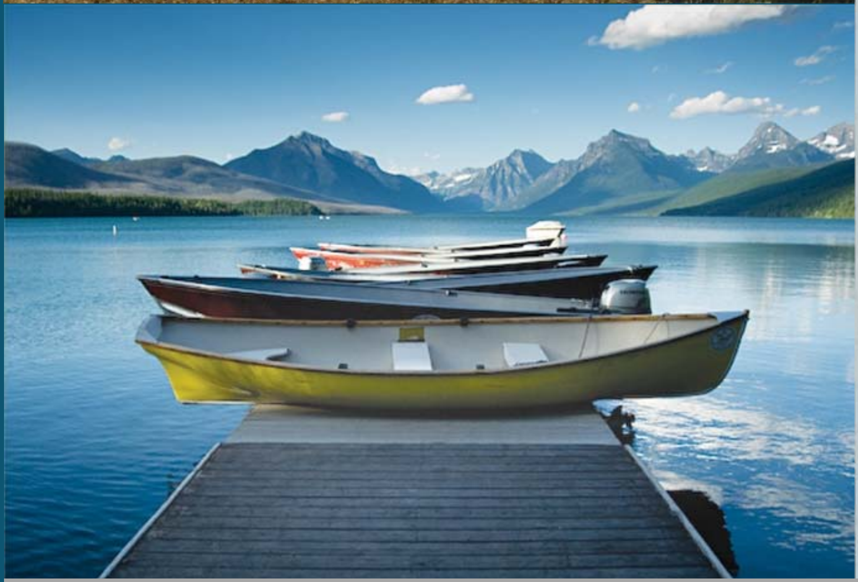


M O N T A N A

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016

REPORT LAYOUT

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial and Statistical. The Introductory Section contains the transmittal letter, State organization chart, and a list of principal State officials. The Financial Section includes the independent auditor's report, the management's discussion and analysis, the basic financial statements and the combining statements and schedules. The Statistical Section includes fiscal, economic, and demographic information about the state.

INTERNET ACCESS

The Comprehensive Annual Financial Report is available at the Department of Administration, State Financial Services Division website at:

http://sfsd.mt.gov/SAB/cafr

Cover photographs courtesy of the Montana Office of Tourism and Business Development

STATE OF MONTANA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended

June 30, 2016

Prepared By:

Department of Administration

Sheila Hogan, Director

(through December 31, 2016)

John Lewis, Director

(as of January 2, 2017)

State Financial Services Division

Cheryl Grey, CPA, Administrator

State Accounting Bureau

Cody Pearce, CPA, State Accountant

Accounting Principles & Financial Reporting Section

Kristin Reynolds, CPA, Manager

Anthony Cacace, Accountant

Bill Hall, Accountant

Ingrid Mallo, CPA, Accountant

Logan Nordahl, Accountant

Alice Williams, Accountant

Aaron Grossman, Computer Support Specialist

State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2016

Table of Contents

INTRODUCTORY SECTION

FINANCIAL SECTION

STATISTICAL SECTION

INTRODUCTORY SECTION

DEPARTMENT OF ADMINISTRATION

STEVE BULLOCK, GOVERNOR
MIKE COONEY, LIEUTENANT GOVERNOR

JOHN LEWIS
DIRECTOR

STATE FINANCIAL SERVICES DIVISION

State Accounting Bureau
Mitchell Bldg., Rm. 255
P.O. Box 200102
Helena, MT 59620
(406) 444-3092

Financial Services Technology Bureau
Mitchell Bldg., Rm. 295
P.O. Box 200102
Helena, MT 59620
(406) 444-3092

State Social Security Administrator
Mitchell Bldg., Rm. 270
P.O. Box 200102
Helena, MT 59620
(406) 444-2596

Local Government Services Bureau
Mitchell Bldg., Rm. 270
P.O. Box 200547
Helena, MT 59620
(406) 444-9101

State Procurement Bureau
Mitchell Bldg. Rm. 165
P.O. Box 200135
Helena, MT 59620
(406) 444-2575

January 30, 2017

To the Citizens, Governor, and Members of the Legislature of the State of Montana:

In accordance with Title 17, Chapter 2, Part 110, Montana Code Annotated (MCA), we are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the State of Montana for the fiscal year ended June 30, 2016. Responsibility for the accuracy of the data presented and the completeness and fairness of the presentation rests with the Department of Administration. To the best of our knowledge and belief, the enclosed data is accurate in all material respects, and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the State of Montana. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

DESCRIPTION OF THE CAFR

This report and the accompanying financial statements and statistical tables were prepared in accordance with standards set forth by the Governmental Accounting Standards Board (GASB).

The State's CAFR is divided into three main sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, an organization chart for the State, and a list of principal state officials. The financial section contains management's discussion and analysis, the independent auditor's report, government-wide financial statements, fund financial statements, notes to the financial statements, combining statements by fund type, and other schedules. The statistical section includes financial, economic, and demographic data.

This report includes all funds of those entities that comprise the State of Montana (the primary government) and its component units. The component units are entities that are legally separate from the State, but 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 State is able to impose its will on that organization; or (2) there is the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. The following component units are included in the State's financial reporting entity: Montana Board of Housing, Facility Finance Authority, Montana State Fund, Montana State University, University of Montana, Public Employees Retirement Board, and Teachers Retirement System.

PROFILE OF THE GOVERNMENT

After 25 years as a territory, Montana became the 41st state when it was admitted to the Union in 1889. While Montana has a total area of 147,040 square miles (including water area), and is the nation's fourth largest state, it is also one of the most sparsely populated, with an estimated population of slightly over 1 million. Montana is vast, including rolling plains, the Northern Rocky Mountains, all of Glacier National Park, three of the five entrances to Yellowstone National Park, wheat farms, cattle ranches, tribal lands, and extensive natural resources.

In 1972, a constitutional convention convened, rewriting the State's constitution and establishing the current governmental structure. As shown in the organizational chart attached within this report, state government is divided into three separate branches: legislative, executive, and judicial. Montana's Legislature consists of 50 senators and 100 representatives elected from single-member districts. The Legislature meets in regular biennial sessions for 90 days in odd-numbered years. Montana is governed by its Constitution, and its laws are administered by its executive branch officers and various boards and commissions. State government services provided to citizens include building and maintaining roads; providing public safety, health, and environmental protection services to protect the general welfare of the State's citizens; helping adults, children, and families through difficult times such as abuse, divorce, illness, death, and unemployment; fostering an attractive business climate to encourage economic growth; and protecting public lands and natural resources for conservation and recreational activities. The State also provides significant financial support to its higher education institutions, local governments, and school districts to help those entities meet the specific needs of their constituents.

ECONOMIC CONDITION AND OUTLOOK

Montana's primary economic base remains concentrated in agriculture, mining, manufacturing, and nonresident travel. Per the 2016 Labor Day Report issued by the Montana Department of Labor and Industry, Montana had real wage gains of 2.9% in 2015, which is the fastest gain in real wages since 1990. Montana's unemployment rate has continued to remain lower than the national rate since the 2001 recession. Montana's annual unemployment rate of 4.1% in 2015 was the 11th lowest in the nation. Montana added roughly 9,200 jobs in 2015, for a growth rate of 2.1%. Montana had approximately 459,300 people employed in nonfarm non-adjusted jobs in August 2016, as compared to 461,000 in August 2015. Montana was the 16th fastest growing state for personal income growth in 2015 at 4.4%. 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.

Agriculture

Montana's wheat yields increased in 2016 to 212.7 million bushels, compared to the 2015 production level of 188.5 million bushels, representing a 13% increase. Winter wheat production increased to 105.4 million bushels, 16% higher than the 2015 level of 91.0 million bushels. Spring wheat production reached 76.0 million bushels, down 3% from 78.7 million bushels in 2015. Durum production was 31.4 million bushels, up 67% from 18.8 million bushels in 2015. Yields were up for winter, spring and durum wheat.

Montana's other major agricultural commodities include oats, barley, and cattle. Oat production in Montana increased to an estimated 1.3 million bushels in 2016, representing a 13% increase from 2015 levels. Barley production is estimated at 46.8 million bushels, which is 5% higher than last year. Montana's cattle herd as of January 1, 2016 was estimated at 2.7 million head. Montana ranks 11th in the US cattle and calf industry. Montana's 2015 receipts from cattle sales were $1.6 billion.

Manufacturing

When using the nonfarm non-adjusted estimates from the Montana Department of Labor and Industry, Montana's manufacturing industry increased by 600 jobs from August 2015 to August 2016. This is an increase of 3% from 19,200 in 2015 to 19,800 in 2016. Using the Manufacturing statistics as gathered by the Montana Bureau of Business and Economic Research, Montana's manufacturing employment decreased by nearly 2% from 2014 to 2015.

Montana's timber sales production volume in 2015 decreased to 516 million board feet, down from the revised 587 million board feet in 2014, a decrease of 12%. Estimated total sales value of the state's primary wood and paper products in 2015 was estimated to be $577 million, down about $24 million or 4%, from 2014. The total wood products industry estimated employment of 7,668 workers for 2015, down less than 1% from the 2014 level. The 2015 timber harvest was 383 million board feet, up about 9% from 2014.

Nonresident Travel

Nonresident travel to Montana in 2015 was approximately 11.7 million visitors, up 8% from 2014. Overall visitor numbers for the national parks were higher in 2015 than in 2014. The visitor numbers for Yellowstone Park increased an estimated 17% from 3.5 million to 4.1 million visitors. Visits to Glacier Park were estimated at 2.4 million visitors, with a 1% increase from the previous year. Nonresident travelers contribute to the tax base by paying the lodging tax; excise taxes, such as those on gasoline; and indirectly, by supporting employment in industries that pay corporate taxes and whose employees pay income, property, and other taxes. Estimated nonresident direct travel expenditures in Montana totaled $3.7 billion in 2015, representing a decrease of $242.8 million. The estimated total economic benefit of nonresident travel in Montana increased from $5.1 billion for calendar year 2014 to $5.2 billion for 2015, representing an increase of 2%.

Natural Resources/Mining

Montana's mining sector of the economy employed 6,800 workers in August 2016. That represented a 12% decrease from the 7,700 workers employed in August 2015. The various sectors included in this category are discussed in more detail below.

As of the end of calendar year 2014 an estimated 444 million barrels of proven oil reserves existed under Montana's land. These numbers do not reflect the projected additional reserves existing in the Bakken and Tyler formations Montana shares with North and South Dakota. In 2015, the state saw a decrease in production and exploration activity, with estimated crude oil production for the state at 28.6 million barrels. This represents a 4% decrease from the 2014 production level of 29.9 million barrels. Production through June 2016 is 19% lower than the 2015 information for the same period.

Montana's total coal reserves were estimated at 118.7 billion short tons with recoverable reserves of 74.6 billion short tons in 2014 (most recently released data). This represents 25% of the total, and 29% of the recoverable, reserves in the U.S. Of these reserves, 858 million short tons of coal, 4% of the US total, are located at producing mine sites. During 2014, Montana's coal production increased 6% from 42.2 to 44.6 million short tons.

Historically, minerals mining has been a significant part of Montana's economy. While there is no published data on proven reserves for metals mining, Montana's mines continue to produce copper, molybdenum, lead, zinc, palladium, gold, silver, cobalt, nickel, chromate, platinum, and other metals. Montana also produces non-metal minerals such as talc, limestone, bentonite, garnets and sapphires. The "rare earth" metals, now in demand in many new products, are also known to exist within the state. Exploration for these metals is underway to determine the economic feasibility of production within the state.

MAJOR INITIATIVES AND LONG TERM OUTLOOK

The 2015 Legislature completed work and adjourned in late April 2015. Upon adjournment, it was anticipated that 2017 biennium General Fund revenue collections would be approximately $4.6 billion while General Fund expenditures would be approximately $4.7 billion. At the end of fiscal year 2017, the estimated General Fund balance would be approximately $315 million.

The 2017 biennium budget seeks to leave sufficient reserves in fund balance and achieve structural balance for the General Fund budget.

The following are the major financial highlights of the 2017 biennium budget:

1. Governor Bullock proposed and the 2015 Legislature adopted legislation to fund a Montana-made solution to Medicaid Expansion under the provisions of the Affordable Care Act (ACA). Montana's expansion model will contract with a third party administrator to manage and secure a healthcare network to provide health services to eligible Montana citizens. Medicaid expansion in Montana was approved by the Centers for Medicare and Medicaid Services and was implemented on January 1, 2016. Federal funding will finance the majority of the expansion effort for the entirety of the 2017 biennium.

2. Governor Bullock proposed, and the 2015 Legislature funded, a 2% rate increase per year for most private and community-based providers of health care and corrections-based services on behalf of the State of Montana.

3. Governor Bullock negotiated with the Montana University System and the Montana Legislature passed, funding to secure a tuition freeze for Montana resident students attending institutions of higher education in Montana. Additionally, the Montana University System received a one-time-only appropriation of $15 million to serve as funds to leverage university-based research into strategic investments for Montana's economy.

4. The 2015 Legislature passed Senate Bill (SB) 157, which changes the reappraisal of class 3 and class 4 property from a six-year reappraisal cycle to a two-year reappraisal cycle.

5. The Governor proposed, and the 2015 Legislature passed, SB 262 which ratifies water rights between the state and the Confederated Salish and Kootenai Tribes of the Flathead Reservation. If ratified by the US Congress, the state contribution is estimated to be $55 million, payable over several fiscal years.

6. The Governor proposed, and the 2015 Legislature funded, a one-time-only appropriation for a sage grouse conservation fund at $10 million for the 2017 biennium that was a major consideration in preventing listing on the endangered species list. Through competitive funding, the fund facilitates free-market mechanisms for voluntary, incentive-based conservative efforts.

7. The 2017 biennium present law budget generally funds existing core services (i.e. health and human services, corrections, and education) at estimated caseload, population, and enrollment levels.

The 2015 legislative session projected approximately $319 million of unassigned fund balance in the General Fund for fiscal year 2016. The difference was primarily the result of lower than anticipated revenues in fiscal year 2016. Both the decreased revenue and increased expenditures reported for the year are discussed in more detail in the Management's Discussion and Analysis included in this report.

FINANCIAL INFORMATION

Montana's Statewide Accounting, Budgeting and Human Resource System (SABHRS) is a centrally maintained, fully computerized, double-entry accounting system. SABHRS records are system edited and budget checked before being posted.

Management of the State is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss or misuse, and that adequate accounting data are compiled to allow for the preparation of financial statements in accordance with generally accepted accounting principles. In developing and evaluating the State's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that the above objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary restrictions are imposed via appropriations approved by the Legislature or established administratively as provided for by state law. Appropriations are required by state law for the general, state and federal special revenue, and capital projects funds. The level of budgetary control is generally established by fund. SABHRS is designed to provide budgetary control by preventing spending in excess of legislative and administrative authority. SABHRS also provides for encumbrance accounting as a technique for accomplishing budgetary control.

General Fund Balance

For fiscal year 2016, the total fund balance of the General Fund was reported at approximately $271.3 million. Of this balance $4.5 million is non-spendable. The remaining $266.8 million is spendable with $140.3 million assigned and $126.5 million unassigned. Of the assigned fund balance, $130.0 million pertains to the projected General Fund spend down of fund balance in fiscal year 2017 and $10.3 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.

For fiscal year 2015, the total fund balance of the General Fund was reported at approximately $471.3 million. Of this balance $4.7 million is non-spendable. The remaining $466.7 million is spendable with $86.2 million assigned and $380.4 million unassigned. Of the assigned fund balance, $75.0 million pertains to the projected General Fund spend down of fund balance in fiscal year 2016 and $11.2 million relates to outstanding encumbrances at the end of the fiscal year.

Other Post Employment Benefits - Implied Rate Subsidy Liability

The State of Montana reported the “implied rate subsidy” liability, required under the Governmental Accounting Standards Board (GASB) Statement No. 45, in this financial report and the related financial statements. Although the State reported this liability, and related expenses and expenditures, the State does not agree that this represents a legal liability and further believes that the presentation of this activity in the financial statements will eventually be misleading to the users of the statements.

The State plans to continue funding the employee health insurance plan on a “pay as you go” basis, and does not intend to fund this liability. Because the State is not funding this liability, it may increase in $1/30^{th}$ increments, plus interest, and within a few years, the financial statements may reflect the impact of a very large “implied rate subsidy” liability that does not have legal substance. The total actuarially accrued liability, which, absent a change in position by GASB or a change in the funding level the State provides for retirees, will be recorded on the State accounting system over the next 30 years, is estimated at $273.0 and $115.1 million for the State and MUS systems, respectively. Accrued interest will further inflate this over time.

We submitted a request to have GASB reconsider the requirement to report the implied rate subsidy. GASB refused to revisit this issue. A copy of the letter to GASB providing our concerns with the implied rate subsidy reporting, required under GASB Statement No. 45, is available upon request.

ACKNOWLEDGEMENTS

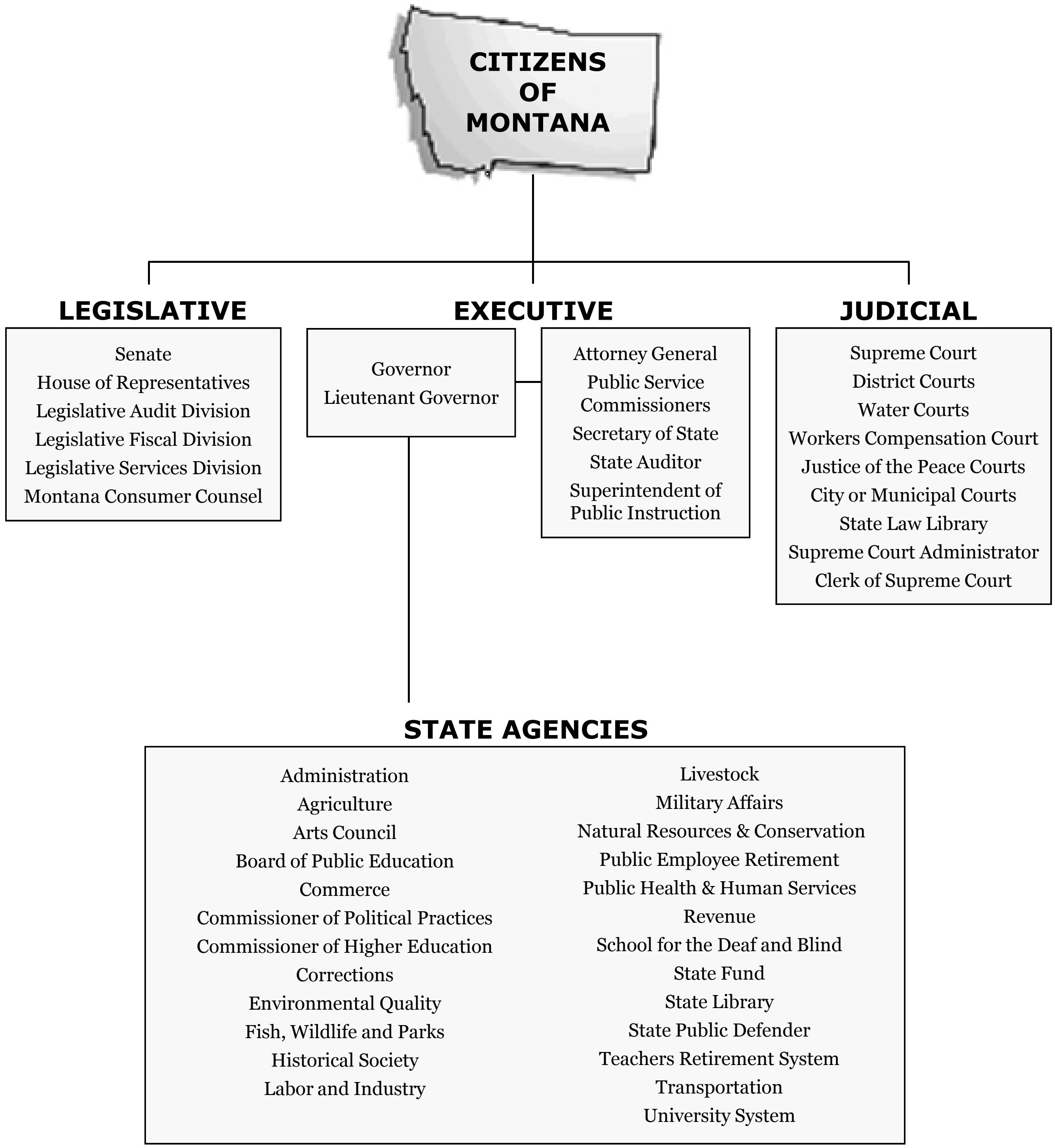
The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated service of the entire staff of the State Accounting Bureau – Accounting Principal and Financial Reporting Section (APFRS), the cooperation of accounting personnel at the individual state agencies and staff in the Governor's Office of Budget and Program Planning. We would like to express our appreciation to the State Accounting Bureau and other personnel who participated in the preparation of this document. We would also like to thank the Legislature and all state agencies for their interest and support in planning and conducting the financial operations of the State in a professional, responsible, and progressive manner.

Respectfully submitted,

/s/ Cody Pearce

Cody Pearce, CPA
State Accountant
State Financial Services Division
Department of Administration

STATE OF MONTANA ORGANIZATION CHART



STATE OF MONTANA

SELECTED STATE OFFICIALS

Executive Branch

Steve Bullock, Governor

Michael Cooney, Lieutenant Governor

Judicial Branch

Mike McGrath, Chief Justice

Legislative Branch

Debby Barrett, President of the Senate

(through December 31, 2016)

Scott Sales, President of the Senate

(as of January 2, 2017)

Austin Knudsen, Speaker of the House

FINANCIAL SECTION

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2016, and the related notes which collectively comprise the state of Montana's basic financial statements, as follows:

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 represents 15.12 percent, 29.94 percent, and 6.73 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 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 financial statements of the MSU and UM component units were not audited in accordance with *Governmental 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

Opinion Unit	**Type of Opinion**
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Units	Unmodified
Aggregate Remaining Fund Information	Unmodified
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

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities and Business-Type Activities, General Fund, State Special Revenue Fund, Federal Special Revenue Fund, Land Grant, Coal Severance Tax, Unemployment Insurance and Economic Development Bonds major funds, and the Aggregate Discretely Presented Component Units and Aggregate Remaining Fund Information of the state of Montana, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 19 to the financial statements, at June 30, 2016, the Game Wardens' and Peace Officers', and Sheriffs' retirement plans, and the Public Employees' Retirement System-Defined Contribution Retirement Plan Disability Other Post Employment Benefit (DCRP Disability OPEB) are not actuarially sound because they do not amortize. The maximum allowable amortization period is 30 years, as defined by state law. Our opinions are not modified with respect to this matter.

As discussed in Note 2B to the financial statements, beginning in fiscal year 2016, the state of Montana elected to report the Short-Term Investment Pool assets at fair value instead of amortized cost, as previously reported. Our opinions are not modified with respect to this matter.

As discussed in Note 2A to the financial statements, in fiscal year 2016, the state of Montana adopted new accounting guidance contained in Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinions are not modified with respect to this matter.

As discussed in Note 2B, Montana State Fund (MSF) was issued a Certificate of Authority, became an authorized insurer regulated by the Montana Commission of Securities and Insurance, and is now subject to the provisions of Title 33, Montana Insurance Code. As a result, MSF's reporting period changed from a June 30 fiscal year-end to a calendar year-end. This report, for the year ended June 30, 2016, includes a 6-month financial reporting period for MSF. Our opinion for the Aggregate Discretely Presented Component Units is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Pension Plan Information, the Other Post Employment Benefit Plan Information, and the Risk Management Trend Information, and the related notes, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the state of Montana's basic financial statements. The introductory section, combining statements, and the statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2017 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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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. It is included in the Legislative Auditor's separately issued report (15-01B).

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 30, 2017

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, 2016. 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

Government-wide

The assets and deferred outflows of resources of the State exceeded its liabilities and deferred inflows of resources at the end of fiscal year 2016 by $8.1 billion compared with $7.8 billion at the end of fiscal year 2015, representing a 4% increase in net position. Component units reported net position of $1.8 billion at the end of fiscal year 2016 compared to $1.7 billion at the end of fiscal year 2015, representing a 4% increase in net position. More detail is provided in the financial statement overview below.

Fund Level

As of the close of fiscal year 2016, the State's governmental funds reported combined ending fund balances of $4.1 billion compared with $4.2 billion at fiscal year 2015. Of the 2016 balance, $1.6 billion is not in spendable form, primarily as permanent fund principle. Thus, $2.5 billion is available for spending. The fund balance in spendable form is segregated by constraint as follows: $1.0 billion restricted, $1.2 billion committed, $149.2 million assigned and $126.5 million unassigned. This represents a $88.4 million (2%) decrease in total fund balance. 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 2016 in the amount of $372.0 million compared with fiscal year 2015 net position of $356.3 million. Of the 2016 business-type activity net position, $15.8 million was reported as net investment in capital assets. Net position of $356.2 million was in spendable form with $8.4 million unrestricted and $347.8 million restricted to expenditure for a specific purpose. This represents a $14.6 million (4%) increase in spendable net position from the fiscal year 2015 balance of $341.7 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 $38.1 million, from $268.7 million in fiscal year 2015 to $230.6 million, a 14% decrease in fiscal year 2016.

Further detail relating to the State's long-term debt is provided in notes to the financial statement's 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, which includes budgetary schedules, pension and other post employment benefits plan information, and risk management trends. These components are described below:

Basic Financial Statements

The basic financial statements include two types of financial statements that present different views of the State – the g*overnment-wide financial statements* and the *fund financial statements***.** These financial statements also include the *notes to the financial statements*, which provide further detail and information related to the balances of the financial statements.

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. In other words, 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 and the Statement of Activities, as defined below.

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 related to the government's net position changes 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. 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 activities. These three types of activities are as follows:

Governmental Activities – Activities mostly supported by taxes and intergovernmental revenues, including 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 and human services, natural resources, public safety, and transportation.

Business-type Activities – Functions 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 Bonds 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 – Operations for which the State has financial accountability, but 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's component units consist of one financing authority, one housing board, one nonprofit independent public corporation and two universities.

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 individually. The three categories of funds are as follows:

Governmental Funds – 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 – 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. Like the government-wide statements, proprietary fund statements 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. Whereas, internal service funds report activities that provide supplies and services for the State's other programs and activities.

Fiduciary Funds – Resources held for the benefit of parties outside state government are accounted for in fiduciary funds. 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 fund statements use the full accrual basis of accounting.

Notes to the Financial Statements
The notes to the financial statements provide additional information that is essential for a full understanding of 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. Required supplementary information also includes pension and other post employment benefits plan information, as well as additional risk management trend data.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position increased from the last fiscal year as reflected in the $288.2 million increase (4%) in net position. This improvement resulted from a continued economic recovery within the State.

Net Position
As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The State's combined net position (government and business-type activities) totaled $8.1 billion at the end of fiscal year 2016. Net position of the both governmental and business-type activities increased by $272.5 million (4%) and $15.7 million (4%), respectively. 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 portion of the State's net position 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 reported positive balances in net investment in capital assets and restricted net position categories, along with a negative balance in the unrestricted category of net position, for both the governmental activities and the primary government as a whole. The negative unrestricted net position is primarily due to net pension liability established in fiscal year 2016. GASB Statements No. 68 and 71 were implemented in fiscal year 2015 and are contributing factors to the negative net position. The State also reported positive balances for all categories of net position for the business-type activities.

Net Position
June 30, 2016
(expressed in thousands)

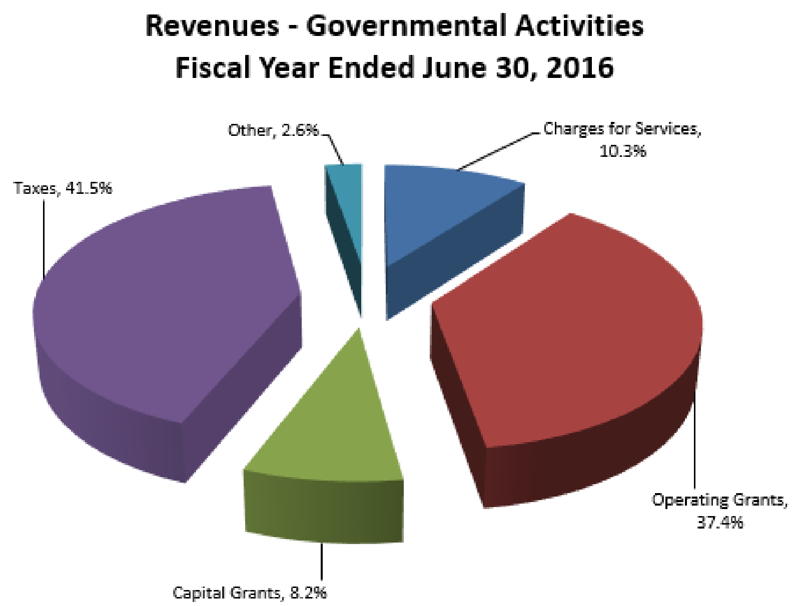
	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2016	2015	2016	2015	2016
Current and other assets	$5,230,463	$5,172,386	$515,480	$525,340	$5,745,943	$5,697,726
Capital assets	5,492,272	5,753,621	15,450	16,363	5,507,722	5,769,984
Total assets	10,722,735	10,926,007	530,930	541,703	11,253,665	11,467,710
Deferred outflows of resources	188,437	201,784	897	1,481	189,334	203,265
Long-term liabilities						
Due in more than one year	2,228,098	2,318,021	23,780	24,508	2,251,878	2,342,529
Other liabilities	923,799	937,756	148,612	145,603	1,072,411	1,083,359
Total liabilities	3,151,897	3,255,777	172,392	170,111	3,324,289	3,425,888
Deferred inflows of resources	304,757	144,983	3,159	1,100	307,916	146,083
Net investment in capital assets	5,332,649	5,616,889	14,616	15,760	5,347,265	5,632,649
Restricted	2,764,165	2,890,669	333,536	347,818	3,097,701	3,238,487
Unrestricted	(642,296)	(780,527)	8,124	8,395	(634,172)	(772,132)
Total net position	$7,454,518	$7,727,031	$356,276	$371,973	$7,810,794	$8,099,004

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:

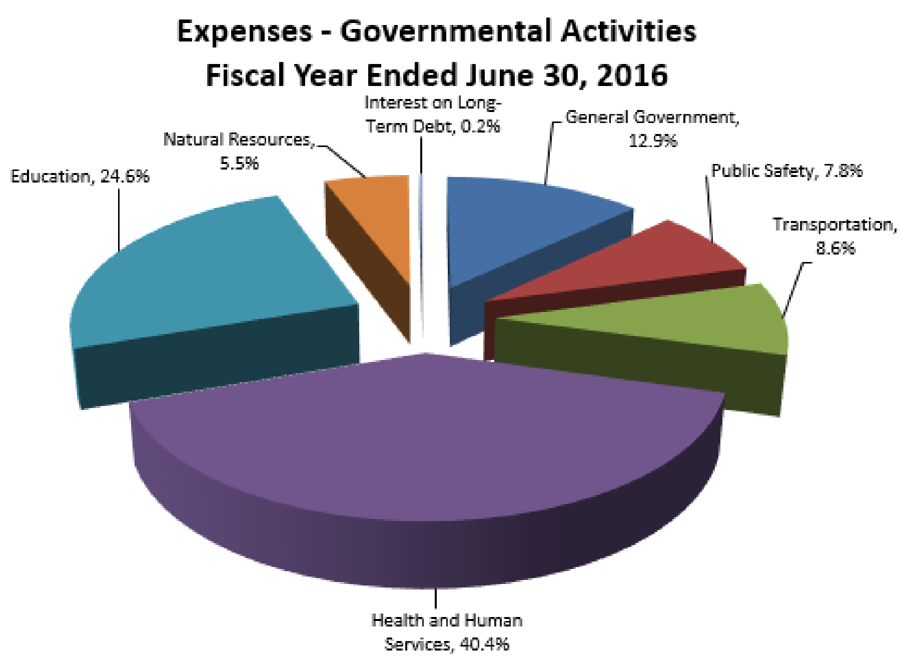
Changes in Net Position
For Fiscal Year Ended June 30, 2016
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2016	2015	2016	2015	2016
Revenues:						
Program revenues						
Charges for services	$ 582,847	$ 577,679	$414,398	$397,793	$ 997,245	$ 975,472
Operating grants	1,885,537	2,093,817	50,751	56,565	1,936,288	2,150,382
Capital grants	470,860	456,588	942	857	471,802	457,445
General revenues						
Taxes	2,430,175	2,318,433	26,440	27,078	2,456,615	2,345,511
Other	94,653	146,716	3,157	2,701	97,810	149,417
Total revenues	5,464,072	5,593,233	495,688	484,994	5,959,760	6,078,227
Expenses:						
General government	655,878	696,984			655,878	696,984
Public safety	403,407	420,532			403,407	420,532
Transportation	483,943	464,092			483,943	464,092
Health and human service	1,936,701	2,174,506			1,936,701	2,174,506
Education	1,306,740	1,324,299			1,306,740	1,324,299
Natural resources	316,834	295,332			316,834	295,332
Interest on long-term debt	9,124	9,373			9,124	9,373
Unemployment Insurance			112,952	119,088	112,952	119,088
Liquor Stores			78,700	81,556	78,700	81,556
State Lottery			41,088	47,202	41,088	47,202
Economic Dev Bonds			989	1,198	989	1,198
Hail Insurance			8,304	817	8,304	817
Gen Govt Services			68,677	71,343	68,677	71,343
Prison Funds			6,464	9,099	6,464	9,099
MUS Group Insurance			86,539	87,535	86,539	87,535
MUS Workers Comp			4,128	2,430	4,128	2,430
Total expenses	5,112,627	5,385,118	407,841	420,268	5,520,468	5,805,386
Increase (decrease) in net position before transfers	351,445	208,115	87,847	64,726	439,292	272,841
Transfers	50,017	49,813	(50,017)	(49,813)	-	-
Change in net position	401,462	257,928	37,830	14,913	439,292	272,841
Net position, beg of year (as adjusted)	7,053,056	7,469,103	318,446	357,060	7,371,502	7,826,163
Net position, end of year	$7,454,518	$7,727,031	$ 356,276	$371,973	$7,810,794	$8,099,004

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

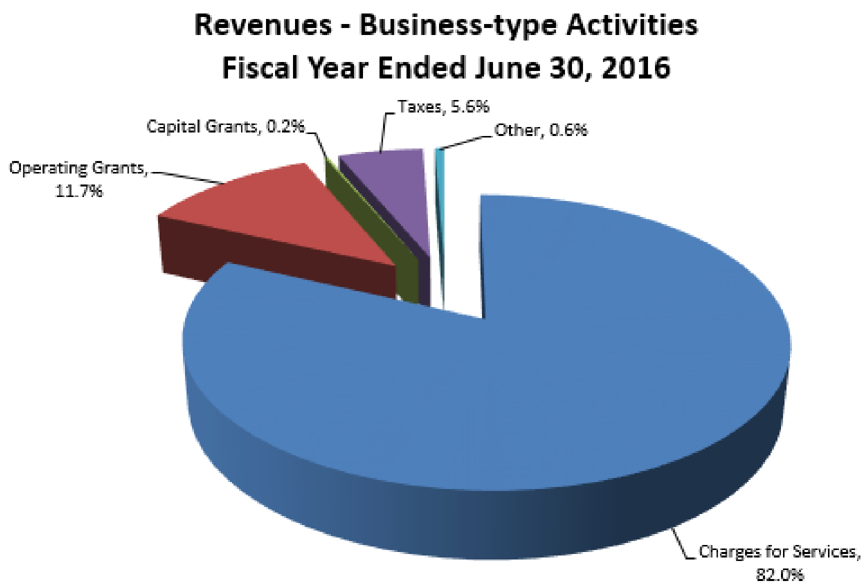


The following chart depicts expenses of the governmental activities for the fiscal year:

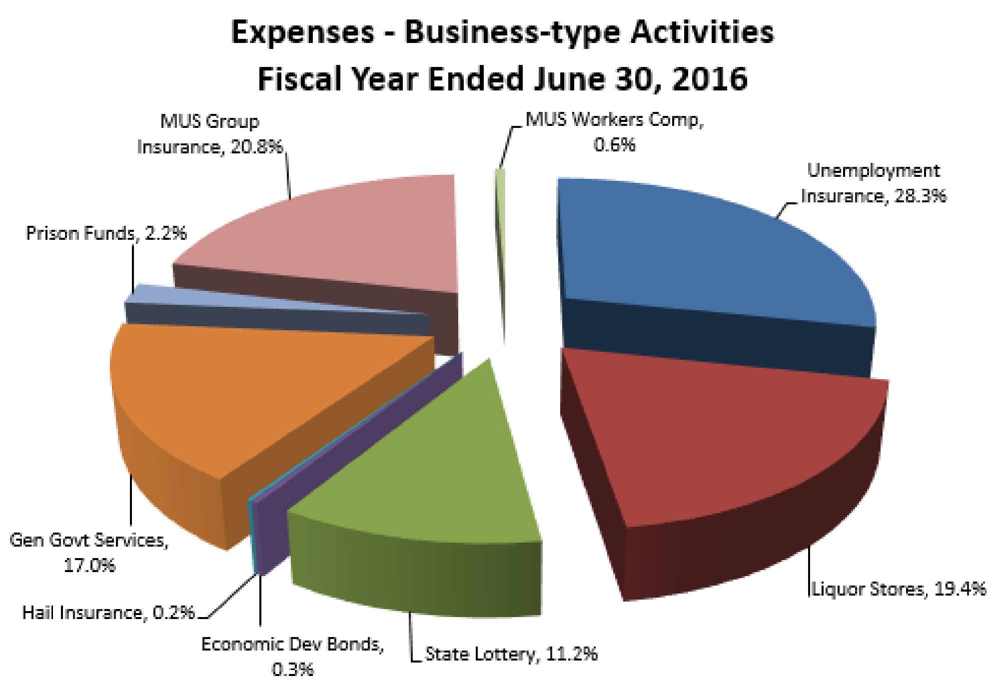


Business-type Activities

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, $2.5 billion (62%) constitutes spendable fund balance and $1.6 billion (38%) 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 2016, the total fund balance of the General Fund was reported at approximately $271.3 million. Of this balance $4.5 million is nonspendable. The remaining $266.8 million is spendable with $140.3 million assigned and $126.5 million unassigned. This represents 11% of the $2.5 billion spendable governmental fund balances for all governmental funds. Of the assigned fund balance, $130.0 million pertains to the projected general fund spend down of fund balance in fiscal year 2017 and $10.3 million relates to outstanding encumbrances at the end of the fiscal year. Further detail on the breakdown of fund balance for the General Fund is provided in Note 14 – Major Purpose Presentation.

Total fund balance decreased by $200.0 million when compared to the previously reported fund balance of $471.3 million. Changes in both expenditures and revenues are discussed in detail below. The 2015 legislative session projected $319 million of unassigned fund balance for fiscal year 2016, without regard to an additional fund balance amount reported regarding the projected spend down in fiscal year 2017.

<u>Lower General Fund Revenues</u> – Total General Fund revenues were $2.0 billion for fiscal year 2016 (lower than legislative estimation), a 4% decrease from the $2.1 billion reported in 2015 (which were higher than legislative estimation). Fiscal year 2016 tax revenue decreased by 4% in total over 2015, with natural resource and corporate income tax collections down 44% and 31%, respectively. Individual income and property tax collections were up slightly by 1% and 5%, respectively.

<u>Higher General Fund Expenditures</u> – Total General Fund expenditures for fiscal year 2016 increased by $117.1 million (6%). This increase in expenditures occurred in the public safety, health and human services, education and natural resources functions as follows:

- Public safety expenditures increased by $25.0 million (9%)
- Health and human services expenditures increased by $39.2 million (9%)
- Education expenditures increased by $51.7 million (5%)
- Natural resources expenditures increased by $2.4 million (7%)

Transfers out increased by $30.9 million (51%) to $91.2 million in 2016, mostly attributable to the fire suppression transfers.

The General Fund's actual revenues and expenditures in comparison to budgeted revenues and expenditures is provided in more depth on the Budgetary Comparison Schedule, within the Required Supplementary Information section of this report. The same level of detail used to report the actual revenues and expenditures is not readily available for all budgetary revenues and expenditures, which may cause some variances.

General Fund Expenditure Budget Reversions

Fund balances are not reserved for reverted appropriations. For fiscal year 2016, general fund appropriations that reverted to 2017 were $26.3 million.

The Department of Public Health and Human Services had unspent appropriations of $15.8 million, the vast majority of which was attributable to Medicaid and other benefits.

The Department of Corrections had unspent appropriations of $2.1 million related to Medicaid savings and other operational costs.

The Department of Natural Resources and Conservation, the Judiciary Branch and the Department of Revenue had unspent appropriations of $1.6 million, $1.5 million and $1.3 million, respectively, related to operational costs.

The remaining unspent appropriation of $4.0 million was attributable to miscellaneous reversions across other agencies.

State Special Revenue Fund
The fund balance of the State Special Revenue Fund increased by $3.6 million to $1.6 billion. Revenues and expenditures decreased by $22.1 million (2%) and $50.9 million (5%), respectively, for fiscal year 2016. The largest decrease in revenues is attributable to a reduction in natural resources tax collections. The largest decreases in expenditures is attributable to reductions in general government and education related expenditures.

Federal Special Revenue Fund
The fund balance of the Federal Special Revenue Fund decreased by $2.2 million (20%) to $9.0 million. Revenues and expenditures increased by $168.5 million (8%) and $197.6 million (9%) respectively for the fiscal year 2016. Revenue increases are attributable to increases in federal revenue and expenditure increases are attributable to increases in health and human services related expenditures. Transfers out decreased by $21.4 million (42%) for the fiscal year 2016, primarily due to timing differences among federally funded natural resource transfers.

Coal Severance Tax Permanent Fund
The fund balance of the Coal Severance Tax Permanent Fund increased by $65.8 million (6%) to $1.1 billion. Revenue increased by $27.3 million (44%) to $89.9 million, primarily due to an increase of $28.9 million in investment earnings.

Land Grant Permanent Fund
The fund balance of the Land Grant Permanent Fund increased by $42.7 million (6%) to $710.5 million. Within this fund, investment earnings increased by $24.6 million, while rent/lease/royalties and sales income decreased by $12.7 million.

Unemployment Insurance Enterprise Fund
Net position restricted for unemployment compensation increased by $15.9 million (6%). The increase in net position reflects the continued impact of low unemployment throughout fiscal year 2016 accompanied by an increase in the taxable wage base from $29.5 thousand to $30.5 thousand in 2016.

Economic Development Bonds Enterprise Fund
Net position increased by 1% to $5.2 million in fiscal year 2016. Revenues from financing increased $239 thousand, while interest expense increased $125 thousand.

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, 2016, amounted to $8.0 billion, with related accumulated depreciation of $2.2 billion, leaving a net book value of $5.8 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was $262.3 million or 5% 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 continues to receive excellent general obligation bond ratings from Moody's Investor Service (Aa1), Standard and Poor's Corporation (AA) and Fitch Ratings (AA+), which remain unchanged from 2015.

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 $134.8 million at June 30, 2015 to $115.5 million at June 30, 2016. There is cash available, of $4.3 million at the end of fiscal year 2016, in debt service funds to service general obligation debt.

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

	Amount *(in thousands)*	Percentage of Personal Income (1)	State Debt Per Capita (2)
General obligation debt	$115,500	0.23%	$96
Total State debt	$216,983	0.50%	$221

(1) Based on personal income for calendar year 2015.
(2) Based on estimated 2016 Montana population.

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

ECONOMIC CONDITION AND OUTLOOK

Montana's primary economic base remains concentrated in agriculture, mining, manufacturing, and nonresident travel. Montana had the 16th fastest personal income growth among states in 2015, at a rate of 4%. Additionally, Montana had real wage gains of 3% in 2015, which is the fastest gain in real wages since 1990. Montana's unemployment rate (4%) has continued to remain lower than the national rate. Montana added roughly 9.2 thousand jobs in 2015, for a growth rate of 2%. A more in-depth analysis of the State's overall financial position can be found in the transmittal letter of this report.

The 64th Legislative Session adjourned in late April 2015. Upon adjournment, it was anticipated that 2017 biennium general fund revenue collections would be approximately $4.6 billion while general fund expenditures would be approximately $4.7 billion. At the end of fiscal year 2017, the estimated general fund balance would be approximately $315 million.

The 2017 biennium budget seeks to leave sufficient reserves in fund balance and achieve structural balance for the general fund budget.

The following are the major financial highlights of the 2017 biennium budget:

1. Governor Bullock proposed, and the 2015 Legislature adopted, legislation to fund a Montana-made solution to Medicaid Expansion under the provisions of the Affordable Care Act (ACA). Montana's expansion model will contract with a third party administrator to manage and secure a healthcare network to provide health services to eligible Montana citizens. Medicaid expansion in Montana was approved by the Centers for Medicare and Medicaid Services and was implemented effective January 1, 2016. Federal funding will finance the majority of the expansion effort for the entirety of the 2017 biennium.

2. Governor Bullock proposed, and the 2015 Legislature funded, a 2% rate increase per year for most private and community-based providers of health care and corrections-based services on behalf of the State of Montana.

3. Governor Bullock negotiated with the Montana University System, and the Montana Legislature passed, funding to secure a tuition freeze for Montana resident students attending institutions of higher education in Montana. Additionally, the Montana University System received a one-time-only appropriation of $15 million to serve as funds to leverage university-based research into strategic investments for Montana's economy.

4. The 2015 Legislature passed Senate Bill (SB) 157, which changes the reappraisal of class 3 and class 4 property from a six-year reappraisal cycle to a two-year reappraisal cycle.

5. The Governor proposed, and the 2015 Legislature passed SB 262, which ratifies water rights between the state and the Confederated Salish and Kootenai Tribes of the Flathead Reservation. If ratified by the US Congress, the State contribution is estimated to be $55 million, payable over several fiscal years.

6. The Governor proposed, and the 2015 Legislature funded, a one-time-only appropriation for a sage grouse conservation fund at $10 million for the 2017 biennium that was a major consideration in preventing listing on the endangered species list.

7. The 2017 biennium present law 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, 2016, the Sheriffs' Retirement System (SRS), the Game Warden & Peace Officers' Retirement System (GWPORS), and the Public Employees' Retirement System-Defined Contribution Retirement Plan Disability Other Post Employment Benefit (PERS-DCRP Disability) plans were not in compliance and do not amortize. The unfunded liabilities in the other state retirement systems amortize in less than 30 years as of fiscal year-end 2016.

The actuarial condition of these retirement plans is disclosed 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.

This page intentionally left blank.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION
JUNE 30, 2016
(amounts expressed in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Cash/cash equivalents (Note 3)	$ 1,304,031	$ 377,056	$ 1,681,087	$ 446,175
Receivables (net) (Note 4)	381,959	43,095	425,054	219,269
Due from primary government	-	-	-	1,799
Due from other governments	316,775	161	316,936	24,255
Due from component units	2,286	2,117	4,403	283
Internal balances	845	(845)	-	-
Inventories	27,947	5,254	33,201	5,444
Advances to component units	16,839	14,701	31,540	-
Long-term loans/notes receivable	449,413	41,283	490,696	483,309
Equity in pooled investments (Note 3)	2,286,572	3,074	2,289,646	48,635
Investments (Note 3)	302,033	33,876	335,909	2,002,824
Securities lending collateral (Note 3)	39,212	3,947	43,159	29,520
Net pension asset (Note 6)	33,961	-	33,961	-
Other assets	10,513	1,621	12,134	87,877
Depreciable capital assets and infrastructure, net (Note 5)	3,895,959	8,180	3,904,139	698,282
Land and nondepreciable capital assets (Note 5)	1,857,662	8,183	1,865,845	149,018
Total assets	10,926,007	541,703	11,467,710	4,196,690
DEFERRED OUTFLOWS OF RESOURCES (Note 4)	201,784	1,481	203,265	50,171
LIABILITIES				
Accounts payable (Note 4)	612,686	24,364	637,050	120,245
Lottery prizes payable	-	3,539	3,539	-
Due to primary government	-	-	-	4,403
Due to other governments	22,516	81	22,597	30
Due to component units	1,799	-	1,799	283
Due to pension trust funds	31,131	-	31,131	-
Advances from primary government	-	-	-	31,540
Unearned revenue	37,742	2,347	40,089	101,484
Amounts held in custody for others	34,533	53	34,586	12,597
Securities lending liability (Note 3)	39,212	3,947	43,159	29,520
Other liabilities	3,750	-	3,750	22,835
Short-term debt (Note 11)	-	97,340	97,340	-
Long-term liabilities (Note 11):				
Due within one year	154,387	13,932	168,319	189,470
Due in more than one year	496,817	9,107	505,924	1,646,269
Net pension liability (Note 6)	1,558,463	10,750	1,569,213	178,700
OPEB implicit rate subsidy (Note 7)	262,741	4,651	267,392	114,894
Total liabilities	3,255,777	170,111	3,425,888	2,452,270
DEFERRED INFLOWS OF RESOURCES (Note 4)	144,983	1,100	146,083	15,610

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET POSITION				
Net investment in capital assets	$ 5,616,889	$ 15,760	$ 5,632,649	$ 569,638
Restricted for:				
General government	5,253	-	5,253	-
Transportation	14,568	-	14,568	-
Natural resources	472,921	-	472,921	-
Public safety	235,102	-	235,102	-
Education	8,996	-	8,996	-
Funds held as permanent investments:				
Nonexpendable	1,550,039	-	1,550,039	339,213
Expendable	603,790	-	603,790	-
Unemployment compensation	-	298,177	298,177	-
Montana Board of Housing	-	-	-	153,868
Other purposes	-	49,641	49,641	224,782
Unrestricted	(780,527)	8,395	(772,132)	491,480
Total net position	$ 7,727,031	$ 371,973	$ 8,099,004	$ 1,778,981

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

		PROGRAM REVENUES			
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE
Primary government:					
Governmental activities:					
General government	$ 696,984	$ 145,725	$ 148,232	$ 332	$ (402,695)
Public safety	420,532	160,783	27,607	14	(232,128)
Transportation	464,092	30,321	54,099	430,314	50,642
Health and human services	2,174,506	42,376	1,531,458	-	(600,672)
Education	1,324,299	30,205	182,438	441	(1,111,215)
Natural resources	295,332	168,269	149,983	25,487	48,407
Interest on long-term debt	9,373	-	-	-	(9,373)
Total governmental activities	5,385,118	577,679	2,093,817	456,588	(2,257,034)
Business-type activities:					
Unemployment Insurance	119,088	121,740	13,529	-	16,181
Liquor Stores	81,556	93,958	-	-	12,402
State Lottery	47,202	59,717	10	-	12,525
Economic Development Bonds	1,198	34	1,194	-	30
Hail Insurance	817	1,103	7	-	293
Other Service	71,343	25,342	41,079	857	(4,065)
Prison Funds	9,099	8,499	-	-	(600)
MUS[1] Group Insurance	87,535	83,136	608	-	(3,791)
MUS[1] Workers Compensation	2,430	4,264	138	-	1,972
Total business-type activities	420,268	397,793	56,565	857	34,947
Total primary government	$ 5,805,386	$ 975,472	$ 2,150,382	$ 457,445	$ (2,222,087)
Component units:					
Montana Board of Housing	$ 22,858	$ 983	$ 24,010	$ -	$ 2,135
Facility Finance Authority	392	610	55	-	273
Montana State Fund	124,110	88,495	-	-	(35,615)
Montana State University	542,254	255,376	209,616	4,710	(72,552)
University of Montana	438,684	184,052	139,625	20,855	(94,152)
Total component units	$ 1,128,298	$ 529,516	$ 373,306	$ 25,565	$ (199,911)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Changes in net position:				
Net (expense) revenue	$ (2,257,034)	$ 34,947	$ (2,222,087)	$ (199,911)
General revenues:				
Taxes:				
Property	276,367	-	276,367	-
Fuel	225,419	-	225,419	-
Natural resource	163,707	-	163,707	-
Individual income	1,173,281	-	1,173,281	-
Corporate income	117,758	-	117,758	-
Other (Note 1)	361,901	27,078	388,979	-
Unrestricted grants and contributions	15,321	1,852	17,173	81
Settlements	29,379	-	29,379	-
Unrestricted investment earnings	92,404	17	92,421	11,281
Transfers from primary government	-	-	-	239,305
Gain (loss) on sale of capital assets	3,014	318	3,332	86
Miscellaneous	6,598	514	7,112	934
Contributions to term and permanent endowments	-	-	-	22,981
Transfers between primary government	49,813	(49,813)	-	-
Total general revenues, contributions, and transfers	2,514,962	(20,034)	2,494,928	274,668
Change in net position	257,928	14,913	272,841	74,757
Total net position - July 1 - as previously reported	7,454,518	356,276	7,810,794	1,704,224
Adjustments to beginning net position (Note 2)	14,585	784	15,369	-
Total net position - July 1 - as adjusted	7,469,103	357,060	7,826,163	1,704,224
Total net position - June 30	$ 7,727,031	$ 371,973	$ 8,099,004	$ 1,778,981

[1] Montana University System

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

This page intentionally left blank.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

General Fund

This fund is the principal operating fund of the State. It accounts for all governmental financial resources, except for those required to be accounted for in another fund.

State Special Revenue Fund

This fund accounts for all activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

Federal Special Revenue Fund

This fund accounts for activities funded from federal sources used in the operation of state government.

Coal Severance Tax Fund

This fund, created by Article IX, Section 5, of the Montana Constitution and administered by the Department of Revenue, receives 50% of all coal tax collections. The principal can be expended only upon affirmative vote by three-fourths of each house of the Legislature.

Land Grant Fund

This fund is used by the Department of Natural Resources and Conservation to account for lands granted to the State for support of public schools and state institutions.

Nonmajor Funds

Nonmajor governmental funds are presented in more detail, by fund type, within the Supplementary Information section.

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016
(amounts expressed in thousands)

	GENERAL	SPECIAL REVENUE STATE	SPECIAL REVENUE FEDERAL
ASSETS			
Cash/cash equivalents (Note 3)	$ 322,388	$ 669,394	$ 68,728
Receivables (net)	244,519	82,009	31,784
Interfund loans receivable (Note 12)	86,668	65,655	-
Due from other governments	12,038	619	304,107
Due from other funds (Note 12)	21,304	9,151	48
Due from component units	32	1,014	80
Inventories	3,319	21,066	-
Equity in pooled investments (Note 3)	-	367,106	-
Long-term loans/notes receivable	2	421,575	5,162
Advances to other funds (Note 12)	639	25,264	-
Advances to component units	-	8,935	-
Investments (Note 3)	15,602	99,558	3,881
Securities lending collateral (Note 3)	-	15,007	231
Other assets	2,211	6,279	278
Total assets	708,722	1,792,632	414,299
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable	251,763	119,400	215,833
Interfund loans payable (Note 12)	-	10,854	139,601
Due to other governments	77	20,536	1,902
Due to other funds (Note 12)	96	9,866	381
Due to component units	31,375	290	1,267
Advances from other funds (Note 12)	-	11,940	19,483
Unearned revenue	3,789	32,440	6,321
Amounts held in custody for others	20,728	13,644	15
Securities lending liability (Note 3)	-	15,007	231
Other liabilities	1	537	-
Total liabilities	307,829	234,514	385,034
DEFERRED INFLOWS OF RESOURCES	129,583	4,103	20,307
Fund balances (Note 14):			
Nonspendable	4,499	22,069	190
Restricted	-	990,300	8,768
Committed	-	539,843	-
Assigned	140,333	1,803	-
Unassigned	126,478	-	-
Total fund balances	271,310	1,554,015	8,958
Total liabilities, deferred inflows of resources, and fund balances	$ 708,722	$ 1,792,632	$ 414,299

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

PERMANENT COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
$ 63,300	$ 6,322	$ 83,098	$ 1,213,230
11,999	1,797	6,711	378,819
1,207	-	-	153,530
-	-	-	316,764
5	-	1,966	32,474
100	-	1,060	2,286
-	-	-	24,385
877,047	702,476	339,944	2,286,573
-	-	22,670	449,409
1,375	-	10,578	37,856
7,905	-	-	16,840
139,311	-	5,821	264,173
10,625	8,310	4,211	38,384
-	-	27	8,795
1,112,874	718,905	476,086	5,223,518
-	-	4,478	591,474
1,581	-	293	152,329
-	-	-	22,515
63	-	846	11,252
-	-	-	32,932
-	-	12,051	43,474
-	-	-	42,550
-	144	-	34,531
10,625	8,310	4,211	38,384
-	-	-	538
12,269	8,454	21,879	969,979
-	-	435	154,428
527,020	710,451	310,745	1,574,974
-	-	31,830	1,030,898
573,585	-	104,146	1,217,574
-	-	7,051	149,187
-	-	-	126,478
1,100,605	710,451	453,772	4,099,111
$ 1,112,874	$ 718,905	$ 476,086	$ 5,223,518

RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2016
(amounts expressed in thousands)

	Governmental Funds Total	(A) Internal Service Fund	(B) Capital Asset Related	(C) Long-term Liability Related	(D) Other Measurement Focus	(E) Internal Balances Related	Statement of Net Position Total
ASSETS							
Cash and cash equivalent	$ 1,213,230	$ 90,801	$ -	$ -	$ -	$ -	$ 1,304,031
Receivables	378,817	3,011	-	-	131	-	381,960
Interfund loans receivable	153,531	-	-	-	-	(153,531)	-
Due from other governments	316,763	12	-	-	-		316,775
Due from other funds	32,472	51	-	-	-	(32,523)	-
Due from component units	2,286	-	-	-	-		2,286
Inventories	24,385	3,563	-	-	-		27,947
Internal balances	-	-	-	-	-	845	845
Equity in pooled investments	2,286,572	-	-	-	-		2,286,572
Securities lending collateral	38,384	828	-	-	-		39,212
Advances to other funds	37,856	80	-	-	-	(37,936)	-
Advances to component units	16,839	-	-	-	-	-	16,839
Investments	264,173	37,859	-	-	-	-	302,033
Depreciable capital assets and infrastructure, net	-	93,054	3,802,904	-	-	-	3,895,958
Land and nondepreciable capital assets	-	11,422	1,846,240	-	-	-	1,857,662
Long-term loans/notes receivable	449,413	-	-	-	-	-	449,413
Net pension asset	-	-	-	-	33,961	-	33,961
Other assets	8,795	1,718	-	-	-	-	10,513
Total assets	$ 5,223,516	$ 242,399	$ 5,649,144	$ -	$ 34,092	$ (223,145)	$ 10,926,007
DEFERRED OUTFLOWS OF RESOURCES	-	5,159	-	196,625	-	-	201,784
LIABILITIES							
Current liabilities:							
Accounts payable	591,474	17,669	-	-	3,543	-	612,686
Interfund loans payable	152,330	-	-	-		(152,330)	-
Due to other government	22,516	-	-	-	-		22,516
Due to other funds	11,250	1,397	-	-	579	(13,226)	-
Due to component units	32,931	-	-	-	-	(31,131)	1,800
Due to pension trust funds	-	-	-	-	-	31,131	31,131
Advances from other funds	43,474	5,265	-	-	8,850	(57,589)	-
Unearned revenue	42,549	1,678	-	-	(6,485)		37,743
Amounts held in custody for others	34,532	1	-	-	-	-	34,533
Securities lending liability	38,384	828	-	-	-	-	39,212
Other current liabilities	538	-	-	-	3,215	-	3,753
Long-term liabilities:							
Due within one year	-	28,159	-	126,228	-	-	154,387
Due in more than one year	-	17,718	-	479,098	-	-	496,816
Net pension liability	-	45,411	-	1,513,051	-	-	1,558,462
OPEB implicit rate subsidy	-	14,794	-	247,948	-	-	262,742
Total liabilities	$ 969,978	$ 132,920	$ -	$ 2,366,325	$ 9,702	$ (223,145)	$ 3,255,781
DEFERRED INFLOWS OF RESOURCES	154,428	4,108	-	(13,365)	(189)	-	144,982
NET POSITION:							
Net investment in capital assets	-	95,446	5,649,144	(127,702)	-	-	5,616,889
Restricted for:							
General government	6,338	-	-	(2,512)	1,426	-	5,253
Transportation	41,892	-	-	(27,129)	(195)	-	14,568
Health and human services	21,373	-	-	(7,330)	(14,042)	-	-
Natural resources	710,010	-	-	(255,334)	18,245	-	472,921
Public safety	236,139	-	-	(24,593)	23,556	-	235,102
Education	15,146	-	-	(2,312)	(3,838)	-	8,996
Funds held as permanent investments:							
Nonexpendable	1,548,689	-	-	-	1,350	-	1,550,039
Expendable	-	-	-	-	603,790	-	603,790
Unrestricted	1,519,524	15,086	-	(1,709,426)	(605,712)	-	(780,527)
Total net position	$ 4,099,111	$ 110,532	$ 5,649,144	$ (2,156,338)	$ 24,580	$ -	$ 7,727,031

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

Differences between the Balance Sheet-Governmental Funds and the Statement of Net Position Governmental Activities

(A) Internal Services Fund: Management uses Internal Services funds (ISF) to report the charges for goods and services sold both by and to state agencies, as well as the related costs of providing these goods and services. Since the sales are made primarily to Governmental Funds, the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and the net position of the ISF are included in the Governmental Activities on Statement of Net Position.

(B) Capital Asset Related: Capital assets used in governmental activities are not financial resources, and therefore, they are not reported on the Balance Sheet–Governmental Funds. However, capital assets are economic resources and are reported on the Statement of Net Position.

(C) Long-term Liability Related, examples: Net pension liability, OPEB implicit rate subsidy, bonds, notes, leases, mortgages, and certificate of participation (including accrued interest) are not due and payable in the current period; therefore, they are not reported on the Balance Sheet–Governmental Funds. From an economic perspective however, these liabilities reduce net position and are reported on the Statement of Net Position. The portion reported as current in the reconciliation is payable within the following fiscal year.

(D) Other Measurement Focus, examples: Long-term assets and long-term taxes receivable are not available to pay for current period expenditures; therefore, the related revenue is reported as unavailable revenue within the deferred inflows of resources on the Balance Sheet-Governmental Funds. From an economic perspective, this revenue is earned and available and the related unavailable revenue is removed from the Statement of Net Position when the revenue is recognized on the Statement of Activities.

(E) Internal Balances Related: Interfund activities such as interfund loan receivable/payables, due from/due to and advances to/from other fund balances shown on the Balance Sheet–Governmental Funds are reported as internal balances on the Statement of Net Position. In order to minimize the “grossing up” effect on assets and liabilities within the same government, balances in these accounts are eliminated from the Statement of Net Position.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

		SPECIAL REVENUE	
	GENERAL	**STATE**	**FEDERAL**
REVENUES (Note 14)			
Licenses/permits	$ 125,357	$ 194,999	$ -
Taxes:			
Natural resource	65,218	60,004	-
Individual income	1,170,799	-	-
Corporate income	119,539	-	-
Property	258,864	17,503	-
Fuel	-	225,841	-
Other	229,026	130,695	-
Charges for services/fines/forfeits/settlements	38,370	98,501	35,521
Investment earnings	5,703	31,117	340
Securities lending income	32	149	3
Sale of documents/merchandise/property	360	6,428	19
Rentals/leases/royalties	43	1,199	-
Contributions/premiums	1,736	24,880	-
Grants/contracts/donations	7,388	23,832	8
Federal	16,126	5,916	2,282,352
Federal indirect cost recoveries	216	43,898	69,042
Other revenues	1,102	3,946	921
Total revenues	2,039,879	868,908	2,388,206
EXPENDITURES			
Current:			
General government	343,252	180,692	98,097
Public safety	316,079	91,725	11,259
Transportation	-	220,925	99,009
Health and human services	485,714	167,489	1,523,553
Education	1,036,830	81,902	207,098
Natural resources	35,008	205,248	62,474
Debt service:			
Principal retirement	48	616	21
Interest/fiscal charges	193	695	6
Capital outlay	9,085	62,803	364,304
Securities lending	16	54	1
Total expenditures	2,226,225	1,012,149	2,365,822
Excess of revenue over (under) expenditures	(186,346)	(143,241)	22,384
OTHER FINANCING SOURCES (USES)			
Inception of lease/installment contract	97	256	15
Insurance proceeds	-	106	-
General capital asset sale proceeds	130	670	18
Refunding bond issued	-	22,540	-
Payment to refunding bond escrow agent	-	(25,557)	-
Bond premium	-	3,256	-
Energy conservation loans	-	677	-
Transfers in (Note 12)	78,554	178,032	5,173
Transfers out (Note 12)	(91,208)	(33,991)	(30,032)
Total other financing sources (uses)	(12,427)	145,989	(24,826)
Net change in fund balances	(198,773)	2,748	(2,442)
Fund balances - July 1 - as previously reported	471,334	1,550,395	11,174
Adjustments to beginning fund balances (Note 2)	(446)	(686)	226
Fund balances - July 1 - as adjusted	470,888	1,549,709	11,400
Increase (decrease) in inventories	(805)	1,558	-
Fund balances - June 30	$ 271,310	$ 1,554,015	$ 8,958

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

PERMANENT			
COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
$ -	$ 1,526	$ -	$ 321,882
29,304	-	8,432	162,958
-	-	-	1,170,799
-	-	-	119,539
-	-	-	276,367
-	-	-	225,841
-	-	1,799	361,520
-	-	12,721	185,113
60,407	44,845	29,567	171,979
223	176	82	665
-	9,210	3,946	19,963
-	59,501	-	60,743
-	-	-	26,616
-	9	-	31,237
-	-	-	2,304,394
-	-	-	113,156
-	2	-	5,971
89,934	115,269	56,547	5,558,743
-	-	2,116	624,157
-	-	750	419,813
-	-	-	319,934
-	-	1,145	2,177,901
-	-	99	1,325,929
-	3,741	-	306,471
-	-	38,946	39,631
-	-	9,613	10,507
-	2,990	38,808	477,990
68	54	25	218
68	6,785	91,502	5,702,551
89,866	108,484	(34,955)	(143,808)
-	-	-	368
-	-	-	106
-	2,603	9	3,430
-	-	-	22,540
-	-	-	(25,557)
-	-	-	3,256
-	-	-	677
9	6	61,474	323,248
(24,105)	(68,372)	(26,498)	(274,206)
(24,096)	(65,763)	34,985	53,862
65,770	42,721	30	(89,946)
1,034,853	667,730	451,994	4,187,480
(18)	-	1,748	824
1,034,835	667,730	453,742	4,188,304
-	-	-	753
$ 1,100,605	$ 710,451	$ 453,772	$ 4,099,111

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	Governmental Funds Total	(A) Internal Service Fund	(B) Capital Asset Related	(C) Long-term Liability Related	(D) Other Measurement Focus	Statement of Activities Total
REVENUES						
License/permits	$ 321,882	$ -	$ -	$ -	$ 55	$ 321,937
Taxes:						
Natural resource	162,959	-	-	-	748	163,707
Individual income	1,170,799	-	-	-	2,482	1,173,281
Corporate income	119,539	-	-	-	(1,781)	117,758
Property	276,367	-	-	-	-	276,367
Fuel	225,841	-	-	-	(422)	225,419
Other	361,520	-	-	-	379	361,899
Charges for services/fines/forfeits/settlements	185,112	-	-	-	(7,417)	177,695
Investment earnings	171,980	903	-	-	(80,479)	92,404
Securities lending income	666	-	-	-	(666)	-
Sale of documents/merchandise/property	19,963	-	-	-	-	19,963
Rentals/leases/royalties	60,743	-	-	-	-	60,743
Contributions/premiums	26,615	-	-	-	1	26,616
Insurance proceeds	106	-	-	-	-	106
Gain (loss) on sale of capital assets	-	-	3,014	-	-	3,014
Operating grants and donations	31,236	1,128	-	-	103,062	135,426
Federal	2,304,394	-	-	-	(443,839)	1,860,555
Federal indirect cost recoveries	113,157	-	-	-	-	113,157
Capital grants and contributions	-	-	-	-	456,588	456,588
Other revenues	5,969	-	-	-	627	6,596
Total revenues	5,558,848	2,031	3,014	-	29,338	5,593,231
EXPENDITURES						
Current	5,174,203	(16,004)	194,975	-	22,572	5,375,746
Debt service:						
Principal	39,631	-	-	(39,631)	-	-
Interest/fiscal charges	10,507	194	-	(1,328)	-	9,373
Capital outlay	477,991	-	(477,991)	-	-	-
Securities lending	219	-	-	-	(219)	-
Total expenditures	5,702,551	(15,810)	(283,016)	(40,959)	22,353	5,385,119
Excess of revenue over (under) expenditures	(143,703)	17,841	286,030	40,959	6,985	208,112
OTHER FINANCING SOURCES (USES)						
Inception of lease/installment contract	367	-	-	(367)	-	-
General capital asset sale proceeds	3,430	(82)	(3,348)	-	-	-
Refunding bonds issued	22,540	-	-	(22,540)	-	-
Payment to refunding bond escrow agent	(25,557)	-	-	25,557	-	-
Bond premium	3,256	-	-	(3,256)	-	-
Energy conservation loans	677	-	-	(677)	-	-
Transfers	49,043	1,570	(801)	-	-	49,812
Total other financing sources (uses)	53,756	1,488	(4,149)	(1,283)	-	49,812
Net change in net position	$ (89,947)	$ 19,329	$ 281,881	$ 39,676	$ 6,985	$ 257,924

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 the Statement of Activities Governmental Activities

(A) Internal Service Fund: Management uses the Internal Services funds (ISF) to report charges for goods and services sold both by and to state agencies, as well as the related costs of providing these goods and services. ISF are intended to operate on the cost reimbursement basis and should break even each period. Since the revenue is primarily the cost of services purchased from ISF, operating net revenue/expense of each ISF is allocated to the programs that purchased the services. Nonoperating revenue/expense, such as gain/loss of sale of capital assets, capital contributions, and transfers of the ISF are not allocated to the programs, but are reported as general revenues.

(B) Capital Asset Related, reconciling examples:

- Capital assets, received as donations, are not reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances–Governmental Funds as they are not current financial resources. However, such donations increase net position and are reported on both the Statement of Net Position and Statement of Activities.
- Depreciation is not reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds, but it is reported for the economic perspective on which the Statement of Activities is presented.
- Expenditures reported for capital outlay on the 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 Statement of Net Position. They are not reported as expenses on the Statement of Activities.
- On the 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 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 Liability Related, reconciling examples:

- Payments on principal and debt refunding payments are reported as expenditures and other financing uses, respectively, on the 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 Statement of Net Position and are not reported on the Statement of Activities.
- Amortization of debt premium/discount and gain/loss on refunding debts are not reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds, but are reported on the Statement of Activities.
- Lease proceeds, issuance of debt, and debt refunding proceeds are reported as other financing sources at the 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 Statement of Net Position and are not reported on the Statement of Activities.

(D) Other Measurement Focus, reconciling examples:

- Long-term taxes receivable and certain other long-term assets are offset by unavailable revenue and are not part of fund balance on the Balance Sheet-Governmental Funds; however, from a full accrual perspective, changes in the unavailable revenue balances result in adjustments to revenue that are recognized and reported on the Statement of Activities.
- Expenditures that primarily benefit the present period are classified as current expenditures. On the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds, capital outlays are included as part of the current expenditures for each functional activity within that fund.

This page intentionally left blank.

PROPRIETARY FUND FINANCIAL STATEMENTS

Unemployment Insurance

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.

Economic Development Bonds

The Economic Development Bonds Fund accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana's small businesses, local governments, and state agencies in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Nonmajor Funds

Enterprise funds are used to account for operations that provide goods or services to the general public in a manner similar to private business enterprises. These funds are presented in more detail within the Supplementary Information section.

Governmental Activities – Internal Service Funds

Internal Service funds are used to account for operations that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. These funds are presented in more detail within the Supplementary Information section.

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	$ 296,165	$ 13,887	$ 67,004	$ 377,056	$ 90,801
Receivables (net)	3,680	11,160	28,255	43,095	3,011
Interfund loans receivable (Note 12)	-	-	6	6	-
Due from other governments	33	-	128	161	12
Due from other funds (Note 12)	-	2,425	-	2,425	52
Due from component units	-	2,117	-	2,117	-
Inventories	-	-	5,254	5,254	3,563
Short-term investments (Note 3)	-	4,407	-	4,407	-
Securities lending collateral (Note 3)	-	-	3,947	3,947	828
Other current assets	-	-	143	143	1,718
Total current assets	299,878	33,996	104,737	438,611	99,985
Noncurrent assets:					
Advances to other funds (Note 12)	-	10,883	-	10,883	80
Advances to component units	-	14,701	-	14,701	-
Long-term investments (Note 3)	-	4,993	27,550	32,543	37,859
Long-term notes/loans receivable	1,412	39,778	93	41,283	-
Other long-term assets	-	-	1,478	1,478	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	3,830	3,830	95
Buildings/improvements	-	-	7,594	7,594	4,398
Equipment	-	4	9,534	9,538	227,272
Infrastructure	-	-	1,170	1,170	-
Construction work in progress	-	-	3,090	3,090	11,186
Intangible assets	-	-	316	316	2,227
Other capital assets	-	-	4,293	4,293	-
Less accumulated depreciation	-	(2)	(14,266)	(14,268)	(140,938)
Total capital assets	-	2	16,361	16,363	104,476
Total noncurrent assets	1,412	70,357	45,482	117,251	142,415
Total assets	301,290	104,353	150,219	555,862	242,400
DEFERRED OUTFLOWS OF RESOURCES	-	36	1,445	1,481	5,159

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
LIABILITIES					
Current liabilities:					
Accounts payable	$ 3,113	$ 191	$ 21,060	$ 24,364	$ 17,668
Lottery prizes payable	-	-	2,522	2,522	-
Interfund loans payable (Note 12)	-	1,207	-	1,207	-
Due to other governments	-	-	81	81	-
Due to other funds (Note 12)	-	1	12,871	12,872	1,397
Unearned revenue	-	-	2,347	2,347	1,678
Lease/installment purchase payable (Note 10)	-	-	186	186	801
Short-term debt (Note 11)	-	97,340	-	97,340	-
Bonds/notes payable - net (Note 11)	-	-	-	-	1,270
Amounts held in custody for others	-	-	53	53	1
Securities lending liability (Note 3)	-	-	3,947	3,947	828
Estimated insurance claims (Note 8)	-	-	12,776	12,776	22,213
Compensated absences payable (Note 11)	-	35	935	970	3,874
Total current liabilities	3,113	98,774	56,778	158,665	49,730
Noncurrent liabilities:					
Lottery prizes payable	-	-	1,017	1,017	-
Advances from other funds (Note 12)	-	-	80	80	5,265
Lease/installment purchase payable (Note 10)	-	-	414	414	1,572
Bonds/notes payable - net (Note 11)	-	-	-	-	1,799
Estimated insurance claims (Note 8)	-	-	7,571	7,571	11,104
Compensated absences payable (Note 11)	-	25	1,080	1,105	3,244
Arbitrage rebate tax payable (Note 11)	-	17	-	17	-
Net pension liability (Note 6)	-	292	10,458	10,750	45,411
OPEB implicit rate subsidy (Note 7)	-	79	4,572	4,651	14,794
Total noncurrent liabilities	-	413	25,192	25,605	83,189
Total liabilities	3,113	99,187	81,970	184,270	132,919
DEFERRED INFLOWS OF RESOURCES	-	25	1,075	1,100	4,108
NET POSITION					
Net investment in capital assets	-	2	15,758	15,760	95,446
Restricted for:					
Unemployment compensation	298,177	-	-	298,177	-
Other purposes	-	1,051	48,590	49,641	-
Unrestricted	-	4,124	4,271	8,395	15,086
Total net position	$ 298,177	$ 5,177	$ 68,619	$ 371,973	$ 110,532

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, 2016
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
Operating revenues:					
Charges for services	$ 40	$ 34	$ 173,103	$ 173,177	$ 151,727
Investment earnings	6,813	109	807	7,729	898
Securities lending income	-	-	13	13	8
Financing income	-	1,085	-	1,085	-
Contributions/premiums	121,701	-	102,395	224,096	178,448
Grants/contracts/donations	6,716	-	42,633	49,349	1,425
Other operating revenues	-	-	1,035	1,035	3,256
Total operating revenues	135,270	1,228	319,986	456,484	335,762
Operating expenses:					
Personal services	-	365	16,655	17,020	58,266
Contractual services	-	32	22,489	22,521	35,967
Supplies/materials	-	9	82,947	82,956	22,824
Benefits/claims	118,715	37	135,088	253,840	151,881
Depreciation	-	1	986	987	10,762
Amortization	-	-	102	102	1,074
Utilities/rent	-	49	1,363	1,412	8,421
Communications	-	6	1,303	1,309	13,157
Travel	-	4	342	346	547
Repairs/maintenance	-	-	932	932	15,254
Grants	-	-	-	-	345
Lottery prize payments	-	-	33,678	33,678	-
Securities lending expense	-	-	5	5	4
Arbitrage rebate tax	-	17	-	17	-
Interest expense	-	620	42	662	194
Other operating expenses	373	58	2,755	3,186	9,655
Total operating expenses	119,088	1,198	298,687	418,973	328,351
Operating income (loss)	16,182	30	21,299	37,511	7,411
Nonoperating revenues (expenses):					
Tax revenues	-	-	27,078	27,078	-
Non-employer pension revenue	-	7	249	256	1,128
Insurance proceeds	-	-	-	-	316
Gain (loss) on sale of capital assets	-	-	(66)	(66)	(82)
Federal indirect cost recoveries	-	-	-	-	8,985
Increase (decrease) value of livestock	-	-	(911)	(911)	-
Total nonoperating revenues (expenses)	-	7	26,350	26,357	10,347
Income (loss) before contributions and transfers	16,182	37	47,649	63,868	17,758
Capital contributions	-	-	1,858	1,858	1,259
Transfers in (Note 12)	-	-	645	645	2,072
Transfers out (Note 12)	-	-	(51,458)	(51,458)	(1,760)
Change in net position	16,182	37	(1,306)	14,913	19,329
Total net position - July 1 - as previously reported	282,274	5,140	68,862	356,276	91,096
Adjustments to beginning net position (Note 2)	(279)	-	1,063	784	107
Total net position - July 1 - as adjusted	281,995	5,140	69,925	357,060	91,203
Total net position - June 30	$ 298,177	$ 5,177	$ 68,619	$ 371,973	$ 110,532

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

This page intentionally left blank.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -
	UNEMPLOYMENT INSURANCE	**ECONOMIC DEVELOPMENT BONDS**	**NONMAJOR**	**TOTAL**	**INTERNAL SERVICE FUNDS**
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt from sales and service	$ 122,639	$ 34	$ 274,555	$ 397,228	$ 329,741
Payments to suppliers for goods and services	(868)	(156)	(107,268)	(108,292)	(93,205)
Payments to employees	-	(392)	(17,436)	(17,828)	(62,331)
Grant receipts (expenses)	6,759	-	42,622	49,381	1,075
Cash payments for claims	(118,282)	-	(132,353)	(250,635)	(147,927)
Cash payments for prizes	-	-	(33,421)	(33,421)	-
Other operating revenues	-	7	1,035	1,042	12,264
Other operating payments	(373)	-	(2,755)	(3,128)	(9,679)
Net cash provided by (used for) operating activities	9,875	(507)	24,979	34,347	29,938
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	27,079	27,079	-
Transfer to other funds	(279)	-	(51,458)	(51,737)	(1,763)
Transfer from other funds	-	-	645	645	2,074
Proceeds from interfund loans/advances	-	1,207	-	1,207	1,608
Payment of interfund loans and advances	-	-	(86)	(86)	(133)
Proceeds from bonds and notes	-	-	-	-	2,007
Payment of principal and interest on bonds and notes	-	(9,638)	(42)	(9,680)	(134)
Proceeds from nonemployer pension contributions	-	-	249	249	1,128
Net cash provided by (used for) noncapital financing activities	(279)	(8,431)	(23,613)	(32,323)	4,787
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	316
Acquisition of capital assets	-	-	(1,948)	(1,948)	(18,113)
Proceeds from sale of capital assets	-	-	828	828	331
Net cash provided by (used for) capital and related financing activities	-	-	(1,120)	(1,120)	(17,466)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of investments	-	(10,404)	916	(9,488)	(1,347)
Proceeds (loss) on sales or maturities of investments	-	9,273	-	9,273	-
Proceeds (loss) from securities lending transactions/investments	-	-	13	13	8
Interest and dividends on investments	6,813	98	807	7,718	898
Payment of securities lending costs	-	-	(5)	(5)	(4)
Collections of principal and interest on loans	-	33,056	-	33,056	-
Cash payment for loans	-	(30,063)	-	(30,063)	-
Net cash provided by (used for) investing activities	6,813	1,960	1,731	10,504	(445)
Net increase (decrease) in cash and cash equivalents	16,409	(6,978)	1,977	11,408	16,814
Cash and cash equivalents, July 1	279,756	20,865	65,027	365,648	73,987
Cash and cash equivalents, June 30	$ 296,165	$ 13,887	$ 67,004	$ 377,056	$ 90,801

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	$ 16,182	$ 30	$ 21,299	$ 37,511	$ 7,411
Adjustments to reconcile operating income to net cash provided for (used for) operating activities:					
Depreciation	-	1	986	987	10,762
Amortization	-	-	102	102	1,074
Securities lending expense	-	-	5	5	4
Investment earnings	(6,813)	(109)	(807)	(7,729)	(898)
Securities lending income	-	-	(13)	(13)	(8)
Financing income	-	(1,085)	-	(1,085)	-
Interest expense	-	621	42	663	194
Other revenue	-	7	-	7	8,983
Arbitrage rebate tax	-	16	-	16	-
Change in assets, deferred outflow, liabilities and deferred inflows:					
Decr (Incr) in accounts receivable	1,331	-	(1,287)	44	61
Decr (Incr) in due from other funds	-	-	-	-	(14)
Decr (Incr) in due from other governments	43	-	(11)	32	(4)
Decr (Incr) in inventories	-	-	625	625	(886)
Decr (Incr) in other assets	-	-	219	219	(480)
Incr (Decr) in accounts payable	(868)	1	9,394	8,527	2,585
Incr (Decr) in due to other funds	-	1	(1,550)	(1,549)	231
Incr (Decr) in due to other governments	-	-	(4)	(4)	-
Incr (Decr) in lottery prizes payable	-	-	257	257	-
Incr (Decr) in unearned revenue	-	-	432	432	(188)
Incr (Decr) in amounts held in custody for others	-	-	(6,248)	(6,248)	(2)
Incr (Decr) in compensated absences payable	-	3	206	209	312
Incr (Decr) in OPEB implicit rate subsidy	-	10	473	483	1,553
Incr (Decr) in estimated claims	-	-	1,282	1,282	(1,665)
Incr (Decr) in other payables	-	3	(235)	(232)	1,932
Incr (Decr) in pension liability, deferred outflow and deferred inflows of resources	-	(6)	(188)	(194)	(1,019)
Net cash provided by (used for) operating activities	$ 9,875	$ (507)	$ 24,979	$ 34,347	$ 29,938
Schedule of noncash transactions:					
Capital asset acquisitions from contributed capital	-	-	1,858	1,858	1,259
Incr (Decr) in fair value of investments	-	(26)	(121)	(147)	(123)
Total noncash transactions	$ -	$ (26)	$ 1,737	$ 1,711	$ 1,136

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

This page intentionally left blank.

FIDUCIARY FUND FINANCIAL STATEMENTS

Pension (and Other Employee Benefit) Trust Funds
These funds provide retirement, disability, death, and lump-sum payments to retirement system members.

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.

Investment Trust Fund
This fund accounts for the receipt of monies by the Montana Board of Investments for investment in external investment pools, and the distribution of related investment earnings to local government agencies.

Agency Funds
Agency funds are used to account for assets held by the State as an agent for individuals, private organizations, and other governments.

Individual funds are presented in more detail, by fund type, within the Supplementary Information section.

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016
(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)	$ 302,578	$ 114,257	$ 889,759	$ 11,372
Receivables (net):				
Accounts receivable	24,541	-	-	582
Interest	13,629	10	439	-
Due from primary government	31,131	-	-	-
Due from other PERB plans	1,215	-	-	-
Long-term loans/notes receivable	30	-	-	-
Total receivables	70,546	10	439	582
Investments at fair value:				
Equity in pooled investments (Note 3)	9,725,030	-	13,147	-
Other investments (Note 3)	609,934	138,421	-	-
Total investments	10,334,964	138,421	13,147	-
Securities lending collateral (Note 3)	278,736	91	3,905	1
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	186	-	-	-
Equipment	301	-	-	-
Construction work in progress	6,141	-	-	-
Accumulated depreciation	(387)	-	-	-
Total capital assets	6,276	-	-	-
Other assets	-	38,488	-	262
Total assets	10,993,100	291,267	907,250	12,217
DEFERRED OUTFLOWS OF RESOURCES	131	-	-	-
LIABILITIES				
Accounts payable	1,004	30	405	464
Due to other PERB plans	1,214	-	-	-
Unearned revenue	357	-	-	-
Amounts held in custody for others	-	-	-	11,752
Securities lending liability (Note 3)	278,736	91	3,905	1
Compensated absences payable	684	-	-	-
Net pension liability (Note 6)	1,202	-	-	-
OPEB implicit rate subsidy (Note 7)	1,002	-	-	-
Total liabilities	284,199	121	4,310	12,217
DEFERRED INFLOWS OF RESOURCES	113	-	-	-
NET POSITION				
Held in trust for pension benefits and other purposes	$ 10,708,919	$ 291,146	$ 902,940	$ -

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, 2016
(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE-PURPOSE TRUST FUNDS	INVESTMENT TRUSTS
ADDITIONS			
Contributions/premiums:			
Employer	$ 234,055	$ -	$ -
Employee	225,680	-	-
Other contributions	105,033	16,214	1,164,534
Net investment earnings:			
Investment earnings	269,745	223	3,466
Administrative investment expense	(61,477)	-	(235)
Securities lending income	2,904	-	14
Securities lending expense	(919)	-	(5)
Charges for services	195	-	-
Other additions	1,064	6,229	-
Total additions	776,280	22,666	1,167,774
DEDUCTIONS			
Benefits	773,381	-	-
Refunds	19,438	-	-
Distributions	-	40,843	839,299
Administrative expenses:			
Personal services	5,156	-	-
Contractual services	3,730	817	-
Supplies/materials	194	-	-
Depreciation	32	-	-
Utilities/rent	392	-	-
Communications	241	-	-
Travel	71	-	-
Repair/maintenance	38	-	-
Other operating expenses	268	-	-
Local assistance	12	-	-
Transfers to MUS-RP	130	-	-
Transfers to PERS-DCRP	1,105	-	-
Total deductions	804,188	41,660	839,299
Change in net position	(27,908)	(18,994)	328,475
Net position - July 1 - as previously reported	10,736,827	310,140	574,465
Net position - June 30	$ 10,708,919	$ 291,146	$ 902,940

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).

A. Reporting Entity

For financial reporting purposes, the State includes funds that comprise the primary government and its component units. The component units are entities that the State is financially accountable for, 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. This criteria includes 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 condensed financial statements, presented in Note18, include the financial data of the entities listed below.

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

Montana Board of Housing
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 (MBOH) – MBOH, 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 MBOH 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. MBOH is attached to the State of Montana, Department of Commerce for administrative purposes only. The MBOH is audited annually by the State's Legislative Audit Division.

Facilities Finance Authority (FFA) – FFA, 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 FFA assists eligible, nonprofit 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 FFA 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. The FFA is attached to the State of Montana, Department of Commerce for administrative purposes only. Individual financial reports are issued every two years and are audited by the State's Legislative Audit Division.

Montana State Fund (MSF) – MSF is a nonprofit, independent public corporation established under Section 39-71 of the Montana Code Annotated (MCA). MSF provides Montana employers with an option for workers' compensation and occupational disease insurance and guarantees available coverage for all employers in Montana. MSF is governed by a seven member Board of Directors appointed by the Governor. This Board has full power, authority, and jurisdiction in the administration of MSF. MSF is attached to the State of Montana, Department of Administration for administrative purposes only. MSF is reported on a calendar year basis and is audited annually by the State's Legislative Audit Division.

MSF functions as an autonomous insurance entity supported solely from its own revenues. All assets, debts, and obligations of MSF are separate and distinct from assets, debts, and obligations of the State of Montana. If MSF is dissolved by an act of law, the assets held by MSF are subject to the disposition provided by the Legislature enacting the dissolution with due regard given to obligations incurred and existing (Section 39-71-2322, MCA).

MSF handles the administration of the claims of Montana State Fund and State of Montana (Old Fund) including: determining who a claimant is; what, if any, claims will be paid; and the amount of claims allowed to be paid. Old Fund covers workers' compensation claims that were incurred before July 1, 1990, and is reported within the governmental activities of the primary government, on the government-wide financial statements.

Universities and Colleges – The State Board of Regents has responsibility for the following institutions: 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; and University of Montana - Missoula and the units under it including Montana Tech of the University of Montana, University of Montana - Western and Helena College University of Montana. 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 Montana University System, 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 nonprofit corporation; and (3) the Student Assistance Foundation of Montana, a private nonprofit 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 Board
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 benefit recipients of Montana's public teaching profession. The plan is funded from employer and employee contributions, investment earnings, and the State's General Fund. The benefit payments and administrative costs of the Teachers' Retirement System are paid from the same funding sources. The system is audited annually by the State's Legislative Audit Division. Further detail related to the Teachers Retirement System is provided in Note 6.

Public Employees' Retirement Board (Pension and Other Employee Benefit Trust Funds) – The Public Employees' Retirement Board (PERB) is appointed by the Governor and administers eleven separate 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) retirement plans. The board also administers an Other Post Employment Benefit (OPEB) disability plan on behalf of Public Employees' Retirement Plan-Defined Contribution members.

The PERB is responsible for the eleven separate public employee plans, including the Deferred Compensation Program and 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. Further detail related to the PERB is provided in Note 6 and its OPEB plan information can be found in Note 7.

B. Government-wide and Fund Financial Statements

The government-wide financial statements, Statement of Net Position and 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 impact 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. The State does not allocate indirect expenses to functions in the Statement of Activities.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements. Fiduciary fund statements are reported only 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 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 report only assets and liabilities, recognizing receivables and payables using the accrual basis of accounting.

As a general rule, material interfund revenues and expenses 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.

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, 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 accounts funded from state resources are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Several funds are defined in statute as Permanent Funds, however per GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54), these funds should be reported within the State Special Revenue Fund. The respective effect on fund balance is approximately a $84 million increase. One specific fund is defined in statute as a Federal Special Revenue Fund, however per GASB 54, this fund should be reported within the State Special Revenue Fund. The respective effect on fund balance is approximately a $18 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 that 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
Fiduciary Funds are used 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 – To account for 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 and other post employment benefit plan. Plan members receive retirement, disability, death, and lump-sum payments from the fund. Further detail related to the individual plans is provided in Note 6 and Note 7.

Private-Purpose Trust Funds –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 – To account for the receipt of monies and the distribution of related investment earnings to local government agencies by the Montana Board of Investments for investment in the Short-term Investment Pool (STIP) and Trust Fund Investment Pool (TFIP).

Agency Funds – To 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 Severance Tax 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 (EDBA) programs and the Municipal Finance Consolidation Act (MFCA) programs. The EDBA programs provide qualifying Montana businesses access to tax-exempt funds through the issuance of conduit (no-commitment) debt. The MFCA programs provide low cost funds to eligible Montana governments to finance capital expenditures. Separately issued 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. Further detail related 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 reported at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method generally to 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 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 the Unemployment Insurance Fund is also classified as restricted.

I. Equity in Pooled Investments

To account for the custody of monies by the Montana Board of Investment for the investment in five internal investment pools and one external investment pool. The internal investment pools are the Retirement Funds Bond Pool (RFBP), Montana Domestic Equity Pool (MDEP), Montana International Pool (MTIP), Montana Private Equity Pool (MPEP) and Montana Real Estate Pool (MTRP). The external investment pool is the Trust Fund Investment Pool (TFIP). Current state agency participation in the pools is within the enterprise funds, 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 state's nine retirement funds can only participate in RFBP, MDEP, MTIP, MPEP and MTRP. Other state agencies and qualifying local governments can participate in the TFIP. The participant investments in the pools are reported at fair value in the assets within the individual funds. Further detail related to Cash and 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 on the Statement of Net Position. Further detail related to Investments is provided in Note 3.

K. Capital Assets

Capital asset valuation is based on actual historical cost or, in the case of donations, acquisition value. General government infrastructure capital assets are capitalized and reported on 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 on the Statement of Net Position and depreciation expense on the Statement of Activities for these assets. Further detail related to 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 or amortized. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 10 to 50 years for infrastructure, 7 to 20 years for building improvements and 3 to 10 years for equipment. 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. Amortization is on a straight-line basis with estimated useful lives of 4 years for software (internally and externally generated), 30 years for land use rights, and 20 years for other intangibles.

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. Deferred outflows and inflows of resources may include financial transactions related to refunding debt, non-exchange transactions, derivative investment, and pension related components and are reported on both the government-wide and proprietary fund financial statements. Additionally, deferred inflows of resources may include financial transactions related to unavailable revenue on the governmental fund financial statements. Unavailable revenue is reported when assets are recognized, but those assets are not considered available to pay liabilities of the current period. Unearned revenue is recognized as a liability on government-wide, governmental and proprietary fund financial statements. Further detail related to Deferred Outflows of Resources and Deferred Inflows of Resources is provided in Note 4.

M. Long-term Obligations

Long-term obligations expected to be financed from governmental funds are reported on 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 on the fund financial statements. The remaining portion of such obligations is reported on 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, respectively.

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, on 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. On the governmental fund financial statements no asset or liability is recorded related to assets under capital leases. Rather, on the governmental fund financial statements, at the inception of a capital lease, capital outlay expenditures and other financing sources (inception of lease/installment contract) are recorded at the net present value of the minimum lease payments. Further detail related to 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 period they are incurred. Bond proceeds and bond premiums are reported as an other financing source, and bond discounts are reported as an other 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. The adjusted ending balance of the pool for June 30, 2015, was 21,497 hours. For fiscal year 2016, 648 sick leave hours, 357 annual leave hours, and 2,666 excess annual leave hours were contributed to the sick leave pool, and 3,635 hours were withdrawn, leaving a balance of 21,533 hours in the pool. The liability associated with the pool is not 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 on 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 related to Compensated Absences is provided in Note 11.

Q. 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 intact 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 constraints can be removed or changed by a similar legislative 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 they 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, for the fiscal year ending June 30, 2016, the General Fund balance will be spent down by $130.0 million when comparing the fiscal year 2016 actual to fiscal year 2017 enacted/proposed budget. This represents management’s intention to fund supplemental and other one-time-only expenditures.

Unassigned fund balance is the residual classification for the 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 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 commingled 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: Section 17-7-140, MCA, defines minimum ending fund balance and specifies the procedures that must be followed to make expenditure reductions if a projected ending fund balance drops below minimum statutory requirements.

If the Budget Director determines that a deficit exists, statute requires reductions that must be made to assure that the projected ending fund balance is in compliance with the minimum ending fund balance of General Fund appropriations for the biennium. Under circumstances when a deficit of this level is projected during a biennium, the Governor may direct reductions from any General Fund expenditure not exempted by Section 17-7-140, MCA, including House Bill (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 one-third 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 represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. 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, 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 $3.2 billion.

R. Property Taxes

Real property taxes are normally levied in October and are usually 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. Property tax payments are recognized as deferred inflows of resources if received prior to levy or availability.

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

S. Other Taxes

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

	General Fund	State Special Revenue	Other Governmental Funds	Business-Type Funds	Total
Accommodations	$ 21,592	$ 27,927	$ -	$ 18	$ 49,537
Agriculture sales	-	7,297	-	-	7,297
Cigarette/tobacco	37,427	47,175	1,798	-	86,400
Contractors gross receipts	2,397	-	-	-	2,397
Energy tax	7,930	-	-	-	7,930
Fire protection	-	3,682	-	-	3,682
Insurance premium	69,223	29,369	-	-	98,592
Liquor tax	5,405	2,177	-	27,060	34,642
Livestock	-	4,524	-	-	4,524
Other taxes	7,583	5,859	-	-	13,442
Public service commission	-	2,917	-	-	2,917
Telephone license	17,059	-	-	-	17,059
Video gaming	60,554	6	-	-	60,560
Total other taxes	$229,170	$130,933	$1,798	$27,078	$388,979

NOTE 2. OTHER ACCOUNTING CHANGES

A. New Accounting Guidance Implemented

For the year ended June 30, 2016, the State of Montana implemented the provisions of GASB Statement No. 72, Fair Value Measurement and Application (GASB 72). This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

For the year ended June 30, 2016, the State of Montana implemented portions of the provisions of GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (GASB 73). The Statement has two different implementation dates. The State is in compliance with the portion of the Statement associated with an effective date for fiscal years beginning after June 30, 2015. The Statement includes clarifying amendments to Statements 67 and 68 that apply to all employers and non-employer contributing entities.

For the year ended June 30, 2016, the State of Montana implemented the provisions of GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (GASB 76). The Statement prioritizes guidance governments follow when preparing GAAP financial statements. The Statement reduces authoritative GAAP hierarchy from four categories to two and lists order of priority for pronouncements to which a government should look for guidance.

B. Other Accounting Changes

The 2015 legislature passed Senate Bill (SB) 123, which changed the regulatory oversight of Montana State Fund (MSF) effective January 1, 2016. MSF was issued a Certificate of Authority, became an authorized insurer regulated by the Montana Commission of Securities and Insurance, and is subject to the provisions of Title 33, Montana Insurance Code. With the approval of SB 123, MSF's reporting period changed from a June 30 fiscal year-end to a calendar year-end. This report, for the year ended June 30, 2016, includes a 6-month financial reporting period for MSF. Further detail related to MSF is provided in Note 18.

The proposal for GASB Statement No. 79, Certain External Investment Pools and Pool Participants, required BOI to elect between accounting for STIP assets in one of the two allowable methods: either to continue to account for securities within the STIP pool at an amortized cost basis or change to a fair value basis. In October 2015, BOI decided that for financial reporting purposes, the STIP portfolio would be measured on a fair value basis, following the guidance of GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, and GASB 72. Further detail related to STIP is provided in Note 3.

C. Adjustments to Beginning Net Position

For the year ended June 30, 2016, there were no material adjustments to beginning net position.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

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

Cash/cash equivalents	$ 3,418,574
Equity in pooled investments	$ 12,076,439
Investments	$ 3,135,544

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

Outside of statutory requirements, the State does not maintain a statewide risk policy for cash/cash equivalents or investments, held outside of the Montana Board of Investments (BOI). The investment risk policy for State cash/cash equivalents and investments, including the Economic Development Bonds (EDB) deposits and investments managed by BOI, have been detailed below.

(1) **BOI** was created by the Legislature to manage the Unified Investment Program established by the State Constitution. The Unified Investment Program is comprised of State funds, including pensions, trusts, insurance, and cash. Local government entities can, by statute, only voluntarily invest in the Short Term Investment Pool (STIP). With a qualifying event, local government entities may also, by statute, invest in the long-term investment portion of the program. BOI manages the Unified 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 nine of the retirement funds and the Montana State Fund (Workers' Compensation) may invest in public corporate capital 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 Unified Investment Program, 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 state participants are shown in the following table as of June 30, 2016:

Pool/Investments Managed Name	Creation Date	Eligible Participants
Retirement Funds Bond Pool (RFBP)	04/01/95	Nine Retirement Funds Only
Trust Funds Investment Pool (TFIP)	10/01/95	Various State Trust Funds
Montana Domestic Equity Pool (MDEP)	07/01/80	Nine Retirement Funds Only
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

During fiscal year 2016, the MDEP small trusts were moved into either the TFIP or the STIP.

Separately issued 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

BOI's financial statements include the activity for Montana State Fund (MSF) within AOF on a June 30, 2016, basis. MSF, a discretely presented component of the State, by statute, prepared separately issued financial statements on a calendar year-end basis. Due to the difference in reporting period, there will be a variance between the note disclosures and the financial statements for cash/cash equivalents, equity in pooled investments, and investments.

(a) 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 pool that is managed to preserve principal while providing 24-hour liquidity. 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.

STIP investments and the income are owned by the participants and are managed on their behalf by BOI. STIP is presented at fair value. 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 are a variable rate security.

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.

(b) 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 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. All investment portfolios presented in the Statement of Net Asset Value are at "fair" value.
BOI categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as follows:

Level 1 – Quoted prices for identical assets or liabilities in active markets.
Level 2 – Prices determined using inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.
Level 3 – Prices are determined using unobservable inputs.

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

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

MPEP 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 less liquid than other types of investments 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 represent 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 2 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 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. On any day, including June 30, the markets may move in a positive or negative direction resulting in under or over collateralization. The Bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. 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 2016, 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 2016. 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 2016 resulting from a borrower default. As of June 30, 2016, RFBP securities in the amount of $4 million were recalled and not yet returned.

During fiscal year 2016, 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 two investment funds: Quality D Short Term Investment Fund and the Securities Lending Quality Trust. Each is comprised of a liquidity pool. Pension funds participate in the Quality D Short Term Investment Fund and non-pension entities participate in the Security Lending Quality Trust. Security lending income offset the entire amount of the loss within each investment fund. 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 fiscal year-end 2016, State Street Bank indemnified BOI's credit risk exposure to borrowers. The private equity and real estate pools do not participate in securities lending.

Average Duration and Average Weighted Final Maturity

	Quality D ST Investment Fund	Security Lending Quality Trust
Liquidity Pool		
Average Duration	43 days	32 days
Average Weighted Final Maturity	83 days	92 days

(c) 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. In regard to BOI, with the exception of US Government securities, the Pools' fixed income instruments have credit risk as measured by major credit rating services. For all retirement Pools, only approved cash investment vehicles are permitted. These include the custodian's STIF vehicle, STIP, or any SEC-registered money market fund, all of which specifically address credit risk in their respective investment guidelines. BOI's policy requires TFIP fixed income investments to be invested in investment grade securities (Baa3/BBB- or higher) with the exception of non-rated securities issued or guaranteed by agencies or instrumentalities of the US Government. BOI's STIP investment policy specifies that STIP securities have a minimum of two separate credit ratings as provided by Standard and Poor's, Moody's, or Fitch that meet the minimum as stated in the STIP investment policy depending on the type of investment.

The US Government guarantees US Government securities directly or indirectly. 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 per GASB Statement No. 40.

Of the 18 individual Investment Policy Statements for the funds categorized as the AOF, 16 funds have specific policies associated with credit risk. The remaining two funds are not required to have a policy addressing credit risk, as they do not have exposure to debt securities. One fund requires corporate securities be rated A3/A- or higher by NRSRO 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 NRSRO. This fund's investment policy 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 US Agency is limited to 5% and in no event will an agency security be purchased if it carries a rating that is less than top-rated (AAA) at the time of purchase." Two funds require "fixed income securities must be rated at least A- or A3 at the time of purchase." A portion of one fund's portfolio may have modest credit risk while the remainder has a low tolerance for credit risk. Two funds assume some risk of loss of principal to provide a return sufficient to fund objectives. Four funds may assume low risk of principal loss.

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

Per policy, BOI's custodial institution must hold short-term and long-term credit ratings by at least one NRSRO with a minimum requirement of A1/P1 (short-term) and A3/A-1 (long-term).

Cash

Custodial risk for cash is the risk that, in the event of the failure of the custodial institution, the cash or collateral securities may not be recovered from an outside party. For any cash balances held as deposits of the custodial bank or sub-custodial bank, they are held in the name of BOI or its accounts. As of June 30, 2016, BOI recorded cash of $9.7 million.

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, 2016, 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.

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. 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 Portfolios 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 to 3% in any issuer with the exception of US Treasury and US Agency securities, as well as any repurchase agreements with a financial institution. Concentration risk was within the policy as set by BOI.

AOF

With the exception of nine 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." One fund's corporate risk is limited to investing 3% in any one name. 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, 2016.

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, 2016, 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), sovereign debt 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 No. 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 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, Collateralized Mortgage Obligation, and Adjustable Rate Mortgage securities)." Per policy, the TFIP and CIBP's duration are 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. MDEP domestic equity managers are allowed to maintain up to 5% of assets in short-term investments and index domestic equity managers are allowed to maintain up to 3% of assets in short-term investments and individual securities. MTIP international equity managers are allowed to maintain up to 5% of assets in short-term investments. With the exception of three funds, the AOFs' investment policies do not formally address interest rate risk. One fund limits securities to 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 have 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. 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); and
3. STIP will maintain a reserve account."

The fixed coupon holdings in the Bond Pools and AOF accounts pay a fixed rate of interest until maturity while floating rate securities pay a variable rate of interest until maturity. As of June 30, 2016, these three portfolios and the STIP portfolio held certain variable rate issues. Interest payments on these securities are based on an underlying reference rate, e.g., LIBOR.

RFBP, TFIP, and AOF investments are categorized to disclose credit and interest rate risk as of June 30, 2016. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using weighted 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. The Standard & Poor (S&P) rating service provides the credit ratings presented in the later tables. If an S&P rating is not available, a NRSRO rating is used.

STIP investments are categorized to disclose credit risk and weighted average maturity (WAM) as of June 30, 2016. 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.

<u>Legal and Credit Risk</u>

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 $140 million 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 S&P and Aaa by Moody's. Since June 30, 2008, and through June 30, 2010, these issues carried a D rating by S&P. On November 20, 2007, Axon Financial Funding declared an insolvency event. 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 determined it to be in the best interest of the STIP to hold these securities in the investment portfolio. In May 2016, BOI wrote-off the entire outstanding SIV balance of $23.6 million against the STIP reserve. Any further flows of either principal or interest will be deemed as recovery monies and be applied to the STIP reserve. From May 31, 2016 until June 30, 2016, $4.4 million was recorded as recovery monies and applied to the STIP reserve.

Axon Financial Funding payments totaled $27.5 million from November 2008 to October 2011. On July 6, 2010, Axon Financial Funding foreclosed with the issuance of a promissory note for $66.8 million from AFF Financing LLC with a July 5, 2011, maturity date. BOI, with the majority of other holders, elected on June 3, 2015 to extend the AFF Financing LLC promissory note maturity date to July 2, 2016. Similar one-year extensions have been granted since 2011. 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. Fiscal year 2016 payments through May 30, 2016 from AFF Financing LLC totaled $3.2 million consisting of $3.1 million in principal and $71 thousand in interest. As of June 30, 2016, the AFF Financing LLC, classified as an Other Asset-Backed security, had no outstanding amortized cost balances. 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 $13.4 million and interest compensation of $1.8 million in excess of the $904 thousand accrued interest receivable for a total of $16.1 million. 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. 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. From December 2010 through May 31, 2016, BOI received principal and interest payments of $17.0 million and $2.9 million, respectively. As of June 30, 2016, the Orion Finance collective holding, classified as Other Asset-Backed, had no outstanding amortized cost balance. 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, BOI sold a $5 million position in Lehman Brothers Holdings, Inc., variable rate security, held by the RFBP internally managed bond portfolio. This holding, written down to $1 million, was sold at a loss of $313 thousand. As of June 30, 2011, the book value of the remaining bonds represented 20% of par. 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 thousand.

For the remaining $10 million variable rate position in Lehman Brothers Holdings, Inc. held in the TFIP and AOF portfolios, BOI applied $519 thousand in principal from the October 2013 bankruptcy payment resulting in a book value of $1 each as of June 30, 2014. These positions were sold in June 2016 for $765 thousand. Because these bonds were previously written down to $1, this sale generated a gain of $765 thousand. For fiscal year ending June 30, 2016, BOI recorded a $238 thousand dollar October 2015 payment and a $68 thousand March 2016 payment to gain.

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

<u>Derivative Instruments</u>
A credit default swap is a contract to transfer credit exposure of fixed income products between parties. 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 are 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.

<u>Counterparty Credit Risk</u>
Counterparty credit risk is the risk that the counterparty will not fulfill its obligations.

STIP Reserve
In November 2007, the STIP reserve account was established. The STIP reserve account may be used to offset losses within the STIP portfolio. STIP distributes income to STIP participants based on accrued interest and discount amortization, net of fees and STIP reserve expense. The STIP reserve expense is detailed as follows:

STIP Reserve Expense
(in thousands)

Other income	
Accrued interest received on SIV related assets (7/1/2015 – 5/31/2016)	$ 535
Recovery from sale of SIV related assets	4,097
Recovery from SIV related assets (6/1/2016 – 6/30/2016)	320
Realized gains on sale of any STIP asset	257
Daily reserve accrual	2,928
Total reserve expense	$ 8,137
SIV write off	(23,585)
Change in STIP Reserve	$ (15,448)

In May 2016, BOI wrote-off the entire outstanding SIV balance of $23.6 million against the STIP reserve. Any further flows of either principal or interest will be deemed as recovery monies and be applied to the STIP reserve. The STIP reserve balance was $13.1 million as of June 30, 2016.

(2) The EDB deposits and investments are restricted by the bond trust indentures to the following: government and agency obligations, certificates of deposits, repurchase agreements, and investment agreements. Deposits and investments must be made with Montana banks or in the STIP administered by BOI.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The EDB's US government direct-backed securities, consisting of US Treasury notes and bills, are guaranteed directly 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 per GASB Statement No. 40. The credit ratings are provided by the S&P rating service. If an S&P rating is not available, a Nationally Recognized Securities Rating Organization (NRSRO) rating is used. The EDB does not have a formal investment policy addressing credit risk for Permitted Investments as provided in the Indenture or investment in the STIP. Permitted Investments, as described in the Indenture, include "either (i) long term obligations of such bank, trust company or association are rated in one of the three highest investment category of the Standard & Poor's Corporation or Moody's Investor Service Inc., which investment category shall not be less than the prevailing rate on the Bonds or (ii) the deposits are continuously secured as to principal, but only to the extent not insured by the Bank Insurance Fund or the Savings Association Insurance Fund, or any successor to either, of the Federal Deposit Insurance Corporation (FDIC)." BOI's STIP investment policy specifies that STIP securities have a minimum of two credit ratings as provided by Standard and Poor's, Moody's, or Fitch that meet the minimum as stated in the STIP policy depending on the type of investment.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, BOI will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Cash – Custodial risk for cash is the risk that, in the event of the failure of the custodial financial institution, the cash or collateral securities may not be recovered from an outside party. The securities used as collateral are held by US Bank's Trust Department in the name of BOI.

Investments - As of June 30, 2016, EDB securities were recorded in book entry form in the name of US Bank National Association as Trustee for BOI by specific account. The EDB does not have a policy addressing custodial credit risk for deposits and investments, specifically, uninsured, collateralized deposits.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of any single investment per issuer name. The EDB investments directly issued or explicitly guaranteed by the US government and investments in mutual funds are excluded from the concentration of credit risk requirement. The STIP Investment Policy limits concentration of credit risk by limiting portfolio investment types to 3% in any issuer with the exception of US Treasury and US Agency securities as well as any repurchase agreements with a financial institution. As of June 30, 2016, STIP concentration risk was within the policy as set by BOI.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The EDB does not have a formal investment policy addressing interest risk for Permitted Investments as provided in the Indenture or the cash equivalent investment in the STIP. The EDB's Bond Indenture does not address interest rate risk. In accordance with GASB Statement No. 40, BOI has selected the effective duration method to disclose 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. 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); and
3. STIP will maintain a reserve account."

The EDB investments are categorized to disclose credit and interest rate risk as of June 30, 2016. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using weighted effective duration as calculated by BOI. 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. Both the credit quality ratings and duration have been calculated excluding cash equivalents with credit ratings of NR or NA duration calculations. There were no derivative transactions during the 2016 fiscal year for investments held by the trustee.

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	$109,412
Uninsured and uncollateralized cash	7,316
Undeposited cash	627
Cash in US Treasury	296,156
Cash in MSU component units	8,503
Cash in UM component units	13,854
Less: outstanding warrants	(33,622)
	$402,246

As of June 30, 2016, the carrying amount of deposits for component units was $224.4 million 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 BOI or other agencies, as allowed by law. Beginning with the period of June 30, 2016, the STIP portfolio is shown at fair value.

Table 2 - Cash Equivalents
(in thousands)

	Fair Value	Credit Quality Rating	WAM in Days
Asset backed commercial paper	$ 786,486	A1	22
Corporate commercial paper	262,021	A1	82
Corporate – variable	467,046	A1	45
Certificate of deposit – fixed	25,004	A1	15
Certificate of deposit – variable	500,023	A1	47
US government agency fixed	311,621	A1+	75
US government agency variable	263,901	A1+	16
Money market fund unrated	157,268	NR	1
Money market fund rated	189,003	A1+	1
US Bank repurchase agreement (1)	7,830	NR	0
State Street Bank repurchase agreement (1)	5,079	AA-	0
Treasuries	75,122	A1+	133
US government direct obligations	60,189	0	NA
Less: STIP included in pooled investment balance	(94,265)	NR	NA
Total cash equivalents (3)	$3,016,328		41
Securities lending collateral investment pool (2)	$ 11,844	NR	32

(1) As of June 30, 2016, the US Bank sweep repurchase agreement was collateralized at 102% for $8.0 million by a Federal Loan Mortgage Corporation Gold securities maturing November 1, 2024 and July 1, 2024. The security carries an AA+ credit quality rating. At June 30, 2016, The State Street Bank Repurchase Agreement was collateralized at 102% for $5.2 million by a US Treasury security maturing October 31, 2017. This security carries AA+ quality rating.

(2) As of June 30, 2016, the fair value of the cash equivalents was $12.6 million. Collateral provided for the cash equivalents totaled $11.8 million in cash. See also the Table 4 disclosed in Note 3 D – Investments.

(3) As of June 30, 2016, local governments had invested $889.8 million and component units of the State of Montana had invested $464.3 million in STIP.

C. Equity in Pooled Investments

These securities consist of investments held by BOI in 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
RFBP:		
Retirement Funds Bond Pool	$ 2,279,159	$ 2,372,717
TFIP:		
Trust funds investment pool	2,161,265	2,344,489
MDEP:		
Private equity pool	2,527,530	3,778,004
MTIP:		
International equity pool	1,412,249	1,544,017
MPEP:		
Private equity pool	1,043,178	1,116,761
MTRP:		
Real estate pool	789,833	925,217
Total pooled investments	10,213,214	12,081,205
Pool adjustments (net)	(4,766)	(4,766)
Total equity in pooled investments	$10,208,448	$12,076,439

As of June 30, 2016, the fair value of the underlying securities on loan was $815.4 million. Collateral provided for the securities on loan totaled $834.2 million consisting of $305.0 million in cash and $529.2 million in securities.

As of June 30, 2016, component units of the State of Montana had equity in pooled investments with a book value of $5.0 billion and a fair value of $9.8 billion as included in Table 3.

As of June 30, 2016, local governments invested $13.1 million in TFIP.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2016, 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).

RFBP
Credit Quality Rating and Effective Duration as of June 30, 2016
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Treasuries	$ 540,362	AA+	8.20
Agency/Government Related	115,557	AA-	6.87
Asset Backed Securities	109,847	AAA	2.20
Mortgage Backed Securities	407,828	AA+	3.45
Commercial Mortgage Backed Securities	245,271	AA+	5.39
Financial – Corporate	268,301	BBB+	3.77
Industrial – Corporate	519,683	BBB	6.05
Utility – Corporate	47,020	BBB+	5.90
Short Term Investment Pool (STIP)	16,449	NR	0.11
State Street Short Term Investment Fund (STIF)	95,512	AAA	0.07
Other	131	NR	4.34
Total fixed-income investments	$ 2,365,961	AA-	5.38
Direct Investments			
Montana Mortgages	6,756	NR	NA
Preferred Stock (1)	-		
Common Stock (1)	-		
Total Direct Investments	$ 6,756		
Total Investments	$ 2,372,717		
Securities lending collateral investment pool	$ 83,090	NR	0.12

(1) Due to a May 2012 bankruptcy restructuring, the RFBP received 259 shares of common stock and 400 warrants for an investment. As of June 30, 2016 the RFBP still held the 400 warrants at a fair value of $0 with an expiration of May 17, 2017.

TFIP
Credit Quality Rating and Effective Duration as of June 30, 2016
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Treasuries	$ 503,524	AA+	7.57
Agency/Government Related	108,132	AA-	7.54
Asset Backed Securities	112,313	AAA	2.26
Mortgage Backed Securities	493,374	AA+	3.73
Commercial Mortgage Backed Securities	164,887	AAA	5.32
Financial – Corporate	213,578	A-	4.94
Industrial – Corporate	367,152	A-	6.67
Utility – Corporate	53,823	BBB+	6.07
Short Term Investment Pool (STIP)	48,310	NR	0.11
Core Real Estate	177,581	NR	NA
High Yield Bond Fund	101,815	B+	4.26
Total Investments	$2,344,489	AA-	5.39
Securities lending collateral investment pool	$ 27,613	NR	0.08

STIP
Credit Quality Rating and Weighted Average of Maturity as of June 30, 2016
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	WAM in Days
Treasuries	$ 75,122	A-1+	133
Asset Backed Securities	786,486	A-1	22
Corporate Commercial Paper	262,021	A-1	82
Corporate Variable Rate	467,046	A-1	45
Certificates of Deposit Fixed Rate	25,004	A-1	15
Certificates of Deposit Variable Rate	500,023	A-1	47
US Government Agency Fixed	241,350	A-1+	75
US Government Agency Variable Rate	263,901	A-1+	16
Money Market Funds (unrated)	13,143	NR	1
Money Market Funds (rated)	189,003	A-1+	1
Total Investments	$2,823,099	A-1	41
Securities lending collateral investment pool	$ 11,844	NR	32

State of Montana investments are measured at fair value and categorized within the fair value hierarchy established by GASB Statement No. 72 – Fair Value Measurement and Application, as defined below. Each of the investment pools has the following recurring fair value measurements as of June 30, 2016.

Level 1 – Quoted prices for identical assets or liabilities in active markets.
Level 2 – Prices determined using inputs, other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
Level 3 – Prices are determined using unobservable inputs.

RFBP Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2016	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Fixed income investments:				
Treasuries	$ 540,362	$540,362	$ -	$ -
Agency/Government Related	115,557	-	115,557	-
Asset Backed Securities	109,847	-	109,847	-
Mortgage Backed Securities	407,828	-	407,828	-
Commercial Mortgage Backed Securities	245,271	-	245,271	-
Financial-Corporate	268,301	-	268,301	-
Industrial-Corporate	519,683	-	519,683	-
Utility-Corporate	47,020	-	47,020	-
Total fixed income investments	$2,253,869	$540,362	$1,713,507	$ -
Direct investments				
Montana Mortgages	6,756	-	-	6,756
Investment derivative instruments				
Other		-	-	-
Credit default swaps	131	-	131	-
Total investments by fair value level	$2,260,756	$540,362	$1,713,638	$6,756
Investments measured at the net asset value (NAV)				
Short Term Investment Pool (STIP)	16,449			
Total investments at fair value	$2,277,205			
Investments measured at Cost				
State Street Short Term Investment Fund (STIF)	95,512			
Total investments managed	$2,372,717			

TFIP Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2016	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Fixed income investments:				
Treasuries	$ 503,524	$503,524	$ -	$ -
Agency/Government Related	108,132	-	108,132	-
Asset Backed Securities	112,313	-	112,313	-
Mortgage Backed Securities	493,374	-	493,374	-
Commercial Mortgage Backed Securities	164,887	-	164,887	-
Financial-Corporate	213,579	-	213,579	-
Industrial-Corporate	367,152	-	367,152	-
Utility-Corporate	53,822	-	53,822	-
Total fixed income investments	$2,016,783	$503,524	$1,513,259	$ -
Investments measured at the net asset value (NAV)				
Core Real Estate	177,581			
High Yield Bond Fund	101,815			
Short Term Investment Pool (STIP)	48,310			
Total investments measured at NAV	327,706			
Total investments at fair value	$2,344,489			

MDEP Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2016	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Equity Investments:				
Consumer discretionary	$ 213,111	$ 213,111	$ -	$ -
Consumer staples	95,760	95,760	-	-
Energy	84,519	84,519	-	-
Financials	223,297	223,297	-	-
Health care	185,821	185,821	-	-
Industrials	180,373	180,373	-	-
Information technology	288,559	288,559	-	-
Materials	81,730	81,730	-	-
Mutual Funds	71,946	71,946	-	-
Telecommunication services	29,197	29,197	-	-
Utilities	31,564	31,564	-	-
Venture Capital	1,568	1,568	-	-
Total equity investments by fair value level	$1,487,445	$ 1,487,445	$ -	$ -
Investments measured at the net asset value (NAV)				
Commingled equity index funds	2,154,363			
Total investments at fair value	$3,641,808			
Investments measured at Cost				
Cash equivalents	136,196			
Total investments managed	$3,778,004			

MTIP Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2016	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Equity investments:				
Consumer discretionary	$ 72,208	$ 72,208	$ -	$ -
Consumer Staples	53,079	53,079	-	-
Energy	30,226	30,226	-	-
Financials	92,321	92,321	-	-
Health care	44,139	44,139	-	-
Industrials	61,048	61,048	-	-
Information technology	61,111	61,111	-	-
Materials	20,465	20,465	-	-
Mutual funds	78,087	78,087	-	-
Telecommunication services	14,114	14,114	-	-
Utilities	5,240	5,240	-	-
Total equity investments by fair value	$ 532,038	$532,038	$ -	$ -
Investments measured at the net asset value (NAV)				
Commingled equity index funds	973,032			
Total investments at fair value	$1,505,070			
Investments measured at Cost				
Cash equivalents	38,947			
Total investments managed	$1,544,017			

MPEP Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2016	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments measured at the net asset value (NAV)				
Private equity-private equity partnerships	$1,055,015			
Total investments measured at NAV	1,055,015			
Total investments at fair value	$1,055,015			
Investments measured at Cost				
State Street Short Term Investment Fund (STIF)	61,746			
Total investments measured at cost	61,746			
Total investments managed	$1,116,761			

MTRP Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2016	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Direct Real Estate	$ 18,723	$ -	$ -	$18,723
Total Investments by fair value level	$ 18,723	-	-	$18,723
Investments measured at the net asset value (NAV)				
Core Real Estate	333,648			
Opportunistic	101,712			
Timber	103,849			
Value Added	337,779			
Short Term Investment Pool (STIP)	29,506			
	906,494			
Total investments managed	$925,217			

STIP Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2016	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Fixed income investments:				
Treasuries	$ 75,122	$75,122	$ -	$ -
Asset Backed Securities	786,486	-	786,486	-
Corporate Commercial Paper	262,021	-	262,021	-
Corporate Variable Rate	467,046	-	467,046	-
Certificates of Deposit Fixed Rate	25,004	-	25,004	-
Certificates of Deposit Variable Rate	500,023	-	500,023	-
US Government Agency Fixed	241,350	-	241,350	-
US Government Agency Variable Rate	263,901	-	263,901	-
Total investments by fair value level (1)	$2,620,953	$75,122	$2,545,831	$ -
Investments measured at cost				
Money Market Funds (Unrated)	13,143			
Money Market Funds (Rated)	189,003			
Total investments measured at cost	202,146			
Total investments by fair value level (1)	$2,823,099			

(1) STIP is reported in Table 2 – Cash Equivalents

RFBP, MDEP, MTIP, STIP and AOF - Fixed income investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Fixed income investments classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

RFBP – Montana Mortgages classified in Level 3 of the fair value hierarchy are present value adjusted.

MTRP – Direct real estate classified in Level 3 of the fair value hierarchy for the fiscal year ended June 30, 2016.

Pools and AOF – Investments measured at cost are included to account for all investments within each pool and AOF.

The investments measured at NAV for the year ended June 30, 2016 are detailed below.

	Investments Measured at NAV (in thousands)			
	Fair Value	Unfunded Commitments	Redemption Frequency (If currently Eligible)	Redemption Notice Period
RFBP				
Short Term Investment Pool	$ 16,449	$ -	Daily	1 day
TFIP				
Core Real Estate	177,581	-	Monthly, quarterly	45-90 days
High Yield Bond Fund	101,815	-	Monthly	30 days
Short Term Investment Pool	48,310	-	Daily	1 day
Total investments measured at NAV	$ 327,706	$ -		
MDEP				
Commingled equity index funds	$2,154,363	$ -	Daily	1 day
MTIP				
Commingled equity index funds	$ 973,032	$ -	Daily	1 day
MPEP				
Private equity – private equity partnerships	$1,055,015	$729,269		
MTRP				
Core Real Estate	333,648	-	Monthly, quarterly	45-90 days
Opportunistic	101,712	87,583		
Timber	103,849	45		
Value added	337,779	96,888		
Short Term Investment Pool	29,506	-	Daily	1 day
Total investments measured at NAV	$ 906,494	$184,516		
AOF				
Core Real Estate	90,312	-	Monthly, quarterly	45-90 days
Commingled equity index funds	156,693	-	Daily	1 day
Total investments measured at NAV	$ 247,005	$ -		

STIP – This investment program is managed and administered under the direction of BOI as authorized by the Unified Investment Program. It is a commingled pool for investment purposes and requested redemptions from the pool are redeemed the next business day. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the investment. For the fiscal year ended June 30, 2016, refer to the STIP Investments Measured at Fair Value table.

Commingled Equity Index Funds – This type consists of institutional investment funds that invest in domestic equities and funds that invest in international equities. The fair values of these investments use the NAV per share (or its equivalent) of the investments.

High Yield Bond Fund - This type consists of predominantly US corporate credits, whether in the form of bonds or loans that are rated below investment grade. These assets carry a higher risk of default than investment grade securities and accordingly provide a higher level of income or yield commensurate with that risk. The fair values of these investments use the NAV per share (or its equivalent) of the investments.

Core Real Estate - This type includes funds that invest primarily in core real estate, which makes equity investments in operating and substantially-leased institutional quality real estate in traditional property types (apartments, office, retail, industrial and hotel) via commingled funds. The primary investment objectives of these core real estate funds are to invest in real estate that will generate income from predictable sources of revenue and not to realize gains on the underlying assets. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. The fair values of these investments use the NAV per share (or its equivalent) of BOI's ownership interest in the partners' capital. Redemption of these investments is restricted based on the availability of cash flow arising from investment transactions, sales, and other fund operations occurring in the ordinary course of business. Therefore, requested redemptions from a fund will be redeemed as funds become available.

Value Added and Opportunistic - This type includes private partnership funds that primarily invest in value added and opportunistic real estate funds. These funds assume more risk than the core real estate funds in order to achieve a greater return on investment. Returns are driven both by current income and by expected capital appreciation. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the funds will be liquidated over 7 to 10 years. These investments can never be redeemed with the funds. The fair values of these investments use the NAV per share (or its equivalent) of BOI's ownership interest in the partners' capital.

Timber - This type includes private partnership funds that primarily invest in timber funds. The underlying assets of these types of funds are typically made of tree farms and managed forest. Returns come from biological growth, upward product class movement, and appreciation in timber and land prices. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the funds will be liquidated over 12 to 20 years. These investments can never be redeemed with the funds. The fair values of these investments use the NAV per share (or its equivalent) of BOI's ownership interest in the partners' capital.

Private Equity Partnerships - This type includes investments in limited partnerships. Generally speaking, the types of partnership strategies included in this portfolio: venture capital, growth equity, buyouts, special situations, mezzanine, and distressed debt. These investments and are considered illiquid. Redemptions are restricted over the life of the partnership. During the life of the partnerships, distributions are received as underlying partnership investments are realized. It is expected that the underlying assets of the funds will be liquidated over 10 years. It is probable all of the investments in this type will be sold at an amount different from the NAV per share (or its equivalent) of BOI's ownership interest in partners' capital.

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, 2016, classified by type, and the changes in the fair value of such derivative instruments for the year ended June 30, 2016, are as follows (in thousands):

	Change in Fair Value		Fair Value at June 30, 2016		
Investment Derivatives (1)	Classification	Amount	Classification	Fair Value Amount	Notional
Credit default swaps	Investment Revenue	$ 323	Swaps	$ 131	4,320
Currency forward contracts	Investment Revenue	309	LT debt/equity	-	-
Index futures long	Investment Revenue	205	Futures	-	2
Rights	Investment Revenue	50	Equity	19	27
Total Derivatives		$ 887		$ 150	

(1) A credit default swap is a contract to transfer credit exposure of fixed income products between parties. 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 are 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.

Counterparty credit risk is the risk that the counterparty will not fulfill its obligations. The table below depicts BOI's counterparty credit risk exposure to its investment derivatives and the applicable counterparty credit ratings and risk concentrations.

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, 2016	$ 131
Effect of collateral reducing maximum exposure	-
Liabilities subject to netting arrangements reducing exposure	-
Resulting net exposure	$ 131

Counterparty Name	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
Goldman Sachs Capital	100%	BBB+	A	A3
Deutsche Bank London	0%	NA	NA	NA
Westpac Banking Corp	0%	NA	NA	NA
JP Morgan Chase Bank	0%	NA	NA	NA
Royal Bank of Canada	0%	NA	NA	NA
Citibank N.A.	0%	NA	NA	NA
Royal Bank of Scotland	0%	NA	NA	NA

As of the June 30, 2016, exchange date, BOI's foreign currency exposure by forward contracts, deposits and investment type are reported, in US dollars, at fair value in the table below excluding the foreign investments denominated in US dollars for the American Depositary Receipts, sovereign debt and commingled index funds.

Foreign Currency Exposure by Country
(in thousands)

Foreign Currency Denomination	Currency	Fixed Income	Equities	Private Equity	Real Estate
Australian Dollar	$ -	$ -	$ 18,844	$ -	$ -
Brazilian Real	175	-	15,267	-	-
Canadian Dollar	237	-	28,352	-	-
Czech Karuna	4	-	-		
Danish Krone	21	-	9,264	-	-
EMU – Euro	57	-	80,373	25,528	6,617
Hong Kong Dollar	179	-	17,308	-	-
Hungarian Forint	1	-	-	-	-
Indonesian Rupiah	5	-	481	-	-
Israeli Shekel	-	-	602	-	-
Japanese Yen	206	-	70,423	-	-
Korean Fortnit	-	-	1,064	-	-
Malaysian Ringgit	29	-	2,747	-	-
New Zealand Dollar	2	-	-	-	-
New Israeli Sheqel	-	-	471	-	-
Norwegian Krone	17	-	3,761	-	-
Philippine Peso	11	-	2,457	-	-
Polish Zloty	-	-	1,637	-	-
Singapore Dollar	38	-	7,165	-	-
South African Rand	62	-	9,439	-	-
South Korean Won	48	-	11,240	-	-
Swedish Krona	1	-	21,151	-	-
Swiss Franc	93	-	19,371	-	-
New Taiwan Dollar	-	-	8,530	-	-
Thailand Baht	-	-	2,960	-	-
Turkish Lira	1	-	3,413	-	-
UK Pound Sterling	90	-	77,906	-	-
Total Cash and Securities	$1,277	$-	$414,226	$25,528	$6,617

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 BOI commitments to private equity and private real estate funds. For further details on the balances as of June 30, 2016, as shown below, please refer to BOI's separately issued external investment pool financial statements.

Commitments to Fund Managers
(in thousands)

	Original Commitment	Commitment Remaining	Carrying Value	Fair Value
MPEP Commitments	$ 2,300,722	$ 729,269	$ 930,826	$ 985,853
MTRP Commitments	681,118	184,516	308,391	327,754
Total	$ 2,981,840	$ 913,785	$ 1,239,217	$ 1,313,607

D. Investments

Article VIII of Montana's Constitution, with supporting statutes, authorizes BOI to manage the State's Unified Investment Program. Long-term investments are administered by the following agencies, as allowed by state law, Section 17-6-201, MCA:

Long-term Investments

Department	Percent Administered
Board of Investments	57.05%
Universities	15.00
MPERA (Montana Public Employee Retirement Administration)	19.30
College Savings Plan	4.08
Montana Board of Housing	2.67
Other (1)	1.90
Total	100.00%

(1) Other consists of the Commissioner of Higher Education, the Department of Administration, the Department of Natural Resources and Conservation, the Department of Public Health and Human Services, and 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. State investments are categorized within the fair value hierarchy established by GASB Statement No. 72.

The PERS Defined Contribution Retirement Plan and the Deferred Compensation Plan’s fixed assets were administered on behalf of the plans by Pacific Investment Management Company (PIMCO) and State Street Bank Kansas City (SSKC) and a third-party synthetic Guaranteed Interest Contract (GIC) providers, Transamerica Life Insurance Company (Transamerica), Prudential Insurance Company of America (Prudential) and Voya Retirement Insurance & Annuity Company (Voya). The third party record keeper, Empower ™ Retirement, 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 Fixed Fund (stable value investment option) of the PERS-DCRP and Deferred Compensation Plan are held in a 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, Prudential and Voya. 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)

	Fair Value June 30, 2016	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Primary government				
Investments by Fair Value Level				
Corporate (1)	$ 33,099	$ -	$ 33,099	$ -
Agency/Government Related (1)	81,575	-	81,575	-
Asset Backed Securities (1)	2,010	-	2,010	
Treasuries (1)	26,474	26,474	-	-
Government Securities	12,348	-	12,348	-
Mortgaged Backed Securities (1)	14	-	14	-
Other	41,079	-	41,079	-
Total Investments at Fair Value	$ 196,599	$ 26,474	$ 170,125	$ -
Investments at cost				
MT Mortgages and Loans (4)	139,311			
Total Investments at Cost	139,311			
Total Primary Government	335,910			
Component units/fiduciary funds				
Investments by Fair Value Level				
Corporate (1)	$ 674,206	$ -	$ 674,206	$ -
Asset Backed Securities (1)	62,949	-	62,949	-
Mortgage Backed Securities (1)	3,586	-	3,586	-
Agency/Government Related (1)	292,767	-	292,767	-
Treasuries (1)	216,544	216,544	-	-
529 College Savings Plan	127,820	-	127,820	-
VEBA	4,908	-	4,908	-
MSU Component Unit Investments (3)	197,019	82,199	4,055	110,765
UM Component Unit Investments (3)	215,676	111,159	29,419	75,098
Board of Housing (3)	83,767	7,033	76,733	-
State Auditor	10,601	-	10,601	-
Total Investments at Fair Value	$1,889,843	$ 416,935	$1,287,044	$ 185,863
Investments at Net Asset Value (NAV)				
Real Estate (1)	$ 90,312			
Deferred Compensation (3)	448,142			
Defined Contribution (3)	156,884			
UM Component Unit Investments (3)	34,946			
Commingled equity index funds	156,693			
Total Investments at NAV	$ 886,977			
Investments at Cost				
MSU Component Unit Investments (3)	$ 22,814			
Total Investments at Cost	$ 22,814			
Total Component Unit/Fiduciary Investments	2,799,634			
Total investments	$3,135,544			
Securities Lending Investment Pool (2)	$ 48,413			

(1) The credit quality rating and duration are included below for the rated investments.
(2) Previously the Securities Lending Collateral Investment Pool was comprised of the Securities Lending Quality Trust Liquidity Pool and the Securities Lending Duration Pool. In March 2015 all holdings in the Securities Lending Duration Pool were sold.
(3) For more detail, refer to component unit separately issued financial statements.
(4) The total for MT Mortgages and Loans does not include Coal Tax Trust loan, which was included on AOF financial statements. This amount of $10.6 million is considered advances to other funds in Coal Tax Severance column of governmental fund financial statements.

As of June 30, 2016, the fair value of the investments on loan was $118.2 million. Collateral provided for the investments on loan totaled $120.8 million consisting of $48.4 million in cash and $72.4 million in securities.

All Other Funds - Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2016
(in thousands)

Security Investment Type (1)	Fair Value	Credit Quality Rating	Effective Duration
Treasuries	$ 301,923	AA+	3.70
Agency/Government Related	472,542	AA+	2.85
Asset Backed Securities	68,966	AAA	2.29
Mortgage Backed Securities	3,600	AA+	2.03
Financial – Corporate	351,912	A-	3.13
Industrial – Corporate	285,488	A	4.28
Utility – Corporate	42,080	BBB+	3.66
State Street Bank repurchase agreement (2)	5,079	AA-	0.00
US Bank sweep repurchase agreement (3)	7,830	NR	0.00
	$1,539,420	AA-	3.35

Direct Investments			
Equity Index Fund – Domestic	$ 137,916		
Equity Index Fund – International	17,591		
Equity Index Fund – US Debt	1,186		
Total Equity Index Funds	156,693		
Core Real Estate	90,312		
MT Mortgages and Loans	149,897		
Total Direct Investments	396,902		
Total Investments	1,936,322		
Securities Lending Collateral Investment Pool	$ 48,413	NR	0.08

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

(2) The State Street Bank repurchase agreement was collateralized at 102% for $5.2 million by a US Treasury security maturing October 31, 2017. This security carries AA+ quality rating.

(3) The US Bank repurchase agreement, per contract, was collateralized at 102% for $8.0 million by a Federal Home Loan Mortgage maturing November 1, 2024 and July 1, 2024. These securities carry AA+ credit quality rating.

EDB - Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2016
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
First American Government Obligation Fund	$ 9,660	AAA	0.07
First American Prime Obligation Fund	4,108	AAA	0.02
Short Term Investment Pool (STIP)	102	NR	0.11
US Government Indirect Obligations	9,401	AA+	1.53
Total Investments	$ 23,271	AAA	0.65
Securities Lending Collateral Investment Pool	$ -	NR	0.09

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

Accounts receivable, accounts payable, deferred outflows of resources and deferred inflows of resources on the Statement of Net Position as of June 30, 2016, consisted of the following (in thousands):

A. Accounts Receivables

	Governmental Activities						
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant	Nonmajor Governmental Funds	State Special Revenue
Charges for services/fines/forfeitures	$ -	$ 5,186	$ 31	$ 434	$ -	$ -	$ 7,063
Contributions/premiums	-	-	-	2,432	-	-	781
Grants/contracts/donations	-	9	-	-	-	-	-
Investment income	3,026	-	529	173	1,797	3,569	11,209
License and permits	-	-	8	-	-	-	8,602
Other receivables	-	27,928	7,087	-	-	916	338
Reimbursements/overpayments	-	753	11,533	-	-	-	16,532
Taxes	8,973	-	350,850	-	-	2,242	58,526
Total receivables	11,999	33,876	370,038	3,039	1,797	6,727	103,051
Less: allowance for doubtful accounts	-	(2,092)	(125,519)	(28)	-	(1)	(20,928)
Receivables, net	$11,999	$31,784	$244,519	$3,011	$1,797	$6,726	$82,123

	Business-type Activities		
	Economic Development Bonds	Nonmajor Enterprise Funds	Unemployment Insurance
Charges for services	$ -	$24,890	$ -
Contributions/premiums	-	3,506	5,816
Loans/investment income	11,160	111	-
Other receivables	-	90	-
Reimbursements/overpayments	-	-	1,315
Total receivables	11,160	28,597	7,131
Less: allowance for doubtful accounts	-	(342)	(3,451)
Receivables, net	$11,160	$28,255	$3,680

B. Accounts Payables

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
Accrued Interest	$ 3	$ 271	$ 52	$3,093	$ 40
Payroll	7,841	20,933	3,478	47	18,709
Tax refunds	-	146,802	-	-	-
Vendors/individual	207,993	84,028	14,138	4,432	100,826
Payables, net	$215,837	$252,034	$17,668	$7,572	$119,575

	Business-type Activities		
	Economic Development Bonds	Nonmajor Enterprise Funds	Unemployment Insurance
Accrued Interest	$169	$ 4	$ -
Payroll	21	963	-
Vendors/individuals	1	20,093	3,113
Payables, net	$191	$21,060	$3,113

C. Deferred Outflows of Resources

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
Pension deferred outflows (1)	$8	$191,913	$5,159	$ -	$38
Refunding deferred outflows	-	-	-	4,666	-
Total deferred outflows	$8	$191,913	$5,159	$4,666	$38

	Business-type Activities	
	Economic Development Bonds	Nonmajor Enterprise Funds
Pension deferred outflows (1)	$36	$1,445
Total deferred outflows	$36	$1,445

(1) Further detail regarding pension related deferred outflows of resources is provided in Note 6.

D. Deferred Inflows of Resources

	Governmental Activities (2)				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
Pension deferred inflows (1)	$6	$139,706	$4,108	$ -	$41
Refunding deferred inflows	-	-	-	1,122	-
Total deferred inflows	$6	$139,706	$4,108	$1,122	$41

	Business-type Activities	
	Economic Development Bonds	Nonmajor Enterprise Funds
Pension deferred inflows (1)	$25	$1,075
Total deferred inflows	$25	$1,075

(1) Further detail regarding pension related deferred inflows of resources is provided in Note 6.
(2) Deferred inflows of resources reported on the governmental fund financial balance sheet includes balances of unavailable revenue as of June 30, 2016.

NOTE 5. CAPITAL ASSETS

Changes in capital asset balances for the fiscal year ended June 30, 2016, are reflected in the following table (in thousands):

Governmental Activities	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not being depreciated:				
Land	$ 654,457	$ 17,186	$ (859)	$ 670,784
Construction work in progress	991,070	868,803	(918,544)	941,329
Easements	147,018	20,581	-	167,599
Museum and art	65,357	141	-	65,498
Other	12,169	293	(10)	12,452
Total capital assets not being depreciated	1,870,071	907,004	(919,413)	1,857,662
Capital assets being depreciated:				
Infrastructure	4,721,437	517,622	(230,266)	5,008,793
Land improvements	57,405	3,168	(30)	60,543
Buildings/improvements	582,538	10,469	(5,791)	587,216
Equipment	355,450	24,769	(14,070)	366,149
Easements - amortized	1,669	-	(73)	1,596
Other	6,681	269	-	6,950
Total capital assets being depreciated	5,725,180	556,297	(250,230)	6,031,247
Less accumulated depreciation for:				
Infrastructure	(1,549,253)	(229,035)	230,893	(1,547,395)
Land improvements	(22,324)	(2,611)	-	(24,935)
Buildings/improvements	(337,310)	(22,455)	2,212	(357,553)
Equipment	(228,062)	(20,762)	11,292	(237,532)
Other	(5,333)	(240)	-	(5,573)
Total accumulated depreciation	(2,142,282)	(275,103)	244,397	(2,172,988)
Total capital assets being depreciated, net	3,582,898	281,194	(5,833)	3,858,259
Intangible assets	39,303	15,844	(17,447)	37,700
Governmental activities capital assets, net	$5,492,272	$1,204,042	$(942,693)	$5,753,621

(1) The increases and decreases noted above include adjustments related to prior periods and correction 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	1,897	1,690	(497)	3,090
Other	4,358	56	(121)	4,293
Total capital assets not being depreciated	7,055	1,746	(618)	8,183
Capital assets being depreciated:				
Infrastructure	1,164	6	-	1,170
Land improvements	3,830	-	-	3,830
Buildings/improvements	7,514	1,218	(1,138)	7,594
Equipment	11,494	694	(2,650)	9,538
Total capital assets being depreciated	24,002	1,918	(3,788)	22,132
Less accumulated depreciation for:				
Infrastructure	(681)	(13)	-	(694)
Land improvements	(1,468)	(149)	-	(1,617)
Buildings/improvements	(5,745)	(175)	118	(5,802)
Equipment	(7,897)	(651)	2,393	(6,155)
Total accumulated depreciation	(15,791)	(988)	2,511	(14,268)
Total capital assets being depreciated, net	8,211	930	(1,277)	7,864
Intangible assets	184	234	(102)	316
Business-type activities capital assets, net	$15,450	$2,910	$(1,997)	$16,363

(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):

	Depreciation (2)
General government	$ 10,393
Public safety	8,436
Transportation, including depreciation of the highway system maintained by the State	231,784
Health and human services	2,454
Education	370
Natural resources, including depreciation of the state's dams	10,904
Depreciation on capital assets held by the internal service funds	10,762
Total depreciation expense – Governmental Activities	$275,103

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

	Depreciation (2)
Liquor Stores	$107
State Lottery	167
Prison Funds	485
West Yellowstone Airport	175
Other Enterprise Funds	54
Total depreciation expense – Business-type Activities	$988

(2) Depreciation expenses noted above include adjustments related to prior periods and correction of errors.

NOTE 6. RETIREMENT PLANS

A. General

The funding policies for each plan provide for periodic employee, employer, and State of Montana (State) nonemployer contributions 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. Benefits are established by state law and can only be amended by the Legislature.

Montana State Fund, a discretely presented component of the State, by statute, prepares separately issued financial statements on a calendar year-end basis. Due to the difference in reporting period, there will be a variance between the note disclosures and the financial statements for some pension related items.

Public Employees' Retirement Board

The Public Employees' Retirement Board (PERB) oversees eight defined benefit plans: Public Employees' Retirement System-Defined Benefit Retirement Plan (PERS-DBRP); Judges' Retirement System (JRS); Highway Patrol Officers' Retirement System (HPORS); Sheriffs' Retirement System (SRS); Game Wardens' and Peace Officers' Retirement System (GWPORS); Municipal Police Officers' Retirement System (MPORS); Firefighters' Unified Retirement System (FURS); and Volunteer Firefighters' Compensation Act (VFCA). The PERB also supervises two defined contribution plans: Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) and the 457-Deferred Compensation Plan (457 Plan). All of the benefit plans, defined benefit and defined contribution, are administered by the Montana Public Employees' Retirement Administration (MPERA). Separately issued financial statements and actuarial reports can be obtained at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131. The financial statements and the latest actuarial valuation may also be attained here: http://mpera.mt.gov/. The financial statements for the PERS-DBRP include activity for the defined benefit plan and the associated education fund. The PERS-DCRP financial statements include activity for the defined contribution plan and the associated education fund.

The PERB is an independent, seven-member body, appointed by the Governor. The members are assigned five-year, staggered terms. The PERB consists of two members at large, two active defined benefit public employees, one active defined contribution public employee, one member experienced in investments, and one retired public employee. The PERB approves the annual operating budget, developed by MPERA management, before the beginning of the fiscal year. As governed by statute, the PERB's defined benefit administrative expenses may not exceed 1.5% of the total defined benefit plan retirement benefits paid. In addition, the PERB decides legislative policy and priorities, hires the executive director, establishes the policies and procedures that govern operations at MPERA, and hear and rule on appeal matters of disabilities, retirees, and members. PERB members do not receive compensation for their service to the PERB, but are reimbursed for necessary expenses incurred while serving.

All defined benefit pension plans provide retirement, disability, and death benefits to the plan members and their beneficiaries. The PERS-DCRP Disability Plan provides disability benefits to disabled members of the PERS-DCRP. Beneficiaries do not receive disability benefits but may attain retirement benefits from the PERS-DCRP. A summary of the plan eligibility and benefits are found in the Summary of Benefits sections throughout Note 6. Related disclosures for the PERS-DCRP Disability Plan can be found within Note 7 of this report.

Teachers' Retirement System

The Teachers' Retirement System (TRS) is a defined benefit plan administered by the Teachers Retirement Board (TRB). The plan prepares a publicly issued comprehensive annual financial report that includes financial statements and required supplementary information for TRS. Separately issued financial statements, actuarial valuations and experience studies can be obtained at 1500 East Sixth Avenue, PO Box 200139, Helena, MT 59620-0319; or can be found online at https://trs.mt.gov/.

The TRB consists of six members, all of which are appointed by the Governor. Three TRB members must be teaching professionals who, when appointed, are active members of TRS; at least one of them must be an active classroom teacher. One TRB member must be a retired teacher who was a member of TRS at the time of retirement. Two TRB members are appointed from the public at large. TRB members serve staggered five-year terms. Three TRB members constitutes a quorum.

A summary of the number of participating employer and nonemployer contributing entities as of June 30, 2016, follows:

Classification of Participant	GWPORS	PERS-DBRP	PERS-DCRP	SRS	MPORS	FURS	VFCA	TRS
Employer	7	535	289	57	32	26	220	373
Nonemployer contributing entity	-	1	-	-	1	1	1	1
Total Participants	7	536	289	57	33	27	221	374

There are approximately 700 State employees who are eligible to participate in defined benefit pension plans, other than the plans listed above. If these employees do choose to participate in any of these other plans the State is required to make contributions to the respective plan.

B. Summary of Significant Accounting Policies

The MPERA prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the net pension liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions to/deductions from fiduciary net position, the items have been determined on the same accrual basis as they are reported by the MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. The MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

The TRS prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the net pension liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position of the TRS, and additions to/deductions from TRS's fiduciary net position, the items have been determined on the same accrual basis as they are reported by the TRS. For this purpose, plan contributions are recognized as of employer payroll paid dates. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The TRS adheres to all applicable GASB statements.

The pension trust fund financial statements presented in this report are prepared using the accrual basis of accounting in the same manner as that described for the pension plan administrators above.

C. Public Employee Defined Benefit Retirement Plan

A summary of classes of members in JRS, HPORS, GWPORS, PERS-DBRP, SRS, MPORS, FURS, VFCA, TRS, PERS-DCRP, and 457-Deferred Compensation covered by benefit terms at June 30, 2016, follows:

Type of Plan for Reporting Purposes	Single-Employer Defined Benefit			Multi-Employer Defined Benefit						Multi-Employer Defined Contribution	
Plan Designation	JRS	HPORS*	GWPORS	PERS-DBRP	SRS	MPORS*	FURS	VFCA	TRS	PERS-DCRP	457-DC
Classification of Member											
Active	55	228	989	28,390	1,364	762	644	1,895	19,048	2,409	5,417
Inactive entitled to, but not yet receiving, benefits or a refund:											
Vested	2	16	105	3,062	95	61	27	878	1,704	346	3,970
Nonvested	-	18	278	10,031	394	112	77	-	12,888	590	-
Inactive members and beneficiaries currently receiving benefits:											
Service retirements	62	311	238	20,712	567	714	595	1,422	13,271	38	-
Disability retirements	1	6	3	169	29	23	7	1	206	7	-
Survivor benefits	5	12	9	452	24	31	19	2	1,687	3	-
Total Membership	125	591	1,622	62,816	2,473	1,703	1,369	4,198	48,804	3,393	9,387

*Includes DROP in the Active count

A summary of pension liability, pension assets, net pension liability/(asset), pension expense/(income), deferred outflows of resources, and deferred inflows of resources by plan and total for the State as an employer entity reported as of June 30, 2016, based on a June 30, 2015, actuarial valuation, follows with amounts presented in thousands:

System	Employer's Total Pension Liability	Employer's Pension Assets	Employer's Net Pension Liability/(Asset)	Employer's Pension Expense/(Income)	Employer's Deferred Outflows of Resources	Employer's Deferred Inflows of Resources
JRS	$ 53,146	$ 87,107	$ (33,961)	$ (2,394)	$ 1,786	$ 2,745
HPORS	192,966	129,067	63,899	7,221	6,361	3,020
GWPORS	169,649	148,638	21,011	3,596	5,057	3,220
PERS-DBRP	3,462,702	2,713,288	749,414	50,719	68,902	72,698
SRS	22,103	16,669	5,434	420	2,499	2,376
FURS	10,627	8,173	2,454	377	1,011	151
TRS	183,145	126,915	56,230	7,736	29,657	3,834
Totals	$4,094,338	$3,229,857	$864,481	$67,675	$115,273	$88,044

(1) State as the Single Employer

Judges' Retirement System – The JRS, administered by the MPERA, is a single-employer defined benefit plan established in 1967, and governed by Title 19, chapters 2 & 5, MCA. This plan provides retirement benefits for all Montana judges of the district courts, justices of the Supreme Court, the Chief Water Judge, and the 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.

Summary of Benefits

Member's current salary[1] or highest average compensation (HAC)[2]

[1]Hired prior to July 1, 1997, and non-Guaranteed Annual Benefit Adjustment (GABA) – monthly compensation at time of retirement;
[2]Hired on or after July 1, 1997, or electing GABA – HAC during any consecutive 36 months;
[2]Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's HAC.

Eligibility for benefit
Age 60, 5 years of membership service;
Any age with 5 years of membership service – involuntary termination, actuarially reduced.

Vesting
5 years of membership service.

Monthly benefit formula
3-1/3% of current salary[1] (non-GABA) or HAC[2] (GABA) per year of service credit for the first 15 years of service credit, plus 1.785% per year for each year after 15 years.

Guaranteed Annual Benefit Adjustment (GABA)
Hired on or after July 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA)
If hired prior to July 1, 1997, and member did not elect GABA – current salary of an active member in same position is used in the calculation of the monthly benefit each time the Legislature increases salaries for active judges.

Contributions to the Plan
Rates are specified by state law for periodic employee and employer contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system - Contributions are deducted from each member's salary and remitted by the participating employer. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed. Plan members are required to contribute 7.0% of the member's monthly compensation.

Employer contributions to the system - As the employer, the State is required to contribute 25.81% of a member's compensation.

Actuarial Assumptions
The total pension liability/(asset) used to calculate the net pension liability/(asset) was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability/(asset) to June 30, 2015. The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the last actuarial experience study dated May 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability/(asset). Among those assumptions were the following:

- Investment Return 7.75%
- Admin Expense as a % of Payroll 0.15%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases None
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit:
  - 3% for members electing GABA or hired on or after July 1, 1997

  - o Current salary of an active member in the same position, if hired prior to July 1, 1997, and not electing GABA
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the total pension asset was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under Montana Code Annotated (MCA). Based on those assumptions, the JRS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the JRS. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the JRS's target asset allocation as of June 30, 2015, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability/(asset) to changes in the discount rate, the table below presents the net pension liability/(asset) calculated using the discount rate of 7.75%, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

		(in thousands)	
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
JRS Net Pension (Asset)	($28,958)	($33,961)	($38,300)

Net Pension Asset

In accordance with GASB 68, employers are required to recognize and report certain amounts associated with their participation in the JRS. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension asset (NPA), pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions.

	(dollars presented in thousands) Net Pension Liability (Asset) as of 6/30/14	Net Pension Liability (Asset) as of 6/30/15	Percent of Collective NPA
Employer's Proportionate Share	($32,591)	($33,961)	100%

At June 30, 2016, the employer reported a net pension asset of $34.0 million for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The employer's proportion of the net pension asset was based on the employer's contributions received by JRS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of the JRS participating employers. At June 30, 2015, the State's proportion as an employer was 100%.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension asset and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective net pension asset.

Other Items Related to and Changes in Net Pension Asset

	(in thousands) Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balances at 6/30/2014	$51,632	$84,223	($32,591)
Service Costs	1,653	-	1,653
Interest	3,934	-	3,934
Difference between Expected and Actual Experience	(1,032)	-	(1,032)
Contributions - employer	-	1,684	(1,684)
Contributions - member	-	534	(534)
Net Investment Income	-	3,843	(3,843)
Benefit Payments	(3,041)	(3,041)	-
Administrative Expense	-	(136)	136
Net Changes	1,514	2,884	(1,370)
Balances at 6/30/2015	$53,146	$87,107	($33,961)

Pension Expense
At June 30, 2016, the employer recognized pension expense/(income) of ($2.4) million for the JRS.

Deferred Outflows and Inflows
At June 30, 2016, the employer recognized a beginning deferred outflow of resources for fiscal year 2015 contributions of $1.7 million.

As of the fiscal year ended June 30, 2016, remaining deferred outflows of resources and deferred inflows of resources related to the JRS are from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	-	$ 774
Earnings on pension plan investments	-	1,971
Contributions paid to JRS subsequent to the measurement date - FY 2016 Contributions	$1,786	-
Totals	$1,786	$2,745

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2015, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	*(in thousands)* Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	$(1,092)
2018	(1,092)
2019	(1,091)
2020	530
2021	-
Thereafter	-

<u>Highway Patrol Officers' Retirement System</u> – The HPORS, administered by the MPERA, is a single-employer defined benefit plan established in July 1, 1945, and governed by Title 19, chapters 2 & 6, MCA. This plan 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 member rights are vested after 5 or 10 years of service.

Section 19-6-709, MCA provides eligible members retired prior to July 1, 1991, or their survivors, an annual supplemental lump-sum payment distributed each September. This lump-sum payment is funded by a statutory appropriation requested by the PERB from the General Fund. Factors impacting eligibility include 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, MCA.

Deferred Retirement Option Plan (DROP)

Beginning October 1, 2015, eligible members of HPORS can participate in the DROP by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 6, Part 10, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may only participate in the DROP once. A participant remains a member of the HPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During participation in the DROP, all mandatory employer contributions continue to the retirement system; mandatory employee contributions are deposited to the members DROP account. A monthly benefit is calculated based on salary and years of service to 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. The balance held by MPERA for HPORS DROP participants as of June 30, 2016, was approximately $161.2 thousand.

Summary of Benefits

Member's highest average compensation (HAC)
Hired prior to July 1, 2013 – HAC during any consecutive 36 months;
Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's HAC.

Eligibility for benefit
20 years of membership service, regardless of age.

Early Retirement
Hired prior to July 1, 2013 – 5 years of membership service, actuarially reduced from age 60.
Hired on or after July 1, 2013 – 10 years of membership service, actuarially reduced from age 60.

Vesting
Hired prior to July 1, 2013 - 5 years of membership service.
Hired on or after July 1, 2013 - 10 years of membership service.

Monthly benefit formula
Retire prior to July 1, 2013 – 2.5% of HAC per year of service credit.
Retire on or after July 1, 2013 – 2.6% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)
Hired on or after July 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit.

Hired on or after July 1, 2013 - after the member has completed 36 full months of retirement, the member's benefit increase by a maximum of 1.5% each January, inclusive of all other adjustments to the member's benefit.

Minimum Monthly Benefit (non-GABA)
If hired prior to July 1, 1997, and member did not elect GABA - monthly benefits are increased each July when the 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.

Contributions to the Plan

Rates are specified by state law for periodic employee and employer contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system – Contributions are deducted from each member's salary and remitted by participating employer.
Hired prior to July 1, 1997, and not electing GABA - Plan members are required to contribute 12.00%.
Hired after June 30, 1997, and electing GABA – Plan members are required to contribute 12.05%.
Effective July 1, 2013, and ending July 1, 2016, all HPORS member contributions, regardless of hired date, will increase 1.0% annually.

Employer contributions to the system – As the employer, the State is required to contribute 38.33% of a member's compensation. The first 28.15% is payable from the same sources used to pay a member's compensation. The remaining amount, equal to 10.18%, is payable from the General Fund through a statutory appropriation.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the last actuarial experience study, dated May 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.75%
- Administrative Expense as a % of Payroll 0.23%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0% to 7.30%
- Postretirement Benefit Increases - After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit:
  - If electing GABA or hired on or after July 1, 1997 – 3.00%
  - Hired on or after July 1, 2013 – 1.50%
  - Minimum Benefit Adjustment – Limited to 5% over the current benefit any may not exceed 60% of a newly confirmed officer
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 10.18% of salaries paid by employers, however, this is considered an employer contribution since HPORS is a single-employer plan and the State is the only employer. Based on those assumptions, the HPORS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the HPORS. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by an investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the HPORS's target asset allocation as of June 30, 2015, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

(in thousands)

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
HPORS Net Pension Liability	$89,975	$63,899	$42,629

Net Pension Liability

In accordance with GASB 68, employers are required to recognize and report certain amounts associated with their participation in the HPORS. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability (NPL), pension expense, deferred inflows or resources, and deferred outflows of resources associated with pensions.

(dollars presented in thousands)

	Net Pension Liability as of 6/30/14	Net Pension Liability as of 6/30/15	Percent of Collective NPL
Employer's Proportionate Share	$57,123	$63,899	100%

At June 30, 2016, the employer reported a liability of $63.9 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The employer's proportion of the net pension liability was based on the employer's contributions received by HPORS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of the HPORS participating employers. At June 30, 2015, the State's proportion as an employer was 100%.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms: There was a change in benefit terms since the measurement date. A DROP was added by Senate Bill 238 by the 2015 Legislature. The DROP plan increased the total pension liability by approximately $1.9 million.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective net pension liability.

Other Items Related to and Changes in Net Pension Liability

(in thousands)

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2014	$183,133	$126,010	$57,123
Service Costs	3,598	-	3,598
Interest	14,113	-	14,113
Changes in Benefits	1,856	-	1,856
Difference Expected and Actual Experience	267	-	267
Contributions - employer	-	5,840	(5,840)
Contributions - member	-	1,624	(1,624)
Net Investment Income	-	5,738	(5,738)
Benefit Payments	(10,001)	(10,001)	-
Administrative Expense	-	(144)	144
Net Changes	9,833	3,057	6,776
Balances at 6/30/2015	$192,966	$129,067	$63,899

Pension Expense
At June 30, 2016, the employer recognized pension expense of $7.2 million for the HPORS.

Deferred Outflows and Inflows
At June 30, 2016, the employer recognized a beginning deferred outflow of resources for fiscal year 2015 contributions of $5.8 million.

As of the fiscal year ended June 30, 2016, remaining deferred outflows of resources and deferred inflows of resources related to the HPORS are from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 200	-
Difference between projected and actual earnings on pension plan investments	-	$3,020
Contributions paid to HPORS subsequent to the measurement date - FY 2016 Contributions	6,161	-
Totals	$6,361	$3,020

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2015, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

(in thousands)

Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	$(1,201)
2018	(1,202)
2019	(1,202)
2020	785
2021	-
Thereafter	-

Game Wardens' & Peace Officers' Retirement System – The GWPORS, administered by the MPERA, is a multi-employer, cost-sharing defined benefit plan established in 1963, and governed by Title 19, chapters 2 & 8, MCA. This plan provides retirement benefits to all persons employed as a game warden, warden supervisory personnel, or state peace officer. Benefits are established by state law and can only be amended by the Legislature. The GWPORS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation.

The State of Montana and its discretely presented component units are the only employers who participate in the GWPORS. Therefore, while the plan is considered to be a multi-employer, cost-sharing defined benefit plan for actuarial valuation purposes, in accordance with GASB 68, the plan is treated as if it were a single-employer defined benefit pension plan type for financial reporting.

Summary of Benefits

Member's highest average compensation (HAC)
Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months;
Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's HAC.

Eligibility for benefit
Service Retirement
Age 50, 20 years of membership service.

Early Retirement (reduced benefit)
Age 55, vested members who terminate employment prior to 20 years of membership service.

Vesting
5 years of membership service.

Monthly benefit formula
2.5% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit:

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

Contributions to the Plan
Rates are specified by state law for periodic employee and employer contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system – Contributions are deducted from each member's salary and remitted by participating employers. Plan members are required to contribute 10.56% of member's compensation.

Employer contributions to the system – State agency and university employers are required to contribute 9.0% of a member's compensation.

Actuarial Assumptions
The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.75%
- Admin Expense as a % of payroll 0.17%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0% to 7.3%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit:
  - 3.00% for members hired prior to July 1, 2007
  - 1.50% for members hired on or after July 1, 2007
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate
The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. Based on those assumptions, the GWPORS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations
The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the GWPORS. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by an investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the GWPORS's target asset allocation as of June 30, 2015, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis
In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

(in thousands)

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
Primary Government GWPORS Net Pension Liability	$44,154	$19,849	$(118)
Discretely Presented Component Units GWPORS Net Pension Liability	2,584	1,162	(7)
Total Employer GWPORS Net Pension Liability	$46,738	$21,011	$(125)

Net Pension Liability
In accordance with GASB 68, employers are required to recognize and report certain amounts associated with their participation in the GWPORS. Statement 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability (NPL), pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions.

(dollars presented in thousands)

	Net Pension Liability as of 6/30/14	Net Pension Liability as of 6/30/15	Percent of Collective NPL
Primary Government Employer Proportionate Share	$14,262	$19,849	94.470296%
Discretely Presented Component Unit Share	859	1,162	5.529704%
Total Employer GWPORS Proportionate Share	$15,121	$21,011	100%

At June 30, 2016, the employer reported a total liability of $21.0 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The employer's proportion of the net pension liability was based on the employer's contributions received by GWPORS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of GWPORS participating employers. At June 30, 2015, the State's proportion as an employer was 100%.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective net pension liability.

Other Items Related to and Changes in Net Pension Liability

The State, as the primary government employer, has the following balances and changes related to the GWPORS's Net Pension Liability:

(in thousands)

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2014	$145,127	$130,864	$14,263
Service Costs	7,565	-	7,565
Interest	11,713	-	11,713
Difference between Expected and Actual Experience	690	-	690
Contributions - employer	-	3,862	(3,862)
Contributions - member	-	4,652	(4,652)
Net Investment Income	-	6,079	(6,079)
Benefit Payments	(5,056)	(5,056)	-
Administrative Expense	-	(190)	190
Net Changes	14,912	9,347	5,565
Balances at 6/30/2015	$160,039	$140,211	$19,828

The State's discretely presented component units, as employers, have the following balances and changes related to the GWPORS's Net Pension Liability:

(in thousands)

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2014	$8,737	$7,879	$ 858
Service Costs	443	-	443
Interest	686	-	686
Difference between Expected and Actual Experience	40	-	40
Contributions - employer	-	226	(226)
Contributions - member	-	272	(272)
Net Investment Income	-	357	(357)

	(in thousands) Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Benefit Payments	(296)	(296)	-
Administrative Expense	-	(11)	11
Net Changes	873	548	325
Balances at 6/30/2015	$9,610	$8,427	$1,183

Pension Expense
At June 30, 2016, the employer recognized a total pension expense of $3.6 million for its proportionate share of the GWPORS pension expense: $3.4 million related to the primary government and $193.8 thousand related to component units.

Deferred Outflows and Inflows
At June 30, 2016, the State, as a primary government employer, recognized a beginning deferred outflow of resources for fiscal year 2015 contributions of $3.8 million.

As of the fiscal year ended June 30, 2016, remaining deferred outflows of resources and deferred inflows of resources for the primary government, as an employer, related to the GWPORS are from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 592	-
Changes in proportionate shares	182	$ 151
Difference between projected and actual earnings on pension plan investments	-	2,863
Contributions paid to GWPORS subsequent to the measurement date - FY 2016 Contributions	4,008	-
Totals	$4,782	$3,014

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2015, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	(in thousands) Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	$(1,131)
2018	(1,131)
2019	(1,131)
2020	945
2021	104
Thereafter	104

The State's discretely presented component units, as employers, recognized a beginning deferred outflow of resources for fiscal year 2015 contributions of $231.6 thousand.

As of the fiscal year ended June 30, 2016, remaining deferred outflows of resources and deferred inflows of resources for the State's discretely presented component units, as employers, related to the GWPORS are from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$35	-
Changes in proportionate shares	8	$ 38
Difference between projected and actual earnings on pension plan investments	-	168
Contributions paid to GWPORS subsequent to the measurement date - FY 2016 Contributions	$232	-
Totals	$275	$206

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2015, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	*(in thousands)* Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	$(72)
2018	(72)
2019	(71)
2020	50
2021	1
Thereafter	1

(2) State as an Employer and/or a Nonemployer Contributing Entity to Cost-Sharing Multiple-Employer Plans

Public Employees' Retirement System - Defined Benefit Retirement Plan – The PERS-DBRP, administered by the MPERA, is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, Chapters 2 & 3, MCA. This plan covers the State, local governments, certain employees of the Montana University System, 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 remain in the PERS-DBRP or join the Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) by filing an irrevocable election. Members may not be participants of both the defined contribution and defined benefit retirement plans. All new members from the universities also have a third option to join the university system's 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 contributions are used to fund the PERS-DBRP liability.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

Summary of Benefits

Member's highest average compensation (HAC)
Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months;
Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;
Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's HAC.

Eligibility for benefit
Service retirement:

Hired prior to July 1, 2011 -
Age 60, 5 years of membership service;
Age 65, regardless of membership service; or
Any age, 30 years of membership service.

Hired on or after July 1, 2011 -
Age 65, 5 years of membership service;
Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011 -
Age 50, 5 years of membership service; or
Any age, 25 years of membership service.

Hired on or after July 1, 2011 - Age 55, 5 years of membership service.

Second retirement (all require retuning to PERS-covered employment or PERS service):

Retire before January 1, 2016 and accumulate less than 2 years' additional service credit or retire on or after January 1, 2016 and accumulate less than 5 years' additional service credit:

- A refund of member's contributions plus regular interest (.25%);
- No service credit for second employment;
- Start the same benefit amount the month following termination; and
- Their GABA starts again in the January immediately following their second retirement

Retire before January 1, 2016 and accumulate at least 2 years of additional service credit:

- A recalculated retirement benefit based on provisions in effect after their initial retirement; and
- Their GABA starts on their recalculated benefit in the January after receiving new benefit for 12 months

Retire on or after January 1, 2016 and accumulate 5 or more years of service credit:

- The same retirement as prior to their return to service;
- A second retirement benefit as prior to their second period of service based on laws in effect upon their rehire date;
- Their GABA starts on both benefits in the January after receiving the original and new benefit for 12 months

Vesting
5 years of membership service

Monthly benefit formula
Members hired prior to July 1, 2011 -

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.

Members hired on or after July 1, 2011 -

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.

Guaranteed Annual Benefit Adjustment (GABA) – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit:

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013
    a. 1.5% for each year PERS is funded at or above 90%;
    b. 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and,
    c. 0% whenever the amortization period for PERS is 40 years or more.

Contributions to the Plan

Rates are specified by state law for periodic employee, employer, and nonemployer entity contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system: Contributions are deducted from each member's salary and remitted by participating Employers. Plan members are required to contribute 7.90% of member's compensation. The 7.90% member contribution rate is temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional Employer and additional member contribution rates.

Employer contributions to the system

State and University System employers are required to contribute 8.37% of member compensation.
Local government entities are required to contribution 8.27% of member compensation.
School district employers contributed 8.00% of member compensation.

Per the 2013 Legislative Session's House Bill 454, section 4, effective July 1, 2013, PERS employer contributions temporarily increased 1%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The Employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates. On January 1, 2017, the additional contributions will not be terminated.

Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

The portion of employer contributions allocated to the Plan Choice Rate (PCR) are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

Non Employer Entity Contributions

Special Funding

The State contributes 0.1% of member compensation on behalf of local government entities.
The State contributes 0.37% of member compensation on behalf of school district entities.

Not Special Funding

The State contributes a portion of Coal Severance Tax income and interest earnings from the Coal Trust Permanent Trust fund in accordance with Section 15-35-108, MCA.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. Among those assumptions were the following:

- Investment Return 7.75%
- Admin Expense as a % of payroll 0.27%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0% to 6%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit:
    - 3.00% for members hired prior to July 1, 2007
    - 1.50% for members hired between July 1, 2007 and June 30, 2013
    - Members hired on or after July 1, 2013:
        - 1.50% for each year PERS is funded at or above 90%
        - 1.50% is reduced by 0.1% for each 2% PERS is funded below 90%; and
        - 0% whenever the amortization period for PERS is 40 years or more
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the General Fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the PERS-DBRP's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the PERS-DBRP. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the PERS-DBRP's target asset allocation as of June 30, 2015, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability (NPL) to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

		(in thousands)	
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as an Employer in PERS-DBRP - Net Pension Liability	$1,155,435	$749,414	$406,539
State as a Nonemployer Contributing Entity to PERS-DBRP - Net Pension Liability	20,606	13,365	7,250

Net Pension Liability

In accordance with GASB 68, employers and the nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the PERS-DBRP. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions. The proportionate shares were determined based on contributions made to the plan by employers and the nonemployer contributing entity special funding. The Coal Severance Tax collection and interest amounts were not considered in determining proportionate shares as this is not a special funding situation component.

In accordance with GASB 68, the PERS-DBRP has a special funding situation where the State is legally responsible for making contributions directly to the PERS-DBRP on behalf of the employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government or school district's collective net pension liability that is associated with the non-State employer.

The State also has a funding situation that is not considered a special funding situation whereby the General Fund provides contributions received from the Coal Severance Tax collections and interest accrued on the Coal Tax Permanent Trust Fund. All employers are required to report the portion of Coal Severance Tax and interest attributable to the employer as a grant revenue.

	(dollars presented in thousands)		
	Net Pension Liability as of 6/30/14	Net Pension Liability as of 6/30/15	Percent of Collective NPL
State's Proportionate Share as an Employer Entity	$663,174	$749,414	53.611080%
State's Proportionate Share as a Nonemployer Contributing Entity	11,978	13,365	0.956090%
State of Montana Totals	$675,152	$762,779	54.567170%

At June 30, 2016, the State reported a liability of $762.8 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The proportion of the net pension liability is based on the employer's and nonemployer's special funding contributions received by the PERS-DBRP during the measurement period of July 1, 2014, through June 30, 2015, relative to the total employer and nonemployer special funding contributions received from all PERS-DBRP participating employers.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were some changes in proportion that may have an effect on the employer's proportionate share of the collective net pension liability.

Employer Pension Expense and Nonemployer Contributing Entity Grant Expenses
At June 30, 2016, the State as an employer recognized a pension expense of $50.7 million for its proportionate share of the PERS-DBRP's pension expense. The State as a nonemployer contributing entity recognized grant expense of $874 thousand for special funding support provided by the General Fund for its proportionate share of the PERS-DBRP's pension expense that is associated with other employer participants in the plan. Total pension related expenses at June 30, 2016 were $51.6 million.

Support Revenue
As of the fiscal year ended June 30, 2016, the State as an employer recognized grant revenue of $18.0 million for its proportionate share of total nonemployer entity contributions from the Coal Severance Tax and interest nonspecial funding situation.

Deferred Outflows and Inflows
At June 30, 2016, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2015 contributions of $58.6 million.

As of the fiscal year ended June 30, 2016, the State as an employer has the following proportionate shares of the PERS-DBRP's deferred outflows of resources and deferred inflows of resources from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	-	$63,446
Actual versus expected experience	-	4,534
Differences between actual contributions and proportionate share contributions	$ 949	392
Changes in proportionate shares	8,880	4,326
Contributions paid to PERS-DBRP subsequent to the measurement date - FY 2016 Contributions	59,073	-
Totals	$68,902	$72,698

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2015, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	*(in thousands)* Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	$(26,419)
2018	(26,419)
2019	(26,532)
2020	16,501
2021	-
Thereafter	-

At June 30, 2016, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2015 contributions of $32.4 million.

As of the fiscal year ended June 30, 2016, the State as a nonemployer contributing entity reported its proportionate share of the PERS-DBRP's deferred outflows of resources and deferred inflows of resources from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	-	$1,131
Differences between actual contributions and proportionate share contributions	-	57
Changes in proportionate shares	-	61
Actual versus expected experience	-	81
Contributions paid to PERS-DBRP subsequent to the measurement date - FY 2016 Contributions	$30,800	-
Totals	$30,800	$1,330

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2015, measurement date will be recognized as a reduction to its share of the net pension liability in the fiscal year ended June 30, 2017.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in grant expense as follows:

Year ended June 30:	*(in thousands)* Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2017	$(545)
2018	(545)
2019	(534)
2020	294
2021	-
Thereafter	-

Sheriffs' Retirement System – The SRS, administered by the MPERA, 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 established by state law and can only be amended by the Legislature. The SRS 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 are vested after five years of service.

Summary of Benefits

Member's highest average compensation (HAC)
Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months;
Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months.
Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's HAC.

Eligibility for benefit
Service Retirement
20 years of membership service, regardless of age.

Early Retirement
Age 50, 5 years of membership service, actuarially reduced.

Vesting
5 years of membership service

Monthly benefit formula
2.5% of HAC per year of service

Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

Contributions to the Plan

Rates are specified by state law for periodic employee and employer contributions and are a percentage of the member's compensation. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system – Contributions are deducted from each member's salary and remitted by participating employers. Plan members are required to contribute 9.245% of member's compensation.

Employer contributions to the system - The employers are required to contribute 10.115% of member compensation. Effective July 1, 2013, employer contributions are required to be paid on working retiree compensation. Member contributions are not required for working retirees.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.75%
- Administrative Expense as a % of Payroll 0.17%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0% to 7.3%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.
  - For members hired prior to July 1, 2007 3.00%
  - For members hired on or after July 1, 2007 1.50%
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the total pension liability was 6.68%, which is a blend of the assumed long-term expected rate of return of 7.75% on SRS's investments and a municipal bond index rate of 3.80%. The basis for this is the June 30, 2016 Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. Based on those assumptions, the SRS's fiduciary net position was projected to not be adequate to make all the projected future benefit payments of current plan members after 2057. Therefore, the portion of future projected benefit payments after 2057 are discounted at the municipal bond index rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the SRS. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the SRS's target asset allocation as of June 30, 2015, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 6.86%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (5.86%) or 1.00% higher (7.86%) than the current rate.

		(in thousands)	
	1.0% Decrease (5.86%)	Current Discount Rate	1.0% Increase (7.86%)
Employer's SRS Net Pension Liability	$8,727	$5,434	$2,735

Net Pension Liability

In accordance with GASB 68, employers are required to recognize and report certain amounts associated with their participation in the SRS. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability (NPL), pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions.

	(dollars presented in thousands)		
	Net Pension Liability as of 6/30/14	Net Pension Liability as of 6/30/15	Percent of Collective NPL
Employer Proportionate Share	$2,304	$5,434	5.637055%

At June 30, 2016, the State as an employer reported a liability of $5.4 million for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The employer's proportion of the net pension liability was based on the employer's contributions received by the SRS during the measurement period, July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of SRS participating employers. At June 30, 2015, the employer's proportion was 5.637055%.

Changes in actuarial assumptions and methods: There were no changes in demographic assumptions that affected the measurement of the total pension liability. There was an adjustment in the discount rate during the measurement period.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension liability and the employer's reporting date that are expected to have a significant effect on the Employer's proportionate share of the collective net pension liability.

Pension Expense

At June 30, 2016, the employer recognized a pension expense of $420.3 thousand for its proportionate share of the SRS pension expense.

Deferred Outflows and Inflows

At June 30, 2016, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2015 contributions of $388 thousand.

As of the fiscal year ended June 30, 2016, the State, as an employer, reported its proportionate share of the SRS's deferred outflows of resources and deferred inflows of resources from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	$2,023	$1,995
Actual versus expected experience	-	9
Changes in proportionate shares	87	-
Difference between projected and actual earnings on pension plan investments	-	372
Contributions paid to SRS subsequent to the measurement date - FY 2016 contributions	389	-
Totals	$2,499	$2,376

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the measurement date of June 30, 2015, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	*(in thousands)* Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	$(136)
2018	(136)
2019	(137)
2020	122
2021	21
Thereafter	-

Municipal Police Officers' Retirement System – The MPORS, administered by the MPERA, is a multiple-employer, cost-sharing defined benefit plan that was established in 1974 and is governed by Title 19, chapters 2 & 9, MCA. This plan covers all municipal police officers employed by first- and second-class cities and other cities that adopt the plan. Benefits are established by state law and can only be amended by the Legislature. The MPORS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and final average compensation. Member rights for death and disability are vested immediately. All other rights are vested after five years of service.

Deferred Retirement Option Plan (DROP)
Beginning July 2002, eligible members of the MPORS can participate in the DROP by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. A member must have completed at least twenty years of membership service to be eligible. 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 participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit is calculated based on salary and years of service to the date 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. As of June 30, 2016, there are 60 DROP participants. Since program inceptions, a total of 142 members have participated in the DROP. The balance held by MPERA for DROP participants as of June 30, 2016, was approximately $7.2 million.

The State is not an employer participant in the MPORS plan. However, because the PERB is a fiduciary component unit of the State, this CAFR presents certain information to help ensure compliance with GASB 67. In addition, the State provides nonemployer entity contributions classified as special funding in accordance with GASB 68. Disclosures made in this financial report are meant to reflect the aforementioned relationships.

Summary of Benefits

Member's final average compensation (FAC)
Hired prior to July 1, 1977 – average monthly compensation of final year of service;
Hired on or after July 1, 1977 – final average compensation (FAC) for last consecutive 36 months.
Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's FAC.

Eligibility for benefit
Service Retirement
20 years of membership service, regardless of age.

Second Retirement
Age 50, reemployed in a MPORS position

Early Retirement
Age 50, 5 years of membership service.

Vesting
5 years of membership service.

Monthly benefit formula
2.5% of FAC per year of service credit.

Second retirement benefit formula
Recalculated using specific criteria:
Less than 20 years of membership service, based on total MPORS service

More than 20 years of membership service, initial benefit plus new service credit and FAC after reemployment

Guaranteed Annual Benefit Adjustment (GABA)
Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA)
If hired before July 1, 1997, and member did not elect GABA – the monthly retirement, disability or survivor's benefit may not be less than 50% of the compensation of a newly confirmed officer in the city where the member was last employed.

Contributions to the Plan

Rates are specified by state law for periodic employee, employer, and nonemployer entity contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions – Contribution rates are dependent upon date of hire as a police officer. Contributions are deducted from each member's salary and remitted by the participating Employer. For fiscal year 2016:

- If hired after June 30, 1975, and prior to July 1, 1979, member contributions as a percentage of salary are 7.00%;
- If hired after June 30, 1979, and prior to July 1, 1997, member contributions as a percentage of salary are 8.50%; and,
- If hired on or after July 1, 1997, and for members electing GABA, member contributions as a percentage of salary are 9.00%.

Employer Contributions – Employers are required to contribute 14.41% of a member's compensation.

Nonemployer Entity Contributions – The State contributes 29.37% of a member's compensation from the General Fund. These amounts are considered a special funding situation in accordance with GASB 68.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.75%
- Admin expense as a % of payroll 0.20%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0% to 7.3%
- Postretirement Benefit Increases
  - GABA
    Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit
  - Minimum benefit adjustment (non-GABA)
    If hired before July 1, 1997 and member did not elect GABA – the monthly retirement, disability or survivor's benefit may not be less than 50% the compensation of a newly confirmed officer in the city that the member was last employed

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 29.37% of salaries paid by employers. Based on those assumptions, the MPORS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the MPORS. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the MPORS's target asset allocation as of June 30, 2015, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis

In accordance with GASB 68, regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	1.0% Decrease (6.75%)	*(in thousands)* Current Discount Rate	1.0% Increase (8.75%)
State as a Nonemployer entity Net Pension Liability	$156,371	$110,756	$70,262

Net Pension Liability

In accordance with GASB 68, employers and nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the MPORS. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions.

In accordance with GASB 68, the MPORS has a special funding situation in which the State is legally responsible for making contributions directly to the MPORS on behalf of the employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government's collective net pension liability that is associated with the non-State employer.

(dollars presented in thousands)

	Net Pension Liability as of 6/30/14	Net Pension Liability as of 6/30/15	Percent of Collective NPL
State as a Nonemployer Contributing Entity - Proportionate Share	$105,106	$110,756	66.954111%

At June 30, 2016, the State as a nonemployer contributing entity reported a liability of $110.8 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The nonemployer's proportion of the net pension liability was based on the nonemployer's special funding contributions received by the MPORS during the measurement period of July 1, 2014, through June 30, 2015, relative to total contributions received from all of the MPORS's participating employers and the nonemployer contributing entity. At June 30, 2015, the State's proportion was 66.954111%.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were some changes in proportion that may have an effect on the employer's proportionate share of the collective net pension liability.

Grant Expense Related to Special Funding

The State recognized grant expense of $11.3 million for special funding support provided by the General Fund for its proportionate share of the MPORS's pension expense that is associated with other employer participants in the plan.

Deferred Outflows and Inflows

At June 30, 2016, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2015 contributions of $13.4 million.

As of the fiscal year ended June 30, 2016, the State as a nonemployer reported its proportionate share of the deferred outflows of resources and deferred inflows of resources related to MPORS from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	-	$4,161
Changes in proportionate shares	$ 87	-
Actual versus expected experience	-	1,011
Contributions paid to MPORS subsequent to the measurement date - FY 2016 Contributions	13,752	-
Totals	$13,839	$5,172

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2015, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in grant expense as follows:

	(in thousands)
Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2017	$(2,156)
2018	(2,156)
2019	(2,155)
2020	1,382
2021	-
Thereafter	-

<u>Firefighters' Unified Retirement System</u> – The FURS, administered by the MPERA, 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 on or after October 1, 2001. Benefits are established by state law and can only be amended by the Legislature. The FURS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and compensation. Member rights for death and disability are vested immediately. All other member rights are vested after five years of service.

Summary of Benefits

Member's compensation

Hired prior to July 1, 1981, and not electing GABA – highest monthly compensation (HMC);

Hired after June 30, 1981, and those electing GABA – highest average compensation (HAC) during any consecutive 36 months.

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's highest average compensation.

Eligibility for benefit

Service retirement

20 years of membership service, regardless of age.

Early Retirement

Age 50, 5 years of membership service.

Vesting

5 years of membership service.

Monthly benefit formula

Members hired prior to July 1, 1981, and not electing GABA are entitled to the greater of:

2.5% of HMC per year of service; **or**

- if less than 20 years of service – 2% of HMC for each year of service;
- if more than 20 years of service – 50% of the member's HMC plus 2% of the member's HMC for each year of service over 20 years.

Members hired on or after July 1, 1981, and those electing GABA: 2.5% of HAC per year of membership service.

Guaranteed Annual Benefit Adjustment (GABA)

Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.

Minimum Benefit Adjustment (non-GABA)
If hired before July 1, 1997 and the member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 50% of the compensation of a newly confirmed firefighter employed by the city that last employed the member, provided the member has at least 10 years of membership service.

Contributions to the Plan
Rates are specified by state law for periodic employee, employer and nonemployer entity contributions. The Legislature has the authority to establish and amend contribution rates to the plan. Effective July 1, 2013, employer and state contributions are required to be paid on working retiree compensation. Member contributions are not required for working retirees.

Member contributions to the system – Contributions are deducted from each member's salary and remitted by the participating Employer. For members:

Hired prior to July 1, 1997 and not electing GABA, member contributions as a percentage of salary are 9.50%;
Hired on or after July 1, 1997 and electing GABA, member contributions as a percentage of salary are 10.70%.

Employer contributions to the system – Employers are required to contribute 14.36% of member's compensation.

Nonemployer entity contributions to the system – The State contributes 32.61% of a member's compensation from the General Fund.

Actuarial Assumptions
The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period of July 1, 2003, to June 30, 2009. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.75%
- Admin Expense as a % of Payroll 0.19%
- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0% to 7.3%
- Postretirement Benefit Increases
  - GABA
    Members hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustment to the member's benefit.
  - Minimum Benefit Adjustment (non-GABA)
    Members hired before July 1, 1997 and member did not elect GABA – the monthly retirement, disability or survivor's benefit may not be less than 50% the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least 10 years of membership service).
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 32.61% of salaries pensionable payroll paid by employers. Based on those assumptions, the FURS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the FURS. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by an investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the FURS's target asset allocation as of June 30, 2015, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

		(in thousands)	
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as an Employer in FURS - Net Pension Liability	$ 3,959	$ 2,454	$ 1,228
State as a Nonemployer Contributing Entity to FURS - Net Pension Liability	111,140	68,892	34,463

Net Pension Liability

In accordance with GASB 68, employers and nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the FURS. GASB 68 became effective June 30, 2015, and includes requirements to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions.

In accordance with GASB 68, the FURS has a special funding situation in which the State is legally responsible for making contributions directly to the FURS on behalf of the employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government or fire district's collective net pension liability that is associated with the non-State employer.

(dollars presented in thousands)

	Net Pension Liability as of 6/30/14	Net Pension Liability as of 6/30/15	Percent of Collective NPL
State's Proportionate Share as an Employer Entity	$ 1,806	$ 2,454	2.399255%
State's Proportionate Share as a Nonemployer Contributing Entity	66,384	68,892	67.358196%
State of Montana Totals	$68,190	$71,346	69.757451%

At June 30, 2016, the State reported a liability of $71.3 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity in relation to the FURS. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The proportion of the net pension liability was based on the all employer and nonemployer contributions received by the FURS during the measurement period, July 1, 2014, through June 30, 2015, relative to the total contributions received from all FURS participating employers and the nonemployer contributing entity. At June 30, 2015, the State as employer had a proportion of 2.399255% and the nonemployer proportion was 67.358196%.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were some changes in proportion that may have an effect of the employer's proportionate share of the collective net pension liability.

Employer Pension Expense and Nonemployer Contributing Entity Special Funding Grant Expense

At June 30, 2016, the State as an employer recognized pension expense of $377.3 thousand for its proportionate share of the FURS pension expense. The State also recognized grant expense of $7.5 million for special funding support provided by the General Fund for its proportionate share of the FURS's pension expense that is associated with other employer participants in the plan. Total pension related expenses at June 30, 2016, was $7.9 million.

Deferred Outflows and Inflows

At June 30, 2016, the State, as an employer, recognized a beginning deferred outflow of resources for fiscal year 2015 contributions of $361 thousand.

As of the fiscal year ended June 30, 2016, the State as an employer reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to the FURS from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	-	$148
Changes in proportionate shares	$536	-
Actual versus expected experience	-	3
Contributions paid to FURS subsequent to the measurement date - FY 2016 Contributions	475	-
Totals	$1,011	$151

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the measurement date of June 30, 2015, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	*(in thousands)* Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	$ 40
2018	40
2019	40
2020	157
2021	107
Thereafter	-

At June 30, 2016, the State recognized a beginning deferred outflow of resources as a nonemployer contributing entity for fiscal year 2015 contributions of $13.6 million.

As of the fiscal year ended June 30, 2016, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to FURS from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	-	$4,164
Changes in proportionate shares	-	631
Actual versus expected experience	-	90
Contributions paid to FURS subsequent to the measurement date - FY 2016 Contributions	$13,635	-
Totals	$13,635	$4,885

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2015, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in grant expense as follows:

Year ended June 30:	*(in thousands)* Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2017	$(2,001)
2018	(2,001)
2019	(2,002)
2020	1,264
2021	(144)
Thereafter	-

Volunteer Firefighters' Compensation Act – The VFCA, administered by the MPERA, is a statewide retirement and disability plan established in 1965, and governed by Title 19, chapter 17, MCA. All members are unpaid volunteers and the State is the only contributor to the plan. Benefits are established by state law and can only be amended by the Legislature. The VFCA provides pension, disability, and survivorship benefits for all eligible volunteer firefighters who are members of qualified volunteer fire companies in unincorporated areas, towns or villages, and included volunteer fire departments, fire districts, and fire service areas under the laws of the State. 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. However, a returning retired member may not be considered an active member accruing credit for service.

Summary of Benefits

Eligibility for benefit
Age 55, 20 years of credited service;
Age 60, 10 years of credited service.

Additional benefit
As of April 25, 2005, all retirees may receive a benefit per month equal to $7.50 for each year of credited service, up to 30 years of credited service (maximum benefit $225).

Effective July 1, 2011, members who retire on or after July 1, 2011, and have greater than 30 years of credited service will receive $7.50 per month for each additional year of credited service over 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 be capped at $225 a month (30 years of credited service) if the amortization period grows to greater than 20 years.

Vesting
10 years of credited service.

Monthly benefit formula (effective January 1, 2016)
$8.75 per year of credited service up to 20 years;
$7.50 per year of credited service after 20 years

Contributions to the Plan

The State, as a nonemployer contributing entity, is the only contributor to the VFCA. Contributions are 5% of fire insurance premium taxes collected on certain fire risks. This requires the plan to be treated as a special funding situation in accordance with GASB 68. The State Auditor makes annual payments from the General Fund to the VFCA fund. Rates are specified by state law for contributions to the VFCA plan. The State legislature has the authority to establish and amend contribution rates to the plan.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the last actuarial experience study, dated May 2010 for the six-year period of July 1, 2003, to June 30, 2009. Among those assumptions were the following:

- Investment Return 7.75%
- Inflation at 3.00%
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

For VFCA the average dollar amount of recurring expense over the last three years was $61,000, adjusted for the inflation assumption. This dollar amount is added to normal cost for valuation purposes.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from the nonemployer contributing entity will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 5% of fire insurance premium taxes paid on certain fire risks. Based on those assumptions, the VFCA's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the VFCA. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the VFCA's target asset allocation as of June 30, 2015, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

(in thousands)

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as a Nonemployer entity Net Pension Liability	$14,777	$10,504	$6,865

Net Pension Liability

In accordance with GASB 68, employers and nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the VFCA. GASB 68 became effective June 30, 2015, and includes requirements to record and report proportionate shares of the collective net pension liability, pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions.

In accordance with GASB 68, the VFCA has a special funding situation in which the State is legally responsible for making contributions directly to the VFCA on behalf of volunteer employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a volunteer fire company's collective net pension liability that is associated with the non-State volunteer employer.

(dollars presented in thousands)

	Net Pension Liability as of 6/30/14	Net Pension Liability as of 6/30/15	Percent of Collective NPL
State as a Nonemployer Proportionate Share	$5,089	$10,504	100%

At June 30, 2016, the State reported a liability of $10.5 million for its proportionate share of the net pension liability. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The nonemployer's proportion of the net pension liability was based on the nonemployer's contributions received by the VFCA during the measurement period, July 1, 2014, through June 30, 2015, relative to total contributions received. At June 30, 2015, the State's proportion as a nonemployer contributing entity in a special funding situation was 100%.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension liability and the nonemployer's reporting date that are expected to have a significant effect on the nonemployer's proportionate share of the collective net pension liability.

Grant Expense Related to Special Funding

The State as a nonemployer contributing entity recognized grant expense of $6.3 million for special funding support provided by a portion of fire tax premiums paid to the State and transferred to MPERA for its proportionate share of the VFCA pension expense that is associated with other employer participants in the plan.

Deferred Outflows and Inflows

At June 30, 2016, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2015 contributions of $1.9 million.

As of the fiscal year ended June 30, 2016, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to VFCA from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	-	$309
Earnings on pension plan investments	-	693
Contributions paid to VFCA subsequent to the measurement date - FY 2016 Contributions	$2,024	-
Totals	$2,024	$1,002

Amounts reported as deferred outflows of resources related to pensions resulting from the State's contributions made subsequent to the June 30, 2015, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in grant expense as follows:

Year ended June 30:	*(in thousands)* Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2017	$(612)
2018	(302)
2019	(303)
2020	215
2021	-
Thereafter	-

Teachers' Retirement System – The TRS is administered by the Teachers' Retirement Board (TRB), which is the governing body of a mandatory multiple-employer cost-sharing defined benefit pension plan that 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. The TRS as an employer does not participate in the plan and acts only as the administrator of the plan.

The TRB is the governing body of the TRS and the TRS's staff administer the TRS in conformity with the laws set forth in Title 19, chapter 20, MCA, and administrative rules set forth in Title 2, chapter 44 of the Administrative Rules of Montana.

Summary of Benefits
Through June 30, 2013, all members enrolled in TRS participated in a single-tiered plan ("Tier One"). Employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to creditable service years divided by 60 times the average final compensation. Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Benefits are established by state law and can only be amended by the Legislature.

Beginning July 1, 2013, new members in TRS participate in a second benefit tier ("Tier Two"), which differs from Tier One as follows:

- Tier Two uses a 5-year average final compensation (as opposed to 3-year AFC in Tier One)
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One)
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One)
- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation—1.85% x AFC x years of creditable service—for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than 1.6667 x AFC x years of creditable service)

A guaranteed annual benefit adjustment (GABA) is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABA for Tier 1 members is 1.5% of the benefit payable as of January 1. For Tier Two members the GABA each year may vary from 0.5% to 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. The legislative enactment that allows for reduction of the GABA for Tier One members was in litigation and has since been settled.

Contributions to the System
All active employees in the TRS, regardless of employer type, are required to provide a contribution equal to 8.15% of their compensation.

All State and University employers are required to contribute 11.05% of compensation provided to an active, nonreemployed member. All school district and other employers are required to contribute 8.67% of an active, nonreemployed, member's compensation to the System.

Section 19-20-605, MCA, requires each employer to contribute 9.85% of total compensation paid to all reemployed TRS retirees employed in a TRS reportable position. Pursuant to Section 19-20-609, MCA, this amount shall increase by 1.00% for fiscal year 2014 and increase by 0.10% each fiscal year through 2024 until the total employer contribution is equal to 11.85% of reemployed retiree compensation.

The TRS receives a portion of the total required statutory contributions directly from the State for all employers. The employers are considered to be in a special funding situation and the State is treated as a nonemployer contributing entity in the TRS. The System receives 0.11% of reportable compensation from the General Fund for all TRS members. The TRS also receives 2.38% of reportable compensation from the General Fund for school districts and other employers. Finally, the State is also required to contribute $25 million in perpetuity payable July 1st of each year. The Legislature has the authority to establish and amend contribution rates to the plan.

Actuarial Assumptions

The total pension liability as of June 30, 2015, is based on the results of an actuarial valuation date of July 1, 2015. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2015, valuation were based on the results of the last actuarial experience study, dated May 1, 2014. Among those assumptions were the following:

- Total wage increases (includes 4% general wage increase assumption) — 4.00%-8.51% for non-university members; 5.00% for university members
- Price Inflation — 3.25%
- Investment Return — 7.75%
- Postretirement Benefit Increases (starting three years after retirement)
    - Tier One members: If the retiree has received benefits for at least three years, the retirement allowance will be increased by 1.5% on January 1st.
    - Tier Two members: The retirement allowance will be increased by an amount equal to or greater than .5% but no more than 1.5% if the most recent actuarial valuation shows the TRS to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.
- Mortality among contributing members, service retired members, and beneficiaries
    - For Males: 1992 base rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 base rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
    - For Females: 1992 base rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and base rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members
    - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
    - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating TRS members, employers, and nonemployer contributing entities will be made based on the TRB's funding policy, which establishes the contractually required rates under MCA. In addition to these contributions, the State General Fund will contribute $25 million annually to the TRS payable July 1st of each year. Based on those assumptions, the TRS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2119. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

The assumed long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the TRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the TRS's target asset allocation as of June 30, 2015, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Broad US Equity	36.00%	4.80%
Broad International Equity	18.00%	6.05%
Private Equity	12.00%	8.50%
Intermediate Bonds	23.40%	1.50%
Core Real Estate	4.00%	4.50%
High Yield Bonds	2.60%	3.25%
Non-Core Real Estate	4.00%	7.50%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

(in thousands)

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as an Employer in TRS - Net Pension Liability	$77,256	$56,230	$38,538
State as a Nonemployer Contributing Entity to TRS - Net Pension Liability	889,052	647,092	443,496

Net Pension Liability

In accordance with GASB 68, employers and nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the TRS. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions. In accordance with GASB 68, the TRS has a special funding situation in which the State is legally responsible for making contributions directly to TRS that are used to provide pension benefits to the retired members of the TRS. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government or school district's collective net pension liability that is associated with the non-State employer.

(dollars presented in thousands)

	Net Pension Liability as of 6/30/14	Net Pension Liability as of 6/30/15	Percent of Collective NPL
State's as an Employer Entity	$ 72,168	$ 56,230	3.422388%
State's as a Nonemployer Entity	596,724	647,092	39.384625%
State of Montana Totals	$668,892	703,322	42.807013%

At June 30, 2016, the State reported a liability of $703.3 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The employer's proportion of the net pension liability was based on the State's contributions received by the TRS during the measurement period, July 1, 2014, through June 30, 2015, relative to the all contributions received from the TRS's participating employers and the nonemployer contributing entity. At June 30, 2015, the State as an employer had a proportionate share of 3.422388% and as a nonemployer contributing entity a proportionate share of 39.384625%.

Changes in actuarial assumptions and methods: The following changes in assumptions or other inputs that affected the measurement of the total pension liability have been made since the previous measurement date.

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three-year COLA deferral period for Tier Two members.
- The 0.63% load applied to the projected retirement benefits of the university members "to account for larger than average annual compensation increases observed in the years immediately preceding retirement" is not applied to benefits expected to be paid to university members on account of death, disability and termination (prior to retirement eligibility).
- The actuarial valuation was updated to reflect the assumed rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.
- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the $500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to "retain membership in the TRS" are covered by the $500 death benefit after termination.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective net pension liability.

Employer Pension Expense and Nonemployer Contributing Entity Special Funding Grant Expense

At June 30, 2016, the State as an employer recognized a pension expense of $7.7 million for its proportionate share of the collective TRS pension expense. The State as a nonemployer contributing entity also recognized grant expense of $30.0 million for special funding support provided by the State's General Fund for its proportionate share of the collective TRS pension expense that is associated with other employer participants in the TRS. Total pension expense for fiscal year 2016 was $37.7 million.

Deferred Outflows and Inflows

At June 30, 2016, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2015 contributions of $16.2 million.

As of the fiscal year ended June 30, 2016, the State as an employer reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to the TRS from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 593	-
Difference between projected and actual earnings on pension plan investments	-	$3,019
Changes in proportionate share	796	119
Difference between actual and expected	11,322	696

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
contributions and changes in proportion		
Contributions paid to TRS subsequent to the measurement date - FY 2016 Contributions	16,946	-
Totals	$29,657	$3,834

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2015, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

Other amounts reported as deferred outflows of resources and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	*(in thousands)* Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	$3,778
2018	3,777
2019	547
2020	775
2021	-
Thereafter	-

At June 30, 2016, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources as a for fiscal year 2015 contributions of $42.8 million.

As of the fiscal year ended June 30, 2016, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 6,824	$ -
Changes of assumptions	9,157	1,367
Difference between projected and actual earnings on pension plan investments	-	34,748
Changes in proportionate shares	4,384	24,206
Contributions paid to TRS subsequent to the measurement date - FY 2016 Contributions	42,400	-
Totals	$62,765	$60,321

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions subsequent to the June 30, 2015, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in grant expense as follows:

Year ended June 30:	(in thousands) Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2017	$(15,598)
2018	(15,596)
2019	(17,676)
2020	8,914

Year ended June 30:	(in thousands) Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2021	-
Thereafter	-

D. Legal 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, 2016, the Sheriffs' Retirement System (SRS) and Game Warden & Peace Officers' Retirement System (GWPORS) were not in compliance and do not amortize.

E. Public Employee Defined Contribution Retirement Plans

Public Employees' Retirement System-Defined Contribution Retirement Plan – The Public Employees' Retirement System - Defined Contribution Retirement Plan (PERS-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 PERS 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. 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. The PERS-DBRC provides retirement, disability and death benefits to plan members and their beneficiaries.

Member and Employer contribution rates are established by state law and may be amended only by the Legislature. Employees contribute at a rate of 7.90% of their compensation. Contributions made to the plan by an employee remain 100% vested in their interest. Members who achieve 5 years of employment are vested in the plan. Should they terminate prior to this 5 year period, all employer contributions are forfeited to the plan. Amounts forfeited are held in a separate plan forfeiture account and can only be used to pay the administrative expenses, including startup costs, of the plan. Total pension expense for the State as a PERS-DCRP employer for the year ended June 30, 2016, is $3.7 million and contribution forfeitures were $219.8 thousand.

Local government entities contribute 8.27% of member compensation. School district employers contributed 7.90% of member compensation. The State contributes 0.1% of member compensation on behalf of local government entities and 0.37% of member compensation on behalf of school district entities. Each State agency and University employer contributed 8.37% of member compensation.

The total contribution rate of 8.37%, referenced in the preceding paragraph, is allocated as follows: 4.19% to the member's retirement account; 3.84% to the member's retirement account after the plan choice rate unfunded actuarial liability was paid in March 2016; 0.04% to the defined contribution education fund; and 0.30% to the defined contribution Other Post Employment Benefit (OPEB) disability plan.

The PERS-DCRP also administers an OPEB disability plan. See Note 7 for additional information related to this portion of the plan.

457-Deferred Compensation Plan – The 457-Deferred Compensation Plan (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) Section 457. This plan is available to all employees of the State, Montana University System, and contracting political subdivisions. The State and 43 non-state entity employers participate in the 457-Plan.

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. Empower Retirement™ is the record keeper for the plan. Participants elect to defer a portion of their salary, within IRC 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.

F. Montana University System Retirement Program

Montana University System-Retirement Program (MUS-RP) – This system was established in January 1988 and is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Effective July 1, 1993, MUS-RP was made the mandatory retirement plan for new faculty and administrative staff with contracts under the authority of the Board of Regents, 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 MCA. Combined contributions to the faculty and professional staff plan cannot exceed 13% of the participant's compensation per 19-21-203, MCA. Combined contributions to the classified staff plan are 16.37% per 19-3-316, MCA.

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 Montana University System records employee/employer contributions, and remits monies to TIAA-CREF. Total contributions made to the plan by the employer were $14.9 million and the total employee contributions were $17.8 million for the fiscal year ended June 30, 2016.

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. 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 appraised value. 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. Further detail related to investments is provided in Note 3.

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) 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 2016, there were 242 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 Montana Public Employee Retirement Administration (MPERA) on the unpaid balance. Total contributions received (including interest) during fiscal year 2016 totaled $239.3 thousand. The outstanding balance at June 30, 2016, totaled $29.7 thousand.

I. 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 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. A hearing on the cross motions for summary judgment was held before Judge Reynolds on October 7, 2014. A decision was made in favor of the State granting the motion on November 13, 2014.

The Plaintiffs appealed to the State Supreme Court and on September 28, 2016, the Court upheld the constitutionality of the plan choice rate. Therefore, neither the State nor MPERA will incur a liability.

Tadman, et al. v. State. A retired member of the Sheriffs' Retirement System filed a class action against the State of Montana on October 6, 2015, alleging the inappropriate payment of state and federal income tax on certain line-of-duty disability benefits. Plaintiff is represented by Lawrence A. Anderson, an attorney located in Great Falls, Montana. The State was served with the complaint on November 25, 2015, and will be represented by Eric Biehl and Hanna Warhank from Church, Harris, Johnson, & Williams PC, in Great Falls, Montana and the PERB's legal counsel. The State's response to the complaint was filed on January 25, 2016. As of the date of the printing of this report, no further action other than discovery has taken place in this matter.

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 Section 2-18-704, MCA 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. Medical, dental, and vision benefits are available through this plan. Retirement eligibility criteria differ by retirement plan. Further detail on Retirement Plans is provided in Note 6.

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

Section 19-3-2141, MCA, 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.

Montana State Fund, a discretely presented component of the State, by statute, prepares separately issued financial statements on a calendar year-end basis. Due to the difference in reporting period, there will be a variance between the note disclosures and the financial statements for the OPEB implicit rate subsidy.

B. Plan Descriptions

Both healthcare OPEB plans for the State of Montana and MUS are agent multiple employer plans. In addition to the primary government, the participating employers under the State Plan are Facility Finance Authority, Montana Board of Housing, Public Employees' Retirement System, Montana State Fund, and Teachers' Retirement System. 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, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (GASB 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 note disclosures. 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.

The 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, MCA. 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. The assets are held in a trust capacity for the beneficiaries. 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 Board
100 North Park, Suite 200
P.O. Box 200131
Helena, MT 59620-0131

Further details on the funding policies are provided in section D. of this note.

C. Basis of Accounting

OPEB liability is reported on an accrual basis on the proprietary and fiduciary fund financial statements, the government-wide financial statements and the component unit financial statements. OPEB is not reported on the governmental fund financial statements, as OPEB liability is considered a long-term liability. 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) at least meets the early retirement criteria defined by Montana Public Employees' Retirement Administration (MPERA); and (b) makes arrangements with the Health Care and Benefits Division (HCBD) within 60 days of the date active employee coverage ends to continue post-retirement coverage, may continue with the State Plan 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, 2016.

The number of State Plan participants as of December 31, 2015, follows:

State Plan Participants

Enrollment	State	Facility Finance Authority	Montana Board of Housing	Public Employee Retirement Board	Montana State Fund	Teachers Retirement System	Total
Active employees	12,241	1	17	45	269	19	12,592
Retired employees, spouses, and surviving spouses (1)	3,983	-	2	3	28	2	4,018
Total	16,224	1	19	48	297	21	16,610

(1) Due to the inability to determine, without considerable effort, the last place an employee worked before retiring, the bulk of retires are listed as State regardless of their last place of employment. 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 entity for the determination of the inactive liability by entity.

The number of MUS Plan participants as of June 30, 2016, follows:

MUS Plan Participants

Enrollment	MSU-Billings	MSU-Bozeman	GFC-MSU	MSU-Northern	OCHE	HC-UM	UM-Msla	UM-MT Tech	UM-Western	Other	Total
Active employees	427	2,392	113	165	76	87	2,091	373	173	324	6,221
Retired employees, spouses, and surviving spouses	168	699	12	52	29	23	649	129	86	79	1,926
Total	595	3,091	125	217	105	110	2,740	502	259	403	8,147

PERS-DCRP participants who are 100% vested in the plan, and become disabled, are entitled benefits as defined in Section 19-3-2141, MCA. There have been no significant changes in the number of participants or the type of coverage as of June 30, 2016.

The number of PERS-DCRP Disability Plan participants as of June 30, 2016, 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	2,409	7	-	-	-	2,416

D. Funding Policies

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

As of June 2016, the State Plan's administratively established retiree medical contributions vary between \$416 and \$1,506 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental contributions vary between \$41.10 and \$70 and vision hardware contributions vary between \$7.64 and \$22.26 depending on the coverage selected.

As of June 2016, the MUS plan's administratively established retiree medical premiums vary between \$225 and \$1,885 per month. Retiree dental premiums vary between \$52 and \$156 per month while vision premiums vary from \$7.48 to \$21.80 depending on the types and number of dependents enrolled. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2016, 1,763 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 Section 19-3-2117, MCA. 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, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 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 $34.0 million is 5.26% of annual covered payroll. The State's annual covered payroll is $645.9 million. The current MUS's ARC of $9.7 million is 2.33% of annual covered payroll. The MUS's annual covered payroll is $416.6 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 2016 (in thousands):

Annual OPEB Cost & Changes in Net OPEB Obligation

	State	MUS
Annual required contribution/OPEB cost	$ 33,960	$ 9,669
Interest on net OPEB obligation	10,482	4,569
Amortization factor	(8,221)	(3,584)
Annual OPEB cost	36,221	10,654
Retiree claims paid (1)	(8,999)	(3,056)
Increase in net OPEB obligation	27,222	7,598
Net OPEB obligation – beginning of year (1)	245,825	107,498
Net OPEB obligation – end of year	$273,047	$115,096

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

(1) A new actuarial valuation of the OPEB Liability was performed as of December 31, 2015. This resulted in the need to perform an adjustment of the amounts for reflection in the accounting records. The State adjusted the current year Retiree Claims Paid amount and the Montana University System adjusted their prior year OPEB balance. As a result, the upper table continues to show the State's Beginning Net OPEB Obligation historical value, but the new actuarial value is presented below; whereas, the MUS liability, in either table, no longer presents the prior year CAFR amount reported.

The State and MUS 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 2016 through 2013 was as follows (in thousands):

Contribution Ratio

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State	6/30/2016	$36,221	24.8%	$273,047
	6/30/2015	37,205	28.2%	246,643
	6/30/2014	36,823	19.1%	219,109
	6/30/2013	34,544	10.0%	189,327
MUS	6/30/2016	$10,654	28.7%	$115,096
	6/30/2015	10,624	31.3%	107,498
	6/30/2014	10,671	15.9%	99,891
	6/30/2013	13,288	6.9%	90,916

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 2016 through 2013 as follows for the State and University system plan participants (in thousands):

	Fiscal Year Ended	Covered Payroll	Statutorily Required Contribution Amount	Percentage of Statutorily Required Contribution Funded
State	6/30/2016	$66,224	$199	100%
	6/30/2015	55,339	166	100%
	6/30/2014	50,083	150	100%
	6/30/2013	46,540	140	100%
MUS	6/30/2016	$4,612	$14	100%
	6/30/2015	4,057	12	100%
	6/30/2014	4,115	12	100%
	6/30/2013	3,901	12	100%

F. Actuarial Methods and Assumptions

As of January 1, 2015, the State's actuarially accrued liability (AAL) for benefits was $347.9 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $347.9 million, and the ratio of the UAAL to the covered payroll was 53.87%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the December 31, 2015, 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 3.4% for medical and 10.8% prescription drugs. The decrease to the medical costs trend rate in plan year 2015 is based on actual trend data instead of estimated trend rates. The medical rate increases to an actuarially determined 9.5% in 2016. Both medical costs and prescription drugs are reduced by decrements to a rate of 5.0%, medical costs after eleven years and prescription drugs after six years.

As of July 1, 2015, the MUS actuarially accrued liability (AAL) for benefits was $110.5 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $110.5 million, and the ratio of the UAAL to the covered payroll was 26.5%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the June 30, 2016, 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 20.6% for both medical and prescription drugs, initially. The increase to medical and prescriptions drug cost trend rates in plan year 2015 is based on groups cumulative rate increase instead of estimate trend rates. Both medical costs and prescriptions drugs are reduced by decrements to a rate of 4.5% after eight 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 multi-year 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 Plan follows:

Other Postemployment Benefits
State Agent Multiple-Employer Plan

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands)		
Before Medicare eligibility	$11,172	$4,267
After Medicare eligibility	4,454	3,545
Actuarial valuation date	1/1/2015 (ARC calculated through December 31, 2015)	
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 GASB 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	2.50%	
Participation		
Future retirees	55.00%	
Future eligible spouses	60.00%	
Marital status at retirement	70.00%	

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

Other Postemployment Benefits
MUS Agent Multiple-Employer Plan

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands)		
Before Medicare eligibility	$8,392	$3,866
After Medicare eligibility	3,624	2,753
Actuarial valuation date	7/1/2015 (ARC Calculated through June 30, 2016)	
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 GASB 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	2.50%	
Participation		

Future retirees	50.00%
Future eligible spouses	60.00%
Marital status at retirement	70.00%

G. Termination Benefits

During the year ended June 30, 2016, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for six employees provided for up to twelve months, one-time lump-sum incentive payments for fifteen employees, and paid administrative leave for two employees. In determining the termination benefit liability related to the continued coverage of group health insurance benefits, it was assumed that these benefits would be paid for the entire period of the arrangement.

During the year ended June 30, 2016, component units of the State made the following termination benefit arrangements: continued coverage of health insurance benefits and/or one-time incentive payments for eighteen employees.

During the year ended June 30, 2016, the cost of termination benefits for the fiscal year was $665.0 thousand and $508.9 thousand for the State and its component units, respectively.

NOTE 8. RISK MANAGEMENT

There are three primary government public entity risk pools and one claims-servicing pool that are reported within the enterprise fund. These pools include Hail Insurance, the Montana University System (MUS) Group Insurance Plan, the MUS Workers Compensation Program, and the Subsequent Injury claims-servicing pool. The State of Montana (Old Fund) provides risk financing as an entity other than a public entity risk pool. The liability and payment of the workers compensation claims for incidents occurring before July 1, 1990, are reported in the government-wide financial statements within the primary government. 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. Additionally, 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 1,109 policies during the 2016 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.

To reduce its exposure to large losses, the fund purchased Crop Hail Quota Share Reinsurance for the 2016 growing season, with an 85% share of premiums and losses allotted to the Reinsurer and a 15% share of each allotted to the State Hail Insurance. The fund recorded a liability of $134.5 thousand which is 15% of the estimated claims in the amount of $813.6 thousand plus adjustment expenses through June 30, 2016. The amount deducted from the estimated claims as of June 30, 2016 for reinsurance was $691.6 thousand or 85% of estimated claims. The premiums ceded to the reinsurer through June 30, 2016 were $1.9 million which was 85% of total premiums of $2.2 million.

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.

(2) Montana University System (MUS) Group Insurance Plan –This plan is authorized by the Regents and in Section 20-25-13, MCA. 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, Blue Cross and Blue Shield of Montana administers the vision plan, and MedImpact is the administrator for the prescription drug program. Allegiance Benefit Plan Management, Blue Cross and Blue Shield of Montana, and Pacific Source are the three third-party claims administrators for the self-insured managed care plan. Allegiance Benefit Plan Management, Blue Cross and Blue Shield of Montana, and Pacific Source 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 $9.1 million as of June 30, 2016, 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 MUS. The MUS Board of Regents provides workers' compensation coverage under Compensation Plan Number One (Section 39-7-2101, MCA). The program is self-insured for workers' compensation claims with losses in excess of $750.0 thousand per occurrence ($500.0 thousand for claims occurring prior to July 1, 2013) and $1.0 million per aircraft occurrence covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of $1.0 million above the self-insured amount of $750.0 thousand ($500.0 thousand for claims occurring prior to July 1, 2013). During fiscal year 2016, the program ceded $311.8 thousand 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 $7.8 million for estimated claims at June 30, 2016. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, 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 are set by the Employment Relations Division of the Department of Labor and Industry annually. The rates 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 and 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. SIF will assume liability for the claim when the 104 weeks is reached. The benefit to an insured employer is that the insurer's liability is limited to 104 weeks on the claim. This 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, 2016, the amount of this liability was estimated to be $3.3 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	
	2016	2015	2016	2015	2016	2015
Unpaid claims and claim adjustment expenses at beginning of year	$ 17	$ 226	$ 7,300	$ 6,400	$ 8,289	$ 7,619
Incurred claims and claim adjustment expenses: provision for insured events of the current year	324	6,660	90,131	87,768	3,157	3,417
Less excess insurance reimbursement	-	-	-	-	(62)	-
Increase (decrease) in provision for insured events of prior years	79	523	-	-	(1,655)	(556)
Total incurred claims and claim adjustment expenses	403	7,183	90,131	87,768	1,440	2,861
Payments: Claims and claim adjustment expenses attributable to insured events of the current year	(189)	(6,643)	(88,331)	(86,868)	(598)	(701)
Claims and claim adjustment expenses attributable to insured events of prior years	(97)	(749)	-	-	(1,367)	(1,490)
Total payments	(286)	(7,392)	(88,331)	(86,868)	(1,965)	(2,191)
Total unpaid claims and claim adjustment expenses at end of year	$ 134	$ 17	$ 9,100	$ 7,300	$ 7,764	$ 8,289

B. Entities Other Than Pools

(1) 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 $2.0 million 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 $2.0 million of value, with state agencies paying the first $1.0 thousand. Commercial property insurance protects approximately $5.7 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of $2.0 million for earthquake and $2.0 million 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, 2006, through June 30, 2016, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. As of June 30, 2016, estimated claims liability was $15.4 million.

(2) 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 as third party administrator for medical coverage for the first six months of the fiscal year. The plan operates on a calendar year and the contract expired on December 31, 2015. Allegiance replaced Cigna as the administrator on January 1, 2016, for the last six months of the fiscal year. Delta Dental is the administrator for 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, 2016, 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 $17.9 million based on a formula provided by Actuaries Northwest, a consulting actuarial firm, of which $17.7 million is estimated to be paid in fiscal year 2017.

(3) State of Montana (Old Fund) – State of Montana (Old Fund) covers workers' compensation claims that were incurred before July 1, 1990. Old Fund is a risk financing insurance entity; however, the participants within the pool are individuals outside of governmental entities.

An actuarial study prepared by Towers Watson, as of June 30, 2016, 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, 2016, $38.4 million of unpaid claims and claim adjustment expenses were reported at face value.

(4) 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).

	Administration Insurance Plans		Employers Group Benefits Plan		State of Montana Old Fund	
	2016	2015	2016	2015	2016	2015
Amount of claims liabilities at the beginning of each fiscal year	$ 16,953	$ 17,550	$ 18,028	$ 22,103	$ 41,597	$ 45,034
Incurred claims:						
Provision for insured events of the current year	5,343	5,278	163,115	167,770	-	-
Increase (decrease) in provision for insured events of prior years	(167)	1,834	(4,035)	(7,182)	5,707	4,618
Total incurred claims	5,176	7,112	159,080	160,588	5,707	4,618
Payments:						
Claims attributable to insured events of the current year	(1,737)	(937)	(145,572)	(148,342)	-	-
Claims attributable to insured events of prior years	(4,948)	(6,772)	(13,663)	(16,321)	(8,894)	(8,055)
Total payments	(6,685)	(7,709)	(159,235)	(164,663)	(8,894)	(8,055)
Total claims liability at end of each fiscal year	$ 15,444	$ 16,953	$ 17,873	$ 18,028	$ 38,410	$ 41,597

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2016, the Department of Transportation had contractual commitments of approximately $189.2 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matched with state special revenue funds.

B. Capital Construction

At June 30, 2016, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $24.9 million for capital projects construction. The primary government will fund $15.1 million of these projects, with the remaining $9.8 million funding coming from the Montana University System.

C. 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 the BOI policies. As of June 30, 2016, the BOI had committed, but not yet purchased, $61.5 million in loans from Montana lenders. In addition to the above commitments, lenders had reserved $14.1 million for loans as of June 30, 2016. As of June 30, 2016, $1.6 million represented lender reservations for the VHLM residential mortgage purchases with no purchase commitments.

As of June 30, 2016, the BOI has committed but not yet funded $3.0 million to the Department of Natural Resources and Conservation to purchase tax bonds to finance projects.

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, 2016, 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 BOI makes firm commitments to fund loans from the INTERCAP loan program. The BOI's outstanding commitments to eligible Montana governments, as of June 30, 2016, totaled $44.1 million.

In November 2015, BOI authorized the issuance of up to an $8.5 million bond anticipation note (BAN) in anticipation of a new bond issuance in 2017 to provide liquidity to the INTERCAP loan program. The BAN was purchased and funded by the Permanent Coal Tax Trust Fund on April 15, 2016, with a stated maturity of March 15, 2017.

As of June 30, 2016, the Economic Development Bonds Enterprise Fund recorded an interentity loan payable to the Permanent Coal Tax Trust Fund in the amount of $1.2 million related to the BAN. The proceeds were used to fund two INTERCAP loan draws from a local government.

D. Department of Corrections Bond Commitments

At June 30, 2016, the outstanding tax-exempt bonds issued by the Facility Finance Authority were issued in the amount of $19.7 million of which $2.5 million is scheduled to be paid by June 30, 2017. These bonds have been issued to facilities operating treatment and prerelease centers. The Department of Corrections agrees to provide payment on behalf of the contractors for the total principal and interest payments in regard to these outstanding bonds.

E. Proprietary Fund Commitments

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

Proprietary Fund Commitments

Enterprise Funds	Amount
Liquor Warehouse	$ 69
State Lottery	260
Other	1
Subtotal – Enterprise funds	$330
Internal Service Funds	
Buildings & Grounds	$ 5
Employee Group Benefit	22
FWP Equipment	47
Information Technology Services	7
Labor Central Services	97
Prison Industries	98
Subtotal – Internal Service funds	$276

F. Encumbrances

As of June 30, 2016, the State of Montana encumbered expenditures as presented in the table below (in thousands):

	Federal Special Revenue Fund	General Fund	Nonmajor Governmental Funds	State Special Revenue Fund	Total
Encumbrances	$27,495	$10,333	$119	$52,878	$90,825

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, 2016, were as follows (in thousands):

Fiscal Year Ending June 30	Governmental Activities	Business-Type Activities
2017	$1,172	$208
2018	957	208
2019	663	208
2020	353	18
2021	167	-
2022-2026	2	-
Total minimum payments	3,314	642
Less: interest	(144)	(42)
Present value of minimum payments	$3,170	$600

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

Asset Class	
Buildings	$ 1,596
Equipment	7,506
Less: Accum Depreciation	(4,237)
Net Book Value	$ 4,865

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2016 totaled $25.4 million. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Governmental Activities	Business-Type Activities
2017	$ 24,735	$ 393
2018	21,953	229
2019	19,389	195
2020	15,424	118
2021	10,932	80
2022-2026	37,937	295
2027-2031	16,580	8
Thereafter	7,506	-
Total future rental payments	$154,456	$1,318

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. Notes may not be issued to refund outstanding notes.

During fiscal year 2016, the State issued four bond anticipation notes. The proceeds of Water/Waste Water – 2015A, Drinking Water – 2015B, Water/Waste Water – 2016C and Drinking Water – 2016D were used, and will be used, to fund water and wastewater system improvements and rehabilitation. As of June 30, 2016, no funds have been drawn on the Water/Waste Water – 2016C and Drinking Water – 2016D issuances. The State issued two bond anticipation notes during fiscal year 2015 that were still active at the end of fiscal year 2016. The following schedule summarizes the activity for the year ended June 30, 2016 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
BANS				
Water / Wastewater – 2014A	2,642	358	2,700	300
Drinking Water – 2014A	1,550	350	835	1,065
Water / Wastewater – 2015A	-	2,605	-	2,605
Drinking Water – 2015B	-	900	-	900

The Board of Investments (BOI) of the State 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 not a debt or liability of the State. 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. The bonds may be redeemed, at the bondholder's option, any March 1, prior to maturity. The BOI did not enter into an arms-length financing agreement to convert the bonds "put," or tender, and were not resold into some other form of long-term obligation. Accordingly, these bonds, considered demand bonds, are included in short-term debt. The amounts issued and outstanding at June 30, 2016, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2016
1998	12,500	11,695
2000	15,000	14,335
2003	15,000	14,430
2004	18,500	18,130
2007	15,000	14,775
2010	12,000	11,975
2013	12,000	12,000
		$97,340

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2016 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	$106,445	$ -	$9,105	$97,340

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, 2016, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments Fiscal Year 2017	Principal Payments In Year of Maturity (2)	Balance June 30, 2016
General obligation bonds						
Hard Rock Mining Reclamation	2002C	$ 2,500	3.5-4.7	$ 140	200 (2023)	$ 1,190
Long-Range Bldg Program Refunding	2003G	26,610	2.0-5.0	2,310	2,310 (2017)	2,310
CERCLA Program (6)	2005D	2,000	3.25-4.3	100	140 (2026)	1,185
Drinking Water Revolving Fund (3)	2005F	3,875	4.0-4.75	290	200 (2020)	1,110
Energy Conservation Program (5)	2006B	3,750	4.0-6.0	270	330 (2022)	1,800
CERCLA Program (6)	2006C	1,000	4.0	120	120 (2017)	120
Renewable Resource Program (4)	2006D	950	5.6-6.0	70	155 (2019)	225
Long-Range Bldg Program Refunding	2007A	16,740	4.25-5.0	2,340	2,465 (2018)	4,805
Long-Range Bldg Program	2008D	3,100	3.375-4.35	135	220 (2028)	2,065
Long-Range Bldg Program Refunding	2010A	20,220	2.0-4.0	610	710 (2021)	3,300
Drinking Water Revolving Fund Refunding (3)	2010B	5,400	2.0-4.0	460	110 (2026)	3,180
Water Pollution Control Revolving Fund Refunding (3)	2010C	6,450	2.0-4.0	-	560 (2019)	1,100
Trust Land	2010F	21,000	1.55-4.9	895	1,450 (2031)	16,985
Long-Range Bldg Program	2010G	550	1.5-2.7	55	60 (2021)	290
Renewable Resource Program (Taxable) (4)	2010H	1,000	1.0-3.85	100	115 (2021)	540
Long-Range Bldg Program Refunding	2011D	5,755	3.0 -3.25	590	720 (2023)	4,560
Long-Range Bldg Program Refunding	2013C	6,780	2.0-4.0	595	115 (2025)	5,520
Water Pollution Control Revolving Fund (3)	2013D	1,035	0.4-3.7	100	120 (2024)	855
Water Pollution Control Revolving Fund (3)	2013E	5,000	2.0-3.0	480	575 (2024)	4,180
Long-Range Bldg Program Refunding	2014	28,810	1.5-5.0	2,435	820 (2028)	26,475
Long-Range Bldg Program Refunding	2015A	9,340	2.0-4.0	2,810	1,260 (2020)	9,340
Water Pollution Control Revolving Fund (3)	2015C	24,365	3.0-5.0	670	1,860 (2036)	24,365
Total general obligation bonds		$ 196,230		$ 15,575		$ 115,500
Special revenue bonds						
State Hospital Project (7)	1997	$ 25,915	4.0-5.05	$ 1,425	1,820 (2022)	$ 9,695
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	160	215 (2024)	1,480
Broadwater Power Project Refunding (8)	2010A	10,180	3.0-4.0	1,550	1,605 (2018)	3,155
Renewable Resource Program (8)	2010B	1,730	2.0-3.6	75	115 (2031)	1,375
Renewable Resource Program (Taxable) (8)	2010C	6,720	0.9-4.2	355	170 (2031)	5,035
U.S. Highway 93 GARVEE (9)	2012	50,915	0.9-1.9	9,765	11,040 (2020)	41,550
Renewable Resource Program (8)	2013A	2,255	2.0-3.625	130	185 (2029)	2,000
Renewable Resource Program (Taxable) (8)	2013B	3,390	1.0-4.75	195	290 (2029)	3,010
U.S. Highway 93 GARVEE Refunding (9)	2016	22,540	0.74-1.86	2,635	3,740 (2023)	22,540
Total special revenue bonds		$ 126,645		$ 16,290		$ 89,840

Governmental Activities	Amount Issued	Interest Range (%) (1)	Principal Payments Fiscal Year 2017	Principal Payments In Year of Maturity (2)	Balance June 30, 2016
Middle Creek Dam Project (10)	$ 3,272	8.125	$ 81	226 (2034)	$ 2,200
Tongue River Dam Project (11)	11,300	-	290	290 (2038)	6,374
ITSD Software Licenses	1,004	3.44	323	335 (2018)	658
ITSD Software Licenses	2,890	2.41	947	494 (2019)	2,411
Total notes payable	$ 18,466		$ 1,641		$ 11,643
Subtotal governmental activities, before unamortized balances					216,983
Unamortized discount					(11)
Unamortized premium					13,645
Total governmental activities	$ 341,341		$ 33,506		$230,617

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

(11) Northern Cheyenne Tribe loan to the 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, 2016, were as follows (in thousands):

Governmental Activities

Year Ended June 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Special Revenue Bonds Principal	Special Revenue Bonds Interest	Notes Payable Principal	Notes Payable Interest
2017	$15,575	$ 4,351	$16,290	$ 3,641	$ 1,641	$ 114
2018	14,190	3,826	17,115	2,875	1,679	80
2019	11,010	3,381	16,195	2,234	872	46
2020	9,370	3,034	16,915	1,595	382	42
2021	8,165	2,735	6,160	947	385	42
2022-2026	31,540	9,290	14,505	1,832	1,992	208
2027-2031	17,190	3,920	2,660	250	2,125	208
2032-2036	8,460	1,099	-	-	1,987	124
2037-2041	-	-	-	-	580	-
Total	$115,500	$ 31,636	$89,840	$ 13,374	$ 11,643	$ 864

E. Summary of Changes in Long-term Liabilities

Primary government long-term liability activities for the year ended June 30, 2016, were 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	$ 134,795	$ -	$ 19,295	$ 115,500	$ 15,575	$ 99,925
Special revenue bonds	110,975	23	21,158	89,840	16,290	73,550
Notes payable	9,949	2,890	1,196	11,643	1,641	10,002
	255,719	2,913	41,649	216,983	33,506	183,477
Unamortized discount	(12)	1	-	(11)	-	(11)
Unamortized premium	13,015	630	-	13,645	-	13,645
Total bonds/notes payable (3)	268,722	3,544	41,649	230,617	33,506	197,111
Other liabilities						
Lease/installment purchase payable	1,186	2,646	662	3,170	1,110	2,060
Operating lease rent holiday	54	-	8	46	9	37
Pension benefits payable	4	-	-	4	2	2
Compensated absences payable (1)	101,545	56,629	55,606	102,568	55,210	47,358
Arbitrage rebate tax payable (1)	97	-	14	83	-	83
Estimated insurance claims (1)	76,579	169,963	174,815	71,727	30,940	40,787
Pollution remediation	269,898	16,169	43,078	242,989	33,610	209,379
Net pension liability	1,423,406	135,057	-	1,558,463	-	1,558,463
OPEB implicit rate subsidy (2)	236,667	34,693	8,619	262,741	-	262,741
Total other liabilities	2,109,436	415,157	282,802	2,241,791	120,881	2,120,910
Total governmental activities long-term liabilities	$2,378,158	$418,701	$324,451	$2,472,408	$154,387	$2,318,021
Business-type activities						
Lease/installment purchase payable	836	2	238	600	186	414
Compensated absences payable	1,867	1,178	970	2,075	970	1,105
Arbitrage rebate tax payable	-	17	-	17	-	17
Estimated insurance claims	19,065	91,974	90,692	20,347	12,776	7,571
Net pension liability	9,363	1,387	-	10,750	-	10,750
OPEB implicit rate subsidy (2)	4,168	642	159	4,651	-	4,651
Total business-type activities long-term liabilities	$ 35,299	$ 95,200	$ 92,059	$ 38,440	$ 13,932	$ 24,508

(1) The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service 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 on 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.

(3) Deferred outflows, including those related to bonds payable, are reported separately on the Statement of Net Position based on GASB Statement No. 65.

F. Refunded and Early Retired Debt

Prepayments

The Department of Natural Resources and Conservation (DNRC) used current available resources to make three prepayments: $480.0 thousand on Series 2005F, $255.0 thousand on Series 2006D and $1.1 million on Series 2010C general obligation bonds. The Department of Public Health and Human Services (DPHHS) used current and available resources to make one prepayment resulting in a payoff: $2.8 million on special revenue Series 2003 bonds.

Refundings

In March 2016, the State issued Grant Anticipation (GARVEE) Refunding Series 2016 Bonds in the amount of $22.5 million to make an advanced refunding of $29.1 million GARVEE, Series 2008. The refunding resulted in an economic gain of $1.2 million and a difference in cash flow requirements of $1.2 million.

G. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The related debt issued does not constitute a debt, liability, obligation, or pledge of faith and credit of the State. Accordingly, these bonds and notes are not reflected on the accompanying financial statements.

Montana Board of Investments (BOI)

The BOI is authorized to issue Qualified Zone Academy Bonds (QZAB) under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2016, QZAB debt outstanding aggregated $8.5 million.

The BOI is also authorized to issue Qualified School Construction Bonds (QSCB) under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues of the borrower are pledged to repay the bonds. At June 30, 2016, QSCB debt outstanding aggregated $6.1 million.

Beginning Farm Loan Program

The 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. The amount issued and outstanding at June 30, 2016, was as follows: Hershberger Project – issued $129.4 thousand, outstanding $49.1 thousand.

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 are 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 that 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, 2016, was $243.0 million. Of this liability, $21.5 million resulted in settlement agreements to provide restoration of natural resources, water supplies and natural resource-based recreational opportunities up to the settlement amount; $214.9 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 the State's total acceptance of the liability or responsibility on these matters.

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

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

Balances due from/to other funds at June 30, 2016, consisted of the following (in thousands):

	Due to Other Funds				
	Coal Severance Tax	Economic Development Bonds	Federal Special Revenue	General Fund	Internal Service Funds
Due from Other Funds					
Coal Severance Tax	$ -	$1	$ -	$ -	$ -
Economic Development Bonds	-	-	-	-	1,397
Federal Special Revenue	-	-	-	-	-
General Fund	18	-	374	-	-
Internal Service Funds	45	-	-	7	-
Nonmajor Governmental Funds	-	-	-	-	-
State Special Revenue	-	-	7	89	-
Total	$63	$1	$381	$96	$1,397

	Due to Other Funds (cont)			
	Nonmajor Enterprise Funds (3)	Nonmajor Governmental Funds	State Special Revenue	Total
Due from Other Funds (cont)				
Coal Severance Tax	$ -	$ 4	$ -	$ 5
Economic Development Bonds	-	349	679	2,425
Federal Special Revenue	-	-	48	48
General Fund	12,004	-	8,908	21,304
Internal Service Funds	-	-	-	52
Nonmajor Governmental Funds (1)	-	-	231	231
State Special Revenue (2)	532	493	-	1,121
Total	$12,536	$846	$9,866	$25,186

(1) Total due from other funds to the non-major governmental funds on the financial statements is reported as $2.0 million. The difference of $1.7 million between the amount reported above of $231.4 thousand and the amount reported in the fund financial statements relates to long-term receivables. The receivables are reported on the fund financial statement and the long-term liabilities are reported on the government-wide statement.

(2) Total due from other funds to the state special revenue fund on the fund financial statement is reported as $9.2 million. The difference of $8.0 million between the amount reported above of $1.1 million and the amount reported in the fund financial statement relates to long-term receivables. The receivables are reported on the fund financial statement and the long-term liabilities are reported on the government-wide statement.

(3) Total due to other funds from the non-major enterprise funds on the fund financial statement is reported as $12.9 million. The difference of $334.8 thousand between the amount reported above of $12.5 million and the amount reported on the fund financial statement relates to loans payable. The receivables are reported on the government-wide and the liabilities are reported on the fund financial 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 origination.

Interfund loans receivable/payable at June 30, 2016, consisted of the following (in thousands):

	Interfund Loans Payable					
	Coal Severance Tax	Economic Development Bonds	Federal Special Revenue	Nonmajor Governmental Funds	State Special Revenue	Total
Interfund Loans Receivable						
Coal Severance Tax	$ -	$1,207	$ -	$ -	$ -	$ 1,207
General Fund (1)	1,581	-	73,940	293	10,854	86,668
Nonmajor Enterprise	-	-	6	-	-	6
State Special Revenue	-	-	65,655	-	-	65,655
Total	$1,581	$1,207	$139,601	$293	$10,854	$153,536

(1) The interfund loan balance of $ 73.9 million between the General Fund and the Federal Special Revenue Fund includes a loan processed unnecessarily in the amount of $ 20.0 million.

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 origination. Advances to/from other funds also include the noncurrent portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program. For more information on the INTERCAP loan program, refer to Note 11.

Advances to/from other funds at June 30, 2016, consisted of the following (in thousands):

	Advances from Other Funds					
	Federal Special Revenue	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Advances to Other Funds						
Coal Severance Tax	$ -	$ -	$ -	$ 1,375	$ -	$ 1,375
Economic Development Bonds	-	5,265	-	4,570	1,048	10,883
General Fund	325	-	-	-	314	639
Internal Service Funds	-	-	80	-	-	80
Nonmajor Governmental Funds	-	-	-	-	10,578	10,578
State Special Revenue	19,158	-	-	6,106	-	25,264
Total	$19,483	$5,265	$80	$12,051	$11,940	$48,819

Additional detail for certain advance balances at June 30, 2016, follows (in thousands):

Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program	
Department	Balance
Justice	$ 1,048
Natural Resources and Conservation	4,570
Transportation	5,265
Total	$10,883

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, 2016, 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	$ -	$ -	$20,722	$ -	$ -
Federal Special Revenue	-	-	133	-	-
General Fund	-	-	-	1,034	-
Internal Service Funds (1)	-	-	-	7	-
Land Grant	-	-	11	-	-
Nonmajor Enterprise Funds	-	-	43,630	-	-
Nonmajor Governmental Funds	9	1,241	300	-	-
State Special Revenue	-	3,932	13,758	1,031	6
Total	$9	$5,173	$78,554	$2,072	$6

	Transfers In (cont)			
	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Transfers Out (cont)				
Coal Severance Tax	$ -	$ 683	$ 2,700	$ 24,105
Federal Special Revenue	-	15,604	14,295	30,032
General Fund	-	23,459	66,715	91,208
Internal Service Funds (1)	68	240	5	320
Land Grant	-	1,510	66,851	68,372
Nonmajor Enterprise Funds (2)	-	-	7,809	51,439
Nonmajor Governmental Funds	-	5,291	19,657	26,498
State Special Revenue	577	14,687	-	33,991
Total	$645	$61,474	$178,032	$325,965

(1) Total transfers-out for internal service funds on the fund financial statements is reported as $1.8 million. The difference of $1.4 million between the amount reported above of $3.2 thousand and the amount reported on the fund financial statements relates to the transfer of capital assets between a governmental fund type and the internal service fund type. When capital assets are transferred between these fund types, the transferring fund reports the net book value of the capital asset as a transfer-out, and the receiving fund reports the net book value of the capital asset as a capital contribution.

(2) Total transfers-out for nonmajor enterprise funds on the fund financial statements is reported as $51.5 million. The difference of $18.2 thousand between the amount reported above of $51.4 million and the amount reported on the fund financial statements relates to the transfer of capital assets between a governmental fund type and the nonmajor enterprise fund type. When capital assets are transferred between these fund types, the transferring fund reports the net book value of the capital asset as a transfer-out, and the receiving fund reports the net book value of the capital asset as a capital contribution.

NOTE 13. FUND EQUITY DEFICITS

The following funds have a deficit net position remaining at June 30, 2016, as follows (in thousands):

Fund Type/Fund	Deficit
Internal Service Funds	
Information Tech Services	$ (15,652)
Building and Grounds	(839)
Admin Central Services	(1,607)
Labor Central Services	(4,979)
Commerce Central Services	(1,391)
OPI Central Services	(1,102)
DEQ Indirect Cost Pool	(4,070)
Payroll Processing	(1,320)
Warrant Processing	(48)
Investment Division	(2,268)
Aircraft Operation	(576)
Justice Legal Services	(387)
Personnel Training	(203)
Other Internal Services	(295)
Enterprise Fund	
State Lottery	(2,240)
Subsequent Injury	(2,564)
Secretary of State Business Services	(47)
Local Government Audits	(50)

NOTE 14. MAJOR PURPOSE PRESENTATION

Special Revenue and Fund Balances Classifications by Purpose – In the governmental fund financial statements, classifications of special revenue fund revenues and fund balances are presented in the aggregate. The tables presented below further display the special revenue fund revenues and fund balances by major purpose for the year ending June 30, 2016.

State Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Licenses/permits	$ 65,615	$30,927	$ 22,626	$ 2,241	$ 169	$ 73,421	$ 194,999
Taxes	188,478	4,217	225,848	-	(2)	15,502	434,043
Charges for services	27,334	9,885	6,774	32,988	1,885	19,635	98,501
Investment earnings	321	12,155	47	265	1,051	17,278	31,117
Securities lending income	1	53	-	1	4	90	149
Sale of documents/merchandise/property	2,168	2,571	117	117	5	1,450	6,428
Rentals/leases/royalties	341	11	419	49	3	376	1,199
Contributions/premiums	24,880	-	-	-	-	-	24,880
Grants/contracts/donations	2,616	529	496	14,845	1,802	3,544	23,832
Federal	5,292	54	1	567	-	2	5,916
Federal indirect cost recoveries	-	-	39,355	81	-	4,462	43,898
Other revenues	2,012	530	559	472	256	117	3,946
Transfers in	28,205	3,675	140	7,036	1,756	137,220	178,032
Total State Special Revenue	$347,263	$64,607	$296,382	$58,662	$6,929	$273,097	$1,046,940

Federal Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Charges for services	$ 722	$ 14	$ -	$ 6,645	$ 28,133	$ 7	$ 35,521
Investment earnings	196	4	-	-	58	82	340
Securities lending income	-	-	-	-	-	3	3
Sale of documents/merchandise/property	19	-	-	-	-	-	19
Grants/contracts/donations	-	-	-	-	-	8	8
Federal	116,870	10,150	444,504	1,444,052	179,425	87,351	2,282,352
Federal indirect cost recoveries	14	-	-	68,435	65	528	69,042
Other revenues	(120)	6	-	1,031	4	-	921
Transfers in	-	221	-	2,101	-	2,851	5,173
Total Federal Special Revenue	$117,701	$10,395	$444,504	$1,522,264	$207,685	$90,830	$2,393,379

Governmental Fund Balance By Function, June 30, 2016
(in thousands)

		Special Revenue		Permanent			
	General	State	Federal	Coal Severance Tax	Land Grant	Nonmajor	Total
Fund balances							
Nonspendable							
Inventory	$ 3,319	$ 21,066	$ -	$ -	$ -	$ -	$ 24,385
Permanent fund principal	-	500	-	527,020	710,451	310,718	1,548,689
Long-term notes/receivables	641	-	-	-	-	-	641
Prepaid expense	539	503	190	-	-	27	1,259
Total nonspendable	4,499	22,069	190	527,020	710,451	310,745	1,574,974
Restricted							
General government	-	2,443	-	-	-	3,896	6,339
Transportation	-	40,449	1,443	-	-	-	41,892
Health and human services	-	2,939	-	-	-	18,433	21,372
Natural resources	-	700,936	-	-	-	9,074	710,010
Public safety	-	235,746	-	-	-	393	236,139
Education	-	7,787	7,325	-	-	34	15,146
Total restricted	-	990,300	8,768	-	-	31,830	1,030,898
Committed							
General government	-	105,931	-	573,585	-	69,825	749,341
Transportation	-	4,070	-	-	-	-	4,070
Health and human services	-	29,086	-	-	-	-	29,086
Natural resources	-	352,800	-	-	-	34,321	387,121
Public safety	-	31,776	-	-	-	-	31,776
Education	-	16,180	-	-	-	-	16,180
Total committed	-	539,843	-	573,585	-	104,146	1,217,574
Assigned							
General government	-	1,803	-	-	-	6,647	8,450
Public safety	-	-	-	-	-	404	404
General Fund Spend Down FY17 (1)	130,000	-	-	-	-	-	130,000
Encumbrance	10,333	-	-	-	-	-	10,333
Total assigned	140,333	1,803	-	-	-	7,051	149,187
Unassigned	126,478	-	-	-	-	-	126,478
Total fund balance	$271,310	$1,554,015	$8,958	$1,100,605	$710,451	$453,772	$4,099,111

(1) In fiscal year 2016, the General Fund unassigned fund balance was $126.5 million. An additional $130.0 million was reported as assigned fund balance pertaining to the projected General Fund spend down of fund balance in fiscal year 2017. The 2015 Legislature projected $319 million of unassigned fund balance for fiscal year 2016.

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 70.44%, or $841.6 million of MGSLP's outstanding loan volume is held by MHESAC.

The Montana Association of Health Care Purchasers (MAHCP) had a member from the Department of Administration (DOA), Health Care and Benefits Division, serve on the board from July 1 through December 31, 2015 as well as a member from the Montana University System. No remuneration was received for their services. DOA paid MAHCP $1.25 per health care plan member per year to maintain its membership for this time period. The DOA transitioned from a full member to an associate member of the MAHCP effective January 1, 2016. Associate membership does not require a membership fee, but no longer provides a seat on the board. DOA also paid $0.71 per pharmacy script to MAHCP for administration of the URx program, which includes the Ask-A-Pharmacist Program, for the period July 1, 2015, through June 30, 2016.

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 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 and ending in 2017.

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, Section 16-11-401 to -404, MCA, and complimentary legislation in 2003, Section 16-11-501 to -512, 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 OPMs 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 possible. An adverse determination on the diligent enforcement issue could result in the loss of some or all of the MSA annual payments to the State for years 2004 through 2006, which would be recouped through an offset of payments due to Montana in future years. The OPMs have asserted claims for NPM adjustments for later years as well. The outcome of these claims is also uncertain.

In 2015, certain Settling States and certain tobacco product manufacturers commenced multi-state arbitration of the issue of diligent enforcement for calendar year 2004. Montana is not a party to this arbitration. Neither Montana nor any tobacco product manufacturers have yet initiated litigation to determine the State's diligent enforcement for 2004. Montana anticipates initiating such an action in Montana District Court in fiscal year 2017.

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 Michael McMahon presiding. The cause number is CDV 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. At this time, no further potential liability to the State is expected relative to this action and no additional updates are necessary in regards to the outstanding litigation.

Spoklie v. Montana Department of Fish, Wildlife and Parks (Spoklie), Sheridan County Docket No. 11013, is the final pending case challenging the constitutionality of Initiative Measure 143 (I-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 cases that were filed after passage of I-143. The following cases have been concluded in favor of the state: Kafka v. Montana Department of Fish Wildlife, and Parks, Hill County Docket No. DV-02-059, Buhmann et al. v. State of Montana et al., Lewis and Clark Docket No. DV-2002-555, Royal Tine Ranch v. State, Flathead County Docket No. DV-02-606C, and Mesaros v. Department of Fish, Wildlife and Parks, Cascade County Docket No. BDV 03-0119. Wallace v. State of Montana, Ravalli County Docket No. 02-254, and Bowman v. Montana Fish, Wildlife and Parks, Fergus County Docket No. DV-2002-02, were previously dismissed without prejudice and have not been refiled. No other updates in relation to this pending action are known at this time.

In October 2008 a lawsuit, Diaz et al. v. Blue Cross and Blue Shield of Montana et al. (Diaz), 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, and 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 the 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 Section 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 Section 2-18-901 to -902, MCA, or under a third party beneficiary theory.

On June 20, 2012, the District Court ruled on the State's summary judgment motion seeking an order from the court that the State has not violated the made-whole laws in the administration of its health plan. The court denied the State's motion, ruling that the State is an insurer for the purposes of the made-whole laws and that it must conduct a made-whole analysis before exercising and subrogation/coordination of benefits rights. The State filed with the District Court a motion requesting that the court certify its decision to the Montana Supreme Court. The District Court granted the motion, and the Montana Supreme Court, over Plaintiffs' objection, ultimately agreed in a November 27, 2012, Order to hear this issue. The Plaintiffs also appealed to the Montana Supreme Court the District Court's definition of the class action.

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

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

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.

On April 13, 2015, the District Court issued an Order on Interest to Be Paid, requiring the State to include in the payments ultimately made to class members' interest at the rate of 10% per annum. For claims arising before December 24, 2009, interest will begin 30 days following the Montana Supreme Court's decision in Blue Cross and Blue Shield of Montana, Inc. v. Montana State Auditor. For any claims arising after December 24, 2009, interest will begin starting on the day the underlying medical expenses were incurred.

On October 5, 2015, the Plaintiffs filed with the District Court a motion directing the State to pay attorney fees arising from the class action suit. On November 9, 2015, the District Court issued an order denying Plaintiffs' motion for attorney fees.

On December 14, 2015, the District Court issued an order certifying that its orders concerning interest and attorney fees were final for purposes of an appeal to the Montana Supreme Court. On January 12, 2016, the Plaintiffs filed a Notice of Appeal with the Montana Supreme Court, appealing the interest and attorney fee orders.

Pursuant to the Montana Supreme Court's mandatory mediation process, the parties reached a settlement on attorney fee payments; however, the parties did not reach agreement on the interest issue. On October 25, 2016, the Montana Supreme Court issued its ruling on the interest issue, finding that November 14, 2009, is the date that interest commences; and, for claims arising after November 14, 2009, interest will begin starting on the day the underlying medical expenses were incurred.

As of June 30, 2016, the State booked an accrual of approximately $1.5 million, which includes a base payment plus interest consistent with the District Court's April 13, 2015, order. Interest will be recalculated based on the Supreme Court's October 25, 2016, decision.

Since the case is ongoing, the State does not have sufficient information to determine the ultimate cost to the State.

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 fiscal year 1994 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.

On May 28, 2015, the District Court determined that Section 16-2-101(2)(b)(ii)(B), MCA, violated the plaintiffs' rights to substantive due process and to equal protection of the law because the state has continued to use 1994 sales information to reimburse agency liquor stores for the mandatory case lot discounts. Trial on the issue of damages is set for February 4 and 5, 2016.

On August 2, 2016, District Judge Greg Pinski ruled the damages due to the class is $14.7 million. Further proceedings will be held in December 2016 to determine whether interest and attorney fees are due to the plaintiffs; however, it is anticipated that the total amount due to this litigation will exceed $31 million.

Stretch v. State of Montana (Cause # DV-05-475A) is a class action wage claim for overtime wages for employees at Treasure State Correctional Training Center. The court recently granted Plaintiffs' motion to expand the class. The matter has been set for trial in late 2017. The parties are currently scheduled for settlement discussions in mid-December 2016. Plaintiffs claim that their damages run from $2 to $4 million. Plaintiffs recently offered to settle for $1.5 million.

Barclay v. Montana Department of Corrections (Cause # DV-13-26) is a wage claim suit filed by 41 non-union employees at Montana State Prison (MSP). Plaintiffs claim the department failed to pay their wages under the 2010 market survey, since May 2012. They claim losses in excess of $2 million in lost wages and penalties. The parties are currently engaged in discovery and are required to engage in a mandatory settlement conference. The case is currently scheduled for a jury trial in February 2017, but the parties anticipate seeking a new scheduling order and trial date.

Langford v. Bullock (Cause # 93-CV-46) is a civil rights case over conditions of confinement at Montana State Prison (MSP) in Deer Lodge, MT. The court imposed a consent decree against the department in 1994, with continued monitoring by the court until the Department is in full compliance. The consent decree obligates the State to come into full compliance with the Americans with Disabilities Act. Department has incurred costs to make upgrades to the physical infrastructure at MSP. Since about 2014, the department has assumed the additional responsibility to pay attorneys' fees and expert fees for Plaintiffs' counsel (ACLU). Currently, the parties are engaged in weekly conferences to reach the goal of final settlement of the remaining issue before February 1, 2017, as ordered by the court. At this time, the department cannot specify an anticipated amount of financial obligation.

Disability Rights Montana v. Batista (Cause # CV-15-22) is a civil rights case filed by ACLU on behalf of Plaintiff, alleging deliberate indifference in the provision of mental health care to seriously mentally ill inmates at MSP. The Plaintiff appealed the district court order, dismissing the case for failure to state a claim, to the Ninth Circuit Court of Appeals. The 9th Circuit "suggested" that the parties engage in mediation, so the department has exchanged settlement proposals with Plaintiff. The Plaintiff's counsel has presented an unrealistic settlement proposal, including construction of two separate housing units for mentally ill inmates and at least $800,000 in attorneys' fees, continued monitoring of the facility and fees to pay the expert monitor. The Plaintiff's chances of success are not good, but the cost to defend could be expensive. At this time the department cannot specify an anticipated amount of financial obligation.

The Public Employee Retirement Board (PERB) has one item of outstanding litigation in relation to the Public Employees' Retirement System - Defined Contribution Retirement Plan. Refer to Note 6, section I for additional disclosure in relation to this legal proceeding.

The Montana State Fund, a discretely presented component unit of the State, has two items of litigation in relation to their operations and underlying statutory authority governing the program. Refer to Note 18, section N for additional disclosure in relation to these legal proceedings.

Federal Contingencies

Food Distribution Program – The amount reported for Food Distribution programs (CFDA #10.555, #10.565, #10.567, #10.569, and #10.570) 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. The State 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 2016, the State distributed $1.0 million of food commodities under CFDA #10.567 to other states.

The State of Montana distributed $10.6 million in commodities in fiscal year 2016. The value at June 30, 2016, of commodities stored at the State's warehouse is $1.9 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, 2016, the Board of Investments (BOI) had provided loan enhancements from the Coal Severance Tax Permanent Fund to the Municipal Finance Consolidation Act Bond Fund and the Facility Finance Authority (a component unit of the State of Montana), totaling $177.2 million. The BOI's exposure to bond issues of the Municipal Finance Consolidation Act Bond Fund was $97.3 million, while exposure to bond issues, surety bonds, and designated loans of the Facility Finance Authority was $79.9 million.

Gain Contingencies – Certain natural resource and corporate tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2016, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General Fund
Corporate Tax	$42,354
Total	$42,354

Collectability of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. The corporate tax assessments include material estimates that could result in a significant reduction of the tax assessed once actual numbers are provided. Interest related to corporate 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, 2016. The corporations have appealed the department's decision to deny or adjust the refund. As of June 30, 2016, these include $6.0 million of General Fund corporate tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2016. As of June 30, 2016, these include $3.4 million of protested property taxes recorded in the General Fund and $3.9 million recorded in the State Special Revenue Fund. In addition, certain companies have appealed an additional $5.6 million in regular property taxes recorded in the General Fund on the State's financial statements.

NOTE 17. SUBSEQUENT EVENTS

Investment Related Issues

Since June 30, 2016, an additional $50.0 million was committed to Montana Private Equity Pool fund managers and an additional $45.0 million was committed to Montana Real Estate Pool fund managers by the Board of Investments (BOI).

Since June 30, 2016, the BOI made additional commitments to fund loans from the INTERCAP loan program in the amount of $28.0 million.

From July 1 through December 12, 2016, the BOI received recovery payments associated with AFF Financing LLC holding of $2.5 million, representing $2.4 million in principal and $60.0 thousand in interest. For the same period, the BOI received recovery payments associated with the Orion Finance collective holding of $572.0 thousand with $521.0 thousand and $51.0 thousand applied to principal and interest, respectively. Both the principal and interest was treated as recovery money and applied to the reserve.

During July 2016, the BOI terminated one manager in Montana Domestic Equity Pool. A transition manager was hired to liquidate the portfolio and cash was transferred to another fund within the portfolio. The market value of the transfer was approximately $63.0 million.

On August 16, 2016, the BOI approved two commercial loans for a total of $3.1 million.

During October 2016, the BOI terminated one manager in the Montana Domestic Equity Pool. A transition manager was hired to liquidate the portfolio. The market value of the liquidation was approximately $27.0 million.

The BOI exercised the United States Department of Agriculture - Rural Development's guarantee on two commercial loans outstanding in the principal amount of $6.9 million. Payment was received October 19, 2016.

As of October 31, 2016, the Short-term Investment Pool will no longer participate in the Security Lending Program.

During the November 15-16, 2016, meeting of the BOI, the board approved the issuance of up to $20 million in INTERCAP bonds on March 1, 2017. Up to $8.5 million of the proceeds will be used to satisfy the BAN with the Permanent Coal Tax Trust Fund. Since June 30, 2016, an additional $5.9 million has been recorded as an interentity loan payable to the Permanent Coal Tax Trust Fund. The proceeds funded six INTERCAP loan draws of a local government.

The BOI is in the process of working through a bankruptcy trustee to begin foreclosure on one commercial loan with an outstanding principal amount of $1.2 million.

Other Subsequent Events

On August 2, 2016, $3,000,000 was drawn for a Coal Severance Tax, taxable bond series 2016A, for the renewable resource loan program. The bond was purchased by the BOI.

On August 15, 2016, the Land Board approved, by vote of 5-0, a like-kind property exchange. The Old Amory at 1100 Last Chance Gulch and the Old Liquor Warehouse at 920 Front St. will be traded for a former Coca-Cola Warehouse located at 1698 A St.; all respective properties are located in Helena. Additional requirements must be met, such as renovations to the Coca-Cola Warehouse that are suitable to the State, prior to completion of the exchange.

On September 21, 2016, a complaint and proposed consent decree, related to the case of United States of America and State of Montana v. ExxonMobil Pipeline Company, No. 1:16-cv-00143-SPW-TJC, (United States District Court for the District of Montana, Billings Division) resulting from a July 2011 Yellowstone River oil spill near Laurel, was filed. The consent decree settles all natural resource damage claims of the U.S. and the State of Montana under the Oil Pollution Act and State CECRA for a total of $12.0 million. The split of the settlement proceeds is $2.5 million

for the U.S., and $9.5 million for the State. The consent decree and a related restoration plan were subject to public comment. The Court then entered the consent decree on December 12, 2016, and settlement proceeds are due February 21, 2017.
On October 3, 2016, the Consumer Protection Bureau prevailed in the case State of Montana, ex rel. Tim Fox, Attorney General vs. Merck & Co., Inc., No. ADV 2005-899 (Mont. 1st Jud. Dist. Lewis & Clark County). The Bureau anticipates future receipt of $9.9 million into its State Special Revenue reserve fund and a $3.0 million distribution to the Montana Healthcare Foundation as a result of a Consent Judgment agreed to by the parties on this date.

The Hail Insurance program has experienced an approximate doubling of claims compared to prior growing seasons' occurrences. While the program has the resources to cover all claims incurred, participants may not receive premium refunds for multiple future years. See Note 8 for additional information related to this self-supported program.

On January 18, 2017, the Cascade County District Court approved mediation process agreements sought by the Risk Management and Tort Defense Division for additional groups of Libby Mine Claims. As a result, an amount of $750.0 thousand has been paid. Within thirty days of the approval date, the State will pay an additional $14.2 million and another $10.0 million will be paid in July 2017. However, the State may be able to mitigate a portion or all of this payment should it receive a favorable outcome in a related case against NIC, a State insurer.

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, 2016 (in thousands):

Condensed Statement of Net Position
Component Units

	Montana Board of Housing	Facility Finance Authority	Montana State Fund (1)	Montana State University	University of Montana	Total Component Units
Assets:						
Cash, investments and other assets	$640,966	$5,269	$1,648,050	$595,374	$457,648	$3,347,307
Due from primary government	-	-	-	458	1,341	1,799
Due from component units	-	-	-	57	226	283
Capital assets (net) (Note 18C)	3	-	28,843	459,067	359,388	847,301
Total assets	640,969	5,269	1,676,893	1,054,956	818,603	4,196,690
Deferred Outflows of Resources	696	20	1,187	29,423	18,845	50,171
Liabilities:						
Accounts payable and other liabilities	7,777	36	143,697	77,226	57,975	286,711
Due to primary government	-	32	-	3,251	1,120	4,403
Due to component units	-	-	-	226	57	283
Advances from primary government	-	-	-	19,645	11,895	31,540
Long-term liabilities (Note 18I)	479,911	246	1,017,665	363,525	267,986	2,129,333
Total liabilities	487,688	314	1,161,362	463,873	339,033	2,452,270
Deferred Inflows of Resources	106	12	1,757	6,560	7,175	15,610
Net Position:						
Net investment in capital assets	3	-	28,843	291,601	249,191	569,638
Restricted	153,868	-	-	296,796	267,199	717,863
Unrestricted	-	4,963	486,118	25,549	(25,150)	491,480
Total net position	$153,871	$4,963	$ 514,961	$613,946	$491,240	$1,778,981

(1) Effective January 1, 2016, Montana State Fund reports their financial statements on a calendar-year basis. The information provided is based on a six-month period, ending December 31, 2015.

Condensed Statement of Activities
Component Units

	Montana Board of Housing	Facility Finance Authority	Montana State Fund (2)	Montana State University	University of Montana	Total Component Units
Expenses	$ 22,858	$ 392	$124,110	$ 542,254	$ 438,684	$1,128,298
Program Revenues:						
Charges for services	983	610	88,495	255,376	184,052	529,516
Operating grants and contributions	24,010	55	-	209,616	139,625	373,306
Capital grants and contributions	-	-	-	4,710	20,855	25,565
Total program revenues	24,993	665	88,495	469,702	344,532	928,387
Net (expense) program revenues	2,135	273	(35,615)	(72,552)	(94,152)	(199,911)
General Revenues:						
Unrestricted grants and contributions	-	-	-	81	-	81
Unrestricted investment earnings	-	-	12,682	905	(2,306)	11,281
Transfer from primary government (1)	-	-	-	132,598	106,707	239,305
Gain (loss) on sale of capital assets	-	5	(20)	101	-	86
Miscellaneous	-	-	934	-	-	934
Contributions to term and permanent endowments	-	-	-	12,658	10,323	22,981
Total general revenues and contributions	-	5	13,596	146,343	114,724	274,668
Change in net position	2,135	278	(22,019)	73,791	20,572	74,757
Total net position – July 1 – as previously reported	151,736	4,685	536,980	540,155	470,668	1,704,224
Adjustments to beginning net position	-	-	-	-	-	-
Total net position – July 1 – as restated	151,736	4,685	536,980	540,155	470,668	1,704,224
Total net position – June 30	$153,871	$4,963	$514,961	$ 613,946	$ 491,240	$1,778,981

(1) Includes non-employer pension revenue and payments for services provided.
(2) Effective January 1, 2016, Montana State Fund reports their financial statements on a calendar-year basis. The information provided is based on a six-month period, ending December 31, 2015.

B. Cash/Cash Equivalents and Investments

Due to the integration of funds and combined financial information, 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	$ 8,377	$ 8,225	$ 1,139	$ 17,741
Construction work in progress	54,016	46,219	-	100,235
Capitalized collections	9,247	18,108	-	27,355
Livestock for educational purposes	3,685	-	-	3,685
Total capital assets not being depreciated	75,325	72,552	1,139	149,016
Capital assets being depreciated:				
Infrastructure	43,655	8,343	-	51,998
Land improvements	22,918	15,422	-	38,340
Buildings/Improvements	600,397	538,124	27,941	1,166,462
Equipment	162,589	92,005	7,517	262,111
Livestock	-	10	-	10
Library books	65,577	61,234	-	126,811
Leasehold improvements	1,262	-	-	1,262
Total capital assets being depreciated	896,398	715,138	35,458	1,646,994
Total accumulated depreciation	(520,782)	(432,854)	(8,110)	(961,746)
Total capital assets being depreciated, net	375,616	282,284	27,348	685,248
Intangible assets	377	1,878	359	2,614
MSU Component Unit capital assets, net	7,749	-	-	7,749
UM Component Unit capital assets, net	-	2,674	-	2,674
Discretely Presented Component Units capital assets, net	$ 459,067	$ 359,388	$28,846	$ 847,301

D. Other Postemployment Benefits (OPEB)

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

E. Risk Management

Montana State Fund (MSF or New Fund) is the only component unit risk 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. There are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage for the last three years for MSF. This fund uses the accrual basis of accounting. MSF investments are recorded at fair value, and the premiums and discounts are amortized using the scientific interest method over the life of the securities.

(1) Montana State Fund (MSF) – 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. MSF is a self-supporting, competitive State fund, and functions as the guaranteed market. At December 31, 2015, approximately 24,400 employers were insured with MSF. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to MSF within specified time frames.

An actuarial study prepared by Willis Towers Watson, as of December 31, 2015, 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 December 31, 2015, $900.3 million of unpaid claims and claim adjustment expenses were presented at face value.

Section 39-71-2311, MCA requires MSF 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 MSF to establish a minimum surplus above risk-based capital requirements to support MSF against risks inherent in the business of insurance.

For the six-month period ended December 31, 2015, MSF 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 MSF against the potential that aggregate losses will exceed expected levels expressed as a percentage of premium. The excess of loss contract provides coverage up to $100.0 million in which MSF retains the first $5.0 million for the first layer of reinsurance coverage. The excess of loss protection applies to an individual occurrence with the maximum of $5.0 million on any one life.

The term of the current aggregate stop loss contract was July 1, 2014 through December 31, 2016. The contract provides coverage based on MSF'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, MSF would remain liable for all losses, as the reinsurance agreements do not discharge MSF from its primary liability to the policyholders.

Premium revenue was reduced by premiums paid for reinsurance coverage of $5.5 million during the six-month period ended December 31, 2015.

Estimated claim reserves were reduced by $10.8 million as of December 31, 2015 for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excess of loss reinsurance contract and an additional $22.4 million for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the aggregate stop loss contract.

(2) Changes in Claims Liabilities for the Past Two Years – As indicated above, this fund establishes liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following table presents changes (in thousands) in the aggregate liabilities for Montana State Fund net of estimated reinsurance recoverable. The information presented is at face value and has not been discounted.

	Six Months Ended December 31, 2015
Unpaid claims and claim adjustments expenses at beginning of year	$ 895,543
Incurred claims and claim adjustment expenses:	
Provision for insured events of the current year	72,200
Increase (decrease) in provision for insured events of prior years	(4,817)
Total incurred claims and claim adjustment expenses	67,383
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current year	(8,090)
Claims and claim adjustment expenses attributable to insured events of prior years	(54,540)
Total payments	(62,630)
Total unpaid claims and claim adjustment expenses at end of year	$ 900,296

F. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2016, were as follows (in thousands):

Fiscal Year Ending June 30	Discretely Presented Component Units
2017	$249
2018	175
2019	97
2020	62
2021	20
2022-2026	-
Total minimum payments	603
Less: interest	(53)
Present value of minimum payments	$550

G. Operating Leases

Future rental payments under operating leases at June 30, 2016, are as follows (in thousands):

Fiscal Year Ending June 30	Discretely Presented Component Units
2017	$ 4,598
2018	2,718
2019	2,488
2020	2,307
2021	1,274
2022-2026	2,874
2027-2031	1,491
Thereafter	2,833
Total future rental payments	$20,583

H. Debt Service Requirements

Debt service requirements of discretely presented component units at June 30, 2016, were as follows (in thousands):

	Montana Board of Housing		Montana State University		University of Montana	
Year Ended June 30	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 13,550	$ 16,036	$ 9,642	$ 6,094	$ 8,207	$ 3,587
2018	15,325	15,741	8,995	5,834	8,506	3,293
2019	15,795	15,403	12,560	5,560	8,825	2,964
2020	16,265	15,010	9,180	5,242	9,220	2,611
2021	16,800	14,569	9,200	4,931	9,565	2,227
2022-2026	96,575	64,433	35,255	20,220	42,830	5,585
2027-2031	105,880	46,068	25,380	13,731	9,800	1,201
2032-2036	98,100	26,352	24,120	8,645	1,885	114
2037-2041	70,749	10,288	14,795	4,483	-	-
2042-2046	22,105	1,156	11,205	857	-	-
Total	$471,144	$225,056	$160,332	$75,597	$98,838	$21,582

I. Summary of Changes in Long-term Liabilities Payable

Long-term liability activity of discretely presented component units for the year ended June 30, 2016, 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						
Montana Board of Housing	$ 482,723	$ 129,045	$ 134,754	$ 477,014	$ 13,550	$ 463,464
Montana State University (MSU)	168,723	4,805	9,589	163,939	9,642	154,297
University of Montana (UM)	108,670	-	8,284	100,386	8,241	92,145
Total bonds/notes payable (1)	760,116	133,850	152,627	741,339	31,433	709,906
Other liabilities						
Lease/installment purch payable	556	255	261	550	218	332
Compensated absences payable	60,312	31,613	30,161	61,764	31,207	30,557
Arbitrage rebate tax payable	904	310	453	761	409	352
Estimated insurance claims	895,543	67,383	62,630	900,296	126,298	773,998
Due to federal government	33,201	313	1,013	32,501	-	32,501
Derivative instrument liability	4,607	1,490	-	6,097	-	6,097
Reinsurance funds withheld	77,720	13,328	1,477	89,571	-	89,571
Unearned compensation	371	20	-	391	-	391
Net pension liability	163,178	29,601	14,079	178,700	-	178,700
OPEB implicit rate subsidy (2)	106,648	9,833	1,587	114,894	-	114,894
Total other liabilities	1,343,040	154,146	111,661	1,385,525	158,132	1,227,393
	$2,103,156	$287,996	$264,288	$2,126,864	189,565	1,937,299
Long-term liabilities of Montana University System component units (4)					(95)	2,564
Total discretely presented component units long-term liabilities					$189,470	$1,939,863

(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.

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

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

J. Refunded and Early Retired Debt

Universities

Defeased Debt Outstanding

The University of Montana has defeased certain bond issues by placing 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, 2016, $113.6 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 included in Note 11. At June 30, 2016, revenue bonds and notes outstanding aggregated $966 million.

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

Montana Board of Housing (MBOH)
The MBOH is authorized to issue bonds and make mortgage loans in order to finance affordable housing for Montana residents. The bonds are special limited obligations, payable solely from pledged revenues and assets of the borrower, not general obligations of the MBOH. These bonds issued by the MBOH do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2016, bonds outstanding aggregated $14.8 million.

L. Derivative Transactions Related to Long-term Debt

Montana State University (MSU) has two interest rate swaps as of June 30, 2016. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraphs 27 (a) and (b) of GASB Statement No. 53 – Accounting and Financial Reporting for Derivative Instruments (GASB 53), or as investment derivative instruments if they do not.

Derivative Description	Trade Date	Effective Date	Termination Date	Terms	Counterparty
$25.75 million fixed payer swap	3/10/2005	7/21/2005	*11/15/2035	Pay 3.953%, Receive SIFMA	Deutsche Bank AG
$25.25 million basis swap	12/19/2006	11/15/2007	11/15/2035	Pay SIFMA, Receive 86.8% of 10-year SIFMA	Morgan Stanley Capital Services Inc.

* Counterparty may opt out in 2016

As of June 30, 2016, the fixed payer swap is classified as a hedging derivative instrument under GASB 53, whereas the basis swap is an investment derivative instrument because there is no identified financial risk being hedged by the basis swap that can be expressed in terms of exposure to adverse changes in cash flows or fair values. GASB 53 includes four methods for evaluating hedge effectiveness; a governmental entity may use any of the evaluation methods outlined in GASB 53 and is not limited to using the same method from period to period. The four methods described in GASB 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. In Addition, GASB 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. To measure non-performance risk for a derivative liability, credit spreads implied by the credit rating for debt issues by entities with similar credit characteristics were used. This is the best method available under current market conditions since MSU has no credit default swaps that actively trade in the marketplace. For a derivative asset, the adjustment for non-performance risk of counterparties was determined by analyzing counterparty-specific credit default swaps, if available. If not available, credit default swaps in the market for entities of similar type and rating were used, along with information found in various public and private information services. This analysis is used to construct a credit curve that is applied to the discount curve on the net settlement payments of the derivative.

The counterparty to the fixed payer swap had the right to terminate the swap at $0 on December 14, 2016 (a European option); this option was not excercised. The value of the cancelation option was included within the derivative structure, resulting in an off-market (i.e., lower) fixed swap rate. As of the trade date, the option's value included intrinsic value and time value. The option's intrinsic value (calculated as the difference between the at-market rate of 4.11% and the off-market rate of 3.953%) is accounted for as a loan receivable and is repaid by the off-market portion of each swap payment. The option's time value, which will always be negative to MSU and will equal $0 on the option's expiration date, is reported as deferred investment revenue. 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 the Securities Industry and Financial Markets Association (SIFMA) rate 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, 2016, 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 fair value of the fixed payer swap liability as of June 30, 2016, is at fair value level 2, and was based on forward SIFMA rates using the three month Libor Zero Curve, and the BMA Swaption Volatility on the AA Rated Muni Revenue Curve. The fair value of the nonhedging derivative investment is also at level 2, and was based on forward SIFMA rates using the 10-year forward BMA constant maturity swap using the three month Libor Zero Curve, and the BMA Swaption Volatility on the counterparty's credit default swap.

The following table summarizes the reported balances as of, and the derivative instrument activity during, the year ended June 30, 2016 (in thousands):

		Activity During 2016		Fair Values at June 30, 2016	
Cash flow hedges:	Notional	Classification	Amount	Classification	Amount
Cash flow hedge –					
Pay fixed interest rate swap	$21,200	Interest expense	$ 20	Loan receivable	$ 268
		Investment income	20	Derivative liability	6,097
		Deferred outflow	1,512		
Investment derivative –					
Basis swap	$21,200	Investment revenue	$16	Investment (excluding interest accrued)	$1,271

The objective and terms of MSU's hedging derivative outstanding as of June 30, 2016, is as follows (in thousands):

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	$21,200	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, 2016, counterparty ratings were A3 and Baa2 by Moody's and BBB+ and BBB+ by Standard and Poor's (S&P). 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 $5 million and the counterparty is rated A+ or A, by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, 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, 2016, MSU's unenhanced long-term revenue bond rating was Aa3 by Moody's and A+ by S&P.

Rollover Risk
MSU's hedging derivative includes a cancelation option which allows the counterparty to cancel the swap on December 14, 2016. Should the counterparty exercise its option, 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 MSU will not be able to enter credit markets or that credit will become more costly. For example, to complete a derivative instrument's objective, an issuance of refunding bonds may be planned in the future. If at that time MSU is unable to enter credit market, expected cost savings may not be realized.

M. Related Party Transactions

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

The associations and the 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, 2016, $112.4 thousand was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, UM provides the associations and the booster club with office space, staff and some related office expenses.

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

Private nonprofit organizations affiliated with Montana State University (MSU) include the MSU-Bozeman Bookstore, Friends of KUSM, and Friends of KEMC. Friends of Montana Public Television provided $1.1 million during 2016 and Friends of KEMC Public Radio provided $865.0 thousand during 2016 in support of MSU’s television and radio stations.

N. Litigation Contingencies

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 House Bill 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.

O. Subsequent Events

Subsequent to June 30, 2016, the Montana State University drew an additional $2.8 million on its Series C bonds, bringing the total outstanding as of December 9, 2016, to $7.6 million. The University is committed to draw a total of $16.5 million through February of 2018, as funds are required to complete its parking garage and new dining hall.

On July 1, 2016, a promissory note was entered into between the Montana Facility Finance Authority (FFA) and Gateway Community Services for $32.0 thousand for the approximate cost of FFA purchasing a condo unit during remediation of defaulted loans.

On August 3, 2016, a $771.0 thousand loan was made to Northeast Montana Health Services from the Trust Fund Loan Program to finance the costs associated with the purchase of replacement boilers and asbestos mitigation.

On August 17, 2016, $20.5 million of bonds were issued for North Valley Hospital to refinance bonds issued by the FFA in 2012 and 2014. The refinancing was necessary because of an affiliation with Kalispell Regional Healthcare System. The refinancing also reduced the interest rate and extended the term of the bonds.

On September 16, 2016, the Montana State Fund Board of Directors declared a $35.0 million dividend at their board meeting. The dividend payments were issued in November 2016 to eligible policyholders for the 2014 policy year.

On September 28, 2016, $50.8 million of bonds were issued for Providence St. Joseph Health to refund bonds issued in 2006 by the FFA for Providence Health & Services. The 2016 issuance will bring the 2006 debt into the new obligated group formed by the merger of Providence Health & Services and St. Joseph Health System.

On October 5, 2016, $17.9 million of bonds were issued for St. Luke Community Healthcare to redeem bonds originally issued by the FFA in 2006. The Series 2016 bonds reduced the interest rate of the prior bonds.

On October 11, 2016, $2.1 million of bonds were issued for Marias Medical Center to refinance bonds originally issued by the FFA in 2005. The Series 2016 bonds reduced the interest rate of the prior bonds.

On October 14, 2016, a $100.0 thousand Direct Loan was made to McCone County Health Center by the FFA to finance the purchase, move and installation of a modular building to house traveling professionals.

On October 21, 2016, $3.1 million of bonds were issued for Boyd Andrew Community Services to refinance bonds originally issued by the FFA in 2006. The Series 2016 bonds reduced the interest rate of the prior bonds.

On October 27, 2016, a $245.0 thousand loan was made to Broadwater Health Center by the FFA to purchase lab equipment and a house for the use of locum physicians and offices.

In November 2016, the Montana State University received approval from the Board of Regents' to negotiate a long-term land and building lease at a cost of approximately $2 million per year for up to ten years, with renewal options at a land-lease only rate for five or more years thereafter. The leased facility will be used to conduct classified research that is expected to be funded by governmental grants. Lease negotiations were not yet complete as of December 9, 2016.

On November 10, 2016, $141.3 million of bonds were issued for Benefis Health System to refinance bonds issued by the FFA in 2007 and 2011. The Series 2016 bonds reduced the interest rate of the prior bonds.

On December 31, 2016, the Executive Director of the FFA retired.

On December 31, 2016, the President of the University of Montana departed from the institution.

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, 2016, the Sheriffs' Retirement System (SRS), the Game Warden & Peace Officers' Retirement System (GWPORS), and Public Employees' Retirement System-Defined Contribution Retirement Plan Disability Other Post Employment Benefit (PERS-DCRP Disability) plans were not in compliance and do not amortize. The unfunded liabilities in the other state retirement systems amortize in less than 30 years as of the fiscal year ended June 30, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

This page intentionally left blank.

BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES				
Licenses/permits	$ 125,356	$ 125,356	$ 125,357	$ 1
Taxes:				
Natural resource	82,268	82,268	65,218	(17,050)
Individual income	1,229,616	1,229,616	1,170,799	(58,817)
Corporate income	179,898	179,898	119,539	(60,359)
Property	255,082	255,082	258,864	3,782
Fuel	-	-	-	-
Other	232,269	232,269	229,026	(3,243)
Charges for services/fines/forfeits/settlements	45,429	45,429	38,370	(7,059)
Investment earnings	-	-	5,703	5,703
Sale of documents/merchandise/property	366	366	360	(6)
Rentals/leases/royalties	43	43	43	-
Contributions/premiums	180	180	1,736	1,556
Grants/contracts/donations	3,777	3,777	7,388	3,611
Federal	24,649	24,649	16,126	(8,523)
Federal indirect cost recoveries	189	189	216	27
Other revenues	4,412	4,412	1,102	(3,310)
Total revenues	2,183,534	2,183,534	2,039,847	(143,687)
EXPENDITURES				
Current:				
General government	364,592	364,592	343,252	21,340
Public safety	330,560	330,560	316,079	14,481
Transportation	-	-	-	-
Health and human services	512,641	512,641	485,714	26,927
Education	1,043,598	1,043,598	1,036,828	6,770
Natural resources	41,583	41,583	35,008	6,575
Debt service:				
Principal retirement	-	-	48	(48)
Interest/fiscal charges	-	-	193	(193)
Capital outlay (Note RS-1)	-	-	9,085	(9,085)
Total expenditures	2,292,974	2,292,974	2,226,207	66,767
Excess of revenue over (under) expenditures	(109,440)	(109,440)	(186,360)	(76,920)
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	-	-	-	-
General capital asset sale proceeds	143	143	130	(13)
Refunding bond issued	-	-	-	-
Payment to refunding bond escrow agent	-	-	-	-
Bond premium	-	-	-	-
Bond proceeds	-	-	-	-
Energy conservation loans	-	-	-	-
Transfers in (Note 12)	70,474	70,474	78,555	8,081
Transfers out (Note 12)	(267,082)	(267,082)	(91,207)	175,875
Total other financing sources (uses)	(196,465)	(196,465)	(12,522)	183,943
Net change in fund balances (Budgetary basis)	(305,905)	(305,905)	(198,882)	107,023
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	32	32
2. Securities lending costs	-	-	(16)	(16)
3. Inception of lease/installment contract	-	-	97	97
4. Adjustments for nonbudgeted activity	-	-	-	-
Net change in fund balances (GAAP basis)	(305,905)	(305,905)	(198,769)	107,136
Fund balance - July 1	-	-	471,334	471,334
Prior period adjustments	-	-	(446)	(446)
Increase (decrease) in inventories	-	-	(805)	(805)
Fund balances - June 30	$ (305,905)	$ (305,905)	$ 271,314	$ 577,219

The notes to the required supplementary information are an integral part of this schedule.
Budgetary data is not broken down to the same account level as actual financial statement data, which accounts for some of the larger variances.

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
$ 198,635	$ 198,635	$ 194,993	$ (3,642)	$ -	$ -	$ -	$ -
90,126	90,126	60,004	(30,122)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
16,268	16,268	16,873	605	-	-	-	-
219,997	219,997	225,841	5,844	-	-	-	-
134,751	134,751	130,695	(4,056)	1	1	-	(1)
98,441	98,441	96,358	(2,083)	36,198	36,198	35,520	(678)
-	-	9,441	9,441	-	-	339	339
7,567	7,567	6,298	(1,269)	19	19	19	-
994	994	1,061	67	1	1	-	(1)
24,802	24,802	24,880	78	-	-	-	-
12,616	12,616	10,235	(2,381)	102	102	8	(94)
16,628	16,628	5,868	(10,760)	2,260,622	2,260,622	2,282,352	21,730
48,032	48,032	43,825	(4,207)	66,012	66,012	69,042	3,030
4,646	4,646	3,622	(1,024)	1,101	1,101	921	(180)
873,503	873,503	829,994	(43,509)	2,364,056	2,364,056	2,388,201	24,145
305,205	305,205	179,239	125,966	267,437	267,437	98,097	169,340
88,789	88,789	70,848	17,941	31,998	31,998	11,259	20,739
298,315	298,315	220,931	77,384	475,704	475,704	99,009	376,695
171,187	171,187	160,531	10,656	1,663,630	1,663,630	1,523,547	140,083
111,299	111,299	80,753	30,546	254,511	254,511	207,098	47,413
318,048	318,048	167,720	150,328	131,180	131,180	62,474	68,706
						-	
-	-	616	(616)	-	-	21	(21)
-	-	695	(695)	-	-	6	(6)
-	-	60,933	(60,933)	-	-	364,304	(364,304)
1,292,843	1,292,843	942,266	350,577	2,824,460	2,824,460	2,365,815	458,645
(419,340)	(419,340)	(112,272)	307,068	(460,404)	(460,404)	22,386	482,790
1,475	1,475	106	(1,369)	-	-	-	-
164	164	670	506	18	18	18	-
22,540	22,540	22,540	-	-	-	-	-
-	-	(25,557)	(25,557)	-	-	-	-
-	-	3,256	3,256	-	-	-	-
3,256	3,256	-	(3,256)	-	-	-	-
-	-	677	677	-	-	-	-
316,198	316,198	160,384	(155,814)	36,838	36,838	5,173	(31,665)
(83,636)	(83,636)	(14,719)	68,917	(71,549)	(71,549)	(30,033)	(41,516)
259,997	259,997	147,357	112,640	(34,693)	(34,693)	(24,842)	9,851
(159,343)	(159,343)	35,085	194,428	(495,097)	(495,097)	(2,456)	492,641
-	-	150	150	-	-	3	3
-	-	(54)	(54)	-	-	(1)	(1)
-	-	256	256	-	-	15	15
-	-	(32,689)	(32,689)	-	-	-	-
(159,343)	(159,343)	2,748	162,091	(495,097)	(495,097)	(2,439)	492,658
-	-	1,550,398	1,550,398	-	-	11,173	11,173
-	-	(686)	(686)	-	-	226	226
-	-	1,558	1,558	-	-	-	-
$ (159,343)	$ (159,343)	$ 1,554,018	$ 1,713,361	$ (495,097)	$ (495,097)	$ 8,960	$ 504,057

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 for debt service activities are continuing through statutory authority until the obligation is extinguished. 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.

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.

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 2016, reverted governmental fund appropriations were as follows: General Fund - $26.3 million, State Special Revenue Fund - $145.2 million, and Federal Special Revenue Fund - $104.1 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.

B. Budget Basis

The Legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with Generally Accepted Accounting Principles (GAAP). The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end, compensated absences, capital assets and inventories purchased in proprietary funds, certain loans from governmental funds, and other miscellaneous nonbudgeted activity.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 2. PENSION PLAN INFORMATION

Required Supplementary Information
State of Montana as an Employer Entity

Judges' Retirement System
Schedule of Changes in Net Pension Liability/(Asset) and Related Ratios[1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Total Pension Liability (TPL)		
Service costs	$ 1,653	$ 1,594
Interest	3,934	3,824
Differences between expected and actual experience	(1,032)	-
Benefit payments	(3,041)	(3,023)
Net change in total pension liability	$ 1,514	$ 2,395
Total pension liability - beginning	51,632	49,237
Total pension liability - ending	$ 53,146	$ 51,632
Plan Fiduciary Net Position		
Contributions – employer	$ 1,684	$ 1,651
Contributions - member	534	481
Net investment income	3,843	12,421
Benefit payments	(3,041)	(3,023)
Administrative expense	(136)	(100)
Net change in plan fiduciary net position	$ 2,884	$ 11,430
Plan fiduciary net position - beginning	84,223	72,793
Plan fiduciary net position - ending	$ 87,107	$ 84,223
Net Pension (Asset) - Beginning	$(32,591)	$(23,556)
Net Pension (Asset) - Ending	$(33,961)	$(32,591)
Plan fiduciary net position as a percentage of TPL	163.90%	163.12%
Pensionable payroll	$6,525	$6,355
Net pension (asset) as a percentage of pensionable payroll	(521)%	(513)%

Judges' Retirement System
Schedule of Employer Contributions[1]
For the Fiscal Year Ended June 30
(in thousands)

	2016	2015
Contractually required contributions	$1,786	$1,684
Contributions made in relation to the contractually required contributions	$1,786	$1,684
Contribution deficiency/(excess)	-	-
Covered-employee payroll	$6,920	$6,525
Contributions as a percentage of covered-employee payroll	26%	26%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Judges' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2015, determined as of June 30, 2015.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Timing	ADC rates are calculated based on the actuarial valuation just prior to the beginning of the plan year
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Amortization growth rate	4.00%
Asset valuation method	4-year smoothed market
Inflation	3.00%
Salary increases	4.00%
Investment rate of return	7.75%, net of investment expense
Mortality (healthy)	Sex distinct RP-2000 combined mortality projected to 2015 using scale AA

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Highway Patrol Officers' Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Total Pension Liability (TPL)		
Service costs	$ 3,598	$ 3,464
Interest	14,113	13,518
Changes in benefits	1,856	-
Difference between expected and actual experience	267	-
Benefit payments	(10,001)	(9,443)
Net change in total pension liability	$9,833	$7,539
Total pension liability - beginning	183,133	175,594
Total pension liability - ending	$192,966	$183,133
Plan Fiduciary Net Position		
Contributions - employer	$ 5,840	$5,736
Contributions - member	1,624	1,458
Net investment income	5,738	18,677
Benefit payments	(10,001)	(9,443)
Administrative expense	(144)	(109)
Net change in plan fiduciary net position	$ 3,057	$16,319
Plan fiduciary net position - beginning	126,010	109,691
Plan fiduciary net position - ending	$129,067	$126,010
Net Pension Liability - Beginning	$57,123	$65,903
Net Pension Liability - Ending	$63,899	$57,123
Plan fiduciary net position as a percentage of TPL	67%	69%
Pensionable payroll	$14,549	$14,149
Net pension liability as a percentage of pensionable payroll	439%	404%

Highway Patrol Officers' Retirement System
Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Contractually required contributions	$6,161	$5,782
Contributions in relation to the contractually required contributions	6,161	5,782
Contribution deficiency/(excess)	-	-
Covered-employee payroll	$15,276	$14,549
Contributions as a percentage of covered-employee payroll	40%	40%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
Highway Patrol Officers' Retirement System
For the Year Ended June 30, 2016

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2015, determined as of June 30, 2015.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Timing	ADC rates are calculated based on the actuarial valuation just prior to the beginning of the plan year
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Asset valuation method	4-year smoothed market
Amortization growth rate	4.00%
Inflation	3.00%
Salary increases	4.00% plus merit/seniority increases, where applicable
Investment rate of return	7.75%, net of investment expense
Mortality (healthy)	Sex distinct RP-2000 Combined Mortality projected to 2015 using scale AA

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Game Wardens' and Peace Officers' Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Total Pension Liability (TPL)		
Service costs	$8,008	$7,850
Interest	12,398	11,258
Actual experience	731	
Benefit payments	(5,352)	(5,229)
Net change in total pension liability	$15,785	$13,879
Total pension liability - beginning	153,864	139,985
Total pension liability - ending	$169,649	$153,864
Plan Fiduciary Net Position		
Contributions - employer	$4,088	$3,762
Contributions - member	4,924	4,462
Net investment income	6,435	20,069
Benefit payments	(5,352)	(5,229)
Administrative expense	(200)	(162)
Net change in plan fiduciary net position	$9,895	$22,902
Plan fiduciary net position - beginning	138,743	115,841
Plan fiduciary net position - ending	$148,638	$138,743
Net Pension Liability - Beginning	$15,121	$24,144
Net Pension Liability - Ending	$21,011	$15,121
Plan fiduciary net position as a percentage of TPL	87%	90%
Pensionable payroll	$44,885	$41,637
Net pension liability as a percentage of pensionable payroll	47%	36%

Game Wardens' and Peace Officers' Retirement System
Schedule of Employer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Contractually required contributions	$4,240	$4,040
Contributions in relation to the contractually required contributions	4,240	4,040
Contribution deficiency/(excess)	-	-
Covered-employee payroll	$47,108	$44,885
Contributions as a percentage of covered-employee payroll	9%	9%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
Game Wardens' and Peace Officers' Retirement System
For the Year Ended June 30, 2016

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2015, determined as of June 30, 2015.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation just prior to the beginning of the plan year
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Amortization growth rate	4.00%
Asset valuation method	4-year smoothed market
Inflation	3.00%
Salary increases	4.00% plus merit/seniority increases where applicable
Investment rate of return	7.75%, net of investment expense
Mortality (healthy)	Sex distinct RP-2000 combined mortality projected to 2015 using scale AA

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30

(dollars in thousands)

	2016	2015
Employer's proportion of the net pension liability	53.611080%	53.223780%
Employer's proportionate share of the net pension liability	$749,414	$663,174
Employer's covered-employee payroll	$620,286	$597,083
Employer 's proportionate share of the net pension liability as a percentage of its covered-employee payroll	121%	111%
Plan fiduciary net position as a percentage of the total pension liability	78%	80%

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30

(dollars in thousands)

	2016	2015
Contractually required contributions	$59,073	$58,575
Contributions in relation to the contractually required contributions	59,073	58,575
Contribution deficiency/(excess)	-	-
Covered-employee payroll	$621,755	$620,286
Contributions as a percentage of covered-employee payroll	10%	9%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Public Employees' Retirement System-Defined Benefit Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2015, determined as of June 30, 2015.

The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation just prior to the beginning of the plan year
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Amortization growth rate	4.00%
Asset valuation method	4-year smoothed market
Inflation	3.00%
Salary increases	4.00% plus merit/seniority increases where applicable
Investment rate of return	7.75%, net of investment expense
Mortality (healthy)	Sex distinct RP-2000 combined mortality projected to 2015 using scale AA

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Entity

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30

(dollars in thousands)

	2016	2015
Nonemployer's proportion of the net pension liability	0.956090%	0.961287%
Nonemployer's proportionate share of the net pension liability	$13,365	$11,978
Plan fiduciary net position as a percentage of the total pension liability	78%	80%

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Nonemployer Contributions
For the Fiscal Year Ended June 30

(dollars in thousands)

	2016	2015
Contractually required contributions	$30,800	$32,397
Contributions in relation to the contractually required contributions	30,800	32,397
Contribution deficiency/(excess)	-	-

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Public Employees' Retirement System-Defined Benefit Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

Method and assumptions used in calculations of contractually determined contributions: The contractually determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2015, are as follows:

Special Funding

The State contributes 0.1% of member compensation on behalf of local government entities per Section 19-3-319, MCA.

The State contributes 0.37% of member compensation on behalf of school district entities per Section 19-3-319, MCA.

Not Special Funding

The State contributes a portion of Coal Severance Tax income and interest earnings from the Coal Trust Permanent Trust fund in accordance with Section 15-35-108, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Sheriffs' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2016	2015
Employer's proportion of the net pension liability	5.637055%	5.535%
Employer's proportionate share of the net pension liability	$5,434	$2,304
Employer's covered-employee payroll	$3,836	$3,580
Employer 's proportionate share of the net pension liability as a percentage of its covered-employee payroll	141%	64%
Plan fiduciary net position as a percentage of the total pension liability	75%	87%

Sheriffs' Retirement System
Schedule of Employer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Contractually required contributions	$389	$388
Contributions in relation to the contractually required contributions	389	388
Contribution deficiency/(excess)	-	-
Covered-employee payroll	$3,850	$3,836
Contributions as a percentage of covered-employee payroll	10%	10%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Sheriffs' Retirement System
Notes to Required Supplementary Information
For the Year ended June 30, 2016

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2015, determined as of June 30, 2015. The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation just prior to the beginning of the plan year
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Amortization growth rate	4.00%
Asset valuation method	4-year smoothed market
Inflation	3.00%
Salary increases	4.00% plus merit/seniority increases where applicable
Investment rate of return	7.75%, net of investment expense
Mortality (healthy)	Sex distinct RP-2000 combined mortality projected to 2015 using scale AA

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Municipal Peace Officers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2016	2015
Nonemployer's proportion of the net pension liability	66.954111%	66.888728%
Nonemployer's proportionate share of the net pension liability	$110,756	$105,106
Plan fiduciary net position as a percentage of the total pension liability	67%	67%

Municipal Peace Officers' Retirement System
Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Contractually required contributions	$13,752	$13,433
Contributions in relation to the contractually required contributions	13,752	13,433
Contribution deficiency/(excess)	-	-

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Municipal Peace Officers' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

Method and assumptions used in calculations of contractually determined contributions: The contractually determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2015, are as follows:

> The State contributes 29.37% of member compensation on behalf of all employer entities per Section 19-9-702, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Firefighters' Unified Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30

(dollars in thousands)

	2016	2015
Employer's proportion of the net pension liability	2.399255%	1.850026%
Employer's proportionate share of the net pension liability	$2,454	$1,806
Employer's covered-employee payroll	$986	$735
Employer 's proportionate share of the net pension liability as a percentage of its covered-employee payroll	249%	245%
Plan fiduciary net position as a percentage of the total pension liability	77%	77%

Firefighters' Unified Retirement System
Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30

(dollars in thousands)

	2016	2015
Contractually required contributions	$475	$142
Contributions in relation to the contractually required contributions	475	142
Contribution deficiency/(excess)	-	-
Covered-employee payroll	$974	$986
Contributions as a percentage of covered-employee payroll	49%	14%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Firefighters' Unified Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2015, determined as of June 30, 2015. The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation just prior to the beginning of the plan year
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Amortization growth rate	4.00%
Asset valuation method	4-year smoothed market
Inflation	3.00%
Salary increases	4.00% plus merit/seniority increases where applicable
Investment rate of return	7.75%, net of pension plan investment expense, and including inflation
Mortality	Sex distinct RP-2000 combined mortality projected to 2015 using scale AA

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Firefighters' Unified Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2016	2015
Nonemployer's proportion of the net pension liability	67.358196%	68.005182%
Nonemployer's proportionate share of the net pension liability	$68,892	$66,384
Plan fiduciary net position as a percentage of the total pension liability	77%	77%

Firefighters' Unified Retirement System
Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Contractually required contributions	$13,635	$13,573
Contributions in relation to the contractually required contributions	13,635	13,573
Contribution deficiency/(excess)	-	-

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Firefighters' Unified Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

Method and assumptions used in calculations of statutorily determined contributions: The statutorily determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2015, are as follows:

> The State contributes 32.61% of member compensation on behalf of all employer entities per Section 19-13-604, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Volunteer Firefighters' Compensation Act
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2016	2015
Nonemployer's proportion of the net pension liability	100%	100%
Nonemployer's proportionate share of the net pension liability	$10,504	$5,089
Plan fiduciary net position as a percentage of the total pension liability	76%	87%

Volunteer Firefighters' Compensation Act
Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Contractually required contributions	$2,024	$1,913
Contributions in relation to the contractually required contributions	2,024	1,913
Contribution deficiency/(excess)	-	-

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Volunteer Firefighters' Compensation Act
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

Method and assumptions used in calculations of actuarially determined contributions: The statutorily determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2015, are as follows:

The State contributes 5% of certain fire tax insurance premiums paid per Section 19-17-301, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Teachers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2016	2015
Employer's proportion of the net pension liability	3.422388%	4.689747%
Employer's proportionate share of the net pension liability	$56,230	$72,168
Employer's covered-employee payroll	$31,252	$32,937
Employer 's proportionate share of the net pension liability as a percentage of its covered-employee payroll	179%	219%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%

Teachers' Retirement System
Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Contractually required contributions	$16,946	$16,234
Contributions in relation to the contractually required contributions	16,946	16,234
Contribution deficiency/(excess)	-	-
Covered-employee payroll	$28,915	$31,252
Contributions as a percentage of covered-employee payroll	58%	52%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Teachers' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

Changes of assumptions: The following changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date:

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three year COLA deferral period for Tier 2 members.
- The 0.63% load applied to the projected retirement benefits of the university members "to account for larger than average annual compensation increases observed in the years immediately preceding retirement" should not be applied to benefits expected to be paid to university members on account of death, disability and termination (prior to retirement eligibility).
- The actuarial valuation should be updated so that the assumed rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.
- The actuarial valuation should be updated to reflect the fact that vested terminations are only covered by the $500 death benefit for the one year following their termination and, once again when the terminated members commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to "retain membership in the TRS" should be covered by the $500 death benefit after termination.

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2015, determined as of June 30, 2015.

The following actuarial methods and assumptions were used to determine actuarial contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	26 years
Asset valuation method	4-year smoothed market
Inflation	3.25%
Salary increase	4.00% to 8.51% percent, including inflation for Non- University Members and 5.00% for University Members
Investment rate of return	7.75%, net of pension plan investment expense, and including inflation

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Teachers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2016	2015
Nonemployer's proportion of the net pension liability	39.384625%	38.777294%
Nonemployer's proportionate share of the net pension liability	$647,092	$596,724
Plan fiduciary net position as a percentage of the total pension liability	69%	70%

Teachers' Retirement System
Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015
Contractually required contributions	$42,400	$42,806
Contributions in relation to the contractually required contributions	42,400	42,806
Contribution deficiency/(excess)	-	-

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Teachers' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2015, are as follows:

The State contributes 0.11% of the compensation of members participating per Section 19-20-604, MCA.

The State contributes 2.38% of member compensation on behalf of school district and community college entities per Section 19-20-607, MCA.

The State contributes a $25 million payment from the General Fund per Section 19-20-607, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 3. OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

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 No. 45, the following information is presented to reflect the funding progress of the Other Postemployment Benefits Plans.

Other Postemployment Benefits 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)
State Agent Multiple Employer Plan						
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%
1/1/2015	$ -	$347,935	$347,935	0.00%	$645,888	53.87%
MUS Agent Multiple Employer Plan						
7/1/2011	$ -	$191,017	$191,017	0.00%	$371,802	51.38%
7/1/2013	$ -	$114,498	$114,498	0.00%	$400,017	28.62%
7/1/2015	$ -	$110,494	$110,494	0.00%	$416,565	26.50%

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 4. RISK MANAGEMENT TREND INFORMATION

The following tables present risk management trend information for the Hail Insurance Fund and the MUS Group Benefits Fund. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no development cycle. The MUS Group Benefits Fund has a three to five-year development cycle.

The tables illustrate how the earned revenues (net of reinsurance) of the funds and their investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the funds as of the end of the fiscal year (in thousands). Section 3 shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

State of Montana Hail Insurance Program
Claims Development Information

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
1. **Premiums and investment revenue**										
Earned	$7,446	$8,309	$8,029	$7,101	$7,034	$6,710	$6,886	$6,846	$7,718	$6,032
Ceded	6,346	2,049	-	-	-	-	-	-	-	-
Net earned	$1,100	$6,260	$8,029	$7,101	$7,034	$6,710	$6,886	$6,846	$7,718	$6,032
2. **Unallocated expenses including overhead**	$ 424	$1,124	$1,033	$3,562	$2,308	$1,545	$2,637	$3,593	$1,485	$3,133
3. **Estimated losses and expenses end of accident year**	$ 324	$6,660	$13,511	$2,221	$4,608	$6,309	$3,961	$2,601	$5,435	$1,206
4. **Net paid (cumulative) as of:**										
End of policy year	$ 189	$6,643	$13,285	$1,881	$3,857	$6,144	$3,723	$2,248	$1,960	$ 687
One year later		-	-	-	-	-	-	-	-	-
Two years later			-	-	-	-	-	-	-	-
Three years later				-	-	-	-	-	-	-
Four years later					-	-	-	-	-	-
Five years later						-	-	-	-	-
Six years later							-	-	-	-
Seven years later								-	-	-
Eight years later									-	-
Nine years later										-
5. **Re-estimated ceded losses and expenses**	$ -	$ -	$ -	$ -	-	$ -	$ -	$ -	$ -	$ -
6. **Re-estimated net incurred losses and expense:**										
End of policy year	$ 324	$6,660	$13,511	$2,221	$4,608	$6,309	$3,961	$2,601	$5,435	$1,206
One year later		-	-	-	-	-	-	-	-	-
Two years later			-	-	-	-	-	-	-	-
Three years later				-	-	-	-	-	-	-
Four years later					-	-	-	-	-	-
Five years later						-	-	-	-	-
Six years later							-	-	-	-
Seven years later								-	-	-
Eight years later									-	-
Nine years later										-
7. **Increase (decrease) in estimated net incurred losses and expenses from end of policy year**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Montana University System – Medical, Dental, Vision, Rx Claims

Claims Development Information

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
1. **Premiums and investment revenue**	$84,297	$80,764	$79,257	$76,505	$75,911	$73,078	$62,851	$59,573	$62,497	$56,970
2. **Unallocated expenses including overhead**	$5,129	$5,198	$4,787	$3,938	$4,063	$4,663	$3,629	$3,123	$2,904	$2,575
3. **Estimated losses and expenses end of accident year**	$87,233	$87,353	$71,877	$69,325	$64,331	$64,919	$65,575	$60,928	$55,474	$53,729
4. **Net paid (cumulative) as of:**										
End of policy year	$68,968	$72,065	$57,257	$56,383	$51,640	$51,606	$52,860	$48,459	$44,117	$42,691
One year later	-	82,602	63,914	63,200	58,286	58,713	62,116	55,438	51,143	49,276
Two years later			63,915	63,236	58,316	58,756	62,148	55,494	51,199	49,288
Three years later				63,236	58,324	58,756	62,166	55,495	51,212	49,288
Four years later					58,324	58,756	62,167	55,495	51,213	49,288
Five years later						58,756	62,168	55,495	51,213	49,288
Six years later							62,168	55,495	51,213	49,288
Seven years later								55,495	51,213	49,288
Eight years later									51,213	49,288
Nine years later										49,288
5. **Re-estimated ceded losses and expenses**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6. **Re-estimated net incurred losses and expense:**										
End of policy year	$87,233	$87,353	$71,877	$69,325	$64,331	$64,919	$65,575	$60,928	$55,474	$53,729
One year later		71,718	69,106	63,446	63,941	67,006	60,208	55,319	53,660	46,777
Two years later			63,915	63,236	58,316	58,756	62,148	55,494	51,199	49,288
Three years later				63,236	58,324	58,756	62,166	55,495	51,212	49,288
Four years later					58,324	58,756	62,167	55,495	51,213	49,288
Five years later						58,756	62,168	55,495	51,213	49,288
Six years later							62,168	55,495	51,213	49,288
Seven years later								55,495	51,213	49,288
Eight years later									51,213	49,288
Nine years later										49,288
7. **Increase (decrease) in estimated net incurred losses and expenses from end of policy year**	$ -	($ 15,635)	($ 7,962)	($ 6,089)	($ 6,008)	($ 6,163)	($ 3,407)	($ 5,433)	($ 4,261)	($ 4,441)

SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
JUNE 30, 2016
(amounts expressed in thousands)

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
ASSETS				
Cash/cash equivalents	$ 10,987	$ 71,169	$ 942	$ 83,098
Receivables (net)	3,608	2,261	842	6,711
Due from other funds	1,735	231	-	1,966
Due from component units	-	1,060	-	1,060
Equity in pooled investments	-	-	339,944	339,944
Long-term loans/notes receivable	22,671	-	-	22,671
Advances to other funds	10,578	-	-	10,578
Investments	5,821	-	-	5,821
Securities lending collateral	-	171	4,039	4,210
Other assets	-	27	-	27
Total assets	$ 55,400	$ 74,919	$ 345,767	$ 476,086
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	-	4,477	1	4,478
Interfund loans payable	-	-	293	293
Due to other funds	354	-	492	846
Advances from other funds	12,051	-	-	12,051
Securities lending liability	-	171	4,039	4,210
Total liabilities	12,405	4,648	4,825	21,878
DEFERRED INFLOWS OF RESOURCES	435	-	-	435
Fund balances:				
Nonspendable	-	27	310,718	310,745
Restricted	8,072	8,469	15,288	31,829
Committed	34,239	54,973	14,934	104,146
Assigned	250	6,800	-	7,050
Total fund balances	42,561	70,269	340,940	453,770
Total liabilities, deferred inflows of resources, and fund balances	$ 55,401	$ 74,917	$ 345,765	$ 476,083

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
REVENUES				
Taxes:				
Natural resource	$ 1,399	$ 7,033	$ -	$ 8,432
Other	-	1,799	-	1,799
Charges for services/fines/forfeits/settlements	119	307	12,295	12,721
Investment earnings	8,660	213	20,694	29,567
Securities lending income	-	1	81	82
Sale of documents/merchandise/property	3,946	-	-	3,946
Total revenues	14,124	9,353	33,070	56,547
EXPENDITURES				
Current:				
General government	-	2,116	-	2,116
Public safety	-	750	-	750
Health and human services	2	1,143	-	1,145
Education	-	27	72	99
Debt service:				
Principal retirement	38,946	-	-	38,946
Interest/fiscal charges	9,612	-	-	9,612
Capital outlay	-	38,782	26	38,808
Securities lending	-	-	25	25
Total expenditures	48,560	42,818	123	91,501
Excess of revenue over (under) expenditures	(34,436)	(33,465)	32,947	(34,954)
OTHER FINANCING SOURCES (USES)				
General capital asset sale proceeds	-	-	9	9
Transfers in	43,528	17,945	-	61,473
Transfers out	(11,243)	(4,943)	(10,313)	(26,499)
Total other financing sources (uses)	32,285	13,002	(10,304)	34,983
Net change in fund balances	(2,151)	(20,463)	22,643	29
Fund balances - July 1 - as previously reported	44,712	88,986	318,297	451,995
Adjustments to beginning fund balances	-	1,748	-	1,748
Fund balances - July 1 - as adjusted	44,712	90,734	318,297	453,743
Fund balances - June 30	$ 42,561	$ 70,271	$ 340,940	$ 453,772

NONMAJOR DEBT SERVICE FUNDS

Debt service funds are used to account for the accumulation of resources for the payment of general long-term obligation principal and interest. A brief description of each debt service fund follows:

Coal Tax – This fund accounts for payments on special revenue renewable resource program (coal severance tax) bonds.

Long-Range Building Program – This fund accounts for payments on general obligation long-range building program bonds.

Water & Wastewater Development – This fund accounts for payments on the following general obligation bonds: wastewater treatment works revolving fund, renewable resource program, drinking water revolving fund, and water pollution control revolving fund.

Water Conservation – This fund accounts for payments on water conservation loans issued for the following projects: Little Dry and Petrolia.

Health Care – This fund accounts for payments on the following special revenue bonds: Montana State Hospital and Montana Developmental Center.

Energy Conservation Program – This fund accounts for payments on general obligation bonds issued for State Building Energy Conservation Projects.

Environmental Reclamation – This fund accounts for payments on the following general obligation bonds: hard rock mining reclamation and CERCLA program.

Highway – This fund accounts for payments on the U.S. Highway 93 GARVEES special revenue bonds.

Trust Lands – This fund accounts for payments on taxable trust lands bonds.

COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
JUNE 30, 2016
(amounts expressed in thousands)

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTEWATER DEVELOPMENT	HEALTH CARE
ASSETS				
Cash/cash equivalents	$ 6,364	$ 250	$ 3,669	$ 332
Receivables (net)	627	-	2,620	-
Due from other funds	-	-	-	-
Long-term loans/notes receivable	10,083	-	12,588	-
Advances to other funds	5,805	-	4,773	-
Investments	-	-	2,951	2,870
Total assets	22,879	250	26,601	3,202
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Due to other funds	22	-	332	-
Advances from other funds	2,605	-	9,446	-
Total liabilities	2,627	-	9,778	-
DEFERRED INFLOWS OF RESOURCES	168	-	266	-
Fund balances:				
Restricted	-	-	4,870	3,202
Committed	20,084	-	11,688	-
Assigned	-	250	-	-
Total fund balances	20,084	250	16,558	3,202
Total liabilities, deferred inflows of resources and fund balances	$ 22,879	$ 250	$ 26,602	$ 3,202

ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	TOTAL
$ 100	$ 271	$ 10,986
35	327	3,609
1,735	-	1,735
-	-	22,671
-	-	10,578
-	-	5,821
1,870	598	55,400
-	-	354
-	-	12,051
-	-	12,405
-	-	434
-	-	8,072
1,870	597	34,239
-	-	250
1,870	597	42,561
$ 1,870	$ 597	$ 55,400

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
JUNE 30, 2016
(amounts expressed in thousands)

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTEWATER DEVELOPMENT	WATER CONSERVATION
REVENUES				
Taxes:				
Natural resource	$ -	$ -	$ 557	$ -
Charges for services/fines/forfeits/settlements	-	-	-	-
Investment earnings	575	-	7,921	-
Sale of documents/merchandise/property	3,946	-	-	-
Total revenues	4,521	-	8,478	-
EXPENDITURES				
Current:				
Health/social services	-	-	-	-
Debt service:				
Principal retirement	2,060	11,335	6,510	2
Interest/fiscal charges	520	2,397	1,760	-
Total expenditures	2,580	13,732	8,270	2
Excess of revenue over (under) expenditures	1,941	(13,732)	208	(2)
OTHER FINANCING SOURCES (USES)				
Transfers in	3,221	13,696	4,668	-
Transfers out	(7,147)	-	(3,335)	-
Total other financing sources (uses)	(3,926)	13,696	1,333	-
Net change in fund balances	(1,985)	(36)	1,541	(2)
Fund balances - July 1 - as previously reported	22,068	285	15,018	2
Fund balances - June 30	$ 20,083	$ 249	$ 16,559	$ -

HEALTH CARE	ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	HIGHWAY	TRUST LANDS	TOTAL
$ -	$ -	$ 842	$ -	$ -	$ 1,399
-	119	-	-	-	119
164	-	-	-	-	8,660
-	-	-	-	-	3,946
164	119	842	-	-	14,124
2	-	-	-	-	2
4,999	550	345	12,270	875	38,946
727	87	115	3,327	678	9,611
5,728	637	460	15,597	1,553	48,559
(5,564)	(518)	382	(15,597)	(1,553)	(34,435)
4,473	320	-	15,597	1,553	43,528
-	(41)	(720)	-	-	(11,243)
4,473	279	(720)	15,597	1,553	32,285
(1,091)	(239)	(338)	-	-	(2,150)
4,294	2,110	935	-	-	44,712
$ 3,203	$ 1,871	$ 597	$ -	$ -	$ 42,562

This page intentionally left blank.

NONMAJOR CAPITAL PROJECTS FUNDS

Capital project funds are used to account for financial resources used for the acquisition or construction of major governmental general capital assets. A brief description of each capital project fund follows:

Long-Range Building Program – This fund is maintained to account for resources received and expended for the State's long-range building program. The long-range building program includes costs for the acquisition, construction, and improvement of major capital assets financed by general obligation bonds and interest earned on bond proceeds.

Information Technology Projects – This fund accounts for resources received and expended for information technology projects for various upgrade and replacement activities.

Federal/Private Construction Grants – This fund accounts for federal grants, private donations, and federal matching funds that are restricted to general capital asset construction.

Capital Land Grant – This fund accounts for revenues and expenditures from the Capital Land Grant. Revenues are dedicated for the purpose of constructing capital buildings or additions thereto. Revenues may be transferred to a debt service fund for the payment of principal and interest on bonds issued for capital building construction.

COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
JUNE 30, 2016
(amounts expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	CAPITAL LAND GRANT	TOTAL
ASSETS				
Cash/cash equivalents	$ 49,615	$ 17,664	$ 3,890	$ 71,169
Receivables (net)	2,261	-	-	2,261
Due from other funds	231	-	-	231
Due from component units	1,060	-	-	1,060
Securities lending collateral	171	-	-	171
Other assets	27	-	-	27
Total assets	53,365	17,664	3,890	74,919
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	4,338	139	-	4,477
Securities lending liability	171	-	-	171
Total liabilities	4,509	139	-	4,648
Fund balances:				
Nonspendable	27	-	-	27
Restricted	4,187	392	3,890	8,469
Committed	39,079	15,895	-	54,974
Assigned	5,562	1,238	-	6,800
Total fund balances	48,855	17,525	3,890	70,270
Total liabilities and fund balances	$ 53,364	$ 17,664	$ 3,890	$ 74,918

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	FEDERAL/ PRIVATE CONSTRUCTION GRANTS	CAPITAL LAND GRANT	TOTAL
REVENUES					
Taxes:					
Natural resource	$ 7,033	$ -	$ -	$ -	$ 7,033
Other	1,799	-	-	-	1,799
Charges for services/fines/forfeits/settlements	307	-	-	-	307
Investment earnings	213	-	-	-	213
Securities lending income	1	-	-	-	1
Total revenues	9,353	-	-	-	9,353
EXPENDITURES					
Current:					
General government	69	2,047	-	-	2,116
Public safety	531	219	-	-	750
Health and human services	136	1,007	-	-	1,143
Education	27	-	-	-	27
Capital outlay	33,672	5,080	7	24	38,783
Total expenditures	34,435	8,353	7	24	42,819
Excess of revenue over (under) expenditures	(25,082)	(8,353)	(7)	(24)	(33,466)
OTHER FINANCING SOURCES (USES)					
Transfers in	6,128	10,300	7	1,510	17,945
Transfers out	(4,212)	(342)	-	(389)	(4,943)
Total other financing sources (uses)	1,916	9,958	7	1,121	13,002
Net change in fund balances	(23,166)	1,605	-	1,097	(20,464)
Fund balances - July 1 - as previously reported	70,274	15,920	-	2,792	88,986
Adjustments to beginning fund balances	1,748	-	-	-	1,748
Fund balances - July 1 - as adjusted	72,022	15,920	-	2,792	90,734
Fund balances - June 30	$ 48,856	$ 17,525	$ -	$ 3,889	$ 70,270

This page intentionally left blank.

NONMAJOR PERMANENT FUNDS

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used to support state government programs. A brief description of each permanent fund follows:

Resource Indemnity – Taxes paid by persons engaging in or carrying on the business of mining, extracting, or producing minerals are deposited in this fund. Only the net earnings of the trust may be appropriated until the principal reaches $100 million. Interest earnings are expended from a Special Revenue fund. This fund is administered by the Department of Revenue.

Cultural Trust – A portion of coal severance taxes are credited to these funds by the Department of Revenue. The Montana Arts Council uses income from the trusts for the protection of works of art in the State Capitol and for other cultural projects.

Noxious Weed Management – The Department of Agriculture accounts for revenues and interest earned on fees charged for the control of noxious weeds. Funds in this trusts that were established as permanent funds by legislature have been reclassified as State Special Revenue Funds.

Historical Society Trusts – The fund accounts for memorials, bequests, and various other contributions to the Montana Historical Society. Includes the following trust funds: James H. Bradley Memorial, Thomas Teakle, Merritt-Wheeler Memorial, Historical Society Acquisitions, Sobotka Memorial, and Edger I. and Jane R. Stewart.

Tobacco Settlement – In addition to the principle, this fund holds interest earned by investing the Tobacco Settlement Principal.

Heritage Trust – This fund accounts for the proceeds from sales of the Montana Heritage Commission Board property in order to provide historical properties benefits.

COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS
JUNE 30, 2016
(amounts expressed in thousands)

	RESOURCE INDEMNITY	CULTURAL TRUST	NOXIOUS WEED MANAGEMENT
ASSETS			
Cash/cash equivalents	$ 23	$ 74	$ -
Receivables (net)	293	-	-
Equity in pooled investments	114,934	-	10,002
Securities lending collateral	1,360	-	132
Total assets	$ 116,610	$ 74	$ 10,134
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	-	-	-
Interfund loans payable	293	-	-
Due to other funds	-	-	2
Securities lending liability	1,360	-	132
Total liabilities	1,653	-	134
Fund balances:			
Nonspendable	100,000	66	10,000
Restricted	23	8	-
Committed	14,934	-	-
Total fund balances	114,957	74	10,000
Total liabilities and fund balances	$ 116,610	$ 74	$ 10,134

HISTORICAL SOCIETY TRUSTS	TOBACCO SETTLEMENT	TOTAL
$ 22	$ 824	$ 943
3	545	841
1,368	213,640	339,944
16	2,531	4,039
$ 1,409	$ 217,540	$ 345,767
1	-	1
-	-	293
-	490	492
16	2,531	4,039
17	3,021	4,825
1,366	199,286	310,718
26	15,232	15,289
-	-	14,934
1,392	214,518	340,941
$ 1,409	$ 217,539	$ 345,766

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NONMAJOR PERMANENT FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

(amounts expressed in thousands)

	RESOURCE INDEMNITY	CULTURAL TRUST	NOXIOUS WEED MANAGEMENT
REVENUES			
Charges for services/fines/forfeits/settlements	$ -	$ -	$ -
Investment earnings	7,407	-	-
Securities lending income	29	-	-
Total revenues	7,436	-	-
EXPENDITURE			
Current:			
Education	-	-	-
Capital outlay	-	-	-
Securities lending	9	-	-
Total expenditures	9	-	-
Excess of revenue over (under) expenditures	7,427	-	-
OTHER FINANCING SOURCES (USES)			
General capital asset sale proceeds	-	-	-
Transfers out	(3,973)	-	-
Total other financing sources (uses)	(3,973)	-	-
Net change in fund balances	3,454	-	-
Fund balances - July 1 - as previously reported	111,503	73	10,000
Fund balances - June 30	$ 114,957	$ 73	$ 10,000

HISTORICAL SOCIETY TRUSTS	TOBACCO SETTLEMENT	HERITAGE TRUST	TOTAL
$ -	$ 12,295	$ -	$ 12,295
88	13,198	-	20,693
-	51	-	80
88	25,544	-	33,068
72	-	-	72
26	-	-	26
-	16	-	25
98	16	-	123
(10)	25,528	-	32,945
9	-	-	9
-	(6,308)	(32)	(10,313)
9	(6,308)	(32)	(10,304)
(1)	19,220	(32)	22,641
1,392	195,297	32	318,297
$ 1,391	$ 214,517	$ -	$ 340,938

NONMAJOR ENTERPRISE FUNDS

Enterprise funds are used to account for operations that provide goods or services to the public on a user charge basis. A brief description of each enterprise fund follows:

Liquor Warehouse – This fund accounts for activities related to the sale and distribution of alcoholic beverages and licensing within the State. Profits and license fees are used to finance General Fund expenditures.

Hail Insurance – Any producer engaged in the growing of crops subject to damage by hail may participate in the hail insurance program. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and benefits paid by the Department of Agriculture.

State Lottery – This fund accounts for the operations of Montana's lottery.

Prison Industries – These operations provide training and employment for inmates. The products produced are sold to state agencies, non-profit organizations, and other customers in accordance with state policies.

MUS Group Insurance – This fund accounts for employee contributions to the Montana University System’s medical/dental self-insurance plan.

MUS Workers Compensation – This fund accounts for self-insured workers compensation coverage for employees of the Montana University System.

Subsequent Injury – This fund accounts for the assessments collected from employers and benefits paid to workers who are certified as vocationally handicapped and are injured on the job.

Secretary of State Business Services – This fund accounts for the Business and Government Services activities and the Administrative Code Program of the Secretary of State's Office.

Historical Society Publications – This fund accounts for the Historical Society's sales from "Montana, The Magazine of Western History"; books; publications; and merchandise from the Historical Society store.

Surplus Property – The Department of Administration accounts for intragovernmental sales of state and federal surplus property to state agencies, local governments, and designated non-profit organizations.

West Yellowstone Airport – This fund, administered by the Department of Transportation, accounts for operations of the airport at West Yellowstone. User airlines are assessed rental and landing fees.

Local Government Audits – This fund accounts for the costs incurred by the Department of Administration for audits of local governments, required under Sections 2-7-501 through 522 of the Montana Code Annotated, and the fees assessed the local governments for the audits.

Flexible Spending Administration – This fund accounts for the fees collected from the participants in the Flexible Spending Programs and the related administrative costs of the plans administered by the Department of Administration and the Office of the Commissioner of Higher Education.

HUD Section 8 Housing – This fund accounts for a program that provides rental assistance to low-income families throughout Montana.

Other Enterprise Funds – This category includes several small enterprise funds administered by various agencies.

COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2016
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
ASSETS				
Current assets:				
Cash/cash equivalents	$ 3,880	$ 4,826	$ 2,309	$ 2,804
Receivables (net)	21,841	3,221	2,140	310
Interfund loans receivable	-	-	-	-
Due from other governments	-	-	-	-
Inventories	107	-	435	3,411
Securities lending collateral	-	18	6	-
Other current assets	40	-	36	-
Total current assets	25,868	8,065	4,926	6,525
Noncurrent assets:				
Long-term investments	-	-	-	-
Long-term notes/loans receivable	-	-	-	-
Other long-term assets	-	-	1,187	292
Capital assets:				
Land	-	-	-	690
Land improvements	-	-	-	731
Buildings/improvements	2,084	-	60	4,804
Equipment	1,003	-	538	6,095
Infrastructure	-	-	-	1,170
Construction in progress	-	-	-	643
Intangible assets	-	-	-	-
Other capital assets	12	-	-	4,281
Less accumulated depreciation	(2,343)	-	(462)	(8,431)
Total capital assets	756	-	136	9,983
Total noncurrent assets	756	-	1,323	10,275
Total assets	$ 26,624	$ 8,065	$ 6,249	$ 16,800
DEFERRED OUTFLOWS OF RESOURCES	412	25	218	55
LIABILITIES				
Current liabilities:				
Accounts payable	$ 7,318	$ 5,576	$ 836	$ 286
Lottery prizes payable	-	-	2,522	-
Due to other governments	-	-	-	-
Due to other funds	11,335	-	1,527	9
Unearned revenue	1,102	674	104	10
Current lease liability	-	-	-	185
Amounts held in custody for others	40	-	-	-
Securities lending liability	-	18	6	-
Estimated insurance claims	-	134	-	-
Compensated absences payable	194	7	134	130
Total current liabilities	19,989	6,409	5,129	620
Noncurrent liabilities:				
Advances from other funds	-	-	-	80
Long term lease liability	-	-	-	413
Lottery prizes payable	-	-	1,017	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	234	3	102	241
Net pension liability	2,088	246	1,652	899
OPEB implicit rate subsidy	850	92	664	706
Total noncurrent liabilities	3,172	341	3,435	2,339
Total liabilities	23,161	6,750	8,564	2,959
DEFERRED INFLOWS OF RESOURCES	325	36	142	92
NET POSITION				
Net investment in capital assets	757	-	136	9,386
Restricted for:				
Other purposes	-	1,304	-	-
Unrestricted	2,794	-	(2,375)	4,418
Total net position	$ 3,551	$ 1,304	$ (2,239)	$ 13,804

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS
$ 15,025	$ 17,586	$ 658	$ 2,982	$ 280
359	77	126	4	16
-	-	-	-	6
-	-	-	9	-
-	-	-	18	524
3,766	105	1	11	-
-	-	-	-	-
19,150	17,768	785	3,024	826
24,476	3,045	-	-	30
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	505	11
-	-	-	-	-
-	-	-	1,497	-
-	-	-	-	-
-	-	-	-	-
-	-	-	(412)	(10)
-	-	-	1,590	1
24,476	3,045	-	1,590	31
$ 43,626	$ 20,813	$ 785	$ 4,614	$ 857
33	-	-	436	11
$ 5,792	$ 74	$ -	$ 284	$ 12
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
278	-	-	-	87
-	-	-	-	-
-	-	-	10	-
3,766	105	1	11	-
9,100	2,041	1,500	-	-
41	6	-	204	2
18,977	2,226	1,501	509	101
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	5,722	1,849	-	-
72	2	-	230	4
388	-	-	2,916	137
101	17	-	1,176	132
561	5,741	1,849	4,322	273
19,538	7,967	3,350	4,831	374
23	-	-	265	9
-	-	-	1,584	1
24,096	12,846	-	-	-
-	-	(2,565)	(1,633)	483
$ 24,096	$ 12,846	$ (2,565)	$ (49)	$ 484

COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2016
(amounts expressed in thousands)

	SURPLUS PROPERTY	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
ASSETS				
Current assets:				
Cash/cash equivalents	$ 275	$ 509	$ 176	$ 6,116
Receivables (net)	14	44	12	3
Interfund loans receivable	-	-	-	-
Due from other governments	-	-	-	-
Inventories	545	-	-	-
Securities lending collateral	-	-	-	4
Other current assets	-	-	-	-
Total current assets	834	553	188	6,123
Noncurrent assets:				
Long-term investments	-	-	-	-
Long-term notes/loans receivable	-	-	-	-
Other long-term assets	-	-	-	-
Capital assets:				
Land	-	110	-	-
Land improvements	-	3,099	-	-
Buildings/improvements	118	487	-	-
Equipment	161	963	-	-
Infrastructure	-	-	-	-
Construction in progress	-	950	-	-
Intangible assets	-	-	195	-
Other capital assets	-	-	-	-
Less accumulated depreciation	(181)	(2,227)	-	-
Total capital assets	98	3,382	195	-
Total noncurrent assets	98	3,382	195	-
Total assets	$ 932	$ 3,935	$ 383	$ 6,123
DEFERRED OUTFLOWS OF RESOURCES	37	12	39	-
LIABILITIES				
Current liabilities:				
Accounts payable	$ 45	$ 31	$ 32	$ 540
Lottery prizes payable	-	-	-	-
Due to other governments	-	-	-	-
Due to other funds	-	-	-	-
Unearned revenue	-	-	-	-
Current lease liability	-	-	-	-
Amounts held in custody for others	-	-	-	-
Securities lending liability	-	-	-	4
Estimated insurance claims	-	-	-	-
Compensated absences payable	43	17	23	-
Total current liabilities	88	48	55	544
Noncurrent liabilities:				
Advances from other funds	-	-	-	-
Long term lease liability	-	-	-	-
Lottery prizes payable	-	-	-	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	11	17	19	-
Net pension Liability	268	120	287	-
OPEB implicit rate subsidy	99	40	90	-
Total noncurrent liabilities	378	177	396	-
Total liabilities	466	225	451	544
DEFERRED INFLOWS OF RESOURCES	18	9	21	-
NET POSITION				
Net investment in capital assets	98	3,382	195	-
Restricted for:				
Other purposes	-	-	-	5,578
Unrestricted	389	331	(245)	-
Total net position	$ 487	$ 3,713	$ (50)	$ 5,578

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ 7,518	$ 2,061	$ 67,005
71	18	28,256
-	-	6
118	-	127
-	214	5,254
31	4	3,946
66	1	143
7,804	2,298	104,737
-	-	27,551
94	-	94
-	-	1,479
-	-	800
-	-	3,830
-	40	7,593
10	249	9,535
-	-	1,170
-	-	3,090
-	121	316
-	-	4,293
(10)	(190)	(14,266)
-	220	16,361
94	220	45,485
$ 7,898	$ 2,518	$ 150,222
134	33	1,445
$ 85	$ 150	$ 21,061
-	-	2,522
81	-	81
-	-	12,871
-	93	2,348
-	1	186
2	-	52
31	4	3,946
-	-	12,775
92	43	936
291	291	56,778
-	-	80
-	1	414
-	-	1,017
-	-	7,571
87	58	1,080
1,105	353	10,459
410	196	4,573
1,602	608	25,194
1,893	899	81,972
109	25	1,074
-	219	15,758
4,706	60	48,590
1,326	1,348	4,271
$ 6,032	$ 1,627	$ 68,619

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
Operating revenues:				
Charges for services	$ 93,794	$ -	$ 59,717	$ 8,499
Investment earnings	-	7	11	-
Securities lending income	-	-	-	-
Contributions/premiums	-	1,101	-	-
Grants/contracts/donations	-	-	-	-
Other operating revenues	202	3	10	2
Total operating revenues	93,996	1,111	59,738	8,501
Operating expenses:				
Personal services	3,333	314	2,092	2,916
Contractual services	146	17	7,952	166
Supplies/materials	77,135	9	1,254	3,129
Benefits/claims	272	416	231	159
Depreciation	153	-	167	437
Amortization	-	-	-	-
Utilities/rent	132	10	520	180
Communications	114	8	719	12
Travel	31	35	53	20
Repair/maintenance	165	1	32	531
Lottery prize payments	-	-	33,678	-
Securities lending expense	-	-	-	-
Interest expense	10	-	1	30
Other operating expenses	38	7	268	487
Total operating expenses	81,529	817	46,967	8,067
Operating income (loss)	12,467	294	12,771	434
Nonoperating revenues (expenses):				
Tax revenues	27,078	-	-	-
Non-employer pension revenue	42	5	41	21
Gain (loss) on sale of capital assets	291	-	(235)	(118)
Increase (decrease) value of livestock	-	-	-	(911)
Total nonoperating revenues (expenses)	27,411	5	(194)	(1,008)
Income (loss) before contributions and transfers	39,878	299	12,577	(574)
Capital contributions	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(38,517)	-	(12,887)	(9)
Change in net position	1,361	299	(310)	(583)
Total net position - July 1 - as previously reported	1,050	1,007	(1,930)	14,465
Adjustments to beginning net position	1,143	-	-	(80)
Total net position - July 1 - as adjusted	2,193	1,007	(1,930)	14,385
Total net position - June 30	$ 3,554	$ 1,306	$ (2,240)	$ 13,802

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS
$ -	$ -	$ -	$ 6,372	$ 768
595	137	3	10	2
12	-	-	-	-
83,136	4,264	1,127	-	-
-	-	-	-	-
344	-	-	49	11
84,087	4,401	1,130	6,431	781
588	97	-	4,003	233
9,254	628	-	1,365	95
85	2	-	144	297
76,750	1,380	1,333	409	25
-	-	-	20	-
-	-	-	-	-
57	7	-	241	22
20	1	-	160	39
52	1	-	26	13
-	-	-	21	3
-	-	-	-	-
4	-	-	-	-
-	-	-	-	-
722	315	-	101	73
87,532	2,431	1,333	6,490	800
(3,445)	1,970	(203)	(59)	(19)
-	-	-	-	-
12	-	-	70	5
-	-	-	(4)	-
-	-	-	-	-
12	-	-	66	5
(3,433)	1,970	(203)	7	(14)
-	-	-	-	-
-	-	-	-	-
-	-	(39)	-	(3)
(3,433)	1,970	(242)	7	(17)
27,531	10,874	(2,323)	(54)	501
-	-	1	-	-
27,531	10,874	(2,322)	(54)	501
$ 24,098	$ 12,844	$ (2,564)	$ (47)	$ 484

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	SURPLUS PROPERTY	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
Operating revenues:				
Charges for services	$ 478	$ 70	$ 639	$ 161
Investment earnings	-	-	-	3
Securities lending income	-	-	-	-
Contributions/premiums	-	-	-	12,768
Grants/contracts/donations	-	4	-	-
Other operating revenues	-	364	23	-
Total operating revenues	478	438	662	12,932
Operating expenses:				
Personal services	377	168	380	-
Contractual services	110	(38)	66	538
Supplies/materials	558	19	5	-
Benefits/claims	42	15	40	14,722
Depreciation	17	175	-	-
Amortization	-	-	39	-
Utilities/rent	10	27	-	-
Communications	15	3	8	-
Travel	2	5	1	-
Repair/maintenance	5	19	-	-
Lottery prize payments	-	-	-	-
Securities lending expense	-	-	-	-
Interest expense	-	-	-	-
Other operating expenses	13	10	76	13
Total operating expenses	1,149	403	615	15,273
Operating income (loss)	(671)	35	47	(2,341)
Nonoperating revenues (expenses):				
Tax revenues	-	-	-	-
Non-employer pension revenue	7	3	8	-
Gain (loss) on sale of capital assets	-	-	-	-
Increase (decrease) value of livestock	-	-	-	-
Total nonoperating revenues (expenses)	7	3	8	-
Income (loss) before contributions and transfers	(664)	38	55	(2,341)
Capital contributions	858	1,000	-	-
Transfers in	68	92	-	-
Transfers out	-	-	-	(1)
Change in net position	262	1,130	55	(2,342)
Total net position - July 1 - as previously reported	225	2,584	(103)	7,920
Adjustments to beginning net position	-	-	(2)	-
Total net position - July 1 - as adjusted	225	2,584	(105)	7,920
Total net position - June 30	$ 487	$ 3,714	$ (50)	$ 5,578

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ -	$ 2,606	$ 173,104
36	3	807
-	-	12
-	-	102,396
42,629	-	42,633
-	26	1,034
42,665	2,635	319,986
1,317	835	16,653
1,532	657	22,488
120	190	82,947
39,238	58	135,090
-	15	984
-	63	102
114	43	1,363
48	154	1,301
46	57	342
114	41	932
-	-	33,678
-	-	4
-	-	41
266	367	2,756
42,795	2,480	298,681
(130)	155	21,305
-	-	27,078
25	11	250
-	-	(66)
-	-	(911)
25	11	26,351
(105)	166	47,656
-	-	1,858
-	485	645
-	(1)	(51,457)
(105)	650	(1,298)
6,136	976	68,859
-	-	1,062
6,136	976	69,921
$ 6,031	$ 1,626	$ 68,623

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipt from sales and service	$ 92,091	$ 1,500	$ 59,585	$ 8,568
Payments to suppliers for goods and services	(77,200)	(360)	(11,774)	(3,613)
Payments to employees	(3,424)	(366)	(2,251)	(2,996)
Grant receipts (expenses)	-	-	-	-
Cash payments for claims	-	(277)	-	-
Cash payments for prizes	-	-	(33,422)	-
Other operating revenues	202	3	10	2
Other operating payments	(38)	(7)	(268)	(487)
Net cash provided by (used for) operating activities	11,631	493	11,880	1,474
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Collection of taxes	27,078	-	-	-
Transfer to other funds	(38,517)	-	(12,887)	(9)
Transfer from other funds	-	-	-	-
Payment of interfund loans and advances	-	-	-	(80)
Proceeds from bonds and notes				
Payment of principal and interest on bonds and notes	(10)	-	(1)	(30)
Proceeds from nonemployer pension contributions	42	5	41	21
Net cash provided by (used for) noncapital financing activities	(11,407)	5	(12,847)	(98)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	-	-	(46)	(1,287)
Proceeds from sale of capital assets	20	-	-	-
Net cash provided by (used for) capital and related financing activities	20	-	(46)	(1,287)
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale (purchase) of investments	-	25	21	-
Proceeds (loss) from securities lending transactions/investments	-	-	-	-
Interest and dividends on investments	-	7	11	-
Payment of securities lending costs	-	-	-	-
Net cash provided by (used for) investing activities	-	32	32	-
Net increase (decrease) in cash and cash equivalents	244	530	(981)	89
Cash and cash equivalents, July 1	3,638	4,296	3,288	2,715
Cash and cash equivalents, June 30	$ 3,882	$ 4,826	$ 2,307	$ 2,804

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATION
$ 83,487	$ 4,307	$ 1,139	$ 6,369	$ 762
(6,435)	(615)	-	(2,012)	(454)
(608)	(96)	-	(4,213)	(270)
-	-	-	(6)	-
(74,908)	(1,903)	(1,443)	-	-
-	-	-	-	-
344	-	-	49	11
(722)	(315)	-	(101)	(73)
1,158	1,378	(304)	86	(24)
-	-	-	-	-
-	-	(39)	-	(3)
-	-	-	-	-
-	-	-	-	(6)
-	-	-	-	-
12	-	-	70	5
12	-	(39)	70	(4)
-	-	-	(190)	-
-	-	-	-	-
-	-	-	(190)	-
3,661	(2,890)	6	24	(1)
12	-	-	-	-
595	137	3	10	2
(4)	-	-	-	-
4,264	(2,753)	9	34	1
5,434	(1,375)	(334)	-	(27)
9,590	18,960	994	2,983	307
$ 15,024	$ 17,585	$ 660	$ 2,983	$ 280

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	SURPLUS PROPERTY	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipt from sales and service	$ 474	$ 26	$ 720	$ 12,935
Payments to suppliers for goods and services	(1,040)	(60)	(72)	(310)
Payments to employees	(410)	(172)	(401)	-
Grant receipts (expenses)	-	4	-	-
Cash payments for claims	-	(1)	-	(14,722)
Cash payments for prizes	-	-	-	-
Other operating revenues	-	364	23	-
Other operating payments	(13)	(10)	(76)	(13)
Net cash provided by (used for) operating activities	(989)	151	194	(2,110)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Collection of taxes	-	-	-	-
Transfer to other funds	-	-	-	(1)
Transfer from other funds	67	92	-	-
Payment of interfund loans and advances	-	-	-	-
Proceeds from bonds and notes				
Payment of principal and interest on bonds and notes	-	-	-	-
Proceeds from nonemployer pension contributions	7	3	8	-
Net cash provided by (used for) noncapital financing activities	74	95	8	(1)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	-	(136)	(234)	-
Proceeds from sale of capital assets	808	-	-	-
Net cash used for capital and related financing activities	808	(136)	(234)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale (purchase) of investments	-	-	-	5
Proceeds (loss) from securities lending transactions/investments	-	-	-	-
Interest and dividends on investments	-	-	-	3
Payment of securities lending costs	-	-	-	-
Net cash provided by (used for) investing activities	-	-	-	8
Net increase (decrease) in cash and cash equivalents	(107)	110	(32)	(2,103)
Cash and cash equivalents, July 1	382	398	209	8,218
Cash and cash equivalents, June 30	$ 275	$ 508	$ 177	$ 6,115

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ -	$ 2,589	$ 274,552
(2,089)	(1,231)	(107,265)
(1,403)	(831)	(17,441)
42,624	-	42,622
(39,099)	-	(132,353)
-	-	(33,422)
-	26	1,034
(266)	(367)	(2,756)
(233)	186	24,971
-	-	27,078
-	(1)	(51,457)
-	485	644
-	-	(86)
-	-	(41)
25	11	250
25	495	(23,612)
-	(52)	(1,945)
-	-	828
-	(52)	(1,117)
64	2	917
-	-	12
36	3	807
-	-	(4)
100	5	1,732
(108)	634	1,974
7,627	1,425	65,030
$ 7,519	$ 2,059	$ 67,004

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	$ 12,467	$ 294	$ 12,771	$ 434
Adjustments to reconcile operating income to net cash provided for (used for) operating activities:				
Depreciation	153	-	167	437
Amortization	-	-	-	-
Securities lending expense	-	-	-	-
Investment earnings	-	(7)	(11)	-
Securities lending income	-	-	-	-
Interest expense	10	-	1	30
Change in assets, deferred outflows, liabilities, and deferred inflows :				
Decr (Incr) in accounts receivable	(1,706)	399	(293)	68
Decr (Incr) in due from other governments	-	-	-	-
Decr (Incr) in inventories	293	-	(73)	760
Decr (Incr) in other assets	3	-	162	-
Incr (Decr) in accounts payable	350	5,520	442	77
Incr (Decr) in due to other funds	(21)	-	(1,538)	9
Incr (Decr) in due to other governments	-	-	-	-
Incr (Decr) in lottery prizes payable	-	-	256	-
Incr (Decr) in unearned revenue	(60)	439	1	(223)
Incr (Decr) in amounts held in custody for others	-	(6,253)	-	-
Incr (Decr) in compensated absences payable	32	(13)	5	15
Incr (Decr) in OPEB implicit rate subsidy	95	8	67	73
Incr (Decr) in estimated claims	-	117	-	-
Incr (Decr) in other payables	-	-	(54)	(177)
Incr (Decr) in pension liability and deferred outflows and inflows of resources	16	(10)	(21)	(31)
Net cash provided by (used for) operating activities	$ 11,632	$ 494	$ 11,882	$ 1,472
Schedule of noncash transactions:				
Capital asset acquisitions from contributed capital	-	-	-	-
Incr (Decr) in fair value of investments	-	(1)	-	-
Total noncash transactions	$ -	$ (1)	$ -	$ -

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATION
$ (3,445)	$ 1,970	$ (203)	$ (59)	$ (19)
-	-	-	20	-
-	-	-	-	-
4	-	-	-	-
(595)	(137)	(3)	(10)	(2)
(12)	-	-	-	-
-	-	-	-	-
344	(68)	11	(3)	(6)
-	-	-	(6)	-
-	-	-	(6)	35
7	111	-	-	-
2,784	24	1	26	(20)
(1)	-	-	-	-
-	-	-	-	-
-	-	-	-	-
264	-	-	(17)	(3)
-	-	-	-	-
22	1	-	93	(12)
9	2	-	120	10
1,800	(525)	(110)	-	-
-	-	-	(5)	-
(20)	-	-	(67)	(9)
$ 1,161	$ 1,378	$ (304)	$ 86	$ (26)
-	-	-	-	-
(69)	(48)	-	(1)	(1)
$ (69)	$ (48)	$ -	$ (1)	$ (1)

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	SURPLUS PROPERTY	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	$ (671)	$ 35	$ 47	$ (2,341)
Adjustments to reconcile operating income to net cash provided for (used for) operating activities:				
Change in assets, deferred outflows, liabilities, deferred inflows:				
Depreciation	17	175	-	-
Amortization	-	-	39	-
Securities lending expense	-	-	-	-
Investment earnings	-	-	-	(3)
Securities lending income	-	-	-	-
Interest expense	-	-	-	-
Change in assets, deferred outflows, liabilities, and deferred inflows :				
Decr (Incr) in accounts receivable	(6)	(44)	80	6
Decr (Incr) in due from other governments	-	-	-	-
Decr (Incr) in inventories	(347)	-	-	-
Decr (Incr) in other assets	-	-	-	-
Incr (Decr) in accounts payable	18	(18)	14	228
Incr (Decr) in due to other funds	-	-	-	-
Incr (Decr) in due to other governments	-	-	-	-
Incr (Decr) in lottery prizes payable	-	-	-	-
Incr (Decr) in unearned revenue	-	-	-	(1)
Incr (Decr) in amounts held in custody for others	-	-	-	-
Incr (Decr) in compensated absences payable	(9)	4	8	-
Incr (Decr) in OPEB implicit rate subsidy	13	5	10	-
Incr (Decr) in estimated claims	-	-	-	-
Incr (Decr) in other payables	-	-	-	-
Incr (Decr) in pension liability and deferred outflows and inflows of resources	(4)	(3)	(4)	-
Net cash provided by (used for) operating activities	$ (989)	$ 154	$ 194	$ (2,111)
Schedule of noncash transactions:				
Capital asset acquisitions from contributed capital	858	1,000	-	-
Incr (Decr) in fair value of investments	-	-	-	-
Total noncash transactions	$ 858	$ 1,000	$ -	$ -

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ (130)	$ 155	$ 21,305
-	15	984
-	63	102
-	-	4
(36)	(3)	(807)
-	-	(12)
-	-	41
(53)	(16)	(1,287)
(5)	-	(11)
-	(38)	624
(63)	(1)	219
13	(64)	9,395
-	-	(1,551)
(4)	-	(4)
-	-	256
-	32	432
2	-	(6,251)
20	40	206
41	23	476
-	-	1,282
-	2	(234)
(18)	(20)	(191)
$ (233)	$ 188	$ 24,978
-	-	1,858
(2)	-	(122)
$ (2)	$ -	$ 1,736

INTERNAL SERVICE FUNDS

Internal Service funds are used to account for operations that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. A brief description of each internal service fund follows:

FWP Equipment – This fund is used to account for interdepartmental and intradepartmental sales and use of FWP equipment.

Highway Equipment – This fund is used to account for interdepartmental and intradepartmental sales and use of Department of Transportation equipment.

Employee Group Benefits – This fund receives employee (excluding higher education units) withholdings and state contributions to the medical self-insurance plan.

Information Technology Services – State agencies and private users are assessed a fee for their use of the State's phone system, centralized data processing, and systems design services provided by the Department of Administration.

Administration Insurance – In this fund, the Department of Administration accounts for the State's property self-insurance program (including liability, property, flood, etc.).

Administration Supply – This fund is used by the Department of Administration to account for intragovernmental sales of office supplies and paper products to state agencies.

Motor Pool – State employee transportation is provided by the Department of Transportation through a pool of vehicles. The cost of operating the Motor Pool is recovered through rental rates charged to user agencies based on the average operating costs per mile for each class of vehicle.

Print & Mail Services – Agencies are assessed a fee for duplicating, typesetting, forms design, and graphic arts services.

Buildings & Grounds – Rental proceeds from state agencies are used to pay maintenance, security, and landscaping costs for state-owned property.

Central Service Funds – This fund group consists of four funds, used by the Department of Administration, the Department of Labor and Industry, the Department of Commerce, and the Office of Public Instruction, for administrative services provided on a cost recovery basis to programs within the departments.

DEQ Indirect Cost Pool – This fund is used to account for funds collected as indirect costs from the operating units of the Department of Environmental Quality and to fund the department's indirect cost pool operations that provide services to the department.

Payroll Processing – This fund accounts for the payments received from state agencies for the costs associated with the processing of payroll warrants. This fund also implements and maintains the State's central human resource reporting system.

Warrant Processing – This fund accounts for the payments received from state agencies for the costs associated with the processing of all warrants other than payroll.

Investment Division – This fund accounts for costs associated with operations of the Board of Investments (BOI). BOI assists agencies in the investment of state funds. Costs of administering and accounting for each investment fund are allocated based on the dollar volume of investments held by user agencies.

Aircraft Operation – This fund is used by the Department of Natural Resources and Conservation to account for fees charged to users of state aircraft.

Justice Legal Services – The Attorney General's Office and the Department of Justice charge other state agencies a fee for legal assistance. The Department of Administration funds legal services with intradepartmental fees.

Personnel Training – This fund accounts for fees charged to state agencies for training state employees. The fees are used by the Department of Administration to pay instructors and purchase training materials.

Debt Collection – The debt collection component of this fund accounts for fees charged for the collection of bad debts.

Prison Industries – These operations provide training and employment for inmates, where the products produced are primarily sold to other state agencies.

Other Internal Services – This category includes several small internal service funds administered by various agencies.

SABHRS Finance and Budget Bureau – This fund implements and maintains the State's central accounting and budget software reporting system that is used by state agencies.

COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2016
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
ASSETS					
Current assets:					
Cash/cash equivalents	$ 2,043	$ 3,815	$ 34,307	$ 8,041	$ 25,643
Receivables (net)	-	69	2,592	92	12
Due from other governments	-	-	-	-	-
Due from other funds	-	-	-	7	-
Inventories	-	2,546	-	-	-
Securities lending collateral	-	-	739	-	88
Other current assets	-	-	5	1,006	-
Total current assets	2,043	6,430	37,643	9,146	25,743
Noncurrent assets:					
Long-term investments	-	-	37,859	-	-
Advances to other funds	-	-	-	-	-
Capital assets:					
Land	-	-	-	-	-
Land improvements	-	-	-	-	-
Buildings/improvements	-	-	-	-	-
Equipment	13,106	162,758	-	20,962	8
Construction in progress	-	8,715	414	-	-
Intangible assets	-	-	-	-	551
Less accumulated depreciation	(6,664)	(97,975)	-	(18,012)	(6)
Total capital assets	6,442	73,498	414	2,950	553
Total noncurrent assets	6,442	73,498	38,273	2,950	553
Total assets	8,485	79,928	75,916	12,096	26,296
DEFERRED OUTFLOWS OF RESOURCES	8	595	167	1,698	167
LIABILITIES					
Current liabilities:					
Accounts payable	176	954	7,958	4,379	413
Due to other funds	-	-	-	-	-
Unearned revenue	-	-	1,678	-	-
Amounts held in custody for others	-	-	-	-	-
Lease/installment purchase payable	-	-	-	726	-
Bonds/notes payable	-	-	-	1,270	-
Securities lending liability	-	-	739	-	88
Estimated insurance claims	-	-	17,694	-	4,519
Compensated absences payable	9	560	71	973	92
Total current liabilities	185	1,514	28,140	7,348	5,112
Noncurrent liabilities:					
Advances from other funds	-	-	-	-	-
Lease/installment purchase payable	-	-	-	1,456	-
Bonds/notes payable	-	-	-	1,799	-
Estimated insurance claims	-	-	179	-	10,925
Compensated absences payable	12	372	55	920	207
Net pension liability	91	6,216	1,252	13,000	1,268
OPEB implicit rate subsidy	60	2,513	335	3,709	322
Total noncurrent liabilities	163	9,101	1,821	20,884	12,722
Total liabilities	348	10,615	29,961	28,232	17,834
DEFERRED INFLOWS OF RESOURCES	8	588	101	1,214	111
NET POSITION					
Net investment in capital assets	6,442	73,497	414	769	552
Unrestricted	1,695	(4,178)	45,607	(16,421)	7,966
Total net position	$ 8,137	$ 69,319	$ 46,021	$ (15,652)	$ 8,518

MOTOR POOL	PRINT & MAIL SERVICES	BUILDING & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ 2,181	$ 1,069	$ 1,494	$ 682	$ 2,129	$ 535	$ 1,065
-	11	-	-	1	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
6	240	-	-	-	-	-
-	-	-	-	-	-	-
-	428	-	6	7	5	-
2,187	1,748	1,494	688	2,137	540	1,065
-	-	-	-	-	-	-
-	-	-	-	-	-	-
236	-	-	-	-	-	-
-	-	95	-	-	-	-
-	-	1,091	-	-	-	-
21,969	2,798	747	-	178	5	-
-	-	-	-	239	-	-
-	-	-	-	-	-	-
(10,911)	(1,866)	(1,449)	-	(145)	(5)	-
11,294	932	484	-	272	-	-
11,294	932	484	-	272	-	-
13,481	2,680	1,978	688	2,409	540	1,065
26	147	201	220	374	165	149
159	416	503	130	521	102	156
1,397	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	1	-	-	-	-
-	28	-	-	47	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
30	70	124	117	495	116	118
1,586	514	628	247	1,063	218	274
5,265	-	-	-	-	-	-
-	80	-	-	36	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
12	125	55	154	231	90	-
272	1,094	1,547	1,646	4,700	1,312	1,389
125	650	641	339	1,318	376	532
5,674	1,949	2,243	2,139	6,285	1,778	1,921
7,260	2,463	2,871	2,386	7,348	1,996	2,195
25	83	147	129	413	101	122
4,637	823	484	-	189	1	-
1,585	(542)	(1,323)	(1,606)	(5,168)	(1,392)	(1,103)
$ 6,222	$ 281	$ (839)	$ (1,606)	$ (4,979)	$ (1,391)	$ (1,103)

COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2016
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
ASSETS					
Current assets:					
Cash/cash equivalents	$ 1,063	$ 760	$ 217	$ 1,458	$ 925
Receivables (net)	1	-	-	-	2
Due from other governments	-	-	-	-	-
Due from other funds	-	-	-	45	-
Inventories	-	-	-	-	-
Securities lending collateral	-	-	-	-	-
Other current assets	69	-	-	79	-
Total current assets	1,133	760	217	1,582	927
Noncurrent assets:					
Long-term investments	-	-	-	-	-
Advances to other funds	-	-	-	-	-
Capital assets:					
Land	-	-	-	-	-
Land improvements	-	-	-	-	-
Buildings/improvements	-	-	-	-	-
Equipment	503	-	149	8	62
Construction in progress	-	308	-	-	-
Intangible assets	20	-	-	-	-
Less accumulated depreciation	(387)	-	(145)	(6)	(43)
Total capital assets	136	308	4	2	19
Total noncurrent assets	136	308	4	2	19
Total assets	1,269	1,068	221	1,584	946
DEFERRED OUTFLOWS OF RESOURCES	284	204	20	326	80
LIABILITIES					
Current liabilities:					
Accounts payable	287	264	15	262	128
Due to other funds	-	-	-	-	-
Unearned revenue	-	-	-	-	-
Amounts held in custody for others	-	-	-	-	-
Lease/installment purchase payable	-	-	-	-	-
Bonds/notes payable	-	-	-	-	-
Securities lending liability	-	-	-	-	-
Estimated insurance claims	-	-	-	-	-
Compensated absences payable	317	176	4	197	86
Total current liabilities	604	440	19	459	214
Noncurrent liabilities:					
Advances from other funds	-	-	-	-	-
Lease/installment purchase payable	-	-	-	-	-
Bonds/notes payable	-	-	-	-	-
Estimated insurance claims	-	-	-	-	-
Compensated absences payable	231	34	1	299	59
Net pension liability	3,386	1,500	152	2,643	944
OPEB implicit rate subsidy	1,116	512	101	539	258
Total noncurrent liabilities	4,733	2,046	254	3,481	1,261
Total liabilities	5,337	2,486	273	3,940	1,475
DEFERRED INFLOWS OF RESOURCES	287	106	15	238	129
NET POSITION					
Net investment in capital assets	136	308	3	2	19
Unrestricted	(4,207)	(1,628)	(50)	(2,269)	(596)
Total net position	$ (4,071)	$ (1,320)	$ (47)	$ (2,267)	$ (577)

JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$ 316	$ 85	$ 280	$ 1,039	$ 285	$ 1,370	$ 90,802
-	1	-	230	-	-	3,011
8	4	-	-	-	-	12
-	-	-	-	-	-	52
-	-	-	676	94	-	3,562
-	-	-	-	-	-	827
-	-	-	-	-	113	1,718
324	90	280	1,945	379	1,483	99,984
-	-	-	-	-	-	37,859
-	-	-	80	-	-	80
-	-	-	-	-	-	236
-	-	-	-	-	-	95
-	-	-	3,307	-	-	4,398
-	-	-	3,872	77	71	227,273
-	-	-	1,242	-	269	11,187
-	-	-	-	-	1,656	2,227
-	-	-	(3,189)	(73)	(61)	(140,937)
-	-	-	5,232	4	1,935	104,479
-	-	-	5,312	4	1,935	142,418
324	90	280	7,257	383	3,418	242,402
22	23	8	27	50	198	5,159
70	23	6	394	38	316	17,670
-	-	-	-	-	-	1,397
-	-	-	-	-	-	1,678
-	-	-	-	-	-	1
-	-	-	-	-	-	801
-	-	-	-	-	-	1,270
-	-	-	-	-	-	827
-	-	-	-	-	-	22,213
54	6	2	84	44	130	3,875
124	29	8	478	82	446	49,732
-	-	-	-	-	-	5,265
-	-	-	-	-	-	1,572
-	-	-	-	-	-	1,799
-	-	-	-	-	-	11,104
123	23	-	54	45	144	3,246
198	182	98	524	472	1,525	45,411
272	61	63	520	86	347	14,795
593	266	161	1,098	603	2,016	83,192
717	295	169	1,576	685	2,462	132,924
16	20	13	49	44	147	4,106
-	-	-	5,231	4	1,935	95,446
(387)	(203)	107	427	(299)	(928)	15,087
$ (387)	$ (203)	$ 107	$ 5,658	$ (295)	$ 1,007	$ 110,533

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
Operating revenues:					
Charges for services	$ 3,639	$ 26,540	$ 3,361	$ 45,124	$ -
Investment earnings	-	-	783	-	115
Securities lending income	-	-	8	-	1
Contributions/premiums	-	-	160,644	-	17,804
Grants/contracts/donations	-	-	1,425	-	-
Other operating revenues	-	16	1,415	(24)	-
Total operating revenues	3,639	26,556	167,636	45,100	17,920
Operating expenses:					
Personal services	158	7,910	1,467	14,877	1,451
Contractual services	85	396	13,587	1,354	7,539
Supplies/materials	1,183	3,835	43	6,666	34
Benefits/claims	14	766	144,533	1,535	2,052
Depreciation	637	6,528	-	1,485	2
Amortization	-	-	-	-	355
Utilities/rent	35	97	396	2,247	84
Communications	5	8	148	6,874	(37)
Travel	7	37	22	90	32
Repair/maintenance	646	5,045	5	5,807	2
Grants	-	-	-	-	345
Securities lending expense	-	-	3	-	-
Interest expense	-	-	-	60	-
Other operating expenses	5	328	1,478	3,858	160
Total operating expenses	2,775	24,950	161,682	44,853	12,019
Operating income (loss)	864	1,606	5,954	247	5,901
Nonoperating revenues (expenses):					
Non-employer pension revenue	2	147	32	307	31
Insurance proceeds	-	-	-	-	159
Gain (loss) on sale of capital assets	(236)	17	-	-	547
Federal indirect cost recoveries	-	-	-	-	-
Total nonoperating revenues (expenses)	(234)	164	32	307	737
Income (loss) before contributions and transfers	630	1,770	5,986	554	6,638
Capital contributions	-	577	-	-	-
Transfers in	413	(3)	-	-	200
Transfers out	-	-	(3)	(46)	(416)
Changes in net position	1,043	2,344	5,983	508	6,422
Total net position - July 1 - as previously reported	7,093	66,975	40,039	(16,160)	2,095
Adjustments to beginning net position	-	-	-	-	-
Total net position - July 1 - as adjusted	7,093	66,975	40,039	(16,160)	2,095
Total net position - June 30	$ 8,136	$ 69,319	$ 46,022	$ (15,652)	$ 8,517

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDING & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ -	$ 3,956	$ 10,080	$ 11,188	$ 2,831	$ 12,962	$ -	$ 1,154
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	2	1	-	1,719	9
-	3,956	10,080	11,190	2,832	12,962	1,719	1,163
(16)	377	1,556	1,896	2,041	7,674	1,654	1,808
181	326	152	3,823	144	4,250	41	522
-	1,252	2,793	134	46	823	50	74
-	36	180	209	218	588	168	187
-	1,398	245	205	-	24	-	-
-	-	-	-	-	-	-	-
-	73	261	2,141	71	378	120	287
-	1	4,502	79	33	739	26	158
-	-	1	3	16	107	20	24
-	371	433	393	33	28	9	72
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	72	3	56	-	3	-	-
-	77	282	364	123	1,361	39	72
165	3,983	10,408	9,303	2,725	15,975	2,127	3,204
(165)	(27)	(328)	1,887	107	(3,013)	(408)	(2,041)
-	7	29	36	42	146	34	34
-	156	-	1	-	-	-	-
-	161	(79)	6	-	(15)	(7)	-
-	-	-	-	-	4,008	269	1,771
-	324	(50)	43	42	4,139	296	1,805
(165)	297	(378)	1,930	149	1,126	(112)	(236)
-	-	-	-	-	-	-	-
-	-	-	-	7	-	-	-
(331)	-	-	(956)	(2)	(5)	(1)	-
(496)	297	(378)	974	154	1,121	(113)	(236)
290	5,926	666	(1,813)	(1,761)	(6,100)	(1,278)	(866)
205	-	(8)	-	-	-	-	-
495	5,926	658	(1,813)	(1,761)	(6,100)	(1,278)	(866)
$ (1)	$ 6,223	$ 280	$ (839)	$ (1,607)	$ (4,979)	$ (1,391)	$ (1,102)

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
Operating revenues:					
Charges for services	$ 5,172	$ 3,197	$ 788	$ 6,087	$ 1,504
Investment earnings	-	-	-	-	-
Securities lending income	-	-	-	-	-
Contributions/premiums	-	-	-	-	-
Grants/contracts/donations	-	-	-	-	-
Other operating revenues	22	-	-	-	-
Total operating revenues	5,194	3,197	788	6,087	1,504
Operating expenses:					
Personal services	4,317	1,669	191	2,919	1,255
Contractual services	901	625	94	1,481	56
Supplies/materials	204	454	31	44	330
Benefits/claims	383	204	22	286	81
Depreciation	40	-	-	1	1
Amortization	-	-	-	-	-
Utilities/rent	1,531	58	20	171	136
Communications	226	30	263	31	11
Travel	31	23	1	52	42
Repair/maintenance	104	390	3	1	507
Grants	-	-	-	-	-
Securities lending expense	-	-	-	-	-
Interest expense	-	-	-	-	-
Other operating expenses	190	332	13	560	16
Total operating expenses	7,927	3,785	638	5,546	2,435
Operating income (loss)	(2,733)	(588)	150	541	(931)
Nonoperating revenues (expenses):					
Non-employer pension revenue	84	40	3	64	21
Insurance proceeds	-	-	-	-	-
Gain (loss) on sale of capital assets	-	-	-	-	-
Federal indirect cost recoveries	2,454	-	-	-	-
Total nonoperating revenues (expenses)	2,538	40	3	64	21
Income (loss) before contributions and transfers	(195)	(548)	153	605	(910)
Capital contributions	-	-	-	-	-
Transfers in	-	-	-	-	1,447
Transfers out	(1)	-	-	-	-
Changes in net position	(196)	(548)	153	605	537
Total net position - July 1 - as previously reported	(3,871)	(772)	(201)	(2,873)	(1,108)
Adjustments to beginning net position	(3)	-	-	-	(5)
Total net position - July 1 - as adjusted	(3,874)	(772)	(201)	(2,873)	(1,113)
Total net position - June 30	$ (4,070)	$ (1,320)	$ (48)	$ (2,268)	$ (576)

JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$ 1,551	$ 345	$ 140	$ 7,304	$ 605	$ 4,200	$ 151,728
-	-	-	-	-	-	898
-	-	-	-	-	-	9
-	-	-	-	-	-	178,448
-	-	-	-	-	-	1,425
-	13	-	-	-	83	3,256
1,551	358	140	7,304	605	4,283	335,764
1,154	201	104	1,552	625	1,427	58,267
65	45	5	103	35	156	35,966
24	88	1	4,481	169	66	22,825
47	20	11	115	52	174	151,881
-	-	-	194	1	1	10,762
-	-	-	-	-	718	1,073
67	29	2	125	56	36	8,421
14	3	12	8	9	15	13,158
7	15	-	6	2	10	548
-	1	-	176	11	1,218	15,255
-	-	-	-	-	-	345
-	-	-	-	-	-	3
-	-	-	-	-	-	194
10	11	-	190	66	120	9,655
1,388	413	135	6,950	1,026	3,941	328,353
163	(55)	5	354	(421)	342	7,411
5	4	2	12	12	35	1,129
-	-	-	-	-	-	316
-	-	-	(477)	-	-	(83)
-	-	-	-	484	-	8,986
5	4	2	(465)	496	35	10,348
168	(51)	7	(111)	75	377	17,759
-	-	-	352	-	331	1,260
-	6	-	-	-	-	2,070
-	-	-	-	-	-	(1,761)
168	(45)	7	241	75	708	19,328
(555)	(158)	99	5,499	(370)	298	91,094
-	-	-	(82)	-	-	107
(555)	(158)	99	5,417	(370)	298	91,201
$ (387)	$ (203)	$ 106	$ 5,658	$ (295)	$ 1,006	$ 110,529

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt from sales and service	3,639	26,510	164,066	44,469	17,795
Payments to suppliers for goods and services	(1,961)	(10,950)	(11,419)	(21,709)	(7,835)
Payments to employees	(158)	(8,483)	(1,644)	(16,001)	(1,591)
Grant receipts (expenses)	-	-	1,425	-	(345)
Cash payments for claims	-	-	(144,521)	-	(3,407)
Other operating revenues	-	16	1,415	-	-
Other operating payments	(5)	(328)	(1,478)	(3,882)	(160)
Net cash provided by (used for) operating activities	1,515	6,765	7,844	2,877	4,457
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfer to other funds	-	(3)	(3)	(46)	(416)
Transfer from other funds	413	-	-	-	200
Proceeds from interfund loans/advances	-	-	-	-	-
Payment of interfund loans and advances	(130)	-	-	-	-
Proceeds from bonds and notes	-	-	-	2,005	-
Payment of principal and interest on bonds and notes	-	-	-	-	-
Proceeds from nonemployer pension contributions	2	147	32	307	31
Net cash provided by (used for) noncapital financing activities	285	144	29	2,266	(185)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	159
Acquisition of capital assets	(1,073)	(6,629)	(414)	(2,569)	-
Proceeds from sale of capital assets	-	-	-	-	-
Net cash used for capital and related financing activities	(1,073)	(6,629)	(414)	(2,569)	159
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of investments	-	-	(1,484)	-	136
Proceeds (loss) from securities lending transactions/investments	-	-	8	-	1
Interest and dividends on investments	-	-	783	-	115
Payment of securities lending costs	-	-	(3)	-	-
Net cash provided by (used for) investing activities	-	-	(696)	-	252
Net increase (decrease) in cash and cash equivalents	727	280	6,763	2,574	4,683
Cash and cash equivalents, July 1	1,314	3,535	27,543	5,466	20,961
Cash and cash equivalents, June 30	$ 2,041	$ 3,815	$ 34,306	$ 8,040	$ 25,644

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
-	3,956	10,293	11,188	2,828	12,979	(3)	1,154
(181)	(1,812)	(8,163)	(6,596)	(342)	(6,315)	(266)	(1,110)
(8)	(404)	(1,625)	(2,016)	(2,245)	(7,973)	(1,814)	(1,903)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	2	1	4,007	1,988	1,780
-	(77)	(282)	(364)	(123)	(1,361)	(39)	(72)
(189)	1,663	223	2,214	119	1,337	(134)	(151)
(331)	-	-	(956)	(2)	(5)	(1)	-
-	-	-	-	7	-	-	-
-	1,528	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	(72)	(3)	(56)	-	(3)	-	-
-	7	29	36	42	146	34	34
(331)	1,463	26	(976)	47	138	33	34
-	156	-	1	-	-	-	-
-	(2,673)	(444)	(23)	-	(239)	-	-
331	-	-	-	-	-	-	-
331	(2,517)	(444)	(22)	-	(239)	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
(189)	609	(195)	1,216	166	1,236	(101)	(117)
188	1,573	1,264	276	517	893	637	1,183
$ (1)	$ 2,182	$ 1,069	$ 1,492	$ 683	$ 2,129	$ 536	$ 1,066

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt from sales and service	5,200	3,197	788	6,064	1,502
Payments to suppliers for goods and services	(3,009)	(1,544)	(385)	(1,740)	(1,079)
Payments to employees	(4,587)	(1,803)	(213)	(3,237)	(1,320)
Grant receipts (expenses)	-	7	-	-	-
Cash payments for claims	-	-	-	-	-
Other operating revenues	2,476	-	-	-	-
Other operating payments	(190)	(332)	(13)	(560)	(16)
Net cash provided by (used for) operating activities	(110)	(475)	177	527	(913)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfer to other funds	(1)	-	-	-	-
Transfer from other funds	-	-	-	-	1,447
Proceeds from interfund loans/advances	-	-	-	-	-
Payment of interfund loans and advances	-	-	-	-	-
Proceeds from bonds and notes	-	-	-	-	-
Payment of principal and interest on bonds and notes	-	-	-	-	-
Proceeds from nonemployer pension contributions	84	40	3	64	21
Net cash provided by (used for) noncapital financing activities	83	40	3	64	1,468
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	-
Acquisition of capital assets	(62)	(308)	-	-	-
Proceeds from sale of capital assets	-	-	-	-	-
Net cash used for capital and related financing activities	(62)	(308)	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of investments	-	-	-	-	-
Proceeds (loss) from securities lending transactions/investments	-	-	-	-	-
Interest and dividends on investments	-	-	-	-	-
Payment of securities lending costs	-	-	-	-	-
Net cash provided by (used for) investing activities	-	-	-	-	-
Net increase (decrease) in cash and cash equivalents	(89)	(743)	180	591	555
Cash and cash equivalents, July 1	1,152	1,503	37	868	371
Cash and cash equivalents, June 30	$ 1,063	$ 760	$ 217	$ 1,459	$ 926

JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
1,551	348	140	7,385	605	4,087	$ 329,741
(173)	(169)	(19)	(4,653)	(285)	(1,488)	(93,203)
(1,174)	(209)	(111)	(1,609)	(673)	(1,532)	(62,333)
(8)	(3)	-	-	-	-	1,076
-	-	-	-	-	-	(147,928)
-	13	-	-	484	83	12,265
(10)	(11)	-	(190)	(66)	(120)	(9,679)
186	(31)	10	933	65	1,030	29,939
-	-	-	-	-	-	(1,764)
-	6	-	-	-	-	2,073
-	-	-	80	-	-	1,608
-	-	-	-	(3)	-	(133)
-	-	-	-	-	-	2,005
-	-	-	-	-	-	(134)
5	4	2	12	12	35	1,129
5	10	2	92	9	35	4,784
-	-	-	-	-	-	316
-	-	-	(2,738)	-	(939)	(18,111)
-	-	-	-	-	-	331
-	-	-	(2,738)	-	(939)	(17,464)
-	-	-	-	-	-	(1,348)
-	-	-	-	-	-	9
-	-	-	-	-	-	898
-	-	-	-	-	-	(3)
-	-	-	-	-	-	(444)
191	(21)	12	(1,713)	74	126	16,815
126	105	269	2,751	211	1,244	73,987
$ 317	$ 84	$ 281	$ 1,038	$ 285	$ 1,370	$ 90,802

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	$ 864	$ 1,606	$ 5,954	$ 247	$ 5,902
Adjustments to reconcile operating income					
Depreciation	637	6,528	-	1,485	2
Amortization	-	-	-	-	355
Securities lending expense	-	-	3	-	-
Investment earnings	-	-	(783)	-	(115)
Securities lending income	-	-	(8)	-	(1)
Interest expense	-	-	-	60	-
Federal indirect cost recoveries	-	-	-	-	-
Change in assets, deferred outflows, liabilities, and deferred inflows:					
Decr (Incr) in accounts receivable	-	(30)	66	21	(9)
Decr (Incr) in due from other funds	-	-	1	(7)	-
Decr (Incr) in due from other governments	-	-	-	-	-
Decr (Incr) in inventories	-	(1,437)	-	-	-
Decr (Incr) in other assets	-	-	(5)	(668)	-
Incr (Decr) in accounts payable	4	1	2,964	(559)	(175)
Incr (Decr) in due to other funds	-	-	-	-	-
Incr (Decr) in unearned revenue	-	-	(181)	-	-
Incr (Decr) in amounts held in custody for others	-	-	-	-	-
Incr (Decr) in compensated absences payable	8	1	(36)	118	(13)
Incr (Decr) in OPEB implicit rate subsidy	5	247	43	350	35
Incr (Decr) in estimated claims	-	-	(156)	-	(1,510)
Incr (Decr) in other payables	-	-	-	1,990	-
Incr (decr) in pension liability, deferred outflows and inflows of resources	(3)	(151)	(16)	(159)	(16)
Net cash provided by (used for) operating activities	$ 1,515	$ 6,765	$ 7,846	$ 2,878	$ 4,455
Schedule of noncash transactions:					
Increase (decrease) in value of investments	-	-	(119)	-	(4)
Capital asset acquisitions from contributed capital	-	577	-	-	-
Total noncash transactions	$ -	$ 577	$ (119)	$ -	$ (4)

	ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
	$ (165)	$ (27)	$ (328)	$ 1,886	$ 107	$ (3,013)	$ (408)	$ (2,041)
	-	1,398	245	205	-	24	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	72	3	56	-	3	-	-
	-	-	-	-	-	4,007	269	1,771
	-	-	(8)	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	28	(61)	-	-	-	-	-
	-	-	221	-	(3)	16	(3)	-
	(7)	(42)	95	(5)	26	221	20	73
	-	231	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	1	-	-	-	-
	(16)	(2)	45	27	(42)	174	(27)	17
	-	13	60	63	53	197	41	60
	-	-	-	-	-	-	-	-
	-	-	(36)	-	-	(21)	-	-
	-	(7)	(15)	(19)	(22)	(274)	(25)	(31)
	$ (188)	$ 1,664	$ 221	$ 2,214	$ 119	$ 1,334	$ (133)	$ (151)
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	$ (2,733)	$ (588)	$ 151	$ 542	$ (931)
Adjustments to reconcile operating income					
Depreciation	40	-	-	1	1
Amortization	-	-	-	-	-
Securities lending expense	-	-	-	-	-
Investment earnings	-	-	-	-	-
Securities lending income	-	-	-	-	-
Interest expense	-	-	-	-	-
Federal indirect cost recoveries	2,454	-	-	-	-
Change in assets, deferred outflows, liabilities, and deferred inflows:					
Decr (incr) in accounts receivable	(1)	-	-	-	(2)
Decr (incr) in due from other funds	-	-	-	(9)	-
Decr (incr) in due from other governments	-	7	-	-	-
Decr (incr) in inventories	-	4	24	-	-
Decr (incr) in other assets	28	-	-	(15)	-
Incr (decr) in accounts payable	36	63	6	62	27
Incr (decr) in due to other funds	-	-	-	-	-
Incr (decr) in unearned revenue	-	-	-	-	-
Incr (decr) in amounts held in custody for others	-	(2)	-	-	-
Incr (decr) in compensated absences payable	57	15	(9)	(62)	13
Incr (decr) in OPEB implicit rate subsidy	111	48	7	55	25
Incr (decr) in estimated claims	-	-	-	-	-
Incr (Decr) in other payables	-	-	-	-	-
Incr (decr) in pension liability, deferred outflows and inflows of resources	(104)	(21)	(2)	(47)	(47)
Net cash provided by (used for) operating activities	$ (112)	$ (474)	$ 177	$ 527	$ (914)
Schedule of noncash transactions:					
Increase (decrease) in value of investments	-	-	-	-	-
Capital asset acquisitions from contributed capital	-	-	-	-	-
Total noncash transactions	$ -	$ -	$ -	$ -	$ -

JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$ 163	$ (55)	$ 6	$ 354	$ (421)	$ 341	$ 7,413
-	-	-	194	1	1	10,762
-	-	-	-	-	718	1,073
-	-	-	-	-	-	3
-	-	-	-	-	-	(898)
-	-	-	-	-	-	(9)
-	-	-	-	-	-	194
-	-	-	-	484	-	8,985
-	3	-	19	-	-	59
-	-	-	-	-	-	(15)
(8)	(3)	-	-	-	-	(4)
-	-	-	556	-	-	(886)
-	-	-	62	-	(113)	(480)
17	15	2	(295)	3	34	2,586
-	-	-	-	-	-	231
-	-	-	(7)	-	-	(188)
-	-	-	-	-	-	(1)
(5)	7	-	14	(2)	29	311
24	5	4	55	13	38	1,552
-	-	-	-	-	-	(1,666)
-	-	-	-	-	-	1,933
(6)	(2)	(3)	(19)	(13)	(18)	(1,020)
$ 185	$ (30)	$ 9	$ 933	$ 65	$ 1,030	$ 29,935
-	-	-	-	-	-	(123)
-	-	-	352	-	331	1,260
$ -	$ -	$ -	$ 352	$ -	$ 331	$ 1,137

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

These funds provide retirement, disability, death, and lump-sum payments to retirement system members. A brief description of each fund follows:

Public Employee Retirement System - Defined Benefit Retirement Plan – This fund provides retirement benefits to substantially all public employees not covered by another public system.

Public Employee Retirement System - Defined Contribution Retirement Plan - Disability Other Post Employment Benefit – This fund provides members of the defined contribution retirement system a disability benefit plan funded through employer contributions.

Municipal Police Officers' Retirement System – This fund provides retirement benefits to all municipal police officers covered by the plan.

Firefighters Unified Retirement System – This fund provides retirement benefits for firefighters employed by first and second-class cities and other cities that wish to adopt the plan, and firefighters hired by the Montana Air National Guard.

Sheriffs Retirement System – This fund provides retirement benefits for sheriffs, detention officers, and State Department of Justice investigators.

Highway Patrol Officers Retirement System – This fund provides retirement benefits for all members of the Montana Highway Patrol.

Judges Retirement System – This fund provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge.

Game Wardens & Peace Officers Retirement System – This fund provides retirement benefits for all persons employed as game wardens, supervisory personnel, and state peace officers.

Volunteer Firefighters Compensation Act – This fund provides medical benefits and pension, disability, and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the State.

Public Employee Retirement System - Defined Contribution Retirement Plan – Members of the defined contribution retirement plan decide how to invest their contributions and a portion of their employer contributions in the available investment options.

Public Employee 457 Plan – All employees of the State, Montana University System, and contracting political subdivisions are eligible to participate in this plan. The 457 plan is a voluntary, tax-deferred retirement plan designed to supplement state service retirement, Social Security, and other retirement plans and savings.

Teachers Retirement System – This fund provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system.

Voluntary Employee Benefit Association – This fund provides members with individual health care expense trust accounts to pay the qualified health care expenses of members and their dependents and beneficiaries.

COMBINING STATEMENT OF FIDUCIARY NET POSITION
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
JUNE 30, 2016
(amounts expressed in thousands)

	PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)					
	PUBLIC EMPLOYEES DEFINED BENEFITS	PERS DCRP DISABILITY OPEB	JUDGES	HIGHWAY PATROL	SHERIFFS	GAME WARDENS PEACE OFFICERS
ASSETS						
Cash/cash equivalents	$ 148,452	$ 279	$ 2,550	$ 4,153	$ 8,224	$ 4,770
Receivables (net):						
Accounts receivable	1,710	1	4	-	237	-
Interest	6,834	-	119	174	406	209
Due from primary government	3,410	-	-	-	-	-
Due from other PERB plans	566	3	-	-	-	-
Long-term notes/loans receivable	30	-	-	-	-	-
Total receivables	12,550	4	123	174	643	209
Investments at fair value:						
Equity in pooled investments	4,875,780	-	84,832	124,427	290,138	149,488
Other investments	-	2,835	-	-	-	-
Total investments	4,875,780	2,835	84,832	124,427	290,138	149,488
Securities lending collateral	139,758	1	2,431	3,568	8,314	4,286
Capital assets:						
Land	-	-	-	-	-	-
Buildings/improvements	23	-	-	-	-	-
Equipment	38	-	4	3	4	4
Construction work in progress	1,195	-	351	298	351	351
Accumulated depreciation	(30)	-	(3)	(3)	(3)	(3)
Total capital assets	1,226	-	352	298	352	352
Total assets	5,177,766	3,119	90,288	132,620	307,671	159,105
DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-	-	-
LIABILITIES						
Accounts payable	382	-	11	14	33	11
Due to other PERB plans	649	-	12	40	137	84
Unearned revenue	326	-	-	1	2	8
Securities lending liability	139,758	1	2,431	3,568	8,314	4,286
Compensated absences payable	277	-	23	19	22	22
Net pension liability (Note 6)	-	-	-	-	-	-
OPEB implicit rate subsidy	515	-	5	5	11	9
Total liabilities	141,907	1	2,482	3,647	8,519	4,420
DEFERRED INFLOWS OF RESOURCES	-	-	-	-	-	-
NET POSITION						
Held in trust for pension benefits and other purposes	$ 5,035,859	$ 3,118	$ 87,806	$ 128,973	$ 299,152	$ 154,685

PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)							
MUNICIPAL POLICE	FIRE FIGHTERS UNIFIED	VOLUNTEER FIRE FIGHTERS	PUBLIC EMPLOYEES DEFINED CONTRIBUTION	PUBLIC EMPLOYEES 457 PLAN	TEACHERS RETIREMENT SYSTEM	VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION	TOTAL
$ 9,744	$ 9,654	$ 2,728	$ 1,456	$ 246	$ 106,788	$ 3,535	$ 302,579
93	76	-	24	294	22,096	4	24,539
448	459	43	-	-	4,935	-	13,627
13,752	13,970	-	-	-	-	-	31,132
-	-	-	645	-	-	-	1,214
-	-	-	-	-	-	-	30
14,293	14,505	43	669	294	27,031	4	70,542
319,442	327,308	30,950	-	-	3,522,666	-	9,725,031
-	-	-	154,050	448,142	-	4,908	609,935
319,442	327,308	30,950	154,050	448,142	3,522,666	4,908	10,334,966
9,157	9,381	895	4	1	100,940	-	278,736
-	-	-	-	-	35	-	35
-	-	-	3	2	158	-	186
3	3	4	5	5	229	-	302
314	310	285	285	338	2,063	-	6,141
(3)	(3)	(3)	(4)	(4)	(328)	-	(387)
314	310	286	289	341	2,157	-	6,277
352,950	361,158	34,902	156,468	449,024	3,759,582	8,447	10,993,100
-	-	-	-	-	128	3	131
21	13	9	42	278	149	42	1,005
108	95	89	-	-	-	-	1,214
8	12	-	-	-	-	-	357
9,157	9,381	895	4	1	100,940	-	278,736
20	20	18	45	41	175	1	683
-	-	-	-	-	1,178	24	1,202
9	8	8	59	41	327	4	1,001
9,323	9,529	1,019	150	361	102,769	71	284,198
-	-	-	-	-	110	2	112
$ 343,627	$ 351,629	$ 33,883	$ 156,318	$ 448,663	$ 3,656,831	$ 8,377	$ 10,708,921

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(amounts expressed in thousands)

	PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)					
	PUBLIC EMPLOYEES DEFINED BENEFIT	PERS DCRP DISABILITY OPEB	JUDGES	HIGHWAY PATROL	SHERIFFS	GAME WARDENS PEACE OFFICERS
ADDITIONS						
Contributions/premiums:						
Employer	$ 102,571	$ 368	$ 1,807	$ 5,916	$ 7,317	$ 4,278
Employee	97,268	-	722	1,917	6,976	5,034
Other contributions	31,114	-	7	243	7	1
Net investment earnings:						
Investment earnings	130,501	11	2,285	3,353	7,788	4,047
Administrative investment expenses	(30,282)	-	(523)	(773)	(1,784)	(909)
Securities lending income	1,454	-	25	37	86	44
Securities lending expense	(460)	-	(8)	(12)	(27)	(14)
Charges for services	-	-	-	-	-	-
Other additions	-	-	-	-	-	-
Total additions	332,166	379	4,315	10,681	20,363	12,481
DEDUCTIONS						
Benefits	344,192	42	3,419	10,484	15,479	5,071
Refunds	10,645	-	-	94	1,104	1,093
Administrative expenses:						
Personal services	2,441	-	105	89	106	106
Contractual services	1,653	-	77	66	77	77
Supplies/materials	108	-	1	-	1	1
Depreciation	9	-	1	1	1	1
Utilities/rent	269	-	-	-	-	-
Communications	124	-	-	-	-	-
Travel	25	-	1	1	1	1
Repair/maintenance	2	-	-	-	-	-
Other operating expenses	(458)	-	12	40	137	84
Local assistance	-	-	-	-	-	-
Transfer to MUS-RP	130	-	-	-	-	-
Transfer to PERS-DCRP	1,105	-	-	-	-	-
Total deductions	360,245	42	3,616	10,775	16,906	6,434
Changes in net position	(28,079)	337	699	(94)	3,457	6,047
Net position- July 1- as previously reported	5,063,938	2,781	87,107	129,067	295,695	148,638
Net position - June 30	$ 5,035,859	$ 3,118	$ 87,806	$ 128,973	$ 299,152	$ 154,685

PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)							
MUNICIPAL POLICE	FIRE FIGHTERS UNIFIED	VOLUNTEER FIRE FIGHTERS	PUBLIC EMPLOYEES DEFINED CONTRIBUTION	PUBLIC EMPLOYEES 457 PLAN	TEACHERS RETIREMENT SYSTEM	VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION	TOTAL
$ 6,928	$ 6,163	$ -	$ 6,494	$ 64	$ 88,644	$ 3,505	$ 234,055
4,383	4,752	-	9,970	21,916	72,741	-	225,679
13,753	13,970	2,036	-	-	43,903	-	105,034
9,024	9,264	813	1,478	8,256	92,780	144	269,744
(1,977)	(2,018)	(197)	(50)	(949)	(22,015)	-	(61,477)
95	97	9	-	-	1,057	-	2,904
(30)	(31)	(3)	-	-	(335)	-	(920)
-	-	-	-	195	-	-	195
-	-	-	1,035	-	29	1	1,065
32,176	32,197	2,658	18,927	29,482	276,804	3,650	776,279
21,963	20,899	2,625	5,310	20,202	320,953	2,741	773,380
1,369	46	-	-	-	5,087	-	19,438
95	94	88	335	298	1,365	29	5,151
69	68	63	423	587	573	-	3,733
-	-	-	12	10	62	-	195
1	1	1	1	1	16	-	34
-	-	-	29	23	71	-	392
-	-	-	5	4	106	-	239
1	1	1	6	5	28	-	71
-	-	-	-	-	36	-	38
108	95	89	13	11	62	75	268
-	-	12	-	-	-	-	12
-	-	-	-	-	-	-	130
-	-	-	-	-	-	-	1,105
23,606	21,204	2,879	6,134	21,141	328,359	2,845	804,186
8,570	10,993	(221)	12,793	8,341	(51,555)	805	(27,907)
335,057	340,636	34,104	143,525	440,322	3,708,386	7,571	10,736,827
$ 343,627	$ 351,629	$ 33,883	$ 156,318	$ 448,663	$ 3,656,831	$ 8,376	$ 10,708,920

This page intentionally left blank.

PRIVATE-PURPOSE TRUST FUNDS

Private-purpose trust funds are used to account for assets held by the State in a trustee capacity, where both the trust principal and earnings benefit individuals, private organizations, or other governments. A brief description of each private-purpose trust fund follows:

College Savings Plan – This fund accounts for monies contributed towards a "qualified tuition program" under section 529 of the Internal Revenue Code of 1986, as amended. This plan is a voluntary college savings plan whose participants are both Montana residents and out-of-state individuals.

Escheated Property – This fund accounts for property that has reverted to the State due to the absence of legal claimants or heirs and is held in trust for distribution to these heirs when identified.

Plan Securities – This fund accounts for the unliquidated security bonds held on deposit from self-insured employers. These funds either revert to the employer at a later date or are cashed and assumed by the State to be used on the employee's behalf.

Woodville Highway Replacement – This fund accounts for money paid to the Montana Department of Transportation by the Anaconda Company to provide the government of Butte-Silver Bow with traffic facilities. This money is held on deposit for the city/county government and is distributed to them at their request.

Moore-Sipple Connector – Money is held in trust to ensure the continued operation of the Moore-Sipple Connector. The interest earnings on this money are provided to Central Montana Rail, Inc. for use in operating the railroad. The balance is currently retained in the fund that is managed by the Department of Transportation.

Performance Deposits – This fund accounts for deposits held long-term by the State pending compliance with performance agreements. This includes, environmental reclamation bonds held in trust to be either returned to the company upon successful reclamation of mining properties and related impacts or to be used by the State to complete the related process.

COMBINING STATEMENT OF FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUNDS
JUNE 30, 2016
(amounts expressed in thousands)

	COLLEGE SAVINGS PLAN	ESCHEATED PROPERTY	PLAN SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
ASSETS				
Cash/cash equivalents	$ 87,249	$ 983	$ -	$ 48
Receivables (net):				
Interest	-	-	-	-
Total receivables	-	-	-	-
Investments at fair value:				
Other investments	127,820	-	-	-
Total investments	127,820	-	-	-
Securities lending collateral	-	4	-	-
Other assets	-	-	33,094	-
Total assets	215,069	987	33,094	48
LIABILITIES				
Accounts payable	-	26	-	-
Securities lending liability	-	4	-	-
Total liabilities	-	30	-	-
NET POSITION				
Held in trust for other purposes	$ 215,069	$ 957	$ 33,094	$ 48

PERFORMANCE DEPOSITS	TOTAL
$ 25,977	$ 114,257
10	10
10	10
10,601	138,421
10,601	138,421
87	91
5,394	38,488
42,069	291,267
4	30
87	91
91	121
$ 41,978	$ 291,146

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUNDS
JUNE 30, 2016
(amounts expressed in thousands)

	COLLEGE SAVINGS PLAN	ESCHEATED PROPERTY	PLAN SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
ADDITIONS				
Other contributions	$ 14,313	$ -	$ 1,901	$ -
Net investment earnings:				
Investment earnings	131	4	-	-
Other additions	-	3,619	-	-
Total additions	14,444	3,623	1,901	-
DEDUCTIONS				
Distributions	34,470	3,611	50	-
Administrative expenses:				
Contractual services	817	-	-	-
Total deductions	35,287	3,611	50	-
Change in net position	(20,843)	12	1,851	-
Net position - July 1 - as previously reported	235,912	945	31,243	48
Net position - June 30	$ 215,069	$ 957	$ 33,094	$ 48

MOORE-SIPPLE CONNECTOR	PERFORMANCE DEPOSITS	TOTAL
$ -	$ -	$ 16,214
-	88	223
-	2,610	6,229
-	2,698	22,666
239	2,473	40,843
-	-	817
239	2,473	41,660
(239)	225	(18,994)
239	41,753	310,140
$ -	$ 41,978	$ 291,146

This page intentionally left blank.

AGENCY FUNDS

Agency funds are used to account for assets held by the State as an agent for individuals, private organizations, and other governments. A brief description of each agency fund follows:

Performance Deposits – This fund accounts for deposits held by the State pending compliance with performance agreements.

Central Payroll – This fund accounts for the accumulation of state employee payroll and withholding by the Department of Administration, pending remittance to employees and other appropriate third parties.

Criminal Offender Restitution – Accounts for restitution payments received from prisoners and disbursed to their victims.

Custodial Accounts – This fund accounts for monies belonging to state institution residents, students of the School for the Deaf and Blind, and participants in the foster children and protective services programs. The fund also accounts for balances held by the Office of the Commissioner of Higher Education for remittance, on behalf of eligible employees of the Montana University System, to the TIAA-CREF (Teachers Insurance and Annuity Association-College Retirement Equities Fund) retirement fund. Department of Transportation employee union pension monies are held in this fund, awaiting remittance to the corresponding union. This fund also accounts for wages collected from employers on behalf of employee wage complaints filed under authority of the Montana Wages and Wage Protection Act.

Child Support Collections – This fund accounts for payments from parents under the Child Support Enforcement Program administered by the Department of Public Health and Human Services.

Uncleared Collections – This fund accounts for resources held pending distribution to other funds and local governments. The balances in this fund related to other fund types are distributed to those funds each fiscal year-end. Balances remaining relate to external parties.

Intergovernmental – This fund accounts for resources that flow through state agencies to federal and local governments.

Debt Collection – This fund accounts for amounts due to the State which have been written off as uncollectible by the receiving agency. The Department of Revenue continues to attempt to collect amounts owing for a period of time after they are deemed uncollectible by the receiving agency.

Milk Passthrough – This fund accounts for the distribution of the proceeds from the sale of pooled milk.

OPEB State – This fund accounts for the State's employee contributions received and premium payments made during the year for OPEB (Other Postemployment Benefits).

OPEB MUS – This fund accounts for the Montana University System’s (MUS) employee contributions received and premium payments made during the year for OPEB (Other Postemployment Benefits).

COMBINING STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
June 30, 2016
(amounts expressed in thousands)

	PERFORMANCE DEPOSITS	CENTRAL PAYROLL	CRIMINAL OFFENDER RESTITUTION	CUSTODIAL ACCOUNTS
ASSETS				
Cash/cash equivalents	$ 3,799	$ 4,539	$ 618	$ 2,015
Receivables (net):				
Accounts receivable	1	-	-	-
Total receivables	1	-	-	-
Securities lending collateral	-	-	-	1
Other assets	250	-	-	12
Total assets	4,050	4,539	618	2,028
LIABILITIES				
Accounts payable	2	-	5	6
Amounts held in custody for others	4,048	4,539	613	2,021
Securities lending liability	-	-	-	1
Total liabilities	4,050	4,539	618	2,028
NET POSITION				
Held in trust for other purposes	$ -	$ -	$ -	$ -

CHILD SUPPORT COLLECTIONS		UNCLEARED COLLECTIONS		INTER-GOVERNMENTAL		DEBT COLLECTION		MILK PASS-THROUGH		TOTAL	
$	146	$	29	$	6	$	162	$	58	$	11,372
	581		-		-		-		-		582
	581		-		-		-		-		582
	-		-		-		-		-		1
	-		-		-		-		-		262
	727		29		6		162		58		12,217
	437		-		4		10		-		464
	290		29		2		152		58		11,752
	-		-		-		-		-		1
	727		29		6		162		58		12,217
$	-	$	-	$	-	$	-	$	-	$	-

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30,2016
(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2015	TOTALS ADDITIONS	TOTALS DEDUCTIONS	BALANCE JUNE 30, 2016
PERFORMANCE DEPOSITS:				
ASSETS				
Cash/cash equivalents	$ 1,493	$ 93,681	$ 91,375	$ 3,799
Receivables (net)	5	25	29	1
Other assets	439	-	189	250
Total assets	$ 1,937	$ 93,706	$ 91,593	$ 4,050
LIABILITIES				
Accounts payable	$ 5	$ 1,508	$ 1,511	$ 2
Amounts held in custody for others	1,932	8,540	6,424	4,048
Total liabilities	$ 1,937	$ 10,048	$ 7,935	$ 4,050
CENTRAL PAYROLL:				
ASSETS				
Cash/cash equivalents	$ 12,992	$ 981,531	$ 989,984	$ 4,539
Total assets	$ 12,992	$ 981,531	$ 989,984	$ 4,539
LIABILITIES				
Accounts payable	$ -	$ 8,336	$ 8,336	$ -
Amounts held in custody for others	12,992	981,531	989,984	4,539
Total liabilities	$ 12,992	$ 989,867	$ 998,320	$ 4,539
CRIMINAL OFFENDER RESTITUTTION:				
ASSETS				
Cash/cash equivalents	$ 904	$ 4,628	$ 4,914	$ 618
Total assets	$ 904	$ 4,628	$ 4,914	$ 618
LIABILITIES				
Accounts payable	$ 15	$ 2,343	$ 2,353	$ 5
Amounts held in custody for others	889	4,627	4,903	613
Total liabilities	$ 904	$ 6,970	$ 7,256	$ 618
CUSTODIAL ACCOUNTS:				
ASSETS				
Cash/cash equivalents	$ 1,829	$ 9,199	$ 9,013	$ 2,015
Investments	1	-	1	-
Securities lending collateral	-	1	-	1
Other assets	4	461	453	12
Total assets	$ 1,834	$ 9,661	$ 9,467	$ 2,028
LIABILITIES				
Accounts payable	$ 7	$ 3,059	$ 3,060	$ 6
Amounts held in custody for others	1,827	10,594	10,400	2,021
Securities lending liability	-	1	-	1
Total liabilities	$ 1,834	$ 13,654	$ 13,460	$ 2,028

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30,2016
(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2015	TOTALS ADDITIONS	TOTALS DEDUCTIONS	BALANCE JUNE 30, 2016
CHILD SUPPORT COLLECTIONS:				
ASSETS				
Cash/cash equivalents	$ 252	$ 73,366	$ 73,472	$ 146
Receivables (net)	549	36	4	581
Total assets	$ 801	$ 73,402	$ 73,476	$ 727
LIABILITIES				
Accounts payable	$ 482	$ 70,186	$ 70,231	$ 437
Amounts held in custody for others	319	73,014	73,043	290
Total liabilities	$ 801	$ 143,200	$ 143,274	$ 727
UNCLEARED COLLECTIONS:				
ASSETS				
Cash/cash equivalents	$ -	$ 15,761,735	$ 15,761,706	$ 29
Receivables (net)	-	527	527	-
Total assets	$ -	$ 15,762,262	$ 15,762,233	$ 29
LIABILITIES				
Accounts payable	$ -	$ 9,361	$ 9,361	$ -
Amounts held in custody for others	-	10,904	10,875	29
Total liabilities	$ -	$ 20,265	$ 20,236	$ 29
INTERGOVERNMENTAL:				
ASSETS				
Cash/cash equivalents	$ 2	$ 122	$ 118	$ 6
Total assets	$ 2	$ 122	$ 118	$ 6
LIABILITIES				
Accounts payable	$ 1	$ 127	$ 124	$ 4
Amounts held in custody for others	1	122	121	2
Total liabilities	$ 2	$ 249	$ 245	$ 6
DEBT COLLECTION:				
ASSETS				
Cash/cash equivalents	$ 190	$ 10,759	$ 10,787	$ 162
Total assets	$ 190	$ 10,759	$ 10,787	$ 162
LIABILITIES				
Accounts payable	$ 9	$ 8,770	$ 8,769	$ 10
Amounts held in custody for others	181	-	29	152
Total liabilities	$ 190	$ 8,770	$ 8,798	$ 162

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30,2016

(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2015	TOTALS ADDITIONS	TOTALS DEDUCTIONS	BALANCE JUNE 30, 2016
MILK PASSTHROUGH:				
ASSETS				
Cash/cash equivalents	$ 27	$ 222	$ 191	$ 58
Total assets	$ 27	$ 222	$ 191	$ 58
LIABILITIES				
Accounts payable	$ -	$ 191	$ 191	$ -
Amounts held in custody for others	27	222	191	58
Total liabilities	$ 27	$ 413	$ 382	$ 58
OPEB STATE:				
ASSETS				
Cash/cash equivalents	$ -	$ 28,517	$ 28,517	$ -
Total assets	$ -	$ 28,517	$ 28,517	$ -
LIABILITIES				
Amounts held in custody for others	$ -	$ 28,517	$ 28,517	$ -
Total liabilities	$ -	$ 28,517	$ 28,517	$ -
OPEB MUS:				
ASSETS				
Cash/cash equivalents	$ -	$ 11,624	$ 11,624	$ -
Total assets	$ -	$ 11,624	$ 11,624	$ -
LIABILITIES				
Amounts held in custody for others	$ -	$ 11,624	$ 11,624	$ -
Total liabilities	$ -	$ 11,624	$ 11,624	$ -

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30,2016

(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2015	TOTALS ADDITIONS	TOTALS DEDUCTIONS	BALANCE JUNE 30, 2016
MISC CLEARING (1)				
ASSETS				
Cash/cash equivalents	$ 6	$ 493,724	$ 493,730	$ -
Receivables (net)	-	553,059	553,059	-
Other assets	-	43,023	43,023	-
Total assets	$ 6	$ 1,089,806	$ 1,089,812	$ -
LIABILITIES				
Accounts payable	$ 6	$ 1,323	$ 1,329	$ -
Amounts held in custody for others	-	62	62	-
Total liabilities	$ 6	$ 1,385	$ 1,391	$ -

(1) Previously reported with Central Payroll

FUND	BALANCE JUNE 30, 2015	TOTALS ADDITIONS	TOTALS DEDUCTIONS	BALANCE JUNE 30, 2016
TOTAL - ALL AGENCY FUNDS				
ASSETS				
Cash/cash equivalents	$ 17,695	$ 17,469,108	$ 17,475,431	$ 11,372
Receivables (net)	554	553,647	553,619	582
Investments	1	-	1	-
Securities lending collateral	-	1	-	1
Other assets	443	43,484	43,665	262
Total assets	$ 18,693	$ 18,066,240	$ 18,072,716	$ 12,217
LIABILITIES				
Accounts payable	$ 525	$ 105,204	$ 105,265	$ 464
Amounts held in custody for others	18,168	1,129,757	1,136,173	11,752
Securities lending liability	-	1	-	1
Total liabilities	$ 18,693	$ 1,234,962	$ 1,241,438	$ 12,217

STATISTICAL SECTION

SCHEDULE A-1 – NET POSITION BY COMPONENT UNIT
Last Ten Fiscal Years
(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Governmental activities										
Net investment in capital assets	$ 5,616,889	$ 5,332,649	$ 5,049,162	$ 4,681,044	$ 4,529,952	$ 4,178,343	$ 3,874,920	$ 3,526,294	$ 3,262,932	$ 3,115,260
Restricted	2,890,669	2,764,165	2,696,248	2,334,042	2,298,142	2,292,979	1,983,143	2,329,850	2,617,435	2,347,395
Unrestricted	(780,527)	(642,296)	896,270	912,882	824,809	877,017	1,083,674	589,815	595,019	675,752
Total governmental activities net position	$ 7,727,031	$ 7,454,518	$ 8,641,680	$ 7,927,968	$ 7,652,903	$ 7,348,339	$ 6,941,737	$ 6,445,959	$ 6,475,386	$ 6,138,407
Business-type activities										
Net investment in capital assets	$ 15,760	$ 14,616	$ 16,285	$ 14,862	$ 15,011	$ 15,581	$ 14,534	$ 12,539	$ 8,733	$ 8,698
Restricted	347,819	333,536	295,006	253,382	206,896	158,735	159,335	255,493	337,036	314,722
Unrestricted	8,394	8,124	18,912	16,415	15,905	12,349	21,851	6,996	11,234	11,761
Total business-type activities net position	$ 371,973	$ 356,276	$ 330,203	$ 284,659	$ 237,812	$ 186,665	$ 194,720	$ 275,028	$ 357,003	$ 335,181
Primary government										
Net investment in capital assets	$ 5,632,649	$ 5,347,265	$ 5,065,447	$ 4,695,907	$ 4,554,963	$ 4,193,924	$ 3,889,454	$ 3,538,833	$ 3,271,665	$ 3,123,958
Restricted	3,238,488	3,097,701	2,991,254	2,587,423	2,505,038	2,451,714	2,142,478	2,585,343	2,594,471	2,662,117
Unrestricted	(772,133)	(634,172)	915,182	929,296	840,714	889,366	1,104,525	596,811	606,253	687,513
Total primary government net position	$ 8,099,004	$ 7,810,794	$ 8,971,883	$ 8,212,627	$ 7,900,715	$ 7,535,004	$ 7,136,457	$ 6,720,987	$ 6,832,389	$ 6,473,588

SCHEDULE A-2 – CHANGE IN NET POSITION
Last Ten Fiscal Years
(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year			
Expenses	**2016**	**2015**	**2014**	**2013**
Governmental activities:				
General government	$ 696,984	$ 655,878	$ 1,009,121	$ 647,975
Public safety	420,532	403,407	156,256	380,309
Transportation	464,092	483,943	461,358	189,207
Health and human services	2,174,506	1,936,701	1,880,505	1,808,386
Education	1,324,299	1,306,740	1,262,069	1,205,955
Natural resources	295,332	316,834	254,414	332,942
Economic development/assistance	-	-	-	-
Principal on long-term debt	(1)	-	-	-
Interest on long-term debt	9,373	9,124	10,760	12,249
Total governmental activities expenses	5,385,117	5,112,627	5,034,483	4,577,022
Business-type activities:				
Unemployment Insurance	119,088	112,952	136,174	179,826
Liquor Stores	81,556	78,700	74,917	71,013
State Lottery	47,202	41,088	41,310	44,049
Economic Development Bonds	1,198	988	2,564	930
Hail Insurance	817	8,304	15,163	7,339
General Government Services	71,343	68,678	63,787	63,354
Prison Funds	9,099	6,464	7,223	6,995
MUS Group Insurance	87,535	86,539	80,639	67,250
MUS Workers Compensation	2,430	4,128	3,199	328
Total business-type activities expenses	420,268	407,841	424,976	441,084
Total primary government expenses	$ 5,805,385	$ 5,520,468	$ 5,459,459	$ 5,018,106
Program Revenues				
Governmental activities:				
Charges for services:				
General government	$ 145,725	$ 143,616	$ 142,818	$ 134,756
Public safety/corrections	160,783	160,339	150,212	148,147
Transportation	30,321	36,122	33,047	30,792
Health/social services	42,376	35,795	37,843	37,291
Education/cultural	30,205	32,176	42,140	37,328
Resource/recreation/environment	168,269	174,799	172,759	176,400
Economic development/assistance	-	-	-	-
Operating grants and contributions	2,093,817	1,885,537	1,823,987	1,780,611
Capital grants and contributions	456,588	470,860	460,327	455,310
Total governmental activities program revenues	3,128,084	2,939,244	2,863,133	2,800,635
Business-type activities:				
Charges for services:				
Unemployment Insurance	121,740	151,806	163,745	166,523
Liquor Stores	93,958	89,286	85,316	82,125
State Lottery	59,717	52,341	53,106	56,820
Economic Development Bonds	34	30	19	13
Hail Insurance	1,103	6,278	8,040	7,114
General Government Services	25,342	29,197	25,985	21,988
Prison Funds	8,499	7,953	7,618	6,945
MUS Group Insurance	83,136	72,904	80,472	68,216
MUS Workers Compensation	4,264	4,603	2,170	4,280
Operating grants and contributions	56,565	50,751	64,982	96,590
Capital grants and contributions	857	942	623	445
Total business-type activities program revenues	455,215	466,091	492,076	511,059
Total primary government program revenues	$ 3,583,299	$ 3,405,335	$ 3,355,209	$ 3,311,694

Fiscal Year					
2012	2011	2010	2009	2008	2007
$ 660,561	$ 752,565	$ 774,881	$ 549,847	$ 634,984	$ 450,646
387,213	308,593	342,803	408,239	322,769	293,193
468,977	390,523	320,085	438,649	488,450	197,510
1,745,284	1,765,871	1,677,261	1,529,104	1,380,629	1,266,098
1,192,205	1,209,969	1,179,788	1,137,772	1,144,637	1,065,504
337,462	318,954	318,300	363,179	258,058	256,751
-	-	-	170,027	152,456	152,154
7,593	6	-	-	-	-
15,725	16,314	17,692	18,721	18,344	19,418
4,815,020	4,762,795	4,630,810	4,615,538	4,400,327	3,701,274
217,829	278,086	354,793	235,494	90,269	72,378
67,863	63,573	61,569	61,446	59,227	55,521
39,808	35,481	36,365	33,787	32,984	30,416
1,149	1,126	2,167	3,523	4,552	4,167
7,052	8,379	6,238	4,087	11,064	4,663
62,094	63,003	62,797	60,157	56,697	53,851
6,480	6,149	6,463	10,681	6,670	6,487
59,577	63,501	72,606	55,023	59,334	58,532
4,530	4,232	3,900	3,675	3,109	2,647
466,382	523,530	606,898	468,328	323,906	288,662
$ 5,281,402	$ 5,286,325	$ 5,237,708	$ 5,083,866	$ 4,724,233	3,989,936
$ 143,815	$ 138,059	$ 127,163	$ 68,982	$ 83,720	$ 61,713
147,070	145,754	147,839	144,748	149,534	153,577
29,256	25,143	26,531	37,204	42,348	34,963
34,191	37,166	43,338	35,554	38,137	30,547
36,335	40,720	34,309	113,433	150,906	96,903
166,466	164,880	232,861	39,929	80,933	80,320
-	-	-	43,182	38,520	38,441
1,824,334	1,962,876	1,985,977	1,635,769	1,493,944	1,395,324
512,649	537,194	510,996	467,611	380,856	325,352
2,894,116	3,051,792	3,109,014	2,586,412	2,458,898	2,217,140
164,353	137,439	89,500	75,591	85,801	83,661
78,384	73,298	68,032	67,242	69,242	63,943
52,615	46,047	46,865	43,841	43,826	41,567
17	18	22	26	33	22
7,055	6,710	6,915	6,859	7,730	6,042
22,303	23,044	22,601	21,548	19,844	18,176
7,284	6,276	6,304	6,620	7,150	5,600
69,025	65,228	64,756	52,147	62,666	57,159
4,167	4,716	4,979	5,003	4,660	4,047
134,120	168,222	226,049	118,058	63,524	64,691
398	281	3,174	1,360	540	171
539,721	531,279	539,197	398,295	365,016	345,079
$ 3,433,837	$ 3,583,071	$ 3,648,211	$ 2,984,707	$ 2,823,914	$ 2,562,219

SCHEDULE A-2 – CHANGE IN NET POSITION - Continued
Last Ten Fiscal Years
(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year			
	2016	**2015**	**2014**	**2013**
Net (expense)/revenue				
Governmental activities	$ (2,257,033)	$ (2,173,383)	$ $ (2,389,119)	$ (1,776,387)
Business-type activities	34,947	58,250	67,114	69,975
Total primary government net expense	(2,222,086)	(2,115,133)	$ (2,322,005)	(1,706,412)
General Revenues and Other Changes in Net Position				
Governmental activities:				
Taxes				
Property	$ 276,367	$ 261,532	$ $ 267,029	$ 256,613
Fuel	225,419	226,892	216,615	216,065
Natural resource	163,707	257,634	334,210	310,344
Individual income	1,173,281	1,151,329	1,044,828	1,041,767
Corporate Income	117,758	174,112	145,040	174,510
Other	361,899	358,676	340,123	324,811
Unrestricted grants and contributions	15,321	15,101	403	11
Payment from State of Montana	-	-	487	-
Settlements	29,379	29,109	31,534	35,763
Unrestricted investment earnings	92,404	44,028	108,754	30,296
Gain on sale of capital assets	3,014	2,067	2,125	7,158
Miscellaneous	6,596	4,348	4,708	4,355
Transfers	49,812	50,017	46,377	48,199
Total governmental activities	2,514,957	2,574,845	2,542,233	2,499,802
Business-type activities:				
Taxes				
Other	27,078	26,440	25,148	24,186
Unrestricted grants and contributions	1,852	1,777	2	-
Settlements	-	-	52	-
Unrestricted investment earnings	17	520	12	20
Gain on sale of capital assets	318	142	696	41
Miscellaneous	514	718	674	570
Transfers	(49,813)	(50,017)	(47,864)	(48,199)
Total business-type activities	(20,034)	(20,420)	(21,280)	(23,382)
Total primary government	2,494,923	2,554,425	2,520,953	2,426,417
Change in Net Position				
Governmental activities	257,924	401,462	153,114	673,410
Business-type activities	14,913	37,830	45,834	46,593
Total primary government	$ 272,837	$ 439,292	$ $ 198,948	$ 720,002

Source: Statewide Accounting, Budgeting, and Human Resource System

	Fiscal Year					
	2012	2011	2010	2009	2008	2007
	$ (1,920,904)	$ (1,711,003)	$ (1,521,796)	$ (2,029,126)	$ (1,941,429)	$ (1,484,134)
	73,339	7,749	(67,700)	(70,033)	41,110	56,417
	(1,847,565)	(1,703,254)	(1,589,496)	(2,099,159)	(1,900,319)	(1,427,717)
	$ 257,631	$ 241,961	$ 235,287	$ 228,368	$ 214,868	$ 206,527
	211,933	209,348	204,373	191,061	205,758	210,573
	309,427	305,471	275,313	307,032	407,007	276,793
	892,560	810,108	709,699	806,908	862,273	819,473
	129,668	121,801	89,033	168,053	161,118	183,913
	308,927	308,703	303,859	315,810	320,398	309,232
	181	-	461	167	28	3,911
	-	-	-	-	-	-
	40,426	38,747	77,927	155,127	38,760	27,853
	87,083	155,419	172,748	42,556	72,203	78,032
	2,179	3,209	3,244	6,141	6,351	10,823
	2,728	2,919	4,247	116,865	5,810	3,050
	46,361	40,547	42,488	42,863	43,010	41,080
	2,289,104	2,238,233	2,118,677	2,380,951	2,337,584	2,171,260
	23,233	21,797	25,017	24,821	20,340	19,046
	-	-	-	-	-	-
	-	27	-	-	-	10
	54	4,642	244	142	406	569
	270	-	1	-	-	-
	542	637	4,377	2,484	2,662	1,953
	(46,361)	(40,547)	(42,486)	(42,863)	(43,010)	(41,080)
	(22,262)	(13,444)	(12,847)	(15,416)	(19,602)	(19,502)
	2,266,842	2,224,789	2,105,830	2,365,535	2,317,982	2,151,758
	368,200	527,230	596,881	351,825	396,155	687,126
	51,077	(5,695)	(80,547)	(85,449)	21,508	36,915
	$ 419,277	$ 521,535	$ 516,334	$ 266,376	$ 417,663	$ 724,041

SCHEDULE A-3 – FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year						
	2016	2015	2014	2013	2012	2011	2010
Nonspendable:							
Inventory	$ 24,385	$ 25,137	$ 22,611	$ 24,483	$ 25,046	$ 23,007	$ 27,018
Permanent fund principle	1,548,689	1,493,893	1,452,290	1,388,829	1,365,218	1,300,871	1,143,435
Long-term notes/receivable	641	817	971	2,470	2,146	65	96
Prepaid expenses	1,259	1,806	1,045	1,273	1,538	1,254	1,361
Total nonspendable	$ 1,574,974	$ 1,521,653	$ 1,476,917	$ 1,417,055	$ 1,393,948	$ 1,325,197	$ 1,171,910
Restricted:							
General government	6,339	6,586	8,563	1,966	10,474	13,146	13,785
Transportation	41,892	47,750	60,851	76,659	75,518	116,353	102,520
Health and human services	21,372	22,814	24,494	23,049	16,739	22,025	22,367
Natural resources	710,010	716,294	669,220	646,026	653,179	634,957	438,410
Public safety	236,139	252,006	265,966	268,616	294,520	290,768	317,295
Education	15,146	17,896	20,458	21,397	27,140	29,054	24,644
Total restricted	$ 1,030,898	$ 1,063,346	$ 1,049,552	$ 1,037,713	$ 1,077,570	$ 1,106,303	$ 919,021
Committed:							
General government	749,341	712,767	694,508	612,969	625,432	588,292	551,394
Transportation	4,070	3,856	4,823	6,644	4,304	4,445	6,403
Health and human services	29,086	28,226	27,131	30,665	43,952	72,102	65,050
Natural resources	387,121	346,550	320,560	258,650	266,254	312,467	601,410
Public safety	31,776	30,207	34,037	29,428	18,162	15,393	39,772
Education	16,180	8,249	26,631	34,723	12,434	12,162	1,540
Total committed	$ 1,217,574	$ 1,129,855	$ 1,107,691	$ 973,079	$ 970,538	$ 1,004,861	$ 1,255,569
Assigned:							
General government	8,450	5,361	13,232	23,057	21,413	25,805	33,427
Transportation	-	-	-	-	26	-	-
Health and human services	-	-	-	-	-	-	148
Natural resources	-	-	-	56	60	41	418
Public safety	404	599	1,210	1,465	1,756	1,853	2,949
Education	-	-	-	-	-	-	138
FY 2011 appropriation	-	-	-	-	-	-	70,270
General Fund Spend Down FY15	130,000	75,000	80,000	-	-	-	-
Encumbrances	10,333	11,230	10,366	18,033	22,670	24,591	11,986
Total assigned	$ 149,187	$ 92,190	$ 104,808	$ 42,611	$ 45,925	$ 52,290	$ 119,336
Unassigned	126,478	380,436	344,406	537,609	451,656	339,898	212,183
Total fund balances	$ 4,099,111	$ 4,187,480	$ 4,083,374	$ 4,008,066	$ 3,939,637	$ 3,828,549	$ 3,688,019

SCHEDULE A-3 – FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year 2009	2008	2007
General Fund			
Reserved	$ 25,991	$ 28,221	$ 20,498 $
Unreserved	392,526	433,580	549,158
Total general fund	418,517	$ 461,801	$ 569,656 $
All other governmental funds			
Reserved	$ 3,016,151	$ 2,766,497	$ 2,529,131 $
Unreserved, reported in:			
Special revenue funds	(30,881)	(47,864)	(48,292)
Debt service funds	(4,505)	1,083	5,920
Capital project funds	124,205	87,895	37,735
Total all other governmental funds	$ 3,104,970	$ 2,807,611	$ 2,524,494 $

Source: Statewide Accounting, Budgeting, and Human Resource System

Note: Due to GASB Statement 54 a new table is included below for fiscal years after 2009.

SCHEDULE A-4 – CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year			
	2016	2015	2014	2013
Revenues				
Licenses/permits	$ 321,882	$ 319,726	$ 302,824	$ 297,148
Taxes	2,317,024	2,435,282	2,344,456	2,314,815
Charges for services/fines/forfeits/settlements	185,112	183,257	202,912	181,760
Investment earnings	171,980	90,565	141,733	59,092
Sale of documents/merchandise/property	19,963	26,177	21,836	23,393
Rentals/leases/royalties	60,743	66,754	76,824	75,490
Contributions/Premiums	26,616	24,105	23,206	22,397
Grants/contracts/donations	31,237	30,048	30,324	24,267
Federal	2,304,394	2,151,163	2,086,310	2,043,912
Federal Indirect cost Recoveries	113,157	112,914	110,981	112,364
Other revenues	6,637	4,770	5,410	5,349
Total revenues	5,558,745	5,444,761	5,346,816	5,159,987
Expenditures				
General government	624,157	676,832	699,219	613,186
Public safety	419,813	395,561	373,132	363,378
Transportation	319,940	340,443	324,074	287,218
Health and human services	2,177,895	1,925,968	1,883,909	1,810,312
Education	1,325,927	1,301,116	1,261,012	1,204,060
Natural resources	306,470	288,791	286,320	341,686
Economic development/assistance	-	-	-	-
Debt service:				
Principal retirement	39,631	33,988	33,617	32,627
Interest/fiscal charges	10,506	11,346	12,810	13,907
Capital outlay	477,990	444,940	457,306	454,463
Securities lending	218	204	142	302
Total expenditures	5,702,547	5,419,189	5,331,541	5,121,139
Excess of revenue over (under) expenditures	(143,802)	25,572	15,275	38,847
Other financing sources (uses)				
Bond proceeds	-	24,365	11,680	-
Bonds issued	-	-	-	-
Refunding bonds issued	22,540	38,150	6,780	-
Bond premium	3,256	7,130	662	-
Payment to refunding bond escrow agent	(25,557)	(42,603)	(7,190)	-
Inception of lease/installment contract	368	344	324	504
Insurance proceeds	106	2,586	1,302	381
General capital asset sale proceeds	3,430	3,689	1,840	7,340
Energy conservation loans	677	2,120	169	291
Transfers in	323,250	324,088	428,368	307,460
Transfers out	(274,206)	(284,180)	(383,933)	(273,502)
Total other financing sources (uses)	53,864	75,689	60,002	42,474
Net change in fund balances	$ (89,938)	$ 101,261	$ 75,277	$ 81,321
Debt service as a percentage of noncapital expenditures	1.0%	0.9%	1.0%	1.0%

Source: Statewide Accounting, Budgeting, and Human Resource System

Fiscal Year					
2012	2011	2010	2009	2008	2007
$ 290,183	$ 287,580	$ 283,658	$ 283,423	$ 283,755	$ 285,890
2,096,733	1,986,722	1,809,427	2,005,327	2,162,928	2,009,620
193,874	191,142	238,758	255,068	188,518	160,571
181,484	143,198	232,668	114,857	165,165	171,047
16,221	17,208	17,499	15,271	19,711	20,460
77,946	70,322	143,714	73,080	65,176	51,442
21,666	20,685	19,724	-	-	-
24,812	23,439	27,324	28,919	27,825	25,362
2,102,964	2,338,090	2,271,216	1,953,376	1,713,478	1,586,206
107,446	101,152	112,918	-	-	-
4,718	5,069	6,809	144,890	30,952	17,280
5,118,047	5,184,607	5,163,715	4,874,211	4,657,508	4,327,878
633,336	643,623	666,192	428,723	545,661	401,331
353,344	346,670	338,776	335,877	311,094	284,777
345,796	271,387	197,197	311,838	360,383	575,157
1,734,471	1,757,633	1,675,253	1,526,287	1,372,335	1,267,854
1,183,056	1,208,538	1,181,591	1,136,056	1,137,548	1,050,239
287,636	272,895	288,913	238,834	300,207	247,090
-	-	-	168,778	149,057	152,442
34,865	33,974	31,682	34,199	33,767	33,103
16,314	16,362	18,213	19,079	18,931	19,080
488,958	565,943	650,589	464,378	351,111	95,834
383	600	873	2,917	7,244	5,261
5,078,159	5,117,625	5,049,279	4,666,966	4,587,338	4,132,168
39,888	66,982	114,436	207,245	70,170	195,710
-	-	3,800	-	-	-
-	31,000	-	-	59,490	-
56,670	10,180	28,270	-	-	16,740
8,264	767	1,294	-	828	946
(64,421)	(11,062)	(29,148)	-	-	(17,504)
49	36	172	615	874	49
3,565	4,326	670	886	1,681	115
2,343	4,130	3,614	5,960	6,497	10,946
26,171	-	-	-	-	-
277,279	351,366	491,045	391,661	413,286	306,867
(235,235)	(316,934)	(450,686)	(350,135)	(373,727)	(269,595)
74,685	73,809	49,031	48,987	108,929	48,564
$ 114,573	$ 140,791	$ 163,467	$ 256,232	$ 179,099	$ 244,274
1.1%	1.1%	1.1%	1.2%	1.3%	1.4%

SCHEDULE B-1 – PERSONAL INCOME BY INDUSTRY
Last Ten Calendar Years
(amounts expressed in thousands)

	Calendar Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Farm Earnings	$ 757,623	$ 832,648	$ 817,733	$ 934,509	$ 720,138	$ 625,246	$ 310,053	$ 468,182	$ 408,523	$ 190,096
Agricultural, forestry, fishing, and other	273,020	232,980	231,268	201,925	168,285	162,669	186,402	193,708	205,861	210,748
Mining	1,144,404	1,235,527	1,246,822	1,235,330	820,944	664,485	772,277	897,521	735,100	735,437
Construction/utilities	2,765,160	2,486,438	2,397,070	2,235,780	2,097,991	2,067,925	1,677,216	2,007,944	2,186,771	2,070,597
Manufacturing	1,212,283	1,171,673	1,089,971	1,054,098	1,069,144	1,032,034	1,059,780	1,152,181	1,139,506	1,102,085
Transportation and public utilities	1,226,867	1,210,250	1,154,728	1,106,555	985,485	913,489	1,250,836	1,269,832	1,231,036	1,228,453
Wholesale trade	1,285,731	1,201,060	1,201,060	1,114,365	1,002,298	940,214	938,306	985,176	964,006	879,070
Retail trade	2,310,956	2,202,105	2,136,747	2,032,683	2,019,009	1,947,337	1,843,250	1,935,405	1,959,131	1,843,169
Finance, insurance, and real estate	1,679,674	1,590,899	1,623,518	1,483,319	1,486,390	1,433,145	1,430,985	1,445,414	1,433,899	1,544,182
Services	9,917,700	8,989,666	8,682,348	8,933,237	8,615,811	8,217,674	8,005,007	7,915,541	7,533,395	7,088,480
Federal, civilian	1,244,570	1,181,524	1,157,617	1,192,569	1,215,699	1,314,102	1,268,108	1,207,987	1,180,607	1,134,414
Military	406,402	414,108	423,180	429,985	532,199	528,570	515,593	489,616	465,490	456,908
State and local government	4,078,431	3,868,541	3,894,912	3,770,989	3,589,740	3,599,170	3,494,129	3,364,342	3,169,949	2,973,386
Other (1)	14,343,779	13,798,057	13,496,216	13,027,496	12,184,262	11,302,305	11,171,289	10,778,049	9,834,100	8,989,644
Total personal income	$ 42,646,600	$ 40,415,476	$ 39,553,190	$ 38,752,840	$ 36,507,395	$ 34,748,365	$ 33,923,231	$ 33,110,898	$ 32,475,374	$ 30,446,669
Average effective rate (2)	2.8%	2.6%	2.6%	2.3%	2.2%	2.1%	2.4%	2.6%	2.5%	2.5%

Sources: Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce
Montana Department of Revenue

Notes: (1) Includes dividends, interest, rental income, residence adjustment, government transfers to individuals, and deductions for social insurance
(2) The total direct rate for personal income is not available. Average effective rate equals personal income tax revenue (Schedule B-2) divided by personal income.

SCHEDULE B-2 – PERSONAL INCOME TAX RATES
Last Ten Calendar Years
(amounts expressed in thousands)

	Calendar Year									
	2015	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
Personal income tax revenue (1)	$1,175,745	$1,063,284	$1,047,790	$898,851	$816,090	$717,834	$815,138	$866,638	$827,095	$768,912
Personal income	$42,646,600	$40,415,476	$39,553,190	$38,752,840	$36,507,395	$34,748,365	$33,923,231	$33,110,898	$32,475,374	$30,446,669
Average effective rate (2)	2.8%	2.6%	2.6%	2.3%	2.2%	2.1%	2.4%	2.6%	2.5%	2.5%

	Tax Rates on the Portion of Taxable Income in Ranges (3)						
Calendar Year 2015							
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%
Income Bracket	$0-2.8	$2.8-5.0	$5.0-7.6	$7.6-10.3	$10.3-13.3	$13.3-17.1	$17.1+
Calendar Year 2014							
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%
Income Bracket	$0-2.8	$2.8-5.0	$5.0-7.6	$7.6-10.3	$10.3-13.3	$13.3-17.1	$17.1+
Calendar Year 2013							
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%
Income Bracket	$0-2.8	$2.8-4.9	$4.9-7.4	$7.4-10.1	$10.1-13.0	$13.0-16.7	$16.7+
Calendar Year 2012							
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%
Income Bracket	$0-2.7	$2.7-4.8	$4.8-7.3	$7.3-9.9	$9.9-12.7	$12.7-16.4	$16.4 +
Calendar Year 2011							
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%
Income Bracket	$0-2.7	$2.7-4.7	$4.7-7.2	$7.2-9.7	$9.7-12.5	$12.5-16.0	$16.0 +
Calendar Year 2010							
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%
Income Bracket	$0-2.6	$2.6-4.6	$4.6-6.9	$6.9-9.4	$9.4-12.1	$12.1-15.6	$15.6 +
Calendar Year 2009							
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%
Income Bracket	$0-2.6	$2.6-4.5	$4.5-6.9	$6.9-9.3	$9.3-12	$12-15.4	$15.4 +
Calendar Year 2008							
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%
Income Bracket	$0-2.6	$2.6-4.6	$4.6-7	$7-9.5	$9.5-12.2	$12.2-15.6	$15.6 +
Calendar Year 2007							
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%
Income Bracket	$0-2.5	$2.5-4.4	$4.4-6.6	$6.6-9	$9-11.6	$11.6-14.9	$14.9 +
Calendar Year 2006							
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%
Income Bracket	$0-2.4	$2.4-4.3	$4.3-6.5	$6.5-8.8	$8.8-11.3	$11.3-14.5	$14.5 +

Sources: Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce; Montana Department of Revenue
Notes: (1) Personal income tax revenue is reported on a fiscal year basis.
(2) Average effective rate equals personal income tax revenue divided by personal income.
(3) Amounts shown are for single and married filing separate returns. For all other filing status returns, double the income amounts in the columns.

SCHEDULE B-3 – PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL
Latest Completed Calendar Year and Five Years Ago

	Calendar Year 2015				Calendar Year 2010			
Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
$9,999 and under	74,259	16.19%	$ 791,081	0.08%	83,075	19.15%	$ 1,002,053	0.14%
$10,000–$19,999	68,843	15.01%	8,969,938	0.88%	73,901	17.03%	9,664,094	1.31%
$20,000–$44,999	123,264	26.88%	84,336,938	8.28%	119,522	27.55%	77,048,789	10.41%
$45,000–$69,999	70,779	15.43%	124,351,732	12.21%	67,529	15.56%	111,794,760	15.11%
$70,000–$109,999	67,459	14.71%	215,411,611	21.15%	56,735	13.08%	174,167,452	23.54%
$110,000–$174,999	35,334	7.70%	202,073,646	19.84%	22,044	5.08%	123,254,680	16.66%
$175,000–$499,999	16,140	3.52%	210,617,756	20.68%	9,447	2.18%	119,928,175	16.21%
$500,000 and higher	2,576	0.56%	171,950,315	16.88%	1,600	0.37%	122,975,616	16.62%
Total	458,654	100.00%	$ 1,018,503,017	100.00%	433,853	100.00%	$ 739,835,619	100.00%

Source: Montana Department of Revenue

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented above are intended to provide alternate information regarding the sources of the State's revenue.

SCHEDULE C-1 – RATIOS OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

(amounts expressed in thousands, except per capita amount, in dollars)

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Governmental activities										
General obligation bonds	$ 115,500	$ 134,795	$ 127,840	$ 139,595	$ 156,905	$ 174,335	$ 169,150	$ 182,585	$ 201,560	$ 208,015
Special revenue bonds	89,840	110,975	128,020	137,940	152,565	169,220	176,570	189,970	204,365	171,080
Notes payable	11,643	9,949	9,311	9,667	10,020	10,369	10,716	11,065	11,411	11,755
Lease/installment purchase payable	3,170	1,186	764	707	723	1,536	2,440	2,680	1,421	1,057
Total governmental activities	220,153	256,905	265,935	287,909	320,213	355,460	358,876	386,300	418,757	391,907
Business-type activities										
Bonds/notes payable	$ -	$ -	$ -	$ 70	$ 135	$ 195	$ 370	$ 1,180	$ 1,853	$ 3,107
Lease/installment purchase payable	600	836	141	223	303	382	-	-	-	-
Total business-type activities	600	836	141	293	438	577	370	1,180	1,853	3,107
Total primary government	$ 220,753	$ 257,741	$ 266,076	$ 288,202	$ 320,651	$ 356,037	$ 359,246	$ 387,480	$ 420,610	$ 395,014
Debt as a percentage of personal income (1)	0.5%	0.6%	0.7%	0.7%	0.9%	1.0%	1.1%	1.2%	1.3%	1.3%
Amount of debt per capita (2)	$221	$259	$270	$294	$329	$367	$371	$401	$440	$418

Source: Statewide Accounting, Budgeting, and Human Resource System

Notes: Details regarding the State's debt can be found in Note 11 of the financial statements.

*(1) Debt as a percentage of personal income equals total debt divided by total personal income from Schedule B-1.
Used calendar year for personal income for fiscal year for debt percentage calculation.
Numbers revised for prior years due to personal income estimate revisions.*

*(2) Amount of debt per capita is calculated by dividing total debt by total population from Schedule D-1.
Numbers revised for prior years due to population estimate revisions.*

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year									
Governmental Activities	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**
Renewable Resource Program Bond										
Revenue										
Loan repayment (principal and interest)	$ 2,986	$ 2,774	$ 1,610	$ 1,702	$ 2,200	$ 1,746	$ 1,710	$ 3,157	$ 1,549	$ 2,576
Northwestern Energy	3,945	4,445	3,670	3,340	4,095	3,676	3,435	3,189	2,498	3,057
STIP interest earnings	25	8	8	14	17	17	19	96	329	460
Debt service fund interest	784	809	599	619	644	444	398	414	472	528
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$ 7,740	$ 8,036	$ 5,887	$ 5,675	$ 6,956	$ 5,883	$ 5,562	$ 6,856	$ 4,848	$ 6,621
Debt service										
Principal	$ 5,080	$ 4,815	$ 4,345	$ 3,765	$ 4,200	$ 3,620	$ 2,380	$ 3,725	$ 3,485	$ 3,095
Interest	$ 775	$ 808	$ 821	$ 801	$ 899	$ 848	$ 979	$ 1,093	$ 1,253	$ 1,357
Coverage (1)	1.3	1.4	1.1	1.2	1.4	1.3	1.7	1.4	1.0	1.5

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year									
Governmental Activities	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**
US Highway 93 GARVEES Bond										
Revenue										
Federal Highway Administration	$ 424,636	$ 447,541	$ 429,398	$ 410,641	$ 471,079	$ 457,372	$ 464,400	$ 381,604	$ 345,583	$ 300,808
Less: Operating expenses	(409,039)	(432,041)	(413,897)	(395,056)	(455,102)	(441,395)	(448,419)	(365,624)	(333,705)	(288,930)
Net available revenue	$ 15,597	$ 15,500	$ 15,501	$ 15,585	$ 15,977	$ 15,977	$ 15,981	$ 15,980	$ 11,878	$ 11,878
Debt service										
Principal	$ 15,597	$ 11,625	$ 11,110	$ 10,630	$ 10,175	$ 9,740	$ 9,340	$ 9,070	$ 6,375	$ 6,130
Interest	$ 3,327	$ 3,875	$ 4,391	$ 4,955	$ 5,802	$ 6,237	$ 6,641	$ 6,910	$ 5,503	$ 5,747
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

	Fiscal Year									
Governmental Activities	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**
Middle Creek Dam Project Note Payable										
Revenue										
Middle Creek Water Users Assoc loan payments	$ 116	$ 95	$ 105	$ 94	$ 74	$ 72	$ 90	$ 83	$ 89	$ 96
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$ 116	$ 95	$ 105	$ 94	$ 74	$ 72	$ 90	$ 83	$ 89	$ 96
Debt service										
Principal	$ 74	$ 71	$ 58	$ 56	$ 54	$ 51	$ 50	$ 48	$ 46	$ 44
Interest	$ 43	$ 24	$ 47	$ 38	$ 20	$ 21	$ 40	$ 35	$ 43	$ 52
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued

Last Ten Fiscal Years

(amounts expressed in thousands)

Governmental Activities	Fiscal Year 2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Tongue River Dam Project Note Payable										
Revenue										
Tongue River Water Users Assoc loan payments	$ 128	$ 128	$ 128	$ 128	$ 128	$ 128	$ 128	$ 128	$ 128	$ 128
Revenue from sale of electricity	162	162	162	162	162	162	162	162	162	162
Less: Operating expenses				-	-	-	-	-	-	-
Net available revenue	$ 290	$ 290	$ 290	$ 290	$ 290	$ 290	$ 290	$ 290	$ 290	$ 290
Debt service										
Principal	$ 290	$ 290	$ 290	$ 290	$ 290	$ 290	$ 290	$ 290	$ 290	$ 290
Interest	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Governmental Activities	Fiscal Year 2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Water Conservation Note Payable (Little Dry Project)										
Revenue										
Little Dry Water Users Assoc loan payments	$ -	$ -	$ -	$ -	$ 1	$ 3	$ 3	$ 3	$ 3	$ 3
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$ -	$ -	$ -	$ -	$ 1	$ 3	$ 3	$ 3	$ 3	$ 3
Debt service										
Principal	$ -	$ -	$ -	$ -	$ 1	$ 2	$ 2	$ 2	$ 2	$ 2
Interest	$ -	$ -	$ -	$ -	$ -	$ 1	$ 1	$ 1	$ 1	$ 1
Coverage (1)	-	-	-	-	1.0	1.0	1.0	1.0	1.0	1.0

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued
Last Ten Fiscal Years
(amounts expressed in thousands)

Governmental Activities	Fiscal Year 2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Water Conservation Note Payable (Petrolia Project)										
Revenue										
Petrolia Irrigation District loan payments	$ 2	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$ -	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3
Debt service										
Principal	$ 2	$ 3	$ 3	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2
Interest	$ -	$ -	$ -	$ 1	$ 1	$ 1	$ 1	$ 1	$ 1	$ 1
Coverage (1)	-	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Business-type Activities	Fiscal Year 2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Economic Development Bonds (Municipal Finance Consolidation Irrigation Dist)										
Revenue										
Principal and interest repayments	$ -	$ -	$ 70	$ 66	$ 62	$ 58	$ 53	$ 47	$ 45	$ 71
Investment income	-	-	-	-	-	-	-	1	3	5
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$ -	$ -	$ 70	$ 66	$ 62	$ 58	$ 53	$ 48	$ 48	$ 76
Debt service										
Principal	$ -	$ -	$ 70	$ 65	$ 60	$ 55	$ 50	$ 45	$ 45	$ 40
Interest	$ -	$ -	$ 3	$ 8	$ 13	$ 17	$ 21	$ 25	$ 28	$ 31
Coverage (1)	-	-	1.0	0.9	0.9	0.8	0.7	0.7	0.7	1.1

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year									
Business-type Activities	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**
Economic Development Bonds										
(Conservation Reserve Enhancement Program)										
Revenue										
Principal and interest repayments	$ 33	$ 81	$ 71	$ 151	$ 162	$ 454	$ 782	$ 989	$ 926	$ 2,173
Investment income	-	-	-	-	-	-	-	1	10	16
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$ 33	$ 81	$ 71	$ 151	$ 162	$ 454	$ 782	$ 990	$ 936	$ 2,189
Debt service										
Principal	$ -	$ -	$ -	$ -	$ -	$ 120	$ 891	$ 628	$ 1,208	$ 1,924
Interest	$ -	$ -	$ -	$ -	$ 3	$ 3	$ 62	$ 101	$ 107	$ 216
Coverage (1)	-	-	-	-	49.7	3.7	0.8	1.4	0.7	1.0

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year
Business-type Activities	**2007**
MUS Workers Compensation Bonds Payable	
Revenue	
Workers compensation premiums	$ 4,047
Less: Operating expenses	(2,614)
Net available revenue	$ 1,433
Debt service	
Principal	$ 430
Interest	$ 22
Coverage (1)	3.2

Sources: Montana Departments of Commerce (Board of Investments), Natural Resources and Montana University System

Note: (1) Coverage equals net available revenue divided by debt service.

SCHEDULE C-3 – RATIOS OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years
(amounts expressed in thousands, except per capita amount, in dollars)

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Funds	Total	Percentage of Personal Income (1)	Debt per Capita (2)
2016	$ 115,500	$ 19,275	$ 96,225	0.23%	$ 96
2015	$ 134,795	$ 18,348	$ 116,447	0.29%	$ 117
2014	$ 127,840	$ 20,248	$ 107,592	0.28%	$ 109
2013	$ 139,595	$ 14,702	$ 124,893	0.32%	$ 127
2012	$ 156,905	$ 16,240	$ 140,665	0.39%	$ 144
2011	$ 174,335	$ 15,910	$ 158,425	0.46%	$ 163
2010	$ 169,150	$ 13,486	$ 155,664	0.46%	$ 162
2009	$ 182,585	$ 8,985	$ 173,600	0.52%	$ 182
2008	$ 201,560	$ 11,967	$ 189,593	0.58%	$ 198
2007	$ 208,015	$ 15,471	$ 192,544	0.63%	$ 204

Source: Statewide Accounting, Budgeting, and Human Resource System

Notes: Details regarding the State's debt can be found in Note 11 of the financial statements.

(1) Debt as a percentage of personal income equals total debt divided by total personal income from Schedule B-1. Used calendar year for personal income and fiscal year for debt percentage calculation. Numbers revised for prior years due to personal income estimate revisions.

(2) Debt per capita is calculated by dividing total debt by total population from Schedule D-1. Numbers revised for prior years due to population estimate revisions.

SCHEDULE D-1 – DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Calendar Years

	Calendar Year									
	2015	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
Population										
Montana *(in thousands)*	999	994	988	982	975	969	962	955	947	940
Percentage change	6.6%	-0.5%	0.6%	0.7%	0.6%	0.7%	0.7%	0.8%	0.7%	0.8%
National *(in thousands)*	322,366	319,668	316,971	314,281	311,601	308,936	306,272	303,598	300,913	298,217
Percentage change	1.1%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Total Personal Income										
Montana *(in millions)*	42,726	40,844	39,963	38,753	36,507	34,748	33,923	34,111	32,475	30,447
Percentage change	4.6%	2.2%	3.1%	6.2%	5.1%	2.4%	(0.6%)	5.0%	6.7%	8.0%
National *(in billons)*	15,582	14,683	14,151	13,729	12,950	12,357	12,165	12,380	11,900	11,257
Percentage change	6.1%	3.8%	3.0%	6.0%	4.6%	1.6%	(1.7%)	4.0%	5.5%	7.4%
Per Capita Personal Income										
Montana	41,204	39,903	39,366	39,474	36,573	35,068	34,794	35,237	33,897	32,204
Percentage change	3.3	1.4%	(0.3%)	7.9%	4.1%	0.8%	(1.3%)	4.0%	5.3%	6.8%
National	48,322	46,049	44,765	43,684	41,560	39,945	39,626	40,673	39,458	37,728
Percentage change	4.9%	2.9%	2.5%	5.1%	3.9%	0.8%	(2.6%)	3.1%	4.5%	6.4%
Resident Civilian Labor Force & Employment										
Civilian labor force	522,709	516,516	513,432	507,377	503,903	497,538	498,897	510,816	502,219	493,004
Employed	502,284	492,493	485,014	476,191	468,896	461,602	468,211	487,870	485,221	479,614
Unemployed	21,327	24,082	29,328	31,186	35,007	35,936	30,686	22,946	16,998	16,390
Unemployment rate	4.1%	4.7%	5.7%	6.1%	6.9%	7.2%	6.2%	4.5%	3.4%	3.3%
Nonfarm Wage and Salary Workers (in thousands)										
Goods-producing industries										
Natural Resources and Mining	8.2	9.1	9.5	9.3	7.9	7.5	7	8.3	8.4	8.2
Construction	26.5	24.8	23.9	22.9	23	22.7	24	29.8	32.3	30.2
Durable goods	11.7	11.6	11.1	10.5	9.6	9.5	10.1	12.3	13	12.8
Nondurable goods	7.4	7.3	7.2	7.0	7.2	7	7.3	7.6	7.5	7.4
Subtotal goods-producing industries	53.8	52.8	51.7	49.7	47.7	46.7	48.4	58.0	61.2	58.6
Service-producing industries										
Transp, communications, and utilities	24.8	25.1	25	23.6	23.3	24.1	21.5	24.3	24.6	24.3
Trade	76.1	74.3	73.3	71.6	70.2	70.3	66.9	75.6	75.3	72.8
Finance, insurance, and real estate	23.8	24.9	22.7	21.4	20.9	21.2	21.1	21.9	21.8	22.0
Service	191.9	187.6	186.3	184.3	177.2	175.5	182.3	178.7	174.8	169.3
State and local government	77.4	76.2	77.1	76.5	74.6	75.7	74.4	74.1	73.9	72.1
Federal government	13.0	12.9	13	13.4	13.8	14.8	13.9	13.6	13.4	13.5
Subtotal service-producing industries	407.0	401.0	397.4	390.8	380	381.6	380.1	388.2	383.8	374.0
Total Nonfarm Wage and Salary Employment	460.8	453.8	449.1	440.5	427.7	428.3	428.5	446.2	445.0	432.6

Sources: Population Division, U.S. Census Bureau
Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce
Bureau of Labor Statistics, U.S. Department of Labor

Notes: Total personal income is comprised of earned income, dividends, interest and rents, and government transfer payments. Per capita calculated by dividing personal income by population; amounts may not be exact due to rounding.
Numbers for prior years revised due to releases of updated data.

SCHEDULE D-2 – PRINCIPAL EMPLOYERS
Current Calendar Year and Nine Calendar Years Ago

	2006			2015		
Employer	**Employees**	**Rank**	**Percentage of Total State Employment (2)**	**Employees** (1)	**Rank**	**Percentage of Total State Employment (2)**
State of Montana	21,000-21,500	1	5.10%	23,000-23,500	1	5.28%
Federal Government	12,500-13,000	2	3.06%	12,000-12,500	2	2.78%
Wal-Mart	4,000-4,500	3	1.02%	4,500-5,000	3	1.08%
Billings Clinic	2,500-3,000	4	0.66%	3,500-4,000	4	0.85%
Town Pump	2,000-2,500	6	0.54%	2,500-3,000	5	0.62%
Albertson's	2,000-2,500	5	0.54%	2,000-2,500	6	0.97%
Benefis Healthcare	1,500-2,000	8	0.42%	2,000-2,500	7	0.51%
Kalispell Regional Hospital				2,000-2,500	8	0.51%
St. Vincent Healthcare	2,000-2,500	7	0.54%	2,000-2,500	9	0.51%
St. Patrick Hospital			0.30%	1,500-2,000	10	0.40%
Stillwater Mining	1,500-2,000	9	0.42%			
Wells Fargo	1,500-2,000	10				
Total Statewide Employment	416,441			440,076		

Sources: Montana Department of Labor
Bureau of Labor Statistics, U.S. Department of Labor

Notes: (1) Number of employees based on March 2015 data.
(2) Percentage of total state employment based on the midpoints in the ranges given.

SCHEDULE E-1 – FULL-TIME EQUIVALENT STATE EMPLOYEES BY FUNCTION/PROGRAM
Last Ten Fiscal Years

	Fiscal Year				
Function/Program	**2016**	**2015**	**2014**	**2013**	**2012**
Governmental:					
General government	2,979	3,058	2,995	2,999	2,914
Public safety/corrections	2,656	2,668	2,668	2,639	2,558
Transportation	2,194	2,266	2,266	2,252	2,225
Health/social services	3,040	3,044	3,029	3,019	2,974
Education/cultural	501	511	526	526	478
Resource/recreation/environment	2,065	2,131	2,133	2,144	1,963
Economic development/ assistance	-	-	-	-	-
Total governmental	13,435	13,678	13,617	13,579	13,112
Business-type:					
Liquor Stores	33	33	33	31	29
State Lottery	32	32	32	32	32
Economic Development Bonds	4	4	4	4	4
Hail Insurance	6	7	7	7	7
General Government Services	112	118	113	115	115
Prison Funds	40	41	42	43	43
MUS Group Insurance	6	6	6	5	5
MUS Workers Compensation	1	1	1	1	1
Total business-type	234	242	238	238	236
Fiduciary:					
Pension Trust	70	69	69	66	66
Total fiduciary	70	69	69	66	66
Component unit:					
Montana Board of Housing	54	52	50	53	51
Facility Finance Authority	3	3	3	3	3
State Compensation Insurance (New Fund)	307	304	304	289	287
Montana State University	4,945	4,737	4,649	4,475	4,443
University of Montana	3,844	3,906	3,831	3,844	3,770
Total component unit	9,153	9,002	8,837	8,664	8,554
Total full-time equivalent employees	22,892	22,991	22,761	22,547	21,968

Source: Statewide Accounting, Budgeting, and Human Resource System

Fiscal Year				
2011	2010	2009	2008	2007
2,596	2,781	1,564	1,696	1,552
2,786	2,573	2,065	2,270	2,176
2,234	2,233	1,935	2,023	2,031
3,092	2,992	2,422	2,704	2,587
492	485	406	463	432
2,157	2,147	1,696	1,876	1,825
-	-	853	951	913
13,357	13,211	10,941	11,983	11,516
29	29	39	43	39
32	32	30	33	32
4	4	3	5	6
7	8	3	3	3
106	94	84	108	103
32	21	32	35	34
5	5	4	4	4
1	1	1	1	1
216	194	196	232	222
58	57	46	48	46
58	57	46	48	46
47	47	19	21	19
3	3	3	2	2
285	300	298	298	297
4,285	4,181	4,090	4,021	4,056
3,746	3,705	3,578	3,557	3,364
8,366	8,236	7,988	7,899	7,738
21,997	21,698	19,171	20,162	19,522

SCHEDULE E-2 – OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

Function/Program	Fiscal Year 2016	2015	2014	2013	2012
Governmental activities:					
General government					
Department of Revenue					
Electronically-filed income tax returns	490,050	470,854	456,736	439,403	423,574
Paper-filed income tax returns	83,831	88,514	95,626	103,585	110,308
Judiciary					
Supreme Court total filings (1)	850	806	800	784	784
District Court total filings (1)	57,000	55,824	53,000	52,105	49,908
Public safety/corrections					
Department of Corrections					
Incarcerated offenders	2,605	2,679	2,625	2,509	2,546
Supervised offenders	11,106	11,040	10,640	10,347	10,331
Department of Justice					
Drivers licenses issued	180,445	191,705	162,365	173,924	164,089
Vehicles registered (2)	2,648,484	2,536,737	2,112,741	1,163,000	1,151,674
Department of Military Affairs (Army Program Facilities Office)					
Work orders received	2,907	2,945	3,052	2,847	3,181
Work orders completed	2,842	2,863	3,179	3,264	3,561
Work orders unfunded or not completed	138	165	134	319	557
Transportation					
Department of Transportation					
Paved roads (miles)	20,002	19,896	19,894	19,813	19,737
Unpaved roads (miles)	55,981	56,063	50,084	56,048	56,089
Health/social services					
Department of Public Health and Human Services					
Senior citizens receiving personal long-term care assist.	3,321	3,239	3,299	3,527	3,585
Number of households provided with energy assist.	19,312	20,421	21,605	21,248	20,704
Education/cultural					
Office of Public Instruction					
K-12 public school enrollment	144,316	144,532	144,129	142,908	142,349
Public schools	799	824	823	824	826
Commissioner of Higher Education					
Total enrollment for Montana University System 4-year Colleges	30,968	31,268	31,499	31,717	31,978
Total enrollment for Montana University System 2-year Colleges	4,895	5,310	5,693	5,986	6,150
Resource/recreation/environment					
Department of Natural Resources and Conservation					
Revenue generated on state trust lands (millions of dollars)	$ 95.9	$ 109.1	$ 114.4	$ 122.0	$ 113.5
Oil production (millions of bbls)	21.53	25.61	29.3	26.4	24.1
Gas production (millions of mcf)	29	30.59	55	66.9	79.5
Department of Fish, Wildlife and Parks					
License and permit sales (3)	2,003,119	1,892,894	1,858,020	1,883,435	1,939,190
State park visitation (millions)	2.66	2.39	2.19	2.17	2.07

Fiscal Year				
2011	2010	2009	2008	2007
397,280	333,911	317,211	299,194	234,543
135,144	151,945	178,114	187,188	266,891
775	650	677	649	676
44,234	45,622	43,672	45,143	41,546
2,528	2,491	2,573	2,439	2,608
10,399	10,535	10,453	10,433	9,838
143,368	156,671	164,230	156,088	181,804
1,154,627	1,056,227	1,634,914	1,610,753	1,657,285
3,528	3,380	3,114	3,610	3,386
3,426	3,095	2,941	3,441	2,781
465	863	746	750	1,373
19,644	20,469	20,704	19,465	19,447
56,108	55,193	56,632	55,472	54,883
3,932	3,206	3,165	3,004	2,857
25,495	28,054	22,448	18,929	19,254
141,693	141,807	142,082	143,405	144,418
827	828	829	830	831
31,934	30,362	31,805	29,072	29,140
6,051	5,538	4,570	4,277	4,033
$ 108.7	$ 180.6	$ 110.0	$ 107.1	$ 103.6
25.3	27.8	31.5	34.9	37.2
93.5	105.3	119.5	120.7	118
1,806,326	1,800,613	1,806,316	1,808,093	1,737,413
1.79	1.90	1.80	1.78	1.85

SCHEDULE E-2 – OPERATING INDICATORS BY FUNCTION/PROGRAM - Continued
Last Ten Fiscal Years

	Fiscal Year			
Function/Program	**2016**	**2015**	**2014**	**2013**
Governmental activities (continued):				
Resource/recreation/environment (continued)				
Department of Environmental Quality				
Environmental permits and licenses	9,162	8,500	8,462	6,989
Environmental violations	4,305	7,000	7,247	4,790
Economic development/assistance				
Department of Commerce (Community Development)				
Treasure State Endowment Project – applications	60	-	51	-
Treasure State Endowment Project – construction awards	-	36	-	64
Community Development Block Grant – public facility applications	-	15	7	16
Community Development Block Grant – public facility awards	7	9	5	10
Business-type activities:				
Unemployment Insurance				
Department of Labor				
Initial claims	55,565	65,155	73,736	76,872
Average weekly benefit (dollars)	$324.61	$304.76	$297.00	$282.00
Exhaustion rate (percent)	34.7%	35.8%	39.6%	48.1%
Liquor Stores				
Department of Revenue				
Liquor licenses issued	5,200	5,155	5,077	5,225
Liquor cases distributed	792,463	746,745	742,388	734,224
State Lottery				
Department of Administration				
Total dollars in ticket sales (millions of dollars)	$60	$53	$54	$57
Transfer to the General Fund (millions of dollars)	$13	$12	$13	$13
General Government Services				
Department of Commerce (HUD Section 8)				
Applications reviewed – homebuyers assistance (dollars) (4)(5)	$1,332,068	$1,350,000	$1,750,000	N/A
Grants awarded – homebuyers assistance (dollars) (4) (5)	$1,332,068	$1,350,000	$1,750,000	$1,459,904

N/A = not available

Sources: Governor's Office of Budget and Program Planning, Biennium Executive Budget
Montana Departments of Administration, Justice, Military Affairs, and Transportation
Montana Commissioner of Higher Education
Unemployment Insurance Data Summary, Employment & Training Administration, U.S.

Notes: (1) Operating indicators are reported on a calendar-year basis.
(2) Operating indicators for fiscal year 2007 revised in fiscal year 2008.
(3) Effective with fiscal year 2004, license and permit sales reported by license year.
(4) As of July 2006, an additional $483,917 in remaining Community Housing Development available in the second 2006 application round (deadline: August 1).
(5) Effective with fiscal year 2007, reporting method revised to include both single and multiple

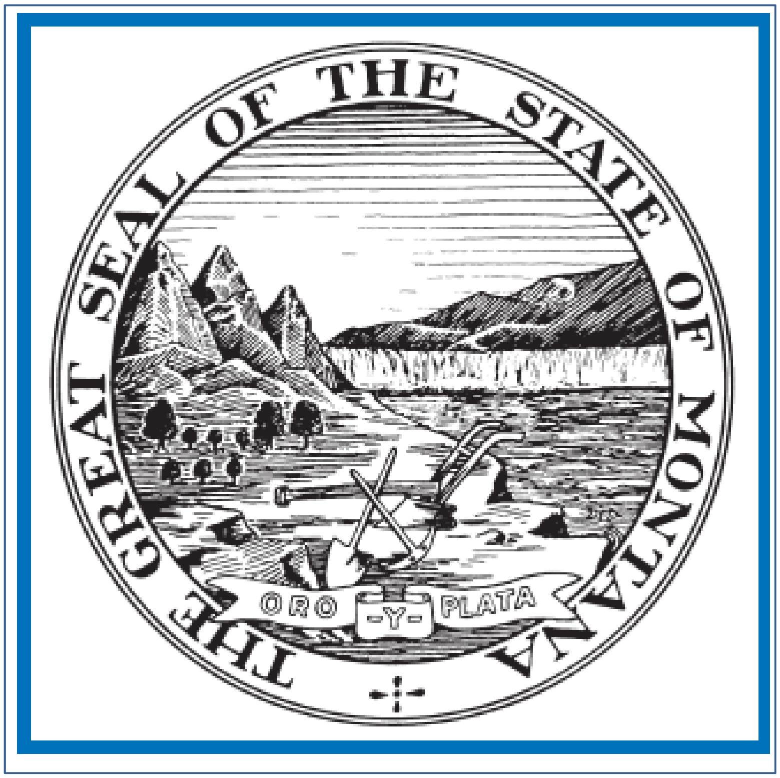
Fiscal Year					
2012	2011	2010	2009	2008	2007
9,173	9,554	9,419	9,308	9,104	8,222
5,073	6,412	3,793	4,069	4,586	3,271
66	-	65	-	65	-
-	-	-	66	-	56
8	16	11	20	17	17
5	7	8	8	10	8
71,125	81,815	92,489	85,760	49,530	47,147
$263.18	$265.36	$277.88	$259.38	$241.44	$225.00
49.5%	54.9%	56.4%	49.2%	32.3%	32.1%
4,920	5,110	4,972	4,771	4,601	2,249
722,313	682,832	660,229	653,471	653,475	616,400
$53	$46	$47	$44	$44	$42
$13	$11	$11	$11	$11	$11
N/A	N/A	N/A	$2,776,621	$3,217,708	$4,536,558
$620,855	$272,566	$2,626,867	$1,847,714	$3,830,524	$4,140,419

SCHEDULE E-3 – CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

	Fiscal Year			
Function/Program	**2016**	**2015**	**2014**	**2013**
Governmental activities:				
General government				
Department of Administration				
Buildings	59	59	59	59
Data processing equipment	1,710	1,700	2,087	1,434
Judiciary				
Vehicles	14	15	16	25
Public safety/corrections				
Department of Corrections				
Vehicles	131	128	128	128
Buildings	182	252	251	248
Department of Justice				
Vehicles	622	531	548	567
Laboratory/scientific equipment	289	284	278	279
Transportation				
Department of Transportation				
Vehicles	2,083	2,067	2,146	2,029
Buildings	978	975	962	906
Health/social services				
Department of Public Health and Human Services				
Vehicles	125	139	136	167
Buildings	154	154	154	153
Education/cultural				
Historical Society				
Buildings	5	5	5	5
Resource/recreation/environment				
Department of Natural Resources and				
Vehicles	942	928	872	814
Buildings	88	84	83	83
Department of Fish, Wildlife and Parks				
Vehicles	2,540	2,586	2,686	2,669
Buildings	865	859	854	856
Department of Environmental Quality				
Vehicles	48	52	53	51
Laboratory/scientific equipment	407	377	509	722
Economic development/assistance				
Department of Commerce				
Buildings	4	5	5	5
Business-type activities:				
State Lottery				
Department of Administration				
Vehicles	10	11	11	11
General government services				
Department of Administration				
Vehicles	61	59	53	44
Prison funds				
Department of Corrections				
Vehicles	89	84	79	78

Sources: Statewide Accounting, Budgeting, and Human Resource System
Vehicle Exposure and Commercial Property Schedules, Risk Management and Tort Defense
Department of Administration

Fiscal Year						
2012	2011	2010	2009	2008	2007	2006
59	52	55	50	50	47	48
2,057	1,954	1,917	1,139	1,110	997	916
25	24	24	51	52	52	61
128	124	192	294	283	280	297
247	246	246	151	149	151	155
577	555	606	486	524	422	409
271	262	259	211	287	251	166
2,067	2,151	2,482	4,305	4,289	4,173	4,032
939	965	969	784	783	718	729
175	182	193	195	189	204	330
153	153	153	131	131	127	127
5	5	5	2	2	2	3
810	777	710	517	798	760	672
83	83	87	181	181	183	177
2,769	2,769	2,693	1,837	1,844	1,693	1,610
850	830	794	840	769	763	816
75	106	108	66	60	66	59
761	715	719	159	134	130	124
5	4	4	266	261	257	258
11	12	15	15	15	14	14
59	51	36	13	13	13	14
77	70	56	52	49	48	48



75 copies of this public document were published at an estimated cost of $13.22 per copy, for a total cost of $991.44 for printing and $0.00 for distribution.