



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Natural Resources and Conservation

*For the Two Fiscal Years Ended
June 30, 2014*

OCTOBER 2014

LEGISLATIVE AUDIT
DIVISION

14-17

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. 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-compliance 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 reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2013, was issued March 28, 2014. The Single Audit Report for the two fiscal years ended June 30, 2015, will be issued by March 31, 2016. Copies of the Single Audit Report can be obtained by contacting:

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

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

October 2014

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Natural Resources and Conservation (department) for the two fiscal years ended June 30, 2014. The report contains a recommendation related to proper use of expenditure abatements.

This report includes the department's financial schedules. The financial schedule presentation is intended to provide the legislative body with information necessary for decision-making purposes; it is not intended to conform to the financial reporting requirements established in generally accepted accounting principles (GAAP). The financial schedule presentation has not changed, but audit reporting standards have changed. Auditing standards require us to clearly communicate that the financial schedule presentation is not intended to, and does not, conform to GAAP reporting requirements. The Independent Auditor's Report on page A-1 contains language to this effect in the section titled "Adverse Opinions on U.S. Generally Accepted Accounting Principles." This section does not imply the amounts presented on the department's financial schedules are not fairly stated. Page A-1 also communicates the extent to which the user can rely on the information contained in the financial schedules in the section titled "Unmodified Opinions on Regulatory Basis of Accounting."

The department's written responses to the audit recommendations are included in the audit report beginning at page B-1. We thank the Director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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Department of Natural Resources and Conservation	B-1

ELECTED, APPOINTED AND ADMINISTRATIVE OFFICIALS

Administrative Officials

John E. Tubbs, Director

Ray Beck, Deputy Director

Kerry Davant, Chief of Staff

Anne Yates, Chief Legal Counsel

Ray Beck, Administrator, Conservation and Resource Development Division

Bob Harrington, Administrator, Forestry Division

Jim Halvorson, Administrator, Oil and Gas Conservation Division

Arne Wick, Administrator, Reserved Water Rights Compact Commission

Tim Davis, Administrator, Water Resources Division

Shawn Thomas, Administrator, Trust Land Management Division

Tricia Schiltz, Chief Financial Officer

State Board of Land Commissioners

Steve Bullock, Governor

Monica Lindeen, State Auditor

Linda McCulloch, Secretary of State

Denise Juneau, Superintendent of Public Instruction

Tim Fox, Attorney General

Boards, Commissions & Committees

Board of Water Well Contractors

Board of Oil and Gas Conservation Commission

Reserved Water Rights Compact Commission

Rangeland Resources Executive Committee

Drought and Water Supply Committee

Resource Conservation Advisory Council

Montana Grass Conservation Commission

Flathead Basin Commission



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Department of Natural Resources and Conservation
For the Two Fiscal Years Ended June 30, 2014

OCTOBER 2014

14-17

REPORT SUMMARY

Our audit identified areas where the Department of Natural Resources and Conservation can improve compliance with state accounting policy for expenditure abatements.

Context

For fiscal years 2013-14 and 2012-13, the Department of Natural Resources and Conservation (department) generated distributable revenues of \$130,088,600 through its management of state lands for 12 separate land trusts, of which \$117,452,368 benefited the Common Schools Trust.

We tested 75 laws related to department operations, statutes authorizing the issuance of renewable resource bonds, and selected laws governing the State Revolving Fund programs.

We focused audit effort on personal services; other expenses; transfers-out; transfers-in; investment earnings; rentals; leases and royalties; timber sales; and federal revenue to support our opinion on the financial schedules.

The department has \$20,437,142 in accounts receivable from federal agencies at June 30, 2014, for fire-fighting costs incurred in previous years. In the Fire Suppression account in the state special revenue fund, the department had a fund equity balance of \$42,502,103 at June 30, 2014.

Results

The current report contains a recommendation concerning improper reductions in expenditures when receipts occur rather than recording revenue as required by state policy.

The readers can rely on the financial schedules presented for fiscal years 2013-14 and 2012-13.

The prior audit report for the two fiscal years ended June 30, 2012, contained six recommendations to the department. The department implemented all six of the prior recommendations.

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

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Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Department of Natural Resources and Conservation (department) for the two fiscal years ended June 30, 2014.

The objectives of this audit were to:

1. Determine whether the department complied with selected state and federal laws and regulations.
2. Obtain an understanding of the department's internal controls to the extent necessary to support our audit of the department's financial schedules, and if appropriate, make recommendations for improvement in management and internal controls of the department.
3. Determine whether the department's financial schedules present fairly the results of operations and changes in fund equity and property held in trust for each of the two fiscal years ended June 30, 2014.
4. Determine the implementation status of prior audit recommendations.

To meet objective #1, we tested 75 state laws governing department operations. We also tested statutes authorizing the issuance of coal severance tax supported renewable resource general obligation bonds and certain laws related to the State Revolving Fund program.

Our work to achieve objective #2 and #3 involved assessing risk and gaining an understanding of controls over revenue from rentals, leases, and royalties from state lands; sale of timber; investment earnings; federal grants; and expenditures for personal services and operating expenses. In addition, we also tested transfers activity as necessary to support our opinion on the financial schedules.

We evaluated fees and charges for services in the Internal Service Fund as required by §17-8-101(6), MCA. We found the fees and charges were commensurate with costs and fund equity was reasonable for the Air Operations Program in fiscal years 2013-14 and 2012-13.

Background Information

The department promotes the stewardship of Montana's water, soil, forest, and rangeland resources; manages state-owned land; facilitates funding for certain infrastructure improvement projects; and regulates forest practices and oil and gas exploration and production.

Department Organization

The State Board of Land Commissioners, comprised of the Governor, State Auditor, Attorney General, Superintendent of Public Instruction, and Secretary of State exercises the general authority, direction, and control over the care, management, and disposition of state lands under its administration. The Department of Natural Resources and Conservation director is the chief administrative officer of the board.

Descriptions of the department's six divisions include the number of budgeted full-time equivalent (FTE) positions in fiscal year 2013-14:

Centralized Services Division (56.5 FTE) consists of the director's office, legal services office, financial services office, office of information technology, and human resources office. The director's office includes the director, deputy director, and public information officer. The financial services office provides budgeting, accounting, payroll, procurement, and contracting management support to other divisions. The office of information technology provides information technology support services to other divisions.

Oil and Gas Conservation Division (24.5 FTE) administers the Montana oil and gas conservation laws. It promotes conservation and prevents waste in the recovery of oil and gas resources through regulation of exploration and production. The division issues drilling permits; classifies wells; establishes well spacing units and pooling orders; inspects drilling, production, and seismic operations; investigates complaints; and does engineering studies. The division also determines incremental production for enhanced recovery and horizontal wells in order to implement the tax incentive program for those projects, operates the underground injection control program, plugs orphan wells, and collects and maintains complete well data and production information. The division provides administrative support to the Board of Oil and Gas Conservation.

Conservation and Resource Development Division (25.65 FTE) assists local entities in managing the state's natural resources and provides financing for conservation resource management and reclamation activities. The division provides technical, administrative, financial, and legal assistance to Montana's 58 conservation districts. The division also manages several loan and grant programs for local communities, local governments, state agencies, and private citizens. The programs include State Revolving Fund loans to communities for drinking water and waste water systems, Coal Severance Tax loans to governmental entities, and loans to private entities for water development projects. Loans outstanding exceed \$342 million at June 30, 2014. Grant programs administered by the division include the Reclamation Development, Renewable Resource, and Conservation District grant programs.

Water Resources Division (142.05 FTE) is responsible for programs associated with the use, development, and protection of Montana's water. It manages and maintains state-owned dams, reservoirs, and canals. The division develops and recommends intrastate, interstate, and international water policy to the director, governor, and legislature. The division also resolves water resource use conflicts, investigates water use violations, ensures dam safety compliance, and provides water adjudication support to the Water Court. The division consists of an administration unit and five bureaus: Water Adjudication Bureau, Water Management Bureau, Water Rights Bureau, Water Projects Bureau, and Water Operations Bureau. The 2003 Legislature attached the Flathead Basin Commission to the department for administrative purposes. The commission is charged with protecting the natural resources and environment of the Flathead Basin.

The Reserved Water Rights Compact Commission is attached to the department for administrative purposes. The commission, budgeted for 4.75 FTE positions, negotiates water rights with Indian tribal nations and federal agencies claiming federal reserved water rights within the state in order to establish a formal agreement or compact on the amount of water to be allocated to each interest.

Forestry and Trust Lands Division (321.73 FTE) manages the forest resources of the state and state lands held in trust to provide income for various state educational facilities and institutions. The department fulfills these responsibilities in two administrative units.

- ♦ **Forestry** is responsible for planning and implementing forestry programs statewide. The division protects Montana's natural resources from wildfire, regulates forest practices, and provides a variety of services to private forest landowners. The Fire and Aviation Management Program protects 50 million acres of state and private forest and watershed lands from wildfire through a combination of direct protection and county support. Annual fire suppression costs have ranged from \$2.4 million to \$51.3 million over the past five years. The Forest Practice Regulation Program enforces Montana's streamside management zone regulations and monitors the voluntary best management practices program on all forests in Montana. In administering Montana's Fire Hazard Reduction Law, the division helps ensure fire hazards created by logging and other forest management operations on private forestlands are adequately reduced, or that additional fire protection is provided until the hazard is reduced. The division provides technical forestry assistance to private landowners, businesses, and communities.
- ♦ **Trust Land Management** provides for the administration and management of trust lands granted to the state of Montana by the Enabling Act of 1889. In the process of producing revenue for trust beneficiaries, the division considers environmental factors and the future income-generating capacity of the trust lands. These lands currently total over 5.1 million surface acres and 6.2 million mineral acres. Additionally, the division is responsible for

the administration of approximately 6,000 miles of the beds of navigable waterways. The Trust Land Management Division is divided into four primary programs: forest management, agriculture and grazing management, real estate management, and minerals management.

Prior Audit Recommendations

We performed the prior audit of the department for the two fiscal years ended June 30, 2012. The department implemented all six recommendations included in the prior audit report.

Chapter II - Findings and Recommendations

Improper Expenditure Abatements

The department reduced expenditures for receipts rather than recording revenue as required by state accounting policy.

State accounting policy states expenditure abatements should not be recorded for expected reimbursements. For these situations, both the expenditure and the reimbursement, as revenue, should be included in the budget and recorded on the state's accounting records. The following three situations describe instances where the Department of Natural Resources and Conservation (department) recorded abatements of expenditures in violation of state accounting policy, thereby increasing available appropriation authority.

- ♦ The department paid \$18,025 for access rights to a parcel of land. The access agreement also stipulated the department would receive a \$2,000 credit for preparing the agreement package. When the department paid for the access, it reduced previously recorded personal services and operating costs of \$2,000. Since the \$2,000 credit was included in the agreement, the department had an expectation of being reimbursed for the costs incurred, so should have recorded revenue. A department manager said the expenditure was infrequent and unusual, so the department reduced expenditures for the amount of the reimbursement rather than recording revenue.
- ♦ In two cases, the department incurred employee travel costs, then abated the original expenditure when reimbursed by the outside party. Documentation at the time the travel occurred indicated the outside party in each case would pay the travel costs. Department management classified these cases as infrequent. However, since the department had an expectation of being reimbursed, department accountants should have recorded revenue.
- ♦ The department purchased used vehicles from a vendor. Subsequently, department personnel decided the vehicles were not needed, and re-sold them through the same vendor. Since the vehicles had not been used by the department, accounting staff recorded the sales proceeds remitted by the vendor as expenditure abatements rather than revenue. According to state policy, proceeds of an asset sale should be recorded as revenue.

RECOMMENDATION #1

We recommend the department recognize revenue for expected reimbursements in accordance with state accounting policy.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Natural Resources and Conservation for each of the fiscal years ended June 30, 2014, and 2013, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, liabilities, and cash flows. The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the department as of June 30, 2014, and June 30, 2013, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Department of Natural Resources and Conservation for the fiscal years ended June 30, 2014, and 2013, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

August 15, 2014

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2013	\$ (41,689,126)	\$ 419,928,996	\$ (16,972,782)	\$ 31,231,022	\$ (220,198)	\$ 5,507	\$ 858,201	\$ 758,064	\$ 589,014,517
PROPERTY HELD IN TRUST: July 1, 2013									
ADDITIONS									
Budgeted Revenues & Transfers-In	110,925	205,301,243	13,587,319		769,687	1,944,828			
Nonbudgeted Revenues & Transfers-In	1,479,332	78,671,031	1,428	24,880,561				616,653	160,375,031
Prior Year Revenues & Transfers-In Adjustments	(20)	(18,948)	45,739	(21,151)	2	1,017		19,996	
Direct Entries to Fund Equity	50,431,694	(39,732,737)	306,559	539,520		13		44,135	
Additions to Property Held in Trust							2,704,755		
Total Additions	<u>52,021,931</u>	<u>244,220,589</u>	<u>13,941,045</u>	<u>25,398,930</u>	<u>769,689</u>	<u>1,945,858</u>	<u>2,704,755</u>	<u>680,785</u>	<u>160,375,031</u>
REDUCTIONS									
Budgeted Expenditures & Transfers-Out	24,164,966	77,513,635	18,277,508		482,384	2,000,987			
Nonbudgeted Expenditures & Transfers-Out	11,887,425	93,467,533	(2,733,547)	18,463,319	28,639	65,227		401,171	111,321,832
Prior Year Expenditures & Transfers-Out Adjustments	(21,908)	(3,445,222)	93,255		11	25,933		31,110	
Reductions in Property Held in Trust							1,686,677		
Total Reductions	<u>36,030,483</u>	<u>167,535,945</u>	<u>15,637,216</u>	<u>18,463,319</u>	<u>511,034</u>	<u>2,092,146</u>	<u>1,686,677</u>	<u>432,281</u>	<u>111,321,832</u>
FUND EQUITY: June 30, 2014	\$ (25,697,678)	\$ 496,613,640	\$ (18,668,953)	\$ 38,166,633	\$ 38,457	\$ (140,781)	\$ 0	\$ 1,006,567	\$ 638,067,715
PROPERTY HELD IN TRUST: June 30, 2014							\$ 1,876,279		

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2012	\$ (2,231,317)	\$ 413,820,845	\$ (3,691,841)	\$ 33,582,505	\$ (167,937)	\$ 182,131	\$ 0	\$ 0	\$ 567,021,403
PROPERTY HELD IN TRUST: July 1, 2012									
ADDITIONS									
Budgeted Revenues & Transfers-In	1,124,934	169,256,906	7,108,826		464,491	2,520,347			
Nonbudgeted Revenues & Transfers-In	27,381	1,026,718	1,212	16,023,880				446,855	115,804,258
Prior Year Revenues & Transfers-In Adjustments	188	424,768	37,861	137,697	39	40		490,021	1,400
Direct Entries to Fund Equity	34,561,197	(42,932,579)	294,456	518,180		104		980,713	9,123
Additions to Property Held in Trust							1,957,957		
Total Additions	35,713,700	127,775,812	7,442,354	16,679,757	464,530	2,520,491	1,957,957	1,917,589	115,814,781
REDUCTIONS									
Budgeted Expenditures & Transfers-Out	75,199,768	48,095,047	24,354,043		473,870	2,602,063			
Nonbudgeted Expenditures & Transfers-Out	(15,225)	73,576,993	(3,630,747)	18,585,047	42,971	66,365		414,202	93,821,647
Prior Year Expenditures & Transfers-Out Adjustments	(13,034)	(4,380)		446,194	(50)	28,687		745,323	21
Reductions in Property Held in Trust							2,145,616		
Total Reductions	75,171,509	121,667,660	20,723,296	19,031,241	516,791	2,697,115	2,145,616	1,159,525	93,821,668
FUND EQUITY: June 30, 2013	\$ (41,689,126)	\$ 419,928,996	\$ (16,972,782)	\$ 31,231,022	\$ (220,198)	\$ 5,507	\$ 0	\$ 758,064	\$ 589,014,517
PROPERTY HELD IN TRUST: June 30, 2013							\$ 858,201		

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
 Additional information is provided in the notes to the financial schedules beginning on page A-9.

**DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

TOTAL REVENUES & TRANSFERS-IN BY CLASS

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund	Total
Licenses and Permits									
Taxes		\$ 287,186						\$ 1,632,763	\$ 1,919,949
Charges for Services	\$ 99,153	3,609,570	\$ 1,428						3,610,997
Investment Earnings		2,920,851		\$ 1,041		\$ 622,048			3,643,093
Fines and Forfeits	8,749	2,708,960		7,565,067				34,830,344	45,104,371
Sale of Documents, Merchandise and Property	4,965	58,141							66,890
Rentals, Leases and Royalties	9,952	596,545		3,670,329	\$ 769,689			12,125,480	17,167,008
Grants, Contracts, and Donations		82,270						75,586,569	75,678,791
Transfers-in		192,632						340	829,622
Bond Proceeds		261,660,070	103,446	13,622,972		1,323,797	636,649		312,727,768
Capital Asset Sale Proceeds		11,830,058							11,830,058
Federal Indirect Cost Recoveries	17,000	3,975						1,626,602	1,647,577
Miscellaneous	5,868	3,069	208,942						208,942
Federal									8,937
Total Revenues & Transfers-In	1,590,237	283,953,327	13,320,670	24,859,410	769,689	1,945,845	636,649	160,375,031	13,320,670
Less: Nonbudgeted Revenues & Transfers-In	1,479,332	78,671,031	1,428	24,880,561			616,653	160,375,031	487,764,673
Prior Year Revenues & Transfers-In Adjustments	(20)	(18,948)	45,739	(21,151)	2	1,017	19,996		266,024,035
Actual Budgeted Revenues & Transfers-In	110,925	205,307,243	13,587,319	0	769,687	1,944,828	0	0	221,714,002
Estimated Revenues & Transfers-In	110,936	205,309,374	13,595,840	0	769,888	1,945,797	0	0	221,731,834
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (10)	\$ (8,131)	\$ (8,520)	\$ 0	\$ (201)	\$ (969)	\$ 0	\$ 0	\$ (17,832)

BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS

Licenses and Permits									
Taxes		\$ (800)						\$	(800)
Charges for Services	\$ (467)	664							664
Investment Earnings		(1,952)							(3,388)
Fines and Forfeits	(580)	(5,433)	(40)						(5,473)
Sale of Documents, Merchandise and Property	530	(859)							(1,439)
Rentals, Leases and Royalties	727	464							793
Grants, Contracts, and Donations		344			\$ (201)				1,071
Transfers-in		358							358
Bond Proceeds		(829)	651						(177)
Federal Indirect Cost Recoveries	(220)	(0)	971						(0)
Miscellaneous		(89)							971
Federal									(309)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (10)	\$ (8,131)	\$ (10,102)	\$ 0	\$ (201)	\$ (969)	\$ 0	\$ 0	\$ (10,102)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund	Total
Licenses and Permits									
Taxes		\$ 300,740						\$ 1,485,527	\$ 1,786,268
Charges for Services	\$ 112,844	3,622,558	1,212						3,623,770
Investment Earnings		2,342,582	(3)	\$ 8,864,946		\$ 1,188,722		300	5,018,115
Fines and Forfeits	22,728	107,916						9,493,445	20,700,970
Sale of Documents, Merchandise and Property		1,638,192		3,340,310	\$ 464,530			14,165,277	19,608,310
Rentals, Leases and Royalties	12,042	103,824						74,361,979	74,477,844
Grants, Contracts, and Donations		322,151					936,876		1,259,027
Transfers-In		158,527,247	88,325	3,956,321		1,331,665		9,826,329	174,729,888
Capital Asset Sale Proceeds	1,000,000	23,000						6,472,800	6,495,800
Federal Indirect Cost Recoveries			251,745						251,745
Miscellaneous	4,890	3,931							8,821
Federal			6,806,619						6,806,619
Total Revenues & Transfers-In	1,152,503	170,708,392	7,147,898	16,161,577	464,530	2,520,387	936,876	115,805,658	314,897,821
Less: Nonbudgeted Revenues & Transfers-In	27,381	1,026,718	1,212	16,023,880			446,855	115,804,258	133,330,303
Prior Year Revenues & Transfers-In Adjustments	188	424,768	37,861	137,697	39	40	490,021	1,400	1,092,015
Actual Budgeted Revenues & Transfers-In	1,124,934	169,256,906	7,108,826	0	464,491	2,520,347	0	0	180,475,503
Estimated Revenues & Transfers-In	1,168,725	169,428,153	7,695,771		465,491	2,458,021			181,216,161
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (43,791)	\$ (171,247)	\$ (586,946)	\$ 0	\$ (1,000)	\$ 62,326	\$ 0	\$ 0	\$ (740,658)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS									
Licenses and Permits									
Taxes		\$ 28,600						\$ 28,600	
Charges for Services		92,816						92,816	
Investment Earnings	\$ (30,430)	2,621						(27,809)	
Fines and Forfeits	(500)	(209,680)	(4)					(210,184)	
Sale of Documents, Merchandise and Property	3,208	49,934						53,142	
Rentals, Leases and Royalties	(1,000)	24,005						23,005	
Grants, Contracts, and Donations	(11,908)	(2,640)						(14,548)	
Transfers-In		(131,904)	(24,662)					(24,662)	
Capital Asset Sale Proceeds	(2,500)	(25,000)	8,663			\$ 62,326		(60,915)	
Federal Indirect Cost Recoveries			(4,837)					(27,500)	
Miscellaneous	(660)							(4,837)	
Federal			(586,106)		\$ (1,000)			(1,660)	
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (43,791)	\$ (171,247)	\$ (586,946)	\$ 0	\$ (1,000)	\$ 62,326	\$ 0	\$ 0	\$ (740,658)

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DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Centralized Services Division	Conservation/Resource Development Division	Forestry/Trust Lands Division	Oil & Gas Conservation Division	Trust Funds	Water Resources Division	Total
Personal Services							
Salaries	\$ 2,741,934	\$ 1,486,584	\$ 13,757,069	\$ 963,834		\$ 7,258,359	\$ 26,207,779
Hourly Wages			4,149,663			128	4,149,791
Other Compensation		329		7,650		4,549	12,528
Employee Benefits	906,444	501,393	5,828,246	318,217		2,532,320	10,086,619
Personal Services-Other			28,622				28,622
Total	<u>3,648,378</u>	<u>1,988,306</u>	<u>23,763,600</u>	<u>1,289,701</u>		<u>9,795,355</u>	<u>40,485,340</u>
Operating Expenses							
Other Services	553,095	5,976,361	13,335,337	575,935		1,621,700	22,062,428
Supplies & Materials	353,261	85,641	2,719,054	151,885		273,878	3,583,719
Communications	233,423	54,206	597,261	70,257		241,218	1,196,365
Travel	49,896	74,000	787,639	46,914		191,892	1,150,341
Rent	182,197	137,685	2,933,950	34,285		626,356	3,914,472
Utilities	17,519	11,337	269,048	22,562		16,139	336,605
Repair & Maintenance	7,498	7,173	916,130	27,689		60,488	1,018,977
Other Expenses	89,563	64,775	549,977	32,546		326,216	1,063,078
Total	<u>1,486,452</u>	<u>6,411,177</u>	<u>22,108,395</u>	<u>962,073</u>		<u>3,357,887</u>	<u>34,325,984</u>
Equipment & Intangible Assets							
Equipment	62,554	46,020	1,452,151	81,240		1,215,405	2,857,370
Total	<u>62,554</u>	<u>46,020</u>	<u>1,452,151</u>	<u>81,240</u>		<u>1,215,405</u>	<u>2,857,370</u>
Capital Outlay							
Land & Interest In Land						9,547,231	9,547,231
Total						<u>9,547,231</u>	<u>9,547,231</u>
Local Assistance							
Total							
Grants							
From State Sources		4,420,723	89,974				4,510,697
From Federal Sources			2,896,461				2,896,461
Total		<u>4,420,723</u>	<u>2,986,435</u>				<u>7,407,157</u>
Benefits & Claims							
From Other Sources			432,281				432,281
Other Financing Uses/Deduction		2,739,198					2,739,198
Total		<u>2,739,198</u>	<u>432,281</u>				<u>3,171,479</u>
Transfers-out							
Fund transfers		117,598,501	13,273,950		\$ 106,029,986	5,027,921	241,930,359
Intra-Entity Expense			41,795		5,308,332		5,350,127
Total		<u>117,598,501</u>	<u>13,315,745</u>		<u>111,338,318</u>	<u>5,027,921</u>	<u>247,280,486</u>
Debt Service							
Bonds		5,841,319					5,841,319
Loans		463,546	24,937			550,732	1,039,214
Total		<u>6,304,864</u>	<u>24,937</u>			<u>550,732</u>	<u>6,880,533</u>
Other Post Employment Benefits							
Other Post Employment Benefits			68,677				68,677
Total			<u>68,677</u>				<u>68,677</u>
Total Expenditures & Transfers-Out	\$ <u>5,197,384</u>	\$ <u>139,508,789</u>	\$ <u>64,152,221</u>	\$ <u>2,333,014</u>	\$ <u>111,338,318</u>	\$ <u>29,494,530</u>	\$ <u>352,024,257</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 3,228,943	\$ 1,045,382	\$ 22,984,465			\$ 8,771,693	\$ 36,030,483
State Special Revenue Fund	1,690,551	119,694,404	24,852,527	\$ 2,225,931	\$ 16,486	19,056,048	167,535,945
Federal Special Revenue Fund	277,891	308,600	13,279,767	107,083		1,663,875	15,637,216
Debt Service Fund		18,460,404				2,915	18,463,319
Enterprise Fund			511,034				511,034
Internal Service Fund			2,092,146				2,092,146
Private Purpose Trust Fund			432,281				432,281
Permanent Fund					111,321,832		111,321,832
Total Expenditures & Transfers-Out	<u>5,197,384</u>	<u>139,508,789</u>	<u>64,152,221</u>	<u>2,333,014</u>	<u>111,338,318</u>	<u>29,494,530</u>	<u>352,024,257</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(3,023)	103,895,937	12,467,003	(1,309)	111,338,318	5,204,672	232,901,598
Prior Year Expenditures & Transfers-Out Adjustments	(2,056)	(425,069)	(2,857,079)	(32,288)		(329)	(3,316,821)
Actual Budgeted Expenditures & Transfers-Out	<u>5,202,463</u>	<u>36,037,922</u>	<u>54,542,297</u>	<u>2,366,611</u>	<u>0</u>	<u>24,290,188</u>	<u>122,439,480</u>
Budget Authority	5,554,235	66,185,418	65,798,832	4,627,576		42,994,850	185,160,910
Unspent Budget Authority	\$ <u>351,772</u>	\$ <u>30,147,495</u>	\$ <u>11,256,535</u>	\$ <u>2,260,966</u>	\$ <u>0</u>	\$ <u>18,704,663</u>	\$ <u>62,721,431</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 325,594	\$ 111,345	\$ 199,341			\$ 43,460	\$ 679,739
State Special Revenue Fund	9,959	26,063,488	1,945,339	\$ 2,260,966		17,961,112	48,240,864
Federal Special Revenue Fund	16,219	3,972,663	8,478,864			700,091	13,167,837
Enterprise Fund			183,462				183,462
Internal Service Fund			449,529				449,529
Unspent Budget Authority	\$ <u>351,772</u>	\$ <u>30,147,495</u>	\$ <u>11,256,535</u>	\$ <u>2,260,966</u>	\$ <u>0</u>	\$ <u>18,704,663</u>	\$ <u>62,721,431</u>

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Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Centralized Services Division	Conservation and Resource Development Division	Forestry and Trust Lands Division	Oil & Gas Conservation Division	Trust Funds	Water Resources Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT							
Personal Services							
Salaries	\$ 2,747,593	\$ 1,358,767	\$ 13,841,136	\$ 821,646		\$ 7,076,324	\$ 25,845,465
Hourly Wages			6,245,593				6,245,593
Other Compensation		480		5,797		12,931	19,209
Employee Benefits	884,390	451,591	5,753,084	269,641		2,378,100	9,736,807
Personal Services-Other			34,379				34,379
Total	3,631,983	1,810,838	25,874,192	1,097,085		9,467,355	41,881,453
Operating Expenses							
Other Services	493,436	3,729,707	54,647,665	1,680,930		2,540,078	63,091,815
Supplies & Materials	235,812	75,740	4,575,544	87,384		328,606	5,303,086
Communications	459,877	40,892	482,411	61,033		206,386	1,250,599
Travel	29,196	64,605	7,093,577	39,188		158,705	7,385,271
Rent	181,547	70,065	4,122,195	20,333		698,180	5,092,321
Utilities	19,319	5,157	263,290	21,689		21,874	331,328
Repair & Maintenance	1,805	10,363	1,491,917	22,939		39,653	1,566,677
Other Expenses	60,120	69,662	565,675	39,803		292,030	1,027,290
Total	1,481,112	4,066,190	73,242,275	1,973,299		4,285,511	85,048,387
Equipment & Intangible Assets							
Equipment	32,806		1,212,076	5,393		16,919	1,267,194
Total	32,806		1,212,076	5,393		16,919	1,267,194
Capital Outlay							
Land & Interest In Land			5,211		\$ 7,354,326		7,359,537
Total			5,211		7,354,326		7,359,537
Grants							
From State Sources		10,262,837	240,000				10,502,837
From Federal Sources			2,852,289				2,852,289
Total		10,262,837	3,092,289				13,355,125
Benefits & Claims							
From Other Sources			1,159,525				1,159,525
Other Financing Uses/Deduction		3,633,988					3,633,988
Total		3,633,988	1,159,525				4,793,513
Transfers-out							
Fund transfers	3,912	86,119,488	1,764,436		82,586,717	(374)	170,474,180
Intra-Entity Expense			38,913		3,896,171		3,935,084
Total	3,912	86,119,488	1,803,349		86,482,889	(374)	174,409,264
Debt Service							
Bonds		5,503,724					5,503,724
Loans		549,403	3,678			548,975	1,102,056
Total		6,053,127	3,678			548,975	6,605,780
Other Post Employment Benefits							
Other Post Employment Benefits			68,552				68,552
Total			68,552				68,552
Total Expenditures & Transfers-Out	\$ 5,149,813	\$ 111,946,468	\$ 106,461,146	\$ 3,075,776	\$ 93,837,215	\$ 14,318,387	\$ 334,788,804
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 3,433,317	\$ 1,465,722	\$ 62,109,354			\$ 8,163,116	\$ 75,171,509
State Special Revenue Fund	1,466,555	91,146,924	21,094,363	\$ 2,992,327	\$ 15,547	4,951,944	121,667,660
Federal Special Revenue Fund	249,941	305,496	18,883,998	83,449		1,200,412	20,723,296
Debt Service Fund		19,028,326				2,915	19,031,241
Enterprise Fund			516,791				516,791
Internal Service Fund			2,697,115				2,697,115
Private Purpose Trust Fund			1,159,525				1,159,525
Permanent Fund					93,821,668		93,821,668
Total Expenditures & Transfers-Out	5,149,813	111,946,468	106,461,146	3,075,776	93,837,215	14,318,387	334,788,804
Less: Nonbudgeted Expenditures & Transfers-Out	(964)	87,911,804	999,481	1,007	93,837,194	112,731	182,861,253
Prior Year Expenditures & Transfers-Out Adjustments	(1,734)	421,342	760,079	220	21	22,833	1,202,761
Actual Budgeted Expenditures & Transfers-Out	5,152,511	23,613,322	104,701,586	3,074,550	0	14,182,822	150,724,791
Budget Authority	5,260,055	32,674,685	190,319,567	7,409,211		35,921,952	271,585,470
Unspent Budget Authority	\$ 107,544	\$ 9,061,363	\$ 85,617,981	\$ 4,334,662	\$ 0	\$ 21,739,130	\$ 120,860,679
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 99,283	\$ 3,098	\$ 12,329,745			\$ 233,711	\$ 12,665,837
State Special Revenue Fund		5,074,469	64,073,222	\$ 4,310,560		19,696,019	93,154,271
Federal Special Revenue Fund	8,261	3,983,795	8,302,986	24,102		1,809,400	14,128,545
Enterprise Fund			315,604				315,604
Internal Service Fund			596,423				596,423
Unspent Budget Authority	\$ 107,544	\$ 9,061,363	\$ 85,617,981	\$ 4,334,662	\$ 0	\$ 21,739,130	\$ 120,860,679

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Department of Natural Resources and Conservation

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2014

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Debt Service, and Permanent). In applying the modified accrual basis, the department records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private-Purpose Trust and Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that

are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include Forestry Operations, Water Pollution Control and Drinking Water State Revolving Fund Programs, Renewable Resource Grant and Loan Program, and Trust Lands Administration.

- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include fire operations and suppression efforts, and Water Pollution Control and Drinking Water State Revolving Fund Programs, both financed in part by federal funds.
- ♦ **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses Debt Services Funds to account for Renewable Resources, Coal Severance Tax and Water Pollution Control and Drinking Water State Revolving Fund Programs bond payments.
- ♦ **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The department uses this fund for the Common School Trust, university and college trusts, School for the Deaf and Blind Trust, Pine Hills School Trust, Veteran's Home Trust, Public Land Trust, Lands Acquired Trust (Potomac Land), and the Trust and Legacy Account.

Proprietary Fund Category

- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The department Internal Service Fund contains the Forestry Division's Air Operations Program. The Air Operations Program maintains and operates aircraft to aid in fire suppression.
- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The department accounts for the State Nursery Program in this fund.

Fiduciary Fund Category

- ♦ **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private

organizations, or other governments. Department private-purpose trust fund is used to account for Fort Belknap Peoples Creek Minimum Flow funds set aside for the Fort Belknap-Montana Water Rights Compact, per §85-20-1007, MCA.

- ♦ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. The department agency funds account for activity such as contractual bonds and hazard reduction.

2. General Fund Equity Balance (negative balances)

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2014 and June 30, 2013.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General, State Special Revenue, Federal Special Revenue Fund, Debt Service and Permanent funds primarily include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

Direct entries to fund equity in the Private Purpose Trust are due to retroactive change mandated by the Governmental Accounting Standards Board (GASB) in conjunction with the requirement to record performance deposits as revenues when received and expenditures when disbursed. The department recorded approximately \$1 million to fund equity in fiscal year 2012-13 to reflect entries from fiscal year 2010-11 and earlier.

4. Long-Term Debt

In fiscal year 2013-14 and in prior fiscal years, the state of Montana issued General Obligation (GO) bonds for the Drinking Water State Revolving Fund and Water Pollution Control State Revolving Fund programs. The bond proceeds were used for Drinking Water and Water Pollution Control project loans. At June 30, 2014, the department had a total of \$16,935,000 in GO bonds outstanding for these programs.

In fiscal year 2013-14 and in prior fiscal years, the state of Montana issued GO public and private bonds for the Renewable Resource Grant and Loan program. The bond

proceeds were used for private loans for irrigation projects. At June 30, 2014, the department had a total of \$2,380,000 of GO public bonds and \$9,360,948 of GO private bonds outstanding for this program.

In fiscal year 2013-14 and in prior fiscal years, the department issued Coal Severance Tax (CST) bonds for the Renewable Resource Grant and Loan program. The bond proceeds were used for public loans for irrigation, water, sewer and dam projects. At June 30, 2014, the department had a total of \$21,750,000 of CST bonds outstanding.

The department has a loan from the U.S. Bureau of Reclamation to fund the Middle Creek Dam project. The unpaid loan principal and interest during construction balance as of June 30, 2014, was \$2,352,817.

The Northern Cheyenne Tribe and the department entered into an agreement on July 1, 1994, in which the tribe agreed to loan the state up to \$11,500,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The noninterest bearing loan was used to help finance the costs of the Tongue River Dam Project. The actual amount of the loan was \$11,300,000. The outstanding loan balance at June 30, 2014, was \$6,953,846. In March 2005, the department issued Coal Severance Tax bond to the tribe for \$9,851,282 as security for the loan. The bond, which is noninterest bearing, provides a means of prepayment to the tribe in the event pledged revenues are insufficient for loan repayment.

5. Transfers-In

The Schedule of Total Revenues & Transfers-In contain the following activity in the transfers-in class:

- ♦ **General Fund** - This activity represents the transfer-in from the Treasure State Endowment Program (TSEP) Regional Water System fund per the 2011 Legislative Session House Bill 351 and the transfer of the unreserved fund balance in the CST Shared State Special Revenue account per §15-35-108(3), MCA.
- ♦ **State Special Revenue Fund** – This activity represents:
 - the transfer of Common School Permanent Trust Fund earnings to the Guarantee Account for distribution to school districts;
 - the movement of loans receivable from other funds;
 - the transfer of federal funds from the Department of Environmental Quality for the Water Pollution Control and Drinking Water State Revolving Fund Programs;
 - the transfer of funds from the trusts to administer state trust lands;
 - the transfer of funds from the Broadwater Dam debt service fund

- in excess of the debt service requirement to the state projects hydro earnings fund;
- the transfer of funds from the GO Bond debt service fund in excess of the debt service requirement to the natural resources projects fund; and
- transfers per the 2012 legislative session HB 3, HB 6 and HB 354.
- ♦ **Debt Service Fund** – This activity is comprised of the movement of loans receivable from other funds.
- ♦ **Internal Service Fund** – This activity represents the transfers from the general fund and fire protection tax fund for base funding of the air operations.
- ♦ **Permanent Fund** – This activity represents the allocation of interest & income and the allocation of the appreciation/depreciation of the Trust Fund Investment Pool within the trust funds administered by the department.

6. Transfers-Out

The Schedule of Total Expenditures & Transfers-Out contain the following activity in the transfers-out class:

- ♦ **Conservation /Resource Development Division** – This activity represents:
 - State Revolving Fund (SRF) transfers associated with the movement of loans receivable and interest earnings to other funds.
 - the transfer from the TSEP Regional Water System fund per the 2011 Legislative Session House Bill 351;
 - transfers of natural resource projects fund for HB6 & HB 7 grants to other department division and state agencies;
 - the transfer of the unreserved fund balance in the Coal Severance Tax Share State Special Revenue account per 15-35-108(3), MCA; and
 - the transfer of funds from the GO Bond debt service fund in excess of the debt service requirement to the natural resources projects fund
- ♦ **Forestry/Trust Lands Division** – This activity represents:
 - the transfers from the general fund and fire protection tax fund for base funding of the air operations, and
 - the transfer from the general fund to the fire suppression fund per the 2013 legislative session HB3.
- ♦ **Trust Funds** – This activity represents:
 - the allocation of the appreciation/depreciation of the Trust Fund Investment Pool within the trust funds administered by the department,
 - the transfer of funds from the trusts to administer state trust lands; and
 - the distribution of earnings to the trust permanent funds and the transfer of earnings to the trust beneficiaries,

- ♦ **Water Resources Division** – This activity represents the movement of loans payable to other funds.

7. Permanent Fund Revenues

The department receives bonus payments when renting new or expired oil and gas leases on state trust lands. Bonus payments are any amount bid over the \$1.50 per acre rental (with a minimum rental of \$100) and are only paid in the first year of the lease. In fiscal year 2012-13, total permanent fund bonus payments totaled approximately \$5.7 million. In fiscal year 2013-14, total permanent fund bonus payments totaled approximately \$3.7 million.

8. Unspent Budget Authority

The table below summarizes significant unspent budget authority by program. For fiscal year 2013-14, most amounts are related to biennial and continuing appropriations and the budget authority extends to fiscal year 2014-15.

<u>Unspent Budget Authority</u>		
	FY 2012-13	FY 2013-14
Oil & Gas Conservation Division		
Oil & Gas ERA	\$3,228,767	\$1,190,016
Conservation & Resource Development Division		
Treasure State Endowment	3,827,986	8,099,914
Natural Resources Projects		14,604,200
State Revolving Fund Federal Authority	3,970,321	3,940,963
Water Resources Division		
Blackfeet Mitigation	15,150,000	14,500,000
State Projects Hydro Earnings	2,274,689	
Federal Grant Funds	1,809,400	
Forestry/Trust Lands Division		
General Fund	12,329,745	
PPL Land Trust-Land Acquired	60,885,000	
Fire Suppression Fund	2,013,132	1,096,140
Federal Grant Funds	8,302,986	8,478,864

9. Related Party Transaction

Per Title 85, Chapter 1, part 6, MCA, Renewable Resource Grant and Loan Program, the department is eligible to issue GO private sale bonds. DNRC has applied and received recycled loan funds from the SRF program for nonpoint source private loans program. The loans are GO private sale bonds. The current loans in repayment have interest rates ranging from 3 percent - 4.3 percent and are repaid over 15 years. See Note #4 Long Term Debt for outstanding GO private bonds balance.

10. Fire Suppression

In fiscal year 2012-13, the department incurred significant fire suppression expenditures for the calendar year 2012 fire season of \$70 million. This resulted in significant increases in the following expenditure categories: Personal Services-Hourly Wages, Other Services, Travel and Rent. Federal Emergency Management Agency (FEMA) reimbursements are estimated at \$8.2 million and other federal agencies reimbursements, such as the US Forest Service and the Bureau of Land Management, are estimated at \$5.8 million.

11. Land Banking

The Land Banking program sells land to the public and puts the proceeds in a Land Banking Trust Fund. The combined funds from multiple sales can then be used to purchase parcels which produce a higher level of income than the lands sold. This results in a greater income to the trust beneficiaries. In fiscal year 2012-13, \$6.5 million of state trust land was sold and \$7.4 million was purchased. In fiscal year 2013-14, \$1.6 million of state trust land was sold and no land was purchased.

DEPARTMENT OF
NATURAL RESOURCES
AND CONSERVATION

DEPARTMENT RESPONSE

**DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION**



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October 21, 2014

Tori Hunthausen
Legislative Auditor
Legislative Audit Division
P O Box 201705
Helena, MT 59620-1705

RECEIVED
OCT 24 2014
LEGISLATIVE AUDIT DIV.

**RE: DNRC Written Response to the Legislative Audit Division Financial-
Compliance Audit for the Two Fiscal Years Ended June 30, 2014**

RECOMMENDATION #1

**We recommend the department recognize revenue for expected reimbursements
in accordance with state accounting policy.**

Concur: The department will recognize revenue for expected reimbursements in
accordance with state accounting policy.

Sincerely:

A handwritten signature in black ink, appearing to read "John E. Tubbs".
John E. Tubbs
Director