness of procedures used in the claim reservation process, in accordance with §39-71-2361, MCA.

The independent actuary concluded the rates were not excessive, inadequate, or unfairly discriminatory; and procedures used by the actuary, to test both rate making and reserving were adequate. The independent actuary estimated a loss and claims liabilities for the Old Fund at an amount greater than the estimate provided by the MSF actuary. For fiscal year 2013, the independent actuary estimated the net loss and loss adjustment expense reserves at $143 million. The amount estimated and reported in the Statement of Net Position is $51 million. The two estimates vary significantly and the results of the independent actuary indicates the ultimate amount of claims paid could exceed the $51 million estimate currently reported in the Statement of Net Position. We report this for informational purposes only and make no recommendation.

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 on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, the aggregate remaining fund information, and the related notes to the financial statements of the state of Montana, as of and for the year ended June 30, 2013, which collectively comprise the state of Montana's basic financial statements and have issued our report thereon dated February 13, 2014. Our report includes qualified opinions on the Governmental Activities, Aggregate Discretely Presented Component Units, and General Fund related to the Old Fund presentation. Our report includes a reference to other auditors who audited the financial statements of the Montana State University component units and University of Montana component units, as described in our report on the state of Montana's 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 University of Montana component units were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or

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significant deficiencies may exist that were not identified. However, we did identify certain deficiencies in internal control, described below, that we consider to be a material weakness and a significant deficiency.

- The Governor's Office of Budget and Program Planning is responsible for preparing the state's SEFA. The office does not have adequate controls in place to prevent or detect errors, in a timely manner, which resulted in material misstatements and therefore is considered to be a material weakness in internal control.
- The Montana Department of Transportation (MDT) is responsible for calculating the infrastructure asset values reported as capital assets. MDT does not have adequate controls in place to prevent or detect errors in infrastructure asset values in a timely manner, which resulted in an approximate $213 million misstatement, which is considered to be a significant deficiency in internal control for the state as a whole.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the state of Montana's 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:

- 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, 2013, indicates the Sheriffs', Highway Patrol Officers', and Game Wardens' and Peace Officers' Retirement Systems are not actuarially sound.

State of Montana's Response to Findings

The state of Montana's response to the findings identified in our audit are described in the separately issued Montana Department of Transportation audit report (13-17), Public Employees' Retirement

Board audit report (12-08B), and on page B-3 of this report. The state's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 13, 2014

LEGISLATIVE AUDIT DIVISION

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

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Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying 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, 2013, and the related notes which collectively comprise the State's basic financial statements, as follows:

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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

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Montana component units, which represent 10.7, 17.1, and 4.4 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 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 from material misstatement.

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

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

Summary of Opinions

Opinion Unit	**Type of Opinion**
Governmental Activities	Qualified
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Units	Qualified
General Fund	Qualified
State Special Revenue Fund	Unmodified
Federal Special Revenue Fund	Unmodified
Land Grant	Unmodified
Coal Severance Tax	Unmodified
Unemployment Insurance	Unmodified
Economic Development Bonds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified 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. The Old Fund is no longer part of the Montana State Fund for financial reporting purposes because Generally Accepted Accounting Principles (GAAP) requires the primary government to report the activity of the Old Fund, as it is now paying the remaining liabilities. In fiscal year 2011, the Old Fund's resources were depleted. The General Fund cannot avoid sacrificing resources for the purpose of paying the Old Fund claims. In fiscal year 2013, 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 $51 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 following identifies the resulting misstatements (in thousands) on the basic financial statements.

Statement of Net Position	(Under)/Overstated (in thousands)
Governmental Activities Column	
Estimated Future Claim Contribution to Component Units	$ 51,026
Long-Term Liabilities (Due within One Year)	($8,243)
Long-Term Liabilities (Due in More than One Year)	($42,783)
Component Units Column	
Estimated Future Claim Contribution From Primary Government	$51,026
Long-Term Liabilities (Due within One Year)	$8,243
Long-Term Liabilities (Due in More than One Year)	$42,783

Statement of Activities	(Under)/Overstated (in thousands)
Expenses Column	
Governmental Activities: General Government	$9,771
Component Units Column	
Payment from State of Montana	$9,771

Additionally, Notes 1, 8, and 11 do not appropriately define the reporting entity and the state's resulting general long-term debt for the fiscal year ended June 30, 2013. Note 18A includes 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.

Qualified Opinions

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinions" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position as of June 30, 2013, and the results of operations of the Governmental Activities, Aggregate

Discretely Presented Component Units, and General Fund of the state of Montana for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Business-Type Activities, State Special Revenue Fund, Federal Special Revenue Fund, Land Grant, Coal Severance Tax, Unemployment Insurance, and Economic Development Bonds major funds, and the Aggregate Remaining Fund Information for the state of Montana, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

At June 30, 2013, the 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 Game Wardens' and Peace Officers' and Sheriffs' retirement systems. The amortization period for the Highway Patrol Officers' Retirement System is 44.6 years. The maximum allowable amortization period is 30 years.

Other Matters

Required Supplementary Information

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 a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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, Audits 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2014, 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* in considering the state of Montana's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 13, 2014

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, 2013. 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 2013 by $8.2 billion (reported as net position) compared with $7.9 billion at the end of fiscal year 2012. Of this amount, $1.4 billion may be used to meet the government's general obligations to citizens and creditors. Component units reported net position of $1.6 billion for both 2013 and 2012. These are discussed in more detail in the financial statement overview below.

Fund Highlights
As of the close of fiscal year 2013, the State's governmental funds reported combined ending fund balances of $4.0 billion compared with $3.9 billion at fiscal year 2012. Of this amount, $1.4 billion is not in spendable form, primarily as permanent fund principle. Thus, $2.6 billion is available for spending. The fund balance in spendable form is segregated by constraint as follows: $1,037.7 million restricted, $973.1 million committed, $42.6 million assigned and $537.6 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 position at the close of fiscal year 2013 in the amount of $284.7 million compared with the fiscal year-end 2012 net position of $237.8 million. Of the 2013 business-type activity fund equity $14.9 million was reported as net investment in capital assets. $269.8 million of net position was in spendable form with $16.1 million unrestricted and $253.7 million restricted to expenditure for a specific purpose. This represents a $47.0 million (21%) increase in spendable net position from the fiscal year-end 2012 balance of $222.8 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 $34.1 million, from $330.9 million in fiscal year 2012 to $296.8 million, a 10% decrease in fiscal year 2013.

Business-type activities reported bonds and notes payable of $70 thousand at fiscal year-end 2013. This represents a decrease of $65 thousand (48%) over the fiscal year-end 2012 reported amount of $135 thousand.

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 g*overnment-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 Position* presents all of the government's assets and liabilities, with the difference between the two reported as "net position". Over time, increases or decreases in the State's net position 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 position changed during the most recent fiscal year. All changes in net position 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 two authorities, one nonprofit independent public corporation 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 and major special revenue funds, as presented in the governmental fund financial statements. RSI also includes 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 Position
As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The State's combined net position (government and business-type activities) totaled $8.2 billion at the end of fiscal year 2013. Net position of the governmental activities increased $275 million (4%), and business-type activities experienced a $47 million (20%) increase. These changes are explained in detail in the major fund analysis below.

A portion of the State's net position 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 position of the State's net portion represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position 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 position.

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

Net Position (1)
As of Fiscal Year Ended June 30
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2013	2012	2013	2012	2013
Current and other assets	$4,959,428	$5,128,332	$372,265	$424,790	$5,331,693	$5,553,122
Capital assets	4,748,747	4,878,963	15,314	15,084	4,764,061	4,894,047
Total assets	9,708,175	10,007,295	387,579	439,874	10,095,754	10,447,169
Long-term liabilities						
Due in more than one year	810,121	759,276	12,822	8,157	822,943	767,433
Other liabilities	1,245,151	1,320,053	136,945	147,059	1,382,096	1,467,112
Total liabilities	2,055,272	2,079,329	149,767	155,216	2,205,039	2,234,545
Net investment in capital assets (2)	4,529,952	4,681,042	15,011	14,861	4,544,963	4,695,903
Restricted	2,298,142	2,334,042	206,896	253,651	2,505,038	2,587,693
Unrestricted	824,809	912,882	15,905	16,146	840,714	929,028
Total net position (1)	$7,652,903	$7,927,966	$237,812	$284,658	$7,890,715	$8,212,624

(1) With the implementation of GASB Statement 63 for the fiscal year ended June 30, 2013; net assets became known as net position.

(2) For 2012, this line was referred to as invested in capital assets, net of related debt.

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

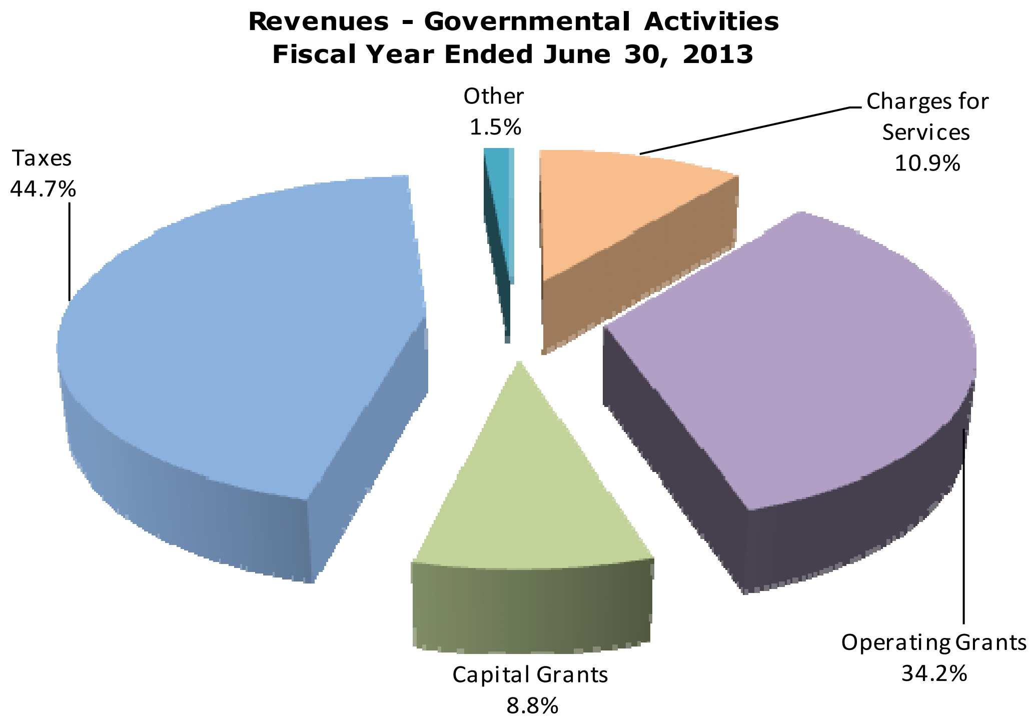
Changes in Net Position
For Fiscal Year Ended June 30
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2013	2012	2013	2012	2013
Revenues:						
Program revenues						
Charges for services	$ 557,133	$ 564,714	$ 405,203	$ 414,024	$ 962,336	$ 978,738
Operating grants	1,824,334	1,780,611	134,120	96,590	1,958,454	1,877,201
Capital grants	512,649	455,310	398	445	513,047	455,755
General revenues						
Taxes	2,110,146	2,324,112	23,233	24,185	2,133,379	2,348,297
Other	132,597	77,492	866	631	133,463	78,123
Total revenues	5,136,859	5,202,239	563,820	535,875	5,700,679	5,738,114
Expenses:						
General government	660,561	647,974			660,561	647,974
Public safety	387,213	380,309			387,213	380,309
Transportation	468,977	413,205			468,977	413,205
Health and human services	1,745,284	1,808,390			1,745,284	1,808,390
Educational	1,192,205	1,205,959			1,192,205	1,205,959
Natural resources	337,462	332,942			337,462	332,942
Principal on long-term debt	7,593	-			7,593	-
Interest on long-term debt	15,725	12,249			15,725	12,249
Unemployment Insurance			217,829	179,826	217,829	179,826
Liquor Stores			67,863	71,015	67,863	71,015
State Lottery			39,808	44,049	39,808	44,049
Economic Dev Bonds			1,149	929	1,149	929
Hail Insurance			7,052	7,338	7,052	7,338
Gen Govt Services			62,094	63,349	62,094	63,349
Prison Funds			6,480	7,003	6,480	7,003
MUS Group Insurance			59,577	67,249	59,577	67,249
MUS Workers Comp			4,530	328	4,530	328
Total expenses	4,815,020	4,801,028	466,382	441,086	5,281,402	5,242,114
Increase (decrease) in net position before transfers (1)	321,839	401,211	97,438	94,789	419,277	496,000
Transfers	46,361	48,200	(46,361)	(48,200)		
Change in net position (1)	368,200	449,411	51,077	46,589	419,277	496,000
Net position, beg of year (1) (as restated)	7,284,703	7,254,555	186,735	238,069	7,471,438	7,716,624
Net position, end of year(1)	$7,652,903	$7,927,966	$ 237,812	$ 284,658	$7,890,715	$8,212,624

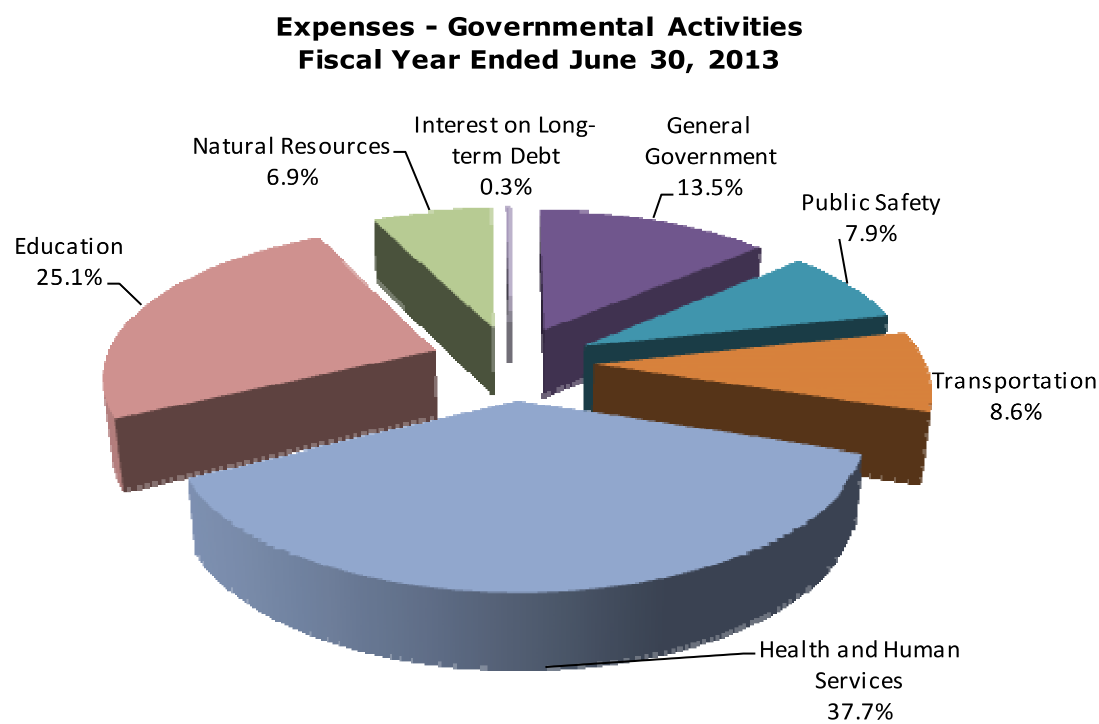
(1) With the implementation of GASB Statement 63 for the fiscal year ended June 30, 2013; net assets became known as net position.

Governmental Activities

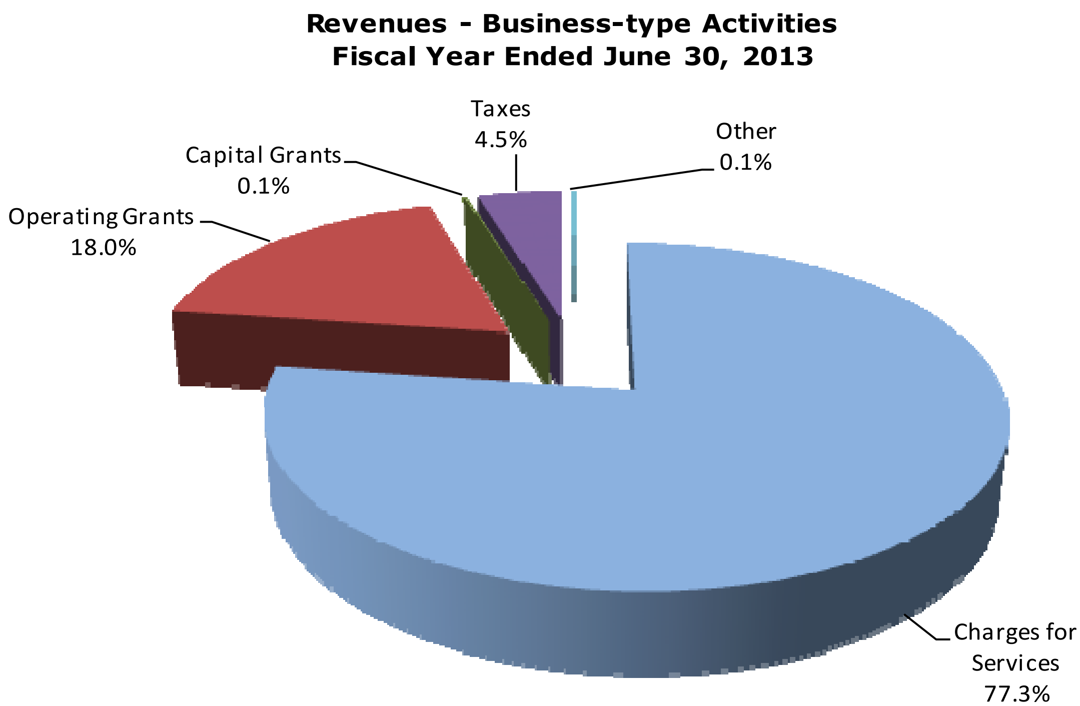
The following chart depicts revenues of the governmental activities for the fiscal year:



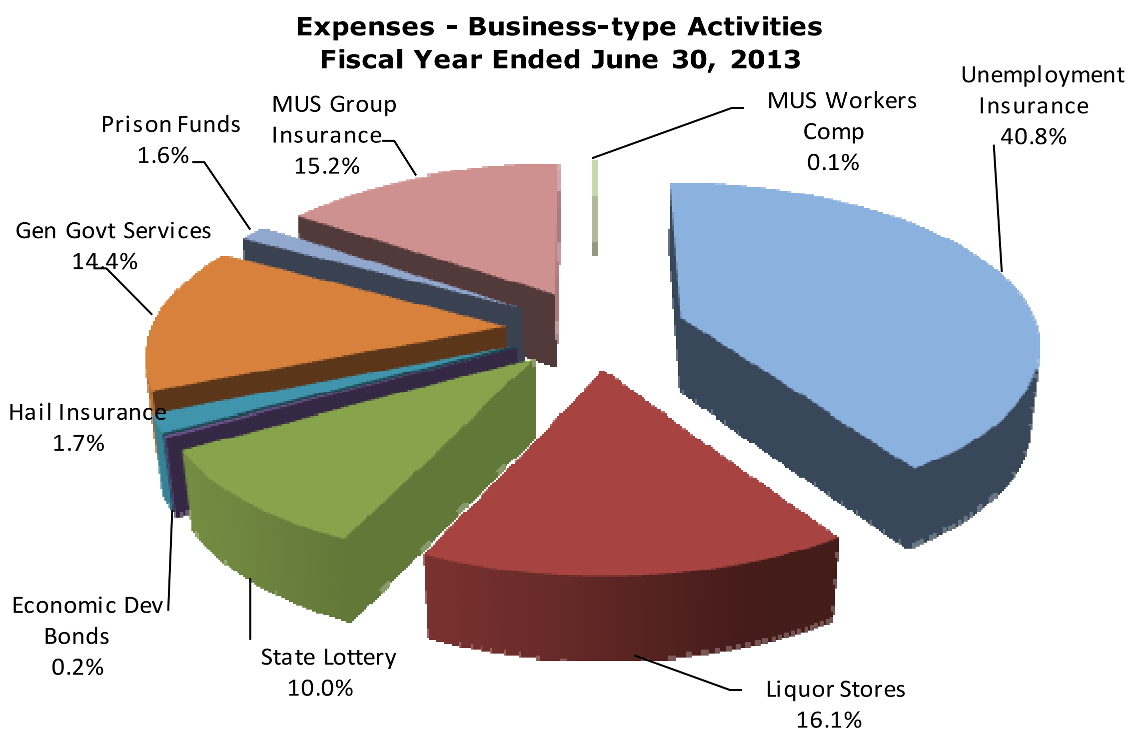
The following chart depicts expenses of the governmental activities for the fiscal year:



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 $4 billion. Of this total amount, $2.6 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 fund balance 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 $555.6 million. This represents 21% of the $2.6 billion spendable governmental fund balances for all governmental funds. The ending General Fund unassigned fund balance of $538 million was $388 million higher than the anticipated $150 million unassigned fund balance estimated by the 62nd Legislature. Unassigned fund balance increased by $86 million when compared to the previously reported fund balance of $452 million. This increase was primarily the result of higher than anticipated income, corporate and natural resource tax revenues. 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 were $2,002 million for fiscal year 2013, or $210 million (12%) more than fiscal year 2012. Of the increase, $198 million was the result of increased individual and corporate income tax revenues from fiscal year 2012 to fiscal year 2013. Transfers in decreased by $8 million (9%) from the amount reported in 2012 to $79 million in 2013.

Higher General Fund Expenditures – General Fund expenditures for fiscal year 2013 increased by $175 million (10%). This increase in expenditures primarily occurred in the educational, natural resources and health and human services functions. Educational expenditures increased by $67 million in 2013. In FY12, the legislature used revenue from state special revenue fund sources to offset general fund K-12 expenditures and these revenue sources were not used in 2013. Natural resources expenditures increased by $53 million in 2013 due to higher fire suppression costs. Health and human services expenditures increased by $31 million, of which $24 million of the increase is attributable to an increase in benefits paid to individuals regarding social assistance and $6 million of the increase is attributable to an increase in personal service costs.

Transfers out increased by $48 million (155%) to $79 million in 2013. Of this increase, $23 million was transferred to the State Special Revenue fund to the Office of Public Education for support of Montana schools. Pursuant to 2013 legislation, $14 million was transferred to the State Special Revenue fund to fund the operations of the Department of Corrections, Public Health and Human Services, Labor and Industry and other departments as designated by the Governor's Office of Budget and Program Planning. The remaining increase pertained money appropriated for a settlement payment.

General Fund Expenditure Budget Reversions
Fund balances are not reserved for reverted appropriations. For fiscal year 2013, general fund appropriations that reverted to 2014 were $35.2 million.

The Department of Natural Resource and Conservation has unspent appropriations of $12.4 million for FY 2013. The vast majority of this unspent amount is attributable to supplemental general fund authority pertaining to fire suppression costs.

The Department of Public Health and Human Services had unspent appropriations of $7.5 million for FY 2013. The vast majority of this unspent amount if attributable to general fund lower than expected Medicaid costs.

The Department of Administration had unspent appropriations of $4.1 million for FY 2013. 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.

The remaining unspent appropriation of $11.2 million was attributable to miscellaneous reversions across other business units.

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 $34 million or 2%. This decrease was caused by a combination of lower revenues, lower expenditures, and higher transfers in, and lower transfers out. These changes are discussed in detail below.

Decreased Revenues – Overall revenues decreased by $27 million (3%). A discussion of the causes for the major changes follows:

- Investment earnings decreased by $29 million (71%) primarily as the result of net depreciation.
- In regard to decrease in natural resource revenues, capital contribution revenue decreased by $8 million.
- Increases in revenues in other categories, offset the above decreases.

Decreased Expenditures – Overall expenditures decreased by $92 million (8%). The decreases were primarily in education and transportation functions.

- In regard to education related expenditures, in 2012 $41 million was used to offset K-12 expenditures in the general fund. In 2013, levels went back to normal.
- In regard to transportation related expenditures, spending decreased substantially from 2012. $24 million of the decrease pertained to 2012 costs associated with major spring floods in 2011 and most of the remaining decrease from 2012 is based on the return of construction projects to normal levels in 2013.
- In regard to natural resources related expenditures, spending decreased by $11 million, which basically pertained to a reduction of fire suppression costs from 2012.

Increased in net transfers - Transfers in increased significantly by $37 million (26%) in 2013 and transfers out decreased by $4 million (14%). The primarily increase for transfers in was $23 million, and is reflective of a transfer from the general fund for K-12 support required by the 2013 legislative session. The majority of the transfers out decrease pertained to the elimination of transfers required by the 2011 legislature.

Federal Special Revenue Fund
Fund balance in the Federal Special Revenue Fund decreased by $8.6 million (30%) to $19.7 million. Revenues decreased by $55 million (3%), expenditures decreased by $38 million (2%) and transfers out decreased by $4 million (13%). 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 major federal revenue and expenditure changes resulted from the following:

- The general government related expenditures decreased by $28 million; primarily based on the discontinuation of ARRA funding as used in previous years.
- The transportation related expenditures decreased by $31 million because the construction program returned to pre-ARRA normal federal participation rates and project level.
- The health and human services related expenditures increased by $40 million; primarily as a result of an increase in Medicaid HIT incentives, decrease in Medicaid drug rebate receivables and an increase in Medicaid physician expenditures. Corresponding, revenue increased by roughly the same amount.
- The education related expenditures decreased by $11 million; of which $8 million was the result of the elimination of ARRA funding and $2 million pertained to Academic Achievement Awards not being issued in 2013.
- The natural resource related expenditures increased by $13 million; of which $10 million was the result of an increase in federal fire expenditures.

Coal Severance Tax Permanent Fund
Although there were significant changes in the revenues earned within the fund, the fund balance in the Coal Severance Tax Permanent Fund increased by $9 million to $971.7 million, or an increase of 1%. Total revenue decreased by $39.5 million to $49.3 million, or a decrease of 44% from 2012. Tax revenues increased $3.2 million (13%), while investment earnings decreased $42.6 million (68%). One factor for the investment revenue decrease was the result of investment value depreciation of $18.9 million. Statutorily defined transfers from the fund increased by $2.6 million (7%) to $40.3 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 $22 million to $589.1 million, or a 4% increase. Within this fund, investment earnings decreased by $31.7 million (77%). One factor for this investment revenue decrease was the result of investment value depreciation of $13.8 million. Transfers out decreased by $3.6 million (5%). Capital outlay expenditures increased by $7.4 million, pertaining to the purchases of over 16,000 acres pertaining to the Milk River Ranch and North Swan Phase 2 acquisitions. Proceeds of the sale of capital assets increased by $4.6 million to $6.5 million, or an increase of 242% from the 2012 amount. This increase was the result of the sale of over 9,200 acres, the proceeds of which will be or have been used to acquire lands that are likely to provide greater or equal trust revenue.

Unemployment Insurance Enterprise Fund
Net position restricted for unemployment compensation increased by $41.8 million or 30%. This net position increase reflects the continued impact of lower unemployment throughout fiscal year 2013 and was also impacted by an increase in the taxable wage base from $27,000 to $27,900 in 2013. Total taxable wages increased by $.2 billion in calendar year 2013 from $6.5 billion in 2012, or 4%. Overall unemployment fell from 6.3% in July 2012, to 5.3% in July 2013.

Economic Development Bonds Enterprise Fund
Net position increased by $0.1 million or 1% in fiscal year 2013. Lower revenues from financing were received and were offset by lower operating expenses in 2013, including a decrease in personal services of $0.1 million or (37%).

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, 2013, amounted to $6.9 billion, with related accumulated depreciation of $2.0 billion, leaving a net book value of $4.9 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 $.1 billion or 3% in terms of net book value. Most of the year's increase in 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 (Aa1), 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 $156.9 million at June 30, 2012, to $139.6 million at June 30, 2013. $8.4 million of cash is available in debt service funds to service general obligation debt leaving a balance of $131.2 million in net general obligation debt outstanding.

The below table contains the ratio of general obligation debt and all State debt to personal income and the amount of debt per capita:

	Amount *(in thousands)*	**Percentage of Personal Income (1)**	**State Debt Per Capita (2)**
General obligation debt	$139,595	0.32%	$144
Total State debt	$288,202	0.70%	$294

(1) Personal income is for calendar year 2012.
(2) Based on estimated 2013 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

Overall the State's economy appears to be continuing to experience an economic recovery. Montana's primary economic base remains concentrated in agriculture, mining, manufacturing, and nonresident travel. Montana's unemployment rate has remained lower than the national rate since 2001. Montana's unemployment rate decreased to 5.3% as of August 2013, as compared to 5.9% in September 2012. Montana added roughly 10,700 jobs in 2012 for a growth rate of 2.3%, faster than the national growth rate of 1.9%. In 2012, Montana's annual number of people employed in nonfarm non-adjusted jobs was approximately 441,000 for 2012, compared to 431,000 in 2011. Montana was the 5th fastest state for personal income growth in 2012 at 4.5%.

National forecasts call for modest growth in the US and global economies. Oil and gas development in Montana, North Dakota, and Canada will continue to positively impact Montana manufacturing, with increased business at existing manufacturers and several new facilities plan for 2013 and beyond. The manufacturing outlook for Montana is for continued improvements with expectations of employment growth and increased worker earnings among many of the state's manufacturing sectors. The status of Montana's economy is discussed in detail in the Transmittal letter.

The 63nd Legislative Session adjourned in late April 2013. Upon adjournment, it was anticipated that for the biennium, general fund revenue would be approximately $4,193 million while general fund expenditures would be approximately $4,328 million, thereby leaving an estimated general fund balance of approximately $300 million at the end of fiscal year 2015.

The 2015 biennium budget seeks to leave sufficient reserves in fund balance, achieve structural balance for the general fund budget, and solve (or eliminate) long-term liabilities.

The following are financial highlights of the 2015 biennium budget, as approved by the 2013 legislature:

1. Governor Bullock proposed and the 2013 Legislature adopted legislation to fund the two largest retirement systems' (TRS and PERS) unfunded liabilities with a combination of state general fund, state and local employer contribution rates, employee contribution increases, and reductions in the inflationary increase in retiree benefits. Under this legislation, the amortization period for both retirement systems are now under the recommended 30 year amortization period. Legislation was also adopted to fund the outstanding liability of the Highway Patrol Officer Retirement System.

2. Governor Bullock proposed and the 2013 Legislature funded a 2% rate increase per year for most private and community-based partners that provide health care and corrections-based services on behalf of the State of Montana.

3. The 2013 Legislature and the Governor passed HB 354 which provides sweeping reform and ongoing funding for the way the state pays for wildfire suppression. The bill provides a mechanism to set aside funds to pay for the cost of wildfire suppression in a proactive way and significantly decreases the likelihood of supplemental appropriations and special sessions of the past to pay for these costs.

4. The 2013 Legislature further reduced the class 8 (business equipment) property tax rate and increased the thresholds for which taxes are due (SB 96). In addition to reducing tax liability for individuals and businesses, the bill also provides for full reimbursement, from the general fund, for the reduction in tax base caused by this bill to local governments and tax increment finance districts through entitlement share payments; school districts through school block grant payments; and the university system.

5. The 2013 Legislature funded significant one-time investments in capital infrastructure projects around the state, including funding all outstanding obligations to the Blackfeet and the Ft Belknap Tribal Water Compacts and the Dry Prairie and Central Montana Regional Water Systems. There were further investments in necessary one-time information technology projects that will improve the efficiency and effectiveness of state government.

6. The 2015 biennium budget generally funds existing core services (i.e. health and human services, corrections, and education) at estimated caseload, population, and enrollment levels.

As of June 30, 2013 three of the state retirement systems were not actuarially sound, and had an unfunded actuarially accrued liability. These include the 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.

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 2013.

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 Bureau, Room 255 Mitchell Building, Capitol Complex, Helena, MT 59620.

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STATEMENT OF NET POSITION
JUNE 30, 2013
(amounts expressed in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Cash/cash equivalents (Note 3)	$ 1,535,975	$ 290,892	$ 1,826,867	$ 359,362
Receivables (net)	413,305	41,130	454,435	136,796
Due from primary government	-	-	-	2,012
Due from other governments	250,157	547	250,704	21,319
Due from component units	1,094	2,519	3,613	154
Estimated future claim contribution from primary government	-	-	-	51,026
Internal balances	4,703	(4,703)	-	-
Inventories	27,682	4,136	31,818	5,189
Advances to component units	19,816	17,258	37,074	-
Long-term loans/notes receivable	354,765	42,214	396,979	511,530
Equity in pooled investments (Note 3)	2,030,044	-	2,030,044	47,895
Investments (Note 3)	322,378	26,650	349,028	1,850,195
Securities lending collateral (Note 3)	154,868	198	155,066	167,243
Unamortized bond issuance	2,662	1,466	4,128	7,811
Other assets	10,883	2,483	13,366	72,022
Capital assets (net) (Note 5)	4,878,963	15,084	4,894,047	784,714
Total assets	10,007,295	439,874	10,447,169	4,017,268
DEFERRED OUTFLOWS OF RESOURCES				
Derivative financial instrument deferred outflow	-	-	-	3,868
LIABILITIES				
Accounts payable	557,230	13,783	571,013	79,380
Lottery prizes payable	-	3,750	3,750	-
Due to primary government	-	-	-	3,613
Due to other governments	56,411	60	56,471	20
Due to component units	2,012	-	2,012	154
Advances from primary government	-	-	-	37,074
Estimated future claim contribution to component unit	51,026	-	51,026	-
Deferred revenue	41,076	6,241	47,317	71,199
Amounts held in custody for others	33,520	40	33,560	11,011
Securities lending liability (Note 3)	154,868	198	155,066	167,243
Other liabilities	2,177	-	2,177	9,937
Short-term debt (Note 11)	-	106,615	106,615	-
Long-term liabilities (Note 11):				
Due within one year	187,695	12,264	199,959	180,355
Due in more than one year	759,276	8,157	767,433	1,714,314
OPEB implicit rate subsidy (Note 7)	234,038	4,108	238,146	108,503
Total liabilities	2,079,329	155,216	2,234,545	2,382,803

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET POSITION				
Net investment in capital assets	$ 4,681,042	$ 14,861	$ 4,695,903	$ 525,793
Restricted for:				
General government	573	-	573	-
Transportation	49,360	-	49,360	-
Health and human services	8,637	-	8,637	-
Natural resources	365,137	-	365,137	-
Public safety	42,991	-	42,991	-
Education	16,387	-	16,387	-
Funds held as permanent investments:				
Nonexpendable	1,390,099	-	1,390,099	273,511
Expendable	460,858	-	460,858	-
Unemployment compensation	-	179,956	179,956	-
Housing authority	-	-	-	157,168
Other purposes	-	73,695	73,695	162,690
Unrestricted	912,882	16,146	929,028	519,171
Total net position	$ 7,927,966	$ 284,658	$ 8,212,624	$ 1,638,333

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(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	$ 647,974	$ 134,756	$ 167,381	$ 964	$ (344,873)
Public safety	380,309	148,147	13,811	321	(218,030)
Transportation	413,205	30,792	41,929	435,866	95,382
Health and human services	1,808,390	37,291	1,246,417	-	(524,682)
Education	1,205,959	37,328	174,958	375	(993,298)
Natural resources	332,942	176,400	136,115	17,784	(2,643)
Interest on long-term debt	12,249	-	-	-	(12,249)
Total governmental activities	4,801,028	564,714	1,780,611	455,310	(2,000,393)
Business-type activities:					
Unemployment Insurance	179,826	166,523	54,815	-	41,512
Liquor Stores	71,015	82,125	-	-	11,110
State Lottery	44,049	56,820	-	-	12,771
Economic Development Bonds	929	13	992	-	76
Hail Insurance	7,338	7,114	24	-	(200)
General Government Services	63,349	21,988	40,464	445	(452)
Prison Funds	7,003	6,945	-	-	(58)
MUS Group Insurance	67,249	68,216	251	-	1,218
MUS Workers Compensation	328	4,280	44	-	3,996
Total business-type activities	441,086	414,024	96,590	445	69,973
Total primary government	$ 5,242,114	$ 978,738	$ 1,877,201	$ 455,755	$ (1,930,420)
Component units:					
Housing Authority	$ 29,965	$ 1,064	$ 25,779	$ -	$ (3,122)
Facility Finance Authority	383	533	56	-	206
Montana State Fund	179,938	156,063	-	-	(23,875)
Montana State University	500,658	229,189	166,444	7,053	(97,972)
University of Montana	414,544	181,136	128,096	360	(104,952)
Total component units	$ 1,125,488	$ 567,985	$ 320,375	$ 7,413	$ (229,715)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Changes in net position:				
Net (expense) revenue	$ (2,000,393)	$ 69,973	$ (1,930,420)	$ (229,715)
General revenues:				
Taxes:				
Property	256,613	-	256,613	-
Fuel	216,065	-	216,065	-
Natural resource	310,344	-	310,344	-
Individual income	1,041,767	-	1,041,767	-
Corporate income	174,510	-	174,510	-
Other (Note 1)	324,813	24,185	348,998	-
Unrestricted grants and contributions	11	-	11	769
Settlements	35,673	-	35,673	-
Unrestricted investment earnings	30,296	20	30,316	68,228
Payment from State of Montana	-	-	-	200,916
Gain (loss) on sale of capital assets	7,158	41	7,199	(271)
Miscellaneous	4,354	570	4,924	473
Contributions to term and permanent endowments	-	-	-	12,286
Transfers	48,200	(48,200)	-	-
Total general revenues, contributions, and transfers	2,449,804	(23,384)	2,426,420	282,401
Change in net position	449,411	46,589	496,000	52,686
Total net position - July 1 - as previously reported	7,652,903	237,812	7,890,715	1,595,197
Prior period adjustments (Note 2)	(174,348)	257	(174,091)	(9,550)
Total net position - July 1 - as restated	7,478,555	238,069	7,716,624	1,585,647
Total net position - June 30	$ 7,927,966	$ 284,658	$ 8,212,624	$ 1,638,333

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013
(amounts expressed in thousands)

		SPECIAL REVENUE	
	GENERAL	STATE	FEDERAL
ASSETS			
Cash/cash equivalents (Note 3)	$ 571,638	$ 693,568	$ 53,841
Receivables (net) (Note 4)	260,568	115,266	17,533
Interfund loans receivable (Note 12)	74,261	63,072	3
Due from other governments	10,461	829	238,866
Due from other funds (Note 12)	46,730	7,294	-
Due from component units	2	996	3
Inventories	2,417	22,066	-
Equity in pooled investments (Note 3)	-	398,003	-
Long-term loans/notes receivable	41	324,372	6,782
Advances to other funds (Note 12)	2,438	12,306	-
Advances to component units	-	11,619	-
Investments (Note 3)	15,088	125,275	4,865
Securities lending collateral (Note 3)	-	44,793	64
Other assets	2,434	6,690	192
Total assets	986,078	1,826,149	322,149
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable (Note 4)	246,820	120,675	147,263
Interfund loans payable (Note 12)	-	11,332	122,022
Due to other governments	163	53,888	2,360
Due to other funds (Note 12)	209	33,960	170
Due to component units	25,122	477	1,344
Advances from other funds (Note 12)	-	11,558	2,605
Deferred revenue	132,682	41,301	26,632
Amounts held in custody for others	20,061	13,370	22
Securities lending liability (Note 3)	-	44,793	64
Other liabilities	5	322	-
Total liabilities	425,062	331,676	302,482
Fund balances (Note 14):			
Nonspendable	5,374	23,268	83
Restricted	-	996,850	19,584
Committed	-	465,346	-
Assigned	18,033	9,009	-
Unassigned	537,609	-	-
Total fund balances	561,016	1,494,473	19,667
Total liabilities and fund balances	$ 986,078	$ 1,826,149	$ 322,149

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

PERMANENT							
COAL SEVERANCE TAX		LAND GRANT		NONMAJOR		TOTAL	
$	54,376	$	16,553	$	58,655	$	1,448,631
	8,906		1,789		6,241		410,303
	-		-		-		137,336
	-		-		-		250,156
	-		-		2,632		56,656
	93		-		-		1,094
	-		-		-		24,483
	773,379		570,798		287,864		2,030,044
	-		-		23,570		354,765
	-		-		7,677		22,421
	8,197		-		-		19,816
	129,994		-		4,201		279,423
	47,599		35,020		17,769		145,245
	-		-		-		9,316
	1,022,544		624,160		408,609		5,189,689
	-		-		989		515,747
	3,254		3		689		137,300
	-		-		-		56,411
	40		-		1,316		35,695
	-		-		-		26,943
	-		-		15,236		29,399
	-		-		423		201,038
	-		65		-		33,518
	47,599		35,020		17,769		145,245
	-		-		-		327
	50,893		35,088		36,422		1,181,623
	527,904		589,072		271,353		1,417,054
	-		-		21,279		1,037,713
	443,747		-		63,986		973,079
	-		-		15,569		42,611
	-		-		-		537,609
	971,651		589,072		372,187		4,008,066
$	1,022,544	$	624,160	$	408,609	$	5,189,689

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013
(amounts expressed in thousands)

	Total Governmental Fund	(A) Internal Service Fund	(B) Capital Assets Balances	(C) Debt Related Balances	(D) Other Measurement Focus	(E) Internal Balances Elimination	Statement of Net Position Totals
ASSETS							
Cash and cash equivalent	$ 1,448,631	$ 87,344	$ -	$ -	$ -	$ -	$ 1,535,975
Receivables	410,303	2,851	-	-	151	-	413,305
Interfund loans receivable	137,336	-	-	-	-	(137,336)	-
Due from other governments	250,156	1	-	-	-		250,157
Due from other funds	56,656	95	-	-	-	(56,751)	-
Due from component units	1,094	-	-	-	-		1,094
Inventories	24,483	3,199	-	-	-		27,682
Internal balances	-	-	-	-	-	4,703	4,703
Equity in pooled investments	2,030,044	-	-	-	-		2,030,044
Securities lending collateral	145,245	9,623	-	-	-		154,868
Advances to other funds	22,421	320	-	-	-	(22,741)	-
Advances to component units	19,816	-	-	-	-	-	19,816
Investments	279,423	42,955	-	-	-	-	322,378
Deferred charges	-	-	-	-	2,662	-	2,662
Capital assets	-	92,386	4,786,577	-	-	-	4,878,963
Long-term loans/notes receivable	354,765	-	-	-	-	-	354,765
Other assets	9,316	1,567	-	-	-	-	10,883
Total assets	5,189,689	240,341	$ 4,786,577	$ -	$ 2,813	$ (212,125)	$ 10,007,295
LIABILITIES							
Current liabilities:							
Accounts payable	515,747	12,481	-	-	29,002	-	557,230
Interfund loans payable	137,300	-	-	-	-	(137,300)	-
Due to other government	56,411	-	-	-	-	-	56,411
Due to other funds	35,695	445	-	-	468	(36,608)	-
Due to component units	26,943	-	-	-	(24,931)	-	2,012
Advances from other funds	29,399	1,038	-	-	7,780	(38,217)	-
Deferred revenue	201,038	2,476	-	-	(162,438)	-	41,076
Amounts held in custody for others	33,518	2	-	-	-	-	33,520
Securities lending liability	145,245	9,623	-	-	-	-	154,868
Other current liabilities	327	-	-	-	1,850 -	-	2,177
Estimated future claim contribution to component unit	-	-	-	-	51,026	-	51,026
Long-term liabilities:							
Due within one year	-	19,496	-	168,199	-	-	187,695
Due in more than one year	-	18,314	-	740,962	-	-	759,276
OPEB implicit rate subsidy	-	13,225	-	220,813	-	-	234,038
Total liabilities	1,181,623	77,100	-	1,129,974	(97,243)	(212,125)	2,079,329
NET POSITION:							
Net investment in capital assets	-	90,883	4,786,577	(196,418)	-	-	4,681,042
Restricted for:							
General government	1,966	-	-	(2,334)	941	-	573
Transportation	76,658	-	-	(27,477)	179	-	49,360
Health and human services	23,049	-	-	(6,553)	(7,859)	-	8,637
Natural resources	646,026	-	-	(304,187)	23,298	-	365,137
Public safety	268,619	-	-	(225,627)	(1)	-	42,991
Education	21,395	-	-	(2,238)	(2,770)	-	16,387
Funds held as permanent investments:							
Nonexpendable	1,388,829	-	-	-	1,270	-	1,390,099
Expendable	-	-	-	-	460,858	-	460,858
Unrestricted	1,581,524	72,358	-	(365,140)	(375,860)	-	912,882
Total net position	$ 4,008,066	$ 163,241	$ 4,786,577	$ (1,129,974)	$ 100,056	$ -	$ 7,927,966

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 Position

(A) Internal Services funds: Management uses Internal Services funds (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 position of the ISF are included in the governmental activities on the government-wide Statement of Net Position. ISF are reported using proprietary fund-type accounting in the fund-level financial statements. A list of ISF can be found in the respective Supplementary Information section.

(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 Position.

(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 position and are reported in the Statement of Net Position. The portion reported as current in the reconciliation is payable within the following fiscal year. The largest portion of the long-term liabilities 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 Position, 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 Position 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 discussed above. Therefore, both the current and long-term portions of the liability are shown on the government–wide Statement of Net Position, 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 on the governmental-wide Statement of Net Position. Per GAAP these balances should be eliminated from the governmental-wide Statement of Net Position to avoid double counting.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

		SPECIAL REVENUE	
	GENERAL	STATE	FEDERAL
REVENUES (Note 14)			
Licenses/permits	$ 115,988	$ 179,446	$ -
Taxes:			
Natural resource	140,509	131,954	-
Individual income	1,029,528	-	-
Corporate income	178,154	3	-
Property	242,272	14,341	-
Fuel	-	216,065	-
Other	213,906	108,279	-
Charges for services/fines/forfeits/settlements	36,962	92,975	39,346
Investment earnings	4,005	11,910	333
Securities lending income	14	279	4
Sale of documents/merchandise/property	312	5,572	4
Rentals/leases/royalties	13	1,106	9
Contributions/premiums	8	22,389	-
Grants/contracts/donations	5,501	18,719	40
Federal	33,214	11,053	1,999,645
Federal indirect cost recoveries	222	45,613	66,529
Other revenues	966	3,042	195
Total revenues	2,001,574	862,746	2,106,105
EXPENDITURES			
Current:			
General government	263,216	238,890	110,751
Public safety	267,483	84,455	11,412
Transportation	-	205,913	81,305
Health and human services	413,819	156,426	1,235,204
Education	889,469	103,939	210,636
Natural resources	81,937	170,348	85,504
Debt service:			
Principal retirement	132	514	45
Interest/fiscal charges	202	348	5
Capital outlay	3,826	67,449	361,739
Securities lending	3	78	-
Total expenditures	1,920,087	1,028,360	2,096,601
Excess of revenue over (under) expenditures	81,487	(165,614)	9,504
OTHER FINANCING SOURCES (USES)			
Inception of lease/installment contract	64	440	-
Insurance proceeds	-	381	-
General capital asset sale proceeds	522	324	16
Energy conservation loans	-	291	-
Transfers in (Note 12)	79,356	176,709	359
Transfers out (Note 12)	(79,094)	(27,152)	(26,303)
Total other financing sources (uses)	848	150,993	(25,928)
Net change in fund balances	82,335	(14,621)	(16,424)
Fund balances - July 1 - as previously reported	479,484	1,528,551	28,239
Prior period adjustments (Note 2)	(659)	(19,036)	7,852
Fund balances - July 1 - as restated	478,825	1,509,515	36,091
Increase (decrease) in inventories	(144)	(421)	-
Fund balances - June 30	$ 561,016	$ 1,494,473	$ 19,667

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

PERMANENT			
COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
$ -	$ 1,486	$ 228	$ 297,148
28,753	-	9,214	310,430
-	-	-	1,029,528
-	-	-	178,157
-	-	-	256,613
-	-	-	216,065
-	-	1,837	324,022
-	-	12,477	181,760
20,116	9,273	13,455	59,092
407	298	144	1,146
-	14,165	3,340	23,393
-	74,362	-	75,490
-	-	-	22,397
-	7	-	24,267
-	-	-	2,043,912
-	-	-	112,364
-	-	-	4,203
49,276	99,591	40,695	5,159,987
-	-	328	613,185
-	-	28	363,378
-	-	-	287,218
-	-	4,864	1,810,313
-	-	17	1,204,061
-	3,896	2	341,687
-	-	31,937	32,628
-	-	13,352	13,907
-	7,354	14,095	454,463
104	78	37	300
104	11,328	64,660	5,121,140
49,172	88,263	(23,965)	38,847
-	-	-	504
-	-	-	381
-	6,473	5	7,340
-	-	-	291
95	373	50,568	307,460
(40,259)	(73,118)	(27,576)	(273,502)
(40,164)	(66,272)	22,997	42,474
9,008	21,991	(968)	81,321
962,643	567,081	373,639	3,939,637
-	-	(484)	(12,327)
962,643	567,081	373,155	3,927,310
-	-	-	(565)
$ 971,651	$ 589,072	$ 372,187	$ 4,008,066

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, 2013

(amounts expressed in thousands)

	Total Governmental Fund	(A) Internal Service Fund	(B) Capital Asset Related Items	(C) Long-term Debt Transactions	(D) Other Measurement Focus	Statement of Activities Total
REVENUES						
License/permits	$ 297,148	$ -	$ -	$ -	$ (11)	$ 297,137
Taxes:						
Natural resource	310,430	-	-	-	(86)	310,344
Individual income	1,029,528	-	-	-	12,239	1,041,767
Corporate income	178,157	-	-	-	(3,647)	174,510
Property	256,613	-	-	-	-	256,613
Fuel	216,065	-	-	-	-	216,065
Other	324,022	-	-	-	791	324,813
Charges for services/fines/forfeits/settlements	181,760	-	-	-	(173)	181,587
Investment earnings	59,092	520	-	-	(29,316)	30,296
Securities lending income	1,146	-	-	-	(1,146)	-
Sale of documents/merchandise/property	23,393	-	-	-	-	23,393
Rentals/leases/royalties	75,490	-	-	-	-	75,490
Contributions/premiums	22,397	-	-	-	(1)	22,396
Insurance proceeds	381	-	-	-	-	381
Gain (loss) on sale of capital assets	-	-	7,158	-	-	7,158
Operating grants and donations	24,267	-	-	-	32,208	56,475
Federal	2,043,912	-	-	-	(432,126)	1,611,786
Federal indirect cost recoveries	112,364	-	-	-	-	112,364
Capital grants and contributions	-	-	-	-	455,310	455,310
Other revenues	4,203	-	-	-	151	4,354
Total revenues	5,160,368	520	7,158	-	34,193	5,202,239
EXPENDITURES						
Current	4,619,842	(119)	161,422	-	7,634	4,788,779
Debt service:						
Principal	32,628	-	-	(32,628)	-	-
Interest/fiscal charges	13,907	99	-	(1,757)	-	12,249
Capital outlay	454,463	-	(454,463)	-	-	-
Securities lending	300	-	-	-	(300)	-
Total expenditures	5,121,140	(20)	(293,041)	(34,385)	7,334	4,801,028
Excess of revenue over (under) expenditures	39,228	540	300,199	34,385	26,859	401,211
OTHER FINANCING SOURCES (USES)						
Inception of lease/installment contract	504	-	-	(504)	-	-
General capital asset sale proceeds	7,340	-	(7,340)	-	-	-
Energy conservation loans	291	-	-	(291)	-	-
Transfers	33,958	15,045	-	-	(803)	48,200
Total other financing sources (uses)	42,093	15,045	(7,340)	(795)	(803)	48,200
Net change in net position	$ 81,321	$ 15,585	$ 292,859	$ 33,590	$ 26,056	$ 449,411

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: Management uses the Internal Services funds (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. A list of ISF can be found in the respective Supplementary Information section.

(B) Capital asset 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 position and are reported on both the government–wide Statement of Net Position 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 Position. 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 Balance-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 transactions: 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 Position and are not reported on the government–wide Statement of Activities.
- Amortization of issuance cost, debt premium/discount, gains/loss on refunding debts are not reported on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental funds, but are 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 reported as liabilities on the government-wide Statement of Net Position 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 FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013
(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)	$ 171,928	$ 31,959	$ 87,005	$ 290,892	$ 87,344
Receivables (net) (Note 4)	6,058	8,776	26,296	41,130	2,851
Due from other governments	508	-	39	547	1
Due from other funds (Note 12)	-	1,474	-	1,474	95
Due from component units	-	2,519	-	2,519	-
Inventories	-	-	4,136	4,136	3,199
Short-term investments (Note 3)	-	4,719	-	4,719	-
Securities lending collateral (Note 3)	-	1	197	198	9,623
Other current assets	-	-	456	456	1,567
Total current assets	178,494	49,448	118,129	346,071	104,680
Noncurrent assets:					
Advances to other funds (Note 12)	-	8,016	-	8,016	320
Advances to component units	-	17,258	-	17,258	-
Long-term investments (Note 3)	-	6	21,925	21,931	42,955
Long-term notes/loans receivable	4,154	37,852	208	42,214	-
Deferred charges	-	1,466	-	1,466	-
Other long-term assets	-	-	2,027	2,027	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	3,830	3,830	95
Buildings/improvements	-	-	7,499	7,499	4,703
Equipment	-	1	9,470	9,471	242,414
Infrastructure	-	-	951	951	-
Construction in progress	-	-	2,449	2,449	2,326
Intangible assets	-	-	1	1	1,176
Other depreciable assets	-	-	3,416	3,416	-
Less accumulated depreciation	-	(1)	(13,332)	(13,333)	(158,564)
Total capital assets	-	-	15,084	15,084	92,386
Total noncurrent assets	4,154	64,598	39,244	107,996	135,661
Total assets	182,648	114,046	157,373	454,067	240,341

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013
(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)	$ 2,675 $	91 $	11,017 $	13,783 $	12,481
Lottery prizes payable	-	-	2,265	2,265	-
Interfund loans payable (Note 12)	-	-	36	36	-
Due to other governments	-	-	60	60	-
Due to other funds (Note 12)	-	-	13,837	13,837	445
Deferred revenue	17	-	6,224	6,241	2,476
Lease/installment purchase payable (Note 10)	-	-	81	81	61
Short-term debt (Note 11)	-	106,615	-	106,615	-
Bonds/notes payable - net (Note 11)	-	70	-	70	-
Amounts held in custody for others	-	-	40	40	2
Securities lending liability (Note 3)	-	1	197	198	9,623
Estimated insurance claims (Note 8)	-	-	11,281	11,281	16,101
Compensated absences payable (Note 11)	-	16	816	832	3,334
Total current liabilities	2,692	106,793	45,854	155,339	44,523
Noncurrent liabilities:					
Lottery prizes payable	-	-	1,485	1,485	-
Advances from other funds (Note 12)	-	-	320	320	1,038
Lease/installment purchase payable (Note 10)	-	-	142	142	140
Estimated insurance claims (Note 8)	-	-	7,317	7,317	15,448
Compensated absences payable (Note 11)	-	16	669	685	2,726
Arbitrage rebate tax payable (Note 11)	-	13	-	13	-
OPEB implicit rate subsidy (Note 7)	-	68	4,040	4,108	13,225
Total noncurrent liabilities	-	97	13,973	14,070	32,577
Total liabilities	2,692	106,890	59,827	169,409	77,100
NET POSITION					
Net investment in capital assets	-	-	14,861	14,861	90,883
Restricted for:					
Unemployment compensation	179,956	-	-	179,956	-
Other purposes	-	3,135	70,560	73,695	-
Unrestricted	-	4,021	12,125	16,146	72,358
Total net position	$ 179,956 $	7,156 $	97,546 $	284,658 $	163,241

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(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	$ -	$ 13	$ 154,007	$ 154,020	$ 129,470
Investment earnings	4,197	50	235	4,482	496
Securities lending income	-	-	1	1	36
Financing income	-	942	-	942	-
Contributions/premiums	166,523	-	93,217	259,740	143,229
Grants/contracts/donations	50,618	-	40,568	91,186	1,506
Other operating revenues	-	-	835	835	2,387
Total operating revenues	221,338	1,005	288,863	511,206	277,124
Personal services	-	171	13,532	13,703	51,376
Contractual services	-	30	17,758	17,788	25,945
Supplies/materials	-	9	72,778	72,787	28,218
Benefits/claims	176,916	11	114,832	291,759	120,905
Depreciation	-	-	1,144	1,144	11,596
Amortization	-	-	21	21	493
Utilities/rent	-	45	1,016	1,061	14,650
Communications	-	6	1,130	1,136	12,118
Travel	-	4	269	273	438
Repairs/maintenance	-	-	789	789	11,516
Lottery prize payments	-	-	32,177	32,177	-
Securities lending expense	-	-	-	-	12
Arbitrage rebate tax	-	4	-	4	-
Dividend expense	-	-	2,822	2,822	-
Interest expense	-	609	33	642	99
Other operating expenses	2,910	40	2,030	4,980	4,297
Total operating expenses	179,826	929	260,331	441,086	281,663
Operating income (loss)	41,512	76	28,532	70,120	(4,539)
Tax revenues	-	-	24,185	24,185	-
Insurance proceeds	-	-	-	-	78
Gain (loss) on sale of capital assets	-	-	(16)	(16)	66
Federal indirect cost recoveries	-	-	-	-	4,935
Increase (decrease) value of livestock	-	-	55	55	-
Total nonoperating revenues (expenses)	-	-	24,224	24,224	5,079
Income (loss) before contributions and transfers	41,512	76	52,756	94,344	540
Capital contributions	-	-	445	445	1,821
Transfers in (Note 12)	-	-	7	7	15,009
Transfers out (Note 12)	-	-	(48,207)	(48,207)	(1,785)
Change in net position	41,512	76	5,001	46,589	15,585
Total net position - July 1 - as previously reported	138,175	7,080	92,557	237,812	147,699
Prior period adjustments (Note 2)	269	-	(12)	257	(43)
Total net position - July 1 - as restated	138,444	7,080	92,545	238,069	147,656
Total net position - June 30	$ 179,956	$ 7,156	$ 97,546	$ 284,658	$ 163,241

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, 2013
(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					
Receipt from sales and service	$ 167,728	$ 13	$ 247,012	$ 414,753	$ 271,952
Payments to suppliers for goods and services	-	(135)	(94,731)	(94,866)	(96,968)
Payments to employees	-	(270)	(13,546)	(13,816)	(51,220)
Grant receipts (expenses)	51,574	-	40,601	92,175	1,506
Cash payments for claims	(178,171)	-	(117,473)	(295,644)	(118,356)
Cash payments for prizes	-	-	(32,042)	(32,042)	-
Other operating revenues	-	-	834	834	7,322
Other operating payments	(2,909)	-	(4,882)	(7,791)	-
Net cash provided by (used for) operating activities	38,222	(392)	25,773	63,603	14,236
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	24,186	24,186	-
Transfer to other funds	-	-	(48,585)	(48,585)	(1,785)
Transfer from other funds	-	-	7	7	15,009
Proceeds from interfund loans/advances	-	-	211	211	1,092
Payment of interfund loans and advances	(9)	-	(80)	(89)	(2,434)
Payment of principal and interest on bonds and notes	-	10,742	(20)	10,722	(100)
Net cash provided by (used for) noncapital financing activities	(9)	10,742	(24,281)	(13,548)	11,782
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	78
Payment of principal and interest - capital related	-	-	(86)	(86)	-
Acquisition of capital assets	-	-	(897)	(897)	(8,524)
Proceeds from sale of capital assets	-	-	444	444	649
Net cash provided by (used for) capital and related financing activities	-	-	(539)	(539)	(7,797)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of investments	-	(4,093)	(9,835)	(13,928)	(820)
Proceeds (loss) on sales or maturities of investments	-	4,778	-	4,778	-
Proceeds (loss) from securities lending transactions/investments	-	-	326	326	36
Interest and dividends on investments	4,197	57	236	4,490	496
Payment of securities lending costs	-	-	-	-	(12)
Collections for principal and interest on loans	-	37,286	-	37,286	-
Cash payments for loans	-	(31,498)	-	(31,498)	-
Net cash provided by (used for) investing activities	4,197	6,530	(9,273)	1,454	(300)
Net increase (decrease) in cash and cash equivalents	42,410	- 16,880	(8,320)	50,970	17,921
Cash and cash equivalents, July 1	129,518	15,079	95,325	239,922	69,423
Cash and cash equivalents, June 30	$ 171,928	$ 31,959	$ 87,005	$ 290,892	$ 87,344

	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)	$ 41,512	$ 76	$ 28,532	$ 70,120	$ (4,539)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	-	-	1,144	1,144	11,596
Amortization	-	-	21	21	493
Interest expense	-	609	33	642	99
Securities lending expense	-	-	-	-	12
Investment earnings	(4,197)	(50)	(235)	(4,482)	(496)
Securities lending income	-	-	(1)	(1)	(36)
Financing income	-	(942)	-	(942)	-
Federal indirect cost recoveries	-	-	-	-	4,936
Arbitrage rebate tax	-	4	-	4	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	1,205	-	(189)	1,016	(137)
Decr (incr) in due from other funds	-	-	1	1	(30)
Decr (incr) in due from other governments	957	-	294	1,251	-
Decr (incr) in inventories	-	-	(33)	(33)	563
Decr (incr) in other assets	-	-	(25)	(25)	(572)
Incr (decr) in accounts payable	(1,260)	-	(1,611)	(2,871)	1,198
Incr (decr) in due to other funds	-	(7)	854	847	(1,567)
Incr (decr) in due to component units	-	-	-	-	(87)
Incr (decr) in due to other governments	-	-	(24)	(24)	-
Incr (decr) in lottery prizes payable	-	-	141	141	-
Incr (decr) in deferred revenue	5	-	(442)	(437)	144
Incr (decr) in amounts held in custody for others	-	-	(20)	(20)	-
Incr (decr) in compensated absences payable	-	(93)	(25)	(118)	(1)
Incr (decr) in OPEB implicit rate subsidy	-	11	701	712	2,307
Incr (decr) in estimated claims	-	-	(3,343)	(3,343)	353
Net cash provided by (used for) operating activities	$ 38,222	$ (392)	$ 25,773	$ 63,603	$ 14,236
Schedule of noncash transactions:					
Increase (decrease) value of investments	-	-	-	-	11,778
Capital asset acquisitions from contributed capital	-	-	-	-	1,821
Total noncash transactions	$ -	$ -	$ -	$ -	$ 13,599

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013
(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)	$ 134,446	$ 149,653	$ 488,410	$ 11,463
Receivables (net):				
Accounts receivable	21,951	-	-	493
Interest	9,711	4	80	-
Due from primary government	24,931	-	-	-
Due from other PERB plans	834	-	-	-
Long-term loans/notes receivable	23	-	-	-
Total receivables	57,450	4	80	493
Investments at fair value:				
Equity in pooled investments (Note 3)	8,419,044	-	-	-
Other investments (Note 3)	503,850	118,472	6,426	3
Total investments	8,922,894	118,472	6,426	3
Securities lending collateral (Note 3)	382,256	66	1,352	-
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	158	-	-	-
Equipment	191	-	-	-
Construction work in progress	390	-	-	-
Accumulated depreciation	(279)	-	-	-
Total capital assets	495	-	-	-
Other assets	1	31,962	-	439
Total assets	9,497,542	300,157	496,268	12,398
LIABILITIES				
Accounts payable	1,713	28	80	580
Due to other PERB plans	834	-	-	-
Deferred revenue	211	-	-	-
Amounts held in custody for others	5	-	-	11,818
Securities lending liability (Note 3)	382,256	66	1,352	-
Compensated absences payable	563	-	-	-
OPEB implicit rate subsidy	864	-	-	-
Total liabilities	386,446	94	1,432	12,398
NET POSITION				
Held in trust for pension benefits and other purposes	$ 9,111,096	$ 300,063	$ 494,836	$ -

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE-PURPOSE TRUST FUNDS	INVESTMENT TRUSTS
ADDITIONS			
Contributions/premiums:			
Employer	$ 191,631	$ -	$ -
Employee	191,249	-	-
Other contributions	45,168	20,366	902,493
Net investment earnings:			
Investment earnings	1,077,023	5,679	1,116
Administrative investment expense	(41,473)	-	(122)
Securities lending income	2,373	-	4
Securities lending expense	(589)	-	(1)
Charges for services	310	-	-
Other additions	407	6,944	-
Total additions	1,466,099	32,989	903,490
DEDUCTIONS			
Benefits	633,777	-	-
Refunds	20,767	-	-
Distributions	-	23,881	858,880
Administrative expenses:			
Personal services	4,081	-	-
Contractual services	4,001	305	-
Supplies/materials	123	-	-
Depreciation	26	-	-
Amortization	52	-	-
Utilities/rent	328	-	-
Communications	252	-	-
Travel	53	-	-
Repair/maintenance	33	-	-
Grants	-	1	-
Other operating expenses	164	-	-
Local assistance	15	-	-
Transfers to MUS-RP	339	-	-
Transfers to PERS-DCRP	872	-	-
Total deductions	664,883	24,187	858,880
Change in net position	801,216	8,802	44,610
Net position - July 1 - as previously reported	8,309,857	276,363	450,226
Prior period adjustments (Note 2)	23	14,898	-
Net position - July 1 - as restated	8,309,880	291,261	450,226
Net position - June 30	$ 9,111,096	$ 300,063	$ 494,836

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 39-7l-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 GASB. We believe the State Fund should reissue the related fiscal year 2011 through 2013 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 through 2013. 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 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 statement 14 and 61 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 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 of the statement of Net Position. 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 GAAP and the related audit opinion, as required by generally accepted auditing standards, should be unmodified.

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 condensed 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. The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. 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, 2013, the general fund was required to transfer $10.6 million 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

Montana State Fund
855 Front Street
Helena, MT 59604

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

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 Officers' 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 state contributions, from the State General Fund, which are 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 Position 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 $70.3 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 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.

Governments 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 2013, certain investments in STIP were reclassified as long-term investments. Further detail relating to cash and cash equivalents is provided in Note 3.

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 Position

Certain investments of the Economic Development Bonds Enterprise Fund are classified as restricted net position on the Statement of Fund Net Position 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. Further detail on Cash/Cash Equivalents and Investments is provided in Note 3.

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 Position. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio. Further detail on Cash/Cash Equivalents and Investments is provided in Note 3.

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 Position and depreciation expense in the Statement of Activities for these assets. Further detail on Capital Assets is provided in Note 5.

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 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 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. Further detail related to Leases/Installment Purchases Payable and State Debt is provided in Note 10 and Note 11, respectfully.

N. Capital Leases

A capital lease is a lease 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. Further detail on Capital Leases is provided in Note 10.

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. Further detail related to Long-term Debt is provided in Note 11.

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, 2012, was 21,307 hours. For fiscal year 2013, 1,174 sick leave hours, 120 annual leave hours, and 2,880 excess annual leave hours were contributed to the sick leave pool, and 3,785 hours were withdrawn, leaving a balance of 21,696 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. Further detail on Compensated Absences is provided in Note 11.

Q. Fund Balance/Net Position

Fund Balance

As a result of implementing GASB Statement 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 legally or contractually required to remain in tact or 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 if these can constraints be removed or changed by a similar 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 FY14 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 Position

In funds other than governmental, net position represent the difference between assets and liabilities. The net investment in the capital assets portion of net position 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 position is 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 Position reported restricted net position of $2.6 billion.

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	$ 17,403	$ 24,081	$ 2	$ 13	$ 41,499
Agriculture sales	-	6,421	-	-	6,421
Cigarette/tobacco	36,777	48,390	1,837	-	87,004
Contractors gross receipts	(138)	-	-	-	(138)
Energy tax	9,234	-	-	-	9,234
Fire protection	-	3,623	-	-	3,623
Insurance premium	61,928	10,906	-	-	72,834
Liquor tax	5,339	2,085	-	24,172	31,596
Livestock	-	4,169	-	-	4,169
Other taxes	5,895	5,862	-	-	11,757
Public service commission	-	3,052	-	-	3,052
Telephone license	20,658	-	-	-	20,658
Video gaming	57,279	10	-	-	57,289
Total other taxes	$214,375	$108,599	$1,839	$24,185	$348,998

NOTE 2. OTHER ACCOUNTING ISSUES

A. New Accounting Guidance Implemented

For the year ended June 30, 2013, the State of Montana implemented the provisions of GASB Statement 60 - “Accounting and Financial Reporting for Service Concession Arrangments”. The objective of this statement is to improve financial reporting by addressing issues related to service concession arrangments (SCAs), which are a type of public-private or public-public partnership. In addition, this statement provides guidance for governments that are operators in an SCA, revenue sharing arrangments, and SCA disclosure requirements.

For the year ended June 30, 2013, the State of Montana implemented the provisions of GASB Statement 61 – “The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34”. The objective of this statement is to improve financial reporting for a governmental financial reporting entity. This statement modifies certain requirements for inclusion of component units in the financial reporting entity, amends criteria for reporting component units as if they were part of the primary government in certain circumstances, and clarifies reporting of equity interests in legally separate organizations.

For the year ended June 30, 2013, the State of Montana implemented the provisions of GASB Statement 62 – “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements”. The objective of this statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that are included in the following pronouncements issued on or before November 30, 1989 which does not conflict or contradict GASB Pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principal Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure.

For the year ended June 30, 2013, the State of Montana implemented the provisions of GASB Statement 63 – “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”. The objective of this statement is to standardize the presentation of deferred outflows of resources, deferred inflows of resources, and their effects on a government’s net position. Implementation of this statement changed the title of the government-wide Statement of Net Assets to Statement of Net Position. Additionally, further terminology changes include “net assets”, which is now reported as “net position” and “investment in capital assets, net of related debt”, which is now reported as “net investment in capital assets”. Deferred outflows of resources and deferred inflows of resources categories have also been added to the government-wide Statement of Net Position and currently include transaction balances related to derivative financial instruments, which were previously reported as assets and liabilities.

B. Prior Period Adjustments

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors, changes in accounting policy from prior periods and/or reclassifications due to the recognition of capitalized infrastructure. The most significant adjustments affected the governmental activities column in the Statement of Activities and are related to Montana Department of Transportation infrastructure in the amount of $171 million.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

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

Cash/cash equivalents	$ 2,970,201
Equity in pooled investments	$ 10,496,983
Investments	$ 2,827,974

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 position. 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

(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 Position 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 2013, 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 2013. 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 2013 resulting from a borrower default.

During fiscal year 2013, 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, 2013, the Quality D Short Term Investment Fund (STIF) liquidity pool had an average duration of 29 days and an average weighted final maturity of 85 days for US dollar collateral. The duration pool had an average duration of 44 days and an average weighted final maturity of 1,972 days for US dollar collateral. As of June 30, 2013, the Securities Lending Quality Trust liquidity pool had an average duration of 48 days and an average weighted final maturity of 99 days for US dollar collateral. The duration pool had an average duration of 36 days and an average weighted final maturity of 679 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 2013, 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 two NRSROs at the time of purchase with the exception of non-rated securities or guaranteed by agencies or instrumentalities of the U.S. government."
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. Aberdeen Asset Management Inc. formerly 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, 2013 the MTIP STIF balance was $2,400,069, while the MDEP STIF balance was $27,134,694. The June 30, 2013 MTRP STIP investment totaled $10,006,106. The STIF and STIP cash equivalent funds have not been rated by a NRSRO. One MDEP manager has a $226,954 cash equivalent investment as of June 30, 2013 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 2013, 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, 2013, BOI recorded cash deposits of $3,051,107; of this balance, $1,365,163, 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. As scheduled, the unlimited insurance coverage for noninterest-bearing transaction accounts provided under the Dodd-Frank Wall Street Reform and Consumer Protection Act expired on December 31, 2012. Deposits held in noninterest-bearing transaction accounts are now aggregated with any interest-bearing deposits the owner may hold in the same ownership category, and the combined total insured up to at least $250,000. 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, 2013, 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 non-government issuer except up to 3% may be invested per issuer as long as not more than 2% is invested in securities maturing in more than 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, 2013. 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, 2013 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 $27,134,694 and $2,400,069, respectively. The STIF fund has an effective duration of .11. One MDEP investment

manager invested $226,954 in the T. Rowe Price Reserve Investment Fund with duration of .10. The MDEP and MTIP investment policy statements do not address interest rate risk for cash equivalent (debt pool) investments.

The fixed coupon holdings in 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, 2013, 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%, with an October 10, 2012 maturity. 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, 2013. 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, 2013. 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 2013 payments from AFF Financing LLC totaled $8,107,749 consisting of $8,005,209 in principal and $102,540 in interest. On June 2, 2013, BOI elected to extend the AFF Financing LLC promissory note maturity date to July 2, 2014. 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, 2013, the AFF Financing LLC, classified as a SIV, has an outstanding amortized cost balance of $29,561,449. 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 2013, BOI received principal and interest payments of $11,079,063 and $1,768,728, 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, 2013, the Orion Finance collective holding, classified as Other Asset Backed, has an outstanding amortized cost balance of $17,987,295. 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.

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 $191,035 and $249,071 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 $259,561 each as of June 30, 2013.

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	$137,369
Uninsured and uncollateralized cash	5,865
Undeposited cash	426
Cash in US Treasury	171,959
Cash in MSU component units	5,457
Cash in UM component units	7,808
Less: outstanding warrants	(89,591)
	$239,293

As of June 30, 2013, the carrying amount of deposits for component units was $16,264,281 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	$ 907,893	A1	44
Corporate commercial paper	150,769	A1	105
Corporate - variable	663,143	A3	41
Certificate of deposit – fixed	50,000	A1	222
Certificate of deposit – variable	435,974	A2	35
Other asset backed	47,549	NA	NA
US government agency fixed	44,891	A1	3
US government agency variable	182,700	A1	17
Money market fund unrated	309,316	NR	1
Money market fund rated	15,000	A1+	1
Repurchase agreement (1)	8,790	NR	0
Less: STIP included in pooled investment balance	(85,117)	NR	NA
Total cash equivalents (4)	$ 2,730,908		43
Securities lending collateral investment pool (2)	$ 7,183	NR	(3)

(1) As of June 30, 2013, the repurchase agreement was collateralized at 102% for $8,965,888 by two Federal Loan Mortgage Corporation Gold securities maturing July 1, 2024 and November 1, 2024. These securities carry an AA+ credit quality rating.

(2) As of June 30, 2013, the fair value of the cash equivalents was $7,031,052. Collateral provided for the cash equivalents totaled $7,182,928 in cash. See also the Table 4 disclosed in Note 3 D – Investments.

(3) As of June 30, 2013, the Securities Lending Quality Trust liquidity pool has an average duration of 48 days and an average weighted final maturity of 99 days for US dollar collateral. The duration pool had an average duration of 36 days and an average weighted final maturity of 679 days for US dollar collateral.

(4) As of June 30, 2013, local governments invested $494,836,035 and component units of the State of Montana invested $477,542,716 in STIP.

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	$2,467,783	$ 3,263,587
TFIP:		
Core real estate	104,750	127,077
Corporate bonds (rated)	860,596	898,488
Corporate bonds (unrated)	259	1,212
Municipal government bonds (rated)	840	844
US government direct obligations	384,371	388,219
US government agencies	483,546	493,735
High yield bonds	96,000	104,538
STIP	55,496	55,496
STIP Structured Investment Vehicle	730	730
RFBP:		
Corporate bonds (rated)	1,026,381	1,036,845
Corporate bonds (unrated)	2,076	2,097
International government	21,943	20,802
US government direct obligations	334,629	337,141
US government agencies	381,881	380,239
Montana mortgages	14,298	14,053
Common stock	851	197
Municipal bonds	3,769	3,576
Sovereign bonds	21,702	20,931
State Street STIF	79,590	79,590
STIP	22,705	22,705
STIP Structured Investment Vehicle	299	299
MTIP:		
International stock pool	1,256,899	1,415,809
MPEP:		
Private equity pool	927,349	1,066,829
MTRP:		
Real estate pool	781,860	776,229
STIP	5,757	5,757
STIP Structured Investment Vehicle	130	130
Total pooled investments	9,336,490	10,517,155
Pool adjustments (net)	(20,172)	(20,172)
Total equity in pooled investments	$9,316,318	$10,496,983

As of June 30, 2013, the fair value of the underlying securities on loan was $829,700,913. Collateral provided for the securities on loan totaled $847,288,184, consisting of $509,163,632 in cash and $338,124,552 in securities.

As of June 30, 2013, component units of the State of Montana had equity in pooled investments with a book value of $5,309,574,017 and a fair value of $8,466,939,202, as included in Table 3.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2013, as required for applicable pools. Credit risk reflects the bond quality rating, by investment type, as of June 30, 2013. 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, 2013
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Core real estate	$ 127,077	NR	NA
Corporate bonds (rated)	898,488	A+	5.19
Corporate bonds (unrated)	1,213	NR	NA
High yield bond fund	104,538	B	3.30
Municipal government bonds (rated)	844	AA	0.18
US government direct obligations	388,219	AA+	6.99
US government agency	493,735	AA+	4.61
STIP	56,226	NR	.12
Total fixed-income investments	$2,070,340	AA-	5.15
Securities lending collateral investment pool	$ 127,239	NR	(1)

(1) As of June 30, 2013, the Securities Lending Quality Trust liquidity pool had an average duration of .13 and an average weighted final maturity of .27 for US dollar collateral. The duration pool had an average duration of .10 and an average weighted final maturity of 1.86 for US dollar collateral.

RFBP
Credit Quality Rating and Effective Duration as of June 30, 2013
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate bonds (rated)	$ 1,036,845	A-	4.73
Corporate bonds (unrated)	2,097	NR	7.33
International government	20,802	BBB+	4.35
Municipal government bonds	3,576	AA	12.09
Sovereign bonds	20,931	AA-	5.77
US government direct obligations	337,141	AA+	7.68
US government agency	380,238	AA	4.89
Montana mortgages	14,053	NR	NA
State Street (STIF)	79,590	NR	.11
STIP	23,004	NR	.12
Total fixed-income investments	$ 1,918,277	A+	5.12
Common Stock (1)	197		
Total Investment	$1,918,474		
Securities lending collateral Investment pool	$ 172,256	NR	(2)

(1) Due to a May 2012 bankruptcy restructuring, the RFBP received 259 shares of common stock and 400 warrants for its investments in General Maritime Corporation. In July 2012, due to debt reorganization of Horizon Lines, Inc., the RFBP received common stock. As of June 2013, the RFBP held 140,450 shares of common stock.

(2) As of June 30, 2013, the Securities Lending Quality D Short Term Investment Fund liquidity pool had an average duration of .08 and an average weighted final maturity of .23 for US dollar collateral. The duration pool had an average duration of .12 and an average weighted final maturity of 5.40 for US dollar collateral.

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, 2013, classified by type, and the changes in the fair value of such derivative instruments for the year ended June 30, 2013, as reported in the 2013 financial statements, are as follows (in thousands):

	Change in Fair Value		Fair Value at June 30, 2013		
Investment Derivatives	Classification	Amount	Classification	Amount	Notional
Currency forward contracts	Investment Revenue	$1,450	LT debt/equity	$484	46,481
Index futures long	Investment Revenue	975	Futures	-	3
Index futures short	Investment Revenue	-			
Rights	Investment Revenue	66	Equity	-	2
Warrants	Investment Revenue	-	Equity	-	-
Total derivatives		$2,491		$484	

As of the June 30, 2013 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	$ 208	$ 4,952	$ 18,052	$ -	$ -
Brazilian Real	14	5,975	2,143	-	-
Canadian Dollar	58	548	10,548	-	-
Danish Krone	19	-	3,247	-	-
Euro	138	3,835	80,035	19,219	22,194
Hong Kong Dollar	122	-	32,222	-	-
Hungarian Forint	1	-	-	-	-
Indonesian Rupiah	1	-	1,294	-	-
Israeli Shekel	12	-	307	-	-
Japanese Yen	383	-	70,726	-	-
Korean Fortnit	-	-	9,001	-	-
Malaysian Ringgit	-	-	3,903	-	-
Mexican Peso	-	4,890	3,441	-	-
New Zealand Dollar	-	-	57	-	-
Norwegian Krone	43	-	5,765	-	-
Philippine Peso	1	-	33	-	-
Polish Zloty	-	-	466	-	-
Singapore Dollar	54	-	7,566	-	-
South African Rand	-	-	2,569	-	-
South Korean Won	35	-	-	-	-
Swedish Krona	16	-	7,972	-	-
Swiss Franc	16	-	28,973	-	-
New Taiwan Dollar	-	-	1,600	-	-
Thailand Baht	-	-	4,582	-	-
Turkish Lira	2	-	1,512	-	-
UK Pound Sterling	242	602	53,255	-	-
Total Cash and Securities	$1,365	$20,802	$349,269	$19,219	$22,194

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, 2013.	$	818
Effect of collateral reducing maximum exposure		-
Liabilities subject to netting arrangements		-
Resulting net exposure	$	818

Counterparty Name	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
Deutsche Bank London	26%	A+	A+	A2
JP Morgan Chase Bank	15%	A+	A+	Aa3
Royal Bank of Scotland	15%	A	A	A3
Credit Suisse London	14%	A+	A	A1
Westpac Banking Corp	11%	AA-	AA-	Aa2
State Street Bank	10%	AA-	A+	Aa2
Royal Bank of Canada	4%	AA-	AA	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	64.22%
PERA (Public Employee Retirement Administration)	21.30
Board of Housing	5.86
College Savings Plan	4.57
Montana State University/University of Montana	1.09
Other (1)	2.96
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, State Auditor 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)	$ 54,510	$ 55,132
US govt agency (1)	79,448	81,972
US govt direct (rated) (1)	15,681	16,499
Government securities	35,656	35,824
STIP/SIV investments	6,766	6,766
Mortgages	137,570	129,280
Other equities	23,559	23,555
Total	$ 353,190	$ 349,028
Component units/fiduciary funds		
Corporate bonds (rated) (1)	$ 619,985	$ 652,247
Corporate bonds (unrated)	260	1,213
US govt agency (1)	264,113	275,619
US govt direct (rated) (1)	168,216	179,937
Government Securities	23,753	24,753
STIP/SIV Investments	10,055	10,055
Loans	15,972	15,441
Other equities	91,441	154,628
Deferred compensation	397,619	397,619
Defined contribution	101,416	101,416
529 College Savings Plan	106,972	106,972
VEBA	3,246	3,330
Investments of MSU component units	173,368	173,369
Investments of UM component units	190,257	190,257
Real Estate	35,750	36,096
Other	139,180	144,874
State Auditor	11,409	11,120
Total	$ 2,353,012	$ 2,478,946
Total investments (1)	$ 2,706,202	$ 2,827,974
Securities lending collateral investment pool (2)	$ 202,372	$ 202,372

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

(2) As of June 30, 2013, the Securities Lending Quality Trust liquidity pool had an average duration of .13 and an average weighted final maturity of .27 for U.S. dollar collateral. The duration pool had an average duration of .10 and an average weighted maturity of 1.86 for U.S. dollar collateral.

As of June 30, 2013, the fair value of the investments on loan was $313,607,282. Collateral provided for the investments on loan totaled $320,059,754 consisting of $202,372,040 in cash and $117,687,114 in securities.

All Other Funds - Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2013
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate bonds (rated) (1)	$ 707,379	A	3.47
Corporate bonds (unrated) (1)	1,213	NR	NA
Sovereign bonds	15,441	AA-	5.48
US government direct obligations (1)	197,317	AA+	4.67
US government agency(1)	376,618	AA+	3.29
US Bank sweep repurchase agreement (1)(2)	8,790	NR	0
	$1,306,758	AA-	3.60

(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 $8,965,888 by two Federal Home Loan Mortgage Corporation Gold securities maturing July 1, 2024 and November 1, 2024. 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, 2013, follows (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	$ -	$ 7,747	$ -	$ -	$ -	$ -
Taxes	257,728	93,726	-	6,045	-	1,522
Charges for services/fines/forfeitures	308	7,874	4,409	-	-	-
Investment income	225	3,434	-	2,861	1,789	869
Contributions/premiums	-	16,638	-	-	-	-
Reimbursements/overpayments	8,163	5,976	585	-	-	-
Grants/contracts/donations	-	-	1	-	-	-
Other	3,536	1,002	14,297	-	-	3,850
Total receivables	269,960	136,397	19,292	8,906	1,789	6,241
Less: allowance for doubtful accounts	(9,392)	(21,131)	(1,759)	-	-	-
Receivables, net	$260,568	$115,266	$17,533	$8,906	$1,789	$6,241

	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Charges for services	$ -	$ -	$21,851	$ 361
Investment income	-	8,776	88	282
Contributions/premiums	5,675	-	4,588	2,213
Reimbursements/overpayments	3,293	-	-	-
Other	-	-	77	1
Total receivables	8,968	8,776	26,604	2,857
Less: allowance for doubtful accounts	(2,910)	-	(308)	(6)
Receivables, net	$ 6,058	$8,776	$26,296	$2,851

B. Payables

	Governmental Funds			
	General	State Special Revenue	Federal Special Revenue	Nonmajor Governmental
Tax refunds	$135,641	$ -	$ -	$ -
Vendors/individuals	97,838	108,082	142,314	978
Payroll	13,341	12,593	4,949	11
Payables, net	$246,820	$120,675	$147,263	$989

	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Vendors/individuals	$2,675	$ 1	$10,449	$10,355
Payroll	-	10	561	2,113
Accrued interest	-	80	7	13
Payables, net	$2,675	$91	$11,017	$12,481

NOTE 5. CAPITAL ASSETS

Changes in capital asset balances for the fiscal year ended June 30, 2013, are reflected in the following table (in thousands):

Governmental Activities	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not being depreciated:				
Land	$ 600,797	$ 25,099	$ (1,632)	$ 624,264
Construction in progress	671,478	682,862	(641,067)	713,273
Easements	120,902	22,002	(11)	142,893
Museum & Art	64,683	237	-	64,920
Other	11,023	327	-	11,350
Total capital assets not being depreciated	1,468,883	730,527	(642,710)	1,556,700
Capital assets being depreciated:				
Infrastructure	4,205,066	329,572	(239,503)	4,295,135
Land improvements	40,899	4,529	(372)	45,056
Buildings/improvements	549,070	30,885	(17,320)	562,635
Equipment	347,470	23,482	(10,290)	360,662
Easements - amortized	1,888	-	(73)	1,815
Other	5,061	1,337	-	6,398
Total capital assets being depreciated	5,149,454	389,805	(267,558)	5,271,701
Less accumulated depreciation for:				
Infrastructure	(1,376,279)	(152,966)	92,758	(1,436,487)
Land improvements	(11,901)	(2,038)	97	(13,842)
Buildings/improvements	(277,504)	(25,616)	3,487	(299,633)
Equipment	(227,890)	(20,542)	8,854	(239,578)
Other	(4,358)	(512)	-	(4,870)
Total accumulated depreciation	(1,897,932)	(201,674)	105,196	(1,994,410)
Total capital assets being depreciated net	3,251,522	188,131	(162,362)	3,277,291
Intangible assets	28,342	29,094	(12,464)	44,972
Governmental activities capital assets net	$4,748,747	$947,752	$(817,536)	$4,878,963

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

(Continued)

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Business-type activities				
Capital assets not being depreciated:				
Land	$ 800	$ -	$ -	$ 800
Construction in progress	1,834	615	-	2,449
Other	3,392	24	-	3,416
Total capital assets not being depreciated	6,026	639	-	6,665
Capital assets being depreciated:				
Infrastructure	951	-	-	951
Land improvements	3,830	-	-	3,830
Buildings/improvements	7,499	-	-	7,499
Equipment	9,226	506	(261)	9,471
Total capital assets being depreciated	21,506	506	(261)	21,751
Less accumulated depreciation for:				
Infrastructure	(630)	(17)	-	(647)
Land improvements	(1,021)	(149)	-	(1,170)
Buildings/improvements	(5,105)	(182)	-	(5,287)
Equipment	(5,485)	(796)	52	(6,229)
Total accumulated depreciation	(12,241)	(1,144)	52	(13,333)
Total capital assets being depreciated net	9,265	(638)	(209)	8,418
Intangible assets	23	-	(22)	1
Business-Type activities capital assets net	$15,314	$ 1	$(231)	$15,084

(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	$ 14,657
Public safety	7,137
Transportation (including depreciation of the highway system maintained by the state)	155,148
Health and human services	2,429
Education	603
Natural resources (including depreciation of the state's dams)	10,104
Depreciation on capital assets held by the internal service funds is charged to the various functions based on their usage of the assets	11,596
Total depreciation expense - governmental activities	$201,674

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

	Amount
Liquor Stores Warehouse	$ 129
State Lottery	514
Prison Industries	276
West Yellowstone Airport	162
Other Enterprise Funds	63
Total depreciation expense - business-type activities	$1,144

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, 2013, the Sheriffs Retirement System (SRS), Game Warden & Peace Officers Retirement System (GWPORS), and Highway Patrol Officers' Retirement System (HPORS) 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 found on the Summary of Defined Benefit Plan Provisions 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. 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						
6/30/2013	70,323	49,236	(21,087)	142.82%	6,276	(336.00)%
HPORS						
6/30/2013	105,736	175,594	69,858	60.22%	13,484	518.08%

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	$ 1,622	$ 4,903
Employee	737	1,337
State (General Fund)	N/A	275
Actuarial valuation date	6/30/13	6/30/13
Actuarial cost method	Level percentage of payroll open	Level percentage of payroll open
Remaining amortization period	0 years	44.6 years
Asset valuation method	4-year smooth market	4-year smooth 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, 2013, follows:

Employers	PERS-DBRP	SRS	GWPORS	MPORS	FURS	TRS	VFCA
State agencies	34	1	4		1	9	
Counties	55	56					
Cities/towns	99			31	16		
Rural fire districts					8		
Colleges/universities	5		3			5	
High schools	6						
School districts	231					353	
Other agencies	110						
Participating companies							217
Total	540	57	7	31	25	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), now known as the Montana University System Retirement Program (MUS-RP) effective July 1, 2013. For members that choose to join the PERS-DCRP or the MUS-RP, 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.

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, 2013, there were 2,087 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, 2013, there were 8,215 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) (now known as the Montana University System Retirement Program (MUS-RP) effective July 1, 2013). The MUS-RP 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 MUS-RP, participate in the Teachers' Retirement System or the Public Employees' Retirement System benefit plans. Beginning July 1, 1993, membership in the MUS-RP 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 Montana University System Retirement Program (MUS-RP) as defined in Title 19, Chapter 20 of the Montana Code Annotated.

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 MUS-RP, 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. 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.

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 217 in fiscal year 2012 to 221 in fiscal year 2013.

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 2013 totaled $85,012. The outstanding balance at June 30, 2013, totaled $23,110.

I. Changes Since Last Valuation

Effective July 1, 2013, member's contributions to PERS-DBRP and PERS-DCRP will increase to 7.9%. The member contribution will be reduced to 6.9% when the amortization period drops below 25 years and remains below 25 years following reduction. The employer contributions to PERS-DBRP and PERS-DCRP will increase by 1%, effective July 1, 2013. The increase continues to increase by an additional .1% each succeeding year until it reaches a total increase of 2%. The additional employer & employee contributions will cease when the amortization period drops below 25 years and remains below 25 years following reduction.

Effective July 1, 2013, PERS-DBRP, PERS-DCRP, SRS, FURS and TRS, employer contributions are required to be paid on working retiree compensation, but no member contribution is required.

Effective July 1, 2013, for members of PERS-DBRP, the Guaranteed Annual Benefit Adjustment (GABA) calculation will be reduced to 1.5% for all retirees. GABA is further reduced by .1% for each 2% that funded ratio is less than 90%. GABA will be zero if the amortization period exceeds 40 years.

Effective July 1, 2013, the HPORS employer contribution rate will increase from 36.33% to 38.33% of member pay. The member contribution rate for all members will increase 1% per year for four years. The benefit multiplier of the member's Highest Average Compensation (HAC) will increase from 2.5% to 2.6%. The member GABA will be reduced from 3% to 1.5%. The GABA waiting period will increase from 1 year to 3 years. The vesting period requirement for new members will increase from 5 years to 10 years of service.

For new members to PERS-DBRP, HPORS, JRS, FURS, SRS, MPORS & GWPORS hired on or after July 1, 2013, there is a 110% annual cap on compensation considered as part of a member's highest or final average compensation, with the excess compensation, if any, divided by the members total months of service credit and added to the compensation for each month of considered part of the member's highest or final average compensation. Bonuses paid on or after July 1, 2013 to any member will not be treated as compensation for retirement purposes.

Effective July 1, 2013, under the SRS survivorship benefit, the actuarial reduction age will be changed from age 65 to age 60.

Effective on or after July 1, 2013, the following changes were made to TRS:

Final Average Compensation: average of earned compensation paid in five consecutive years of full-time service that yields the highest average.

Service Retirement: eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55.

Early Retirement: eligible to receive an early retirement allowance if a member is not eligible for service retirement but has at least five years of creditable service and attained age 55.

Professional Retirement Option: if the member has been credited with 30 or more years of service and has attained the age of 60 they are eligible for an enhanced allowance equal to 1.85% of average final compensation times all service at retirement. Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%.

Annual Contribution: 8.15% of member's earned compensation.

On or after July 1, 2013, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met: The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and the period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and a State or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board. A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination. If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the TRS Board.

On or after July 1, 2013, TRS requires a 1% supplemental employer contribution. This will increase the current employer rates as follows: School Districts contributions will increase from 7.47% to 8.47%, the Montana University System and State Agencies will increase from 9.85% to 10.85%, and the supplemental employer contribution will increase by 0.1% each fiscal year for fiscal year 2014 thru fiscal year 2024. Fiscal years beginning after June 30, 2024 the total supplemental employer contribution will be equal to 2%.

TRS members hired prior to July 1, 2013 are required to contribute a supplemental contribution equal to an additional 1% of the member's earned compensation.

Schedule of Contribution Rates
Fiscal Year 2013

PERS-DBRP

Member	**6.900%**	For members hired on or after 7/1/2011
	7.900%	For members hired on or after 7/01/2011 [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 2013 *(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%**	For members hired prior to 7/1/2013 [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 Contributions and Other Contributing Entities
(in thousands)

System	Fiscal Year Ended June 30	Annual Required Contributions	Percentage Contributed	Annual Required State Contribution	Percentage Contributed
<u>**SINGLE EMPLOYER SYSTEMS:**</u>					
JRS (1) (2)	2013				
HPORS (2)	2013	4,461	109.93%	275	100.00%
<u>**MULTIPLE EMPLOYER SYSTEMS:**</u>					
PERS-DBRP	2011	144,957	54.56%	546	100.00%
	2012	148,104	53.68%	536	100.00%
	2013	86,664	93.85%	532	100.00%
SRS	2011	8,747	68.75%		
	2012	9,512	63.37%		
	2013	9,294	67.49%		
GWPORS	2011	4,903	71.85%		
	2012	4,843	71.65%		
	2013	4,717	75.82%		
MPORS	2011	4,626	122.58%	11,594	100.00%
	2012	5,047	119.97%	12,274	100.00%
	2013	4,695	133.77%	12,573	100.00%
FURS	2011	1,342	373.29%	11,365	100.00%
	2012	1,512	349.25%	11,797	100.00%
	2013	657	837.35%	12,358	100.00%
VFCA –	2011			1,596	100.00%
(Nonemployer	2012			1,635	100.00%
Contributor)	2013			1,711	100.00%
TRS	2011	91,859	98.30%		
	2012	108,984	81.90%		
	2013	130,460	70.20%		

(1) The actuarial value of assets is greater than the actuarial accrued liabilities for FY2008-FY2010 and FY2013. 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, 2013

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 7/1/ 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 years** 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, 2013 *(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	**Hired prior to 7/1/2013** – **5 years** of 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, 2013 *(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 25 years of service. – 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, 2013 *(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 member's 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, 2013 *(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, 2013 *(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, 2013 *(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** – Those 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, 2013 ***(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** – Those 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, 2013 *(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, 2013.

The number of state participants as of December 31, 2012 follows:

State Plan Participants

Enrollment	State	Facility Finance Authority	Housing Authority	PERS	Montana State Fund	TRS	Total
Active employees	12,412	3	24	45	273	16	12,773
Retired employees, spouses, and surviving spouses (1)	4,780	-	3	7	41	2	4,833
Total	17,192	3	27	52	314	18	17,606

(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, 2013 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	500	2,806	126	200	87	103	2,433	410	194	335	7,194
Retired employees, spouses, and surviving spouses	214	1,174	27	99	37	34	821	170	104	90	2,770
Total	714	3,980	153	299	124	137	3,254	580	298	425	9,964

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 2013, the State plan's administratively established retiree medical premiums vary between $299 and $1,061 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between $17.50 and $60 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 $291 and $1,265 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, 2013, 1,758 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 $33.0

million is 5.72% of annual covered payroll. The State's annual covered payroll is $576.9 million. The current MUS's ARC of $12.1 million is 3.07% of annual covered payroll. The MUS's annual covered payroll is $393.8 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 2013 (in thousands):

Annual OPEB Cost

	State	MUS
Annual required contribution/OPEB cost	$ 32,975	$12,056
Interest on net OPEB obligation	8,564	3,952
Annual OPEB cost	41,539	16,008
Contributions made	-	-
Increase in net OPEB obligation	41,539	16,008
Net OPEB obligation – beginning of year	201,497	93,241
Net OPEB obligation – end of year (1)	$243,036	$109,249

(1) Amounts in the State and MUS Annual OPEB Cost table above include component unit portions and therefore, will not match the Statement of Net Position.

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2013 through 2011 was as follows (in thousands):

Contribution Ratio

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State	6/30/2013	$32,975	0%	$243,036
	6/30/2012	32,975	0%	201,497
	6/30/2011	33,986	0%	161,652
MUS	6/30/2013	12,056	0%	$109,249
	6/30/2012	12,056	0%	93,241
	6/30/2011	19,290	0%	77,875

F. Actuarial Methods and Assumptions

The State and MUS are required by GASB 45 to obtain an actuarial evaluation every other year. Since an actuarial report was prepared for December 31, 2011 and June 30, 2012, respectively an actuarial evaluation was not prepared for December 31, 2012 or June 30, 2013, respectively.

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 $109.8 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $109.8 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, 2013, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for six employees provided for up to seven months and one-time incentive payments for two 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, 2013, Component Units of the State made the following termination benefit arrangements: continued coverage of health insurance benefits and/or one-time incentive payments for ten employees.

During the year ended June 30, 2013, the cost of termination benefits were $114,625 and $145,005 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 2,079 policies during the 2013 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 $340,159 based on estimated claims through June 30, 2013. 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 is authorized by the Regents and in Title 20, Chapter 25, Part 13 of the Montana Code Annotated. The Plan's purpose is 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 Benefits Plan is fully self-insured, except for life insurance, long-term care, long-term disability, and accidental death and dismemberment insurance. Delta Dental administers the dental plan, EyeMed Vision Care administers the vision 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. Pacific Source and Blue Cross and Blue Shield of Montana administer claims for two other managed care plans. Allegiance, Pacific Source, and Blue Cross and Blue Shield of Montana have contracts for utilization management: the utilization management program consists of hospital pre-authorization and medical necessity review as well as large case management. Premuims 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 $6.7 million as of June 30, 2013, 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 2013, the program ceded $272,128 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 $8.0 million for estimated claims at June 30, 2013. 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, 2013, the amount of this liability was estimated to be $3.5 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	
	2013	2012	2013	2012	2013	2012
Unpaid claims and claim adjustment expenses at beginning of year	$ 750	$ 164	$ 6,900	$ 7,600	$ 10,837	$ 9,784
Incurred claims and claim adjustment expenses: provision for insured events of the current year	2,221	4,608	70,058	60,803	3,399	3,158
Increase (decrease) in provision for Insured events of prior years	1,747	173	-	-	(4,046)	239
Total incurred claims and claim adjustment expenses	3,968	4,781	70,058	60,803	(647)	3,397
Payments: Claims and claim adjustment expenses attributable to insured events of the current year	(1,881)	(3,857)	(70,258)	(61,503)	(891)	(709)
Claims and claim adjustment expenses attributable to insured events of prior years	(2,497)	(338)	-	-	(1,251)	(1,635)
Total payments	(4,378)	(4,195)	(70,258)	(61,503)	(2,142)	(2,344)
Total unpaid claims and claim adjustment expenses at end of year	$ 340	$ 750	$ 6,700	$ 6,900	$ 8,048	$ 10,837

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 contracted with Blue Cross/Blue Shield and New West for administration of its self-insured medical and dental plans from July 1 2012 until December 31, 2012 for FY13. The State contracted with Cigna and Delta Dental as administrators for medical and dental coverage respectively beginning January 1, 2013 which covered the second six months of FY13. MedImpact is the administrator for the prescription drug program. 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, 2013, 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 $14.6 million based on a formula provided by Actuaries Northwest, a consulting actuarial firm, of which $12.7 million is estimated to be paid in fiscal year 2014.

(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 $5.0 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 Fund.

An annual actuarial study, prepared by Towers Watson Company, and issued for the accident period July 1, 2003 through June 30, 2013, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2013, estimated claims liability was $16.9 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	
	2013	2012	2013	2012
Amount of claims liabilities at the beginning of each fiscal year	$ 11,900	$ 12,528	$19,297	$ 17,962
Incurred claims:				
Provision for insured events of the current year	136,814	135,460	5,733	6,096
Increases (decreases) in provision for insured events of prior years	1,463	(551)	(2,685)	28,893
Total incurred claims	138,277	134,909	3,048	34,989
Payments:				
Claims attributable to insured events of the current year	(122,034)	(123,994)	(1,135)	(1,026)
Claims attributable to insured Events of prior years	(13,503)	(11,643)	(4,301)	(32,628)
Total payments	(135,537)	(135,537)	(5,436)	(33,654)
Total claims liability at end of each fiscal year	$ 14,640	$ 11,900	$16,909	$ 19,297

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2013, the Department of Transportation had contractual commitments of approximately $244.2 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, 2013, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $11.4 million for capital projects construction. The primary government will fund $6.9 million of these projects, with the remaining $4.5 million coming from the state university system.

C. Coal Tax Loan and Mortgage Commitments

The Board of Investments (BOI) makes firm commitments to fund commercial loans and Veterans' Home Loan Mortgages (VHLM) 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, 2013, the BOI had committed, but not yet purchased, $2.4 million in loans from Montana lenders. In addition to the above commitments, lenders had reserved $25.1 million for loans as of June 30, 2013. As of June 30, 2013, $4.0 million represented lender reservations for the VHLM residential mortgage purchases with no purchase commitments.

The Board makes firm commitments to fund loans from the INTERCAP loan program. The Board's outstanding commitments to eligible Montana governments, as of June 30, 2013 total $37.6 million.

D. Department of Corrections Bond Commitments

At June 30, 2013, the outstanding tax-exempt bonds issued by the Montana Facility Finance Authority were issued in the amount of $25.5 million of which $3.2 million is scheduled to be paid by June 30, 2014. 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 position in the accompanying financial statements as follows (in thousands):

Proprietary Fund Commitments

Enterprise Funds	Amount
Liquor Warehouse	$ 86
State Lottery	90
West Yellowstone Airport	13
Other	115
Total-Enterprise Funds	$304

Internal Service Funds	
Administration Central Services	$ 5
Buildings & Grounds	82
Commerce Central Services	30
Labor Central Services	75
Payroll Processing	301
Print & Mail Services	11
Total-Internal Service Funds	$504

F. Encumbrances

As of June 30, 2013, 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	$18,033	$47,146	$58,426	$1,314	$124,919

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, 2013, were as follows (in thousands):

Fiscal Year Ending June 30	Governmental Activities	Business-Type Activities
2014	$230	$ 92
2015	195	88
2016	147	60
2017	125	-
2018	64	-
2019-2023	-	-
Total minimum payments	761	240
Less: interest	(54)	(17)
Present value of minimum payments	$707	$223

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

Asset Class	
Buildings	$2,389
Equipment	3,686
Less: Accum Depreciation	(3,754)
Net Book Value	$2,321

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2013 totaled $22.7 million. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Governmental Activities	Business-Type Activities
2014	$ 21,608	$ 595
2015	18,291	513
2016	13,303	525
2017	11,175	525
2018	9,825	395
2019-2023	26,250	684
2024-2028	5,923	-
Thereafter	1,135	-
Total future rental payments	$ 107,510	$3,237

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 2013 the State issued four bond anticipation notes. The proceeds were used to fund water and wastewater system improvements and rehabilitation. The State issued two Bond anticipation note during fiscal year 2011, that were still active in fiscal year 2013. The proceeds were used for water and wastewater system improvements and rehabilitation. The State also issued one revenue anticipation note in fiscal year 2011 for drinking water system improvements and rehabilitiation that was still active in fiscal year 2013. The following schedule summarizes the activity for the year ended June 30, 2013 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
BANS				
Water / Wastewater – 2011A (1)	$1,200	$ -	$ 800	$ 400
Water / Wastewater – 2011B (1)	485	-	485	-
Water / Wastewater – 2012A	-	969	-	969
Water / Wastewater – 2012B	-	181	-	181
Drinking Water – 2012C	-	950	-	950
Wastewater – 2012D	-	1,600	-	1,600
RANS				
Drinking Water – 2011B	550	550	1,100	-

(1) Previously used for irrigation now used for water and wastewater system improvement and rehabilitation.

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, 2013, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2013
1997	$10,000	$ 9,125
1998	12,500	11,775
2000	15,000	14,335
2003	15,000	14,430
2004	18,500	18,200
2007	15,000	14,775
2010	12,000	11,975
2013	12,000	12,000
		$106,615

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2013 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	$ 95,030	$ 12,000	$ 415	$106,615

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, 2013, were as follows (in thousands):

				Principal Payments		
Governmental Activities	**Series**	**Amount Issued**	**Interest Range (%)** (1)	**Fiscal Year 2014**	**In Year of Maturity** (2)	**Balance June 30, 2013**
General obligation bonds						
Long-Range Bldg Program	2002B	$ 10,475	3.35-4.7	$ 480	480 (2014)	$ 480
Hard Rock Mining Reclamation	2002C	2,500	3.5-4.7	120	200 (2023)	1,570
Long-Range Bldg Program	2003A	9,730	2.37-4.0	500	655 (2024)	5,945
Energy Conservation Program (5)	2003B	1,250	2.0-3.0	145	145 (2014)	145
Water Pollution Control Revolving Fund (3)	2003D	2,730	2.0-3.1	190	190 (2014)	190
Drinking Water Revolving Fund (3)	2003E	1,675	2.0-3.1	115	115 (2014)	115
Long-Range Bldg Program Refunding	2003G	26,610	2.0-5.0	2,035	2,310 (2017)	8,680
Long-Range Bldg Program	2004B	3,125	3.0-4.75	190	170 (2025)	1,805
Long-Range Bldg Program Refunding	2005A	14,945	3.0-5.25	1,445	1,205 (2019)	9,195
Long-Range Bldg Program	2005B	1,670	3.25-4.3	75	120 (2026)	1,230
Energy Conservation Program (5)	2005C	2,500	3.25-4.0	270	290 (2016)	840
CERCLA Program (6)	2005D	2,000	3.25-4.3	90	140 (2026)	1,465
Drinking Water Revolving Fund (3)	2005F	3,875	4.0-4.75	255	350 (2021)	2,385
Water Pollution Control Revolving Fund (3)	2005G	2,110	4.0-4.75	140	170 (2019)	925
Long-Range Bldg Program Refunding	2005H	10,055	3.0-5.0	975	1,300 (2020)	7,875
Long-Range Bldg Program	2006A	31,350	4.0-5.0	1,585	1,930 (2027)	23,285
Energy Conservation Program (5)	2006B	3,750	4.0-6.0	240	330 (2022)	2,550
CERCLA Program (6)	2006C	1,000	4.0	105	120 (2017)	450
Renewable Resource Program (4)	2006D	950	5.6-6.0	60	90 (2022)	665
Long-Range Bldg Program Refunding	2007A	16,740	4.25-5.0	2,020	2,465 (2018)	11,155
Long-Range Bldg Program	2007D	11,720	4.375-4.75	480	840 (2028)	9,600
Long-Range Bldg Program	2008D	3,100	3.375-4.35	120	220 (2028)	2,440
Long-Range Bldg Program Refunding	2010A	20,220	2.0-4.0	3,915	710 (2021)	10,095
Drinking Water Revolving Fund Refunding (3)	2010B	5,400	2.0-4.0	430	110 (2026)	4,500
Water Pollution Control Revolving Fund Refunding (3)	2010C	6,450	2.0-4.0	490	210 (2026)	5,440
Trust Land	2010F	21,000	1.55-4.9	845	1,450 (2031)	19,565
Long-Range Bldg Program	2010G	550	1.5-2.7	55	60 (2021)	455
Renewable Resource Program (Taxable) (4)	2010H	1,000	1.0-3.85	95	115 (2021)	835
Long-Range Bldg Program Refunding	2011D	5,755	3.0 – 3.25	45	720 (2023)	5,715
Total general obligation bonds		$224,235		$17,510		$139,595

Governmental Activities	Series	Amount Issued	Interest Range (%)(1)	Principal Payments Fiscal Year 2014	Principal Payments In Year of Maturity (2)	Balance June 30, 2013
Special revenue bonds						
State Hospital Project (7)	1997	$ 25,915	4.0-5.05	$ 1,230	1,820 (2022)	13,580
Renewable Resource Program (8)	2001B	1,750	5.2-7.1	95	140 (2020)	820
Renewable Resource Program (8)	2001E	885	2.1-4.85	45	50 (2016)	140
Renewable Resource Program (8)	2001F	900	3.3-6.2	45	75 (2022)	530
Developmental Center Project Refunding (7)	2003	11,510	3.0-5.0	780	970 (2019)	5,215
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	140	215 (2024)	1,915
U.S. Highway 93 GARVEES (9)	2005	122,795	3.65-5.19	8,420	8,835 (2015)	17,255
U.S. Highway 93 GARVEES (9)	2008	44,670	3.5-5.0	2,690	3,925 (2023)	32,425
Broadwater Power Proj Refunding (8)	2010A	10,180	3.0-4.0	1,405	1,605 (2018)	7,495
Renewable Resource Program (8)	2010B	1,730	2.0-3.6	70	115 (2031)	1,590
Renewable Resource Program (Taxable) (8)	2010C	6,720	0.9-4.2	340	170 (2031)	6,060
U.S. Highway 93 GARVEE (9)	2012	50,915	0.9-1.9	-	11,040 (2019)	50,915
Total special revenue bonds		$ 280,970		$ 15,260		$137,940
Notes payable						
Water Conservation (Petrolia Project) (10)		50	5.0	3	2 (2016)	7
Middle Creek Dam Project (11)		3,272	8.125	62	225 (2034)	2,417
Tongue River Dam Project (12)		11,300	-	290	290 (2038)	7,243
Total notes payable		$ 14,622		$ 355		$ 9,667
Subtotal governmental activities, before deferred balances						287,202
Deferred amount on refunding						(1,091)
Unamortized discount						(18)
Unamortized premium						10,668
Total governmental activities		$ 519,827		$ 33,125		$296,761

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	$ 70	70 (2014)	$ 70
Total bonds/notes payable		4,976		70		70
Total business-type activities		$ 4,976		$ 70		$ 70

(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, 2013, were as follows (in thousands):

Governmental Activities

Year Ended June 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Special Revenue Bonds Principal	Special Revenue Bonds Interest	Notes Payable Principal	Notes Payable Interest
2014	$ 17,510	$ 5,433	$ 15,260	$ 5,365	$ 355	$ 45
2015	15,885	4,788	25,290	4,752	368	45
2016	14,650	4,163	17,145	4,093	370	45
2017	14,975	3,539	17,795	3,447	371	45
2018	13,090	2,943	18,545	2,809	375	45
2019-2023	38,570	9,019	40,630	5,434	1,928	224
2024-2028	20,735	3,041	2,465	423	2,041	224
2029-2033	4,180	309	810	60	2,185	224
2034-2038	-	-	-	-	1,674	45
Total	$139,595	$ 33,235	$137,940	$ 26,383	$ 9,667	$ 942

Business-type Activities

Year Ended June 30	Economic Development Bonds Principal	Economic Development Bonds Interest
2014	$70	$2
Total	$70	$2

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2013, 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	$ 156,905	$ -	$ 17,310	$ 139,595	$ 17,510	$ 122,085
Special revenue bonds	152,565	-	14,625	137,940	15,260	122,680
Notes payable	10,020	-	353	9,667	355	9,312
	319,490	-	32,288	287,202	33,125	254,077
Deferred amount on refunding	(1,420)	574	245	(1,091)	-	(1,091)
Unamortized discount	(22)	4	-	(18)	-	(18)
Unamortized premium	12,865	495	2,692	10,668	-	10,668
Total bonds/notes payable	330,913	1,073	35,225	296,761	33,125	263,636
Other liabilities						
Lease/installment purchase payable	723	504	520	707	203	504
Operating lease rent holiday	165	53	96	122	54	68
Compensated absences payable (1)	94,353	48,572	49,497	93,428	49,167	44,261
Early retirement benefits payable (1)	16	-	16	-	-	-
Arbitrage rebate tax payable (1)	107	8	-	115	15	100
Estimated insurance claims (1)	31,197	141,325	140,973	31,549	16,101	15,448
Pollution remediation	549,187	113,604	138,502	524,289	89,030	435,259
OPEB implicit rate subsidy (2)	194,065	39,973	-	234,038	-	234,038
Total other liabilities	869,813	344,039	329,604	884,248	154,570	729,678
Total governmental activities Long-term liabilities	$1,200,726	$ 345,112	$ 364,829	$1,181,009	$ 187,695	$ 993,314
Business-type activities						
Bonds/notes payable						
Economic Development Bonds	$ 135	$ -	$ 65	$ 70	$ 70	$ -
Total bonds/notes payable	135	-	65	70	70	-
Other liabilities						
Lease/installment purchase payable	303	-	80	223	81	142
Compensated absences payable	1,631	719	833	1,517	832	685
Arbitrage rebate tax payable	9	4	-	13	-	13
Estimated insurance claims	21,940	73,436	76,778	18,598	11,281	7,317
OPEB implicit rate subsidy (2)	3,406	702	-	4,108	-	4,108
Total other liabilities	27,289	74,861	77,691	24,459	12,194	12,265
Total business-type activities Long-term liabilities	$ 27,424	$ 74,861	$ 77,756	$ 24,529	$ 12,264	$ 12,265

(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 a prepayment of $185,000 on general obligation series 1998F for payoff.

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, 2013, $53.7 million 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, 2013, industrial revenue bonds outstanding aggregated $30.0 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, 2013, QZAB debt outstanding aggregated $8.5 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, 2013, QSCB debt outstanding aggregated $7.5 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, 2013, was as follows: Hershberger Project – issued $129,412, outstanding $80,302

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, 2012 was estimated at $549.2 million. The liability as of June 30, 2013 was $524.2 million. Of this liability, $258.0 million resulted in settlement agreements to provide restoration of natural resources, water supplies and natural resource-based recreational opportunities up to the settlement amount; $252.8 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, 2013, consisted of the following (in thousands):

	Due to Other Funds			
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds
Due from Other Funds				
Economic Development Bonds	$ -	$ -	$ -	$364
General Fund	-	30	-	81
Internal Service Funds	40	39	3	-
Nonmajor Governmental Funds	-	35	7	-
State Special Revenue	-	66	199	-
Total	$40	$170	$209	$445

	Due to Other Funds (cont)			
	Nonmajor Enterprise Funds (3)	Nonmajor Governmental Funds	State Special Revenue	Total
Due from Other Funds (cont)				
Economic Development Bonds	$ -	$ 419	$ 691	$ 1,474
General Fund	13,397	-	33,222	46,730
Internal Service Funds	-	-	13	95
Nonmajor Governmental Funds (2)	-	58	34	134
State Special Revenue (1)	45	839	-	1,149
Total	$13,442	$1,316	$33,960	$49,582

(1) Total due from the state special revenue fund on the fund financial statement is reported as $7.3 million. The difference of $6.2 million between the amount reported above of $1.1 million 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 $2.6 million. The difference of $2.5 million between the amount reported above of $134,000 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 $13.8 million. The difference of $395,000 between the amount reported above of $13.4 million 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, 2013, consisted of the following (in thousands):

	Interfund Loans Payable						
	Coal Severance Tax	Federal Special Revenue	Land Grant	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	State Special Revenue	Total
Interfund Loans Receivable							
General Fund	$3,254	$58,989	$ -	$689	$ -	$11,329	$ 74,261
Federal Special Revenue	-	-	-	-	-	3	3
State Special Revenue	-	63,033	3		36	-	63,072
Total	$3,254	$122,022	$3	$689	$36	$11,332	$137,336

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, 2013, 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	$ -	$ 938	$ -	$ 3,700	$ 3,378	$ 8,016
General Fund	1,935	-	-	-	503	2,438
Internal Service Funds	-	-	320	-	-	320
Nonmajor Governmental Funds	-	-		-	7,677	7,677
State Special Revenue	670	100	-	11,536	-	12,306
Total	$2,605	$1,038	$ 320	$15,236	$11,558	$30,757

Additional detail for certain advance balances at June 30, 2013, follows (in thousands):

Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program	
Department	**Balance**
Natural Resources and Conservation	$3,700
Justice	3,378
Transportation	938
Total	$8,016

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, 2013, consisted of the following (in thousands):

	Transfers In				
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant
Transfers Out					
Coal Severance Tax	$ -	$ -	$24,153	$ -	$ -
Federal Special Revenue	-	-	168	-	-
General Fund	-	62	-	14,217	-
Internal Service Funds (1)	-	-	564	50	-
Land Grant	-	-	8	-	-
Nonmajor Enterprise Funds (2)	-	-	41,866	-	-
Nonmajor Governmental Funds	95	-	-	-	-
State Special Revenue	-	297	12,597	742	373
Total	$ 95	$359	$79,356	$15,009	$373

	Transfers In (cont)			
	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	**Total**
Transfers Out (cont)				
Coal Severance Tax	$ -	$ 283	$ 15,823	$ 40,259
Federal Special Revenue	-	16,781	9,354	26,303
General Fund	-	16,073	48,742	79,094
Internal Service Funds (1)	-	246	7	867
Land Grant	-	1,470	71,640	73,118
Nonmajor Enterprise Funds (2)	-	-	6,241	48,107
Nonmajor Governmental Funds	-	2,579	24,902	27,576
State Special Revenue	7	13,136	-	27,152
Total	$ 7	$50,568	$176,709	$322,476

(1) Total transfers-out for internal service funds on the financial statements is reported as $1.8 million. The difference of $918,000 between the amount reported above of $867,000 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 $48.2 million. The difference of $100,000 between the amount reported above of $48.1 million 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 position position at June 30, 2013, (in thousands):

Fund Type/Fund	Deficit
Enterprise Funds	
Subsequent Injury	$ (3,161)
Internal Service Funds	
Admin Insurance	(2,353)
Admin Central Services	(378)
Labor Central Services	(544)
Commerce Central Services	(99)
DEQ Indirect Cost Pool	(485)
Warrant Processing	(26)
Investment Division	(271)
Justice Legal Services	(353)
Personnel Training	(64)

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, 2013.

State Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Licenses/permits	$ 59,883	$29,457	$ 24,644	$ 1,767	$ 165	$ 63,530	$ 179,446
Taxes	236,097	4,251	216,072	0	10	14,212	470,642
Charges for services	26,454	11,745	5,037	32,624	892	16,223	92,975
Investment earnings	413	3,574	51	142	250	7,480	11,910
Securities lending income	1	115	-	2	7	154	279
Sale of documents/ merchandise/property	286	2,589	163	88	209	2,237	5,572
Rentals/leases/royalties	223	4	310	42	3	524	1,106
Contributions/premiums	22,389	-	-	-	-	-	22,389
Grants/contracts/ donations	1,909	788	489	10,526	1,592	3,415	18,719
Federal	10,995	8	-	50	-	-	11,053
Federal indirect recoveries	29	-	41,878	5	-	3,701	45,613
Other revenues	638	625	725	891	-	163	3,042
Transfers in	45,558	5,493	298	8,373	23,616	93,371	176,709
Total state special revenue	$404,875	$58,649	$289,667	$54,510	$26,744	205,010	$1,039,455

Federal Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Charges for services	$ 684	$ 6	$ -	$ 2,599	$ 36,050	$ 7	$ 39,346
Investment earnings	219	6	-	-	44	64	333
Securities lending income	-	-	-	-	-	4	4
Sale of documents/merchandise/ property	2	-	-	-	-	2	4
Rentals/leases/royalties	-	-	-	-	-	9	9
Grants/contracts/donations	-	-	-	-	-	40	40
Federal	115,987	9,362	435,353	1,167,802	172,503	98,638	1,999,645
Federal indirect cost recoveries	57	17	-	65,432	600	423	66,529
Other revenues	8	6	-	159	5	17	195
Transfers in	47	-	-	289	-	23	359
Total federal special revenue	$117,004	$9,397	$435,353	$1,236,281	$209,202	$99,227	$2,106,464

Governmental Fund Balance By Function, June 30, 2013
(in thousands)

		Special Revenue		Permanent			
	General	State	Federal	Coal Severance Tax	Land Grant	Nonmajor	Total
Fund balances							
Nonspendable							
Inventory	$ 2,417	$ 22,066	$ -	$ -	$ -	$ -	$ 24,483
Permanent fund principal	-	500	-	527,904	589,072	271,353	1,388,829
Long-term notes/receivables	2,470	-	-	-	-	-	2,470
Prepaid expense	487	702	83	-	-	-	1,272
Total nonspendable	5,374	23,268	83	527,904	589,072	271,353	1,417,054
Restricted							
General government	-	-	-	-	-	1,966	1,966
Transportation	-	75,389	1,270	-	-	-	76,659
Health and human services	-	11,166	579	-	-	11,304	23,049
Natural resources	-	638,062	22	-	-	7,942	646,026
Public safety	-	268,616	-	-	-	-	268,616
Education	-	3,617	17,713	-	-	67	21,397
Total restricted	-	996,850	19,584	-	-	21,279	1,037,713
Committed							
General government	-	136,911	-	443,747	-	32,311	612,969
Transportation	-	6,644	-	-	-	-	6,644
Health and human services	-	30,665	-	-	-	-	30,665
Natural resources	-	227,614	-	-	-	31,036	258,650
Public safety	-	28,789	-	-	-	639	29,428
Education	-	34,723	-	-	-	-	34,723
Total committed	-	465,346	-	443,747	-	63,986	973,079
Assigned							
General government	-	8,953	-	-	-	14,104	23,057
Natural resources	-	56	-	-	-	-	56
Public safety	-	-	-	-	-	1,465	1,465
Encumbrances	18,033	-	-	-	-	-	18,033
Total assigned	18,033	9,009	-	-	-	15,569	42,611
Unassigned	537,609	-	-	-	-	-	537,609
Total fund balance	$561,016	$1,494,473	$19,667	$971,651	$589,072	$372,187	$4,008,066

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, which governs the Montana Guaranteed Student Loan Program (MGSLP), guarantees loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a nonprofit corporation operating exclusively for the purpose of acquiring student loans. MHESAC has no employees. Its business operations are managed by the Student Assistance Foundation (SAF). Approximately 76.19%, or $1,156.5 million, of MGSLP's outstanding loan volume is held by MHESAC.

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 paid this association $1.25 per member per year to maintain its membership. DOA also paid a monthly fee of $0.65 per member per month from July 1 through December 31, 2012, and $0.56 per member per month from January 1 through June 30, 2013, for data aggregation and analysis and consulting services performed by the 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.* as a "no contest" state Montana will have no reduction to its 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 to Montana 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 <u>Phillip Morris</u> 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. <u>Grand River Enterprises Six Nations, Ltd., v. Pryor et al.</u>, 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 for back escrow due, and an additional $22,857 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.

<u>PPL v. Montana</u> 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 $1.2 million 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. 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 granted the motion, and the Montana Supreme Court, over Plaintiffs' objection, ultimately agreed in a November 27, 2012 Order to hear this issue. The Plaintiffs also appealed to the Montana Supreme Court the District Court's definition of the class action.

On August 6, 2013, the Montana Supreme Court issued its opinion, affirming the Montana First Judicial District Court's decision defining the class action to include only those State benefit plan members who had timely filed claims for covered benefits within eight years before the filing of the Plaintiffs' complaint.

On November 6, 2013, the Montana Supreme Court issued its opinion, affirming the District Court's June 20, 2012 decision that the applicable made-whole laws apply to the State benefit plan.

The State is currently reviewing these decisions to determine how to proceed in defending the litigation. At this point it does not have sufficient information to determine the cost impact.

B. Federal Contingencies

Food Distribution Program - The amount reported for Food Distribution programs (CFDA #10.555, #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 2013, Montana distributed $466,709 of food commodities under CFDA #10.567 to other states.

The State of Montana distributed $8.1 million in commodities in fiscal year 2013. The value at June 30, 2013 of commodities stored at the state's warehouse is $2.2 million 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, 2013, 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 $227.5 million. The BOI's exposure to bond issues of the Municipal Finance Consolidation Act Bond Fund was $106.7 million, while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority was $120.8 million.

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, 2013 the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	State Special Revenue	Debt Service	Capital Projects	Nonexpendable Trust
Corporation Tax	$8,836	$ -	$ -	$ -	$ -
Coal Severance Tax	660	311	26	332	1,434
Resource Indemnity Trust Tax	-	72	-	-	-
Total	$9,496	$383	$26	$332	$1,434

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.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2013. The corporations have appealed the department's decision to deny or adjust the refund. As of June 30, 2013, these include $3.3 million 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, 2013. As of June 30, 2013, these include $10.6 million of protested property taxes recorded in the General Fund and $12.1 million recorded in State Special Revenue Funds.

NOTE 17. SUBSEQUENT EVENTS

Bond/Loan Issues
In October 2013, The Department of Natural Resources and Conservation (DNRC) issued a Series 2013A Coal Severance Tax Bond Anticipation Note for $2,255,000 and a Series 2013B Coal Severance Tax Bond Anticipation Note for $3,390,000. These funds will be used to finance improvements to state-owned dams.

In October 2013, General Obligation Long-Range Buildings Program Refunding Bonds, Series 2013C, were issued for $6,780,000 to be used for the purpose of refunding the General Obligation Long-Range Building Program Bonds, Series 2003A and Series 2004B, with stated maturities in 2014 and 2015, respectively, and thereafter.

In October 2013, General Obligation Renewable Resource Program Bonds (taxable), Series 2013D were issued for $1,035,000 to be used for the purpose of providing funds to the State's renewable resource program to make loans to private parties for renewable resource projects approved by the DNRC.

In October 2013, General Obligation Bonds (Water Pollution Control State Revolving Fund Program), Series 2013E were issued for $5,000,000 for the purpose of financing or refinancing water pollution control facilities or other authorized improvements in conjunction with capitalization grants from the United States Environmental Protection Agency.

On October 9, 2013 at a Special Conference Call Meeting to Consider QZAB Loans, the Board of Investments (BOI) authorized the issuance of the following Qualified Zone Academy Bonds (QZAB). These two QZAB bond issues closed October 24, 2013.

Project	Issue amount (in thousands)
Kalispell Elementary School District	$ 620
Kalispell High School District	1,587

The Municipal Finance Consolidation Act Bonds, Series 1988 (Irrigation Program), were paid off on August 1, 2013.

Investment Related Issues
From July 1 through January 24, 2014, AFF Financing LLC payments total $2,898,431 representing $2,853,076 in principal and $45,355 in interest. For the same period, the Board received payments associated with the Orion Finance collective holding of $1,710,083 with $1,223,454 and $486,629 applied to principal and interest, respectively.

Due to the preferred method for amortizing used the bond premium/discount is the effective interest rate (scientific) method verses the straight line method, the BOI Board agreed to make the change. BOI Board staff coordinated with the custodial bank staff to convert to the effective interest rate method as of July 1, 2013 for all fixed income securities with the exception of the securities held in the STIP portfolio. The values as of June 30, 2013 and 2012 were determined using the straight line method of amortization. The cumulative effect of the change is ($1,419,742) resulting in a net decrease in book value and the Income Due to Participants liability as July 1, 2013.

On October 4, 2013, the Board of Investments received a bankruptcy principal payment of $519,119 related to the Lehman Brothers Holdings, Inc.

Other Subsequent Events
Beginning July 1, 2013, the portion of the coal severance tax that is currently allocated to the general fund (23.89%) will be statutorily appropriated to the Public Employee Retirement System defined benefit plan to help fund the unfunded actuarial accrued liability of the system.

On September 5, 2013 the Montana State Lottery entered into a contract amendment with its operating system vendor to lease 150 MP machines. These machines are self-service terminals that allow players to purchase on-line tickets and/or play instant predetermined games at the terminal itself. The lease is for two and a half years and ends in March of 2016. The total obligation to the vendor for this lease is $1.2 million and is being paid on a monthly basis.

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, 2013 (in thousands):

Condensed Statement of Net Position
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	$ 700,290	$ 4,759	$1,599,333	$ 466,817	$ 408,163	$3,179,362
Due from primary government	-	-	-	607	1,405	2,012
Due from component units	-	-	-	8	146	154
Est future claims contribution from primary government	-	-	51,026	-	-	51,026
Capital assets (net) (Note 18C)	1	30	30,391	404,152	350,140	784,714
Total assets	700,291	4,789	1,680,750	871,584	759,854	4,017,268
Deferred Outflows of Resources	-	-	-	3,868	-	3,868
Liabilities:						
Accounts payable and other liabilities	2,735	16	205,408	58,538	72,093	338,790
Due to primary government	-	2	-	2,318	1,293	3,613
Due to component units	-	-	-	146	8	154
Advances from primary government	-	-	-	23,236	13,838	37,074
Long-term liabilities (Note 18I)	540,387	112	1,038,666	228,191	195,816	2,003,172
Total liabilities	543,122	130	1,244,074	312,429	283,048	2,382,803
Net Position:						
Net investment in capital assets	1	30	30,391	271,189	224,182	525,793
Restricted	157,168	-	-	215,150	221,051	593,369
Unrestricted	-	4,629	406,285	76,684	31,573	519,171
Total net position	$ 157,169	$ 4,659	$ 436,676	$ 563,023	$ 476,806	$1,638,333

Condensed Statement of Activities
Component Units

	Housing Authority	Facility Finance Authority	Montana State Fund	Montana State University	University of Montana	Total Component Units
Expenses	$ 29,965	$ 383	$ 179,938	$ 500,658	$414,544	$1,125,488
Program Revenues:						
Charges of services	1,064	533	156,063	229,189	181,136	567,985
Operating grants and contributions	25,779	56	-	166,444	128,096	320,375
Capital grants and contributions	-	-	-	7,053	360	7,413
Total program revenues	26,843	589	156,063	402,686	309,592	895,773
Net (expense) program revenues	(3,122)	206	(23,875)	(97,972)	(104,952)	(229,715)
General Revenues:						
Unrestricted grants and contributions	-	-	-	769	-	769
Unrestricted investment earnings	-	-	45,504	2,268	20,456	68,228
Payment from State of Montana	-	-	10,641	102,922	87,353	200,916
Gain (loss) on sale of capital assets	-	-	(10)	67	(328)	(271)
Miscellaneous	141	-	332	-	-	473
Contributions to term and permanent endowments	-	-	-	6,876	5,410	12,286
Total general revenues and contributions	141	-	56,467	112,902	112,891	282,401
Change in net position	(2,981)	206	32,592	14,930	7,939	52,686
Total net position – July 1 – as previously reported	160,150	4,453	412,219	549,508	468,867	1,595,197
Prior period adjustments	-	-	(8,135)	(1,415)	-	(9,550)
Total net position – July 1 – as restated	160,150	4,453	404,084	548,093	468,867	1,585,647
Total net position – June 30	$ 157,169	$ 4,659	$ 436,676	$ 563,023	$ 476,806	$1,638,333

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	$ 6,669	$ 7,979	$ 1,139	$ 15,787
Construction Work in Progress	15,313	16,307	-	31,620
Capitalized Collections	8,476	17,651	-	26,127
Livestock for educational purposes	3,372	-	-	3,372
Total capital assets not being depreciated	33,830	41,937	1,139	76,906
Capital assets being depreciated:				
Infrastructure	38,521	6,770	-	45,291
Land Improvements	19,364	14,248	-	33,612
Buildings/Improvements	533,312	512,305	27,973	1,073,590
Equipment	145,346	78,876	7,319	231,541
Livestock	-	39	-	39
Library Books	64,090	57,766	-	121,856
Total capital assets being depreciated	800,633	670,004	35,292	1,505,929
Total accumulated depreciation	(441,490)	(371,456)	(6,759)	(819,705)
Total capital assets being depreciated net	359,143	298,548	28,533	686,224
Intangible Assets	1,049	3,520	750	5,319
MSU component unit capital assets, net	10,130	-	-	10,130
UM component unit capital assets, net	-	6,135	-	6,135
Discretely presented component units capital assets, net	$404,152	$350,140	$30,422	$ 784,714

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 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. New Fund is a self-supporting, competitive State fund, and functions as the guaranteed market. At June 30, 2013, approximately 24,400 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, 2013, 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, 2013, $902.8 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. The 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, 2013, was $5.2 million.

MCA 39-71-2311 requires 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, 2013, 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 2013, 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, 2012 through June 30, 2013. The contract provides coverage based on 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, New Fund would remain liable for all losses, as the reinsurance agreements do not discharge New Fund from its primary liability to the policyholders.

Premium revenue was reduced by premiums paid for reinsurance coverage of $8.5 million in fiscal year 2013.

Estimated claim reserves were reduced by $12.1 million for fiscal year 2013 for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excessive loss reinsurance contract. In fiscal year 2013, estimated claim reserves were reduced by an additional $23.7 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, 2013, 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, 2013, $51.0 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 the aggregate liabilities for Montana State Fund during the past two years, net of estimated reinsurance recoverable. The information presented is at face value and has not been discounted.

	Montana State Fund			
	New Fund		Old Fund	
	2013	2012	2013	2012
Unpaid claims and claim adjustments expenses at beginning of year	$ 889,941	$ 874,803	$59,162	$64,621
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	139,204	125,474	-	-
Increase (decrease) in provision for insured events of prior years	(12,036)	4,190	1,761	3,297
Total incurred claims and claim adjustment expenses	127,168	129,664	1,761	3,297
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(25,706)	(24,729)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(88,555)	(89,797)	(9,897)	(8,756)
Total payments	(114,261)	(114,526)	(9,897)	(8,756)
Total unpaid claims and claim adjustment expenses at end of year	$ 902,848	$ 889,941	$51,026	$59,162

F. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2013, were as follows (in thousands):

Fiscal Year Ending June 30	Discretely Presented Component Units
2013	$ 406
2014	321
2015	225
2016	119
2017	48
2018-2022	-
Total minimum pmts	1,119
Less: interest	(92)
Present value of minimum payments	$1,027

G. Operating Leases

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

Fiscal Year Ending June 30	Discretely Presented Component Units
2014	$ 4,557
2015	3,773
2016	2,895
2017	2,848
2018	2,850
2019-2023	4,481
2024-2028	2,295
Thereafter	3,352
Total future rental payments	$27,051

H. Debt Service Requirements

Debt service requirements of discretely presented component units at June 30, 2013, were as follows (in thousands):

Year Ended June 30	Housing Authority		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 12,240	$ 21,855	$ 6,565	$ 4,138	$ 6,654	$ 4,494
2015	13,600	21,489	6,835	3,873	6,892	4,227
2016	13,985	21,068	6,990	3,612	7,075	3,966
2017	15,410	20,598	7,315	3,361	7,330	3,727
2018	16,135	20,045	7,440	3,131	7,620	3,436
2019-2023	91,940	90,163	36,350	12,008	43,875	11,794
2024-2028	115,825	68,715	24,110	6,291	26,240	3,552
2029-2033	115,925	43,223	12,285	2,713	7,585	712
2034-2038	103,764	18,979	7,110	408	-	-
2039-2043	35,655	2,990	-	-	-	-
2044-2048	1,600	45	-	-	-	-
Total	$ 536,079	$ 329,170	$ 115,000	$ 39,535	$ 113,271	$ 35,908

I. Summary of Changes in Long-term Liabilities Payable

Long-term liability activity of discretely presented component units for the year ended June 30, 2013, 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 (6)	$ 636,236	$ 179,854	$ 276,616	$ 539,474	$ 12,240	$ 527,234
Montana State University (MSU)	118,809	45,964	51,434	113,339	6,565	106,774
University of Montana (UM)	118,235	632	6,382	112,485	6,686	105,799
Total bonds/notes payable (1)	873,280	226,450	334,432	765,298	25,491	739,807
Other liabilities						
Lease/installment purch pay	269	1,015	257	1,027	362	665
Compensated absences pay	54,885	28,719	25,553	58,051	27,797	30,254
Arbitrage rebate tax payable	296	51	12	335	-	335
Prevailing wage claim (5)	47	-	16	31	16	15
Estimated insurance claims	949,114	18,125	13,354	953,885	126,710	827,175
Due to federal government	32,670	142	125	32,687	-	32,687
Derivative instrument liability	6,497	-	2,108	4,389	-	4,389
Reinsurance funds withheld	68,972	10,428	2,429	76,971	-	76,971
OPEB implicit rate subsidy (2)	92,451	16,052	-	108,503	-	108,503
Total other liabilities	1,205,201	74,532	43,854	1,235,879	154,885	1,080,994
	$2,078,481	$ 300,982	$ 378,286	$2,001,177	180,376	1,820,801
Long-term liabilities of Montana University System component units (4)					(21)	2,016
Total discretely presented component units Long-term liabilities					$ 180,355	$1,822,817

(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.

(5) Prevailing wage claim was previously listed in other liabilities.

(6) Balance is displayed net of deferred refunding costs.

J. Refunded and Early Retired Debt

Universities

<u>Defeased Debt Outstanding</u>

The University of Montana has defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's consolidated financial statements. As of June 30, 2013, $115.1 million of bonds outstanding were considered defeased.

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, 2013, revenue bonds outstanding aggregated $1.07 billion, and notes payable outstanding aggregated $18.53 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, 2013, bonds outstanding aggregated $15.3 million.

L. Derivative Transactions Related to Long-term Debt

Montana State University (MSU) has two interest rate swaps as of June 30, 2013. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraphs 27 (a) and (b) of Governmental Accounting Standards Board Statement Number 53, or as investment derivative instruments if they do not.

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, 2013, 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 time value is equal to the option value minus the intrinsic value. 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, 2013.

		Activity During 2013 Increase (Decrease)		Fair Values at June 30, 2013	
Cash flow hedges:	**Notional**	**Classification**	**Amount**	**Classification**	**Amount**
Cash flow hedge –					
Pay fixed interest rate swap	$ 23,025,000	Interest expense	$ 18,211	Loan receivable	$ 327,005
		Investment loss	94,850	Hybrid instrument liability	520,994
		Deferred outflow	(2,202,172)	Noncurrent liability	3,868,317
				Total liability	4,389,311
Investment derivative –					
Basis swap	$ 23,025,000	Investment loss	$ 332,777	Investment (excluding interest accrued)	$ 1,899,836

The objective and terms of MSU's hedging derivative outstanding as of June 30, 2013 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	$ 23,025	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, 2013, counterparty ratings were 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. 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, 2013, MSU's unenhanced long-term revenue bond rating was Aa3 by Moody's and A+ by Standard and Poor'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 Alumni Association, the Montana Technology Enterprise Center (MonTEC), the Montana Tech Booster Club and the Montana Tech Alumni Association.

The associations and booster club operate exclusively for the purpose of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with, the UM. For the year ended June 30, 2013, $93,155 was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, the 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 $1.1 million during 2013 and Friends of KEMC and Public Radio provided $500,000 during 2013 in support of the MSU's television and radio stations.

N. Litigation Contingencies

Victory Insurance Company, Inc. v. Montana State Fund et al. Victory filed its Amended Complaint in this action on March 29, 2011, in which it asserts various tort claims against Montana State Fund. No specific amount of damages was stated in the complaint. In October 2012, the district court granted Montana State Fund's motion for summary judgment, and dismissed State Fund from the case. However, the plaintiff refiled the suit against Montana State Fund. Montana State Fund filed a second motion for summary judgment, and the district court granted judgment to Montana State Fund on December 26, 2013. The judgment was wholly in State Fund's favor, and the case was dismissed. No appeal has been filed, but the time to appeal has not expired. Based on the district court's decision, State Fund anticipates the chances are remote that State Fund has potential liability with this matter.

Susan Hensley v. Montana State Fund Montana State Fund received a Petition for Hearing that was filed before the Workers' Compensation Court in October. The matter is *Susan Hensley vs. Montana State Fund*, WCC No. 2013-

3235. Under HB 334, as passed by the legislature in 2011 and codified in 39-71-703 (2), MCA, when a claimant receives a Class I impairment, it is not payable unless the claimant has an actual wage loss as a result of the compensable injury or occupational disease. The law was effective July 1, 2011 and applicable to claims that occurred on or after that date. The petitioner in this matter is challenging the constitutionality of 39-71-703 (2), MCA. State Fund anticipates the chances are remote, but as with any litigated matter there is the possibility of an adverse decision. Should the statute be held unconstitutional, determined to be applicable to other claims and also determined to be retroactively applicable, potential liability is estimated to be at least $2.2 million per year, as based on NCCI initial pricing, and current estimated business volumes.

O. Loan Loss Contingency

On January 12, 2007, the Montana Facility Finance Authority (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 31, 2013, $554,993 is due to the Permanent Coal Trust Fund, reflecting $461,860 of principal and $93,133 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 31, 2013, $87,925 is due to the Authority, reflecting $73,170 of principal and $14,755 of interest.

The MFFA 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

On July 1, 2013, the Montana Board of Housing (MBOH) Homeownership Program began servicing approximately 2,600 loans acquired from a former mortgage loan servicer for the Board. As of the end of July, MBOH serviced approximately 3,000 loans or 48% of the Board's mortgage loan portfolios.

On July 30, 2013, the Montana Facility Finance Authority issued $8.5 million of bonds for Community Medical Center in Missoula. Proceeds were used to purchase, remodel and install a linear accelerator.

On August 6, 2013, the Montana Supreme Court issued its opinion in *Diaz et al. v. State of Montana* affirming the Montana First Judicial District Court's decision defining the class action to include only those State benefit plan members who had timely filed claims for covered benefits within eight years before the filing of the plaintiffs' complaint. On November 6, 2013, the Montana Supreme Court issued another opinion in *Diaz et al. v. State of Montana* affirming the District Court's decision that the made-whole requirement of § 2-18-902(4), MCA, applies to the State benefit plan.

In September 2013, Montana State University entered into a 5-year renewal of its direct purchase agreement with Wells Fargo Bank relative to its Series J 2005 bonds, at a rate of 0.65% above Securities Industry and Financial Markets Associated (SIFMA). This is a decrease of 0.15% as compared with the previous rate of 0.80% above SIFMA.

On September 26, 2013, the Montana Board of Housing (MBOH) issued $60.0 million of Single Family Program Bonds Series 2013B (1979 Single Family II Indenture). The bonds will mature on June 1, 2014, through December 1, 2044, with interest rates from 0.45% to 5.30%. Bond proceeds of $35.0 million were used to purchase single family mortgage loans for the Board's Homeownership Program. Bond proceeds of $25.0 million were used to refund existing bond issues.

In October 2013, retired and current educators and MEA-MFT union filed a lawsuit and a request for an injunction, claiming the decrease in TRS guaranteed annual benefit adjustments (GABA) is an unconstitutional violation of their contracts. In December 2013, a preliminary injunction was issued to stop the decrease until the lawsuit is resolved.

In October 2013, the Association of Montana Retired Public Employees and several retirees filed a lawsuit and a requested for an injunction, claiming the decrease in the GABA for pensioners is an unconstitutional violation of their contracts. In December 2013, a preliminary injunction was issued to stop the decrease until the lawsuit is resolved. If the injunction is upheld the PERS-DBRP system's unfunded actuarial liability will not amortize within 30 years.

The University of Montana has received approval from the Board of Regents to issue Series M 2013 Revenue Bonds up to an amount of $8.0 million under the existing structure of the master revenue bond indenture agreement. The bonds will be issued directly to a local bank at a fixed interest rate of 2.5%, for 10 years with no penalty for pre-payments. Proceeds from the issuance will fund a portion of several capital projects including: Construction of the Gilkey Executive Education building, Technology Modular Units as well as renovations of a residence hall, the Interdisciplinary Science Building, and the Adams Center. The bonds will be repaid from additional revenues generated from the facilities and technology fees assessment.

In November 2013, the Montana Board of Regents approved the issuance of up to $70 million in debt to construct a new residence hall, upgrade dining facilities, and bridge the construction of a gift-funded building on the Montana State University campus. On December 31, 2013, The University issued Series A 2013 bonds in par amount of $55.48 million. An additional $10 million was issued in January, 2014.

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, 2013, the Highway Patrol Officers' Retirement System (HPORS) is not in compliance as its unfunded actuarial liability does not amortize within 30 years. As of June 30, 2013, the Sheriffs' Retirement System (SRS) and the Game Wardens' & Peace Officers' Retirement System (GWPORS) are not in compliance as their respective unfunded actuarial liabilities do not amortize. The unfunded actuarial liabilities in the other state retirement systems amortize in less than 30 years, as of fiscal year end 2013.

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 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.

BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Licenses/permits	$ 115,901	$ 115,901	$ 115,988	$ 87
Taxes:				
Natural resource	120,620	120,620	140,509	19,889
Individual income	859,849	859,849	1,029,528	169,678
Corporate income	128,042	128,042	178,154	50,111
Property	240,636	240,636	242,272	1,636
Fuel	-	-	-	-
Other	217,028	217,028	213,906	(3,122)
Charges for services/fines/forfeits/settlements	39,398	39,398	36,962	(2,436)
Investment earnings	-	-	4,005	4,005
Sale of documents/merchandise/property	318	318	312	(7)
Rentals/leases/royalties	18	18	13	(6)
Contributions/premiums	-	-	8	8
Grants/contracts/donations	3,774	3,774	5,501	1,728
Federal	27,820	27,820	33,214	5,394
Federal indirect cost recoveries	161	161	222	61
Other revenues	4,116	4,116	966	(3,151)
Total revenues	1,757,681	1,757,681	2,001,560	243,875
EXPENDITURES				
Current:				
General government	265,085	265,085	263,216	1,871
Public safety	271,586	271,586	267,483	4,104
Transportation	-	-	-	-
Health and human services	421,102	421,102	413,819	7,283
Education	727,156	727,156	889,469	(162,312)
Natural resources	75,518	75,518	81,937	(6,418)
Debt service:				
Principal retirement	-	-	132	(131)
Interest/fiscal charges	-	-	202	(202)
Capital outlay (Note RS-1)	-	-	3,826	(3,826)
Total expenditures	1,760,447	1,760,447	1,920,084	(159,631)
Excess of revenue over (under) expenditures	(2,765)	(2,765)	81,476	403,507
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	-	-	-	-
General capital asset sale proceeds	37	37	522	485
Energy conservation loans	-	-	-	-
Transfers in (Note 12)	75,822	75,822	79,356	3,534
Transfers out (Note 12)	(221,950)	(221,950)	(79,094)	142,856
Total other financing sources (uses)	(146,091)	(146,091)	784	146,875
Net change in fund balances				
(Budgetary basis)	(148,856)	(148,856)	82,260	550,382
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	14	14
2. Securities lending costs	-	-	(3)	(3)
3. Inception of lease/installment contract	-	-	64	64
(GAAP basis)	(148,856)	(148,856)	82,335	550,456
Fund balance - July 1	-	-	479,484	479,484
Prior period adjustments	-	-	(659)	(659)
Increase (decrease) in inventories	-	-	(144)	(144)
Fund balances - June 30	$ (148,856)	$ (148,856)	$ 561,016	$ 1,029,137

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
$ 189,326	$ 189,326	$ 179,446	$ 9,880	$ -	$ -	$ -	$ -
139,096	139,096	131,954	7,142	-	-	-	-
-	-	-	-	-	-	-	-
6	6	3	3	-	-	-	-
15,913	15,913	14,341	1,572	-	-	-	-
209,388	209,388	216,065	6,677	-	-	-	-
105,777	105,777	108,279	2,502	2	2	-	2
143,326	143,326	92,975	50,351	50,030	50,030	39,346	10,684
-	-	11,910	11,910	-	-	333	333
4,974	4,974	5,572	599	2	2	4	3
1,012	1,012	1,106	95	3	3	9	7
19,679	19,679	22,389	2,710	-	-	-	-
14,909	14,909	18,719	3,810	132	132	40	92
10,764	10,764	11,053	289	2,188,168	2,188,168	1,999,645	188,524
52,038	52,038	45,613	6,425	127,387	127,387	66,529	60,858
4,761	4,761	3,042	1,719	2	2	195	193
910,969	910,969	862,467	105,684	2,365,727	2,365,727	2,106,101	260,695
328,940	328,940	238,890	90,049	162,726	162,726	110,751	51,974
77,109	77,109	84,455	7,346	24,420	24,420	11,412	13,007
296,209	296,209	205,913	90,296	509,464	509,464	81,305	428,159
159,511	159,511	156,426	3,085	1,467,957	1,467,957	1,235,204	232,753
112,857	112,857	103,939	8,917	233,942	233,942	210,636	23,305
220,227	220,227	170,348	49,879	140,834	140,834	85,504	55,330
-	-	514	514	-	-	45	45
-	-	348	348	-	-	5	5
-	-	67,449	67,449	-	-	361,739	361,740
1,194,853	1,194,853	1,028,282	317,884	2,539,343	2,539,343	2,096,601	1,166,318
(283,884)	(283,884)	(165,815)	(212,200)	(173,616)	(173,616)	9,500	(905,623)
798	798	381	417	-	-	-	-
210	210	324	113	-	-	16	16
-	-	291	291	-	-	-	-
278,338	278,338	176,709	101,629	14,643	14,643	359	(14,284)
(84,555)	(84,555)	(27,152)	57,402	(84,510)	(84,510)	(26,303)	58,208
194,792	194,792	150,553	159,853	(69,867)	(69,867)	(25,928)	43,940
							-
(89,092)	(89,092)	(15,262)	(52,347)	(243,483)	(243,483)	(16,428)	(861,683)
-	-	279	279	-	-	4	4
-	-	(78)	78	-	-	-	-
-	-	440	440	-	-	-	-
(89,092)	(89,092)	(14,621)	(51,550)	(243,483)	(243,483)	(16,424)	(861,679)
-	-	1,528,551	1,528,552	-	-	28,239	28,240
-	-	(19,036)	(19,036)	-	-	7,852	7,852
-	-	(421)	(421)	-	-	-	-
$ (89,092)	$ (89,092)	$ 1,494,473	$ 1,457,545	$ (243,483)	$ (243,483)	$ 19,667	$ (825,587)

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 2013, reverted governmental fund appropriations were as follows: General Fund - $35.2 million, State Special Revenue Fund - $244 million, and Federal Special Revenue Fund - $335.7 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						
6/30/2011	61,274	43,414	(17,860)	141%	5,645	(316%)
6/30/2012	63,195	46,190	(17,005)	137%	6,193	(275%)
6/30/2013	70,323	49,236	(21,087)	143%	6,276	(336%)
HPORS						
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%
6/30/2013	105,736	175,594	69,858	60%	13,484	518%
Multiple Employer Systems						
PERS-DBRP						
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%
6/30/2013	4,139,921	5,160,951	1,021,030	80%	1,104,000	92%
SRS						
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%
6/30/2013	235,310	304,185	68,875	77%	61,467	112%
GWPORS						
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%
6/30/2013	112,100	139,985	27,885	80%	39,471	71%
MPORS						
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%
6/30/2013	262,678	450,043	187,365	58%	42,796	438%
FURS						
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%
6/30/2013	263,483	396,769	133,286	66%	37,963	351%
TRS						
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%
7/1/2013	3,067,900	4,592,700	1,524,800	67%	742,600	205%
Nonemployer Contributor						
VFCA						
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
6/30/2013	28,294	37,830	9,536	75%	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.

		AMOUNT
CORPORATION FOR NATIONAL & COMMUNITY SERVICE		
94.003	State Commissions: From Regis University	$14,636
94.003	State Commissions	$230,403
94.006	AmeriCorps: From REGIS UNIVERSITY	$7,013
94.006	AmeriCorps	$2,772,286
94.006	AmeriCorps: From Regis University Colorado	$1,823
94.007	Planning and Program Development Grants: From REGIS UNIVERSITY	$90,942
94.007	Planning and Program Development Grants: From U OF WISCONSIN	$16,561
94.007	Planning and Program Development Grants	$58,055
94.009	Training and Technical Assistance	$32,202
94.013	Volunteers in Service to America	$606,635
	TOTAL	**$3,830,556**
	CORPORATION FOR NATIONAL & COMMUNITY SERVICE TOTAL	**$3,830,556**
DEPARTMENT OF AGRICULTURE		
10.025	Plant and Animal Disease, Pest Control, and Animal Care	$992,925
10.072	Wetlands Reserve Program	$900
10.093	Voluntary Public Access and Habitat Incentive Program	$363,697
10.156	Federal-State Marketing Improvement Program	$33,455
10.162	Inspection Grading and Standardization	$12,886
10.163	Market Protection and Promotion	$456,044
10.169	Specialty Crop Block Grant Program	$276,072
10.217	Higher Education Challenge Grants	$49,935
10.446	Rural Community Development Initiative: From RAVALLI COUNTY ECONOMIC DEVELOPMENT AUTHORITY (RCEDA)	$64,407
10.459	Commodity Partnerships for Small Agricultural Risk Management Education Sessions	$41,759
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	$622,320
10.500	Cooperative Extension Service	$2,565,426
10.500	Cooperative Extension Service: From Kansas State University	$56,084
10.500	Cooperative Extension Service: From Colorado State University	$748
10.500	Cooperative Extension Service: From Fort Belknap Community Council	$52,192
10.557	Special Supplemental Nutrition Program for Women, Infants, & Children	$16,027,808
10.558	Child and Adult Care Food Program	$10,545,584
10.560	State Administrative Expenses for Child Nutrition	$907,771
10.565	Commodity Supplemental Food Program	$2,699,856
10.567	Food Distribution Program on Indian Reservations	$3,525,117
10.572	WIC Farmers' Market Nutrition Program (FMNP)	$46,913
10.574	Team Nutrition Grants	$307,610
10.576	Senior Farmers Market Nutrition Program	$91,205
10.578	WIC Grants To States	$3,491
10.578	ARRA WIC Grants to States	$210

State of Montana
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		AMOUNT
10.579	Child Nutrition Discretionary Grants Limited Availability	$576,679
10.582	Fresh Fruit and Vegetable Program	$1,679,624
10.601	Market Access Program: From West US Ag Trade Assn.	$7,580
10.601	Market Access Program: From U.S. Livestock Genetics Export	$15,358
10.652	Forestry Research	$269,078
10.664	Cooperative Forestry Assistance	$4,328,106
10.672	Rural Development, Forestry, and Communities	$55,531
10.676	Forest Legacy Program	$9,476,759
10.680	Forest Health Protection	$23,398
10.684	International Forestry Programs	$567,275
10.688	ARRA Wildlife Fire Management	$90,333
10.901	Resource Conservation and Development	$12,168
10.902	Soil and Water Conservation	$97,022
10.912	Environmental Quality Incentives Program	$9,123,610
10.999	Miscellaneous Non-Major Grants	$24,534
	TOTAL	**$66,091,470**
Child Nutrition Cluster		
10.553	School Breakfast Program	$6,870,846
10.555	National School Lunch Program	$27,141,026
10.556	Special Milk Program for Children	$16,492
10.559	Summer Food Service Program for Children	$1,354,419
	TOTAL	**$35,382,783**
Emergency Food Assistance Cluster		
10.568	Emergency Food Assistance Program (Administrative Costs)	$210,815
10.569	Emergency Food Assistance Program (Food Commodities)	$1,706,570
	TOTAL	**$1,917,385**
Forest Service Schools and Roads Cluster		
10.665	Schools and Roads: Grants to States	$19,750,128
	TOTAL	**$19,750,128**
SNAP Cluster		
10.551	Supplemental Nutrition Assistance Program (SNAP)	$190,735,340
10.561	State Administrative Matching Grants for SNAP Program	$13,943,258
	TOTAL	**$204,678,598**
	DEPARTMENT OF AGRICULTURE TOTAL	**$327,820,364**
DEPARTMENT OF COMMERCE		
11.400	Geodetic Surveys and Services	$1,411
11.550	Public Telecommunication Facilities-Planning and Construction	$20,938
11.550	Public Telecommunication Facilities-Planning and Construction: From CORP PUB BROAD	$273,308
11.553	NYC 9/11 Digital Television Program: From Public Broadcasting Service	$425,383

		AMOUNT
11.557	ARRA Broadband Technology Opportunities Program (BTOP)	$445,399
11.568	ARRA State Broadband Data and Development	$38,690
11.609	Measurement and Engineering Research and Standards	$7,052
11.611	Manufacturing Extension Partnership	$484,920
	TOTAL	**$1,697,101**
Economic Development Cluster		
11.307	Economic Adjustment Assistance	$164,513
11.307	ARRA Economic Adjustment Assistance	$40,971
	TOTAL	**$205,484**
	DEPARTMENT OF COMMERCE TOTAL	**$1,902,585**

DEPARTMENT OF DEFENSE

12.112	Payments to States in Lieu of Real Estate Taxes	$8,415
12.217	Electronic Absentee Systems for Elections	$31,095
12.357	ROTC Language and Culture Training Grants: From INST INT'L ED, INC	$92,268
12.400	Military Construction National Guard	$92,794
12.401	National Guard Military Operations and Maintenance Projects	$18,299,397
12.404	National Guard Civilian Youth Opportunities	$3,328,542
12.579	Language Training Center: From INST INT'L ED, INC	$1,502,406
12.900	Language Grant Program: From INST INT'L ED, INC	$490,383
12.900	Language Grant Program	$99,803
12.999	Miscellaneous Non-Major Grants: From CONSENSUS BLDG INST	$144
12.999	Miscellaneous Non-Major Grants: From WA STATE UNIV	$2,400
12.999	Miscellaneous Non-Major Grants	$156,649
	TOTAL	**$24,104,296**
	DEPARTMENT OF DEFENSE TOTAL	**$24,104,296**

DEPARTMENT OF EDUCATION

84.002	Adult Education - State Grant Program	$1,302,733
84.011	Migrant Education - Basic State Grant Program	$1,304,167
84.013	Title I Program for Neglected and Delinquent Children	$90,398
84.048	Vocational Education - Basic Grants to States	$4,845,096
84.051	National Vocational Education Research	$309,987
84.116	Fund for the Improvement of Postsecondary Education	$26,784
84.116	Fund for the Improvement of Postsecondary Education: From NEW MEXICO STATE U	$1,777
84.133	National Institute on Disability and Rehabilitation Research: From MEETING THE CHALLENGE	$12,971
84.133	National Institute on Disability and Rehabilitation Research: From BAYLOR COLLEGE OF MED	$18,927
84.133	National Institute on Disability and Rehabilitation Research	$820,014
84.144	Migrant Education - Coordination Program(B)	$45,000
84.184	Safe and Drug-Free Schools and Communities - National Programs	$14

State of Montana
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			AMOUNT
84.187	Supported Employment Services for Individuals with Severe Disabilities		$214,049
84.213	Even Start - State Educational Agencies		$11,367
84.224	State Grants for Assistive Technology		$1,346,997
84.265	Rehabiliation Training-State Vocational Rehabilitation Unit In-Service		$18,108
84.287	Twenty-First Century Community Learning Centers		$5,708,417
84.293	Foreign Language Assistance: From MSLA CO PUB SCHOOLS		$15,718
84.323	Special Education - State Program Improvement Grants for Children with Disabilities		$295,534
84.325	Special Education - Personnel Preparation to Improve Services and Results for Children		$152,199
84.326	Special Education - Technical Assistance and Dissemination to Improve Services and Results		$97,147
84.326	Special Education - Technical Assistance and Dissemination to Improve Services and Results: From CA ST UNIV-NORTHRIDGE		$201,649
84.330	Advanced Placement Program		$43,045
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)		$2,533,016
84.335	Child Care Access Means Parents in School		$29,478
84.358	Rural Education		$369,706
84.359	Early Reading First		$1,227,977
84.365	English Language Acquisition Grants		$448,501
84.366	Mathematics and Science Partnerships		$775,010
84.366	Mathematics and Science Partnerships: From BOZEMAN PUBLIC SCHOOLS		$2,438
84.367	Improving Teacher Quality State Grants: From U OF CA-NTL WRIT PROJECT		$23,054
84.367	Improving Teacher Quality State Grants		$10,538,930
84.369	Grants for State Assessments and Related Activities		$3,435,033
84.371	Striving Readers		$7,159,701
84.378	College Access Challenge Grant Program		$1,820,882
84.928	National Writing Project: From U OF CA-NTL WRIT PROJECT		$21,392
84.998	American Printing House for the Blind		$325
84.999	Miscellaneous Non-Major Grants		$153,807
		TOTAL	**$45,421,348**
Early Intervention Services (IDEA) Cluster			
84.181	Special Education-Grants for Infants and Families with Disabilities		$1,985,987
		TOTAL	**$1,985,987**
Education of Homeless Children and Youth Cluster			
84.196	Education for Homeless Children and Youth		$196,883
		TOTAL	**$196,883**
Educational Technology State Grants Cluster			
84.318	Education Technology State Grants		$155,785
84.386	ARRA Education Technology State Grants: From Bridger School		$12,665
		TOTAL	**$168,450**
Independent Living Services for Older Individuals Who Are Blind Cluster			
84.177	Rehabilitation Services-Independent Living Services for Older Individuals/Blind		$254,771
		TOTAL	**$254,771**

			AMOUNT
Independent Living State Grants Cluster			
84.169	Independent Living-State Grants		$311,916
		TOTAL	**$311,916**
School Improvement Grants Cluster			
84.377	School Improvement Grants		$1,545,193
84.388	ARRA School Improvement Grants, Recovery Act: From PRYOR PUBLIC SCHOOLS		$48,000
84.388	ARRA School Improvement Grants, Recovery Act: From LAME DEER SCHOOL		$15,583
84.388	ARRA School Improvement Grants, Recovery Act		$3,006,726
		TOTAL	**$4,615,502**
Special Education Cluster (IDEA)			
84.027	Special Education - Grants to States: From VA COMMONWEALTH UNIV		$12,764
84.027	Special Education - Grants to States: From MSLA CO PUB SCHOOLS		$475
84.027	Special Education - Grants to States		$36,617,765
84.173	Special Education - Preschool Grants		$1,123,970
		TOTAL	**$37,754,974**
Statewide Data Systems Cluster			
84.372	Statewide Data Systems		$2,314,700
		TOTAL	**$2,314,700**
Student Financial Assistance Cluster			
84.007	Federal Supplemental Educational Opportunity Grants		$1,428,882
84.032	Federal Family Education Loans		$980,698
84.033	Federal Work - Study Program		$2,091,136
84.038	Federal Perkins Loan Program - Federal Capital Contributions		$67,082
84.063	Federal Pell Grant Program		$62,043,781
84.268	Federal Direct Student Loans		$210,912,896
84.379	Teacher Education Assistance for College and Higher Education Grants		$21,364
		TOTAL	**$277,545,839**
Teacher Quality Partnership Grants Cluster			
84.336	Teacher Quality Enhancement Grants		($906)
		TOTAL	**($906)**
Title I, Part A Cluster			
84.010	Title I Grants To Local Education Agencies		$44,903,171
		TOTAL	**$44,903,171**
TRIO Cluster			
84.042	TRIO-Student Support Services		$1,656,302
84.044	TRIO-Talent Search		$971,062
84.047	TRIO-Upward Bound		$1,538,123
84.066	TRIO-Educational Opportunity Centers		$630,267
84.217	McNair Post - Baccalaureate Achievement		$232,532

		AMOUNT
	TOTAL	**$5,028,286**
Vocational Rehabilitation Cluster		
84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States	$13,385,182
	TOTAL	**$13,385,182**
	DEPARTMENT OF EDUCATION TOTAL	**$433,886,103**

DEPARTMENT OF ENERGY

81.041	State Energy Program	$300,851
81.041	State Energy Program: From Washington State University	$46,317
81.042	Weatherization Assistance for Low-Income Persons	$2,191,359
81.042	ARRA Weatherization Assistance for Low-Income Persons	$115,183
81.086	Conservation Research and Development	$2,372,670
81.086	Conservation Research and Development: From PSMFC	$95,831
81.086	Conservation Research and Development: From KOOTENAI	$87,867
81.087	Renewable Energy Research and Development	$612,683
81.112	Stewardship Science Grant Program	$24,428
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training	$1,815
81.128	ARRA Energy Efficiency and Conservation Block Grant Program (EECBG)	$1,466,083
81.999	Miscellaneous Non-Major Grants	$139,947
81.999	Miscellaneous Non-Major Grants: From BIOENERGY SCIENCE CENTER	$4,698
	TOTAL	**$7,459,732**
	DEPARTMENT OF ENERGY TOTAL	**$7,459,732**

DEPARTMENT OF HEALTH AND HUMAN SERVICES

93.041	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention	$30,654
93.042	Special Programs for the Aging-Title VII, Chapter 2-LongTerm Care Ombudsman Services	$97,519
93.043	Special Programs for the Aging-Title III, Part D - DiseasePrevention/Health Promotion Serv	$97,433
93.048	Special Programs for the Aging - Title IV and Title II Discretionary Projects	$523,902
93.052	Nation Family Caregiver Support Program	$707,809
93.058	Food and Drug Administration_Research	$107,804
93.068	Chronic Diseases: Research, Control, and Prevention: From NAT'L ASSOC-CHRONIC	$16,976
93.069	Public Health Emergency Preparedness	$1,674,012
93.070	Environmental Public Health and Emergency Response	$516,176
93.072	Lifespan Respite Care Program	$44,303
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	$5,257,834
93.090	Guardianship Assistance	$857,995
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	$226,223
93.110	Maternal and Child Health Federal Consolidated Programs: From UTAH STATE UNIV	$7,988
93.110	Maternal and Child Health Federal Consolidated Programs	$456,489
93.116	Project Grant and Cooperative for Tuberculosis Control Program	$174,282

		AMOUNT
93.127	Emergency Medical Services for Children	$177,476
93.130	Primary Care Services-Resource Coordination and Development	$93,805
93.150	Projects for Assistance in Transition from Homelessness (PATH)	$296,251
93.157	Centers of Excellence	$63,704
93.165	Grants to States for Loan Repayment Program	$71,453
93.184	Disabilities Prevention: From U OF ILLINOIS	$1,091
93.184	Disabilities Prevention	$298,904
93.210	Tribal Self-Governance Program: IHS Compacts/Funding Agreements: From SALISH KOOTENAI TRIBE	$23,243
93.217	Family Planning Services	$2,162,391
93.236	Grants for Dental Public Health Residency Training	$152,300
93.241	State Rural Hospital Flexibility Program	$1,122,394
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	$1,568,576
93.251	Universal Newborn Hearing Screening	$245,029
93.262	Occupational Safety and Health Program	$103,897
93.262	Occupational Safety and Health Program: From Colorado State University	$844
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance: From ASSN UNIV CTRS DISB	$78
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	$8,192,083
93.307	Minority Health and Health Disparities Research	$9,427,299
93.308	Extramural Loan Repayment for Indiv from Disadvant. Backgrounds Cond Clinical Research	$184,575
93.358	Advanced Education Nursing Traineeships	$345,873
93.389	National Center for Research Resources	$20,946
93.414	ARRA - State Primary Care Offices	$105,036
93.448	Food Safety and Security Monitoring Project	$82,764
93.449	Ruminant Feed Ban Support Project	$27,330
93.500	Pregnancy Assistance Fund Program	$1,713,113
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	$3,726,962
93.507	Strengthening Public Health Infrastructure for Improved Health Outcomes	$260,139
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	$185,570
93.518	Affordable Care Act - Medicare Improvements for Patients and Providers	$33,238
93.520	Centers for Disease Control and Prevention -Affordable Care Act (ACA)	$23,683
93.521	The Affordable Care Act: Building Epidemiology, Lab, and Health Info Systems Capacity	$609,050
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	$294,755
93.531	PPHF 2012: Community Transfromation Grants and National Dissemination	$898,166
93.536	The Affordable Care Act Medicaid Incentives for Prevention of Chronic Disease	$117,486
93.539	PPHF 2012 - Prevention and Public Health Fund (Affordable Care Act) - Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 2012 Prevention and Public Health Funds	$5,545
93.544	The Patient Protection and Affordable Care Act of 2010 -Coordinated Chronic Disease Prev.	$225,456
93.556	Promoting Safe and Stable Families	$819,524
93.563	Child Support Enforcement	$10,645,291
93.566	Refugee and Entrant Assistance-State Administered Programs	$2,882

State of Montana
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		AMOUNT
93.568	Low Income Home Energy Assistance	$21,072,552
93.586	State Court Improvement Program	$166,006
93.590	Community-Based Family Resource and Support Grants	$188,897
93.597	Grants to States for Access and Visitation Programs	$124,258
93.599	Chafee Education and Training Vouchers Program (ETV)	$180,136
93.603	Adoption Incentive Payments	$33,684
93.609	The Affordable Care Act – Medicaid Adult Quality Grants	$42,797
93.617	Voting Access for Individuals with Disabilities - Grants to States	$5,913
93.630	Developmental Disabilities Basic Support and Advocacy Grants	$404,381
93.632	University Centers for Excellence in Developmental Disabilities Education, Res, and Ser.	$496,481
93.643	Children's Justice Grants to States	$83,389
93.645	Child Welfare Service-State Grant	$702,707
93.648	Child Welfare Serv. Training: From RES FNDN AT SUNY	$95,230
93.652	Adoption Opportunities	$275,188
93.658	Foster Care Title IV-E	$11,037,902
93.659	Adoption Assistance	$7,871,935
93.659	ARRA Adoption Assistance	$103
93.667	Social Services Block Grant	$6,785,770
93.669	Child Abuse and Neglect State Grants	$88,561
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters	$807,959
93.674	Chafee Foster Care Independence Program	$563,296
93.701	ARRA Trans-NIH Recovery Act Researcg Support	$33
93.723	ARRA Emergency Contingency Fund for Temporary Assistance	($2,745)
93.729	ARRA Health Information Technology and Public Health	$371,911
93.744	PPHF 2012: Breast and Cervical Cancer Screening Opportunities for States, Tribes and Territories solely financed by 2012 Prevention and Public Health Funds	$100,000
93.767	State Children's Insurance Program	$75,154,857
93.768	Medicaid Infrastr, Grants To Support the Competitive Employ of People with Disabilities	$72,804
93.789	Alternatives to Psychiatric Residential Treatment Facilities for Children	$1,371,632
93.791	Money Follows the Person Rebalancing Demonstration	$92,375
93.884	Grants for Primary Care Training and Enhancement: From U OF PIKESVILLE	$49,133
93.888	Specially Selected Health Projects	$12,596
93.889	National Bioterrorism Hospital Preparedness Program	$140,747
93.912	Rural Outreach-Rural Network Developmental Program: From ST LUKES COMM HOSP	$27,472
93.912	Rural Outreach-Rural Network Developmental Program: From MADISON VALLEY HOSP	$30,620
93.913	Grants to States for Operation of Offices of Rural Health	$179,136
93.917	HIV Care Formula Grants	$1,325,957
93.938	Cooperative Agreements to Support School Health Programs	$175,319
93.940	HIV Prevention Activities-Health Department Based	$1,076,527
93.944	HIV/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	$71,270
93.945	Assistance Program for Chronic Disease Prevention	$415,675
93.958	Block Grants for Community Mental Health Services	$1,207,563
93.959	Block Grants for Prevention and Treatment of Substance Abuse	$5,013,154

		AMOUNT
93.969	Geriatric Education Centers	$420,659
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	$256,681
93.991	Preventive Health and Health Services Block Grant	$365,125
93.994	Maternal and Child Health Services Block Grant to the States	$2,306,621
93.999	Miscellaneous Non-Major Grants	$102,400
	TOTAL	**$196,490,268**
Aging Cluster		
93.044	Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers	$1,851,904
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services	$3,110,593
93.053	Nutrition Services Incentive Program	$1,021,540
	TOTAL	**$5,984,037**
CCDF Cluster		
93.575	Child Care and Development Block Grant	$13,023,429
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development	$6,722,267
	TOTAL	**$19,745,696**
CSBG Cluster		
93.569	Community Services Block Grant	$3,320,662
	TOTAL	**$3,320,662**
Head Start Cluster		
93.600	Head Start	$113,553
93.708	ARRA Head Start	$282,360
	TOTAL	**$395,913**
Immunization Cluster		
93.268	Immunization Grant	$8,675,294
	TOTAL	**$8,675,294**
Medicaid Cluster		
93.775	State Medicaid Fraud Control Units	$510,025
93.777	State Survey and Certification of Health Care Providers and Suppliers	$2,456,573
93.778	Medical Assistance Program	$723,784,892
93.778	ARRA Medical Assistance Program	($154,314)
	TOTAL	**$726,597,176**
Student Financial Assistance Cluster		
93.342	Health Professions Student Loans, Including Primary Care Loans	$627
93.364	Nursing Student Loan Program	$6,852
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds	$3,289
	TOTAL	**$10,768**
TANF Cluster		
93.558	Temporary Assistance for Needy Families (TANF)	$29,171,239
	TOTAL	**$29,171,239**

State of Montana
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		AMOUNT
	DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL	**$990,391,053**

DEPARTMENT OF HOUSING & URBAN DEVELOPMENT

14.103	Interest Reduction Payments Rental and Cooperative Housing for Lower Income Families	$186,964
14.169	Housing Counseling Assistance Program	$6,776
14.231	Emergency Shelter Grants Program	$742,650
14.235	Supportive Housing Program	$77,095
14.238	Shelter Plus Care	$148,694
14.239	Home Investment Partnerships Program	$2,648,868
14.241	Housing Opportunities for Persons with AIDS	$976,247
14.323	Emergency Homeowners' Loan Program	$13,381
14.877	Public Housing Family Self-Sufficiency under Resident Opportunity and Supportive Services: From Missoula Housing Authority	$70,310
14.999	Miscellaneous Non-Major Grants	$6,519
	TOTAL	**$4,877,504**
CDBG - State-Administered CDBG Cluster		
14.228	Community Development Block Grant/States Program	$8,877,562
14.255	ARRA CDBG	$7,065
	TOTAL	**$8,884,627**
Housing Voucher Cluster		
14.871	Section 8 Housing Choice Vouchers	$19,522,199
	TOTAL	**$19,522,199**
Section 8 Project-Based Cluster		
14.195	Section 8 Housing Assistance Payments Program Special Allocations	$19,594,573
14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	$1,761,160
	TOTAL	**$21,355,733**
	DEPARTMENT OF HOUSING & URBAN DEVELOPMENT TOTAL	**$54,640,063**

DEPARTMENT OF JUSTICE

16.001	Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis	$14,707
16.001	Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis: From City of Billings	$2,102
16.017	Sexual Assault Services Formula Program	$136,657
16.200	Community Relations Service	$71,771
16.203	Comprehensive Approaches to Sex Offender Management Discretionary Grant	$11,951
16.304	Law Enforcement Assistance-National Crime Information Center	$32,004
16.523	Juvenile Accountability Incentive Block Grants	$204,063
16.525	Grants to Reduce Violent Crimes Against Women on Campus	$42,462
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	$333,090
16.541	Part E - Developing, Testing and Demonstrating Promising New Programs	$226,318

		AMOUNT
16.548	Title V Delinquency Prevention	$32,514
16.550	State Justice Statistics Program For Statistical Analysis Centers	$63,155
16.554	National Criminal History Improvement Program (NCHIP)	$222,618
16.575	Crime Victim Assistance	$1,485,283
16.576	Crime Victim Compensation	$431,305
16.585	Drug Court Discretionary Grant Program	$361,333
16.588	Violence Against Women Formula Grants	$776,126
16.593	Residential Substance Abuse Treatment for State Prisoners	$94,728
16.606	State Criminal Alien Assistance Program	$30,959
16.607	Bulletproof Vest Partnership Program	$2,538
16.609	Community Prosecution and Project Safe Neighborhoods	$67,782
16.710	Public Safety Partnership and Community Policing Grants	$5,926
16.726	Juvenile Mentoring Program: From National 4-H Council	$67,103
16.727	Enforcing Underage Drinking Laws Program	$300,786
16.731	Tribal Youth Program	$88,831
16.735	Protecting Inmates and Safeguarding Communities Discretionary Grant Program	$77,527
16.741	Forensic DNA Backlog Reduction Program	$78,027
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	$145,901
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program: From SALISH KOOTENAI COLLEGE	$1,082
16.751	Edward Byrne Memorial Competitive Grant Program	$59,294
16.754	Harold Rogers Prescription Drug Monitoring Program	$179,219
16.810	ARRA Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Prg	$141,894
16.812	Second Chance Act Prisoner Reentry Initiative	$628,176
16.816	John R. Justice Prosecutors and Defenders Incentive Act	$61,383
16.922	Equitable Sharing Program	$269,584
16.999	Miscellaneous Non-Major Grants	$14,694
16.999	Miscellaneous Non-Major Grants: From City of Billings	$1,596
	TOTAL	**$6,764,489**
JAG Program Cluster		
16.738	Edward Byrne Memorial Justice Assistance Grant Program	$905,404
16.803	ARRA Edward Byrne Memorial Justice Assistance Grant (JAG)	$215,878
	TOTAL	**$1,121,282**
	DEPARTMENT OF JUSTICE TOTAL	**$7,885,771**

DEPARTMENT OF LABOR

17.002	Labor Force Statistics	$655,418
17.005	Compensation and Working Conditions Data	$82,530
17.225	Unemployment Insurance	$190,198,055
17.235	Senior Community Service Employment Program	$529,169
17.245	Trade Adjustment Assistance-Workers	$1,132,247

State of Montana
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		AMOUNT
17.260	WIA Dislocated Workers	$227,207
17.260	ARRA WIA Dislocated Workers	$22
17.261	Employment and Training Administration Pilots, Demonstrations, and Research Projects	($166)
17.269	Community Based Job Training Grants	$194,514
17.271	Work Opportunity Tax Credit Program (WOTC) & Welfare-to-Work Tax Credit (WtWTC)	$36,387
17.273	Temporary Labor Certification for Foreign Workers	$106,924
17.274	Youthbuild	$480,570
17.275	ARRA Comp Grants for Worker Training and Placement in High Growth and Emerging Ind. Sec.: From MEJATC	$11,064
17.275	ARRA Comp Grants for Worker Training and Placement in High Growth and Emerging Ind. Sec.	($109)
17.277	Workforce Investment Act (WIA) National Emergency Grants	$458,950
17.280	Workforce Investment Act (WIA) Dislocated Worker National Reserve Demonstration Grants	$12,679
17.283	Workforce Innovation Fund: From State Of Utah	$16,853
17.504	Consultation Agreements	$508,804
17.600	Mine Health and Safety Grants	$32,585
17.807	Transition Assistance Program	$3,003
	TOTAL	**$194,686,706**
Employment Service Cluster		
17.207	Employment Service	$4,585,758
17.801	Disabled Veterans Outreach Program (DVOP)	$446,658
17.804	Local Veterans' Employment Representative Program	$133,654
	TOTAL	**$5,166,070**
WIA Cluster		
17.258	WIA Adult Program	$2,204,310
17.259	WIA Youth Activities	$2,339,801
17.278	WIA Dislocated Worker Formula Grants	$2,234,652
	TOTAL	**$6,778,763**
	DEPARTMENT OF LABOR TOTAL	**$206,631,539**

DEPARTMENT OF STATE

19.009	Academic Exchange Programs - Undergraduate Programs	$217,134
19.010	Academic Exchange Programs - Hubert H. Humphrey Fellowship Program: From INST INT'L ED, INC	$68,596
19.014	One-Time International Exchange Grant Program	($4,287)
19.408	Educational Exchange - Teachers from Secondary and Postsecondary Levels: From International Research & Excha	$178,560
19.415	Professional and Cultural Exchange Programs - Citizen Exchanges	$472,152
	TOTAL	**$932,155**
	DEPARTMENT OF STATE TOTAL	**$932,155**

DEPARTMENT OF THE INTERIOR

			AMOUNT
15.037	Water Resources on Indian Lands		$15,969
15.114	Indian Education: Higher Education Grant Program		$44,479
15.224	Cultural Resource Management		$50,497
15.225	Recreation Resource Management		$41,379
15.231	Fish, Wildlife and Plant Conservation Resource Management		$220,794
15.233	ARRA - Forests and Woodlands Resource Management		$10,918
15.233	ARRA - Forests and Woodlands Resource Management		$121,843
15.234	Secure Rural Schools and Community Self-Determination		$2,116
15.236	Environmental Quality and Protection Resource Management		$854,181
15.236	ARRA Environmental Quality and Protection Resource Management		$1,743,909
15.238	Challenge Cost Share		$9,234
15.242	National Fire Plan - Rural Fire Assistance		$11,581
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining		$1,505,360
15.252	Abandoned Mine Land Reclamation (AMLR) Program		$6,613,818
15.427	Federal Oil and Gas Royalty Management		$314,693
15.517	Fish and Wildlife Coordination Act		$53,358
15.608	Fish and Wildlife Management Assistance		$99,074
15.612	Endangered Species Section 6		$7,041,020
15.615	Cooperative Endangered Species Conservation Fund		$712,277
15.632	Conservation Grants Private Stewardship for Imperiled Species		$72,898
15.634	State Wildlife Grants		$830,055
15.635	Neotropical Migratory Bird Conservation		$15,527
15.657	Endangered Species Conservation - Recovery Implementation Funds		$35,869
15.664	Yukon River Salmon Research and Management Assistance		$6,343
15.808	U.S. Geological Survey-Research and Data Acquisition		$7,972
15.812	Cooperative Research Units Program		($95)
15.904	Historic Preservation Fund Grants-in-Aid		$741,055
15.912	National Historic Landmark: From MT GOVERNORS OFFICE		$565
15.912	National Historic Landmark		$5,926
15.916	Outdoor Recreation: Acquisition, Development and Planning		$41,573
15.922	Native American Graves Protection and Repatriation Act		$67,038
15.929	Save America's Treasures		$31,589
15.945	Cooperative Research and Training Programs - NPS		$75,946
15.999	Miscellaneous Non-Major Grants		$32,926
15.AAL	Scientific Studies		$3,500
		TOTAL	**$21,435,187**
Fish and Wildlife Cluster			
15.605	Sport Fish Restoration		$7,388,418
15.611	Wildlife Restoration		$8,824,885
		TOTAL	**$16,213,303**

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		AMOUNT
	DEPARTMENT OF THE INTERIOR TOTAL	**$37,648,490**
DEPARTMENT OF TRANSPORTATION		
20.106	Airport Improvement Program	$676,122
20.218	National Motor Carrier Safety	$1,580,892
20.231	Performance and Registration Information Systems Management	$31,726
20.233	Border Enforcement Grants	$889,804
20.237	Commercial Vehicle Information Systems and Networks	$561,673
20.238	Commercial Drivers License Information System (CDLIS) Modernization Grant	$862,765
20.240	Fuel Tax Evasion-Intergovernmental Enforcement Effort	$7,612
20.505	Federal Transit Technical Studies Grant	$394,619
20.509	Formula Grants for Other Than Urbanized Areas	$7,932,766
20.509	ARRA Formula Grants for Other Than Urbanized Areas	$423,733
20.515	State Planning and Research	$104,696
20.605	Saftety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	$1,257
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	$6,071,088
20.614	National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants	$83,862
20.700	Pipeline Safety	$78,543
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	$97,086
20.999	Miscellaneous Non-Major Grants	$136,553
	TOTAL	**$19,934,797**
Federal Transit Cluster		
20.500	Federal Transit Capital Improvement Grants	$691,695
	TOTAL	**$691,695**
Highway Planning and Construction Cluster		
20.205	Highway Planning and Construction	$405,667,262
20.205	ARRA Highway Planning and Construction	$158,838
20.219	Recreational Trails Program	$1,305,877
	TOTAL	**$407,131,977**
Highway Safety Cluster		
20.600	State and Community Highway Safety: From Idaho Department of Transporta	$64,164
20.600	State and Community Highway Safety	$1,643,638
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	$1,929,840
20.602	Occupant Protection	$100,677
20.610	State Traffic Safety Information System Improvement Grants	$440,828
20.611	Incentive Grant Program to Prohibit Racial Profiling	$293,042
20.612	Incentive Grant Program to Increase Motorcyclist Safety	$133,880
	TOTAL	**$4,606,069**
Transit Services Programs Cluster		
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	$897,383

		AMOUNT
20.516	Job Access Reverse Commute	$357,875
	TOTAL	**$1,255,258**
	DEPARTMENT OF TRANSPORTATION TOTAL	**$433,619,796**

DEPARTMENT OF TREASURY

21.999	Miscellaneous Non-Major Grants	$146,367
	TOTAL	**$146,367**
	DEPARTMENT OF TREASURY TOTAL	**$146,367**

DEPARTMENT OF VETERANS AFFAIRS

64.014	Veterans State Domiciliary Care	$152,577
64.015	Veterans State Nursing Home Care	$6,285,330
64.124	All-Volunteer Force Educational Assistance	$102,310
64.203	State Cemetery Grants	$507,534
64.999	Miscellaneous Non-Major Grants	$195,843
	TOTAL	**$7,243,594**
	DEPARTMENT OF VETERANS AFFAIRS TOTAL	**$7,243,594**

ENVIRONMENTAL PROTECTION AGENCY

66.040	State Clean Diesel Grant Program	$218,374
66.202	Congressionally Mandated Projects	$89,703
66.433	State Underground Water Source Protection	$83,449
66.454	Water Quality Management Planning	$100,018
66.458	Capitalization Grants For State Revolving Funds	$3,627,222
66.458	ARRA Capitalization Grants For State Revolving Funds	$133,328
66.460	Nonpoint Source Implementation Grants: From Soil and Water Conservation Di	$1,041
66.460	Nonpoint Source Implementation Grants	$2,060,217
66.461	Regional Wetland Program Development Grants	$163,507
66.468	Capitalization Grants for Drinking Water State Revolving Fund	$10,067,399
66.468	ARRA Capitalization Grants for Drinking Water State Revolving Fund	$160,000
66.471	State Grants to Reimburse Operators of Small Water Sys for Training Certification Costs	$22,099
66.474	Water Protection Grants to the States	$66,826
66.511	Office of Research and Development Consolidated Research/Training/Fellowships	$3,836
66.514	Science To Achieve Results (STAR) Fellowship Program	$99,179
66.605	Performance Partnership Grants	$6,734,200
66.608	One Stop Reporting	$154,943
66.708	Pollution Prevention Grants Program	$8,409
66.802	Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop.	$3,144,711
66.804	State Underground Storage Tanks Program	$399,375
66.805	Leaking Underground Storage Tank Trust Fund Program	$659,023

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		AMOUNT
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	$182,170
66.817	State and Tribal Response Program Grants	$859,977
	TOTAL	**$29,039,006**
	ENVIRONMENTAL PROTECTION AGENCY TOTAL	**$29,039,006**
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION		
30.002	Employment Discrimination-State and Local Fair Employment Practices Agency Contracts	$113,811
	TOTAL	**$113,811**
	EQUAL EMPLOYMENT OPPORTUNITY COMMISSION TOTAL	**$113,811**
EXECUTIVE OFFICE OF THE PRESIDENT		
95.001	High Intensity Drug Trafficking Areas Program: From Flathead County	$4,086
95.001	High Intensity Drug Trafficking Areas Program: From City of Billings	$375
95.001	High Intensity Drug Trafficking Areas Program	$13,678
	TOTAL	**$18,139**
	EXECUTIVE OFFICE OF THE PRESIDENT TOTAL	**$18,139**
GENERAL SERVICES ADMINISTRATION		
39.003	Donation of Federal Surplus Personal Property	$58,267
39.011	Election Reform Payments	$621,110
	TOTAL	**$679,377**
	GENERAL SERVICES ADMINISTRATION TOTAL	**$679,377**
HOMELAND SECURITY		
97.012	Boating Safety Financial Assistance	$443,720
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	$387,386
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	$197,886
97.026	Emergency Management Institute Training Assistance	$3,442
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	$6,698,012
97.039	Hazard Mitigation Grant	$95,264
97.041	National Dam Safety Program	$253,199
97.041	National Dam Safety Program: From State of Wyoming Engineer's Office	$10,000
97.042	Emergency Management Performance Grants	$2,340,465
97.043	State Fire Training Systems Grants	$12,817
97.045	Cooperating Technical Partners	$690,537
97.046	Fire Management Assistance Grant	$8,170,709
97.047	Pre-Disaster Mitigation	$74,005
97.052	Emergency Operations Centers	$94,697
97.055	Interoperable Emergency Communications	$100,590

		AMOUNT
97.067	Homeland Security Grant Program	$6,779,312
97.067	Homeland Security Grant Program: From MT DEPT OF MILLITARY AFFAIRS	$10,623
97.078	Buffer Zone Protection Plan (BZPP)	$9,614
97.082	Earthquake Consortium	$27,715
97.120	Border Interoperability Demonstration Project	$527,263
	TOTAL	**$26,927,256**
	HOMELAND SECURITY TOTAL	**$26,927,256**

LIBRARY OF CONGRESS

42.999	Miscellaneous Non-Major Grants: From National Film Preservation Foundation	$4,610
	TOTAL	**$4,610**
	LIBRARY OF CONGRESS TOTAL	**$4,610**

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

43.001	Aerospace Education Services Program: From Johns Hopkins University	$31,506
43.001	Aerospace Education Services Program	$34,275
	TOTAL	**$65,781**
	NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL	**$65,781**

NATIONAL ARCHIVES AND RECORDS ADMINISTRATION

89.003	National Historical Publications and Records Grants	$97,347
	TOTAL	**$97,347**
	NATIONAL ARCHIVES AND RECORDS ADMINISTRATION TOTAL	**$97,347**

NATIONAL ENDOWMENT FOR THE HUMANITIES

45.024	Promotion of the Arts-Grants to Organizations and Individuals	$10,000
45.024	Promotion of the Arts-Grants to Organizations and Individuals: From Arts Midwest	$40,000
45.025	Promotion of the Arts-Partnership Agreements	$855,865
45.129	Promotion of the Humanities-Federal/State Partnership: From HUMANITIES MT	$18,173
45.129	Promotion of the Humanities-Federal/State Partnership: From Humanities Montana	$12,956
45.149	Promotion of the Humanities Division of Preservation and Access	$151,691
45.163	Promotion of the Humanities-Seminars and Institutes	$52,625
45.310	State Library Program	$1,045,541
45.312	Institute of Museum and Library Services - National Leadership Grants	$101,511
45.313	Laura Bush 21st Century Librarian Program	$217,757
	TOTAL	**$2,506,119**
	NATIONAL ENDOWMENT FOR THE HUMANITIES TOTAL	**$2,506,119**

NATIONAL SCIENCE FOUNDATION

		AMOUNT
47.041	Engineering Grants: From U OF ALASKA	($1)
47.049	Mathematical and Physical Sciences	$21,182
47.074	Biological Sciences	$12,843
47.075	Social, Behavioral, and Economic Sciences	$3,089
47.076	Education and Human Resources: From SALISH KOOTENAI COLLEGE	$107,872
47.076	Education and Human Resources	$966,186
	TOTAL	**$1,111,171**
	NATIONAL SCIENCE FOUNDATION TOTAL	**$1,111,171**

PEACE CORPS

08.999	Miscellaneous Non-Major Grants	$9,198
	TOTAL	**$9,198**
	PEACE CORPS TOTAL	**$9,198**

SMALL BUSINESS ADMINISTRATION

59.000	Small Business Administration-Technical Assistance Grant	$96,765
59.037	Small Business Development Center	$781,469
59.058	Federal and State Technology Partnership Program: From Defense Alliance of Minnesota	$35,967
59.058	Federal and State Technology Partnership Program	$106,370
59.061	State Trade and Export Promotion Pilot Grant Program	$295,006
	TOTAL	**$1,315,577**
	SMALL BUSINESS ADMINISTRATION TOTAL	**$1,315,577**

SOCIAL SECURITY ADMINISTRATION

Disability Insurance/SSI Cluster

96.001	Social Security - Disability Insurance	$6,743,926
	TOTAL	**$6,743,926**
	SOCIAL SECURITY ADMINISTRATION TOTAL	**$6,743,926**

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
DEPARTMENT OF AGRICULTURE		
10.001	Agricultural Research-Basic and Applied Research	$13,179
10.025	Plant and Animal Disease, Pest Control, and Animal Care: From MT DEPT OF LIVESTOCK	$213,691
10.025	Plant and Animal Disease, Pest Control, and Animal Care	$251,189
10.156	Federal-State Marketing Improvement Program	$52,180
10.200	Grants for Agricultural Research, Special Research Grants	$269,739
10.200	Grants for Agricultural Research, Special Research Grants: From Colorado State University	$2,741
10.200	Grants for Agricultural Research, Special Research Grants: From Michigan State University	$21,241
10.200	Grants for Agricultural Research, Special Research Grants: From North Dakota State University	$6,073
10.200	Grants for Agricultural Research, Special Research Grants: From Rutgers The State University	$37
10.200	Grants for Agricultural Research, Special Research Grants: From South Dakota State University	$37,033
10.200	Grants for Agricultural Research, Special Research Grants: From U OF IDAHO	$16,072
10.200	Grants for Agricultural Research, Special Research Grants: From University of Idaho	$10,609
10.200	Grants for Agricultural Research, Special Research Grants: From University of Washington	$13,916
10.202	Cooperative Forestry Research	$789,306
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	$2,540,108
10.206	Grants for Agricultural Research-Competitive Research Grants: From U OF IDAHO	$65,409
10.206	Grants for Agricultural Research-Competitive Research Grants	$474,108
10.207	Animal Health and Disease Research	$24,229
10.210	Food and Agricultural Sciences National Needs	$3,739
10.215	Sustainable Agriculture Research and Education	$4,563
10.215	Sustainable Agriculture Research and Education: From Utah State University	$195,359
10.215	Sustainable Agriculture Research and Education: From Western Region SARE Program	$1,398
10.221	Tribal Colleges Education Equity Grants: From Fort Peck Community College	$22,910
10.227	1994 Institutions Research Program: From Aaniiih Nakoda College	$30,645
10.227	1994 Institutions Research Program: From Fort Peck Community College	($99)
10.227	1994 Institutions Research Program: From Salish Kootenai College	$9,025
10.303	Integrated Programs: From University of California Davis	$11,173
10.303	Integrated Programs	$711,699
10.303	Integrated Programs: From Colorado State University	$81,111
10.304	Homeland Security - Agricultural: From Kansas State University	$17,984
10.307	Organic Agriculture Research and Extension Initiative	$66,923
10.309	Specialty Crop Research Initiative: From Washington State University	$15,961
10.310	Agriculture and Food Research Initiative (AFRI)	$395,490
10.310	Agriculture and Food Research Initiative (AFRI): From Boston University	$3,004
10.310	Agriculture and Food Research Initiative (AFRI): From EMORY UNIVERSITY	$78,113
10.310	Agriculture and Food Research Initiative (AFRI): From University of California Davis	$368,149
10.310	Agriculture and Food Research Initiative (AFRI): From University of Nebraska Lincoln	$8,885
10.310	Agriculture and Food Research Initiative (AFRI): From WA STATE UNIV	$143,044
10.310	Agriculture and Food Research Initiative (AFRI): From Washington State University	$28,489
10.312	Biomass Research and Development Initiative Competitive Grants Program (BRDI): From Kansas State University	$30,260

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RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
10.443	Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers: From Little Big Horn College	$17,457
10.500	Cooperative Extension Service: From Fort Peck Community College	$19,026
10.500	Cooperative Extension Service: From Auburn University	$3,662
10.500	Cooperative Extension Service: From Colorado State University	$2,395
10.500	Cooperative Extension Service: From Mississippi State University	$1,535
10.500	Cooperative Extension Service: From Missoula County Weed District	$22,210
10.500	Cooperative Extension Service: From Purdue University	$130,724
10.500	Cooperative Extension Service: From University of Nebraska Lincoln	$73,295
10.500	Cooperative Extension Service: From University of Wyoming	$24,902
10.500	Cooperative Extension Service: From Utah State University	$17,276
10.500	Cooperative Extension Service: From Virginia Polytechnic Institute	$6,909
10.500	Cooperative Extension Service: From Washington State University	$5,000
10.500	Cooperative Extension Service: From Western Region SARE Program	$46,113
10.500	Cooperative Extension Service	$748,480
10.500	Cooperative Extension Service: From Kansas State University	$63,747
10.652	Forestry Research	$4,936,282
10.652	Forestry Research: From WILDERNESS SOCIETY	$64,899
10.652	Forestry Research: From SUNY RESEARCH FNDN	$8
10.652	Forestry Research: From SALISH KOOTENAI COLLEGE	$30,799
10.652	Forestry Research: From NAT'L FOREST FNDN	$9,999
10.652	Forestry Research: From A. CARHART / USDA	$27,062
10.652	Forestry Research: From NAT'L FISH/WILDLIFE	$28,614
10.664	Cooperative Forestry Assistance	$18,451
10.676	Forest Legacy Program	$24,128
10.680	Forest Health Protection	$127,931
10.681	Wood Education and Resource Center (WERC)	$38,281
10.682	National Forest Foundation: From NAT'L FOREST FNDN	$56,236
10.682	National Forest Foundation	$28,501
10.902	Soil and Water Conservation	$269,151
10.902	Soil and Water Conservation: From PHEASANTS FOREVER	$6,997
10.902	Soil and Water Conservation: From University of Wisconsin	$107,341
10.912	Environmental Quality Incentives Program: From Pollinator Partnership	$124
10.912	Environmental Quality Incentives Program	$347,610
10.914	Wildlife Habitat Incentive Program: From PHEASANTS FOREVER	$6,997
10.961	Scientific Cooperation and Research	$103
10.999	Miscellaneous Non-Major Grants	$36,699
	TOTAL	**$14,377,629**

DEPARTMENT OF COMMERCE

11.010	Community Trade Adjustment Assistance: From BITTEROOT ECON DEV	$546
11.302	Economic Development Support for Planning Organizations	$18,627

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
11.303	Economic Development-Technical Assistance	$129,570
11.307	Economic Adjustment Assistance	$159,868
11.439	Marine Mammal Data Program	$31,149
11.440	Environmental Sciences, Applications, Data, and Education	$16,979
11.611	Manufacturing Extension Partnership	$19,918
	TOTAL	**$376,657**

DEPARTMENT OF DEFENSE

12.002	Procurement Technical Assistance For Business Firms	$2,867,677
12.114	Collaborative Research and Development	$439,300
12.114	Collaborative Research and Development: From Advr Inc	$134,131
12.114	Collaborative Research and Development: From Physical Sciences Inc	$51,895
12.114	Collaborative Research and Development: From U OF COLORADO	$253,594
12.300	Basic and Applied Scientific Research	$1,228,925
12.300	Basic and Applied Scientific Research: From S2 Corp	$149,167
12.300	Basic and Applied Scientific Research: From Impact Technologies, LLC	$134,712
12.300	Basic and Applied Scientific Research: From Advanced Acoustic Concepts Inc	$51,061
12.300	Basic and Applied Scientific Research: From University of Oklahoma	$404,021
12.300	Basic and Applied Scientific Research: From Edison Welding Institute	$277
12.360	Research on Chemical and Biological Defense	$43,570
12.420	Military Medical Research and Development	$1,236,372
12.431	Basic Scientific Research	$176,434
12.630	Basic, Applied, and Advanced Research in Science and Engineering	$379,040
12.800	Air Force Defense Research Sciences Program: From University of Minnesota	$151,374
12.800	Air Force Defense Research Sciences Program: From South Dakota School of Mines	$1,514
12.800	Air Force Defense Research Sciences Program	$2,495,789
12.910	Reseach and Technology Development: From Duke University	$102,653
12.910	Reseach and Technology Development: From Northwestern University	$43,752
12.999	Miscellaneous Non-Major Grants	$21
12.999	Miscellaneous Non-Major Grants: From ACI Technologies, Inc.	$329,594
12.999	Miscellaneous Non-Major Grants: From WA STATE UNIV	$48,888
12.R&D	Miscellaneous Research and Development: From UES Inc	$20,966
12.R&D	Miscellaneous Research and Development: From Alion Science and Technology C	$18,891
12.R&D	Miscellaneous Research and Development: From Battelle	$25,715
12.R&D	Miscellaneous Research and Development: From Lockheed Martin Corporation	$244,647
	TOTAL	**$11,033,980**

DEPARTMENT OF EDUCATION

84.031	Higher Education Institutional Aid: From University of California Berke	$3
84.116	Fund for the Improvement of Postsecondary Education	$5,070
84.133	National Institute on Disability and Rehabilitation Research	$206,621
84.133	National Institute on Disability and Rehabilitation Research: From PORTLAND ST UNIVERSITY	$24,680

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RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
84.133	National Institute on Disability and Rehabilitation Research: From U OF KANSAS	$81,933
84.295	Ready-To-Learn Television: From Corporation for Public Broadca	$39,700
84.299	Indian Education - Special Programs	$325,691
84.299	Indian Education - Special Programs: From Little Big Horn College	$311,840
84.367	Improving Teacher Quality State Grants: From National Writing Project	$15,863
84.373	Special Education -Technical Assistance on State Data Collection: From MEETING THE CHALLENGE	$2,799
	TOTAL	**$1,014,200**

DEPARTMENT OF ENERGY

81.049	Office of Science Financial Assistance Program: From INLAND NW RES ALLIANCE	$34,689
81.049	Office of Science Financial Assistance Program: From Vista Clara Inc	$63,051
81.049	Office of Science Financial Assistance Program: From Inland Northwest Research Alli	($216)
81.049	Office of Science Financial Assistance Program	$1,168,314
81.049	Office of Science Financial Assistance Program: From J Craig Venter Institute	$619
81.049	Office of Science Financial Assistance Program: From LOS ALAMOS NAT'L SEC	$75,454
81.049	Office of Science Financial Assistance Program: From Montana Emergent Technologies	$190
81.049	Office of Science Financial Assistance Program: From NAT'L SECURITIES TECHNOLOGIES	$53,391
81.049	Office of Science Financial Assistance Program: From Physical Sciences Inc	$46,407
81.049	Office of Science Financial Assistance Program: From Resodyn Corporation	$37,369
81.049	Office of Science Financial Assistance Program: From University of Southern Califor	$26,402
81.049	Office of Science Financial Assistance Program: From University of Tennessee	$175,399
81.049	Office of Science Financial Assistance Program: From UT-BATTELLE	$4,139
81.079	Regional Biomass Energy Programs: From South Dakota State University	$25,438
81.087	Renewable Energy Research and Development: From Consortium for Plant Biotechno	$19,473
81.087	Renewable Energy Research and Development: From South Dakota State University	$16,130
81.087	Renewable Energy Research and Development: From University of Toledo	$36,866
81.087	Renewable Energy Research and Development	$236,443
81.087	ARRA Renewable Energy Research and Development	$672,255
81.087	ARRA Renewable Energy Research and Development: From Arizona Geological Survey	$142,999
81.089	Fossil Energy Research and Development	$5,046,610
81.089	Fossil Energy Research and Development: From Crow Tribe	$79,416
81.089	Fossil Energy Research and Development: From Virginia Polytechnic Institute & State University	($1,195)
81.112	Stewardship Science Grant Program: From Gonzales Stoller Surveillance	$9,927
81.112	Stewardship Science Grant Program: From Oregon Dept of Fish & Wildlife	$4,857
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	$250,057
81.122	ARRA Electricity Delivery and Energy Reliability, Research, Development and Analysis: From Western Electricity Coordinating Council	$214,377
81.122	ARRA Electricity Delivery and Energy Reliability, Research, Development and Analysis: From University of Minnesota	$2,296
81.122	ARRA Electricity Delivery and Energy Reliability, Research, Development and Analysis	$168,212
81.133	ARRA Geologic Sequestration Training and Research Grant Program	$96,323
81.135	Advanced Research and Projects Agency - Energy Financial Assistance Program: From Donald Danforth Plant Science	$155,991

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
81.214	Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response: From Aerodyne Research Incorporated	$19,706
81.214	Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response: From American Indian Science & Engi	$32,471
81.214	Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response: From Vista Clara Inc	$863
81.999	Miscellaneous Non-Major Grants: From Battelle Energy Alliance	$232,078
81.999	Miscellaneous Non-Major Grants: From Bonneville Power Administration	$66,614
81.999	Miscellaneous Non-Major Grants: From MSE Technology Applications	$11,572
81.999	Miscellaneous Non-Major Grants: From Sandia National Laboratories	$36,050
	TOTAL	**$9,261,037**

DEPARTMENT OF HEALTH AND HUMAN SERVICES

93.069	Public Health Emergency Preparedness: From University of Arizona	$61,224
93.113	Biological Response to Environmental Health Hazards	$762,951
93.136	Injury Prevention and Control Research and State and Community Based Programs: From MT SINAI SCHOOL-MED	$108,478
93.136	Injury Prevention and Control Research and State and Community Based Programs	$70,854
93.155	Rural Health Research Centers	$202,095
93.172	Human Genome Research	$160,408
93.172	Human Genome Research: From SOUTHERN METHODIST UNIV	$80,844
93.172	Human Genome Research: From STANFORD UNIV	$63,209
93.178	Nursing Workforce Diversity	$307,237
93.213	Research and Training in Complementary and Alternative Medicine	$1,149,634
93.217	Family Planning Services: From Planned Parenthood	$771
93.242	Mental Health Research Grants	$405,807
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance: From U OF MISSOURI	$12,177
93.247	Advanced Education Nursing Grant Program	$332,329
93.262	Occupational Safety and Health Program: From Colorado State University	$4,838
93.279	Drug Abuse Research Programs	$533,476
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance: From ASSN UNIV CTRS DISB	$297,740
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health: From University of Illinois	($744)
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	$660,251
93.301	Small Rural Hospital Improvement Grant Program	$408,569
93.307	Minority Health and Health Disparities Research	$311,565
93.307	Minority Health and Health Disparities Research: From Little Big Horn College	$39,789
93.310	Trans-NIH Research Support	$62,614
93.351	Research Infrastructure Programs	$175,967
93.359	Nurse Education, Practice and Retention Grants: From University of Washington	$3,937
93.389	National Center for Research Resources: From ZDye Corporation	($193)

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2013

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
93.389	National Center for Research Resources: From Resonon Inc	$161,316
93.389	National Center for Research Resources	$2,246,592
93.393	Cancer Cause and Prevention Research: From MIRIAM HOSPITAL	$19,185
93.395	Cancer Treatment Research	$37,253
93.395	Cancer Treatment Research: From Vanderbilt University	$16
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program: From Gallatin County	$13,775
93.509	Affordable Care Act (ACA) State Health Care Workforce Development Grants	($15)
93.652	Adoption Opportunities	$143,133
93.701	ARRA Trans-NIH Recovery Act Researcg Support: From Harvard University	$2,564
93.701	ARRA Trans-NIH Recovery Act Researcg Support	$881,652
93.702	ARRA National Center for Research Resources, Recovery Act Construction Support	$2,436,398
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations: From Mineral Regional Health Center	$60,245
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	$381,190
93.824	Basic/Core Area Health Education Centers: From Montana Health Research & Educ	$21,277
93.824	Basic/Core Area Health Education Centers	$1,199,035
93.837	Heart and Vascular Diseases Research: From Gramercy Research Group	$11,746
93.837	Heart and Vascular Diseases Research	$344,315
93.838	Lung Diseases Research	$1,064,781
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	$52,707
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders: From The John B Pierce Laboratory	$17,968
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders: From THOMAS JEFFERSON UNIV	$12,265
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders: From University of California Berke	$159,623
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders: From Yale University	$44,136
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	$1,754,822
93.855	Allergy, Immunology and Transplantation Research: From U OF CONN	$35,265
93.855	Allergy, Immunology and Transplantation Research: From Sorrento Therapeutics Inc	$90,785
93.855	Allergy, Immunology and Transplantation Research: From Rocky Mountain Regional Center	$74,017
93.855	Allergy, Immunology and Transplantation Research: From CO STATE UNIV	$146,888
93.855	Allergy, Immunology and Transplantation Research	$3,187,774
93.855	Allergy, Immunology and Transplantation Research: From Agile Sciences Inc	$35,012
93.856	Microbiology and Infectious Diseases Research: From CO STATE UNIV	$276,215
93.856	Microbiology and Infectious Diseases Research: From SIGA TECHNOLOGIES	$147,450
93.856	Microbiology and Infectious Diseases Research: From Colorado State University	($16,141)
93.859	Biomedical Research and Research Training: From U OF CONN	$61,051
93.859	Biomedical Research and Research Training	$9,989,841
93.859	Biomedical Research and Research Training: From U OF S CALIFORNIA	$79,004
93.859	Biomedical Research and Research Training: From U OF WASHINGTON	$421,947

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
93.865	Child Health and Human Development Extramural Research: From GeneSearch Inc	$21,566
93.865	Child Health and Human Development Extramural Research	$467,113
93.866	Aging Research	$495,462
93.867	Vision Research: From University of Rochester	$8,405
93.912	Rural Outreach-Rural Network Developmental Program	$213,104
93.970	Health Professions Recruitment Program for Indians	$710,795
93.974	Family Planning Service Delivery Improvement Research Grants	$89,485
	TOTAL	**$33,816,844**

DEPARTMENT OF HOUSING & URBAN DEVELOPMENT

14.523	Transformation Initiative Research Grants: Sustainable Community Research Grant Program: From Opportunity Link	$13,133
14.999	ARRA Miscellaneous Non-Major Grants	$13,329
	TOTAL	**$26,462**

DEPARTMENT OF JUSTICE

16.541	Part E - Developing, Testing and Demonstrating Promising New Programs	$113,830
16.582	Crime Victim Assistance/Discretionary Grants Crime Victim Assistance/Discretionary Grants Department of Justice	$29,374
16.710	Public Safety Partnership and Community Policing Grants	$0
16.727	Enforcing Underage Drinking Laws Program: From Oregon Department of Human Ser	$189,112
16.746	Capital Case Litigation	$49,860
	TOTAL	**$382,176**

DEPARTMENT OF STATE

19.500	Middle East Partnership Initiative (MEPI)	$303,668
19.999	Miscellaneous Grants	$61,627
	TOTAL	**$365,295**

DEPARTMENT OF THE INTERIOR

15.034	Agriculture on Indian Lands	$6,268
15.224	Cultural Resource Management	$62,971
15.228	Wildland Urban Interface Community and Rural Fire Assistance	$21,226
15.230	Invasive and Noxious Plant Management	$36,515
15.231	Fish, Wildlife and Plant Conservation Resource Management	$277,719
15.234	Secure Rural Schools and Community Self-Determination	$594
15.235	Southern Nevada Public Land Management: From University of Nevada Las Vegas	$64,790
15.236	Environmental Quality and Protection Resource Management	$160,014
15.238	Challenge Cost Share	$158,109
15.239	Management Initiatives	$5,812
15.517	Fish and Wildlife Coordination Act	$32,548
15.524	Recreation Resources Management	($1)
15.608	Fish and Wildlife Management Assistance	$51,115

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2013

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
15.608	Fish and Wildlife Management Assistance: From Yellowstone to Yukon Conservat	$23,866
15.611	Wildlife Restoration: From WA DEPT FISH & GAME	$30,563
15.611	Wildlife Restoration: From State of Texas	$14,394
15.615	Cooperative Endangered Species Conservation Fund	$18,279
15.615	Cooperative Endangered Species Conservation Fund: From STATE OF CO	$10,682
15.634	State Wildlife Grants	$15,248
15.635	Neotropical Migratory Bird Conservation	$101,058
15.637	Migratory Bird Joint Ventures: From PHEASANTS FOREVER	$104,753
15.637	Migratory Bird Joint Ventures: From DUCKS UNLIMITED	$40,253
15.649	Service Training and Technical Assistance (Generic Training)	$34,183
15.650	Research Grants (Generic): From University of California Santa	$25,191
15.650	Research Grants (Generic): From THE NATURE CONSERVANCY	$4,495
15.650	Research Grants (Generic)	$341,813
15.655	Migratory Bird Monitoring, Assessment and Conservation	$38,024
15.657	Endangered Species Conservation - Recovery Implementation Funds	$276,281
15.664	Yukon River Salmon Research and Management Assistance	$58,039
15.805	Assistance to State Water Resources Research Institutes	$76,924
15.807	Earthquake Hazards Reduction Program	$89,393
15.808	U.S. Geological Survey-Research and Data Acquisition	$445,462
15.809	National Spatial Data Infrastructure Competitive Cooperative Agreements Program	$10,700
15.810	National Cooperative Geologic Mapping Program	$207,957
15.812	Cooperative Research Units Program	$704,567
15.814	National Geological and Geophysical Data Preservation Program	$43,715
15.815	National Land Remote Sensing Education Outreach and Research: From America View Inc	$91,329
15.819	Energy Cooperatives to Support the National Coal Resources Data System (NCRDS)	$14,919
15.820	National Climate Change and Wildlife Science Center: From CO STATE UNIV	$53,292
15.820	National Climate Change and Wildlife Science Center: From Colorado State University	$135,854
15.904	Historic Preservation Fund Grants-in-Aid	$39,384
15.915	Technical Preservation Services	$41,110
15.915	Technical Preservation Services: From Vanasse Hangen Brustlin Inc	$26,776
15.916	Outdoor Recreation: Acquisition, Development and Planning	$42,767
15.921	Rivers, Trails and Conservation Assistance	$732
15.926	American Battlefield Protection	$40,867
15.945	Cooperative Research and Training Programs - NPS	$1,015,768
15.945	Cooperative Research and Training Programs - NPS: From University Of Wyoming NPS Rese	$4,979
15.948	National Fire Plan-Wildland Urban Interface Community Fire Assistance	$3,050
15.999	Miscellaneous Non-Major Grants	$264,478
15.999	Miscellaneous Non-Major Grants: From ENV MGMT & PLAN SOLUTIONS	$5,245
15.R&D	Miscellaneous Research and Development	$424,935
	TOTAL	**$5,799,005**

DEPARTMENT OF TRANSPORTATION

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
20.200	Federal Highway Administration: From California Dept of Transportat	$125,658
20.200	Federal Highway Administration: From ICF International	$14,762
20.200	Federal Highway Administration: From Idaho Department of Transporta	$1,606
20.200	Federal Highway Administration: From Minnesota Department of Transp	$109,749
20.200	Federal Highway Administration: From National Academies	$14,011
20.200	Federal Highway Administration: From National Academies of Science	$7,840
20.200	Federal Highway Administration: From Oregon Department of Transport	$268,044
20.200	Federal Highway Administration: From Transportation Research Board	$60,793
20.200	Federal Highway Administration: From University of Iowa	$23,444
20.200	Federal Highway Administration: From Washington State Department of	$94,791
20.200	Federal Highway Administration	$831,975
20.205	Highway Planning and Construction	$1,610,288
20.205	Highway Planning and Construction: From YELLOWSTONE BUS PART	$6,270
20.205	Highway Planning and Construction: From Ohio Department Of Transportat	$75,312
20.205	Highway Planning and Construction: From Nevada Deptarment of Transport	$28,066
20.520	Paul S. Sarbanes Transit in the Parks	$1,354,841
20.600	State and Community Highway Safety: From University of Alaska Fairbanks	$125,557
20.600	State and Community Highway Safety: From Virginia Tech	$264,632
20.614	National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants	$88,614
20.701	University Transportation Centers Program: From University of Alaska Fairbanks	$307,784
20.762	Research Grants	$478,834
	TOTAL	**$5,892,871**

ENVIRONMENTAL PROTECTION AGENCY

66.001	Air Pollution Control Program Support: From Aerodyne Research Incorporated	$6,554
66.034	Surveys, Studies, Invest., Demonst and Special Purp Act Relating to the Clean Air Act	$327,010
66.419	Water Pollution Control-State and Interstate Program Support	$226,223
66.436	Surveys, Studies, Investigations & Demonstrations of the Clean Water Act	$26,982
66.461	Regional Wetland Program Development Grants	$164,417
66.461	Regional Wetland Program Development Grants: From NM SURFACE WATER QUAL	$28,765
66.509	Science To Achieve Results (STAR) Research Program	$31,158
66.509	Science To Achieve Results (STAR) Research Program: From University of New England	$59,062
66.605	Performance Partnership Grants: From N CHEYENNE TRIBE	$20,722
66.708	Pollution Prevention Grants Program	$235,738
66.709	Multi-Media Capacity Building Grants for States and Tribes	$79,704
66.714	Pesticide Environmental Stewardship Regional Grants	($819)
66.716	Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach	$33,861
66.717	Source Reduction Assistance	$43,285
66.999	Miscellaneous Non-Major Grants	$29,828
66.999	Miscellaneous Non-Major Grants: From CADMUS GROUP	$22,715
66.R&D	Miscellaneous Research and Development: From Confederated Tribes of the Uma	$9,409
	TOTAL	**$1,344,614**

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2013

RESEARCH AND DEVELOPMENT CLUSTER			AMOUNT
HOMELAND SECURITY			
97.082	Earthquake Consortium		$10,253
		TOTAL	**$10,253**
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
43.001	Aerospace Education Services Program: From S DAKOTA ST UNIV		$22,869
43.001	Aerospace Education Services Program: From U OF KANSAS		$54,100
43.001	Aerospace Education Services Program: From Qualtech Systems Inc		$5,042
43.001	Aerospace Education Services Program: From University of North Dakota		$967
43.001	Aerospace Education Services Program: From University of California Santa		$51,602
43.001	Aerospace Education Services Program: From University of California Berke		$34,193
43.001	Aerospace Education Services Program		$4,284,043
43.001	Aerospace Education Services Program: From University Corporation For Atm		$6,395
43.001	Aerospace Education Services Program: From Smithsonian Astrophysical Obse		$363,258
43.001	Aerospace Education Services Program: From SMITHSONIAN ASTROPHYSICAL		$16,405
43.001	Aerospace Education Services Program: From RESEARCH FND OF CUNY		$89,083
43.001	Aerospace Education Services Program: From Princeton University		$96,437
43.001	Aerospace Education Services Program: From Lockheed Martin Corporation		$678,377
43.001	Aerospace Education Services Program: From Johns Hopkins University		$28,792
43.001	Aerospace Education Services Program: From California Institute of Techno		$24,299
43.001	Aerospace Education Services Program: From Boston University		$15,392
43.001	Aerospace Education Services Program: From University of Alabama		$12,361
43.002	Technology Transfer: From Smithsonian Astrophysical Obse		$10
43.002	Technology Transfer		$284,530
43.002	Technology Transfer: From Advr Inc		$18,444
43.002	Technology Transfer: From Carnegie Institution of Washin		$49,178
43.008	Education		$467,791
43.009	Cross Agency Support		$392,975
43.999	Miscellaneous Non-Major Grants		$576,587
43.999	Miscellaneous Non-Major Grants: From CA INST-TECH, JPL		$241,975
43.999	Miscellaneous Non-Major Grants: From SW RESEARCH INST		$49,396
43.999	Miscellaneous Non-Major Grants: From U OF CA, IRVINE		$35,077
43.R&D	Miscellaneous Research and Development: From The Woods Hole Research Center		$2,959
		TOTAL	**$7,902,537**
NATIONAL ENDOWMENT FOR THE HUMANITIES			
45.129	Promotion of the Humanities-Federal/State Partnership: From HUMANITIES MT		$1,998
45.161	Promotion of the Humanities Research		$61,636
45.312	Institute of Museum and Library Services - National Leadership Grants		$15,541
		TOTAL	**$79,175**
NATIONAL SCIENCE FOUNDATION			

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2013

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
47.041	Engineering Grants: From University of Washington	$118,129
47.041	Engineering Grants: From Sustainable Bioproducts	$48,375
47.041	Engineering Grants: From S2 Corp	$258
47.041	Engineering Grants: From MT MICROBIAL PROD	$25,136
47.041	Engineering Grants	$778,379
47.041	Engineering Grants: From Bridger Photonics	$9,890
47.049	Mathematical and Physical Sciences: From University of Maryland	$1,723
47.049	Mathematical and Physical Sciences: From University of Chicago Distrib	$13,426
47.049	Mathematical and Physical Sciences	$2,019,147
47.049	Mathematical and Physical Sciences: From S2 Corp	$101,937
47.049	Mathematical and Physical Sciences: From Assn of Universities for Resea	$18,918
47.050	Geosciences	$1,556,888
47.050	Geosciences: From ATMOSPHERIC & ENV RES INC	$6,562
47.050	Geosciences: From U OF MISSOURI	$128,364
47.050	Geosciences: From University of Georgia	$12,227
47.070	Computer and Information Science and Engineering	$368,305
47.074	Biological Sciences: From N ARIZONA UNIV	$11,597
47.074	Biological Sciences: From VILLANOVA UNIVERSITY	$47,358
47.074	Biological Sciences	$4,490,701
47.074	Biological Sciences: From Washington State University	$82,646
47.075	Social, Behavioral, and Economic Sciences	$271,849
47.076	Education and Human Resources: From Salish Kootenai College	$91,667
47.076	Education and Human Resources	$2,078,428
47.076	Education and Human Resources: From Louisiana Tech	($79)
47.076	Education and Human Resources: From Purdue University	$41,849
47.078	Polar Programs: From University of Colorado	$109,973
47.078	Polar Programs	$1,019,957
47.078	Polar Programs: From N DAKOTA ST UNIV	$9,859
47.079	International Science and Engineering (OISE)	$841,918
47.079	International Science and Engineering (OISE): From University of Nevada Las Vegas	$64,293
47.080	Office of Cyberinfrastructure	$151,949
47.081	Office of Experimental Program to Stimulate Competitive Research	$3,212,394
47.082	ARRA Trans-NSF Recovery Act Research Support	$4,085,306
47.082	ARRA Trans-NSF Recovery Act Research Support: From Louisiana State University	$16,632
47.082	ARRA Trans-NSF Recovery Act Research Support: From Northern Illinois University	$48,000
47.082	ARRA Trans-NSF Recovery Act Research Support: From Pennsylvania State University	$80,000
47.082	ARRA Trans-NSF Recovery Act Research Support: From University of Hawaii at Manoa	$26,389
47.082	ARRA Trans-NSF Recovery Act Research Support: From University of Tennessee	$9,292
	TOTAL	**$21,999,642**

SMALL BUSINESS ADMINISTRATION

59.058	Federal and State Technology Partnership Program	$24,567

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2013

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
59.058	Federal and State Technology Partnership Program: From Defense Alliance of Minnesota	$40,498
	TOTAL	**$65,065**
	Total Research and Development Cluster	**$113,747,442**
	Total Expenditures of Federal Awards	**$2,720,521,224**

STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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 #10.555, #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 2013, Montana distributed $466,709 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed $8,103,378 in commodities in fiscal year 2013. The value at June 30, 2013 of commodities stored at the state's warehouse is $2,165,622 for which the state is liable in the event of loss. The state has insurance to cover this liability.

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, 2013. The amount of loans outstanding as of June 30, 2013 in the Water Pollution Control Revolving Fund Program is $184,472,106.

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, 2013. The amount of loans outstanding for the program as of June 30, 2013 is $123,556,844.

<u>Economic Adjustment Assistance Program</u>
The amount presented for the Economic Adjustment Assistance Program (CFDA #11.307) represents federal contributions, plus the administrative costs expended as of June 30, 2013. The amount of loans outstanding as of June 30, 2013 is $351,116 in non-ARRA funds and $3,076,057 in ARRA funds.

<u>Temporary Assistance to Needy Families Loan Program</u>
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, 2013 is $526,738.

<u>Federal Family Education Loans</u>
The Montana Guaranteed Student Loan Program (MGSLP) guaranteed no new loans for the Federal Family Education Loans (CFDA #84.032) program during FY2013. 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 $83,556,610 at June 30, 2013. The dollar amount of Default Aversion Fees transferred from the Federal Fund to the Agency's Operating Fund during FY2013 was $173,297 (net). In addition, MGSLP received or accrued revenue from the U.S. Department of Education in FY2013 of $26,823,758 for reinsurance to pay claims for loans due to death, disability, default and bankruptcy of the debtor.

<u>Federal Perkins Loan Program – Federal Capital Contributions</u>
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, 2013. The amount of loans outstanding as of June 30, 2013 is $32,018,916.

<u>Nursing Student Loan Program</u>
The amount of loans outstanding for the Nursing Student Loan Program (CFDA # 93.364) as of June 30, 2013 is $1,966,623.

<u>Nursing Faculty Loan Program</u>
The amount of loans outstanding for the Nursing Faculty Loan Program (CFDA # 93.264) as of June 30, 2013 is $63,002.

<u>Minority Health and Health Disparities Research</u>
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 FY13. The state used the CDC price list to calculate the value of doses received. During fiscal year 2013, Montana received 144,262 vaccine doses valued at $7,279,902.

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 of 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 2013. The amount of the loan outstanding as of June 30, 2013 is $7,243,590.

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, 2013, of loan outstanding is $2,222,498 and of interest during construction outstanding is $194,016.

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.

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.

The complete CFDA # is a five digit number where the first two digits represent the federal agency and the second three digits represent the program. Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.999. Also see Note 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 13 Amount	Inventory
10.203 Payments to Ag. Exp. Station	$(23,610)	152,863
10.500 Cooperative Extension Service	$0	$3,151
10.664 Cooperative Forestry Assistance	$171,396	$5,099,043
10.999 Agriculture Misc. Non. Major	$(18,640)	$142,098
12.999 Defense Misc. Non. Major	$0	$62,153
43.999 NASA Misc. Non. Major	$0	$664,050
47.999 NSF Misc. Non. Major	$(42,039)	$211,110

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 13 Amount	Inventory
12.999 DOD Firefighter Program	$355,744	$1,173,348

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, 2013, was $910,571. 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	$126,912,308
Federal UI Expenditures	63,285,747
Total	$190,198,055

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 2013.

CFDA Number	Program Title	Amount Provided to Subrecipients
10.156	Federal-State Marketing Improvement Program	30,748
10.163	Market Protection & Promotion	108,538
10.169	Specialty Crop Block Grant Program	79,467
10.200	Grants For Agricultural Research Special Research Grants	104,108
10.303	Integrated Programs	56,823
10.310	Agriculture And Food Research Initiative	34,292
10.500	Cooperative Extension Service	32,453
10.550	Food Donation	2,071,726
10.553	School Breakfast Program	6,870,846
10.555	National School Lunch Program	25,040,221
10.556	Special Milk Program For Children	16,492
10.557	Special Supplemental Nutrition Program For Women, Infants, And Children	4,070,792
10.558	Child Nutrition Program	799,573
10.559	Summer Food Service Program For Children	1,298,742
10.561	State Administrative Matching Grants For The Supplemental Nutrition Assistance Program	1,005,859
10.567	Food Stamp Distribution	1,473,034
10.568	Emergency Food Assistance Program (Administrative Costs)	75,879
10.576	Senior's Farmers Market	89,394
10.579	Child Nutrition Discretionary	23,462
10.582	Fresh Fruit And Vegetable Program	1,611,442
10.652	Forestry Research	147,923
10.664	Cooperative Forestry Assistance	2,742,668
10.665	Schools and Roads - Grants to States	19,746,884
10.672	Rural Development, Forestry, And Communities	30,000
10.688	Recovery Act Of 2009: Wildland Fire Management	10,005
10.912	Environmental Quality Incentives Program	67,447
10.999	Miscellaneous Non-Major Grants	2,256
11.307	Spec Econ Dev & Adjust Asst	72,294
11.557	Broadband Technology Opp Program	116,240
12.002	Procurement Technical Assistance For Business Firms	748,483
12.112	Payments to States in Lieu of Real Estate Taxes	8,415
12.300	Basic/Applied Scientific Rsrch	84,765
12.420	Military Medical Research/Dev	474,911
12.431	Basic Scientific Research	18,980
12.800	Air Force Defense Research Sciences Program	49,889
12.999	Miscellaneous Non-Major Grants	7,393
	Miscellaneous Research And Development	96,903
14.228	Comm Dev Block Grnt	5,609,424
14.239	Home Program Grants	2,169,800
15.233	Forests And Woodlands Resource Management	108,120
15.635	Neotropical Migratory Bird Con	79,906
15.650	Research Grants (Generic)	40,000
15.657	Endangered Species Conserv	9,560
15.812	Cooperative Research Units Program	28,756
15.904	Historic Preservation Fund Grants-In-Aid	81,686
15.916	Land & Water Conservation Fund	5,580
15.929	Preserve America	30,486
15.945	Coop Research/Training Pgms	148,312
16.017	Sexual Assault Services	128,949
16.523	Juvenile Accountability Incentive	189,753
16.540	Juvenile Justice & Delinquency Prev.	234,988
16.548	Title V Delinquency Prevention	32,514
16.575	Crime Victim Assistance (A)	1,423,797
16.588	Violence Against Women Formula Grant	619,462
16.593	Residential Substance Abuse Treatment	46,738
16.609	Project Safe Neighborhoods	61,371
16.727	Underage Drinking Laws	288,257
16.738	Jag Edward Byrne Memorial Justice Asst.	678,307
16.803	ARRA - Jag Edward Byrne	26,971
17.235	Senior Community Service Employment Project	512,595
17.258	WIA Adult Program	500,552
17.259	WIA Youth Activities	2,072,004
17.278	WIA Dislocated Workers	4,575
19.415	Professional Exchanges	43,947
20.200	Highway Research And Development Program	112,231
20.205	Highway Planning And Construction	6,552,147
20.219	Recreational Trails Program	1,305,876
20.500	Federal Transit_Capital Investment Grants	622,700
20.505	Metropolitan Transportation Planning	355,653
20.509	Formula Grants For Other Than Urbanized Areas	7,296,204
20.513	Capital Assistance Program For Elderly Persons And Persons With Disabilities	507,941
20.515	State Planning And Research	58,777
20.516	Job Access_Reverse Commute	424,968
20.520	Paul S. Sarbanes Transit In The Parks	445,262
20.600	State And Community Highway Safety	550,798

CFDA Number	Program Title	Amount Provided to Subrecipients
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	281,570
20.602	Occupant Protection Incentive Grants	69,023
20.611	Incentive Grant Program To Prohibit Racial Profiling	177,187
20.614	National Highway Traffice Safety Administration (NHTSA)	88,614
20.703	Interagency Hazardous Materials Public Sector Training & Planning	94,308
43.001	Aerospace Education Services Program	493,984
43.008	Education	38,163
43.009	Cross Agency Support	237,690
45.025	Partnership Agreements	457,593
47.041	Engineering Grants	11,579
47.049	Mathematical And Physical Sciences	8,954
47.050	Geosciences	29,560
47.070	Computer And Information Science And Engineering	17,000
47.074	Biological Sciences	284,491
47.076	Educational & Human Resources	477,750
47.078	Polar Programs	126,213
47.079	International Science And Engineering (OISE) (B)	274,435
47.080	Office Of Cyberinfrastructure	28,175
47.081	Office Of Experimental Program To Stimulate Competitive Rese	125,815
47.082	Trans-NSF Recovery Act Research Support	870,207
63.531	ACA Community Transformation	438,584
66.716	Research, Development, Monitoring, Public Education, Trainin	5,452
81.049	Office Of Science Financial Assistance Program	62,912
81.087	Renewable Energy Research And Development	29,695
81.089	Fossil Energy Research And Development	1,599,800
81.122	Electricity Delivery And Energy Reliability, Research, Development And Analysis	202,172
84.002	Adult Education - Basic Grants To States	1,096,148
84.010	Title I Grants To Local Educational Agencies	43,562,959
84.011	Migrant Education-State Grant Program	1,185,956
84.013	Title I Program For Neglected And Delinquent Children	90,398
84.027	Special Education-Grants To States	32,437,700
84.048	Career And Technical Education - Basic Grants To States	3,182,994
84.133	Natl Inst-Disability/Rehab	37,112
84.144	Migrant Education_Coordination Program	45,000
84.173	Special Education-Preschool Grants	1,123,970
84.196	Education For Homeless Children And Youth	164,310
84.213	Even Start-State Educational Agencies	5,967
84.224	State Grants/Assist Technology	914,322
84.287	Twenty-First Century Community Learning Centers	5,397,424
84.318	Educational Technology State Grants	153,711
84.323	Special Education-State Personnel Development	44,414
84.334	Gear Up	1,157,553
84.358	Rural Education	356,249
84.365	English Language Acquisition Grants	350,026
84.366	Mathematics And Science Partnerships	801,979
84.367	Improving Teacher Quality State Grants	9,850,060
84.371	Striving Readers	6,800,189
84.377	SCHOOL IMPROVEMENT GRANTS	1,121,807
84.378	College Access Challenge Grant Program	22,479
93.041	Elder Abuse Prevention	30,654
93.042	Ombudsman Activity	97,519
93.043	Preventive Health	97,433
93.044	Aging Supportive Services	1,545,727
93.045	Congregate Meals	2,800,731
93.048	Special Programs For The Aging_Title Iv_And Title Ii_Discretionary Projects	498,677
93.052	Caregiver	670,676
93.053	Eldery Feeding Cash In Lieu	765,890
93.058	Fda Tobacco Retail Inspection Program	107,092
93.069	Public Heatlh Emergency Preparedness	38,832
93.070	Hlthy Homes Lead Poison Prev	91,829
93.074	Hospital Preparedness Program (Hpp) And Public Health Emergency Preparedness (Phep) Aligned Cooperative Agreem	2,594,245
93.092	Personal Responsibility Education Prog	149,607
93.110	Maternal And Child Health Federal Consolidated Programs	194,596
93.113	Biological Res-Env Health Haz	12,383
93.116	Tuberculosis	20,348
93.126	Rape Prevention	20,322
93.127	Emsc Sproc	67,095
93.150	Mental Health-Homeless	291,872
93.155	Frontier Community Health	197,813
93.165	Grants To States For Loan Repayment Program	550,475
93.213	Research And Training In Complementary And Alternative Medic	36,231
93.217	Family Planning	1,786,364
93.236	Grants To States To Support Oral Health Workforce Activities	226,589
93.241	State Rural Hospital Flexibility Program	810,443
93.242	Mental Health Research Grants	85,997

CFDA Number	Program Title	Amount Provided to Subrecipients
93.243	Substance Abuse/Mental Health	79,858
93.268	Vaccination	356,852
93.279	Drug Abuse And Addiction Research Programs	18,000
93.283	Centers For Disease Control And Prevention_Investigations And Technical Assistance	3,214,540
93.286	Discovery And Applied Research For Technological Innovations	380,370
93.301	Small Rural Hospital Improvement Grant Program	389,897
93.307	Minority Health And Health Disparities Research	126,063
93.389	National Center For Research Resources	19,816
93.500	Pregnancy Assistance Fund Program	1,614,598
93.505	Affordable Care Act (ACA) Maternal, Infant, And Early Childhood Home Visiting Program	3,096,474
93.518	ACA-Medicare Improvement For Patients & Provider	32,043
93.520	ACA – Communities Putting Prevention to Work	11,334
93.525	Grants For Affordable Care	27,869
93.536	The Affordable Care Act Medicaid Incentives for Prevention of Chronic Disease Demonstration Project	8,850
93.544	ACA Public Health Fund	39,075
93.556	Promoting Safe and Stable Families	559,863
93.558	Temporary Assistance For Needy Families	2,772,306
93.566	Refugee and Entrant Assistance_State Administered Programs	(5,350)
93.568	LIEAP	901,301
93.575	Discretionary Child Care	5,651,477
93.586	Administration For Children & Families - State Court Improvement Program	50,397
93.590	Child Abuse Challenge Grant	163,552
93.597	Access & Visitation	122,971
93.599	Educational & Training Vouchers	178,439
93.600	Head Start	24,309
93.630	Health & Human Services	404,382
93.652	Adoption Opportunities	46,062
93.658	Iv-E Foster Care	2,665,039
93.671	Domestic Violence	799,663
93.674	Chafee Foster Care Independence Program	551,235
93.701	Trans-NIH Recovery Act Research Support	279,470
93.708	ARRA Head Start	226,015
93.767	CHIPRA Bonus	434,046
93.778	Medicaid Administration	12,716,992
93.779	Centers For Medicare And Medicaid Services (CMS) Research, Demonstrations And Evaluations	198,628
93.824	Area Health Education Centers	690,576
93.853	Extramural Research Programs	104,685
93.855	Allergy Immunology And Transplantation Research	334,633
93.859	Biomedical Research And Research Training	949,597
93.917	HIV Care Formula Grants	1,086,094
93.940	Aids Grant	661,009
93.959	Substance Abuse Block Grant	877,409
93.969	Geriatric Education Centers	22,940
93.991	Preventive Health and Health Services Block Grant	142,057
93.994	Maternal & Child Service Block Grant	1,181,698
94.006	Americorps	2,652,749
94.007	Prog Develop Innovation Grant	23,290
97.017	Pre-Disaster Mitigation (Pdm) Institute Training Assistance	376,970
97.036	Disaster Grant - Public Assistance (Presidentially Declared Disasters)	6,680,403
97.039	Hazard Mitigation Grant	94,963
97.042	Emergency Management Performance Grant	1,212,216
97.047	Pre-Disaster Mitigation (Pdm)	74,005
97.052	Emergency Operations Center	93,620
97.055	Interop Emergency Communications Grant	100,590
97.067	Homeland Security Grant Program	6,822,264
97.078	Buffer Zone Protection Program (Bzpp)	9,614
97.120	Border Interoperability Demonstration Project	$429,519
	Total	**$ 295,728,741**

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)			
	Department of Labor and Industry	12-25-A-5094	$ 4,252
	University of Montana - MT Tech	65-0325-09-034	$ 13,788
	University of Montana - MT Tech	12-CS-11015600-054	$ 1,930
	University of Montana - MT Tech	11-JV-11111136-093	$ 33,478
	University of Montana - MT Tech	10-CS-11015600-060	$ 518
	University of Montana - MT Tech	05-CS-11010800-010	$ 2,703
	University of Montana - Western	09-CS-11011100-035	$ 4,564
Peace Corps (08)			
	University of Montana - Missoula	PC-11-8-082	$ (365)
	University of Montana - Missoula	PC-12-8-052	$ 9,563
Department of Defense (12)			
	University of Montana - Missoula	HQ0034-10-1-0012	$ 156,649
	University of Montana - Missoula	40856	$ 144
	University of Montana - Missoula	118347-G003015	$ 2,400
	University of Montana - Missoula	W912HZ-08-2-0006	$ 15
	University of Montana - Missoula	W912DY-09-2-0001	$ 6
	University of Montana - Missoula	118347-G003168	$ 48,888
	University of Montana - Missoula	N00014-08D-0758	$ 3,271
	University of Montana - MT Tech	N00014-08-D-0758	$ 329,594
Department of Housing and Urban Renewal (14)			
	Department of Fish, Wildlife and Parks	B-10-SP-MT-0261	$ 6,519
Department of the Interior (15)			
	University of Montana - Missoula	121G6000008	$ 10,111
	University of Montana - Missoula	G12PX01922	$ 13,490
	University of Montana - Missoula	PERSONNEL ASSIGNMENT AGREE	$ 38,723
	University of Montana - Missoula	G12PX01007	$ 43,000
	University of Montana - Missoula	ES09CO0032	$ 2,916
	University of Montana - Missoula	L08AC14467	$ 40,648
	University of Montana - Missoula	R13PX17245	$ 1,060
	University of Montana - Missoula	F-0156	$ 5,245
	University of Montana - MT Tech	H1580070001	$ 105,635
	University of Montana - MT Tech	H1200090004	$ 8,599
	University of Montana - MT Tech	P132006A183	$ 296
	Department of Environmental Quality	H1580060002	$ 11,959
	Department of Natural Resources and Conservation	H1580070001	$ 20,967
Department of Justice (16)			
	Department of Justice	12-DEN-052-AFF	$ 14,694
	Department of Justice	14 DCI 001	$ 1,596
Department of State (19)			

	University of Montana - Missoula	USIEF/OSI/2012/04	$	61,627
Department of Transportation (20)				
	University of Montana - MT Tech	2012-29	$	14,000
	Department of Transportation	SSS STWD (146)	$	20,000
		MT PFH67(2), A/R 21376, 1517300000001	$	116,553
Department of Treasury (21)				
	Department of Administration	(blank)	$	932
	Department of Commerce	PL110-161:95X1350	$	145,435
The Library of Congress (42)				
	Montana Historical Society	FED11-041	$	475
	Montana Historical Society	FED12-043	$	4,135
National Aeronautics and Space Administration (	University of Montana - Missoula	NNX10AH57G	$	51,108
	University of Montana - Missoula	NNX09AP52G	$	102,896
	University of Montana - Missoula	NNX10AN58H	$	28,498
	University of Montana - Missoula	NNX11AF18G	$	86,788
	University of Montana - Missoula	NNX08AP59G	$	27,939
	University of Montana - Missoula	NNX08AQ63A	$	279,358
	University of Montana - Missoula	1350935	$	18,779
	University of Montana - Missoula	1364345	$	98,672
	University of Montana - Missoula	1368208	$	71,544
	University of Montana - Missoula	1422120	$	52,980
	University of Montana - Missoula	1405851	$	7,351
	University of Montana - Missoula	E99044MO	$	42,045
	University of Montana - Missoula	2010-2386	$	35,077
	University of Montana - Missoula	G149-13-4R1063	$	8,579
	University of Montana - MT Tech	G150-13-4R1063	$	2,626
Department of Veterans Affairs (64)				
	Department of Public Health and Human Services	(blank)	$	195,843
Environmental Protection Agency (66)				
	University of Montana - Missoula	EP-R8-12-10	$	29,828
	University of Montana - Missoula	002-MNHP-1	$	22,715
Department of Energy (81)				
	University of Montana - Missoula	No contract number	$	4,698
	University of Montana - Missoula	DE-AC52-06NA25396	$	139,947
	University of Montana - Missoula	FWP #120047	$	390
	University of Montana - Missoula	FWP #120046	$	297
	University of Montana - MT Tech	DE-AC07-05ID14517	$	229,839
	University of Montana - MT Tech	193698	$	2,239
	University of Montana - MT Tech	60312	$	66,614
	University of Montana - MT Tech	S111034	$	11,572
	University of Montana - MT Tech	1340328	$	36,050
Department of Education (84)				
	Office of Public Instruction	ED-08-CO-0076	$	153,807
Department of Health and Human Services (93)				

	Department of Public Health and Human Services	HHSF223201210163C	$ 102,400
Grand Total			$ 3,210,492

State Responses

State of Montana

MONTANA DEPARTMENT OF ADMINISTRATION
"the backbone of state government"

Director's Office
Steve Bullock, Governor • Sheila Hogan, Director

March 7, 2014

Tori Hunthausen, Legislative Auditor
State Capitol Building, Room 160
PO Box 201075
Helena MT 59620-1705

RECEIVED
MAR 0 8 2014
LEGISLATIVE AUDIT DIV.

RE: Financial Audit: 13-01A State of Montana
For the fiscal year ended June 30, 2013

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 governmental activities, aggregate discretely presented component units and general fund opinion units.

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

Ms. Hunthausen
Page 2
March 5, 2014

> 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.

<u>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:</u>

The State of Montana's response to the material weakness associated with the Schedule of Expenditures of Federal Awards identified in this audit is described in the response issued by the Governor's Office of Budget and Program Planning contained in this report. The State of Montana's response to the significant deficiency identified in this audit associated with the calculation of infrastructure is described in the separately issued Montana Department of Transportation audit report (13-17). The State of Montana's response to the noncompliance identified in this audit associated with the actuarially soundness of the Sheriffs', Highway Patrol Officers', and Game Wardens' and Peace Officers' Retirement Systems is described in the separately issued Public Employee's Retirement audit report (12-08B).

Ms. Hunthausen
Page 3
March 5, 2014

The Department's State Financial Services Division staff and I appreciate the audit team's work on the State's financial statements for the year ended June 30, 2013.

Sincerely,

Sheila Hogan, Director

Enclosures: 2

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.

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

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 liability 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.

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

STEVE BULLOCK
GOVERNOR

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HELENA, MONTANA 59620-0802

March 13, 2014

Ms. Tori Hunthausen, CPA
Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
Helena, MT 59620-1705

RE: State of Montana Financial Audit (13-01A)

Dear Ms. Hunthausen:

The Office of Budget and Program Planning has reviewed the State of Montana Financial Audit for the fiscal year ended June 30, 2013. Our response to your recommendation is as follows:

Recommendation #1

We recommend the Office of Budget and Program Planning strengthen internal control procedures over the preparation of the Schedule of Expenditures of Federal Awards to ensure accurate reporting.

Response

The Office of Budget and Program Planning partially concurs with this recommendation. The office acknowledges, and has remedied, the internal control issues identified in your audit. However, the office does not believe the nature and frequency of the identified errors constitute a material weakness.

I am confident that our updated internal control procedures will ensure accurate reporting for the state's federal expenditures.

Sincerely,

Dan Villa
Budget Director

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LEGISLATIVE AUDIT DIV.