MONTANA

Comprehensive Annual Financial Report

For the year ended June 30, 2012

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 Accounting Division website at:

http://accounting.mt.gov/cafr/default.mcpx

Cover design Amy Dominick
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State of Montana

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2012

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State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2012

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INTRODUCTORY SECTION

DEPARTMENT OF ADMINISTRATION
STATE ACCOUNTING DIVISION

STEVE BULLOCK, GOVERNOR

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HELENA, MT 59620-0102

STATE OF MONTANA

Accounting Bureau
Rm. 255
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(406) 444-3092

SABHRS Finance and Budget Bureau
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(406) 444-5700

Treasury Unit
Rm. 261
PO Box 200140
Helena, MT 59620-0140
(406) 444-2624

Local Government
Services Bureau
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PO Box 200547
Helena, MT 59620-0547
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February 8, 2013

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, 2012. 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).

This 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 table of contents. 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: Housing Authority, Facility Finance Authority, Montana State Fund (Old and New), Montana State University, University of Montana, Public Employees Retirement Board, and Teachers Retirement System. These component units are discretely presented in the State's financial statements.

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

> "While the general fund becomes the funding source to pay claims and expenses against the Old Fund in FY 12, the State Fund not the State of Montana remains the entity legally liable for such claims. This conclusion is supported both by the plain language of section 39-71-2319 and the contingency provision in section 39-71-2352(6). By providing for a transfer from the general fund to the Old Fund account, the Legislature created a payment structure that reflects the intent

"AN EQUAL OPPORTUNITY EMPLOYER"

expressly stated in section 39-71-2319, "the State Fund shall assume liability for all outstanding claims and indebtedness of the previously existing state fund." LAD suggests that section 39-71-2352(6) subrogates the liability for Old Fund claims to the general fund. I do not think the theory of subrogation applies to this issue. Black's Law dictionary defines subrogation to mean "the substitution of one party for another whose debt the party pays, entitling the paying party to rights, remedies, or securities that would otherwise belong to the debtor." Black's Law Dictionary (8fr ed. 2004). In this instance, the State Fund is not substituted as the party bearing responsibility to pay. The State Fund's legal liability did not terminate when the Old Fund liability tax reserves were depleted. The entity responsible for payment of claims-the State Fund-remains the same. It is the funding source for payment of those claims that has changed."

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

PROFILE OF THE GOVERNMENT

Montana became the 41st state when it was admitted to the Union in 1889, 25 years after the attainment of territorial status. While Montana has an area of 145,552 square miles, and is the nation's fourth largest state, it is also one of the most sparsely populated, with an estimated population of 998,199. Montana is vast, including rolling plains, the Northern Rocky Mountains, all of Glacier National Park, four 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 on page 13, 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. Montana's economy remained flat during the past fiscal year, with an overall decline in non-agricultural employment of 1.4% through the end of September 2012, accompanied by an overall decrease in unemployment from 7.4% in September of 2011 to 6.3% for the same month in 2012. While the economy sent mixed signals General Fund revenues continued to rebound. This rebound was driven by a significant rebound in general fund personal income and property taxes of $82.3 and $14.0 million respectively. For a more in-depth analysis of the State's overall financial position, the reader should refer to management's discussion and analysis and the financial statements contained in the CAFR.

Agriculture

Montana's wheat yields increased in 2012, with production projected to reach 194.7 million bushels, compared to the 2011 production level of 174.9 million bushels. Winter wheat yields decreased to 84.6 million bushels, 6% lower than the 2011 level of 89.8 million bushels. Spring wheat yields reached 95.7 million bushels, up 25% from 2011. Durum production is estimated at 14.4 million bushels, up 23% from 2011. The overall decrease in winter wheat production resulted from lower acreage planted and harvested combined with a lower yield resulting from a drought primarily impacting south central Montana. Yields were down for winter, up for spring, and remained constant for durum wheat reflecting the impact of varied weather conditions throughout the regions within the state. Average wheat prices in 2012 were slightly lower, ranging from the $7.75 to $8.45 per bushel range.

Montana's other major agricultural commodities include oats, barley, and cattle. Oat production in Montana decreased to an estimated 810 thousand bushels in 2012, representing a 20% decrease from 2011 levels. Barley production is estimated at 41.1 million bushels, which is 32.6% higher than last year. Montana's cattle herd remained unchanged in 2012 at an estimated 2.5 million head. Montana ranks eleventh in the U.S. cattle and calf industry. Montana's 2011 receipts from cattle sales exceeded $1.2 billion.

Manufacturing

When using the seasonally adjusted estimates from the Department of Labor, Montana's manufacturing industry continued to decline in 2011. In 2011 employment in this industry, not including the self-employed, decreased from 17,900 to 16,100, or by 1.8%. This decline was partially reversed by the end of June 2012 with the employment level ending at 16,800 representing a 5.0% rebound. Using the Manufacturing statistics as gathered by the Montana Bureau of Business and Economic Research the overall number of manufacturing sector jobs fell from 20,500 to 19,900 workers in 2011. The value of production, within the manufacturing sector increased slightly to more than $10 billion in 2011, primarily due to increases in the price of fuel produced by Montana's refineries and increased prices and production across most of the related industries. This overall increase offset the 2010 closure of the Frenchtown linerboard facility. Overall workers earnings increase to an estimated $1.1 billion.

Montana's timber harvest volume in 2011 increased to 348 million board feet, up slightly from 321 million board feet in 2010. The last three year's production levels represent the lowest experienced in the state since 1945. Estimated total sales value of the State's primary wood and paper products in 2011 was $311 million, down from the $325 million reported in 2010. The total wood products industry estimated employment of 6,530 workers for 2011 was lower than the 2010 level of 6,743. The 2011 lumber production level was 495 million board feet.

Nonresident Travel

Nonresident travel to Montana in 2011 remained at approximately 10.5 million visitors. Overall visitor numbers for the national parks were lower. The visitor numbers for Yellowstone Park decreased an estimated 5.6% from 3.6 million to 3.4 million visitors. Visits to Glacier Park decreased from just over 2.3 million visitors to 1.9 million. 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 workers pay income, property, and other taxes. Estimated non-resident direct travel expenditures in Montana totaled $2.8 billion in 2011, representing an increase of $0.3 billion. The estimated economic benefit of nonresident travel in Montana increased from $4.0 billion for calendar year 2010 to $4.4 billion for 2011, representing a $409 million increase, 10.3%.

Natural Resources/Mining

Montana's Natural Resource/Mining Sector of the economy employed 8,000 workers at the end of calendar year 2011. This represented a 6.7% increase above the 7,500 workers employed at the end of December 2010. During calendar year 2012 employment remained constant at around the 8,000 worker level. The various sectors included in this category are discussed in more detail below.

As of the end of calendar year 2010 an estimated 369 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. Reserves in these formations can now be developed using new drilling technologies. Current estimates indicate over 11 billion barrels of oil reserves exist in the Bakken formation alone. An update to the estimated reserves in the Bakken formation by the US Geological Service (USGS) is scheduled to be in process. Although there is an increase in estimated reserves under Montana, in 2011 the State saw a continued reduction in production and exploration activity, with estimated crude oil production for the state at 24.1 million barrels. This represents a 4.6% decrease from the 2010 production levels of 25.3 million barrels. Production through June 2012 has increased by 5.0% through June, when compared to 2011 information for the same period. It is anticipated that the oil exploration and production in Montana will increase significantly in the future as the new oil reserves are developed.

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, and 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.

Montana's total coal reserves were estimated at 118,017 million short tons with recoverable reserves of 74,681 million short tons in 2011. This represents 25% of the total, and 29% of the recoverable, reserves in the U.S. Of these reserves 846 million short tons of coal, 4% of the US total, are located at producing mine sites. During 2011, Montana's coal production decreased 6.1% from 44,732 to 42,008 thousand short tons.

Secondary Economic Sectors

The recession in Montana primarily impacted the secondary and tertiary sectors (Construction, Trade/Transportation /Utilities, Information, Financial Activities, Professional and Business Services, Education and Health Services, Other services, and Government) of the economy. All of these sectors experienced a recovery during the year with a total increase in employment of 10,300 jobs, moving from 323,300 in 2010 to 327,300 in 2011.

MAJOR INITIATIVES AND LONG TERM OUTLOOK

In fiscal year 2012, the General Fund unassigned fund balance of $453 million exceeded the legislative projection of $189 million by $263 million, 139%. This primarily resulted from higher than anticipated revenues resulting from the economic recovery as discussed above, combined with the budget level approved by the 2011 (62nd) Legislature.

The 2012 General Fund budgeted disbursements approved by the Legislature was set at $1.824 million which was an increase of $30.0 million above the 2011 budgeted level and $53.8 million less that requested in the Governor's budget. The Governor's budget request was set at $1.877 million which would have represented an $84.1 million, 4.7%, increase over the 2011 budget level.

Both the increased revenue and 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 Budgeting, Accounting, and Human Resource System (SABHRS) is a centrally maintained, fully computerized, double-entry accounting system. SABHRS records are computer-edited.

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 and/or available cash. SABHRS also provides for encumbrance accounting as a technique for accomplishing budgetary control.

General Fund Balance

The total fund balance of the General Fund was reported at $480.3 million at June 30, 2012. Of this fund balance $5.2 million is non-spendable. The remaining $475.2 million is spendable with $22.7 million assigned and $452.5 million unassigned. The $22.7 million assignment relates to outstanding encumbrances at the end of the fiscal year. We do not anticipate a material spend-down of fund balance in fiscal year 2013. As a result an assignment for this was not included in this report.

This compares to a combined unassigned and assigned, spendable, fund balance of $366.5 million at June 30, 2011. The $366.5 million fiscal year 2011 fund balance consisted of $24.6 million assigned and $341.9 million unassigned.

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 1/30th 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 25 years, is estimated at $201.5 and $93.2 million for the State and MUS systems, respectively. Accrued interest will further inflate this over time.

The liability reported for this OPEB implied rate subsidy either directly resulted in negative overall net assets in the Admin Central Services and Warrant Writer, or contributed to negative overall net assets in the Justice Legal Services and Personnel Training, Internal Service Funds, providing an indication of the future impact of this on the State's financial statements.

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 the our concerns with the implied rate subsidy reporting, required under GASB Statement No. 45, is available upon request.

INDEPENDENT AUDIT

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

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

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

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

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

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

> ...The law governing assets and liabilities of the Old Fund clearly provides that the legislature intended for the State Fund to "assume liability for all outstanding claims and indebtedness of the previously existing state fund." Mont. Code Ann. § 39-71-2319. In addition to designating the State Fund as the entity legally liable for outstanding claims and indebtedness of the Old Fund, the Legislature created a separate payment structure and a separate funding source for payment for claims of injury occurring before July 1, 1990 (claims against the Old Fund) and for those claims occurring on

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

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

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

CERTIFICATE OF ACHIEVEMENT

We were not eligible to participate in the Government Finance Officers Association of the United States and Canada (GFOA) Certificate of Achievement for Excellence in Financial Reporting program for the fiscal year 2011 State of Montana for its Comprehensive Annual Financial Report (CAFR) because of the qualification relating to the Old Fund presentation discussed above. We did not agree with the GFOA in their decision because we clearly believe our related presentation is correct and the audit opinion should have been unqualified.

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 Accounting Bureau, 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 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 Montana in a professional, responsible, and progressive manner.

Respectfully submitted,

/s/ Julie Feldman

Julie Feldman, Acting Administrator
State Accounting Division
Department of Administration

/s/ Cody Carter Pearce

Cody Carter Pearce, CPA, APFRS Section Supervisor
State Accounting Bureau
Department of Administration

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STATE OF MONTANA ORGANIZATION CHART

CITIZENS OF MONTANA

LEGISLATIVE

- Senate
- House of Representatives
- Legislative Audit Division
- Legislative Fiscal Division
- Legislative Services Division
- Montana Consumer Counsel

EXECUTIVE

- Governor
- Lieutenant Governor

- Attorney General
- Public Service Commissioners
- Secretary of State
- State Auditor
- Superintendent of Public Instruction

JUDICIAL

- Supreme Court
- District Courts
- Water Courts
- Workers Compensation Court
- Justice of the Peace Courts
- City or Municipal Courts
- State Law Library
- Supreme Court Administrator
- Clerk of Supreme Court

STATE AGENCIES

- Administration
- Agriculture
- Arts Council
- Board of Public Education
- Commerce
- Commissioner of Political Practices
- Commissioner of Higher Education
- Corrections
- Environmental Quality
- Fish, Wildlife and Parks
- Historical Society
- Labor and Industry
- Livestock
- Military Affairs
- Natural Resources & Conservation
- Public Employee Retirement
- Public Health & Human Services
- Revenue
- School for the Deaf and Blind
- State Fund
- State Library
- State Public Defender
- Teachers Retirement System
- Transportation
- University System

State of Montana
SELECTED STATE OFFICIALS

EXECUTIVE

Brian Schweitzer

Governor

John Bohlinger

Lieutenant Governor

JUDICIAL

Mike McGrath

Chief Justice

LEGISLATIVE

Jim Peterson

President of the Senate

Mike Milburn

Speaker of the House

FINANCIAL SECTION

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

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

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

These financial statements are the responsibility of the state of Montana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State University component units and The University of Montana component units, which represent 10.5, 23.6, and 5.5 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the university component units, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the university component units were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

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http://leg.mt.gov/audit

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

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

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

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

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

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the state of Montana's basic financial statements. The introductory section, combining statements, and 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The combining statements have been subjected to the auditing procedures applied in the audit of the basic financial statements themselves, 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.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2013, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. It is included in the Legislative Auditor's separately issued report (11-01B) on the state's basic financial statements.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

February 14, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

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

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

Government-wide Financial Statements

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

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

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

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

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

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

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

Fund Financial Statements (Reporting the State's Major Funds)

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

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

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net Assets

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

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

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

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

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

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

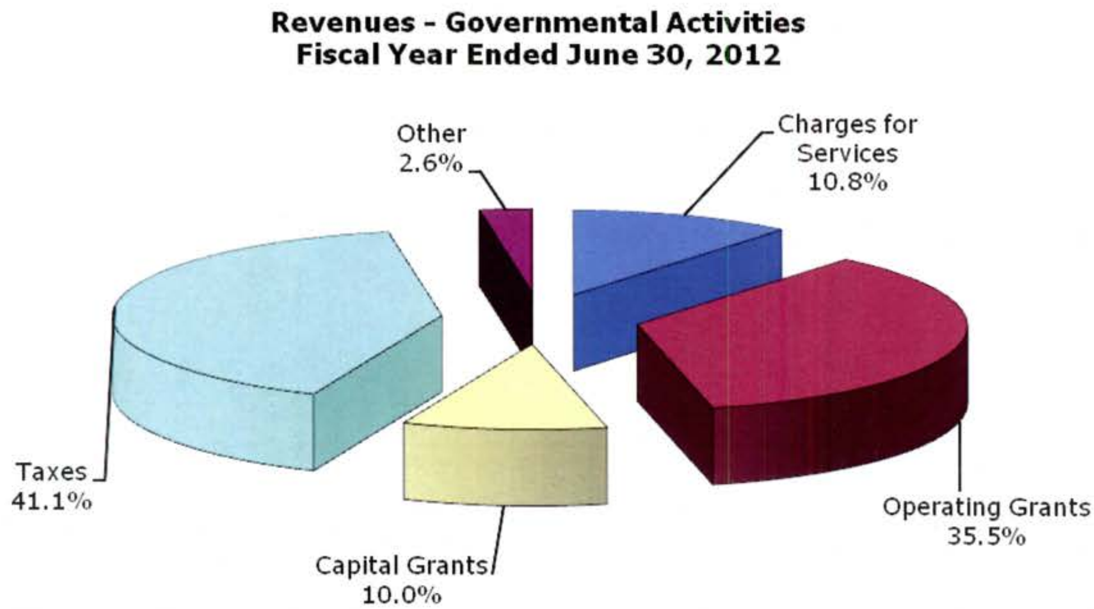
The following condensed financial information was derived from the government-wide Statement of Activities, and reflects how the State's net assets changed during the fiscal year:

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

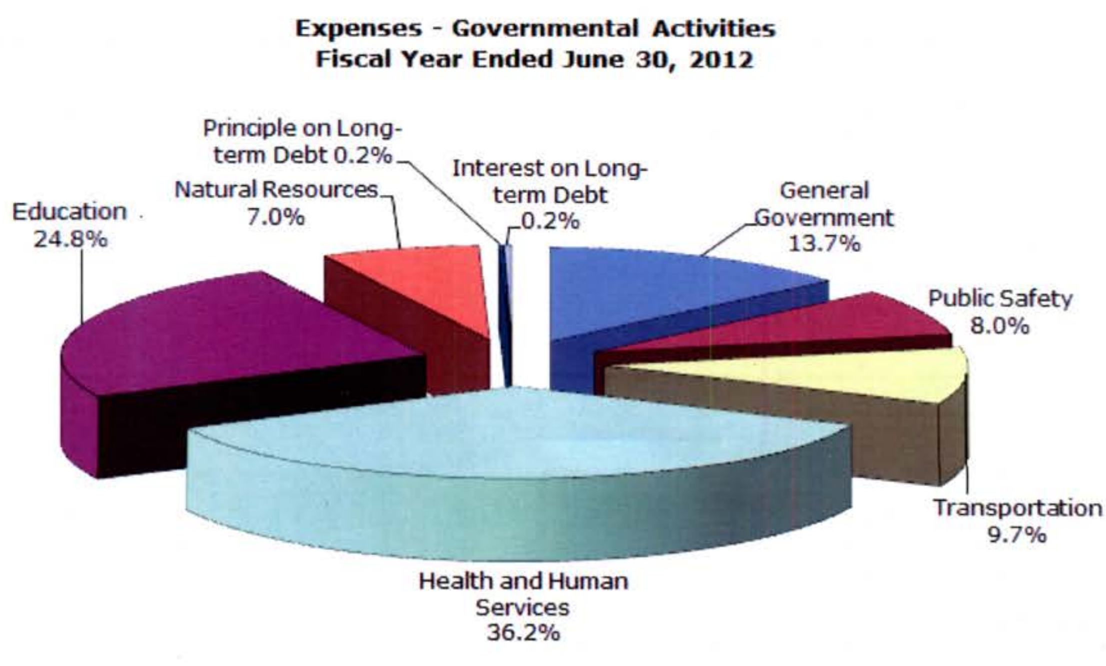
	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2012	2011	2012	2011	2012
Revenues:						
Program revenues						
Charges for services	$ 551,722	$ 557,133	$ 362,776	$ 405,203	$ 914,498	$ 962,336
Operating grants	1,962,876	1,824,334	168,222	134,120	2,131,098	1,958,454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

Governmental Activities

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

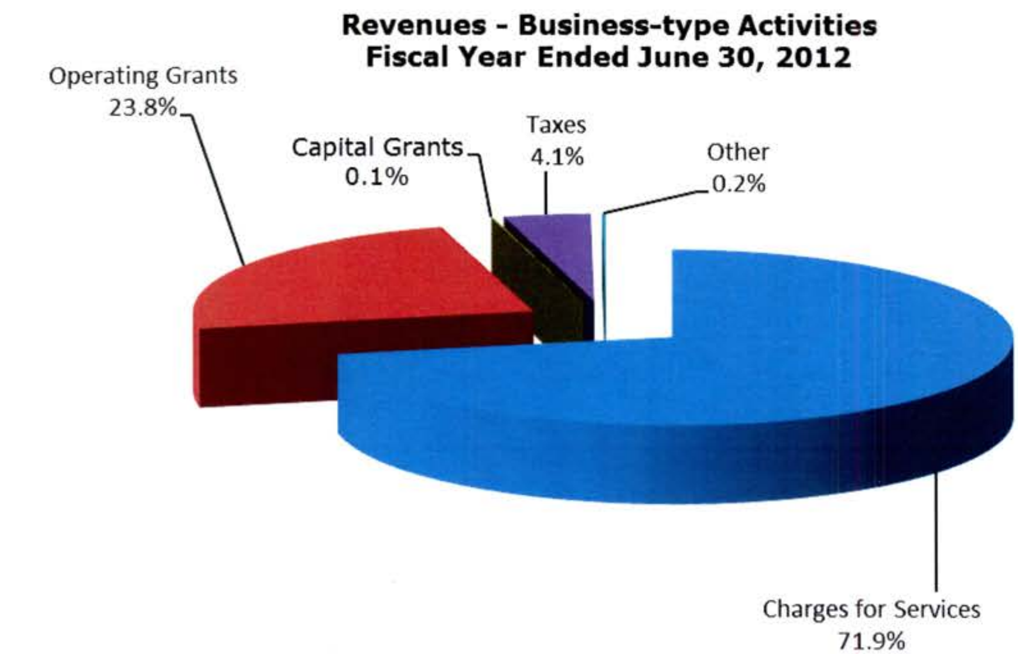


The following chart depicts expenses of the governmental activities for the fiscal year:

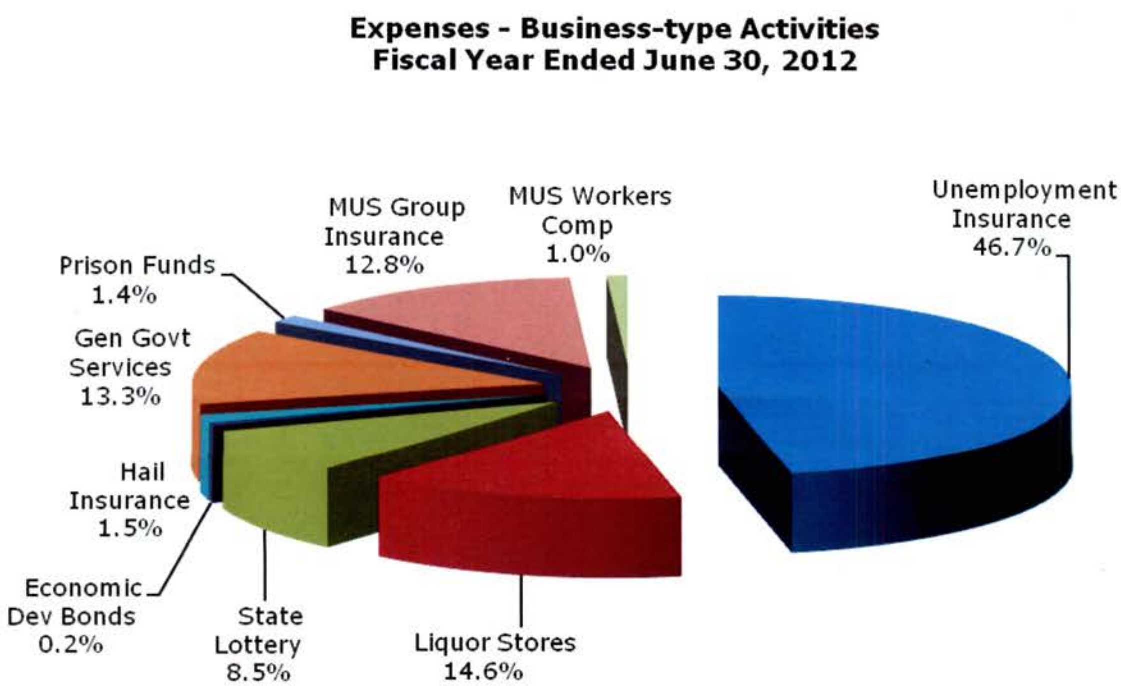


Business-type Activities

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



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



FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS

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

General Fund Revenues and Expenditures

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

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

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

General Fund Expenditure Budget Reversions

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

<u>Department of Public Health and Human Services</u>

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

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

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

Debt Administration

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

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

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

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

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

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

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

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

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

ECONOMIC CONDITION AND OUTLOOK

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

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

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

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

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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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, by fund type, beginning on page 160.

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

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

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

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

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

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

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

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

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

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

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

(D) Other measurement focus adjustments include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(D) Other measurement focus adjustments include;

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

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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

Nonmajor enterprise funds are presented beginning on page 180.

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 beginning on page 202.

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

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

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

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

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

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

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

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

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

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

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

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

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

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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 the Short-term Investment Pool (STIP), an external investment pool, 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, by fund type, beginning on page 220.

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

A. Reporting Entity

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

Discretely Presented Component Units

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

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

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

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

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

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

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

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

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

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

Montana State Fund
855 Front Street
Helena, MT 59604

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

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

Fiduciary Fund Component Units

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

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

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

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

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

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

B. Government-wide and Fund Financial Statements

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

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

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

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

Government-wide, Proprietary, and Fiduciary Fund Financial Statements

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

Governmental Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

D. Proprietary Activity Accounting and Financial Reporting

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

E. Cash/Cash Equivalents

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

F. Receivables

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

G. Inventories

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

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

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

H. Restricted Net Assets

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

I. Equity in Pooled Investments

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

J. Investments

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

K. Capital Assets

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

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

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

L. Deferred Revenue

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

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

M. Long-term Obligations

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

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

N. Capital Leases

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

O. Bond Discounts/Premiums/Issuance Costs

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

P. Compensated Absences

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

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

Q. Fund Balance/Net Assets

Fund Balance

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

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

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

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

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

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

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

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

Minimum General Fund - Fund Balance

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

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

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

Net Assets

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

R. Property Taxes

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

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

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

S. Other Taxes

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

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

NOTE 2. OTHER ACCOUNTING ISSUES

A. New Accounting Guidance Implemented

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

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

B. Prior Period Adjustments

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

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

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

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

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

A. General

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BOI is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust, "the Bank", to lend BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Bank is required to maintain collateral equal to 102% of the fair value of domestic securities and 105% of the fair value of international securities while the securities are on loan. BOI and the Bank split the earnings, 80/20% respectively, on security lending activities. BOI retains all rights and risks of ownership during the loan period.

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

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

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

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

<u>Credit Risk</u>

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

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

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

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

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

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

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

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

Custodial Credit Risk

Deposits

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

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

Investments

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

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of any single investment per issuer name. Investments explicitly guaranteed by the US Government are excluded from the concentration of credit risk requirement. In October 2008, the US government extended the explicit guarantee to certain government agencies such as Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (FHLMC-Freddie Mac). Given the explicit guarantee extension, BOI had no concentration of credit risk exposure to Fannie Mae and Freddie Mac in either the Bond Pools or STIP.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

STIP, Bond Pool and AOF

Fannie Mae and Freddie Mac were put into conservatorship on September 7, 2008.

Bond Pool and AOF

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

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

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

<u>Credit Risk</u>

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

STIP Reserve

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

B. Cash/Cash Equivalents

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

Table 1 – Cash Deposit Amounts

(in thousands)

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

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

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

Table 2 - Cash Equivalents
(in thousands)

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

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

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

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

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

C. Equity in Pooled Investments

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

Table 3 – Equity in Pooled Investments
(in thousands)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Foreign Currency Exposure by Country

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

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

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

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

D. Investments

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

Long-term Investments

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

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

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

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

Table 4 – Investments
(in thousands)

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

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

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

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

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

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

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

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

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE

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

A. Receivables

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

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

B. Payables

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

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

NOTE 5. CAPITAL ASSETS

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

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

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

(Continued)

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

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

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

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

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

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

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

NOTE 6. RETIREMENT PLANS

A. General

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

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

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

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

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

B. Actuarial Status of Plans

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

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

C. Public Employee Defined Benefit Retirement Plans.

(1) State as the Single Employer

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

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

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

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

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

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

Single Employer Systems Pension Plan Information:

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

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

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

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

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

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

PERS-DBRP – Public Employees Retirement System - Defined Benefit Retirement Plan – The PERS-Defined Benefit Retirement Plan (DBRP) is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, Chapters 2 & 3, Montana Code Annotated (MCA). This plan covers the State, local governments, certain employees of the Montana University System, and school districts.

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

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

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

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

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

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

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

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

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

D. Public Employee Defined Contribution Retirement Plans

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

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

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

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

E. Optional Retirement Program

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

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

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

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

F. Summary of Significant Accounting Policies

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

G. Method Used to Value Investments

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

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

H. Long-term Contracts for Contributions

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

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

Schedule of Contribution Rates

Fiscal Year 2012

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General

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

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

B. Plan Description

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

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

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

C. Basis of Accounting

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

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

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

State Plan Participants

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

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

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

MUS Plan Participants

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

D. Funding Policy

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

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

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

E. Annual Other Postemployment Benefit Cost and Contributions

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

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

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

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

Annual OPEB Cost

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

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

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

Contribution Ratio

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

F. Actuarial Methods and Assumptions

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

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

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

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

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

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

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

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

Other Postemployment Benefits
State Agent Multiple Employer Plan

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

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

Other Postemployment Benefits
MUS Agent Multiple Employer Plan

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

G. Termination Benefits

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

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

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

NOTE 8. RISK MANAGEMENT

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

A. Public Entity Risk Pools

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

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

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

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

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

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

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

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

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

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

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

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

B. Entities Other Than Pools

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

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

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

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

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

NOTE 9. COMMITMENTS

A. Highway Construction

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

B. Capital Construction

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

C. Coal Tax Loan and Mortgage Commitments

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

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

D. Department of Corrections Bond Commitments

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

E. Proprietary Fund Commitments

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

Proprietary Fund Commitments

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

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

F. Encumbrances

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

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

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

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

A. Capital Leases/Installment Purchases

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

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

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

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

B. Operating Leases

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

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

NOTE 11. STATE DEBT

A. General Information

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

B. Short-term Debt

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

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

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

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

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

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

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

C. Long-term Debt

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

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

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

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

(2) Year of maturity refers to fiscal year.

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

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

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

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

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

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

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

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

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

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

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

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

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

D. Debt Service Requirements

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

Governmental Activities

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

Business-type Activities

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

E. Summary of Changes in Long-term Liabilities Payable

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

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

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

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

F. Refunded and Early Retired Debt

Prepayments

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

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

Current Refundings

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

Defeased Debt Outstanding

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

G. No-Commitment Debt

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

Montana Board of Investments (BOI)

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

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

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

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

Beginning Farm Loan Program

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

H. Estimated Pollution Remediation Obligation

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

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

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

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

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

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

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

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

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

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

B. Interfund Loans Receivable/Payable

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

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

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

C. Advances To/From Other Funds

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

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

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

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

Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program

Department	Balance
Natural Resources and Conservation	$ 2,235
Environmental Quality	550
Justice	10,598
Transportation	2,521
Total	$15,904

D. Interfund Transfers

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

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

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

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

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

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

NOTE 13. FUND DEFICITS

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

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

NOTE 14. MAJOR PURPOSE PRESENTATION

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

State Special Revenue By Source (in thousands)

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

Federal Special Revenue By Source (in thousands)

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

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

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

NOTE 15. RELATED PARTY TRANSACTIONS

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

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

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

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

NOTE 16. CONTINGENCIES

A. Litigation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. Federal Contingencies

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

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

C. Miscellaneous Contingencies

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

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

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

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

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

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

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

NOTE 17. SUBSEQUENT EVENTS

Bond/Loan Issues

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

Investment Related Issues

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

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

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

Other Subsequent Events

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

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

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

NOTE 18. COMPONENT UNITS

A. Condensed Financial Statements

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

Condensed Statement of Net Assets
Component Units

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

Condensed Statement of Activities
Component Units

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

B. Cash/Cash Equivalents and Investments

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

C. Capital Assets

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

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

D. Other Postemployment Benefits (OPEB)

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

E. Risk Management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

F. Capital Leases/Installment Purchases

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

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

G. Operating Leases

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

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

H. Debt Service Requirements

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

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

I. Summary of Changes in Long-term Liabilities Payable

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

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

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

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

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

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

J. Refunded and Early Retired Debt

Universities

Defeased Debt Outstanding

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

K. No-Commitment Debt

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

Facility Finance Authority (FFA)

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

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

Housing Authority (HA)

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

L. Derivative Transactions Related to Long-term Debt

Montana State University (MSU) has two interest rate swaps as of June 30, 2012. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraph 27 (a) and (b) of Governmental Accounting Standards Board Statement Number 53, or as investment derivative instruments if they do not. The following table summarizes the interest rate swaps outstanding as of June 30, 2012:

Derivative Description	Trade Date	Effective Date	Termination Date	Counterparty
$25.75 million fixed payer swap	3/10/2005	7/21/2005	*11/15/2035	Deutsche Bank AG*
$25.25 million basis swap	12/19/2006	11/15/2007	11/15/2035	Morgan Stanley Capital Services Inc.
*Counterparty may opt out in 2016				

As of June 30, 2012, the fixed payer swap is classified as a hedging derivative instrument under Statement No. 53, whereas the million basis swap is an investment derivative instrument because there is no identified financial risk being hedged by the basis swap that can be expressed in terms of exposure to adverse changes in cash flows or fair values. Statement No. 53 includes four methods for evaluating hedge effectiveness; a governmental entity may use any of the evaluation methods outlined in the Statement and is not limited to using the same method from period to period. The four methods described in Statement No. 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. In Addition, Statement No. 53 permits a governmental entity to use other quantitative methods that are based on "established principles of financial economic theory." The fixed payer swap passes the established criteria using the regression analysis methodology.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. The option value was estimated using a trinomial option pricing model. Incorporating market volatility data, the trinomial model calculates all possible changes in the value of the underlying swap for each future cash flow period (up, down or unchanged) to form a trinomial tree. This tree is used to calculate the current value of the option.

On September 10, 2010, the Series J bonds were converted to index bonds. While in index mode the interest rate is reset weekly at a rate of SIFMA plus a fixed spread. The spread is based on the long-term, unenhanced rating assigned to the issuer; the current spread is 0.80%. The dependent variable in the regression is the interest rates of the hedged cash flows; the independent variable is the floating rates due under the hedging derivative. The counterparty to the fixed payer swap has the right to terminate the swap at $0 on December 14, 2016 (a European option). Upon entering into the transaction, MSU received consideration from the counterparty in the form of an off-market (lower) fixed swap rate. A portion of the consideration received was a result of the option being in-the-money at inception; that is, the option had intrinsic value as the cancelable swap's fixed rate of 3.953% was lower than the at-market rate of 4.110% on the trade date. The remainder of the up-front consideration reflects the time value the counterparty pays for holding the option. To MSU, the time value portion represents deferred investment revenue. The intrinsic value of the cancelable swap is considered a loan receivable for financial reporting purposes and is treated as an asset in the accompanying financial statements. Interest accrues to the balance of the asset each year and amortizes with each swap payment.

The table below summarizes the reported balances as of, and the derivative instrument activity during, the year ended June 30, 2012.

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

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

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

It is MSU's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2012, counterparty ratings had been downgraded to A2 and Baa1 by Moody's and A+ and A- by Standard and Poor's. MSU manages credit risk by requiring its counterparties to post collateral in certain events. MSU is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than $5MM and the counterparty is rated A+ or A, by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, MSU is entitled to collateral up to 100% of the swap's fair value. MSU is not required to post collateral. The MSU will continue to monitor counterparty credit risk.

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

Interest payments on variable rate debt will typically increase as interest rates increase. MSU believes it has significantly reduced interest rate risk by entering into a pay-fixed, receive floating interest rate swap. As interest rates increase, net swap payments decrease so that changes in hedged variable-rate debt interest payments, attributable to SIFMA, are largely offset by the net swap payments.

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

MSU or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, MSU's fixed payer swap counterparty has the right to terminate the derivative if the credit rating of MSU's unenhanced long-term revenue bond rating is withdrawn, suspended or reduced below BBB-, in the case of S&P, or below Baa3 in the case of Moody's. If such an event occurs, MSU could be forced to terminate the fixed payer swap in a liability position. As of June 30, 2012, MSU's unenhanced long-term revenue bond rating was Aa3 by Moody's.

MSU's hedging derivative includes a cancelation option which allows the counterparty to cancel the swap on 12/14/16. Should the counterparty exercise its option, MSU would be exposed to rollover risk as exercise would only be likely in a rate environment higher than that at the time the trade was originally entered into.

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

Market access risk is the risk that the MSU will not be able to enter credit markets or that credit will become more costly. For example, to complete a derivative instrument's objective, an issuance of refunding bonds may be planned in the future. If at that time MSU is unable to enter credit market, expected cost savings may not be realized.

M. Related Party Transactions

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

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

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

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

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

N. Litigation Contingencies

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

O. Loan Loss Contingency

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

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

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

P. Subsequent Events

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

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

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

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

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

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

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

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

NOTE 19. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS

Constitutionality of Retirement Plan Funding

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

REQUIRED SUPPLEMENTARY INFORMATION

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

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

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

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-1. BUDGETARY REPORTING

A. State Budget Process

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

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

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

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

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

B. Budget Basis

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

REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN INFORMATION

Pension Plan Information
Schedule of Funding Progress
(in thousands)

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

REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

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

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

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

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

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

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

SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
JUNE 30, 2012
(amounts expressed in thousands)

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
ASSETS				
Cash/cash equivalents	$ 14,489	$ 45,540	$ 3,043	$ 63,072
Receivables (net)	4,330	1,219	982	6,531
Due from other funds	2,775	1,336	57	4,168
Equity in pooled investments	-	-	280,040	280,040
Long-term loans/notes receivable	25,903	-	-	25,903
Advances to other funds	8,196	-	-	8,196
Investments	5,432	285	44	5,761
Securities lending collateral	16	36	14,554	14,606
Total assets	$ 61,141	$ 48,416	$ 298,720	$ 408,277
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	-	1,849	8	1,857
Interfund loans payable	-	226	2	228
Due to other funds	20	-	1,375	1,395
Advances from other funds	16,082	-	-	16,082
Deferred revenue	469	1	-	470
Securities lending liability	16	36	14,554	14,606
Total Liabilities	16,587	2,112	15,939	34,638
Fund balances:				
Nonspendable	-	-	269,733	269,733
Restricted	12,589	935	403	13,927
Committed	31,497	23,938	12,645	68,080
Assigned	468	21,431	-	21,899
Total fund balances	44,554	46,304	282,781	373,639
Total liabilities and fund balances	$ 61,141	$ 48,416	$ 298,720	$ 408,277

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

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
REVENUES				
Taxes:				
Natural resource	$ 2,366	$ 6,131	$ -	$ 8,497
Other	-	1,865	-	1,865
Charges for services/fines/forfeits/settlements	220	280	12,081	12,581
Investment earnings	12,695	49	19,888	32,632
Securities lending income	3	5	165	173
Sale of documents/merchandise/property	4,095	-	-	4,095
Total revenues	19,379	8,330	32,134	59,843
EXPENDITURES				
Current:				
General government	-	3,652	-	3,652
Public safety	-	157	-	157
Health and human services	1	3,707	-	3,708
Education	-	-	22	22
Natural resources	2	-	-	2
Debt service:				
Principal retirement	33,928	-	-	33,928
Interest/fiscal charges	15,285	-	-	15,285
Capital outlay	-	17,271	15	17,286
Securities lending	1	1	36	38
Total expenditures	49,217	24,788	73	74,078
Excess of revenue over (under) expenditures	(29,838)	(16,458)	32,061	(14,235)
OTHER FINANCING SOURCES (USES)				
Proceeds of refunding bond	5,755	-	-	5,755
Payment to refunding bond escrow agent	(5,913)	-	-	(5,913)
Bonds premium	261	-	-	261
Energy conservation loans	3,416	-	-	3,416
Transfers in	39,718	9,660	103	49,481
Transfers out	(13,421)	(3,459)	(11,095)	(27,975)
Total other financing sources (uses)	29,816	6,201	(10,992)	25,025
Net change in fund balances	(22)	(10,257)	21,069	10,790
Fund balances - July 1 - as previously reported	50,620	56,547	271,131	378,298
Prior period adjustments	(6,044)	14	(9,419)	(15,449)
Fund balances - July 1 - as restated	44,576	56,561	261,712	362,849
Fund balances - June 30	$ 44,554	$ 46,304	$ 282,781	$ 373,639

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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, 2012
(amounts expressed in thousands)

		COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTEWATER DEVELOPMENT	WATER CONSERVATION
ASSETS					
Cash/cash equivalents	$	5,969 $	468 $	4,299 $	-
Receivables (net)		520	-	3,078	-
Due from other funds		1	-	6	-
Long-term loans/notes receivable		8,968	-	16,925	10
Advances to other funds		8,196	-	-	-
Investments		87	-	2,180	-
Securities lending collateral		11	-	5	-
Total assets	$	23,752 $	468 $	26,493 $	10
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to other funds		16	-	4	-
Advances from other funds		1,685	-	14,397	-
Deferred revenue		210	-	259	-
Securities lending liability		11	-	5	-
Total liabilities		1,922	-	14,665	-
Fund Balances:					
Restricted		-	-	6,114	-
Committed		21,830	-	5,714	10
Assigned		-	468	-	-
Total fund balances		21,830	468	11,828	10
Total liabilities and fund balances	$	23,752 $	468 $	26,493 $	10

	HEALTH CARE	ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	TOTAL
$	3,313 $	172 $	268 $	14,489
	-	-	732	4,330
	-	2,768	-	2,775
	-	-	-	25,903
	-	-	-	8,196
	3,162	3	-	5,432
	-	-	-	16
$	6,475 $	2,943 $	1,000	61,141
	-	-	-	20
	-	-	-	16,082
	-	-	-	469
	-	-	-	16
	-	-	-	16,587
	6,475	-	-	12,589
	-	2,943	1,000	31,497
	-	-	-	468
	6,475	2,943	1,000	44,554
$	6,475 $	2,943 $	1,000	61,141

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NONMAJOR DEBT SERVICE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

(amounts expressed in thousands)

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTEWATER DEVELOPMENT	WATER CONSERVATION
REVENUES				
Taxes:				
Natural resource	$ -	$ -	$ 484	$ -
Charges for services/fines/forfeits/settlements	-	-	1	-
Investment earnings	660	3	9,696	1
Securities lending income	2	-	1	-
Sale of documents/merchandise/property	4,095	-	-	-
Total revenues	4,757	3	10,182	1
EXPENDITURES				
Current:				
Health and human services	-	-	-	-
Natural resources	-	-	-	-
Debt service:				
Principal retirement	4,200	12,925	3,290	3
Interest/fiscal charges	899	5,062	1,308	1
Securities lending	1	-	-	-
Total expenditures	5,100	17,987	4,598	4
Excess of revenue over (under) expenditures	(343)	(17,984)	5,584	(3)
OTHER FINANCING SOURCES (USES)				
Bond premium	-	261	-	-
Proceeds of refunding bond	-	5,755	-	-
Energy conservation loans	-	-	-	-
Payment to refunding bond escrow agent	-	(5,913)	-	-
Transfers in	1,553	17,932	270	-
Transfers out	(3,510)	-	(7,153)	-
Total other financing sources (uses)	(1,957)	18,035	(6,883)	-
Net change in fund balances	(2,300)	51	(1,299)	(3)
Fund balances - July 1 - as previously reported	24,130	417	13,127	13
Prior period adjustments	-	-	-	-
Fund balances - July 1 - as restated	24,130	417	13,127	13
Fund balances - June 30	$ 21,830	$ 468	$ 11,828	$ 10

HEALTH CARE	ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	HIGHWAY	TRUST LANDS	TOTAL
$ -	$ -	$ 1,882	$ -	$ -	$ 2,366
-	219	-	-	-	220
2,335	-	-	-	-	12,695
-	-	-	-	-	3
-	-	-	-	-	4,095
2,335	219	1,882	-	-	19,379
1	-	-	-	-	1
-	2	-	-	-	2
1,830	610	295	10,175	600	33,928
1,108	177	164	5,802	764	15,285
-	-	-	-	-	1
2,939	789	459	15,977	1,364	49,217
(604)	(570)	1,423	(15,977)	(1,364)	(29,838)
-	-	-	-	-	261
-	-	-	-	-	5,755
-	3,416	-	-	-	3,416
-	-	-	-	-	(5,913)
2,818	(196)	-	15,977	1,364	39,718
-	(314)	(2,444)	-	-	(13,421)
2,818	2,906	(2,444)	15,977	1,364	29,816
2,214	2,336	(1,021)	-	-	(22)
4,261	6,651	2,021	-	-	50,620
-	(6,044)	-	-	-	(6,044)
4,261	607	2,021	-	-	44,576
$ 6,475	$ 2,943	$ 1,000	$ -	$ -	$ 44,554

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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, 2012
(amounts expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	CAPITAL LAND GRANT	TOTAL
ASSETS				
Cash/cash equivalents	$ 37,572	$ 6,997	$ 971	$ 45,540
Receivables (net)	1,219	-	-	1,219
Due from other funds	1,336	-	-	1,336
Investments	285	-	-	285
Securities lending collateral	36	-	-	36
Total assets	$ 40,448	$ 6,997	$ 971	$ 48,416
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	1,790	23	36	1,849
Interfund loans payable	226	-	-	226
Deferred revenue	1	-	-	1
Securities lending liability	36	-	-	36
Total liabilities	2,053	23	36	2,112
Fund balances:				
Restricted	-	-	935	935
Committed	18,722	5,216	-	23,938
Assigned	19,673	1,758	-	21,431
Total fund balances	38,395	6,974	935	46,304
Total liabilities and fund balances	$ 40,448	$ 6,997	$ 971	$ 48,416

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NONMAJOR CAPITAL PROJECTS FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

(amounts expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	FEDERAL/ PRIVATE CONSTRUCTION GRANTS	CAPITAL LAND GRANT	TOTAL
REVENUES					
Taxes:					
Natural resource	$ 6,131	$ -	$ -	$ -	$ 6,131
Other	1,865	-	-	-	1,865
Charges for services/fines/forfeits/settlements	280	-	-	-	280
Investment earnings	49	-	-	-	49
Securities lending income	5	-	-	-	5
Total revenues	8,330	-	-	-	8,330
EXPENDITURES					
Current:					
General government	2,932	720	-	-	3,652
Public safety	-	157	-	-	157
Health and human services	3,707	-	-	-	3,707
Capital outlay	16,981	32	48	210	17,271
Securities lending	1	-	-	-	1
Total expenditures	23,621	909	48	210	24,788
Excess of revenue over (under) expenditures	(15,291)	(909)	(48)	(210)	(16,458)
OTHER FINANCING SOURCES (USES)					
Transfers in	9,006	-	48	606	9,660
Transfers out	(3,070)	-	-	(389)	(3,459)
Total other financing sources (uses)	5,936	-	48	217	6,201
Net change in fund balances	(9,355)	(909)	-	7	(10,257)
Fund balances - July 1 - as previously reported	47,750	7,869	-	928	56,547
Prior period adjustments	-	14	-	-	14
Fund balances - June 30	$ 38,395	$ 6,974	$ -	$ 935	$ 46,304

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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.

Zortman/Landusky Water Treatment – This fund provides for long-term or perpetual water treatment at the Zortman and Landusky mine sites. Funds in this trust that were established as permanent funds by legislature have been reclassified as State Special Revenue Funds.

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, 2012
(amounts expressed in thousands)

	RESOURCE INDEMNITY	CULTURAL TRUST	NOXIOUS WEED MANAGEMENT
ASSETS			
Cash/cash equivalents	$ 412	$ 78	$ 261
Receivables(net)	410	-	-
Due from other funds	-	-	-
Equity in pooled investments	112,645	-	10,030
Investments	7	-	4
Securities lending collateral	5,833	-	570
Total Assets	$ 119,307	$ 78	$ 10,865
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	-	1	-
Interfund loans payable	-	2	-
Due to other funds	807	-	-
Securities lending liability	5,833	-	570
Total liabilities	6,640	3	570
Fund balances:			
Nonspendable	100,000	75	10,000
Restricted	22	-	295
Committed	12,645	-	-
Total fund balances	112,667	75	10,295
Total liabilities and fund balances	$ 119,307	$ 78	$ 10,865

	HISTORICAL SOCIETY TRUSTS	TOBACCO SETTLEMENT	HERITAGE TRUST	TOTAL
$	181 $	2,079 $	32 $	3,043
	4	568	-	982
	-	57	-	57
	1,221	156,144	-	280,040
	2	31	-	44
	63	8,088	-	14,554
$	1,471 $	166,967 $	32 $	298,720
	7	-	-	8
	-	-	-	2
	-	568	-	1,375
	63	8,088	-	14,554
	70	8,656	-	15,939
	1,315	158,311	32	269,733
	86	-	-	403
	-	-	-	12,645
	1,401	158,311	32	282,781
$	1,471 $	166,967 $	32 $	298,720

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

	RESOURCE INDEMNITY	CULTURAL TRUST	NOXIOUS WEED MANAGEMENT
REVENUES			
Charges for services/fines/forfeits/settlements	$ -	$ -	$ -
Investment earnings	8,596	-	(30)
Securities lending income	71	-	-
Total revenues	8,667	-	(30)
EXPENDITURE			
Current:			
Education	-	3	-
Capital outlay	-	-	-
Securities lending	16	-	-
Total expenditures	16	3	-
Excess of revenue over (under) expenditures	8,651	(3)	(30)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	103
Transfers out	(5,064)	-	-
Total other financing sources (uses)	(5,064)	-	103
Net change in fund balances	3,587	(3)	73
Fund balances - July 1 - as previously reported	109,080	78	10,222
Prior period adjustments	-	-	-
Fund balances - July 1 - as restated	109,080	78	10,222
Fund balances - June 30	$ 112,667	$ 75	$ 10,295

HISTORICAL SOCIETY TRUSTS	TOBACCO SETTLEMENT	ZORTMAN/ LANDUSKY WATER TREATMENT	HERITAGE TRUST	TOTAL
$ -	$ 12,081	$ -	$ -	$ 12,081
94	11,228	-	-	19,888
1	93	-	-	165
95	23,402	-	-	32,134
19	-	-	-	22
15	-	-	-	15
-	20	-	-	36
34	20	-	-	73
61	23,382	-	-	32,061
-	-	-	-	103
-	(6,031)	-	-	(11,095)
-	(6,031)	-	-	(10,992)
61	17,351	-	-	21,069
1,339	140,960	9,420	32	271,131
1	-	(9,420)	-	(9,419)
1,340	140,960	-	32	261,712
$ 1,401	$ 158,311	$ -	$ 32	$ 282,781

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 ASSETS
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2012
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
ASSETS				
Current assets:				
Cash/cash equivalents	$ 2,623	$ 11,858	$ 3,401	$ 3,011
Receivables (net)	19,223	4,307	1,846	230
Interfund loans receivable	-	-	-	-
Due from other governments	-	-	-	-
Due from other funds	-	-	-	1
Inventories	91	-	382	2,774
Securities lending collateral	-	24	6	-
Other current assets	20	-	94	-
Total current assets	21,957	16,189	5,729	6,016
Noncurrent assets:				
Advances to other funds	75	-	-	-
Long-term investments	-	185	44	-
Long-term notes/loans receivable	-	-	-	-
Other long-term assets	-	-	1,997	292
Capital assets:				
Land	-	-	-	690
Land improvements	-	-	-	731
Buildings/improvements	2,044	-	45	4,805
Equipment	644	-	2,965	4,260
Infrastructure	-	-	-	951
Construction in progress	-	-	-	97
Intangible assets	-	19	-	-
Other depreciable assets	-	-	-	3,392
Less accumulated depreciation	(1,945)	-	(1,057)	(6,979)
Total capital assets	743	19	1,953	7,947
Total noncurrent assets	818	204	3,994	8,239
Total assets	$ 22,775	$ 16,393	$ 9,723	$ 14,255

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS
$ 37,214 $	17,712 $	1,212 $	3,383 $	114
359	16	30	1	18
-	-	-	81	-
-	-	-	1	-
-	-	-	-	-
-	-	-	20	480
66	35	2	7	-
3	315	-	41	1
37,642	18,078	1,244	3,534	613
-	-	-	-	-
11,364	275	17	50	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	502	11
-	-	-	-	-
-	-	-	1,738	-
-	-	-	-	-
-	-	-	-	-
-	-	-	(364)	(10)
-	-	-	1,876	1
11,364	275	17	1,926	1
$ 49,006 $	18,353 $	1,261 $	5,460 $	614

COMBINING STATEMENT OF NET ASSETS - Continued
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2012
(amounts expressed in thousands)

	SURPLUS PROPERTY	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
ASSETS				
Current assets:				
Cash/cash equivalents	$ 222 $	199 $	392 $	3,329
Receivables (net)	26	-	7	-
Interfund loans receivable	-	-	-	-
Due from other governments	-	-	-	-
Due from other funds	-	-	-	-
Inventories	206	-	-	-
Securities lending collateral	-	-	-	1
Other current assets	3	-	-	-
Total current assets	457	199	399	3,330
Noncurrent assets:				
Advances to other funds	-	-	-	-
Long-term investments	-	-	-	10
Long-term notes/loans receivable	-	-	-	-
Other long-term assets	-	-	-	-
Capital assets:				
Land	-	110	-	-
Land improvements	-	3,099	-	-
Buildings/improvements	118	489	-	-
Equipment	161	461	-	-
Infrastructure	-	-	-	-
Construction in progress	-	-	-	-
Intangible assets	-	-	-	-
Other depreciable assets	-	-	-	-
Less accumulated depreciation	(182)	(1,563)	-	-
Total capital assets	97	2,596	-	-
Total noncurrent assets	97	2,596	-	10
Total assets	$ 554 $	2,795 $	399 $	3,340

	HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$	8,805 $	1,850 $	95,325
	26	-	26,089
	-	-	81
	334	-	335
	-	-	1
	-	151	4,104
	18	-	159
	-	-	477
	9,183	2,001	126,571
	-	-	75
	144	3	12,092
	241	-	241
	-	-	2,289
	-	-	800
	-	-	3,830
	-	-	7,501
	30	191	9,225
	-	-	951
	-	-	1,835
	-	3	22
	-	-	3,392
	(28)	(114)	(12,242)
	2	80	15,314
	387	83	30,011
$	9,570 $	2,084 $	156,582

COMBINING STATEMENT OF NET ASSETS - Continued
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2012
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
LIABILITIES				
Current liabilities:				
Accounts payable	$ 6,287	$ 72	$ 511	$ 391
Lottery prizes payable	-	-	2,072	-
Due to other governments	-	-	-	-
Due to other funds	9,914	102	3,242	-
Deferred revenue	1,244	4,583	138	105
Current lease liability	-	-	72	-
Amounts held in custody for others	20	-	-	-
Securities lending liability	-	24	6	-
Estimated insurance claims	-	750	-	-
Compensated absences payable	171	17	120	109
Total current liabilities	17,636	5,548	6,161	605
Noncurrent liabilities:				
Advances from other funds	-	-	-	400
Long term lease liability	-	-	198	-
Lottery prizes payable	-	-	1,543	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	172	17	91	170
OPEB implicit rate subsidy	613	70	488	517
Total noncurrent liabilities	785	87	2,320	1,087
Total liabilities	18,421	5,635	8,481	1,692
NET ASSETS				
Invested in capital assets, net of related debt	743	19	1,683	7,947
Restricted for:				
Other purposes	-	10,739	-	-
Unrestricted	3,611	-	(441)	4,616
Total net assets	$ 4,354	$ 10,758	$ 1,242	$ 12,563

	MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS
$	4,559 $	81 $	- $	133 $	9
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	13	-	-	132	141
	-	-	-	9	-
	-	-	-	-	-
	66	35	2	7	-
	6,900	1,754	799	-	-
	13	6	-	216	20
	11,551	1,876	801	497	170
	-	-	-	-	-
	-	-	-	24	-
	-	-	-	-	-
	-	9,083	2,654	-	-
	40	-	-	85	16
	82	13	-	866	106
	122	9,096	2,654	975	122
	11,673	10,972	3,455	1,472	292
	-	-	-	1,843	1
	37,333	7,381	(2,194)	-	-
	-	-	-	2,145	321
$	37,333 $	7,381 $	(2,194) $	3,988 $	322

COMBINING STATEMENT OF NET ASSETS - Continued
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2012
(amounts expressed in thousands)

	SURPLUS PROPERTY	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
LIABILITIES				
Current liabilities:				
Accounts payable	$ 15	$ 19	$ 13	$ 366
Lottery prizes payable	-	-	-	-
Due to other governments	-	-	-	-
Due to other funds	-	-	-	-
Deferred revenue	-	-	-	4
Current lease liability	-	-	-	-
Amounts held in custody for others	-	-	-	-
Securities lending liability	-	-	-	1
Estimated insurance claims	-	-	-	-
Compensated absences payable	25	12	18	-
Total current liabilities	40	31	31	371
Noncurrent liabilities:				
Advances from other funds	-	-	-	-
Long term lease liability	-	-	-	-
Lottery prizes payable	-	-	-	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	19	-	5	-
OPEB implicit rate subsidy	69	31	64	-
Total noncurrent liabilities	88	31	69	-
Total liabilities	128	62	100	371
NET ASSETS				
Invested in capital assets, net of related debt	97	2,596	-	-
Restricted for:				
Other purposes	-	137	-	2,969
Unrestricted	329	-	299	-
Total net assets	$ 426	$ 2,733	$ 299	$ 2,969

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ 55	$ 214	$ 12,725
-	-	2,072
84	-	84
-	-	13,258
-	304	6,664
-	-	81
-	-	20
18	-	159
-	-	10,203
68	21	816
225	539	46,082
-	-	400
-	-	222
-	-	1,543
-	-	11,737
47	30	692
292	138	3,349
339	168	17,943
564	707	64,025
2	80	15,011
9,004	157	65,526
-	1,140	12,020
$ 9,006	$ 1,377	$ 92,557

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

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
Operating revenues:				
Charges for services	$ 78,246	$ -	$ 52,615	$ 7,284
Investment earnings	-	27	10	-
Securities lending income	-	3	1	-
Contributions/premiums	-	7,034	-	-
Grants/contracts/donations	-	-	-	-
Other operating revenues	160	21	2	-
Total operating revenues	78,406	7,085	52,628	7,284
Operating expenses:				
Personal services	2,761	391	1,810	2,330
Contractual services	431	156	6,535	133
Supplies/materials	64,036	2	1,121	2,239
Benefits/claims	124	4,866	89	96
Depreciation	111	-	459	277
Amortization	-	21	-	-
Utilities/rent	188	10	162	208
Communications	77	7	741	45
Travel	29	36	42	9
Repair/maintenance	57	1	29	511
Lottery prize payments	-	-	28,615	-
Securities lending expense	-	1	-	-
Dividend expense	-	1,560	-	-
Interest expense	-	-	18	-
Other operating expenses	54	2	181	439
Total operating expenses	67,868	7,053	39,802	6,287
Operating income (loss)	10,538	32	12,826	997
Nonoperating revenues (expenses):				
Tax revenues	23,233	-	-	-
Insurance proceeds	9	-	-	-
Gain (loss) on sale of capital assets	(4)	-	(5)	139
Increase (decrease) value of livestock	-	-	-	(62)
Total nonoperating revenues (expenses)	23,238	-	(5)	77
Income (loss) before contributions and transfers	33,776	32	12,821	1,074
Capital contributions	-	-	-	-
Transfers in	-	-	-	61
Transfers out	(33,273)	(107)	(13,061)	(61)
Change in net assets	503	(75)	(240)	1,074
Total net assets - July 1 - as previously reported	3,851	10,833	1,482	11,489
Prior period adjustments	-	-	-	-
Total net assets - July 1 - as restated	3,851	10,833	1,482	11,489
Total net assets - June 30	$ 4,354	$ 10,758	$ 1,242	$ 12,563

	MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATION
$	- $	- $	- $	5,014 $	662
	363	46	3	7	-
	9	5	-	1	-
	69,025	4,167	435	-	-
	1,236	-	-	-	-
	467	-	-	5	11
	71,100	4,218	438	5,027	673
	365	83	-	2,961	220
	6,651	466	-	825	57
	35	1	-	129	222
	51,881	3,400	815	166	15
	-	-	-	35	-
	-	-	-	6	-
	45	7	-	194	16
	19	1	-	175	24
	17	-	-	37	4
	1	-	-	23	7
	-	-	-	-	-
	1	1	-	-	-
	-	-	-	-	-
	-	-	-	3	-
	562	570		28	70
	59,577	4,529	815	4,582	635
	11,523	(311)	(377)	445	38
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	11,523	(311)	(377)	445	38
	-	-	-	-	-
	-	-	100	-	-
	-	-	(25)	-	(1)
	11,523	(311)	(302)	445	37
	25,810	7,626	(1,892)	3,539	285
	-	66	-	4	-
	25,810	7,692	(1,892)	3,543	285
$	37,333 $	7,381 $	(2,194) $	3,988 $	322

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

	SURPLUS PROPERTY	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
Operating revenues:				
Charges for services	$ 376	$ 75	$ 370	$ 67
Investment earnings	-	-	-	2
Securities lending income	-	-	-	-
Contributions/premiums	-	-	-	13,157
Grants/contracts/donations	-	-	-	-
Other operating revenues	-	135	15	2
Total operating revenues	376	210	385	13,228
Operating expenses:				
Personal services	246	115	296	-
Contractual services	10	12	23	338
Supplies/materials	300	7	7	-
Benefits/claims	14	6	15	11,678
Depreciation	7	161	-	-
Amortization	-	-	-	-
Utilities/rent	22	24	30	-
Communications	8	4	7	-
Travel	1	1	-	-
Repair/maintenance	3	7	-	-
Lottery prize payments	-	-	-	-
Securities lending expense	-	-	-	-
Dividend expense	-	-	-	-
Interest expense	-	-	-	-
Other operating expenses	10	-	19	8
Total operating expenses	621	337	397	12,024
Operating income (loss)	(245)	(127)	(12)	1,204
Nonoperating revenues (expenses):				
Tax revenues	-	-	-	-
Insurance proceeds	-	-	-	-
Gain (loss) on sale of capital assets	-	-	-	-
Increase (decrease) value of livestock	-	-	-	-
Total nonoperating revenues (expenses)	-	-	-	-
Income (loss) before contributions and transfers	(245)	(127)	(12)	1,204
Capital contributions	391	-	-	-
Transfers in	-	7	-	-
Transfers out	-	-	-	(1)
Change in net assets	146	(120)	(12)	1,203
Total net assets - July 1 - as previously reported	280	2,853	311	1,766
Prior period adjustments	-	-	-	-
Total net assets - July 1 - as restated	280	2,853	311	1,766
Total net assets - June 30	$ 426	$ 2,733	$ 299	$ 2,969

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ - $	2,023 $	146,732
37	1	496
3	-	22
-	-	93,818
40,152	-	41,388
-	8	826
40,192	2,032	283,282
1,118	578	13,274
1,635	639	17,911
44	197	68,340
37,716	30	110,911
-	11	1,061
-	2	29
105	23	1,034
41	7	1,156
26	38	240
9	158	806
-	-	28,615
1	-	4
-	-	1,560
-	-	21
266	33	2,242
40,961	1,716	247,204
(769)	316	36,078
-	-	23,233
-	-	9
-	(6)	124
-	-	(62)
-	(6)	23,304
(769)	310	59,382
-	7	398
-	-	168
-	-	(46,529)
(769)	317	13,419
9,775	1,060	79,068
-	-	70
9,775	1,060	79,138
$ 9,006 $	1,377 $	92,557

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

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from sales and services	$ 76,472	$ 7,202	$ 52,601	$ 7,398
Payments to suppliers for goods and services	(64,499)	(231)	(8,678)	(3,548)
Payments to employees	(2,725)	(390)	(1,798)	(2,389)
Grant receipts	-	-	-	-
Cash payments for claims	-	(4,220)	-	-
Cash payments for prizes	-	-	(28,258)	-
Other operating revenues	160	21	-	-
Other operating payments	(55)	(1,562)	-	(437)
Net cash provided by (used for) operating activities	9,353	820	13,867	1,024
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Collection of taxes	23,233	-	-	-
Transfers to other funds	(32,774)	(106)	(12,712)	-
Transfers from other funds	-	-	-	-
Proceeds from interfund loans/advances	-	-	-	400
Payments of interfund loans/advances	-	-	-	-
Net cash provided by (used for) noncapital financing activities	(9,541)	(106)	(12,712)	400
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	-	-	(20)	(530)
Proceeds (loss) on sale of capital assets	268	-	8	139
Principal and interest on bonds and notes	-	-	(90)	-
Net cash used for capital and related financing activities	268	-	(102)	(391)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	-	1	(7)	-
Proceeds (loss) on sales or maturities of investments	9	-	(374)	-
Proceeds from securities lending transactions	-	3	-	-
Interest and dividends on investments	-	27	11	-
Payment of securities lending costs	-	(1)	-	-
Net cash provided by (used for) investing activities	9	30	(370)	-
Net increase (decrease) in cash and cash equivalents	89	744	683	1,033
Cash and cash equivalents, July 1	2,534	11,114	2,718	1,978
Cash and cash equivalents, June 30	$ 2,623	$ 11,858	$ 3,401	$ 3,011

	MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS
$	70,589 $	4,327 $	784 $	5,047 $	643
	(5,968)	-	-	(1,443)	(369)
	(359)	(84)	-	(2,951)	(205)
	-	-	-	-	-
	(52,368)	(1,844)	(712)	-	-
	-	-	-	-	-
	467	-	-	5	11
	(598)	(1,286)	-	(25)	(75)
	11,763	1,113	72	633	5
	-	-	-	-	-
	-	-	(25)	-	(1)
	-	-	100	-	-
	-	-	-	-	-
	-	-	-	(78)	-
	-	-	75	(78)	(1)
	-	-	-	(123)	-
	-	-	-	-	-
	-	-	-	(2)	-
	-	-	-	(125)	-
	(10,822)	(7)	-	(10)	-
	-	-	24	-	-
	9	5	-	1	-
	311	45	3	7	-
	(2)	-	-	-	-
	(10,504)	43	27	(2)	-
	1,259	1,156	174	428	4
	35,955	16,556	1,038	2,955	110
$	37,214 $	17,712 $	1,212 $	3,383 $	114

COMBINING STATEMENT OF CASH FLOWS - Continued
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(amounts expressed in thousands)

	SURPLUS PROPERY	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from sales and services	$ 381	$ 76	$ 362	$ 13,234
Payments to suppliers for goods and services	(482)	(46)	(66)	(324)
Payments to employees	(246)	(138)	(291)	-
Grant receipts	-	-	-	-
Cash payments for claims	-	-	-	(11,796)
Cash payments for prizes	-	-	-	-
Other operating revenues	-	135	15	2
Other operating payments	(19)	-	(19)	(8)
Net cash provided by (used for) operating activities	(366)	27	1	1,108
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Collection of taxes	-	-	-	-
Transfers to other funds	-	-	-	(1)
Transfers from other funds	-	7	-	-
Proceeds from interfund loans/advances	-	-	-	-
Payments of interfund loans/advances	-	-	-	-
Net cash provided by (used for) noncapital financing activities	-	7	-	(1)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	-	(7)	-	-
Proceeds (loss) on sale of capital assets	352	-	-	-
Principal and interest on bonds and notes	-	-	-	-
Net cash used for capital and related financing activities	352	(7)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	-	-	-	-
Proceeds (loss) on sales or maturities of investments	-	-	-	-
Proceeds from securities lending transactions	-	-	-	-
Interest and dividends on investments	-	-	-	2
Payment of securities lending costs	-	-	-	-
Net cash provided by (used for) investing activities	-	-	-	2
Net increase (decrease) in cash and cash equivalents	(14)	27	1	1,109
Cash and cash equivalents, July 1	236	172	391	2,220
Cash and cash equivalents, June 30	$ 222	$ 199	$ 392	$ 3,329

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ -	$ 1,729	$ 240,845
(1,875)	(942)	(88,471)
(1,104)	(576)	(13,256)
40,417	-	40,417
(37,654)	-	(108,594)
-	-	(28,258)
-	195	1,011
(266)	(43)	(4,393)
(482)	363	39,301
-	-	23,233
-	-	(45,619)
-	-	107
-	-	400
(25)	-	(103)
(25)	-	(21,982)
-	(8)	(688)
-	(6)	761
-	-	(92)
-	(14)	(19)
-	-	(10,845)
12	-	(329)
3	-	21
54	1	461
(1)	-	(4)
68	1	(10,696)
(439)	350	6,604
9,244	1,500	88,721
$ 8,805	$ 1,850	$ 95,325

COMBINING STATEMENT OF CASH FLOWS - Continued
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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)	$ 10,538	$ 32	$ 12,826	$ 997
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	111	-	459	277
Amortization	-	21	-	-
Securities lending expense	-	1	-	-
Interest expense	-	-	18	-
Investment earnings	-	(27)	(10)	-
Securities lending income	-	(3)	(1)	-
Change in assets and liabilities:				
Decr (incr) in accounts receivable	(1,817)	(1,395)	(20)	83
Decr (incr) in due from other funds	-	-	-	2
Decr (incr) in due from other governments	-	-	-	-
Decr (incr) in inventories	(6)	-	24	(541)
Decr (incr) in other assets	-	-	(16)	7
Incr (decr) in accounts payable	338	63	119	144
Incr (decr) in lottery prizes payable	-	-	357	-
Incr (decr) in due to other funds	-	39	-	-
Incr (decr) in due to other governments	-	-	-	-
Incr (decr) in deferred revenue	44	1,488	6	22
Incr (decr) in compensated absences payable	21	-	12	(63)
Incr (decr) in OPEB implicit rate subsidy	124	16	93	96
Incr (decr) in estimated claims	-	585	-	-
Net cash provided by (used for) operating activities	$ 9,353	$ 820	$ 13,867	$ 1,024
Schedule of noncash transactions:				
Capital contributions from other funds	-	-	-	-
Total noncash transactions	$ -	$ -	$ -	$ -

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS
$ 11,523	$ (311)	$ (377)	$ 445	$ 38
-	-	-	35	-
-	-	-	6	-
2	-	-	-	-
-	-	-	2	-
(311)	(46)	(3)	(7)	-
(9)	(5)	-	(1)	-
261	660	348	14	(16)
-	-	-	-	-
-	-	-	1	-
-	-	-	10	(36)
(3)	(231)	-	(35)	(1)
968	(9)	1	(13)	(20)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
15	-	-	11	(2)
5	(1)	-	(1)	27
12	3	-	166	15
(700)	1,053	103	-	-
$ 11,763	$ 1,113	$ 72	$ 633	$ 5
-	-	-	-	-
$ -	$ -	$ -	$ -	$ -

COMBINING STATEMENT OF CASH FLOWS - Continued
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(amounts expressed in thousands)

	SURPLUS PROPERY	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	$ (245)	$ (127)	$ (12)	$ 1,204
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	7	161	-	-
Amortization	-	-	-	-
Securities lending expense	-	-	-	-
Interest expense	-	-	-	-
Investment earnings	-	-	-	(2)
Securities lending income	-	-	-	-
Change in assets and liabilities:				
Decr (incr) in accounts receivable	6	-	(8)	6
Decr (incr) in due from other funds	-	-	-	-
Decr (incr) in due from other governments	-	-	-	-
Decr (incr) in inventories	(140)	-	-	-
Decr (incr) in other assets	-	-	-	-
Incr (decr) in accounts payable	(7)	7	3	(104)
Incr (decr) in lottery prizes payable	-	-	-	-
Incr (decr) in due to other funds	-	-	-	-
Incr (decr) in due to other governments	-	-	-	-
Incr (decr) in deferred revenue	-	-	-	4
Incr (decr) in compensated absences payable	(1)	(20)	3	-
Incr (decr) in OPEB implicit rate subsidy	14	6	15	-
Incr (decr) in estimated claims	-	-	-	-
Net cash provided by (used for) operating activities	$ (366)	$ 27	$ 1	$ 1,108
Schedule of noncash transactions:				
Capital contributions from other funds	391	-	-	-
Total noncash transactions	$ 391	$ -	$ -	$ -

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ (769)	$ 316	$ 36,078
-	12	1,062
-	2	29
1	-	4
-	-	20
(54)	(1)	(461)
(3)	-	(22)
23	11	(1,844)
-	-	2
191	-	192
-	(15)	(704)
3	-	(276)
-	127	1,617
-	-	357
-	-	39
63	-	63
-	(117)	1,471
1	(3)	(20)
62	31	653
-	-	1,041
$ (482)	$ 363	$ 39,301
-	-	391
$ -	$ -	$ 391

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. The State contracted with Blue Cross and Blue Shield of Montana to oversee the administrative functions of the program.

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 ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2012
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
ASSETS					
Current assets:					
Cash/cash equivalents	$ 1,055	$ 1,655	$ 41,205	$ 5,681	$ 3,028
Receivables (net)	12	56	2,378	164	1
Interfund loans receivable	-	-	-	33	-
Due from other governments	-	-	-	-	-
Due from other funds	-	-	-	15	-
Inventories	-	1,911	-	-	-
Securities lending collateral	-	-	10,926	-	6
Other current assets	-	-	312	186	-
Total current assets	1,067	3,622	54,821	6,079	3,035
Noncurrent assets:					
Long-term investments	-	-	42,090	-	45
Advances to other funds	-	-	-	-	-
Capital assets:					
Land	-	-	-	-	-
Land improvements	-	-	-	-	-
Buildings/improvements	-	-	-	793	-
Equipment	12,158	147,771	-	49,510	-
Construction in progress	-	4,143	-	-	-
Intangible assets	-	-	-	-	430
Less accumulated depreciation	(5,826)	(83,292)	-	(45,499)	-
Total capital assets	6,332	68,622	-	4,804	430
Total noncurrent assets	6,332	68,622	42,090	4,804	475
Total assets	7,399	72,244	96,911	10,883	3,510
LIABILITIES					
Current liabilities:					
Accounts payable	285	1,027	3,669	2,441	334
Interfund loans payable	-	600	-	-	-
Due to other funds	-	-	-	-	13
Due to component units	-	-	-	-	87
Deferred revenue	-	-	2,333	-	-
Amounts held in custody for others	-	-	-	-	-
Lease/installment purchase payable	-	-	-	-	-
Securities lending liability	-	-	10,926	-	6
Estimated insurance claims	-	-	10,353	-	3,241
Compensated absences payable	6	483	75	989	72
Total current liabilities	291	2,110	27,356	3,430	3,753
Noncurrent liabilities:					
Advances from other funds	300	-	-	-	-
Lease/installment purchase payable	-	-	-	-	-
Estimated insurance claims	-	-	1,547	-	16,056
Compensated absences payable	3	362	43	744	133
OPEB implicit rate subsidy	45	1,858	224	2,757	231
Total noncurrent liabilities	348	2,220	1,814	3,501	16,420
Total liabilities	639	4,330	29,170	6,931	20,173
NET ASSETS					
Invested in capital assets, net of related debt	6,332	68,622	-	4,804	430
Unrestricted	428	(708)	67,741	(852)	(17,093)
Total net assets	$ 6,760	$ 67,914	$ 67,741	$ 3,952	$ (16,663)

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ 1,167	$ 1,208	$ 971	$ 1,575	$ 391	$ 2,899	$ 557	$ 1,448
34	-	13	3	-	2	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
7	-	-	-	-	-	-	-
321	24	191	-	-	-	-	-
-	-	-	-	-	-	-	-
7	-	394	-	-	5	-	-
1,536	1,232	1,569	1,578	391	2,906	557	1,448
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	236	-	-	-	-	-	-
-	-	-	95	-	-	-	-
-	-	-	1,091	-	-	-	-
115	17,972	2,556	622	-	344	83	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
(103)	(10,412)	(1,295)	(813)	-	(191)	(65)	-
12	7,796	1,261	995	-	153	18	-
12	7,796	1,261	995	-	153	18	-
1,548	9,028	2,830	2,573	391	3,059	575	1,448
452	180	253	503	73	311	60	59
-	-	-	-	-	-	-	-
-	972	-	-	-	-	-	5
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	54	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
10	16	62	125	80	311	129	105
462	1,168	369	628	153	622	189	169
-	2,521	-	-	-	-	-	-
-	-	201	-	-	-	-	-
-	-	-	-	-	-	-	-
25	16	80	98	111	168	89	20
124	91	497	463	214	894	271	384
149	2,628	778	561	325	1,062	360	404
611	3,796	1,147	1,189	478	1,684	549	573
12	7,796	1,006	995	-	153	18	-
925	(2,564)	677	389	(87)	1,222	8	875
$ 937	$ 5,232	$ 1,683	$ 1,384	$ (87)	$ 1,375	$ 26	$ 875

COMBINING STATEMENT OF NET ASSETS - Continued
INTERNAL SERVICE FUNDS
JUNE 30, 2012
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
ASSETS					
Current assets:					
Cash/cash equivalents	$ 1,511	$ 691	$ 55	$ 1,271	$ 622
Receivables (net)	3	-	-	-	-
Interfund loans receivable	-	-	-	-	-
Due from other governments	-	-	-	-	-
Due from other funds	-	-	-	42	-
Inventories	-	10	3	-	-
Securities lending collateral	-	-	-	-	-
Other current assets	19	2	-	63	-
Total current assets	1,533	703	58	1,376	622
Noncurrent assets:					
Long-term investments	-	-	-	-	-
Advances to other funds	-	-	-	-	-
Capital assets:					
Land	-	-	-	-	-
Land improvements	-	-	-	-	-
Buildings/improvements	-	-	-	-	-
Equipment	694	-	149	5	62
Construction in progress	-	22	-	-	-
Intangible assets	-	406	-	2	-
Less accumulated depreciation	(515)	-	(145)	(4)	(39)
Total capital assets	179	428	4	3	23
Total noncurrent assets	179	428	4	3	23
Total assets	1,712	1,131	62	1,379	645
LIABILITIES					
Current liabilities:					
Accounts payable	244	170	15	116	197
Interfund loans payable	-	-	-	-	-
Due to other funds	46	-	-	-	-
Due to component units	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Amounts held in custody for others	-	2	-	-	-
Lease/installment purchase payable	-	-	2	-	-
Securities lending liability	-	-	-	-	-
Estimated insurance claims	-	-	-	-	-
Compensated absences payable	314	108	7	154	40
Total current liabilities	604	280	24	270	237
Noncurrent liabilities:					
Advances from other funds	-	-	-	-	-
Lease/installment purchase payable	-	-	-	-	-
Estimated insurance claims	-	-	-	-	-
Compensated absences payable	206	47	3	195	38
OPEB implicit rate subsidy	827	393	80	394	188
Total noncurrent liabilities	1,033	440	83	589	226
Total liabilities	1,637	720	107	859	463
NET ASSETS					
Invested in capital assets, net of related debt	179	428	2	3	23
Unrestricted	(104)	(17)	(47)	517	159
Total net assets	$ 75	$ 411	$ (45)	$ 520	$ 182

JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$ 108	$ 38	$ 187	$ 1,116	$ 143	$ 841	$ 69,423
-	-	-	84	-	-	2,750
-	-	-	-	-	-	33
-	1	-	-	-	-	1
-	-	-	-	-	-	64
-	-	-	1,133	168	-	3,761
-	-	-	-	-	-	10,932
-	-	-	-	2	8	998
108	39	187	2,333	313	849	87,962
-	-	-	-	-	-	42,135
-	-	-	400	-	-	400
-	-	-	-	-	-	236
-	-	-	-	-	-	95
-	-	-	2,820	-	-	4,704
-	-	-	2,227	77	66	234,411
-	-	-	-	-	684	4,849
-	-	-	-	-	517	1,355
-	-	-	(2,635)	(68)	(59)	(150,961)
-	-	-	2,412	9	1,208	94,689
-	-	-	2,812	9	1,208	137,224
108	39	187	5,145	322	2,057	225,186
42	23	6	442	30	259	11,191
-	-	-	-	52	-	652
-	-	-	-	-	-	1,036
-	-	-	-	-	-	87
-	-	-	-	-	-	2,333
-	-	-	-	-	-	2
-	-	-	-	-	-	56
-	-	-	-	-	-	10,932
-	-	-	-	-	-	13,594
73	13	5	52	22	84	3,335
115	36	11	494	104	343	43,218
-	-	-	-	-	-	2,821
-	-	-	-	-	-	201
-	-	-	-	-	-	17,603
123	31	-	46	15	132	2,728
207	44	48	378	58	246	10,916
330	75	48	424	73	378	34,269
445	111	59	918	177	721	77,487
-	-	-	2,412	9	1,208	94,432
(337)	(72)	128	1,815	136	128	53,267
$ (337)	$ (72)	$ 128	$ 4,227	$ 145	$ 1,336	$ 147,699

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

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
Operating revenues:					
Charges for services	$ 2,907 $	28,728 $	499 $	36,989 $	-
Investment earnings	-	-	1,099	-	28
Securities lending income	-	-	61	-	3
Contributions/premiums	-	-	127,794	-	11,736
Grants/contracts/donations	-	-	1,425	-	-
Other operating revenues	-	238	1,072	34	-
Total operating revenues	2,907	28,966	131,950	37,023	11,767
Operating expenses:					
Personal services	$ 111 $	7,532 $	1,366 $	14,708 $	904
Contractual services	94	307	5,649	1,718	5,703
Supplies/materials	1,521	9,171	74	2,283	162
Benefits/claims	8	369	114,857	556	37,614
Depreciation	539	6,341	-	2,063	-
Amortization	-	-	-	-	110
Utilities/rent	19	99	102	9,984	64
Communications	3	8	73	7,304	18
Travel	13	23	19	103	23
Repair/maintenance	719	4,472	-	1,996	4
Grants	-	-	-	-	125
Securities lending expense	-	-	13	-	1
Interest expense	-	-	-	-	-
Other operating expenses	2	255	1,044	1,107	176
Total operating expenses	3,029	28,577	123,197	41,822	44,904
Operating income (loss)	(122)	389	8,753	(4,799)	(33,137)
Nonoperating revenues (expenses):					
Insurance proceeds	-	-	-	-	121
Gain (loss) on sale of capital assets	(50)	161	-	697	-
Federal indirect cost recoveries	-	-	-	-	-
Total nonoperating revenues (expenses)	(50)	161	-	697	121
Income (loss) before contributions and transfers	(172)	550	8,753	(4,102)	(33,016)
Capital contributions	-	1,848	-	1,104	-
Transfers in	283	-	-	-	3,494
Transfers out	-	-	-	-	(136)
Changes in net assets	111	2,398	8,753	(2,998)	(29,658)
Total net assets - July 1 - as previously reported	6,649	65,516	59,920	7,826	12,995
Prior period adjustments	-	-	(932)	(876)	-
Total net assets - July 1 - as restated	6,649	65,516	58,988	6,950	12,995
Total net assets - June 30	$ 6,760 $	67,914 $	67,741 $	3,952 $	(16,663)

	ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$	4,751 $	4,899 $	10,252 $	7,690 $	1,229 $	5,632 $	25 $	1,134
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	1	-	20	-	-	1,206	8
	4,751	4,900	10,252	7,710	1,229	5,632	1,231	1,142
$	353 $	349 $	1,308 $	1,894 $	1,179 $	4,366 $	1,331	1,630
	36	310	122	3,483	34	413	37	251
	4,092	1,803	3,317	181	22	189	50	63
	24	18	91	102	50	180	55	80
	-	1,756	402	188	-	47	14	-
	-	-	-	-	-	11	-	-
	101	75	174	2,053	28	203	82	215
	28	1	4,117	42	18	76	20	128
	-	-	-	1	1	51	7	11
	5	395	598	1,209	19	88	3	15
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	65	110	59	-	-	-	-
	26	32	78	240	23	688	17	69
	4,665	4,804	10,317	9,452	1,374	6,312	1,616	2,462
	86	96	(65)	(1,742)	(145)	(680)	(385)	(1,320)
	-	6	-	-	-	-	-	-
	-	134	(29)	-	-	(2)	-	-
	-	-	-	-	-	1,372	302	1,830
	-	140	(29)	-	-	1,370	302	1,830
	86	236	(94)	(1,742)	(145)	690	(83)	510
	-	-	-	-	-	-	-	-
	-	-	33	-	50	-	-	-
	-	-	-	(788)	-	(23)	-	-
	86	236	(61)	(2,530)	(95)	667	(83)	510
	851	4,996	1,503	3,914	8	708	109	365
	-	-	241	-	-	-	-	-
	851	4,996	1,744	3,914	8	708	109	365
$	937 $	5,232 $	1,683 $	1,384 $	(87) $	1,375 $	26 $	875

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

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
Operating revenues:					
Charges for services	$ 3,998	$ 2,835	$ 681	$ 4,620	$ 1,201
Investment earnings	-	-	-	-	-
Securities lending income	-	-	-	-	-
Contributions/premiums	-	-	-	-	-
Grants/contracts/donations	-	-	-	-	-
Other operating revenues	8	1	-	-	-
Total operating revenues	4,006	2,836	681	4,620	1,201
Operating expenses:					
Personal services	$ 3,910	$ 1,522	203	$ 2,500	$ 1,098
Contractual services	724	735	136	1,214	87
Supplies/materials	302	39	16	56	419
Benefits/claims	166	69	12	76	39
Depreciation	38	-	22	1	2
Amortization	-	139	-	2	-
Utilities/rent	1,124	51	14	161	118
Communications	246	30	311	48	9
Travel	22	9	-	44	33
Repair/maintenance	63	559	24	2	409
Grants	-	-	-	-	-
Securities lending expense	-	-	-	-	-
Interest expense	-	-	2	-	-
Other operating expenses	194	61	15	400	20
Total operating expenses	6,789	3,214	755	4,504	2,234
Operating income (loss)	(2,783)	(378)	(74)	116	(1,033)
Nonoperating revenues (expenses):					
Insurance proceeds	-	-	-	-	-
Gain (loss) on sale of capital assets	(2)	-	-	-	-
Federal indirect cost recoveries	2,669	-	-	-	-
Total nonoperating revenues (expenses)	2,667	-	-	-	-
Income (loss) before contributions and transfers	(116)	(378)	(74)	116	(1,033)
Capital contributions	-	-	-	-	-
Transfers in	-	-	-	-	1,336
Transfers out	-	(50)	-	-	-
Changes in net assets	(116)	(428)	(74)	116	303
Total net assets - July 1 - as previously reported	191	839	29	404	(121)
Prior period adjustments	-	-	-	-	-
Total net assets - July 1 - as restated	191	839	29	404	(121)
Total net assets - June 30	$ 75	$ 411	$ (45)	$ 520	$ 182

	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$	1,153 $	294 $	203 $	5,352 $	379 $	2,961 $	128,412
	-	-	-	-	-	-	1,127
	-	-	-	-	-	-	64
	-	-	-	-	-	-	139,530
	-	-	-	-	-	-	1,425
	-	-	-	-	-	-	2,588
	1,153	294	203	5,352	379	2,961	273,146
$	977 $	246 $	150 $	1,273 $	366 $	992 $	50,268
	61	34	11	61	9	107	21,336
	21	42	2	3,821	109	26	27,781
	36	9	11	78	17	46	154,563
	-	-	-	111	1	-	11,525
	-	-	-	-	-	275	537
	65	24	4	179	26	27	14,992
	17	3	9	28	4	11	12,552
	3	11	-	1	2	6	383
	1	1	-	123	14	1,562	12,281
	-	-	-	-	-	-	125
	-	-	-	-	-	-	14
	-	-	-	-	-	-	236
	17	8	1	192	17	96	4,778
	1,198	378	188	5,867	565	3,148	311,371
	(45)	(84)	15	(515)	(186)	(187)	(38,225)
	-	-	-	-	-	-	127
	-	-	-	-	-	-	909
	-	-	-	-	58	-	6,231
	-	-	-	-	58	-	7,267
	(45)	(84)	15	(515)	(128)	(187)	(30,958)
	-	-	-	-	-	-	2,952
	-	24	-	-	-	-	5,220
	-	-	-	(1,307)	-	-	(2,304)
	(45)	(60)	15	(1,822)	(128)	(187)	(25,090)
	(292)	(12)	113	6,049	273	1,523	174,356
	-	-	-	-	-	-	(1,567)
	(292)	(12)	113	6,049	273	1,523	172,789
$	(337) $	(72) $	128 $	4,227 $	145 $	1,336 $	147,699

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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 services	$ 2,907	$ 28,932	$ 126,818	$ 36,875	$ 11,736
Payments to suppliers for goods and services	(2,370)	(14,264)	(7,263)	(23,048)	(6,081)
Payments to employees	(110)	(7,487)	(1,316)	(17,389)	(647)
Grant receipts	-	-	1,425	-	(125)
Cash payments for claims	-	-	(116,252)	-	(36,462)
Other operating revenues	-	-	1,072	34	-
Net cash provided by (used for) operating activities	427	7,181	4,484	(3,528)	(31,579)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Payment of principal and interest on bonds and notes	-	-	-	-	-
Transfers to other funds	-	-	-	-	(136)
Transfers from other funds	284	-	-	1,104	3,494
Proceeds from interfund loans/advances	-	-	-	323	-
Payment of interfund loans/advances	-	(800)	-	-	-
Net cash provided by (used for) noncapital financing activities	284	(800)	-	1,427	3,358
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	121
Acquisition of capital assets	(939)	(6,036)	-	(564)	(236)
Proceeds (Loss)from sale of capital assets	-	-	-	-	-
Net cash used for capital and related financing activities	(939)	(6,036)	-	(564)	(115)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	-	(3,279)	-	-
Proceeds (loss) from securities lending transactions/ investments	-	-	61	-	400
Interest and dividends on investments	-	-	1,108	-	33
Payment of securities lending costs	-	-	(13)	-	(1)
Net cash provided by (used for) investing activities	-	-	(2,123)	-	432
Net increase (decrease) in cash and cash equivalents	(228)	345	2,361	(2,665)	(27,904)
Cash and cash equivalents, July 1	1,283	1,310	38,844	8,346	30,932
Cash and cash equivalents, June 30	$ 1,055	$ 1,655	$ 41,205	$ 5,681	3,028

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ 4,713 $	4,899 $	10,258 $	7,690 $	1,229 $	5,630 $	25 $	1,140
(4,154)	(2,622)	(8,344)	(8,378)	(124)	(1,632)	(217)	(768)
(405)	(344)	(1,308)	(1,862)	(1,146)	(4,305)	(1,304)	(1,668)
	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
	1	-	20	-	1,373	1,508	1,838
154	1,934	606	(2,530)	(41)	1,066	12	542
-	(65)	(110)	(60)	-	-	-	-
-	-	-	(788)	-	(23)	-	-
-	-	33	-	50	-	-	-
-	-	-	-	-	-	-	-
-	(231)	-	-	-	-	-	-
-	(296)	(77)	(848)	50	(23)	-	-
-	7	-	-	-	-	-	-
-	(1,738)	(544)	-	-	(87)	-	-
-	-	-	1,266	-	-	-	-
-	(1,731)	(544)	1,266	-	(87)	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
154	(93)	(15)	(2,112)	9	956	12	542
1,013	1,301	986	3,687	382	1,943	545	906
$ 1,167 $	1,208 $	971 $	1,575 $	391 $	2,899 $	557 $	1,448

COMBINING STATEMENT OF CASH FLOWS - Continued
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	$ 4,158	$ 2,835	$ 681	$ 4,614	$ 1,218
Payments to suppliers for goods and services	(2,583)	(1,397)	(505)	(2,004)	(978)
Payments to employees	(3,911)	(1,545)	(209)	(2,523)	(1,165)
Grant receipts	-	-	-	-	-
Cash payments for claims	-	-	-	-	-
Other operating revenues	2,677	1	-	-	-
Net cash provided by (used for) operating activities	341	(106)	(33)	87	(925)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Payment of principal and interest on bonds and notes	-	-	(2)	-	-
Transfers to other funds	-	(50)	-	-	-
Transfers from other funds	-	-	-	-	1,337
Proceeds from interfund loans/advances	-	-	-	-	-
Payment of interfund loans/advances	-	-	-	-	-
Net cash provided by (used for) noncapital financing activities	-	(50)	(2)	-	1,337
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	-
Acquisition of capital assets	(133)	(4)	(19)	-	-
Proceeds (Loss) from sale of capital assets	-	-	-	-	-
Net cash used for capital and related financing activities	(133)	(4)	(19)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES					
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	208	(160)	(54)	87	412
Cash and cash equivalents, July 1	1,303	851	109	1,184	210
Cash and cash equivalents, June 30	$ 1,511	$ 691	$ 55	$ 1,271	$ 622

JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$ 1,162	$ 296	$ 203	$ 5,354	$ 379	$ 2,962	$ 266,714
(183)	(118)	(27)	(4,114)	(174)	(1,804)	(93,152)
(1,003)	(206)	(147)	(1,257)	(355)	(994)	(52,606)
-	-	-	-	-	-	1,300
-	-	-	-	-	-	(152,714)
-	-	-	-	58	-	8,582
(24)	(28)	29	(17)	(92)	164	(21,876)
-	-	-	-	-	-	(237)
-	-	-	(1,307)	-	-	(2,304)
-	24	-	-	-	-	6,326
-	-	-	-	-	-	323
-	-	-	(400)	(10)	-	(1,441)
						-
-	24	-	(1,707)	(10)	-	2,667
-	-	-	-	-	-	128
-	-	-	(255)	-	(771)	(11,326)
-	-	-	-	-	-	1,266
-	-	-	(255)	-	(771)	(9,932)
-	-	-	-	-	-	(3,279)
-	-	-	-	-	-	461
-	-	-	-	-	-	1,141
-	-	-	-	-	-	(14)
-	-	-	-	-	-	(1,691)
(24)	(4)	29	(1,979)	(102)	(607)	(30,832)
132	42	158	3,095	245	1,448	100,255
$ 108	$ 38	$ 187	$ 1,116	$ 143	$ 841	$ 69,423

COMBINING STATEMENT OF CASH FLOWS - Continued
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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)	$ (122)	$ 389	$ 8,753	$ (4,799)	$ (33,137)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	539	6,341	-	2,063	-
Amortization	-	-	-	-	110
Interest expense	-	-	-	-	-
Securities lending expense	-	-	13	-	1
Investment earnings	-	-	(1,108)	-	(33)
Securities lending income	-	-	(61)	-	(3)
Federal indirect cost recoveries	-	-	-	-	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	-	(35)	(1,466)	(100)	5
Decr (incr) in due from other funds	-	-	-	(15)	-
Decr (incr) in due from component units	-	-	-	-	-
Decr (incr) in due from other governments	-	-	-	-	-
Decr (incr) in inventories	-	(27)	-	-	-
Decr (incr) in other assets	-	-	(302)	(982)	-
Incr (decr) in accounts payable	5	152	1,030	(251)	(27)
Incr (decr) in due to other funds	-	-	-	(11)	13
Incr (decr) in due to component units	-	-	-	-	87
Incr (decr) in deferred revenue	-	-	961	-	-
Incr (decr) in amounts held in custody for others	-	-	-	-	-
Incr (decr) in compensated absences payable	(3)	(9)	37	11	23
Incr (decr) in OPEB implicit rate subsidy	8	370	60	556	48
Incr (decr) in estimated claims	-	-	(3,433)	-	1,334
Net cash provided by (used for) operating activities	$ 427	$ 7,181	$ 4,484	$ (3,528)	$ (31,579)

Schedule of noncash transactions:					
Capital asset acquisitions from contributed capital	-	1,848	-	1,104	-
Total noncash transactions	$ -	$ 1,848	$ -	$ 1,104	$ -

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

	ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
	$ 86	$ 96	$ (65)	$ (1,742)	$ (145)	$ (680)	$ (385)	$ (1,320)
	-	1,756	402	188	-	47	14	-
	-	-	-	-	-	11	-	-
	-	65	110	59	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	1,372	302	1,830
	(37)	-	6	-	-	(2)	-	-
	(4)	-	-	-	-	-	-	-
	3	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	(3)	(2)	(31)	-	-	-	-	-
	2	-	192	-	(1)	(1)	62	-
	131	(4)	(98)	(185)	35	110	(49)	(12)
	-	-	-	(979)	-	-	-	5
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	(48)	4	(1)	27	20	28	13	(41)
	24	19	91	102	50	181	55	80
	-	-	-	-	-	-	-	-
	$ 154	$ 1,934	$ 606	$ (2,530)	$ (41)	$ 1,066	$ 12	$ 542
	-	-	-	-	-	-	-	-
	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

COMBINING STATEMENT OF CASH FLOWS - Continued
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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)	$ (2,783)	$ (378)	$ (74)	$ 116	$ (1,033)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	38	-	22	1	2
Amortization	-	139	-	2	-
Interest expense	-	-	2	-	-
Securities lending expense	-	-	-	-	-
Investment earnings	-	-	-	-	-
Securities lending income	-	-	-	-	-
Federal indirect cost recoveries	2,669	-	-	-	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	(1)	-	-	-	-
Decr (incr) in due from other funds	149	-	-	(6)	17
Decr (incr) in due from component units	-	-	-	-	-
Decr (incr) in due from other governments	-	-	-	-	-
Decr (incr) in inventories	-	(4)	6	-	-
Decr (incr) in other assets	15	-	(2)	12	-
Incr (decr) in accounts payable	48	92	7	(81)	107
Incr (decr) in due to other funds	46	-	-	-	-
Incr (decr) in due to component units	-	-	-	-	-
Incr (decr) in deferred revenue	11	-	-	-	-
Incr (decr) in amounts held in custody for others	(1)	-	-	-	-
Incr (decr) in compensated absences payable	(17)	(24)	(6)	(35)	(57)
Incr (decr) in OPEB implicit rate subsidy	167	69	12	78	39
Incr (decr) in estimated claims	-	-	-	-	-
Net cash provided by (used for) operating activities	$ 341	$ (106)	$ (33)	$ 87	$ (925)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
Schedule of noncash transactions:					
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
$ (45)	$ (84)	$ 15	$ (515)	$ (186)	$ (187)	$ (38,225)
-	-	-	111	1	-	11,525
-	-	-	-	-	275	537
-	-	-	-	-	-	236
-	-	-	-	-	-	14
-	-	-	-	-	-	(1,141)
-	-	-	-	-	-	(64)
-	-	-	-	58	-	6,231
-	1	-	2	-	-	(1,627)
10	-	-	-	-	-	151
-	-	-	-	-	-	3
-	1	-	-	-	-	1
-	-	-	209	6	-	154
-	-	-	-	(2)	(6)	(1,013)
4	17	1	106	5	38	1,181
-	-	-	-	-	-	(926)
-	-	-	-	-	-	87
-	-	-	(16)	-	-	956
-	-	-	-	-	-	(1)
(29)	28	3	7	8	(2)	(63)
36	9	10	79	18	46	2,207
-	-	-	-	-	-	(2,099)
$ (24)	$ (28)	$ 29	$ (17)	$ (92)	$ 164	$ (21,876)
-	-	-	-	-	-	2,952
$ -	$ -	$ -	$ -	$ -	$ -	$ 2,952

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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.

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 ASSETS
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
JUNE 30, 2012
(amounts expressed in thousands)

	PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)					
	PUBLIC EMPLOYEES DEFINED BENEFITS	MUNICIPAL POLICE	FIRE FIGHTERS UNIFIED	SHERIFFS	HIGHWAY PATROL	JUDGES
ASSETS						
Cash/cash equivalents	$ 39,781	$ 1,562	$ 1,691	$ 2,855	$ 1,071	$ 923
Receivables (net):						
Accounts receivable	4,465	201	194	246	177	84
Interest	5,319	308	307	293	135	86
Due from primary government	-	12,274	11,797	-	-	-
Due from other PERB plans	409	-	-	-	-	-
Long-term notes/loans receivable	48	-	-	-	-	-
Total receivables	10,241	12,783	12,298	539	312	170
Investments at fair value:						
Equity in pooled investments	3,878,622	224,393	223,764	213,422	98,145	63,783
Other investments	586	24	26	44	14	14
Total investments	3,879,208	224,417	223,790	213,466	98,159	63,797
Securities lending collateral	176,225	10,194	10,166	9,701	4,460	2,899
Capital assets:						
Land	-	-	-	-	-	-
Buildings/improvements	-	-	-	-	-	-
Equipment	18	3	3	4	3	3
Accumulated depreciation	(6)	-	-	-	-	-
Intangible assets	35	-	-	-	-	-
Total capital assets	47	3	3	4	3	3
Total assets	4,105,502	248,959	247,948	226,565	104,005	67,792
LIABILITIES						
Accounts payable	820	37	39	61	35	41
Due to other PERB plans	379	79	66	97	29	8
Deferred revenue	3,262	-	11	26	181	79
Amounts held in custody for others	-	-	-	-	-	-
Securities lending liability	176,225	10,194	10,166	9,701	4,460	2,899
Compensated absences payable	236	6	6	7	6	7
OPEB implicit rate subsidy	367	6	5	7	3	1
Total liabilities	181,289	10,322	10,293	9,899	4,714	3,035
NET ASSETS						
Held in trust for pension benefits and other purposes	$ 3,924,213	$ 238,637	$ 237,655	$ 216,666	$ 99,291	$ 64,757

PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)

	GAME WARDENS PEACE OFFICERS	VOLUNTEER FIRE FIGHTERS	PUBLIC EMPLOYEES DEFINED CONTRIBUTION	PUBLIC EMPLOYEES 457 PLAN	TEACHERS RETIREMENT SYSTEM	VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION	TOTAL
$	1,740 $	1,686 $	3,558 $	1,396 $	34,990 $	2,411 $	93,664
	278	2	85	378	18,239	-	24,349
	134	35	1	-	3,944	-	10,562
	-	-	-	-	-	-	24,071
	-	-	367	-	-	-	776
	-	-	-	-	-	-	48
	412	37	453	378	22,183	-	59,806
	97,869	25,360	-	-	2,875,013	-	7,700,371
	24	28	83,325	376,272	452	2,595	463,404
	97,893	25,388	83,325	376,272	2,875,465	2,595	8,163,775
	4,441	1,156	7	3	130,643	-	349,895
	-	-	-	-	35	-	35
	-	-	-	-	158	-	158
	4	3	3	3	143	-	190
	-	-	-	-	(246)	-	(252)
	-	-	1	-	16	-	52
	4	3	4	3	106	-	183
	104,490	28,270	87,347	378,052	3,063,387	5,006	8,667,323
	60	33	111	324	127	47	1,735
	63	55	-	-	-	-	776
	279	-	-	-	-	-	3,838
	-	-	-	5	-	-	5
	4,441	1,156	7	3	130,643	-	349,895
	7	6	27	19	179	1	507
	5	5	42	28	239	2	710
	4,855	1,255	187	379	131,188	50	357,466
$	99,635 $	27,015 $	87,160 $	377,673 $	2,932,199 $	4,956 $	8,309,857

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(amounts expressed in thousands)

	PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)					
	PUBLIC EMPLOYEES DEFINED BENEFIT	MUNICIPAL POLICE	FIRE-FIGHTERS UNIFIED	SHERIFFS	HIGHWAY PATROL	JUDGES
ADDITIONS						
Contributions/premiums:						
Employer	$ 79,919 $	6,055 $	5,281 $	6,029 $	4,966 $	1,598
Employee	79,261	3,791	4,100	5,694	1,272	447
Other contributions	735	12,275	11,820	-	296	-
Net investment earnings:						
Investment earnings	111,463	6,874	6,877	6,203	2,827	1,844
Administrative investment expenses	(21,335)	(1,227)	(1,221)	(1,161)	(537)	(348)
Securities lending income	1,581	91	91	85	40	26
Securities lending expense	(353)	(20)	(20)	(19)	(9)	(6)
Charges for services	-	-	-	-	-	-
Other additions	1	-	-	-	-	-
Total additions	251,272	27,839	26,928	16,831	8,855	3,561
DEDUCTIONS						
Benefits	252,843	17,356	16,520	10,380	8,224	2,345
Refunds	12,308	711	119	1,271	67	-
Administrative expenses:						
Personal services	2,094	28	28	31	27	31
Contractual services	955	67	65	74	63	74
Supplies/materials	88	2	2	3	2	3
Depreciation	2		-	-	-	-
Amortization	70	1	1	1	1	1
Utilities/rent	220	-	-	-	-	-
Communications	130	-	-	-	-	-
Travel	38	-	-	-	-	-
Repair/maintenance	3	-	-	-	-	-
Other operating expenses	(292)	81	66	97	29	8
Local assistance	-	-	-	-	-	-
Transfer to ORP	123	-	-	-	-	-
Transfer to PERS-DCRP	609	-	-	-	-	-
Total deductions	269,191	18,246	16,801	11,857	8,413	2,462
Changes in net assets	(17,919)	9,593	10,127	4,974	442	1,099
Net assets- July 1- as previously reported	3,942,108	229,044	227,528	211,692	98,849	63,658
Prior period adjustments	24	-	-	-	-	-
Net assets - July 1- as restated	3,942,132	229,044	227,528	211,692	98,849	63,658
Net assets - June 30	$ 3,924,213 $	238,637 $	237,655 $	216,666 $	99,291 $	64,757

PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)

	GAME WARDENS/ PEACE OFFICERS	VOLUNTEER FIRE-FIGHTERS	PUBLIC EMPLOYEES DEFINED CONTRIBUTION	PUBLIC EMPLOYEES 457 PLAN	TEACHERS RETIREMENT SYSTEM	VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION	TOTAL
$	3,470 $	- $	4,137 $	65 $	72,422 $	2,553 $	186,495
	4,143	-	6,318	19,381	62,745	-	187,152
	5	1,635	-	-	16,844	-	43,610
	2,883	726	2,542	14,451	81,319	414	238,423
	(526)	(142)	(191)	(539)	(15,891)	-	(43,118)
	39	11	1	-	1,177	-	3,142
	(9)	(3)	-	-	(263)	-	(702)
	-	-	202	627	-	-	829
	-	-	415	-	9	-	425
	10,005	2,227	13,424	33,985	218,362	2,967	616,256
	3,203	2,047	4,009	15,642	251,457	1,643	585,669
	1,242	-	-	-	5,294	-	21,012
	31	26	237	147	1,108	25	3,813
	74	60	492	1,345	394	-	3,663
	3	2	12	9	21	-	147
	-	-	-	-	25	-	27
	1	-	2	1	13	-	92
	-	-	26	16	49	-	311
	-	-	8	5	107	-	250
	-	-	7	6	28	-	79
	-	-	-	-	16	-	19
	63	55	13	8	71	46	245
	-	13	-	-	-	-	13
	-	-	-	-	-	-	123
	-	-	-	-	-	-	609
	4,617	2,203	4,806	17,179	258,583	1,714	616,072
	5,388	24	8,618	16,806	(40,221)	1,253	184
	94,247	26,991	78,789	360,620	2,972,420	3,703	8,309,649
	-	-	(247)	247	-	-	24
	94,247	26,991	78,542	360,867	2,972,420	3,703	8,309,673
$	99,635 $	27,015 $	87,160 $	377,673 $	2,932,199 $	4,956 $	8,309,857

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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. As well as, 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 ASSETS
PRIVATE-PURPOSE TRUST FUNDS
JUNE 30, 2012
(amounts expressed in thousands)

	COLLEGE SAVINGS PLAN	ESCHEATED PROPERTY	PLAN SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
ASSETS				
Cash/cash equivalents	$ 126,545	$ 3,080	$ -	$ 47
Receivables (net):				
Interest	-	1	-	-
Total receivables	-	1	-	-
Investments at fair value:				
Other investments	94,142	49	-	-
Total investments	94,142	49	-	-
Securities lending collateral	-	6	-	-
Other assets	-	-	25,604	-
Total assets	220,687	3,136	25,604	47
LIABILITIES				
Accounts payable	-	9	-	-
Amounts held in custody for others	-	-	-	-
Securities lending liability	-	6	-	-
Total liabilities	-	15	-	-
NET ASSETS				
Held in trust for other purposes	$ 220,687	$ 3,121	$ 25,604	$ 47

MOORE-SIPPLE CONNECTOR	PERFORMANCE DEPOSITS	TOTAL
$ 234	$ 23,872	$ 153,778
-	5	6
-	5	6
5	331	94,527
5	331	94,527
-	43	49
-	17,955	43,559
239	42,206	291,919
-	12	21
-	15,486	15,486
-	43	49
-	15,541	15,556
$ 239	$ 26,665	$ 276,363

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

	COLLEGE SAVINGS PLAN	ESCHEATED PROPERTY	PLAN SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
ADDITIONS				
Participant contributions	$ 19,971	$ -	$ 781	$ -
Net investment earnings:				
Investment earnings	948	8	-	-
Securities lending income	-	1	-	-
Securities lending expense	-	-	-	-
Other additions	-	4,460	-	-
Total additions	20,919	4,469	781	-
DEDUCTIONS				
Distributions	26,817	4,081	-	-
Administrative expenses:				
Contractual services	394	-	-	-
Grants	-	-	-	-
Total deductions	27,211	4,081	-	-
Change in net assets	(6,292)	388	781	-
Net assets - July 1 - as previously reported	226,979	2,733	24,823	47
Prior Period Adjustments	-	-	-	-
Net assets - July 1 - as restated	226,979	2,733	24,823	47
Net assets - June 30	$ 220,687	$ 3,121	$ 25,604	$ 47

MOORE-SIPPLE CONNECTOR	PERFORMANCE DEPOSITS	TOTAL
$ -	$ -	$ 20,752
1	56	1,013
-	6	7
-	(1)	(1)
-	1,802	6,262
1	1,863	28,033
-	709	31,607
-	-	394
1	-	1
1	709	32,002
-	1,154	(3,969)
239	25,428	280,249
-	83	83
239	25,511	280,332
$ 239	$ 26,665	$ 276,363

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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 ASSETS
AGENCY FUNDS
June 30,2012
(amounts expressed in thousands)

	PERFORMANCE DEPOSITS	CENTRAL PAYROLL	CRIMINAL OFFENDER RESTITUTION	CUSTODIAL ACCOUNTS	CHILD SUPPORT COLLECTIONS
ASSETS					
Cash/cash equivalents	$ 963	$ 4,546	$ 276	$ 1,716	$ 279
Receivables (net):					
Accounts receivable	-	-	-	28	444
Total receivables	-	-	-	28	444
Investments at fair value:					
Other investments	-	-	-	5	-
Total investments	-	-	-	5	-
Other assets	300	-	-	9	-
Total assets	1,263	4,546	276	1,758	723
LIABILITIES					
Accounts payable	10	-	-	106	295
Amounts held in custody for others	1,253	4,546	276	1,652	428
Total liabilities	1,263	4,546	276	1,758	723
NET ASSETS					
Held in trust for pension benefits and other purposes	$ -	$ -	$ -	$ -	$ -

UNCLEARED COLLECTIONS	INTER-GOVERNMENTAL	DEBT COLLECTION	MILK PASS-THROUGH	TOTAL
$ 573	$ 62	$ 277	$ 64	$ 8,756
-	1	-	-	473
-	1	-	-	473
-	-	-	-	5
-	-	-	-	5
-	-	-	-	309
573	63	277	64	9,543
571	6	1	37	1,026
2	57	276	27	8,517
573	63	277	64	9,543
$ -	$ -	$ -	$ -	$ -

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30,2012

(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2011	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2012
PERFORMANCE DEPOSITS:				
ASSETS				
Cash/cash equivalents	$ 1,688	$ 119,570	$ 120,295	$ 963
Receivables (net)	-	21	21	-
Other assets	13,367	18	13,085	300
Total assets	$ 15,055	$ 119,609	$ 133,401	$ 1,263
LIABILITIES				
Accounts payable	$ 45	$ 1,898	$ 1,933	$ 10
Amounts held in custody for others	15,010	20,695	34,452	1,253
Total liabilities	$ 15,055	$ 22,593	$ 36,385	$ 1,263
CENTRAL PAYROLL:				
ASSETS				
Cash/cash equivalents	$ 7,178	$ 839,170	$ 841,802	$ 4,546
Total assets	$ 7,178	$ 839,170	$ 841,802	$ 4,546
LIABILITIES				
Accounts payable	$ 2	$ 9,838	$ 9,840	$ -
Amounts held in custody for others	7,176	842,560	845,190	4,546
Total liabilities	$ 7,178	$ 852,398	$ 855,030	$ 4,546
CRIMINAL OFFENDER RESTITUTION:				
ASSETS				
Cash/cash equivalents	$ 158	$ 4,358	$ 4,240	$ 276
Total assets	$ 158	$ 4,358	$ 4,240	$ 276
LIABILITIES				
Accounts Payable	$ -	$ 2,400	$ 2,400	$ -
Amounts held custody others	158	4,357	4,239	276
Total liabilities	$ 158	$ 6,757	$ 6,639	$ 276
CUSTODIAL ACCOUNTS:				
ASSETS				
Cash/cash equivalents	$ 1,777	$ 9,114	$ 9,175	$ 1,716
Receivables (net)	29	-	1	28
Investments	5	-	-	5
Securities lending collateral	4	1	5	-
Other assets	9	-	-	9
Total assets	$ 1,824	$ 9,115	$ 9,181	$ 1,758
LIABILITIES				
Accounts Payable	$ (6)	$ 3,213	$ 3,101	$ 106
Amts held custody others	1,826	22,904	23,078	1,652
Securities lending liability	4	1	5	-
Total liabilities	$ 1,824	$ 26,118	$ 26,184	$ 1,758

FUND	BALANCE JUNE 30, 2011	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2012
CHILD SUPPORT COLLECTIONS:				
ASSETS				
Cash/cash equivalents	$ 199	$ 72,858	$ 72,778	$ 279
Receivables (net)	427	35	18	444
Total assets	$ 626	$ 72,893	$ 72,796	$ 723
LIABILITIES				
Accounts Payable	$ 259	$ 68,027	$ 67,991	$ 295
Amounts held custody others	367	72,809	72,748	428
Total liabilities	$ 626	$ 140,836	$ 140,739	$ 723
UNCLEARED COLLECTIONS:				
ASSETS				
Cash/cash equivalents	$ 2	$ 11,662,181	$ 11,661,610	$ 573
Receivables (net)	-	341	341	-
Investments	-	386	386	-
Total assets	$ 2	$ 11,662,908	$ 11,662,337	$ 573
LIABILITIES				
Accounts Payable	$ -	$ 15,396	$ 14,825	$ 571
Amounts held in custody others	2	7,708	7,708	2
Total liabilities	$ 2	$ 23,104	$ 22,533	$ 573
INTERGOVERNMENTAL:				
ASSETS				
Cash/cash equivalents	$ 37	$ 311	$ 286	$ 62
Receivables (net)	1	7	7	1
Total assets	$ 38	$ 318	$ 293	$ 63
LIABILITIES				
Accounts Payable	$ -	$ 147	$ 141	$ 6
Amounts held in custody others	38	311	292	57
Total liabilities	$ 38	$ 458	$ 433	$ 63
DEBT COLLECTION:				
ASSETS				
Cash/cash equivalents	$ 562	$ 8,152	$ 8,437	$ 277
Total assets	$ 562	$ 8,152	$ 8,437	$ 277
LIABILITIES				
Accounts Payable	$ 6	$ 7,619	$ 7,624	$ 1
Amounts held in custody others	556	5,151	5,431	276
Total liabilities	$ 562	$ 12,770	$ 13,055	$ 277

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - Continued

AGENCY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30,2012

(amounts expressed in thousands)

FUND		BALANCE JUNE 30, 2011		ADDITIONS		DEDUCTIONS		BALANCE JUNE 30, 2012
MILK PASSTHROUGH:								
ASSETS								
Cash/cash equivalents	$	65	$	683	$	684	$	64
Total assets	$	65	$	683	$	684	$	64
LIABILITIES								
Accounts Payable	$	17	$	703	$	683	$	37
Amounts held custody others		48		697		718		27
Total liabilities	$	65	$	1,400	$	1,401	$	64
OPEB STATE:								
ASSETS								
Cash/cash equivalents	$	-	$	24,213	$	24,213	$	-
Other assets		-		24,213		24,213		-
Total assets	$	-	$	48,426	$	48,426	$	-
OPEB MUS:								
ASSETS								
Cash/cash equivalents	$	-	$	9,634	$	9,634	$	-
Other assets		-		9,634		9,634		-
Total assets	$	-	$	19,268	$	19,268	$	-
TOTAL - ALL AGENCY FUNDS								
ASSETS								
Cash/cash equivalents	$	11,666	$	12,750,244	$	12,753,154	$	8,756
Receivables (net)		457		404		388		473
Investments		5		386		386		5
Securities lending collateral		4		1		5		-
Other assets		13,376		33,865		46,932		309
Total assets	$	25,508	$	12,784,900	$	12,800,865	$	9,543
LIABILITIES								
Accounts Payable	$	323	$	109,241	$	108,538	$	1,026
Amts held custody others		25,181		977,192		993,856		8,517
Securities lending liability		4		1		5		-
Total liabilities	$	25,508	$	1,086,434	$	1,102,399	$	9,543

STATISTICAL SECTION

The Statistical Section provides additional historical context and detail to aid in using the information in the financial statements, notes to the financial statements, and required supplementary information of the primary government of the State of Montana in understanding and assessing the State's overall financial health.

Financial Trends Information

These schedules present trend information to help understand how the State's financial performance and fiscal health have changed over time.

Revenue Capacity Information

These schedules contain information to help understand the State's capacity to raise revenues and the sources of those revenues.

Debt Capacity Information

These schedules present information to help understand and assess the State's level of outstanding debt and the State's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules contain demographic and economic indicators to help understand the environment within which the State's financial activities take place.

Operating Information

These schedules provide operating data to help understand how the information in the State's financial report relates to the services it provides and the activities it performs.

Sources: Unless otherwise noted, the information in the following schedules is derived from the State of Montana Comprehensive Annual Financial Report.

SCHEDULE A-1 – NET ASSETS BY COMPONENT
Last Ten Fiscal Years
(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
Invested in capital assets, net of related debt	$2,049,489	$2,250,177	$2,528,808	$2,842,708	$3,115,260	$3,262,932	$3,526,294	$3,874,920	$4,178,343	$4,529,952
Restricted	1,817,193	1,858,088	2,159,185	2,202,592	2,347,395	2,617,435	2,329,850	1,983,143	2,292,979	2,298,142
Unrestricted	177,161	222,829	404,724	647,182	675,752	595,019	589,815	1,083,674	877,017	824,809
Total governmental activities net assets	$4,043,843	$4,331,094	$5,092,717	$5,692,482	$6,138,407	$6,475,386	$6,445,959	$6,941,737	$7,348,339	$7,652,903
Business-type activities										
Invested in capital assets, net of related debt	$ 9,084	$ 8,925	$ 9,670	$ 8,703	$ 8,698	$ 8,733	$ 12,539	$ 14,534	$ 15,581	$ 15,011
Restricted	202,268	212,473	240,514	269,687	314,722	337,036	255,493	159,335	158,735	206,896
Unrestricted	17,223	14,909	16,672	18,539	11,761	11,234	6,996	21,851	12,349	15,905
Total business-type activities net assets	$ 230,603	$ 236,307	$ 266,856	$ 296,929	$ 335,181	$ 357,003	$ 275,028	$ 194,720	$ 186,665	$ 237,812
Primary government										
Invested in capital assets, net of related debt	$2,058,573	$2,259,102	$2,538,478	$2,851,411	$3,123,958	$3,271,665	$3,538,833	$3,889,454	$4,193,924	$4,554,963
Restricted	2,019,461	2,070,561	2,399,699	2,472,279	2,662,117	2,594,471	2,585,343	2,142,478	2,451,714	2,505,038
Unrestricted	196,412	237,738	421,396	665,721	687,513	606,253	596,811	1,104,525	889,366	840,714
Total primary government net assets	$4,274,446	$4,567,401	$5,359,573	$5,989,411	$6,473,588	$6,832,389	$6,720,987	$7,136,457	$7,535,004	$7,890,715

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SCHEDULE A-2 – CHANGE IN NET ASSETS

Last Ten Fiscal Years

(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year				
Expenses	2003	2004	2005	2006	2007
Governmental activities:					
General government	$ 280,740	$ 285,781	$ 305,819	$ 525,981	$ 450,646
Public safety	194,885	227,786	258,610	245,810	293,193
Transportation	286,181	400,034	281,074	216,942	197,510
Health and human services	1,023,893	1,109,045	1,182,281	1,270,056	1,266,098
Education	899,575	874,846	900,542	976,046	1,065,504
Natural resources	234,848	258,057	197,539	142,460	256,751
Economic development/assistance	169,270	144,687	144,777	150,449	152,154
Principal on long-term debt	-	-	-	-	-
Interest on long-term debt	19,910	15,088	14,375	19,569	19,418
Total governmental activities expenses	3,109,302	3,315,324	3,285,017	3,547,313	3,701,274
Business-type activities:					
Unemployment Insurance	92,639	93,882	75,291	72,661	72,378
Liquor Stores	40,097	42,827	45,503	50,514	55,521
State Lottery	27,320	28,669	27,681	31,020	30,416
Economic Development Bonds	2,426	2,197	2,630	3,441	4,167
Hail Insurance	2,029	1,949	3,153	4,632	4,663
General Government Services	14,177	48,395	50,329	51,017	53,851
Prison Funds	4,515	4,244	5,268	5,356	6,487
MUS Group Insurance	35,906	39,690	40,524	52,139	58,532
MUS Workers Compensation	-	2,552	2,842	2,978	2,647
Total business-type activities expenses	219,109	264,405	253,221	273,758	288,662
Total primary government expenses	$ 3,328,411	$ 3,579,729	$ 3,538,238	$ 3,821,071	$ 3,989,936
Program Revenues					
Governmental activities:					
Charges for services:					
General government	$ 42,849	$ 59,384	$ 49,637	$ 59,166	$ 61,713
Public safety/corrections	124,901	159,397	146,746	150,787	153,577
Transportation	61,316	33,943	38,101	31,766	34,963
Health/social services	31,074	32,983	31,467	30,022	30,547
Education/cultural	69,228	28,922	30,499	107,096	96,903
Resource/recreation/environment	67,380	137,714	121,539	77,064	80,320
Economic development/assistance	17,835	22,102	25,995	31,866	38,441
Operating grants and contributions	1,170,703	1,271,515	1,391,026	1,371,109	1,395,324
Capital grants and contributions	308,021	290,045	319,434	305,345	325,352
Total governmental activities program revenues	1,893,757	2,034,005	2,154,444	2,164,221	2,217,140
Business-type activities:					
Charges for services:					
Unemployment Insurance	66,493	67,873	72,866	76,754	83,661
Liquor Stores	46,955	49,521	52,081	58,975	63,943
State Lottery	34,696	36,740	33,815	39,923	41,567
Economic Development Bonds	19	8	5	7	22
Hail Insurance	2,568	3,748	7,404	3,057	6,042
General Government Services	12,658	13,197	14,244	15,589	18,176
Prison Funds	4,371	5,140	5,233	5,717	5,600
MUS Group Insurance	38,743	42,252	47,739	54,164	57,159
MUS Workers Compensation	-	2,424	2,978	3,543	4,047
Operating grants and contributions	10,442	55,487	58,433	58,051	64,691
Capital grants and contributions	510	177	159	378	171
Total business-type activities program revenues	217,185	493,752	294,957	316,158	345,079
Total primary government program revenues	$ 2,110,942	$ 2,527,757	$ 2,449,401	$ 2,480,379	$ 2,562,219

2008	2009	2010	2011	2012
$ 634,984	$ 549,847	$ 774,881	$ 752,565	$ 660,561
322,769	408,239	342,803	308,593	387,213
488,450	438,649	320,085	390,523	468,977
1,380,629	1,529,104	1,677,261	1,765,871	1,745,284
1,144,637	1,137,772	1,179,788	1,209,969	1,192,205
258,058	363,179	318,300	318,954	337,462
152,456	170,027	-	-	-
-	-	-	6	7,593
18,344	18,721	17,692	16,314	15,725
4,400,327	4,615,538	4,630,810	4,762,795	4,815,020
90,269	235,949	354,793	278,086	217,829
59,227	61,446	61,569	63,573	67,863
32,984	33,787	36,365	35,481	39,808
4,552	3,523	2,167	1,126	1,149
11,064	4,087	6,238	8,379	7,052
56,697	60,157	62,797	63,003	62,094
6,670	10,681	6,463	6,149	6,480
59,334	55,023	72,606	63,501	59,577
3,109	3,675	3,900	4,232	4,530
323,906	468,328	606,898	523,530	466,382
$ 4,724,233	$5,083,866	$5,237,708	$5,286,325	5,281,402

$ 83,720	$ 68,982	$ 127,163	$ 138,059	$ 143,815
149,534	144,748	147,839	145,754	147,070
42,348	37,204	26,531	25,143	29,256
38,137	35,554	43,338	37,166	34,191
150,906	113,433	34,309	40,720	36,335
80,933	39,929	232,861	164,880	166,466
38,520	43,182	-	-	-
1,493,944	1,635,769	1,985,977	1,962,876	1,824,334
380,856	467,611	510,996	537,194	512,649
2,458,898	2,586,412	3,109,014	3,051,792	2,894,116
85,801	75,591	89,500	137,439	164,353
69,242	67,242	68,032	73,298	78,384
43,826	43,841	46,865	46,047	52,615
33	26	22	18	17
7,730	6,859	6,915	6,710	7,055
19,844	21,548	22,601	23,044	22,303
7,150	6,620	6,304	6,276	7,284
62,666	52,147	64,756	65,228	69,025
4,660	5,003	4,979	4,716	4,167
63,524	118,058	226,049	168,222	134,120
540	1,360	3,174	281	398
365,016	398,295	539,197	531,279	539,721
$ 2,823,914	$2,984,707	$3,648,211	$3,583,071	$3,433,837

SCHEDULE A-2 – CHANGE IN NET ASSETS - Continued
Last Ten Fiscal Years
(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year				
	2003	2004	2005	2006	2007
Net (expense)/revenue					
Governmental activities	$(1,215,545)	$(1,281,319)	$(1,130,573)	$(1,383,092)	$(1,484,134)
Business-type activities	(1,924)	229,347	41,736	42,400	56,417
Total primary government net expense	$(1,217,469)	$(1,051,972)	$(1,088,837)	$(1,340,692)	$(1,427,717)
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes					
Property	$ 170,803	$ 164,505	$ 186,229	$ 194,617	$ 206,527
Fuel	190,030	198,332	190,897	212,276	210,573
Natural resource	111,776	131,053	191,723	260,382	276,793
Individual income	540,926	619,043	729,459	760,981	819,473
Corporate income	44,394	69,685	101,834	153,574	183,913
Other	201,929	253,953	257,526	289,978	309,232
Unrestricted grants and contributions	-	-	-	4,158	3,911
Settlements	35,754	25,181	28,313	28,248	27,853
Unrestricted investment earnings	206,970	32,734	52,792	36,188	78,032
Gain on sale of capital assets	311	204	34	53	10,823
Miscellaneous	24,045	6,412	4,358	4,741	3,050
Transfers	32,366	30,812	29,871	34,802	41,080
Total governmental activities	1,559,844	1,531,914	1,773,036	1,979,998	2,171,260
Business-type activities:					
Taxes					
Other	13,650	14,621	15,624	17,317	19,046
Settlements	-	-	-	-	10
Unrestricted investment earnings	16,028	319	190	1,016	569
Gain on sale of capital assets	-	-	-	-	-
Miscellaneous	5,750	9,956	2,945	4,146	1,953
Transfers	(32,366)	(30,812)	(29,871)	(34,802)	(41,080)
Total business-type activities	3,062	(5,916)	(11,112)	(12,323)	(19,502)
Total primary government	1,562,906	1,525,998	1,761,924	1,967,675	2,151,758
Change in Net Assets					
Governmental activities	344,299	250,595	642,463	596,906	687,126
Business-type activities	1,138	223,431	30,624	30,077	36,915
Total primary government	$ 345,437	$ 474,026	$ 673,087	$ 626,983	$ 724,041

Source: *Statewide Accounting, Budgeting, and Human Resource System*

2008	2009	2010	2011	2012
$(1,941,429)	$(2,029,126)	$(1,521,796)	$(1,711,003)	$(1,920,904)
41,110	(70,033)	(67,700)	7,749	73,339
$(1,900,319)	$(2,099,159)	$(1,589,496)	$(1,703,254)	$(1,847,565)
$ 214,868	$ 228,368	$ 235,287	$ 241,961	$ 257,631
205,758	191,061	204,373	209,348	211,933
407,007	307,032	275,313	305,471	309,427
862,273	806,908	709,699	810,108	892,560
161,118	168,053	89,033	121,801	129,668
320,398	315,810	303,859	308,703	308,927
28	167	461	-	181
38,760	155,127	77,927	38,747	40,426
72,203	42,556	172,748	155,419	87,083
6,351	6,141	3,244	3,209	2,179
5,810	116,865	4,247	2,919	2,728
43,010	42,863	42,488	40,547	46,361
2,337,584	2,380,951	2,118,677	2,238,233	2,289,104
20,340	24,821	25,017	21,797	23,233
-	-	-	27	-
406	142	244	4,642	54
-	-	1	-	270
2,662	2,484	4,377	637	542
(43,010)	(42,863)	(42,486)	(40,547)	(46,361)
(19,602)	(15,416)	(12,847)	(13,444)	(22,262)
2,317,982	2,365,535	2,105,830	2,224,789	2,266,842
396,155	351,825	596,881	527,230	368,200
21,508	(85,449)	(80,547)	(5,695)	51,077
$ 417,663	$ 266,376	$ 516,334	$ 521,535	$ 419,277

SCHEDULE A-3 – FUND BALANCES, GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(modified accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
General Fund							
Reserved	$ 8,056	$ 8,903	$ 10,118	$ 11,533	$ 20,498	$ 28,221	$ 25,991
Unreserved	43,065	132,873	289,675	408,580	549,158	433,580	392,526
Total general fund	$ 51,121	$ 141,776	$ 299,793	$ 420,113	$ 569,656	$ 461,801	$ 418,517
All other governmental funds							
Reserved	$1,650,265	$2,199,647	$2,421,876	$2,431,304	$2,529,131	$2,766,497	$3,016,151
Unreserved, reported in:							
Special revenue funds	501,679	(83,891)	(51,010)	(53,266)	(48,292)	(47,864)	(30,881)
Debt service funds	10,731	7,003	5,456	6,783	5,920	1,083	(4,505)
Capital project funds	16,935	10,661	8,721	47,272	37,735	87,895	124,205
Total all other governmental funds	$2,179,610	$2,133,420	$2,385,043	$2,432,093	$2,524,494	$2,807,611	$3,104,970

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-3 – FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting, amounts expressed in thousands)

	2010	2011	2012
Nonspendable:			
Inventory	$ 27,018	$ 23,007	$ 25,046
Permanent fund principle	1,143,435	1,300,871	1,365,218
Long-term notes/receivable	96	65	2,146
Prepaid expenses	1,361	1,254	1,538
Total nonspendable	$1,171,910	$1,325,197	$1,393,948
Restricted:			
General government	13,785	13,146	10,474
Transportation	102,520	116,353	75,518
Health and human services	22,367	22,025	16,739
Natural resources	438,410	634,957	653,179
Public safety	317,295	290,768	294,520
Education	24,644	29,054	27,140
Total restricted	$919,021	$1,106,303	$1,077,570
Committed:			
General government	551,394	588,292	625,432
Transportation	6,403	4,445	4,304
Health and human services	65,050	72,102	43,952
Natural resources	601,410	312,467	266,254
Public safety	39,772	15,393	18,162
Education	1,540	12,162	12,434
Total committed	$1,255,569	$1,004,861	$ 970,538
Assigned:			
General government	33,427	25,805	21,413
Transportation	-	-	26
Health and human services	148	-	-
Natural resources	418	41	60
Public safety	2,949	1,853	1,756
Education	138	-	-
FY 2011 appropriation	70,270	-	-
Encumbrances	11,986	24,591	22,670
Total assigned	$ 119,336	$ 52,290	$ 45,925
Unassigned	212,183	339,898	451,656
Total fund balances	$3,688,019	$3,828,549	$3,939,637

SCHEDULE A-4 – CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(modified accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year				
	2003	2004	2005	2006	2007
Revenues					
Licenses/permits	$ 210,611	$ 240,612	$ 245,244	$ 259,073	$ 285,890
Taxes	1,250,187	1,416,392	1,627,858	1,880,838	2,009,620
Charges for services/fines/forfeits/settlements	157,937	200,590	145,235	162,520	160,571
Investment earnings	204,406	49,363	143,937	62,977	171,047
Sale of documents/merchandise/property	13,104	31,687	22,655	21,412	20,460
Rentals/leases/royalties	28,324	22,868	43,723	63,318	51,442
Contributions/Premiums					-
Grants/contracts/donations	24,560	27,984	27,984	25,987	25,362
Federal	1,488,048	1,518,634	1,583,989	1,612,717	1,586,206
Federal Indirect cost Recoveries					
Other revenues	32,927	32,042	17,253	20,989	17,280
Total revenues	3,410,100	3,514,220	3,857,878	4,109,831	4,327,878
Expenditures					
General government	239,707	252,486	293,808	466,886	401,331
Public safety	189,302	208,593	238,929	254,381	284,777
Transportation	510,866	529,555	523,022	559,695	575,157
Health and human services	1,018,333	1,114,064	1,186,462	1,274,947	1,267,854
Education	894,591	898,988	905,150	976,446	1,050,239
Natural resources	184,359	250,590	206,903	204,413	247,090
Economic development/assistance	168,007	144,381	146,306	151,020	152,442
Debt service:					
Principal retirement	39,002	25,217	27,203	32,546	33,103
Interest/fiscal charges	18,166	14,812	14,171	20,745	19,080
Capital outlay	63,073	60,310	70,851	69,505	95,834
Securities lending	1,734	1,784	4,905	7,663	5,261
Total expenditures	3,327,140	3,500,780	3,617,710	4,018,247	4,132,168
Excess of revenue over (under) expenditures	82,960	13,440	240,168	91,584	195,710
Other financing sources (uses)					
Bond proceeds	2,235	-	-	-	-
Bonds issued	31,360	5,790	135,380	37,050	-
Refunding bonds issued	44,385	20,235	30,070	-	16,740
Bond premium	1,655	478	8,106	2,178	946
Payment to refunding bond escrow agent	(44,408)	(20,214)	(31,018)	-	(17,504)
Inception of lease/installment contract	321	1,297	517	876	49
Insurance proceeds	-	-	-	327	115
General capital asset sale proceeds	312	270	169	164	10,946
Energy conservation loans	-	-	-	-	-
Transfers in	231,890	239,638	273,651	292,130	306,867
Transfers out	200,605	(210,166)	(244,868)	(259,247)	(269,595)
Total other financing sources (uses)	67,145	37,328	172,007	73,478	48,564
Net change in fund balances	$ 150,105	$ 50,678	$ 412,175	$ 165,062	$ 244,274
Debt service as a percentage of noncapital expenditures	1.8%	1.2%	1.3%	1.6%	1.4%

Source: Statewide Accounting, Budgeting, and Human Resource System

2008	2009	2010	2011	2012
$ 283,755	$ 283,423	$ 283,658	$ 287,580	$ 290,183
2,162,928	2,005,327	1,809,427	1,986,722	2,096,733
188,518	255,068	238,758	191,142	193,874
165,165	114,857	232,668	143,198	181,484
19,711	15,271	17,499	17,208	16,221
65,176	73,080	143,714	70,322	77,946
-	-	19,724	20,685	21,666
27,825	28,919	27,324	23,439	24,812
1,713,478	1,953,376	2,271,216	2,338,090	2,102,964
		112,918	101,152	107,446
30,952	144,890	6,809	5,069	4,718
4,657,508	4,874,211	5,163,715	5,184,607	5,118,047
545,661	428,723	666,192	643,623	633,336
311,094	335,877	338,776	346,670	353,344
360,383	311,838	197,197	271,387	345,796
1,372,335	1,526,287	1,675,253	1,757,633	1,734,471
1,137,548	1,136,056	1,181,591	1,208,538	1,183,056
300,207	238,834	288,913	272,895	287,636
149,057	168,778	-	-	-
33,767	34,199	31,682	33,974	34,865
18,931	19,079	18,213	16,362	16,314
351,111	464,378	650,589	565,943	488,958
7,244	2,917	873	600	383
4,587,338	4,666,966	5,049,279	5,117,625	5,078,159
70,170	207,245	114,436	66,982	39,888
-	-	3,800	-	-
59,490	-	-	31,000	-
-	-	28,270	10,180	56,670
828	-	1,294	767	8,264
-	-	(29,148)	(11,062)	(64,421)
874	615	172	36	49
1,681	886	670	4,326	3,565
6,497	5,960	3,614	4,130	2,343
-	-	-	-	26,171
413,286	391,661	491,045	351,366	277,279
(373,727)	(350,135)	(450,686)	(316,934)	(235,235)
108,929	48,987	49,031	73,809	74,685
$ 179,099	$ 256,232	$ 163,467	$ 140,791	$ 114,573
1.3%	1.2%	1.1%	1.1%	1.1%

SCHEDULE B-1 – PERSONAL INCOME BY INDUSTRY
Last Ten Calendar Years
(amounts expressed in thousands)

	Calendar Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Farm Earnings	$ 187,285	$ 336,736	$ 544,076	$ 598,945	$ 190,096	$ 408,523	$ 468,182	$ 310,053	$ 625,246	$ 720,138
Agricultural/forestry, fishing, and other	181,184	199,008	201,726	198,427	210,748	205,861	193,708	186,402	162,669	168,285
Mining	407,463	424,207	527,824	601,174	735,437	735,100	897,521	772,277	664,485	820,944
Construction/utilities	1,337,890	1,503,342	1,649,645	1,850,637	2,070,597	2,186,771	2,007,944	1,677,216	2,067,925	2,097,991
Manufacturing	930,340	932,165	959,263	1,020,820	1,102,085	1,139,506	1,152,181	1,059,780	1,032,034	1,069,144
Transportation and public utilities	956,872	990,495	1,058,487	1,121,137	1,228,453	1,231,036	1,269,832	1,250,836	913,489	985,485
Wholesale trade	670,340	702,274	769,190	818,971	879,070	964,006	985,176	938,306	940,214	1,002,298
Retail trade	1,559,887	1,617,823	1,679,641	1,745,539	1,843,169	1,959,131	1,935,405	1,843,250	1,947,337	2,019,009
Finance, insurance, and real estate	1,282,357	1,244,805	1,429,520	1,518,863	1,544,182	1,433,899	1,445,414	1,430,985	1,433,145	1,486,390
Services	5,404,330	5,670,453	6,077,871	6,501,206	7,088,480	7,533,395	7,915,541	8,005,007	8,217,674	8,615,811
Federal, civilian	913,334	974,085	1,047,116	1,085,934	1,134,414	1,180,607	1,207,987	1,268,108	1,314,102	1,215,699
Military	334,884	393,289	421,133	452,182	456,908	465,490	489,616	515,593	528,570	532,199
State and local government	2,415,951	2,594,624	2,669,870	2,817,801	2,973,386	3,169,949	3,364,342	3,494,129	3,599,170	3,589,740
Other (1)	6,787,966	7,168,740	7,459,502	7,847,207	8,989,644	9,834,100	10,778,049	11,171,289	11,302,305	12,184,262
Total personal income	$23,370,083	$24,752,046	$26,494,864	$28,178,843	$30,446,669	$32,475,374	$33,110,898	$33,923,231	$34,748,365	$36,507,395
Average effective rate (2)	2.2%	2.2%	2.3%	2.5%	2.5%	2.5%	2.6%	2.4%	2.1%	2.2%

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									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Personal income tax revenue (1)	$517,568	$535,831	$605,348	$712,281	$768,912	$827,095	$866,638	$815,138	$717,834	$816,090
Personal income	$23,370,083	$24,752,046	$26,494,864	$28,178,843	$30,446,669	$32,475,374	$33,110,898	$33,923,231	$34,748,365	$36,507,395
Average effective rate (2)	2.2%	2.2%	2.3%	2.5%	2.5%	2.5%	2.6%	2.4%	2.1%	2.2%

	Tax Rates on the Portion of Taxable Income in Ranges (3)									
Calendar Year 2002										
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%
Income Bracket	$0-2.2	$2.2-4.4	$4.4-8.7	$8.7-13.1	$13.1-17.4	$17.4-21.8	$21.8-30.5	$30.5-43.5	$43.5-76.2	$76.2 +
Calendar Year 2003										
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%
Income Bracket	$0-2.2	$2.2-4.4	$4.4-8.9	$8.9-13.3	$13.3-17.8	$17.8-22.2	$22.2-31.1	$31.1-44.5	$44.5-77.8	$77.8 +
Calendar Year 2004										
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%
Income Bracket	$0-2.3	$2.3-4.6	$4.6-9.2	$9.2-13.8	$13.8-18.4	$18.4-22.9	$22.9-32.1	$32.1-45.9	$45.9-80.3	$80.3 +
Calendar Year 2005										
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%	9.0%	10.0%	11.0%
Income Bracket	$0-2.3	$2.3-4.1	$4.1-6.2	$6.2-8.4	$8.4-10.8	$10.8-13.9	$13.9 +	$32.1-45.9	$45.9-80.3	$80.3 +
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 +			
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 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 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 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 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 +			

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 2006				Calendar Year 2011			
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	86,215	20.68%	$ 1,310,689	0.18%	82,093	18.78%	$ 957,042	0.12%
$10,000–$19,999	74,410	17.83%	11,575,571	1.58%	72,864	16.67%	9,360,237	1.21%
$20,000–$44,999	114,626	27.47%	80,068,520	10.95%	118,545	27.12%	75,877,182	9.77%
$45,000–$69,999	65,484	15.69%	112,294,264	15.35%	67,872	15.52%	112,684,900	14.51%
$70,000–$109,999	48,467	11.61%	151,375,825	20.70%	58,903	13.47%	181,234,011	23.34%
$110,000–$174,999	17,118	4.10%	98,072,544	13.41%	24,699	5.65%	139,133,052	17.92%
$175,000–$499,999	8,986	2.15%	120,989,965	16.54%	10,445	2.39%	134,562,333	17.33%
$500,000 and higher	1,979	0.47%	155,753,239	21.29%	1,758	0.40%	122,706,001	15.80%
Total	417,285	100.00%	$731,440,617	100.00%	437,179	100.0%	$776,514,758	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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
General obligation bonds	$227,625	$219,645	$213,195	$230,065	$208,015	$201,560	$182,585	$169,150	$174,335	$156,905
Special revenue bonds	85,070	76,368	192,775	181,770	171,080	204,365	189,970	176,570	169,220	152,565
Notes payable	21,299	12,807	12,439	12,099	11,755	11,411	11,065	10,716	10,369	10,020
Lease/installment purchase payable	3,286	2,332	2,705	2,459	1,057	1,421	2,680	2,440	1,536	723
Total governmental activities	$337,280	$311,152	$421,114	$426,393	$391,907	$418,757	$386,300	$358,876	$355,460	$320,213
Business-type activities										
Bonds/notes payable	$ 10,376	$ 7,942	$ 5,168	$ 3,936	$ 3,107	$ 1,853	$ 1,180	$ 370	$ 195	$ 135
Lease/installment purchase payable	-	-	-	-	-	-	-	-	382	303
Total business-type activities	$ 10,376	$ 7,942	$ 5,168	$ 3,936	$ 3,107	$ 1,853	$ 1,180	$ 370	$ 577	$ 438
Total primary government	$347,656	$319,094	$426,282	$430,329	$395,014	$420,610	$387,480	$359,246	$356,037	$320,651
Debt as a percentage of personal income (1)	1.5%	1.3%	1.6%	1.5%	1.3%	1.3%	1.2%	1.1%	1.0%	0.9%
Amount of debt per capita (2)	$382	$348	$460	$460	$418	$440	$401	$371	$367	$329

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	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Renewable Resource Program Bond										
Revenue										
Loan repayment (principal and interest)	$3,464	$3,464	$ 4,247	$3,036	$2,576	$1,549	$3,157	$1,710	$1,746	$2,200
Northwestern Energy	2,535	2,535	2,623	2,800	3,057	2,498	3,189	3,435	3,676	4,095
STIP interest earnings	59	59	100	176	460	329	96	19	17	17
Debt service fund interest	72	72	131	877	528	472	414	398	444	644
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$6,130	$6,130	$7,101	$6,889	$6,621	$4,848	$6,856	$5,562	$5,883	$6,956
Debt service										
Principal	$4,040	$4,040	$10,515	$4,630	$3,095	$3,485	$3,725	$2,380	$3,620	$4,200
Interest	$1,975	$1,975	$ 1,719	$1,476	$1,357	$1,253	$1,093	$ 979	$ 848	$ 899
Coverage (1)	1.0	1.0	0.6	1.1	1.5	1.0	1.4	1.7	1.3	1.4

Governmental Activities	**2003**	**2004**
Transportation Refunding Bond		
Revenue		
Motor fuel taxes	$ 181,758	$ 188,754
Gross vehicle weight fees	25,339	26,308
Other	4,132	41,715
Less: Operating expenses	(199,193)	(281,286)
Net available revenue	$ 12,036	$ (24,509)
Debt service		
Principal	$ 13,095	$ 3,705
Interest	$ 514	$ 94
Coverage (1)	0.9	(6.5)

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year							
Governmental Activities	2005	2006	2007	2008	2009	2010	2011	2012
US Highway 93 GARVEES Bond (2)								
Revenue								
Federal Highway Administration	$ 160,060	$ 278,109	$ 300,808	$ 345,583	$ 381,604	$ 464,400	$ 457,372	$ 471,079
Less: Operating expenses	(159,846)	(266,232)	(288,930)	(333,705)	(365,624)	(448,419)	(441,395)	(455,102)
Net available revenue	$ 214	$ 11,877	$ 11,878	$ 11,878	$ 15,980	$ 15,981	$ 15,977	$ 15,977
Debt service								
Principal	-	$ 4,960	$ 6,130	$ 6,375	$ 9,070	$ 9,340	$ 9,740	$ 10,175
Interest	$ 214	$ 6,917	$ 5,747	$ 5,503	$ 6,910	$ 6,641	$ 6,237	$ 5,802
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Governmental Activities	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Middle Creek Dam Project Note Payable										
Revenue										
Middle Creek Water Users Assoc loan payments	$119	$99	$99	$82	$96	$89	$83	$90	$72	$74
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$119	$99	$99	$82	$96	$89	$83	$90	$72	$74
Debt service										
Principal	$ 38	$39	$41	$42	$44	$46	$48	$50	$51	$54
Interest	$ 81	$60	$59	$40	$52	$43	$35	$40	$21	$20
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 2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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 2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Water Conservation Note Payable (Little Dry Project)										
Revenue										
Little Dry Water Users Assoc loan payments	$3	$3	$3	$3	$3	$3	$3	$3	$3	$1
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$3	$3	$3	$3	$3	$3	$3	$3	$3	$1
Debt service										
Principal	$2	$2	$2	$2	$2	$2	$2	$2	$2	$1
Interest	$1	$1	$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	1.0

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued

Last Ten Fiscal Years

(amounts expressed in thousands)

	Fiscal Year									
Governmental Activities	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Water Conservation Note Payable										
(Petrolia Project)										
Revenue										
Petrolia Irrigation District loan payments	$3	$3	$3	$3	$3	$3	$3	$3	$3	$3
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$3	$3	$3	$3	$3	$3	$3	$3	$3	$3
Debt service										
Principal	$2	$2	$2	$2	$2	$2	$2	$2	$2	$2
Interest	$1	$1	$1	$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	1.0

	Fiscal Year						
Business-type Activities	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Economic Development Bonds							
(Municipal Finance Consolidation Irrigation Dist)							
Revenue							
Principal and interest repayments	$512	$71	$45	$47	$53	$58	$62
Investment income	3	5	3	1	-	-	-
Less: Operating expenses	-	-	-	-	-	-	-
Net available revenue	$515	$76	$48	$48	$53	$58	$62
Debt service							
Principal	$450	$40	$45	$45	$50	$55	$60
Interest	$ 30	$31	$28	$25	$21	$17	$13
Coverage (1)	1.1	1.1	0.7	0.7	0.7	0.8	0.9

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year						
Business-type Activities	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Economic Development Bonds							
(Conservation Reserve Enhancement Program)							
Revenue							
Principal and interest repayments	$1,765	$2,173	$ 926	$989	$782	$454	$162
Investment income	9	16	10	1	-	-	-
Less: Operating expenses	-	-	-	-	-	-	-
Net available revenue	$1,774	$2,189	$ 936	$990	$782	$454	$162
Debt service							
Principal	$1,475	$1,924	$1,208	$628	$891	$120	-
Interest	$ 201	$ 216	$ 107	$101	$ 62	$ 3	$3
Coverage (1)	1.1	1.0	0.7	1.4	0.8	3.7	49.7

	Fiscal Year
Business-type Activities	**2005**
Economic Development Bonds	
(Municipal Finance Consolidation Act Bonds)	
Revenue	
Principal and interest repayments	$300
Investment income	-
Less: Operating expenses	-
Net available revenue	$300
Debt service	
Principal	$294
Interest	$ 1
Coverage (1)	1.0

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year			
Business-type Activities	**2004**	**2005**	**2006**	**2007**
MUS Workers Compensation Bonds Payable				
Revenue				
Workers compensation premiums	$ 2,424	$ 2,978	$ 3,543	$ 4,047
Less: Operating expenses	(2,489)	(2,785)	(2,932)	(2,614)
Net available revenue	$ (65)	$ 193	$ 611	$ 1,433
Debt service				
Principal	$ 395	$ 395	$ 410	$ 430
Interest	$ 48	$ 46	$ 34	$ 22
Coverage (1)	(0.1)	0.4	1.4	3.2

Sources: *Montana Departments of Commerce (Board of Investments), Natural Resources and Conservation, Transportation Montana University System*

Note: *(1) Coverage equals net available revenue divided by debt service.*
(2) In fiscal year 2008, the Montana Department of Transportation revised data for fiscal year 2005.

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)
2003	$227,625	$14,304	$213,321	0.91%	$234
2004	219,645	14,946	204,699	0.83%	223
2005	213,195	12,957	200,238	0.76%	216
2006	230,065	13,700	216,365	0.77%	231
2007	208,015	15,471	192,544	0.63%	204
2008	201,560	11,967	189,593	0.58%	198
2009	182,585	8,985	173,600	0.52%	182
2010	169,150	13,486	155,664	0.46%	162
2011	174,335	15,910	158,425	0.46%	163
2012	156,905	16,240	140,665	0.39%	144

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									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Population										
Montana *(in thousands)*	910	917	926	933	940	947	955	962	969	975
Percentage change	0.4%	0.8%	1.0%	0.8%	0.8%	0.7%	0.8%	0.7%	0.7%	0.6%
National *(in thousands)*	287,727	290,211	292,801	295,507	298,217	300,913	303,598	306,272	308,936	311,601
Percentage change	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Total Personal Income										
Montana *(in millions)*	23,370	24,752	26,495	28,179	30,447	32,475	34,111	33,923	34,748	36,507
Percentage change	1.9%	5.9%	7.0%	6.4%	8.0%	6.7%	5.0%	(.6%)	2.4%	5.1%
National *(in billons)*	9,055	9,369	9,929	10,477	11,257	11,900	12,380	12,165	12,357	12,950
Percentage change	2.0%	3.5%	6.0%	5.5%	7.4%	5.5%	4.0%	(1.7%)	1.6%	4.6%
Per Capita Personal Income										
Montana	25,685	27,000	28,613	30,141	32,204	33,897	35,237	34,794	35,068	36,573
Percentage change	1.5%	5.1%	6.0%	5.3%	6.8%	5.3%	4.0%	(1.3%)	0.8%	4.1%
National	31,470	32,284	33,899	35,447	37,728	39,458	40,673	39,626	39,945	41,560
Percentage change	1.0%	2.6%	5.0%	4.6%	6.4%	4.5%	3.1%	(2.6%)	0.8%	3.9%
Resident Civilian Labor Force and Employment										
Civilian labor force	466,787	469,119	473,532	479,553	493,004	502,219	510,816	498,897	497,538	503,903
Employed	445,739	448,805	454,259	461,936	479,614	485,221	487,870	468,211	461,602	468,896
Unemployed	21,048	20,314	19,273	17,617	16,390	16,998	22,946	30,686	35,936	35,007
Unemployment rate	4.5%	4.3%	4.0%	3.7%	3.3%	3.4%	4.5%	6.2%	7.2%	6.9%
Nonfarm Wage and Salary Workers *(in thousands)*										
Goods-producing industries										
Natural Resources and Mining	6.2	6.2	7.1	7.7	8.2	8.4	8.3	7.0	7.5	7.9
Construction	21.7	23.1	24.9	27.6	30.2	32.3	29.8	24.0	22.7	23.0
Durable goods	13.1	12.1	12.1	12.4	12.8	13.0	12.3	10.1	9.5	9.6
Nondurable goods	6.9	6.9	7.1	7.2	7.4	7.5	7.6	7.3	7.0	7.2
Subtotal goods-producing industries	47.9	48.3	51.2	54.9	58.6	61.2	58.0	48.4	46.7	47.7
Service-producing industries										
Transp, communications, and utilities	23.7	23.1	23.3	23.8	24.3	24.6	24.3	21.5	24.1	23.3
Trade	68.9	69.1	70.8	71.6	72.8	75.3	75.6	66.9	70.3	70.2
Finance, insurance, and real estate	19.3	20.3	21.1	21.4	22.0	21.8	21.9	21.1	21.2	20.9
Service	151.4	154.2	158.4	162.9	169.3	174.8	178.7	182.3	175.5	177.2
State and local government	71.1	72.0	72.9	72.7	72.1	73.9	74.1	74.4	75.7	74.6
Federal government	13.8	13.8	13.8	13.5	13.5	13.4	13.6	13.9	14.8	13.8
Subtotal service-producing industries	348.2	352.5	360.3	365.9	374.0	383.8	388.2	380.1	381.6	380.0
Total Nonfarm Wage and Salary Employment	396.1	400.8	411.5	420.8	432.6	445.0	446.2	428.5	428.3	427.7

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 income is 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

	2002			2011		
Employer	Employees	Rank	Percentage of Total State Employment (2)	Employees (1)	Rank	Percentage of Total State Employment (2)
State of Montana	19,500-20,000	1	5.23%	22,500-23,000	1	5.52%
Federal Government	12,500-13,000	2	3.38%	12,500-13,000	2	3.09%
Wal-Mart	3,500-4,000	3	0.99%	4,500-5,000	3	1.15%
Billings Clinic	2,000-2,500	4	0.60%	3,000-3,500	4	0.79%
Town Pump	1,500-2,000	9	0.46%	2,000-2,500	5	0.55%
Albertson's	2,000-2,500	5	0.60%	2,000-2,500	6	0.55%
St. Vincent Hospital	1,500-2,000	7	0.46%	2,000-2,500	7	0.55%
Benefis Healthcare	1,500-2,000	6	0.46%	2,000-2,500	8	0.55%
Avitus Group				1,500-2,000	9	0.42%
St. Patrick Hospital	1,000-1,500	10	0.33%	1,500-2,000	10	0.42%
Stillwater Mining	1,500-2,000	8	0.46%			
Total Statewide Employment	377,550			412,050		

Sources: *Montana Department of Labor*
Bureau of Labor Statistics, U.S. Department of Labor

Notes: *(1) Number of employees based on March 2012 data.*
(2) Percentage of total state employment based on the midpoints in the ranges given.

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SCHEDULE E-1 – FULL-TIME EQUIVALENT STATE EMPLOYEES BY FUNCTION/PROGRAM

Last Ten Fiscal Years

	Fiscal Year				
Function/Program	2003	2004	2005	2006	2007
Governmental:					
General government	1,614	1,575	1,562	1,615	1,552
Public safety/corrections	1,937	1,930	1,955	2,048	2,176
Transportation	2,055	2,025	2,023	2,063	2,031
Health/social services	2,577	2,539	2,575	2,621	2,587
Education/cultural	429	402	407	428	432
Resource/recreation/environment	1,694	1,731	1,765	1,853	1,825
Economic development/assistance	884	925	952	965	913
Total governmental	11,190	11,127	11,239	11,593	11,516
Business-type:					
Liquor Stores	28	29	27	38	39
State Lottery	31	30	32	32	32
Economic Development Bonds	4	4	4	4	6
Hail Insurance	2	3	2	3	3
General Government Services	102	94	104	96	103
Prison Funds	35	31	32	34	34
MUS Group Insurance	3	3	2	3	4
MUS Workers Compensation	-	-	-	-	1
Total business-type	205	194	203	210	222
Fiduciary:					
Pension Trust	49	47	46	48	46
Total fiduciary	49	47	46	48	46
Component unit:					
Housing Authority	17	19	21	20	19
Facility Finance Authority	2	2	2	2	2
State Compensation Insurance (New Fund)	251	265	280	293	297
Montana State University	3,916	3,960	3,994	3,940	4,056
University of Montana	3,129	3,187	3,238	3,281	3,364
Total component unit	7,315	7,433	7,535	7,536	7,738
Total full-time equivalent employees	18,759	18,801	19,023	19,387	19,522

Source: *Statewide Accounting, Budgeting, and Human Resource System*

2008	2009	2010	2011	2012
1,696	1,564	2,781	2,596	2,914
2,270	2,065	2,573	2,786	2,558
2,023	1,935	2,233	2,234	2,225
2,704	2,422	2,992	3,092	2,974
463	406	485	492	478
1,876	1,696	2,147	2,157	1,963
951	853	-	-	-
11,983	10,941	13,211	13,357	13,112
43	39	29	29	29
33	30	32	32	32
5	3	4	4	4
3	3	8	7	7
108	84	94	106	115
35	32	21	32	43
4	4	5	5	5
1	1	1	1	1
232	196	194	216	236
48	46	57	58	66
48	46	57	58	66
21	19	47	47	51
2	3	3	3	3
298	298	300	285	287
4,021	4,090	4,181	4,285	4,443
3,557	3,578	3,705	3,746	3,770
7,899	7,988	8,236	8,366	8,554
20,162	19,171	21,698	21,997	21,968

SCHEDULE E-2 – OPERATING INDICATORS BY FUNCTION/PROGRAM

Last Ten Fiscal Years

Function/Program	Fiscal Year 2003	2004	2005	2006	2007
Governmental activities:					
General government					
Department of Revenue					
Electronically-filed income tax returns	168,231	195,880	224,653	236,200	234,543
Paper-filed income tax returns	265,998	243,247	200,102	203,100	266,891
Judiciary					
Supreme Court total filings (1)	860	882	738	760	676
District Court total filings (1)	37,456	38,579	38,619	42,000	41,546
Public safety/corrections					
Department of Corrections					
Incarcerated offenders	2,156	2,307	2,535	2,935	2,608
Supervised offenders	7,787	8,081	8,460	8,797	9,838
Department of Justice					
Driver's licenses issued	112,727	149,714	163,336	172,915	181,804
Vehicles registered (2)	1,153,352	1,262,990	972,849	1,550,713	1,657,285
Department of Military Affairs (Army Program Facilities Office)					
Work orders received	2,445	2,066	3,272	2,648	3,386
Work orders completed	2,102	1,555	2,843	2,349	2,781
Work orders unfunded or not completed	343	511	429	172	1,373
Transportation					
Department of Transportation					
Paved roads (miles)	18,998	19,017	19,020	19,050	19,447
Unpaved roads (miles)	51,641	51,624	51,623	55,281	54,883
Health/social services					
Department of Public Health and Human Services					
Senior citizens receiving personal long-term care assistance	2,707	2,801	2,808	2,869	2,857
Number of households provided with energy assistance	18,000	19,125	20,463	21,552	19,254
Education/cultural					
Office of Public Instruction					
K-12 public school enrollment	149,995	148,356	146,705	145,259	144,418
Public schools	866	859	852	840	831
Commissioner of Higher Education					
Total enrollment for Montana University System	29,184	29,520	29,122	29,181	29,140
Total enrollment for Colleges of Technology	3,489	3,663	3,641	3,910	4,033
Resource/recreation/environment					
Department of Natural Resources and Conservation					
Revenue generated on state trust lands (millions of dollars)	$62.5	$72.8	$86.1	$101.9	$103.6
Oil production (millions of bbls)	18.1	19.9	20.9	36.2	37.2
Gas production (millions of mcf)	78.8	78.9	80.5	114.0	118.0
Department of Fish, Wildlife and Parks					
License and permit sales (3)	1,598,180	1,751,581	1,752,315	1,638,410	1,737,413
State park visitation (millions)	1.6	1.6	1.65	1.7	1.85

2008	2009	2010	2011	2012
299,194	317,211	333,911	397,280	423,574
187,188	178,114	151,945	135,144	110,308
649	677	650	775	775
45,143	43,672	45,622	44,234	45,000
2,439	2,573	2,491	2,528	2,546
10,433	10,453	10,535	10,399	10,331
156,088	164,230	156,671	143,368	145,000
1,610,753	1,634,914	1,056,227	1,154,627	1,155,000
3,610	3,114	3,380	3,528	3,181
3,441	2,941	3,095	3,426	3,561
750	746	863	465	557
19,465	20,704	20,469	19,644	19,737
55,472	56,632	55,193	56,108	56,089
3,004	3,165	3,206	3,932	3,622
18,929	22,448	28,054	25,495	23,603
143,405	142,082	141,807	141,693	142,349
830	829	828	827	826
29,072	31,805	30,362	31,934	31,978
4,277	4,570	5,538	6,051	6,150
$107.1	$110.0	$180.6	$108.7	$113.5
34.9	31.5	27.8	25.3	24.1
120.7	119.5	105.3	93.5	79.5
1,808,093	1,806,316	1,800,613	1,806,326	1,806,000
1.78	1.80	1.90	1.79	1.97

SCHEDULE E-2 – OPERATING INDICATORS BY FUNCTION/PROGRAM - Continued

Last Ten Fiscal Years

Function/Program	Fiscal Year 2003	2004	2005	2006	2007
Governmental activities (continued):					
Resource/recreation/environment (continued)					
Department of Environmental Quality					
Environmental permits and licenses	5,047	5,192	6,245	8,044	8,222
Environmental violations	2,888	3,338	3,655	2,166	3,271
Economic development/assistance					
Department of Commerce (Community Development)					
Treasure State Endowment Project – applications	-	47	-	57	-
Treasure State Endowment Project – construction awards	40	-	40	-	56
Community Development Block Grant – public facility applications	13	10	14	11	17
Community Development Block Grant – public facility awards	12	7	8	7	8
Business-type activities:					
Unemployment Insurance					
Department of Labor					
Initial claims	60,300	56,743	50,216	46,697	47,147
Average weekly benefit (dollars)	$195.43	$200.93	$209.37	$202.67	$225.00
Exhaustion rate (percent)	36.4%	38.4%	32.7%	29.8%	32.1%
Liquor Stores					
Department of Revenue					
Liquor licenses issued	2,157	2,233	2,262	2,267	2,249
Liquor cases distributed	490,153	513,885	535,635	578,111	616,400
State Lottery					
Department of Administration					
Total dollars in ticket sales (millions of dollars)	$35	$37	$34	$40	$42
Transfer to the General Fund (millions of dollars)	$7	$8	$7	$9	$11
General Government Services					
Department of Commerce (HUD Section 8)					
Applications reviewed – homebuyers assistance (dollars) (4) (5)	$1,608,335	$1,531,543	$2,290,100	$466,115	$4,536,558
Grants awarded – homebuyers assistance (dollars) (4) (5)	$1,608,335	$1,531,543	$1,547,323	$466,115	$4,140,419

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. Department of Labor

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 Organization (CHDO) set-aside funds was 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 family assistance.

2008	2009	2010	2011	2012
9,104	9,308	9,419	9,554	9,419
4,586	4,069	3,793	6,412	3,793
65	-	65	-	66
-	66	-	-	-
17	20	11	16	8
10	8	8	7	5
49,530	85,760	92,489	81,815	71,125
$241.44	$259.38	$277.88	$265.36	$263.18
32.3%	49.2%	56.4%	54.9%	49.5%
4,601	4,771	4,972	5,110	4,920
653,475	653,471	660,229	682,832	722,313
$44	$44	$47	$46	$53
$11	$11	$11	$11	$13
$3,217,708	$2,776,621	N/A	N/A	N/A
$3,830,524	$1,847,714	$2,626,867	$272,566	$620,855

SCHEDULE E-3 – CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

Last Ten Fiscal Years

Function/Program	2003	2004	2005	2006	2007	2008
Governmental activities:						
General government						
Department of Administration						
Buildings	47	47	48	48	47	50
Data processing equipment	825	866	861	916	997	1,110
Judiciary						
Vehicles	50	57	63	61	52	52
Public safety/corrections						
Department of Corrections						
Vehicles	418	269	288	297	280	283
Buildings	149	155	152	155	151	149
Department of Justice						
Vehicles	395	396	401	409	422	524
Laboratory/scientific equipment	158	164	168	166	251	287
Transportation						
Department of Transportation						
Vehicles	4,055	4,027	4,006	4,032	4,173	4,289
Buildings	763	852	751	729	718	783
Health/social services						
Department of Public Health and Human Services						
Vehicles	333	323	331	330	204	189
Buildings	134	135	129	127	127	131
Education/cultural						
Historical Society						
Buildings	707	15	14	3	2	2
Resource/recreation/environment						
Department of Natural Resources and Conservation						
Vehicles	853	766	925	672	760	798
Buildings	181	179	179	177	183	181
Department of Fish, Wildlife and Parks						
Vehicles	1,226	1,238	1,462	1,610	1,693	1,844
Buildings	743	761	742	816	763	769
Department of Environmental Quality						
Vehicles	60	60	60	59	66	60
Laboratory/scientific equipment	246	131	141	124	130	134
Economic development/assistance						
Department of Commerce						
Buildings	9	685	685	258	257	261
Business-type activities:						
State Lottery						
Department of Administration						
Vehicles	17	14	12	14	14	15
General government services						
Department of Administration						
Vehicles	24	14	13	14	13	13
Prison funds						
Department of Corrections						
Vehicles	40	42	45	48	48	49

Sources: *Statewide Accounting, Budgeting, and Human Resource System*
Vehicle Exposure and Commercial Property Schedules, Risk Management and Tort Defense Division
Department of Administration

2009	2010	2011	2012
50	55	52	59
1,139	1,917	1,954	2,057
51	24	24	25
294	192	124	128
151	246	246	247
486	606	555	577
211	259	262	271
4,305	2,482	2,151	2,067
784	969	965	939
195	193	182	175
131	153	153	153
2	5	5	5
517	710	777	810
181	87	83	83
1,837	2,693	2,769	2,769
840	794	830	850
66	108	106	75
159	719	715	761
266	4	4	5
15	15	12	11
13	36	51	59
52	56	70	77

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