



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

State of Montana

*For the Fiscal Year Ended
June 30, 2014*

JUNE 2015

LEGISLATIVE AUDIT
DIVISION

13-01B

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FINANCIAL AUDITS

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

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 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

June 2015

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, 2014. 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 recommendation related to a material weakness in internal controls over the preparation, review, and timely issuance of the state's basic financial statements. We believe the current financial reporting process relied on the audit process to identify errors and omissions. Financial reporting errors should be minimized during the preparation and review process. The fundamental problem of inaccurate and incomplete financial reporting led us to issuing unfavorable opinions as reported on A-1.

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-2.

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, CPA, State Accountant (through April 2015)

Accounting Principles & Financial Reporting Section

Bill Hall, Accountant

Neil Fryer, Accountant

Kristin Reynolds, CPA, Accountant

Anthony Cacace, Accountant

Logan Nordahl, Accountant

Governor's Office Office of Budget and Program Planning

Dan Villa, Director

Sonia Powell, CPA, Single Audit Coordinator

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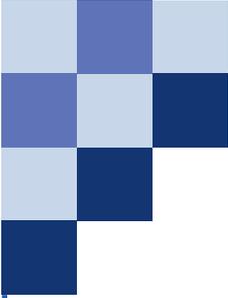
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For additional information concerning the Schedule of Expenditures of
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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL AUDIT State of Montana

For the Fiscal Year Ended June 30, 2014

JUNE 2015

13-01B

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. We issued adverse and qualified opinions on some of the financial information included in this report so readers should use caution when relying on the data. At the end of fiscal year 2014, Montana had approximately \$344 million of unassigned fund balance in the General Fund. The Schedule of Expenditures of Federal Awards summarizes the state's \$2.7 billion in federal spending, 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 60 percent of the state's governmental expenditures.

The Schedule of Expenditures of Federal Awards reports total federal grant expenditures, including noncash assistance, in fiscal year 2014 in excess of \$2.7 billion.

including testing adjustments and corrections to the accounting records, and reviewed the financial statements and notes to determine whether they are adequately supported by the accounting records.

In fiscal year 2014, 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 audit (14-08A) report and is considered material noncompliance with the Montana Constitution and state law.

Results

This report includes a recommendation related to internal controls over the preparation, review, and timely issuance of the state's basic financial statements.

Our audit work included obtaining and evaluating the results of completed agency audits. Also, we analyzed financial data,

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 audit of the state of Montana’s basic financial statements for the fiscal year ended June 30, 2014. 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.

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.

Our audit work included obtaining and evaluating the results of completed agency audits. Also, we analyzed financial data, including testing adjustments and corrections to the accounting records, and reviewed the financial statements and notes to determine whether they are adequately supported by the accounting records.

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-149.

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.

Subject	Type of Deficiency	Page
Preparation, review, and timely issuance of the state's financials	Material Weakness	5
Other Post Employment Benefits	Significant Deficiency	A-2

Source: Compiled by the Legislative Audit Division.

Table 1 outlines the material weakness and significant deficiency we identified during this audit.

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, 2013, 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 2014, GWPORS, SRS, and HPORS continue to be unsound. The amortization periods for the unsound systems are shown in Table 2 (see page 3). The information is also disclosed in the Public Employees' Retirement Board (14-08A) report.

Table 2
Amortization Period for Unsound Systems
 at July 1, 2013, and 2014 (in years)

Retirement System	as of June 30, 2013	as of June 30, 2014
SRS	Infinite*	Infinite*
GWPORS	Infinite*	Infinite*
HPORS	44.6	30.3

Source: Compiled by the Legislative Audit Division from reports 12-08B and 14-08A.

*Infinite is defined as the liability does not amortize.

Prior Audit Recommendations

We performed the prior audit of the state of Montana's basic financial statements for the fiscal year ended June 30, 2013. The prior audit contained one recommendation related to internal controls over the Schedule of Expenditures of Federal Awards. The prior audit recommendation was fully implemented.

Chapter II – Findings and Recommendations

Preparation, Review, and Timely Issuance of the State’s Basic Financial Statements

The Department of Administration does not have adequate internal controls to ensure its basic financial statements are prepared accurately, properly reviewed, or issued timely.

The state’s basic financial statements and accompanying note disclosures are compiled from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS), in addition to other relevant information or data needed for proper note disclosure. The department’s compilation process consists of using various reports with user-defined parameters and an adjustment process. The user-defined reports create the initial financial statements or starting point for the financial statements, prior to adjustment, and is based on raw SABHRS data. Adjustments are necessary to report the activity in accordance with Generally Accepted Accounting Principles (GAAP), such as the elimination of activity that would otherwise be double-counted when reported for the state as a whole. The department has written procedures for each adjustment and includes a review of the adjustment. In addition, an overall review is completed over the draft financial statements, including notes. During the audit we identified numerous errors, indicating the written procedures and review processes were not adequate to prevent, or detect and correct errors. The following includes some examples of the significant and material errors we identified in the various versions of the financial statements and communicated to the department. Some of the errors even appeared for the first time in the final financial statements.

User-Defined Reports

- ◆ We identified errors in the user-defined reports, which are the basis or foundation for creating the state’s basic financial statements. If the initial financial statements contain undetected errors, the state’s financial information is incorrect. The reports were ultimately corrected.

Statement of Activities

- ◆ Transportation expenses were overstated by approximately \$220 million. This error was corrected.
- ◆ Capital grants and contributions program revenues were overstated for Natural Resources and understated for Transportation by approximately \$445 million. These errors were corrected.
- ◆ Transfers of approximately \$47.8 million were omitted from the financial statement. This error is not corrected.

Note Disclosures

- ◆ Errors were made throughout Capital Assets Note 5, related to infrastructure. The department reported Total Governmental Activities Accumulated Depreciation of \$1.2 billion and it should have been approximately \$210 million, resulting in an uncorrected overstatement of approximately \$1 billion.
- ◆ A \$221 million adjustment for pollution remediation liabilities was not made which resulted in an overstatement in the State Debt Note 11. This error was corrected.
- ◆ The Prior Period Adjustments Note 2B did not adequately disclose corrections to the beginning net assets or fund balances for significant errors made to pollution remediation liabilities, other postemployment benefits, and infrastructure amounts. These errors were corrected.
- ◆ The Subsequent Events Note 17 does not include four bond issuances, which total approximately \$62 million. This error was not corrected.
- ◆ Montana Real Estate Pool (MTRP) investment commitments included in Investments Note 3C contain the following misstatements related to Governmental Activities: commitment remaining is overstated by approximately \$190 million and the fair value is overstated by approximately \$621 million. These errors were not corrected.
- ◆ The Component Units Note 18 related to total bonds/notes payable, additions, does not total, resulting in an overstatement of approximately \$100 million. This error was not corrected.

Required Supplementary Information

- ◆ The Management Discussion & Analysis includes Governmental Activities Net Position, end of year, and the Total Primary Government Net Position, end of year, amounts for 2013, however, the totals do not sum and the difference is approximately \$224 million. This error was not corrected.

Component Units

- ◆ Many of the component units (i.e. Board of Housing, Facility Finance Authority, Montana State University, Montana State Fund, and Public Employees' Retirement Board) financial statements did not agree to the state's basic financial statements, including note disclosures, and while most were corrected, rounding differences continue to exist.

The department publishes state accounting policy, which includes Montana Operations Manual 399, related to internal controls. This policy states, "Management is responsible for establishing and maintaining agency internal controls." The policy further states, "Agency management is responsible for the extent of the efficiency and effectiveness of internal controls, as well as any deficiencies." The policy defines Internal Control Over Financial Reporting as "...a process designed by, or under the supervision of the entity's principal executive and principal financial officers, or persons performing similar functions, and effected by the entity's governing board, management and other

personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. . .”

This past year the state’s basic financial statements, including note disclosures, was not completed until nearly one year after the end of the fiscal year. Legislative and oversight bodies are primary users of the audited financial statements. When audited financial statements are not available, officials use outdated information or unaudited numbers for decision-making purposes. In order for financial reports to be useful, they have to be issued soon enough after the reported events in order to affect decisions. The untimely release of the state’s basic financial statements diminishes the usefulness that the information otherwise would have had.

Due to the nature, size, and number of errors we identified in our audit, the preparation and review procedures are not adequate, which contributed to the untimely completion of the state’s basic financial statements. The errors we identified and communicated to the department were significant and material which resulted in modified opinions to our Independent Auditor’s Report, as shown on page A-5. We believe the department relied on the audit process to identify the errors in the preparation of the state’s basic financial statements, including note disclosures. With proper internal controls, financial reporting errors can be avoided or minimized before the audit process begins. Department personnel attributed training as the primary reason for the errors. While we agree training may be one reason for errors, adequately designed and implemented internal controls can significantly reduce errors, even when turnover exists. The department needs to design and implement procedures to ensure the state’s basic financial statements are accurate, review procedures appropriately detect and correct errors, and reporting is done in a timely manner. Some examples include using a review checklist, assigning review functions to employees with adequate training and experience, and creating and following work plans and timelines.

RECOMMENDATION #1

We recommend the department design and implement internal controls to ensure the state’s basic financial statements are accurately prepared, review procedures appropriately detect and correct errors, and financial reporting is timely.

**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, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the state of Montana's basic financial statements and have issued our report thereon dated May 13, 2015. Our report includes adverse opinions on the Governmental and Business-Type Activities opinion units and qualifications on the Aggregate Discretely Presented Component Units and Remaining Fund Information. 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 first 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 significant

deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described below, that we consider to be material weaknesses and significant deficiencies.

1. The Department of Administration is responsible for preparing the state's basic financial statements and accompanying notes to the financial statements. The department does not have adequate controls in place to ensure accurate preparation of the state's basic financial statements and ensure appropriate reviews are done to prevent or detect and correct errors, in a timely manner, which resulted in material misstatements and untimely reporting. This is considered a material weakness in internal control.
2. The Department of Administration is responsible for calculating Other Postemployment Benefits (OPEB) costs and the related liability annually for all state agencies. The department left out a main component in its calculations and did not reduce the liability by the interest amortization adjustment or the medical claims paid on behalf of retirees. This resulted in errors across the state. The department does not have adequate controls in place to ensure calculations and values reported are accurate, which resulted in a significant deficiency in internal control.

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

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:

1. The Public Employees' Retirement Board administers eight defined benefit retirement systems. The Montana Constitution and state law require these systems to be actuarially sound. The actuarial valuation as of June 30, 2014, 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 Department of Administration audit report (14-13), Public Employees' Retirement Administration audit report (14-08A), and on page B-1 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

May 13, 2015

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 basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2014, 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 Balance – 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 (MSU) component units and the University of Montana (UM) component units, which represent 11.65, 26.97, and 6.35 percent,

respectively of the assets, net position, 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. The MSU and UM component units were not audited in accordance with *Government Auditing Standards*.

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 the overall presentation of the financial statements.

We believe 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	Adverse
Business-Type Activities	Adverse
Aggregate Discretely Presented Component Units	Qualified
Aggregate Remaining Fund Information	Qualified
General Fund	Unmodified
State Special Revenue Fund	Unmodified
Federal Special Revenue Fund	Unmodified
Land Grant	Unmodified
Coal Severance Tax	Unmodified
Unemployment Insurance	Unmodified
Economic Development Bonds	Unmodified

Basis for Adverse Opinions

The state of Montana did not have sufficient internal controls over financial reporting, resulting in material misstatements and omissions in the Governmental and Business-Type Activities opinion units, as shown in the accompanying financial statements and notes, for the year ended June 30, 2014.

The following identifies the misstatements:

- ◆ Transfers are omitted from the Statement of Activities. While the totals on the statement include the transfers amount, the transfers line was omitted. Governmental Activities should show a Transfer of approximately \$47 million and Business-Type Activities should show a Transfer of approximately (\$47) million.
- ◆ Note 5 reported Governmental Activities Total Accumulated Depreciation of \$1.2 billion and it should be \$210.8 million, resulting in an overstatement of approximately \$1 billion.
- ◆ Four bond issuances, that total approximately \$62 million, are omitted from Note 17 - Subsequent Events. This primarily affects Business-Type Activities.

The above misstatements and omissions do not conform to the requirements of Generally Accepted Accounting Principles (GAAP).

Adverse Opinions

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinions paragraph, the financial statements referred to above do not present fairly the financial position as of June 30, 2014, and the results of operations of the Governmental Activities and Business-Type Activities of the state of Montana for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Basis for Qualified Opinions

Beginning in fiscal year 2011, the General Fund became responsible for paying the remaining claims liability in the Old Fund, once Old Fund resources were exhausted. In fiscal year 2014, the General Fund paid approximately \$7.4 million in claims. Under the provisions of state law, the General Fund assumed the remaining estimated \$45 million in workers' compensation claim liabilities of the Old Fund, making it a general long-term debt of the primary government, not Montana State Fund. The long-term liability is reported twice on the Statement of Net Position, for the state (Governmental Activities column) and for Montana State Fund (Component Units column). In addition, the liability is included in the Component Units, Condensed Financial Statements (Note 18A) as a long-term liability. The primary government is required to report the activity of the Old Fund. As described in Note 1, management reported the Old Fund and the New Fund as Montana State Fund. Management reported a long-term liability for the Montana State Fund, component unit. This accounting treatment is not consistent with GAAP requirements and results in the following misstatements on the basic financial statements and notes to the financial statements:

Statement of Net Position

Component Unit Column

Long-term liabilities

Net position

(Under)/Overstated

\$45 million

(\$45 million)

Note 18A – Condensed Financial Statements:Montana State Fund Column

Long-term liabilities	\$45 million
Net position	(\$45 million)

In addition to the Old Fund reporting issue, we identified the following misstatements contributing to our qualified opinions:

- ◆ The total bonds/notes payable additions, ending balance, and amounts due within one year, and amounts due in more than one year on the Summary of Changes in Long-term Liabilities Payable table, included in Note 18I, related to component units, are overstated by approximately \$100 million.
- ◆ Investment Commitments included in Note 3C for the Montana Real Estate Pool (MTRP) contain the following misstatements related to Remaining Fund Information: commitment remaining is overstated by approximately \$190 million and the fair value is overstated by approximately \$621 million.

The above misstatements are not consistent with Generally Accepted Accounting Principles.

Qualified Opinions

In our opinion, except for the effects of the matters described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position as of June 30, 2014, and the results of operations of the Aggregate Discretely Presented Component Units and Aggregate Remaining Fund Information 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 General Fund, State Special Revenue Fund, Federal Special Revenue Fund, Land Grant, Coal Severance Tax, Unemployment Insurance, and Economic Development Bonds major funds for the state of Montana, as of June 30, 2014, 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 Matter

At June 30, 2014, 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 30.3 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 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. Although our opinion on the basic financial statements is not affected, the following material departures from the prescribed guidelines exist:

- ◆ Management is required to include a note in the required supplementary information to disclose excesses of expenditures over appropriations in individual funds presented in the budgetary comparison. The Budgetary Comparison Schedule shows excesses of expenditures over appropriations. However, the notes to the required supplementary information state there were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.
- ◆ The 2013 net position, end of year, in the comparative condensed statement of Changes in Net Position in the Management's Discussion and Analysis does not foot and is overstated by approximately \$224 million.

We do not express an opinion or provide any assurance on the information.

Old Fund Estimated Liabilities

We enter into a contract with an independent actuary to determine:

- ◆ If rates established by Montana State Fund for workers' compensation insurance are excessive, inadequate, or unfairly discriminatory, per §39-71-2362, MCA, and
- ◆ The adequacy of amounts reserved by Montana State Fund at June 30 and the reasonableness of procedures used in the claim reservation process, in accordance with §39-71-2361, MCA.

As part of the independent actuary's process, they estimate a loss and claims liability for the Old Fund. The amount estimated for the Old Fund by the independent actuary was greater than the amount estimated by the Montana State Fund actuary. For fiscal year 2014, the independent actuary estimated the net loss and loss adjustment expense reserves at \$127 million. The amount estimated and reported in the Statement of Net Position is \$45 million. The two estimates vary significantly and the results of the independent actuary indicates the ultimate amount of claims paid could exceed the \$45 million estimate currently reported in the Statement of Net Position. Actuaries make estimates based on assumptions, and different assumptions can result in different estimates. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The 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 government, and Non-Profit organizations, and is not a required part of the 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 financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2015, 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 this 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

May 13, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana (State) 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, 2014. 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 and deferred outflows of resources of the State exceeded its liabilities and deferred inflows of resources at the end of fiscal year 2014 by \$9.0 billion (reported as net position) compared with \$8.2 billion at the end of fiscal year 2013. 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 \$1.7 billion for 2014 and \$1.6 billion for 2013. These are discussed in more detail in the financial statement overview below.

Fund Highlights

As of the close of fiscal year 2014, the State's governmental funds reported combined ending fund balances of \$4.1 billion compared with \$4.0 billion at fiscal year 2013. Of this amount, \$1.5 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: \$1,050.0 million restricted, \$1,107.7 million committed, \$104.8 million assigned and \$344.4 million unassigned. 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 2014 in the amount of \$330.2 million compared with the fiscal year-end 2013 net position of \$284.7 million. Of the 2014 business-type activity fund equity \$16.3 million was reported as net investment in capital assets. \$313.9 million of net position was in spendable form with \$18.9 million unrestricted and \$295.0 million restricted to expenditure for a specific purpose. This represents a \$45.5 million (16%) increase in spendable net position from the fiscal year-end 2013 balance of \$269.8 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 \$22.9 million, from \$296.8 million in fiscal year 2013 to \$273.9 million, a 7.7% decrease in fiscal year 2014.

Business-type activities reported bonds and notes payable of \$0 at fiscal year-end 2014. This represents a decrease of \$70 thousand (100%) over the fiscal year-end 2013 reported amount of \$70 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 *government-wide financial statements* and the *fund financial statements*. These financial statements also include the *notes to the financial statements* that explain some of the information in the financial statements and provide more detail.

Government-wide Financial Statements

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

The *Statement of Net Position* presents all of the government's assets, deferred outflows of resources, liabilities, deferred inflows of resources and 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 plan 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. A sign of the improvement is evidenced by the net increase of \$759 million in the State’s combined net position from FY13.

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 \$9.0 billion at the end of fiscal year 2014. Net position of the governmental activities increased \$713 million (9%), and business-type activities experienced a \$46 million (16%) 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					
	June 30, 2014					
	<i>(expressed in thousands)</i>					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2014	2013	2014	2013	2014
Current and other assets	\$5,128,332	\$5,200,297	\$424,790	\$472,729	\$5,553,122	\$5,673,026
Capital assets	4,878,963	5,230,949	15,084	16,400	4,894,047	5,247,349
Total assets	10,007,295	10,431,246	439,874	489,129	10,447,169	10,920,375
Deferred Outflows of Resources	-	584	-	-	-	584
Long-term liabilities						
Due in more than one year	759,276	558,126	8,157	8,146	767,433	566,272
Other liabilities	1,320,053	1,232,024	147,059	150,780	1,467,112	1,382,804
Total liabilities	2,079,329	1,790,150	155,216	158,926	2,234,545	1,949,076
Net investment in capital assets	4,681,042	5,049,162	14,861	16,285	4,695,903	5,065,447
Restricted	2,334,042	2,696,248	253,651	295,006	2,587,693	2,991,254
Unrestricted	912,882	896,270	16,146	18,912	929,028	915,182
Total net position	\$7,927,966	\$8,641,680	\$284,658	\$330,203	\$8,212,624	\$8,971,883

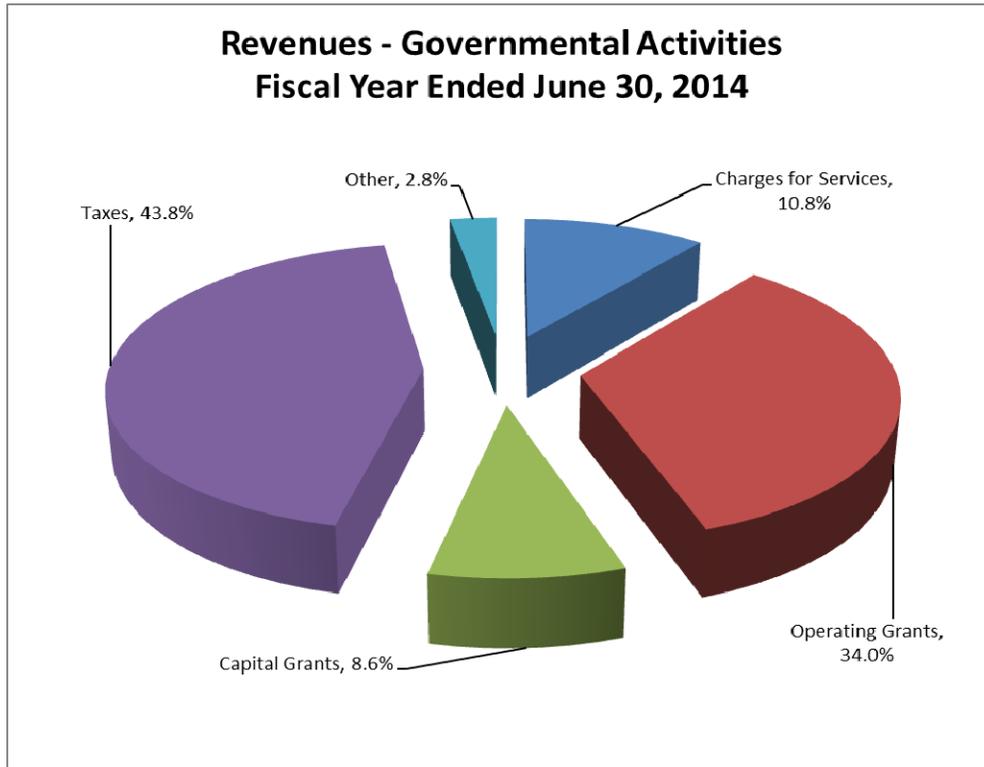
The following condensed financial information was derived from the government-wide Statement of Activities, and reflects how the State's net position changed during the fiscal year:

Changes in Net Position
For Fiscal Year Ended June 30, 2014
(expressed in thousands)

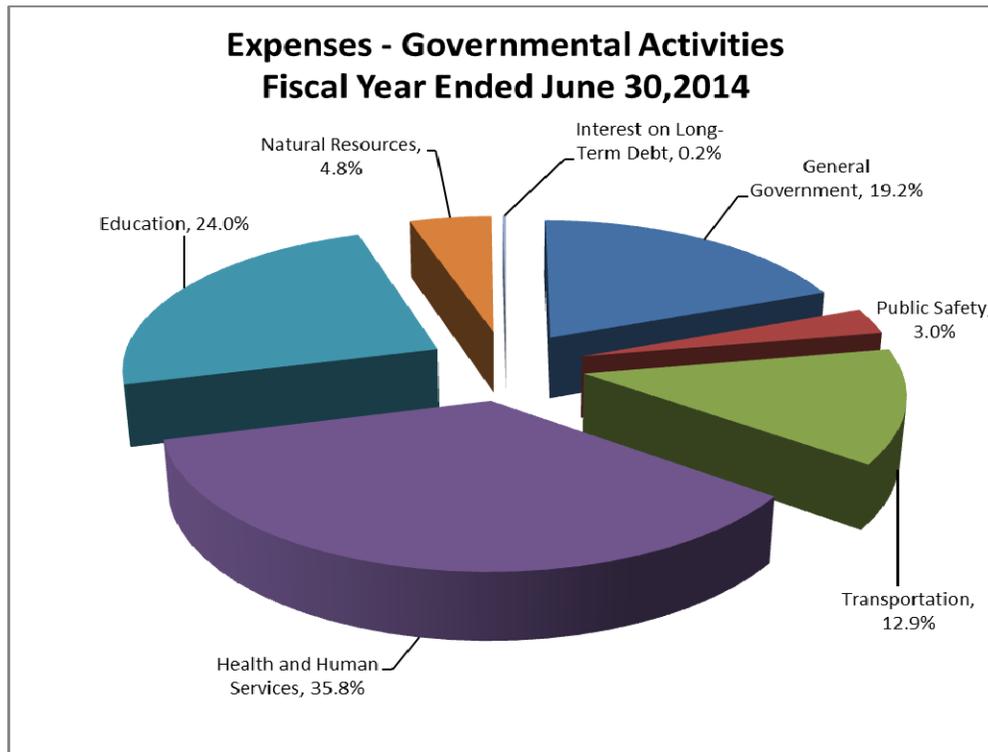
	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2014	2013	2014	2013	2014
Revenues:						
Program revenues						
Charges for services	\$ 564,714	\$ 578,819	\$ 414,024	\$ 426,471	\$ 978,738	\$ 1,005,290
Operating grants	1,780,611	1,823,987	96,590	64,982	1,877,201	1,888,969
Capital grants	455,310	460,814	445	623	455,755	461,437
General revenues						
Taxes	2,324,112	2,347,845	24,185	25,148	2,348,297	2,372,993
Other	77,492	147,524	631	1,436	78,123	148,960
Total revenues	<u>5,202,239</u>	<u>5,358,989</u>	<u>535,875</u>	<u>518,660</u>	<u>5,738,114</u>	<u>5,877,649</u>
Expenses:						
General government	647,974	1,009,123			647,974	1,009,123
Public safety	380,309	156,256			380,309	156,256
Transportation	413,205	461,356			413,205	461,356
Health and human services	1,808,390	1,880,505			1,808,390	1,880,505
Educational	1,205,959	1,262,069			1,205,959	1,262,069
Natural resources	332,942	254,414			332,942	254,414
Interest on long-term debt	12,249	10,760			12,249	10,760
Unemployment Insurance			179,826	136,174	179,826	136,174
Liquor Stores			71,015	74,917	71,015	74,917
State Lottery			44,049	41,310	44,049	41,310
Economic Dev Bonds			929	2,564	929	2,564
Hail Insurance			7,338	15,163	7,338	15,163
Gen Govt Services			63,349	63,787	63,349	63,787
Prison Funds			7,003	7,223	7,003	7,223
MUS Group Insurance			67,249	80,639	67,249	80,639
MUS Workers Comp			328	3,199	328	3,199
Total expenses	<u>4,801,028</u>	<u>5,034,483</u>	<u>441,086</u>	<u>424,976</u>	<u>5,242,114</u>	<u>5,459,459</u>
Increase (decrease) in net position before transfers)	401,211	324,506	94,789	93,684	496,000	418,190
Transfers	48,200	47,863	(48,200)	(47,863)		
Change in net position	449,411	372,369	46,589	45,821	496,000	418,190
Net position, beg of year (as restated)	7,254,555	8,269,311	238,069	284,382	7,716,624	8,553,693
Net position, end of year	<u>\$7,927,966</u>	<u>\$8,641,680</u>	<u>\$ 284,658</u>	<u>\$ 330,203</u>	<u>\$8,212,624</u>	<u>\$8,971,883</u>

Governmental Activities

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

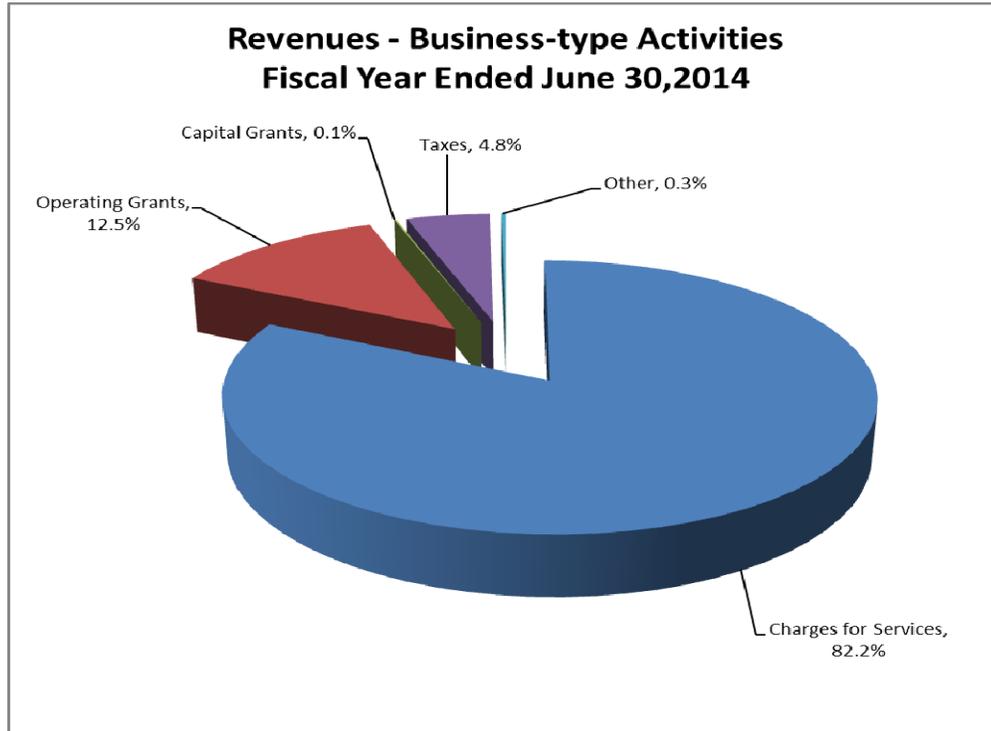


The following chart depicts expenses of the governmental activities for the fiscal year:

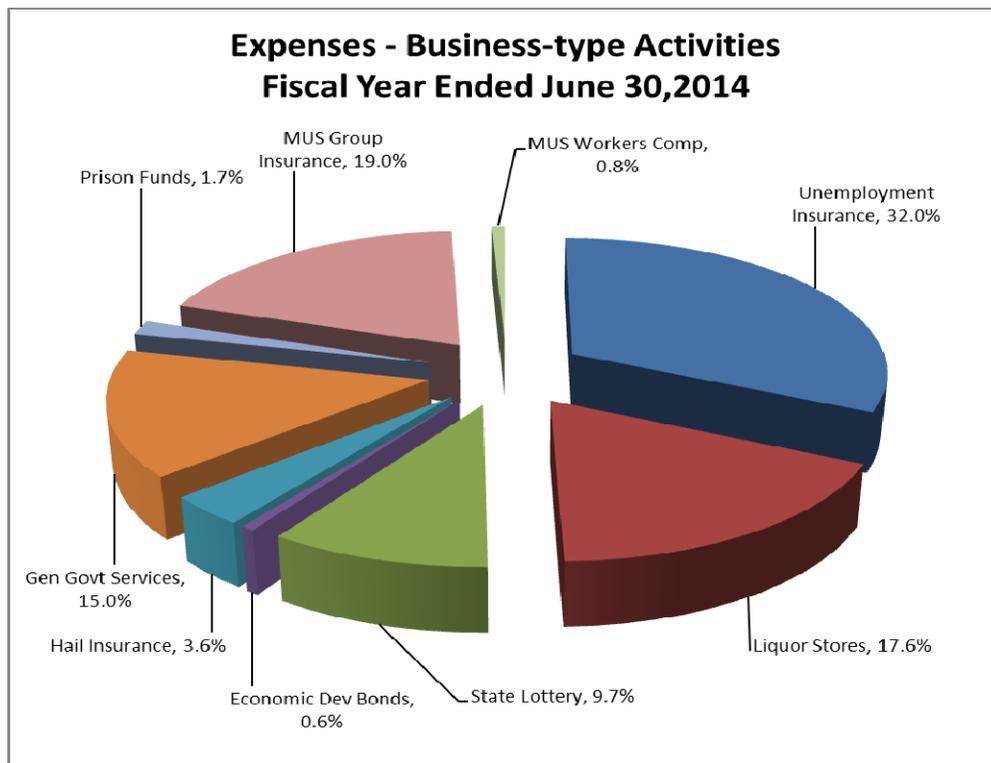


Business-type Activities

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 \$4.1 billion. Of this total amount, \$2.6 billion (63%) constitutes spendable fund balance and \$1.5 billion (37%) 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. For fiscal year 2014, the total fund balance of the General Fund was reported at approximately \$443 million. Of this balance \$4 million is non-spendable. The remaining \$439 million is spendable with \$4 million restricted, \$0.1 million committed, \$90 million assigned and \$344 million unassigned. This represents 17% of the \$2.6 billion spendable governmental fund balances for all governmental funds. Of the assigned fund balance, \$80 million pertains to the projected general fund spend down of fund balance in fiscal year 2015 and \$10 million relates to outstanding encumbrances at the end of the fiscal year. Further detail on the breakdown of fund balance for the general fund can be found in Note 14 – Major Purpose Presentation of this report.

Unassigned fund balance decreased by \$194 million when compared to the previously reported fund balance of \$538 million. This decrease was primarily the result of income remaining consistent with fiscal year 2013 while expenditures continued to rise. Changes in both expenditures and revenues are discussed in detail below. The 2013 legislative session projected \$338 million of unassigned fund balance for FY2014, without regard to an additional fund balance amount reported regarding the projected spend down in FY2015. The difference was the primarily the result from higher than anticipated revenues in FY2014, and a larger than anticipated beginning fund balance.

Consistent Revenues – Total General Fund revenues were \$2,000 million for fiscal year 2014, a negligible difference from the \$2,002 million reported in 2013 but leaving the general fund shy of the 2014 legislative estimation of \$2,056 million. For fiscal year 2014 tax revenue closely mirrored 2013 with the exception of natural resource collections up 10% to \$154 million and corporate income down 17% to \$148 million.

Higher General Fund Expenditures – General Fund expenditures for fiscal year 2014 increased by \$109 million (6%). This increase in expenditures occurred in the general government, public safety, and health and human services functions. Among the increases in expenditures the only function reporting a decrease was natural resources down \$50 million (31%) from 2013. General government expenditures increased by \$65 million (25%) in 2014. Public safety expenditures increased by \$14 million (5%) in 2014. Health and human services expenditures increased by \$32 million (8%) in 2014. Education expenditures increased by \$47 million (5%) in 2014.

Transfers out increased by \$85 million (108%) to \$164 million in 2014. Per the 2013 Legislative Session the following transfers were made from the general fund during 2014 and accounted for most of the increase: \$49.6 million was transferred to the long-range building program account in the capital projects fund type (HB 5); \$20.5 million to fund operations and \$11.9 to fund fire suppression was transferred to the State Special Revenue fund of the Department of Natural Resource and Conservation per HB 6 and HB 3, \$11.5 million was transferred to the long-range information technology program account in the capital projects fund type (HB 10), and transfers of \$33.7 million made to PERS and \$25 million to TRS per HB 454.

General Fund Expenditure Budget Reversions

Fund balances are not reserved for reverted appropriations. For fiscal year 2014, general fund appropriations that reverted to 2015 were \$9.0 million.

The Department of Administration had unspent appropriations of \$3.9 million for FY 2014. The vast majority of this unspent amount is attributable to general fund (statutory authority) being less than budgeted in regard to pension contributions.

The Judicial Branch had unspent appropriations of \$1.2 million for FY14. The vast majority of this unspent amount is attributable unspent court administration costs.

The Department of Public Health and Human Services had unspent appropriations of \$0.7 million for FY 2014. The vast majority of this unspent amount was attributable worker compensation and Medicaid costs.

The Department of Military Affairs has unspent appropriations of \$0.6 million for FY 2014. The vast majority of this unspent amount is attributable to flood expenditures.

The State Auditor's Office had unspent appropriations of \$0.6 million for FY2014. The vast majority for is related to Insure Montana payments.

The remaining unspent appropriation of \$2.0 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. The fund balance remained increased from fiscal year 2013 by \$29 million or 2%. Total revenue increased by \$57 million (7%) with expenditures increasing by \$58 million (6%) for fiscal year 2014.

The slight increase in total fund balance can for the most part be attributed to an increase to net transfers and bond proceeds. Transfers in increased by \$40 million (23%) in 2014 and transfers out increased by \$8 million (29%). \$32.4 million of the transfers in related to the transfer out from the general fund pertaining to the Department of Natural Resource and Conservation as discussed in the general fund section above. During 2014, state special revenue bonds were issued; whereas no bonds were issued in 2013.

Federal Special Revenue Fund

Fund balance in the Federal Special Revenue Fund decreased by \$4.9 million (25%) to \$14.7 million. Revenues increased by \$62.3 million (3%), expenditures increased by \$40.8 million (2%), and transfers out increased by \$15.8 million (60%). Because most federal programs are expenditure-driven, a direct correlation normally exists between revenues/transfers in and expenditures/transfers out. For the fiscal year increased expenditure and transfers out levels resulted in the overall decrease in 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.

Coal Severance Tax Permanent Fund

Coal Severance Tax Permanent Fund increased by \$40 million to \$1,011 million, an increase of 4%. Total revenue increased by \$31.9 million to \$81.2 million, an increase of 65% from 2013. Investment earnings increased by \$31.3 million (156%), of which \$14.5 million was the result of investment value appreciation.

Land Grant Permanent Fund

Fund balance in the Land Grant Permanent Fund increased by \$49.5 million to \$638.6 million, an 8% increase. Within this fund, investment earnings increased by \$25.4 million (274%). One factor for this investment revenue increase was the result of investment value appreciation of \$11.3 million. Transfers out decreased by \$1.7 million (2%). Capital outlay expenditures decreased by \$7.4 million, as no major land purchases were completed during 2014 as compared to 2013.

Unemployment Insurance Enterprise Fund

Net position restricted for unemployment compensation increased by \$50.5 million or 28%. This net position increase reflects the continued impact of lower unemployment throughout fiscal year 2014 and was also impacted by an increase in the taxable wage base from \$27,000 to \$27,900 in 2013. Overall unemployment fell from 5.3% in July 2013, to 4.6% in July 2014.

Economic Development Bonds Enterprise Fund

Net position decreased by \$1.7 million or 24% in fiscal year 2014. Revenues from financing decreased \$209 thousand while total operating expenses increased by \$1.6 million (176%). Most notably, personal services expense increased by \$200 thousand (115%) and interest expense increased \$1.4 million (234%) from 2013. The interest expense amount represented the unamortized balance of the cost of issue as of June 30, 2013. Effective for financial statements for periods beginning after December 15, 2012, the provisions of Governmental Accounting Standards Board Statement (GASB) No. 65 – Items Previously Reported as Assets and Liabilities were implemented and the unamortized balance was expensed for the year ended June 30, 2014.

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, 2014, amounted to \$7.3 billion, with related accumulated depreciation of \$2.1 billion, leaving a net book value of \$5.2 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 \$0.3 billion or 7% in terms of net book value. Most increases in capital expenditures were seen in 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 \$139.6 million at June 30, 2013 to \$127.8 million at June 30, 2014. \$5.2 million of cash is available in debt service funds to service general obligation debt leaving a balance of \$122.6 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 <i>(in thousands)</i>	Percentage of Personal Income (1)	State Debt Per Capita (2)
General obligation debt	\$127,840	0.28%	\$109
Total State debt	\$265,171	0.70%	\$270

- (1) Personal income is for calendar year 2013.
- (2) Based on estimated 2014 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

Montana's primary economic base remains concentrated in agriculture, mining, manufacturing, and nonresident travel. Per the 2014 Labor Day Report issued by the Montana Department of Labor and Industry, all Montana's industries have added jobs over the last year except government. Montana was the 5th fastest state for employment growth in the nation. Overall, Montana's personal income growth has outpaced the US over the last five years. Montana had the 13th fastest personal income growth among state over the last year, and had the 6th fastest personal income growth among state over the last five years.

Montana's unemployment rate has continued to remain lower than the national rate since 2001. Montana's adjusted unemployment rate decreased to 4.3% as of November 2014, as compared to 5.4% in November 2013. Montana added roughly 7,880 jobs in 2013, for a growth rate of 1.7%, faster than the national growth rate of 1.0%. In 2013, Montana's annual number of people employed in nonfarm non-adjusted jobs was approximately 447,500 for 2013, compared to 440,500 in 2012. For a more in-depth analysis of the State's overall financial position, the reader should refer to the management's discussion and analysis and the financial statements contained in the CAFR.

The 63rd Legislative Session adjourned in late April 2013. Upon adjournment, it was anticipated that for the biennium, general fund revenue would be approximately \$4,966 million while general fund expenditures would be approximately \$4,330 million, thereby leaving an estimated general fund balance of approximately \$298 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.

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, 2014, 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. The unfunded liabilities in the other state retirement systems amortize in less than 30 years as of fiscal year end 2014.

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.

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, PO Box 200102, Helena, MT 59620.

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STATEMENT OF NET POSITION
 JUNE 30, 2014
(amounts expressed in thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL	BUSINESS-TYPE	TOTAL	
	ACTIVITIES	ACTIVITIES		
ASSETS				
Cash/cash equivalents (Note 3)	\$ 1,466,989	\$ 320,622	\$ 1,787,611	\$ 360,888
Receivables (net)	407,042	43,500	450,542	135,264
Due from primary government	-	-	-	1,885
Due from other governments	264,789	310	265,099	24,998
Due from component units	1,090	2,424	3,514	113
Internal balances	5,526	(5,526)	-	-
Inventories	25,472	3,850	29,322	5,673
Advances to component units	18,755	15,100	33,855	-
Long-term loans/notes receivable	369,716	47,715	417,431	522,785
Equity in pooled investments (Note 3)	2,148,492	25	2,148,517	47,456
Investments (Note 3)	334,729	41,927	376,656	2,049,423
Securities lending collateral (Note 3)	146,268	39	146,307	181,652
Unamortized bond issuance	106	-	106	-
Other assets	11,323	2,743	14,066	68,064
Capital assets (net) (Note 5)	5,230,949	16,400	5,247,349	783,677
Total assets	10,431,246	489,129	10,920,375	4,181,878
DEFERRED OUTFLOWS OF RESOURCES	584	-	584	11,642
LIABILITIES				
Accounts payable	572,525	18,402	590,927	78,913
Lottery prizes payable	-	3,687	3,687	-
Due to primary government	-	-	-	3,516
Due to other governments	59,532	4	59,536	111
Due to component units	1,885	-	1,885	113
Advances from primary government	-	-	-	33,856
Unearned revenue	47,175	6,986	54,161	74,018
Amounts held in custody for others	35,395	40	35,435	12,714
Securities lending liability (Note 3)	146,268	39	146,307	181,652
Other liabilities	2,315	(1)	2,314	11,448
Short-term debt (Note 11)	-	106,450	106,450	-
Long-term liabilities (Note 11):				
Due within one year	155,593	11,443	167,036	174,710
Due in more than one year	558,126	8,146	566,272	1,786,699
OPEB implicit rate subsidy (Note 7)	211,336	3,730	215,066	99,142
Total liabilities	1,790,150	158,926	1,949,076	2,456,892

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL	BUSINESS-TYPE	TOTAL	
	ACTIVITIES	ACTIVITIES		
NET POSITION				
Net investment in capital assets	\$ 5,049,162	\$ 16,285	\$ 5,065,447	\$ 527,556
Restricted for:				
General government	7,103	-	7,103	-
Transportation	33,960	-	33,960	-
Health and human services	16,983	-	16,983	-
Natural resources	447,538	-	447,538	-
Public safety	232,603	-	232,603	-
Education	5,042	-	5,042	-
Funds held as permanent investments:				
Nonexpendable	1,447,344	-	1,447,344	300,908
Expendable	505,675	-	505,675	-
Unemployment compensation	-	230,406	230,406	-
Housing authority	-	-	-	151,744
Other purposes	-	64,600	64,600	194,018
Unrestricted	896,270	18,912	915,182	562,402
Total net position	\$ 8,641,680	\$ 330,203	\$ 8,971,883	\$ 1,736,628

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

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(amounts expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Primary government:					
Governmental activities:					
General government	\$ 1,009,121	\$ 142,818	\$ 161,624	\$ 6	\$ (704,673)
Public safety	156,256	150,212	22,032	243	16,231
Transportation	461,358	33,047	51,570	446,818	70,077
Health and human services	1,880,505	37,843	1,295,643	-	(547,019)
Education	1,262,069	42,140	176,115	763	(1,043,051)
Natural resources	254,414	172,759	117,003	12,984	48,332
Interest on long-term debt	10,760	-	-	-	(10,760)
Total governmental activities	5,034,483	578,819	1,823,987	460,814	(2,170,863)
Business-type activities:					
Unemployment Insurance	136,174	163,745	23,148	-	50,719
Liquor Stores	74,917	85,316	-	-	10,399
State Lottery	41,310	53,106	14	-	11,810
Economic Development Bonds	2,564	19	810	-	(1,735)
Hail Insurance	15,163	8,040	5	-	(7,118)
General Government Services	63,787	25,985	40,239	623	3,060
Prison Funds	7,223	7,618	-	-	395
MUS Group Insurance	80,639	80,472	741	-	574
MUS Workers Compensation	3,199	2,170	25	-	(1,004)
Total business-type activities	424,976	426,471	64,982	623	67,100
Total primary government	\$ 5,459,459	\$ 1,005,290	\$ 1,888,969	\$ 461,437	\$ (2,103,763)
Component units:					
Housing Authority	\$ 27,212	\$ 1,170	\$ 26,442	\$ -	\$ 400
Facility Finance Authority	871	498	46	-	(327)
Montana State Fund	182,638	165,272	-	-	(17,366)
Montana State University	522,698	240,260	176,952	4,416	(101,070)
University of Montana	413,562	177,692	128,401	3,441	(104,028)
Total component units	\$ 1,146,981	\$ 584,892	\$ 331,841	\$ 7,857	\$ (222,391)

	GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT		TOTAL	COMPONENT UNITS
		BUSINESS-TYPE ACTIVITIES			
Changes in net position:					
Net (expense) revenue	\$ (2,170,863)	\$ 67,100	\$ (2,103,763)	\$ (222,391)	
General revenues:					
Taxes:					
Property	267,029	-	267,029	-	
Fuel	216,615	-	216,615	-	
Natural resource	334,210	-	334,210	-	
Individual income	1,044,828	-	1,044,828	-	
Corporate income	145,040	-	145,040	-	
Other (Note 1)	340,123	25,148	365,271	-	
Unrestricted grants and contributions	403	2	405	504	
Settlements	31,534	52	31,586	-	
Unrestricted investment earnings	108,754	12	108,766	121,939	
Payment from State of Montana	-	-	-	217,679	
Gain (loss) on sale of capital assets	2,125	696	2,821	209	
Miscellaneous	4,708	674	5,382	184	
Contributions to term and permanent endowments	-	-	-	23,863	
Total general revenues, contributions, and transfers	2,543,232	(21,279)	2,521,953	364,378	
Change in net position	372,369	45,821	418,190	141,987	
Total net position - July 1 - as previously reported	7,927,966	284,659	8,212,625	1,638,333	
Prior period adjustments (Note 2)	341,345	(277)	341,068	(43,692)	
Total net position - July 1 - as restated	8,269,311	284,382	8,553,693	1,594,641	
Total net position - June 30	\$ 8,641,680	\$ 330,203	\$ 8,971,883	\$ 1,736,628	

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

BALANCE SHEET
GOVERNMENTAL FUNDS
 JUNE 30, 2014
 (amounts expressed in thousands)

	SPECIAL REVENUE		
	GENERAL	STATE	FEDERAL
ASSETS			
Cash/cash equivalents (Note 3)	\$ 453,617	\$ 719,548	\$ 57,552
Receivables (net) (Note 4)	266,685	97,190	18,302
Interfund loans receivable (Note 12)	54,501	67,595	-
Due from other governments	12,124	1,040	251,617
Due from other funds (Note 12)	47,067	6,738	238
Due from component units	12	961	-
Inventories	2,672	19,939	-
Equity in pooled investments (Note 3)	-	394,768	-
Long-term loans/notes receivable	24	341,388	5,902
Advances to other funds (Note 12)	21,389	10,211	-
Advances to component units	(9)	10,662	-
Investments (Note 3)	15,136	132,144	5,633
Securities lending collateral (Note 3)	-	34,928	3,594
Other assets	2,517	7,308	161
Total assets	875,735	1,844,420	342,999
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable (Note 4)	245,247	122,740	152,453
Interfund loans payable (Note 12)	-	5,681	114,384
Due to other governments	245	58,635	652
Due to other funds (Note 12)	170	34,183	102
Due to component units	29,838	390	1,314
Advances from other funds (Note 12)	-	14,892	21,799
Unearned revenue	136,807	34,557	33,945
Amounts held in custody for others	20,948	14,284	14
Securities lending liability (Note 3)	-	34,928	3,594
Other liabilities	4	390	3
Total liabilities	433,259	320,680	328,260
Fund balances (Note 14):			
Nonspendable	3,994	21,098	49
Restricted	3,569	1,003,425	14,690
Committed	141	492,103	-
Assigned	90,366	7,114	-
Unassigned	344,406	-	-
Total fund balances	442,476	1,523,740	14,739
Total liabilities and fund balances	\$ 875,735	\$ 1,844,420	\$ 342,999

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

PERMANENT				
COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL	
\$ 40,173	\$ 11,766	\$ 111,555	\$ 1,394,211	
12,423	1,816	7,324	403,740	
-	-	-	122,096	
-	-	-	264,781	
-	-	2,493	56,536	
95	-	22	1,090	
-	-	-	22,611	
821,842	625,086	306,796	2,148,492	
-	-	22,402	369,716	
-	-	12,090	43,690	
8,102	-	-	18,755	
130,166	44	6,744	289,867	
41,740	31,727	15,671	127,660	
-	-	-	9,986	
1,054,541	670,439	485,097	5,273,231	
-	-	3,902	524,342	
1,525	-	325	121,915	
-	-	-	59,532	
36	-	551	35,042	
-	-	-	31,542	
-	-	11,530	48,221	
-	-	504	205,813	
-	147	-	35,393	
41,740	31,727	15,671	127,660	
-	-	-	397	
43,301	31,874	32,483	1,189,857	
527,907	638,565	285,304	1,476,917	
-	-	27,868	1,049,552	
483,333	-	132,114	1,107,691	
-	-	7,328	104,808	
-	-	-	344,406	
1,011,240	638,565	452,614	4,083,374	
\$ 1,054,541	\$ 670,439	\$ 485,097	\$ 5,273,231	

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	\$ 1,394,211	\$ 72,778	\$ -	\$ -	\$ -	\$ -	1,466,989
Receivables	403,740	3,027	-	-	275	-	407,042
Interfund loans receivable	122,096	15	-	-	-	(122,111)	-
Due from other governments	264,781	8	-	-	-	-	264,789
Due from other funds	56,536	54	-	-	-	(56,590)	-
Due from component units	1,090	-	-	-	-	-	1,090
Inventories	22,611	2,861	-	-	-	-	25,472
Internal balances	-	-	-	-	-	5,526	5,526
Equity in pooled investments	2,148,492	-	-	-	-	-	2,148,492
Securities lending collateral	127,660	18,608	-	-	-	-	146,268
Advances to other funds	43,690	240	-	-	-	(43,930)	-
Advances to component units	18,755	-	-	-	-	-	18,755
Investments	289,867	44,862	-	-	-	-	334,729
Deferred charges	-	-	-	-	106	-	106
Capital assets	-	95,461	5,135,488	-	-	-	5,230,949
Long-term loans/notes receivable	369,716	-	-	-	-	-	369,716
Other assets	9,986	1,333	-	-	4	-	11,323
Total assets	\$ 5,273,231	\$ 239,247	\$ 5,135,488	\$ -	\$ 385	\$ (217,105)	\$ 10,431,246
DEFERRED OUTFLOWS OF RESOURCES							
					584		584
LIABILITIES							
Current liabilities:							
Accounts payable	524,342	14,793	-	-	33,390	-	572,525
Interfund loans payable	121,915	130	-	-	-	(122,045)	-
Due to other government	59,532	-	-	-	-	-	59,532
Due to other funds	35,042	923	-	-	771	(36,736)	-
Due to component units	31,542	-	-	-	(29,657)	-	1,885
Advances from other funds	48,221	2,946	-	-	7,157	(58,324)	-
Unearned revenue	205,813	2,047	-	-	(160,685)	-	47,175
Amounts held in custody for others	35,393	3	-	-	(1)	-	35,395
Securities lending liability	127,660	18,608	-	-	-	-	146,268
Other current liabilities	397	-	-	-	1,918	-	2,315
Long-term liabilities:							
Due within one year	-	30,509	-	125,084	-	-	155,593
Due in more than one year	-	15,731	-	542,395	-	-	558,126
OPEB implicit rate subsidy	-	11,913	-	199,423	-	-	211,336
Total liabilities	\$ 1,189,857	\$ 97,603	\$ -	\$ 866,902	\$ (147,107)	\$ (217,105)	\$ 1,790,150
NET POSITION:							
Net investment in capital assets	-	91,551	5,135,488	(177,877)	-	-	5,049,162
Restricted for:							
General government	8,563	-	-	(47,726)	46,266	-	7,103
Transportation	60,851	-	-	(26,588)	(303)	-	33,960
Health and human services	24,494	-	-	(6,721)	(790)	-	16,983
Natural resources	669,220	-	-	(240,707)	19,025	-	447,538
Public safety	265,966	-	-	(33,364)	1	-	232,603
Education	20,458	-	-	(2,291)	(13,125)	-	5,042
Funds held as permanent investments:							
Nonexpendable	1,452,290	-	-	-	(4,946)	-	1,447,344
Expendable	-	-	-	-	505,675	-	505,675
Unrestricted	1,581,532	50,093	-	(331,628)	(403,727)	-	896,270
Total net position	\$ 4,083,374	\$ 141,644	\$ 5,135,488	\$ (866,902)	\$ 148,076	\$ -	\$ 8,641,680

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, 2014

(amounts expressed in thousands)

	SPECIAL REVENUE		
	GENERAL	STATE	FEDERAL
REVENUES (Note 14)			
Licenses/permits	\$ 117,751	\$ 183,440	\$ -
Taxes:			
Natural resource	154,409	141,146	-
Individual income	1,038,284	-	-
Corporate income	148,471	3	-
Property	251,897	15,132	-
Fuel	-	216,615	-
Other	211,545	126,667	1
Charges for services/fines/forfeits/settlements	38,460	105,873	44,709
Investment earnings	3,382	28,019	355
Securities lending income	88	183	5
Sale of documents/merchandise/property	411	5,623	7
Rentals/leases/royalties	28	1,206	3
Contributions/premiums	23	23,183	-
Grants/contracts/donations	8,979	20,897	9
Federal	26,271	7,979	2,052,060
Federal indirect cost recoveries	154	39,824	71,003
Other revenues	-	4,260	223
Total revenues	2,000,153	920,050	2,168,375
EXPENDITURES			
Current:			
General government	328,281	254,413	113,070
Public safety	281,126	80,684	11,278
Transportation	-	223,948	100,126
Health and human services	446,097	152,793	1,283,910
Education	936,813	112,422	211,752
Natural resources	32,083	183,648	65,278
Debt service:			
Principal retirement	14	507	18
Interest/fiscal charges	189	528	5
Capital outlay	4,464	76,889	351,994
Securities lending	-	29	-
Total expenditures	2,029,067	1,085,861	2,137,431
Excess of revenue over (under) expenditures	(28,914)	(165,811)	30,944
OTHER FINANCING SOURCES (USES)			
Inception of lease/installment contract	2	322	-
Insurance proceeds	-	1,301	1
General capital asset sale proceeds	51	153	3
Refunding bond issued	-	-	-
Payment to refunding bond escrow agent	-	-	-
Bond premium	-	150	-
Bond proceeds	-	11,680	-
Energy conservation loans	-	169	-
Transfers in (Note 12)	75,436	216,617	5,003
Transfers out (Note 12)	(164,245)	(35,007)	(42,067)
Total other financing sources (uses)	(88,756)	195,385	(37,060)
Net change in fund balances	(117,670)	29,574	(6,116)
Fund balances - July 1 - as previously reported	561,016	1,494,473	19,667
Prior period adjustments (Note 2)	(615)	(2,434)	1,188
Fund balances - July 1 - as restated	560,401	1,492,039	20,855
Increase (decrease) in inventories	(255)	2,127	-
Fund balances - June 30	\$ 442,476	\$ 1,523,740	\$ 14,739

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

PERMANENT				
COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL	
\$ -	\$ 1,633	\$ -	\$ -	\$ 302,824
29,483	-	8,988	-	334,026
-	-	-	-	1,038,284
-	-	-	-	148,474
-	-	-	-	267,029
-	-	-	-	216,615
-	-	1,814	-	340,027
-	-	13,870	-	202,912
51,413	34,639	23,926	-	141,734
310	232	109	-	927
-	12,125	3,670	-	21,836
-	75,587	-	-	76,824
-	-	-	-	23,206
-	439	-	-	30,324
-	-	-	-	2,086,310
-	-	-	-	110,981
-	-	-	-	4,483
81,206	124,655	52,377	-	5,346,816
-	-	3,455	-	699,219
-	-	44	-	373,132
-	-	-	-	324,074
-	-	1,109	-	1,883,909
-	-	25	-	1,261,012
-	5,309	2	-	286,320
-	-	33,078	-	33,617
-	-	12,088	-	12,810
-	-	23,959	-	457,306
54	40	19	-	142
54	5,349	73,779	-	5,331,541
81,152	119,306	(21,402)	-	15,275
-	-	-	-	324
-	-	-	-	1,302
-	1,627	6	-	1,840
-	-	6,780	-	6,780
-	-	(7,190)	-	(7,190)
-	-	512	-	662
-	-	-	-	11,680
-	-	-	-	169
19	6	131,287	-	428,368
(41,582)	(71,446)	(29,586)	-	(383,933)
(41,563)	(69,813)	101,809	-	60,002
39,589	49,493	80,407	-	75,277
971,651	589,072	372,187	-	4,008,066
-	-	20	-	(1,841)
971,651	589,072	372,207	-	4,006,225
-	-	-	-	1,872
\$ 1,011,240	\$ 638,565	\$ 452,614	\$ -	\$ 4,083,374

**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, 2014
(amounts expressed in thousands)

	(A)	(B)	(C)	(D)	Statement of	
Total	Internal	Capital Asset	Long-term	Other	Activities	
Governmental	Service	Related	Debt	Measurement	Total	
Fund	Fund	Items	Transactions	Focus		
REVENUES						
License/permits	\$ 302,824	\$ -	\$ -	\$ 7	302,831	
Taxes:	-	-	-	-	-	
Natural resource	334,026	-	-	184	334,210	
Individual income	1,038,284	-	-	6,544	1,044,828	
Corporate income	148,474	-	-	(3,434)	145,040	
Property	267,029	-	-	-	267,029	
Fuel	216,615	-	-	-	216,615	
Other	340,027	-	-	96	340,123	
Charges for services/fines/forfeits/settlements	202,912	-	-	(18,591)	184,321	
Investment earnings	141,734	1,007	-	(33,987)	108,754	
Securities lending income	927	-	-	(927)	-	
Sale of documents/merchandise/property	21,836	-	-	-	21,836	
Rentals/leases/royalties	76,824	-	-	-	76,824	
Contributions/premiums	23,206	-	-	16	23,222	
Insurance proceeds	1,302	-	-	17	1,319	
Gain (loss) on sale of capital assets	-	-	2,125	-	2,125	
Operating grants and donations	30,324	-	-	48,970	79,294	
Federal	2,086,310	-	-	(452,195)	1,634,115	
Federal indirect cost recoveries	110,981	-	-	-	110,981	
Capital grants and contributions	-	-	-	460,814	460,814	
Other revenues	4,483	-	-	225	4,708	
Total revenues	5,348,118	1,007	2,125	7,739	5,358,989	
EXPENDITURES						
Current	4,827,666	29,729	184,391	(18,063)	5,023,723	
Debt service:	-	-	-	-	-	
Principal	33,617	-	-	(33,617)	-	
Interest/fiscal charges	12,810	66	-	(2,116)	10,760	
Capital outlay	457,306	-	(457,306)	-	-	
Securities lending	142	-	-	(142)	-	
Total expenditures	5,331,541	29,795	(272,915)	(35,733)	5,034,483	
Excess of revenue over (under) expenditures	16,577	(28,788)	275,040	35,733	324,506	
OTHER FINANCING SOURCES (USES)						
Inception of lease/installment contract	324	-	-	(324)	-	
General capital asset sale proceeds	1,840	-	(1,840)	-	-	
Refunding bonds issued	6,780	-	-	(6,780)	-	
Payment to refunding bond escrow agent	(7,190)	-	-	7,190	-	
Bond premium	662	-	-	(662)	-	
Bond proceeds	11,680	-	-	(11,680)	-	
Energy conservation loans	169	-	-	(169)	-	
Transfers	44,435	3,428	-	-	47,863	
Total other financing sources (uses)	58,700	3,428	(1,840)	(12,425)	47,863	
Net change in net position	\$ 75,277	\$ (25,360)	\$ 273,200	\$ 23,308	\$ 25,944	\$ 372,369

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, 2014
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC		TOTAL	
		DEVELOPMENT BONDS	NONMAJOR		
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	\$ 224,694	\$ 24,374	\$ 71,554	\$ 320,622	\$ 72,778
Receivables (net) (Note 4)	6,293	8,862	28,345	43,500	3,027
Interfund loans receivable (Note 12)	-	-	-	-	15
Due from other governments	129	-	181	310	8
Due from other funds (Note 12)	-	1,494	1	1,495	54
Due from component units	-	2,424	-	2,424	-
Inventories	-	-	3,850	3,850	2,861
Short-term investments (Note 3)	-	1,570	-	1,570	-
Securities lending collateral (Note 3)	-	1	39	40	18,608
Other current assets	-	-	1,000	1,000	1,333
Total current assets	231,116	38,725	104,970	374,811	98,684
Noncurrent assets:					
Advances to other funds (Note 12)	-	7,477	-	7,477	240
Advances to component units	-	15,100	-	15,100	-
Long-term investments (Note 3)	-	6,667	33,714	40,381	44,862
Long-term notes/loans receivable	3,396	44,149	172	47,717	-
Other long-term assets	-	-	1,742	1,742	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	3,830	3,830	95
Buildings/improvements	-	-	7,514	7,514	4,703
Equipment	-	4	9,900	9,904	218,925
Infrastructure	-	-	1,162	1,162	-
Construction in progress	-	-	3,257	3,257	6,122
Intangible assets	-	-	250	250	1,114
Other depreciable assets	-	-	4,154	4,154	-
Less accumulated depreciation	-	(1)	(14,470)	(14,471)	(135,734)
Total capital assets	-	3	16,397	16,400	95,461
Total noncurrent assets	3,396	73,396	52,025	128,817	140,563
Total assets	234,512	112,121	156,995	503,628	239,247

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
 JUNE 30, 2014
 (amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT		TOTAL	
		BONDS	NONMAJOR		
LIABILITIES					
Current liabilities:					
Accounts payable (Note 4)	\$ 4,039	\$ 75	\$ 14,288	\$ 18,402	\$ 14,793
Lottery prizes payable	-	-	2,377	2,377	-
Interfund loans payable (Note 12)	50	15	1	66	130
Due to other governments	-	-	4	4	-
Due to other funds (Note 12)	-	-	14,192	14,192	923
Unearned revenue	17	-	6,969	6,986	2,047
Lease/installment purchase payable (Note 10)	-	-	82	82	95
Short-term debt (Note 11)	-	106,450	-	106,450	-
Amounts held in custody for others	-	-	39	39	3
Securities lending liability (Note 3)	-	1	39	40	18,608
Estimated insurance claims (Note 8)	-	-	10,484	10,484	26,855
Compensated absences payable (Note 11)	-	36	832	868	3,559
Arbitrage rebate tax payable (Note 11)	-	8	-	8	-
Total current liabilities	4,106	106,585	49,307	159,998	67,013
Noncurrent liabilities:					
Lottery prizes payable	-	-	1,310	1,310	-
Advances from other funds (Note 12)	-	-	240	240	2,946
Lease/installment purchase payable (Note 10)	-	-	59	59	31
Estimated insurance claims (Note 8)	-	-	7,270	7,270	12,799
Compensated absences payable (Note 11)	-	37	780	817	2,901
Arbitrage rebate tax payable (Note 11)	-	1	-	1	-
OPEB implicit rate subsidy (Note 7)	-	60	3,670	3,730	11,913
Total noncurrent liabilities	-	98	13,329	13,427	30,590
Total liabilities	4,106	106,683	62,636	173,425	97,603
NET POSITION					
Net investment in capital assets	-	3	16,282	16,285	91,551
Restricted for:					
Unemployment compensation	230,406	-	-	230,406	-
Other purposes	-	1,564	63,036	64,600	-
Unrestricted	-	3,871	15,041	18,912	50,093
Total net position	\$ 230,406	\$ 5,438	\$ 94,359	\$ 330,203	\$ 141,644

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, 2014
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	ECONOMIC			TOTAL	ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	DEVELOPMENT BONDS	NONMAJOR		
Operating revenues:					
Charges for services	\$ 8	\$ 19	\$ 154,905	\$ 154,932	\$ 133,228
Investment earnings	4,985	47	769	5,801	974
Securities lending income	-	-	-	-	33
Financing income	-	763	-	763	-
Contributions/premiums	163,737	-	107,529	271,266	172,224
Grants/contracts/donations	18,163	-	40,284	58,447	1,558
Other operating revenues	-	-	998	998	3,738
Total operating revenues	186,893	829	304,485	492,207	311,755
Operating expenses:					
Personal services	-	370	14,734	15,104	54,474
Contractual services	-	30	18,048	18,078	29,392
Supplies/materials	-	9	76,633	76,642	24,860
Benefits/claims	134,227	12	140,162	274,401	180,603
Depreciation	-	-	1,156	1,156	11,180
Amortization	-	-	6	6	503
Utilities/rent	-	46	1,486	1,532	15,941
Communications	-	7	1,075	1,082	12,525
Travel	-	3	333	336	514
Repairs/maintenance	-	-	792	792	11,033
Grants	-	-	-	-	520
Lottery prize payments	-	-	29,548	29,548	-
Arbitrage rebate tax	-	(4)	-	(4)	-
Dividend expense	-	-	7	7	-
Interest expense	-	2,037	21	2,058	66
Other operating expenses	1,947	53	2,453	4,453	4,961
Total operating expenses	136,174	2,563	286,454	425,191	346,572
Operating income (loss)	50,719	(1,734)	18,031	67,016	(34,817)
Nonoperating revenues (expenses):					
Tax revenues	-	-	25,148	25,148	-
Insurance proceeds	-	-	-	-	61
Gain (loss) on sale of capital assets	-	-	694	694	(66)
Federal indirect cost recoveries	-	-	-	-	6,032
Increase (decrease) value of livestock	-	-	222	222	-
Total nonoperating revenues (expenses)	-	-	26,064	26,064	6,027
Income (loss) before contributions and transfers	50,719	(1,734)	44,095	93,080	(28,790)
Capital contributions	-	-	609	609	816
Transfers in (Note 12)	-	-	157	157	4,245
Transfers out (Note 12)	-	-	(48,020)	(48,020)	(817)
Change in net position	50,719	(1,734)	(3,159)	45,826	(24,546)
Total net position - July 1 - as previously reported	179,956	7,156	97,546	284,658	163,240
Prior period adjustments (Note 2)	(269)	16	(28)	(281)	2,950
Total net position - July 1 - as restated	179,687	7,172	97,518	284,377	166,190
Total net position - June 30	\$ 230,406	\$ 5,438	\$ 94,359	\$ 330,203	\$ 141,644

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014
 (amounts expressed in thousands)

					GOVERNMENTAL
	UNEMPLOYMENT	ECONOMIC		TOTAL	ACTIVITIES -
	INSURANCE	DEVELOPMENT	NONMAJOR		INTERNAL
		BONDS			SERVICE
					FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt from sales and service	\$ 164,268	\$ 19	\$ 260,165	\$ 424,452	\$ 305,555
Payments to suppliers for goods and services	1,095	(150)	(93,943)	(92,998)	(92,011)
Payments to employees	-	(323)	(15,517)	(15,840)	(56,723)
Grant receipts (expenses)	18,542	-	40,140	58,682	1,031
Cash payments for claims	(134,227)	-	(140,400)	(274,627)	(170,446)
Cash payments for prizes	-	-	(29,611)	(29,611)	-
Other operating revenues	-	15	998	1,013	9,770
Other operating payments	(1,947)	-	(2,461)	(4,408)	(4,960)
Net cash provided by (used for)					
operating activities	47,731	(439)	19,371	66,663	(7,784)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	25,148	25,148	-
Transfer to other funds	-	-	(48,020)	(48,020)	(818)
Transfer from other funds	-	-	157	157	4,329
Proceeds from interfund loans/advances	-	-	-	-	65
Payment of interfund loans and advances	50	-	(116)	(66)	2,037
Payment of principal and interest on bonds and notes	-	(829)	(21)	(851)	(66)
Net cash provided by (used for)					
noncapital financing activities	50	(829)	(22,853)	(23,632)	5,547
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	61
Acquisition of capital assets	-	(3)	(948)	(951)	(11,747)
Net cash provided by (used for) capital and related financing activities	-	(3)	(948)	(951)	(11,686)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of investments	-	(8,229)	(11,789)	(20,018)	(1,943)
Proceeds (loss) on sales or maturities of investments	-	4,723	-	4,723	-
Proceeds (loss) from securities lending transactions/investments	-	-	-	-	254
Interest and dividends on investments	4,985	27	768	5,780	1,046
Collections of principal and interest on loans	-	25,911	-	25,911	-
Cash payment for loans	-	(28,746)	-	(28,746)	-
Net cash provided by (used for)					
investing activities	4,985	(6,314)	(11,021)	(12,350)	(643)
Net increase (decrease) in cash and cash equivalents	52,766	(7,585)	(15,451)	29,730	(14,566)
Cash and cash equivalents, July 1	171,928	31,959	87,005	290,892	87,344
Cash and cash equivalents, June 30	\$ 224,694	\$ 24,374	\$ 71,554	\$ 320,622	\$ 72,778

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014
 (amounts expressed in thousands)

	UNEMPLOYMENT INSURANCE		ECONOMIC DEVELOPMENT BONDS		NONMAJOR		TOTAL		GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS		
Reconciliation of operating income to net cash provided by operating activities:											
Operating income (loss)	\$	50,719	\$	(1,734)	\$	18,031	\$	67,016	\$	(34,817)	
Adjustments to reconcile operating income to net cash provided for (used for) operating activities:											
Depreciation	-	-	-	-	1,156	-	1,156	-	11,180		
Amortization	-	-	-	-	6	-	6	-	502		
Investment earnings	(4,985)	-	(810)	-	(769)	-	(6,564)	-	(973)		
Securities lending income	-	-	-	-	-	-	-	-	(33)		
Interest expense	-	-	571	-	21	-	592	-	67		
Interest expense reallocated to prior year restatement	-	-	1,465	-	-	-	1,465	-	-		
Federal indirect cost recoveries	-	-	-	-	-	-	-	-	6,033		
Arbitrage rebate tax	-	-	(4)	-	-	-	(4)	-	-		
Change in assets and liabilities:											
Decr (incr) in accounts receivable	523	-	-	-	(2,031)	-	(1,508)	-	(176)		
Decr (incr) in due from other funds	-	-	15	-	(1)	-	14	-	44		
Decr (incr) in due from other governments	379	-	-	-	(144)	-	235	-	(7)		
Decr (incr) in inventories	-	-	-	-	284	-	284	-	337		
Decr (incr) in other assets	-	-	-	-	(261)	-	(261)	-	236		
Incr (Decr) in accounts payable	1,095	-	-	-	3,272	-	4,367	-	2,311		
Incr (Decr) in due to other funds	-	-	8	-	353	-	361	-	478		
Incr (Decr) in due to other governments	-	-	-	-	(56)	-	(56)	-	-		
Incr (Decr) in lottery prizes payable	-	-	-	-	(63)	-	(63)	-	-		
Incr (Decr) in unearned revenue	-	-	-	-	742	-	742	-	(431)		
Increase (Decr) in amounts held in custody for others	-	-	-	-	(1)	-	(1)	-	-		
Incr (Decr) in compensated absences payable	-	-	40	-	127	-	167	-	404		
Incr (Decr) in OPEB implicit rate subsidy	-	-	10	-	(370)	-	(360)	-	(968)		
Incr (Decr) in estimated claims	-	-	-	-	(844)	-	(844)	-	8,104		
Incr (Decr) in lease installment	-	-	-	-	(81)	-	(81)	-	(75)		
Net cash provided by (used for) operating activities	\$	47,731	\$	(439)	\$	19,371	\$	66,663	\$	(7,784)	
Schedule of noncash transactions:											
Capital asset acquisitions from contributed capital	-	-	-	-	609	-	609	-	816		
Incr (decr) in fair value of investments	-	-	(13)	-	(278)	-	(291)	-	(209)		
Total noncash Transactions	\$	-	\$	(13)	\$	331	\$	318	\$	607	

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

JUNE 30, 2014

(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)	\$ 237,427	\$ 143,390	\$ 484,514	\$ 10,947
Receivables (net):				
Accounts receivable	25,788	1	-	592
Interest	10,694	2	48	-
Due from primary government	29,658	-	-	-
Due from other PERB plans	818	-	-	-
Long-term loans/notes receivable	20	-	-	-
Total receivables	66,978	3	48	592
Investments at fair value:				
Equity in pooled investments (Note 3)	9,610,927	-	-	-
Other investments (Note 3)	566,608	137,942	5,370	2
Total investments	10,177,535	137,942	5,370	2
Securities lending collateral (Note 3)	413,001	19	363	-
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	186	-	-	-
Equipment	279	-	-	-
Construction work in progress	2,592	-	-	-
Accumulated depreciation	(310)	-	-	-
Total capital assets	2,782	-	-	-
Other assets	-	33,496	-	436
Total assets	10,897,723	314,850	490,295	11,977
LIABILITIES				
Accounts payable	2,381	30	48	2,366
Due to primary government	2,069	-	-	-
Due to other PERB plans	819	-	-	-
Unearned revenue	136	-	-	-
Amounts held in custody for others	5	1	-	9,611
Securities lending liability (Note 3)	413,001	19	363	-
Compensated absences payable	580	-	-	-
OPEB implicit rate subsidy	742	-	-	-
Total liabilities	419,733	50	411	11,977
NET POSITION				
Held in trust for pension benefits				
and other purposes	\$ 10,477,990	\$ 314,800	\$ 489,884	\$ -

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, 2014
 (amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE- PURPOSE TRUST FUNDS	INVESTMENT TRUSTS
ADDITIONS			
Contributions/premiums:			
Employer	\$ 216,909	\$ -	\$ -
Employee	216,932	-	-
Other contributions	127,848	41,813	867,265
Net investment earnings:			
Investment earnings	1,569,110	(1,162)	663
Administrative investment expense	(55,013)	-	(138)
Securities lending income	2,029	-	1
Securities lending expense	(316)	-	-
Charges for services	231	-	-
Other additions	258	6,196	-
Total additions	2,077,988	46,847	867,791
DEDUCTIONS			
Benefits	682,483	-	-
Refunds	18,964	-	-
Distributions	-	31,771	872,743
Administrative expenses:			
Personal services	4,622	-	-
Contractual services	2,656	339	-
Supplies/materials	161	-	-
Depreciation	32	-	-
Utilities/rent	339	-	-
Communications	240	-	-
Travel	72	-	-
Repair/maintenance	30	-	-
Other operating expenses	266	-	-
Local assistance	14	-	-
Transfers to MUS-RP	174	-	-
Transfers to PERS-DCRP	1,028	-	-
Total deductions	711,081	32,110	872,743
Change in net position	1,366,907	14,737	(4,952)
Net position - July 1 - as previously reported	9,111,096	300,063	494,836
Prior period adjustments (Note 2)	(13)	-	-
Net position - July 1 - as restated	9,111,083	300,063	494,836
Net position - June 30	\$ 10,477,990	\$ 314,800	\$ 489,884

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 (State) 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. Following the guidance set forth in GASB Statement No. 70, as implemented for fiscal year 2014, we believe that the general fund is providing a nonexchange financial guarantee to State Fund by providing resources from which State Fund pays claims related to Old Fund.

State Fund is defined in statute as a single separate legal entity. 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. State Fund handles all administration of the claims including: determining who a claimant is; what, if any, claims will be paid; and the amount of claims allowed to be paid.

The Montana State Fund column, as reported in the CAFR, includes both New Fund and Old Fund financial information; whereas the financial statements as presented by State Fund only include New Fund activity. 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.

Pursuant to MCA 39-71-2352, if during any fiscal year which claims for injuries resulting from accidents occurring prior to July 1, 1990 are not adequately funded by Montana State Fund, any amount necessary to cover those claims must be transferred from the State's general fund to Montana State Fund. For the fiscal years 2011 – 2013 on the Statement of Net Position, a liability was reported in the governmental activities column and a long-term receivable was reported in the component unit column for the estimated future claim contribution from the general fund to State Fund related to the Old Fund claims. For fiscal year 2014, on the Statement of Net Position, the liability in the governmental activities column was reclassified as a long-term liability and no receivable is reported in the component unit column. For further information on non-exchange financial guarantees please see Note 1 (Q).

A. Reporting Entity

For financial reporting purposes, the State of Montana has included all funds which comprise 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.

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

Montana Board of Housing (Authority)
301 South Park, Room 240
PO Box 200528
Helena, MT 59620-0528

Montana State Fund
855 Front Street
PO Box 4759
Helena, MT 59604-4759

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

Montana Board of 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 authority 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 authority 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. The Montana State Fund column, as reported in the CAFR, includes both New Fund and Old Fund financial information. 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.

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, 2014, the general fund was required to transfer \$8.6 million to the Montana State Fund to support their activities to settle Old Fund claims.

Following the guidance set forth in GASB Statement No. 70, as implemented for fiscal year 2014, this transaction has been reported as a nonexchange financial guarantee. On the Statement of Net Position, the liability in the governmental activities column was reclassified as a long-term liability. No receivable was reported in the component unit column. For further information on non-exchange financial guarantees please see Note 1 (Q).

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.

Fiduciary Fund Component Units

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

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, 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'; the Firefighters' Unified Retirement Systems; the Volunteer Firefighters' Compensation Act; and the State of Montana Deferred Compensation Program (457 Plan). The board also administers an Other Post Employment Benefit (OPEB) disability plan on behalf of Public Employees' Retirement Plan-Defined Contribution members.

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 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. The State and thirty-five non-state entity employers contribute to the 457 Plan on behalf of their employees. The OPEB disability plan is funded through an employer contribution of 0.3% of a member's compensation. The PERS also accounts for the administrative costs, paid from investment earnings, of the plan. These are allocated out to all plans.

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

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 fees, 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.

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.

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 available if it is expected to be 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 \$75 million increase. (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; or (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 plan. 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, and bonds held in trust.

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.

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 2014, 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 generally 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. Net position associated with Unemployment Insurance is also classified as restricted.

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 and 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 Outflows, Deferred Inflows, and Unearned Revenue

A deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period.

A portion of deferred inflows of resources in the government-wide, proprietary fund and fiduciary fund financial statements relate to unearned revenue. Unearned revenue in the governmental fund financial statements relates to both unearned 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. Bonds payable are recorded net of any applicable premium or discount. 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, 2013, was 21,696 hours. For fiscal year 2014, 1,210 sick leave hours, 200 annual leave hours, and 2,721 excess annual leave hours were contributed to the sick leave pool, and 3,814 hours were withdrawn, leaving a balance of 22,013 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. Nonexchange Financial Guarantee

Per GASB Statement 70, governments may extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange

transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements.

R. Fund Balance/Net Position

Fund Balance

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 management 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. 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. Based on the Governor's budget proposal, the FY14 ending fund balance will be spent down by \$80 million when comparing the FY14 actual to FY15 enacted/proposed budget. This represents management's intention to fund supplementals and other one-time-only expenditures.

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 must 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 \$3.0 billion.

S. 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.

T. 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	\$ 17,877	\$ 24,459	\$ 1	\$ 19	\$ 42,356
Agriculture sales	-	6,898	-	-	6,898
Cigarette/tobacco	36,560	48,038	1,812	-	86,410
Contractors gross receipts	887	-	-	-	887
Energy tax	7,398	-	-	-	7,398
Fire protection	-	3,610	-	-	3,610
Insurance premium	60,839	26,186	-	-	87,025
Liquor tax	5,276	2,075	-	25,129	32,480
Livestock	-	4,384	-	-	4,384
Other taxes	6,073	6,081	-	-	12,154
Public service commission	-	4,963	-	-	4,963
Telephone license	19,549	-	-	-	19,549
Video gaming	57,148	9	-	-	57,157
Total other taxes	\$211,607	\$126,703	\$1,813	\$25,148	\$365,271

U. Service Concession Arrangements

A Service Concession Arrangement (SCA) is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to

provide services through the use of infrastructure or another public asset in exchange for significant consideration and the operator collects and is compensated by fees from a third party. No material service concession arrangements were found.

NOTE 2. OTHER ACCOUNTING ISSUES

A. New Accounting Guidance Implemented

For the year ended June 30, 2014, the State of Montana implemented the provisions of GASB Statement 65 - "Items Previously Reported as Assets and Liabilities." This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

For the year ended June 30, 2014, the State of Montana implemented the provisions of GASB Statement 66 - "Technical Corrections—2012—An Amendment of GASB Statements No. 10 and No. 62" The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Government Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

For the year ended June 30, 2014, the State of Montana implemented the provisions of GASB Statement 67 - "Financial Reporting for Pension Plans—An Amendment of GASB Statement No. 25." The objective of this statement is to improve financial reporting by state and local governmental pension plans. This statement replaces the requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This statement also details the note disclosure requirements for defined contribution pension plans administered through trusts that meet the identified criteria. No employer pension reporting is impacted by the implementation of this statement.

For the year ended June 30, 2014, the State of Montana implemented the provisions of GASB Statement 70 - "Accounting and Financial Reporting for Nonexchange Financial Guarantees." The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

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 three most significant adjustments affected the governmental activities column in the Statement of Activities. One is related to Montana Department of Transportation infrastructure in the amount of \$219 million. The methodology for recording construction work in progress was changed from prior years. In prior years construction work in progress was recorded on a project by project basis with costs over \$500 thousand per project. As of 2014, construction work in progress is recorded for all project costs. The second adjustment relates to the Other Post Employment Benefit (OPEB) Implicit Rate Subsidy in the amount of \$54 million. This resulted in a restatement of the beginning balances for the related long-term liability as indicated in Note 11(E). The final adjustment relates to the beginning balance for Pollution Remediation was restated in the Summary of Changes in Long-term Liabilities Payable, Note 11(E). This was due to an overstatement of Pollution Remediation Liability recorded by Department of Justice in fiscal year 2013 of \$221 million.

For the fiscal years 2011 - 2013 on the Statement of Net Position, a long-term receivable was reported in the component unit column for the estimated future claim contribution from the general fund to State Fund related to the

Old Fund claims. Following the guidance set forth in GASB Statement No. 70, as implemented for fiscal year 2014, this transaction qualifies as a nonexchange financial guarantee. On the Statement of Net Position for the year ended 2014, no receivable is reported in the component unit column and a prior period adjustment of \$45 million was made.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

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

Cash/cash equivalents	\$ 3,024,777
Equity in pooled investments	\$ 11,806,900
Investments	\$ 3,136,001

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 BOI 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:

<u>Pool/Investments Managed Name</u>	<u>Creation Date</u>	<u>Eligible Participants</u>
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 International 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

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

(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.

(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 public equity Pools may include common stock, equity index shares, preferred stock, convertible equity securities, American Depositary Receipts (ADR), equity derivatives, and commingled funds. The MDEP portfolio is limited to domestic stock investments, while the MTIP portfolio includes holdings of securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges as depositary receipts. The MTIP portfolio invests in both developed and emerging markets. The MPEP portfolio includes venture capital, leveraged buyout, mezzanine, distressed debt, special situation, and secondary investments. The MTRP portfolio includes investments in private core, value-added, and opportunistic real estate. The STIP portfolio may include asset-backed securities, commercial paper, corporate, U.S. Government direct obligations, U.S. Government agency securities, repurchase agreements, institutional money market funds, certificates of deposit, and variable-rate (floating-rate) instruments. The State also invests in 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 depository bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depository 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.

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.

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 and return and 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 2014, 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 2014. 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 2014 resulting from a borrower default.

During fiscal year 2014, 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, 2014, the Quality D Short Term Investment Fund (STIF) liquidity pool had an average duration of 37 days and an average weighted final maturity of 104 days for US dollar collateral. The duration pool had an average duration of 42 days

and an average weighted final maturity of 1,770 days for US dollar collateral. As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of 41 days and an average weighted final maturity of 114 days for US dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 548 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 2014, BOI's credit risk exposure to borrowers was indemnified by State Street Bank. 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 securities (Baa3/BBB- or higher) with the exception up to 10% of the pool may be invested in below investment grade securities. 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 Permissible Securities on the Approved List
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 custodial bank's Short Term Investment Fund (STIF) or the MTRP STIP investment. As of June 30, 2014, the MTIP STIF balance was \$5,748,968, while the MDEP STIF balance was \$34,685,311. The June 30, 2014, MTRP STIP investment totaled \$15,012,213. The STIF and STIP cash equivalent funds have not been rated by a NRSRO. One MDEP manager has a \$227,075 cash equivalent investment as of June 30, 2014 in the T. Rowe Price Reserve Investment Fund with an average credit rating of AAA.

Of the 18 individual Investment Policy Statements for the funds categorized as the AOF, eight funds have specific policies associated with credit risk. The remaining funds have no policy addressing credit risk. One fund requires "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. This fund's 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 rating 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 U.S. 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 the 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, 2014, BOI recorded cash deposits of \$4,023,223; of this balance, \$1,175,899, 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, 2014, 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. 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 18 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 12% 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 these five 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, 2014.

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, 2014 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 TFIP and CIBP’s 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 three 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. A second 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. A third fund’s policy limits securities to 1-5 year US Treasury/Agency securities tolerating modest interest rate risk. Eight 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 STIF fund has an effective duration of .11. One MDEP investment manager invested \$227,075 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, 2014, 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.

Bond Pool and AOF investments are categorized to disclose credit and interest rate risk as of June 30, 2014. 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. NA (not applicable) indicates if duration has not been calculated.

STIP investments are categorized to disclose credit risk and weighted average maturity (WAM) as of June 30, 2014. 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. The short-term credit ratings, provided by S&P’s rating services are presented. An A1+ rating is the highest short-term rating by the S&P rating service. STIP interest rate risk is determined using the 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. The WAM is calculated in days.

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.

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 2014 payments from AFF Financing LLC totaled \$6,783,298 consisting of \$6,712,723 in principal and \$70,575 in interest. On June 3, 2014, BOI elected to extend the AFF Financing LLC promissory note maturity date to July 2, 2015. 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, 2014, the AFF Financing LLC, classified as an Other Asset Backed security, has an outstanding amortized cost balance of \$22,848,774. 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 2014, BOI received principal and interest payments of \$13,474,851 and \$2,392,067, 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, 2014, the Orion Finance collective holding, classified as Other Asset Backed, has an outstanding amortized cost balance of \$15,591,507. Refer to Note 17–Subsequent Events for additional information.

STIP, Bond Pool and AOF

The Federal National Mortgage Association and Federal Home Loan Mortgage Corp. remain in conservatorship from 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.

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. For the remaining \$10 million variable rate position in Lehman Brothers Holdings, Inc. held in the TFIP and AOF portfolios, the BOI applied \$519,119 in principal from the October 2013 bankruptcy payment resulting in a book value of \$1 each as of June 30, 2014. The \$55,931 October 2013 payment balance and the April 2014 payment of \$638,206 were recorded to gain.

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	\$137,867
Uninsured and uncollateralized cash	5,142
Undeposited cash	570
Cash in US Treasury	224,549
Cash in MSU component units	6,531
Cash in UM component units	5,820
Less: outstanding warrants	(63,327)
	<u>\$317,152</u>

As of June 30, 2014, the carrying amount of deposits for component units was \$196,588,028 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	\$ 777,418	A1	30
Corporate commercial paper	138,958	A1	39
Corporate - variable	658,894	A1	38
Certificate of deposit – fixed	100,000	A1	219
Certificate of deposit – variable	391,996	A1+	32
Other asset backed	38,440	NR	NA
US government agency fixed	124,741	A1+	194
US government agency variable	200,003	A1+	31
Money market fund unrated	267,915	NR	1
Money market fund rated	21,000	A1+	1
Repurchase agreement (1)	10,349	0	0
US Government Direct Obligations	39,959	0	NA
Less: STIP included in pooled investment balance	(62,048)	NR	NA
Total cash equivalents (4)	<u>\$ 2,707,625</u>		<u>43</u>
Securities lending collateral investment pool (2)	<u>\$ 1,862</u>	NR	<u>(See note 3)</u>

- (1) As of June 30, 2014, the repurchase agreement was collateralized at 102% for \$10,555,693 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, 2014, the fair value of the cash equivalents was \$1,822,162. Collateral provided for the cash equivalents totaled \$1,861,747 in cash. See also the Table 4 disclosed in Note 3 D – Investments.
- (3) As of June 30, 2014, the Securities Lending Quality Trust liquidity pool has an average duration of 41 days and an average weighted final maturity of 114 days for US dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 548 days for US dollar collateral.
- (4) As of June 30, 2014, local governments invested \$489,883,980 and component units of the State of Montana invested \$582,479,302 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	\$2,491,555	\$ 3,835,790
TFIP:		
Trust funds investment pool	2,060,978	2,188,659
RFBP:		
Retirement funds bond pool	2,097,741	2,142,497
MTIP:		
International equity pool	1,335,041	1,747,475
MPEP:		
Private equity pool	877,756	1,031,448
MTRP:		
Real estate pool	786,064	841,169
Total pooled investments	9,649,135	11,787,038
Pool adjustments (net)	19,862	19,862
Total equity in pooled investments	<u>\$9,668,997</u>	<u>\$11,806,900</u>

As of June 30, 2014, the fair value of the underlying securities on loan was \$852,489,288. Collateral provided for the securities on loan totaled \$868,929,086, consisting of \$524,244,969 in cash and \$344,684,117 in securities.

As of June 30, 2014, component units of the State of Montana had equity in pooled investments with a book value of \$5,396,399,298 and a fair value of \$9,750,001,483, as included in Table 3.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2014, as required for applicable pools. Credit risk reflects the bond quality rating, by investment type, as of 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).

TFIP
Credit Quality Rating and Effective Duration as of June 30, 2014
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Core real estate	\$ 155,334	NR	NA
Corporate bonds (rated)	944,877	A+	5.20
Corporate bonds (unrated)	969	NR	NA
High yield bond fund	109,785	B	3.70
Municipal government bonds (rated)	829	AA	0.09
Sovereign bonds	14,808	A+	7.82
US government direct obligations	435,527	AA+	6.57
US government agency	480,049	AA+	4.43
STIP	46,481	NR	.12
Total fixed-income investments	<u>\$2,188,659</u>	AA-	5.13
Securities lending collateral investment pool	<u>\$ 111,403</u>	NR	(1)

- (1) As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of .11 and an average weighted final maturity of .31 for US dollar collateral. The duration pool had an average duration of .09 and an average weighted final maturity of 1.50 for US dollar collateral.

RFBP
Credit Quality Rating and Effective Duration as of June 30, 2014
(in thousands)

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate bonds (rated)	\$1,116,730	A-	4.89
Corporate bonds (unrated)	1,015	NR	12.41
International government	12,196	BBB+	4.57
Municipal government bonds	4,130	AA-	10.88
Sovereign bonds	31,502	AA-	5.33
US government direct obligations	471,749	AA+	6.50
US government agency	419,853	AA+	4.75
Montana mortgages	10,573	NR	NA
State Street (STIF)	73,733	NR	.11
STIP	555	NR	.12
Total fixed-income investments	\$2,142,036	A+	5.07
Preferred Stock	453	BBB-	
Common Stock (1)	8		
Total Investment	\$2,142,497		
Securities lending collateral Investment pool	<u>\$ 158,456</u>	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 addition to the common stock and warrants, the RFBP held 4,400 shares of Southern Cal Ed as a preferred stock as of June 30, 2014.
- (2) As of June 30, 2014, the Securities Lending Quality D Short Term Investment Fund liquidity pool had an average duration of .10 and an average weighted final maturity of .28 for US dollar collateral. The duration pool had an average duration of .11 and an average weighted final maturity of 4.85 for US dollar collateral.

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, 2014, classified by type, and the changes in the fair value of such derivative instruments for the year ended June 30, 2014, as reported in the 2014 financial statements, are as follows (in thousands):

<u>Investment Derivatives</u>	<u>Change in Fair Value</u>		<u>Fair Value at June 30, 2014</u>		
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Fair Value Amount</u>	<u>Notional</u>
Currency forward contracts	Investment Revenue	\$ (818)	LT debt/equity	\$(210)	\$41,943
Index futures long	Investment Revenue	2,173	Futures	-	4
Index futures short	Investment Revenue	-			
Rights	Investment Revenue	31	Equity	39	40
Warrants	Investment Revenue	2	Equity	-	-
Total derivatives		<u>\$1,388</u>		<u>\$(171)</u>	

Credit risk is the risk that the counter party will not fulfill its obligations. The tables below depicts the BOI's credit risk exposure to its investment derivatives and the applicable counterparty credit ratings.

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, 2014.	\$ 193
Effect of collateral reducing maximum exposure	-
Liabilities subject to netting arrangements	-
Resulting net exposure	<u>\$ 193</u>

<u>Counterparty Name</u>	<u>Percentage of Net Exposure</u>	<u>S&P Rating</u>	<u>Fitch Rating</u>	<u>Moody's Rating</u>
Deutsche Bank London	25%	A	A+	A2
JP Morgan Chase Bank	25%	A+	A+	Aa3
Westpac Banking Corp	17%	AA-	AA-	Aa2
Credit Suisse London	14%	A	A	A1
Royal Bank of Scotland	14%	A-	A	Baa1
Morgan Stanley Capital	4%	A-	A	Baa2
State Street Bank	1%	AA-	A+	Aa3

As of the June 30, 2014 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), sovereign debt and commingled index funds.

Foreign Currency Exposure by Country
(in thousands)

Foreign Currency Denomination	Currency	Fixed Income	Equities	Rights	Private Equity	Real Estate
Australian Dollar	\$ 37	\$ 1,130	\$ 13,691	\$ -	\$ -	\$ -
Brazilian Real	126	2,254	5,981	-	-	-
Canadian Dollar	49	127	30,067	-	-	-
Danish Krone	15	-	6,137	-	-	-
EMU – Euro	160	4,095	123,285	24	26,187	19,199
Hong Kong Dollar	104	-	32,907	-	-	-
Hungarian Forint	1	-	-	-	-	-
Indonesian Rupiah	1	-	1,915	-	-	-
Israeli Shekel	21	-	924	-	-	-
Japanese Yen	339	-	86,365	-	-	-
Korean Fortnit	-	-	14,186	14	-	-
Malaysian Ringgit	5	-	2,045	-	-	-
Mexican Peso	98	2,195	4,607	-	-	-
New Zealand Dollar	4	1,673	83	-	-	-
Norwegian Krone	36	-	8,466	-	-	-
Philippine Peso	1	-	1,097	-	-	-
Polish Zloty	9	-	790	-	-	-
Singapore Dollar	34	-	3,760	-	-	-
South African Rand	-	-	3,653	-	-	-
South Korean Won	41	-	-	-	-	-
Swedish Krona	20	-	14,466	-	-	-
Swiss Franc	13	-	32,525	-	-	-
New Taiwan Dollar	4	-	9,356	-	-	-
Thailand Baht	8	-	1,288	-	-	-
Turkish Lira	-	-	1,194	-	-	-
UK Pound Sterling	50	722	67,509	-	-	-
Total Cash and Securities	\$1,176	\$12,196	\$466,297	\$38	\$26,187	\$19,199

Investment Commitments

Investments in private equity and private real estate are usually made via Limited Partnership Agreements that involve many limited partners and a General Partner who is responsible for all investment decisions. The Limited Partners make an original commitment, after which capital is called as needed by the General Partner to make investments. These Agreements will usually last for a minimum of 10 years. The table below shows the remaining Board commitments to private equity funds. For further details on the balances as of June 30, 2014 as shown below, please refer to the Montana Board of Investments separately issued external investment pool financial statements: (in thousands)

	<u>Original Commitment</u>	<u>Commitment Remaining</u>	<u>Carrying Value</u>	<u>Fair Value</u>
<u>MPEP Commitments</u>	\$2,035,721	\$671,586	\$832,494	\$964,757
<u>MTRP Commitments</u>	\$555,604	\$327,451	\$327,550	\$964,589

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	62.76%
PERA (Public Employee Retirement Administration)	21.94
Board of Housing	3.74
College Savings Plan	4.90
Montana State University/University of Montana	3.16
Other (1)	3.50
Total	100.00%

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

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, Transamerica. 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. All money invested in the Montana Stable Value Fixed Fund of the PERS-DCRP and Deferred Compensation Plan are invested in the Pooled Trust. The Pooled Trust assets are invested by PIMCO based on an investment guideline schedule as agreed upon in the Pooled Trust Contract and approved by the PERB, PIMCO, and any third party insurers, such as Transamerica. Variable investments are held and managed by a selection of retail and institutional mutual funds, which cover all standard asset classes and categories.

Table 4 – Investments
(in thousands)

	Carrying Amount	Fair Value
Primary government		
Corporate bonds (rated) (1)	\$ 53,753	\$ 54,582
US govt agency (1)	92,352	94,857
US govt direct (rated) (1)	9,293	10,130
Government securities	13,774	14,007
STIP/SIV investments	5,718	5,717
Mortgages	137,919	129,722
Other equities	66,027	67,436
Total	\$ 378,836	\$ 376,451
Component units/fiduciary funds		
Corporate bonds (rated) (1)	\$ 649,560	\$ 684,225
Corporate bonds (unrated)	-	969
US govt agency (1)	297,547	307,236
US govt direct (rated) (1)	168,423	177,328
Government Securities	77,333	78,377

Table 4 – Investments
(in thousands)

	Carrying Amount	Fair Value
STIP/SIV Investments	\$ 9,874	\$ 9,874
Loans	20,970	20,856
Other equities	80,352	167,515
Deferred compensation	432,457	432,457
Defined contribution	127,741	127,741
529 College Savings Plan	125,175	125,175
VEBA	3,673	4,048
Investments of MSU component units	205,970	205,970
Investments of UM component units	226,453	226,454
Real Estate	70,000	74,073
Other	98,917	104,759
State Auditor	12,562	12,493
Total	<u>\$ 2,607,007</u>	<u>\$ 2,759,550</u>
Total investments (1)	<u>\$ 2,985,843</u>	<u>\$ 3,136,001</u>
Securities lending collateral investment pool (2)	<u>\$ 202,372</u>	<u>\$ 202,372</u>

- (1) The credit quality rating and duration are included below for the rated investments.
- (2) As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of .11 and an average weighted final maturity of .31 for U.S. dollar collateral. The duration pool had an average duration of .09 and an average weighted maturity of 1.50 for U.S. dollar collateral.

As of June 30, 2014, the fair value of the investments on loan was \$326,568,663. Collateral provided for the investments on loan totaled \$332,873,695 consisting of \$288,509,659 in cash and \$44,364,036 in securities.

All Other Funds - Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2014
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate bonds (rated) (1)	\$ 738,806	A	3.56
Corporate bonds (unrated) (1)	969	NR	NA
Sovereign bonds	20,856	AA-	5.51
US government direct obligations (1)	228,009	AA+	4.55
US government agency(1)	451,523	AA+	3.30
US Bank sweep repurchase agreement (1)(2)	10,349	NR	0.00
	<u>\$1,450,512</u>	<u>AA-</u>	<u>3.66</u>

- (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 \$10,555,693 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, 2014, 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	\$ -	\$ 9,171	\$ -	\$ -	\$ -	\$ -
Taxes	287,360	78,204	-	7,133	-	1,809
Charges for services/fines/forfeitures	407	8,659	3,950	-	-	-
Investment income	2,317	3,778	-	5,290	1,816	984
Contributions/premiums	-	17,198	-	-	-	-
Reimbursements/overpayments	8,560	9,731	1,228	-	-	-
Grants/contracts/donations	-	45	51	-	-	-
Other	5,654	207	15,138	-	-	4,532
Total receivables	304,298	126,993	20,367	12,423	1,816	7,325
Less: allowance for doubtful accounts	(37,613)	(29,803)	(2,065)	-	-	(1)
Receivables, net	\$266,685	\$97,190	\$18,302	\$12,423	\$1,816	\$7,324

	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Charges for services	\$ -	\$ -	\$22,488	\$ 260
Investment income	-	8,862	122	209
Contributions/premiums	6,635	-	5,963	2,561
Reimbursements/overpayments	2,762	-	-	-
Other	-	-	41	-
Total receivables	9,397	8,862	28,614	3,030
Less: allowance for doubtful accounts	(3,104)	-	(269)	(3)
Receivables, net	\$6,293	\$8,862	\$28,345	\$3,027

B. Payables

	Governmental Funds			
	General	State Special Revenue	Federal Special Revenue	Nonmajor Governmental
Tax refunds	\$140,740	\$ -	\$ -	\$ -
Vendors/individuals	89,323	108,314	146,500	3,891
Payroll	15,184	14,426	5,953	11
Payables, net	<u>\$245,247</u>	<u>\$122,740</u>	<u>\$152,453</u>	<u>\$3,902</u>

	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Vendors/individuals	\$4,039	\$ -	\$13,630	\$12,310
Payroll	-	18	653	2,483
Accrued interest	-	57	5	-
Payables, net	<u>\$4,039</u>	<u>\$75</u>	<u>\$14,288</u>	<u>\$14,793</u>

NOTE 5. CAPITAL ASSETS

Changes in capital asset balances for the fiscal year ended June 30, 2014, are reflected in the following table (in thousands):

Governmental Activities	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not being depreciated:				
Land	\$ 624,264	\$ 17,227	\$ (5,008)	\$ 636,483
Construction Work In Progress	713,273	857,604	(680,268)	890,609
Easements	142,893	1,541	-	144,434
Museum & Art	64,920	340	(8)	65,252
Other	11,350	439	-	11,789
Total Capital Assets not being depreciated	<u>1,556,700</u>	<u>877,151</u>	<u>(685,284)</u>	<u>1,748,567</u>
Capital assets being depreciated:				
Infrastructure	4,295,135	385,403	(154,762)	4,525,776
Land Improvements	45,056	9,688	(723)	54,021
Buildings/Improvements	562,635	10,127	(9,077)	563,685
Equipment	360,662	27,483	(40,789)	347,356
Easements - Amortized	1,815	-	(73)	1,742
Other	6,398	230	-	6,628
Total Capital Assets being depreciated	<u>5,271,701</u>	<u>432,931</u>	<u>(205,424)</u>	<u>5,499,208</u>
Less Accumulated Depreciation for:				
Infrastructure	(1,436,487)	(159,388)	100,961	(1,494,914)
Land Improvements	(13,842)	(6,239)	185	(19,896)
Buildings/Improvements	(299,633)	(22,527)	5,139	(317,021)
Equipment	(239,578)	(22,443)	39,326	(222,695)
Other	(4,870)	(244)	-	(5,114)
Total accumulated depreciation	<u>(1,994,410)</u>	<u>(210,841)</u>	<u>145,611</u>	<u>(2,059,640)</u>
Total capital assets being depreciated net	<u>3,277,291</u>	<u>222,090</u>	<u>(59,813)</u>	<u>3,439,568</u>
Intangible Assets	<u>44,972</u>	<u>12,871</u>	<u>(15,029)</u>	<u>42,814</u>
Governmental activities capital assets net	<u>\$4,878,963</u>	<u>\$1,112,112</u>	<u>\$(760,126)</u>	<u>\$5,230,949</u>

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

Business Type Activities	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not being depreciated:				
Land	\$ 800	\$ -	\$ -	\$ 800
Construction Work In Progress	2,449	3,237	(2,429)	3,257
Other	3,416	4,154	(3,416)	4,154
Total Capital Assets not being depreciated	6,665	7,391	(5,845)	8,211
Capital assets being depreciated:				
Infrastructure	951	211	-	1,162
Land Improvements	3,830	-	-	3,830
Buildings/Improvements	7,499	15	-	7,514
Equipment	9,471	452	(19)	9,904
Total Capital Assets being depreciated	21,751	678	(19)	22,410
Less Accumulated Depreciation for:				
Infrastructure	(647)	(18)	-	(665)
Land Improvements	(1,170)	(149)	-	(1,319)
Buildings/Improvements	(5,287)	(205)	-	(5,492)
Equipment	(6,229)	(785)	19	(6,995)
Total accumulated depreciation	(13,333)	(1,157)	19	(14,471)
Total capital assets being depreciated net	8,418	(479)		7,939
Intangible Assets	1	252	(3)	250
Business Type activities capital assets net	\$15,084	\$7,164	\$(5,848)	\$16,400

(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):

	<u>Amount</u>
General Government	\$ 10,669
Public Safety	7,752
Transportation including depreciation of the highway system maintained by the state.	1,175,277
Health and Human Services	2,428
Education	435
Natural Resources (including depreciation of the state's dams)	16,079
Depreciation on capital assets held by the internal revenue service funds is charged to the various functions based on their usage of the assets	11,180
Total Governmental Activities Accumulated Depreciation	<u>\$1,223,820</u>

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

	<u>Amount</u>
Liquor Stores	\$ 137
State Lottery	514
Prison Funds	288
Other Enterprise Funds	217
Total Depreciation Expense - Business-Type Activities	<u>\$1,156</u>

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 nine 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), Volunteer Firefighters Compensation Act (VFCA) and the Public Employee Retirement Benefit Defined Contribution Disability Other Post Employment Benefit (PERS-DCRP Disability) plan. 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, PERS-DCRP Disability, 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 funds. The PERS-DCRP financial statements include activity for the defined contribution and the associated education funds.

Additional disclosures related to the PERS-DCRP Disability plan are contained within Note 7 of this financial report as an other post employment benefit plan type.

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, except for the PERS-DCRP Disability plan, provide retirement, disability, and death benefits to the plan members and their beneficiaries. The PERS-DCRP Disability plan only provides disability benefits to a member, and no beneficiaries, until they can attain retirement benefits from PERS-DCRP plan. A summary of the plan eligibility and benefits are found on the Summary of Defined Benefit Plan Provisions on the following pages. Related disclosures for the PERS-DCRP Disability plan can be found within Note 7 of this report. 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, 2014, the Sheriffs Retirement System (SRS), Game Warden & Peace Officers Retirement System (GWPORS), Highway Patrol Officers' Retirement System (HPORS) and the Public Employee Retirement Benefit Defined Contribution Disability Other Post Employment Benefit (PERS-DCRP Disability) plan 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 statutory appropriation requested by 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						
6/30/2014	78,463	50,599	(27,864)	155.1%	6,355	(438.46)%
HPORS						
6/30/2014	117,226	183,400	66,174	63.9%	14,149	467.69%

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	\$ 1,651	\$ 5,474
Employee	469	1,456
State (General Fund)		262
Actuarial valuation date	6/30/14	6/30/14
Actuarial cost method	Entry Age Normal	Entry Age Normal
Remaining amortization period	0 years	30.3 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	Varied based on statutorily guaranteed minimum not to exceed 5%

(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, 2014, follows:

Employers	PERS-DBRP	SRS	GWPORS	MPORS	FURS	TRS	VFCA
State agencies	34	1	4		1	9	
Counties	55	56					
Cities/towns	98			32	16		
Rural fire districts					8		
Colleges/universities	5		3			5	
High schools	6						
School districts	232					351	
Other agencies	111						
Participating companies							218
Total	541	57	7	32	25	365	218

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 Montana University System Retirement Program (MUS-RP). For members that choose to join the PERS-DCRP or the MUS-RP, a percentage of the employer 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 2,188 active plan members.

The employer rate of 8.17% 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.

The PERS-DCRP also administers an other post-employment benefit (OPEB) disability plan. See Note 7 for additional information related to this portion of the 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, 2014, there were 8,519 participating plan members.

E. Montana University System Retirement Program

MUS-RP – Montana University System Retirement Program – Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Montana University System Retirement Program (MUS-RP), previously referred to as the Optional Retirement Program (ORP)). 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 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 and 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.

Total contributions made to the plan by the employer were in the amount of \$13,281,925 and the total employee contributions were \$16,177,743 for the fiscal year ended June 30, 2014.

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. In fiscal year 2014, there were 223 employees participating in the program.

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 2014 totaled \$63,671. The outstanding balance at June 30, 2014, totaled \$20,714.

I. Changes Since Last Valuation

Effective July 1, 2013, member's contributions to PERS-DBRP and PERS-DCRP increased from 6.9% to 7.9% of their compensation and employers must provide supplemental contributions to PERS-DBRP and PERS-DCRP of 1.27%, and 1%, respectively, of an employee's compensation. The employer supplemental contribution continues to rise by an additional .1% for both plans each succeeding year until it reaches a total amount of 2.27% for both plans in calendar year 2024. The additional employer and employee contributions will cease when the amortization period of the unfunded actuarial liability 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 was reduced to 1.5% for all retirees. GABA is further reduced by .1% for each 2% that funded ratio is less than 90%. The GABA will be zero if the amortization period exceeds 40 years. See litigation disclosures in section J below as this reduction has been enjoined by the District Court.

Effective July 1, 2013, the HPORS employer contribution rate increased from 36.33% to 38.33% of member pay. The member contribution rate for all members increases 1% per year for four years. For those retiring after July 1, 2013, the benefit multiplier of the member's Highest Average Compensation (HAC) increased from 2.5% to 2.6%. The member GABA was 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 increased 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 are not treated as compensation for retirement purposes.

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

In fiscal year 2014, the state provided the PERS-DB plan a nonemployer supplemental contribution from coal severance tax and interest earnings in the amount of approximately \$33.676 million.

Effective for employees hired 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.

As of July 1, 2013, TRS required a 1% supplemental employer contribution. This increased 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.

The state provides an annual supplemental contribution of \$25 million to the TRS in equal monthly installments.

J. Litigation

Wrzesien v. State. Three members of PERS who elected to participate in either the PERS Defined Contribution Retirement Plan or the University System's Montana University System Retirement Program (MUS-RP) (formally known as the Optional Retirement Program) have sued the State of Montana and MPERA over the PERS plan choice rate. The complaint alleges equal protection and due process violations, and requests issuance of a declaratory judgment granting plaintiffs the employer contributions paid toward the plan choice rate. Class action certification is also requested. The plaintiffs are represented by Travis Dye of Kalkstein, Johnson & Dye in Missoula, Montana. The State and MPERA are represented by J. Stuart Segrest

and Michael G. Black of the Montana Attorney General's Office. The complaint was subsequently amended to include the 1 % in employer contributions for DCRP plan members that, pursuant to HB 454 (2013), go to the PERS defined benefit retirement plan starting July 1, 2013. In the event plaintiffs prevail, and class action certification is granted, over 3000 PERS DCRP and MUS-RP participants will be paid the contributions previously directed to the plan choice rate. At June 30, 2014, MPERA calculated the contributions from the MUS-RP Plan Choice at \$5,083,250 and the contributions from the DCRP Plan Choice at \$21,005,539.

Association of Montana Retired Public Employees (AMRPE) v. State. Four Public Employees' Retirement System (PERS) retired members and their retiree association (AMRPE) have sued the State of Montana, MPERA, the PERB and Governor Bullock over the reduction of the PERS guaranteed annual benefit adjustment (GABA) decrease enacted by the 2013 Montana Legislature through HB 454. Plaintiffs are represented by Leo Berry, Chad E. Adams and Jessie L. Luther from Browning, Kaleczyc, Berry & Hoven P.C., in Helena, MT. The State, MPERA, PERB and Governor Bullock are represented by J. Stuart Segrest and Michael G. Black of the Montana Attorney General's Office. In November 2014, MPERA's actuary determined that if plaintiffs prevail and the GABA remains at 3%, PERS's funding ratio would be 74.4% as opposed to 83.9% should plaintiffs be unsuccessful. Similarly, if Plaintiffs prevail, PERS would amortize over 29.3 years as opposed to 10.5 years under HB 454 (2013). Plaintiffs moved for and, following briefing and oral argument, received a Preliminary Injunction blocking implementation of the GABA decrease pending resolution of the underlying lawsuit. Discovery is nearing completion. Plaintiffs filed a motion for summary judgment and brief in support in September 2014; defendants' response was due by October 20, 2014.

A hearing in relation to summary judgments was held January 13, 2015, and a permanent injunction was issued by District Judge James Reynolds blocking the lowering of the GABA on March 3, 2015.

Byrne et. al, v. State. On October 11, 2013, the State of Montana, the Teachers' Retirement Board and the Teachers' Retirement System (TRS) were named as defendants in a lawsuit filed by six retired members of TRS and MEA-MFT. Plaintiffs are represented by Karl J Englund, of Karl J, Englund P.C, in Missoula, MT; Jonathan McDonald, of Dix, Hunt and McDonald, in Helena, MT; and Jay E. Sushelsky, of the AARP Foundation Litigation, in Washington, DC. The State, TRS, and TRS Board are represented by Michael G. Black and Matthew T. Cochenour of the Montana Attorney General's Office. The lawsuit seeks to prevent a 1.0% reduction to the guaranteed annual benefit adjustment (GABA) that was included in HB 377 during the 2013 Legislature. A temporary court ordered injunction was issued on December 27, 2013, which prevented the reduction of the GABA until a final determination on the case has been determined by the court. To date, no other legal proceedings related to the case have been published.

**Schedule of Contribution Rates
Fiscal Year 2014**

PERS-DBRP

Member	7.900%	[19-3-315(1)(a)(i) & (ii), MCA]
Employer	8.170%	State & University
	8.070%	Local Governments
	7.800%	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	10.000%	Hired prior to 7/1/1997 & not electing GABA
	10.050%	Hired after 6/30/1997 & members electing GABA [19-6-402, MCA]
Employer	28.150%	[19-6-404(1), MCA]
State	10.180%	Of salaries paid from the General Fund [19-6-404(2), MCA]

JRS

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

GWPORS

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

Schedule of Contribution Rates (cont.)
Fiscal Year 2014

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	7.900% [19-3-315(1)(a)(i) & (ii), MCA]
Employer	8.170% State & University
	8.070% Local Governments
	7.800% 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	8.150% For members hired prior to 7/1/2013 [19-20-602 & 19-20-608, MCA]
	8.150% For members hired after 7/1/2013 [19-20-602, MCA]
Employer	10.850% State & University [19-20-605, MCA]
	8.470% Contribution of total earned compensation of school district, an education coop., a county, or a community college. [19-20-605, MCA]
State	0.110% State & University [19-20-604, MCA]
	2.490% 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	Actuarially Determined Contributions (ADC) (1)	Percentage Contributed	State's Portion of ADC (1)	Percentage Contributed
<u>SINGLE EMPLOYER SYSTEMS:</u>					
JRS (2) (3)	2014				
HPORS (3)	2014	6,121	93.71%	262	100.00%
<u>MULTIPLE EMPLOYER SYSTEMS:</u>					
PERS-DBRP	2012	148,104	53.68%	536	100.00%
	2013	86,664	93.85%	532	100.00%
	2014	138,768	93.96%	34,562	100.00%
SRS	2012	9,512	63.37%		
	2013	9,294	67.49%		
	2014	9,779	68.40%		
GWPORS	2012	4,843	71.65%		
	2013	4,717	75.82%		
	2014	4,976	75.60%		
MPORS	2012	5,047	119.97%	12,274	100.00%
	2013	4,695	133.77%	12,573	100.00%
	2014	17,922	108.85%	13,049	100.00%
FURS	2012	1,512	349.25%	11,797	100.00%
	2013	657	837.35%	12,358	100.00%
	2014	13,699	137.05%	13,007	100.00%
VFCA – (Nonemployer Contributor)	2012			1,635	100.00%
	2013			1,711	100.00%
	2014			1,818	100.00%
TRS	2012	108,993	81.90%		
	2013	130,534	70.20%		
	2014	148,363	100.00%		

- (1) The Actuarially Determined Contribution (ADC) amounts are referred to as the Actuarially Required Contribution (ARC) prior to the implementation of GASB Statement 67 for pension plans. The title was modified herein to allow a reader of the statements the ability to tie the amounts back to the pension plan statements.
- (2) The actuarial value of assets is greater than the actuarial accrued liabilities for FY2008-FY2010 and FY2013-FY 2014. 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 ADC at zero. No employer contribution would be required for these years.
- (3) Additional years in RSI, for Single Employer Systems.

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2014

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
<p>PERS-DBRP</p>	<p>Hired prior to 7/1/2011</p> <ul style="list-style-type: none"> - HAC during any consecutive 36 months or shorter period of total service of compensation paid to the member <p>Hired after 6/30/2011</p> <ul style="list-style-type: none"> - HAC during any consecutive 60 months or shorter period of total service of compensation paid to the member <p>Hired after 6/30/2013</p> <ul style="list-style-type: none"> - HAC during any consecutive 60 months or shorter period of total service of compensation paid to the member - 110% annual cap on compensation considered as part of a member's highest average compensation 	<p>Service Retirement</p> <p>Hired prior to 7/1/2011</p> <ul style="list-style-type: none"> - Age 60, 5 years of membership service - Age 65, regardless of membership service - Any age, 30 years of membership service <p>Hired after 6/30/2011</p> <ul style="list-style-type: none"> - Age 65, 5 years of membership service - Age 70, regardless of membership service <p>Early retirement, actuarially reduced</p> <p>Hired prior to 7/1/2011</p> <ul style="list-style-type: none"> - Age 50, 5 years of membership service; or - Any age, 25 years of membership service. <p>Hired after 6/30/2011</p> <ul style="list-style-type: none"> - Age 55, 5 years of membership service. 	<p>Vesting</p> <ul style="list-style-type: none"> - 5 years membership service
<p>MPORS</p>	<p>Hired prior to 7/1/1977</p> <ul style="list-style-type: none"> - Average monthly compensation of final year of service <p>Hired after 6/30/1977</p> <ul style="list-style-type: none"> - Final Average Compensation (FAC) for last consecutive 36 months <p>Hired after 6/30/2013</p> <ul style="list-style-type: none"> - 110% annual cap on compensation considered as a part of a member's final average compensation 	<p>Service retirement</p> <ul style="list-style-type: none"> - 20 years of membership service, regardless of age <p>Early retirement</p> <ul style="list-style-type: none"> - Age 50, 5 years of membership service 	<p>Vesting</p> <ul style="list-style-type: none"> - 5 years membership service

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2014 (continued)

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
FURS	<p>Hired prior to 7/1/1981 and not electing GABA</p> <ul style="list-style-type: none"> - Highest monthly average compensation (HMC) <p>Hired after 6/30/1981 & electing GABA</p> <ul style="list-style-type: none"> - HAC during any consecutive 36 months <p>Hired after 6/30/2013</p> <ul style="list-style-type: none"> - HAC during any consecutive 36 months - 110% annual cap on compensation considered as a part of a member's highest average compensation 	<p>Service retirement</p> <ul style="list-style-type: none"> - 20 years of membership service, regardless of age <p>Early retirement</p> <ul style="list-style-type: none"> - Age 50, 5 years of membership service 	<p>Vesting</p> <ul style="list-style-type: none"> - 5 years membership service
SRS	<p>Hired prior to 7/1/2011</p> <ul style="list-style-type: none"> - HAC during any consecutive 36 months <p>Hired after 6/30/2011</p> <ul style="list-style-type: none"> - HAC during any consecutive 60 months <p>Hired after 6/30/2013</p> <ul style="list-style-type: none"> - HAC during any consecutive 60 months - 110% annual cap on compensation considered as a part of a member's highest average compensation 	<p>Service retirement</p> <ul style="list-style-type: none"> - 20 years of membership service regardless of age <p>Early retirement</p> <ul style="list-style-type: none"> - Age 50, 5 years of membership service, actuarially reduced 	<p>Vesting</p> <ul style="list-style-type: none"> - 5 years membership service
HPORS	<ul style="list-style-type: none"> - HAC during any consecutive 36 months <p>Hired after 6/30/2013</p> <ul style="list-style-type: none"> - HAC during any consecutive 36 months - 110% annual cap on compensation considered as a part of a member's highest average compensation 	<p>Service retirement</p> <ul style="list-style-type: none"> - 20 years of membership service, regardless of age <p>Early retirement</p> <p>Hired prior to 7/1/2013</p> <ul style="list-style-type: none"> - 5 years of membership service, actuarially reduced from age 60 <p>Hired after 6/30/2013</p> <ul style="list-style-type: none"> - 10 years of membership service, actuarially reduced from age 60 	<p>Hired prior to 7/1/2013</p> <ul style="list-style-type: none"> - 5 years of membership service <p>Hired after 6/30/2013</p> <ul style="list-style-type: none"> - 10 years of membership service

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2014 (continued)

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
JRS	<p>Hired prior to 7/1/1997 and non-GABA</p> <ul style="list-style-type: none"> - Monthly compensation at time of retirement <p>Hired after 6/30/1997 or electing GABA</p> <ul style="list-style-type: none"> - HAC during any consecutive 36 months (relates directly to monthly benefit formula) <p>Hired after 6/30/2013</p> <ul style="list-style-type: none"> - HAC during any consecutive 36 months (relates directly to monthly benefit formula) - 110% annual cap on compensation considered as a part of a member's highest average compensation 	<p>Service retirement</p> <ul style="list-style-type: none"> - Age 60, 5 years of membership service <p>Involuntary retirement</p> <ul style="list-style-type: none"> - Any age with 5 years of membership service - involuntary termination, actuarially reduced 	<p>- 5 years membership service</p>
GWPORS	<p>Hired prior to 7/1/2011</p> <ul style="list-style-type: none"> - HAC during any consecutive 36 months <p>Hired after 6/30/2011</p> <ul style="list-style-type: none"> - HAC during any consecutive 60 months <p>Hired after 6/30/2013</p> <ul style="list-style-type: none"> - HAC during any consecutive 60 months - 110% annual cap on compensation considered as a part of a member's highest average compensation 	<p>Service Retirement</p> <ul style="list-style-type: none"> - Age 50, 20 years of membership service <p>Early retirement (reduced benefit)</p> <ul style="list-style-type: none"> - Age 55, vested members who terminate employment prior to 20 years of membership service 	<p>- 5 years membership service</p>

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2014 (continued)

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
VFCA		<p>Normal retirement</p> <ul style="list-style-type: none"> - Age 55, 20 years of credited service (full benefit) - Age 60, 10 years of credited service (partial benefit) <p>Additional Benefits</p> <ul style="list-style-type: none"> - 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 	<ul style="list-style-type: none"> - 10 years of credited service
TRS	<p>Hired prior to 7/1/2013 (Tier 1)</p> <ul style="list-style-type: none"> - Final Average Compensation during any consecutive 3 years <p>Hired after 6/30/2013 (Tier 2)</p> <ul style="list-style-type: none"> - Final Average Compensation during any consecutive 5 years 	<p>Service retirement (Tier 1)</p> <ul style="list-style-type: none"> - 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 <p>Service retirement (Tier 2)</p> <ul style="list-style-type: none"> - Age 60, 5 years of service, or any age with at least 25 years of service - Age 55, 30 or more years of full-time or part-time creditable service <p>Early Retirement (Tier 2)</p> <ul style="list-style-type: none"> - Age 55, 5 years of creditable service, and ineligible for service retirement <p>Professional Retirement Option Additional Benefit (Tier 2)</p> <ul style="list-style-type: none"> - Age 60, 30 years of service 	<ul style="list-style-type: none"> - 5 years membership service

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2014 (continued)

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
<p>PERS-DBRP</p>	<p>Monthly Benefit Formula</p> <p>Hired prior to 7/1/2011</p> <ul style="list-style-type: none"> - Less than 25 years of membership service: 1.785% of HAC per year of service credit - 25 years of membership service or more: 2% of HAC per year of service credit. <p>Hired after 6/30/2011</p> <ul style="list-style-type: none"> - Less than 10 years of membership service: 1.5% of HAC per year of service credit 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit - 30 years or more of membership service: 2% of HAC per year of service credit. 	<p>Guaranteed Annual Benefit Adjustment (GABA)</p> <p>All active, inactive, and retired members</p> <ul style="list-style-type: none"> - Maximum rate for GABA is 1.5%; minimum rate for GABA is 0% - The 1.5% GABA is reduced 0.1% for each 2% PERS is funded below 90% - GABA is 0% whenever PERS amortization period is 40 years or more. 	<p>Minimum Benefit Adjustment (Non-GABA)</p>
<p>MPORS</p>	<ul style="list-style-type: none"> - 2.5% of FAC multiplied by years of service credit 	<p>Hired after 7/1/1997 or those electing GABA</p> <ul style="list-style-type: none"> - 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 	<p>Hired before 7/1/1997 and not electing GABA</p> <ul style="list-style-type: none"> - 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
<p>FURS</p>	<p>Hired prior to 7/1/1981 and not electing GABA</p> <ul style="list-style-type: none"> - The greater of 2.5% of HMC times year of service credit, OR (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 <p>Hired after 6/30/1981 and those electing GABA</p> <ul style="list-style-type: none"> - 2.5% of HAC per year of service. 	<p>Hired after 6/30/1997 or those electing GABA</p> <ul style="list-style-type: none"> - After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit 	<p>Hired before 7/1/1997 and member did not elect GABA</p> <ul style="list-style-type: none"> - Monthly retirement, disability or survivor's benefit may not be less than 1/2 the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least ten years of membership service)

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2014 (continued)

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
SRS	<ul style="list-style-type: none"> – 2.5% of HAC multiplied by years of service credit 	<p>Retired at least 12 months, GABA equal to:</p> <ul style="list-style-type: none"> – 3.0% for members hired before 7/1/2007 – 1.5% for members hired on or after 7/1/2007 	
GWPORS	<ul style="list-style-type: none"> – 2.5% of HAC multiplied by years of service credit 	<p>Retired at least 12 months, GABA will be made each year equal to:</p> <ul style="list-style-type: none"> – 3.0% for members hired before 7/1/2007 – 1.5% for members hired on or after 7/1/2007 	
HPORS	<p>Retired prior to 7/1/2013</p> <ul style="list-style-type: none"> – 2.5% of HAC per year of service credit. <p>Retired after 6/30/2013</p> <ul style="list-style-type: none"> – 2.6% of HAC per year of service credit 	<p>Hired after 6/30/1997 or those electing GABA</p> <ul style="list-style-type: none"> – After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit <p>Hired after 6/30/2013</p> <ul style="list-style-type: none"> – After the member has completed 36 full months of retirement, the member's benefit increases by a maximum of 1.5% each January, inclusive of all other adjustments to the member's benefit 	<p>Hired prior to 7/1/1997 and member did not elect GABA</p> <ul style="list-style-type: none"> – Monthly benefits 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
JRS	<p>Non-GABA</p> <ul style="list-style-type: none"> – 3-1/3% of current salary per year of service credit for the first 15 years of service credit, plus 1.785% per year for each year after 15 years <p>GABA</p> <ul style="list-style-type: none"> – HAC per year of service credit for the first 15 years of service credit, plus 1.785% per year for each year after 15 years 		
VFCA	\$7.50 per year of credited service, capped at a maximum \$225 a month		
TRS	<p>Hired before 7/1/2013 (Tier 1)</p> <ul style="list-style-type: none"> – 1.6667 x Average Final Contribution (AFC) x years of creditable service <p>Hired after 7/1/2013 (Tier 2)</p> <ul style="list-style-type: none"> – 1.85% x AFC x years of creditable service 	<p>Both Tier 1 and Tier 2, with at least 36 months of benefit payments received prior to January 1 of that year</p> <ul style="list-style-type: none"> – Varies between 0.5% and 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation. – A temporary restraining order requires continued calculation of the GABA at the full 1.5% rate for Tier One members pending resolution of the litigation. 	

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General

The State of Montana and the Montana University System (MUS) provide optional postemployment healthcare 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 contributions: (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.

Montana Code Annotated, Title 19, Chapter 3, Section 2141, establishes a long-term disability plan trust fund (PERS-DCRP Disability) for all State of Montana Employees that participate in the Public Employee Retirement System-Defined Contribution Retirement Plan (PERS-DCRP). All new PERS members are initially members of the Public Employee Retirement System-Defined Benefit Retirement Plan (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. If an election is not filed the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. Only those participants that choose the PERS-DCRP are covered by the PERS-DCRP Disability plan.

B. Plan Descriptions

Both healthcare OPEB plans for the State of Montana and MUS are agent multiple employer plans. The participating employers under the State Plan are Facility Finance Authority, Montana Board of Housing, 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.

The healthcare 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. Accordingly, reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans.

The healthcare OPEB 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.

The defined contribution disability plan (PERS-DCRP Disability) is a multiple-employer cost sharing plan that covers employees of the State, local governments, and certain employees of the university system and school districts, who are not covered by a separate retirement system governed by Title 19 of Montana Code Annotated. The PERS-DCRP

Disability plan provides disability benefits to PERS-DCRP plan members who are vested in the plan and are currently ineligible for retirement.

A separate trust has been established for purposes of providing disability benefits to PERS-DCRP Disability plan members and it is accounted for as a fiduciary fund type. The assets are held in a trust capacity for the beneficiaries, but are reported as a portion of the defined contribution column for presentation herein. The Public Employee Retirement System issues publicly available annual reports which include financial statements and required supplemental information for the plan. Those reports may be obtained online (<http://mpera.mt.gov>) or by contacting the following:

Public Employees' Retirement Administration
P.O. Box 200131
100 North Park, Suite 200
Helena, MT 59620-0131
406-444-3154

See also the funding policy that follows.

C. Bases 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 healthcare OPEB 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, 2014.

The number of state participants as of December 31, 2013 follows:

Enrollment	State Plan Participants					Total
	State	Facility Finance Authority	Housing Authority	PERS	Montana State Fund	
Active employees	12,089	2	19	40	257	12,424
Retired employees, spouses, and surviving spouses (1)	4,737	-	-	2	16	4,755
Total	16,826	2	19	42	273	17,179

- (1) Due to the inability to determine, without considerable effort, the last place an employee worked before retiring, the bulk of retirees are listed as State regardless of their last place of employment. 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, 2014 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	522	2,841	142	189	81	110	2,396	422	198	352	7,253
Retired employees, spouses, and surviving spouses	232	1,210	25	101	40	35	846	187	102	95	2,873
Total	754	4,051	167	290	121	145	3,242	609	300	447	10,126

PERS-DCRP participants who are 100% vested in the plan, and become disabled, are entitled benefits as defined in Title 19, Chapter 3, Section 2141, MCA. There have been no significant changes in the number covered or the type of coverage as of June 30, 2014.

The number of PERS-DCRP Disability participants as of June 30, 2014, follows:

PERS-DCRP Disability Plan Participants						
Enrollment	Active	Disabled	Retirees and Beneficiaries	Terminated Vested Members	Terminated Non-Vested Members	Total
Participant counts used for valuation	2,087	4	-	-	-	2,091

D. Funding Policies

The State of Montana and MUS pay for postemployment healthcare 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 2014, the State plan's administratively established retiree medical contributions vary between \$299 and \$1,109 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental contributions vary between \$17.50 and \$60 and vision hardware contributions vary between \$5.76 and \$16.76 depending on the coverage selected.

As of June 2014, the MUS plan's administratively established retiree medical premiums vary between \$196 and \$1,336 per month and are revised annually. The plan provides different coinsurance amounts depending on whether members use in-network or out-of-network providers. 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. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2014, 1,768 retirees (policyholders) were enrolled in the MUS plan.

The PERS-DCRP Disability plan is funded through a portion of the statutorily required employer contributions in Montana Code Annotated, Title 19, Chapter 3, Section 2117. An amount equal to 0.3% of a PERS-DCRP members' compensation is contributed to this trust fund by each participating employer.

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 \$35.1 million is 5.69% of annual covered payroll. The State's annual covered payroll is \$616.2 million. The current MUS's ARC of \$9.8 million is 2.46% of annual covered payroll. The MUS's annual covered payroll is \$400 million.

There are no long-term contracts for contributions to either plan. Contributions refer to payments made in relation to the ARC. Since the State and MUS do not fund their plans, contributions disclosed as being made herein are an implicit rate subsidy provided through the difference of retiree payments provided to the healthcare plan and claims paid by the plan on a retiree's behalf.

The following table presents the OPEB cost for the year, the amount contributed, and changes in the OPEB plan for fiscal year 2014 (in thousands):

Annual OPEB Cost & Changes in Net OPEB Obligation

	State	MUS
Annual required contribution/OPEB cost	\$ 35,087	\$ 9,838
Interest on net OPEB obligation	8,047	3,864
Amortization Factor	(6,311)	(3,031)
Annual OPEB cost	36,823	10,671
Retiree Claims Paid	(7,041)	(1,696)
Increase in net OPEB obligation	29,782	8,975
Net OPEB obligation – beginning of year	189,327	90,916
Net OPEB obligation – end of year	\$219,109	\$99,891

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

The State and University System's annual healthcare OPEB cost, the percentage of annual implicit contributions toward the OPEB cost through retiree claims paid on their behalf, and the net OPEB obligation for fiscal years 2014 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	6/30/2014	\$36,823	19.1%	\$219,109
	6/30/2013	34,544	10.0%	189,327
	6/30/2012	34,150	12.1%	158,244
	6/30/2011	36,302	8.8%	128,237
MUS	6/30/2014	\$10,671	15.9%	\$99,891
	6/30/2013	13,288	6.9%	90,916
	6/30/2012	12,662	1.6%	78,550
	6/30/2011	20,540	6.4%	66,096

The disability OPEB plan administered for defined contribution pension plan participants has an annual covered payroll, statutorily required contribution amount, and percentage of required contributions paid into the plan for fiscal years 2014 through 2011 as follows for the State and University system plan participants (in thousands):

PERS-DCRP Disability Contribution Ratio

	Fiscal Year Ended	Covered Payroll	Statutorily Required Contribution Amount	Percentage of Statutorily Required Contribution Funded
State	6/30/2014	\$50,083	\$150	100%
	6/30/2013	46,540	140	100%
	6/30/2012	43,577	131	100%
	6/30/2011	42,827	128	100%
MUS	6/30/2014	\$4,115	\$12	100%
	6/30/2013	3,901	12	100%
	6/30/2012	3,434	10	100%
	6/30/2011	3,237	10	100%

F. Actuarial Methods and Assumptions

As of December 31, 2013, the State's actuarially accrued liability (AAL) for benefits was \$366.739 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$366.739 million, and the ratio of the UAAL to the covered payroll was 59.52%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the December 31, 2013, actuarial valuation, the projected unit cost 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, 2014, the MUS actuarially accrued liability (AAL) for benefits was \$100.247 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$100.247 million, and the ratio of the UAAL to the covered payroll was 25.06%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the June 30, 2014, actuarial valuation, the projected unit cost 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 being 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*). This 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	\$8,857	\$2,950
After Medicare eligibility	3,709	2,931
Actuarial valuation date	1/1/2013 (ARC calculated through December 31, 2013)	
Actuarial cost method	Projected unit cost 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	\$7,284	\$3,036
After Medicare eligibility	3,357	2,311
Actuarial valuation date	7/1/2013 (ARC Calculated through June 30, 2014)	
Actuarial cost method	Projected unit cost 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, 2014, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for six employees provided for up to seven months, one-time lump-sum incentive payments for two employees, and continuation of retirement plan contributions for one employee. 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. The cost of termination benefits for the fiscal year was \$86,415 for the State. No component unit of the State paid any termination benefits for the fiscal year.

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. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 1,479 policies during the 2014 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 \$226,324 based on estimated claims through June 30, 2014. Any crop insurance liability is paid to the producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance or annuity contracts. A reinsurance contract was purchased for the 2014 growing season. Loss percentage for the 2014 growing season was not large enough to activate reimbursement from the reinsured contract.

(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. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund. The claims liability is calculated by Actuaries Northwest and estimated to be \$6.4 million as of June 30, 2014, 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 \$750,000 per occurrence (\$500,000 for claims occurring prior to July 1, 2013) 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 \$750,000 (\$500,000 for claims occurring prior to July 1, 2013). During fiscal year 2014, the program ceded \$264,440 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 \$7.6 million for estimated claims at June 30, 2014. 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 – The purpose of the Subsequent Injury Fund (SIF) is to assist individuals with a permanent impairment that may create an obstacle to employment, by offering a financial incentive to employers to hire SIF-certified individuals. The program is funded through an annual assessment on Montana self-insured employers and a surcharge on premium for private insured and Montana State Fund policyholders.

The assessment and surcharge rates; set by the Employment Relations Division of the Department of Labor and Industry, annually, are based on the total amount of paid losses reimbursed by SIF in the preceding calendar year, plus the expenses of administration, less other income earned. Employers covered by Plans 1, 2 & 3 share in the reimbursement of SIF based on the percentage of the compensation and medical benefits paid in Montana by their insurers in the preceding calendar year.

The SIF program reduces the liability of the employer (if self-insured) or insurer by placing a limit of 104 weeks on the amount an employer (if self-insured), or the employer's insurer, will have to pay for medical and wage loss benefits in the event a worker who is SIF-certified becomes injured or re-injured on the job. When the 104 weeks is reached, SIF may assume liability for the claim. The benefit to an insured employer is that since the insurer's liability is limited to 104 weeks on the claim, it can favorably impact the employer's modification factor, which in turn can keep premiums lower than would otherwise be the case without SIF. For a self-insured employer, it provides a direct recovery of expenses paid for a workers' compensation claim. If a certified worker does become injured on the job, the worker remains entitled to all benefits due under the Workers' Compensation Act.

An estimated liability is recorded based on a projected cost analysis and total population of registered SIF participants. As of June 30, 2014, the amount of this liability was estimated to be \$3.5 million.

(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	
	2014	2013	2014	2013	2014	2013
Unpaid claims and claim adjustment expenses at beginning of year	\$ 340	\$ 750	\$ 6,700	\$ 6,900	\$ 8,048	\$10,837
Incurred claims and claim adjustment expenses:						
provision for insured events of the current year	13,511	2,221	72,340	70,058	3,329	3,399
Increase (decrease) in provision for Insured events of prior years	709	1,747	-	-	(1,398)	(4,046)
Total incurred claims and claim adjustment expenses	14,220	3,968	72,340	70,058	1,931	(647)
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(13,285)	(1,881)	(72,640)	(70,258)	(1,011)	(891)
Claims and claim adjustment expenses attributable to insured events of prior years	(1,049)	(2,497)	-	-	(1,349)	(1,251)
Total payments	(14,334)	(4,378)	(72,640)	(70,258)	(2,360)	(2,142)
Total unpaid claims and claim adjustment expenses at end of year	\$ 226	\$ 340	\$ 6,400	\$ 6,700	\$ 7,619	\$ 8,048

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 Cigna and Delta Dental as administrators for medical and dental coverage. 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, 2014, 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 \$22.1 million based on a formula provided by Actuaries Northwest, a consulting actuarial firm, of which \$21.9 million is estimated to be paid in fiscal year 2015.

(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 \$2,000,000 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 \$2,000,000 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, 2004 through June 30, 2014, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2014, estimated claims liability was \$17.5 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	
	2014	2013	2014	2013
Amount of claims liabilities at the beginning of each fiscal year	\$ 14,640	\$ 11,900	\$ 16,909	\$ 19,297
Incurred claims:				
Provision for insured events of the current year	163,170	136,814	7,100	5,733
Increases (decreases) in provision for insured events of prior years	6,763	1,463	1,497	(2,685)
Total incurred claims	169,933	138,277	8,597	3,048
Payments:				
Claims attributable to insured events of the current year	(142,392)	(122,034)	(3,037)	(1,135)
Claims attributable to insured Events of prior years	(20,078)	(13,503)	(4,919)	(4,301)
Total payments	(162,470)	(135,537)	(7,956)	(5,436)
Total claims liability at end of each fiscal year	\$ 22,103	\$ 14,640	\$ 17,550	\$ 16,909

NOTE 9. COMMITMENTS**A. Highway Construction**

At June 30, 2014, the Department of Transportation had contractual commitments of approximately \$277.9 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, 2014, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$15.5 million for capital projects construction. The primary government will fund \$8 million of these projects, with the remaining \$7.5 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, 2014, the BOI had committed, but not yet purchased, \$8.3 million in loans from Montana lenders. In addition to the above commitments, lenders had reserved \$30.0 million for loans as of June 30, 2014. As of June 30, 2014, \$0.9 million represented lender reservations for the VHLM residential mortgage purchases with no purchase commitments.

The BOI makes reservations to fund mortgages from the state's pension funds. The Montana Retirement Funds Bond Pool holds the residential mortgages in its portfolio. As of June 30, 2014, there were no mortgage reservations. All BOI residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a mortgage reservation and a funding commitment.

The Board of Investments makes firm commitments to fund loans from the INTERCAP loan program. The Board of Investment's outstanding commitments to eligible Montana governments, as of June 30, 2014 total \$39.7 million.

D. Department of Corrections Bond Commitments

At June 30, 2014, the outstanding tax-exempt bonds issued by the Montana Facility Finance Authority were issued in the amount of \$23.4 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 assets in the accompanying financial statements as follows (*in thousands*):

Proprietary Fund Commitments	
<u>Enterprise funds</u>	<u>Amount</u>
Liquor Warehouse	\$ 203
State Lottery	51
Other	<u>90</u>
Subtotal-Enterprise funds	<u>\$ 344</u>

<u>Internal service funds</u>	
Administration Central Services	\$ 57
Buildings & Grounds	108
Commerc Central Ser	48
Information Technology Services	293
Payroll Processing	436
Prison Industries	875
Other	<u>49</u>
Subtotal-Internal service funds	<u>\$ 1,866</u>

F. Encumbrances

As of June 30, 2014, 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	\$10,366	\$33,234	\$34,591	\$815	\$79,006

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, 2014, were as follows (in thousands):

Fiscal Year Ending June 30	Governmental Activities	Business-Type Activities
2015	\$293	\$ 88
2016	190	60
2017	175	-
2018	151	-
2019	10	-
2020-2024	-	-
Total minimum payments	819	148
Less: interest	(55)	(7)
Present value of minimum payments	\$764	\$141

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

Asset Class	
Buildings	\$ 2,389
Equipment	3,914
Less: Accum Depreciation	(4,135)
Net Book Value	\$ 2,168

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2014 totaled \$24.8 million. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Governmental Activities	Business-Type Activities
2015	\$ 22,214	\$ 865
2016	16,545	814
2017	14,024	805
2018	12,176	677
2019	22,242	495
2020-2024	13,728	358
2025-2029	3,485	-
Thereafter	113	-
Total future rental payments	\$104,527	\$4,014

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 2014 the State issued two bond anticipation notes. The proceeds were used to fund water and wastewater system improvements and rehabilitation. The State issued two bond anticipation notes during fiscal year 2012, that were still active at the end of fiscal year 2014. The following schedule summarizes the activity for the year ended June 30, 2014 (in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
BANS				
Water / Wastewater – 2011A (1)	\$ 400	\$ -	\$ 400	\$ -
Water / Wastewater – 2012A	969	1,031	1,500	500
Water / Wastewater – 2012B	181	200	-	381
Drinking Water – 2012C	950	-	950	-
Wastewater – 2012D	1,600	1,400	3,000	-
Drinking Water – 2013B	-	1,750	989	761
Water / Wastewater – 2014A	-	527	-	527

(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, 2014, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2014
1997	\$10,000	\$ 9,040
1998	12,500	11,695
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
		<u>\$106,450</u>

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2014 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	<u>\$ 106,615</u>	<u>\$ -</u>	<u>\$ 165</u>	<u>\$106,450</u>

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, 2014, were as follows (in thousands):

<u>Governmental Activities</u>	<u>Series</u>	<u>Amount Issued</u>	<u>Interest Range (%) (1)</u>	<u>Principal Payments</u>		<u>Balance June 30, 2014</u>
				<u>Fiscal Year 2015</u>	<u>In Year of Maturity (2)</u>	
General obligation bonds						
Hard Rock Mining Reclamation	2002C	\$ 2,500	3.5-4.7	\$ 125	200 (2023)	\$ 1,450
Long-Range Bldg Program Refunding	2003G	26,610	2.0-5.0	2,120	2,310 (2017)	6,645
Long-Range Bldg Program Refunding	2005A	14,945	3.0-5.25	1,525	1,205 (2019)	7,750
Long-Range Bldg Program	2005B	1,670	3.25-4.3	75	120 (2026)	1,155
Energy Conservation Program (5)	2005C	2,500	3.25-4.0	280	290 (2016)	570
CERCLA Program (6)	2005D	2,000	3.25-4.3	95	140 (2026)	1,375
Drinking Water Revolving Fund (3)	2005F	3,875	4.0-4.75	265	350 (2021)	2,130
Water Pollution Control Revolving Fund (3)	2005G	2,110	4.0-4.75	145	170 (2019)	785
Long-Range Bldg Program Refunding	2005H	10,055	3.0-5.0	1,015	1,300 (2020)	6,900
Long-Range Bldg Program	2006A	31,350	4.0-5.0	1,650	1,930 (2027)	21,700
Energy Conservation Program (5)	2006B	3,750	4.0-6.0	250	330 (2022)	2,310
CERCLA Program (6)	2006C	1,000	4.0	110	120 (2017)	345
Renewable Resource Program (4)	2006D	950	5.6-6.0	60	90 (2022)	605
Long-Range Bldg Program Refunding	2007A	16,740	4.25-5.0	2,110	2,465 (2018)	9,135
Long-Range Bldg Program	2007D	11,720	4.375-4.75	495	840 (2028)	9,120
Long-Range Bldg Program	2008D	3,100	3.375-4.35	125	220 (2028)	2,320
Long-Range Bldg Program Refunding	2010A	20,220	2.0-4.0	2,295	710 (2021)	6,180
Drinking Water Revolving Fund Refunding (3)	2010B	5,400	2.0-4.0	440	110 (2026)	4,070
Water Pollution Control Revolving Fund Refunding (3)	2010C	6,450	2.0-4.0	500	210 (2026)	4,950
Trust Land	2010F	21,000	1.55-4.9	860	1,450 (2031)	18,720
Long-Range Bldg Program	2010G	550	1.5-2.7	55	60 (2021)	400
Renewable Resource Program (Taxable) (4)	2010H	1,000	1.0-3.85	100	115 (2021)	740
Long-Range Bldg Program Refunding	2011D	5,755	3.0 - 3.25	545	720 (2023)	5,670
Long-Range Bldg Program Refunding	2013C	6,780	2.0-4.0	685	115 (2025)	6,780
Water Pollution Control Revolving Fund	2013D	1,035	.4-3.7	80	120 (2024)	1,035
Water Pollution Control Revolving Fund	2013E	5,000	2.0-3.0	345	575 (2024)	5,000
Total general obligation bonds		<u>\$ 208,065</u>		<u>\$ 16,350</u>		<u>\$ 127,840</u>

Governmental Activities	Series	Amount Issued	Interest Range (%) ⁽¹⁾	Principal Payments		Balance June 30, 2014
				Fiscal Year 2015	In Year of Maturity ⁽²⁾	
Special revenue bonds						
State Hospital Project (7)	1997	\$ 25,915	4.0-5.05	\$ 1,295	1,820 (2022)	\$ 12,350
Renewable Resource Program (8)	2001B	1,750	5.2-7.1	100	140 (2020)	725
Renewable Resource Program (8)	2001F	900	3.3-6.2	50	60 (2019)	275
Developmental Center Project Refunding (7)	2003	11,510	3.0-5.0	810	970 (2019)	4,435
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	145	215 (2024)	1,775
U.S. Highway 93 GARVEES (9)	2005	122,795	3.65-5.19	8,835	8,835 (2015)	8,835
U.S. Highway 93 GARVEES (9)	2008	44,670	3.5-5.0	2,790	3,925 (2023)	29,735
Broadwater Power Proj Refunding (8)	2010A	10,180	3.0-4.0	1,445	1,605 (2018)	6,090
Renewable Resource Program (8)	2010B	1,730	2.0-3.6	70	115 (2031)	1,520
Renewable Resource Program (Taxable) (8)	2010C	6,720	0.9-4.2	340	170 (2031)	5,720
U.S. Highway 93 GARVEE (9)	2012	50,915	0.9-1.9	-	11,040 (2019)	50,915
Renewable Resource Program (8)	2013A	2,255	2.0-3.625	125	865 (2029)	2,255
Renewable Resource Program (Taxable) (8)	2013B	3,390	1.0-4.75	190	1,085 (2029)	3,390
Total special revenue bonds		<u>\$ 285,730</u>		<u>\$ 16,195</u>		<u>\$128,020</u>
Notes payable						
Water Conservation (Petrolia Project) (10)		50	5.0	3	2 (2016)	5
Middle Creek Dam Project (11)		3,272	8.125	75	225 (2034)	2,352
Tongue River Dam Project (12)		11,300	-	290	290 (2038)	6,954
Total notes payable		<u>\$ 14,622</u>		<u>\$ 368</u>		<u>\$ 9,311</u>
Subtotal governmental activities, before deferred balances						265,171
Deferred amount on refunding						(341)
Unamortized discount						(13)
Unamortized premium						9,105
Total governmental activities		<u>\$ 508,417</u>		<u>\$ 32,913</u>		<u>\$273,922</u>

- (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.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2014, were as follows (in thousands):

Year Ended June 30	<u>Governmental Activities</u>					
	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 16,350	\$ 5,007	\$ 16,195	\$ 4,915	\$ 368	\$ 45
2016	15,210	4,387	17,015	4,254	370	45
2017	15,540	3,765	17,730	3,604	371	45
2018	13,660	3,167	18,440	2,960	375	45
2019	10,420	2,677	17,555	2,283	378	44
2020-2024	36,840	8,567	36,390	4,010	1,948	224
2025-2029	16,980	3,022	4,140	561	2,068	224
2030-2034	2,840	140	555	27	2,274	224
2035-2039	-	-	-	-	1,159	-
Total	\$127,840	\$ 30,732	\$128,020	\$ 22,614	\$ 9,311	\$ 896

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2014, 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	\$ 139,595	\$ -	\$ 11,755	\$ 127,840	\$ 16,350	\$ 111,490
Special revenue bonds	137,940	-	9,920	128,020	16,195	111,825
Notes payable	9,667	-	356	9,311	368	8,943
	287,202	-	22,031	265,171	32,913	232,258
Deferred Outflow	(1,091)	1,854	1,103	(341)	-	(341)
Unamortized discount	(18)	5	-	(13)	-	(13)
Unamortized premium	10,668	697	2,261	9,105	-	9,105
Total bonds/notes payable	296,761	2,556	25,395	273,922	32,913	241,009
Other liabilities						
Lease/installment purchase payable	707	372	315	764	266	498
Operating lease rent holiday	122	99	142	79	31	48
Pension payable	-	4	-	4	2	2
Compensated absences payable (1)	93,428	54,876	51,665	96,639	51,399	45,240
Arbitrage rebate tax payable (1)	115	3	21	97	-	97
Estimated insurance claims (1)	31,550	178,530	170,426	39,654	26,855	12,799
Pollution remediation (4)	303,289	13,029	58,792	257,526	36,744	220,782
OPEB implicit rate subsidy (2)	189,032	29,035	6,731	211,336	-	211,336
Nonexchange Financial Guarantee (3)	51,026	2,583	8,575	45,034	7,383	37,651
Total other liabilities	669,269	278,531	296,667	651,133	122,680	528,453
Total governmental activities						
Long-term liabilities	\$966,030	\$ 281,087	\$ 322,062	\$ 925,055	\$ 155,593	\$ 769,462
Business-type activities						
Bonds/notes payable						
Economic Development Bonds	\$ 70	\$ -	\$ 70	\$ -	\$ -	\$ -
Total bonds/notes payable	70	-	70	-	-	-
Other liabilities						
Lease/installment purchase payable	222	-	81	141	82	59
Compensated absences payable	1,517	1,054	887	1,684	868	816
Arbitrage rebate tax payable	13	-	4	9	-	9
Estimated insurance claims	18,598	88,491	89,334	17,755	10,485	7,270
OPEB implicit rate subsidy (2)	3,225	621	116	3,730	-	3,730
Total other liabilities	23,575	90,166	90,422	23,319	11,435	11,884
Total business-type activities						
Long-term liabilities	\$ 23,645	\$ 90,166	\$ 90,492	\$ 23,319	\$ 11,435	\$ 11,884

- (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. OPEB beginning balance was restated due to correction of an error.
- (3) Per GASB Statement No. 70, Montana State Fund's claims related to Old Fund are classified as a Nonexchange Financial Guarantee. For FY11-13, this was reported as Estimated Future Claim Contribution to Component Unit. For more information see footnote 11 (I).
- (4) Pollution remediation beginning balance was restated due to correction of an error.

F. Refunded and Early Retired Debt

Prepayments

The Department of Natural Resources and Conservation (DNRC) used current available resources to make a prepayment of \$210,000 on special revenue series 2001F, leaving an outstanding obligation of \$275,000. The DNRC also made a prepayment of \$140,000 on special revenue series 2001E 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, 2014, \$43.3 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, 2014, 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, 2014, QZAB debt outstanding aggregated \$10.0 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, 2014, QSCB debt outstanding aggregated \$7.1 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, 2014, was as follows: Hershberger Project – issued \$129,412, outstanding \$70,023.

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. There may be 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 June 30, 2014 was \$257.5 million. Of this liability, \$30.5 million resulted in settlement agreements to provide restoration of natural resources, water supplies and natural resource-based recreational opportunities up to the settlement amount; \$219.2 million is based on decrees or settlements for remediation activities. Other estimated liabilities have been recorded for soil and PCB contamination, as well as removal of asbestos 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.

I. Nonexchange Financial Guarantee

Pursuant to Montana Code Annotated (MCA) 39-71-2352, if in any fiscal year claims for injuries resulting from accidents occurring prior to July 1, 1990 are not adequately funded by Montana State Fund, any amount necessary to cover those claims must be transferred from the general fund to Montana State Fund. The guarantee is extended until all Old Fund claims are paid. Following the guidance set forth in GASB Statement No. 70 this qualifies as a nonexchange financial guarantee. The primary government of the State of Montana has no arrangements for recovering payments from Montana State Fund, a discretely presented component unit. The State's estimated nonexchange financial guarantee as of June 30, 2014 was \$45.0 million.

Summary of changes in guarantee liability:

<u>Beginning Balance</u>	<u>Increases</u>	<u>Payments/Decreases</u>	<u>Ending Balance</u>
\$51.0 million	\$2.6 million	\$8.6 million	\$45.0 million

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, 2014, 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	\$ -	\$ -	\$ -	\$844
General Fund	-	52	-	76
Internal Service Funds	36	6	2	-
Nonmajor Governmental Funds	-	44	-	-
State Special Revenue	-	-	168	3
Total	<u>\$36</u>	<u>\$102</u>	<u>\$170</u>	<u>\$923</u>

	Due to Other Funds (cont)			
	Nonmajor Enterprise Funds (3)	Nonmajor Governmental Funds	State Special Revenue	Total
Due from Other Funds (cont)				
Economic Development Bonds	\$ -	\$ 17	\$ 633	\$ 1,494
Federal Special Revenue	-	-	238	238
General Fund	13,810	-	33,129	47,067
Internal Service Funds	5	-	5	54
Nonmajor Governmental Funds (2)	-	53	178	275
State Special Revenue (1)	-	481	-	652
Total	<u>\$13,815</u>	<u>\$551</u>	<u>\$34,183</u>	<u>\$49,780</u>

- (1) Total due from the state special revenue fund on the fund financial statement is reported as \$6.7 million. The difference of \$6.1 million between the amount reported above of \$652,000 and the amount reported on the fund financial statement relates to long term receivables. The receivables were recorded in the fund financial statement and the long term liabilities were recorded in the government-wide statement.
- (2) Total due from the non-major governmental funds on the financial statements is reported as \$2.5 million. The difference of \$2.2 million between the amount reported above of \$275,000 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 \$13.5 million. The difference of \$376,000 between the amount reported above of \$13.1 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, 2014, consisted of the following (in thousands):

	Interfund Loans Payable								Total
	Coal Severance Tax	Federal Special Revenue	Internal Service Fund	Unemployment Insurance	Economic Development Bonds	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	State Special Revenue	
Interfund Loans Receivable									
General Fund	\$1,525	\$ 46,970	\$ -	\$ -	\$ -	\$325	\$ -	\$5,681	\$ 54,501
Internal Service Funds	-	-	-	-	15	-	-	-	15
State Special Revenue	-	67,414	130	50	-	-	1	-	67,595
Total	\$1,525	\$114,384	\$130	\$50	\$15	\$325	\$ 1	\$5,681	\$122,111

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 Bond Fund to other funds, under the Board of Investments INTERCAP loan program. For more information on the INTERCAP loan program, please refer to Note 11.

Advances to/from other funds at June 30, 2014, consisted of the following (in thousands):

	Advances from Other Funds					Total
	Federal Special Revenue	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	
Advances to Other Funds						
Economic Development Bond	\$ -	\$2,946	\$ -	\$ 2,169	\$ 2,362	\$ 7,477
General Fund	20,949	-	-	-	440	21,389
Internal Service Funds	-	-	240	-	-	240
Nonmajor Governmental Funds	-	-	-	-	12,090	12,090
State Special Revenue	850	-	-	9,361	-	10,211
Total	\$21,799	\$2,946	\$240	\$11,530	\$14,892	\$51,407

Additional detail for certain advance balances at June 30, 2014, follows (in thousands):

Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program	
Department	Balance
Natural Resources and Conservation	\$2,169
Justice	2,362
Transportation	2,946
Total	\$7,477

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, 2014, 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	\$ -	\$ -	\$21,996	\$ -	\$ -
Federal Special Revenue	-	-	139	96	-
General Fund	-	-	-	887	-
Internal Service Funds	-	-	-	572	-
Land Grant	-	-	3	-	-
Nonmajor Enterprise Funds	-	1	41,629	-	-
Nonmajor Governmental Funds	19	-	-	-	-
State Special Revenue	-	5,002	11,669	2,690	6
Total	<u>\$19</u>	<u>\$5,003</u>	<u>\$75,436</u>	<u>\$4,245</u>	<u>\$6</u>

	Transfers In (cont)			
	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Transfers Out (cont)				
Coal Severance Tax	\$ -	\$ 1,200	\$ 18,386	\$ 41,582
Federal Special Revenue	-	27,376	14,456	42,067
General Fund	-	77,453	85,905	164,245
Internal Service Funds	-	245	-	817
Land Grant	-	666	70,777	71,446
Nonmajor Enterprise Funds	-	-	6,390	48,020
Nonmajor Governmental Funds	-	8,864	20,703	29,586
State Special Revenue	157	15,483	-	35,007
Total	<u>\$157</u>	<u>\$131,287</u>	<u>\$216,617</u>	<u>\$432,770</u>

NOTE 13. FUND DEFICITS

The following funds have a deficit fund balance/net position remaining at June 30, 2014, as follows (in thousands):

Fund Type/Fund	<u>Deficit</u>
<u>Internal Service Funds</u>	
Admin Insurance	\$ (2,762)
Information Technology Services	(676)
Admin Central Services	(275)
Labor Central Services	(653)
DEQ Indirect Cost Pool	(482)
Warrant Processing	(13)
Investment Division	(156)
Justice Legal Services	(333)
Aircraft Operation	(67)
<u>Enterprise Fund</u>	
Subsequent Injury	(2,865)
<u>Capital Project Fund</u>	
Federal/Private Construction Grants	(477)

Governmental Fund Balance By Function, June 30, 2014
(in thousands)

	Special Revenue						Total
	General	State	Federal	Permanent			
				Coal	Severance Tax	Land Grant	
Fund balances							
Nonspendable							
Inventory	\$ 2,672	\$ 19,939	\$ -	\$ -	\$ -	\$ -	\$ 22,611
Permanent fund principal	14	500	-	527,907	638,565	285,304	1,452,290
Long-term notes/receivables	971	-	-	-	-	-	971
Prepaid expense	337	659	49	-	-	-	1,045
Total nonspendable	3,994	21,098	49	527,907	638,565	285,304	1,476,917
Restricted							
General government	3,569	2,077	1,162	-	-	1,755	8,563
Transportation	-	60,851	-	-	-	-	60,851
Health and human services	-	9,577	393	-	-	14,524	24,494
Natural resources	-	657,702	-	-	-	11,518	669,220
Public safety	-	265,966	-	-	-	-	265,966
Education	-	7,252	13,135	-	-	71	20,458
Total restricted	3,569	1,003,425	14,690	-	-	27,868	1,049,552
Committed							
General government	-	114,041	-	483,333	-	97,135	694,509
Transportation	-	4,823	-	-	-	-	4,823
Health and human services	-	27,131	-	-	-	-	27,131
Natural resources	-	286,220	-	-	-	34,340	320,560
Public safety	139	33,259	-	-	-	639	34,037
Education	2	26,629	-	-	-	-	26,631
Total committed	141	492,103	-	483,333	-	132,114	1,107,691
Assigned							
General government	-	7,114	-	-	-	6,118	13,232
Public safety	-	-	-	-	-	1,210	1,210
General Fund Spend Down FY15 (1)	80,000	-	-	-	-	-	80,000
Encumbrance	10,366	-	-	-	-	-	10,366
Total assigned	90,366	7,114	-	-	-	7,328	104,808
Unassigned	344,406	-	-	-	-	-	344,406
Total fund balance	\$442,476	\$1,523,740	\$14,739	\$1,011,240	\$638,565	\$452,614	\$4,083,374

(1) In fiscal year 2014, the General Fund unassigned fund balance was \$344 million. An additional \$80 million was reported as assigned fund balance pertaining to the projected General Fund spend down of fund balance in fiscal year 2015 as required by GASB Statement No. 54. The 2013 Legislature projected \$338 million of unassigned fund balance for fiscal year 2014.

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 73.90%, or \$1,047.9 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 health care plan member per year to maintain its membership. DOA also paid a monthly fee of \$0.55 per health care plan member per month for data aggregation and analysis and consulting services performed by the association staff on behalf of member employers. DOA also paid \$0.71 per pharmacy script to MAHCP for administration of the URx program, which includes the Ask-A-Pharmacist Program.

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.

The Office of the State Public Defender rents the office space that is leased to one of its regional deputies. The Deputy Public Defender leases it from a third party and the Office of the State Public Defender reimburses the Deputy Public Defender for the lease payment. During fiscal year 2014 the office paid approximately \$23,000.

The Department of Labor and Industry Workforce Services Division rents space in Libby, MT from Mineral Plaza, LLC in which one of the owners is Johnette Watkins, a local job service manager. The term of the lease is four years beginning July 1, 2013 and ending June 30, 2017. The annual lease amount is currently set at \$21,330.

NOTE 16. CONTINGENCIES

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

On March 12, 2012, the parties filed a Stipulation of Partial Dismissal in both Second Circuit Dockets (Nos. 11-1904 cv and 12-840 cv) dismissing Montana with prejudice from all claims. On March 29, 2012, the parties filed an Assurance of Voluntary Compliance, Cause No. ADV-2012-246 in the First Judicial District Court of Montana pursuant to which Grand River Enterprises paid into escrow for the benefit of Montana \$22,857 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.

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

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

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

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

A less obvious financial impact is the bill of costs that PPL submitted to the district court following the remand. PPL requested that the district court tax the State of Montana with \$1.2 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 Time 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 and § 2-18-902, 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.

On September 8, 2014, the District Court issued an order ruling on several motions that the parties had filed. The principal rulings were: (i) the Court authorized Plaintiffs to proceed with additional discovery to determine if the class definition should be altered or amended; (ii) given its order to allow additional discovery, the Court held in abeyance its decision on the State's Motion for Summary Judgment requesting that the class be limited to those who timely filed claims within the one-year filing restriction contained in the State's policy; (iii) the Court granted the Plaintiffs' motions asking the Court to require the State conform its health plans, procedures, notices and practices to comply with the Montana Supreme Court's rulings in this case and to pay covered medical expenses, await the resolution of claims against liability carriers, and then conduct a made-whole determination before it can exercise subrogation or accept reimbursements from its members or providers; and (iv) the Court ordered the parties to develop a class notice to be sent to past and current plan members dated back to eight years before this suit was filed. The State and Plaintiffs' counsel are currently working on the notice. Since discovery is ongoing, the State at this point it does not have sufficient information to determine the cost impact.

Kohoutek, Inc. v. Montana involves a class action constitutional challenge to the state's statute governing compensation for mandatory case-lot sales of liquor. Agency liquor stores are required by statute to provide an 8% discount to liquor licensees for sales of unbroken case-lots. Section § 16-2-101(2)(b)(ii)(B), MCA, provides for a weighted average discount ratio to offset for some or all of this mandatory case lot discount. The weighted average discount ratio is based on FY1994 sales. Plaintiffs contend that this provision, rooted in 1994 rather than based on actual sales, violates their rights to substantive due process and equal protection, and constitutes a taking.

Plaintiffs filed a Complaint for Declaratory, Injunctive, and Class Relief on March 25, 2014, before the Eighth Judicial District Court, ADV-14-181. The District Court for the Eighth Judicial District granted class certification by Order dated August 21, 2014. The case has been bifurcated into two parts—constitutionality and damages. The Court heard oral argument on the Plaintiffs' Motion for Partial Summary Judgment, addressing its constitutional claims, on January 20, 2015, and will decide on that issue in the near future.

If the Court finds the weighted average discount ratio unconstitutional, and this result is upheld on appeal to the Montana Supreme Court, the case will proceed to the damages portion. The fiscal impact of such a finding will be difficult to measure, as the Department of Revenue's records reflecting actual sales only date back to 2006, and Plaintiffs are alleging damages back to 1995. Moreover, such sales records are unaudited. In an attempt at measuring damages, the Department looked to HB173 from the 2007 Legislative Session that proposed to eliminate the weighted average discount ratio provision and base reimbursement on actual sales. Damages at this point are difficult to determine.

The Public Employee Retirement System and Teachers' Retirement System have pending litigation. Refer to Note 6(J) for additional disclosure in relation to their various legal proceedings.

The Department of Revenue finalized two protested property tax settlements in June 2014 both with Cellco Partnership for Verizon and Alltel. While the settlements were finalized in fiscal year 2014, the refunds to Cellco and the reclassification of the state's share from protested property taxes to regular property taxes did not occur until July 2014, fiscal year 2015. The Verizon settlement resulted in a \$1,640,342 refund including \$2,964 in interest to Cellco and a total of \$2,707,363 released to regular property taxes for the state's share. The Alltel settlement resulted in a \$136,666 refund including \$336 in interest to Cellco and a total of \$407,098 released to regular property taxes for the state's share.

Federal Contingencies

Food Distribution Program - The amount reported for Food Distribution programs (CFDA #10.555, #10.567, #10.569, #10.570 and #10.565) 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 2014, Montana distributed \$619,424 of food commodities under CFDA #10.567 to other states.

The State of Montana distributed \$9.4 million in commodities in fiscal year 2014. The value at June 30, 2014 of commodities stored at the state's warehouse is \$2.04 million for which the state is liable in the event of loss. The state has insurance to cover this liability.

Miscellaneous Contingencies

Loan Enhancements – As of June 30, 2014, 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 \$222.6 million. The BOI's exposure to bond issues of the Municipal Finance Consolidation Act Bond Fund was \$106.4 million, while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority was \$116.1 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, 2014 the following assessments (by fund type) were outstanding (in thousands):

<u>Taxes</u>	<u>General</u>	<u>State Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonexpendable Trust</u>
Corporation Tax	\$10,503	\$ -	\$ -	\$ -	\$ -
Coal Severance Tax	786	245	28	352	1,522
Resource Indemnity Trust Tax	-	76	-	-	-
Total	\$11,289	\$321	\$28	\$352	\$1,522

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, 2014. The corporations have appealed the department's decision to deny or adjust the refund. As of June 30, 2014, these include \$5.6 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, 2014. As of June 30, 2014, these include \$1.7 million of protested property taxes recorded in the General Fund and \$2 million recorded in State Special Revenue Funds.

NOTE 17. SUBSEQUENT EVENTS**Bond/Loan Issues**

In July 2014, General Obligation Long-Range Buildings Program Refunding Bonds, Series 2014, were issued for \$28,810,000 to be used for the purpose of refunding the General Obligation Long-Range Building Program Bonds, Series 2005B, Series 2006A and Series 2007D, with stated maturities in 2015.

In April 2015, the Board of Examiners approved the issuance of General Obligation Long-Range Building Program Refunding Bonds (Series 2015A) up to the amount of \$9,575,000 to be used for the purpose of refunding the General Obligation Long-Range Building Program Bonds, Series 2005A and Series 2005H, with stated maturities in 2016.

Investment Related Issues

From July 1 through December 1, 2014, AFF Financing LLC payments total \$4,358,350 representing \$4,335,685 in principal and \$22,665 in interest. For the same period, the BOI received payments associated with the Orion Finance collective holding of \$1,661,717 with \$1,561,955 and \$99,762 applied to principal and interest, respectively.

On August 19, 2014, the BOI approved the staff recommendation to enter into a custodial bank contract with State Street Bank effective November 1, 2014. Due to contract negotiations, the current contract with State Street Bank was extended to December 31, 2014, changing the effective date of the new contract to January 1, 2015.

On October 2, 2014, the BOI received a bankruptcy payment of \$463,564 related to the Lehman Brothers Holdings, Inc. Due to previous principal write downs; this payment was recorded as a gain.

Other Subsequent Events

On January 17, 2015, Governor Bullock declared by executive order an emergency relating to an oil pipeline spill. Pursuant to the executive order, several state agencies have been given authority to expend funds from the general fund to meet contingencies and needs arising from these conditions while they respond to, mitigate and alleviate the situation.

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, 2014 (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	\$688,029	\$4,820	\$1,694,768	\$557,421	\$451,165	\$3,396,203
Due from primary government	-	-	-	510	1,375	1,885
Due from component units	-	-	-	5	108	113
Capital assets (net) (Note 18C)	6	29	29,764	412,621	341,257	783,677
Total assets	688,035	4,849	1,724,532	970,557	793,905	4,181,878
Deferred Outflows of Resources						
	704	-	-	7,530	3,408	11,642
Liabilities:						
Accounts payable and other liabilities	6,885	475	225,493	60,876	65,127	358,856
Due to primary government	-	-	-	2,311	1,205	3,516
Due to component units	-	-	-	107	6	113
Advances from primary government	-	-	-	21,051	12,805	33,856
Long-term liabilities (Note 18I)	530,104	87	1,043,717	290,175	196,468	2,060,551
Total liabilities	536,989	562	1,269,210	374,520	275,611	2,456,892
Net Position:						
Net investment in capital assets	6	29	29,764	282,933	214,824	527,556
Restricted	151,744	-	-	236,946	257,980	646,670
Unrestricted	-	4,258	425,558	83,688	48,898	562,402
Total net position	\$151,750	\$4,287	\$ 455,322	\$603,567	\$521,702	\$1,736,628

**Condensed Statement of Activities
Component Units**

	Housing Authority	Facility Finance Authority	Montana State Fund	Montana State University	University of Montana	Total Component Units
Expenses	\$ 27,212	\$ 871	\$182,638	\$ 522,698	\$ 413,562	\$1,146,981
Program Revenues:						
Charges of services	1,170	498	165,272	240,260	177,692	584,892
Operating grants and contributions	26,442	46	-	176,952	128,401	331,841
Capital grants and contributions	-	-	-	4,416	3,441	7,857
Total program revenues	27,612	544	165,272	421,628	309,534	924,590
Net (expense) program revenues	400	(327)	(17,366)	(101,070)	(104,028)	(222,391)
General Revenues:						
Unrestricted grants and contributions	-	-	-	504	-	504
Unrestricted investment earnings	-	-	81,556	6,831	33,552	121,939
Payment from State of Montana	-	-	9,395	113,827	94,457	217,679
Gain (loss) on sale of capital assets	-	-	(10)	221	(2)	209
Miscellaneous	58	-	126	-	-	184
Contributions to term and permanent endowments	-	-	-	10,793	13,070	23,863
Total general revenues and contributions	58	-	91,067	132,176	141,077	364,378
Change in net position	458	(327)	73,701	31,106	37,049	141,987
Total net position – July 1 – as previously reported	157,169	4,659	436,676	563,023	476,806	1,638,333
Prior period adjustments	(5,877)	(45)	(55,054)	9,436	7,848	(43,692)
Total net position – July 1 – as restated	151,292	4,614	381,622	572,459	484,654	1,594,641
Total net position – June 30	\$151,750	\$4,287	\$455,323	\$ 603,565	\$ 521,703	\$1,736,628

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	\$ 8,226	\$ 1,139	\$ 16,034
Construction Work In Progress	22,126	8,463	295	30,884
Capitalized Collections	8,623	17,692	-	26,315
Livestock for educational purposes	3,572	-	-	3,572
Total Capital Assets not being depreciated	40,990	34,381	1,434	76,805
Capital assets being depreciated:				
Infrastructure	42,443	8,177	-	50,620
Land Improvements	21,657	14,335	-	35,992
Buildings/Improvements	549,378	529,816	27,973	1,107,167
Equipment	148,755	81,611	7,516	237,882
Livestock	-	10	-	10
Library Books	63,916	58,431	-	122,347
Leasehold Improvements	1,807	-	-	1,807
Total Capital Assets being depreciated	827,956	692,380	35,489	1,555,825
Total accumulated depreciation	(466,882)	(390,753)	(7,503)	(865,138)
Total Capital Assets being depreciated net	361,074	301,627	27,986	690,687
Intangible Assets	1,137	2,786	379	4,302
MSU Component Unit Capital Assets, net	9,420	-	-	9,420
UM Component Unit Capital Assets, net	-	2,463	-	2,463
Discretely Presented Component Units capital assets net	\$ 412,621	\$ 341,257	\$29,799	\$ 783,677

D. Other Postemployment Benefits (OPEB)

Due to a correction in relation to the misapplication of an accounting principle in prior years, the Montana University System has a prior period adjustment to its beginning OPEB liability balance of approximately \$18 million. 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, 2014, 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 New Fund within specified time frames.

An actuarial study prepared by Towers Watson, as of June 30, 2014, 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, 2014, \$924.6 million of unpaid claims and claim adjustment expenses were presented at face value.

New Fund is required by MCA 39-71-2311 to 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, 2014, 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 2014, 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, 2013 through June 30, 2014. 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 \$9.5 million in fiscal year 2014.

Estimated claim reserves were reduced by \$12.3 million for fiscal year 2014 for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excess of loss reinsurance contract. In fiscal year 2014, estimated claim reserves were reduced by an additional \$20.6 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, 2014, 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, 2014, \$45.0 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 and the State of Montana Old 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	
	2014	2013	2014	2013
Unpaid claims and claim adjustments expenses at beginning of year	\$ 902,848	\$ 889,941	\$51,026	\$59,162
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	150,940	139,204	-	-
Increase (decrease) in provision for insured events of prior years	(18,620)	(12,036)	1,398	1,761
Total incurred claims and claim adjustment expenses	132,320	127,168	1,398	1,761
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(26,807)	(25,706)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(83,763)	(88,555)	(7,390)	(9,897)
Total payments	(110,570)	(114,261)	(7,390)	(9,897)
Total unpaid claims and claim adjustment expenses at end of year	\$ 924,598	\$ 902,848	\$45,034	\$51,026

F. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2014, were as follows (in thousands):

Fiscal Year Ending June 30	Discretely Presented Component Units
2015	\$292
2016	318
2017	179
2018	108
2019	35
2020-2024	-
Total minimum pmts	932
Less: interest	(62)
Present value of minimum payments	\$870

G. Operating Leases

Future rental payments under operating leases at June 30, 2014 are as follows (in thousands):

Fiscal Year Ending June 30	Discretely Presented Component Units
2015	\$ 4,430
2016	3,042
2017	2,842
2018	1,645
2019	1,416
2020-2024	4,367
2025-2029	1,360
Thereafter	2,993
Total future rental payments	<u>\$22,095</u>

H. Debt Service Requirements

Debt service requirements of discretely presented component units at June 30, 2014, were as follows (in thousands):

Year Ended June 30	Montana Board of Housing		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 12,845	\$ 19,932	\$ 7,441	\$ 6,491	\$ 7,608	\$ 4,411
2016	14,075	19,562	7,601	6,233	7,804	4,132
2017	14,675	19,205	8,840	5,969	8,077	3,874
2018	15,440	18,793	8,995	5,711	8,386	3,565
2019	16,090	18,314	16,810	5,434	8,725	3,219
2020-2024	91,905	82,562	39,440	22,512	49,836	10,180
2025-2029	111,865	62,692	29,465	15,542	18,490	2,584
2030-2034	117,685	39,113	22,635	10,279	5,220	425
2035-2039	92,254	16,026	16,960	5,473	-	-
2040-2044	36,965	2,800	15,945	2,073	-	-
2045-2049	155	3	-	-	-	-
Total	<u>\$523,954</u>	<u>\$299,002</u>	<u>\$174,132</u>	<u>\$85,717</u>	<u>\$114,146</u>	<u>\$32,390</u>

I. Summary of Changes in Long-term Liabilities Payable

Long-term liability activity of discretely presented component units for the year ended June 30, 2014, 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						
MT Board of Housing	\$ 541,802	\$ 31,972	\$144,794	\$ 528,980	\$ 12,844	\$ 516,136
Montana State University (MSU)	117,427	68,763	6,976	179,214	7,440	171,774
University of Montana (UM)	116,288	7,969	7,458	116,799	7,640	109,159
Total bonds/notes payable (1)	775,517	208,704	159,228	824,993	27,924	797,069
Other liabilities						
Lease/installment purch pay	1,027	137	293	871	271	600
Compensated absences pay	58,037	30,773	29,241	59,569	29,627	29,942
Arbitrage rebate tax payable	336	215	-	551	-	551
Prevailing wage claim	31	-	16	15	15	-
Estimated insurance claims (5)	953,874	133,718	117,960	969,632	116,978	852,654
Due to federal government	32,686	291	15	32,962	-	32,962
Derivative instrument liability	4,389	-	354	4,035	-	4,035
Reinsurance funds withheld	78,025	12,563	23,885	66,703	-	66,703
OPEB implicit rate subsidy (2)	89,988	10,915	1,762	99,141	-	99,141
Total other liabilities	1,218,393	188,612	173,526	1,233,479	146,891	1,086,588
	\$1,993,910	\$397,316	\$332,754	\$2,058,472	174,815	1,883,657
Long-term liabilities of Montana University System component units (4)					(107)	2,184
Total discretely presented component units					\$174,708	\$1,885,841
Long-term liabilities						

- (1) When applicable, this amount includes 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) Per GASB Statement No. 70, Montana State Fund's claims related to Old Fund are classified as a Nonexchange Financial Guarantee. For more information see footnote 18 (L).

J. Refunded and Early Retired Debt

Universities

Defeased Debt Outstanding

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, 2014, \$109.7 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 Montana 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, 2014, revenue bonds outstanding aggregated \$1.04 billion and notes payable outstanding aggregated \$22.3 million.

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

Montana Board of Housing (BOH)

The BOH 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 BOH. The bonds issued by the BOH do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2014, bonds outstanding aggregated \$14.4 million.

L. Nonexchange Financial Guarantee

Pursuant to Montana Code Annotated (MCA) 39-71-2352, if in any fiscal year claims for injuries resulting from accidents occurring prior to July 1, 1990 are not adequately funded by Montana State Fund, any amount necessary to cover those claims must be transferred from the State's general fund to Montana State Fund. The State of Montana's primary government will extend the guarantee until all Old Fund claims are paid. Following the guidance set forth in GASB Statement No. 70 this qualifies as a nonexchange financial guarantee. The primary government of the State of Montana has no arrangements for recovering payments from Montana State Fund. The estimated nonexchange financial guarantee as of June 30, 2014 was \$45.0 million.

Total Amount of Estimated Guarantee	\$64.6 million
Amount Paid by Primary Government FY14	\$ 8.6 million
Cumulative Amount Paid by Primary Government	\$29.3 million
Ending Balance of Guarantee	\$45.0 million

M. Derivative Transactions Related to Long-term Debt

Montana State University (MSU) has two interest rate swaps as of June 30, 2014. 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, 2014, 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 as of June 30, 2014 was 0.65%. 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, 2014.

Cash flow hedges:	Notional	Activity During 2014 Increase (Decrease)		Fair Values at June 30, 2014	
		Classification	Amount	Classification	Amount
Cash flow hedge –					
Pay fixed interest	\$22,475,000	Interest expense	\$ 20,145	Loan receivable	<u>\$ 306,860</u>
rate swap		Investment loss	338,749	Derivative liability	<u>4,034,590</u>
		Deferred outflow	(15,972)		
Investment derivative –					
Basis swap	\$22,475,000	Investment loss	\$339,870	Investment (excluding interest accrued)	<u>\$1,556,177</u>

The objective and terms of MSU's hedging derivative outstanding as of June 30, 2014 is as follows:

Type	Objective	Notional amount	Effective Date	Termination Date	Cash (Paid)/ Received	Terms
Pay fixed, cancelable interest rate swap	Hedge interest rate risk on Series J 2005 Bonds	\$22,475,000	7/21/2005	11/15/2035	-	Pay 3.953% Receive SIFMA

Credit Risk

It is MSU's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2014, 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 Rate Risk

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.

Basis Risk

The variable-rate cash flows being hedged by the pay-fixed swap will increase or decrease as SIFMA rates increase or decrease. Because the hedged cash flows are SIFMA based and the floating receipts of the pay-fixed swap are SIFMA based, there is no basis risk.

Termination Risk

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, 2014, MSU's unenhanced long-term revenue bond rating was Aa3 by Moody's and A+ by Standard and Poor's.

Rollover Risk

MSU's hedging derivative includes a cancellation 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.

Foreign Currency Risk

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

Market Access 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.

N. 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, UM. For the year ended June 30, 2014, \$132,544 was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, UM provides the associations and booster club with office space, staff and some related office expenses.

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

Private nonprofit organizations affiliated with Montana State University (MSU) include the MSU-Bozeman Bookstore, Friends of KUSM, and Friends of KEMC. Friends of Montana Public Television provided \$913,625 during 2014 and Friends of KEMC Public Radio provided \$700,000 during 2014 in support of MSU's television and radio stations.

O. 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 asserted 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. An appeal has been filed with no decision yet on the appeal. 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, 2013. 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.

Montana State Fund received another Petition for Hearing that was filed before the Workers' Compensation Court. The matter is Steven Hanson vs. Montana State Fund, WCC No. 2014-3398. This is a companion case to Susan Hensley v. Montana State Fund and has been held in abeyance pending a decision in Hensley.

P. 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 June 30, 2014, \$569,376 is due to the Permanent Coal Trust Fund, reflecting \$461,860 of principal and \$107,516 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 June 30, 2014, \$90,203 was due to the Authority, reflecting \$73,170 of principal and \$17,033 of interest.

The condominium owners pursued selling the building. As of June 30, 2013, there was a viable purchaser for the building; however, it was determined that the purchaser probably wouldn't pay the amount owed to the Authority on its loans. An additional \$50,000 was added to the Loan Loss Contingency for the period ending June 30, 2013.

An environmental assessment was completed on the building in early 2014 resulting in over \$123,000 of estimated remediation costs. A developer subsequently examined the building and identified several additional issues. Several executives met on June 25, 2014 to determine the feasibility of selling the building and concluded that there was no longer a viable purchaser.

An additional \$400,026 was added to Loan Loss Contingency account for the fiscal year ended June 30, 2014, resulting in the full principal amount of \$461,860 under the Trust Fund Loan Program. The principal amount of the Direct Loan, \$73,170 was moved into bad debt, reflected in other operating expenses, resulting in the full write-off of the loan as of June 30, 2014.

Q. Subsequent Events

On November 20, 2014, the Board of Regents of the Montana University System authorized the University of Montana to issue up to \$21,000,000 of Series N 2015 Refunding Revenue Bonds for the purpose of refunding the outstanding Series J 2005 Facilities Improvement and Refunding Revenue Bonds maturing after May 15, 2015, previously issued to finance and refinance certain improvements to the campuses of the University of Montana, and paying cost of issuance of the Series N 2015 Bonds. The revenue bonds will be issued prior to the optional redemption date of May 15, 2015, specified in the supplement to the Indenture of Trust. The University of Montana is seeking to private place the Series N Bonds with one or more commercial banks or institutional investors.

In September of 2014, the Board of Regents authorized the Billings campus of Montana State University to repair and replace the existing roof for the Student Union Building, and seek an Intercap loan in the amount of \$850,000 to finance the project.

In November of 2014, the Board of Regents authorized the Bozeman campus of Montana State University to execute a lease with Bozeman Deaconess Hospital. This arrangement will provide space to accommodate elements of the University of Washington's School of Medicine Wyoming, Washington, Alaska, Montana, Idaho consortium (WWAMI) medical program by locating first, second and third year WWAMI students under one roof and facilitate additional integration of clinical and basic science teaching.

On July 7, 2014 the Board of the Facility Finance Authority determined that the Gateway Community Services loans should be written off and the mortgages released. The Board of the Facility Finance Authority further directed payment of \$461,860 to the Permanent Coal Tax Trust Fund from funds designated for such an event. The Facility Finance Authority will continue to hold the promissory notes and the action taken did not signify a satisfaction of the note obligations. The Board of the Facility Finance Authority further directed that the one condominium owned by the Facility Finance Authority be offered to the other condominium owners. Steps to accomplish the write-off, releases and transfer are in process and expect to be completed prior to December 31, 2014.

On August 7, 2014, \$30 million of bonds were issued by the Facility Finance Authority for the benefit of Missions United (Billings) to finance the construction of a continuing care retirement facility in the Billings Heights area and to refinance approximately \$9.25 million of outstanding bonds to reduce the interest rate.

On November 5, 2014, \$21.77 million of bonds were issued by the Facility Finance Authority for the benefit of Bozeman Deaconess Health Services to finance a portion of the costs to construct a hospital and medical office building in Big Sky, Montana.

On November 13, 2014, \$17 million of bonds were issued by the Facility Finance Authority for the benefit of Kalispell Regional Medical Center to finance multiple projects including the cancer center expansion, Health Information Technology Data Center, construction overruns and geo thermal for the surgery tower, parking lot improvements and miscellaneous equipment.

On November 20, 2014, \$61.69 million of bonds were issued by the Facility Finance Authority for the benefit of Sisters of Charity of Leavenworth Health System, with Montana hospitals located in Miles City, Billings and Butte, to refinance bonds issued in 2003 and 2006.

On November 25, 2014, \$10 million of bonds were issued by the Facility Finance Authority for Bozeman Deaconess Health Services to finance a portion of the costs to install an Electronic Health Records system.

The Montana State Fund Board of Directors declared a \$20 million dividend at its meeting on November 14, 2014. The dividend will be paid during fiscal year 2015 to eligible policyholders for the 2012 policy year.

On January 22, 2015, the Montana Board of Housing issued \$20,000,000 of Single Family Program Bonds Series 2015A (1979 Single Family II Indenture). The bonds will mature on June 1, 2015 through June 1, 2040, with interest rates from 0.20% to 3.50%. The bond proceeds were or will be used to purchase single mortgage loans for the Board's Homeownership Program.

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, 2014, the Sheriffs Retirement System (SRS), Game Warden & Peace Officers Retirement System (GWPORS), Highway Patrol Officers' Retirement System (HPORS), and Public Employee Retirement Benefit Defined Contribution Disability Other Post Employment Benefit (PERS-DCRP Disability) plans were not in compliance and do not amortize within 30 years. The unfunded liabilities in the other state retirement systems amortize in less than 30 years as of fiscal year end 2014.

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 7 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, 2014
(amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL	FINAL	ACTUAL	VARIANCE
	BUDGET	BUDGET		
REVENUES				
Licenses/permits	\$ 117,365	\$ 117,365	\$ 117,751	\$ 386
Taxes:				
Natural resource	125,032	125,032	154,409	29,377
Individual income	1,039,082	1,039,082	1,038,284	(798)
Corporate income	154,096	154,096	148,471	(5,625)
Property	246,539	246,539	251,897	5,358
Fuel	-	-	-	-
Other	219,319	219,319	211,545	(7,774)
Charges for services/fines/forfeits/settlements	39,916	39,916	38,460	(1,456)
Investment earnings	-	-	3,382	3,382
Sale of documents/merchandise/property	418	418	411	(7)
Rentals/leases/royalties	26	26	28	2
Contributions/premiums	-	-	23	23
Grants/contracts/donations	3,766	3,766	8,979	5,213
Federal	31,531	31,531	26,271	(5,260)
Federal indirect cost recoveries	115	115	154	39
Other revenues	11,956	11,956	-	(11,956)
Total revenues	<u>1,989,161</u>	<u>1,989,161</u>	<u>2,000,065</u>	<u>10,904</u>
EXPENDITURES				
Current:				
General government	351,656	351,656	328,281	23,375
Public safety	291,530	291,530	281,126	10,404
Transportation	-	-	-	-
Health and human services	447,526	447,528	446,097	1,431
Education	965,505	965,505	936,813	28,692
Natural resources	34,664	34,664	32,083	2,581
Debt service:				
Principal retirement	-	-	14	(14)
Interest/fiscal charges	-	-	189	(189)
Capital outlay (Note RS-1)	-	-	4,464	(4,464)
Total expenditures	<u>2,090,881</u>	<u>2,090,883</u>	<u>2,029,067</u>	<u>61,816</u>
Excess of revenue over (under) expenditures	<u>(101,721)</u>	<u>(101,723)</u>	<u>(29,002)</u>	<u>(72,721)</u>
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	-	-	-	-
General capital asset sale proceeds	34	34	51	17
Bond premium	-	-	-	-
Bond proceeds	-	-	-	-
Energy conservation loans	-	-	-	-
Transfers in (Note 12)	69,366	69,366	75,436	6,070
Transfers out (Note 12)	(243,785)	(243,785)	(164,245)	79,540
Total other financing sources (uses)	<u>(174,385)</u>	<u>(174,385)</u>	<u>(88,758)</u>	<u>85,627</u>
Net change in fund balances	-	-	-	-
(Budgetary basis)	(276,106)	(276,108)	(117,760)	158,348
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	88	88
2. Securities lending costs	-	-	-	-
3. Inception of lease/installment contract	-	-	2	2
(GAAP basis)	<u>(276,106)</u>	<u>(276,108)</u>	<u>(117,670)</u>	<u>158,437</u>
Fund balance - July 1	-	-	561,016	561,016
Prior period adjustments	-	-	(615)	(615)
Increase (decrease) in inventories	-	-	(255)	(255)
Fund balances - June 30	<u>\$ (276,106)</u>	<u>\$ (276,108)</u>	<u>\$ 442,476</u>	<u>\$ 718,584</u>

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

STATE SPECIAL REVENUE FUND					FEDERAL SPECIAL REVENUE FUND			
ORIGINAL	FINAL			ORIGINAL	FINAL			
BUDGET	BUDGET	ACTUAL	VARIANCE	BUDGET	BUDGET	ACTUAL	VARIANCE	
\$ 180,921	\$ 180,921	\$ 183,440	\$ 2,519	\$ -	\$ -	\$ -	\$ -	
160,831	160,831	141,146	(19,685)	-	-	-	-	
-	-	-	-	-	-	-	-	
6	6	3	(4)	-	-	-	-	
16,454	16,454	15,132	(1,322)	-	-	-	-	
214,379	214,379	216,615	2,236	-	-	-	-	
127,468	127,468	126,667	(801)	2	2	1	(1)	
107,151	107,151	105,873	(1,278)	49,749	49,749	44,709	(5,040)	
-	-	28,019	28,019	-	-	355	355	
5,639	5,639	5,623	(16)	-	-	7	7	
818	818	1,206	388	19	19	3	(16)	
22,506	22,506	23,183	677	-	-	-	-	
22,356	22,356	20,897	(1,459)	30	30	9	(21)	
10,328	10,328	7,979	(2,349)	1,880,777	1,880,777	2,052,060	171,283	
49,228	49,228	39,824	(9,404)	45,447	45,447	71,003	25,556	
3,668	3,668	4,260	592	3	3	223	220	
921,755	921,755	919,867	(1,888)	1,976,029	1,976,029	2,168,370	192,341	
333,930	333,930	254,413	79,517	251,363	251,363	113,070	138,293	
86,020	86,020	80,684	5,336	22,630	22,630	11,278	11,352	
296,617	296,617	223,948	72,669	519,758	519,758	100,126	419,632	
164,997	164,997	152,793	12,204	1,389,714	1,389,714	1,283,910	105,804	
118,010	118,010	112,422	5,588	240,876	240,876	211,752	29,124	
302,794	302,795	183,648	119,147	135,809	135,809	65,278	70,531	
-	-	507	(507)	-	-	18	(18)	
-	-	528	(528)	-	-	5	(5)	
-	-	76,889	(76,889)	-	-	351,994	(351,994)	
1,302,368	1,302,369	1,085,832	216,537	2,560,151	2,560,151	2,137,431	422,720	
(380,613)	(380,614)	(165,966)	(214,649)	(584,122)	(584,122)	30,939	(615,061)	
485	485	1,301	816	-	-	1	1	
139	139	153	14	-	-	3	3	
-	-	150	150	-	-	-	-	
11,830	11,830	11,680	(150)	-	-	-	-	
-	-	169	169	-	-	-	-	
257,521	257,521	216,617	(40,904)	18,939	18,939	5,003	(13,936)	
(109,460)	(109,460)	(35,007)	74,453	(86,116)	(86,116)	(42,067)	44,049	
160,514	160,514	195,063	34,549	(67,177)	(67,177)	(37,060)	30,117	
-	-	-	-	-	-	-	-	
(220,099)	(220,100)	29,098	249,197	(651,299)	(651,299)	(6,121)	645,178	
-	-	183	183	-	-	5	5	
-	-	(29)	(29)	-	-	-	-	
-	-	322	322	-	-	-	-	
(220,099)	(220,100)	29,574	249,674	(651,299)	(651,299)	(6,116)	645,183	
-	-	1,494,473	1,494,473	-	-	19,667	19,667	
-	-	(2,434)	(2,434)	-	-	1,188	1,188	
-	-	2,127	2,127	-	-	-	-	
\$ (220,099)	\$ (220,100)	\$ 1,523,740	\$ 1,743,839	\$ (651,299)	\$ (651,299)	\$ 14,739	\$ 666,038	

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 2014, reverted governmental fund appropriations were as follows: General Fund - \$9 million, State Special Revenue Fund - \$51.9 million, and Federal Special Revenue Fund - \$90.2 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						
6/30/2012	63,195	46,190	(17,005)	137%	6,193	(275%)
6/30/2013	70,323	49,236	(21,087)	143%	6,276	(336%)
6/30/2014	78,463	50,600	(27,864)	155%	6,355	(438%)
HPORS						
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%
6/30/2014	117,226	183,400	66,174	64%	14,149	468%
Multiple Employer Systems						
PERS-DBRP						
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%
6/30/2014	4,595,805	6,177,505	1,581,700	74%	1,129,109	140%
SRS						
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%
6/30/2014	264,945	326,077	61,132	81%	64,673	95%
GWPORS						
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%
6/30/2014	129,429	154,595	25,166	84%	41,637	60%
MPORS						
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%
6/30/2014	298,722	474,308	175,586	63%	44,427	395%
FURS						
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%
6/30/2014	300,949	419,013	118,064	72%	39,892	296%
TRS						
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%
7/1/2014	3,397,400	5,191,100	1,793,600	65%	750,600	239%
Nonemployer Contributor						
VFCA						
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
6/30/2014	31,281	37,975	6,694	82%	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						
1/1/2009	\$ -	\$357,664	\$357,664	0.00%	\$526,794	67.89%
1/1/2011	\$ -	\$337,274	\$337,274	0.00%	\$521,881	64.63%
1/1/2013	\$ -	\$366,739	\$366,739	0.00%	\$616,158	59.52%
MUS Agent Multiple Employer Plan						
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%
7/1/2013	\$ -	\$100,247	\$100,247	0.00%	\$400,017	25.06%

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

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ending June 30, 2014

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AMOUNT

CORPORATION FOR NATIONAL & COMMUNITY SERVICE

94.003	State Commissions	\$259,297
	Regis University 2012-2013 MOU	\$15,354
94.006	AmeriCorps	\$2,538,352
	Regis University	\$2,821
	Regis University Colorado CC2011-2013	\$5,132
	University of Denver	\$94
	University of Denver COMPACT SERVICE CORP 2013-2014	\$15,377
	University of Denver SC37138A	\$1,873
94.007	Program Development and Innovation Grants	\$63,472
	Regis University	\$16,778
	University of Denver 08EDHCO001	\$14,248
	University of Wisconsin 420K405	(\$25)
	University of Wisconsin 493K765	\$19,823
94.009	Training and Technical Assistance	\$688
94.013	Volunteers in Service to America	\$644,202
	TOTAL	\$3,597,486
	CORPORATION FOR NATIONAL & COMMUNITY SERVICE TOTAL	\$3,597,486

DEPARTMENT OF AGRICULTURE

10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$1,026,793
10.156	Federal-State Marketing Improvement Program	\$10,827
10.162	Inspection Grading and Standardization	\$21,301
10.163	Market Protection and Promotion	\$34,450
10.169	Specialty Crop Block Grant Program	\$288,257
10.217	Higher Education - Institution Challenge Grants Program	\$7,045
10.308	Resident Instruction Grants for Insular Area Activities	
	National Agriculture in the Classroom - Western Region 2012-38858-19937	\$2,986
10.446	Rural Community Development Initiative	
	Ravalli County Economic Development Authority	\$56,885
10.459	Commodity Partnerships for Small Agricultural Risk Management Education Sessions	\$41,947
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	\$642,595
10.500	Cooperative Extension Service	\$2,439,633
	Fort Belknap Community Council EFNEP 93-638	\$32,946
	Kansas State University S12017.01	\$380
	Kansas State University S14127	\$2,176
	Kansas State University S14185	\$3,363
	Kansas State University S13089	\$6,011
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	\$15,555,176

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ending June 30, 2014

AMOUNT

10.558	Child and Adult Care Food Program	\$10,391,226
10.560	State Administrative Expenses for Child Nutrition	\$823,776
10.567	Food Distribution Program on Indian Reservations	\$4,385,794
10.572	WIC Farmers' Market Nutrition Program (FMNP)	\$55,622
10.574	Team Nutrition Grants	\$301,980
10.576	Senior Farmers Market Nutrition Program	\$95,592
10.578	WIC Grants To States (WGS)	\$3,249
10.579	Child Nutrition Discretionary Grants Limited Availability	\$367,249
10.582	Fresh Fruit and Vegetable Program	\$1,675,818
10.601	Market Access Program	
	United States Livestock Genetics Export 10000U	\$21,885
	Western United States Agriculture Trade Association 131	\$20,249
10.652	Forestry Research	\$402,095
10.664	Cooperative Forestry Assistance	\$4,967,697
10.672	Rural Development, Forestry, and Communities	\$52,369
10.676	Forest Legacy Program	\$726
10.680	Forest Health Protection	\$11,958
10.684	International Forestry Programs	\$458,842
10.700	National Agricultural Library	\$1
10.902	Soil and Water Conservation	\$99,909
10.912	Environmental Quality Incentives Program	\$2
10.999	Long Term Standing Agreements For Storage, Transportation And Lease	\$18,533
	TOTAL	\$44,327,343
 Child Nutrition Cluster		
10.553	School Breakfast Program	\$7,209,537
10.555	National School Lunch Program	\$28,977,353
10.556	Special Milk Program for Children	\$18,921
10.559	Summer Food Service Program for Children	\$1,498,817
	TOTAL	\$37,704,628
 Food Distribution Cluster		
10.565	Commodity Supplemental Food Program	\$2,648,309
10.568	Emergency Food Assistance Program (Administrative Costs)	\$164,855
10.569	Emergency Food Assistance Program (Food Commodities)	\$1,418,473
	TOTAL	\$4,231,637
 Forest Service Schools and Roads Cluster		
10.665	Schools and Roads - Grants to States	\$18,689,569
	TOTAL	\$18,689,569
 SNAP Cluster		
10.551	Supplemental Nutrition Assistance Program	\$181,958,071

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ending June 30, 2014

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AMOUNT

10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	\$12,404,636
	TOTAL	\$194,362,707
	DEPARTMENT OF AGRICULTURE TOTAL	\$299,315,884

DEPARTMENT OF COMMERCE

11.302	Economic Development_Support for Planning Organizations Prospera	\$213 \$2,500
11.400	Geodetic Surveys and Services (Geodesy and Applications of the National Geodetic Reference System)	\$14,906
11.439	Marine Mammal Data Program	\$9,833
11.550	Public Telecommunications Facilities Planning and Construction Corporation For Public Broadcasting 1492	\$243,857
11.553	Special Projects Public Broadcasting Service 51-51-W1060620	\$68,568
11.557	ARRA Broadband Technology Opportunities Program (BTOP)	\$2,858
11.558	ARRA State Broadband Data and Development Grant Program	\$35,714
11.611	Manufacturing Extension Partnership	\$512,272
	TOTAL	\$890,721
	<i>Economic Development Cluster</i>	
11.307	Economic Adjustment Assistance	\$1,376,784
11.307	ARRA Economic Adjustment Assistance	\$6,283
	TOTAL	\$1,383,067
	DEPARTMENT OF COMMERCE TOTAL	\$2,273,788

DEPARTMENT OF DEFENSE

12.112	Payments to States in Lieu of Real Estate Taxes	\$3,516
12.114	Collaborative Research and Development Academy of Applied Science 14-14, 14-14A	\$2,249
12.217	Electronic Absentee Systems for Elections	\$15,000
12.357	ROTC Language and Culture Training Grants Institute of International Education 2013-GO-MONTANA	\$277,035
	Institute of International Education 2012-GO-MONTANA	\$45,655
12.400	Military Construction, National Guard	\$9,251,140
12.401	National Guard Military Operations and Maintenance (O&M) Projects	\$27,151,590
12.404	National Guard ChalleNGe Program	\$3,318,892
12.579	Language Training Center Institute of International Education 2012-LTC-MONTANA	\$635,062
	Institute of International Education 2013-LTC-MONTANA	\$1,382,015
12.599	Congressionally Directed Assistance	\$3,635

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12.900	Language Grant Program	\$82,882
12.999	Miscellaneous Non-Major Grants	
	Washington State University 118347-G003015	\$15,253
	TOTAL	\$42,183,924
	DEPARTMENT OF DEFENSE TOTAL	\$42,183,924

DEPARTMENT OF EDUCATION

84.002	Adult Education - Basic Grants to States	\$1,191,966
84.010	Title I Grants to Local Educational Agencies	\$43,128,238
84.011	Migrant Education_State Grant Program	\$832,880
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	\$107,668
84.032	Federal Family Education Loans	\$916,016
84.048	Career and Technical Education -- Basic Grants to States	\$5,292,315
84.051	Career and Technical Education -- National Programs	\$214,962
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	\$13,787,798
84.133	National Institute on Disability and Rehabilitation Research	\$877,131
	Baylor College of Medicine 101750549	\$36,925
	Meeting the Challenge H133B110018	\$2,939
84.144	Migrant Education_Coordination Program	\$92,500
84.169	Independent Living_State Grants	\$275,748
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	\$219,032
84.181	Special Education-Grants for Infants and Families	\$2,305,473
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	\$353,914
84.196	Education for Homeless Children and Youth	\$158,570
84.215	Fund for the Improvement of Education	\$330
84.224	Assistive Technology	\$482,414
84.265	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	\$15,425
84.287	Twenty-First Century Community Learning Centers	\$5,320,299
84.293	Foreign Language Assistance	
	Missoula County Public Schools	\$3,230
84.323	Special Education - State Personnel Development	\$641,697
84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	\$169,371
84.326	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	\$103,379
	California State University-Northridge F-11-2963-3-UMT	\$134,014
	California State University-Northridge F-11-2963UMT	\$47,392
84.327	Special Education_Educational Technology Media, and Materials for Individuals with Disabilities	
	Ohio State University 60036894	\$5,131

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84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	\$32,639
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	\$3,391,423
84.335	Child Care Access Means Parents in School	\$45,138
84.358	Rural Education	\$449,321
84.359	Early Reading First	\$429,201
84.365	English Language Acquisition State Grants	\$681,994
84.366	Mathematics and Science Partnerships	\$613,169
	Bozeman Public Schools 16 0350 1513 MSP	\$16,614
84.367	Improving Teacher Quality State Grants	\$12,332,495
	University of California, National Writing Project 93-MT01-SEED2012	\$16,946
84.369	Grants for State Assessments and Related Activities	\$3,376,811
84.371	Striving Readers	\$6,531,265
84.378	College Access Challenge Grant Program	\$1,671,720
84.418	Promoting Readiness of Minors in Supplemental Security Income	
	University of Utah 10033712	\$36,155
84.928	National Writing Project	
	University of California, National Writing Project 93-MT01	\$15,285
84.998	American Printing House for the Blind	\$4,577
84.999	Miscellaneous Non-Major Grants	\$105,713
	TOTAL	\$106,467,223
 School Improvement Grants Cluster		
84.377	School Improvement Grants	\$2,394,655
84.388	ARRA School Improvement Grants, Recovery Act	\$1,194,835
	ARRA Lame Deer School 1170	\$3,546
	TOTAL	\$3,593,036
 Special Education Cluster (IDEA)		
84.027	Special Education_Grants to States	\$37,968,195
84.173	Special Education_Preschool Grants	\$1,128,945
	TOTAL	\$39,097,140
 Statewide Data Systems Cluster		
84.372	Statewide Longitudinal Data Systems	\$1,983,207
	TOTAL	\$1,983,207
 Student Financial Assistance Cluster		
84.007	Federal Supplemental Educational Opportunity Grants	\$1,355,933
84.033	Federal Work-Study Program	\$2,157,702
84.038	Federal Perkins Loan Program - Federal Capital Contributions	\$59,606
84.063	Federal Pell Grant Program	\$58,423,564
84.268	Federal Direct Student Loans	\$198,619,135

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84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	\$18,215
	TOTAL	\$260,634,155
Teacher Quality Partnership Grants Cluster		
84.336	Teacher Quality Partnership Grants	(\$4,962)
	TOTAL	(\$4,962)
TRIO Cluster		
84.042	TRIO_Student Support Services	\$1,626,776
84.044	TRIO_Talent Search	\$984,174
84.047	TRIO_Upward Bound	\$1,166,031
84.066	TRIO_Educational Opportunity Centers	\$611,313
84.217	TRIO_McNair Post-Baccalaureate Achievement	\$220,162
	TOTAL	\$4,608,456
DEPARTMENT OF EDUCATION TOTAL		\$416,378,255

DEPARTMENT OF ENERGY

81.041	State Energy Program	\$243,666
81.042	Weatherization Assistance for Low-Income Persons	\$2,072,786
81.042	ARRA Weatherization Assistance for Low-Income Persons	\$409,302
81.049	Office of Science Financial Assistance Program	
	Bioenergy Science Center	\$8,435
81.086	Conservation Research and Development	\$2,899,999
	Kootenai Tribe of Idaho 2002-011-00	\$106,407
	Pacific States Marine Fisheries Commission 13-55/14-40	\$92,939
81.087	Renewable Energy Research and Development	\$15,619
81.112	Stewardship Science Grant Program	\$24,626
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	
	Washington State University 121240_G003325	\$8,842
81.999	Miscellaneous Non-Major Grants	\$69,231
	TOTAL	\$5,951,852
DEPARTMENT OF ENERGY TOTAL		\$5,951,852

DEPARTMENT OF HEALTH AND HUMAN SERVICES

93.041	Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	\$17,998
93.042	Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	\$53,962
93.043	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	\$98,354

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93.048	Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	\$193,601
93.052	National Family Caregiver Support, Title III, Part E	\$709,851
93.058	Food and Drug Administration_Research	\$123,322
93.069	Public Health Emergency Preparedness	\$73,957
93.070	Environmental Public Health and Emergency Response	\$291,936
93.071	Medicare Enrollment Assistance Program	\$74,809
93.072	Lifespan Respite Care Program	\$32,755
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP)	\$5,877,536
	Aligned Cooperative Agreements	
93.090	Guardianship Assistance	\$979,094
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	\$208,847
93.110	Maternal and Child Health Federal Consolidated Programs	\$494,573
	Utah State University PO214571-E	\$17,693
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	\$159,642
93.127	Emergency Medical Services for Children	\$293,039
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	\$111,652
93.150	Projects for Assistance in Transition from Homelessness (PATH)	\$283,676
93.157	Centers of Excellence	\$254,597
93.165	Grants to States for Loan Repayment Program	\$71,453
93.184	Disabilities Prevention	\$297,985
	University of Illinois 200-2011-40306	\$23,544
93.210	Tribal Self-Governance Program: IHS Compacts/Funding Agreements	
	Salish Kootenai Tribe	\$8,897
93.217	Family Planning_Services	\$2,023,871
93.236	Grants to States to Support Oral Health Workforce Activities	\$436,803
93.241	State Rural Hospital Flexibility Program	\$1,078,035
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	\$3,228,522
93.251	Universal Newborn Hearing Screening	\$203,862
93.262	Occupational Safety and Health Program	\$102,583
	Colorado State University G88360-2	\$535
	Colorado State University G-88360-1	\$6,313
93.268	Immunization Cooperative Agreements	\$9,877,901
93.270	Adult Viral Hepatitis Prevention and Control	\$16,771
93.283	Centers for Disease Control and Prevention_Investigations and Technical Assistance	\$4,834,497
	Association of Maternal & Child Health Programs 2013-05-0528-01	\$2,643
	Association of University Centers On Disabilities 013723	\$1,330
93.292	National Public Health Improvement Initiative	
	Association of Maternal & Child Health Programs	\$1,688
93.307	Minority Health and Health Disparities Research	\$9,674,566
93.324	State Health Insurance Assistance Program	\$37,143

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93.358	Advanced Education Nursing Traineeships	\$345,913
93.414	ARRA - State Primary Care Offices	\$54,564
93.448	Food Safety and Security Monitoring Project	\$64,749
93.449	Ruminant Feed Ban Support Project	\$22,817
93.500	Pregnancy Assistance Fund Program	\$1,086,448
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	\$2,254,410
93.507	PPHF National Public Health Improvement Initiative	\$228,294
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements;PPHF	\$935,858
93.531	PPHF - Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by Prevention and Public Health Funds	\$781,546
93.536	The Affordable Care Act Medicaid Incentives for Prevention of Chronic Disease Demonstration Project	\$101,785
93.539	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance Financed in Part by Prevention and Public Health Funds	\$380,792
93.544	The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program	\$164,281
93.556	Promoting Safe and Stable Families	\$843,170
93.563	Child Support Enforcement	\$10,865,262
93.566	Refugee and Entrant Assistance_State Administered Programs	\$39,112
93.568	Low-Income Home Energy Assistance	\$20,703,543
93.569	Community Services Block Grant	\$3,157,682
93.586	State Court Improvement Program	\$345,924
93.590	Community-Based Child Abuse Prevention Grants	\$188,821
93.597	Grants to States for Access and Visitation Programs	\$97,382
93.599	Chafee Education and Training Vouchers Program (ETV)	\$180,531
93.600	Head Start	\$109,695
93.603	Adoption Incentive Payments	\$1,138
93.609	The Affordable Care Act - Medicaid Adult Quality Grants	\$668,734
93.610	Health Care Innovation Awards (HCIA)	
	Mineral Regional Health Center, Inc 331058-02-UMSA01	\$61,499
93.612	Native American Programs	
	Salish Kootenai Tribe 14-057	\$48,419
93.617	Voting Access for Individuals with Disabilities_Grants to States	\$10,616
93.630	Developmental Disabilities Basic Support and Advocacy Grants	\$453,944
93.632	University Centers for Excellence in Developmental Disabilities Education, Research, and Service	\$572,397
93.643	Children's Justice Grants to States	\$119,819
93.645	Stephanie Tubbs Jones Child Welfare Services Program	\$622,303
93.648	Child Welfare Research Training or Demonstration	
	Research Foundation for The State University of New York 11-33 RF 1098400-17-59109	(\$65)

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		AMOUNT
	Research Foundation for The State University of New York 12-48	\$120,839
93.652	Adoption Opportunities	\$592,043
93.658	Foster Care_Title IV-E	\$12,347,325
93.659	Adoption Assistance	\$7,861,513
93.667	Social Services Block Grant	\$6,939,468
93.669	Child Abuse and Neglect State Grants	\$148,211
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	\$794,588
93.674	Chafee Foster Care Independence Program	\$549,183
93.708	ARRA - Head Start	\$225,220
93.729	ARRA Health Information Technology and Public Health	\$75,309
93.745	PPHF: Health Care Surveillance/Health Statistics - Surveillance Program Announcement: Behavioral Risk Factor Surveillance System Financed in Part by Prevention and Public Health Fund	\$127,664
93.767	Children's Health Insurance Program	\$80,308,752
93.789	Alternatives to Psychiatric Residential Treatment Facilities for Children	\$637,641
93.791	Money Follows the Person Rebalancing Demonstration	\$159,570
93.859	Biomedical Research and Research Training University of New Mexico 3RN79	\$13,370
93.879	Medical Library Assistance University of Illinois PAF# 2010-06621-83-00	\$5,065
93.884	Grants for Primary Care Training and Enhancement University of Pikeville 13-01	\$40,902
	University of Pikeville D58HP23226	\$91,305
93.889	National Bioterrorism Hospital Preparedness Program	\$6,117
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program Madison Valley Medical Center 13-01	\$37,868
	Madison Valley Medical Center	\$7,629
	St Lukes Community Hospital 2011-01	\$45,951
93.913	Grants to States for Operation of Offices of Rural Health	\$173,416
93.917	HIV Care Formula Grants	\$1,303,242
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	\$70,405
93.940	HIV Prevention Activities_Health Department Based	\$929,699
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance Association of University Centers on Disabilities	\$1,313
93.945	Assistance Programs for Chronic Disease Prevention and Control	\$3,321,532
93.958	Block Grants for Community Mental Health Services	\$1,230,677
93.959	Block Grants for Prevention and Treatment of Substance Abuse	\$6,817,765
93.969	PPHF Geriatric Education Centers	\$459,870
93.970	Health Professions Recruitment Program for Indians	\$191,746

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93.977	Preventive Health Services_Sexually Transmitted Diseases Control Grants	\$275,170
93.991	Preventive Health and Health Services Block Grant	\$657,257
93.994	Maternal and Child Health Services Block Grant to the States	\$2,190,805
93.999	Miscellaneous Non-Major Grants	\$50,717
	TOTAL	\$216,752,539
<i>Aging Cluster</i>		
93.044	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	\$1,997,743
93.045	Special Programs for the Aging_Title III, Part C_Nutrition Services	\$3,341,544
93.053	Nutrition Services Incentive Program	\$1,095,913
	TOTAL	\$6,435,200
<i>CCDF Cluster</i>		
93.575	Child Care and Development Block Grant	\$11,884,634
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	\$8,196,628
	TOTAL	\$20,081,262
<i>Medicaid Cluster</i>		
93.775	State Medicaid Fraud Control Units	\$505,178
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	\$2,813,351
93.778	Medical Assistance Program	\$775,339,884
93.778	ARRA Medical Assistance Program	(\$52,032)
	TOTAL	\$778,606,381
<i>Student Financial Assistance Cluster</i>		
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	\$676
93.364	Nursing Student Loans	\$86,578
	TOTAL	\$87,254
<i>TANF Cluster</i>		
93.558	Temporary Assistance for Needy Families	\$28,650,262
	TOTAL	\$28,650,262
DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		\$1,050,612,898

DEPARTMENT OF HOUSING & URBAN DEVELOPMENT

14.103	Interest Reduction Payments_Rental and Cooperative Housing for Lower Income Families	\$126,846
14.169	Housing Counseling Assistance Program	\$494,339
14.231	Emergency Solutions Grant Program	\$661,502
14.235	Supportive Housing Program	\$77,175
14.238	Shelter Plus Care	\$163,851
14.239	Home Investment Partnerships Program	\$2,646,140

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14.241	Housing Opportunities for Persons with AIDS	\$968,625
14.323	Emergency Homeowners' Loan Program	\$16,070
14.877	Public Housing Family Self-Sufficiency under Resident Opportunity and Supportive Services Missoula Housing Authority	\$57,937
	TOTAL	\$5,212,485
 <i>CDBG - State-Administered CDBG Cluster</i>		
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	\$7,527,169
	TOTAL	\$7,527,169
 <i>Housing Voucher Cluster</i>		
14.871	Section 8 Housing Choice Vouchers	\$18,133,705
	TOTAL	\$18,133,705
 <i>Section 8 Project-Based Cluster</i>		
14.195	Section 8 Housing Assistance Payments Program	\$19,466,623
14.856	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitation	\$1,739,741
	TOTAL	\$21,206,364
	DEPARTMENT OF HOUSING & URBAN DEVELOPMENT TOTAL	\$52,079,723

DEPARTMENT OF JUSTICE

16.017	Sexual Assault Services Formula Program	\$251,797
16.523	Juvenile Accountability Block Grants	\$158,339
16.525	Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	\$112,343
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	\$536,150
16.541	Part E - Developing, Testing and Demonstrating Promising New Programs	\$21,640
16.548	Title V_Delinquency Prevention Program	\$19,986
16.550	State Justice Statistics Program for Statistical Analysis Centers	\$84,664
16.575	Crime Victim Assistance	\$1,865,655
16.576	Crime Victim Compensation	\$389,616
16.585	Drug Court Discretionary Grant Program	\$465,191
16.588	Violence Against Women Formula Grants	\$992,176
16.589	Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program Missoula City-County 2008-WR-AX-0008	\$16,432
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	\$205,815
16.593	Residential Substance Abuse Treatment for State Prisoners	\$150,590
16.606	State Criminal Alien Assistance Program	\$20,904
16.609	Project Safe Neighborhoods	\$7,155
16.726	Juvenile Mentoring Program National 4-H Council	\$116
	National 4-H Council 4-H MENTORING PROGRAM YEAR 4	\$46,083
16.727	Enforcing Underage Drinking Laws Program	\$102,658

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16.731	Tribal Youth Program	\$124,109
16.735	PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities	\$54,126
16.740	Statewide Automated Victim Information Notification (SAVIN) Program	\$28,432
16.741	DNA Backlog Reduction Program	\$154,997
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	\$47,856
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	\$6,000
16.751	Edward Byrne Memorial Competitive Grant Program	\$30,767
16.754	Harold Rogers Prescription Drug Monitoring Program	\$189,044
16.812	Second Chance Act Reentry Initiative	\$489,114
16.922	Equitable Sharing Program	\$319,419
	TOTAL	\$6,891,174

JAG Program Cluster

16.738	Edward Byrne Memorial Justice Assistance Grant Program	\$1,230,548
	TOTAL	\$1,230,548
	DEPARTMENT OF JUSTICE TOTAL	\$8,121,722

DEPARTMENT OF LABOR

17.002	Labor Force Statistics	\$619,519
17.005	Compensation and Working Conditions	\$73,588
17.225	Unemployment Insurance	\$147,832,099
17.235	Senior Community Service Employment Program	\$549,351
17.245	Trade Adjustment Assistance	\$486,065
17.271	Work Opportunity Tax Credit Program (WOTC)	\$57,415
17.273	Temporary Labor Certification for Foreign Workers	\$43,563
17.274	Youthbuild	\$77,943
17.277	Workforce Investment Act (WIA) National Emergency Grants	\$1,250,509
17.280	Workforce Investment Act (WIA) Dislocated Worker National Reserve Demonstration Grants	\$44,654
17.282	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	\$989,636
17.283	Workforce Innovation Fund	
	State Of Utah	\$351,356
17.504	Consultation Agreements	\$441,748
17.600	Mine Health and Safety Grants	\$186,278
	TOTAL	\$153,003,724

Employment Service Cluster

17.207	Employment Service/Wagner-Peyser Funded Activities	\$5,489,322
17.801	Disabled Veterans' Outreach Program (DVOP)	\$460,074
17.804	Local Veterans' Employment Representative Program	\$103,981
	TOTAL	\$6,053,377

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WIA Cluster

17.258	WIA Adult Program	\$2,107,762
17.259	WIA Youth Activities	\$2,164,662
17.278	WIA Dislocated Worker Formula Grants	\$1,983,841
TOTAL		\$6,256,265

DEPARTMENT OF LABOR TOTAL \$165,313,366

DEPARTMENT OF STATE

19.009	Academic Exchange Programs - Undergraduate Programs	\$228,768
19.010	Academic Exchange Programs - Hubert H. Humphrey Fellowship Program	
	Institute of International Education S-ECAGD-13-CA-008(DT)	\$69,508
	Institute of International Education S-ECAGD-14-CA-1037	\$873
	Institute of International Education S-ECAGD-14-CA-1038	\$36,817
19.401	Academic Exchange Programs - Scholars	\$151,412
19.408	Academic Exchange Programs - Teachers	
	International Research and Exchanges Board FY12-TEA-MSU-01	\$261
	International Research and Exchanges Board SUBGRANT NO. FY13-TEA-MSU-01	\$180,094
19.415	Professional and Cultural Exchange Programs - Citizen Exchanges	\$708,344
TOTAL		\$1,376,077

DEPARTMENT OF STATE TOTAL \$1,376,077

DEPARTMENT OF THE INTERIOR

15.034	Agriculture on Indian Lands	
	Fort Belknap Community Council A10AV00583 FB	\$24,087
15.114	Indian Education_Higher Education Grant Program	\$41,555
15.224	Cultural Resource Management	\$13,642
15.225	Recreation Resource Management	\$44,304
15.231	Fish, Wildlife and Plant Conservation Resource Management	\$61,290
15.236	Environmental Quality and Protection Resource Management	\$769,032
15.238	Challenge Cost Share	\$8,023
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	\$1,629,841
15.252	Abandoned Mine Land Reclamation (AMLR) Program	\$10,791,073
15.427	Federal Oil and Gas Royalty Management State and Tribal Coordination	\$262,360
15.517	Fish and Wildlife Coordination Act	\$71,669
15.608	Fish and Wildlife Management Assistance	\$695,703
15.615	Cooperative Endangered Species Conservation Fund	\$1,511,863
15.623	North American Wetlands Conservation Fund	
	Northern Great Plains Joint Venture	\$24,000
15.632	Conservation Grants Private Stewardship for Imperiled Species	\$130

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15.634	State Wildlife Grants	\$985,269
15.635	Neotropical Migratory Bird Conservation	\$13,119
15.637	Migratory Bird Joint Ventures	\$19,136
15.650	Research Grants (Generic)	\$99,200
15.657	Endangered Species Conservation - Recovery Implementation Funds	\$28,232
15.664	Fish and Wildlife Coordination and Assistance Programs	\$14,472
15.669	Cooperative Landscape Conservation	\$10,689
15.904	Historic Preservation Fund Grants-In-Aid	\$726,697
15.916	Outdoor Recreation_Acquisition, Development and Planning	\$817,295
15.922	Native American Graves Protection and Repatriation Act	\$21,443
15.944	Natural Resource Stewardship	\$25,365
15.945	Cooperative Research and Training Programs - Resources of the National Park System	\$31,890
15.999	Miscellaneous Non-Major Grants	\$11,505
	TOTAL	\$18,752,884

Fish and Wildlife Cluster

15.605	Sport Fish Restoration Program	\$9,005,415
15.611	Wildlife Restoration and Basic Hunter Education	\$10,608,846
	TOTAL	\$19,614,261

DEPARTMENT OF THE INTERIOR TOTAL **\$38,367,145**

DEPARTMENT OF TRANSPORTATION

20.106	Airport Improvement Program	\$314,056
20.218	National Motor Carrier Safety	\$1,663,863
20.232	Commercial Driver's License Program Improvement Grant	\$196,139
20.233	Border Enforcement Grants	\$777,371
20.237	Commercial Vehicle Information Systems and Networks	\$136,674
20.299	Miscellaneous Non-Major Grants	\$1,679,962
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	\$377,326
20.509	Formula Grants for Rural Areas	\$9,415,169
20.515	State Planning and Research	\$72,927
20.607	Alcohol Open Container Requirements	\$3,273,643
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	\$6,693,349
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	\$80,849
20.616	National Priority Safety Programs	\$1,031,664
20.700	Pipeline Safety Program State Base Grant	\$180,441
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	\$69,871
20.933	National Infrastructure Investments	
	Gallatin County TG4F13	\$6,239,526
	TOTAL	\$32,202,830

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AMOUNT

Federal Transit Cluster

20.500	Federal Transit_Capital Investment Grants	\$1,139,328
		TOTAL
		\$1,139,328

Highway Planning and Construction Cluster

20.205	Highway Planning and Construction	\$422,487,564
20.205	ARRA Highway Planning and Construction	(\$380,353)
20.219	Recreational Trails Program	\$1,360,852
		TOTAL
		\$423,468,063

Highway Safety Cluster

20.600	State and Community Highway Safety	\$1,757,801
	Idaho Department of Transportation Linkenbach Health and Safety	\$64,797
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	\$1,559,217
20.602	Occupant Protection Incentive Grants	\$52,892
20.610	State Traffic Safety Information System Improvement Grants	\$707,293
20.611	Incentive Grant Program to Prohibit Racial Profiling	\$66,698
20.612	Incentive Grant Program to Increase Motorcyclist Safety	\$77,130
		TOTAL
		\$4,285,828

Transit Services Programs Cluster

20.513	Enhanced Mobility of Seniors and Individuals with Disabilities	\$27,812
20.516	Job Access And Reverse Commute Program	\$153,453
		TOTAL
		\$181,265

DEPARTMENT OF TRANSPORTATION TOTAL **\$461,277,314**

DEPARTMENT OF TREASURY

21.999	Miscellaneous Non-Major Grants	\$4,472
21.999	Miscellaneous Non-Major Grants	\$125,613
		TOTAL
		\$130,085

DEPARTMENT OF TREASURY TOTAL **\$130,085**

DEPARTMENT OF VETERANS AFFAIRS

64.014	Veterans State Domiciliary Care	\$175,621
64.015	Veterans State Nursing Home Care	\$7,025,573
64.124	All-Volunteer Force Educational Assistance	\$135,707
64.203	State Cemetery Grants	\$1,453,442
		TOTAL
		\$8,790,343

DEPARTMENT OF VETERANS AFFAIRS TOTAL **\$8,790,343**

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ENVIRONMENTAL PROTECTION AGENCY

66.040	State Clean Diesel Grant Program	\$109,277
66.202	Congressionally Mandated Projects	\$57,114
66.433	State Underground Water Source Protection	\$107,083
66.454	Water Quality Management Planning	\$100,000
66.460	Nonpoint Source Implementation Grants	\$2,032,714
	Soil and Water Conservation Districts of MT	\$959
66.461	Regional Wetland Program Development Grants	\$175,774
66.474	Water Protection Grants to the States	(\$219)
66.514	Science To Achieve Results (STAR) Fellowship Program	\$75,709
66.605	Performance Partnership Grants	\$5,844,244
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	\$367,002
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	\$2,396,478
66.804	Underground Storage Tank Prevention, Detection and Compliance Program	\$469,445
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	\$772,699
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	\$189,625
66.817	State and Tribal Response Program Grants	\$691,632
66.951	Environmental Education Grants	\$49,687
	TOTAL	\$13,439,223

Clean Water State Revolving Fund Cluster

66.458	Capitalization Grants for Clean Water State Revolving Funds	\$6,598,437
	TOTAL	\$6,598,437

Drinking Water State Revolving Fund Cluster

66.468	Capitalization Grants for Drinking Water State Revolving Funds	\$7,426,485
	TOTAL	\$7,426,485

ENVIRONMENTAL PROTECTION AGENCY TOTAL **\$27,464,145**

EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

30.002	Employment Discrimination-State and Local Fair Employment Practices Agency Contracts	\$380,386
	TOTAL	\$380,386

EQUAL EMPLOYMENT OPPORTUNITY COMMISSION TOTAL **\$380,386**

EXECUTIVE OFFICE OF THE PRESIDENT

95.001	High Intensity Drug Trafficking Areas Program	\$38,668
	TOTAL	\$38,668

EXECUTIVE OFFICE OF THE PRESIDENT TOTAL **\$38,668**

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AMOUNT

GENERAL SERVICES ADMINISTRATION

39.003	Donation of Federal Surplus Personal Property	\$129,495
39.011	Election Reform Payments	\$108,689
	TOTAL	\$238,184
	GENERAL SERVICES ADMINISTRATION TOTAL	\$238,184

HOMELAND SECURITY

97.012	Boating Safety Financial Assistance	\$444,776
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	\$214,694
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	(\$1,026,722)
97.039	Hazard Mitigation Grant	\$1,061,496
97.041	National Dam Safety Program	\$205,827
97.042	Emergency Management Performance Grants	\$2,954,925
97.043	State Fire Training Systems Grants	\$17,384
97.045	Cooperating Technical Partners	\$622,098
97.046	Fire Management Assistance Grant	\$3,029,020
97.047	Pre-Disaster Mitigation	\$2,043,916
97.055	Interoperable Emergency Communications	\$17,970
97.067	Homeland Security Grant Program	\$6,398,228
	Montana Department of Military Affairs EMW-2011-SS-00052	\$10,820
97.120	Border Interoperability Demonstration Project	\$1,928,629
	TOTAL	\$17,923,061
	HOMELAND SECURITY TOTAL	\$17,923,061

LIBRARY OF CONGRESS

42.999	Miscellaneous Non-Major Grants	
	National Film Preservation Foundation FED12-043	\$4,135
	National Film Preservation Foundation FED13-032	\$6,010
	TOTAL	\$10,145
	LIBRARY OF CONGRESS TOTAL	\$10,145

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

43.001	Science	\$5,669
	Johns Hopkins University 106501; CLIN 1	\$21,371
	TOTAL	\$27,040
	NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL	\$27,040

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NATIONAL ARCHIVES AND RECORDS ADMINISTRATION

89.003	National Historical Publications and Records Grants	\$22,946
	TOTAL	\$22,946
	NATIONAL ARCHIVES AND RECORDS ADMINISTRATION TOTAL	\$22,946

NATIONAL ENDOWMENT FOR THE HUMANITIES

45.024	Promotion of the Arts_Grants to Organizations and Individuals	\$10,000
45.025	Promotion of the Arts_Partnership Agreements	\$772,329
45.129	Promotion of the Humanities_Federal/State Partnership	
	Humanities Montana	\$1,603
	Humanities Montana 13R013	\$1,238
	Humanities Montana 13R030	\$5
	Humanities Montana 13R054	\$750
	Humanities Montana 14R008	\$4,285
	Humanities Montana 14R024	\$5,029
	Humanities Montana 14R034	\$5,111
	Humanities Montana 14R040	\$463
	Humanities Montana 14R022	\$5,996
	Humanities Montana 14R009	\$1,504
45.149	Promotion of the Humanities_Division of Preservation and Access	\$183,263
	Idaho State Historical Society	\$2,066
45.163	Promotion of the Humanities_Professional Development	\$154,252
45.310	Grants to States	\$988,582
45.312	National Leadership Grants	\$159,738
45.313	Laura Bush 21st Century Librarian Program	\$43,846
	TOTAL	\$2,340,060
	NATIONAL ENDOWMENT FOR THE HUMANITIES TOTAL	\$2,340,060

NATIONAL SCIENCE FOUNDATION

47.074	Biological Sciences	\$15,471
47.076	Education and Human Resources	\$1,016,645
	Salish Kootenai College BSP08 24-392-1420-56300-00	\$45,872
	Salish Kootenai College SKC ANLSAMP 3	\$5,331
	Salish Kootenai College UM-SA01	\$7,800
	University of California, National Writing Project 93-MT01-NSF2013	\$10,443
	TOTAL	\$1,101,562
	NATIONAL SCIENCE FOUNDATION TOTAL	\$1,101,562

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AMOUNT

OTHER FEDERAL

99.999	Other Federal	\$24,410
	TOTAL	\$24,410
	OTHER FEDERAL TOTAL	\$24,410

PEACE CORPS

08.999	Miscellaneous Non-Major Grants	\$9,897
	TOTAL	\$9,897
	PEACE CORPS TOTAL	\$9,897

SMALL BUSINESS ADMINISTRATION

59.037	Small Business Development Centers	\$549,202
59.058	Federal and State Technology Partnership Program	\$42,690
	Defense Alliance of Minnesota ADT CLUSTER - TECHLINK	\$16,533
59.059	Congressional Grants	\$165,406
59.061	State Trade and Export Promotion Pilot Grant Program	\$63,446
	TOTAL	\$837,277
	SMALL BUSINESS ADMINISTRATION TOTAL	\$837,277

SOCIAL SECURITY ADMINISTRATION

96.008	Social Security - Work Incentives Planning and Assistance Program	\$65,031
	TOTAL	\$65,031
	Disability Insurance/SSI Cluster	
96.001	Social Security_Disability Insurance	\$6,178,282
	TOTAL	\$6,178,282
	SOCIAL SECURITY ADMINISTRATION TOTAL	\$6,243,313

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RESEARCH AND DEVELOPMENT CLUSTER	AMOUNT
DEPARTMENT OF AGRICULTURE	
10.674 Wood Utilization Assistance	\$48,990
10.777 Norman E. Borlaug International Agricultural Science and Technology Fellowship	(\$6)
Agricultural Marketing Service	
10.156 Federal-State Marketing Improvement Program	\$3
Agricultural Research Service	
10.001 Agricultural Research_Basic and Applied Research	\$12,045
Animal And Plant Health Inspection Service	
10.025 Plant and Animal Disease, Pest Control, and Animal Care	\$223,533
Montana Department of Livestock MOA	\$6,573
Montana Department of Livestock MOU	\$35,150
Montana Department of Livestock	\$225,141
Cooperative State Research, Education And Extension Service	
10.200 Grants for Agricultural Research, Special Research Grants	\$304,919
Fort Peck Community College BRESTER USRE	\$19,865
Michigan State University RC064356LA	\$17,009
North Dakota State University FAR-0018591-2	\$9,364
North Dakota State University FAR-0016601	(\$415)
South Dakota State University 3TD033	\$20
University of Idaho BAK306-SB-001	\$3,470
University of Idaho BAK307-SB-003	\$3,562
University of Idaho BAK308-SB-001	\$20,463
University of Idaho GPK584-SB-002	(\$68)
University of Washington SC 734586	\$7,055
University of Washington SC 721204	\$4,226
University of Washington SUBCONTRACT NO. 748614	(\$5)
10.203 Payments to Agricultural Experiment Stations Under the Hatch Act	\$2,520,174
10.206 Grants for Agricultural Research_Competitive Research Grants	\$288,946
10.207 Animal Health and Disease Research	\$33,846
10.215 Sustainable Agriculture Research and Education	
Utah State University 110892006	\$66,012
Utah State University 120833015	\$30,456
Utah State University 110892005	\$122,283
Utah State University 100893005	\$63,305
Utah State University 100893030	\$13,464
Utah State University 100893032	\$8,802
Utah State University 120833024	\$54,967
Western Region SARE Program SW12-108/110892011	\$44,298
Western Region SARE Program 120833025	\$87,420
10.500 Cooperative Extension Service	\$561,047

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RESEARCH AND DEVELOPMENT CLUSTER	AMOUNT
Auburn University 13-HHP-379816-MT	\$26,609
Fort Peck Community College	\$105,942
Kansas State University S13182	\$3,185
Kansas State University S14066	\$18,140
Mississippi State University 018000-340436-02	\$180
Missoula County Weed District	\$5,949
Purdue University 8000047641	\$234
Purdue University 8000054850	\$86,594
University of Nebraska Lincoln 25-6365-0040-134	\$2,951
University of Nebraska Lincoln 25-6365-0040-138	\$2,279
University of Nebraska Lincoln 25-6262-0004-002	\$32,548
University of Wyoming 1001723	\$1,849
University of Wyoming 1001769	\$15,779
University of Wyoming 1001381	\$3,086
Utah State University 110897006	\$8,496
Utah State University 120834001	(\$55)
Utah State University 120834002	\$13,075
Western Region SARE Program 1002139	\$734
Western Region SARE Program OW12-044 110892010	\$12,125
Departmental Management	
10.443 Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers	
Little Big Horn College LBHC/FRICK	\$122
Little Big Horn College FRICK.2013-14	\$8,804
Forest Service	
10.652 Forestry Research	\$4,698,933
National Forest Foundation AF-706	\$10,828
Salish Kootenai College 2011-38424-30518	\$22,009
10.676 Forest Legacy Program	\$3,473
10.680 Forest Health Protection	\$153,227
10.681 Wood Education and Resource Center (WERC)	\$23,130
10.682 National Forest Foundation	\$16,863
National Forest Foundation AE-110	\$36,780
Miscellaneous	
10.999 Long Term Standing Agreements For Storage, Transportation And Lease	\$5,243
National Institute Of Food And Agriculture	
10.202 Cooperative Forestry Research	\$548,251
10.221 Tribal Colleges Education Equity Grants	
Fort Peck Community College	\$42,365
10.227 1994 Institutions Research Program	
Aaniiih Nakoda College MSU-38424-19763	\$16,041
Salish Kootenai College 24-171-MSU-91	\$699

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RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
	Salish Kootenai College MOA/HARMON	\$19,309
10.303	Integrated Programs	\$540,036
10.304	Homeland Security_Agricultural	
	Kansas State University S13009	\$23,448
10.307	Organic Agriculture Research and Extension Initiative	\$236,211
10.309	Specialty Crop Research Initiative	
	Washington State University 112674 G002969	\$2,487
10.310	Agriculture and Food Research Initiative (AFRI)	\$450,942
	Boston University 4500001196	\$10,789
	Colorado State University G-91600-2	\$6,294
	Colorado State University G-70001-1	\$857
	Colorado State University G-91600-3	\$16,657
	Emory University 2011-37023-30090	\$38,550
	University of California Davis 201015718-18	\$496,067
	University of Nebraska Lincoln 25-6268-0005-004	\$111,895
	University of Wyoming 1002178-MSU	\$21,694
	University of Wyoming 1001391	\$27,773
	Washington State University 115808 G002983	\$26,414
	Washington State University 115808 G002984	\$93,704
10.312	Biomass Research and Development Initiative Competitive Grants Program (BRDI)	
	Kansas State University S13098	\$155,509
Natural Resources Conservation Service		
10.902	Soil and Water Conservation	\$275,013
	University of Wisconsin 363K915	\$60,641
10.912	Environmental Quality Incentives Program	\$236,068
Rural Housing Service		
10.446	Rural Community Development Initiative	
	Anaconda Local Development Corporation 1	\$62,905
		DEPARTMENT OF AGRICULTURE TOTAL \$13,675,645
DEPARTMENT OF COMMERCE		
11.431	Climate and Atmospheric Research	\$1,061
Economic Development Administration		
11.302	Economic Development_Support for Planning Organizations	\$7,318
11.303	Economic Development_Technical Assistance	\$11,634
11.307	Economic Adjustment Assistance	\$177,501
	Butte Local Development 05-69-05486	\$7,691
National Oceanic And Atmospheric Administration (NOAA)		
11.439	Marine Mammal Data Program	\$48,513
11.440	Environmental Sciences, Applications, Data, and Education	(\$41)

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RESEARCH AND DEVELOPMENT CLUSTER	AMOUNT
National Telecommunications And Information Administration	
11.549 State and Local Implementation Grant Program	\$13,426
DEPARTMENT OF COMMERCE TOTAL	
	\$267,103
DEPARTMENT OF DEFENSE	
Advanced Research Projects Agency	
12.910 Research and Technology Development	\$3
Duke University 12-DARPA-1073	\$166,292
Northwestern University SP0020412-PRJ005187	\$133,726
Defense Logistics Agency	
12.002 Procurement Technical Assistance For Business Firms	\$2,865,239
Department Of The Air Force, Materiel Command	
12.800 Air Force Defense Research Sciences Program	\$4,072,559
University of Minnesota A001650202	\$119,067
Department Of The Army, Office Of The Chief Of Engineers	
12.114 Collaborative Research and Development	\$537,492
Advr Inc MSU-ADVR	\$100
Physical Sciences Inc SC58641-6377-001	(\$399)
University of Colorado FY11.360.007	\$222,043
Department Of The Navy, Office Of The Chief Of Naval Research	
12.300 Basic and Applied Scientific Research	\$1,088,433
Impact Technologies, LLC S1614A	\$87,763
Qualtech Systems Inc QSI-DSC-13-006	\$12,393
S2 Corp S2-4040-13-03	\$19,191
S2 Corp S2-0252-1202	(\$2)
University of Oklahoma 2011-20	\$352,639
Miscellaneous	
12.999 Miscellaneous Non-Major Grants	
ACI Technologies, Inc. N00014-08-D-0758	\$29,997
Science Applications International Corporation W91CRB-11-D-0001	\$171,719
Washington State University 118347-G003168	\$51,112
12.R&D Miscellaneous Research and Development	
Aerodyne Research Incorporated ARI-10925-1	\$6,962
Alion Science and Technology SUB1118329PT	\$66,583
EDActive Computing, Inc. MILTECH-N0042104D0007-0012	\$50,235
ERC Inc RS131191	\$12,500
ERC Inc RS130624	\$12,500
Lockheed Martin Corporation XL3413890E	\$10,009
S2 Corp S2-14-0006-02	\$43,555
Sierra Nevada Corporation PO#: 240801	\$36,751
UES Inc S-875-040-009	\$13,847

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RESEARCH AND DEVELOPMENT CLUSTER	AMOUNT
Office Of The Secretary Of Defense	
12.360 Research on Chemical and Biological Defense	\$6,985
12.560 DOD, NDEP, DOTC-STEM Education Outreach Implementation	\$78,840
12.630 Basic, Applied, and Advanced Research in Science and Engineering	\$251,809
U. S. Army Medical Command	
12.420 Military Medical Research and Development	\$872,343
U.S. Army Materiel Command	
12.431 Basic Scientific Research	\$488,507
University of Alabama W911NF-10-2-0025	\$323,234
DEPARTMENT OF DEFENSE TOTAL	
\$12,204,027	
DEPARTMENT OF EDUCATION	
Office Of Elementary And Secondary Education	
84.299 Indian Education -- Special Programs for Indian Children	\$305,135
Little Big Horn College ILEAD	\$560,391
84.367 Improving Teacher Quality State Grants	
National Writing Project 09-MT02-SEED2012	\$3,143
University of California Berkeley 09-MT02-SEED2012	\$3,387
Office Of Special Education And Rehabilitative Services	
84.133 National Institute on Disability and Rehabilitation Research	\$257,269
Portland State University 200OSC249	\$18,156
University of Kansas H133B110006	\$58,720
84.373 Special Education_Technical Assistance on State Data Collection	
Meeting the Challenge	\$15,797
DEPARTMENT OF EDUCATION TOTAL	
\$1,221,998	
DEPARTMENT OF ENERGY	
81.049 Office of Science Financial Assistance Program	\$939,293
Inland Northwest Research Alliance T.O. 60-5007-302	\$1,141
Inland Northwest Research Alliance T.O. 60-5007-301	\$7,952
Intelligent Optical Systems Inc MSU-IOS	\$6,748
Los Alamos National Security 187235	\$9,567
Montana Emergent Technologies MET - MSU DOE STTR	\$66,365
National Securities Technology 145845	\$51,594
National Securities Technology #145485	\$12,647
Physical Sciences Inc PSI CORP - MSU REPASKY	\$72,312
University of Southern California 159427/DE-SC0006813	\$188,163
University of Tennessee A12-0085-S001	\$221,323
Vista Clara Inc VISTA CLARA-MSU	\$126,679
81.079 Regional Biomass Energy Programs	
South Dakota State University 3TC147	\$2,639

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RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
81.087	Renewable Energy Research and Development	\$234,758
	Consortium for Plant Biotechnology Research GO12026-324	\$24,520
	University of Toledo F-2013-30	\$252,855
81.087	ARRA Renewable Energy Research and Development	\$337,450
	ARRA Arizona Geological Survey DE-EE0002850	\$33,553
81.089	Fossil Energy Research and Development	\$10,680,749
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	\$256,166
	University of Wyoming DE-OE000657	\$3,888
81.122	ARRA Electricity Delivery and Energy Reliability, Research, Development and Analysis	\$44,059
	ARRA University of Minnesota A000211586	\$13
81.133	ARRA Geologic Sequestration Training and Research Grant Program	\$36,619
81.135	Advanced Research Projects Agency - Energy	
	Donald Danforth Plant Science 21018-MT	\$168,205
81.214	Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response Research, Outreach, Technical Analysis	
	Aerodyne Research Incorporated ARI 10744-1	\$15,000
	American Indian Higher Education Consortium MSU-AISES RICH MACUR	\$19,296
	American Indian Science and Engineering Society MSU AIREI	(\$86)
Miscellaneous		
81.999	Miscellaneous Non-Major Grants	
	Battelle Energy Alliance DE-AC07-05ID14517	\$104,661
	Battelle Energy Alliance 193698	\$8,608
	Bonneville Power Administration 60312	\$188,125
	Sandia National Laboratories 1340328	\$142,274
	Sandia National Laboratories 1440479	\$11,196
81.R&D	Miscellaneous Research and Development	
	Oregon Dept of Fish & Wildlife ODFW AGREEMENT #362-13	\$3,956
		DEPARTMENT OF ENERGY TOTAL \$14,272,288

DEPARTMENT OF HEALTH AND HUMAN SERVICES

93.276	Drug-Free Communities Support Program Grants	
	JBS International JBS/MSU 253313	\$3,849
	JBS International HHSS28342001T 253313	\$4,798
Centers for Disease Control and Prevention		
93.136	Injury Prevention and Control Research and State and Community Based Programs	\$125,929
	Mount Sinai School of Medicine 0254-5675-4609	\$40,352
	Mount Sinai School of Medicine 0254-5674-4609	\$22,895
93.262	Occupational Safety and Health Program	
	Colorado State University G-4686-3	\$7,500
	Colorado State University G-4686-2	\$5,162

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RESEARCH AND DEVELOPMENT CLUSTER	AMOUNT
Health Care Financing Administration	
93.779 Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	\$287,913
Mineral Regional Health Center FMBHP-SC3	\$144,522
Health Resources And Services Administration	
93.107 Area Health Education Centers Point of Service Maintenance and Enhancement Awards	\$138,661
93.155 Rural Health Research Centers	\$200,261
93.178 Nursing Workforce Diversity	\$277,362
93.247 Advanced Nursing Education Grant Program	\$270,783
93.301 Small Rural Hospital Improvement Grant Program	\$428,501
93.505 Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	
Gallatin County	\$121
Gallatin County 12-07-5-31-028-0	\$104
93.824 Area Health Education Centers Infrastructure Development Awards	\$516,036
93.912 Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	\$203,988
Indian Health Service	
93.970 Health Professions Recruitment Program for Indians	\$242,281
Miscellaneous	
93.999 Miscellaneous Non-Major Grants	\$61,521
National Institutes Of Health	
93.113 Environmental Health	\$845,403
93.121 Oral Diseases and Disorders Research	\$25,254
93.172 Human Genome Research	\$82,402
Stanford University 60463995-29913-C	\$96,947
93.213 Research and Training in Complementary and Alternative Medicine	\$400,050
93.242 Mental Health Research Grants	\$415,061
University of Washington 753503	\$14,772
93.279 Drug Abuse and Addiction Research Programs	\$453,699
93.286 Discovery and Applied Research for Technological Innovations to Improve Human Health	\$422,390
93.307 Minority Health and Health Disparities Research	\$17,711
Little Big Horn College RIMI SUBCONTRACT - 4W1905	\$5,757
University of Nevada, Las Vegas 14-746Q-MSU-PG3-00	\$81,790
93.310 Trans-NIH Research Support	\$100,204
93.350 National Center for Advancing Translational Sciences	
University of Washington 755827	\$28,077
93.351 Research Infrastructure Programs	\$210,347
93.389 National Center for Research Resources	\$1,770,189
Resonon Inc RESONON FY09	\$80,150
93.393 Cancer Cause and Prevention Research	
Miriam Hospital 710-9691	\$18,498
93.395 Cancer Treatment Research	\$197,969

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RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
	SensoPath Technologies SENSOPATH 2011	\$2
93.396	Cancer Biology Research	
	Stella Therapeutics 1R43CA165452-01A1	\$5,200
93.701	ARRA Trans-NIH Recovery Act Research Support	\$146,658
93.837	Cardiovascular Diseases Research	\$298,247
	Gramercy Research Group 0005	\$3,179
	Methodist Hospital 15350004-93	\$1,033
93.838	Lung Diseases Research	\$673,138
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	\$60,979
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	\$972,981
	The John B Pierce Laboratory 243-A	\$294,507
	Thomas Jefferson University 080-19250-509101	\$4,558
	University of California Berkeley 6806-PO 1-0001585349	\$269,874
93.855	Allergy, Immunology and Transplantation Research	\$2,944,685
	Indiana University BL-4624889-MSU	\$155,983
	Sorrento Therapeutics Inc STTR PT R42 AI098182	\$109,983
	University of Connecticut PSA #6325	(\$102)
	University of Connecticut 49814	\$8,054
	University of Connecticut 50074	\$8,054
93.856	Microbiology and Infectious Diseases Research	
	Colorado State University G-7825-1	\$328,616
	Siga Technologies, Inc AI093387	\$48,629
93.859	Biomedical Research and Research Training	\$10,511,742
	University of Nebraska Lincoln 24-6230-0156-102	\$10,186
	University of Nevada, Las Vegas 14-746Q-UMT-PG2-00	\$48,809
	University of Nevada, Las Vegas 14-746Q-UMT-VS1-00	\$8,399
	University of Nevada, Las Vegas 14-746Q-UMT-PG1-00	\$70,465
	University of Nevada, Las Vegas 14-746Q-MSU-PG5-00	\$82,501
	University of Nevada, Las Vegas 14-746Q-MSU-PG17-00	\$35,846
	University of Nevada, Las Vegas 14-747X-C-00	\$166,268
	University of New Mexico PO#: E0001892 SUBK#: 3RN79	\$33,027
	University of Southern California Y82277 38763030	\$141,350
	University of Washington 731953	\$81,015
	University of Washington 743852	\$2,754
	University of Washington 753204	\$238,669
93.865	Child Health and Human Development Extramural Research	\$406,752
	GeneSearch Inc 1R41HD075502-01	\$57,563
	Stanford University 60595107-49686	\$3,631
93.866	Aging Research	\$144,721
	Dermaxon, LLC R41AG046987-SA01	\$18,627
Office Of Population Affairs		
93.217	Family Planning_Services	

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2014

RESEARCH AND DEVELOPMENT CLUSTER	AMOUNT
Planned Parenthood MSU RINK	\$5
93.974 Family Planning_Service Delivery Improvement Research Grants	\$59,902
Substance Abuse And Mental Health Services Administration	
93.243 Substance Abuse and Mental Health Services_Projects of Regional and National Significance	
Community Connections	\$9,435
Harrison County Family Resource Network	\$9,435
Ohio County Substance Abuse Prevention Coalition	\$9,437
Potomac Highlands Guild	\$9,431
Pretera Center	\$9,452
Westbrook Health Services	\$9,432
DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL	\$26,762,321
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT	
Office Of Policy Development And Research	
14.523 Transformation Initiative Research Grants: Sustainable Community Research Grant Program	
Opportunity Link DAVID KACK WTI/OPPORTUNITY LI	\$9,712
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT TOTAL	\$9,712
DEPARTMENT OF JUSTICE	
Bureau Of Justice Assistance	
16.746 Capital Case Litigation Initiative	\$48,338
Office For Victims Of Crime	
16.582 Crime Victim Assistance/Discretionary Grants	\$61,601
Office Of Community Oriented Policing Services	
16.710 Public Safety Partnership and Community Policing Grants	\$312,286
Office Of Juvenile Justice And Delinquency Prevention	
16.541 Part E - Developing, Testing and Demonstrating Promising New Programs	\$36,914
16.727 Enforcing Underage Drinking Laws Program	
Oregon Department of Human Services 134027	\$205,464
DEPARTMENT OF JUSTICE TOTAL	\$664,603
DEPARTMENT OF STATE	
Bureau Of Near Eastern Affairs	
19.500 Middle East Partnership Initiative (MEPI)	\$301,879
Miscellaneous	
19.999 Miscellaneous Grants	\$103,939
DEPARTMENT OF STATE TOTAL	\$405,818
DEPARTMENT OF THE INTERIOR	
Bureau Of Land Management	
15.224 Cultural Resource Management	\$80,570
15.225 Recreation Resource Management	\$4,438

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2014

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RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
15.228	National Fire Plan - Wildland Urban Interface Community Fire Assistance	\$25,652
15.230	Invasive and Noxious Plant Management	\$40,690
15.231	Fish, Wildlife and Plant Conservation Resource Management	\$211,378
15.235	Southern Nevada Public Land Management University of Nevada, Las Vegas 13-716P-02	\$212,391
15.236	Environmental Quality and Protection Resource Management	\$254,361
15.238	Challenge Cost Share	\$52,908
Bureau Of Reclamation		
15.517	Fish and Wildlife Coordination Act	\$50,004
Fish And Wildlife Service		
15.635	Neotropical Migratory Bird Conservation	\$24,008
15.637	Migratory Bird Joint Ventures Ducks Unlimited US-IM-5-1	\$7,484
	Ducks Unlimited ASC-3	\$10,228
	Pheasants Forever 60181BJ653	\$66,100
	Pheasants Forever PF2013-11	\$12,071
15.649	Service Training and Technical Assistance (Generic Training)	\$2,795
15.650	Research Grants (Generic) The Nature Conservancy 1260643850 / F12AP00432	\$339,194
	University of California Santa Cruz S0183989	\$36,868
15.655	Migratory Bird Monitoring, Assessment and Conservation	\$21,850
15.657	Endangered Species Conservation - Recovery Implementation Funds	\$373,237
15.660	Endangered Species - Candidate Conservation Action Funds Western Association Fish & Wildlife SC-C-13-01	\$29,131
		\$9,926
15.663	National Fish and Wildlife Foundation National Fish & Wildlife Foundation 0103.13.038862	\$6,900
	World Wildlife Fund MK18	\$13,802
15.664	Fish and Wildlife Coordination and Assistance Programs	\$75,817
Miscellaneous		
15.999	Miscellaneous Non-Major Grants	\$225,908
15.R&D	Miscellaneous Research and Development	\$36,194
National Park Service		
15.904	Historic Preservation Fund Grants-In-Aid	\$6,625
15.915	Technical Preservation Services Vanasse Hangen Brustlin Inc VHB 33259.12-02	\$5
		\$21,602
15.916	Outdoor Recreation_Acquisition, Development and Planning	\$5,887
15.923	National Center for Preservation Technology and Training	\$29,319
15.926	American Battlefield Protection	\$6,950
15.945	Cooperative Research and Training Programs - Resources of the National Park System University of Wyoming 1001486-MSU	\$1,076,293
		\$5,004
	University of Wyoming NPS Research Center 1001576F/1001940E - MSU	\$3,045

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2014

RESEARCH AND DEVELOPMENT CLUSTER	AMOUNT
15.948 National Fire Plan-Wildland Urban Interface Community Fire Assistance	\$31,689
Office Of Surface Mining Reclamation And Enforcement	
15.299 Miscellaneous Non-Major Grants	\$10,918
U.S. Fish And Wildlife Service	
15.608 Fish and Wildlife Management Assistance	\$51,009
15.611 Wildlife Restoration and Basic Hunter Education	
State of Texas TPWD CONTRACT NUMBER 4435514	\$13,953
Washington Department of Fish & Game 11-1527	\$3,374
15.699 USDI/Fish & Wildlife Service	\$4,553
U.S. Geological Survey	
15.805 Assistance to State Water Resources Research Institutes	\$74,226
15.807 Earthquake Hazards Research Grants	\$85,745
15.808 U.S. Geological Survey_ Research and Data Collection	\$524,080
15.809 National Spatial Data Infrastructure Cooperative Agreements Program	\$13,915
15.810 National Cooperative Geologic Mapping Program	\$201,115
15.812 Cooperative Research Units Program	\$574,851
15.814 National Geological and Geophysical Data Preservation Program	\$10,575
15.815 National Land Remote Sensing_Education Outreach and Research	
America View Inc AV13-MT01	\$7,269
America View Inc AV13-MT02	\$33,949
America View Inc AV08-MT04	\$33,505
America View Inc AV08-MT03	\$3,490
15.819 Energy Cooperatives to Support the National Coal Resources Data System (NCRDS)	\$16,258
15.820 National Climate Change and Wildlife Science Center	
Colorado State University G-8841-2	\$27,825
Colorado State University G-0734-2	\$36,042
Colorado State University G-0734-3	\$62,886
Colorado State University G-8829-1/G13AC00392	\$101,608
Colorado State University G-8829-4	\$33,806
Colorado State University G-8892-2	\$1,127
Colorado State University G-8892-1	\$52,305
15.899 USDI/Geological Survey	\$25,317
15.899 USDI/Geological Survey	\$29,839
DEPARTMENT OF THE INTERIOR TOTAL	\$5,460,163

DEPARTMENT OF TRANSPORTATION**Federal Highway Administration**

20.200 Highway Research and Development Program	\$778,454
California Department of Transportation 65A0400	\$79,163
California Department of Transportation 65A0403	\$45,599
ICF International 13DDSK0633	\$65,231
ICF International 13DDSK0566 NCHRP 25-25 TASK86	\$38,402

State of Montana
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ending June 30, 2014

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RESEARCH AND DEVELOPMENT CLUSTER	AMOUNT
Idaho Department of Transportation 2013-02	\$37,858
Minnesota Department of Transportation 99082	(\$39)
Oregon Department of Transportation 27322	\$17,157
Oregon Department of Transportation 27846	(\$927)
University of Iowa 1000686775	\$10
Washington State Department of Transportation T6737-04	\$48,218
Washington State Department of Transportation T6737-03	\$78
Washington State Department of Transportation T6737-02	\$28,155
Western Governors Association 20-126-10	\$28,448
20.205 Highway Planning and Construction	\$1,436,102
Hunter Research, Inc. 1535 TASK 12	\$25,463
Nevada Department of Transportation P531-13-803	\$53,350
Nevada Department of Transportation P520-12-803	\$64,427
Ohio Department of Transportation 25186 (E120622)	\$80,630
Ohio University UT18338	\$15,713
Yellowstone Business Partners SB-2012-ID-05	\$37,061
Federal Transit Administration	
20.520 Paul S. Sarbanes Transit in the Parks	\$1,380,121
National Highway Traffic Safety Administration	
20.600 State and Community Highway Safety	
Virginia Tech 451127-19060 (DTN22-11-D-00236)	\$153,565
20.609 Safety Belt Performance Grants	
Virginia Tech 451263-19060	\$8,617
Research And Special Programs Administration	
20.701 University Transportation Centers Program	\$227,285
University of Alaska Fairbanks UAF 14-0098 FP42825	\$24,498
DEPARTMENT OF TRANSPORTATION TOTAL	\$4,672,639
 DEPARTMENT OF VETERANS AFFAIRS	
64.018 Sharing Specialized Medical Resources	\$23,723
DEPARTMENT OF VETERANS AFFAIRS TOTAL	\$23,723
 ENVIRONMENTAL PROTECTION AGENCY	
66.709 Multi-Media Capacity Building Grants for States and Tribes	\$69,257
Miscellaneous	
66.999 Miscellaneous Non-Major Grants	\$21,805
Cadmus Group 002-MNHP-1	(\$1,370)
66.R&D Miscellaneous Research and Development	
Aerodyne Research Incorporated ARI 10964-1	\$6,909
Confederated Tribes of the Umatilla Indian Reservation COST CENTER: 472-007	\$3,162

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2014

RESEARCH AND DEVELOPMENT CLUSTER	AMOUNT
Office Of Administration	
66.605 Performance Partnership Grants Northern Cheyenne Tribe BG-98852313	\$12,060
Office Of Air And Radiation	
66.034 Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	\$411,217
Office Of Chemical Safety And Pollution Prevention	
66.716 Research, Development, Monitoring, Public Education, Training, Demonstrations, and Studies	\$14,606
66.717 Source Reduction Assistance	\$98,941
Office Of Prevention, Pesticides And Toxic Substances	
66.708 Pollution Prevention Grants Program	\$221,172
Office Of Research And Development	
66.509 Science To Achieve Results (STAR) Research Program University of New England 2426-71745	\$59,307
Office Of Water	
66.419 Water Pollution Control State, Interstate, and Tribal Program Support	\$219,756
66.436 Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	\$12,246
66.461 Regional Wetland Program Development Grants	\$196,688
New Mexico Environment Department, Surface Water Quality Bureau 14-667-2000-0011	\$19,289
New Mexico Environment Department, Surface Water Quality Bureau 12-667-5000-0004	\$498
ENVIRONMENTAL PROTECTION AGENCY TOTAL	\$1,365,543
HOMELAND SECURITY	
97.082 Earthquake Consortium	\$30,708
HOMELAND SECURITY TOTAL	\$30,708
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION	
43.001 Science	\$3,776,084
406 Aerospace LLC CUBESAT ZIGBEE	\$145,135
Boston University 4500001052	\$7,146
California Institute of Technology RSA NO. 1371988	\$26,474
Johns Hopkins University 970066	\$21,679
Lockheed Martin Corporation 8100002702	\$514,276
Lockheed Martin Corporation SP02H3901R; LINE ITEM#2	\$181,490
Princeton University 00001944	\$101,202
Qualtech Systems Inc QUALTECH SBIR NNX13CJ36P	\$13,085
Research Foundation of The City University of New York 49691B	\$84,844
Smithsonian Astrophysical Observatory SVO-80018	\$28,811
Smithsonian Astrophysical Observatory SV2-82014	(\$8)

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2014

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RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
	Smithsonian Astrophysical Observatory SV7-77003	\$262,991
	South Dakota State University 3TB481	\$15,900
	Trout Unlimited NNX14AC91G	\$46,064
	University of Alabama SUB2013-053	\$6,654
	University of California Berkeley SA1868-26308PG	\$21,889
	University of California Santa Barbara KK1301	\$55,651
	University of Kansas FY2012-038	\$98,289
43.002	Aeronautics	\$261,428
	Carnegie Institution of Washington DTM-3250-15 (PHASE E)	\$27,788
	Smithsonian Astrophysical Observatory SV9-79014	(\$10)
43.008	Education	\$533,847
43.009	Cross Agency Support	\$625,679
Miscellaneous		
43.999	Miscellaneous Non-Major Grants	\$466,755
	California Institute of Technology, Jet Propulsion Laboratory	\$224,926
	Southwest Research Institute	\$45,965
43.R&D	Miscellaneous Research and Development	\$54,123
	Aerodyne Research Incorporated ARI-10919-1	\$17,143
	The Woods Hole Research Center WHRC-MSU2009	\$5
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL		\$7,665,305
 NATIONAL ENDOWMENT FOR THE HUMANITIES		
45.161	Promotion of the Humanities_Research	\$66,141
Institute Of Museum And Library Services		
45.312	National Leadership Grants	\$25,806
NATIONAL ENDOWMENT FOR THE HUMANITIES TOTAL		\$91,947
 NATIONAL SCIENCE FOUNDATION		
47.041	Engineering Grants	\$587,872
	Montana Bioagriculture, Inc. 13-01	\$69,388
	Sustainable Bioproducts MSU-SP	\$661
	University of Washington CMMI-1156413	\$104,208
47.049	Mathematical and Physical Sciences	\$1,879,190
	Association of Universities for Research in Astronomy N01312C-N	\$7,106
	S2 Corp S2-1330880-13-03	\$17,036
	S2 Corp S2-1249014-13-01	(\$1,082)
	S2 Corp S2-1217637-12-03	(\$2,218)
47.050	Geosciences	\$1,762,511
	Atmospheric & Environmental Research, Inc. P1704-01	\$13,260
	University of Georgia RR100-589/4892756	\$4,528

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2014

RESEARCH AND DEVELOPMENT CLUSTER	AMOUNT
University of Hawaii at Manoa M130029	\$18,827
University of Missouri C00023524-3	\$25,542
47.070 Computer and Information Science and Engineering	\$557,783
47.074 Biological Sciences	\$4,721,213
Northern Arizona University NAUBU - 1000010800	(\$1,602)
Villanova University VU-5-25594	\$11,145
Washington State University 107476_G002258	\$11,684
47.075 Social, Behavioral, and Economic Sciences	\$245,030
Tufts University A130001	\$34,625
47.076 Education and Human Resources	\$2,171,300
Louisiana Tech 32-3625-54110	\$1
Purdue University 4101-54555	\$17,921
Salish Kootenai College BP0624-392-1420-56300-00	\$18,275
Salish Kootenai College SKC ANLSAMP 4	\$676
47.078 Polar Programs	\$1,148,188
University of Colorado SPO 1000046125/1548197	\$134,315
47.079 Office of International and Integrative Activities	\$757,040
University of Nevada, Las Vegas 11-707D-G	\$56,145
47.080 Office of Cyberinfrastructure	\$1,132,673
47.081 Office of Experimental Program to Stimulate Competitive Research	\$2,587,657
47.082 ARRA Trans-NSF Recovery Act Reasearch Support	\$844,422
ARRA St. Olaf College 10-52613	\$9,000
ARRA University of Hawaii at Manoa Z923900	\$18,076
NATIONAL SCIENCE FOUNDATION TOTAL	\$18,962,396
SMALL BUSINESS ADMINISTRATION	
59.058 Federal and State Technology Partnership Program	\$32,501
Defense Alliance of Minnesota ADT CLUSTERS 13_14	\$43,042
SMALL BUSINESS ADMINISTRATION TOTAL	\$75,543
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT	
98.001 USAID Foreign Assistance for Programs Overseas	
University of Georgia RC282-392/4942936	\$3,640
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT TOTAL	\$3,640
Total Research and Development Cluster	\$107,835,122
Total Expenditures of Federal Awards	\$2,720,266,078

STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, #10.565, #10.567, #10.569, #10.570, 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 2014, Montana distributed \$619,424 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed \$9,408,567 in commodities in fiscal year 2014. The value at June 30, 2014 of commodities stored at the state's warehouse is \$2,043,669, 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 Donation of Federal Surplus Personal Property (CFDA #39.003) is 23.3% of the original acquisition cost of the property.

Capitalization Grants for Clean Water State Revolving Funds

The amount presented for the Capitalization Grants for Clean Water State Revolving Funds Program (CFDA #66.458) represents federal contributions and administrative costs expended as of June 30, 2014. The amount of loans

outstanding as of June 30, 2014 in the Water Pollution Control Revolving Fund Program is \$197,692,246.

Capitalization Grants for Drinking Water State Revolving Funds

The amount presented for the Capitalization Grants for Drinking Water State Revolving Funds Program (CFDA #66.468) represents federal contributions, administrative costs, and program set-aside costs expended as of June 30, 2014. The amount of loans outstanding for the program as of June 30, 2014 is \$127,505,659.

Economic Adjustment Assistance Program

The amount presented for the Economic Adjustment Assistance Program (CFDA #11.307) represents federal contributions plus the administrative costs expended as of June 30, 2014. The amount of loans outstanding as of June 30, 2014 is \$300,987 in non-ARRA funds and \$2,708,177 in ARRA funds.

Temporary Assistance for Needy Families Loan Program

The Temporary Assistance for Needy Families Program (CFDA #93.558) contributes to a housing loan program. The amount of housing loans outstanding as of June 30, 2014 is \$509,153.

Federal Family Education Loans

The Montana Guaranteed Student Loan Program (MGSLP) guaranteed no new loans for the Federal Family Education Loans (CFDA #84.032) program during FY 2014. 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 requirements was \$83,472,843 at June 30, 2014. The dollar amount of Default Aversion Fees transferred from the federal fund to the agency's operating fund during fiscal year 2014 was \$117,106 (net). In addition, MGSLP received or accrued revenue from the U.S. Department of Education in fiscal year 2014 of \$25,726,308 for reinsurance to pay claims for loans due to death, disability, default, or bankruptcy of the debtor.

Federal Perkins Loan Program – Federal Capital Contributions

The amount reported for the Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038) represents federal contributions, administrative costs, and interest expended as of June 30, 2014. The amount of loans outstanding as of June 30, 2014 is \$31,055,096.

Nursing Student Loans Program

The amount of loans outstanding for the Nursing Student Loans Program (CFDA # 93.364) as of June 30, 2014 is \$2,072,482.

Nurse Faculty Loan Program

The amount of loans outstanding for the Nurse Faculty Loan Program (CFDA # 93.264) as of June 30, 2014 is \$47,725.

Health Professions Student Loans, Including Primary Care Loans and Loans for Disadvantaged Students

The amount of loans outstanding for the Health Professions Student Loans, Including Primary Care Loans and Loans for Disadvantaged Students (CFDA #93.342) as of June 30, 2014 is \$117,402.

Minority Health and Health Disparities Research

The amount reported for the Minority Health and Health Disparities program (CFDA #93.307) includes endowment funds of \$9,375,000 along with interest earned on the endowment. The entire endowment amount is reported as expended each year, as the funds are restricted for the life of the endowment.

Immunization Cooperative Agreements

The amount reported for the Immunization Cooperative Agreements (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 2014. The state used the Centers for Disease Control's price list to calculate the value of doses received. During fiscal year 2014, Montana received 161,241 vaccine doses valued at \$8,576,824.

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 fiscal year 2014. The amount of the loan outstanding as of June 30, 2014 is \$6,953,846.

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 reimbursable interest during construction is \$281,857. As of June 30, 2014, the loan outstanding is \$2,164,313, and reimbursable interest during construction is \$188,505.

Note 2. Type A Federal Programs

The State of Montana issues a biennial single audit report. The Montana Single Audit report for the two fiscal years ended June 30, 2015 will be issued by March 31, 2016.

The Type A program threshold will be determined based on actual expenditures incurred during the two fiscal years ended June 30, 2015.

Note 3. CFDA Number

The CFDA number assigned for each federal program listed in the Schedule of Expenditures of Federal Awards is based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

The complete CFDA number 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 number in the Catalog of Federal Domestic Assistance were assigned a CFDA number in the format **.999. Also refer to Note 11.

Note 4. Research and Development Grants

Research and Development includes all research activities, both basic and applied, and all development activities that are performed by a non-federal entity. 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. Federal awards that meet the research and development criteria are listed in the Research and Development Cluster, which is a separate section of this report.

Note 5. 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% 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 (title transferred at public sale) or other disposition.

CFDA #	Program	FY 14 Amount	Inventory
10.203	Agricultural Experiment Stations	\$(26,472)	\$126,391
10.500	Cooperative Extension Service	\$0	\$3,151
10.664	Cooperative Forestry Assistance	\$11,386	\$5,102,821
10.999	Agriculture Miscellaneous – Non Major	\$(23,047)	\$994,211

12.999	Defense Miscellaneous - Non Major	\$(48,385)	\$13,768
43.999	NASA Miscellaneous – Non Major	\$0	\$664,050
47.999	NSF Miscellaneous – Non Major	\$(17,141)	\$193,969

Note 6. Department of Defense (DOD) Firefighting Property (FFP)

The Department of Natural Resources (DNRC) receives Department of Defense 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 the time of receipt by DNRC, which is 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 14 Amount	Inventory
12.999	DOD Firefighter Program	\$209,238	\$1,164,872

Note 7. 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, 2014 was \$1,053,898. The accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 8. 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.

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	\$117,875,447
Federal UI Expenditures	<u>29,956,652</u>
Total	\$147,832,099

Note 9. 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. These pass-through awards are listed below the direct federal awards reported on the Schedule of Expenditures of Federal Awards. Pass-through grant numbers are included for those awards that were assigned an identifying number.

Note 10. 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 2014.

CFDA #	Program Title	Amount Provided to Subrecipients
10.156	Federal-State Marketing Improvement Program	10,827
10.169	Specialty Crop Block Grant Program	103,804
10.303	Integrated Programs	11,874
10.307	Organic Agriculture Research and Extension Initiative	30,793
10.553	School Breakfast Program	7,209,537
10.555	National School Lunch Program	28,947,599
10.556	Special Milk Program for Children	18,921
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	4,145,727
10.558	Child and Adult Care Food Program	751,964
10.559	Summer Food Service Program for Children	1,435,696
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	722,436
10.567	Food Distribution Program on Indian Reservations	1,672,058
10.568	Emergency Food Assistance Program (Administrative Costs)	80,290
10.572	WIC Farmers' Market Nutrition Program (FMNP)	87,952
10.582	Fresh Fruit and Vegetable Program	1,599,893
10.652	Forestry Research	262,506
10.664	Cooperative Forestry Assistance	3,128,948
10.665	Schools and Roads - Grants to States	18,674,569
10.912	Environmental Quality Incentives Program	25,552
11.307	Economic Adjustment Assistance	16,840
12.002	Procurement Technical Assistance For Business Firms	482,154
12.112	Payments to States in Lieu of Real Estate Taxes	3,516
12.300	Basic and Applied Scientific Research	23,138
12.420	Military Medical Research and Development	252,725
12.431	Basic Scientific Research	25,291
12.800	Air Force Defense Research Sciences Program	44,263
12.R&D	Miscellaneous Research and Development	9,675
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	4,481,282
14.239	Home Investment Partnerships Program	2,297,992
15.611	Wildlife Restoration and Basic Hunter Education	5,796
15.635	Neotropical Migratory Bird Conservation	13,463
15.650	Research Grants (Generic)	8,730
15.657	Endangered Species Conservation - Recovery Implementation Funds	31,520
15.663	National Fish and Wildlife Foundation	6,000
15.812	Cooperative Research Units Program	31,063
15.904	Historic Preservation Fund Grants-In-Aid	77,682
15.916	Outdoor Recreation_Acquisition, Development and Planning	774,958
15.945	Cooperative Research and Training Programs - Resources of the National Park System	66,785
16.017	Sexual Assault Services Formula Program	240,075
16.523	Juvenile Accountability Block Grants	116,258
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	420,177
16.548	Title V_Delinquency Prevention Program	19,986
16.575	Crime Victim Assistance	1,775,894
16.588	Violence Against Women Formula Grants	779,025
16.593	Residential Substance Abuse Treatment for State Prisoners	132,444
16.609	Project Safe Neighborhoods	7,155
16.727	Enforcing Underage Drinking Laws Program	92,302
16.738	Edward Byrne Memorial Justice Assistance Grant Program	855,375
17.235	Senior Community Service Employment Program	533,348
17.258	WIA Adult Program	451,647
17.259	WIA Youth Activities	1,605,849
17.278	WIA Dislocated Worker Formula Grants	2,316
19.415	Professional and Cultural Exchange Programs - Citizen Exchanges	94,216
20.200	Highway Research and Development Program	24,234
20.205	Highway Planning and Construction	7,342,840
20.219	Recreational Trails Program	1,308,678
20.500	Federal Transit_Capital Investment Grants	1,139,328
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	457,827
20.509	Formula Grants for Rural Areas	7,423,848
20.513	Enhanced Mobility of Seniors and Individuals with Disabilities	330,805
20.515	State Planning and Research	28,568
20.516	Job Access And Reverse Commute Program	173,512
20.520	Paul S. Sarbanes Transit in the Parks	522,198
20.600	State and Community Highway Safety	606,644
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	245,495
20.602	Occupant Protection Incentive Grants	46,873
20.611	Incentive Grant Program to Prohibit Racial Profiling	25,484

CFDA #	Program Title	Amount Provided to Subrecipients
20.616	National Priority Safety Programs	136,900
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	69,871
43.001	Science	407,339
43.008	Education	75,756
43.009	Cross Agency Support	464,147
45.025	Promotion of the Arts_Partnership Agreements	353,004
45.310	Grants to States	11,714
47.041	Engineering Grants	38,509
47.050	Geosciences	82,502
47.074	Biological Sciences	531,194
47.076	Education and Human Resources	327,219
47.078	Polar Programs	25,403
47.079	Office of International and Integrative Activities	231,106
47.080	Office of Cyberinfrastructure	1,400
47.081	Office of Experimental Program to Stimulate Competitive Research	254,444
47.082	Trans-NSF Recovery Act Research Support	62,571
66.716	Research, Development, Monitoring, Public Education, Training, Demonstrations, and Studies	2,298
81.049	Office of Science Financial Assistance Program	9,066
81.089	Fossil Energy Research and Development	7,349,567
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	167,023
81.999	Miscellaneous Non-Major Grants	65,200
84.002	Adult Education - Basic Grants to States	971,137
84.010	Title I Grants to Local Educational Agencies	41,396,621
84.011	Migrant Education_State Grant Program	717,506
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	107,668
84.027	Special Education_Grants to States	34,400,555
84.048	Career and Technical Education -- Basic Grants to States	3,158,485
84.133	National Institute on Disability and Rehabilitation Research	65,190
84.144	Migrant Education_Coordination Program	92,500
84.173	Special Education_Preschool Grants	1,128,945
84.196	Education for Homeless Children and Youth	122,410
84.224	Assistive Technology	30,827
84.287	Twenty-First Century Community Learning Centers	5,029,047
84.323	Special Education - State Personnel Development	43,483
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	1,387,551
84.358	Rural Education	404,354
84.365	English Language Acquisition State Grants	594,805
84.366	Mathematics and Science Partnerships	707,582
84.367	Improving Teacher Quality State Grants	11,937,828
84.371	Striving Readers	6,220,808
84.377	School Improvement Grants	1,162,462
84.378	College Access Challenge Grant Program	288,634
93.041	Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	17,998
93.042	Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	53,962
93.043	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	98,354
93.044	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	1,660,974
93.045	Special Programs for the Aging_Title III, Part C_Nutrition Services	3,003,704
93.048	Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	166,714
93.052	National Family Caregiver Support, Title III, Part E	672,250
93.053	Nutrition Services Incentive Program	769,834
93.058	Food and Drug Administration_Research	116,663
93.071	Medicare Enrollment Assistance Program	72,800
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	2,746,651
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	153,724
93.107	Area Health Education Centers Point of Service Maintenance and Enhancement Awards	89,919
93.110	Maternal and Child Health Federal Consolidated Programs	226,057
93.113	Environmental Health	53,952
93.127	Emergency Medical Services for Children	131,678
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	11,000
93.136	Injury Prevention and Control Research and State and Community Based Programs	39,275
93.150	Projects for Assistance in Transition from Homelessness (PATH)	277,100
93.155	Rural Health Research Centers	195,659
93.165	Grants to States for Loan Repayment Program	217,430
93.213	Research and Training in Complementary and Alternative Medicine	85,807
93.217	Family Planning_Services	1,552,554

CFDA #	Program Title	Amount Provided to Subrecipients
93.236	Grants to States to Support Oral Health Workforce Activities	460,983
93.241	State Rural Hospital Flexibility Program	665,713
93.242	Mental Health Research Grants	94,153
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	760,909
93.268	Immunization Cooperative Agreements	275,129
93.279	Drug Abuse and Addiction Research Programs	13,565
93.283	Centers for Disease Control and Prevention_Investigations and Technical Assistance	1,769,098
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	274,014
93.301	Small Rural Hospital Improvement Grant Program	380,485
93.307	Minority Health and Health Disparities Research	1,543
93.500	Pregnancy Assistance Fund Program	605,572
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	1,625,145
93.531	PPHF - Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - Financed Solely by Prevention and Public Health Funds	414,032
93.536	The Affordable Care Act Medicaid Incentives for Prevention of Chronic Disease Demonstration Project	5,755
93.539	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance Financed in Part by Prevention and Public Health Funds	362,650
93.544	The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) Authorizes Coordinated Chronic Disease Prevention and Health Promotion Program	2,361
93.556	Promoting Safe and Stable Families	546,933
93.558	Temporary Assistance for Needy Families	3,671,650
93.566	Refugee and Entrant Assistance_State Administered Programs	6,544
93.568	Low-Income Home Energy Assistance	1,005,055
93.575	Child Care and Development Block Grant	5,874,020
93.586	State Court Improvement Program	104,961
93.590	Community-Based Child Abuse Prevention Grants	157,697
93.597	Grants to States for Access and Visitation Programs	95,680
93.599	Chafee Education and Training Vouchers Program (ETV)	178,244
93.600	Head Start	884
93.630	Developmental Disabilities Basic Support and Advocacy Grants	453,944
93.652	Adoption Opportunities	91,147
93.658	Foster Care_Title IV-E	2,474,668
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	786,951
93.674	Chafee Foster Care Independence Program	445,941
93.701	Trans-NIH Recovery Act Research Support	102,108
93.708	ARRA - Head Start	120,832
93.767	Children's Health Insurance Program	201,763
93.778	Medical Assistance Program	9,523,910
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	148,833
93.824	Area Health Education Centers Infrastructure Development Awards	258,854
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	47,652
93.855	Allergy, Immunology and Transplantation Research	35,516
93.859	Biomedical Research and Research Training	1,052,143
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	1,134
93.917	HIV Care Formula Grants	1,090,043
93.940	HIV Prevention Activities_Health Department Based	545,834
93.945	Assistance Programs for Chronic Disease Prevention and Control	955,807
93.958	Block Grants for Community Mental Health Services	246,393
93.959	Block Grants for Prevention and Treatment of Substance Abuse	1,027,266
93.969	PPHF Geriatric Education Centers	22,946
93.991	Preventive Health and Health Services Block Grant	374,227
93.994	Maternal and Child Health Services Block Grant to the States	1,097,163
94.006	AmeriCorps	2,415,936
94.007	Program Development and Innovation Grants	14,879
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	6,325,630
97.039	Hazard Mitigation Grant	659,175
97.042	Emergency Management Performance Grants	1,717,832
97.047	Pre-Disaster Mitigation	1,752,997
97.055	Interoperable Emergency Communications	17,970
97.067	Homeland Security Grant Program	5,986,258
97.120	Border Interoperability Demonstration Project	1,886,536
Total		\$ 298,659,965

Note 11. 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. Also refer to Note 3.

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	\$3,890.00
	Montana State University - Bozeman	13-CS-11015600-057	\$1,281.00
	University of Montana - Montana Tech	05-CS-11010800-010	\$4,943.00
	University of Montana - Montana Tech	65-0325-09-034	\$13,362.00
	University of Montana - Montana Tech	09-CS-11011400-019	\$300.00
Department of Defense (12)	University of Montana - Missoula	118347-G003015	\$15,253
	University of Montana - Missoula	118347-G003168	\$51,112
	University of Montana - Missoula	W91CRB-11-D-0001	\$171,719
	University of Montana - Montana Tech	N00014-08-D-0758	\$29,997
Department of Education (84)	Office of Public Instruction	ED-08-CO-0018	\$91,577.00
	Office of Public Instruction	ED-08-CO-0076	\$14,136.00
Department of Energy (81)	Department of Environmental Quality		\$69,231
	University of Montana - Montana Tech	DE-AC07-05ID14517	\$104,661
	University of Montana - Montana Tech	193698	\$8,608
	University of Montana - Montana Tech	60312	\$188,125
	University of Montana - Montana Tech	1340328	\$142,274
	University of Montana - Montana Tech	1440479	\$11,196
Department of Health and Human Services (93)	Department of Public Health and Human Services	BHSIS STATE AGREEMENT	\$53,261.00
	Department of Public Health and Human Services	CPSCW130023	\$2,885.00
	Department of Public Health and Human Services	HHSF223201210163C	\$47,832.00
	Department of Public Health and Human Services	DASIS STATE AGREEMENT	\$8,260.00
Department of State (19)			
University of Montana - Missoula	USIEF/OSI/2012/04	\$103,939	
Department of the Interior (15)	Department of Environmental Quality	P11AC10290	\$11,505.00
	University of Montana - Missoula	R14PX00371	\$523.00
	University of Montana - Missoula	P13AC00618	\$36,969.00
	University of Montana - Montana Tech	H1580070001	\$9,488.00
	University of Montana - Montana Tech	P132006A183	-\$296.00
	University of Montana - Montana Tech	H1200090004	\$9,244.00
	University of Montana - Montana Tech	P13AC01303	\$140,731.00
	University of Montana - Montana Tech	P14AC00408	\$29,249.00
	University of Montana - Montana Tech	2012-29	\$17,557
Department of Treasury (21)	Department of Administration		\$4,472
	Department of Commerce	PL110-161:95X1350	\$125,613
Environmental Protection Agency (66)	University of Montana - Missoula	002-MNHP-1	-\$1,370
	University of Montana - Missoula	EP-R8-12-10	\$21,805
National Aeronautics and Space Administration (43)	University of Montana - Missoula	NNX08AP59G	\$19,685.00
	University of Montana - Missoula	NNX08AQ63A	\$205,956.00
	University of Montana - Missoula	NNX09AP52G	\$108,191.00
	University of Montana - Missoula	NNX10AH57G	\$59,490.00
	University of Montana - Missoula	NNX10AN58H	\$7,184.00
	University of Montana - Missoula	NNX11AF18G	\$66,249.00
	University of Montana - Missoula	1364345	\$35,144.00
	University of Montana - Missoula	1368208	\$61,642.00
	University of Montana - Missoula	1422120	\$128,140.00
	University of Montana - Missoula	E99044MO	\$45,965.00
	University of Montana - Montana Tech		\$41,460
The Library of Congress (42)	Montana Historical Society	FED12-043	\$4,135
	Montana Historical Society	FED13-032	\$6,010
Peace Corps (08)	University of Montana - Missoula	PC-12-8-052	\$9,897
Miscellaneous Federal Award	Judicial Branch	SJI-14T-021	\$24,410

STATE OF MONTANA

STATE RESPONSES



MONTANA DEPARTMENT OF ADMINISTRATION

"the backbone of state government"

Director's Office

Steve Bullock, Governor • Sheila Hogan, Director

June 2, 2015

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JUN 02 2015

LEGISLATIVE AUDIT DIV.

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

RE: Financial Audit: 13-01B State of Montana for the Fiscal Year ended June 30, 2014

Dear Ms. Hunthausen:

The Department of Administration has reviewed the State of Montana Financial Audit for the fiscal year ended June 30, 2014. Our response to your recommendation is as follows:

Recommendation #1

We recommend the department design and implement internal controls to ensure the state's basic financial statements are accurately prepared, review procedures appropriately detect and correct errors, and financial reporting is timely.

Response

The Department of Administration concurs with this recommendation. The Department recognizes the need to design, implement, and strengthen internal controls and has already initiated efforts to address the issues identified in this audit. These efforts include updating and adhering to schedules and timelines, implementing effective review processes, and preparing templates, documentation, and communication procedures and schedules.

We are confident that our updated controls, procedures, and schedules will ensure accurate and timely reporting of the State's financial statements. The Department's State Financial Services Division staff, Director Hogan, and I appreciate the audit team's work on the State's financial statements for the year ended June 30, 2014.

Sincerely,

Michael P. Manion, Deputy Director

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA



STEVE BULLOCK
GOVERNOR

CAPITOL BUILDING - P.O. BOX 200802
HELENA, MONTANA 59620-0802

May 29, 2015

RECEIVED

MAY 29 2015

LEGISLATIVE AUDIT DIV.

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

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

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, 2014. We are pleased with your conclusion that the prior audit recommendation relating to controls over the preparation of the state's Schedule of Expenditures of Federal Awards has been implemented and that there is no further recommendation with regard to this audit finding.

Sincerely,

A handwritten signature in black ink, appearing to read "Dan Villa".

Dan Villa
Budget Director

cc: Sonia Powell, Single Audit Coordinator