MONTANA

Comprehensive Annual Financial Report

For the year ended June 30, 2013

REPORT LAYOUT

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

INTERNET ACCESS

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

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

Cover photograph courtesy Donnie Sexton

STATE OF MONTANA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended

June 30, 2013

Prepared By:

Department of Administration

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State Financial Services Division

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State Accounting Bureau

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State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2013

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INTRODUCTORY SECTION

FINANCIAL SECTION

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INTRODUCTORY SECTION

STEVE BULLOCK, GOVERNOR
JOHN E. WALSH, LIEUTENANT GOVERNOR

SHEILA HOGAN
DIRECTOR

STATE FINANCIAL SERVICES DIVISION

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Financial Services Technology Bureau
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Helena, MT 59620
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State Social Security Administrator
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Local Government Services Bureau
301 S. Park, Rm. 340
P.O. Box 200547
Helena, MT 59620
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January 29, 2014

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, 2013. 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. New Fund and Old Fund are defined in statute as one legally separate entity, State Fund; thus a single component unit with separate accounting funds. We have continued to include Old Fund as part the related State Fund component unit financial statements, as we always have, because the Old Fund claims are the 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).

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 just over 1 million. 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 attached within this report, state government is divided into three separate branches: legislative, executive, and judicial. Montana's Legislature consists of 50 senators and 100 representatives elected from single-member districts. The Legislature meets in regular biennial sessions for 90 days in odd-numbered years. Montana is governed by its constitution, and its laws are administered by its executive branch officers and various boards and commissions. State government services provided to citizens include building and maintaining roads; providing public safety, health, and environmental protection services to protect the general welfare of the State's citizens; helping adults, children, and families through difficult times such as abuse, divorce, illness, death, and unemployment; fostering an attractive business climate to encourage economic growth; and protecting public lands and natural resources for conservation and recreational activities. The State also provides significant financial support to its higher education institutions, local governments, and school districts to help those entities meet the specific needs of their constituents.

ECONOMIC CONDITION AND OUTLOOK

Montana's primary economic base remains concentrated in agriculture, mining, manufacturing, and nonresident travel. Montana's unemployment rate has remained lower than the national rate since 2001. Montana's unemployment rate decreased to 5.2% as of October 2013, as compared to 6.0% in 2012. Montana added roughly

10,700 jobs in 2012 for a growth rate of 2.3%, faster than the national growth rate of 1.9%. In 2012, Montana's annual number of people employed in nonfarm non-adjusted jobs was approximately 441,000 for 2012, compared to 431,000 in 2011. Montana was the 5th fastest state for personal income growth in 2012 at 4.5%. For a more in-depth analysis of the State's overall financial position, the reader should refer to the management's discussion and analysis and the financial statements contained in the CAFR.

Agriculture

Montana's wheat yields increased in 2013, with production projected to reach 203.8 million bushels, compared to the 2012 production level of 195.6 million bushels. Winter wheat production decreased to 81.7 million bushels, 3% lower than the 2012 level of 84.6 million bushels. Spring wheat production reached 105.5 million bushels, up 10% from 2012. Durum production is estimated at 16.7 million bushels, up 9% from 2012. Yields were up for winter, spring and durum wheat.

Montana's other major agricultural commodities include oats, barley, and cattle. Oat production in Montana increased to an estimated 1,334 thousand bushels in 2013, representing a 65% increase from 2012 levels. Barley production is estimated at 44.8 million bushels, which is 7% higher than last year. Montana's cattle herd as of January 1, 2013 was an estimated 2.6 million head up from 2.5 million in the previous year. Montana ranks eleventh in the US cattle and calf industry. Montana's 2012 receipts from cattle sales exceeded $1.3 billion.

Manufacturing

When using the nonfarm non-adjusted estimates from the Department of Labor, Montana's manufacturing industry grew in 2012 by 700 jobs. This is an increase of 4% from 16,800 in 2011 to 17,500 in 2012. Using the Manufacturing statistics as gathered by the Montana Bureau of Business and Economic Research the overall number of manufacturing sector jobs rose to just over 21,000 workers in 2012. The value of production, within the manufacturing sector increased to more than $13 billion in 2012. Manufacturing continues to account for roughly 20% of Montana's economic base.

Montana's timber production volume in 2012 increased to 589 million board feet, up slightly from 532 million board feet in 2011 an increase of 11%. Estimated total sales value of the State's primary wood and paper products in 2012 was estimated to be $580 million, up about $114 million or 25% from 2011. The total wood products industry estimated employment of 6,650 workers for 2012, up 2% from the 2011 level of 6,530 workers. The 2012 timber harvest was 351 million board feet, up slightly from 348 million board feet in 2011.

Nonresident Travel

Nonresident travel to Montana in 2012 was approximately 10.8 million visitors. Overall visitor numbers for the national parks were higher in 2012 than in 2011. The visitor numbers for Yellowstone Park increased an estimated 2% from 3.4 million to 3.5 million visitors. Visits to Glacier Park increased from 1.9 million visitors to 2.2 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 $3.3 billion in 2012, representing an increase of $0.5 billion. The estimated total economic benefit of nonresident travel in Montana increased from $3.3 billion for calendar year 2011 to $4.2 billion for 2012, representing a $899 million increase or 27%.

Natural Resources/Mining

Montana's Natural Resource/Mining Sector of the economy employed 9,300 workers at the end of calendar year 2012. This represented a 13% increase above the 8,200 workers employed at the end of December 2011. During calendar year 2013, employment in this sector has continued to increase and was 9,900 as of August 2013. The various sectors included in this category are discussed in more detail below.

As of the end of calendar year 2011 an estimated 384 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. In 2012, the State saw an increase in production and exploration activity, with estimated crude oil production for the state at 26.5 million barrels. This represents a 10% increase from the 2011 production levels of 24.2 million barrels. Production through June 2013 has increased by 16% through June, when compared to 2012 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 (most recently released data). 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.

MAJOR INITIATIVES AND LONG TERM OUTLOOK

The 2013 Legislature completed work and adjourned in late April 2013. Upon adjournment, it was anticipated that for the 2015 biennium, general fund revenue collections would be approximately $4,966 million while general fund expenditures would be approximately $4,330 million. At the end of the fiscal year 2015, the estimated general fund balance would be approximately $298.

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

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

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

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

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

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

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

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

In fiscal year 2013, the General Fund unassigned fund balance of $538 million exceeded the legislative projection of $150 million by $388 million or an increase of 259%. 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 2013 General Fund budgeted disbursements approved by the Legislature was set at $1,892 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 system edited and budget checked before being posted.

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

Budgetary restrictions are imposed via appropriations approved by the Legislature or established administratively as provided for by state law. Appropriations are required by state law for the general, state and federal special revenue, and capital projects funds. The level of budgetary control is generally established by fund. SABHRS is designed to provide budgetary control by preventing spending in excess of legislative and administrative authority 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 $561.0 million at June 30, 2013. Of this fund balance $5.4 million is non-spendable. The remaining $555.6 million is spendable with $18.0 million assigned and $537.6 million unassigned. The $18.0 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 2014. As a result an assignment for this was not included in this report.

This compares to a combined unassigned and assigned, or spendable fund balance of $474.3 million at June 30, 2012. The 2012 spendable fund balance consisted of $22.6 million assigned and $451.7 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 30 years, is estimated at $243 and $109 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 or contributed to negative overall net assets in the following internal service funds: Admin Insurance, Admin Central Services, Labor Central Services, Commerce Central Services, DEQ Indirect Cost Pool, Warrant Processing, Investment Division, Justice Legal Services, and Personnel Training.

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

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 modified opinion on the State's financial statements for fiscal year 2013. The modified 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 and GASB 61 requirements to be reported as a discretely presented component unit of the State of Montana.

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

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

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

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

Additionally, we reported an obligation to the State Fund from the General Fund to provide resources to pay the claims, even though this is not 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 unmodified.

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 2013 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 unmodified.

ACKNOWLEDGEMENTS

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

Respectfully submitted,

/s/ Julie Feldman

Julie Feldman, State Accountant
State Accounting Bureau Chief
State Financial Services Division
Department of Administration

/s/ Cody Carter Pearce

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

STATE OF MONTANA
ORGANIZATION CHART

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

Steve Bullock

Governor

John Walsh

Lieutenant Governor

JUDICIAL

Mike McGrath

Chief Justice

LEGISLATIVE

Jeff Essmann

President of the Senate

Mark Blasdel

Speaker of the House

FINANCIAL SECTION

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah Butler, Legal Counsel

Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction
We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2013, and the related notes which collectively comprise the State's basic financial statements, as follows:

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

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

Auditor's Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State University component units and the University of Montana component units, which represent 10.7, 17.1, and 4.4 percent, respectively of the assets, net

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assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the university component units, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Summary of Opinions

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

Basis for Qualified Opinions

As described in Note 1 to the financial statements, management has reported the Old Fund and the New Fund as the Montana State Fund. The Old Fund is no longer part of the Montana State Fund for financial reporting purposes because Generally Accepted Accounting Principles (GAAP) requires the primary government to report the activity of the Old Fund, as it is now paying the remaining liabilities. In fiscal year 2011, the Old Fund's resources were depleted. The General Fund cannot avoid sacrificing resources for the purpose of paying the Old Fund claims. In fiscal year 2013, the General Fund provided the resources to pay approximately $10 million in claims. Under provisions of state law, the General Fund has assumed the remaining estimated $51 million in workers' compensation claim liabilities of the Old Fund, making it a general long-term debt of the primary government. GAAP requires the state to report the debt of a component unit as a liability if it is legally obligated to repay it. The following identifies the resulting misstatements (in thousands) on the basic financial statements.

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

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

Additionally, Notes 1, 8, and 11 do not appropriately define the reporting entity and the state's resulting general long-term debt for the fiscal year ended June 30, 2013. Note 18A includes misstatements reported above in the component unit condensed financial statements in the Montana State Fund column. Note 18E includes information that should be disclosed in Note 8, and Note 18I includes information that should be disclosed in Note 11.

Qualified Opinions

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position as of June 30, 2013, and the results of operations of the Governmental Activities, Aggregate Discretely Presented Component Units, and General Fund of the state of Montana for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Unmodified Opinions

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

Emphasis of a Matter

At June 30, 2013, the Game Wardens' and Peace Officers', Highway Patrol Officers', and Sheriffs' retirement systems were not actuarially sound. The Unfunded Actuarial Accrued Liability amortization period is infinite for the Game Wardens' and Peace Officers' and Sheriffs' retirement systems. The amortization period for the Highway Patrol Officers' Retirement System is 44.6 years. The maximum allowable amortization period is 30 years.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the state of Montana's basic financial statements. The 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.

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

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

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2014, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the state of Montana's internal control over financial reporting and compliance. It is included in the Legislative Auditor's separately issued report (13-01A) on the state's basic financial statements.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 13, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana provides this *Management's Discussion and Analysis* of the State of Montana's basic financial statements included in the Comprehensive Annual Financial Report (CAFR). This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights

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

Fund Highlights

As of the close of fiscal year 2013, the State's governmental funds reported combined ending fund balances of $4.0 billion compared with $3.9 billion at fiscal year 2012. Of this amount, $1.4 billion is not in spendable form, primarily as permanent fund principle. Thus, $2.6 billion is available for spending. The fund balance in spendable form is segregated by constraint as follows: $1,037.7 million restricted, $973.1 million committed, $42.6 million assigned and $537.6 million unassigned, primarily in the General Fund. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

The State's business-type activity funds reported net position at the close of fiscal year 2013 in the amount of $284.7 million compared with the fiscal year-end 2012 net position of $237.8 million. Of the 2013 business-type activity fund equity $14.9 million was reported as net investment in capital assets. $269.8 million of net position was in spendable form with $16.1 million unrestricted and $253.7 million restricted to expenditure for a specific purpose. This represents a $47.0 million (21%) increase in spendable net position from the fiscal year-end 2012 balance of $222.8 million. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

Long-term Debt

The State's total governmental activity bonds and notes payable for governmental activities decreased by $34.1 million, from $330.9 million in fiscal year 2012 to $296.8 million, a 10% decrease in fiscal year 2013.

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

For details relating to the states long term debt see Note 11.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

Government-wide Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The State's combined net position (government and business-type activities) totaled $8.2 billion at the end of fiscal year 2013. Net position of the governmental activities increased $275 million (4%), and business-type activities experienced a $47 million (20%) increase. These changes are explained in detail in the major fund analysis below.

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

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

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

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

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

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

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

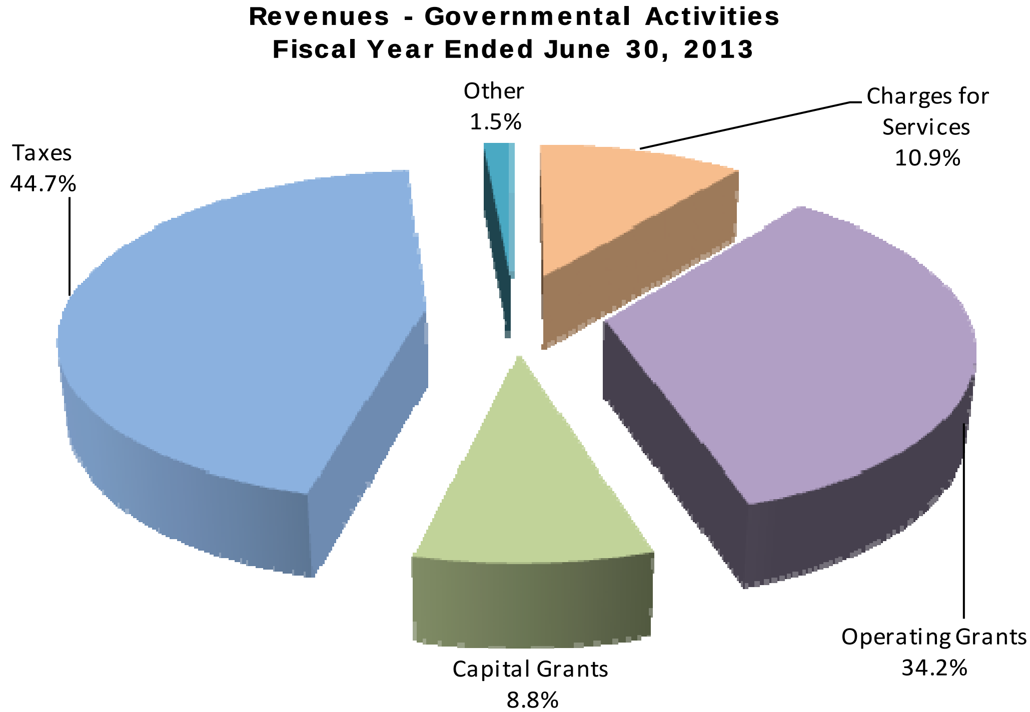
The following condensed financial information was derived from the government-wide Statement of Activities, and reflects how the State's net position changed during the fiscal year:

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

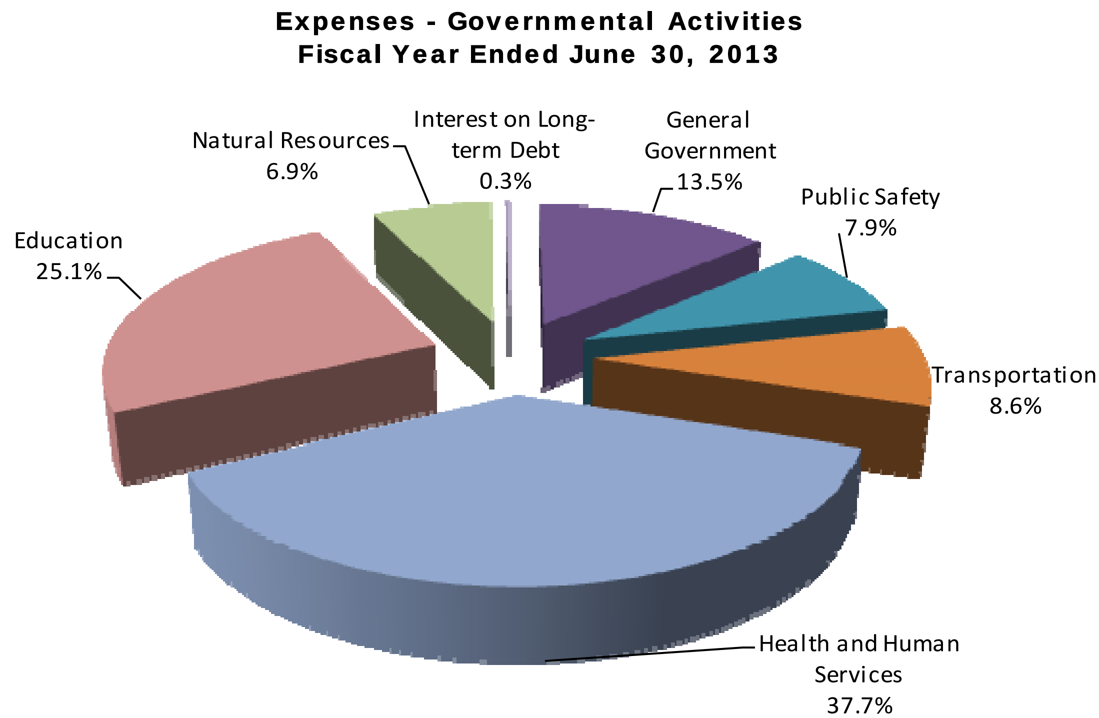
	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2013	2012	2013	2012	2013
Revenues:						
Program revenues						
Charges for services	$ 557,133	$ 564,714	$ 405,203	$ 414,024	$ 962,336	$ 978,738
Operating grants	1,824,334	1,780,611	134,120	96,590	1,958,454	1,877,201
Capital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

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

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

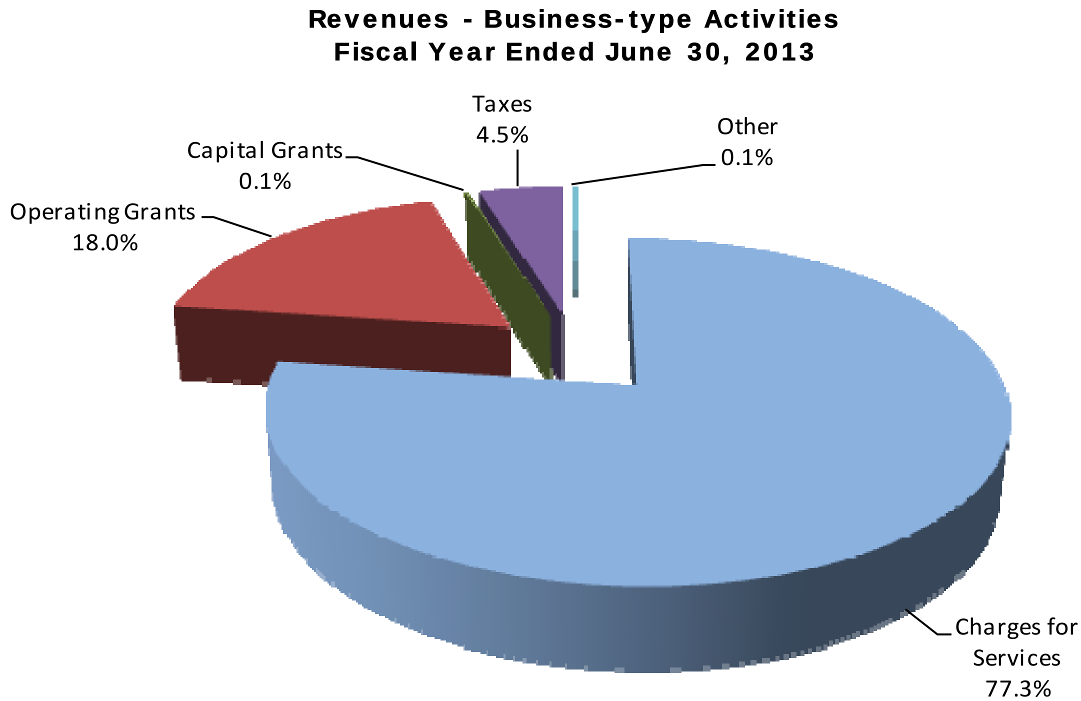


The following chart depicts expenses of the governmental activities for the fiscal year:

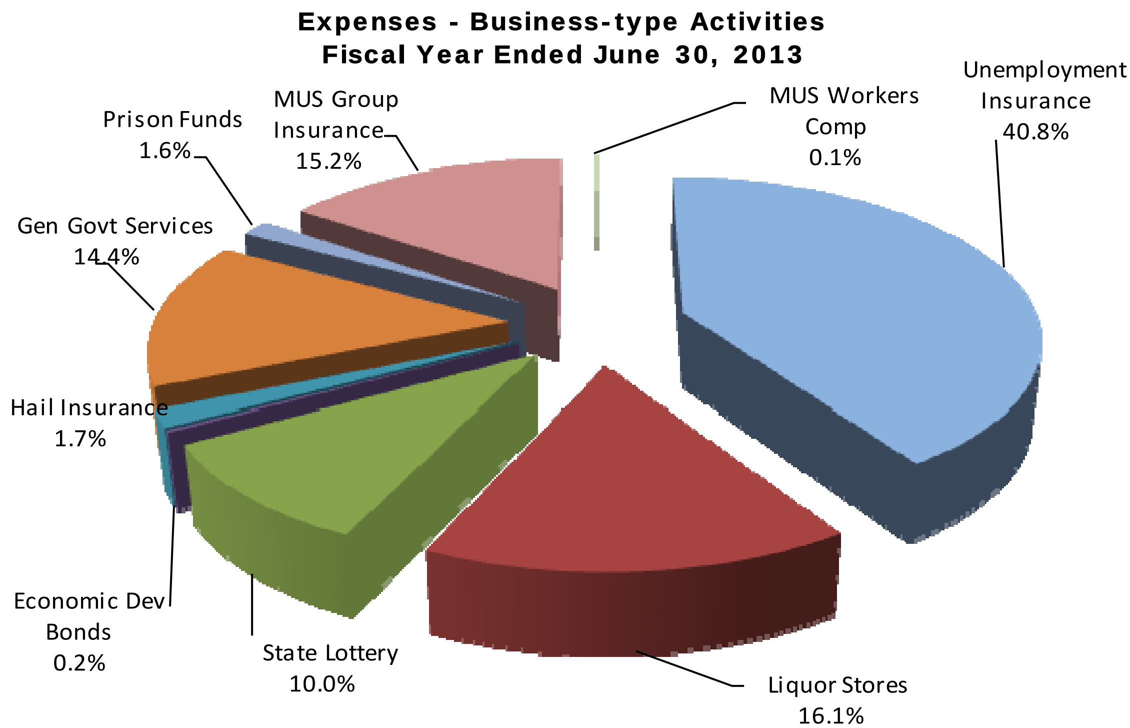


Business-type Activities

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



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



FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS

As the State completed the year, its governmental funds reported fund balances of $4 billion. Of this total amount, $2.6 billion (65%) constitutes spendable fund balance and $1.4 billion (35%) is classified as non-spendable. The analysis of the following major funds, providing the majority of the fund balance for the government, follows.

General Fund Revenues and Expenditures

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, combined unassigned and assigned (spendable) fund balance of the General Fund was $555.6 million. This represents 21% of the $2.6 billion spendable governmental fund balances for all governmental funds. The ending General Fund unassigned fund balance of $538 million was $388 million higher than the anticipated $150 million unassigned fund balance estimated by the 62nd Legislature. Unassigned fund balance increased by $86 million when compared to the previously reported fund balance of $452 million. This increase was primarily the result of higher than anticipated income, corporate and natural resource tax revenues. The increased revenues more than offset the rise in expenditures. The changes in both expenditures and revenues are discussed in detail below.

<u>Higher Revenues Than Anticipated</u> – Total General Fund revenues were $2,002 million for fiscal year 2013, or $210 million (12%) more than fiscal year 2012. Of the increase, $198 million was the result of increased individual and corporate income tax revenues from fiscal year 2012 to fiscal year 2013. Transfers in decreased by $8 million (9%) from the amount reported in 2012 to $79 million in 2013.

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

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

General Fund Expenditure Budget Reversions

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

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

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

The Department of Administration had unspent appropriations of $4.1 million for FY 2013. The vast majority of this unspent amount is attributable to general fund debt service payments (statutory authority) being less than budgeted, as well as the TRS supplemental contributions (statutory authority) being less than budgeted.

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

State Special Revenue Fund
At the end of the current fiscal year, the fund balance of the State Special Revenue Fund was $1.5 billion. Fund balance decreased during the fiscal year by $34 million or 2%. This decrease was caused by a combination of lower revenues, lower expenditures, and higher transfers in, and lower transfers out. These changes are discussed in detail below.

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

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

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

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

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

Federal Special Revenue Fund
Fund balance in the Federal Special Revenue Fund decreased by $8.6 million (30%) to $19.7 million. Revenues decreased by $55 million (3%), expenditures decreased by $38 million (2%) and transfers out decreased by $4 million (13%). Because most federal programs are expenditure-driven, a direct correlation normally exists between revenues/transfers in and expenditures/transfers out. The decreased expenditure and transfers out levels were offset by a corresponding decrease in revenues resulting in the net decrease in overall fund balance. Programs such as Guaranteed Student Loan, Livestock Shell/Egg and some within the Fish Wildlife and Parks and Crime Control agencies are allowed to carry assets in their federal entities, creating a normal overall positive balance for the fund as a whole.

The major federal revenue and expenditure changes resulted from the following:

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

Coal Severance Tax Permanent Fund
Although there were significant changes in the revenues earned within the fund, the fund balance in the Coal Severance Tax Permanent Fund increased by $9 million to $971.7 million, or an increase of 1%. Total revenue decreased by $39.5 million to $49.3 million, or a decrease of 44% from 2012. Tax revenues increased $3.2 million (13%), while investment earnings decreased $42.6 million (68%). One factor for the investment revenue decrease was the result of investment value depreciation of $18.9 million. Statutorily defined transfers from the fund increased by $2.6 million (7%) to $40.3 million. By definition, permanent fund transfers out cannot exceed the revenues earned.

Land Grant Permanent Fund
Fund balance in the Land Grant Permanent Fund increased by $22 million to $589.1 million, or a 4% increase. Within this fund, investment earnings decreased by $31.7 million (77%). One factor for this investment revenue decrease was the result of investment value depreciation of $13.8 million. Transfers out decreased by $3.6 million (5%). Capital outlay expenditures increased by $7.4 million, pertaining to the purchases of over 16,000 acres pertaining to the Milk River Ranch and North Swan Phase 2 acquisitions. Proceeds of the sale of capital assets increased by $4.6 million to $6.5 million, or an increase of 242% from the 2012 amount. This increase was the result of the sale of over 9,200 acres, the proceeds of which will be or have been used to acquire lands that are likely to provide greater or equal trust revenue.

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets
The State's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounted to $6.9 billion, with related accumulated depreciation of $2.0 billion, leaving a net book value of $4.9 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was $.1 billion or 3% in terms of net book value. Most of the year's increase in capital expenditures were for construction, or reconstruction, of roads and bridges. Additional information relating to the State's capital assets can be found in Note 5 of the notes to the financial statements.

Debt Administration
Montana receives excellent general obligation bond ratings from Moody's Investor Service (Aa1), Standard and Poor's Corporation (AA) and Fitch Ratings (AA+).

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

The State of Montana's general obligation debt decreased from $156.9 million at June 30, 2012, to $139.6 million at June 30, 2013. $8.4 million of cash is available in debt service funds to service general obligation debt leaving a balance of $131.2 million in net general obligation debt outstanding.

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

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

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

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

ECONOMIC CONDITION AND OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

As of June 30, 2013 three of the state retirement systems were not actuarially sound, and had an unfunded actuarially accrued liability. These include the Sheriffs, Game Warden & Peace Officers and Highway Patrol Officers retirement systems. The actuarial condition of these plans are fully disclosed and reported as required by Generally Accepted Accounting Principles (GAAP), and explained in greater detail in Note 6 and Note 19 of the financial statements. The unfunded actuarial liability of these plans is long-term in nature, and does not translate into an inability of the plans to meet their current obligations in the near future.

Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is less than 30 years. The unfunded liabilities in the other state retirement systems amortize in less than 30 years, as of fiscal year end 2013.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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

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

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

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

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

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

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

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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 in more detail, by fund type, within the Supplementary Information section.

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

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

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

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

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

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

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

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

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

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

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

(D) Other measurement focus adjustments include:

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

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

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

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

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

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

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

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

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

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

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

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

- Capital assets, received as donations, are not reported on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances–Governmental funds because they are not current financial resources. However, such donations increase net position and are reported on both the government–wide Statement of Net Position and Statement of Activities.
- Depreciation is not reported on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental funds, but it is reported for the economic perspective on which the government–wide Statement of Activities is presented.
- Expenditures reported for capital outlay on the fund-level Statement of Revenues, Expenditures and changes in Fund Balances-Governmental funds are generally reported as a conversion of cash to a capital asset on the government-wide Statement of Net Position. They are not reported as expenses on the government–wide Statement of Activities.
- On the fund–level Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental funds all cash received on disposal of capital assets is reported as a gain on sale of capital assets. On the government-wide Statement of Activities the reported gain or loss on sale is based on the carrying value of the assets as well as the cash received.

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

- Payments on principal and debt refunding payments are reported as expenditures and other financing uses, respectively on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances–Governmental funds. These payments are reported as reduction of lease, bonds and other debt liability balances on the government–wide Statement of Net Position and are not reported on the government–wide Statement of Activities.
- Amortization of issuance cost, debt premium/discount, gains/loss on refunding debts are not reported on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental funds, but are reported on the government–wide Statement of Activities.
- Lease proceeds, issuance of debt, and debt refunding proceeds are all reported as other financing sources at the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental funds. From an economic perspective lease proceeds, debt issuances, and debt refunding proceeds reported as liabilities on the government-wide Statement of Net Position and are not reported on the government–wide Statement of Activities.

(D) Other measurement focus adjustments include;

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

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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 in more detail within the Supplementary Information section.

Governmental Activities – Internal Service Funds

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

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

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	$ 171,928	$ 31,959	$ 87,005	$ 290,892	$ 87,344
Receivables (net) (Note 4)	6,058	8,776	26,296	41,130	2,851
Due from other governments	508	-	39	547	1
Due from other funds (Note 12)	-	1,474	-	1,474	95
Due from component units	-	2,519	-	2,519	-
Inventories	-	-	4,136	4,136	3,199
Short-term investments (Note 3)	-	4,719	-	4,719	-
Securities lending collateral (Note 3)	-	1	197	198	9,623
Other current assets	-	-	456	456	1,567
Total current assets	178,494	49,448	118,129	346,071	104,680
Noncurrent assets:					
Advances to other funds (Note 12)	-	8,016	-	8,016	320
Advances to component units	-	17,258	-	17,258	-
Long-term investments (Note 3)	-	6	21,925	21,931	42,955
Long-term notes/loans receivable	4,154	37,852	208	42,214	-
Deferred charges	-	1,466	-	1,466	-
Other long-term assets	-	-	2,027	2,027	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	3,830	3,830	95
Buildings/improvements	-	-	7,499	7,499	4,703
Equipment	-	1	9,470	9,471	242,414
Infrastructure	-	-	951	951	-
Construction in progress	-	-	2,449	2,449	2,326
Intangible assets	-	-	1	1	1,176
Other depreciable assets	-	-	3,416	3,416	-
Less accumulated depreciation	-	(1)	(13,332)	(13,333)	(158,564)
Total capital assets	-	-	15,084	15,084	92,386
Total noncurrent assets	4,154	64,598	39,244	107,996	135,661
Total assets	182,648	114,046	157,373	454,067	240,341

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

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

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

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

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

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

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

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

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

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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 in more detail, by fund type, within the Supplementary Information section.

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

> "While the general fund becomes the funding source to pay claims and expenses against the Old Fund in FY 12, the State Fund not the State of Montana remains the entity legally liable for such claims. This conclusion is supported both by the plain language of section 39-71-2319 and the contingency provision in section 39-71-2352(6). By providing for a transfer from the general fund to the Old Fund account, the Legislature created a payment structure that reflects the intent expressly stated in section 39-71-2319, "the State Fund shall assume liability for all outstanding claims and indebtedness of the previously existing state fund." LAD suggests that section 39-7l-2352(6) subrogates the liability for Old Fund claims to the general fund. I do not think the theory of subrogation applies to this issue. Black's Law dictionary defines subrogation to mean "the substitution of one party for another whose debt the party pays, entitling the paying party to rights, remedies, or securities that would otherwise belong to the debtor." Black's Law Dictionary (8fr ed. 2004). In this instance, the State Fund is not substituted as the party bearing responsibility to pay. The State Fund's legal liability did not terminate when the Old Fund liability tax reserves were depleted. The entity responsible for payment of claims-the State Fund-remains the same. It is the funding source for payment of those claims that has changed."

We also confirmed that this presentation is required through an inquiry to GASB. We believe the State Fund should reissue the related fiscal year 2011 through 2013 statements to include the Old Fund activity as required under GASB standards.

The financial statements contained in Montana's Comprehensive Annual Financial Report were audited by the State's Legislative Audit Division (LAD). The Legislative Auditor is appointed by, and reports to, the Legislative Audit Committee. The Deputy Legislative Auditor issued a qualified opinion on the State's financial statements for fiscal year 2011 through 2013. The qualified opinion is based on how Montana State Fund (State Fund) is presented within this report in regards to the Old Fund claims. In the LAD opinion, Old Fund should no longer be part of the State Fund component unit for financial reporting purposes and the primary government is legally obligated to pay the remaining liabilities of Old Fund.

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

State Fund is defined in statute as a single separate legal entity with a contractual relationship to its claimants. State Fund is a single legal entity that meets GASB statement 14 and 61 requirements to be reported as a discretely presented component unit of the State of Montana.

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

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

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

> …The law governing assets and liabilities of the Old Fund clearly provides that the legislature intended for the State Fund to "assume liability for all outstanding claims and indebtedness of the previously existing state fund." Mont. Code Ann. § 39-71-2319. In addition to designating the State Fund as the entity legally

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

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

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

A. Reporting Entity

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

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

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

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

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

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

Old Fund covers worker compensation claims that were incurred before July 1, 1990. Administrative operations and budgets may be reviewed by the Governor and the Legislature, but they have no authority over budgets or costs. In any fiscal year that Old Fund claims are not adequately funded, any amount necessary to pay claims must be transferred from the general fund to Old Fund. For the fiscal year ended June 30, 2013, the general fund was required to transfer $10.6 million to the Montana State Fund to support their activities to settle Old Fund claims.

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

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

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

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

Montana State Fund
855 Front Street
Helena, MT 59604

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

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

Fiduciary Fund Component Units

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

Public Employees' Retirement Board (Pension and Other Employee Benefit Trust Funds) – The board is appointed by the Governor and administers ten separate retirement plans for the purpose of providing retirement, disability, death, and lump-sum payments to plan members. These legally separate plans include the Public Employees' Retirement Plan – Defined

Benefit and Defined Contribution and the associated education funds; the Judges'; the Highway Patrol Officers'; the Sheriffs'; the Game Wardens' and Peace Officers'; the Municipal Police Officers'; and the Firefighters' Unified Retirement Systems; as well as the Volunteer Firefighters' Compensation Act. The board also administers the State of Montana Deferred Compensation Program (457 Plan).

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

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

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

Teachers Retirement System
1500 East Sixth Avenue
PO Box 200139
Helena, MT 59620-0139

Public Employees' Retirement System
100 North Park, Suite 200
PO Box 200131
Helena, MT 59620-0131

B. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects. (1) The State Special Revenue Fund (SSRF) accounts for activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function. Several funds are defined in statute as Permanent Funds, however per GASB 54 these funds should be reported within the SSRF. The respective effect on fund balance is $70.3 million. (2) The Federal Special Revenue Fund accounts for activities funded from federal sources used in the operation of state government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Major Enterprise Funds

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

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

Governments have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The State has elected not to follow subsequent private sector guidance.

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

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

D. Proprietary Activity Accounting and Financial Reporting

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

E. Cash/Cash Equivalents

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. For 2013, certain investments in STIP were reclassified as long-term investments. Further detail relating to cash and cash equivalents is provided in Note 3.

F. Receivables

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

G. Inventories

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

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

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

H. Restricted Net Position

Certain investments of the Economic Development Bonds Enterprise Fund are classified as restricted net position on the Statement of Fund Net Position for proprietary funds because their use is limited by applicable bond indenture agreements.

I. Equity in Pooled Investments

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

J. Investments

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

K. Capital Assets

Capital asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure capital assets are capitalized and reported in the government-wide financial statements. Infrastructure assets of proprietary funds are capitalized on the fund financial statements. Interest incurred during the construction of capital assets for proprietary funds and higher education units is capitalized. The State has chosen to use the depreciation approach for infrastructure assets and is reporting accumulated depreciation in the Statement of Net Position and depreciation expense in the Statement of Activities for these assets. Further detail on Capital Assets is provided in Note 5.

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

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

L. Deferred Revenue

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

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

M. Long-term Obligations

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

Long-term liabilities expected to be financed from proprietary and fiduciary fund operations are accounted for in those funds. Further detail related to Leases/Installment Purchases Payable and State Debt is provided in Note 10 and Note 11, respectfully.

N. Capital Leases

A capital lease is a lease which transfers benefits and risks of ownership to the lessee. At the inception of a capital lease, in the government-wide, proprietary fund, and fiduciary fund financial statements, a capital asset and a capital lease liability are recorded at the present value of the future minimum lease payments. In the governmental fund financial statements, because the modified accrual basis of accounting is used, no asset or liability is recorded related to assets under capital leases. Rather, in the governmental fund financial statements, at the inception of a capital lease, capital outlay expenditure and an other financing source (inception of lease/installment contract) are recorded at the net present value of the minimum lease payments. Further detail on Capital Leases is provided in Note 10.

O. Bond Discounts/Premiums/Issuance Costs

Bond premiums and discounts, as well as issuance costs, are recognized in the current period for governmental funds in the fund financial statements. Bond proceeds and bond premiums are reported as an other financing source, and bond discounts are reported as another financing use. Issuance costs are reported as debt service expenditures whether or not they are withheld from the bond proceeds. In proprietary fund types and in governmental funds as presented in the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds, which approximates the effective interest method. Bonds payable are recorded net of any applicable premium or discount, while issuance costs are reported as deferred charges. Further detail related to Long-term Debt is provided in Note 11.

P. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 80 hours of sick or annual leave to a nonrefundable sick leave pool. Excess annual leave that is being forfeited can also be contributed, with no maximum contribution. Based on a review, the adjusted ending balance of the pool for June 30, 2012, was 21,307 hours. For fiscal year 2013, 1,174 sick leave hours, 120 annual leave hours, and 2,880 excess annual leave hours were contributed to the sick leave pool, and 3,785 hours were withdrawn, leaving a balance of 21,696 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to contributors, except by grants approved through an application process.

Vested or accumulated leave for proprietary and fiduciary funds is recorded as an expense and liability of those funds in the fund financial statements. For governmental funds, the liability is not expected to be liquidated with expendable financial resources. The expenditure and liability for the governmental funds is reported only in the government-wide financial statements. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave. Further detail on Compensated Absences is provided in Note 11.

Q. Fund Balance/Net Position

Fund Balance

As a result of implementing GASB Statement 54, the classifications for fund balance used for governmental funds are reported in two general classifications, nonspendable and spendable.

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

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

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

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Assignments of fund balance are created by the executive branch. An example of an assignment is money deposited into an account within the State Special Revenue fund by the executive branch and later appropriated by the legislature. The revenue source is not restricted or committed by legislation but is assigned by executive branch management and later appropriated by the legislature for a specific purpose. In governmental funds other than the general fund, assigned fund balance also represents the remaining amount that is not restricted or committed. Also included in the assigned fund balance for the general fund are encumbrances and assignments for the portion of current general fund balance that is projected to be used to fund expenditures and other cash outflows in excess of the expected revenues and other cash inflows in fiscal years as needed. An assignment for a FY14 material spend-down of fund balance was not included in this report, as it is not anticipated.

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

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

Minimum General Fund - Fund Balance

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

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

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

Net Position

In funds other than governmental, net position represent the difference between assets and liabilities. The net investment in the capital assets portion of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide Statement of Net Position reported restricted net position of $2.6 billion.

R. Property Taxes

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

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

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

S. Other Taxes

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

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

NOTE 2. OTHER ACCOUNTING ISSUES

A. New Accounting Guidance Implemented

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

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

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

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

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

B. Prior Period Adjustments

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

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

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

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

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

A. General

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

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

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

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

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

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

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

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

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

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

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

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

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

Convertible securities permit the holder to exchange, or “convert” the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer’s common stock. ADR investments are receipts issued by a US depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank.

Equity derivatives, such as futures and options, “derive” their value from underlying equity instruments. An institutional commingled fund combines assets from several institutional investors that are blended or pooled together to reduce management and administration costs. The investor buys shares in the fund.

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

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

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

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

During fiscal year 2013, the Bank lent BOI public securities and received as collateral: US dollar cash; US Government and government sponsored agency securities; US corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the G10 nations; and debt securities issued by certain supranational agencies. The Bank does not have the ability to sell collateral securities unless the borrower defaults.

BOI imposed no restrictions on the amount of securities available to lend during fiscal year 2013. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of default of the borrower. There were no losses during fiscal year 2013 resulting from a borrower default.

During fiscal year 2013, BOI and the borrowers maintained the right to terminate all securities lending transactions on notice. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment fund comprised of a liquidity pool and a duration pool. As of June 30, 2013, the Quality D Short Term Investment Fund (STIF) liquidity pool had an average duration of 29 days and an average weighted final maturity of 85 days for US dollar collateral. The duration pool had an average duration of 44 days and an average weighted final maturity of 1,972 days for US dollar collateral. As of June 30, 2013, the Securities Lending Quality Trust liquidity pool had an average duration of 48 days and an average weighted final maturity of 99 days for US dollar collateral. The duration pool had an average duration of 36 days and an average weighted final maturity of 679 days for US dollar collateral. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. At year-end 2013, BOI had no credit risk exposure to borrowers. The private equity and real estate pools do not participate in securities lending.

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

Credit Risk

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

1. Core Internal Bond Pool (CIBP) – "Securities must be rated investment grade, or no lower than triple-B-minus, by two NRSROs at the time of purchase with the exception of non-rated securities or guaranteed by agencies or instrumentalities of the U.S. government."
2. Reams Asset Management Company LLC – "At time of purchase, securities must be rated at least single-B by one major credit rating agency. At least 80% of portfolio holdings shall be rated investment grade by one major credit rating agency at time of purchase."
3. Aberdeen Asset Management Inc. formerly Artio Global Management LLC – "At time of purchase, securities must be rated at least double-B by one major credit rating agency. At least 80% of portfolio holdings shall be rated investment grade by one major credit rating agency at time of purchase."
4. Neuberger Berman Fixed Income LLC – "At time of purchase, securities must be rated at least triple-C by one major credit rating agency. Securities rated below single-B will be limited to 25% of portfolio value."
5. Post Advisory Group LLC – "At time of purchase, securities must be rated at least triple-C by one major credit rating agency. Securities rated below single-B will be limited to 25% of portfolio value."

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

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

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

Neither the MTIP, MDEP or MTRP investment policies address credit risk for the MTIP and MDEP external managers' cash equivalents investment in STIF or the MTRP STIP investment. As of June 30, 2013 the MTIP STIF balance was $2,400,069, while the MDEP STIF balance was $27,134,694. The June 30, 2013 MTRP STIP investment totaled $10,006,106. The STIF and STIP cash equivalent funds have not been rated by a NRSRO. One MDEP manager has a $226,954 cash equivalent investment as of June 30, 2013 in the T. Rowe Price Reserve Investment Fund with an average credit rating of AAA.

Of the 19 individual Investment Policy Statements for the funds categorized as the AOF, nine funds have specific policies associated with credit risk. The remaining funds have no policy addressing credit risk. Two funds require "corporate securities be rated A3/A- or higher by Moody's/S&P rating agencies to qualify for purchase." One fund requires fixed income investments, at the time of purchase, to be rated investment grade as defined either by Moody's or by Standard & Poor's (S&P) rating services. The investment policy, revised in February 2013, states "the maximum fixed income credit risk will be limited to 2% of the total securities portfolio in any one name". Five funds require, at the time of purchase, "the quality rate of any corporate bond shall be in the top of the single-A rating classification or better at the time of purchase (e.g. A1/A+ or higher) and have at least two ratings. Exposure to the securities of any one US Agency is limited to 5% and in no event will an agency security be purchased if it carries a rating that is less than top-rated (AAA) at the time of purchase." One fund requires "fixed income securities must be rated at least A- or A3 at time of purchase."

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

Custodial Credit Risk

Deposits

Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. As of June 30, 2013, BOI recorded cash deposits of $3,051,107; of this balance, $1,365,163, represented foreign cash deposits, at fair value, held in sub-custodial banks. These deposits are uninsured and the balances are exposed on the basis of no collateralization.

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

Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, BOI may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2013, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for the Montana Board of Investments and held in the possession of BOI's custodial bank, State Street Bank. The Equity Index funds, US Bank repurchase agreement, real estate, mortgage and loan investments were purchased and recorded in BOI's name. Commingled fund investments are registered in the name of the Montana Board of Investments. BOI does not have a policy addressing custodial risk for investments.

Concentration of Credit Risk

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

Bond Pools

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

STIP

The STIP Investment Policy specifies concentration of credit risk exposure by limiting portfolio investment types by 2% per non-government issuer except up to 3% may be invested per issuer as long as not more than 2% is invested in securities maturing in more than seven days.

AOF

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

There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2013. This concentration of credit risk includes the rated securities from Table 2 – Cash Equivalents and Table 4 – Investments.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Although the MTIP, RFBP and MTRP do not have a formal policy to limit foreign currency risk, the MTIP policy provides for the “external managers to hedge currency in a defensive manner. The managers are not allowed to engage in currency speculation, such as over-hedging, reverse hedging, cross-hedging or other trading activity not specifically aimed at minimizing risk versus their benchmark or preserving the US dollar value of investments.” The Managers’ Investment Guidelines provide for currency hedging and emerging market limitations. At the pool level, MTIP will be managed on an un-hedged basis. The MPEP policy does not address foreign currency risk, but identifies “country risk as including all of the risks associated with international alternative investments along with the political, economic and currency risks associated with investing outside of the United States.” As of the June 30, 2013 exchange date, BOI’s foreign currency exposure by forward contracts, deposits and investment type are reported, in US dollars, at fair value in the tables in section C of this note excluding the foreign investments denominated in US dollars for the American Depositary Receipts (ADRs) and commingled index funds.

Interest Rate Risk

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

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

The MDEP and MTIP investment portfolios include the external managers’ cash equivalents invested in the custodial bank’s STIF of $27,134,694 and $2,400,069, respectively. The STIF fund has an effective duration of .11. One MDEP investment manager invested $226,954 in the T. Rowe Price Reserve Investment Fund with duration of .10. The MDEP and MTIP investment policy statements do not address interest rate risk for cash equivalent (debt pool) investments.

The fixed coupon holdings in the Bond Pools and AOF bonds pay a fixed rate of interest until maturity while floating rate securities pay a variable rate of interest until maturity. As of June 30, 2013, these three portfolios and the STIP portfolio held certain variable rate issues. Interest payments on these securities are based on an underlying proxy, e.g., LIBOR.

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

Bond Pool and AOF investments are categorized to disclose credit and interest rate risk as of June 30, 2013. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated investment types. If duration has not been calculated, duration is indicated by NA (not applicable).

STIP investments are categorized to disclose credit risk as of June 30, 2013. Credit risk reflects the weighted security quality rating by investment type, as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated. With the exception of one long term rating for the other asset backed investment type, short term credit ratings, provided by S&P's rating services, are presented in Table 2. An A1+ rating is the highest short term rating by the S&P rating service. STIP interest rate risk is determined using the weighted average maturity (WAM) method. The WAM measure expresses investment time horizons—the time when investments are due or reset and payable in days, months or years—weighted to reflect the dollar size of the individual investments within an investment type.

<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 2013 payments from AFF Financing LLC totaled $8,107,749 consisting of $8,005,209 in principal and $102,540 in interest. On June 2, 2013, BOI elected to extend the AFF Financing LLC promissory note maturity date to July 2, 2014. In June and December 2009, BOI applied $13.5 million, in total, from the STIP reserve to the outstanding principal for the Axon Financial Funding securities. As of June 30, 2013, the AFF Financing LLC, classified as a SIV, has an outstanding amortized cost balance of $29,561,449. Refer to Note 17–Subsequent Events for additional information.

On October 14, 2009, BOI received its initial payment from Orion Finance USA. From this date through November 2010, payments from Orion Finance USA included principal of $13,433,642 and interest compensation of $1,804,738 in excess of the $903,922 accrued interest receivable for a total of $16,142,302. In November 2010, Orion Finance Corporation "granted a security interest in substantially all of its assets (the Collateral) to the Bank of New York Mellon, as Security Trustee." On December 8, 2010, the Security Trustee conducted "a public sale of 60 structured credit and 7 financial securities including but not limited to asset backed securities, collateralized debt obligations, collateralized loan obligations and residential mortgage backed securities included within the Collateral.” BOI participated in the sale and collectively holds these individual securities as Orion Finance. From December 2010 through June 2013, BOI received principal and interest payments of $11,079,063 and $1,768,728, respectively. In June and December 2009, BOI applied $7.5 million, in total, from the STIP reserve to the outstanding principal for the Orion Finance USA securities. As of June 30, 2013, the Orion Finance collective holding, classified as Other Asset Backed, has an outstanding amortized cost balance of $17,987,295. Refer to Note 17–Subsequent Events for additional information.

STIP, Bond Pool and AOF

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

Bond Pool and AOF

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

Because Lehman reached an agreement on their bankruptcy, the BOI sold the $5 million AOF position in Lehman Brothers Holdings, Inc. 5% rate, January 14, 2011 maturity at a price of $26 on December 6, 2011. Because the bonds were previously written down to a price of $20, this sale generated a gain of $322,300. On April 18, 2012, BOI received bankruptcy principal payments of $191,035 and $249,071 on the two remaining variable rate Lehman Brothers Holdings, Inc. securities held in the TFIP and AOF portfolios. These two securities carry a book value of $259,561 each as of June 30, 2013.

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

Credit Risk

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

STIP Reserve

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

B. Cash/Cash Equivalents

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

Table 1 – Cash Deposit Amounts
(in thousands)

	Carrying Amount
Cash held by State/State's agent	$137,369
Uninsured and uncollateralized cash	5,865
Undeposited cash	426
Cash in US Treasury	171,959
Cash in MSU component units	5,457
Cash in UM component units	7,808
Less: outstanding warrants	(89,591)
	$239,293

As of June 30, 2013, the carrying amount of deposits for component units was $16,264,281 as included in Table 1.

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

Table 2 - Cash Equivalents
(in thousands)

	Fair Value	Credit Quality Rating	WAM in Days
Asset Backed commercial paper	$ 907,893	A1	44
Corporate commercial paper	150,769	A1	105
Corporate - variable	663,143	A3	41
Certificate of deposit – fixed	50,000	A1	222
Certificate of deposit – variable	435,974	A2	35
Other asset backed	47,549	NA	NA
US government agency fixed	44,891	A1	3
US government agency variable	182,700	A1	17
Money market fund unrated	309,316	NR	1
Money market fund rated	15,000	A1+	1
Repurchase agreement (1)	8,790	NR	0
Less: STIP included in pooled investment balance	(85,117)	NR	NA
Total cash equivalents (4)	$ 2,730,908		43
Securities lending collateral investment pool (2)	$ 7,183	NR	(3)

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

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

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

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

C. Equity in Pooled Investments

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

Table 3 – Equity in Pooled Investments
(in thousands)

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

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

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

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2013, as required for applicable pools. Credit risk reflects the bond quality rating, by investment type, as of June 30, 2013. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated investment types. If duration has not been calculated, duration is indicated by NA (not applicable).

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

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

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

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

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

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

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

Effective June 30, 2010, the BOI implemented the provisions of GASB Statement No. 53–Accounting and Financial Reporting for Derivative Instruments. The derivative instrument disclosures are described in the following paragraphs. The fair value balances and notional amounts of derivative instruments outstanding as of June 30, 2013, classified by type, and the changes in the fair value of such derivative instruments for the year ended June 30, 2013, as reported in the 2013 financial statements, are as follows (in thousands):

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

As of the June 30, 2013 exchange date, BOIs' foreign currency exposure by forward contracts, deposits and investment type are reported, in US dollars, at fair value in the tables below excluding the foreign investments denominated in US dollars for the American Depositary Receipts (ADRs) and commingled index funds.

Foreign Currency Exposure by Country

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

Maximum Loss before and after Netting and Collateral (in thousands)		
Maximum amount of loss BOI would face in case of default of all counterparties i.e. aggregated (positive) fair value of Over-the-Counter positions as of June 30, 2013.	$	818
Effect of collateral reducing maximum exposure		-
Liabilities subject to netting arrangements		-
Resulting net exposure	$	818

Counterparty Name	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
Deutsche Bank London	26%	A+	A+	A2
JP Morgan Chase Bank	15%	A+	A+	Aa3
Royal Bank of Scotland	15%	A	A	A3
Credit Suisse London	14%	A+	A	A1
Westpac Banking Corp	11%	AA-	AA-	Aa2
State Street Bank	10%	AA-	A+	Aa2
Royal Bank of Canada	4%	AA-	AA	Aa3

D. Investments

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

Long-term Investments

Department	Percent Administered
Board of Investments	64.22%
PERA (Public Employee Retirement Administration)	21.30
Board of Housing	5.86
College Savings Plan	4.57
Montana State University/University of Montana	1.09
Other (1)	2.96
Total	100.00%

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

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

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

Table 4 – Investments
(in thousands)

	Carrying Amount	Fair Value
Primary government		
Corporate bonds (rated) (1)	$ 54,510	$ 55,132
US govt agency (1)	79,448	81,972
US govt direct (rated) (1)	15,681	16,499
Government securities	35,656	35,824
STIP/SIV investments	6,766	6,766
Mortgages	137,570	129,280
Other equities	23,559	23,555
Total	$ 353,190	$ 349,028
Component units/fiduciary funds		
Corporate bonds (rated) (1)	$ 619,985	$ 652,247
Corporate bonds (unrated)	260	1,213
US govt agency (1)	264,113	275,619
US govt direct (rated) (1)	168,216	179,937
Government Securities	23,753	24,753
STIP/SIV Investments	10,055	10,055
Loans	15,972	15,441
Other equities	91,441	154,628
Deferred compensation	397,619	397,619
Defined contribution	101,416	101,416
529 College Savings Plan	106,972	106,972
VEBA	3,246	3,330
Investments of MSU component units	173,368	173,369
Investments of UM component units	190,257	190,257
Real Estate	35,750	36,096
Other	139,180	144,874
State Auditor	11,409	11,120
Total	$ 2,353,012	$ 2,478,946
Total investments (1)	$ 2,706,202	$ 2,827,974
Securities lending collateral investment pool (2)	$ 202,372	$ 202,372

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

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

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

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

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

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

(2) The US Bank repurchase agreement, per contract, was collateralized at 102% for $8,965,888 by two Federal Home Loan Mortgage Corporation Gold securities maturing July 1, 2024 and November 1, 2024. This security carries AA+ credit quality ratings.

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE

A disaggregation of the net receivables and accounts payable (by fund type) as of June 30, 2013, follows (in thousands):

A. Receivables

	Governmental Funds					
	General	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental
Licenses and permits	$ -	$ 7,747	$ -	$ -	$ -	$ -
Taxes	257,728	93,726	-	6,045	-	1,522
Charges for services/fines/forfeitures	308	7,874	4,409	-	-	-
Investment income	225	3,434	-	2,861	1,789	869
Contributions/premiums	-	16,638	-	-	-	-
Reimbursements/overpayments	8,163	5,976	585	-	-	-
Grants/contracts/donations	-	-	1	-	-	-
Other	3,536	1,002	14,297	-	-	3,850
Total receivables	269,960	136,397	19,292	8,906	1,789	6,241
Less: allowance for doubtful accounts	(9,392)	(21,131)	(1,759)	-	-	-
Receivables, net	$260,568	$115,266	$17,533	$8,906	$1,789	$6,241

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

B. Payables

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

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

NOTE 5. CAPITAL ASSETS

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

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

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

(Continued)

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

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

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

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

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

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

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

NOTE 6. RETIREMENT PLANS

A. General

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

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

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

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

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

B. Actuarial Status of Plans

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

The statutory funding rate is tested in the valuation of each public retirement plan to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. As of June 30, 2013, the Sheriffs Retirement System (SRS), Game Warden & Peace Officers Retirement System (GWPORS), and Highway Patrol Officers' Retirement System (HPORS) were not in compliance and do not amortize within 30 years.

C. Public Employee Defined Benefit Retirement Plans.

(1) State as the Single Employer

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

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

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

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
JRS						
6/30/2013	70,323	49,236	(21,087)	142.82%	6,276	(336.00)%
HPORS						
6/30/2013	105,736	175,594	69,858	60.22%	13,484	518.08%

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

Single Employer Systems Pension Plan Information:

	JRS (1)	HPORS
Contributions (in thousands):		
Employer	$ 1,622	$ 4,903
Employee	737	1,337
State (General Fund)	N/A	275
Actuarial valuation date	6/30/13	6/30/13
Actuarial cost method	Level percentage of payroll open	Level percentage of payroll open
Remaining amortization period	0 years	44.6 years
Asset valuation method	4-year smooth market	4-year smooth market
Actuarial assumptions:		
Investment rate of return	7.75%	7.75%
Projected salary increases	4.00%	4.00%
includes inflation factor	3.00%	3.00%
Merit	None	0.00% -7.30%
Benefit adjustments:		
GABA	3% after 1 year	3% after 1 year
Non-GABA	Biennial increase to salary of active member in like position	2% per year of service not to exceed 5% for probationary officer's base pay

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

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

A summary of government employers participating in PERS-DBRP, SRS, GWPORS, MPORS, FURS, TRS, and VFCA by employer type at June 30, 2013, follows:

Employers	PERS-DBRP	SRS	GWPORS	MPORS	FURS	TRS	VFCA
State agencies	34	1	4		1	9	
Counties	55	56					
Cities/towns	99			31	16		
Rural fire districts					8		
Colleges/universities	5		3			5	
High schools	6						
School districts	231					353	
Other agencies	110						
Participating companies							217
Total	540	57	7	31	25	367	217

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

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

All new members from the universities also have a third option to join the university system's Optional Retirement Program (ORP), now known as the Montana University System Retirement Program (MUS-RP) effective July 1, 2013. For members that choose to join the PERS-DCRP or the MUS-RP, a percentage of the employer contribution will be used to maintain the funding of the PERS-DBRP. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

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

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

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

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

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

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

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

D. Public Employee Defined Contribution Retirement Plans

PERS-DCRP – Public Employees Retirement System - Defined Contribution Retirement Plan – The PERS Defined Contribution Retirement Plan (DCRP) is a multiple employer plan established July 1, 2002 and governed by Title 19, Chapters 2 & 3, MCA. This plan is available to eligible employees of the State, Montana University System, local governments, and school districts. All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the PERS-DBRP by filing an irrevocable election. Members may not be members of both the defined contribution and defined benefit retirement plans. Member and employer contribution rates are established by state law and may be amended only by the Legislature. At June 30, 2013, there were 2,087 active plan members.

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

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

The record keeper for the plan is Great-West Retirement Services (Great-West). Participants elect to defer a portion of their salary, within Internal Revenue Code limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed, provided IRS-specified criteria are met. At June 30, 2013, there were 8,215 participating plan members.

E. Optional Retirement Program

ORP – Optional Retirement Program **–** Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP) (now known as the Montana University System Retirement Program (MUS-RP) effective July 1, 2013). The MUS-RP is a defined contribution retirement plan governed by Title 19, Chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF); only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members, who did not elect the MUS-RP, participate in the Teachers' Retirement System or the Public Employees' Retirement System benefit plans. Beginning July 1, 1993, membership in the MUS-RP was mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan. Each employer in the MUS shall contribute to the TRS a supplemental employer contribution currently at a rate of 4.72% of the total compensation of employees participating in the Montana University System Retirement Program (MUS-RP) as defined in Title 19, Chapter 20 of the Montana Code Annotated.

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

F. Summary of Significant Accounting Policies

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

G. Method Used to Value Investments

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

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

H. Long-term Contracts for Contributions

The Montana Legislature enacted a provision of the Employee Protection Act (EPA) (Title 19, Chapter 2, Part 706, MCA), related to the Employee Protection Act, allowing state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their employer pay a portion of the total cost of purchasing up to three years of "1-for -5"additional service. The employees participating under section 19-2-706, MCA increased from 217 in fiscal year 2012 to 221 in fiscal year 2013.

The employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the Public Employee Retirement Board (PERB) on the unpaid balance. Total contributions received (including interest) during fiscal year 2013 totaled $85,012. The outstanding balance at June 30, 2013, totaled $23,110.

I. Changes Since Last Valuation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Schedule of Contribution Rates
Fiscal Year 2013

PERS-DBRP

Member	6.900%	For members hired on or after 7/1/2011
	7.900%	For members hired on or after 7/01/2011 [19-3-315(1)(a)(i) & (ii), MCA]
Employer	7.170%	State & University
	7.070%	Local Governments
	6.800%	School Districts (K-12) [19-3-316, MCA]
State	0.100%	Local Government payroll - paid from the General Fund [19-3-319, MCA]
	0.370%	School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]

MPORS

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

FURS

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

SRS

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

HPORS

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

JRS

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

Schedule of Contribution Rates
Fiscal Year 2013 *(continued)*

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

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

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

TRS		
Member	7.150%	For members hired prior to 7/1/2013 [19-20-602, MCA]
Employer	9.850%	State & University [19-20-605, MCA]
	7.470%	Contribution of total earned compensation of school district, an education coop., a county, or a community college. [19-20-605, MCA]
State	0.110%	Of members' salaries [19-20-604, MCA]
	2.380%	Contribution of the total earned compensation of school district and community college active members [19-20-607, MCA]

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

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

(1) The actuarial value of assets is greater than the actuarial accrued liabilities for FY2008-FY2010 and FY2013. The funding excess is large enough so that the sum of normal cost and the amortization of the funding excess are negative. Common actuarial practice is to set the ARC at zero. No employer contribution would be required for these years.

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

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2013

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

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2013 *(continued)*

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
HPORS	– HAC during any consecutive 36 months	Service retirement – 20 years of membership service, regardless of age Early retirement – 5 years of membership service, actuarially reduced from age 60	Hired prior to 7/1/2013 – 5 years of membership service
JRS	Hired prior to 7/1/1997 and non-GABA – Monthly compensation at time of retirement Hired on or after 7/1/1997 or electing GABA – HAC during any consecutive 36 months (relates directly to monthly benefit formula)	Service retirement – Age 60, 5 years of membership service Involuntary retirement – Any age with 5 years of membership service – involuntary termination, actuarially reduced	– 5 years membership service
GWPORS	Hired prior to 7/1/2011 – HAC during any consecutive 36 months Hired on or after 7/1/2011 – HAC during any consecutive 60 months	Service retirement – Age 50, 20 years of membership service Early retirement (reduced benefit) – Age 55, vested members who terminate employment prior to 20 years of membership service	– 5 years membership service

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2013 *(continued)*

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

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2013 *(continued)*

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

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2013 *(continued)*

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

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2013 *(continued)*

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

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2013 *(continued)*

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

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2013 *(continued)*

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

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2013 *(continued)*

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

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

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General

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

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

B. Plan Description

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

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

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

C. Basis of Accounting

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

The plan document states "an employee enrolled in the State Plan who (a) is eligible to draw a state retirement benefit at the time he or she leaves active state employment; and (b) makes arrangements with the EBB (Employee Benefits Bureau) within 60 days of the date active employee coverage ends to continue post-retirement coverage, may continue with the state group on a self-pay basis, retroactive back to the date active employee coverage was lost." Therefore, the plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2013.

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

State Plan Participants

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

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

The number of MUS participants as of June 30, 2013 follows:

MUS Plan Participants

Enrollment	MSU-Billings	MSU-Bozeman	GFC-MSU	MSU-Northern	OCHE	HC-MSU	UM-Msla	UM-MT Tech	UM-Western	Other	Total
Active employees	500	2,806	126	200	87	103	2,433	410	194	335	7,194
Retired employees, spouses, and surviving spouses	214	1,174	27	99	37	34	821	170	104	90	2,770
Total	714	3,980	153	299	124	137	3,254	580	298	425	9,964

D. Funding Policy

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

As of June 2013, the State plan's administratively established retiree medical premiums vary between $299 and $1,061 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between $17.50 and $60 and vision premiums vary between $7.64 and $22.26 depending on the coverage selected.

The MUS plan's administratively established retiree medical premiums vary between $291 and $1,265 per month and are revised annually. The plan provides different coinsurance amounts depending on whether members use preferred, non-preferred, or other hospitals. After an annual $500 deductible for most non-Medicare-eligible retirees, the MUS plan reimburses 75% for the first $10,000 in medical claims and 100% thereafter. There is an optional $1,000 deductible plan available to retirees with a reduced premium. After the $1,000 annual deductible, the plan pays 75% of the first $20,000 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2013, 1,758 retirees (policyholders) were enrolled in the MUS plan.

E. Annual Other Postemployment Benefit Cost and Contributions

The annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45, represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The current State's ARC of $33.0

million is 5.72% of annual covered payroll. The State's annual covered payroll is $576.9 million. The current MUS's ARC of $12.1 million is 3.07% of annual covered payroll. The MUS's annual covered payroll is $393.8 million.

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

The following table presents the OPEB cost for the year, the amount contributed, and changes in the OPEB plan for fiscal year 2013 (in thousands):

Annual OPEB Cost

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

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

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

Contribution Ratio

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

F. Actuarial Methods and Assumptions

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

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

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

As of June 30, 2012, the MUS actuarially accrued liability (AAL) for benefits was $109.8 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $109.8 million, and the ratio of the UAAL to the covered payroll was 29.54%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

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

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

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

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

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

Other Postemployment Benefits
State Agent Multiple Employer Plan

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

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

Other Postemployment Benefits

MUS Agent Multiple Employer Plan

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

G. Termination Benefits

During the year ended June 30, 2013, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for six employees provided for up to seven months and one-time incentive payments for two employees. In determining termination benefit liability related to the continued coverage of group health insurance benefits, it was assumed that these benefits would be paid for the entire period of the arrangement.

During the year ended June 30, 2013, Component Units of the State made the following termination benefit arrangements: continued coverage of health insurance benefits and/or one-time incentive payments for ten employees.

During the year ended June 30, 2013, the cost of termination benefits were $114,625 and $145,005 for the State and its Component Units, respectively.

NOTE 8. RISK MANAGEMENT

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

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 2,079 policies during the 2013 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

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

The fund recorded a liability of $340,159 based on estimated claims through June 30, 2013. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Montana University System (MUS) Group Insurance Plan – This plan is authorized by the Regents and in Title 20, Chapter 25, Part 13 of the Montana Code Annotated. The Plan's purpose is to provide medical, dental, prescription drug, and related group benefits coverage to employees of the Montana University System and affiliates, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term care, long-term disability, and accidental death and dismemberment insurance. Delta Dental administers the dental plan, EyeMed Vision Care administers the vision plan, and MedImpact is the administrator for the prescription drug program. Allegiance Benefit Plan Management is the claims administrator for the self-insured indemnity plan and a managed care plan. Pacific Source and Blue Cross and Blue Shield of Montana administer claims for two other managed care plans. Allegiance, Pacific Source, and Blue Cross and Blue Shield of Montana have contracts for utilization management: the utilization management program consists of hospital pre-authorization and medical necessity review as well as large case management. Premuims are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund. The claims liability is calculated by Actuaries Northwest and estimated to be $6.7 million as of June 30, 2013, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Montana University System (MUS) Workers Compensation Program – This plan was formed to provide self-insured workers compensation coverage for employees of the Montana University System. The Montana University System Board of Regents provides workers compensation coverage under Compensation Plan Number One (Title 39, Chapter 71, Part 2101, MCA). The program is self-insured for workers compensation claims with losses in excess of $500,000 per occurrence and $1,000,000 per aircraft occurrence covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of $1,000,000 above the self-insured amount of $500,000. During fiscal year 2013, the program ceded $272,128 in premiums to reinsurers.

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

The fund recorded a liability of $8.0 million for estimated claims at June 30, 2013. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, and claims reserve development including the effects of inflation and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

(4) Subsequent Injury – This fund provides benefits to certified disabled workers who are subsequently injured on the job and entitled to benefits under the Workers Compensation Act at the time of the subsequent injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104-week time period. Workers compensation insurance premium experience modification factors are influenced only by the two-year limitation. This fund provides employers with a potential incentive for hiring a person with a certified disability.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding fiscal year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis total population of registered Subsequent Injury Fund participants. As of June 30, 2013, the amount of this liability was estimated to be $3.5 million. Since each insurer is responsible for its own claim liabilities, the pool is acting as a claims service and there is no transfer or pooling of risk.

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

	Hail Insurance		MUS Group Insurance Plan		MUS Workers Compensation	
	2013	2012	2013	2012	2013	2012
Unpaid claims and claim adjustment expenses at beginning of year	$ 750	$ 164	$ 6,900	$ 7,600	$ 10,837	$ 9,784
Incurred claims and claim adjustment expenses: provision for insured events of the current year	2,221	4,608	70,058	60,803	3,399	3,158
Increase (decrease) in provision for Insured events of prior years	1,747	173	-	-	(4,046)	239
Total incurred claims and claim adjustment expenses	3,968	4,781	70,058	60,803	(647)	3,397
Payments: Claims and claim adjustment expenses attributable to insured events of the current year	(1,881)	(3,857)	(70,258)	(61,503)	(891)	(709)
Claims and claim adjustment expenses attributable to insured events of prior years	(2,497)	(338)	-	-	(1,251)	(1,635)
Total payments	(4,378)	(4,195)	(70,258)	(61,503)	(2,142)	(2,344)
Total unpaid claims and claim adjustment expenses at end of year	$ 340	$ 750	$ 6,700	$ 6,900	$ 8,048	$ 10,837

B. Entities Other Than Pools

(1) Employee Group Benefits Plans – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracted with Blue Cross/Blue Shield and New West for administration of its self-insured medical and dental plans from July 1 2012 until December 31, 2012 for FY13. The State contracted with Cigna and Delta Dental as administrators for medical and dental coverage respectively beginning January 1, 2013 which covered the second six months of FY13. MedImpact is the administrator for the prescription drug program. Contributions are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments, and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2013, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, as well as other actuarially determined liabilities, were $14.6 million based on a formula provided by Actuaries Northwest, a consulting actuarial firm, of which $12.7 million is estimated to be paid in fiscal year 2014.

(2) Administration Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure of housing units. The State self-insures the $1,000,000 deductible per occurrence for most property insurance, as well as various deductible amounts for other state property. The State also self-insures against losses of property below $1,000,000 of value, with state agencies paying the first $1,000. Commercial property insurance protects approximately $5.0 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of $1,000,000 for earthquake and $1,000,000 for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Fund.

An annual actuarial study, prepared by Towers Watson Company, and issued for the accident period July 1, 2003 through June 30, 2013, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2013, estimated claims liability was $16.9 million.

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

	Employees Group Benefits Plans		Administration Insurance Plans	
	2013	2012	2013	2012
Amount of claims liabilities at the beginning of each fiscal year	$ 11,900	$ 12,528	$19,297	$ 17,962
Incurred claims:				
Provision for insured events of the current year	136,814	135,460	5,733	6,096
Increases (decreases) in provision for insured events of prior years	1,463	(551)	(2,685)	28,893
Total incurred claims	138,277	134,909	3,048	34,989
Payments:				
Claims attributable to insured events of the current year	(122,034)	(123,994)	(1,135)	(1,026)
Claims attributable to insured Events of prior years	(13,503)	(11,643)	(4,301)	(32,628)
Total payments	(135,537)	(135,537)	(5,436)	(33,654)
Total claims liability at end of each fiscal year	$ 14,640	$ 11,900	$16,909	$ 19,297

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2013, the Department of Transportation had contractual commitments of approximately $244.2 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matched with state special revenue funds.

B. Capital Construction

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

C. Coal Tax Loan and Mortgage Commitments

The Board of Investments (BOI) makes firm commitments to fund commercial loans and Veterans' Home Loan Mortgages (VHLM) from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to BOI policies. As of June 30, 2013, the BOI had committed, but not yet purchased, $2.4 million in loans from Montana lenders. In addition to the above commitments, lenders had reserved $25.1 million for loans as of June 30, 2013. As of June 30, 2013, $4.0 million represented lender reservations for the VHLM residential mortgage purchases with no purchase commitments.

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

D. Department of Corrections Bond Commitments

At June 30, 2013, the outstanding tax-exempt bonds issued by the Montana Facility Finance Authority were issued in the amount of $25.5 million of which $3.2 million is scheduled to be paid by June 30, 2014. These bonds have been issued to facilities operating treatment and prerelease centers. The Department of Corrections agrees to provide payment on behalf of the contractors for the total principal and interest payments in regard to these outstanding bonds.

E. Proprietary Fund Commitments

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

Proprietary Fund Commitments

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

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

F. Encumbrances

As of June 30, 2013, the State of Montana encumbered expenditures as presented in the table below (in thousands):

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Nonmajor Governmental Funds	Total
Encumbrances	$18,033	$47,146	$58,426	$1,314	$124,919

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

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

A. Capital Leases/Installment Purchases

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

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

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

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

B. Operating Leases

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

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

NOTE 11. STATE DEBT

A. General Information

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

B. Short-term Debt

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

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

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

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

The Board of Investments (BOI) of the State of Montana is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than $190 million as amended by the 2007 Legislature. The purpose of the bonds is to provide funds for the BOI to make loans to eligible government units. The bonds are limited obligations of the BOI, payable solely from (1) repayments of principal and interest on loans made by the BOI to participating eligible governmental units, (2) investment income under the indenture, and (3) an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and are included in short-term debt. The amounts issued and outstanding at June 30, 2013, were as follows (in thousands):

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

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

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

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2013, were as follows (in thousands):

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

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

Business-type Activities

	Series	Amount Issued	Interest Range (%)(1)	Fiscal Year 2014	In Year of Maturity (2)	Balance June 30, 2013
Bonds/notes payable						
Economic Development Bonds (13)						
Municipal Finance Consolidation Act Bonds (Irrigation Program) (14)	1988	$ 4,976	6.60-7.75	$ 70	70 (2014)	$ 70
Total bonds/notes payable		4,976		70		70
Total business-type activities		$ 4,976		$ 70		$ 70

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

(2) Year of maturity refers to fiscal year.

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

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

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

(6) The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42 United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA Bonds are secured additionally by a pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event cost recovery payments are insufficient.

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

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

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

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

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

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

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

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

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2013, were as follows (in thousands):

Governmental Activities

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

Business-type Activities

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

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2013, was as follows (in thousands):

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

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

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

F. Refunded and Early Retired Debt

Prepayments
The Department of Natural Resources and Conservation (DNRC) used current available resources to make a prepayment of $185,000 on general obligation series 1998F for payoff.

Defeased Debt Outstanding
The State of Montana has defeased certain general obligation and special revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2013, $53.7 million of bonds outstanding was considered defeased.

G. No-Commitment Debt

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

Montana Board of Investments (BOI)
Under the Economic Development Act, the BOI is authorized to issue stand-alone industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. At June 30, 2013, industrial revenue bonds outstanding aggregated $30.0 million.

The BOI is also authorized to issue Qualified Zone Academy Bonds (QZAB) under the Municipal Finance Consolidation Act. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2013, QZAB debt outstanding aggregated $8.5 million.

The BOI is also authorized to issue Qualified School Construction Bonds (QSCB) under the Municipal Finance Consolidation Act. The revenues of the borrower are pledged to repay the bonds. At June 30, 2013, QSCB debt outstanding aggregated $7.5 million.

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

Beginning Farm Loan Program
The Montana Department of Agriculture is authorized to request issuance of bonds by the BOI to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2013, was as follows: Hershberger Project – issued $129,412, outstanding $80,302

H. Estimated Pollution Remediation Obligation

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

The State’s estimated pollution remediation liability as of July 1, 2012 was estimated at $549.2 million. The liability as of June 30, 2013 was $524.2 million. Of this liability, $258.0 million resulted in settlement agreements to provide restoration of natural resources, water supplies and natural resource-based recreational opportunities up to the settlement amount; $252.8 million is based on decrees or settlements for remediation activities. Other estimated liabilities have been recorded for soil and PCB contamination. The estimated pollution remediation liability was recorded in compliance with accounting and reporting standards and does not constitute Montana’s total acceptance of the liability or responsibility on these matters.

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

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

Balances due from/to other funds at June 30, 2013, consisted of the following (in thousands):

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

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

(1) Total due from the state special revenue fund on the fund financial statement is reported as $7.3 million. The difference of $6.2 million between the amount reported above of $1.1 million and the amount reported on the fund financial statement relates to long term receivables. The receivables were recorded in the fund financial statement and the long term liabilities were recorded in the government-wide statement.

(2) Total due from the non-major governmental funds on the financial statements is reported as $2.6 million. The difference of $2.5 million between the amount reported above of $134,000 and the amount reported on the financial statements relates to long term receivables. The receivables were recorded in the fund financial statement and the long term liability was recorded in the government-wide statement.

(3) Total due to the non-major enterprise funds on the fund financial statement is reported as $13.8 million. The difference of $395,000 between the amount reported above of $13.4 million and the amount reported on the fund financial statement relates to loans payable The liabilities were recorded in the fund financial and the receivables were reported in the government-wide statement.

B. Interfund Loans Receivable/Payable

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

Interfund loans receivable/payable at June 30, 2013, consisted of the following (in thousands):

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

C. Advances To/From Other Funds

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

Advances to/from other funds at June 30, 2013, consisted of the following (in thousands):

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

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

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

D. Interfund Transfers

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

Interfund transfers for the year ended June 30, 2013, consisted of the following (in thousands):

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

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

(1) Total transfers-out for internal service funds on the financial statements is reported as $1.8 million. The difference of $918,000 between the amount reported above of $867,000 and the amount reported on the financial statements relates to the movement of capital assets between a governmental fund type and the internal service fund type. When assets were transferred between these funds, the transferring fund recorded the net book value of the capital asset as a transfer-out, and the receiving fund type recorded the net book value of the capital asset as a capital contribution.

(2) Total transfers-out for nonmajor enterprise funds on the financial statements is reported as $48.2 million. The difference of $100,000 between the amount reported above of $48.1 million and the amount reported on the financial statements relates to the movement of capital assets between a governmental fund type and the nonmajor enterprise fund type. When assets were transferred between these funds, the transferring fund recorded the net book value of the capital asset as a transfer-out, and the receiving fund type recorded the net book value of the capital asset as a capital contribution.

NOTE 13. FUND DEFICITS

The following funds have a deficit fund balance/net position position at June 30, 2013, (in thousands):

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

NOTE 14. MAJOR PURPOSE PRESENTATION

Fund Balances Classifications and Special Revenue by Purpose – The Governmental Accounting Standards Board, in Statement No. 54, requires presentation of governmental fund balances and special revenue fund revenues by specific purpose. In the basic financial statements, the fund balance classifications are presented in the aggregate. The tables presented below further display the fund balances by major purpose for the year ending June 30, 2013.

State Special Revenue By Source (in thousands)

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

Federal Special Revenue By Source (in thousands)

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

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

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

NOTE 15. RELATED PARTY TRANSACTIONS

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

The Montana Association of Health Care Purchasers (MAHCP) has a member from the Department of Administration (DOA), Health Care and Benefits Division as well as a member from the Montana University System. Both serve on the board of MAHCP and receive no remuneration for their services. DOA paid this association $1.25 per member per year to maintain its membership. DOA also paid a monthly fee of $0.65 per member per month from July 1 through December 31, 2012, and $0.56 per member per month from January 1 through June 30, 2013, for data aggregation and analysis and consulting services performed by the association staff on behalf of member employers.

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

NOTE 16. CONTINGENCIES

A. Litigation

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

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

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

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

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

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

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

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

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

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

On March 12, 2012, the parties filed a Stipulation of Partial Dismissal in both Second Circuit Dockets (Nos. 11-1904 cv and 12-840 cv) dismissing Montana with prejudice from all claims. On March 29, 2012, the parties filed an Assurance of Voluntary Compliance, Cause No. ADV-2012-246 in the First Judicial District Court of Montana pursuant to which Grand River Enterprises paid into escrow for the benefit of Montana $22,857 for back escrow due, and an additional $22,857 in civil penalties as a condition of being re-listed on the State of Montana's Tobacco Product Directory as an NPM whose products are approved for sale in Montana. No further potential liability to the State is expected relative to this action.

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

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

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

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

A less obvious financial impact is the bill of costs that PPL submitted to the district court following the remand. PPL requested that the district court tax the State of Montana with $1.2 million for PPL's costs relating to the appellate proceedings. All but approximately $31,000 relate to premiums that PPL paid for a supersedeas bond in support of staying the $41 million judgment. In May 2012, the State filed its response to PPL's bill of costs and agreed to costs for $31,263. However, the State moved the court to deny PPL's request for costs related to the supersedeas bond. The parties stipulated to hold this issue in abeyance until the court is able to rule on all remaining matters in the case. Counsel for the State has agreed to release the supersedeas bond. In the opinion of counsel, there are good legal arguments that support the State's position that it should not be required to pay the supersedeas bond premiums; however, legal and procedural uncertainties exist that make an adverse determination reasonably possible.

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

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

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

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

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

On June 20, 2012, the District Court ruled on the State's summary judgment motion seeking an order from the court that the State has not violated the made-whole laws in the administration of its health plan. The court denied the State's motion, ruling that the State is an insurer for the purposes of the made-whole laws and that it must conduct a made-whole analysis before exercising and subrogation/coordination of benefits rights. The State filed with the District Court a motion requesting that the court certify its decision to the Montana Supreme Court. The District Court granted the motion, and the Montana Supreme Court, over Plaintiffs' objection, ultimately agreed in a November 27, 2012 Order to hear this issue. The Plaintiffs also appealed to the Montana Supreme Court the District Court's definition of the class action.

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

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

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

B. Federal Contingencies

Food Distribution Program - The amount reported for Food Distribution programs (CFDA #10.555, #10.567, #10.569, #10.570 and #10.565 and #93.053) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2013, Montana distributed $466,709 of food commodities under CFDA #10.567 to other states.

The State of Montana distributed $8.1 million in commodities in fiscal year 2013. The value at June 30, 2013 of commodities stored at the state's warehouse is $2.2 million for which the state is liable in the event of loss. The state has insurance to cover this liability.

C. Miscellaneous Contingencies

Loan Enhancements – As of June 30, 2013, the Board of Investments (BOI) had provided loan enhancements from the Coal Severance Tax Permanent Trust Fund to the Municipal Finance Consolidation Act Bond Fund and the Facility Finance Authority, (a component unit of the State of Montana), totaling $227.5 million. The BOI's exposure to bond issues of the Municipal Finance Consolidation Act Bond Fund was $106.7 million, while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority was $120.8 million.

Gain Contingencies - Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2013 the following assessments (by fund type) were outstanding (in thousands):

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

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

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2013. The corporations have appealed the department's decision to deny or adjust the refund. As of June 30, 2013, these include $3.3 million of General Fund corporation tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2013. As of June 30, 2013, these include $10.6 million of protested property taxes recorded in the General Fund and $12.1 million recorded in State Special Revenue Funds.

NOTE 17. SUBSEQUENT EVENTS

Bond/Loan Issues

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

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

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

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

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

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

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

Investment Related Issues

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

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

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

Other Subsequent Events

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

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

NOTE 18. COMPONENT UNITS

A. Condensed Financial Statements

Below are the condensed financial statements of the component units for the State of Montana as of June 30, 2013 (in thousands):

Condensed Statement of Net Position
Component Units

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

Condensed Statement of Activities
Component Units

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

B. Cash/Cash Equivalents and Investments

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

C. Capital Assets

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

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

D. Other Postemployment Benefits (OPEB)

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

E. Risk Management

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

(1) Montana State Fund (New Fund) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990. New Fund is a self-supporting, competitive State fund, and functions as the guaranteed market. At June 30, 2013, approximately 24,400 employers were insured with the New Fund. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Towers Watson, as of June 30, 2013, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Due to the fact that actual claim costs depend on such complex factors as inflation and changes in the law claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques in order to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2013, $902.8 million of unpaid claims and claim adjustment expenses were presented at face value.

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. The New Fund acquisition costs are capitalized and amortized ratably over the subsequent year. The amount of capitalized acquisition costs for the fiscal year ended June 30, 2013, was $5.2 million.

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

For the fiscal year ended June 30, 2013, the New Fund ceded premiums to other reinsurance companies to limit the exposure arising from large losses. These arrangements consist of excess of loss contracts that protect against individual occurrences over stipulated amounts, and an aggregate stop loss contract which protects the New Fund against the potential that aggregate losses will exceed expected levels expressed as a percentage of premium. For fiscal year 2013, the excess of loss contract provides coverage up to $100 million in which New Fund retains the first $5 million for the first layer of reinsurance coverage. The excess of loss protection applies to an individual occurrence with the maximum of $5 million on any one life.

The term of the current aggregate stop loss contract was July 1, 2012 through June 30, 2013. The contract provides coverage based on New Fund’s premium levels not to exceed 15% of the subject net earned premium. In the event reinsurers are unable to meet their obligations, under either the excess of loss contracts or the aggregate stop loss contract, New Fund would remain liable for all losses, as the reinsurance agreements do not discharge New Fund from its primary liability to the policyholders.

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

Estimated claim reserves were reduced by $12.1 million for fiscal year 2013 for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excessive loss reinsurance contract. In fiscal year 2013, estimated claim reserves were reduced by an additional $23.7 million for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the aggregate stop loss contract.

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

An actuarial study prepared by Towers Watson, as of June 30, 2013, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. At June 30, 2013, $51.0 million of unpaid claims and claim adjustment expenses were reported at face value.

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

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

F. Capital Leases/Installment Purchases

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

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

G. Operating Leases

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

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

H. Debt Service Requirements

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

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

I. Summary of Changes in Long-term Liabilities Payable

Long-term liability activity of discretely presented component units for the year ended June 30, 2013, was as follows (in thousands):

	Beginning Balance (3)	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Discretely presented component units						
Bonds/notes payable						
Housing Authority (6)	$ 636,236	$ 179,854	$ 276,616	$ 539,474	$ 12,240	$ 527,234
Montana State University (MSU)	118,809	45,964	51,434	113,339	6,565	106,774
University of Montana (UM)	118,235	632	6,382	112,485	6,686	105,799
Total bonds/notes payable (1)	873,280	226,450	334,432	765,298	25,491	739,807
Other liabilities						
Lease/installment purch pay	269	1,015	257	1,027	362	665
Compensated absences pay	54,885	28,719	25,553	58,051	27,797	30,254
Arbitrage rebate tax payable	296	51	12	335	-	335
Prevailing wage claim (5)	47	-	16	31	16	15
Estimated insurance claims	949,114	18,125	13,354	953,885	126,710	827,175
Due to federal government	32,670	142	125	32,687	-	32,687
Derivative instrument liability	6,497	-	2,108	4,389	-	4,389
Reinsurance funds withheld	68,972	10,428	2,429	76,971	-	76,971
OPEB implicit rate subsidy (2)	92,451	16,052	-	108,503	-	108,503
Total other liabilities	1,205,201	74,532	43,854	1,235,879	154,885	1,080,994
	$2,078,481	$ 300,982	$ 378,286	$2,001,177	180,376	1,820,801
Long-term liabilities of Montana University System component units (4)					(21)	2,016
Total discretely presented component units Long-term liabilities					$ 180,355	$1,822,817

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

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

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

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

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

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

J. Refunded and Early Retired Debt

Universities

Defeased Debt Outstanding

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

K. No-Commitment Debt

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

Facility Finance Authority (FFA)

The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana, with the exception of the State Hospital Project and the Montana Developmental Center Project included in section C. Long-term Debt of the State Debt footnote, Note 11. At June 30, 2013, revenue bonds outstanding aggregated $1.07 billion, and notes payable outstanding aggregated $18.53 million.

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

Housing Authority (HA)

HA is authorized to issue bonds and make mortgage loans in order to finance housing which will provide decent, safe, and sanitary housing for persons and families of lower income in the State of Montana. The bonds are special, limited obligations, payable solely from pledged revenues and assets, not general obligations of the HA. The bonds issued by the HA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2013, bonds outstanding aggregated $15.3 million.

L. Derivative Transactions Related to Long-term Debt

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

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

*Counterparty may opt out in 2016

As of June 30, 2013, the fixed payer swap is classified as a hedging derivative instrument under Statement No. 53, whereas the million basis swap is an investment derivative instrument because there is no identified financial risk being hedged by the basis swap that can be expressed in terms of exposure to adverse changes in cash flows or fair values. Statement No. 53 includes four methods for evaluating hedge effectiveness; a governmental entity may use any of the evaluation methods outlined in the Statement and is not limited to using the same method from period to period. The four methods described in Statement No. 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. In Addition, Statement No. 53 permits a governmental entity to use other quantitative methods that are based on “established principles of financial economic theory.” The fixed payer swap passes the established criteria using the regression analysis methodology.

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

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

The table below summarizes the reported balances as of, and the derivative instrument activity during, the year ended June 30, 2013.

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

The objective and terms of MSU's hedging derivative outstanding as of June 30, 2013 is as follows:

Type	Objective	Notional amount (000's)	Effective Date	Termination Date	Cash (Paid)/ Received (000's)	Terms
Pay fixed, cancelable interest rate swap	Hedge interest rate risk on Series J 2005 Bonds	$ 23,025	7/21/2005	11/15/2035	-	Pay 3.953% Receive SIFMA

It is MSU's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2013, counterparty ratings were A2 and Baa1 by Moody's and A+ and A- by Standard and Poor's. MSU manages credit risk by requiring its counterparties to post collateral in certain events. MSU is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than $5MM and the counterparty is rated A+ or A, by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, MSU is entitled to collateral up to 100% of the swap's fair value. MSU is not required to post collateral. MSU will continue to monitor counterparty credit risk.

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

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

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

MSU or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, MSU's fixed payer swap counterparty has the right to terminate the derivative if the credit rating of MSU's unenhanced long-term revenue bond rating is withdrawn, suspended or reduced below BBB-, in the case of S&P, or below Baa3 in the case of Moody's. If such an event occurs, MSU could be forced to terminate the fixed payer swap in a liability position. As of June 30, 2013, MSU's unenhanced long-term revenue bond rating was Aa3 by Moody's and A+ by Standard and Poor's.

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

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

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

M. Related Party Transactions

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

The associations and booster club operate exclusively for the purpose of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with, the UM. For the year ended June 30, 2013, $93,155 was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, the UM provides the associations and booster club with office space, staff and some related office expenses.

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

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

Friends of Montana Public Television provided $1.1 million during 2013 and Friends of KEMC and Public Radio provided $500,000 during 2013 in support of the MSU's television and radio stations.

N. Litigation Contingencies

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

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

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

O. Loan Loss Contingency

On January 12, 2007, the Montana Facility Finance Authority (MFFA) made a loan to Gateway Community Services to purchase and remodel four condominium units. Funds for the loan came from the Permanent Coal Trust Fund under the Authority's Trust Fund Loan Program. Gateway subsequently defaulted on this loan. As of October 31, 2013, $554,993 is due to the Permanent Coal Trust Fund, reflecting $461,860 of principal and $93,133 of interest. Pursuant to MFFA policy, the MFFA will make the Perm Coal Trust Fund whole and funds have been designated for such an event.

On September 17, 2007, the MFFA made a loan to Gateway Community Services for overages resulting from the remodeling of condominium units referenced above. Funds for the loan came from the Authority's Direct Loan Program. As of October 31, 2013, $87,925 is due to the Authority, reflecting $73,170 of principal and $14,755 of interest.

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

P. Subsequent Events

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

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

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

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

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

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

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

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

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

NOTE 19. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS

Constitutionality of Retirement Plan Funding

The Montana Constitution, Article VIII, Section 15 states that public retirement systems shall be funded on an actuarially sound basis. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is less than 30 years. As of June 30, 2013, the Highway Patrol Officers' Retirement System (HPORS) is not in compliance as its unfunded actuarial liability does not amortize within 30 years. As of June 30, 2013, the Sheriffs' Retirement System (SRS) and the Game Wardens' & Peace Officers' Retirement System (GWPORS) are not in compliance as their respective unfunded actuarial liabilities do not amortize. The unfunded actuarial liabilities in the other state retirement systems amortize in less than 30 years, as of fiscal year end 2013.

The actuarial condition of these plans are fully disclosed and reported as required by Generally Accepted Accounting Principles (GAAP), and explained in greater detail in Note 6 of the financial statements. The unfunded actuarial liability of these plans is long-term in nature and does not translate into an inability of the plans to meet their current obligations in the near future.

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REQUIRED SUPPLEMENTARY INFORMATION

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

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

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

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-1. BUDGETARY REPORTING

A. State Budget Process

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

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

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

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2013, reverted governmental fund appropriations were as follows: General Fund - $35.2 million, State Special Revenue Fund - $244 million, and Federal Special Revenue Fund - $335.7 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

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

B. Budget Basis

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

REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN INFORMATION

Pension Plan Information
Schedule of Funding Progress
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
Single Employer System						
JRS						
6/30/2011	61,274	43,414	(17,860)	141%	5,645	(316%)
6/30/2012	63,195	46,190	(17,005)	137%	6,193	(275%)
6/30/2013	70,323	49,236	(21,087)	143%	6,276	(336%)
HPORS						
6/30/2011	95,274	155,742	60,468	61%	12,472	485%
6/30/2012	96,655	167,824	71,169	58%	13,618	523%
6/30/2013	105,736	175,594	69,858	60%	13,484	518%
Multiple Employer Systems						
PERS-DBRP						
6/30/2011	3,800,479	5,410,144	1,609,665	70%	1,071,376	150%
6/30/2012	3,816,920	5,661,281	1,844,361	67%	1,081,288	171%
6/30/2013	4,139,921	5,160,951	1,021,030	80%	1,104,000	92%
SRS						
6/30/2011	203,689	266,506	62,817	76%	57,041	110%
6/30/2012	211,535	284,559	73,024	74%	59,583	123%
6/30/2013	235,310	304,185	68,875	77%	61,467	112%
GWPORS						
6/30/2011	90,437	119,881	29,444	75%	38,306	77%
6/30/2012	97,691	128,927	31,236	76%	38,317	82%
6/30/2013	112,100	139,985	27,885	80%	39,471	71%
MPORS						
6/30/2011	221,669	401,381	179,712	55%	39,470	455%
6/30/2012	234,025	427,257	193,232	55%	41,745	463%
6/30/2013	262,678	450,043	187,365	58%	42,796	438%
FURS						
6/30/2011	219,959	355,188	135,229	62%	34,852	388%
6/30/2012	233,121	377,211	144,090	62%	36,177	398%
6/30/2013	263,483	396,769	133,286	66%	37,963	351%
TRS						
7/1/2011	2,866,500	4,658,600	1,792,100	62%	746,700	240%
7/1/2012	2,852,000	4,814,700	1,962,700	59%	735,600	267%
7/1/2013	3,067,900	4,592,700	1,524,800	67%	742,600	205%
Nonemployer Contributor						
VFCA						
6/30/2011	26,183	35,195	9,012	74%	N/A	N/A
6/30/2012	26,531	36,146	9,615	73%	N/A	N/A
6/30/2013	28,294	37,830	9,536	75%	N/A	N/A

REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

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

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

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

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

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

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

SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
JUNE 30, 2013
(amounts expressed in thousands)

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
ASSETS				
Cash/cash equivalents	$ 14,284	$ 43,108	$ 1,263	$ 58,655
Receivables (net)	3,846	1,526	869	6,241
Due from other funds	2,501	75	56	2,632
Equity in pooled investments	-	-	287,864	287,864
Long-term loans/notes receivable	23,570	-	-	23,570
Advances to other funds	7,677	-	-	7,677
Investments	3,985	205	11	4,201
Securities lending collateral	18	43	17,708	17,769
Total assets	$ 55,881	$ 44,957	$ 307,771	$ 408,609
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	-	982	7	989
Interfund loans payable	-	2	687	689
Due to other funds	421	-	895	1,316
Advances from other funds	15,236	-	-	15,236
Deferred revenue	423		-	423
Securities lending liability	18	43	17,708	17,769
Total Liabilities	16,098	1,027	19,297	36,422
Fund balances:				
Nonspendable	-	-	271,353	271,353
Restricted	9,164	5,036	7,079	21,279
Committed	30,202	23,742	10,042	63,986
Assigned	417	15,152	-	15,569
Total fund balances	39,783	43,930	288,474	372,187
Total liabilities and fund balances	$ 55,881	$ 44,957	$ 307,771	$ 408,609

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

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
REVENUES				
Licenses/permits	$ 228	$ -	$ -	$ 228
Taxes:				
Natural resource	2,313	6,901	-	9,214
Other	-	1,837	-	1,837
Charges for services/fines/forfeits/settlements	-	399	12,078	12,477
Investment earnings	9,073	37	4,345	13,455
Securities lending income	-	-	144	144
Sale of documents/merchandise/property	3,340	-	-	3,340
Total revenues	14,954	9,174	16,567	40,695
EXPENDITURES				
Current:				
General government	-	328	-	328
Public safety	-	28	-	28
Health and human services	74	4,790	-	4,864
Education	-	-	17	17
Natural resources	2	-	-	2
Debt service:				
Principal retirement	31,937	-	-	31,937
Interest/fiscal charges	13,352	-	-	13,352
Capital outlay	-	14,041	54	14,095
Securities lending	-	-	37	37
Total expenditures	45,365	19,187	108	64,660
Excess of revenue over (under) expenditures	(30,411)	(10,013)	16,459	(23,965)
OTHER FINANCING SOURCES (USES)				
General capital asset sale proceeds	-	-	5	5
Transfers in	40,110	10,383	75	50,568
Transfers out	(12,326)	(4,404)	(10,846)	(27,576)
Total other financing sources (uses)	27,784	5,979	(10,766)	22,997
Net change in fund balances	(2,627)	(4,034)	5,693	(968)
Fund balances - July 1 - as previously reported	44,554	46,304	282,781	373,639
Prior period adjustments	(2,144)	1,660	-	(484)
Fund balances - July 1 - as restated	42,410	47,964	282,781	373,155
Fund balances - June 30	$ 39,783	$ 43,930	$ 288,474	$ 372,187

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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, 2013
(amounts expressed in thousands)

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTEWATER DEVELOPMENT	WATER CONSERVATION
ASSETS				
Cash/cash equivalents	$ 5,438	$ 417	$ 7,590	$ -
Receivables (net)	537	-	2,527	-
Due from other funds	-	-	-	-
Long-term loans/notes receivable	8,801	-	14,762	7
Advances to other funds	7,677	-	-	-
Investments	66	-	20	-
Securities lending collateral	14	-	4	-
Total assets	$ 22,533	$ 417	$ 24,903	$ 7
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	415	-	6	-
Advances from other funds	1,150	-	14,086	-
Deferred revenue	196	-	227	-
Securities lending liability	14	-	4	-
Total liabilities	1,775	-	14,323	-
Fund balances:				
Restricted	-	-	4,848	-
Committed	20,758	-	5,732	7
Assigned	-	417	-	-
Total fund balances	20,758	417	10,580	7
Total liabilities and fund balances	$ 22,533	$ 417	$ 24,903	$ 7

HEALTH CARE	ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	TOTAL
$ 417	$ 151	$ 271	$ 14,284
-	53	729	3,846
-	2,501	-	2,501
-	-	-	23,570
-	-	-	7,677
3,899		-	3,985
-	-	-	18
$ 4,316	$ 2,705	$ 1,000	55,881
-	-	-	421
-	-	-	15,236
-	-	-	423
-	-	-	18
-	-	-	16,098
4,316	-	-	9,164
-	2,705	1,000	30,202
-	-	-	417
4,316	2,705	1,000	39,783
$ 4,316	$ 2,705	$ 1,000	55,881

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

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTEWATER DEVELOPMENT	WATER CONSERVATION
REVENUES				
Licenses/permits	$ -	$ -	$ -	$ -
Taxes:				
Natural resource	-	-	546	-
Investment earnings	633	-	8,233	-
Sale of documents/merchandise/property	3,340	-	-	-
Total revenues	3,973	-	8,779	-
EXPENDITURES				
Current:				
Health/social services	-	-	-	-
Resource/recreation/environment	-	-	-	-
Debt service:				
Principal retirement	2,080	13,460	2,086	3
Interest/fiscal charges	801	4,442	1,087	-
Total expenditures	2,881	17,902	3,173	3
Excess of revenue over (under) expenditures	1,092	(17,902)	5,606	(3)
OTHER FINANCING SOURCES (USES)				
Transfers in	1,299	17,851	495	-
Transfers out	(3,463)	-	(7,349)	-
Total other financing sources (uses)	(2,164)	17,851	(6,854)	-
Net change in fund balances	(1,072)	(51)	(1,248)	(3)
Fund balances - July 1 - as previously reported	21,830	468	11,828	10
Prior period adjustments	-	-	-	-
Fund balances - July 1 - as restated	21,830	468	11,828	10
Fund balances - June 30	$ 20,758	$ 417	$ 10,580	$ 7

HEALTH CARE	ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	HIGHWAY	TRUST LANDS	TOTAL
$ -	$ 228	$ -	$ -	$ -	$ 228
-	-	1,767	-	-	2,313
207	-	-	-	-	9,073
-	-	-	-	-	3,340
207	228	1,767	-	-	14,954
74	-	-	-	-	74
-	1	1	-	-	2
1,915	628	300	10,630	835	31,937
1,023	156	153	4,955	735	13,352
3,012	785	454	15,585	1,570	45,365
(2,805)	(557)	1,313	(15,585)	(1,570)	(30,411)
2,790	368	152	15,585	1,570	40,110
-	(49)	(1,465)	-	-	(12,326)
2,790	319	(1,313)	15,585	1,570	27,784
(15)	(238)	-	-	-	(2,627)
6,475	2,943	1,000	-	-	44,554
(2,144)	-	-	-	-	(2,144)
4,331	2,943	1,000	-	-	42,410
$ 4,316	$ 2,705	$ 1,000	$ -	$ -	$ 39,783

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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, 2013
(amounts expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	CAPITAL LAND GRANT	TOTAL
ASSETS				
Cash/cash equivalents	$ 34,994	$ 6,172	$ 1,942	$ 43,108
Receivables (net)	1,524	2	-	1,526
Due from other funds	75	-	-	75
Investments	205	-	-	205
Securities lending collateral	43	-	-	43
Total assets	$ 36,841	$ 6,174	$ 1,942	$ 44,957
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	982	-	-	982
Interfund loans payable	2	-	-	2
Securities lending liability	43	-	-	43
Total liabilities	1,027	-	-	1,027
Fund balances:				
Restricted	3,094	-	1,942	5,036
Committed	19,033	4,709	-	23,742
Assigned	13,687	1,465	-	15,152
Total fund balances	35,814	6,174	1,942	43,930
Total liabilities and fund balances	$ 36,841	$ 6,174	$ 1,942	$ 44,957

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

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	FEDERAL/ PRIVATE CONSTRUCTION GRANTS	CAPITAL LAND GRANT	TOTAL
REVENUES					
Taxes:					
Natural resource	$ 6,901	$ -	$ -	$ -	$ 6,901
Other	1,837	-	-	-	1,837
Charges for services/fines/forfeits/settlements	399	-	-	-	399
Investment earnings	37	-	-	-	37
Total revenues	9,174	-	-	-	9,174
EXPENDITURES					
Current:					
General government	148	180	-	-	328
Public safety	-	28	-	-	28
Health and human services	4,790	-	-	-	4,790
Capital outlay	13,230	592	144	75	14,041
Total expenditures	18,168	800	144	75	19,187
Excess of revenue over (under) expenditures	(8,994)	(800)	(144)	(75)	(10,013)
OTHER FINANCING SOURCES (USES)					
Transfers in	8,769	-	144	1,470	10,383
Transfers out	(4,016)	-	-	(388)	(4,404)
Total other financing sources (uses)	4,753	-	144	1,082	5,979
Net change in fund balances	(4,241)	(800)	-	1,007	(4,034)
Fund balances - July 1 - as previously reported	38,395	6,974	-	935	46,304
Prior period adjustments	1,660	-	-	-	1,660
Fund balances - June 30	$ 35,814	$ 6,174	$ -	$ 1,942	$ 43,930

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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.

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, 2013
(amounts expressed in thousands)

	RESOURCE INDEMNITY	CULTURAL TRUST	NOXIOUS WEED MANAGEMENT
ASSETS			
Cash/cash equivalents	$ 361	$ 75	$ 340
Receivables (net)	344	-	-
Due from other funds	-	-	-
Equity in pooled investments	110,043	-	10,030
Investments	5	-	-
Securities lending collateral	6,752	-	660
Total assets	$ 117,505	$ 75	$ 11,030
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	-	-	-
Interfund loans payable	687	-	-
Due to other funds	-	-	370
Securities lending liability	6,753	-	660
Total liabilities	7,440	-	1,030
Fund balances:			
Nonspendable	100,000	65	10,000
Restricted	23	10	-
Committed	10,042	-	-
Total fund balances	110,065	75	10,000
Total liabilities and fund balances	$ 117,505	$ 75	$ 11,030

HISTORICAL SOCIETY TRUSTS	TOBACCO SETTLEMENT	HERITAGE TRUST	TOTAL
$ 165	$ 290	$ 32	$ 1,263
4	521	-	869
-	56	-	56
1,193	166,598	-	287,864
2	4	-	11
73	10,223	-	17,708
$ 1,437	$ 177,692	$ 32	$ 307,771
7	-	-	7
-	-	-	687
-	525	-	895
73	10,222	-	17,708
80	10,747	-	19,297
1,300	159,956	32	271,353
57	6,989	-	7,079
-	-	-	10,042
1,357	166,945	32	288,474
$ 1,437	$ 177,692	$ 32	$ 307,771

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

	RESOURCE INDEMNITY	CULTURAL TRUST	NOXIOUS WEED MANAGEMENT
REVENUES			
Charges for services/fines/forfeits/settlements	$ -	$ -	$ -
Investment earnings	1,956	-	-
Securities lending income	59	-	-
Total revenues	2,015	-	-
EXPENDITURE			
Current:			
Education	-	-	-
Capital outlay	-	-	-
Securities lending	15	-	-
Total expenditures	15	-	-
Excess of revenue over (under) expenditures	2,000	-	-
OTHER FINANCING SOURCES (USES)			
General capital asset sale proceeds	-	-	-
Transfers in	-	-	75
Transfers out	(4,602)	-	(370)
Total other financing sources (uses)	(4,602)	-	(295)
Net change in fund balances	(2,602)	-	(295)
Fund balances - July 1 - as previously reported	112,667	75	10,295
Fund balances - June 30	$ 110,065	$ 75	$ 10,000

HISTORICAL SOCIETY TRUSTS	TOBACCO SETTLEMENT	HERITAGE TRUST	TOTAL
$ -	$ 12,078	$ -	$ 12,078
21	2,368	-	4,345
1	84	-	144
22	14,530	-	16,567
17	-	-	17
54	-	-	54
-	22	-	37
71	22	-	108
(49)	14,508	-	16,459
5	-	-	5
-	-	-	75
-	(5,874)	-	(10,846)
5	(5,874)	-	(10,766)
(44)	8,634	-	5,693
1,401	158,311	32	282,781
$ 1,357	$ 166,945	$ 32	$ 288,474

NONMAJOR ENTERPRISE FUNDS

Enterprise funds are used to account for operations that provide goods or services to the public on a user charge basis. A brief description of each enterprise fund follows:

Liquor Warehouse – This fund accounts for activities related to the sale and distribution of alcoholic beverages and licensing within the State. Profits and license fees are used to finance General Fund expenditures.

Hail Insurance – Any producer engaged in the growing of crops subject to damage by hail may participate in the hail insurance program. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and benefits paid by the Department of Agriculture.

State Lottery – This fund accounts for the operations of Montana's lottery.

Prison Industries – These operations provide training and employment for inmates. The products produced are sold to state agencies, non-profit organizations, and other customers in accordance with state policies.

MUS Group Insurance – This fund accounts for employee contributions to the Montana University System's medical/dental self-insurance plan.

MUS Workers Compensation – This fund accounts for self-insured workers compensation coverage for employees of the Montana University System.

Subsequent Injury – This fund accounts for the assessments collected from employers and benefits paid to workers who are certified as vocationally handicapped and are injured on the job.

Secretary of State Business Services – This fund accounts for the Business and Government Services activities and the Administrative Code Program of the Secretary of State's Office.

Historical Society Publications – This fund accounts for the Historical Society's sales from "Montana, The Magazine of Western History"; books; publications; and merchandise from the Historical Society store.

Surplus Property – The Department of Administration accounts for intragovernmental sales of state and federal surplus property to state agencies, local governments, and designated non-profit organizations.

West Yellowstone Airport – This fund, administered by the Department of Transportation, accounts for operations of the airport at West Yellowstone. User airlines are assessed rental and landing fees.

Local Government Audits – This fund accounts for the costs incurred by the Department of Administration for audits of local governments, required under Sections 2-7-501 through 522 of the Montana Code Annotated, and the fees assessed the local governments for the audits.

Flexible Spending Administration – This fund accounts for the fees collected from the participants in the Flexible Spending Programs and the related administrative costs of the plans administered by the Department of Administration and the Office of the Commissioner of Higher Education.

HUD Section 8 Housing – This fund accounts for a program that provides rental assistance to low-income families throughout Montana.

Other Enterprise Funds – This category includes several small enterprise funds administered by various agencies.

COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2013
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
ASSETS				
Current assets:				
Cash/cash equivalents	$ 3,288	$ 11,335	$ 3,770	$ 2,896
Receivables (net)	19,314	4,040	1,655	387
Due from other governments	-	-	-	-
Inventories	288	-	447	2,562
Securities lending collateral	-	29	9	-
Other current assets	40	-	31	-
Total current assets	22,930	15,404	5,912	5,845
Noncurrent assets:				
Long-term investments	-	139	42	-
Long-term notes/loans receivable	-	-	-	-
Other long-term assets	-	-	1,736	291
Capital assets:				
Land	-	-	-	690
Land improvements	-	-	-	731
Buildings/improvements	2,044	-	46	4,804
Equipment	753	-	2,981	4,385
Infrastructure	-	-	-	951
Construction in progress	-	-	-	233
Intangible assets	-	-	-	-
Other depreciable assets	-	-	-	3,416
Less accumulated depreciation	(2,075)	-	(1,571)	(7,255)
Total capital assets	722	-	1,456	7,955
Total noncurrent assets	722	139	3,234	8,246
Total assets	$ 23,652	$ 15,543	$ 9,146	$ 14,091
LIABILITIES				
Current liabilities:				
Accounts payable	$ 5,868	$ 14	$ 451	$ 274
Lottery prizes payable	-	-	2,265	-
Interfund loans payable	-	-	-	-
Due to other governments	-	-	-	-
Due to other funds	10,895	79	2,863	-
Deferred revenue	1,040	4,504	154	55
Current lease liability	-	-	72	-
Amounts held in custody for others	40	-	-	-
Securities lending liability	-	29	9	-
Estimated insurance claims	-	340	-	-
Compensated absences payable	154	18	171	109
Total current liabilities	17,997	4,984	5,985	438
Noncurrent liabilities:				
Advances from other funds	-	-	-	320
Long term lease liability	-	-	126	-
Lottery prizes payable	-	-	1,485	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	183	15	19	178
OPEB implicit rate subsidy	748	85	590	618
Total noncurrent liabilities	931	100	2,220	1,116
Total liabilities	18,928	5,084	8,205	1,554
NET POSITION				
Net investment in capital assets	722	-	1,258	7,955
Restricted for:				
Other purposes	-	10,459	-	-
Unrestricted	4,002	-	(317)	4,582
Total net position	$ 4,724	$ 10,459	$ 941	$ 12,537

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS
$ 27,313	$ 19,215	$ 320	$ 3,529	$ 140
599	5	63	3	25
-	-	-	6	-
-	-	-	29	470
72	50	1	9	-
4	69	-	7	-
27,988	19,339	384	3,583	635
21,334	238	4	44	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	514	11
-	-	-	-	-
-	-	-	1,947	-
-	-	-	-	-
-	-	-	-	-
-	-	-	(395)	(10)
-	-	-	2,066	1
21,334	238	4	2,110	1
$ 49,322	$ 19,577	$ 388	$ 5,693	$ 636
$ 3,296	$ 81	$ 2	$ 218	$ 22
-	-	-	-	-
-	-	36	-	-
-	-	-	-	-
-	-	-	-	-
17	-	-	20	117
-	-	-	9	-
-	-	-	-	-
72	50	1	9	-
6,700	1,941	2,300	-	-
26	5	-	169	2
10,111	2,077	2,339	425	141
-	-	-	-	-
-	-	-	16	-
-	-	-	-	-
-	6,107	1,210	-	-
36	-	-	139	1
96	16	-	1,035	121
132	6,123	1,210	1,190	122
10,243	8,200	3,549	1,615	263
-	-	-	2,041	1
39,079	11,377	(3,161)	-	-
-	-	-	2,037	372
$ 39,079	$ 11,377	$ (3,161)	$ 4,078	$ 373

COMBINING STATEMENT OF NET POSITION - CONTINUED
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2013
(amounts expressed in thousands)

	SURPLUS PROPERTY	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
ASSETS				
Current assets:				
Cash/cash equivalents	$ 286	$ 216	$ 380	$ 4,151
Receivables (net)	21	-	18	5
Due from other governments	-	-	-	-
Inventories	175	-	-	-
Securities lending collateral	-	-	-	2
Other current assets	1	-	-	300
Total current assets	483	216	398	4,458
Noncurrent assets:				
Long-term investments	-	-	-	8
Long-term notes/loans receivable	-	-	-	-
Other long-term assets	-	-	-	-
Capital assets:				
Land	-	110	-	-
Land improvements	-	3,099	-	-
Buildings/improvements	118	487	-	-
Equipment	99	461	-	-
Infrastructure	-	-	-	-
Construction in progress	-	20	-	-
Intangible assets	-	-	-	-
Other depreciable assets	-	-	-	-
Less accumulated depreciation	(139)	(1,725)	-	-
Total capital assets	78	2,452	-	-
Total noncurrent assets	78	2,452	-	8
Total assets	$ 561	$ 2,668	$ 398	$ 4,466
LIABILITIES				
Current liabilities:				
Accounts payable	$ 13	$ 10	$ 13	$ 500
Lottery prizes payable	-	-	-	-
Interfund loans payable	-	-	-	-
Due to other governments	-	-	-	-
Due to other funds	-	-	-	-
Deferred revenue	-	-	-	11
Current lease liability	-	-	-	-
Amounts held in custody for others	-	-	-	-
Securities lending liability	-	-	-	2
Estimated insurance claims	-	-	-	-
Compensated absences payable	24	13	26	-
Total current liabilities	37	23	39	513
Noncurrent liabilities:				
Advances from other funds	-	-	-	-
Long term lease liability	-	-	-	-
Lottery prizes payable	-	-	-	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	21	3	3	-
OPEB implicit rate subsidy	83	35	79	-
Total noncurrent liabilities	104	38	82	-
Total liabilities	141	61	121	513
NET POSITION				
Net investment in capital assets	78	2,452	-	-
Restricted for:				
Other purposes	-	156	-	3,953
Unrestricted	342	(1)	277	-
Total net position	$ 420	$ 2,607	$ 277	$ 3,953

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ 8,754	$ 1,412	$ 87,005
61	100	26,296
33	-	39
-	165	4,136
24	1	197
4	-	456
8,876	1,678	118,129
113	3	21,925
208	-	208
-	-	2,027
-	-	800
-	-	3,830
-	-	7,499
30	236	9,470
-	-	951
-	249	2,449
-	1	1
-	-	3,416
(28)	(134)	(13,332)
2	352	15,084
323	355	39,244
$ 9,199	$ 2,033	$ 157,373
$ 57	$ 198	$ 11,017
-	-	2,265
-	-	36
60	-	60
-	-	13,837
-	306	6,224
-	-	81
-	-	40
24	1	197
-	-	11,281
68	31	816
209	536	45,854
-	-	320
-	-	142
-	-	1,485
-	-	7,317
40	31	669
361	173	4,040
401	204	13,973
610	740	59,827
2	352	14,861
8,587	110	70,560
-	831	12,125
$ 8,589	$ 1,293	$ 97,546

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
Operating revenues:				
Charges for services	$ 82,025	$ -	$ 56,820	$ 6,942
Investment earnings	-	24	10	-
Securities lending income	-	-	1	-
Contributions/premiums	-	7,101	-	-
Grants/contracts/donations	-	-	-	-
Other operating revenues	122	13	1	4
Total operating revenues	82,147	7,138	56,832	6,946
Operating expenses:				
Personal services	2,854	402	1,847	2,395
Contractual services	247	148	7,015	141
Supplies/materials	67,290	2	1,178	2,890
Benefits/claims	135	3,890	102	100
Depreciation	129	-	514	276
Amortization	-	19	-	-
Utilities/rent	132	10	163	211
Communications	79	5	692	43
Travel	24	35	50	12
Repair/maintenance	66	2	24	476
Lottery prize payments	-	-	32,177	-
Dividend expense	-	2,822	-	-
Interest expense	17	-	14	-
Other operating expenses	42	3	273	459
Total operating expenses	71,015	7,338	44,049	7,003
Operating income (loss)	11,132	(200)	12,783	(57)
Nonoperating revenues (expenses):				
Tax revenues	24,185	-	-	-
Gain (loss) on sale of capital assets	17	-	-	(24)
Increase (decrease) value of livestock	-	-	-	55
Total nonoperating revenues (expenses)	24,202	-	-	31
Income (loss) before contributions and transfers	35,334	(200)	12,783	(26)
Capital contributions	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(34,965)	(99)	(13,084)	-
Change in net position	369	(299)	(301)	(26)
Total net position - July 1 - as previously reported	4,354	10,758	1,242	12,563
Prior period adjustments	1	-	-	-
Total net position - July 1 - as restated	4,355	10,758	1,242	12,563
Total net position - June 30	$ 4,724	$ 10,459	$ 941	$ 12,537

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATION
$ -	$ -	$ -	$ 4,803	$ 730
111	44	2	8	-
-	-	-	-	-
68,216	4,280	361	-	-
140	-	-	-	-
530	-	-	8	9
68,997	4,324	363	4,819	739
376	87	-	2,970	172
5,960	555	1	832	66
50	1	-	207	291
60,254	(644)	1,295	172	11
-	-	-	32	-
-	-	-	-	-
49	-	-	236	20
24	-	-	189	28
50	-	-	17	7
-	-	-	27	5
-	-	-	-	-
-	-	-	-	-
-	-	-	2	-
488	329	-	45	62
67,251	328	1,296	4,729	662
1,746	3,996	(933)	90	77
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
1,746	3,996	(933)	90	77
-	-	-	-	-
-	-	-	-	-
-	-	(34)	-	(25)
1,746	3,996	(967)	90	52
37,333	7,381	(2,194)	3,988	322
-	-	-	-	(1)
37,333	7,381	(2,194)	3,988	321
$ 39,079	$ 11,377	$ (3,161)	$ 4,078	$ 373

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - CONTINUED
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

	SURPLUS PROPERTY	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
Operating revenues:				
Charges for services	$ 413	$ 75	$ 370	$ -
Investment earnings	-	-	-	1
Securities lending income	-	-	-	-
Contributions/premiums	-	-	-	13,259
Grants/contracts/donations	-	2	-	-
Other operating revenues	-	115	33	-
Total operating revenues	413	192	403	13,260
Operating expenses:				
Personal services	244	94	303	-
Contractual services	10	19	30	276
Supplies/materials	518	5	9	-
Benefits/claims	15	4	16	11,994
Depreciation	11	162	-	-
Amortization	-	-	-	-
Utilities/rent	21	24	31	-
Communications	9	5	11	-
Travel	1	1	-	-
Repair/maintenance	2	5	-	-
Lottery prize payments	-	-	-	-
Dividend expense	-	-	-	-
Interest expense	-	-	-	-
Other operating expenses	10	6	25	6
Total operating expenses	841	325	425	12,276
Operating income (loss)	(428)	(133)	(22)	984
Nonoperating revenues (expenses):				
Tax revenues	-	-	-	-
Gain (loss) on sale of capital assets	(9)	-	-	-
Increase (decrease) value of livestock	-	-	-	-
Total nonoperating revenues (expenses)	(9)	-	-	-
Income (loss) before contributions and transfers	(437)	(133)	(22)	984
Capital contributions	445	-	-	-
Transfers in	-	7	-	-
Transfers out	-	-	-	-
Change in net position	8	(126)	(22)	984
Total net position - July 1 - as previously reported	426	2,733	299	2,969
Prior period adjustments	(14)	-	-	-
Total net position - July 1 - as restated	412	2,733	299	2,969
Total net position - June 30	$ 420	$ 2,607	$ 277	$ 3,953

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ -	$ 1,829	$ 154,007
34	1	235
-	-	1
-	-	93,217
40,426	-	40,568
-	-	835
40,460	1,830	288,863
1,212	576	13,532
1,646	812	17,758
42	295	72,778
37,452	36	114,832
-	20	1,144
-	2	21
100	19	1,016
43	2	1,130
22	50	269
121	61	789
-	-	32,177
-	-	2,822
-	-	33
241	41	2,030
40,879	1,914	260,331
(419)	(84)	28,532
-	-	24,185
-	-	(16)
-	-	55
-	-	24,224
(419)	(84)	52,756
-	-	445
-	-	7
-	-	(48,207)
(419)	(84)	5,001
9,006	1,377	92,557
2	-	(12)
9,008	1,377	92,545
$ 8,589	$ 1,293	$ 97,546

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipt from sales and service	$ 81,914	$ 7,368	$ 57,024	$ 6,785
Payments to suppliers for goods and services	(67,679)	(361)	(9,516)	(3,726)
Payments to employees	(2,857)	(402)	(1,868)	(2,384)
Grant receipts (expenses)	-	-	-	-
Cash payments for claims	-	(4,286)	-	-
Cash payments for prizes	-	-	(32,042)	-
Other operating revenues	122	13	-	4
Other operating payments	(42)	(2,825)	-	(459)
Net cash provided by (used for) operating activities	11,458	(493)	13,598	220
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Collection of taxes	24,186	-	-	-
Transfer to other funds	(34,964)	(99)	(13,463)	-
Transfer from other funds	-	-	-	-
Proceeds from interfund loans/advances	94	-	-	-
Payment of interfund loans and advances	-	-	-	(80)
Payment of principal and interest on bonds and notes	(17)	-	(1)	-
Net cash provided by (used for) noncapital financing activities	(10,701)	(99)	(13,464)	(80)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Payment of principal and interest - capital related	-	-	(86)	-
Acquisition of capital assets	(92)	-	(16)	(255)
Proceeds from sale of capital assets	-	-	-	-
Net cash provided by (used for) capital and related financing activities	(92)	-	(102)	(255)
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale (purchase) of investments	-	45	1	-
Proceeds (loss) from securities lending transactions/investments	-	-	326	-
Interest and dividends on investments	-	24	10	-
Payment of securities lending costs	-	-	-	-
Net cash provided by (used for) investing activities	-	69	337	-
Net increase (decrease) in cash and cash equivalents	665	- (523)	369	(115)
Cash and cash equivalents, July 1	2,623	11,858	3,401	3,011
Cash and cash equivalents, June 30	$ 3,288	$ 11,335	$ 3,770	$ 2,896

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATION
$ 67,976 $	4,280 $	328 $	4,833 $	723
(7,397)	-	(1)	(1,559)	(414)
(364)	(88)	-	(2,964)	(205)
140	-	-	-	-
(60,439)	(2,133)	(1,236)	-	-
-	-	-	-	-
530	-	-	8	9
(488)	(638)	-	(44)	(62)
(42)	1,421	(909)	274	51
-	-	-	-	-
-	-	(34)	-	(25)
-	-	-	-	-
-	-	36	81	-
-	-	-	-	-
-	-	-	(2)	-
-	-	2	79	(25)
-	-	-	-	-
-	-	-	(221)	-
-	-	-	-	-
-	-	-	(221)	-
(9,970)	37	13	6	-
-	-	-	-	-
111	45	2	8	-
-	-	-	-	-
(9,859)	82	15	14	-
(9,901)	1,503	(892)	146	26
37,214	17,712	1,212	3,383	114
$ 27,313 $	19,215 $	320 $	3,529 $	140

COMBINING STATEMENT OF CASH FLOWS - Continued
NONMAJOR ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

	SURPLUS PROPERTY	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipt from sales and service	$ 404	$ 75	$ 359	$ 12,954
Payments to suppliers for goods and services	(530)	(70)	(83)	(135)
Payments to employees	(243)	(87)	(298)	-
Grant receipts (expenses)	-	2	-	-
Cash payments for claims	-	-	-	(11,996)
Cash payments for prizes	-	-	-	-
Other operating revenues	-	115	33	-
Other operating payments	(11)	(6)	(23)	(3)
Net cash provided by (used for) operating activities	(380)	29	(12)	820
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Collection of taxes	-	-	-	-
Transfer to other funds	-	-	-	-
Transfer from other funds	-	7	-	-
Proceeds from interfund loans/advances	-	-	-	-
Payment of interfund loans and advances	-	-	-	-
Payment of principal and interest - capital related	-	-	-	-
Net cash provided by (used for) noncapital financing activities	-	7	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Payment of principal and interest on bonds and notes - capital related	-	-	-	-
Acquisition of capital assets	-	(19)	-	-
Proceeds from sale of capital assets	444	-	-	-
Net cash used for capital and related financing activities	444	(19)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale (purchase) of investments	-	-	-	1
Proceeds (loss) from securities lending transactions/investments	-	-	-	-
Interest and dividends on investments	-	-	-	1
Payment of securities lending costs	-	-	-	-
Net cash provided by (used for) investing activities	-	-	-	2
Net increase (decrease) in cash and cash equivalents	64	17	(12)	822
Cash and cash equivalents, July 1	222	199	392	3,329
Cash and cash equivalents, June 30	$ 286	$ 216	$ 380	$ 4,151

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ 261	$ 1,728	$ 247,012
(1,988)	(1,272)	(94,731)
(1,226)	(560)	(13,546)
40,459	-	40,601
(37,383)	-	(117,473)
-	-	(32,042)
-	-	834
(239)	(42)	(4,882)
(116)	(146)	25,773
-	-	24,186
-	-	(48,585)
-	-	7
-	-	211
-	-	(80)
-	-	(20)
-	-	(24,281)
-	-	(86)
-	(294)	(897)
-	-	444
-	(294)	(539)
31	1	(9,835)
-	-	326
34	1	236
-	-	-
65	2	(9,273)
(51)	(438)	(8,320)
8,805	1,850	95,325
$ 8,754	$ 1,412	$ 87,005

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(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)	$ 11,132	$ (200)	$ 12,783	$ (57)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities				
Depreciation	129	-	514	276
Amortization	-	19	-	-
Interest expense	17	-	14	-
Investment earnings	-	(24)	(10)	-
Securities lending income	-	-	(1)	-
Change in assets and liabilities:				
Decr (incr) in accounts receivable	(91)	267	191	(155)
Decr (incr) in due from other funds	-	-	-	1
Decr (incr) in due from other governments	-	-	-	-
Decr (incr) in inventories	(197)	-	(65)	211
Decr (incr) in other assets	-	-	(5)	-
Incr (decr) in accounts payable	(417)	(58)	(60)	(117)
Incr (decr) in due to other funds	981	(23)	-	-
Incr (decr) in due to other governments	-	-	-	-
Incr (decr) in lottery prizes payable	-	-	141	-
Incr (decr) in deferred revenue	(205)	(77)	16	(49)
Incr (decr) in amounts held in custody for others	(20)	-	-	-
Incr (decr) in compensated absences payable	(6)	-	(22)	9
Incr (decr) in OPEB implicit rate subsidy	135	15	102	101
Incr (decr) in estimated claims	-	(412)	-	-
Net cash provided by (used for) operating activities	$ 11,458	$ (493)	$ 13,598	$ 220

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS
$ 1,746	$ 3,996	$ (933)	$ 90	$ 77
-	-	-	32	-
-	-	-	-	-
-	-	-	2	-
(111)	(44)	(2)	(8)	-
-	-	-	-	-
(240)	9	(33)	(2)	(7)
-	-	-	-	-
-	-	-	(5)	-
-	-	-	(9)	10
(1)	246	-	37	1
(1,261)	-	1	177	13
-	-	-	(104)	-
-	-	-	-	-
-	-	-	-	-
2	-	-	(116)	(22)
-	-	-	-	-
9	-	-	7	(36)
14	3	-	173	15
(200)	(2,789)	58	-	-
$ (42)	$ 1,421	$ (909)	$ 274	$ 51

COMBINING STATEMENT OF CASH FLOWS - Continued
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

	SURPLUS PROPERTIES	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	(428) $	(133) $	(22) $	984
Adjustments to reconcile operating income to net cash provided by (used for) operating activities				
Depreciation	11	162	-	-
Amortization	-	-	-	-
Interest expense	-	-	-	-
Investment earnings	-	-	-	(1)
Securities lending income	-	-	-	-
Change in assets and liabilities:				
Decr (incr) in accounts receivable	(9)	-	(11)	(5)
Decr (incr) in due from other funds	-	-	-	-
Decr (incr) in due from other governments	-	-	-	-
Decr (incr) in inventories	31	-	-	-
Decr (incr) in other assets	-	-	-	(299)
Incr (Decr) in accounts payable	(2)	(7)	(2)	134
Incr (Decr) in due to other funds	-	-	-	-
Incr (Decr) in due to other governments	-	-	-	-
Incr (Decr) in lottery prizes payable	-	-	-	-
Incr (Decr) in deferred revenue	-	-	-	7
Incr (Decr) in amounts held in custody for others	-	-	-	-
Incr (Decr) in compensated absences payable	1	3	6	-
Incr (Decr) in OPEB implicit rate subsidy	16	4	17	-
Incr (Decr) in estimated claims	-	-	-	-
Net cash provided by (used for) operating activities	$ (380) $	29 $	(12) $	820

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ (419)	$ (84)	$ 28,532
-	20	1,144
-	2	21
-	-	33
(34)	(1)	(235)
-	-	(1)
(2)	(101)	(189)
-	-	1
299	-	294
-	(14)	(33)
(4)	-	(25)
4	(16)	(1,611)
-	-	854
(24)	-	(24)
-	-	141
-	2	(442)
-	-	(20)
(7)	11	(25)
71	35	701
-	-	(3,343)
$ (116)	$ (146)	$ 25,773

INTERNAL SERVICE FUNDS

Internal Service funds are used to account for operations that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. A brief description of each internal service fund follows:

FWP Equipment – This fund is used to account for interdepartmental and intradepartmental sales and use of FWP equipment.

Highway Equipment – This fund is used to account for interdepartmental and intradepartmental sales and use of Department of Transportation equipment.

Employee Group Benefits – This fund receives employee (excluding higher education units) withholdings and state contributions to the medical self-insurance plan.

Information Technology Services – State agencies and private users are assessed a fee for their use of the State's phone system, centralized data processing, and systems design services provided by the Department of Administration.

Administration Insurance – In this fund, the Department of Administration accounts for the State's property self-insurance program (including liability, property, flood, etc.).

Administration Supply – This fund is used by the Department of Administration to account for intragovernmental sales of office supplies and paper products to state agencies.

Motor Pool – State employee transportation is provided by the Department of Transportation through a pool of vehicles. The cost of operating the Motor Pool is recovered through rental rates charged to user agencies based on the average operating costs per mile for each class of vehicle.

Print & Mail Services – Agencies are assessed a fee for duplicating, typesetting, forms design, and graphic arts services.

Buildings & Grounds – Rental proceeds from state agencies are used to pay maintenance, security, and landscaping costs for state-owned property.

Central Service Funds – This fund group consists of four funds, used by the Department of Administration, the Department of Labor and Industry, the Department of Commerce, and the Office of Public Instruction, for administrative services provided on a cost recovery basis to programs within the departments.

DEQ Indirect Cost Pool – This fund is used to account for funds collected as indirect costs from the operating units of the Department of Environmental Quality and to fund the department's indirect cost pool operations that provide services to the department.

Payroll Processing – This fund accounts for the payments received from state agencies for the costs associated with the processing of payroll warrants. This fund also implements and maintains the State's central human resource reporting system.

Warrant Processing – This fund accounts for the payments received from state agencies for the costs associated with the processing of all warrants other than payroll.

Investment Division – This fund accounts for costs associated with operations of the Board of Investments (BOI). BOI assists agencies in the investment of state funds. Costs of administering and accounting for each investment fund are allocated based on the dollar volume of investments held by user agencies.

Aircraft Operation – This fund is used by the Department of Natural Resources and Conservation to account for fees charged to users of state aircraft.

Justice Legal Services – The Attorney General's Office and the Department of Justice charge other state agencies a fee for legal assistance. The Department of Administration funds legal services with intradepartmental fees.

Personnel Training – This fund accounts for fees charged to state agencies for training state employees. The fees are used by the Department of Administration to pay instructors and purchase training materials.

Debt Collection – The debt collection component of this fund accounts for fees charged for the collection of bad debts.

Prison Industries – These operations provide training and employment for inmates, where the products produced are primarily sold to other state agencies.

Other Internal Services – This category includes several small internal service funds administered by various agencies.

SABHRS Finance and Budget Bureau – This fund implements and maintains the State's central accounting and budget software reporting system that is used by state agencies.

COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2013
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
ASSETS					
Current assets:					
Cash/cash equivalents	$ 1,327	$ 3,890	$ 51,093	$ 3,363	$ 14,653
Receivables (net)	-	36	2,494	118	2
Due from other governments	-	-	-	-	-
Due from other funds	-	-	-	-	-
Inventories	-	1,826	-	-	-
Securities lending collateral	-	-	9,592	-	31
Other current assets	-	-	166	740	-
Total current assets	1,327	5,752	63,345	4,221	14,686
Noncurrent assets:					
Long-term investments	-	-	42,808	-	147
Advances to other funds	-	-	-	-	-
Capital assets:					
Land	-	-	-	-	-
Land improvements	-	-	-	-	-
Buildings/improvements	-	-	-	792	-
Equipment	11,658	155,779	-	51,251	8
Construction in progress	-	1,398	-	-	-
Intangible assets	-	-	-	-	590
Less accumulated depreciation	(6,157)	(87,511)	-	(47,800)	(2)
Total capital assets	5,501	69,666	-	4,243	596
Total noncurrent assets	5,501	69,666	42,808	4,243	743
Total assets	6,828	75,418	106,153	8,464	15,429
LIABILITIES					
Current liabilities:					
Accounts payable	434	3,188	3,630	2,118	296
Due to other funds	-	-	-	-	-
Deferred revenue	-	-	2,476	-	-
Amounts held in custody for others	-	-	-	-	-
Lease/installment purchase payable	-	-	-	-	-
Securities lending liability	-	-	9,592	-	31
Estimated insurance claims	-	-	12,737	-	3,364
Compensated absences payable	9	481	76	922	92
Total current liabilities	443	3,669	28,511	3,040	3,783
Noncurrent liabilities:					
Advances from other funds	100	-	-	-	-
Lease/installment purchase payable	-	-	-	-	-
Estimated insurance claims	-	-	1,903	-	13,545
Compensated absences payable	3	375	43	704	172
OPEB implicit rate subsidy	54	2,249	283	3,312	282
Total noncurrent liabilities	157	2,624	2,229	4,016	13,999
Total liabilities	600	6,293	30,740	7,056	17,782
NET POSITION					
Net investment in capital assets	5,501	69,666	-	4,243	596
Unrestricted	727	(541)	75,413	(2,835)	(2,949)
Total net position	$ 6,228	$ 69,125	$ 75,413	$ 1,408	$ (2,353)

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ 1,019	$ 1,330	$ 1,119	$ 884	$ 111	$ 999	$ 461	$ 1,126
84	-	14	2	-	-	2	-
-	-	-	-	-	-	-	-
1	-	-	-	-	-	-	-
2	12	210	-	-	-	-	-
-	-	-	-	-	-	-	-
7	-	494	-	3	3	-	-
1,113	1,342	1,837	886	114	1,002	463	1,126
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	236	-	-	-	-	-	-
-	-	-	95	-	-	-	-
-	-	-	1,091	-	-	-	-
-	16,738	2,588	591	-	424	83	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	(10,634)	(1,590)	(951)	-	(236)	(73)	-
-	6,340	998	826	-	188	10	-
-	6,340	998	826	-	188	10	-
1,113	7,682	2,835	1,712	114	1,190	473	1,126
563	176	199	375	52	202	55	74
-	364	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	61	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
17	21	72	124	65	286	91	106
580	561	332	499	117	488	146	180
-	938	-	-	-	-	-	-
-	-	140	-	-	-	-	-
-	-	-	-	-	-	-	-
22	15	82	92	102	136	94	6
143	110	590	571	273	1,110	332	465
165	1,063	812	663	375	1,246	426	471
745	1,624	1,144	1,162	492	1,734	572	651
-	5,038	797	826	-	188	10	-
368	1,020	894	(276)	(378)	(732)	(109)	475
$ 368	$ 6,058	$ 1,691	$ 550	$ (378)	$ (544)	$ (99)	$ 475

COMBINING STATEMENT OF NET POSITION - CONTINUED
INTERNAL SERVICE FUNDS
JUNE 30, 2013
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
ASSETS					
Current assets:					
Cash/cash equivalents	$ 1,045	$ 1,132	$ 63	$ 770	$ 498
Receivables (net)	4	-	-	-	-
Due from other governments	-	-	-	-	-
Due from other funds	54	-	-	40	-
Inventories	-	17	21	-	-
Securities lending collateral	-	-	-	-	-
Other current assets	20	2	-	121	-
Total current assets	1,123	1,151	84	931	498
Noncurrent assets:					
Long-term investments	-	-	-	-	-
Advances to other funds	-	-	-	-	-
Capital assets:					
Land	-	-	-	-	-
Land improvements	-	-	-	-	-
Buildings/improvements	-	-	-	-	-
Equipment	670	-	148	5	62
Construction in progress	-	23	-	-	-
Intangible assets	-	267	-	-	-
Less accumulated depreciation	(528)	-	(146)	(4)	(40)
Total capital assets	142	290	2	1	22
Total noncurrent assets	142	290	2	1	22
Total assets	1,265	1,441	86	932	520
LIABILITIES					
Current liabilities:					
Accounts payable	189	158	9	255	181
Due to other funds	81	-	-	-	-
Deferred revenue	-	-	-	-	-
Amounts held in custody for others	-	2	-	-	-
Lease/installment purchase payable	-	-	-	-	-
Securities lending liability	-	-	-	-	-
Estimated insurance claims	-	-	-	-	-
Compensated absences payable	300	142	6	188	57
Total current liabilities	570	302	15	443	238
Noncurrent liabilities:					
Advances from other funds	-	-	-	-	-
Lease/installment purchase payable	-	-	-	-	-
Estimated insurance claims	-	-	-	-	-
Compensated absences payable	184	-	4	284	47
OPEB implicit rate subsidy	996	463	93	476	229
Total noncurrent liabilities	1,180	463	97	760	276
Total liabilities	1,750	765	112	1,203	514
NET POSITION					
Net investment in capital assets	142	290	2	1	22
Unrestricted	(627)	386	(28)	(272)	(16)
Total net position	$ (485)	$ 676	$ (26)	$ (271)	$ 6

JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$ 139	$ 34	$ 231	$ 1,269	$ 152	$ 636	$ 87,344
-	1	-	94	-	-	2,851
-	1	-	-	-	-	1
-	-	-	-	-	-	95
-	-	-	962	149	-	3,199
-	-	-	-	-	-	9,623
-	-	-	-	1	10	1,567
139	36	231	2,325	302	646	104,680
-	-	-	-	-	-	42,955
-	-	-	320	-	-	320
-	-	-	-	-	-	236
-	-	-	-	-	-	95
-	-	-	2,820	-	-	4,703
-	-	-	2,262	77	70	242,414
-	-	-	-	-	905	2,326
-	-	-	-	-	319	1,176
-	-	-	(2,763)	(70)	(59)	(158,564)
-	-	-	2,319	7	1,235	92,386
-	-	-	2,639	7	1,235	135,661
139	36	231	4,964	309	1,881	240,341
57	35	6	136	17	76	12,481
-	-	-	-	-	-	445
-	-	-	-	-	-	2,476
-	-	-	-	-	-	2
-	-	-	-	-	-	61
-	-	-	-	-	-	9,623
-	-	-	-	-	-	16,101
58	10	2	64	24	121	3,334
115	45	8	200	41	197	44,523
-	-	-	-	-	-	1,038
-	-	-	-	-	-	140
-	-	-	-	-	-	15,448
131	-	3	36	15	176	2,726
246	55	58	457	77	301	13,225
377	55	61	493	92	477	32,577
492	100	69	693	133	674	77,100
-	-	-	2,319	7	1,235	90,883
(353)	(64)	162	1,952	169	(28)	72,358
$ (353)	$ (64)	$ 162	$ 4,271	$ 176	$ 1,207	$ 163,241

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
Operating revenues:					
Charges for services	$ 3,150	$ 28,237	$ 454	$ 37,205	$ -
Investment earnings	-	-	482	-	14
Securities lending income	-	-	36	-	-
Contributions/premiums	-	-	131,444	1	11,784
Grants/contracts/donations	-	-	1,506	-	-
Other operating revenues	-	24	954	11	-
Total operating revenues	3,150	28,261	134,876	37,217	11,798
Operating expenses:					
Personal services	159	7,508	1,357	14,319	961
Contractual services	92	283	9,571	2,239	5,926
Supplies/materials	1,783	9,397	34	1,451	241
Benefits/claims	10	391	115,149	557	3,559
Depreciation	590	6,400	-	2,501	2
Amortization	-	-	-	-	154
Utilities/rent	19	106	256	9,085	73
Communications	3	7	90	6,907	22
Travel	15	36	21	117	18
Repair/maintenance	781	4,615	11	1,683	6
Securities lending expense	-	-	12	-	-
Interest expense	-	-	-	-	-
Other operating expenses	(1)	277	675	898	106
Total operating expenses	3,451	29,020	127,176	39,757	11,068
Operating income (loss)	(301)	(759)	7,700	(2,540)	730
Nonoperating revenues (expenses):					
Insurance proceeds	-	3	-	-	62
Gain (loss) on sale of capital assets	(219)	116	-	-	-
Federal indirect cost recoveries	-	-	-	-	-
Total nonoperating revenues (expenses)	(219)	119	-	-	62
Income (loss) before contributions and transfers	(520)	(640)	7,700	(2,540)	792
Capital contributions	-	1,821	-	-	-
Transfers in	-	-	-	-	13,564
Transfers out	-	-	-	-	(49)
Changes in net position	(520)	1,181	7,700	(2,540)	14,307
Total net position - July 1 - as previously reported	6,760	67,914	67,741	3,952	(16,663)
Prior period adjustments	(12)	30	(28)	(4)	3
Total net position - July 1 - as restated	6,748	67,944	67,713	3,948	(16,660)
Total net position - June 30	$ 6,228	$ 69,125	$ 75,413	$ 1,408	$ (2,353)

	ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$	4,681 $	4,944 $	10,562 $	9,230 $	1,230 $	3,996 $	26 $	843
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	(1)	-	-	2	36	-	1,347	7
	4,680	4,944	10,562	9,232	1,266	3,996	1,373	850
	284	352	1,325	1,900	1,380	4,612	1,473	1,545
	40	305	146	2,870	52	514	65	283
	4,093	1,735	3,828	245	34	251	42	91
	19	19	93	107	59	215	60	81
	-	1,345	342	191	-	52	7	-
	-	-	-	-	-	-	-	-
	100	75	201	2,074	34	239	101	263
	29	1	4,042	53	19	84	22	147
	-	-	1	-	2	41	20	20
	4	402	480	1,261	3	62	1	16
	-	-	-	-	-	-	-	-
	-	39	26	34	-	-	-	-
	105	48	68	207	24	757	24	68
	4,674	4,321	10,552	8,942	1,607	6,827	1,815	2,514
	6	623	10	290	(341)	(2,831)	(442)	(1,664)
	-	13	-	-	-	-	-	-
	(7)	190	(2)	(9)	-	(1)	-	-
	-	-	-	-	-	943	317	1,264
	(7)	203	(2)	(9)	-	942	317	1,264
	(1)	826	8	281	(341)	(1,889)	(125)	(400)
	-	-	-	-	-	-	-	-
	-	-	-	-	50	-	-	-
	(564)	-	-	(1,115)	-	(3)	-	-
	(565)	826	8	(834)	(291)	(1,892)	(125)	(400)
	937	5,232	1,683	1,384	(87)	1,375	26	875
	(4)	-	-	-	-	(27)	-	-
	933	5,232	1,683	1,384	(87)	1,348	26	875
$	368 $	6,058 $	1,691 $	550 $	(378) $	(544) $	(99) $	475

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - CONTINUED
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
Operating revenues:					
Charges for services	$ 4,117	$ 3,309	$ 732	$ 4,067	$ 1,189
Investment earnings	-	-	-	-	-
Securities lending income	-	-	-	-	-
Contributions/premiums	-	-	-	-	-
Grants/contracts/donations	-	-	-	-	-
Other operating revenues	6	1	-	-	-
Total operating revenues	4,123	3,310	732	4,067	1,189
Operating expenses:					
Personal services	4,071	1,567	166	2,800	1,112
Contractual services	732	585	168	1,299	79
Supplies/materials	196	40	(10)	52	534
Benefits/claims	169	70	12	82	41
Depreciation	35	-	1	1	1
Amortization	-	139	-	2	-
Utilities/rent	1,317	54	17	164	144
Communications	235	22	328	25	9
Travel	18	3	-	50	42
Repair/maintenance	73	454	18	1	703
Securities lending expense	-	-	-	-	-
Interest expense	-	-	-	-	-
Other operating expenses	220	61	13	382	32
Total operating expenses	7,066	2,995	713	4,858	2,697
Operating income (loss)	(2,943)	315	19	(791)	(1,508)
Nonoperating revenues (expenses):					
Insurance proceeds	-	-	-	-	-
Gain (loss) on sale of capital assets	(2)	-	-	-	-
Federal indirect cost recoveries	2,390	-	-	-	-
Total nonoperating revenues (expenses)	2,388	-	-	-	-
Income (loss) before contributions and transfers	(555)	315	19	(791)	(1,508)
Capital contributions	-	-	-	-	-
Transfers in	-	-	-	-	1,332
Transfers out	(4)	(50)	-	-	-
Changes in net position	(559)	265	19	(791)	(176)
Total net position - July 1 - as previously reported	75	411	(45)	520	182
Prior period adjustments	(1)	-	-	-	-
Total net position - July 1 - as restated	74	411	(45)	520	182
Total net position - June 30	$ (485)	$ 676	$ (26)	$ (271)	$ 6

JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$ 1,271	$ 318	$ 213	$ 6,072	$ 505	$ 3,119	$ 129,470
-	-	-	-	-	-	496
-	-	-	-	-	-	36
-	-	-	-	-	-	143,229
-	-	-	-	-	-	1,506
-	-	-	-	-	-	2,387
1,271	318	213	6,072	505	3,119	277,124
1,080	175	138	1,274	388	1,430	51,376
51	39	11	43	9	543	25,945
21	43	1	3,985	90	41	28,218
39	10	10	79	18	56	120,905
-	-	-	127	1	-	11,596
-	-	-	-	-	198	493
66	9	5	192	25	31	14,650
13	3	14	28	4	11	12,118
6	20	-	2	1	5	438
-	1	-	94	11	836	11,516
-	-	-	-	-	-	12
-	-	-	-	-	-	99
11	10	-	204	11	97	4,297
1,287	310	179	6,028	558	3,248	281,663
(16)	8	34	44	(53)	(129)	(4,539)
-	-	-	-	-	-	78
-	-	-	-	-	-	66
-	-	-	-	21	-	4,935
-	-	-	-	21	-	5,079
(16)	8	34	44	(32)	(129)	540
-	-	-	-	-	-	1,821
-	-	-	-	63	-	15,009
-	-	-	-	-	-	(1,785)
(16)	8	34	44	31	(129)	15,585
(337)	(72)	128	4,227	145	1,336	147,699
-	-	-	-	-	-	(43)
(337)	(72)	128	4,227	145	1,336	147,656
$ (353)	$ (64)	$ 162	$ 4,271	$ 176	$ 1,207	$ 163,241

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt from sales and service	$ 3,150	$ 28,260	$ 131,897	$ 36,711	$ 11,786
Payments to suppliers for goods and services	(2,541)	(12,468)	(10,551)	(22,661)	(6,538)
Payments to employees	(159)	(7,507)	(1,296)	(14,469)	(844)
Grant receipts (expenses)	-	-	1,506	-	-
Cash payments for claims	-	-	(112,409)	-	(5,947)
Other operating revenues	-	24	953	11	-
Net cash provided by (used for) operating activities	450	8,309	10,100	(408)	(1,543)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Payment of principal and interest on bonds and notes	-	-	-	-	-
Transfer to other funds	-	-	-	-	(49)
Transfer from other funds	-	-	-	-	13,564
Proceeds from interfund loans/advances	-	-	-	33	-
Payment of interfund loans and advances	(199)	(600)	-	-	-
Net cash provided by (used for) noncapital financing activities	(199)	(600)	-	33	13,515
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	3	-	-	62
Acquisition of capital assets	-	(5,803)	-	(1,943)	(321)
Proceeds from sale of capital assets	21	326	-	-	-
Net cash used for capital and related financing activities	21	(5,474)	-	(1,943)	(259)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of investments	-	-	(718)	-	(102)
Proceeds (loss) from securities lending transactions/investments	-	-	36	-	-
Interest and dividends on investments	-	-	482	-	14
Payment of securities lending costs	-	-	(12)	-	-
Net cash provided by (used for) investing activities	-	-	(212)	-	(88)
Net increase (decrease) in cash and cash equivalents	272	- 2,235	9,888	(2,318)	11,625
Cash and cash equivalents, July 1	1,055	1,655	41,205	5,681	3,028
Cash and cash equivalents, June 30	$ 1,327	$ 3,890	$ 51,093	$ 3,363	$ 14,653

	ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$	4,637 $	4,944 $	10,461 $	9,231 $	1,228 $	4,000 $	24 $	842
	(3,942)	(3,167)	(8,899)	(7,814)	(193)	(2,083)	(277)	(883)
	(279)	(346)	(1,309)	(1,909)	(1,402)	(4,672)	(1,507)	(1,551)
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	2	37	944	1,664	1,270
	416	1,431	253	(490)	(330)	(1,811)	(96)	(322)
	-	(40)	(26)	(34)	-	-	-	-
	(564)	-	-	(1,115)	-	(3)	-	-
	-	-	-	-	50	-	-	-
	-	-	-	979	-	-	-	-
	-	(1,583)	-	-	-	-	-	-
	(564)	(1,623)	(26)	(170)	50	(3)	-	-
	-	13	-	-	-	-	-	-
	-	-	(79)	(31)	-	(86)	-	-
	-	301	-	-	-	-	-	-
	-	314	(79)	(31)	-	(86)	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
-	(148)	122	148	(691)	(280)	(1,900)	(96)	(322)
	1,167	1,208	971	1,575	391	2,899	557	1,448
$	1,019 $	1,330 $	1,119 $	884 $	111 $	999 $	461 $	1,126

COMBINING STATEMENT OF CASH FLOWS - Continued
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt from sales and service	$ 4,061	$ 3,310	$ 730	$ 4,011	$ 1,188
Payments to suppliers for goods and services	(2,806)	(1,242)	(556)	(1,851)	(1,571)
Payments to employees	(4,112)	(1,576)	(166)	(2,661)	(1,073)
Grant receipts (expenses)	-	-	-	-	-
Cash payments for claims	-	-	-	-	-
Other operating revenues	2,395	1	-	-	-
Net cash provided by (used for) operating activities	(462)	493	8	(501)	(1,456)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Payment of principal and interest on bonds and notes	-	-	-	-	-
Transfer to other funds	(4)	(50)	-	-	-
Transfer from other funds	-	-	-	-	1,332
Proceeds from interfund loans/advances	-	-	-	-	-
Payment of interfund loans and advances	-	-	-	-	-
Net cash provided by (used for) noncapital financing activities	(4)	(50)	-	-	1,332
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	-
Acquisition of capital assets	-	(2)	-	-	-
Proceeds from sale of capital assets	-	-	-	-	-
Net cash used for capital and related financing activities	-	(2)	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of investments	-	-	-	-	-
Proceeds (loss) from securities lending transactions/investments	-	-	-	-	-
Interest and dividends on investments	-	-	-	-	-
Payment of securities lending costs	-	-	-	-	-
Net cash provided by (used for) investing activities	-	-	-	-	-
Net increase (decrease) in cash and cash equivalents	(466)	441	8	(501)	(124)
Cash and cash equivalents, July 1	1,511	691	55	1,271	622
Cash and cash equivalents, June 30	$ 1,045	$ 1,132	$ 63	$ 770	$ 498

	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$	1,270 $	316 $	213 $	6,062 $	505 $	3,115 $	271,952
	(160)	(129)	(31)	(4,694)	(144)	(1,767)	(96,968)
	(1,079)	(191)	(138)	(1,260)	(385)	(1,329)	(51,220)
	-	-	-	-	-	-	1,506
	-	-	-	-	-	-	(118,356)
	-	-	-	-	21	-	7,322
	31	(4)	44	108	(3)	19	14,236
	-	-	-	-	-	-	(100)
	-	-	-	-	-	-	(1,785)
	-	-	-	-	63	-	15,009
	-	-	-	80	-	-	1,092
	-	-	-	-	(52)	-	(2,434)
	-	-	-	80	11	-	11,782
	-	-	-	-	-	-	78
	-	-	-	(35)	-	(224)	(8,524)
	-	-	-	-	1	-	649
	-	-	-	(35)	1	(224)	(7,797)
	-	-	-	-	-	-	(820)
	-	-	-	-	-	-	36
	-	-	-	-	-	-	496
	-	-	-	-	-	-	(12)
	-	-	-	-	-	-	(300)
	31	(4)	44	153	9	(205)	17,921
	108	38	187	1,116	143	841	69,423
$	139 $	34 $	231 $	1,269 $	152 $	636 $	87,344

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(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)	$ (301)	$ (759)	$ 7,700	$ (2,540)	$ 730
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	590	6,400	-	2,501	2
Amortization	-	-	-	-	154
Interest expense	-	-	-	-	-
Securities lending expense	-	-	12	-	-
Investment earnings	-	-	(482)	-	(14)
Securities lending income	-	-	(36)	-	-
Federal indirect cost recoveries	-	-	-	-	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	-	21	(142)	46	-
Decr (incr) in due from other funds	-	-	-	15	-
Decr (incr) in inventories	-	84	-	-	-
Decr (incr) in other assets	-	-	142	(554)	-
Incr (Decr) in accounts payable	148	2,161	(39)	(327)	(37)
Incr (Decr) in due to other funds	-	-	-	-	(13)
Incr (Decr) in due to component units	-	-	-	-	(87)
Incr (Decr) in deferred revenue	-	-	144	-	-
Incr (Decr) in compensated absences payable	3	11	-	(106)	57
Incr (Decr) in OPEB implicit rate subsidy	10	391	61	557	52
Incr (Decr) in estimated claims	-	-	2,740	-	(2,387)
Net cash provided by (used for) operating activities	$ 450	$ 8,309	$ 10,100	$ (408)	$ (1,543)
Schedule of noncash transactions:					
Increase (decrease) value of investments	-	-	11,778	-	-
Capital asset acquisitions from contributed capital	-	1,821	-	-	-
Total noncash Transactions	$ -	$ 1,821	$ 11,778	$ -	$ -

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ 6	$ 623	$ 10	$ 290	$ (341)	$ (2,831)	$ (442)	$ (1,664)
-	1,345	342	191	-	52	7	-
-	-	-	-	-	-	-	-
-	39	26	34	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	944	317	1,264
(51)	-	(1)	1	-	2	(1)	-
6	-	-	-	-	-	-	-
321	12	(20)	-	-	-	-	-
-	-	(100)	-	(2)	2	-	-
111	(4)	(111)	(129)	(21)	(139)	(4)	15
-	(608)	-	(976)	-	-	-	(5)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
4	5	14	(8)	(25)	(56)	(33)	(13)
19	19	93	107	59	215	60	81
-	-	-	-	-	-	-	-
$ 416	$ 1,431	$ 253	$ (490)	$ (330)	$ (1,811)	$ (96)	$ (322)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

COMBINING STATEMENT OF CASH FLOWS - Continued
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(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)	$ (2,943)	$ 315	$ 19	$ (791)	$ (1,508)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	35	-	1	1	1
Amortization	-	139	-	2	-
Interest expense	-	-	-	-	-
Securities lending expense	-	-	-	-	-
Investment earnings	-	-	-	-	-
Securities lending income	-	-	-	-	-
Federal indirect cost recoveries	2,390	-	-	-	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	(1)	-	-	-	-
Decr (incr) in due from other funds	(53)	-	-	2	-
Decr (incr) in inventories	-	(7)	(19)	-	-
Decr (incr) in other assets	(1)	-	-	(57)	-
Incr (Decr) in accounts payable	(56)	(12)	(6)	137	(16)
Incr (Decr) in due to other funds	35	-	-	-	-
Incr (Decr) in due to component units	-	-	-	-	-
Incr (Decr) in deferred revenue	-	-	-	-	-
Incr (Decr) in compensated absences payable	(37)	(12)	1	123	26
Incr (Decr) in OPEB implicit rate subsidy	169	70	12	82	41
Incr (Decr) in estimated claims	-	-	-	-	-
Net cash provided by (used for) operating activities	$ (462)	$ 493	$ 8	$ (501)	$ (1,456)
Schedule of noncash transactions:					
Increase (decrease) value of investements	-	-	-	-	-
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
$ (16)	$ 8	$ 34	$ 44	$ (53)	$ (129)	$ (4,539)
-	-	-	127	1	-	11,596
-	-	-	-	-	198	493
-	-	-	-	-	-	99
-	-	-	-	-	-	12
-	-	-	-	-	-	(496)
-	-	-	-	-	-	(36)
-	-	-	-	21	-	4,936
-	(1)	-	(10)	-	-	(137)
-	-	-	-	-	-	(30)
-	-	-	172	20	-	563
-	-	-	-	-	(2)	(572)
16	12	-	(305)	(13)	(183)	1,198
-	-	-	-	-	-	(1,567)
-	-	-	-	-	-	(87)
-	-	-	-	-	-	144
(6)	(33)	-	1	3	80	(1)
37	10	10	79	18	55	2,307
-	-	-	-	-	-	353
$ 31	$ (4)	$ 44	$ 108	$ (3)	$ 19	$ 14,236
-	-	-	-	-	-	11,778
-	-	-	-	-	-	1,821
$ -	$ -	$ -	$ -	$ -	$ -	$ 13,599

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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 POSITION
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
JUNE 30, 2013
(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	$ 60,430	$ 2,914	$ 3,230	$ 4,000	$ 1,596	$ 1,174
Receivables (net):						
Accounts receivable	1,599	234	212	233	2	5
Interest	4,885	294	295	276	125	82
Due from primary government	-	12,573	12,358	-	-	-
Due from other PERB plans	457	-	-	-	-	-
Long-term notes/loans receivable	23	-	-	-	-	-
Total receivables	6,964	13,101	12,865	509	127	87
Investments at fair value:						
Equity in pooled investments	4,235,592	255,074	255,793	239,483	107,990	71,533
Other investments	744	37	40	52	18	14
Total investments	4,236,336	255,111	255,833	239,535	108,008	71,547
Securities lending collateral	192,294	11,578	11,609	10,873	4,903	3,247
Capital assets:						
Land	-	-	-	-	-	-
Buildings/improvements	-	-	-	-	-	-
Equipment	18	2	3	4	3	4
Construction work in progress	114	30	30	34	28	34
Accumulated depreciation	(9)	(1)	(1)	(1)	(1)	(1)
Total capital assets	123	31	32	37	30	37
Other assets	-	-	-	-	-	-
Total assets	4,496,147	282,735	283,569	254,954	114,664	76,092
LIABILITIES						
Accounts payable	704	50	47	80	31	36
Due to other PERB plans	389	87	73	111	31	9
Deferred revenue	204	-	4	1	1	-
Amounts held in custody for others	-	-	-	-	-	-
Securities lending liability	192,294	11,578	11,609	10,873	4,903	3,247
Compensated absences payable	274	2	4	5	4	5
OPEB implicit rate subsidy	449	8	6	8	4	2
Total liabilities	194,314	11,725	11,743	11,078	4,974	3,299
NET POSITION						
Held in trust for pension benefits and other purposes	$ 4,301,833	$ 271,010	$ 271,826	$ 243,876	$ 109,690	$ 72,793

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
$ 2,177	$ 1,959	$ 3,799	$ 1,305	$ 49,311	$ 2,551	$ 134,446
-	1	58	310	19,292	5	21,951
131	31	1	-	3,591	-	9,711
-	-	-	-	-	-	24,931
-	-	377	-	-	-	834
-	-	-	-	-	-	23
131	32	436	310	22,883	5	57,450
113,641	27,122	-	-	3,112,816	-	8,419,044
25	26	101,416	397,619	528	3,331	503,850
113,666	27,148	101,416	397,619	3,113,344	3,331	8,922,894
5,156	1,238	10	4	141,344	-	382,256
-	-	-	-	35	-	35
-	-	-	-	158	-	158
4	3	3	4	143	-	191
34	27	27	32	-	-	390
(1)	(1)	(1)	(1)	(261)	-	(279)
37	29	29	35	75	-	495
-	-	-	-	1	-	1
121,167	30,406	105,690	399,273	3,326,958	5,887	9,497,542
87	29	115	352	60	122	1,713
71	63	-	-	-	-	834
1	-	-	-	-	-	211
-	-	-	5	-	-	5
5,156	1,238	10	4	141,344	-	382,256
5	4	31	23	203	3	563
6	6	51	33	287	4	864
5,326	1,340	207	417	141,894	129	386,446
$ 115,841	$ 29,066	$ 105,483	$ 398,856	$ 3,185,064	$ 5,758	$ 9,111,096

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(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	$ 81,776	$ 6,280	$ 5,499	$ 6,273	$ 4,903	$ 1,622
Employee	80,769	4,026	4,253	5,831	1,337	737
Other contributions	713	12,576	12,358	7	275	4
Net investment earnings:						
Investment earnings	524,381	31,200	31,197	29,234	13,316	8,732
Administrative investment expenses	(20,226)	(1,216)	(1,216)	(1,132)	(514)	(336)
Securities lending income	1,193	71	71	67	31	20
Securities lending expense	(296)	(18)	(18)	(16)	(7)	(5)
Charges for services	-	-	-	-	-	-
Other additions	1	-	-	-	-	-
Total additions	668,311	52,919	52,144	40,264	19,341	10,774
DEDUCTIONS						
Benefits	274,103	18,464	17,671	11,584	8,710	2,554
Refunds	11,637	1,838	73	1,185	51	-
Administrative expenses:						
Personal services	2,161	38	37	42	36	42
Contractual services	1,453	118	116	132	112	132
Supplies/materials	72	1	1	-	1	1
Depreciation	2	1	-	-	1	-
Amortization	37	-	-	-	-	-
Utilities/rent	226	-	-	-	-	-
Communications	164	-	1	-	-	-
Travel	27	-	1	-	-	-
Repair/maintenance	3	-	-	-	-	-
Other operating expenses	(382)	86	73	111	31	9
Local assistance	-	-	-	-	-	-
Transfer to MUS-RP	339	-	-	-	-	-
Transfer to PERS-DCRP	872	-	-	-	-	-
Total deductions	290,714	20,546	17,973	13,054	8,942	2,738
Changes in net position	377,597	32,373	34,171	27,210	10,399	8,036
Net position- July 1- as previously reported	3,924,213	238,637	237,655	216,666	99,291	64,757
Prior period adjustments	23	-	-	-	-	-
Net position - July 1- as restated	3,924,236	238,637	237,655	216,666	99,291	64,757
Net position - June 30	$ 4,301,833	$ 271,010	$ 271,826	$ 243,876	$ 109,690	$ 72,793

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
$ 3,576	$ -	$ 4,374	$ 79	$ 74,113	$ 3,136	$ 191,631
4,206	-	6,943	20,297	62,850	-	191,249
3	1,711	-	-	17,521	-	45,168
13,613	3,511	11,854	22,286	387,989	(290)	1,077,023
(530)	(134)	(171)	(1,068)	(14,930)	-	(41,473)
31	8	-	-	881	-	2,373
(8)	(2)	-	-	(219)	-	(589)
-	-	53	257	-	-	310
-	-	398	-	8	-	407
20,891	5,094	23,451	41,851	528,213	2,846	1,466,099
3,576	2,820	4,388	19,649	268,298	1,960	633,777
864	-	-	-	5,119	-	20,767
42	34	273	192	1,154	30	4,081
132	107	404	788	506	1	4,001
-	3	7	6	31	-	123
-	1	1	1	19	-	26
-	-	1	-	14	-	52
-	-	27	16	59	-	328
-	-	8	5	74	-	252
-	-	9	5	11	-	53
-	-	-	-	30	-	33
71	63	10	6	33	53	164
-	15	-	-	-	-	15
-	-	-	-	-	-	339
-	-	-	-	-	-	872
4,685	3,043	5,128	20,668	275,348	2,044	664,883
16,206	2,051	18,323	21,183	252,865	802	801,216
99,635	27,015	87,160	377,673	2,932,199	4,956	8,309,857
-	-	-	-	-	-	23
99,635	27,015	87,160	377,673	2,932,199	4,956	8,309,880
$ 115,841	$ 29,066	$ 105,483	$ 398,856	$ 3,185,064	$ 5,758	$ 9,111,096

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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 POSITION
PRIVATE-PURPOSE TRUST FUNDS
JUNE 30, 2013
(amounts expressed in thousands)

	COLLEGE SAVINGS PLAN	ESCHEATED PROPERTY	PLAN SECURITIES
ASSETS			
Cash/cash equivalents	$ 120,620	$ 3,410	$ -
Receivables (net):			
Interest	-	1	-
Total receivables	-	1	-
Investments at fair value:			
Other investments	106,972	43	-
Total investments	106,972	43	-
Securities lending collateral	-	9	-
Other assets	-	-	27,513
Total assets	227,592	3,463	27,513
LIABILITIES			
Accounts payable	-	28	-
Securities lending liability	-	9	-
Total liabilities	-	37	-
NET POSITION			
Held in trust for other purposes	$ 227,592	$ 3,426	$ 27,513

WOODVILLE HIGHWAY REPLACEMENT	MOORE-SIPPLE CONNECTOR	PERFORMANCE DEPOSITS	TOTAL
$ 46	$ 236	$ 25,341	$ 149,653
-	-	3	4
-	-	3	4
1	3	11,453	118,472
1	3	11,453	118,472
-	1	56	66
-	-	4,449	31,962
47	240	41,302	300,157
-	-	-	28
-	1	56	66
-	1	56	94
$ 47	$ 239	$ 41,246	$ 300,063

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

	COLLEGE SAVINGS PLAN	ESCHEATED PROPERTY	PLAN SECURITIES
ADDITIONS			
Participant contributions	$ 18,307	$ -	$ 2,059
Net investment earnings:			
Investment earnings	5,619	8	-
Other additions	-	4,020	-
Total additions	23,926	4,028	2,059
DEDUCTIONS			
Distributions	16,716	3,723	-
Administrative expenses:			
Contractual services	305	-	-
Grants	-	-	-
Total deductions	17,021	3,723	-
Change in net position	6,905	305	2,059
Net position - July 1 - as previously reported	220,687	3,121	25,604
Prior period adjustments	-	-	(150)
Net position - July 1 - as restated	220,687	3,121	25,454
Net position - June 30	$ 227,592	$ 3,426	$ 27,513

WOODVILLE HIGHWAY REPLACEMENT	MOORE-SIPPLE CONNECTOR	PERFORMANCE DEPOSITS	TOTAL
$ -	$ -	$ -	$ 20,366
-	1	51	5,679
-	-	2,924	6,944
-	1	2,975	32,989
-	-	3,442	23,881
-	-	-	305
-	1	-	1
-	1	3,442	24,187
-	-	(467)	8,802
47	239	26,665	276,363
-	-	15,048	14,898
47	239	41,713	291,261
$ 47	$ 239	$ 41,246	$ 300,063

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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 POSITION
AGENCY FUNDS
June 30,2013
(amounts expressed in thousands)

	PERFORMANCE DEPOSITS	CENTRAL PAYROLL	CRIMINAL OFFENDER RESTITUTION	CUSTODIAL ACCOUNTS
ASSETS				
Cash/cash equivalents	$ 620	$ 7,444	$ 936	$ 1,740
Receivables (net):				
Accounts receivable	-	-	-	-
Total receivables	-	-	-	-
Investments at fair value:				
Other investments	-	-	-	3
Total investments	-	-	-	3
Other assets	431	-	-	8
Total assets	1,051	7,444	936	1,751
LIABILITIES				
Accounts payable	7	38	4	7
Amounts held in custody for others	1,044	7,406	932	1,744
Total liabilities	1,051	7,444	936	1,751
NET POSITION				
Held in trust for pension benefits and other purposes	$ -	$ -	$ -	$ -

CHILD SUPPORT COLLECTIONS	UNCLEARED COLLECTIONS	INTER-GOVERNMENTAL	DEBT COLLECTION	MILK PASS-THROUGH	TOTAL
$ 465	$ 1	$ 55	$ 119	$ 83	$ 11,463
493	-	-	-	-	493
493	-	-	-	-	493
-	-	-	-	-	3
-	-	-	-	-	3
-	-	-	-	-	439
958	1	55	119	83	12,398
488	-	1	5	30	580
470	1	54	114	53	11,818
958	1	55	119	83	12,398
$ -	$ -	$ -	$ -	$ -	$ -

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30,2013
(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2012	TOTALS ADDITIONS	TOTALS DEDUCTIONS	BALANCE JUNE 30, 2013
PERFORMANCE DEPOSITS:				
ASSETS				
Cash/cash equivalents	$ 963	$ 108,412	108,755	$ 620
Receivables (net)	-	25	25	-
Other assets	300	208	77	431
Total assets	$ 1,263	$ 108,645	108,857	$ 1,051
LIABILITIES				
Accounts payable	$ 10	$ 1,246	1,249	$ 7
Amounts held in custody for others	1,253	1,980	2,189	1,044
Total liabilities	$ 1,263	$ 3,226	3,438	$ 1,051
CENTRAL PAYROLL:				
ASSETS				
Cash/cash equivalents	$ 4,546	$ 863,395	860,497	$ 7,444
Total assets	$ 4,546	$ 863,395	860,497	$ 7,444
LIABILITIES				
Accounts payable	$ -	$ 9,527	9,489	$ 38
Amounts held in custody for others	4,546	863,376	860,516	7,406
Total liabilities	$ 4,546	$ 872,903	870,005	$ 7,444
CRIMINAL OFFENDER RESTITUTION:				
ASSETS				
Cash/cash equivalents	$ 276	$ 4,647	3,987	$ 936
Total assets	$ 276	$ 4,647	3,987	$ 936
LIABILITIES				
Accounts Payable	$ -	$ 2,019	2,015	$ 4
Amounts held custody others	276	4,646	3,990	932
Total liabilities	$ 276	$ 6,665	6,005	$ 936
CUSTODIAL ACCOUNTS:				
ASSETS				
Cash/cash equivalents	$ 1,716	$ 8,864	8,840	$ 1,740
Receivables (net)	28	4	32	-
Investments	5	-	2	3
Other assets	9	598	599	8
Total assets	$ 1,758	$ 9,466	9,473	$ 1,751
LIABILITIES				
Accounts Payable	$ 106	$ 3,299	3,398	$ 7
Amts held custody others	1,652	11,242	11,150	1,744
Total liabilities	$ 1,758	$ 14,541	14,548	$ 1,751

FUND	BALANCE JUNE 30, 2012	TOTALS ADDITIONS	TOTALS DEDUCTIONS	BALANCE JUNE 30, 2013
CHILD SUPPORT COLLECTIONS:				
ASSETS				
Cash/cash equivalents	$ 279	$ 73,284	73,098	$ 465
Receivables (net)	444	54	5	493
Total assets	$ 723	$ 73,338	73,103	$ 958
LIABILITIES				
Accounts Payable	$ 295	$ 68,939	68,746	$ 488
Amounts held custody others	428	73,372	73,330	470
Total liabilities	$ 723	$ 142,311	142,076	$ 958
UNCLEARED COLLECTIONS:				
ASSETS				
Cash/cash equivalents	$ 573	$ 11,732,326	11,732,898	$ 1
Receivables (net)	-	541	541	-
Total assets	$ 573	$ 11,732,867	11,733,439	$ 1
LIABILITIES				
Accounts Payable	$ 571	$ 6,536	7,107	$ -
Amounts held in custody others	2	6,964	6,965	1
Total liabilities	$ 573	$ 13,500	14,072	$ 1
INTERGOVERNMENTAL:				
ASSETS				
Cash/cash equivalents	$ 62	$ 273	280	$ 55
Receivables (net)	1	-	1	-
Total assets	$ 63	$ 273	281	$ 55
LIABILITIES				
Accounts Payable	$ 6	$ 132	137	$ 1
Amounts held in custody others	57	279	282	54
Total liabilities	$ 63	$ 411	419	$ 55
DEBT COLLECTION:				
ASSETS				
Cash/cash equivalents	$ 277	$ 6,243	6,401	$ 119
Receivables (net)	-	4	4	-
Total assets	$ 277	$ 6,247	6,405	$ 119
LIABILITIES				
Accounts Payable	$ 1	$ 7,441	7,437	$ 5
Amounts held in custody others	276	5,238	5,400	114
Total liabilities	$ 277	$ 12,679	12,837	$ 119

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30,2013
(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2012	TOTALS ADDITIONS	TOTALS DEDUCTIONS	BALANCE JUNE 30, 2013
MILK PASSTHROUGH:				
ASSETS				
Cash/cash equivalents	$ 64	$ 704	685	$ 83
Total assets	$ 64	$ 704	685	$ 83
LIABILITIES				
Accounts Payable	$ 37	$ 696	703	$ 30
Amounts held custody others	27	704	678	53
Total liabilities	$ 64	$ 1,400	1,381	$ 83
OPEB STATE:				
ASSETS				
Cash/cash equivalents	$ -	$ 23,013	23,013	$ -
Other assets	-	23,013	23,013	-
Total assets	$ -	$ 46,026	46,026	$ -
OPEB MUS:				
ASSETS				
Cash/cash equivalents	$ -	$ 10,019	10,019	$ -
Other assets	-	10,019	10,019	-
Total assets	$ -	$ 20,038	20,038	$ -
TOTAL - ALL AGENCY FUNDS				
ASSETS				
Cash/cash equivalents	$ 8,756	$ 12,821,161	12,818,454	$ 11,463
Receivables (net)	473	628	608	493
Investments	5	-	2	3
Other assets	309	23,819	23,689	439
Total assets	$ 9,543	$ 12,845,608	12,842,753	$ 12,398
LIABILITIES				
Accounts Payable	$ 1,026	$ 99,835	100,281	$ 580
Amts held custody others	8,517	967,801	964,500	11,818
Total liabilities	$ 9,543	$ 1,067,636	1,064,781	$ 12,398

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 POSITION BY COMPONENT UNIT
Last Ten Fiscal Years
(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental activities										
Net investment in capital assets	$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	$4,681,042
Restricted	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	2,334,042
Unrestricted	222,829	404,724	647,182	675,752	595,019	589,815	1,083,674	877,017	824,809	912,882
Total governmental activities net position	$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	$7,927,966
Business-type activities										
Net investment in capital assets	$ 8,925	$ 9,670	$ 8,703	$ 8,698	$ 8,733	$ 12,539	$ 14,534	$ 15,581	$ 15,011	$14,861
Restricted	212,473	240,514	269,687	314,722	337,036	255,493	159,335	158,735	206,896	253,651
Unrestricted	17,223	16,672	18,539	11,761	11,234	6,996	21,851	12,349	15,905	16,146
Total business-type activities net position	$ 236,307	$ 266,856	$ 296,929	$ 335,181	$ 357,003	$ 275,028	$ 194,720	$ 186,665	$ 237,812	$284,658
Primary government										
Net investment in capital assets	$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	$4,695,903
Restricted	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	2,587,693
Unrestricted	237,738	421,396	665,721	687,513	606,253	596,811	1,104,525	889,366	840,714	929,028
Total primary government net position	$4,567,401	$5,359,573	$5,989,411	$6,473,588	$6,832,389	$6,720,987	$7,136,457	$7,535,004	$7,900,715	$8,212,624

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SCHEDULE A-2 – CHANGE IN NET POSITION
Last Ten Fiscal Years
(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year				
Expenses	2004	2005	2006	2007	2008
Governmental activities:					
General government	$ 285,781	$ 305,819	$ 525,981	$ 450,646	$ 634,984
Public safety	227,786	258,610	245,810	293,193	322,769
Transportation	400,034	281,074	216,942	197,510	488,450
Health and human services	1,109,045	1,182,281	1,270,056	1,266,098	1,380,629
Education	874,846	900,542	976,046	1,065,504	1,144,637
Natural resources	258,057	197,539	142,460	256,751	258,058
Economic development/assistance	144,687	144,777	150,449	152,154	152,456
Principal on long-term debt	-	-	-	-	-
Interest on long-term debt	15,088	14,375	19,569	19,418	18,344
Total governmental activities expenses	3,315,324	3,285,017	3,547,313	3,701,274	4,400,327
Business-type activities:					
Unemployment Insurance	93,882	75,291	72,661	72,378	90,269
Liquor Stores	42,827	45,503	50,514	55,521	59,227
State Lottery	28,669	27,681	31,020	30,416	32,984
Economic Development Bonds	2,197	2,630	3,441	4,167	4,552
Hail Insurance	1,949	3,153	4,632	4,663	11,064
General Government Services	48,395	50,329	51,017	53,851	56,697
Prison Funds	4,244	5,268	5,356	6,487	6,670
MUS Group Insurance	39,690	40,524	52,139	58,532	59,334
MUS Workers Compensation	2,552	2,842	2,978	2,647	3,109
Total business-type activities expenses	264,405	253,221	273,758	288,662	323,906
Total primary government expenses	$ 3,579,729	$ 3,538,238	$ 3,821,071	$ 3,989,936	$ 4,724,233
Program Revenues					
Governmental activities:					
Charges for services:					
General government	$ 59,384	$ 49,637	$ 59,166	$ 61,713	$ 83,720
Public safety/corrections	159,397	146,746	150,787	153,577	149,534
Transportation	33,943	38,101	31,766	34,963	42,348
Health/social services	32,983	31,467	30,022	30,547	38,137
Education/cultural	28,922	30,499	107,096	96,903	150,906
Resource/recreation/environment	137,714	121,539	77,064	80,320	80,933
Economic development/assistance	22,102	25,995	31,866	38,441	38,520
Operating grants and contributions	1,271,515	1,391,026	1,371,109	1,395,324	1,493,944
Capital grants and contributions	290,045	319,434	305,345	325,352	380,856
Total governmental activities program revenues	2,034,005	2,154,444	2,164,221	2,217,140	2,458,898
Business-type activities:					
Charges for services:					
Unemployment Insurance	67,873	72,866	76,754	83,661	85,801
Liquor Stores	49,521	52,081	58,975	63,943	69,242
State Lottery	36,740	33,815	39,923	41,567	43,826
Economic Development Bonds	8	5	7	22	33
Hail Insurance	3,748	7,404	3,057	6,042	7,730
General Government Services	13,197	14,244	15,589	18,176	19,844
Prison Funds	5,140	5,233	5,717	5,600	7,150
MUS Group Insurance	42,252	47,739	54,164	57,159	62,666
MUS Workers Compensation	2,424	2,978	3,543	4,047	4,660
Operating grants and contributions	55,487	58,433	58,051	64,691	63,524
Capital grants and contributions	177	159	378	171	540
Total business-type activities program revenues	493,752	294,957	316,158	345,079	365,016
Total primary government program revenues	$ 2,527,757	$ 2,449,401	$ 2,480,379	$ 2,562,219	$ 2,823,914

2009	2010	2011	2012	2013
$ 549,847	$ 774,881	$ 752,565	$ 660,561	$ 647,974
408,239	342,803	308,593	387,213	380,309
438,649	320,085	390,523	468,977	413,205
1,529,104	1,677,261	1,765,871	1,745,284	1,808,390
1,137,772	1,179,788	1,209,969	1,192,205	1,205,959
363,179	318,300	318,954	337,462	332,942
170,027	-	-	-	-
-	-	6	7,593	-
18,721	17,692	16,314	15,725	12,249
4,615,538	4,630,810	4,762,795	4,815,020	4,801,028
235,949	354,793	278,086	217,829	179,826
61,446	61,569	63,573	67,863	71,015
33,787	36,365	35,481	39,808	44,049
3,523	2,167	1,126	1,149	929
4,087	6,238	8,379	7,052	7,338
60,157	62,797	63,003	62,094	63,349
10,681	6,463	6,149	6,480	7,003
55,023	72,606	63,501	59,577	67,249
3,675	3,900	4,232	4,530	328
468,328	606,898	523,530	466,382	441,086
$5,083,866	$5,237,708	$5,286,325	5,281,402	5,242,114
$ 68,982	$ 127,163	$ 138,059	$ 143,815	$ 134,756
144,748	147,839	145,754	147,070	148,147
37,204	26,531	25,143	29,256	30,792
35,554	43,338	37,166	34,191	37,291
113,433	34,309	40,720	36,335	37,328
39,929	232,861	164,880	166,466	176,400
43,182	-	-	-	-
1,635,769	1,985,977	1,962,876	1,824,334	1,780,611
467,611	510,996	537,194	512,649	455,310
2,586,412	3,109,014	3,051,792	2,894,116	2,800,635
75,591	89,500	137,439	164,353	166,523
67,242	68,032	73,298	78,384	82,125
43,841	46,865	46,047	52,615	56,820
26	22	18	17	13
6,859	6,915	6,710	7,055	7,114
21,548	22,601	23,044	22,303	21,988
6,620	6,304	6,276	7,284	6,945
52,147	64,756	65,228	69,025	68,216
5,003	4,979	4,716	4,167	4,280
118,058	226,049	168,222	134,120	96,590
1,360	3,174	281	398	445
398,295	539,197	531,279	539,721	511,059
$2,984,707	$3,648,211	$3,583,071	$3,433,837	3,311,694

SCHEDULE A-2 – CHANGE IN NET POSITION - Continued
Last Ten Fiscal Years
(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year				
	2004	2005	2006	2007	2008
Net (expense)/revenue					
Governmental activities	$(1,281,319)	$(1,130,573)	$(1,383,092)	$(1,484,134)	$(1,941,429)
Business-type activities	229,347	41,736	42,400	56,417	41,110
Total primary government net expense	$(1,051,972)	$(1,088,837)	$(1,340,692)	$(1,427,717)	$(1,900,319)
General Revenues and Other Changes in Net Position					
Governmental activities:					
Taxes					
Property	$ 164,505	$ 186,229	$ 194,617	$ 206,527	$ 214,868
Fuel	198,332	190,897	212,276	210,573	205,758
Natural resource	131,053	191,723	260,382	276,793	407,007
Individual income	619,043	729,459	760,981	819,473	862,273
Corporate income	69,685	101,834	153,574	183,913	161,118
Other	253,953	257,526	289,978	309,232	320,398
Unrestricted grants and	-	-	4,158	3,911	28
Settlements	25,181	28,313	28,248	27,853	38,760
Unrestricted investment earnings	32,734	52,792	36,188	78,032	72,203
Gain on sale of capital assets	204	34	53	10,823	6,351
Miscellaneous	6,412	4,358	4,741	3,050	5,810
Transfers	30,812	29,871	34,802	41,080	43,010
Total governmental activities	1,531,914	1,773,036	1,979,998	2,171,260	2,337,584
Business-type activities:					
Taxes					
Other	14,621	15,624	17,317	19,046	20,340
Settlements	-	-	-	10	-
Unrestricted investment earnings	319	190	1,016	569	406
Gain on sale of capital assets	-	-	-	-	-
Miscellaneous	9,956	2,945	4,146	1,953	2,662
Transfers	(30,812)	(29,871)	(34,802)	(41,080)	(43,010)
Total business-type activities	(5,916)	(11,112)	(12,323)	(19,502)	(19,602)
Total primary government	1,525,998	1,761,924	1,967,675	2,151,758	2,317,982
Change in Net Position					
Governmental activities	250,595	642,463	596,906	687,126	396,155
Business-type activities	223,431	30,624	30,077	36,915	21,508
Total primary government	$ 474,026	$ 673,087	$ 626,983	$ 724,041	$ 417,663

Source: Statewide Accounting, Budgeting, and Human Resource System

2009	2010	2011	2012	2013
$(2,029,126)	$(1,521,796)	$(1,711,003)	$(1,920,904)	$(2,000,393)
(70,033)	(67,700)	7,749	73,339	69,973
$(2,099,159)	$(1,589,496)	$(1,703,254)	$(1,847,565)	$(1,930,420)
$ 228,368	$ 235,287	$ 241,961	$ 257,631	$ 256,613
191,061	204,373	209,348	211,933	216,065
307,032	275,313	305,471	309,427	310,344
806,908	709,699	810,108	892,560	1,041,767
168,053	89,033	121,801	129,668	174,510
315,810	303,859	308,703	308,927	324,813
167	461	-	181	11
155,127	77,927	38,747	40,426	35,673
42,556	172,748	155,419	87,083	30,296
6,141	3,244	3,209	2,179	7,158
116,865	4,247	2,919	2,728	4,354
42,863	42,488	40,547	46,361	48,200
2,380,951	2,118,677	2,238,233	2,289,104	2,449,804
24,821	25,017	21,797	23,233	24,185
-	-	27	-	-
142	244	4,642	54	20
-	1	-	270	41
2,484	4,377	637	542	570
(42,863)	(42,486)	(40,547)	(46,361)	(48,200)
(15,416)	(12,847)	(13,444)	(22,262)	(23,384)
2,365,535	2,105,830	2,224,789	2,266,842	2,426,420
351,825	596,881	527,230	368,200	449,411
(85,449)	(80,547)	(5,695)	51,077	46,589
$ 266,376	$ 516,334	$ 521,535	$ 419,277	496,000

SCHEDULE A-3 – FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
General Fund						
Reserved	$ 8,903	$ 10,118	$ 11,533	$ 20,498	$ 28,221	$ 25,991
Unreserved	132,873	289,675	408,580	549,158	433,580	392,526
Total general fund	$ 141,776	$ 299,793	$ 420,113	$ 569,656	$ 461,801	$ 418,517
All other governmental funds						
Reserved	$2,199,647	$2,421,876	$2,431,304	$2,529,131	$2,766,497	$3,016,151
Unreserved, reported in:						
Special revenue funds	(83,891)	(51,010)	(53,266)	(48,292)	(47,864)	(30,881)
Debt service funds	7,003	5,456	6,783	5,920	1,083	(4,505)
Capital project funds	10,661	8,721	47,272	37,735	87,895	124,205
Total all other governmental funds	$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	2013
Nonspendable:				
Inventory	$ 27,018	$ 23,007	$ 25,046	$ 24,483
Permanent fund principle	1,143,435	1,300,871	1,365,218	1,388,829
Long-term notes/receivable	96	65	2,146	2,470
Prepaid expenses	1,361	1,254	1,538	1,272
Total nonspendable	$1,171,910	$1,325,197	$1,393,948	$1,417,054
Restricted:				
General government	13,785	13,146	10,474	1,966
Transportation	102,520	116,353	75,518	76,659
Health and human services	22,367	22,025	16,739	23,049
Natural resources	438,410	634,957	653,179	646,026
Public safety	317,295	290,768	294,520	268,616
Education	24,644	29,054	27,140	21,397
Total restricted	$919,021	$1,106,303	$1,077,570	$1,037,713
Committed:				
General government	551,394	588,292	625,432	612,969
Transportation	6,403	4,445	4,304	6,644
Health and human services	65,050	72,102	43,952	30,665
Natural resources	601,410	312,467	266,254	258,650
Public safety	39,772	15,393	18,162	29,428
Education	1,540	12,162	12,434	34,723
Total committed	$1,255,569	$1,004,861	$ 970,538	$ 973,079
Assigned:				
General government	33,427	25,805	21,413	23,057
Transportation	-	-	26	-
Health and human services	148	-	-	-
Natural resources	418	41	60	56
Public safety	2,949	1,853	1,756	1,465
Education	138	-	-	-
FY 2011 appropriation	70,270	-	-	-
Encumbrances	11,986	24,591	22,670	18,033
Total assigned	$ 119,336	$ 52,290	$ 45,925	$ 42,611
Unassigned	212,183	339,898	451,656	537,609
Total fund balances	$3,688,019	$3,828,549	$3,939,637	$4,008,066

SCHEDULE A-4 – CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year				
	2004	2005	2006	2007	2008
Revenues					
Licenses/permits	$ 240,612	$ 245,244	$ 259,073	$ 285,890	$ 283,755
Taxes	1,416,392	1,627,858	1,880,838	2,009,620	2,162,928
Charges for services/fines/forfeits/settlements	200,590	145,235	162,520	160,571	188,518
Investment earnings	49,363	143,937	62,977	171,047	165,165
Sale of documents/merchandise/property	31,687	22,655	21,412	20,460	19,711
Rentals/leases/royalties	22,868	43,723	63,318	51,442	65,176
Contributions/Premiums	-	-	-	-	-
Grants/contracts/donations	27,984	27,984	25,987	25,362	27,825
Federal	1,518,634	1,583,989	1,612,717	1,586,206	1,713,478
Federal Indirect cost Recoveries					
Other revenues	32,042	17,253	20,989	17,280	30,952
Total revenues	3,514,220	3,857,878	4,109,831	4,327,878	4,657,508
Expenditures					
General government	252,486	293,808	466,886	401,331	545,661
Public safety	208,593	238,929	254,381	284,777	311,094
Transportation	529,555	523,022	559,695	575,157	360,383
Health and human services	1,114,064	1,186,462	1,274,947	1,267,854	1,372,335
Education	898,988	905,150	976,446	1,050,239	1,137,548
Natural resources	250,590	206,903	204,413	247,090	300,207
Economic development/assistance	144,381	146,306	151,020	152,442	149,057
Debt service:					
Principal retirement	25,217	27,203	32,546	33,103	33,767
Interest/fiscal charges	14,812	14,171	20,745	19,080	18,931
Capital outlay	60,310	70,851	69,505	95,834	351,111
Securities lending	1,784	4,905	7,663	5,261	7,244
Total expenditures	3,500,780	3,617,710	4,018,247	4,132,168	4,587,338
Excess of revenue over (under) expenditures	13,440	240,168	91,584	195,710	70,170
Other financing sources (uses)					
Bond proceeds	-	-	-	-	-
Bonds issued	5,790	135,380	37,050	-	59,490
Refunding bonds issued	20,235	30,070	-	16,740	-
Bond premium	478	8,106	2,178	946	828
Payment to refunding bond escrow agent	(20,214)	(31,018)	-	(17,504)	-
Inception of lease/installment contract	1,297	517	876	49	874
Insurance proceeds	-	-	327	115	1,681
General capital asset sale proceeds	270	169	164	10,946	6,497
Energy conservation loans	-	-	-	-	-
Transfers in	239,638	273,651	292,130	306,867	413,286
Transfers out	(210,166)	(244,868)	(259,247)	(269,595)	(373,727)
Total other financing sources (uses)	37,328	172,007	73,478	48,564	108,929
Net change in fund balances	$ 50,678	$ 412,175	$ 165,062	$ 244,274	$ 179,099
Debt service as a percentage of noncapital expenditures	1.2%	1.3%	1.6%	1.4%	1.3%

Source: Statewide Accounting, Budgeting, and Human Resource System

2009	2010	2011	2012	2013
$ 283,423	$ 283,658	$ 287,580	$ 290,183	$ 297,148
2,005,327	1,809,427	1,986,722	2,096,733	2,314,815
255,068	238,758	191,142	193,874	181,760
114,857	232,668	143,198	181,484	59,092
15,271	17,499	17,208	16,221	23,393
73,080	143,714	70,322	77,946	75,490
-	19,724	20,685	21,666	22,397
28,919	27,324	23,439	24,812	24,267
1,953,376	2,271,216	2,338,090	2,102,964	2,043,912
	112,918	101,152	107,446	112,364
144,890	6,809	5,069	4,718	5,349
4,874,211	5,163,715	5,184,607	5,118,047	5,159,987
428,723	666,192	643,623	633,336	613,185
335,877	338,776	346,670	353,344	363,378
311,838	197,197	271,387	345,796	287,218
1,526,287	1,675,253	1,757,633	1,734,471	1,810,313
1,136,056	1,181,591	1,208,538	1,183,056	1,204,061
238,834	288,913	272,895	287,636	341,687
168,778	-	-	-	-
34,199	31,682	33,974	34,865	32,628
19,079	18,213	16,362	16,314	13,907
464,378	650,589	565,943	488,958	454,463
2,917	873	600	383	300
4,666,966	5,049,279	5,117,625	5,078,159	5,121,140
207,245	114,436	66,982	39,888	38,847
-	3,800	-	-	-
-	-	31,000	-	-
-	28,270	10,180	56,670	-
-	1,294	767	8,264	-
-	(29,148)	(11,062)	(64,421)	-
615	172	36	49	504
886	670	4,326	3,565	381
5,960	3,614	4,130	2,343	7,340
-	-	-	26,171	291
391,661	491,045	351,366	277,279	307,460
(350,135)	(450,686)	(316,934)	(235,235)	(273,502)
48,987	49,031	73,809	74,685	42,474
$ 256,232	$ 163,467	$ 140,791	$ 114,573	$81,321
1.2%	1.1%	1.1%	1.1%	1.0%

SCHEDULE B-1 – PERSONAL INCOME BY INDUSTRY
Last Ten Calendar Years
(amounts expressed in thousands)

	Calendar Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Farm Earnings	$ 336,736	$ 544,076	$ 598,945	$ 190,096	$ 408,523	$ 468,182	$ 310,053	$ 625,246	$ 720,138	$ 934,509
Agricultural/forestry, fishing, and other	199,008	201,726	198,427	210,748	205,861	193,708	186,402	162,669	168,285	201,925
Mining	424,207	527,824	601,174	735,437	735,100	897,521	772,277	664,485	820,944	1,235,330
Construction/utilities	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	2,235,780
Manufacturing	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	1,054,098
Transportation and public utilities	990,495	1,058,487	1,121,137	1,228,453	1,231,036	1,269,832	1,250,836	913,489	985,485	1,106,555
Wholesale trade	702,274	769,190	818,971	879,070	964,006	985,176	938,306	940,214	1,002,298	1,114,365
Retail trade	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	2,032,683
Finance, insurance, and real estate	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	1,483,319
Services	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	8,933,237
Federal, civilian	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	1,192,569
Military	393,289	421,133	452,182	456,908	465,490	489,616	515,593	528,570	532,199	429,985
State and local government	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	3,770,989
Other (1)	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	13,027,496
Total personal income	$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	$38,752,840
Average effective rate (2)	2.2%	2.3%	2.5%	2.5%	2.5%	2.6%	2.4%	2.1%	2.2%	2.3%

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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Personal income tax revenue (1)	$535,831	$605,348	$712,281	$768,912	$827,095	$866,638	$815,138	$717,834	$816,090	$898,851
Personal income	$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	$38,752,840
Average effective rate (2)	2.2%	2.3%	2.5%	2.5%	2.5%	2.6%	2.4%	2.1%	2.2%	2.3%

	Tax Rates on the Portion of Taxable Income in Ranges (3)									
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 +			
Calendar Year 2012										
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%			
Income Bracket	$0-2.7	$2.7-4.8	$4.8-7.3	$7.3-9.9	$9.9-12.7	$12.7-16.4	$16.4 +			

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 2007				Calendar Year 2012			
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	88,825	20.47%	$ 1,212,642	0.16%	78,499	17.93%	$ 920,881	0.12%
$10,000–$19,999	73,927	17.04%	11,069,039	1.43%	71,866	16.41%	9,332,758	1.21%
$20,000–$44,999	118,074	27.21%	81,758,767	10.60%	117,603	26.86%	76,729,603	9.77%
$45,000–$69,999	67,441	15.54%	113,921,771	14.76%	67,235	15.35%	113,900,239	14.51%
$70,000–$109,999	53,672	12.37%	164,083,950	21.27%	61,522	14.05%	192,229,017	23.34%
$110,000–$174,999	19,956	4.60%	111,191,152	14.41%	27,131	6.20%	153,848,056	17.92%
$175,000–$499,999	9,930	2.29%	127,511,476	16.53%	11,871	2.71%	153,400,773	17.33%
$500,000 and higher	2,054	0.47%	160,830,336	20.84%	2,144	0.49%	174,231,160	15.80%
Total	433,879	100.00%	$771,579,133	100.00%	437,871	100.0%	$874,592,487	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									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental activities										
General obligation bonds	$219,645	$213,195	$230,065	$208,015	$201,560	$182,585	$169,150	$174,335	$156,905	$139,595
Special revenue bonds	76,368	192,775	181,770	171,080	204,365	189,970	176,570	169,220	152,565	137,940
Notes payable	12,807	12,439	12,099	11,755	11,411	11,065	10,716	10,369	10,020	9,667
Lease/installment purchase payable	2,332	2,705	2,459	1,057	1,421	2,680	2,440	1,536	723	707
Total governmental activities	$311,152	$421,114	$426,393	$391,907	$418,757	$386,300	$358,876	$355,460	$320,213	$287,909
Business-type activities										
Bonds/notes payable	$ 7,942	$ 5,168	$ 3,936	$ 3,107	$ 1,853	$ 1,180	$ 370	$ 195	$ 135	$ 70
Lease/installment purchase payable	-	-	-	-	-	-	-	382	303	223
Total business-type activities	$ 7,942	$ 5,168	$ 3,936	$ 3,107	$ 1,853	$ 1,180	$ 370	$ 577	$ 438	$ 293
Total primary government	$319,094	$426,282	$430,329	$395,014	$420,610	$387,480	$359,246	$356,037	$320,651	$288,202
Debt as a percentage of personal income (1)	1.3%	1.6%	1.5%	1.3%	1.3%	1.2%	1.1%	1.0%	0.9%	0.7%
Amount of debt per capita (2)	$348	$460	$460	$418	$440	$401	$371	$367	$329	$294

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)

Governmental Activities	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Renewable Resource Program Bond										
Revenue										
Loan repayment (principal and interest)	$3,464	$ 4,247	$3,036	$2,576	$1,549	$3,157	$1,710	$1,746	$2,200	$1,702
Northwestern Energy	2,535	2,623	2,800	3,057	2,498	3,189	3,435	3,676	4,095	3,340
STIP interest earnings	59	100	176	460	329	96	19	17	17	14
Debt service fund interest	72	131	877	528	472	414	398	444	644	619
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$6,130	$7,101	$6,889	$6,621	$4,848	$6,856	$5,562	$5,883	$6,956	$5,675
Debt service										
Principal	$4,040	$10,515	$4,630	$3,095	$3,485	$3,725	$2,380	$3,620	$4,200	$3,765
Interest	$1,975	$ 1,719	$1,476	$1,357	$1,253	$1,093	$ 979	$ 848	$ 899	$ 801
Coverage (1)	1.0	0.6	1.1	1.5	1.0	1.4	1.7	1.3	1.4	1.2

Fiscal Year

Governmental Activities	2004
Transportation Refunding Bond	
Revenue	
Motor fuel taxes	$ 188,754
Gross vehicle weight fees	26,308
Other	41,715
Less: Operating expenses	(281,286)
Net available revenue	$ (24,509)
Debt service	
Principal	$ 3,705
Interest	$ 94
Coverage (1)	(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	2013
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	$410,641
Less: Operating expenses	(159,846)	(266,232)	(288,930)	(333,705)	(365,624)	(448,419)	(441,395)	(455,102)	(395,056)
Net available revenue	$ 214	$ 11,877	$ 11,878	$ 11,878	$ 15,980	$ 15,981	$ 15,977	$ 15,977	$ 15,585
Debt service									
Principal	$ -	$ 4,960	$ 6,130	$ 6,375	$ 9,070	$ 9,340	$ 9,740	$ 10,175	$ 10,630
Interest	$ 214	$ 6,917	$ 5,747	$ 5,503	$ 6,910	$ 6,641	$ 6,237	$ 5,802	$ 4,955
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Governmental Activities	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Middle Creek Dam Project Note Payable										
Revenue										
Middle Creek Water Users Assoc loan payments	$99	$99	$82	$96	$89	$83	$90	$72	$74	$94
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$99	$99	$82	$96	$89	$83	$90	$72	$74	$94
Debt service										
Principal	$39	$41	$42	$44	$46	$48	$50	$51	$54	$56
Interest	$60	$59	$40	$52	$43	$35	$40	$21	$20	$38
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	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
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

	Fiscal Year									
Governmental Activities	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Water Conservation Note Payable										
(Little Dry Project)										
Revenue										
Little Dry Water Users Assoc loan payments	$3	$3	$3	$3	$3	$3	$3	$3	$1	-
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$3	$3	$3	$3	$3	$3	$3	$3	$1	-
Debt service										
Principal	$2	$2	$2	$2	$2	$2	$2	$2	$1	-
Interest	$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	-

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year									
Governmental Activities	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
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	2013
Economic Development Bonds								
(Municipal Finance Consolidation Irrigation Dist)								
Revenue								
Principal and interest repayments	$512	$71	$45	$47	$53	$58	$62	$66
Investment income	3	5	3	1	-	-	-	-
Less: Operating expenses	-	-	-	-	-	-	-	-
Net available revenue	$515	$76	$48	$48	$53	$58	$62	$66
Debt service								
Principal	$450	$40	$45	$45	$50	$55	$60	$65
Interest	$30	$31	$28	$25	$21	$17	$13	$ 8
Coverage (1)	1.1	1.1	0.7	0.7	0.7	0.8	0.9	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	2013
Economic Development Bonds								
(Conservation Reserve Enhancement Program)								
Revenue								
Principal and interest repayments	$1,765	$2,173	$ 926	$989	$782	$454	$162	$151
Investment income	9	16	10	1	-	-	-	-
Less: Operating expenses	-	-	-	-	-	-	-	-
Net available revenue	$1,774	$2,189	$ 936	$990	$782	$454	$162	$151
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)
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
2013	139,595	14,702	124,893	0.32%	127

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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Population										
Montana *(in thousands)*	917	926	933	940	947	955	962	969	975	982
Percentage change	0.8%	1.0%	0.8%	0.8%	0.7%	0.8%	0.7%	0.7%	0.6%	0.7%
National *(in thousands)*	*290,211*	292,801	295,507	298,217	300,913	303,598	306,272	308,936	311,601	314,281
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)*	24,752	26,495	28,179	30,447	32,475	34,111	33,923	34,748	36,507	38,753
Percentage change	5.9%	7.0%	6.4%	8.0%	6.7%	5.0%	(.6%)	2.4%	5.1%	6.2%
National *(in billons)*	9,369	9,929	10,477	11,257	11,900	12,380	12,165	12,357	12,950	13,729
Percentage change	3.5%	6.0%	5.5%	7.4%	5.5%	4.0%	(1.7%)	1.6%	4.6%	6.0%
Per Capita Personal Income										
Montana	27,000	28,613	30,141	32,204	33,897	35,237	34,794	35,068	36,573	39,474
Percentage change	5.1%	6.0%	5.3%	6.8%	5.3%	4.0%	(1.3%)	0.8%	4.1%	7.9%
National	32,284	33,899	35,447	37,728	39,458	40,673	39,626	39,945	41,560	43,684
Percentage change	2.6%	5.0%	4.6%	6.4%	4.5%	3.1%	(2.6%)	0.8%	3.9%	5.1%
Resident Civilian Labor Force & Employment										
Civilian labor force	469,119	473,532	479,553	493,004	502,219	510,816	498,897	497,538	503,903	507,377
Employed	448,805	454,259	461,936	479,614	485,221	487,870	468,211	461,602	468,896	476,191
Unemployed	20,314	19,273	17,617	16,390	16,998	22,946	30,686	35,936	35,007	31,186
Unemployment rate	4.3%	4.0%	3.7%	3.3%	3.4%	4.5%	6.2%	7.2%	6.9%	6.1%
Nonfarm Wage and Salary Workers *(in thousands)*										
Goods-producing industries										
Natural Resources and Mining	6.2	7.1	7.7	8.2	8.4	8.3	7.0	7.5	7.9	9.3
Construction	23.1	24.9	27.6	30.2	32.3	29.8	24.0	22.7	23.0	22.9
Durable goods	12.1	12.1	12.4	12.8	13.0	12.3	10.1	9.5	9.6	10.5
Nondurable goods	6.9	7.1	7.2	7.4	7.5	7.6	7.3	7.0	7.2	7.0
Subtotal goods-producing industries	48.3	51.2	54.9	58.6	61.2	58.0	48.4	46.7	47.7	49.7
Service-producing industries										
Transp, communications, and	23.1	23.3	23.8	24.3	24.6	24.3	21.5	24.1	23.3	23.6
Trade	69.1	70.8	71.6	72.8	75.3	75.6	66.9	70.3	70.2	71.6
Finance, insurance, and real estate	20.3	21.1	21.4	22.0	21.8	21.9	21.1	21.2	20.9	21.4
Service	154.2	158.4	162.9	169.3	174.8	178.7	182.3	175.5	177.2	184.3
State and local government	72.0	72.9	72.7	72.1	73.9	74.1	74.4	75.7	74.6	76.5
Federal government	13.8	13.8	13.5	13.5	13.4	13.6	13.9	14.8	13.8	13.4
Subtotal service-producing industries	352.5	360.3	365.9	374.0	383.8	388.2	380.1	381.6	380.0	390.8
Total Nonfarm Wage and Salary Employment	400.8	411.5	420.8	432.6	445.0	446.2	428.5	428.3	427.7	440.5

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

	2003			2012		
Employer	Employees	Rank	Percentage of Total State Employment (2)	Employees (1)	Rank	Percentage of Total State Employment (2)
State of Montana	20,000-20,500	1	5.27%	22,500-23,000	1	5.43%
Federal Government	13,000-13,500	2	3.45%	12,500-13,000	2	3.04%
Wal-Mart	3,500-4,000	3	0.98%	4,500-5,000	3	1.13%
Billings Clinic	2,500-3,000	4	0.72%	3,000-3,500	4	0.78%
Town Pump	1,500-2,000	8	0.46%	2,500-3,000	5	0.66%
Albertson's	2,000-2,500	5	0.59%	2,000-2,500	6	0.54%
St. Vincent Hospital	1,500-2,000	6	0.46%	1,500-2,000	7	0.42%
Benefis Healthcare	1,500-2,000	7	0.46%	1,500-2,000	8	0.42%
Avitus Group				1,500-2,000	9	0.42%
Kalispell Regional Hospital				1,500-2,000	10	0.42%
St. Patrick Hospital	1,000-1,500	10	0.33%			
Stillwater Mining	1,500-2,000	9	0.46%			
Total Statewide Employment	384,483			419,283		

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

Function/Program	2004	2005	2006	2007
Governmental:				
General government	1,575	1,562	1,615	1,552
Public safety/corrections	1,930	1,955	2,048	2,176
Transportation	2,025	2,023	2,063	2,031
Health/social services	2,539	2,575	2,621	2,587
Education/cultural	402	407	428	432
Resource/recreation/environment	1,731	1,765	1,853	1,825
Economic development/assistance	925	952	965	913
Total governmental	11,127	11,239	11,593	11,516
Business-type:				
Liquor Stores	29	27	38	39
State Lottery	30	32	32	32
Economic Development Bonds	4	4	4	6
Hail Insurance	3	2	3	3
General Government Services	94	104	96	103
Prison Funds	31	32	34	34
MUS Group Insurance	3	2	3	4
MUS Workers Compensation	-	-	-	1
Total business-type	194	203	210	222
Fiduciary:				
Pension Trust	47	46	48	46
Total fiduciary	47	46	48	46
Component unit:				
Housing Authority	19	21	20	19
Facility Finance Authority	2	2	2	2
State Compensation Insurance (New Fund)	265	280	293	297
Montana State University	3,960	3,994	3,940	4,056
University of Montana	3,187	3,238	3,281	3,364
Total component unit	7,433	7,535	7,536	7,738
Total full-time equivalent employees	18,801	19,023	19,387	19,522

2008	2009	2010	2011	2012	2013
1,696	1,564	2,781	2,596	2,914	2,999
2,270	2,065	2,573	2,786	2,558	2,639
2,023	1,935	2,233	2,234	2,225	2,252
2,704	2,422	2,992	3,092	2,974	3,019
463	406	485	492	478	526
1,876	1,696	2,147	2,157	1,963	2,144
951	853	-	-	-	-
11,983	10,941	13,211	13,357	13,112	13,579
43	39	29	29	29	31
33	30	32	32	32	32
5	3	4	4	4	4
3	3	8	7	7	7
108	84	94	106	115	115
35	32	21	32	43	43
4	4	5	5	5	5
1	1	1	1	1	1
232	196	194	216	236	238
48	46	57	58	66	66
48	46	57	58	66	66
21	19	47	47	51	53
2	3	3	3	3	3
298	298	300	285	287	289
4,021	4,090	4,181	4,285	4,443	4,475
3,557	3,578	3,705	3,746	3,770	3,844
7,899	7,988	8,236	8,366	8,554	8,664
20,162	19,171	21,698	21,997	21,968	22,547

SCHEDULE E-2 – OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

	Fiscal Year				
Function/Program	2004	2005	2006	2007	2008
Governmental activities:					
General government					
Department of Revenue					
Electronically-filed income tax returns	195,880	224,653	236,200	234,543	299,194
Paper-filed income tax returns	243,247	200,102	203,100	266,891	187,188
Judiciary					
Supreme Court total filings (1)	882	738	760	676	649
District Court total filings (1)	38,579	38,619	42,000	41,546	45,143
Public safety/corrections					
Department of Corrections					
Incarcerated offenders	2,307	2,535	2,935	2,608	2,439
Supervised offenders	8,081	8,460	8,797	9,838	10,433
Department of Justice					
Driver's licenses issued	149,714	163,336	172,915	181,804	156,088
Vehicles registered (2)	1,262,990	972,849	1,550,713	1,657,285	1,610,753
Department of Military Affairs (Army Program Facilities Office)					
Work orders received	2,066	3,272	2,648	3,386	3,610
Work orders completed	1,555	2,843	2,349	2,781	3,441
Work orders unfunded or not completed	511	429	172	1,373	750
Transportation					
Department of Transportation					
Paved roads (miles)	19,017	19,020	19,050	19,447	19,465
Unpaved roads (miles)	51,624	51,623	55,281	54,883	55,472
Health/social services					
Department of Public Health and Human Services					
Senior citizens receiving personal long-term care assistance	2,801	2,808	2,869	2,857	3,004
Number of households provided with energy assistance	19,125	20,463	21,552	19,254	18,929
Education/cultural					
Office of Public Instruction					
K-12 public school enrollment	148,356	146,705	145,259	144,418	143,405
Public schools	859	852	840	831	830
Commissioner of Higher Education					
Total enrollment for Montana University System	29,520	29,122	29,181	29,140	29,072
Total enrollment for Colleges of Technology	3,663	3,641	3,910	4,033	4,277
Resource/recreation/environment					
Department of Natural Resources and Conservation					
Revenue generated on state trust lands (millions of dollars)	$72.8	$86.1	$101.9	$103.6	$107.1
Oil production (millions of bbls)	19.9	20.9	36.2	37.2	34.9
Gas production (millions of mcf)	78.9	80.5	114.0	118.0	120.7
Department of Fish, Wildlife and Parks					
License and permit sales (3)	1,751,581	1,752,315	1,638,410	1,737,413	1,808,093
State park visitation (millions)	1.6	1.65	1.7	1.85	1.78

2009	2010	2011	2012	2013
317,211	333,911	397,280	423,574	439,403
178,114	151,945	135,144	110,308	103,585
677	650	775	784	800
43,672	45,622	44,234	49,908	53,000
2,573	2,491	2,528	2,546	2,509
10,453	10,535	10,399	10,331	10,347
164,230	156,671	143,368	164,089	173,924
1,634,914	1,056,227	1,154,627	1,151,674	1,163,000
3,114	3,380	3,528	3,181	2,847
2,941	3,095	3,426	3,561	3,264
746	863	465	557	319
20,704	20,469	19,644	19,737	19,813
56,632	55,193	56,108	56,089	56,048
3,165	3,206	3,932	3,585	3,519
22,448	28,054	25,495	20,704	21,500
142,082	141,807	141,693	142,349	142,908
829	828	827	826	824
31,805	30,362	31,934	31,978	31,717
4,570	5,538	6,051	6,150	5,986
$110.0	$180.6	$108.7	$113.5	$122.0
31.5	27.8	25.3	24.1	26.4
119.5	105.3	93.5	79.5	66.9
1,806,316	1,800,613	1,806,326	1,939,190	1,883,435
1.80	1.90	1.79	2.07	2.17

SCHEDULE E-2 – OPERATING INDICATORS BY FUNCTION/PROGRAM - Continued
Last Ten Fiscal Years

	Fiscal Year				
Function/Program	2004	2005	2006	2007	2008
Governmental activities (continued):					
Resource/recreation/environment (continued)					
Department of Environmental Quality					
Environmental permits and licenses	5,192	6,245	8,044	8,222	9,104
Environmental violations	3,338	3,655	2,166	3,271	4,586
Economic development/assistance					
Department of Commerce (Community Development)					
Treasure State Endowment Project – applications	47	-	57	-	65
Treasure State Endowment Project – construction awards	-	40	-	56	-
Community Development Block Grant – public facility applications	10	14	11	17	17
Community Development Block Grant – public facility awards	7	8	7	8	10
Business-type activities:					
Unemployment Insurance					
Department of Labor					
Initial claims	56,743	50,216	46,697	47,147	49,530
Average weekly benefit (dollars)	$200.93	$209.37	$202.67	$225.00	$241.44
Exhaustion rate (percent)	38.4%	32.7%	29.8%	32.1%	32.3%
Liquor Stores					
Department of Revenue					
Liquor licenses issued	2,233	2,262	2,267	2,249	4,601
Liquor cases distributed	513,885	535,635	578,111	616,400	653,475
State Lottery					
Department of Administration					
Total dollars in ticket sales (millions of dollars)	$37	$34	$40	$42	$44
Transfer to the General Fund (millions of dollars)	$8	$7	$9	$11	$11
General Government Services					
Department of Commerce (HUD Section 8)					
Applications reviewed – homebuyers assistance (dollars) (4) (5)	$1,531,543	$2,290,100	$466,115	$4,536,558	$3,217,708
Grants awarded – homebuyers assistance (dollars) (4) (5)	$1,531,543	$1,547,323	$466,115	$4,140,419	$3,830,524

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.

2009	2010	2011	2012	2013
9,308	9,419	9,554	9,173	6,989
4,069	3,793	6,412	5,073	4,790
-	65	-	66	-
66	-	-	-	64
20	11	16	8	16
8	8	7	5	10
85,760	92,489	81,815	71,125	76,872
$259.38	$277.88	$265.36	$263.18	$282.00
49.2%	56.4%	54.9%	49.5%	48.1%
4,771	4,972	5,110	4,920	5,225
653,471	660,229	682,832	722,313	734,224
$44	$47	$46	$53	$57
$11	$11	$11	$13	$13
$2,776,621	N/A	N/A	N/A	N/A
$1,847,714	$2,626,867	$272,566	$620,855	$1,459,904

SCHEDULE E-3 – CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

Function/Program	2004	2005	2006	2007	2008	2009
Governmental activities:						
General government						
Department of Administration						
Buildings	47	48	48	47	50	50
Data processing equipment	866	861	916	997	1,110	1,139
Judiciary						
Vehicles	57	63	61	52	52	51
Public safety/corrections						
Department of Corrections						
Vehicles	269	288	297	280	283	294
Buildings	155	152	155	151	149	151
Department of Justice						
Vehicles	396	401	409	422	524	486
Laboratory/scientific equipment	164	168	166	251	287	211
Transportation						
Department of Transportation						
Vehicles	4,027	4,006	4,032	4,173	4,289	4,305
Buildings	852	751	729	718	783	784
Health/social services						
Department of Public Health and Human Services						
Vehicles	323	331	330	204	189	195
Buildings	135	129	127	127	131	131
Education/cultural						
Historical Society						
Buildings	15	14	3	2	2	2
Resource/recreation/environment						
Department of Natural Resources and Conservation						
Vehicles	766	925	672	760	798	517
Buildings	179	179	177	183	181	181
Department of Fish, Wildlife and Parks						
Vehicles	1,238	1,462	1,610	1,693	1,844	1,837
Buildings	761	742	816	763	769	840
Department of Environmental Quality						
Vehicles	60	60	59	66	60	66
Laboratory/scientific equipment	131	141	124	130	134	159
Economic development/assistance						
Department of Commerce						
Buildings	685	685	258	257	261	266
Business-type activities:						
State Lottery						
Department of Administration						
Vehicles	14	12	14	14	15	15
General government services						
Department of Administration						
Vehicles	14	13	14	13	13	13
Prison funds						
Department of Corrections						
Vehicles	42	45	48	48	49	52

Sources: Statewide Accounting, Budgeting, and Human Resource System
Vehicle Exposure and Commercial Property Schedules, Risk Management and Tort Defense Division
Department of Administration

2010	2011	2012	2013
55	52	59	59
1,917	1,954	2,057	1,434
24	24	25	25
192	124	128	128
246	246	247	248
606	555	577	567
259	262	271	279
2,482	2,151	2,067	2,029
969	965	939	906
193	182	175	167
153	153	153	153
5	5	5	5
710	777	810	814
87	83	83	83
2,693	2,769	2,769	2,669
794	830	850	856
108	106	75	51
719	715	761	722
4	4	5	5
15	12	11	11
36	51	59	44
56	70	77	78

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