A Report
to the
Montana
Legislature

Federal Single Audit

Montana Single Audit Report

For the Two Fiscal Years Ended June 30, 2015

March 2016

Legislative Audit
Division

14-02

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Federal Single Audit

Montana's federal Single Audit is a biennial audit that completes the reporting requirements of the Single Audit Act Amendments of 1996, and the Office of Management and Budget (OMB) Circular A-133. The Single Audit Report is compiled from work performed by other annual or biennial individual agency audit engagements. Individual agency audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing these audits, the audit staff use standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office.

The Single Audit Act Amendments of 1996, and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports in addition to those required by Government Auditing Standards. The Single Audit Report complies with these reporting requirements and is intended for distribution to federal grantor agencies. The individual agency audit reports are not intended to comply with these reporting requirements and are therefore not intended for distribution to federal grantor agencies.

Audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Copies of the Single Audit Report can be obtained by contacting:

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Office of Budget and Program Planning
P.O. Box 200802
Helena, MT 59620-0802
(406) 444-3616
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Reports can be found in electronic format at:
http://leg.mt.gov/audit

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

March 2016

The Legislative Audit Committee
of the Montana State Legislature:

This is our Single Audit Report of the state of Montana for the two fiscal years ended June 30, 2015. The Single Audit was conducted in accordance with Government Auditing Standards and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. This document contains the Independent Auditor's Reports on the state of Montana's basic financial statements for the fiscal years ended June 30, 2015 (page A-3), and June 30, 2014 (page B-5). The Independent Auditor's Reports also address the reasonableness of the schedules of expenditures of federal awards in relation to the basic financial statements.

The audit disclosed certain questioned costs and deficiencies in internal control and compliance, which are summarized in the Schedule of Findings and Questioned Costs (pages C-13 through C-79). The Independent Auditor's Reports on pages A-1 and on B-1 summarize control deficiencies over financial reporting we consider to be significant deficiencies or material weaknesses. The Independent Auditor's Report on page C-1 categorizes the disclosed control deficiencies affecting compliance with federal regulations as significant deficiencies or material weaknesses.

Management at administering agencies have responded to the audit findings, and the responses are included in the Corrective Action Plan prepared by the Office of Budget and Program Planning (beginning on page D-1). The status of findings previously reported in state of Montana Single Audit Reports, for which continued reporting is required under OMB Circular A-133, is included in the Summary Schedule of Prior Audit Findings (beginning on page E-1), which was also prepared by the Office of Budget and Program Planning.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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Montana Legislative Audit Division

Federal Single Audit
Montana Single Audit Report
For the Two Fiscal Years Ended June 30, 2015

March 2016 | 14-02 | Report Summary

Montana's Single Audit is required by federal regulations and is intended to provide a cost-effective audit for non-federal entities. The state of Montana spent approximately $2.7 billion in federal funds in each fiscal year 2014-15 and fiscal year 2013-14. For both years combined, this is a decrease from the prior Single Audit biennium of approximately $100 million.

Context

The Montana Single Audit Report is compiled from the Montana Statewide Audit (13-01B and 15-01A) reports and the audits performed at each state agency. The Montana Statewide Audit reports are included in the Single Audit report without modification. In addition, results from each state agency are included as recommendations in the Single Audit report, to the extent required by federal regulations.

The federal government provides extensive requirements for recipients of federal grants. The audit of each state agency includes determining compliance with these requirements when the federal grant is determined to be a major federal program under federal audit guidelines. Programs with expenditures totaling at least $17,649,643 during the audit period that were not determined to be low risk were identified as major federal programs.

The state of Montana had 30 major federal programs during the audit period; major federal programs were administered by 12 different state agencies. Of the federal funds spent during fiscal years 2014-15 and 2013-14, approximately 89 percent is related to Montana's major federal programs.

Results

Audits at state agencies resulted in 27 recommendations related to major programs or otherwise required to be reported by federal audit guidelines. Of these recommendations, three reported questioned costs totaling over $439,071.

Federal audit regulations specifically require the Single Audit to report whether each major federal program complied with selected federal requirements. The auditor's report identifies 19 major programs that did not comply with those federal requirements in all material respects.

Federal audit requirements also define varying degrees of deficiencies in internal controls. These include a control deficiency, a significant deficiency, and a material weakness, in order from least to most serious. The audit reported nine significant deficiencies and seven material weaknesses.

Federal grantor agencies are the primary users of the Single Audit report, and the form of the audit report is designed to meet their oversight needs. Legislators and other report users may also use the Schedules of Expenditures of Federal Awards fiscal year 2014-15 and fiscal year 2013-14 included in the report.

For a complete copy of the report (14-02) or for further information, contact the
Legislative Audit Division at 406-444-3122; e-mail to **lad@mt.gov**; or check the web site at
http://leg.mt.gov/audit
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail **ladhotline@mt.gov**.

FY15 Financial Section

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

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, the aggregate remaining fund information, and the related notes to the financial statements of the state of Montana, as of and for the year ended June 30, 2015, which collectively comprise the state of Montana's basic financial statements, and have issued our report thereon dated February 29, 2016. Our report includes a reference to other auditors who audited the financial statements of the Montana State University component units and the University of Montana component units, as described in our report on the state of Montana's financial statements. The financial statements of the Montana State University component units and the University of Montana component units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or other instances of reportable noncompliance associated with the Montana State University component units and the University of Montana component units.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the state of Montana's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the state of Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of the state of Montana's internal control.

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

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the state of Montana's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The identified instances of noncompliance are described below:

- The Montana Public Employees' Retirement Board administers eight defined benefit retirement plans and an Other Post Employment Benefit (OPEB). The Montana Constitution and state law require all retirement systems to be actuarially sound. The actuarial valuations as of June 30, 2015, indicated the Sheriffs' and Game Wardens' and Peace Officers' retirement systems, and Public Employees' Retirement System Defined Contribution Disability OPEB are not actuarially sound because they do not amortize. The maximum allowable amortization period is 30 years, as defined by state law and the Montana Constitution.

State of Montana's Response to Findings

The state of Montana's response to the finding identified in our audit are described in the separately issued Public Employees' Retirement Administration audit report (14-08B), the state of Montana financial audit report (15-01A), and are addressed in the Corrective Action Plan beginning on page D-1 of this report. The state's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the state of Montana's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the state of Montana's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 29, 2016

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying 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, 2015, 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 designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Montana State University (MSU) component units or the University of Montana (UM) component units, which represents 12.58, 28.68, and 14.07 percent, respectively of the assets, net position, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the university component units, are based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The MSU and UM component units were not audited in accordance with *Governmental Auditing Standards*.

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

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

Summary of Opinions

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

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Governmental Activities and Business-Type Activities, the General

Fund, State Special Revenue Fund, Federal Special Revenue Fund, Land Grant, Coal Severance Tax, Unemployment Insurance, and Economic Development Bonds major funds, and the Aggregate Discretely Presented Component Units and Aggregate Remaining Fund Information of the state of Montana, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 19 to the financial statements, at June 30, 2015, the Game Wardens' and Peace Officers,' and Sheriffs' retirement systems, and the Public Employees' Retirement System–Defined Contribution Retirement Plan Disability Other Post Employment Benefit (PERS-DCRP Disability OPEB) were not actuarially sound. The Unfunded Actuarial Accrued Liability amortization period is infinite for the Game Wardens' and Peace Officers', and Sheriffs' retirement systems, as well as for the PERS-DCRP Disability OPEB. The maximum allowable amortization period is 30 years. Our opinions are not modified with respect to this matter.

As discussed in Note 2A to the financial statements, in fiscal year 2015, the state of Montana adopted the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinions are not modified with respect to this matter.

As disclosed in Note 4 to the financial statements, Deferred Inflows of Resources, primarily comprised of tax receivables considered unavailable at fiscal year-end, are presented on the Governmental Funds Balance Sheet for fiscal year 2015. The state of Montana's fiscal year 2014 financial statements presented similar balances as Deferred Revenues. Our opinions are not modified with respect to this matter.

As described in Note 6A, certain state employees are eligible, through collective bargaining agreements, to participate in other pension plans. Pension plans currently offered include Western Conference of Teamsters, IAM National Pension Fund, Central Pension Fund of Operating Engineers and Participating Employers, Plumbers and Pipefitters National Pension Fund, and Laborers International Union of North America National Pension Fund. Approximately 430 state employees are eligible to participate in these other pension plans. The state's portion of net pension liability for these pension plans is not reflected in the basic financial statements, as all necessary information was not available. Our opinions are not modified with respect to this matter.

As described in Note 2C, Old Fund was previously reported as part of Montana State Fund, a component unit of the state of Montana. For the year ended June 30, 2015, Old Fund is reported within the governmental activities of the primary government. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Pension Plan Information, and the Other Post Employment Benefit 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 evidence sufficient to express an opinion or provide assurance.

Management has omitted information that accounting principles generally accepted in the United State of America require to be presented to supplement the basic financial statements, as follows:

- Certain information and analyses for the hail insurance and MUS group insurance public entity risk pools.
- The total of the employer's proportionate share plus nonemployer contributing entity's proportionate share of net collective pension liability is excluded.

Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Old Fund Estimated Liabilities

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

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

As part of the independent actuary's process, they estimate a loss and claims liability for Old Fund. The amounts estimated by our independent actuary were greater than the amounts estimated by the Montana State Fund actuary. Differences between our independent actuary estimates and amounts estimated and reported in the basic financial statements are as follows:

	Old Fund
Estimate from Auditor's Actuary	$115.0 million
Estimate reported in the Statement of Net Position	$41.6 million

The two estimates vary significantly and the results of our independent actuary indicates the ultimate amount of claims paid could exceed the $41.6 million estimate currently reported for Old Fund. Actuaries make estimates based on assumptions, and different assumptions can result in different estimates. Our opinions are not modified with respect to this matter.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A – 133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2016, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the state of Montana's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 29, 2016

The State of Montana's Basic Financial Statements, Required Supplementary Information, and Schedule of Expenditures of Federal Awards

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana (State) provides this *Management's Discussion and Analysis* of the State of Montana's basic financial statements included in the Comprehensive Annual Financial Report (CAFR). This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights

The assets and deferred outflows of resources of the State exceeded its liabilities and deferred inflows of resources at the end of fiscal year 2015 by $7.8 billion (reported as net position) compared with $9.0 billion at the end of fiscal year 2014. Component units reported net position of $1.7 billion for 2015 and 2014. These are discussed in more detail in the financial statement overview below.

Fund Highlights

As of the close of fiscal year 2015, the State's governmental funds reported combined ending fund balances of $4.2 billion compared with $4.1 billion at fiscal year 2014. Of the 2015 amount, $1.5 billion is not in spendable form, primarily as permanent fund principle. Thus, $2.7 billion is available for spending. The fund balance in spendable form is segregated by constraint as follows: $1,063.3 million restricted, $1,129.9 million committed, $92.2 million assigned and $380.4 million unassigned. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

The State's business-type activity funds reported net position at the close of fiscal year 2015 in the amount of $356.3 million compared with fiscal year 2014 net position of $330.2 million. Of the 2015 business-type activity fund equity, $14.6 million was reported as net investment in capital assets. Net position of $341.7 million was in spendable form with $8.1 million unrestricted and $333.5 million restricted to expenditure for a specific purpose. This represents a $27.8 million (9%) increase in spendable net position from the fiscal year 2014 balance of $313.9 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 $5.2 million, from $273.9 million (amount includes related deferred outflows of resources, which are reported separately in fiscal year 2015) in fiscal year 2014 to $268.7 million, a 1.9% decrease in fiscal year 2015.

Business-type activities reported bonds and notes payable remains $0 at the close of fiscal year 2015.

Further detail relating to the State's long-term debt is provided in notes to the financial statement's Note 11.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

Government-wide Financial Statements

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

The *Statement of Net Position* presents all of the government's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Over time, increases or decreases in the State's net position may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

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

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

Governmental Activities – Activities mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with state government fall into this category, including education (support for both K-12 public schools and higher education), general government, health and human services, natural resources, public safety, and transportation.

Business-type Activities – Functions normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The major business-type activities of the State include the Unemployment Insurance Fund and the Economic Development 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 – Operations for which the State has financial accountability, but have certain independent qualities as well. In order to be considered component units, these entities must be legally separate to the extent that they may sue, or be sued, in their own right. For the most part, these entities operate similarly to private sector businesses and the business-type activities described above. The State's component units consist of 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 individually. 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. Like the government-wide statements, proprietary fund statements utilize full accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. Whereas, internal service funds report activities that provide supplies and services for the State's other programs and activities.

Fiduciary Funds – Resources held for the benefit of parties outside state government are accounted for in fiduciary funds. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. Fiduciary fund statements use the full accrual basis of accounting.

Notes to the Financial Statements

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

Required Supplementary Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position decreased from the last fiscal year as reflected in the $1.2 billion decrease in net position. This decrease is due primarily to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pension Plans (an amendment of GASB Statement No. 27) and GASB Statement No. 71, Pension Transition for the Contributions Made Subsequent to the Measurement Date (an amendment of GASB Statement No. 68). The total reduction in net position due to the implementation of GASB Statements No. 68 and No. 71, as related to the primary government, was $1.564 billion.

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 $7.8 billion at the end of fiscal year 2015. Net position of the governmental activities decreased $1.2 billion (14%), and business-type activities experienced a $26 million (or 8%) 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 position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the State's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net position.

At the end of the current fiscal year, the State reported positive balances in net investment in capital assets and restricted net position categories, along with a negative balance in the unrestricted category of net position, for both the governmental activities and the primary government as a whole. The State also reported positive balances for all categories of net position for the business-type activities.

Net Position
June 30, 2015
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	**2015**	**2014**	**2015**	**2014**	**2015**
Current and other assets	$5,200,297	$5,230,463	$472,729	$515,480	$5,673,026	$5,745,943
Capital assets	5,230,949	5,492,272	16,400	15,450	5,247,349	5,507,722
Total assets	10,431,246	10,722,735	489,129	530,930	10,920,375	11,253,665
Deferred outflows of resources	584	188,437	-	897	584	189,334
Long-term liabilities						
Due in more than one year (1)	769,462	2,228,098	11,876	23,780	781,338	2,251,878
Other liabilities (1)	1,020,688	923,799	147,050	148,612	1,167,738	1,072,411
Total liabilities	1,790,150	3,151,897	158,926	172,392	1,949,076	3,324,289
Deferred inflows of resources	-	304,757	-	3,159	-	307,916
Net investment in capital assets	5,049,162	5,332,649	16,285	14,616	5,065,447	5,347,265
Restricted	2,696,248	2,764,165	295,006	333,536	2,991,254	3,097,701
Unrestricted	896,270	(642,296)	18,912	8,124	915,182	(634,172)
Total net position	$8,641,680	$7,454,518	$330,203	$356,276	$8,971,883	$7,810,794

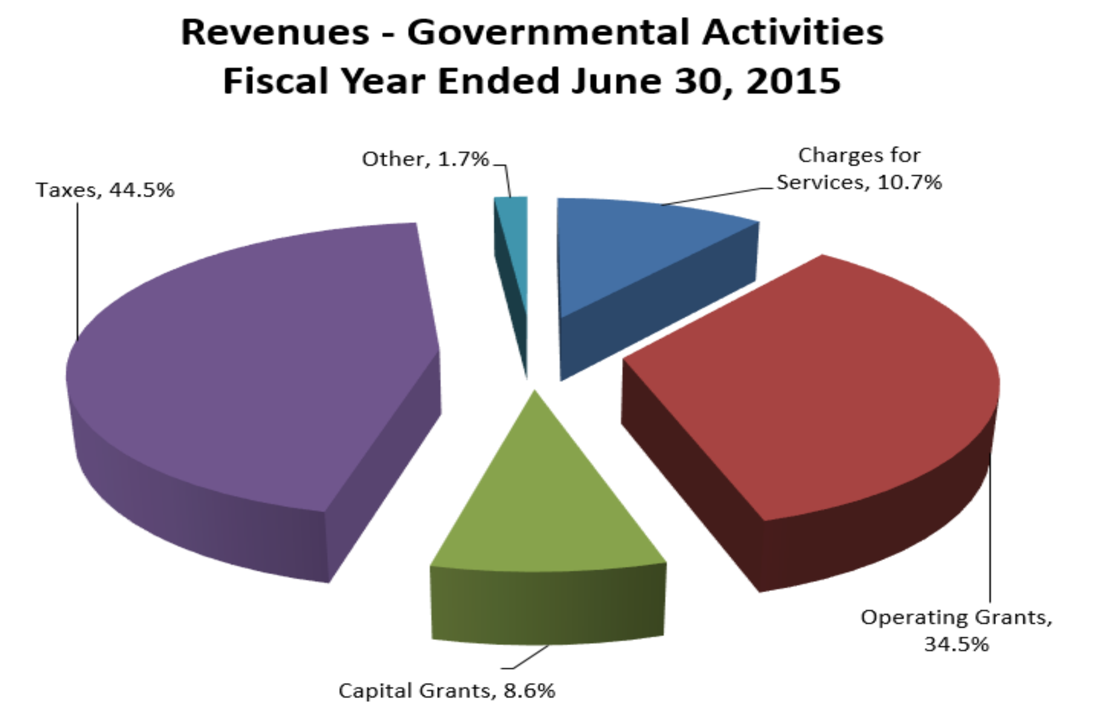
(1) Liabilities due in more than one year and other liabilities totals for fiscal year 2014 were restated to reflect OPEB implicit rate subsidy balances as a long-term liability.

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:

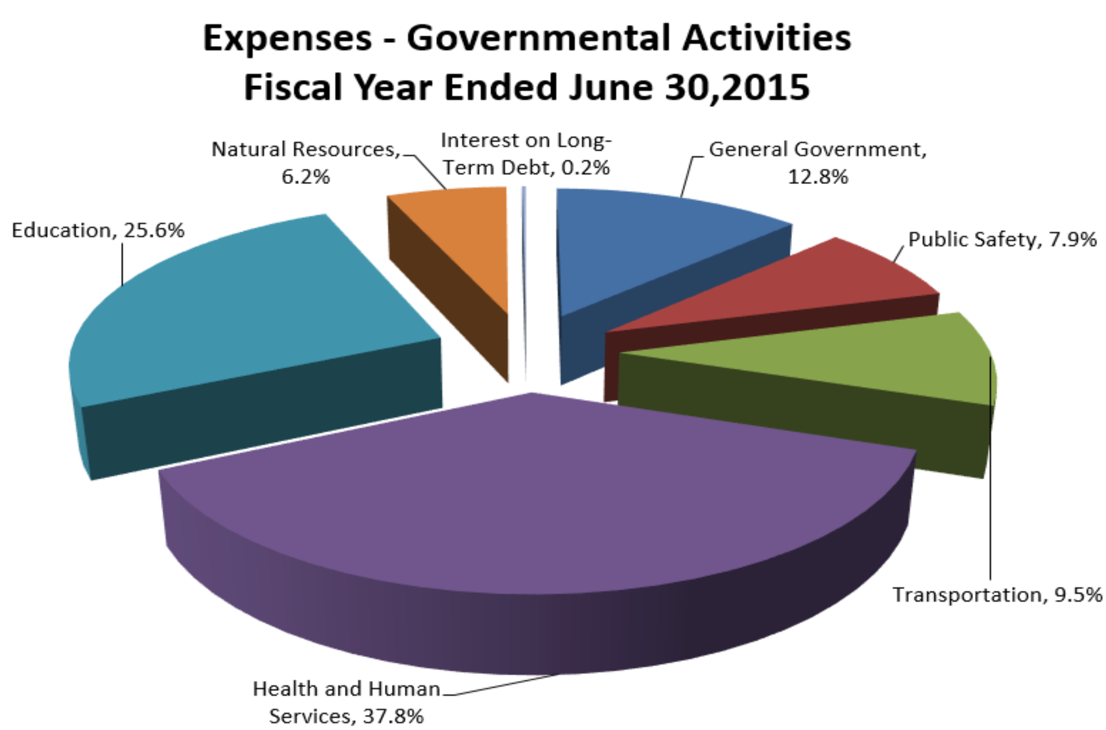
Changes in Net Position
For Fiscal Year Ended June 30, 2015
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	**2015**	**2014**	**2015**	**2014**	**2015**
Revenues:						
Program revenues						
Charges for services	$ 578,819	$ 582,847	$ 426,471	$ 414,398	$ 1,005,290	$ 997,245
Operating grants	1,823,987	1,885,537	64,982	50,751	1,888,969	1,936,288
Capital grants	460,814	470,860	623	942	461,437	471,802
General revenues						
Taxes	2,347,845	2,430,175	25,148	26,440	2,372,993	2,456,615
Other	147,524	94,653	1,436	3,157	148,960	97,810
Total revenues	5,358,989	5,464,072	518,660	495,688	5,877,649	5,959,760
Expenses:						
General government	1,009,121	655,878			1,009,121	655,878
Public safety	156,256	403,407			156,256	403,407
Transportation	461,358	483,943			461,358	483,943
Health and human services	1,880,505	1,936,701			1,880,505	1,936,701
Education	1,262,069	1,306,740			1,262,069	1,306,740
Natural resources	254,414	316,834			254,414	316,834
Interest on long-term debt	10,760	9,124			10,760	9,124
Unemployment Insurance			136,174	112,952	136,174	112,952
Liquor Stores			74,917	78,700	74,917	78,700
State Lottery			41,310	41,088	41,310	41,088
Economic Dev Bonds			2,564	988	2,564	988
Hail Insurance			15,163	8,304	15,163	8,304
Gen Govt Services			63,787	68,678	63,787	68,678
Prison Funds			7,223	6,464	7,223	6,464
MUS Group Insurance			80,639	86,539	80,639	86,539
MUS Workers Comp			3,199	4,128	3,199	4,128
Total expenses	5,034,483	5,112,627	424,976	407,841	5,459,459	5,520,468
Increase (decrease) in net position before transfers	324,506	351,445	93,684	87,847	418,190	439,292
Transfers	47,863	50,017	(47,863)	(50,017)	-	-
Change in net position	372,369	401,462	45,821	37,830	418,190	439,292
Net position, beg of year (as restated)	8,269,311	7,053,056	284,382	318,446	8,553,693	7,371,502
Net position, end of year	$8,641,680	$7,454,518	$ 330,203	$ 356,276	$8,971,883	$7,810,794

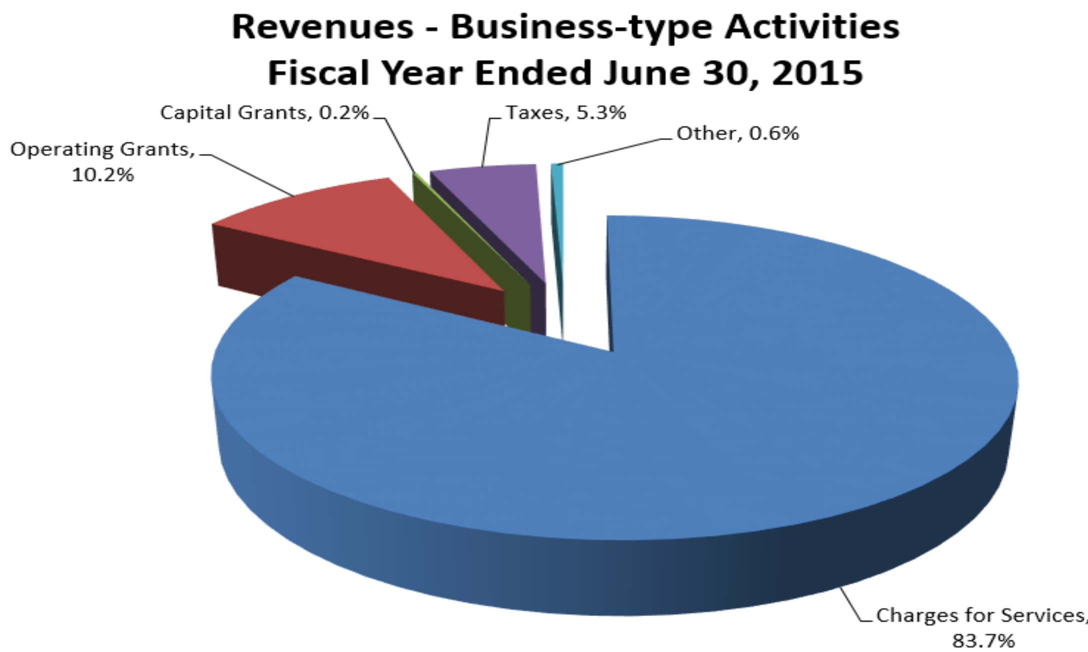
Governmental Activities
The following chart depicts revenues of the governmental activities for the fiscal year:



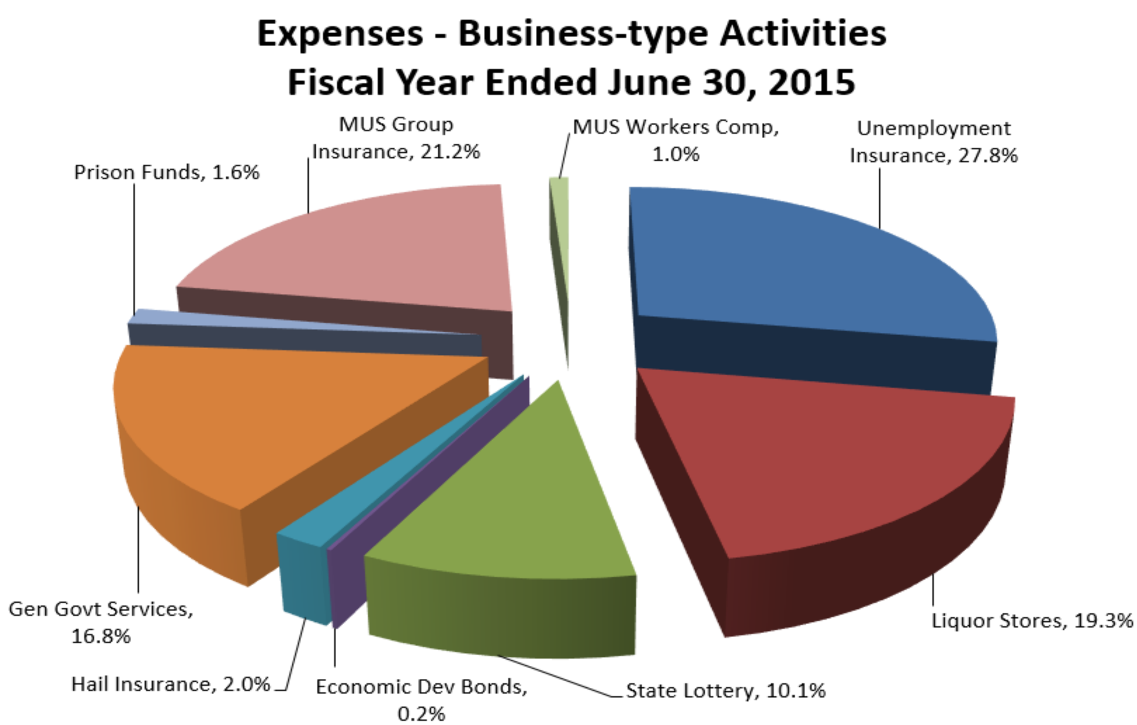
The following chart depicts expenses of the governmental activities for the fiscal year:



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 $4.2 billion. Of this total, $2.7 billion (64%) constitutes spendable fund balance and $1.5 billion (36%) is classified as non-spendable. The analysis of the following major funds, providing the majority of the fund balance for the government, follows.

General Fund Revenues and Expenditures

The General Fund is the chief operating fund of the State. For fiscal year 2015, the total fund balance of the General Fund was reported at approximately $471 million. Of this balance $5 million is nonspendable. The remaining $466 million is spendable with $86 million assigned and $380 million unassigned. This represents 17% of the $2.7 billion spendable governmental fund balances for all governmental funds. Of the assigned fund balance, $75 million pertains to the projected general fund spend down of fund balance in fiscal year 2016 and $11 million relates to outstanding encumbrances at the end of the fiscal year. Further detail on the breakdown of fund balance for the general fund is provided in Note 14 – Major Purpose Presentation.

Unassigned fund balance increased by $36 million when compared to the previously reported fund balance of $344 million. Changes in both expenditures and revenues are discussed in detail below. The 2013 legislative session projected $300 million of unassigned fund balance for fiscal year 2015, without regard to an additional fund balance amount reported regarding the projected spend down in fiscal year 2016. The difference was primarily the result of higher than anticipated revenues in fiscal year 2015, and a larger than anticipated beginning fund balance for the 2015 biennium.

Higher General Fund Revenues – Total General Fund revenues were $2.1 billion for fiscal year 2015, a negligible difference from the $2.0 billion reported in 2014, which slightly exceeded the 2015 legislative estimation. Fiscal year 2015 tax revenue increased by 7% in total over 2014, with natural resource collections down 25%, and individual and corporate income taxes up 12% and 16%, respectively.

Higher General Fund Expenditures – General Fund expenditures for fiscal year 2015 increased by $80.1 million (4%). This increase in expenditures occurred primarily in the general government, public safety, and education functions. General government expenditures increased by $22.6 million (7%) in 2015. Public safety expenditures increased by $10.0 million (4%) in 2015. Education expenditures increased by $48.3 million (5%) in 2015. Natural resources expenditures increased by $0.5 million (2%) in 2015.

Transfers out decreased by $104.0 million (63%) to $60.3 million in 2015; the bulk of the decrease is due to 2014 transfer outs related to the long-range building and information technology programs, and fire suppression activities that were specific to the fiscal year 2014 budget.

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

General Fund Expenditure Budget Reversions

Fund balances are not reserved for reverted appropriations. For fiscal year 2015, general fund appropriations that reverted to 2016 were $32.4 million.

The Department of Public Health and Human Services had unspent appropriations of $14.1 million for fiscal year 2015. The vast majority of this unspent amount was attributable to Medicaid and other benefits.

The Department of Administration had unspent appropriations of $4.7 million for fiscal year 2015. The largest portion of this unspent amount is attributable to general fund (statutory authority) being less than budgeted in regard to pension contributions.

The Legislative Branch had unspent appropriations of $3.0 million for fiscal year 2015. The principle cause of this unspent amount is attributable to unspent operations costs.

The State Auditor's Office had unspent appropriations of $2.3 million for fiscal year 2015, which primarily related to Insure Montana payments.

The remaining unspent appropriation of $8.3 million was attributable to miscellaneous reversions across other agencies.

State Special Revenue Fund
At the end of the current fiscal year, the fund balance of the State Special Revenue Fund was $1.6 billion. The fund balance increased from fiscal year 2014 by $26.7 million (or 2%). Total revenues and expenditures decreased by $29.0 million (3%) and $22.8 million (2%), respectively, for fiscal year 2015. Transfers in decreased by $29.2 million (13%) in 2015 as the 2014 fire suppression transfer from the general fund was specific to fiscal year 2014 (discussed previously). Bond proceeds increased 109% in fiscal year 2015 to $24.4 million, as more bonds were issued in 2015 than 2014.

Federal Special Revenue Fund
Fund balance in the Federal Special Revenue Fund decreased by $3.6 million (24%) to $11.2 million. Revenues increased by $51.3 million (2%), expenditures increased by $30.8 million (1%), transfers in decreased by $2.2 million (44%), and transfers out increased by $9.4 million (22%). For the 2015 fiscal year, the net effect of the fund's activities resulted in the overall decrease in fund balance. Programs, such as Guaranteed Student Loan, Livestock Shell/Egg and some within the Fish Wildlife and Parks and Crime Control agencies, are allowed to carry assets in their federal entities, which creates a normal overall positive balance for the fund as a whole.

Coal Severance Tax Permanent Fund
The fund balance of the Coal Severance Tax Permanent Fund increased by $23.6 million to $1,035 million, an increase of 2%. Total revenue decreased by $18.6 million (or 23%) to $62.6 million, primarily due to a decrease of $19.9 million in investment earnings from 2014.

Land Grant Permanent Fund
Fund balance in the Land Grant Permanent Fund increased by $29.2 million to $667.7 million, a 5% increase. Within this fund, investment earnings and rent/lease/royalties income decreased by $14.4 million (42%) and $9.8 million (13%), respectively. Transfers out decreased by $1.6 million (2%). Capital outlay expenditures increased by $1.0 million in 2015, as no major land purchases were completed during 2014.

Unemployment Insurance Enterprise Fund
Net position restricted for unemployment compensation increased by $51.9 million or 23%. The increase in net position reflects the continued impact of low unemployment throughout fiscal year 2015 accompanied by an increase in the taxable wage base from $29,000 to $29,500 in 2015. Overall unemployment fell from 4.6% in July 2014, to 4.0% in July 2015.

Economic Development Bonds Enterprise Fund
Net position decreased by 5% to $5.1 million in fiscal year 2015. Revenues from investment earnings and financing increased $52 thousand and $83 thousand, respectively. Total operating expenses decreased by $1.6 million (61%), primarily due to a $1.5 million decrease in interest expense.

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, 2015, amounted to $7.7 billion, with related accumulated depreciation of $2.2 billion, leaving a net book value of $5.5 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was $0.3 billion or 6% in terms of net book value. Most increases in capital expenditures were seen in construction, or reconstruction, of roads and bridges. Additional information relating to the State's capital assets can be found in Note 5 of the notes to the financial statements.

Debt Administration

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

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

The State of Montana's general obligation debt increased from $127.8 million at June 30, 2014 to $134.8 million at June 30, 2015. There is cash available, of $4.0 million at fiscal year-end 2015, in debt service funds to service general obligation debt, leaving a balance of $130.8 million in net general obligation debt outstanding.

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

	Amount *(in thousands)*	**Percentage of Personal Income (1)**	**State Debt Per Capita (2)**
General obligation debt	$134,795	0.29%	$117
Total State debt	$255,719	0.60%	$259

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

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

ECONOMIC CONDITION AND OUTLOOK

Montana's primary economic base remains concentrated in agriculture, mining, manufacturing, and nonresident travel. Montana had the 21st fastest personal income growth among states in 2014. Montana's unemployment rate has continued to remain lower than the national rate since 2011. Montana added roughly 6,237 jobs in 2014, for a growth rate of 1.3%, which is faster than the national growth rate of 1.0%. Montana had approximately 456,400 people employed in nonfarm non-adjusted jobs in September 2015, as compared to 453,700 in September 2014. A more in-depth analysis of the State's overall financial position can be found in the transmittal letter of this report.

The 64th Legislative Session adjourned in late April 2015. Upon adjournment, it was anticipated that 2017 biennium general fund revenue collections would be approximately $4,618 million while general fund expenditures would be approximately $4,668 million. At the end of fiscal year 2017, the estimated general fund balance would be approximately $315 million.

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

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

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

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

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

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

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

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

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

The 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, 2015, the Sheriffs' Retirement System (SRS), Game Warden & Peace Officers' Retirement System (GWPORS), and Public Employees' Retirement Benefit Defined Contribution Disability Other Post Employment Benefit (PERS-DCRP Disability) plans were not in compliance and do not amortize within 30 years. The unfunded liabilities in the other state retirement systems amortize in less than 30 years as of fiscal year-end 2015.

The actuarial condition of these plans are disclosed in greater detail in Notes 6 and 7 of the notes to the financial statements. The unfunded actuarial liability of these plans is long-term in nature and does not translate into an inability of the plans to meet their current obligations in the near future.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Montana's finances for all of Montana's citizens, taxpayers, customers, investors, and creditors. The financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the State of Montana, State Accounting Bureau, Room 255 Mitchell Building, PO Box 200102, Helena, MT 59620.

STATEMENT OF NET POSITION
JUNE 30, 2015
(amounts expressed in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Cash/cash equivalents (Note 3)	$ 1,477,581	$ 365,648	$ 1,843,229	$ 366,221
Receivables (net) (Note 4)	379,161	45,400	424,561	147,375
Due from primary government	-	-	-	1,494
Due from other governments	242,357	194	242,551	23,287
Due from component units	1,111	2,223	3,334	69
Internal balances	3,082	(3,082)	-	-
Inventories	27,815	5,879	33,694	5,698
Advances to component units	17,718	14,957	32,675	-
Long-term loans/notes receivable	391,969	42,377	434,346	482,553
Equity in pooled investments (Note 3)	2,209,235	29	2,209,264	47,219
Investments (Note 3)	324,967	36,697	361,664	2,079,873
Securities lending collateral (Note 3)	111,709	3,316	115,025	94,054
Pension asset (Note 6)	32,591	-	32,591	-
Other assets	11,167	1,842	13,009	75,248
Depreciable capital assets and infrastructure, net (Note 5)	3,622,201	8,395	3,630,596	711,738
Land and nondepreciable capital assets (Note 5)	1,870,071	7,055	1,877,126	92,691
Total assets	10,722,735	530,930	11,253,665	4,127,520
DEFERRED OUTFLOWS OF RESOURCES (Note 4)	188,437	897	189,334	46,010
LIABILITIES				
Accounts payable (Note 4)	557,884	22,000	579,884	86,769
Lottery prizes payable	-	3,283	3,283	-
Due to primary government	-	-	-	3,334
Due to other governments	33,383	85	33,468	17
Due to component units	1,494	-	1,494	69
Advances from primary government	-	-	-	32,675
Unearned revenue	33,176	1,913	35,089	73,529
Amounts held in custody for others	33,029	51	33,080	12,508
Securities lending liability (Note 3)	111,709	3,316	115,025	94,054
Other liabilities	3,064	-	3,064	22,702
Short-term debt (Note 11)	-	106,445	106,445	-
Long-term liabilities (Note 11):				
Due within one year	150,060	11,519	161,579	185,555
Due in more than one year	568,025	10,249	578,274	1,649,977
Pension liability (Note 6)	1,423,406	9,363	1,432,769	163,178
OPEB implicit rate subsidy (Note 7)	236,667	4,168	240,835	106,648
Total liabilities	3,151,897	172,392	3,324,289	2,431,015
DEFERRED INFLOWS OF RESOURCES (Note 4)	304,757	3,159	307,916	38,291

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET POSITION				
Net investment in capital assets	$ 5,332,649	$ 14,616	$ 5,347,265	$ 539,989
Restricted for:				
General government	5,451	-	5,451	-
Transportation	20,296	-	20,296	-
Health and human services	5,731	-	5,731	-
Natural resources	452,577	-	452,577	-
Public safety	245,565	-	245,565	-
Education	11,819	-	11,819	-
Funds held as permanent investments:				
Nonexpendable	1,495,231	-	1,495,231	318,661
Expendable	527,495	-	527,495	-
Unemployment compensation	-	282,274	282,274	-
Montana Board of Housing	-	-	-	151,731
Other purposes	-	51,262	51,262	199,163
Unrestricted	(642,296)	8,124	(634,172)	494,680
Total net position	$ 7,454,518	$ 356,276	$ 7,810,794	$ 1,704,224

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(amounts expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE
Primary government:					
Governmental activities:					
General government	$ 655,878	$ 143,616	$ 166,713	$ -	$ (345,549)
Public safety	403,407	160,339	19,649	3,101	(220,318)
Transportation	483,943	36,122	51,608	457,244	61,031
Health and human services	1,936,701	35,795	1,333,777	-	(567,129)
Education	1,306,740	32,176	178,330	535	(1,095,699)
Natural resources	316,834	174,799	135,460	9,980	3,405
Interest on long-term debt	9,124	-	-	-	(9,124)
Total governmental activities	5,112,627	582,847	1,885,537	470,860	(2,173,383)
Business-type activities:					
Unemployment Insurance	112,952	151,806	13,014	-	51,868
Liquor Stores	78,700	89,286	-	-	10,586
State Lottery	41,088	52,341	4	-	11,257
Economic Development Bonds	989	30	945	-	(14)
Hail Insurance	8,304	6,278	1	-	(2,025)
General Government Services	68,677	29,197	36,681	940	(1,859)
Prison Funds	6,464	7,953	-	2	1,491
MUS Group Insurance	86,539	72,904	83	-	(13,552)
MUS Workers Compensation	4,128	4,603	23	-	498
Total business-type activities	407,841	414,398	50,751	942	58,250
Total primary government	$ 5,520,468	$ 997,245	$ 1,936,288	$ 471,802	$ (2,115,133)
Component units:					
Montana Board of Housing	$ 24,577	$ 1,186	$ 24,752	$ -	$ 1,361
Facility Finance Authority	377	890	38	-	551
Montana State Fund	151,660	164,557	-	-	12,897
Montana State University	527,197	245,341	161,804	1,873	(118,179)
University of Montana	427,096	184,166	152,704	5,393	(84,833)
Total component units	$ 1,130,907	$ 596,140	$ 339,298	$ 7,266	$ (188,203)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Changes in net position:				
Net (expense) revenue	$ (2,173,383)	$ 58,250	$ (2,115,133)	$ (188,203)
General revenues:				
Taxes:				
Property	261,532	-	261,532	-
Fuel	226,892	-	226,892	-
Natural resource	257,634	-	257,634	-
Individual income	1,151,329	-	1,151,329	-
Corporate income	174,112	-	174,112	-
Other (Note 1)	358,676	26,440	385,116	-
Unrestricted grants and contributions	15,101	1,777	16,878	55
Settlements	29,109	-	29,109	-
Unrestricted investment earnings	44,028	520	44,548	47,565
Payment from State of Montana	-	-	-	224,171
Gain (loss) on sale of capital assets	2,067	142	2,209	74
Miscellaneous	4,348	718	5,066	188
Contributions to term and permanent endowments	-	-	-	18,601
Transfers	50,017	(50,017)	-	-
Total general revenues, contributions, and transfers	2,574,845	(20,420)	2,554,425	290,654
Change in net position	401,462	37,830	439,292	102,451
Total net position - July 1 - as previously reported	8,641,680	330,203	8,971,883	1,736,628
Adjustments to beginning net position (Note 2)	(1,588,624)	(11,757)	(1,600,381)	(134,855)
Total net position - July 1 - as restated	7,053,056	318,446	7,371,502	1,601,773
Total net position - June 30	$ 7,454,518	$ 356,276	$ 7,810,794	$ 1,704,224

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015
(amounts expressed in thousands)

			SPECIAL REVENUE	
		GENERAL	STATE	FEDERAL
ASSETS				
Cash/cash equivalents (Note 3)	$	513,223	$ 678,225	$ 59,037
Receivables (net)		252,363	82,860	22,708
Interfund loans receivable (Note 12)		69,222	66,162	-
Due from other governments		12,338	1,137	228,874
Due from other funds (Note 12)		31,369	8,438	57
Due from component units		5	981	27
Inventories		2,514	22,624	-
Equity in pooled investments (Note 3)		-	386,625	-
Long-term loans/notes receivable		10	364,683	5,344
Advances to other funds (Note 12)		807	26,194	-
Advances to component units		-	9,714	-
Investments (Note 3)		15,232	134,162	5,432
Securities lending collateral (Note 3)		-	30,522	1,161
Other assets		3,114	6,555	182
Total assets		900,197	1,818,882	322,822
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable		245,158	114,725	147,341
Interfund loans payable (Note 12)		-	21,384	112,120
Due to other governments		191	30,354	2,838
Due to other funds (Note 12)		135	18,095	-
Due to component units		31,239	386	1,008
Advances from other funds (Note 12)		-	12,350	19,796
Unearned revenue		2,945	25,949	8,411
Amounts held in custody for others		20,322	12,533	20
Securities lending liability (Note 3)		-	30,522	1,161
Other liabilities		-	415	-
Total liabilities		299,990	266,713	292,695
DEFERRED INFLOWS OF RESOURCES		128,873	1,774	18,953
Fund balances (Note 14):				
Nonspendable		4,668	23,506	95
Restricted		-	1,024,836	11,079
Committed		-	501,161	-
Assigned		86,230	892	-
Unassigned		380,436	-	-
Total fund balances		471,334	1,550,395	11,174
Total liabilities, deferred inflows of resources, and fund balances	$	900,197	$ 1,818,882	$ 322,822

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

PERMANENT							
COAL SEVERANCE TAX		LAND GRANT		NONMAJOR		TOTAL	
$	46,709	$	6,588	$	99,812	$	1,403,594
	9,766		1,832		6,422		375,951
	-		-		-		135,384
	-		-		-		242,349
	-		-		2,144		42,008
	98		-		-		1,111
	-		-		-		25,138
	845,374		659,462		317,774		2,209,235
	-		-		21,932		391,969
	-		-		10,256		37,257
	8,004		-		-		17,718
	126,375		-		7,254		288,455
	35,947		27,959		13,652		109,241
	-		-		-		9,851
	1,072,273		695,841		479,246		5,289,261
	-		-		1,317		508,541
	1,437		-		310		135,251
	-		-		-		33,383
	36		-		520		18,786
	-		-		-		32,633
	-		-		11,020		43,166
	-		-		-		37,305
	-		152		-		33,027
	35,947		27,959		13,652		109,241
	-		-		-		415
	37,420		28,111		26,819		951,748
	-		-		433		150,033
	527,939		667,730		297,715		1,521,653
	-		-		27,431		1,063,346
	506,914		-		121,780		1,129,855
	-		-		5,068		92,190
	-		-		-		380,436
	1,034,853		667,730		451,994		4,187,480
$	1,072,273	$	695,841	$	479,246	$	5,289,261

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015
(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	$ 1,403,594	$ 73,987	$ -	$ -	$ -	$ -	$ 1,477,581
Receivables	375,951	3,076	-	-	134	-	379,161
Interfund loans receivable	135,384	-	-	-	-	(135,384)	-
Due from other governments	242,349	8	-	-	-	-	242,357
Due from other funds	42,008	37	-	-	-	(42,045)	-
Due from component units	1,111	-	-	-	-	-	1,111
Inventories	25,138	2,677	-	-	-	-	27,815
Internal balances	-	-	-	-	-	3,082	3,082
Equity in pooled investments	2,209,235	-	-	-	-	-	2,209,235
Securities lending collateral	109,241	2,468	-	-	-	-	111,709
Advances to other funds	37,257	160	-	-	-	(37,417)	-
Advances to component units	17,718	-	-	-	-	-	17,718
Investments	288,455	36,512	-	-	-	-	324,967
Depreciable capital assets and infrastructure, net	-	91,021	3,531,180	-	-	-	3,622,201
Land and nondepreciable capital assets	-	6,332	1,863,739	-	-	-	1,870,071
Long-term loans/notes receivable	391,969	-	-	-	-	-	391,969
Pension asset	-	-	-	-	32,591	-	32,591
Other assets	9,851	1,236	-	-	80	-	11,167
Total assets	$ 5,289,261	$ 217,514	$ 5,394,919	$ -	$ 32,805	$ (211,764)	$ 10,722,735
DEFERRED OUTFLOWS OF RESOURCES	-	3,498	-	184,939	-	-	188,437
LIABILITIES							
Current liabilities:							
Accounts payable	508,541	15,084	-	-	34,259	-	557,884
Interfund loans payable	135,251	133	-	-	-	(135,384)	-
Due to other government	33,383	-	-	-	-	-	33,383
Due to other funds	18,786	1,166	-	-	513	(20,465)	-
Due to component units	32,633	-	-	-	(31,139)	-	1,494
Advances from other funds	43,166	3,737	-	-	9,012	(55,915)	-
Unearned revenue	37,305	1,868	-	-	(5,997)	-	33,176
Amounts held in custody for others	33,027	2	-	-	-	-	33,029
Securities lending liability	109,241	2,468	-	-	-	-	111,709
Other current liabilities	415	-	-	-	2,649	-	3,064
Long-term liabilities:							
Due within one year	-	26,488	-	123,572	-	-	150,060
Due in more than one year	-	16,734	-	551,291	-	-	568,025
Pension liability	-	38,816	-	1,384,590	-	-	1,423,406
OPEB implicit rate subsidy	-	13,384	-	223,283	-	-	236,667
Total liabilities	$ 951,748	$ 119,880	$ -	$ 2,282,736	$ 9,297	$ (211,764)	$ 3,151,897
DEFERRED INFLOWS OF RESOURCES	150,033	10,036	-	294,721	(150,033)	-	304,757
NET POSITION:							
Net investment in capital assets	-	92,125	5,394,919	(154,395)	-	-	5,332,649
Restricted for:							
General government	6,586	-	-	(1,148)	13	-	5,451
Transportation	47,750	-	-	(27,177)	(277)	-	20,296
Health and human services	22,814	-	-	(7,369)	(9,714)	-	5,731
Natural resources	716,294	-	-	(281,833)	18,116	-	452,577
Public safety	252,006	-	-	(29,982)	23,541	-	245,565
Education	17,896	-	-	(2,247)	(3,830)	-	11,819
Funds held as permanent investments:							
Nonexpendable	1,493,893	-	-	-	1,338	-	1,495,231
Expendable	-	-	-	-	527,495	-	527,495
Unrestricted	1,630,241	(1,029)	-	(1,888,367)	(383,141)	-	(642,296)
Total net position	$ 4,187,480	$ 91,096	$ 5,394,919	$ (2,392,518)	$ 173,541	$ -	$ 7,454,518

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 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 pension liability, pollution remediation, bonds/notes payable, 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 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 unavailable revenue within the deferred inflows of resources on the fund-level Balance Sheet-Governmental funds. From an economic perspective, this revenue is earned and the related unearned revenue is removed from the Statement of Net Position when the revenue is recognized on the Statement of Activities.

(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 Statement of Net Position. Per GAAP these balances should be eliminated from the 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, 2015
(amounts expressed in thousands)

		SPECIAL REVENUE	
	GENERAL	**STATE**	**FEDERAL**
REVENUES (Note 14)			
Licenses/permits	$ 122,946	$ 195,172	$ -
Taxes:			
Natural resource	116,169	101,316	-
Individual income	1,158,636	-	-
Corporate income	171,836	3	-
Property	247,365	14,167	-
Fuel	-	226,892	-
Other	225,392	131,500	-
Charges for services/fines/forfeits/settlements	37,701	98,281	35,039
Investment earnings	3,650	17,435	303
Securities lending income	88	209	5
Sale of documents/merchandise/property	368	5,803	2
Rentals/leases/royalties	18	917	14
Contributions/premiums	-	24,105	-
Grants/contracts/donations	9,777	20,264	(51)
Federal	27,784	11,107	2,112,272
Federal indirect cost recoveries	204	41,186	71,524
Other revenues	479	2,688	583
Total revenues	2,122,413	891,045	2,219,691
EXPENDITURES			
Current:			
General government	350,877	221,453	102,206
Public safety	291,093	93,298	10,659
Transportation	-	226,645	113,798
Health and human services	446,541	158,040	1,320,150
Education	985,103	109,312	206,692
Natural resources	32,582	184,773	65,787
Debt service:			
Principal retirement	17	560	13
Interest/fiscal charges	184	672	8
Capital outlay	2,761	68,304	348,923
Securities lending	10	38	1
Total expenditures	2,109,168	1,063,095	2,168,237
Excess of revenue over (under) expenditures	13,245	(172,050)	51,454
OTHER FINANCING SOURCES (USES)			
Inception of lease/installment contract	29	300	15
Insurance proceeds	-	2,586	-
General capital asset sale proceeds	130	1,898	11
Refunding bond issued	-	-	-
Payment to refunding bond escrow agent	-	-	-
Bond premium	-	2,897	-
Bond proceeds	-	24,365	-
Energy conservation loans	-	2,120	-
Transfers in (Note 12)	78,070	187,417	2,816
Transfers out (Note 12)	(60,274)	(34,142)	(51,443)
Total other financing sources (uses)	17,955	187,441	(48,601)
Net change in fund balances	31,200	15,391	2,853
Fund balances - July 1 - as previously reported	442,476	1,523,740	14,739
Adjustments to beginning fund balances (Note 2)	(2,500)	13,949	(6,418)
Fund balances - July 1 - as restated	439,976	1,537,689	8,321
Increase (decrease) in inventories	158	(2,685)	-
Fund balances - June 30	$ 471,334	$ 1,550,395	$ 11,174

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

PERMANENT			
COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
$ -	$ 1,608	$ -	$ 319,726
30,718	-	9,535	257,738
-	-	-	1,158,636
-	-	-	171,839
-	-	-	261,532
-	-	-	226,892
-	-	1,753	358,645
-	-	12,236	183,257
31,531	20,261	17,385	90,565
337	260	121	1,020
-	15,559	4,445	26,177
-	65,805	-	66,754
-	-	-	24,105
-	58	-	30,048
-	-	-	2,151,163
-	-	-	112,914
-	-	-	3,750
62,586	103,551	45,475	5,444,761
-	-	2,296	676,832
-	-	511	395,561
-	-	-	340,443
-	-	1,237	1,925,968
-	-	9	1,301,116
-	5,647	2	288,791
-	-	33,398	33,988
-	-	10,482	11,346
-	1,000	23,952	444,940
72	57	26	204
72	6,704	71,913	5,419,189
62,514	96,847	(26,438)	25,572
-	-	-	344
-	-	-	2,586
-	1,645	5	3,689
-	-	38,150	38,150
-	-	(42,603)	(42,603)
-	-	4,233	7,130
-	-	-	24,365
-	-	-	2,120
914	534	54,337	324,088
(39,815)	(69,861)	(28,645)	(284,180)
(38,901)	(67,682)	25,477	75,689
23,613	29,165	(961)	101,261
1,011,240	638,565	452,614	4,083,374
-	-	341	5,372
1,011,240	638,565	452,955	4,088,746
-	-	-	(2,527)
$ 1,034,853	$ 667,730	$ 451,994	$ 4,187,480

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, 2015

(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	$ 319,726	$ -	$ -	$ -	$ -	$ 319,726
Taxes:						
Natural resource	257,738	-	-	-	(104)	257,634
Individual income	1,158,636	-	-	-	(7,307)	1,151,329
Corporate income	171,839	-	-	-	2,273	174,112
Property	261,532	-	-	-	-	261,532
Fuel	226,892	-	-	-	-	226,892
Other	358,645	-	-	-	31	358,676
Charges for services/fines/forfeits/settlements	183,257	-	-	-	(10,646)	172,611
Investment earnings	90,565	680	-	-	(47,217)	44,028
Securities lending income	1,020	-	-	-	(1,020)	-
Sale of documents/merchandise/property	26,177	-	-	-	-	26,177
Rentals/leases/royalties	66,754	-	-	-	-	66,754
Contributions/premiums	24,105	-	-	-	-	24,105
Insurance proceeds	2,586	-	-	-	-	2,586
Gain (loss) on sale of capital assets	-	-	2,067	-	-	2,067
Operating grants and donations	30,048	1,049	-	-	68,375	99,472
Federal	2,151,163	-	-	-	(462,914)	1,688,249
Federal indirect cost recoveries	112,914	-	-	-	-	112,914
Capital grants and contributions	-	-	-	-	470,860	470,860
Other revenues	3,750	-	-	-	598	4,348
Total revenues	5,447,347	1,729	2,067	-	12,929	5,464,072
EXPENDITURES						
Current	4,928,711	18,465	189,456	-	(33,129)	5,103,503
Debt service:						
Principal	33,988	-	-	(33,988)	-	-
Interest/fiscal charges	11,346	93	-	(2,315)	-	9,124
Capital outlay	444,940	-	(444,940)	-	-	-
Securities lending	204	-	-	-	(204)	-
Total expenditures	5,419,189	18,558	(255,484)	(36,303)	(33,333)	5,112,627
Excess of revenue over (under) expenditures	28,158	(16,829)	257,551	36,303	46,262	351,445
OTHER FINANCING SOURCES (USES)						
Inception of lease/installment contract	344	-	-	(344)	-	-
General capital asset sale proceeds	3,689	(952)	(2,737)	-	-	-
Refunding bonds issued	38,150	-	-	(38,150)	-	-
Payment to refunding bond escrow agent	(42,603)	-	-	42,603	-	-
Bond premium	7,130	-	-	(7,130)	-	-
Bond proceeds	24,365	-	-	(24,365)	-	-
Energy conservation loans	2,120	-	-	(2,120)	-	-
Transfers	39,908	12,410	(2,301)	-	-	50,017
Total other financing sources (uses)	73,103	11,458	(5,038)	(29,506)	-	50,017
Net change in net position	$ 101,261	$ (5,371)	$ 252,513	$ 6,797	$ 46,262	$ 401,462

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, capital contributions, 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 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 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 Statement of Net Position. They are not reported as expenses on the 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 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 Statement of Net Position and are not reported on the Statement of Activities.
- Amortization of debt premium/discount and gain/loss on refunding debts are not reported on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental funds, but are reported on the Statement of Activities.
- Lease proceeds, issuance of debt, and debt refunding proceeds are reported as other financing sources at the 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 Statement of Net Position and are not reported on the Statement of Activities.

(D) Other measurement focus adjustments include;

- Long-term taxes receivable and certain other long-term assets are offset by unavailable 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 unavailable revenue balances result in adjustments to revenue that are recognized and reported on the Statement of Activities.
- Expenditures that primarily benefit the present period are classified as current expenditures. In Governmental funds, capital outlays are included as part of the current expenditures for each functional activity within that fund.

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	$ 279,756	$ 20,865	$ 65,027	$ 365,648	$ 73,987
Receivables (net)	4,338	14,132	26,930	45,400	3,076
Due from other governments	77	-	117	194	8
Due from other funds (Note 12)	-	1,852	-	1,852	37
Due from component units	-	2,223	-	2,223	-
Inventories	-	-	5,879	5,879	2,677
Short-term investments (Note 3)	-	3,132	-	3,132	-
Securities lending collateral (Note 3)	-	1	3,315	3,316	2,468
Other current assets	-	-	247	247	1,236
Total current assets	284,171	42,205	101,515	427,891	83,489
Noncurrent assets:					
Advances to other funds (Note 12)	-	9,646	-	9,646	160
Advances to component units	-	14,957	-	14,957	-
Long-term investments (Note 3)	-	5,127	28,466	33,593	36,512
Long-term notes/loans receivable	2,083	40,161	133	42,377	-
Other long-term assets	-	-	1,597	1,597	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	3,830	3,830	94
Buildings/improvements	-	-	7,514	7,514	3,944
Equipment	-	4	11,490	11,494	221,017
Infrastructure	-	-	1,164	1,164	-
Construction in progress	-	-	1,897	1,897	6,096
Intangible assets	-	-	184	184	1,679
Other capital assets	-	-	4,358	4,358	-
Less accumulated depreciation	-	(2)	(15,789)	(15,791)	(135,713)
Total capital assets	-	2	15,448	15,450	97,353
Total noncurrent assets	2,083	69,893	45,644	117,620	134,025
Total assets	286,254	112,098	147,159	545,511	217,514
DEFERRED OUTFLOWS OF RESOURCES	-	23	874	897	3,498

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
LIABILITIES					
Current liabilities:					
Accounts payable	$ 3,980	$ 100	$ 17,920	$ 22,000	$ 15,084
Lottery prizes payable	-	-	2,134	2,134	-
Interfund loans payable (Note 12)	-	-	-	-	133
Due to other governments	-	-	85	85	-
Due to other funds (Note 12)	-	-	14,421	14,421	1,166
Unearned revenue	-	-	1,913	1,913	1,868
Lease/installment purchase payable (Note 10)	-	-	237	237	115
Short-term debt (Note 11)	-	106,445	-	106,445	-
Bonds/notes payable - net (Note 11)	-	-	-	-	346
Amounts held in custody for others	-	-	51	51	2
Securities lending liability (Note 3)	-	1	3,315	3,316	2,468
Estimated insurance claims (Note 8)	-	-	10,315	10,315	22,316
Compensated absences payable (Note 11)	-	30	937	967	3,711
Total current liabilities	3,980	106,576	51,328	161,884	47,209
Noncurrent liabilities:					
Lottery prizes payable	-	-	1,149	1,149	-
Advances from other funds (Note 12)	-	-	160	160	3,737
Lease/installment purchase payable (Note 10)	-	-	599	599	317
Bonds/notes payable - net (Note 11)	-	-	-	-	658
Estimated insurance claims (Note 8)	-	-	8,750	8,750	12,665
Compensated absences payable (Note 11)	-	28	872	900	3,094
Pension liability (Note 6)	-	245	9,118	9,363	38,816
OPEB implicit rate subsidy (Note 7)	-	69	4,099	4,168	13,384
Total noncurrent liabilities	-	342	24,747	25,089	72,671
Total liabilities	3,980	106,918	76,075	186,973	119,880
DEFERRED INFLOWS OF RESOURCES	-	63	3,096	3,159	10,036
NET POSITION					
Net investment in capital assets	-	2	14,614	14,616	92,125
Restricted for:					
Unemployment compensation	282,274	-	-	282,274	-
Other purposes	-	1,670	49,592	51,262	-
Unrestricted	-	3,468	4,656	8,124	(1,029)
Total net position	$ 282,274	$ 5,140	$ 68,862	$ 356,276	$ 91,096

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, 2015
(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	$ 35	$ 30	$ 159,039	$ 159,104	$ 137,877
Investment earnings	6,207	99	635	6,941	658
Securities lending income	-	-	13	13	30
Financing income	-	846	-	846	-
Contributions/premiums	151,771	-	103,135	254,906	157,898
Grants/contracts/donations	6,807	-	38,212	45,019	1,446
Other operating revenues	-	-	1,106	1,106	3,462
Total operating revenues	164,820	975	302,140	467,935	301,371
Operating expenses:					
Personal services	-	321	15,459	15,780	55,452
Contractual services	-	26	22,418	22,444	31,800
Supplies/materials	-	6	80,414	80,420	20,938
Benefits/claims	111,138	34	139,701	250,873	156,194
Depreciation	-	1	1,359	1,360	11,020
Amortization	-	-	63	63	891
Utilities/rent	-	48	1,471	1,519	15,730
Communications	-	7	1,260	1,267	13,226
Travel	-	4	320	324	532
Repairs/maintenance	-	-	769	769	12,083
Grants	-	-	50	50	463
Lottery prize payments	-	-	29,256	29,256	-
Securities lending expense	-	-	5	5	8
Arbitrage rebate tax	-	(4)	-	(4)	-
Interest expense	-	495	47	542	93
Other operating expenses	1,814	51	2,597	4,462	7,486
Total operating expenses	112,952	989	295,189	409,130	325,916
Operating income (loss)	51,868	(14)	6,951	58,805	(24,545)
Nonoperating revenues (expenses):					
Tax revenues	-	-	26,440	26,440	-
Non-employer pension revenue	-	7	230	237	1,049
Insurance proceeds	-	-	-	-	278
Gain (loss) on sale of capital assets	-	-	126	126	(953)
Federal indirect cost recoveries	-	-	-	-	6,388
Increase (decrease) value of livestock	-	-	1,304	1,304	-
Total nonoperating revenues (expenses)	-	7	28,100	28,107	6,762
Income (loss) before contributions and transfers	51,868	(7)	35,051	86,912	(17,783)
Capital contributions	-	-	935	935	2,566
Transfers in (Note 12)	-	-	106	106	11,259
Transfers out (Note 12)	-	-	(50,123)	(50,123)	(1,415)
Change in net position	51,868	(7)	(14,031)	37,830	(5,373)
Total net position - July 1 - as previously reported	230,406	5,438	94,359	330,203	141,644
Adjustments to beginning net position (Note 2)	-	(291)	(11,466)	(11,757)	(45,175)
Total net position - July 1 - as restated	230,406	5,147	82,893	318,446	96,469
Total net position - June 30	$ 282,274	$ 5,140	$ 68,862	$ 356,276	$ 91,096

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

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt from sales and service	$ 155,075	$ 30	$ 264,595	$ 419,700	$ 295,840
Payments to suppliers for goods and services	(76)	(140)	(109,221)	(109,437)	(92,903)
Payments to employees	-	(343)	(15,730)	(16,073)	(59,547)
Grant receipts (expenses)	6,858	-	38,226	45,084	983
Cash payments for claims	(111,138)	-	(136,959)	(248,097)	(155,350)
Cash payments for prizes	-	-	(29,660)	(29,660)	-
Other operating revenues	-	7	1,105	1,112	9,850
Other operating payments	(1,814)	-	(2,601)	(4,415)	(7,485)
Net cash provided by (used for) operating activities	48,905	(446)	9,755	58,214	(8,612)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	26,440	26,440	-
Transfer to other funds	-	-	(50,128)	(50,128)	(1,416)
Transfer from other funds	-	-	219	219	11,259
Proceeds from interfund loans/advances	-	-	-	-	889
Payment of interfund loans and advances	(50)	-	(81)	(131)	-
Proceeds from bonds and notes	-	-	-	-	1,001
Payment of principal and interest on bonds and notes	-	(476)	(112)	(588)	(90)
Pension related payments	-	(40)	-	(40)	-
Proceeds from nonemployer pension contributions	-	-	228	228	1,049
Net cash provided by (used for) noncapital financing activities	(50)	(516)	(23,434)	(24,000)	12,692
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	278
Acquisition of capital assets	-	-	(401)	(401)	(12,211)
Proceeds from sale of capital assets	-	-	1,658	1,658	32
Net cash provided by (used for) capital and related financing activities	-	-	1,257	1,257	(11,901)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of investments	-	(1,596)	5,252	3,656	8,350
Proceeds (loss) on sales or maturities of investments	-	1,571	-	1,571	-
Proceeds (loss) from securities lending transactions/investments	-	-	13	13	30
Interest and dividends on investments	6,207	101	635	6,943	658
Payment of securities lending costs	-	(5)	(5)	(10)	(8)
Collections of principal and interest on loans	-	25,592	-	25,592	-
Cash payment for loans	-	(28,210)	-	(28,210)	-
Net cash provided by (used for) investing activities	6,207	(2,547)	5,895	9,555	9,030
Net increase (decrease) in cash and cash equivalents	55,062	(3,509)	(6,527)	45,026	1,209
Cash and cash equivalents, July 1	224,694	24,374	71,554	320,622	72,778
Cash and cash equivalents, June 30	$ 279,756	$ 20,865	$ 65,027	$ 365,648	$ 73,987

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	$ 51,868	$ (14)	$ 6,951	$ 58,805	$ (24,545)
Adjustments to reconcile operating income to net cash provided for (used for) operating activities:					
Depreciation	-	1	1,359	1,360	11,020
Amortization	-	-	63	63	891
Securities lending expense	-	-	5	5	8
Investment earnings	(6,207)	(99)	(635)	(6,941)	(658)
Securities lending income	-	(846)	(13)	(859)	(30)
Interest expense	-	495	47	542	93
Other Revenue	-	7	-	7	6,388
Arbitrage rebate tax	-	(4)	-	(4)	-
Change in assets, deferred outflow, liabilities and deferred inflows:					
Decr (Incr) in accounts receivable	3,268	-	1,518	4,786	(48)
Decr (Incr) in due from other funds	-	-	1	1	17
Decr (Incr) in due from other governments	51	-	64	115	-
Decr (Incr) in inventories	-	-	(2,025)	(2,025)	184
Decr (Incr) in other assets	-	-	900	900	95
Incr (Decr) in accounts payable	(58)	(1)	4,330	4,271	1,454
Incr (Decr) in due to other funds	-	(15)	229	214	242
Incr (Decr) in due to other governments	-	-	81	81	-
Incr (Decr) in lottery prizes payable	-	-	(404)	(404)	-
Incr (Decr) in unearned revenue	(17)	-	(5,052)	(5,069)	(181)
Incr (Decr) in compensated absences payable	-	(14)	197	183	345
Incr (Decr) in OPEB implicit rate subsidy	-	14	1,248	1,262	2,352
Incr (Decr) in estimated claims	-	-	1,313	1,313	(4,672)
Incr (Decr) in pension liability, deferred outflow and deferred inflows of resources	-	30	(422)	(392)	(1,567)
Net cash provided by (used for) operating activities	$ 48,905	$ (446)	$ 9,755	$ 58,214	$ (8,612)
Schedule of noncash transactions:					
Capital asset acquisitions from contributed capital	-	-	935	935	2,566
Incr (Decr) in fair value of investments	-	(25)	(25)	(50)	152
Total noncash transactions	$ -	$ (25)	$ 910	$ 885	$ 2,718

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015
(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)	$ 211,623	$ 134,513	$ 569,532	$ 17,695
Receivables (net):				
Accounts receivable	24,253	-	-	554
Interest	13,646	4	91	-
Due from primary government	31,139	-	-	-
Due from other PERB plans	924	-	-	-
Long-term loans/notes receivable	18	-	-	-
Total receivables	69,980	4	91	554
Investments at fair value:				
Equity in pooled investments (Note 3)	9,869,112	-	-	-
Other investments (Note 3)	587,372	140,474	4,933	1
Total investments	10,456,484	140,474	4,933	1
Securities lending collateral (Note 3)	384,131	50	1,328	-
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	186	-	-	-
Equipment	301	-	-	-
Construction work in progress	4,684	-	-	-
Accumulated depreciation	(354)	-	-	-
Total capital assets	4,852	-	-	-
Other assets	-	35,165	-	443
Total assets	11,127,070	310,206	575,884	18,693
DEFERRED OUTFLOWS OF RESOURCES	86	-	-	-
LIABILITIES				
Accounts payable	2,342	16	91	525
Due to other PERB plans	924	-	-	-
Unearned revenue	127	-	-	-
Amounts held in custody for others	-	-	-	18,168
Securities lending liability (Note 3)	384,131	50	1,328	-
Compensated absences payable	641	-	-	-
Pension liability (Note 6)	1,030	-	-	-
OPEB implicit rate subsidy (Note 7)	866	-	-	-
Total liabilities	390,061	66	1,419	18,693
DEFERRED INFLOWS OF RESOURCES	268	-	-	-
NET POSITION				
Held in trust for pension benefits and other purposes	$ 10,736,827	$ 310,140	$ 574,465	$ -

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, 2015
(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE-PURPOSE TRUST FUNDS	INVESTMENT TRUSTS
ADDITIONS			
Contributions/premiums:			
Employer	$ 227,137	$ -	$ -
Employee	219,905	-	-
Other contributions	107,344	33,365	919,693
Net investment earnings:			
Investment earnings	522,491	(8,323)	637
Administrative investment expense	(56,483)	-	(153)
Securities lending income	2,460	-	2
Securities lending expense	(445)	-	-
Charges for services	358	-	-
Other additions	361	2,472	-
Total additions	1,023,128	27,514	920,179
DEDUCTIONS			
Benefits	730,427	-	-
Refunds	22,204	-	-
Distributions	-	31,898	835,598
Administrative expenses:			
Personal services	4,752	-	-
Contractual services	3,084	277	-
Supplies/materials	168	-	-
Depreciation	44	-	-
Utilities/rent	372	-	-
Communications	240	-	-
Travel	62	-	-
Repair/maintenance	49	-	-
Other operating expenses	255	-	-
Local assistance	11	-	-
Transfers to MUS-RP	125	-	-
Transfers to PERS-DCRP	1,252	-	-
Total deductions	763,045	32,175	835,598
Change in net position	260,083	(4,661)	84,581
Net position - July 1 - as previously reported	10,477,990	314,800	489,884
Adjustments to beginning net position (Note 2)	(1,246)	1	-
Net position - July 1 - as restated	10,476,744	314,801	489,884
Net position - June 30	$ 10,736,827	$ 310,140	$ 574,465

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

For financial reporting purposes, the State of Montana includes the funds which are comprised of 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 entities listed below.

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

Montana Board of Housing 301 South Park, Room 240 PO Box 200528 Helena, MT 59620-0528	Montana State Fund 855 Front Street PO Box 4759 Helena, MT 59604-4759
Facilities Financial Authority 2401 Colonial Drive, 3rd Floor PO Box 200506 Helena, MT 59620-0506	Universities and Colleges Commissioner of Higher Education 2500 Broadway Street Helena, MT 59620-3201

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

<u>Facilities Finance Authority</u> – 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 eligible, nonprofit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. The authority issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. This authority is attached to the State of Montana, Department of Commerce for administrative purposes only. Individual audit reports are issued every two years by the State's Legislative Audit Division.

<u>Montana State Fund</u> (MSF) – MSF is a nonprofit, independent public corporation established under Title 39, chapter 71 of the Montana Code Annotated (MCA). MSF provides Montana employers with an option for workers' compensation and

occupational disease insurance and guarantees available coverage for all employers in Montana. MSF is governed by a seven member Board of Directors appointed by the Governor. The Board has full power, authority, and jurisdiction in the administration of MSF. MSF is attached to the State of Montana, Department of Administration for administrative purposes only.

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

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

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

Though the following organizations perform functions related to the 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 nonprofit corporation; and (3) the Student Assistance Foundation of Montana, a private nonprofit corporation. Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The state and federal support of local public education systems is reported in the General Fund, the State Special Revenue Fund and Federal Special Revenue Fund.

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

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

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

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

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

The Public Employees' Retirement System (PERS) includes the Public Employees' Defined Benefit Retirement Plan and the Public Employees' Defined Contribution Retirement Plan, and is funded by member and employer contributions, investment earnings and contributions from the State General Fund. The Judges' Retirement System is funded by member and state employer contributions, and investment earnings. The Highway Patrol Officers' Retirement System is funded by member and state employer contributions, state contributions, and investment earnings. The Sheriffs' Retirement System is funded by member and employer contributions, and investment earnings. The Game Wardens' and Peace Officers' Retirement System is funded by member and employer contributions, and investment earnings. The Municipal Police Officers' Retirement System is funded by member and employer contributions, State General Fund contributions, and investment earnings. The Firefighters' Unified Retirement System is funded by member and employer contributions, and investment earnings, as well as State General Fund contributions from a portion of insurance premium taxes collected by the State of Montana. The Volunteer Firefighters' Compensation Act is funded by state contributions, from the State General Fund, which are a percentage of fire insurance premium taxes collected. The State of Montana Deferred Compensation Program is funded by member contributions and investment earnings. The State and 41 non-state entity employers participate in the 457 Plan. The OPEB disability plan is funded through an employer contribution of 0.3% of a member's compensation. The PERS also accounts for the administrative costs, paid from investment earnings, of the plan. These costs are allocated out to all plans.

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

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 impact of interfund activity has been removed from these statements. Governmental activities, which are normally supported by fees, taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State of Montana is reported separately from certain legally separate component units for which the State is financially accountable.

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

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 financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned; expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements imposed by the provider are met. Agency funds report only assets and liabilities, recognizing receivables and payables using the accrual basis of accounting.

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

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

Governmental Fund Financial Statements

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

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

Fund Financial Statements

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

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

Governmental Funds

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

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects. (1) The State Special Revenue Fund accounts funded from state resources are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Several funds are defined in statute as Permanent Funds, however per GASB Statement No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54), these funds should be reported within the State Special Revenue Fund. The respective effect on fund balance is approximately a $79 million increase. One specific fund is defined in statute as a Federal Special Revenue Fund, however per GASB 54, this fund should be reported within the State Special Revenue Fund. The respective effect on fund balance is approximately a $15 million increase. (2) The Federal Special Revenue Fund accounts for activities funded from federal sources used in the operation of state government.

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

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

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

Proprietary Funds

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

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

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

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

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

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

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

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

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

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

The Coal 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 financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

D. Proprietary Activity Accounting and Financial Reporting

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

E. Cash/Cash Equivalents

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. For fiscal year 2015, certain investments in STIP were reclassified as long-term investments. Further detail related to Cash and Cash Equivalents and Investments is provided in Note 3.

F. Receivables

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

G. Inventories

Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method generally to be appropriate for most agencies. Governmental funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as nonspendable, indicating they do not constitute available expendable resources. Proprietary and fiduciary funds report using the "consumption method," meaning inventories are expensed as used.

H. Restricted Net Position

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

I. Equity in Pooled Investments

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

J. Investments

In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Rule," the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value in the Balance Sheet or Statement of Net Position. Further detail related to Cash and 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 related to Capital Assets is provided in Note 5.

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

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

L. Deferred Outflows, Deferred Inflows, and Unearned Revenue

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

M. Long-term Obligations

Long-term obligations expected to be financed from governmental funds are reported 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, respectively.

N. Capital Leases

A capital lease is a lease which transfers benefits and risks of ownership to the lessee. At the inception of a capital lease, 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 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 expenditures and other financing sources (inception of lease/installment contract) are recorded at the net present value of the minimum lease payments. Further detail related to Capital Leases is provided in Note 10.

O. Bond Discounts/Premiums/Issuance Costs

Bond premiums and discounts, as well as issuance costs, are recognized in the 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 an other financing use. Issuance costs are reported as debt service expenditures whether or not they are withheld from the bond proceeds. Bonds payable are recorded net of any applicable premium or discount. Further detail related to Long-term Debt is provided in Note 11.

P. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 80 hours of sick or annual leave to a nonrefundable sick leave pool. Excess annual leave that is being forfeited can also be contributed, with no maximum contribution. The adjusted ending balance of the pool for June 30, 2014, was 22,013 hours. For fiscal year 2015, 1,785 sick leave hours, 180 annual leave hours, and 3,181 excess annual leave hours were contributed to the sick leave pool, and 5,662 hours were withdrawn, leaving a balance of 21,497 hours in the pool. The liability associated with the pool is not reported in the accompanying financial statements because these hours are nonrefundable to contributors, except by grants approved through an application process.

Vested or accumulated leave for proprietary and fiduciary funds is recorded as an expense and liability of those funds in the fund financial statements. For governmental funds, the liability is not expected to be liquidated with expendable financial resources. The expenditure and liability for the governmental funds is reported only 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 related to Compensated Absences is provided in Note 11.

Q. Nonexchange Financial Guarantee

Governments may extend a financial guarantee for the obligations of another government, a nonprofit entity or a private entity without directly receiving equal to approximately equal value in exchange (a nonexchange transaction). As part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. No material nonexchange financial guarantees were identified for the year ending June 30, 2015.

R. Fund Balance/Net Position

Fund Balance

The classifications for fund balance used for governmental funds are reported in two general classifications, nonspendable and spendable.

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

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

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

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Assignments of fund balance are created by the executive branch. An example of an assignment is money deposited into an account within the State Special Revenue fund by management and later appropriated by the Legislature. The revenue source is not restricted or committed by legislation but is assigned by executive branch management and later appropriated by the Legislature for a specific purpose. In governmental funds other than the General Fund, assigned fund balance also represents the remaining amount that is not restricted or committed. The assigned fund balance for the General Fund are encumbrances and assignments for the portion of current General Fund balance that is projected to be used to fund expenditures and other cash outflows in excess of the expected revenues and other cash inflows in fiscal years as needed. Based on the Governor's budget proposal, the fiscal year ending June 30, 2015, the General

Fund balance will be spent down by $75 million when comparing the fiscal year 2015 actual to fiscal year 2016 enacted/proposed budget. This represents management’s intention to fund supplementals and other one-time-only expenditures.

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

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

Minimum General Fund - Fund Balance

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

If the Budget Director determines that a deficit exists, statute requires reductions that must be made to assure that the projected ending fund balance is in compliance with the minimum ending fund balance of General Fund appropriations for the biennium. Under circumstances when a deficit of this level is projected during a biennium, the Governor may direct reductions from any General Fund expenditure not exempted by § 17-7-140, MCA, including House Bill (HB) 2 (the State’s main appropriation bill), any other appropriation bills, statutory appropriations, or language appropriations. Reductions may not exceed 10% of General Fund appropriations for any single “program,” as defined in HB 2. If a program has more than one appropriation, the reduction for one or more of the appropriations may exceed 10% as long as the reduction for the program as a whole does not exceed 10%.

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

Net Position

In funds other than governmental, net position represent the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. The net investment in the capital assets portion of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide Statement of Net Position reported restricted net position of $3.1 billion.

S. Property Taxes

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

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

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

T. Other Taxes

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

	General Fund	State Special Revenue Fund	Other Governmental Funds	Business-Type	Total
Accommodations	$ 20,022	$ 27,543	$ -	$ 18	$ 47,583
Agriculture sales	-	7,946	-	-	7,946
Cigarette/tobacco	35,705	47,371	1,754	-	84,830
Contractors gross receipts	3,271	-	-	-	3,271
Energy tax	8,908	-	-	-	8,908
Fire protection	-	3,635	-	-	3,635
Insurance premium	66,536	29,171	-	-	95,707
Liquor tax	5,344	2,147	-	26,422	33,913
Livestock	-	4,468	-	-	4,468
Other taxes	7,864	5,976	-	-	13,840
Public service commission	-	3,264	-	-	3,264
Telephone license	17,945	-	-	-	17,945
Video gaming	59,799	7	-	-	59,806
Total other taxes	$225,394	$131,528	$1,754	$26,440	$385,116

U. Service Concession Arrangements

A Service Concession Arrangement (SCA) is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration, and the operator collects and is compensated by fees from a third party. No material service concession arrangements were identified for the year ending June 30, 2015.

NOTE 2. OTHER ACCOUNTING CHANGES

A. New Accounting Guidance Implemented

For the year ended June 30, 2015, the State of Montana implemented the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement also improves information provided by state and local governmental employers about financial support for pensions that are provided by other entities. GASB 68 replaces the requirements of GASB Statement No. 27 Accounting for Pensions by State and Local Governmental Employers and GASB Statement No. 50 Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts that meet certain criteria. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures related to pension plan obligations for both employers and nonemployer contributing entities. Additionally, GASB 68 defines the related note disclosures and required supplementary information requirements. Further detail, additional information and disclosures related to the implementation of this Statement are provided in Note 6 and in Required Supplementary Information.

For the year ended June 30, 2015, the State of Montana implemented the provisions of GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68 (GASB 71). The objective of this Statement is to address an issue regarding application of the transition provisions of GASB 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan prior to the implementation of GASB 68.

B. Adjustments to Beginning Net Position

In accordance with GASB 68, Accounting and Financial Reporting for Pensions, the State of Montana, in addition to being an employer of pension plans, is also recognized as having a special funding situation as a nonemployer. Special funding situations are defined as circumstances in which a nonemployer entity is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity or entities and either (1) the amount of contributions for which the nonemployer entity legally is responsible is not dependent upon one or more events unrelated to pensions or (2) the nonemployer is the only entity with a legal obligation to make contributions directly to a pension plan. This Statement requires an employer that has a special funding situation for defined benefit pensions to recognize a pension liability and deferred outflows of resources and deferred inflows of resources related to pensions with adjustments for the involvement of nonemployer contributing entities. As a result of the State's implementation of GASB 68 and GASB 71, as an employer and nonemployer contributing entity, a significant reduction of beginning net position has been reported in the amount of $ 1.564 billion. Further detail related to retirement plans is provided in Note 6 and in Required Supplementary Information.

C. Other Accounting Changes

The State of Montana (Old Fund) was previously reported as part of Montana State Fund, a component unit of the State of Montana. For the year ended June 30, 2015, Old Fund is reported within the governmental activities of the primary government. For the year ended June 30, 2014, a nonexchange financial guarantee was reported between Old Fund and the primary government, creating a liability within the governmental activities of the primary government for Old Fund estimated claims. This nonexchange financial guarantee was removed in fiscal year 2015 upon this reporting change. Therefore, there is no material financial impact on the June 30, 2015, primary government's governmental activities column of the government-wide financial statements. Further detail related to the financial impact of this change on Montana State Fund's financial statement presentation is provided in Note 18.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

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

Cash/cash equivalents	$ 3,142,812
Equity in pooled investments	$ 12,125,595
Investments	$ 3,174,312

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

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 International Equity Pool (MTIP)	06/01/96	Nine Retirement Funds Only
Montana Private Equity Pool (MPEP)	05/01/02	Nine Retirement Funds Only
Montana Real Estate Pool (MTRP)	06/01/06	Nine Retirement Funds Only
Short Term Investment Pool (STIP)	07/01/74	All State Funds and Local Governments
All Other Funds (AOF) Investments Managed	NA	Non-Pool State Agency Investments

Separately issued external investment pool financial statements may be obtained by contacting:

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

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

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

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

State agencies that are allowed to retain their interest earnings within their funds are required to invest in STIP. Local government participation in STIP is voluntary.

(2) Investment securities are reported by investment portfolio and type in Table 2–Cash Equivalents, Table 3–Equity in Pooled Investments, and Table 4–Investments. The public equity Pools may include common stock, equity index shares, preferred stock, convertible equity securities, American Depositary Receipts (ADR), equity derivatives, and commingled funds. The MDEP portfolio is limited to domestic stock investments, while the MTIP portfolio includes holdings of securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges as depositary receipts. The MTIP portfolio invests in both developed and emerging markets. The MPEP portfolio includes venture capital, leveraged buyout, mezzanine, distressed debt, special situation, and secondary investments. The MTRP portfolio includes investments in private core, value-added, and opportunistic real estate. The State also invests in cash equivalents to provide a diversified investment portfolio and an overall competitive rate of return.

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

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

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

MPEP investments are made via limited partnership agreements in which BOI and other institutional investors invest as limited partners in funds managed by a general partner. These investments are less liquid because the funds are usually committed for at least ten years. Due to the risk and illiquidity, these investments are limited to sophisticated investors only.

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

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

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

During fiscal year 2015, 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 2015. 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 2015 resulting from a borrower default.

During fiscal year 2015, BOI and the borrowers maintained the right to terminate all securities lending transactions on notice. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in two investment funds, Quality D Short Term Investment Fund and the Securities Lending Quality Trust. Each is comprised of a liquidity pool and a duration pool. Pension funds participate in the Quality D Short Term Investment Fund and non-pension entities participate in the Security Lending Quality Trust. In March 2015, the Board sold all of the holding within the duration pool of both the Quality D Short Term Investment Fund and the Security Lending Quality Trust, which resulted in a loss of $200 thousand and $26 thousand, respectively. Security lending income offset the entire amount of the loss within each investment fund. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. At fiscal year-end 2015, State Street Bank indemnified BOI's credit risk exposure to borrowers. The private equity and real estate pools do not participate in securities lending.

Average Duration and Average Weighted Final Maturity

	Quality D ST Investment Fund	Security Lending Quality Trust
<u>Liquidity Pool</u>		
Average Duration	28 days	30 days
Average Weighted Final Maturity	109 days	115 days
<u>Duration Pool</u>		
Average Duration	NA	NA
Average Weighted Final Maturity	NA	NA

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

<u>Credit Risk</u>
Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of US Government securities, the pools' fixed income instruments have credit risk as measured by major credit rating services. BOI's policy requires TFIP fixed income investments to be invested in investment grade securities (Baa3/BBB- or higher) with the exception up to 10% of the pool which may be invested in below investment grade securities. Credit risk for the internal and external managers for the RFBP is as follows:

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

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

1. limiting investments to Permissible Securities on the Approved List
2. prequalifying the financial institutions, brokers/dealers, intermediaries and advisers with whom the STIP will conduct business; and
3. diversifying the portfolio so potential losses on individual securities will be minimized."

The US Government guarantees US Government securities directly or indirectly. Obligations of the US Government or obligations explicitly guaranteed by the US Government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40. The Standard & Poor (S&P) rating service provides the credit ratings presented in the later tables. If an S&P rating is not available, a NRSRO rating is used.

Per the MDEP, RFBP, MPEP, MTRP and MTIP investment policies, cash investments are only allowed in the custodian bank's short-term investment fund, STIP, or any SEC-registered money market fund, all of which specifically address credit risk in their respective investment guidelines.

Of the 18 individual Investment Policy Statements for the funds categorized as the AOF, 14 funds have specific policies associated with credit risk. The remaining funds have no policy addressing credit risk. One fund requires corporate securities be rated A3/A- or higher by NRSRO to qualify for purchase. One fund requires fixed income investments, at the time of purchase, to be rated investment grade as defined either by Moody's or by NRSRO. This fund's investment policy states "the maximum fixed income credit risk will be limited to 2% of the total securities portfolio in any one name." Five funds require, at the time of purchase, "the quality rating of any corporate bond shall be in the top of the single-A rating classification or better at the time of purchase (e.g. A1/A+ or higher) and have at least two ratings. Exposure to the securities of any one U.S. Agency is limited to 5% and in no event will an agency security be purchased if it carries a rating that is less than top-rated (AAA) at the time of purchase." Two funds require "fixed income securities must be rated at least A- or A3 at the time of purchase." A portion of one fund's portfolio may have modest credit risk while the remainder has a low tolerance for credit risk. One fund assumes some risk of loss of principal to provide a return sufficient to fund objectives. Three funds may assume low risk of principal loss.

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

<u>Custodial Credit Risk</u>
BOI's custodial institution must hold short-term and long-term credit ratings by at least one NRSRO with a minimum requirement of A1/P1 (short-term) and A3/A-1 (long-term).

Cash
Custodial risk for cash is the risk that, in the event of the failure of the custodial institution, the cash or collateral securities may not be recovered from an outside party. For any cash balances held as deposits of the custodial bank or sub-custodial bank, they are held in the name of BOI or its accounts. As of June 30, 2015, BOI recorded cash of $4.6 million.

Investments
Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, BOI may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2015, 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.

<u>Concentration of Credit Risk</u>
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 Portfolios and TFIP Investment Policy Statements (IPS) provide for a 2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities. The four RFBP external managers are limited to debt obligations of domestic and foreign corporations up to 3% of portfolio assets per issuer.

STIP

The STIP Investment Policy specifies concentration of credit risk exposure by limiting portfolio investment types 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 nine funds, the 18 investment policy statements for various AOF state agencies do not address concentration of credit risk. One fund provides for a concentration limitation pertaining to repurchase obligations. The policy for another fund states, “the fixed income holdings rated lower than A3 or A- are limited to 25% of the fixed income portfolio at the time of purchase.” This same fund is limited to stock investments not to exceed 12% of the book value of its total invested assets. In addition, this fund’s and another fund’s IPS provides for a “2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities.” One fund’s corporate risk is limited to investing 3% in any one name. The policy for five funds sets “investment limits to reduce the risk of loss on individual corporate bonds, investment purchases in any one credit will be limited to 1% of the market value of the fund at the date of purchase or 2% of the lowest projected fund balance before the securities mature, whichever is lower”. Limits are also set by corporate bond sector for these five funds. Investments by various governmental agencies, pooled as AOF, are excluded from the concentration of credit risk requirement. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2015.

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, 2015, exchange date, BOI’s foreign currency exposure by forward contracts, deposits and investment type are reported, in US dollars, at fair value in the tables in section C of this note excluding the foreign investments denominated in US dollars for the American Depositary Receipts (ADRs), sovereign debt and commingled index funds.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with GASB Statement No. 40, BOI uses effective duration as a measure of interest rate risk for the Bond Pool and AOF portfolios. BOI’s analytic software uses “an option-adjusted measure of a bond’s (or portfolio’s) sensitivity to changes in interest rates. Duration is defined as the average percentage change in a bond’s price for a given change in interest rates. Prices move inversely to interest rates. The effective duration method incorporates the effect of embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-through securities, CMO, and ARM securities).” The TFIP and CIBP’s duration is to remain within 20% of the established Index duration. Duration for two fixed income external managers must be within 25% of the established Index duration. MDEP domestic equity managers are allowed to maintain up to 5% of assets in short-term investments and index domestic equity managers are allowed to maintain up to 3% of assets in short-term investments and individual securities. MTIP international equity managers are allowed to maintain up to 5% of assets in short-term investments. With the exception of three funds, the AOFs’ investment policies do not formally address interest rate risk. One fund limits securities to three years to maturity and repurchase agreements seven days to maturity. A second fund’s policy sets an average duration range of 2-5 years for fixed income securities except in extraordinary circumstances where a shorter duration may be advisable. A third fund’s policy limits securities to 1-5 year US Treasury/Agency securities tolerating modest interest rate risk. Eight funds have the “ability to assume interest rate risk.” According to the STIP investment policy “the STIP portfolio will minimize interest rate risk by:

1. structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
2. 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 fixed coupon holdings in the Bond Pools and AOF accounts pay a fixed rate of interest until maturity while floating rate securities pay a variable rate of interest until maturity. As of June 30, 2015, these three portfolios and the STIP portfolio held certain variable rate issues. Interest payments on these securities are based on an underlying reference rate, e.g., LIBOR.

Bond Pool and AOF investments are categorized to disclose credit and interest rate risk as of June 30, 2015. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated investment types. NA (not applicable) indicates if duration has not been calculated.

STIP investments are categorized to disclose credit risk and weighted average maturity (WAM) as of June 30, 2015. Credit risk reflects the weighted security quality rating by investment type as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated. The short-term credit ratings, provided by S&P's rating services are presented. An A1+ rating is the highest short-term rating by the S&P rating service. STIP interest rate risk is determined using the WAM method. The WAM measure expresses investment time horizons – the time when investments are due or reset and payable in days, months or years – weighted to reflect the dollar size of the individual investments within an investment type. The WAM is calculated in days.

<u>Legal and Credit Risk</u>

STIP

In January 2007, BOI purchased a $25 million par issue of Orion Finance USA. In April 2007, BOI purchased two issues of Axon Financial Funding totaling $90 million par and another $25 million par issue of Orion Finance USA. As of June 30, 2007, these Structured Investment Vehicle (SIV) securities held in the STIP portfolio carried a combined amortized cost of $140.0 million representing 5.02% of the total portfolio. At the time of purchase and as of June 30, 2007, these four issues received the highest investment grade rating of AAA by S&P and Aaa by Moody's. Since June 30, 2008, and through June 30, 2010, these issues carried a D rating by S&P. On November 20, 2007, Axon Financial Funding declared an insolvency event. Orion Finance USA declared an insolvency event on January 14, 2008. On the January and April 2008 maturity dates, these securities matured at their amortized cost of $140 million. BOI has determined that it is in the best interest of the STIP to continue to hold these securities in the investment portfolio as further described below.

Axon Financial Funding payments totaled $27.5 million since November 2008 to October 2011. On July 6, 2010, Axon Financial Funding foreclosed with the issuance of a promissory note for $66.8 million from AFF Financing LLC with a July 5, 2011, maturity date. Fiscal year 2015 payments from AFF Financing LLC totaled $8.2 million consisting of $8.2 million in principal and $52 thousand in interest. On June 3, 2015, BOI elected to extend the AFF Financing LLC promissory note maturity date to July 2, 2016. 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, 2015, the AFF Financing LLC, classified as an Other Asset Backed security, has an outstanding amortized cost balance of $14.7 million. Refer to Note 17–Subsequent Events for additional information.

On October 14, 2009, BOI received its initial payment from Orion Finance USA. From this date through November 2010, payments from Orion Finance USA included principal of $13.4 million and interest compensation of $1.8 million in excess of the $904 thousand accrued interest receivable for a total of $16.1 million. In November 2010, Orion Finance Corporation "granted a security interest in substantially all of its assets (the Collateral) to the Bank of New York Mellon, as Security Trustee." On December 8, 2010, the Security Trustee conducted "a public sale of 60 structured credit and 7 financial securities including but not limited to asset backed securities, collateralized debt obligations, collateralized loan obligations and residential mortgage backed securities included within the Collateral." BOI participated in the sale and collectively holds these individual securities as Orion Finance. From December 2010 through June 2015, BOI received principal and interest payments of $15.9 million and $2.6 million, 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, 2015, the Orion Finance collective holding, classified as Other Asset Backed, has an outstanding amortized cost balance of $13.2 million. Refer to Note 17–Subsequent Events for additional information.

STIP, Bond Pool and AOF
The Federal National Mortgage Association and Federal Home Loan Mortgage Corp. remain in conservatorship from September 7, 2008.

Bond Pool and AOF
On September 14, 2008, Lehman Brothers filed for Chapter 11 bankruptcy. The Bond Pool and AOF portfolios held a $15 million position in a Lehman Brothers Holdings, Inc., variable rate security with a May 25, 2010, maturity. The AOF portfolio also includes a $5 million position in Lehman Brothers Holdings, Inc., 5% rate, and January 14, 2011, maturity. As of September 30, 2008, the book value of these bond positions was written down to 80% of par. On October 30, 2008, the book value of these bonds was further written down to 65% of par. Four additional write downs occurred during fiscal year 2009. In May 2009, BOI sold a $5 million position in Lehman Brothers Holdings, Inc., variable rate security, held by the RFBP internal bond pool. This holding, written down to $1 million, was sold at a loss of $313 thousand. As of June 30, 2011, the book value of the remaining bonds represented 20% of par.

BOI sold the $5 million AOF position in Lehman Brothers Holdings, Inc. 5% rate, January 14, 2011, maturity at a price of $26 on December 6, 2011. Due to the fact that the bonds were previously written down to a price of $20, this sale generated a gain of $322 thousand. For the remaining $10 million variable rate position in Lehman Brothers Holdings, Inc. held in the TFIP and AOF portfolios, BOI applied $519 thousand in principal from the October 2013 bankruptcy payment resulting in a book value of $1 each as of June 30, 2014. For fiscal year ending June 30, 2015, BOI recorded a $464 thousand dollar October 2014 payment to gain and a $319 thousand dollar April payment to gain.

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

A credit default swap is a contract to transfer credit exposure of fixed income products between parties. A foreign currency forward is a contract to purchase one currency and sell another at an agreed upon exchange rate. Fair value represents the unrealized appreciation/depreciation on foreign currency forward transactions pending as of year-end and is the difference between the execution exchange rate and the prevailing exchange rate as of the report date. Index futures long 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.

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

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

STIP Reserve Expense
(in thousands)

Other income	
Accrued interest received on SIV related assets	$260
Realized gains on sale of any STIP asset	134
Daily reserve accrual	3,757
Total reserve expense	$4,151

The STIP reserve balance was $28.6 million as of June 30, 2015.

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	$129,512
Uninsured and uncollateralized cash	5,650
Undeposited cash	411
Cash in US Treasury	279,562
Cash in MSU component units	8,306
Cash in UM component units	8,501
Less: outstanding warrants	(66,781)
	$365,161

As of June 30, 2015, the carrying amount of deposits for component units was $150.5 million as included in Table 1.

(2) Cash Equivalents – consists of cash in the State Treasury invested by individual funds in the Short-term Investment Pool (STIP), the State Treasurer's pooled cash account, and in identifiable securities and investments considered to be cash equivalents. Cash equivalents, generally, are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents may be under the control of 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	$ 779,579	A1	25
Corporate commercial paper	101,299	A1	102
Corporate - variable	571,672	A1+	42
Certificate of deposit – fixed	150,000	A1	259
Certificate of deposit – variable	450,000	A1+	47
Other asset backed	27,821	NR	NA
US government agency fixed	134,334	A1+	236
US government agency variable	239,008	A1+	24
Money market fund unrated	319,185	NR	1
Money market fund rated	3,000	A1+	1
Repurchase agreement (1)	5,141	AA+	0
US government direct obligations	59,910	0	NA
Less: STIP included in pooled investment balance	(63,298)	NR	NA
Total cash equivalents (4)	$ 2,777,651		52
Securities lending collateral investment pool (2)	$ 5,806	NR	(See note 3)

(1) As of June 30, 2015, the repurchase agreement was collateralized at 102% for $5.2 million by a Federal Loan Mortgage Corporation Gold security maturing November 1, 2024. The security carries an AA+ credit quality rating.

(2) As of June 30, 2015, the fair value of the cash equivalents was $5.7 million. Collateral provided for the cash equivalents totaled $5.8 million in cash. See also the Table 4 disclosed in Note 3 D – Investments.

(3) As of June 30, 2015, the Securities Lending Quality Trust liquidity pool has an average duration of 30 days and an average weighted final maturity of 115 days for US dollar collateral. In March 2015, all holdings in Securities Lending Duration Pool were sold.

(4) As of June 30, 2015, local governments invested $574.5 million and component units of the State of Montana invested $360.9 million 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	$2,586,532	$ 3,983,061
TFIP:		
Trust funds investment pool	2,137,529	2,255,336
RFBP:		
Retirement funds bond pool	2,202,707	2,220,321
MTIP:		
International equity pool	1,384,595	1,667,787
MPEP:		
Private equity pool	961,696	1,075,838
MTRP:		
Real estate pool	787,262	891,291
Total pooled investments	10,060,321	12,093,634
Pool adjustments (net)	31,961	31,961
Total equity in pooled investments	$10,092,282	$12,125,595

As of June 30, 2015, the fair value of the underlying securities on loan was $879.5 million. Collateral provided for the securities on loan totaled $897.3 million consisting of $479.2 million in cash and $418.1 million in securities.

As of June 30, 2015, component units of the State of Montana had equity in pooled investments with a book value of $5.506 billion and a fair value of $9.995 billion as included in Table 3.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2015, as required for applicable pools. Credit risk reflects the bond quality rating, by investment type, as of June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated investment types. If duration has not been calculated, duration is indicated by NA (not applicable).

TFIP
Credit Quality Rating and Effective Duration as of June 30, 2015
(in thousands)

Security Investment Type (1)	**Fair Value**	**Credit Quality Rating**	**Effective Duration**
Treasuries	$ 437,060	AA+	7.24
Agency/Government Related	101,462	AA-	7.49
Asset Backed Securities	110,402	AAA	2.19
Mortgage Backed Securities	491,533	AA+	4.63
Commercial Mortgage Backed Securities	185,672	AA+	4.59
Financial – Corporate	214,548	A-	4.59
Industrial – Corporate	327,586	A-	6.44
Utility – Corporate	66,061	BBB	5.85
Short Term Investment Pool (STIP)	41,971	NR	0.14
State Street Repurchase Agreement	6,497	AA-	0.00
Core Real Estate	166,310	NR	NA
High Yield Bond Fund	106,234	B+	4.40
Total Investments	$2,255,336	AA-	5.39
Securities lending collateral investment pool	$ 95,558	NR	.08 (2)

(1) For June 30, 2015, the Security Investment Type categories were changed to more accurately reflect the categories reported to BOI.

(2) Previously the Securities Lending Collateral Investment Pool was comprised of the Securities Lending Quality Trust Liquidity Pool and the Securities Lending Duration Pool. In March 2015 all holdings in the Securities Lending Duration Pool were sold.

RFBP
Credit Quality Rating and Effective Duration as of June 30, 2015
(in thousands)

Security Investment Type (1)	**Fair Value**	**Credit Quality Rating**	**Effective Duration**
Treasuries	$ 458,084	AA+	8.04
Agency/Government Related	113,958	AA-	6.16
Asset Backed Securities	108,113	AA+	2.40
Mortgage Backed Securities	442,453	AA+	5.17
Commercial Mortgage Backed Securities	188,443	AA+	4.19
Financial – Corporate	288,443	A-	3.74
Industrial – Corporate	470,416	BBB	5.84
Utility – Corporate	53,782	BBB-	6.10
Short Term Investment Pool (STIP)	1,143	NR	0.14
State Street Short Term Investment Fund (STIF)	85,807	AAA	0.09
Other	658	BB	3.97
Total fixed-income investments	$ 2,211,300	A+	5.37
Direct Investments			
Montana Mortgages	7,999	NR	NA
Preferred Stock (2)	1,017	BB+	NA
Common Stock (2)	5		
Total Direct Investments	$ 9,021		
Total Investments	$ 2,220,321		
Securities lending collateral investment pool	$ 161,990	NR	.08 (3)

(1) For June 30, 2015, the Security Investment Type categories were changed to more accurately reflect the categories reported to BOI.

(2) Due to a May 2012 bankruptcy restructuring, the RFBP received 259 shares of common stock and 400 warrants for its investment in General Maritime Corporation. In addition to the common stock and warrants, the RFBP held 4,400 shares of Southern Cal Ed as perpetual preferred stock and 15,000 shares of GMAC Capital Trust I as cumulative preferred stock as of June 30, 2015.

(3) Previously the Securities Lending Collateral Investment Pool was comprised of the Securities Lending Quality D Short Term Investment Fund Liquidity Pool and the Securities Lending Duration Pool. In March 2015 all holdings in the Securities Lending Duration Pool were sold.

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, 2015, classified by type, and the changes in the fair value of such derivative instruments for the year ended June 30, 2015, as reported in the 2015 financial statements, are as follows (in thousands):

	Change in Fair Value		Fair Value at June 30, 2015		
Investment Derivatives (1)	**Classification**	**Amount**	**Classification**	**Fair Value Amount**	**Notional**
Credit default swaps	Investment Revenue	$ 425	Swaps	$ 69	1,099
Currency forward contracts	Investment Revenue	2,946	LT debt/equity	151	22,750
Index futures long	Investment Revenue	735	Futures	-	4
Rights	Investment Revenue	81	Equity	-	162
Warrants	Investment Revenue	-	Equity	-	-
Total Derivatives		$ 4,187		$ 220	

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

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

Maximum Loss before and after Netting and Collateral (in thousands)		
Maximum amount of loss BOI would face in case of default of all counterparties i.e. aggregated (positive) fair value of Over-the-Counter positions as of June 30, 2015	$	421
Effect of collateral reducing maximum exposure		-
Liabilities subject to netting arrangements reducing exposure		-
Resulting net exposure	$	421

Counterparty Name	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
Deutsche Bank London	27%	BBB+	A	A3
Westpac Banking Corp	25%	AA-	AA-	Aa2
Goldman Sachs Capital	16%	A-	A	A3
JP Morgan Chase Bank	12%	A+	AA-	Aa3
Royal Bank of Canada	10%	AA-	AA	Aa3
Citibank N.A.	5%	A	A+	A1
Royal Bank of Scotland	5%	BBB+	BBB+	A3

As of the June 30, 2015, exchange date, BOI's foreign currency exposure by forward contracts, deposits and investment type are reported, in US dollars, at fair value in the table below excluding the foreign investments denominated in US dollars for the American Depositary Receipts, sovereign debt and commingled index funds.

Foreign Currency Exposure by Country
(in thousands)

Foreign Currency Denomination	Currency	Fixed Income	Equities	Private Equity	Real Estate
Australian Dollar	$ 79	$ 1,396	$ 21,298	$ -	$ -
Brazilian Real	57	1,733	9,779	-	-
Canadian Dollar	66	1,579	24,504	-	-
Danish Krone	-	-	8,136	-	-
EMU – Euro	97	4,907	78,700	25,150	10,911
Hong Kong Dollar	284	-	19,899	-	-
Hungarian Forint	1	-	-	-	-
Indonesian Rupiah	1	-	159	-	-
Israeli Shekel	-	-	318	-	-
Japanese Yen	447	-	68,528	-	-
Korean Fortnit	-	-	12,068	-	-
Malaysian Ringgit	17	-	493	-	-
Mexican Peso	67	1,800	2,666	-	-
New Zealand Dollar	11	2,095	-	-	-
New Israeli Sheqel	165	-	767	-	-
Norwegian Krone	8	-	3,956	-	-
Philippine Peso	6	-	3,454	-	-
Polish Zloty	-	-	1,778	-	-
Singapore Dollar	64	-	7,509	-	-
South African Rand	5	-	6,594	-	-
South Korean Won	51	-	-	-	-
Swedish Krona	(1)	-	17,631	-	-
Swiss Franc	41	-	21,309	-	-
New Taiwan Dollar	7	-	11,318	-	-
Thailand Baht	6	-	2,450	-	-
Turkish Lira	17	-	3,080	-	-
UK Pound Sterling	172	916	79,757	-	-
Total Cash and Securities	$1,668	$14,426	$406,151	$25,150	$10,911

Investments in private equity and private real estate are usually made via Limited Partnership Agreements that involve many limited partners and a General Partner who is responsible for all investment decisions. The Limited Partners make an original commitment, after which capital is called as needed by the General Partner to make investments. These Agreements will usually last for a minimum of 10 years. The table below shows the remaining BOI commitments to private equity and private real estate funds. For further details on the balances as of June 30, 2015, as shown below, please refer to the Montana Board of Investments separately issued external investment pool financial statements.

Commitments to Fund Managers
(in thousands)

	Original Commitment	Commitment Remaining	Carrying Value	Fair Value
MPEP Commitments	$ 2,115,722	$ 590,314	$ 906,840	$ 1,011,488
MTRP Commitments	602,598	189,831	283,714	300,000
Total	$ 2,718,320	$ 780,145	$ 1,190,554	$ 1,311,488

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	55.78%
Universities	17.45
MPERA (Montana Public Employee Retirement Administration)	15.88
College Savings Plan	4.40
Montana Board of Housing	3.44
Other (1)	3.05
Total	100.00%

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

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

The PERS Defined Contribution Retirement Plan and the Deferred Compensation Plan's fixed assets were invested and managed on behalf of the plans by Pacific Investment Management Company (PIMCO) and State Street Bank Kansas City (SSKC) and a third-party insurer, Transamerica. The third party record keeper, Great-West Retirement Services, tracks and reports the daily trading and valuations of all investment options, including the assets held by the individual mutual fund companies. When participants invest in the fixed investment, they are guaranteed a rate of return. All money invested in the Montana Stable Value Fixed Fund of the PERS-DCRP and Deferred Compensation Plan are invested in the Pooled Trust. The Pooled Trust assets are invested by PIMCO based on an investment guideline schedule as agreed upon in the Pooled Trust Contract and approved by the PERB, PIMCO, and any third party insurers, such as Transamerica. Variable investments are held and managed by a selection of retail and institutional mutual funds, which cover all standard asset classes and categories.

Table 4 – Investments
(in thousands)

	Carrying Amount	Fair Value
Primary government		
Corporate (1)	$ 40,695	$ 41,055
Asset Backed Securities (1)	130,547	130,514
Agency/Government Related (1)	84,438	86,562
Treasuries (1)	18,114	18,841
Government Securities	9,613	9,823
STIP/SIV Investments	4,366	4,366
Mortgaged Backed Securities (1)	52	55
Other	70,422	70,444
Total	$ 358,247	$ 361,660
Component units/fiduciary funds		
Corporate (1)	$ 635,686	$ 657,115
Asset Backed Securities (1)	50,855	50,857
Mortgage Backed Securities (1)	4,884	5,238
Agency/Government Related (1)	290,330	298,493

Table 4 – Investments
(in thousands)

	Carrying Amount	Fair Value
Treasuries (1)	$ 188,428	$ 196,639
STIP/SIV Investments	8,248	8,248
Other Equities (1)	80,253	170,665
Deferred Compensation	356,836	439,464
Defined Contribution	104,264	141,846
529 College Savings Plan	127,820	127,820
VEBA	4,111	4,394
Investments of MSU Component Units	245,365	245,365
Investments of UM Component Units	261,527	263,414
Real Estate (1)	75,000	84,590
Other	100,060	106,037
State Auditor	12,653	12,467
Total	$ 2,546,320	$ 2,812,652
Total investments	$ 2,904,567	$ 3,174,312
Securities lending collateral investment pool (2)	$ 135,211	$ 135,211

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

(2) Previously the Securities Lending Collateral Investment Pool was comprised of the Securities Lending Quality Trust Liquidity Pool and the Securities Lending Duration Pool. In March 2015 all holdings in the Securities Lending Duration Pool were sold.

As of June 30, 2015, the fair value of the investments on loan was $218.8 million. Collateral provided for the investments on loan totaled $223.3 million consisting of $135.2 million in cash and $88.1 million in securities.

All Other Funds - Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2015
(in thousands)

Security Investment Type (1)	Fair Value	Credit Quality Rating	Effective Duration
Treasuries (2)	$ 274,462	AA+	3.47
Agency/Government Related (2)	495,577	AA+	2.85
Asset Backed Securities (2)	59,451	AAA	2.15
Mortgage Backed Securities (2)	5,293	AA+	2.21
Financial – Corporate (2)	347,541	A	3.38
Industrial – Corporate (2)	274,182	A	3.69
Utility – Corporate (2)	48,558	BBB+	4.43
US Bank sweep repurchase agreement (2)(3)	5,141	AA+	0.00
	$1,510,205	AA-	3.26

(1) For June 30, 2015, the Security Investment Type categories were changed to more accurately reflect the categories reported to BOI.

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

(3) The US Bank repurchase agreement, per contract, was collateralized at 102% for $5.2 million by a Federal Home Loan Mortgage Corporation Gold security maturing November 1, 2024. This security carries AA+ credit quality ratings.

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

Accounts receivable, accounts payable, deferred outflows of resources and deferred inflows of resources on the Statement of Net Position as of June 30, 2015, consisted of the following (in thousands):

A. Accounts Receivables

	Governmental Activities						
	General	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental	Internal Service
Licenses and permits	$ -	$ 9,061	$ -	$ -	$ -	$ -	$ -
Taxes	351,059	65,598	-	6,931	-	1,751	-
Charges for services/fines/forfeitures	329	6,582	4,547	-	-	-	420
Investment income	374	3,294	-	2,835	1,833	3,481	185
Contributions/premiums	-	8,403	-	-	-	-	2,477
Reimbursements/overpayments	10,997	12,378	362	-	-	-	1
Grants/contracts/donations	-	-	11	-	-	-	-
Other	5,504	195	19,571	-	-	1,209	-
Total receivables	368,263	105,511	24,491	9,766	1,833	6,441	3,083
Less: allowance for doubtful accounts	(115,900)	(22,536)	(1,783)	-	-	(1)	(7)
Receivables, net	$252,363	$82,975	$22,708	$9,766	$1,833	$6,440	$3,076

	Business-type Activities		
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise
Charges for services	$ -	$ -	$22,944
Investment income	-	14,132	119
Contributions/premiums	6,246	-	4,099
Reimbursements/overpayments	1,603	-	-
Other	-	-	13
Total receivables	7,849	14,132	27,175
Less: allowance for doubtful accounts	(3,511)	-	(245)
Receivables, net	$4,338	$14,132	$26,930

B. Accounts Payables

	Governmental Activities				
	General	State Special Revenue	Federal Special Revenue	Nonmajor Governmental	Internal Service
Tax refunds	$144,373	$ -	$ -	$ -	$ -
Vendors/individuals	114,576	98,543	140,858	1,310	12,302
Payroll	17,349	16,182	6,483	8	2,771
Accrued Interest	228	180	4	2,706	11
Payables, net	$276,526	$114,905	$147,345	$4,024	$15,084

	Business-type Activities		
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise
Vendors/individuals	$3,980	$ 1	$17,137
Payroll	-	17	778
Accrued interest	-	82	5
Payables, net	$3,980	$100	$17,920

C. Deferred Outflows of Resources

	Governmental Activities				
	General	State Special Revenue	Federal Special Revenue	Nonmajor Governmental	Internal Service
Pension deferred outflows (1)	$180,853	$38	$4	$ -	$3,498
Refunding deferred outflows	-	-	-	4,044	-
Total deferred outflows	$180,853	$38	$4	$4,044	$3,498

	Business-type Activities	
	Economic Development Bonds	Nonmajor Enterprise
Pension deferred outflows (1)	$23	$874
Total deferred outflows	$23	$874

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

D. Deferred Inflows of Resources

	Governmental Activities (2)				
	General	State Special Revenue	Federal Special Revenue	Nonmajor Governmental	Internal Service
Pension deferred inflows (1)	$293,402	$84	$12	$ -	$10,036
Refunding deferred inflows	-	-	-	1,223	-
Total deferred inflows	$293,402	$84	$12	$1,223	$10,036

	Business-type Activities	
	Economic Development Bonds	Nonmajor Enterprise
Pension deferred inflows (1)	$63	$3,096
Total deferred inflows	$63	$3,096

(1) Further detail regarding pension related deferred inflows of resources is provided in Note 6.
(2) Deferred inflows of resources reported on the governmental fund financial balance sheet includes balances of unavailable revenue as of June 30, 2015.

NOTE 5. CAPITAL ASSETS

Changes in capital asset balances for the fiscal year ended June 30, 2015, are reflected in the following table (in thousands):

Governmental Activities	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not being depreciated:				
Land	$ 636,483	$ 18,226	$ (252)	$ 654,457
Construction work In progress	890,609	934,750	(834,289)	991,070
Easements	144,434	2,584	-	147,018
Museum and art	65,252	105	-	65,357
Other	11,789	380	-	12,169
Total capital assets not being depreciated	1,748,567	956,045	(834,541)	1,870,071
Capital assets being depreciated:				
Infrastructure	4,525,776	367,893	(172,232)	4,721,437
Land improvements	54,021	3,384	-	57,405
Buildings/improvements	563,685	20,431	(1,578)	582,538
Equipment	347,356	26,936	(18,842)	355,450
Easements - amortized	1,742	-	(73)	1,669
Other	6,628	151	(98)	6,681
Total capital assets being depreciated	5,499,208	418,795	(192,823)	5,725,180
Less accumulated depreciation for:				
Infrastructure	(1,494,914)	(226,571)	172,232	(1,549,253)
Land improvements	(19,896)	(2,428)	-	(22,324)
Buildings/improvements	(317,021)	(21,489)	1,200	(337,310)
Equipment	(222,695)	(20,947)	15,580	(228,062)
Other	(5,114)	(226)	7	(5,333)
Total accumulated depreciation	(2,059,640)	(271,661)	189,019	(2,142,282)
Total capital assets being depreciated, net	3,439,568	147,134	(3,804)	3,582,898
Intangible assets	42,814	14,456	(17,967)	39,303
Governmental activities capital assets, net	$5,230,949	$1,117,635	$(856,312)	$5,492,272

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

Business-type Activities	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not being depreciated:				
Land	$ 800	$ -	$ -	$ 800
Construction work In progress	3,257	1,569	(2,929)	1,897
Other	4,154	204	-	4,358
Total capital assets not being depreciated	8,211	1,773	(2,929)	7,055
Capital assets being depreciated:				
Infrastructure	1,162	2	-	1,164
Land improvements	3,830	-	-	3,830
Buildings/improvements	7,514	-	-	7,514
Equipment	9,904	1,665	(75)	11,494
Total capital assets being depreciated	22,410	1,667	(75)	24,002
Less accumulated depreciation for:				
Infrastructure	(665)	(16)	-	(681)
Land improvements	(1,319)	(149)	-	(1,468)
Buildings/improvements	(5,492)	(253)	-	(5,745)
Equipment	(6,995)	(941)	39	(7,897)
Total accumulated depreciation	(14,471)	(1,359)	39	(15,791)
Total capital assets being depreciated, net	7,939	308	(36)	8,211
Intangible assets	250	-	(66)	184
Business-type activities capital assets, net	$16,400	$2,081	$(3,031)	$15,450

(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	$ 10,506
Public Safety	7,957
Transportation including depreciation of the highway system maintained by the state.	229,703
Health and Human Services	2,516
Education	430
Natural Resources (including depreciation of the state's dams)	9,529
Depreciation on capital assets held by the internal service funds is charged to the various functions based on their usage of the assets	11,020
Total depreciation expense – Governmental Activities	$271,661

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

	Amount
Liquor Stores	$ 225
State Lottery	492
Prison Funds	424
West Yellowstone Airport	165
Other Enterprise Funds	53
Total depreciation expense - Business-type Activities	$1,359

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

NOTE 6. RETIREMENT PLANS

A. General

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

Public Employees' Retirement Board

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

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

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

Teachers' Retirement System

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

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

A summary of the number of participating employer and nonemployer participating entities as of June 30, 2015, follows:

Classification of Participant	GWPORS	PERS-DBRP	PERS-DCRP	SRS	MPORS	FURS	VFCA	TRS
Employer	7	539	278	57	32	26	219	365
Nonemployer contributing entity	-	1	-	-	1	1	1	1
Total Participants	7	540	278	57	33	27	220	366

There are approximately 400 State employees who are eligible to participate in defined benefit pension plans, other than the plans listed above. If these employees do choose to participate in any of these other plans the State is required to make contributions to the respective plan.

B. Summary of Significant Accounting Policies

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

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

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

C. Public Employee Defined Benefit Retirement Plan

A summary of classes of members in JRS, HPORS, GWPORS, PERS-DBRP, SRS, MPORS, FURS, VFCA, TRS, PERS-DCRP, and 457-Deferred Compensation covered by benefit terms at June 30, 2015, follows:

Type of Plan for Reporting Purposes	Single-Employer Defined Benefit			Multi-Employer Defined Benefit						Multi-Employer Defined Contribution	
Plan Designation	**JRS**	**HPORS**	**GWPORS**	**PERS-DBRP**	**SRS**	**MPORS**	**FURS**	**VFCA**	**TRS**	**PERS-DCRP**	**457-DC**
Classification of Member											
Active	55	241	993	28,237	1,336	743	627	1,977	18,316	2,284	4,708
Inactive entitled to, but not yet receiving, benefits or a refund:											
Vested	2	11	95	2,925	81	60	21	905	1,664	319	4,000
Nonvested	-	13	235	8,839	342	103	71	-	12,839	549	-
Inactive members and beneficiaries currently receiving benefits:											
Service retirements	64	305	217	20,080	523	694	580	1,371	12,992	20	-
Disability retirements	-	7	4	176	32	21	9	-	204	6	-
Survivor benefits	3	15	10	425	22	29	20	-	1,643	4	-
Total Membership	124	592	1,554	60,682	2,336	1,650	1,328	4,253	47,658	3,182	8,708

A summary of pension liability, pension assets, net pension liability/(asset), pension expense/(income), deferred outflows of resources, and deferred inflows of resources by plan and total for the State as an employer entity reported as of June 30, 2015, based on a June 30, 2014, actuarial valuation, follows with amounts presented in thousands:

System	Employer's Total Pension Liability	Employer's Pension Assets	Employer's Net Pension Liability/(Asset)	Employer's Pension Expense/(Income)	Employer's Deferred Outflows of Resources	Employer's Deferred Inflows of Resources
JRS	$51,632	$84,223	($32,591)	($1,930)	$1,684	$5,453
HPORS	183,133	126,010	57,123	5,169	5,782	8,214
GWPORS	153,864	138,743	15,121	3,526	4,062	8,787
PERS-DBRP	3,293,903	2,630,729	663,174	50,631	59,169	171,609
SRS	18,059	15,755	2,304	129	388	3,365
FURS	7,755	5,949	1,806	200	361	359
TRS	243,448	171,280	72,168	6,853	26,164	11,776
Totals	$3,951,794	$3,172,689	$779,105	$64,578	$97,610	$209,563

(1) State as the Single Employer

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

Summary of Benefits

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

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

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

Vesting
5 years of membership service.

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

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

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

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

Member contributions to the system - Contributions are deducted from each member's salary and remitted by the participating employer. Plan members are required to contribute 7.0% of the member's monthly compensation.

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

Actuarial Assumptions
The total pension liability/(asset) as of June 30, 2014, is based on the results of an actuarial valuation as of June 30, 2013, with update procedures used to roll forward the total pension liability/(asset) to June 30, 2014. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the last actuarial experience study dated May 2010 for the six year period of July 1, 2003, to June 30, 2009. Among those assumptions were the following:

- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0%
- Investment Return 7.75%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit:
    - 3% for members selecting GABA or hired on or after July 1, 1997
    - Current monthly salary of an active member in the same position, if hired prior to July 1, 1997, and not electing GABA

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

Discount Rate
The discount rate used to measure the total pension asset was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under Montana Code Annotated (MCA). Based on those assumptions, the JRS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset. No municipal bond rate was incorporated in the discount rate.

Target Allocations
The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the JRS. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the JRS's target asset allocation as of June 30, 2014, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%

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

	(in thousands) 1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
JRS Net Pension (Asset)	($27,643)	($32,591)	($36,877)

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

	(dollars presented in thousands)		
	Net Pension Liability (Asset) as of 6/30/13	**Net Pension Liability (Asset) as of 6/30/14**	**Percent of Collective NPA**
Employer's Proportionate Share	($23,889)	($32,591)	100%

At June 30, 2015, the employer reported a net pension asset of $32.6 million for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of June 30, 2013, with update procedures used to roll forward the total pension liability to June 30, 2014. The employer's proportion of the net pension asset was based on the employer's contributions received by JRS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of the JRS participating employers. At June 30, 2014, the State's proportion as an employer was 100%.

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

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

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

Other Items Related to and Changes in Net Pension Asset

	(in thousands)		
	Total Pension Liability	**Plan Fiduciary Net Position**	**Net Pension Liability/(Asset)**
Balances at 6/30/2013	$49,237	$72,793	($23,556)
Service Costs	1,594	-	1,594
Interest	3,824	-	3,824
Contributions - employer	-	1,651	(1,651)
Contributions - member	-	481	(481)
Net Investment Income	-	12,421	(12,421)
Benefit Payments	(3,023)	(3,023)	-
Administrative Expense	-	(100)	100
Net Changes	2,395	11,430	(9,035)
Balances at 6/30/2014	$51,632	$84,223	($32,591)

Pension Expense

	(in thousands)
	Pension Expense/(Income) as of 6/30/14
Employer's Proportionate Share	($1,930)

At June 30, 2015, the employer recognized a pension expense/(income) of ($1.9) million for the JRS.

Deferred Outflows and Inflows

At June 30, 2015, the employer recognized a beginning deferred outflow of resources for fiscal year 2014 contributions of $1.7 million.

As of the fiscal year ended June 30, 2015, remaining deferred outflows of resources and deferred inflows of resources related to the JRS are from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	-	$5,453
Contributions paid to JRS subsequent to the measurement date - FY 2015 Contributions	$1,684	-
Totals	$1,684	$5,453

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2014, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

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

Year ended June 30:	*(in thousands)* Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2016	($1,363)
2017	(1,363)
2018	(1,363)
2019	(1,364)
2020	-
Thereafter	-

Highway Patrol Officers' Retirement System – The HPORS, administered by the MPERA, is a single-employer defined benefit plan established in July 1, 1945, and governed by Title 19, chapters 2 & 6, MCA. This plan provides retirement benefits to all members of the Montana Highway Patrol, including supervisory personnel. Benefits are established by state law and can only be amended by the Legislature. The HPORS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after 5 or 10 years of service.

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, MCA. This lump-sum payment is funded by a portion of the fees collected from drivers' license and duplicate drivers' license application fees. It is requested by the PERB from the General Fund through statutory appropriation. This enhancement is limited to non-GABA (Guaranteed Annual Benefit Adjustment) retirees.

Summary of Benefits

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

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

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

Vesting
Hired prior to July 1, 2013 - 5 years of membership service.

Hired on or after July 1, 2013 - 10 years of membership service.

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

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

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

Minimum Monthly Benefit (non-GABA)
If hired prior to July 1, 1997, and member did not elect GABA - monthly benefits are increased each July when the fall below a statutorily guaranteed minimum. Any annual increase is limited to 5.0% over the current benefit and may not exceed 60% of the current base salary of a probationary officer.

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

Member contributions to the system - Contributions are deducted from each member's salary and remitted by participating employer.
Hired prior to July 1, 1997, and not electing GABA - Plan members are required to contribute 11.00%.

Hired prior to July 1, 1997, and electing GABA - Plan members are required to contribute 11.05%. All active members hired prior to July 1, 1997 have elected GABA.
Effective July 1, 2013, and ending July 1, 2016, all HPORS member contributions, regardless of hired date, will increase 1.0% annually.

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

Actuarial Assumptions
The total pension liability as of June 30, 2014, is based on the results of an actuarial valuation as of June 30, 2013, with update procedures used to roll forward the total pension liability to June 30, 2014. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period of July 1, 2003, to June 30, 2009. Among those assumptions were the following:

- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0% to 7.30%
- Investment Return 7.75%
- Postretirement Benefit Increases - After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit:
    - If electing GABA or hired on or after July 1, 1997 - 3.00%
    - Minimum Benefit Adjustment - 50.00% of a newly confirmed officer

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

Discount Rate
The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 10.18% of salaries paid by employers, however, this is considered an employer contribution since HPORS is a single-employer type of pension plan. Based on those assumptions, the HPORS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations
The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the HPORS. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the HPORS's target asset allocation as of June 30, 2014, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%

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

		(in thousands)	
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
HPORS Net Pension Liability	$82,333	$57,123	$36,566

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

	(dollars presented in thousands)		
	Net Pension Liability as of 6/30/13	**Net Pension Liability as of 6/30/14**	**Percent of Collective NPL**
Employer's Proportionate Share	$65,903	$57,123	100%

At June 30, 2015, the employer reported a liability of $57.1 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, with update procedures used to roll forward the total pension liability to June 30, 2014. The employer's proportion of the net pension liability was based on the employer's contributions received by HPORS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of the HPORS participating employers. At June 30, 2014, the State's proportion as an employer was 100%.

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

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

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

Other Items Related to and Changes in Net Pension Liability

		(in thousands)	
	Total Pension Liability	**Plan Fiduciary Net Position**	**Net Pension Liability**
Balances at 6/30/2013	$175,594	$109,691	$65,903
Service Costs	3,464	-	3,464
Interest	13,518	-	13,518
Contributions - employer	-	5,736	(5,736)
Contributions - member	-	1,458	(1,458)
Net Investment Income	-	18,677	(18,677)
Benefit Payments	(9,443)	(9,443)	-
Administrative Expense	-	(109)	109
Net Changes	7,539	16,319	(8,780)
Balances at 6/30/2014	$183,133	$126,010	$57,123

Pension Expense

	(in thousands)
	Pension Expense as of 6/30/14
Employer's Pension Expense	$5,169

At June 30, 2015, the employer recognized a pension expense of $5.2 million for the HPORS.

Deferred Outflows and Inflows

At June 30, 2015, the employer recognized a beginning deferred outflow of resources for fiscal year 2014 contributions of $5.7 million.

As of the fiscal year ended June 30, 2015, remaining deferred outflows of resources and deferred inflows of resources related to the HPORS are from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	-	$8,214
Contributions paid to HPORS subsequent to the measurement date - FY 2015 Contributions	$5,782	-
Totals	$5,782	$8,214

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2014, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.
Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	(in thousands) Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2016	($2,054)
2017	(2,053)
2018	(2,054)
2019	(2,053)
2020	-
Thereafter	-

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

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

Summary of Benefits

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

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

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

Vesting
5 years of membership service.

Monthly benefit formula

2.5% of HAC per year of service credit.

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

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

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

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

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

Actuarial Assumptions
The total pension liability as of June 30, 2014, is based on the results of an actuarial valuation as of June 30, 2013, with update procedures used to roll forward the total pension liability to June 30, 2014. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period of July 1, 2003, to June 30, 2009. Among those assumptions were the following:

- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0% to 7.3%
- Investment Return 7.75%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit:
  - 3% for members hired prior to July 1, 2007
  - 1.5% for members hired on or after July 1, 2007
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate
The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. Based on those assumptions, the GWPORS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations
The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the GWPORS. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target

asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the GWPORS's target asset allocation as of June 30, 2014, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%

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

		(in thousands)	
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
Discretely Presented Component Units GWPORS Net Pension Liability	$2,213	859	($252)
Primary Government GWPORS Net Pension Liability	36,754	14,262	(4,188)
Total Employer GWPORS Net Pension Liability	$38,967	$15,121	(4,440)

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

	(dollars presented in thousands)		
	Net Pension Liability as of 6/30/13	Net Pension Liability as of 6/30/14	Percent of Collective NPL
Discretely Presented Component Unit Share	$1,372	859	5.678375%
Primary Government Employer Proportionate Share	22,772	14,262	94.321625%
Total Employer GWPORS Proportionate Share	$24,144	$15,121	100%

At June 30, 2015, the employer reported a total liability of $15.1 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, with update procedures used to roll forward the total pension liability to June 30, 2014. The employer's proportion of the net pension liability was based on the employer's contributions received by GWPORS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of GWPORS participating employers. At June 30, 2014, the State's proportion as an employer was 100%.

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

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

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

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

	(in thousands)		
	Total Pension Liability	**Plan Fiduciary Net Position**	**Net Pension Liability**
Balances at 6/30/2013	$132,036	$109,263	$22,773
Service Costs	7,404	-	7,404
Interest	10,619	-	10,619
Contributions - employer	-	3,548	(3,548)
Contributions - member	-	4,209	(4,209)
Net Investment Income	-	18,929	(18,929)
Benefit Payments	(4,932)	(4,932)	-
Administrative Expense	-	(153)	153
Net Changes	13,091	21,601	(8,510)
Balances at 6/30/2014	$145,127	$130,864	$14,263

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

	(in thousands)		
	Total Pension Liability	**Plan Fiduciary Net Position**	**Net Pension Liability**
Balances at 6/30/2013	$7,949	$6,578	$1,371
Service Costs	446	-	446
Interest	639	-	639
Contributions - employer	-	214	(214)
Contributions - member	-	253	(253)
Net Investment Income	-	1,140	(1,140)
Benefit Payments	(297)	(297)	-
Administrative Expense	-	(9)	9
Net Changes	788	1,301	(513)
Balances at 6/30/2014	$8,737	$7,879	$858

Pension Expense

	(in thousands) **Pension Expense as of 6/30/14**
Discretely Presented Component Units	$200
Primary Government	3,326
Employer's Total Pension Expense	$3,526

At June 30, 2015, the employer recognized a total pension expense of $3.5 million for its proportionate share of the GWPORS pension expense**.**

Deferred Outflows and Inflows
At June 30, 2015, the State, as a primary government employer, recognized a beginning deferred outflow of resources for fiscal year 2014 contributions of $3.6 million.

As of the fiscal year ended June 30, 2015, remaining deferred outflows of resources and deferred inflows of resources for the primary government, as an employer, related to the GWPORS are from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Difference between projected and actual earnings on pension plan investments	-	$8,288
Contributions paid to GWPORS subsequent to the measurement date - FY 2015 Contributions	$3,831	-
Totals	$3,831	$8,288

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2014, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

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

Year ended June 30:	*(in thousands)* **Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense**
2016	($2,072)
2017	(2,072)
2018	(2,072)
2019	(2,072)
2020	-
Thereafter	-

The State's discretely presented component units, as employers, recognized a beginning deferred outflow of resources for fiscal year 2014 contributions of $216 thousand.

As of the fiscal year ended June 30, 2015, remaining deferred outflows of resources and deferred inflows of resources for the State's discretely presented component units, as employers, related to the GWPORS are from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Difference between projected and actual earnings on pension plan investments	-	$499
Contributions paid to GWPORS subsequent to the measurement date - FY 2015 Contributions	$231	-
Totals	$231	$499

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2014, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

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

Year ended June 30:	*(in thousands)* **Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense**
2016	($125)
2017	(125)
2018	(125)
2019	(124)
2020	-

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

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

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) by filing an irrevocable election. Members may not be participants of both the defined contribution and defined benefit retirement plans. All new members from the universities also have a third option to join the university system's Montana University System-Retirement Program (MUS-RP). For members that choose to join the PERS-DCRP or the MUS-RP, a percentage of the Employer contributions are used to fund the PERS-DBRP liability.

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

Summary of Benefits

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

Eligibility for benefit
Service retirement:
Hired prior to July 1, 2011: Age 60, 5 years of membership service;
Age 65, regardless of membership service; or
Any age, 30 years of membership service.

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

Early retirement, actuarially reduced:
Hired prior to July 1, 2011: Age 50, 5 years of membership service; or
Any age, 25 years of membership service.
Hired on or after July 1, 2011: Age 55, 5 years of membership service.

Vesting
5 years of membership service

Monthly benefit formula
Members hired prior to July 1, 2011:
Less than 25 years of membership service: 1.785% of HAC per year of service credit;
25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:
Less than 10 years of membership service: 1.5% of HAC per year of service credit;
10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
30 years or more of membership service: 2% of HAC per year of service credit.

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

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007
- Members hired on or after July 1, 2013
    a. A maximum of 1.5% for each year PERS is funded at or above 90%;
    b. for each 2% PERS is funded below 90% the 1.5% is reduced by 0.1%; and
    c. 0% whenever the amortization period for PERS is 40 years or more.

Contributions to the Plan

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

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

Employer contributions to the system:
State and University System employers are required to contribute 8.27% of member compensation.
Local government entities are required to contribution 8.17% of member compensation.
School district employers contributed 7.90% of members' compensation.

Following the 2013 Legislative Session, PERS employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%.
Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The Employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates.

Effective July 1, 2013, the additional employer contributions for PERS-DCRP and MUS-RP is allocated to the defined benefit plan's unfunded liability.

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

Non Employer Entity Contributions
Special Funding
The State contributes 0.1% of member compensation on behalf of local government entities.
The State contributes 0.37% of member compensation on behalf of school district entities.

Not Special Funding
The State contributes a portion of Coal Severance Tax income and interest earnings from the Coal Trust Permanent Trust fund in accordance with §15-35-108, MCA.

Actuarial Assumptions

The total pension liability as of June 30, 2014, is based on the results of an actuarial valuation as of June 30, 2013, with update procedures used to roll forward the total pension liability to June 30, 2014. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period of July 1, 2003, to June 30, 2009. Among those assumptions were the following:

- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0% to 6%
- Investment Return 7.75%

- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.
    - 3% for members hired prior to July 1, 2007
    - 1.5% for members hired on or after July 1, 2007

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

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the General Fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the PERS-DBRP's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the PERS-DBRP. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the PERS-DBRP's target asset allocation as of June 30, 2014, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%

Sensitivity Analysis

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

	(in thousands) 1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as an Employer in PERS-DBRP - Net Pension Liability	$1,055,042	$663,174	$332,672
State as a Nonemployer Contributing Entity to PERS-DBRP - Net Pension Liability	19,055	11,978	6,008

Net Pension Liability

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

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

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

	(dollars presented in thousands) Net Pension Liability as of 6/30/13	Net Pension Liability as of 6/30/14	Percent of Collective NPL
State's Proportionate Share as an Employer Entity	$853,403	$663,174	53.223780%
State's Proportionate Share as a Nonemployer Contributing Entity	15,414	11,978	0.961287%
State of Montana Totals	$868,817	$675,152	54.185067%

At June 30, 2015, the State reported a liability of $675.2 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, with update procedures used to roll forward the total pension liability to June 30, 2014. The proportion of the net pension liability is based on the employer's and nonemployer's special funding contributions received by the PERS-DBRP during the measurement period of July 1, 2013, through June 30, 2014, relative to the total employer and nonemployer special funding contributions received from all PERS-DBRP participating employers. At June 30, 2014, the State as an employer had a proportionate share of 53.223780% and the nonemployer proportionate share was 0.961287%.

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

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

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

Employer Pension Expense and Nonemployer Contributing Entity Grant Expenses

	(in thousands) Pension Plan Related Expenses as of 6/30/14
Employer's Proportionate Share of Pension Expense	$50,631
State's Grant Expense in relation to Special Funding	912
Total	$51,543

At June 30, 2015, the State as an employer recognized a pension expense of $50.6 million for its proportionate share of the PERS-DBRP's pension expense.

The State as a nonemployer contributing entity recognized grant expense of $912 thousand for special funding support provided by the General Fund for its proportionate share of the PERS-DBRP's pension expense that is associated with other employer participants in the plan.

Support Revenue
As of the fiscal year ended June 30, 2015, the State as an employer recognized grant revenue of $17.9 million for its proportionate share of total nonemployer entity contributions from the Coal Severance Tax and interest nonspecial funding situation.

Deferred Outflows and Inflows
At June 30, 2015, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2014 contributions of $51.9 million.

As of the fiscal year ended June 30, 2015, the State as an employer has the following proportionate shares of the PERS-DBRP's deferred outflows of resources and deferred inflows of resources from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	-	$171,353
Changes in proportion differences between Employer contributions and proportionate share of contributions	$594	-
Difference between actual and expected contributions	-	256
Contributions paid to PERS-DBRP subsequent to the measurement date - FY 2015 Contributions	58,575	-
Totals	$59,169	$171,609

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2014, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

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

Year ended June 30:	(in thousands) Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2016	($42,726)
2017	(42,725)
2018	(42,726)
2019	(42,838)
2020	-
Thereafter	-

At June 30, 2015, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2014 contributions of $34.9 million.

As of the fiscal year ended June 30, 2015, the State as a nonemployer contributing entity reported its proportionate share of the PERS-DBRP's deferred outflows of resources and deferred inflows of resources from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	-	$3,095
Difference between actual and expected contributions	-	32
Contributions paid to PERS-DBRP subsequent to the measurement date - FY 2015 Contributions	$32,397	-
Totals	$32,397	$3,127

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2014, measurement date will be recognized as a reduction to its share of the net pension liability in the fiscal year ended June 30, 2016.

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

Year ended June 30:	(in thousands) Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2016	($785)
2017	(784)
2018	(784)
2019	(774)
2020	-
Thereafter	-

Sheriffs' Retirement System – The SRS, administered by the MPERA, is a multiple-employer, cost-sharing defined benefit plan established July 1, 1974, and governed by Title 19, chapters 2 & 7, MCA. This plan provides retirement benefits to all Department of Justice criminal and gambling investigators hired after July 1, 1993, all detention officers hired after July 1, 2005, and to all Montana sheriffs. Benefits are established by state law and can only be amended by the Legislature. The SRS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation. Member rights are vested after five years of service.

Summary of Benefits

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

Hired on or after July 1, 2013 – highest average compensation during any consecutive 60 months with a 110% annual cap on compensation considered as a part of a member's HAC.

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

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

Vesting
5 years of membership service

Monthly benefit formula
2.5% of HAC per year of service

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

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

Contributions to the Plan

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

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

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

Actuarial Assumptions

The total pension liability as of June 30, 2014, is based on the results of an actuarial valuation as of June 30, 2013, with update procedures used to roll forward the total pension liability to June 30, 2014. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period of July 1, 2003, to June 30, 2009. Among those assumptions were the following:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. Based on those assumptions, the SRS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the SRS's target asset allocation as of June 30, 2014, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%

Sensitivity Analysis

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

	(in thousands)		
	1.0% Decrease (6.75%)	**Current Discount Rate**	**1.0% Increase (8.75%)**
Employer's SRS Net Pension Liability	$4,848	$2,304	$203

Net Pension Liability

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

	(dollars presented in thousands)		
	Net Pension Liability as of 6/30/13	**Net Pension Liability as of 6/30/14**	**Percent of Collective NPL**
Employer Proportionate Share	$5,911	$2,304	5.535000%

At June 30, 2015, the State as an employer reported a liability of $2.3 million for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, with update procedures used to roll forward the total pension liability to June 30, 2014. The employer's proportion of the net pension liability was based on the employer's contributions received by the SRS during the measurement period, July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of SRS participating employers. At June 30, 2014, the employer's proportion was 5.535000%.

Changes in actuarial assumptions and methods: Because the beginning and ending values are based on the same actuarial valuation and there were no significant events, no liability gains or losses due to experience are reported this year. The plan did report a change in assumption because there was an increase in the discount rate resulting in a decrease in the liability. There were no other changes in assumptions or other inputs that affected the measurement of the total pension liability.

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

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

Pension Expense

	(in thousands) **Pension Expense as of 6/30/14**
Employer's Pension Expense	$129

At June 30, 2015, the employer recognized a pension expense of $129 thousand for its proportionate share of the SRS pension expense.

Deferred Outflows and Inflows

At June 30, 2015, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2014 contributions of $370 thousand.

As of the fiscal year ended June 30, 2015, the State, as an employer, reported its proportionate share of the SRS's deferred outflows of resources and deferred inflows of resources from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Changes of Assumptions	-	$2,350
Difference between projected and actual earnings on pension plan investments	-	1,015
Contributions paid to SRS subsequent to the measurement date - FY 2015 Contributions	$388	-
Totals	$388	$3,365

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the measurement date of June 30, 2014, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

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

Year ended June 30:	*(in thousands)* Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2016	($646)
2017	(645)
2018	(646)
2019	(645)
2020	(392)
Thereafter	(391)

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

Deferred Retirement Option Plan (DROP): Beginning July 2002, eligible members of the MPORS can participate in the DROP by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated. The balance held by MPERA for DROP participants as of June 30, 2015, was approximately $6.9 million.

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

Summary of Benefits

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

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

Early Retirement
Age 50, 5 years of membership service.

Vesting
5 years of membership service.

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

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

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

Contributions to the Plan

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

Member contributions - Contributions are deducted from each member's salary and remitted by the participating Employer. Contribution rates are dependent upon date of hire as a police officer. For fiscal year 2015:

- If employed on or before June 30, 1975, member contributions as a percentage of salary are 5.8%;
- If employed after June 30, 1975, and prior to July 1, 1979, member contributions as a percentage of salary are 7.0%;
- If employed after June 30, 1979, and prior to July 1, 1997, member contributions as a percentage of salary are 8.5%; and,
- If employed on or after July 1, 1997, and for members electing GABA, member contributions as a percentage of salary were 9.0%.

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

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

Actuarial Assumptions

The total pension liability as of June 30, 2014, is based on the results of an actuarial valuation as of June 30, 2013, with update procedures used to roll forward the total pension liability to June 30, 2014. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period of July 1, 2003, to June 30, 2009. Among those assumptions were the following:

- General Wage Growth 4.00%
- Merit Increases 0% to 7.3%
- Inflation at 3.00%
- Investment Return 7.75%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.
  - If electing GABA or hired on or after July 1, 1997 3.00%
  - Minimum Benefit Adjustment 50% of a newly confirmed officer
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.

- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 29.37% of salaries pensionable payroll paid by employers. Based on those assumptions, the MPORS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability**.** No municipal bond rate was incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the MPORS. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the MPORS's target asset allocation as of June 30, 2014, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%

Sensitivity Analysis

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

		(in thousands)	
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as a Nonemployer entity Net Pension Liability	$151,544	$105,106	$68,242

Net Pension Liability

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

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

(dollars presented in thousands)

	Net Pension Liability as of 6/30/13	Net Pension Liability as of 6/30/14	Percent of Collective NPL
State as a Nonemployer Contributing Entity - Proportionate Share	$119,754	$105,106	66.888728%

At June 30, 2015, the State as a nonemployer contributing entity reported a liability of $105.1 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, with update procedures used to roll forward the total pension liability to June 30, 2014. The nonemployer's proportion of the net pension liability was based on the nonemployer's special funding contributions received by the MPORS during the measurement period of July 1, 2013, through June 30, 2014, relative to total contributions received from all of the MPORS's participating employers and the nonemployer contributing entity. At June 30, 2014, the State's proportion was 66.888728%.

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

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

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

Grant Expense Related to Special Funding

(in thousands)

	Grant Expense as of 6/30/14
Nonemployer Grant Expense	$11,306

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

Deferred Outflows and Inflows

At June 30, 2015, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2014 contributions of $13 million.

As of the fiscal year ended June 30, 2015, the State as a nonemployer reported its proportionate share of the deferred outflows of resources and deferred inflows of resources related to MPORS from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	-	$12,904
Contributions paid to MPORS subsequent to the measurement date - FY 2015 Contributions	$13,433	-
Totals	$13,433	$12,904

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2014, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

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

Year ended June 30:	*(in thousands)* Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2016	($3,226)
2017	(3,226)
2018	(3,226)
2019	(3,226)
2020	-
Thereafter	-

<u>Firefighters' Unified Retirement System</u> – The FURS, administered by the MPERA, is a multiple-employer, cost-sharing defined benefit plan established in 1981, and governed by Title 19, chapters 2 & 13, MCA. This system provides retirement benefits to firefighters employed by first- and second-class cities, other cities and rural fire district departments that adopt the plan, and to firefighters hired by the Montana Air National Guard on or after October 1, 2001. Benefits are established by state law and can only be amended by the Legislature. The FURS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and either final monthly compensation or final average compensation. Effective July 1, 2005, the benefits are based on highest monthly compensation and highest average compensation. Member rights for death and disability are vested immediately. All other member rights are vested after five years of service.

Summary of Benefits

Member's compensation

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

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

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

Eligibility for benefit

Service retirement

20 years of membership service, regardless of age.

Early Retirement

Age 50, 5 years of membership service.

Vesting

5 years of membership service.

Monthly benefit formula

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

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

i) if less than 20 years of service - 2% of HMC for each year of service;

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

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

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

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

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

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

Hired prior to July 1, 1997, and not electing GABA, member contributions as a percentage of salary are 9.5%;
Hired on or after July 1, 1997, and members electing GABA, member contributions as a percentage of salary are 10.7%.

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

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

Actuarial Assumptions
The total pension liability as of June 30, 2014, is based on the results of an actuarial valuation as of June 30, 2013, with update procedures used to roll forward the total pension liability to June 30, 2014. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period of July 1, 2003, to June 30, 2009. Among those assumptions were the following:

- General Wage Growth 4.00%
- Inflation at 3.00%
- Merit Increases 0% to 7.3%
- Investment Return 7.75%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.
  - If electing GABA or hired on or after July 1, 1997 3.00%
  - Minimum Benefit Adjustment 50% of a newly confirmed officer
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate
The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 32.61% of salaries pensionable payroll paid by employers. Based on those assumptions, the FURS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan

members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the FURS. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the FURS's target asset allocation as of June 30, 2014, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%

Sensitivity Analysis

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

		(in thousands)	
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as an Employer in FURS - Net Pension Liability	$2,901	$1,806	$912
State as a Nonemployer Contributing Entity to FURS - Net Pension Liability	106,648	66,384	33,521

Net Pension Liability

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

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

(dollars presented in thousands)	Net Pension Liability as of 6/30/13	Net Pension Liability as of 6/30/14	Percent of Collective NPL
State's Proportionate Share as an Employer Entity	$2,311	$1,806	1.850026%
State's Proportionate Share as a Nonemployer Contributing Entity	84,968	66,384	68.005182%
State of Montana Totals	$87,279	$68,190	69.855208%

At June 30, 2015, the State reported a liability of $68.2 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity in relation to the FURS. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, with update procedures used to roll forward the total pension liability to June 30, 2014. The proportion of the net pension liability was based on the all employer and nonemployer contributions received by the FURS during the measurement period, July 1, 2013, through June 30, 2014, relative to the total contributions received from all FURS participating employers and the nonemployer contributing entity. At June 30, 2014, the State as employer had a proportion of 1.850026% and the nonemployer proportion was 68.005182%.

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

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

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

Employer Pension Expense and Nonemployer Contributing Entity Special Funding Grant Expense

(in thousands)	Pension Plan Related Expenses as of 6/30/14
Employer's Proportionate Share	$200
State's Grant Expense Special Funding	7,369
State of Montana Total	$7,569

At June 30, 2015, the State as an employer recognized pension expense of $200 thousand for its proportionate share of the FURS pension expense.

The State also recognized grant expense of $7.4 million for special funding support provided by the General Fund for its proportionate share of the FURS's pension expense that is associated with other employer participants in the plan.

Deferred Outflows and Inflows

At June 30, 2015, the State, as an employer, recognized a beginning deferred outflow of resources for fiscal year 2014 contributions of $347 thousand.

As of the fiscal year ended June 30, 2015, the State as an employer reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to the FURS from the following sources:

(in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	-	$359
Contributions paid to FURS subsequent to the measurement date - FY 2015 Contributions	$361	-
Totals	$361	$359

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the measurement date of June 30, 2014, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

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

Year ended June 30:	*(in thousands)* Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2016	($90)
2017	(90)
2018	(90)
2019	(89)
2020	-
Thereafter	-

At June 30, 2015, the State recognized a beginning deferred outflow of resources as a nonemployer contributing entity for fiscal year 2014 contributions of $12.8 million.

As of the fiscal year ended June 30, 2015, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to FURS from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	-	$13,185
Contributions paid to FURS subsequent to the measurement date - FY 2015 Contributions	$13,573	-
Totals	$13,573	$13,185

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2014, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

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

Year ended June 30:	Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2016	($3,297)
2017	(3,296)
2018	(3,296)
2019	(3,296)
2020	-
Thereafter	-

Volunteer Firefighters' Compensation Act – The VFCA, administered by the MPERA, is statewide retirement and disability plan established in 1965, and governed by Title 19, chapter 17, MCA. All members are unpaid volunteers and the State is the only contributor to the plan. Benefits are established by state law and can only be amended by the Legislature. The VFCA provides pension, disability, and survivorship benefits for all eligible volunteer firefighters who are members of qualified volunteer fire companies in unincorporated areas, towns or villages, and included volunteer fire departments, fire districts, and fire service areas under the laws of the State. Benefits are based on eligibility and years of credited service. Member rights are vested after ten years of service. VFCA also provides limited benefits for death or injuries incurred in the line of duty.

A member who chooses to retire and draw a pension benefit may return to service with a volunteer fire department without loss of benefits. However, a returning retired member may not be considered an active member accruing credit for service.

Summary of Benefits

Eligibility for benefit

Age 55, 20 years of credited service;

Age 60, 10 years of credited service.

Additional benefit

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

Effective July 1, 2011, members who retire on or after July 1, 2011, and have greater than 30 years of credited service will receive $7.50 per month for each additional year of credited service over 30 years if the pension trust fund is actuarially sound, amortizing any unfunded liabilities in 20 years or less. This determination will be made annually and a member's benefit will be capped at $225 a month (30 years of credited service) if the amortization period ` grows to greater than 20 years.

Vesting

10 years of membership service.

Monthly benefit formula

$7.50 per year of credited service.

Contributions to the Plan

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

Actuarial Assumptions

The total pension liability as of June 30, 2014, is based on the results of an actuarial valuation as of June 30, 2013, with update procedures used to roll forward the total pension liability to June 30, 2014. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period of July 1, 2003, to June 30, 2009. Among those assumptions were the following:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from the nonemployer contributing entity will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 5% of fire insurance premium taxes paid on certain fire risks. Based on those assumptions, the VFCA's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the VFCA. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the VFCA's target asset allocation as of June 30, 2014, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%

Sensitivity Analysis

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

	(in thousands)		
	1.0% Decrease (6.75%)	**Current Discount Rate**	**1.0% Increase (8.75%)**
State as a Nonemployer entity Net Pension Liability	$8,860	$5,089	$1,883

Net Pension Liability

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

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

	(dollars presented in thousands) Net Pension Liability as of 6/30/13	Net Pension Liability as of 6/30/14	Percent of Collective NPL
State as a Nonemployer Proportionate Share	$8,506	$5,089	100%

At June 30, 2015, the State reported a liability of $5.1 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, with update procedures used to roll forward the total pension liability to June 30, 2014. The nonemployer's proportion of the net pension liability was based on the nonemployer's contributions received by the VFCA during the measurement period, July 1, 2013, through June 30, 2014, relative to total contributions received. At June 30, 2014, the State's proportion as a nonemployer contributing entity in a special funding situation was 100%.

Changes in actuarial assumptions and methods: The administrative expense assumption is now explicitly stated as a cost element rather than being included implicitly within the investment return.

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

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

Grant Expense Related to Special Funding

	(in thousands) Grant Expense as of 6/30/14
Nonemployer Grant Expense	$470

The State as a nonemployer contributing entity recognized grant expense of $470 thousand for special funding support provided by a portion of fire tax premiums paid to the State and transferred to MPERA for its proportionate share of the VFCA pension expense that is associated with other employer participants in the plan.

Deferred Outflows and Inflows

At June 30, 2015, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2014 contributions of $1.8 million.

As of the fiscal year ended June 30, 2015, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to VFCA from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on pension plan investments	-	$2,069
Contributions paid to VFCA subsequent to the measurement date - FY 2015 Contributions	$1,913	-
Totals	$1,913	$2,069

Amounts reported as deferred outflows of resources related to pensions resulting from the State's contributions made subsequent to the June 30, 2014, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

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

	(in thousands)
Year ended June 30:	**Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense**
2016	($518)
2017	(517)
2018	(517)
2019	(517)
2020	-
Thereafter	-

<u>Teachers' Retirement System</u> - The Teachers' Retirement Board (TRB) 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. The TRS as an employer does not participate in the plan and acts only as the administrator of the plan.

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

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

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

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

A guaranteed annual benefit adjustment (GABA) is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABA calculated prior to July 1, 2013, was 1.5% of the benefit payable as of January 1. Effective July 1, 2013, the GABA to be calculated for Tier One and Tier Two members each year may vary from 0.5% to 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation. The legislative enactment that allows for reduction of the GABA for Tier One members was in litigation and has since been settled.

On June 30, 2015, the court ruled that the GABA will remain at 1.50% for TRS Tier One members. The adjustable GABA (rate determined based on the funding status of the system) will apply to TRS Tier Two members (members hired on or after July 1, 2013). The State entered into a settlement agreement on August 20, 2015, and agreed not to appeal the case to the State Supreme Court nor will either party seek legal fees associated with the matter. See section I. Litigation below for additional detail.

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

All State and University employers are required to contribute 10.95% of compensation provided to an active, nonreemployed member. All school district and other employers are required to contribute 8.57% of an active, nonreemployed, member's compensation to the System.

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

A portion, of the total required statutory contributions, is provided directly from the State for all employers. The employers are considered to be in a special funding situation and the State is treated as a nonemployer contributing entity in the TRS. The TRS receives 2.49% of reportable compensation from the General Fund for school districts and other employers. Additionally, the System receives 0.11% of reportable compensation from the General Fund for State and University employers. Finally, the State is also required to contribute $25 million in perpetuity payable July 1st of each year. The Legislature has the authority to establish and amend contribution rates to the plan.

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

- General Wage Growth 4.00%
- Merit Increases 4.51%
- Price Inflation 3.25%
- Investment Return 7.75%
- Postretirement Benefit Increases (starting three years after retirement) 1.50%
- Mortality among contributing members, service retired members, and beneficiaries
    - For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
    - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members
    - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
    - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating TRS members, employers, and nonemployer contributing entities will be made based on the TRB's funding policy, which establishes the contractually required rates under MCA. In addition to these contributions, the State General Fund will contribute $25 million annually to the System payable July 1st of each year. Based on those assumptions, the TRS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2116. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

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

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

Sensitivity Analysis

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

		(in thousands)	
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as an Employer in TRS - Net Pension Liability	$100,264	$72,168	$48,431
State as a Nonemployer Contributing Entity to TRS - Net Pension Liability	829,039	596,724	400,453

Net Pension Liability

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

(dollars presented in thousands)

	Net Pension Liability as of 6/30/13	Net Pension Liability as of 6/30/14	Percent of Collective NPL
State as an Employer Entity	$83,417	$72,168	4.689747%
State as a Nonemployer Entity	689,737	596,724	38.777294%
State of Montana Total	$773,154	$668,892	43.467041%

At June 30, 2015, the State reported a liability of $668.9 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The employer's proportion of the net pension liability was based on the State's contributions received by the TRS during the measurement period, July 1, 2013, through June 30, 2014, relative to the all contributions received from the TRS's participating employers and the nonemployer contributing entity. At June 30, 2014, the State as an employer had a proportionate share of 4.689747% and as a nonemployer contributing entity a proportionate share of 38.777294%.

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

- Assumed rate of inflation was reduced from 3.50% to 3.25%
- Payroll Growth Assumption was reduced from 4.50% to 4.00%
- Assumed real wage growth was reduced from 1.00% to 0.75%
- Investment return assumption was changed from net of investment and administrative expensed to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
    - For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
    - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members was updated to the following:
    - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
    - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

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

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

Employer Pension Expense and Nonemployer Contributing Entity Special Funding Grant Expense

(in thousands)

	Pension Plan Related Expenses as of 6/30/14
Employer's Proportionate Share	$6,853
State Grant Expense Special Funding	33,412
Total	$40,265

At June 30, 2015, the State as an employer recognized a pension expense of $6.9 million for its proportionate share of the collective TRS pension expense.

The State as a nonemployer contributing entity also recognized grant expense of $33.4 million for special funding support provided by the State's General Fund for its proportionate share of the collective TRS pension expense that is associated with other employer participants in the TRS.

Deferred Outflows and Inflows

At June 30, 2015, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2014 contributions of $5 million.

As of the fiscal year ended June 30, 2015, the State as an employer reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to the TRS from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$714	-
Difference between projected and actual earnings on pension plan investments	-	$11,178
Changes in assumptions	1,636	-
Difference between actual and expected contributions and changes in proportion	7,580	598
Contributions paid to TRS subsequent to the measurement date - FY 2015 Contributions	16,234	-
Totals	$26,164	$11,776

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2014, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

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

Year ended June 30:	*(in thousands)* Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2016	$366
2017	366
2018	366
2019	(2,944)
2020	-
Thereafter	-

At June 30, 2015, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources as a for fiscal year 2014 contributions of $41.4 million.

As of the fiscal year ended June 30, 2015, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$5,903	-
Changes of assumptions	13,524	-
Difference between projected and actual earnings on pension plan investments	-	$92,424
Difference between actual and expected contributions and changes in proportion	-	12,011
Contributions paid to TRS subsequent to the measurement date - FY 2015 Contributions	42,806	-
Totals	$62,233	$104,435

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions subsequent to the June 30, 2014, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

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

Year ended June 30:	(in thousands) Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2016	($19,633)
2017	(19,633)
2018	(19,633)
2019	(26,109)
2020	-
Thereafter	-

D. Legal Actuarial Status of Plans

The Montana Constitution, Article VIII, § 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, 2015, the Sheriffs Retirement System (SRS) and Game Warden & Peace Officers Retirement System (GWPORS) were not in compliance and do not amortize within 30 years.

E. Public Employee Defined Contribution Retirement Plans

Public Employees' Retirement System-Defined Contribution Retirement Plan – The Public Employees' Retirement System - Defined Contribution Retirement Plan (PERS-DCRP) is a multiple Employer plan established July 1, 2002, and governed by Title 19, Chapters 2 & 3, MCA. This plan is available to eligible employees of the State, Montana University System, local governments, and school districts. All new 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.

Employees contribute at a rate of 7.90% of their compensation. Contributions made to the plan by an employee remain 100% vested in their interest. Members who achieve 5 years of employment are vested in the plan. Should they terminate prior to this 5 year period, all employer contributions are forfeited to the plan. Amounts forfeited are held in a separate plan

forfeiture account and can only be used to pay the administrative expenses, including startup costs, of the plan. Total pension expense for the State as a PERS-DCRP employer for the year ended June 30, 2015, is $4.9 million and contribution forfeitures were $333 thousand.
Local government entities contribute 8.17% of member compensation. School district employers contributed 7.90% of member compensation. The State contributes 0.1% of member compensation on behalf of local government entities and 0.37% of member compensation on behalf of school district entities. Each State agency and University employer contributed 8.27% of member compensation.

The total contribution rate of 8.27%, referenced in the preceding paragraph, is allocated as follows: 4.19% to the member's retirement account; 2.37% to the defined benefit plan choice rate; an additional 0.37% to eliminate the plan choice rate unfunded actuarial liability; 1.00% to defined benefit plan unfunded liabilities; 0.04% to the defined contribution education fund and 0.30% to the defined contribution Other Post Employment Benefit (OPEB) disability plan.

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

457-Deferred Compensation Plan – The 457 - Deferred Compensation Plan (457 - Plan) is a voluntary supplemental retirement savings plan established in 1974. The Deferred Compensation Plan is governed by Title 19, Chapter 50, MCA, in accordance with Internal Revenue Code (IRC) §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 Empower Retirement. 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.

F. Montana University System Retirement Program

Montana University System-Retirement Program (MUS-RP) – This system was established in January 1988 and is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Effective July 1, 1993, MUS-RP was made the mandatory retirement plan for new faculty and administrative staff with contracts under the authority of the Board of Regents, previously referred to as the Optional Retirement Program (ORP). The MUS-RP is a defined contribution retirement plan governed by Title 19, Chapter 21 of the MCA. Combined contributions cannot exceed 13% of the participant's compensation per 19-21-203, MCA.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the MUS-RP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. The Montana University System records employee/employer contributions, and remits monies to TIAA-CREF. Total contributions made to the plan by the employer were $13.9 million and the total employee contributions were $15.6 million for the fiscal year ended June 30, 2015.

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

H. Long-term Contracts for Contributions

The Montana Legislature enacted a provision of the Employee Protection Act (EPA) (Title 19, Chapter 2, Part 706, MCA), related to the Employee Protection Act, allowing state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their Employer pay a portion of the total cost of purchasing up to three years of “1-for-5” additional service. In fiscal year 2015, there were 233 employees participating in the program.

The Employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the Montana Public Employee Retirement Administration (MPERA) on the unpaid balance. Total contributions received (including interest) during fiscal year 2015 totaled $119 thousand. The outstanding balance at June 30, 2015, totaled $18 thousand.

I. Litigation

Wrzesien v. State. Three members of PERS who elected to participate in either the PERS Defined Contribution Retirement Plan or the University System's Montana University System Retirement Program (MUS-RP) (formally known as the Optional Retirement Program) have sued the State of Montana and MPERA over the PERS plan choice rate. The complaint alleges equal protection and due process violations, and requests issuance of a declaratory judgment granting plaintiffs the employer contributions paid toward the plan choice rate. Class action certification is also requested. The plaintiffs are represented by Travis Dye of Kalkstein, Johnson & Dye in Missoula, Montana. The State and MPERA are represented by J. Stuart Segrest of the Montana Attorney General's Office. The complaint was subsequently amended to include the 1 % in employer contributions for DCRP plan members that, pursuant to HB 454 (2013), go to the PERS defined benefit retirement plan starting July 1, 2013. In the event plaintiffs prevail, and class action certification is granted, over 3000 PERS DCRP and MUS-RP participants will be paid the contributions previously directed to the plan choice rate. At June 30, 2015, MPERA calculated the contributions from the MUS-RP plan choice at $5.4 million and the contributions from the DCRP Plan Choice at $24 million.

A hearing on the cross motions for summary judgment was held before Judge Reynolds on October 7, 2014. A decision was made in favor of the State granting the motion on November 13, 2014. The Plaintiffs appealed to the State Supreme Court on September 10, 2015, and a briefing schedule has not yet been issued.

Association of Montana Retired Public Employees (AMRPE) v. State. Four Public Employees' Retirement System (PERS) retired members and their retiree association (AMRPE) have sued the State, MPERA, the PERB and Governor Bullock over the reduction of the PERS guaranteed annual benefit adjustment (GABA) decrease enacted by the 2013 Montana Legislature through HB 454. Plaintiffs are represented by Leo Berry, Chad E. Adams and Jessie L. Luther from Browning, Kaleczyc, Berry & Hoven P.C., in Helena, MT. The State, MPERA, PERB and Governor Bullock are represented by J. Stuart Segrest and Michael G. Black of the Montana Attorney General's Office. In November 2014, MPERA's actuary determined that if plaintiffs prevail and the GABA remains at 3%, the PERS's funding ratio would be 74.4% as opposed to 83.9% should plaintiffs be unsuccessful. Similarly, if Plaintiffs prevail, PERS would amortize over 29.3 years as opposed to 10.5 years under HB 454 (2013). Plaintiffs moved for and, following briefing and oral argument, received a Preliminary Injunction blocking implementation of the GABA decrease pending resolution of the underlying lawsuit. Plaintiffs filed a motion for summary judgment and brief in support in September 2014; defendants' response was due by October 20, 2014. A hearing in relation to summary judgments was held January 13, 2015, and a permanent injunction was issued by District Judge James Reynolds blocking the lowering of the GABA on March 4, 2015.

On July 21, 2015, the parties signed a stipulation to dismiss appeals. On August 19, 2015, Judge Reynolds of the First Judicial District issued an order clarifying that the permanent injunction blocking of lowering the GABA only applied to members hired prior to July 1, 2013, the date HB 454 was placed into effect.

Byrne et. al, v. State. On October 11, 2013, the State, the TRB and the TRS were named as defendants in a lawsuit filed by six retired members of TRS and MEA-MFT. Plaintiffs are represented by Karl J Englund, of Karl J, Englund P.C., in Missoula, MT; Jonathan McDonald, of Dix, Hunt and McDonald, in Helena, MT; and Jay E. Sushelsky, of the AARP Foundation Litigation, in Washington, DC. The State, TRS, and TRB are represented by Michael G. Black and Matthew T. Cochenour of the Montana Attorney General's Office. The lawsuit seeks to prevent a 1.0% reduction to the GABA that was included in HB 377 during the 2013 Legislature. A temporary court ordered injunction was issued on December 27, 2013, which prevented the reduction of the GABA until a final determination on the case has been determined by the court.

On June 30, 2015, the court ruled that the GABA will remain at 1.50% for TRS Tier One members. The adjustable GABA (rate determined based on the funding status of the system) will apply to TRS Tier Two members (members hired on or after July 1, 2013). The State entered a settlement agreement on August 20, 2015, and agreed not to appeal the case to the State Supreme Court nor will either party seek legal fees associated with the matter.

J. Subsequent Event

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

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General

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

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

Montana Code Annotated, Title 19, Chapter 3, Section 2141, establishes a long-term disability plan trust fund (PERS-DCRP Disability) for all State of Montana Employees that participate in the Public Employee Retirement System-Defined Contribution Retirement Plan (PERS-DCRP). All new PERS members are initially members of the Public Employee Retirement System-Defined Benefit Retirement Plan (PERS-DBRP) and have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the PERS-DBRP by filing an irrevocable election. If an election is not filed the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. Only those participants that choose the PERS-DCRP are covered by the PERS-DCRP Disability plan.

B. Plan Descriptions

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

The healthcare OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements and footnotes. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the State or any of its component units. Accordingly, reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans.

The healthcare OPEB plans are reported as agency funds. There are no assets or liabilities as only contributions collected and distributions made are reflected in these funds.

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

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

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

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

C. Basis of Accounting

OPEB is reported on an accrual basis on the proprietary and fiduciary fund financial statements, the government-wide financial statements and the component unit financial statements. OPEB is not reported on the governmental fund financial statements, as governmental funds are reported on a modified accrual basis. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The healthcare OPEB plan document states "an employee enrolled in the State Plan who (a) is eligible to draw a state retirement benefit at the time he or she leaves active state employment; and (b) makes arrangements with the EBB (Employee Benefits Bureau) within 60 days of the date active employee coverage ends to continue post-retirement coverage, may continue with the state group on a self-pay basis, retroactive back to the date active employee coverage was lost." Therefore, the plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2015.

The number of state participants as of December 31, 2014, follows:

State Plan Participants

Enrollment	State	Facility Finance Authority	Montana Board of Housing	PERS	Montana State Fund	TRS	Total
Active employees	12,821	1	31	48	280	19	13,200
Retired employees, spouses, and surviving spouses (1)	3,569	-	2	1	-	-	3,572
Total	16,390	1	33	49	280	19	16,772

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

The number of MUS participants as of June 30, 2015, 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	512	2,787	139	185	79	108	2,350	414	194	345	7,113
Retired employees, spouses, and surviving spouses	228	1,187	25	99	39	34	830	183	100	93	2,818
Total	740	3,974	164	284	118	142	3,180	597	294	438	9,931

PERS-DCRP participants who are 100% vested in the plan, and become disabled, are entitled benefits as defined in Title 19, Chapter 3, Section 2141, MCA. There have been no significant changes in the number covered or the type of coverage as of June 30, 2015.

The number of PERS-DCRP Disability participants as of June 30, 2015, follows:

PERS-DCRP Disability Plan Participants

Enrollment	Active	Disabled	Retirees and Beneficiaries	Terminated Vested Members	Terminated Non-Vested Members	Total
Participant counts used for valuation	2,284	6	-	-	-	2,290

D. Funding Policies

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

As of June 2015, the State Plan's administratively established retiree medical contributions vary between $371 and $1,345 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental contributions vary between $22 and $68.50 and vision hardware contributions vary between $5.76 and $16.76 depending on the coverage selected.

As of June 2015, the MUS plan's administratively established retiree medical premiums vary between $196 and $1,438 per month. Retiree dental premiums vary between $52 and $156 per month while vision premiums vary from $7.11 to $20.73 depending on the types and number of dependents enrolled. The plan provides different coinsurance amounts depending on whether members use in-network or out-of-network providers. After an annual $500 deductible for most non-Medicare-eligible retirees, the MUS plan reimburses 75% for the first $6,000 in medical claims and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2015, 1,340 retirees (policyholders) were enrolled in the MUS plan.

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

E. Annual Other Postemployment Benefit Cost and Contributions

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

ARC of $35.2 million is 5.54% of annual covered payroll. The State's annual covered payroll is $635.9 million. The current MUS's ARC of $9.7 million is 2.42% of annual covered payroll. The MUS's annual covered payroll is $400.9 million.

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

The following table presents the OPEB cost for the year, the amount contributed, and changes in the OPEB plan for fiscal year 2015 (in thousands):

Annual OPEB Cost & Changes in Net OPEB Obligation

	State	MUS
Annual required contribution/OPEB cost	$ 35,196	$ 9,709
Interest on net OPEB obligation	9,312	4,245
Amortization factor	(7,303)	(3,330)
Annual OPEB cost	37,205	10,624
Retiree claims paid	(10,489)	(3,329)
Increase in net OPEB obligation	26,716	7,295
Net OPEB obligation – beginning of year	219,109	99,891
Net OPEB obligation – end of year	$245,825	$107,186

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

The State and MUS annual healthcare OPEB cost, the percentage of annual implicit contributions toward the OPEB cost through retiree claims paid on their behalf, and the net OPEB obligation for fiscal years 2015 through 2012 was as follows (in thousands):

Contribution Ratio

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State	6/30/2015	$37,205	28.2%	$245,825
	6/30/2014	36,823	19.1%	219,109
	6/30/2013	34,544	10.0%	189,327
	6/30/2012	34,150	12.1%	158,244
MUS	6/30/2015	$10,624	31.3%	$107,186
	6/30/2014	10,671	15.9%	99,891
	6/30/2013	13,288	6.9%	90,916
	6/30/2012	12,662	1.6%	78,550

The disability OPEB plan administered for defined contribution pension plan participants has an annual covered payroll, statutorily required contribution amount, and percentage of required contributions paid into the plan for fiscal years 2015 through 2012 as follows for the State and University system plan participants (in thousands):

	Fiscal Year Ended	Covered Payroll	Statutorily Required Contribution Amount	Percentage of Statutorily Required Contribution Funded
State	6/30/2015	$55,339	$166	100%
	6/30/2014	50,083	150	100%
	6/30/2013	46,540	140	100%
	6/30/2012	43,577	131	100%
MUS	6/30/2015	$4,057	$12	100%
	6/30/2014	4,115	12	100%
	6/30/2013	3,901	12	100%
	6/30/2012	3,434	10	100%

F. Actuarial Methods and Assumptions

The State and MUS are required by GASB Statement No. 45 to obtain an actuarial evaluation every other year. An actuarial report was prepared for December 31, 2013, and June 30, 2014, respectively. Therefore, an actuarial evaluation was not prepared for December 31, 2014, or June 30, 2015, respectively.

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

In the December 31, 2013, actuarial valuation, the projected unit cost funding method was used for the State. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is initially 10.00% for both medical and prescription drugs. Both medical costs and prescription drugs are reduced by decrements to a rate of 5.00%, medical costs after eleven years and prescription drugs after six years.

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

In the June 30, 2014, actuarial valuation, the projected unit cost funding method was used for MUS. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is 10.00% for both medical and prescription drugs, initially. Both medical costs and prescription drugs are reduced by decrements to a rate of 5.00%, medical costs after ten years and prescription drugs after five years.

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

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

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

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

Other Postemployment Benefits
State Agent Multiple-Employer Plan

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands)		
Before Medicare eligibility	$8,857	$2,950
After Medicare eligibility	3,709	2,931
Actuarial valuation date	1/1/2013 (ARC calculated through December 31, 2013)	
Actuarial cost method	Projected unit cost funding	
Amortization method	Level percent of payroll, open	
Remaining amortization period	30 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 43 or 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	2.50%	
Participation		
Future retirees	55%	
Future eligible spouses	60%	
Marital status at retirement	70%	

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

Other Postemployment Benefits
MUS Agent Multiple-Employer Plan

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands)		
Before Medicare eligibility	$7,284	$3,036
After Medicare eligibility	3,357	2,311
Actuarial valuation date	7/1/2013 (ARC Calculated through June 30, 2014)	
Actuarial cost method	Projected unit cost funding	
Amortization method	Level percent of payroll, open	
Remaining amortization period	30 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 43 or 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	2.50%	
Participation		
Future retirees	55%	
Future eligible spouses	60%	

Other Postemployment Benefits
MUS Agent Multiple-Employer Plan

	Retiree/Surviving Spouse	Spouse
Marital status at retirement	70%	

G. Termination Benefits

During the year ended June 30, 2015, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for four employees provided for up to twelve months, one-time lump-sum incentive payments for six employees, paid administrative leave for three employees, and continuation of retirement plan contributions for one employee. In determining termination benefit liability related to the continued coverage of group health insurance benefits, it was assumed that these benefits would be paid for the entire period of the arrangement.

During the year ended June 30, 2015, component units of the State made the following termination benefit arrangements: continued coverage of health insurance benefits and/or one-time incentive payments for twenty-three employees.

During the year ended June 30, 2015, the cost of termination benefits for the fiscal year was $189 thousand and $1.1 million for State and its component units, respectively.

NOTE 8. RISK MANAGEMENT

There are three primary government public entity risk pools and one claims-servicing pool that are reported within the enterprise fund. These pools include Hail Insurance, the Montana University System (MUS) Group Insurance Plan, the MUS Workers Compensation Program, and the Subsequent Injury claims-servicing pool. The State of Montana (Old Fund) provides risk financing as an entity other than a public entity risk pool. The liability and payment of the workers compensation claims for incidents occurring before July 1, 1990, are reported in the government-wide financial statements within the primary government. Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. Additionally, the primary government reports its own risk management activity within two internal service funds: Employees Group Benefits Plans and Administration Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 1,219 policies during the 2015 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

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

To reduce its exposure to large losses, the fund purchased Crop Hail Quota Share Reinsurance for the 2015 growing season, with a 95% share of premiums and losses allotted to the Reinsurer and a 5% share of each is allotted to the State Hail Insurance. The fund recorded a liability of $17,403 which is 5% of the total estimated claims, $270,352 plus adjustment expenses through June 30, 2015. The amount deducted from the estimated claims as of June 30, 2015, for reinsurance was $256,834, 95% of estimated claims. The premiums ceded to the reinsurer through June 30, 2015, were $2.2 million which was 95% of total premiums of $2.3 million.

Any crop insurance liability is paid to the producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance or annuity contracts.

(2) Montana University System (MUS) Group Insurance Plan –This plan is authorized by the Regents and in 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, Blue Cross and Blue Shield of Montana administers the vision plan, and MedImpact is the administrator for the prescription drug program. Allegiance Benefit Plan Management, Blue Cross and Blue Shield of Montana, and Pacific Source are the three third-party claims administrators for the self-insured managed care plan. Allegiance Benefit Plan Management, Blue Cross and Blue Shield of Montana, and Pacific Source have contracts for utilization management: the utilization management program consists of hospital pre-authorization and medical necessity review as well as large case management. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund. The claims liability is calculated by Actuaries Northwest and estimated to be $7.3 million as of June 30, 2015, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Montana University System (MUS) Workers Compensation Program – This plan was formed to provide self-insured workers compensation coverage for employees of the Montana University System. The Montana University System Board of Regents provides workers' compensation coverage under Compensation Plan Number One (Title 39, Chapter 71, Part 2101, MCA). The program is self-insured for workers' compensation claims with losses in excess of $750,000 per occurrence ($500,000 for claims occurring prior to July 1, 2013) and $1,000,000 per aircraft occurrence covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of $1,000,000 above the self-insured amount of $750,000 ($500,000 for claims occurring prior to July 1, 2013). During fiscal year 2015, the program ceded $308,947 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 $8.3 million for estimated claims at June 30, 2015. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, and claims reserve development including the effects of inflation and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

(4) Subsequent Injury – The purpose of the Subsequent Injury Fund (SIF) is to assist individuals with a permanent impairment that may create an obstacle to employment, by offering a financial incentive to employers to hire SIF-certified individuals. The program is funded through an annual assessment on Montana self-insured employers and a surcharge on premium for private insured and Montana State Fund policyholders.

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

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

An estimated liability is recorded based on a projected cost analysis and total population of registered SIF participants. As of June 30, 2015, the amount of this liability was estimated to be $3.5 million.

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

	Hail Insurance		MUS Group Insurance Plan		MUS Workers Compensation	
	2015	2014	2015	2014	2015	2014
Unpaid claims and claim adjustment expenses at beginning of year	$ 226	$ 340	$ 6,400	$ 6,700	$ 7,619	$ 8,048
Incurred claims and claim adjustment expenses: provision for insured events of the current year	6,660	13,511	87,768	72,340	3,417	3,329
Increase (decrease) in provision for Insured events of prior years	523	709	-	-	(556)	(1,398)
Total incurred claims and claim adjustment expenses	7,183	14,220	87,768	72,340	2,861	1,931
Payments: Claims and claim adjustment expenses attributable to insured events of the current year	(6,643)	(13,285)	(86,868)	(72,640)	(701)	(1,011)
Claims and claim adjustment expenses attributable to insured events of prior years	(749)	(1,049)	-	-	(1,490)	(1,349)
Total payments	(7,392)	(14,334)	(86,868)	(72,640)	(2,191)	(2,360)
Total unpaid claims and claim adjustment expenses at end of year	$ 17	$ 226	$ 7,300	$ 6,400	$ 8,289	$ 7,619

B. Entities Other Than Pools

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

An actuarial study prepared by Towers Watson, as of June 30, 2015, 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, 2015, $41.6 million of unpaid claims and claim adjustment expenses were reported at face value.

(2) Employee Group Benefits Plans – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracted with Cigna and Delta Dental as administrators for medical and dental coverage. MedImpact is the administrator for the prescription drug program. Contributions are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments, and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2015, 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 $18.0 million based on a formula provided by Actuaries Northwest, a consulting actuarial firm, of which $17.8 million is estimated to be paid in fiscal year 2016.

(3) Administration Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure of housing units. The State self-insures the $2,000,000 deductible per occurrence for most property insurance, as well as various deductible amounts for other state property. The State also self-insures against losses of property below $2,000,000 of value, with state agencies paying the first $1,000. Commercial property insurance protects approximately $5.3 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of $2,000,000 for earthquake and $2,000,000 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, 2005, through June 30, 2015, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. As of June 30, 2015, estimated claims liability was $17.0 million.

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

	State of Montana Old Fund		Employers Group Benefits Plan		Administration Insurance Plans	
	2015	2014	2015	2014	2015	2014
Amount of claims liabilities at the beginning of each fiscal year	$ 45,034	$ 51,026	$ 22,103	$ 14,640	$ 17,550	$ 16,909
Incurred claims:						
Provision for insured events of the current year	-	-	167,770	163,170	5,278	7,100
Increase (decrease) in provision for insured events of prior years	4,618	1,398	(7,182)	6,763	1,834	1,497
Total incurred claims	4,618	1,398	160,588	169,933	7,112	8,597
Payments:						
Claims attributable to insured events of the current year	-	-	(148,342)	(142,392)	(937)	(3,037)
Claims attributable to insured events of prior years	(8,055)	(7,390)	(16,321)	(20,078)	(6,772)	(4,919)
Total payments	(8,055)	(7,390)	(164,663)	(162,470)	(7,709)	(7,956)
Total claims liability at end of each fiscal year	$ 41,597	$ 45,034	$ 18,028	$ 22,103	$ 16,953	$ 17,550

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2015, the Department of Transportation had contractual commitments of approximately $181.1 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matched with state special revenue funds.

B. Capital Construction

At June 30, 2015, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $34.7 million for capital projects construction. The primary government will fund $27.6 million of these projects, with the remaining $7.1 million funding coming from the Montana University System.

C. Loan and Mortgage Commitments

The Board of Investments (BOI) makes firm commitments to fund commercial loans and Veterans' Home Loan Mortgages (VHLM) from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to BOI policies. As of June 30, 2015, the BOI had committed, but not yet purchased, $8.2 million in loans from Montana lenders. In addition to the above commitments, lenders had reserved $73.4 million for loans as of June 30, 2015. As of June 30, 2015, $1.1 million represented lender reservations for the VHLM residential mortgage purchases with no purchase commitments.

As of June 30, 2015, the BOI has committed from the Coal Severance Trust Permanent Fund, but not yet funded $1.5 million to the Department of Natural Resources and Conservation to purchase tax bonds to finance two projects.

The BOI makes reservations to fund mortgages from the state's pension funds. The Montana Retirement Funds Bond Pool holds the residential mortgages in its portfolio. As of June 30, 2015, there were no mortgage reservations. All BOI residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a mortgage reservation and a funding commitment.

The BOI makes firm commitments to fund loans from the INTERCAP loan program. The BOI's outstanding commitments to eligible Montana governments, as of June 30, 2015, total $38.0 million.

D. Department of Corrections Bond Commitments

At June 30, 2015, the outstanding tax-exempt bonds issued by the Facility Finance Authority were issued in the amount of $21.6 million of which $3.2 million is scheduled to be paid by June 30, 2015. 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	$ 64
Prison Industries	147
State Lottery	22
Other	2
Subtotal-Enterprise funds	$235

Internal Service Funds	
Administration Central Services	$ 2
Administration Supply	181
Commerce Central Services	17
Employee Group Benefit	126
Information Technology Services	43
Labor Central Services	12
Payroll Processing	49
Print and Mail Services	26
Prison Industries	942
Subtotal-Internal Service funds	$ 1,398

F. Encumbrances

As of June 30, 2015, 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	$11,230	$70,412	$37,508	$392	$119,542

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, 2015, were as follows (in thousands):

Fiscal Year Ending June 30	Governmental Activities	Business-Type Activities
2016	$ 395	$ 268
2017	373	208
2018	309	208
2019	157	208
2020	40	16
2021-2025	-	-
Total minimum payments	1,274	908
Less: interest	(88)	(72)
Present value of minimum payments	$1,186	$836

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

Asset Class	
Buildings	$ 1,596
Equipment	5,349
Less: Accum Depreciation	(3,718)
Net Book Value	$ 3,227

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2015 totaled $ 26.3 million. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Governmental Activities	Business-Type Activities
2016	$ 24,225	$ 422
2017	20,972	426
2018	18,216	262
2019	15,906	215
2020	28,024	257
2021-2025	21,268	348
2026-2030	6,911	23
Thereafter	1,872	-
Total future rental payments	$137,394	$1,953

NOTE 11. STATE DEBT

A. General Information

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

B. Short-term Debt

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. Notes may not be issued to refund outstanding notes.

During fiscal year 2015, the State issued two bond anticipation notes. The proceeds of Drinking Water – 2014A were used to fund water system improvements and rehabilitation. Drinking Water – 2015B was authorized, however it had zero activity as of June 30, 2015. The State issued one bond anticipation note during fiscal year 2014 that was still active at the end of fiscal year 2015. The following schedule summarizes the activity for the year ended June 30, 2015 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
BANS				
Water / Wastewater – 2012A	$500	$ -	$500	$ -
Water / Wastewater – 2012B	381	619	1,000	-
Drinking Water – 2013B	761	-	761	-
Water / Wastewater – 2014A	527	2,115	-	2,642
Drinking Water – 2014A	-	2,150	600	1,550

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, 2015, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2015
1997	$10,000	$ 9,035
1998	12,500	11,695
2000	15,000	14,335
2003	15,000	14,430
2004	18,500	18,200
2007	15,000	14,775
2010	12,000	11,975
2013	12,000	12,000
		$106,445

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2015 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	$106,450	$ -	$5	$106,445

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, 2015, were as follows (in thousands):

				Principal Payments		
Governmental Activities	**Series**	**Amount Issued**	**Interest Range (%)** (1)	**Fiscal Year 2016**	**In Year of Maturity** (2)	**Balance June 30, 2015**
General obligation bonds						
Hard Rock Mining Reclamation	2002C	$ 2,500	3.5-4.7	$ 135	200 (2023)	$ 1,325
Long-Range Bldg Program Refunding	2003G	26,610	2.0-5.0	2,215	2,310 (2017)	4,525
Long-Range Bldg Program Refunding	2005A	14,945	3.0-5.25	1,595	1,595 (2016)	1,595
Energy Conservation Program (5)	2005C	2,500	3.25-4.0	290	290 (2016)	290
CERCLA Program (6)	2005D	2,000	3.25-4.3	95	140 (2026)	1,280
Drinking Water Revolving Fund (3)	2005F	3,875	4.0-4.75	275	350 (2021)	1,865
Water Pollution Control Revolving Fund (3)	2005G	2,110	4.0-4.75	640	640 (2016)	640
Long-Range Bldg Program Refunding	2005H	10,055	3.0-5.0	1,060	1,060 (2016)	1,060
Energy Conservation Program (5)	2006B	3,750	4.0-6.0	260	330 (2022)	2,060
CERCLA Program (6)	2006C	1,000	4.0	115	120 (2017)	235
Renewable Resource Program (4)	2006D	950	5.6-6.0	65	90 (2022)	545
Long-Range Bldg Program Refunding	2007A	16,740	4.25-5.0	2,220	2,465 (2018)	7,025
Long-Range Bldg Program	2008D	3,100	3.375-4.35	130	220 (2028)	2,195
Long-Range Bldg Program Refunding	2010A	20,220	2.0-4.0	585	710 (2021)	3,885
Drinking Water Revolving Fund Refunding (3)	2010B	5,400	2.0-4.0	450	110 (2026)	3,630
Water Pollution Control Revolving Fund Refunding (3)	2010C	6,450	2.0-4.0	2,255	575 (2020)	4,450
Trust Land	2010F	21,000	1.55-4.9	875	1,450 (2031)	17,860
Long-Range Bldg Program	2010G	550	1.5-2.7	55	60 (2021)	345
Renewable Resource Program (Taxable) (4)	2010H	1,000	1.0-3.85	100	115 (2021)	640
Long-Range Bldg Program Refunding	2011D	5,755	3.0 -3.25	565	720 (2023)	5,125
Long-Range Bldg Program Refunding	2013C	6,780	2.0-4.0	575	115 (2025)	6,095
Water Pollution Control Revolving Fund	2013D	1,035	0.4-3.7	100	120 (2024)	955
Water Pollution Control Revolving Fund (3)	2013E	5,000	2.0-3.0	475	575 (2024)	4,655
Long-Range Bldg Program Refunding	2014	28,810	1.5-5.0	2,335	820 (2028)	28,810
Long-Range Bldg Program Refunding	2015A	9,340	2.0-4.0	-	1,260 (2020)	9,340
Water Pollution Control Revolving Fund (3)	2015C	24,365	3.0-5.0	-	1,860 (2036)	24,365
Total general obligation bonds		$ 225,840		$ 17,465		$ 134,795

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments Fiscal Year 2016	Principal Payments In Year of Maturity (2)	Balance June 30, 2015
Special revenue bonds						
State Hospital Project (7)	1997	$ 25,915	4.0-5.05	$ 1,360	1,820 (2022)	$ 11,055
Developmental Center Project Refunding (7)	2003	11,510	3.0-5.0	845	970 (2019)	3,625
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	150	215 (2024)	1,630
U.S. Highway 93 GARVEES (9)	2008	44,670	3.5-5.0	2,905	3,925 (2023)	26,945
Broadwater Power Proj Refunding (8)	2010A	10,180	3.0-4.0	1,490	1,605 (2018)	4,645
Renewable Resource Program (8)	2010B	1,730	2.0-3.6	75	115 (2031)	1,450
Renewable Resource Program (Taxable) (8)	2010C	6,720	0.9-4.2	345	170 (2031)	5,380
U.S. Highway 93 GARVEE (9)	2012	50,915	0.9-1.9	9,365	11,040 (2020)	50,915
Renewable Resource Program (8)	2013A	2,255	2.0-3.625	130	185 (2029)	2,130
Renewable Resource Program (Taxable) (8)	2013B	3,390	1.0-4.75	190	290 (2029)	3,200
Total special revenue bonds		$ 160,285		$ 16,855		$110,975
Notes payable						
Water Conservation (Petrolia Project) (10)		50	5.0	2	2 (2016)	2
Middle Creek Dam Project (11)		3,272	8.125	78	227 (2034)	2,279
Tongue River Dam Project (12)		11,300	-	290	290 (2038)	6,664
ITSD Software Licenses		1,004	3.44	346	335 (2018)	1,004
Total notes payable		$ 15,626		$ 716		$ 9,949
Subtotal governmental activities, before unamortized balances						255,719
Unamortized discount						(12)
Unamortized premium						13,015
Total governmental activities		$ 401,751		$ 35,036		$268,722

(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 the Department of Natural Resources & Conservation.

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

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2015, were as follows (in thousands):

	Governmental Activities					
	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
Year Ended June 30	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 17,465	$ 4,619	$ 16,855	$ 4,203	$ 716	$ 45
2017	16,095	4,550	17,560	3,564	695	67
2018	14,265	4,020	18,255	2,932	709	56
2019	10,935	3,580	17,360	2,267	378	45
2020	10,155	3,225	17,085	1,606	382	45
2021-2025	34,815	11,575	20,165	2,591	1,969	224
2026-2030	19,695	5,388	3,410	389	2,095	224
2031-2035	9,510	1,547	285	7	2,136	179
2036-2040	1,860	47	-	-	869	-
Total	$134,795	$ 38,551	$110,975	$ 17,559	$ 9,949	$ 885

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2015, 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	$ 127,840	$ 62,515	$ 55,560	$ 134,795	$ 17,465	$ 117,330
Special revenue bonds	128,020	-	17,045	110,975	16,855	94,120
Notes payable	9,311	1,004	366	9,949	716	9,233
	265,171	63,519	72,971	255,719	35,036	220,683
Unamortized discount	(13)	-	(1)	(12)	-	(12)
Unamortized premium	9,105	7,131	3,221	13,015	-	13,015
Total bonds/notes payable (6)	274,263	70,650	76,191	268,722	35,036	233,686
Other liabilities						
Lease/installment purchase payable	764	810	388	1,186	355	831
Operating lease rent holiday	79	47	72	54	9	45
Pension benefits payable	4	-	-	4	2	2
Compensated absences payable (1)	96,639	59,554	54,648	101,545	54,369	47,176
Arbitrage rebate tax payable (1)	97	-	-	97	-	97
Estimated insurance claims (1) (4)	84,688	172,318	180,427	76,579	29,675	46,904
Pollution remediation (3)	256,325	29,061	15,488	269,898	30,614	239,284
Pension liability (5)	1,736,918	-	313,512	1,423,406	-	1,423,406
OPEB implicit rate subsidy (2)	211,336	35,411	10,080	236,667	-	236,667
Total other liabilities	2,386,850	297,201	574,615	2,109,436	115,024	1,994,412
Total governmental activities Long-term liabilities	$2,661,113	$367,851	$ 650,806	$2,378,158	$ 150,060	$2,228,098
Business-type activities						
Lease/installment purchase payable	141	936	241	836	237	599
Compensated absences payable	1,684	1,150	967	1,867	967	900
Arbitrage rebate tax payable	9	69	78	-	-	-
Estimated insurance claims	17,755	97,811	96,501	19,065	10,315	8,750
Pension liability (5)	11,425	-	2,062	9,363	-	9,363
OPEB implicit rate subsidy (2)	3,730	623	185	4,168	-	4,168
Total business-type activities Long-term liabilities	$ 34,744	$ 100,589	$ 100,034	$ 35,299	$ 11,519	$ 23,780

(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.

(3) Pollution remediation beginning balance was restated due to correction of an error.

(4) Estimated insurance claims beginning balance was restated to reflect inclusion of the Old Fund activity. Additionally, the previous year's non-exchange financial guarantee was eliminated.

(5) The implementation of GASB Statement No. 68 required reporting a net pension liability beginning in fiscal year 2015. Further detail related to pension liability is provided in Note 6.

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

F. Refunded and Early Retired Debt

Prepayments
The Department of Natural Resources and Conservation (DNRC) used current available resources to make two prepayments resulting in payoff: $625,000 on special revenue series 2001B and $275,000 on special revenue series 2001F.

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, 2015, $69.6 million of bonds outstanding was considered defeased.

Refundings
On July 17, 2014, the State of Montana issued general obligation series 2014 Bonds in the amount of $28.8 million to make an advanced refunding totaling $32.9 million, comprised of $1.1 million series 2005B Bonds, $22.1 million series 2006A Bonds and $9.6 million series 2007D Bonds. The refunding resulted in an economic gain of $1.6 million and a difference in cash flow requirements of $1.6 million. On May 5, 2015, the State of Montana issued general obligation series 2015A Bonds in the amount of $9.3 million to make a current refunding totaling $9.7 million, comprised of $4.7 million series 2005A Bonds and $4.9 million series 2005H Bonds. The refunding resulted in an economic gain of $624,017 and a difference in cash flow requirements of $624,017.

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)
The BOI is 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, 2015, QZAB debt outstanding aggregated $10.0 million.

The BOI is also authorized to issue Qualified School Construction Bonds (QSCB) under the Municipal Finance Consolidation Act. The revenues of the borrower are pledged to repay the bonds. At June 30, 2015, QSCB debt outstanding aggregated $6.6 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.

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, 2015, was as follows: Hershberger Project – issued $129,412, outstanding $59,512.

H. Estimated Pollution Remediation Obligation

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

The State's estimated pollution remediation liability as of June 30, 2015, was $269.9 million. Of this liability, $27 million resulted in settlement agreements to provide restoration of natural resources, water supplies and natural resource-based recreational opportunities up to the settlement amount; $235.2 million is based on decrees or settlements for remediation activities. Other estimated liabilities have been recorded for soil and PCB contamination, as well as removal of asbestos contamination. The estimated pollution remediation liability was recorded in compliance with accounting and reporting standards and does not constitute Montana's total acceptance of the liability or responsibility on these matters.

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, 2015, consisted of the following (in thousands):

	Due to Other Funds		
	Coal Severance Tax	General Fund	Internal Service Funds
Due from Other Funds			
Economic Development Bonds	$ -	$ -	$1,166
Federal Special Revenue	-	-	-
General Fund	-	-	-
Internal Service Funds	36	-	-
Nonmajor Governmental Funds	-	91	-
State Special Revenue	-	44	-
Total	$36	$135	$1,166

	Due to Other Funds (cont)			
	Nonmajor Enterprise Funds (3)	Nonmajor Governmental Funds	State Special Revenue	Total
Due from Other Funds (cont)				
Economic Development Bonds	$ -	$ 30	$ 656	$ 1,852
Federal Special Revenue	-	-	57	57
General Fund	14,065	-	17,304	31,369
Internal Service Funds	1	-	-	37
Nonmajor Governmental Funds (1)	-	-	78	169
State Special Revenue (2)	-	490	-	534
Total	$14,066	$520	$18,095	$34,018

(1) Total due from the non-major governmental funds on the financial statements is reported as $2.1 million. The difference of $2.0 million between the amount reported above of $169,000 and the amount reported in the fund financial statements relates to long-term receivables. The receivables are reported in the fund financial statement and the long-term liabilities are reported in the government-wide statement.

(2) Total due from the state special revenue fund on the fund financial statement is reported as $8.4 million. The difference of $7.9 million between the amount reported above of $534,000 and the amount reported in the fund financial statement relates to long-term receivables. The receivables are reported in the fund financial statement and the long-term liabilities are reported in the government-wide statement.

(3) Total due to the non-major enterprise funds on the fund financial statement is reported as $14.4 million. The difference of $356,000 between the amount reported above of $14.1 million and the amount reported on the fund financial statement relates to loans payable. The receivables are reported in the government-wide and the liabilities are reported in the fund financial statement.

B. Interfund Loans Receivable/Payable

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

Interfund loans receivable/payable at June 30, 2015, consisted of the following (in thousands):

	Interfund Loans Payable					
	Coal Severance Tax	Federal Special Revenue	Internal Service Fund	Nonmajor Governmental Funds	State Special Revenue	Total
Interfund Loans Receivable						
General Fund	$1,437	$ 46,091	$ -	$310	$21,384	$ 69,222
State Special Revenue	-	66,029	133	-	-	66,162
Total	$1,437	$112,120	$133	$310	$21,384	$135,384

C. Advances To/From Other Funds

Advances to/from other funds represent the portion of interfund loans that are not expected to be repaid within one year from the date of the financial statements. Advances to/from other funds also include the noncurrent portion of balances related to amounts loaned by the Economic Development Bond Fund to other funds, under the Board of Investments INTERCAP loan program. For more information on the INTERCAP loan program, refer to Note 11.

Advances to/from other funds at June 30, 2015, 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 Bond	$ -	$3,737	$ -	$ 4,192	$ 1,717	$ 9,646
General Fund	430	-	-	-	377	807
Internal Service Funds	-	-	160	-	-	160
Nonmajor Governmental Funds	-	-	-	-	10,256	10,256
State Special Revenue	19,366	-	-	6,828	-	26,194
Total	$19,796	$3,737	$160	$11,020	$12,350	$47,063

Additional detail for certain advance balances at June 30, 2015, follows (in thousands):

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

Department	Balance
Natural Resources and Conservation	$4,192
Justice	1,717
Transportation	3,737
Total	$9,646

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, 2015, consisted of the following (in thousands):

	Transfers In				
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant
Transfers Out					
Coal Severance Tax	$ -	$ -	$21,168	$ -	$ -
Federal Special Revenue	-	-	149	-	-
General Fund	-	-	-	6,883	-
Internal Service Funds (1)	-	-	-	907	-
Land Grant	-	-	7	-	-
Nonmajor Enterprise Funds	-	-	43,381	2	-
Nonmajor Governmental Funds	914	-	-	-	-
State Special Revenue	-	2,816	13,365	3,467	534
Total	$914	$2,816	$78,070	$11,259	$534

	Transfers In (cont)			
	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Transfers Out (cont)				
Coal Severance Tax	$ -	$ 880	$ 17,767	$ 39,815
Federal Special Revenue	-	19,894	31,400	51,443
General Fund	-	14,390	39,001	60,274
Internal Service Funds (1)	-	240	3	1,150
Land Grant	-	972	68,882	69,861
Nonmajor Enterprise Funds	-	-	6,740	50,123
Nonmajor Governmental Funds	-	4,107	23,624	28,645
State Special Revenue	106	13,854	-	34,142
Total	$106	$54,337	$187,417	$335,453

(1) Total transfers-out for internal service funds on the fund financial statements is reported as $1.4 million. The difference of $265,000 between the amount reported above of $1.2 million and the amount reported on the fund financial statements relates to the transfer of capital assets between a governmental fund type and the internal service fund type. When capital assets are transferred between these fund types, the transferring fund reports the net book value of the capital asset as a transfer-out, and the receiving fund reports the net book value of the capital asset as a capital contribution.

NOTE 13. FUND DEFICITS

The following funds have a deficit fund balance/net position remaining at June 30, 2015, as follows (in thousands):

Fund Type/Fund	Deficit
Internal Service Funds	
Information Technology Services	$ (16,160)
Building and Grounds	(1,813)
Admin Central Services	(1,761)
Labor Central Services	(6,100)
Commerce Central Services	(1,278)
OPI Central Services	(866)
DEQ Indirect Cost Pool	(3,871)
Payroll Processing	(772)
Warrant Processing	(201)
Investment Division	(2,873)
Aircraft Operation	(1,108)
Justice Legal Services	(555)
Personnel Training	(158)
Other Internal Services	(370)
Enterprise Fund	
State Lottery	(1,930)
Subsequent Injury	(2,323)
Secretary of State Business Services	(54)
Local Government Audits	(103)

NOTE 14. MAJOR PURPOSE PRESENTATION

Special Revenue and Fund Balances Classifications by Purpose – In the governmental fund financial statements, classifications of special revenue fund revenues and fund balances are presented in the aggregate. The tables presented below further display the special revenue fund revenues and fund balances by major purpose for the year ending June 30, 2015.

State Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Licenses/permits	$ 66,880	$32,197	$ 24,514	$ 2,162	$ 171	$ 69,248	$ 195,172
Taxes	226,751	4,203	226,898	-	(23)	16,049	473,878
Charges for services	24,363	10,533	12,125	32,310	1,864	17,086	98,281
Investment earnings	202	6,124	30	109	473	10,497	17,435
Securities lending income	-	93	-	1	6	109	209
Sale of documents/merchandise/property	547	2,565	100	113	2	2,476	5,803
Rentals/leases/royalties	244	14	410	56	4	189	917
Contributions/premiums	24,105	-	-	-	-	-	24,105
Grants/contracts/donations	2,042	729	1,334	11,292	1,291	3,576	20,264
Federal	9,182	17	1	1,907	-	-	11,107
Federal indirect cost recoveries	-	-	37,001	19	-	4,166	41,186
Other revenues	1,020	521	380	367	188	212	2,688
Transfers in	56,407	3,810	2,143	6,974	886	117,197	187,417
Total State Special Revenue	$411,743	$60,806	$304,936	$55,310	$4,862	$240,805	$1,078,462

Federal Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Charges for services	$ 742	$ 5	$ -	$ 4,143	$ 30,131	$ 18	$ 35,039
Investment earnings	196	2	-	-	19	86	303
Securities lending income	-	-	-	-	-	5	5
Sale of documents/merchandise/property	1	-	-	-	-	1	2
Rentals/leases/royalties	-	-	-	-	-	14	14
Grants/contracts/donations	-	-	-	-	-	(51)	(51)
Federal	113,664	8,734	468,949	1,245,086	176,383	99,456	2,112,272
Federal indirect cost recoveries	2	-	-	71,177	-	345	71,524
Other revenues	7	8	-	546	5	17	583
Transfers in	-	1,775	-	991	-	50	2,816
Total Federal Special Revenue	$114,612	$10,524	$468,949	$1,321,943	$206,538	$99,941	$2,222,507

Governmental Fund Balance By Function, June 30, 2015
(in thousands)

		Special Revenue		Permanent			
	General	State	Federal	Coal Severance Tax	Land Grant	Nonmajor	Total
Fund balances							
Nonspendable							
Inventory	$ 2,514	$ 22,623	$ -	$ -	$ -	$ -	$ 25,137
Permanent fund principal	8	501	-	527,939	667,730	297,715	1,493,893
Long-term notes/receivables	817	-	-	-	-	-	817
Prepaid expense	1,329	382	95	-	-	-	1,806
Total nonspendable	4,668	23,506	95	527,939	667,730	297,715	1,521,653
Restricted							
General government	-	3,803	-	-	-	2,783	6,586
Transportation	-	47,750	-	-	-	-	47,750
Health and human services	-	8,919	595	-	-	13,300	22,814
Natural resources	-	705,780	-	-	-	10,514	716,294
Public safety	-	251,245	-	-	-	761	252,006
Education	-	7,339	10,484	-	-	73	17,896
Total restricted	-	1,024,836	11,079	-	-	27,431	1,063,346
Committed							
General government	-	118,375	-	506,914	-	87,478	712,767
Transportation	-	3,856	-	-	-	-	3,856
Health and human services	-	28,226	-	-	-	-	28,226
Natural resources	-	312,248	-	-	-	34,302	346,550
Public safety	-	30,207	-	-	-	-	30,207
Education	-	8,249	-	-	-	-	8,249
Total committed	-	501,161	-	506,914	-	121,780	1,129,855
Assigned							
General government	-	892	-	-	-	4,469	5,361
Public safety	-	-	-	-	-	599	599
General Fund Spend Down FY16 (1)	75,000	-	-	-	-	-	75,000
Encumbrance	11,230	-	-	-	-	-	11,230
Total assigned	86,230	892	-	-	-	5,068	92,190
Unassigned	380,436	-	-	-	-	-	380,436
Total fund balance	$471,334	$1,550,395	$11,174	$1,034,853	$667,730	$451,994	$4,187,480

(1) In fiscal year 2015, the General Fund unassigned fund balance was $380 million. An additional $75 million was reported as assigned fund balance pertaining to the projected General Fund spend down of fund balance in fiscal year 2016. The 2013 Legislature projected $300 million of unassigned fund balance for fiscal year 2015.

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 71.89%, or $939.6 million of MGSLP's outstanding loan volume is held by MHESAC.

The Montana Association of Health Care Purchasers (MAHCP) has a member from the Department of Administration (DOA), Health Care and Benefits Division as well as a member from the Montana University System. Both serve on the board of MAHCP and receive no remuneration for their services. DOA paid this association $1.25 per health care plan member per year to maintain its membership. DOA also paid a monthly fee of $0.55 per health care plan member per month for data aggregation and analysis and consulting services performed by the association staff on behalf of member employers. DOA also paid $0.71 per pharmacy script to MAHCP for administration of the URx program, which includes the Ask-A-Pharmacist Program.

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

The Office of the State Public Defender rents the office space that is leased to one of its regional deputies. The Deputy Public Defender leases it from a third party and the Office of the State Public Defender reimburses the Deputy Public Defender for the lease payment. The lease ended on November 1, 2014, and the amount paid during fiscal year 2015 was $7,844.

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

NOTE 16. CONTINGENCIES

Litigation

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

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

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

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

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

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

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

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

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

In 2015, certain Settling States and certain tobacco product manufacturers commenced multi-state arbitration of the issue of diligent enforcement for calendar year 2004. Montana is not a party to this arbitration. The arbitration was put on hold by R.J. Reynolds Tobacco Company filing challenges to the arbitration in multiple states' courts. Neither Montana nor any tobacco product manufacturers have yet initiated litigation to determine the State's diligent enforcement for 2004.

<u>PPL v. Montana</u> 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. At this time, no further potential liability to the State is expected relative to this action and no additional updates are necessary in regards to the outstanding litigation.

Spoklie v. Montana Department of Fish, Wildlife and Parks, 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. No other updates in relation to this pending action are known at this time.

In October 2008 a lawsuit, Diaz et al. v. Blue Cross and Blue Shield of Montana et al., 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.

On September 8, 2014, the District Court issued an order ruling on several motions that the parties had filed. The principal rulings were: (i) the Court authorized Plaintiffs to proceed with additional discovery to determine if the class definition should be altered or amended; (ii) given its order to allow additional discovery, the Court held in abeyance its decision on the State's Motion for Summary Judgment requesting that the class be limited to those who timely filed claims within the one-year filing restriction contained in the State's policy; (iii) the Court granted the Plaintiffs' motions asking the Court to require the State conform its health plans, procedures, notices and practices to comply with the Montana Supreme Court's rulings in this case and to pay covered medical expenses, await the resolution of claims against liability carriers, and then conduct a made-whole determination before it can exercise subrogation or accept reimbursements from its members or providers; and (iv) the Court ordered the parties to develop a class notice to be sent to past and current plan members dated back to eight years before this suit was filed. The State and Plaintiffs' counsel are currently working on the notice.

On April 13, 2015, the District Court issued an Order on Interest to Be Paid, requiring the State to include in the payments ultimately made to class members' interest at the rate of 10% per annum. For claims arising before December 24, 2009, interest will begin 30 days following the Montana Supreme Court's decision in Blue Cross and Blue Shield of Montana, Inc. v. Montana State Auditor. For any claims arising after December 24, 2009, interest will begin starting on the day the underlying medical expenses were incurred.

On October 5, 2015, the Plaintiffs filed with the District Court a motion directing the State to pay attorney fees arising from the class action suit. On November 9, 2015 the District Court issued an order denying Plaintiffs' motion for attorney fees.

On December 14, 2015, the District Court issued an order certifying that its orders concerning interest and attorney fees were final for purposes of an appeal to the Montana Supreme Court. On January 12, 2016, the Plaintiffs filed a Notice of Appeal with the Montana Supreme Court, appealing the interest and attorney fee orders.

Since the case is ongoing, the State at this point does not have sufficient information to determine the cost impact.

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

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

On May 28, 2015, the District Court determined that § 16-2-101(2)(b)(ii)(B), MCA, violated the plaintiffs' rights to substantive due process and to equal protection of the law because the state has continued to use 1994 sales information to reimburse agency liquor stores for the mandatory case lot discounts. Trial on the issue of damages is set for February 4 and 5, 2016. Potential damages have been estimated at as much as $30 million.

Montana Department of Revenue v. Priceline, et. al. is a case that was initially filed on November 8, 2010, in the First District Court of Montana (Cause No. CDV-2010-1056) involving the determination of whether online travel companies (OTCs) are required to collect and remit Lodging Facility Use Taxes and Sales Accommodations Taxes, based on fees the OTCs charge in relation to their companies transacting business on a service provider's behalf. The Supreme Court (Cause No. DA 14-0260) ruled on August 21, 2015, that the OTCs do not need to collect and remit the Lodging Facility Use Taxes to the Department of Revenue (Department), but that the OTCs were responsible to collect and remit Sales Accommodations Taxes on the fees charged to accommodation providers. The Department utilized outside counsel in the case and they performed their services on a 20% contingency basis. As a result of the favorable decision to the Department, it will collect a minimum of $1.3 million in revenue from the OTCs and remit a minimum of $300,000 of this to the outside counsel as a result of the contingency fee agreement.

Ronald Mashek et al, Compliance Specialists, Department of Health and Human Services, Child Support Enforcement Division v. Department of Public Health and Human Services, State Human Resources Division, Department of Administration, is a case currently filed with the Montana Supreme Court (Cause No. DA 15-0410) regarding pay classifications for DPHHS compliance specialists.

On May 4, 2011, a group of Montana Department of Public Health and Human Services ("DPHHS") employees who constitute the majority of the Compliance Specialists, Band 6, in the State of Montana ("Grievants") filed an Amended Complaint alleging they were not paid in compliance with the Broadband pay classification plan (§§ 2-18-201 and -301, MCA) and wage payment statutes (§ 39-3-201, MCA, et seq.). Ronald Mashek v. Department of Public Health and Human Services, BDV 2011-385 (Montana 1st Judicial Dist. Court).

The Grievants belong to MEA-MFT Local 4573, a bargaining unit of approximately 500 state employees. The collective bargaining agreements to which MEA-MFT Local 4573 and the State are parties have two-year terms, beginning on July 1 of odd years following the Legislative session, and ending two years later, on June 30th. Both parties' exclusive representatives negotiate the collective bargaining agreement based on the totality of the circumstances at the time and the totality of the contract, knowing the contract is binding until the next biennium. An employer must maintain the "status quo" regarding pay at the end of the term of a collective bargaining agreement until a new agreement is reached. MEA-MFT Local 4573 negotiated collective bargaining agreements with the State that covered the 2007-2009, 2009-2011, and 2011-2013 contract years. These negotiations included discussions about wages, which are a mandatory subject of bargaining. See Section 39-31-305(2), MCA. The Pay Addenda in the 2009-2011 and 2011-2013 contracts state: "This addendum represents the parties' full and complete agreement for all provisions of the Broadband pay Plan for the term of this contract."

On November 3, 2011, the District Court certified as a class union and non-supervisory DPHHS pay band 6 compliance specialists with the Child Support Enforcement Division employed from January 2007 to the present. DPHHS and the Department of Administration ("DOA") subsequently moved to dismiss the Amended Complaint on the basis that the employees had failed to exhaust their administrative remedies by filing a grievance with the Board of Personnel Appeals ("BOPA"). The District Court granted the motion on July 18, 2012, and dismissed the case without prejudice.

On July 25, 2012, the employees filed a grievance with BOPA against DPHHS and the Department of Administration (collectively the "State"), alleging they were not paid in compliance with the Broadband pay program. A hearing officer was assigned to the matter who determined before the grievance hearing that only those employees whom DPHHS employed at the time they filed their complaint in District Court could maintain a grievance with the Board of Personnel Appeals. The matter then proceeded to a hearing in May 2013, with only those grievants in the group identified by the hearing officer.

The Grievants argued at hearing that § 2-18-301(4) MCA required internal equity in their compensation in comparison to the compensation received by other compliance specialists employed by other departments, and that DPHHS violated this by paying them less on average than others in the same job code in some other state agencies. The State argued that §§ 2-18-301 to -303, MCA contemplate that union employees may negotiate their pay, that the Grievants negotiated their pay in collective bargaining each biennium since 2001 when broadband became an optional pay plan, that Grievants negotiated their pay in collective bargaining each biennium since 2007 when broadband became mandatory, that the pay the Grievants negotiated was within the parameters of pay rules set out in each final and binding collective bargaining agreement, and that internal equity is only one of 4 factors which § 2-18-301(4), MCA, required the parties to the collective bargaining agreement to consider.

Following the hearing, the Hearing Officer issued his Findings of Fact, Conclusions of Law, and Recommended Order ("Recommended Order") on November 27, 2013, holding that the Grievants were aggrieved, that they have and the State violated a substantive right to internal equity requiring the same pay for a job code across all state agencies, and that the Grievants cannot explicitly waive this right in collective bargaining agreements. The hearing officer awarded damages in the form of percentage calculation which the Grievants estimate would result in damages of approximately $6 to $8 million.

Both parties submitted to BOPA their objections to the Recommended Order. BOPA consists of five members appointed by the Governor, all of whom must be actively engaged in a collective bargaining workplace. Two members must be appointed from labor and two must be appointed from management, and the chair must be an attorney experienced in labor law. In other words, BOPA members are all highly qualified as subject matter experts. With this expertise, BOPA issued a unanimous Final Order on June 3, 2014, reversing the Recommended Order and dismissing the grievance, holding:

- Internal equity is not a substantive right but one of four considerations about pay;
- The only way to interpret internal equity when Broadband allows each agency to set its own pay is to consider the pay relationships within the agency and work unit;
- Broadband does not require identical pay across state agencies; and
- The collective bargaining agreements were final and binding.

The Grievants filed a petition for judicial review of the BOPA Final Order to the Montana First Judicial District Court. The district court issued an Order on Petition for Judicial Review on May 5, 2015, granting the Grievants' petition, vacating BOPA's decision, and adopting the Recommended Order as a modified final order. The district court focused almost exclusively on the manner in which BOPA discussed the matter and drafted its order rather than the substance of the order, and held that BOPA violated Grievants' due process rights by discussing during deliberations the effect the Hearing Officer's decision would have on state employee collective bargaining, and by not stating with particularity the reasons BOPA changed some findings of fact. The court did not address the merits of BOPA's conclusions of law to determine if BOPA's interpretation of the law was correct, as required in a petition for judicial review. State Personnel Div. v. Dep't of Public Health and Human Servs., 2002 MT 46, ¶ 20, 308 Mont. 365, 43 P.3d 305.

Both parties filed further motions with the district court. The Grievants filed a motion under Rule 59(a), M.R.Civ.P., requesting the district court to apply its Order on Judicial Review to the class that was originally certified and seeking attorney fees. The State filed a Rule 60(a) motion requesting remand to BOPA. The district court denied the motions in its Order of Various Post-Order Motions, dated June 29, 2015.

The State has appealed to the Montana Supreme Court from the district court's Order on Judicial Review and the Order on Various Post-Order Motions, and filed their opening brief on September 30, 2015. The Grievants have appealed the district court's Order on Various Post-Order Motions and are scheduled to file their reply to the State's opening brief and their own opening brief on their cross appeal on December 1, 2015.

An unfavorable outcome is reasonably possible given that an unfavorable district court order is in place. The grounds for the State's appeal, nevertheless, are strong. While the parties brought significant legal issues for resolution, the district court order failed to address them substantively, and instead resolved the case on the basis of the manner in which BOPA discussed them and drafted its final order reversing the hearing officer's recommended order. The State argues strongly that it deserves the right to have the issues resolved on the merits, not on the basis of the conduct of BOPA, and that in any event, BOPA acted correctly.

The district court held that BOPA violated the Grievants' due process rights by discussing the effect the Hearing Officer's decision would have on state employee collective bargaining, reasoning that the Grievants never had a chance to discuss the effect of collective bargaining at the hearing. The State argues the Grievants had every chance to discuss collective bargaining in this case, which involves negotiated, executed and ratified collective bargaining agreements, and in which those agreements were entered into evidence and their validity put in issue. The district court also concluded BOPA's final order violated Grievants' due process rights by not stating with particularity the reasons BOPA changed some findings of fact. BOPA's treatment of the findings of fact the hearing officer set forth in the recommended order (which BOPA noted were "replete" with incorrect legal conclusions) properly discussed the findings of fact. Finally, the district court did not address the merits of BOPA's conclusions of law, and did not directly address whether BOPA's conclusions of law were correct. Dep't of Public Health and Human Servs., 2002 MT 46, ¶ 20, 308 Mont. 365, 43 P.3d 305.

The district court order on judicial review, and the recommended order of the hearing officer which the district court reinstated, present a thin and troubling basis for overturning compensation which the Grievants negotiated and agreed to in multiple collective bargaining agreements. The Supreme Court has historically relied upon the expertise of BOPA, especially when BOPA decides a case unanimously, as it did here. The Court could resolve the case summarily by concluding that the Grievants' compensation should be that which they agreed to in the collective bargaining agreements, as BOPA determined, and dismissing the case. Alternatively, the Supreme Court could remand the matter to BOPA with instructions that it address more clearly its basis for reversing the findings and conclusions in the recommended order.

While it is possible the Supreme Court will let the district court order stand, the DPHHS believes the legal grounds it set forth for reversing that order are strong and that the Supreme Court will view those arguments favorably. We believe the Court will, consistent with its historical practice, rely upon the expertise of BOPA in its unanimous reversal of the hearing officer's recommended order and resolve this case in the DPHHS's favor.

The Public Employee Retirement Board (PERB) has one item of outstanding litigation in relation to the Public Employees' Retirement System - Defined Contribution Retirement Plan. PERB and Teachers' Retirement System have settled one respective case each in relation to retiree GABA rates. Refer to Note 6(I) for additional disclosure in relation to their various legal proceedings.

Federal Contingencies

Food Distribution Program - The amount reported for Food Distribution programs (CFDA #10.555, #10.565, #10.567, #10.569, and #10.570) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. 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 2015, Montana distributed $629,349 of food commodities under CFDA #10.567 to other states.

The State of Montana distributed $9.8 million in commodities in fiscal year 2015. The value at June 30, 2015, of commodities stored at the state's warehouse is $2.1 million for which the state is liable in the event of loss. The state has insurance to cover this liability.

Miscellaneous Contingencies

Loan Enhancements – As of June 30, 2015, the Board of Investments (BOI) had provided loan enhancements from the Coal Severance Tax Permanent Fund to the Municipal Finance Consolidation Act Bond Fund and the Facility Finance Authority, (a component unit of the State of Montana), totaling $193.3 million. The BOI's exposure to bond issues of the Municipal Finance Consolidation Act Bond Fund was $106.4 million, while exposure to bond issues, surety bonds, and designated loans of the Facility Finance Authority was $86.9 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, 2015, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	State Special Revenue	Debt Service	Capital Projects	Nonexpendable Trust
Corporation Tax	$34,111	-	-	-	-
Coal Severance Tax	659	$206	$23	$295	$1,276
Resource Indemnity Trust Tax	-	64	-	-	-
Total	$34,770	$270	$23	$295	$1,276

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, 2015. The corporations have appealed the Department of Revenue's decision to deny or adjust the refund. As of June 30, 2015, these include $5.8 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, 2015. As of June 30, 2015, these include $1.3 million of protested property taxes recorded in the General Fund and $1.5 million recorded in State Special Revenue Fund. In addition, certain companies have appealed an additional $5.8 million in regular property taxes recorded in the General Fund on the State's financial statements.

Settlement Contingent on Congressional Approval – The 2015 Legislature passed Senate Bill 262 which ratifies a water rights Compact between the Confederated Salish and Kootenai Tribes, the State of Montana, and the United States to settle existing claims to water of or on behalf of the Tribes. (§85-20-1901, MCA) The Compact is effective upon approval of by the Tribes, the State, and the US Congress. The State will contribute an estimated $55 million payable over several fiscal years, as set forth in Article VI of the Compact, $3 million of which has already been appropriated for this purpose; however, the Parties to the Compact recognize that the structure of the State funding is contingent on future action of the Montana Legislature. (§85-20-1901 (Art. VI), MCA)

NOTE 17. SUBSEQUENT EVENTS

Investment Related Issues

From July 1 through February 19, 2016, AFF Financing LLC payments total $2.523 million, representing $2.481 million in principal and $42,000 in interest. For the same period, the Board of Investments (BOI) received payments associated with the Orion Finance collective holding of $1,071,000 with $831,000 and $240,000 applied to principal and interest, respectively.

On August 3, 2015, the BOI terminated one manager for poor relative performance in RFBP. Another manager was hired to liquidate much of the portfolio and transferred cash and securities to the Core Internal Bond Portfolio. Market value of the transfer was approximately $105 million.

On August 12, 2015, the BOI, through the Coal Severance Tax (CST) Permanent Fund, purchased $1.5 million Department of Natural Resources and Conservation CST bonds in the Renewable Resource Program, 2015 Series B Taxable.

August 18, 2015, the BOI approved a $24 million in-state loan program request.

On October 1, 2015, the BOI received a bankruptcy payment of $238,000 related to the Lehman Brothers Holdings, Inc.

During the October 6, 2015, board meeting, the BOI wrote down $922,000 in Montana Science and Technology Alliance (MSTA) loans.

On October 6, 2015, the BOI approved, that for financial reporting purposes the STIP portfolio will be reported on a Net Asset Value basis beginning with the month of October 2015 versus amortized cost.

The BOI's Chief Investment Officer (CIO) retired October 9, 2015. The new CIO started November 2, 2015.

Other Subsequent Events

On August 16, 2015, Governor Bullock declared by executive order a fire emergency for the state of Montana. Pursuant to the executive order, the declaration allows for mobilization of state resources and the Montana National Guard to combat fires, as well as expend funds to meet contingencies and needs that may arise from them.

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, 2015 (in thousands):

Condensed Statement of Net Position
Component Units

	Montana Board of Housing	Facility Finance Authority	Montana State Fund (1)	Montana State University	University of Montana	Total Component Units
Assets:						
Cash, investments and other assets	$644,894	$4,925	$1,666,082	$535,763	$469,864	$3,321,528
Due from primary government	-	-	-	302	1,192	1,494
Due from component units	-	-	-	-	69	69
Capital assets (net) (Note 18C)	5	28	29,328	433,157	341,911	804,429
Total assets	644,899	4,953	1,695,410	969,222	813,036	4,127,520
Deferred Outflows of Resources	720	12	1,614	25,454	18,210	46,010
Liabilities:						
Accounts payable and other liabilities	8,153	24	157,604	59,570	64,228	289,579
Due to primary government	-	5	-	2,358	971	3,334
Due to component units	-	-	-	69	-	69
Advances from primary government	-	-	-	21,242	11,433	32,675
Long-term liabilities (Note 18I)	485,419	217	998,083	354,928	266,711	2,105,358
Total liabilities	493,572	246	1,155,687	438,167	343,343	2,431,015
Deferred Inflows of Resources	311	34	4,357	16,354	17,235	38,291
Net Position:						
Net investment in capital assets	5	28	29,328	282,500	228,128	539,989
Restricted	151,731	-	-	242,095	275,729	669,555
Unrestricted	-	4,657	507,652	15,560	(33,189)	494,680
Total net position	$151,736	$4,685	$ 536,980	$540,155	$470,668	$1,704,224

(1) The State of Montana (Old Fund) is reported within the governmental activities of the primary government, effective June 30, 2015. This reporting change resulted in a $45 million reduction of liabilities for the Montana State Fund, a component unit of the State, as presented above.

Condensed Statement of Activities
Component Units

	Montana Board of Housing	Facility Finance Authority	Montana State Fund (1)	Montana State University	University of Montana	Total Component Units
Expenses	$ 24,577	$ 377	$151,660	$ 527,197	$ 427,096	$1,130,907
Program Revenues:						
Charges for services	1,186	890	164,557	245,341	184,166	596,140
Operating grants and contributions	24,752	38	-	161,804	152,704	339,298
Capital grants and contributions	-	-	-	1,873	5,393	7,266
Total program revenues	25,938	928	164,557	409,018	342,263	942,704
Net (expense) program revenues	1,361	551	12,897	(118,179)	(84,833)	(188,203)
General Revenues:						
Unrestricted grants and contributions	-	-	-	55	-	55
Unrestricted investment earnings	-	-	42,990	1,697	2,878	47,565
Payment from State of Montana	33	4	1,270	121,319	101,545	224,171
Gain (loss) on sale of capital assets	-	-	(19)	93	-	74
Miscellaneous	106	-	82	-	-	188
Contributions to term and permanent endowments	-	-	-	6,296	12,305	18,601
Total general revenues and contributions	139	4	44,323	129,460	116,728	290,654
Change in net position	1,500	555	57,220	11,281	31,895	102,451
Total net position – July 1 – as previously reported	151,750	4,287	455,323	603,565	521,703	1,736,628
Adjustments to beginning net position	(1,514)	(157)	24,437	(74,691)	(82,930)	(134,855)
Total net position – July 1 – as restated	150,236	4,130	479,760	528,874	438,773	1,601,773
Total net position – June 30	$151,736	$4,685	$536,980	$ 540,155	$ 470,668	$1,704,224

(1) The State of Montana (Old Fund) is reported within the governmental activities of the primary government, effective June 30, 2015. This reporting change resulted in a $45 million adjustment to beginning net position for the Montana State Fund, a component unit of the State, as presented above.

B. Cash/Cash Equivalents and Investments

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

C. Capital Assets

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

	Montana State University	University of Montana	Other	Total
Capital assets not being depreciated:				
Land	$ 6,669	$ 8,226	$ 1,139	$ 16,034
Construction Work In Progress	30,581	15,507	-	46,088
Capitalized Collections	9,085	17,823	-	26,908
Livestock for educational purposes	3,661	-	-	3,661
Total Capital Assets not being depreciated	49,996	41,556	1,139	92,691
Capital assets being depreciated:				
Infrastructure	43,212	8,342	-	51,554
Land Improvements	22,285	15,322	-	37,607
Buildings/Improvements	580,897	536,618	27,973	1,145,488
Equipment	155,109	88,028	7,639	250,776
Livestock	-	10	-	10
Library Books	64,986	59,851	-	124,837
Leasehold Improvements	1,451	-	-	1,451
Total Capital Assets being depreciated	867,940	708,171	35,612	1,611,723
Total accumulated depreciation	(494,245)	(412,672)	(7,919)	(914,836)
Total Capital Assets being depreciated, net	373,695	295,499	27,693	696,887
Intangible Assets	836	2,413	529	3,778
MSU Component Unit Capital Assets, net	8,630	-	-	8,630
UM Component Unit Capital Assets, net	-	2,443	-	2,443
Discretely Presented Component Units capital assets, net	$ 433,157	$ 341,911	$29,361	$ 804,429

D. Other Postemployment Benefits (OPEB)

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

E. Risk Management

Montana State Fund (MSF) is the only component unit risk pool. Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. There are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage for the last three years for MSF. This fund uses the accrual basis of accounting. Montana State Fund investments are recorded at fair value, and the premiums and discounts are amortized using the scientific interest method over the life of the securities.

(1) Montana State Fund (MSF) – This fund provides liability coverage to employers for injured employees who are insured under the Workers' Compensation and Occupational Disease Acts of Montana and workers' compensation claims occurring on or after July 1, 1990. MSF is a self-supporting, competitive state fund, and functions as the guaranteed market. At June 30, 2015, approximately 24,400 employers were insured with MSF. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to MSF within specified time frames.

An actuarial study prepared by Towers Watson, as of June 30, 2015, estimated the cost of settling claims that have been reported, but not settled, and claims that have been incurred, but not reported. Due to the fact that actual claim costs depend on complex factors such 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, 2015, $895.5 million of unpaid claims and claim adjustment expenses were presented at face value.

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

For the fiscal year ended June 30, 2015, MSF ceded premiums to other reinsurance companies to limit the exposure arising from large losses. These arrangements consist of excess of loss contracts that protect against individual occurrences over stipulated amounts, and an aggregate stop loss contract which protects MSF against the potential that aggregate losses will exceed expected levels expressed as a percentage of premium. For fiscal year 2015, the excess of loss contract provides coverage up to $100 million in which MSF 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 is July 1, 2014, through December 31, 2016. The contract provides coverage based on MSF's premium levels not to exceed 15% of the subject net earned premium. In the event reinsurers are unable to meet their obligations, under either the excess of loss contracts or the aggregate stop loss contract, MSF would remain liable for all losses, as the reinsurance agreements do not discharge MSF from its primary liability to the policyholders.

Premium revenue was reduced by premiums paid for reinsurance coverage of $11.3 million in fiscal year 2015.

Estimated claim reserves were reduced by $13.3 million for fiscal year 2015 for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excess of loss reinsurance contract. In fiscal year 2015, estimated claim reserves were reduced by an additional $22.3 million for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the aggregate stop loss contract.

(2) Changes in Claims Liabilities for the Past Two Years – As indicated above, this fund establishes liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following table presents changes (in thousands) in the aggregate liabilities for Montana State Fund net of estimated reinsurance recoverable. The information presented is at face value and has not been discounted.

	Montana State Fund 2015	Montana State Fund 2014
Unpaid claims and claim adjustments expenses at beginning of year	$ 924,598	$ 902,848
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	135,111	150,940
Increase (decrease) in provision for insured events of prior years	(45,914)	(18,620)
Total incurred claims and claim adjustment expenses	89,197	132,320
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	(24,150)	(26,807)
Claims and claim adjustment expenses attributable to insured events of prior years	(94,102)	(83,763)
Total payments	(118,252)	(110,570)
Total unpaid claims and claim adjustment expenses at end of year	$ 895,543	$ 924,598

F. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2015, were as follows (in thousands):

Fiscal Year Ending June 30	Discretely Presented Component Units
2016	$260
2017	182
2018	112
2019	36
2020	7
2021-2025	-
Total minimum pmts	597
Less: interest	(41)
Present value of minimum payments	$556

G. Operating Leases

Future rental payments under operating leases at June 30, 2015, are as follows (in thousands):

Fiscal Year Ending June 30	Discretely Presented Component Units
2016	$ 4,446
2017	3,742
2018	2,395
2019	2,151
2020	2,020
2021-2025	3,514
2026-2030	1,449
Thereafter	2,898
Total future rental payments	$22,615

H. Debt Service Requirements

Debt service requirements of discretely presented component units at June 30, 2015, were as follows (in thousands):

Year Ended June 30	Montana Board of Housing		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 13,215	$ 17,904	$ 8,913	$ 6,213	$ 7,949	$ 3,833
2017	14,020	17,588	8,952	5,944	8,207	3,587
2018	14,725	17,218	8,995	5,685	8,506	3,293
2019	15,265	16,785	13,135	5,417	8,825	2,964
2020	15,900	16,300	9,065	5,107	9,220	2,611
2021-2025	89,865	72,553	36,945	21,059	49,586	7,359
2026-2030	105,870	53,457	27,030	14,329	11,725	1,544
2031-2035	106,640	31,641	23,630	9,277	2,770	225
2036-2040	78,335	11,598	14,710	4,901	-	-
2041-2045	23,905	1,485	13,065	1,347	-	-
Total	$477,740	$256,529	$164,440	$79,279	$106,788	$25,416

I. Summary of Changes in Long-term Liabilities Payable

Long-term liability activity of discretely presented component units for the year ended June 30, 2015, was as follows (in thousands):

	Beginning Balance (3)	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Discretely presented component units						
Bonds/notes payable						
Montana Board of Housing	$ 528,979	$ 20,153	$ 66,409	$ 482,723	$ 13,215	$ 469,508
Montana State University (MSU)	179,214	373	10,864	168,723	8,913	159,810
University of Montana (UM)	116,505	20,500	28,335	108,670	7,983	100,687
Total bonds/notes payable (1)	824,698	41,026	105,608	760,116	30,111	730,005
Other liabilities						
Lease/installment purch pay	870	122	436	556	237	319
Compensated absences pay	59,570	29,448	28,706	60,312	30,073	30,239
Arbitrage rebate tax payable	551	353	-	904	-	904
Prevailing wage claim	15	-	15	-	-	-
Estimated insurance claims (5)	924,598	89,197	118,252	895,543	125,271	770,272
Due to federal government	32,963	238	-	33,201	-	33,201
Derivative instrument liability	4,035	572	-	4,607	-	4,607
Reinsurance funds withheld	67,162	12,197	1,639	77,720	-	77,720
Unearned compensation	293	78	-	371	-	371
Pension liability (6)	164,321	11,970	13,113	163,178	-	163,178
OPEB implicit rate subsidy (2)	99,141	10,893	3,386	106,648	-	106,648
Total other liabilities	1,353,519	155,068	165,547	1,343,040	155,581	1,187,459
	$2,178,217	$196,094	$271,155	$2,103,156	185,692	1,917,464
Long-term liabilities of Montana University System component units (4)					(137)	2,339
Total discretely presented component units Long-term liabilities					$185,555	$1,919,803

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

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

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

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

(5) Estimated insurance claims beginning balance was restated to reflect exclusion of the Old Fund, which is now reported within the primary government.

(6) The implementation of GASB Statement No. 68 required reporting a net pension liability beginning in fiscal year 2015. Further detail related to pension liability is provided in Note 6.

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, 2015, $123.0 million of bonds outstanding were considered defeased.

K. No-Commitment Debt

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

Facility Finance Authority (FFA)

The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana, with the exception of the Montana State Hospital Project and the Montana Developmental Center Project included in Note 11. At June 30, 2015, revenue bonds outstanding aggregated $1.0 billion and notes payable outstanding aggregated $4.6 million.

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

Montana Board of Housing (MBOH)

The MBOH is authorized to issue bonds and make mortgage loans in order to finance affordable housing for Montana residents. The bonds are special limited obligations, payable solely from pledged revenues and assets of the borrower, not general obligations of the MBOH. These bonds issued by the MBOH do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2015, bonds outstanding aggregated $14.2 million.

L. Derivative Transactions Related to Long-term Debt

Montana State University (MSU) has two interest rate swaps as of June 30, 2015. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraphs 27 (a) and (b) of GASB Statement No. 53 (GASB 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, 2015, the fixed payer swap is classified as a hedging derivative instrument under GASB 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. GASB 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 GASB 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. In Addition, GASB 53 permits a governmental entity to use other quantitative methods that are based on “established principles of financial economic theory.” The fixed payer swap passes the established criteria using the regression analysis methodology.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. 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 Securities Industry and Financial Markets Association (SIFMA) plus a fixed spread. The spread is based on the long-term, unenhanced rating assigned to the issuer; the current spread as of June 30, 2015, was 0.65%. The dependent variable in the regression is the interest rates of the hedged cash flows; the independent variable is the floating rates due under the hedging derivative. The counterparty to the fixed payer swap has the right to terminate the swap at $0 on December 14, 2016 (a European option). Upon entering into the transaction, MSU received consideration from the counterparty in the form of an off-market (lower) fixed swap rate. A portion of the consideration received was a result of the option being in-the-money at inception; that is, the option had intrinsic value as the cancelable swap's fixed rate of 3.953% was lower than the at-market rate of 4.110% on the trade date. The remainder of the up-front consideration reflects the time value the counterparty pays for holding the option. To MSU, the time value portion represents deferred investment revenue. The intrinsic value of the cancelable swap is considered a loan receivable for financial reporting purposes and is treated as an asset in the accompanying financial statements. Interest accrues to the balance of the asset each year and amortizes with each swap payment.

The following table summarizes the reported balances as of, and the derivative instrument activity during, the year ended June 30, 2015 (in thousands):

		Activity During 2015 Increase (Decrease)		Fair Values at June 30, 2015	
Cash flow hedges:	**Notional**	**Classification**	**Amount**	**Classification**	**Amount**
Cash flow hedge – Pay fixed interest rate swap	$21,800	Interest expense	$ 18	Loan receivable	$ 288
		Investment income	162	Derivative liability	4,605
		Deferred outflow	733		
Investment derivative – Basis swap	$21,800	Investment loss	$280	Investment (excluding interest accrued)	$1,279

The objective and terms of MSU's hedging derivative outstanding as of June 30, 2015, is as follows (in thousands):

Type	Objective	Notional amount	Effective Date	Termination Date	Cash (Paid)/ Received	Terms
Pay fixed, cancelable interest rate swap	Hedge interest rate risk on Series J 2005 Bonds	$21,800	7/21/2005	11/15/2035	-	Pay 3.953% Receive SIFMA

Credit Risk

It is MSU's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2015, counterparty ratings were A2 and Baa1 by Moody's and A+ and A- by Standard and Poor's (S&P). MSU manages credit risk by requiring its counterparties to post collateral in certain events. MSU is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than $5 million and the counterparty is rated A+ or A, by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, MSU is entitled to collateral up to 100% of the swap's fair value. MSU is not required to post collateral. MSU will continue to monitor counterparty credit risk.

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

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

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

Termination Risk
MSU or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, MSU's fixed payer swap counterparty has the right to terminate the derivative if the credit rating of MSU's unenhanced long-term revenue bond rating is withdrawn, suspended or reduced below BBB-, in the case of S&P, or below Baa3 in the case of Moody's. If such an event occurs, MSU could be forced to terminate the fixed payer swap in a liability position. As of June 30, 2015, MSU's unenhanced long-term revenue bond rating was Aa3 by Moody's and A+ by S&P.

Rollover Risk
MSU's hedging derivative includes a cancelation option which allows the counterparty to cancel the swap on December 14, 2016. Should the counterparty exercise its option, MSU would be exposed to rollover risk as exercise would only be likely in a rate environment higher than that at the time the trade was originally entered into.

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

Market Access Risk
Market access risk is the risk that 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, UM. For the year ended June 30, 2015, $108,091 was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, UM provides the associations and booster club with office space, staff and some related office expenses.

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

Private nonprofit organizations affiliated with Montana State University (MSU) include the MSU-Bozeman Bookstore, Friends of KUSM, and Friends of KEMC. Friends of Montana Public Television provided $1.0 million during 2015 and Friends of KEMC Public Radio provided $850,000 during 2015 in support of MSU’s television and radio stations.

N. Litigation Contingencies

Susan Hensley v. Montana State Fund Montana State Fund received a Petition for Hearing that was filed before the Workers’ Compensation Court in October, 2013. The matter is Susan Hensley vs. Montana State Fund, WCC No. 2013-3235. Under HB 334, as passed by the legislature in 2011 and codified in 39-71-703 (2), MCA, when a claimant receives a Class I impairment, it is not payable unless the claimant has an actual wage loss as a result of the compensable injury or occupational disease. The law was effective July 1, 2011, and applicable to claims that occurred on or after that date. The petitioner in this matter is challenging the constitutionality of 39-71-703 (2), MCA. State Fund anticipates the chances are remote, but as with any litigated matter there is the possibility of an adverse decision. Should the statute be held unconstitutional, determined to be applicable to other claims and also determined to be retroactively applicable, potential liability is estimated to be at least $2.2 million per year, as based on NCCI initial pricing, and current estimated business volumes.

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

In April 2015, Montana State Fund received a third Petition for Hearing that was filed before the Workers' Compensation Court asserting a constitutional challenge to the Class I impairment statute. The case is Jeremy Holm v. Montana State Fund, WCC No. 2015-3564. The implications of the case are similar to that of the Hensley case above.

O. Subsequent Events

On August 4, 2015, approximately $4.2 million Revenue Bonds Series 2015A were issued by the Facility Finance Authority (FFA) for the benefit of St. John’s Lutheran Ministries (a long-term care facility) to refinance bonds previously issued.

Montana State Fund commuted two of its excess of loss reinsurance contracts with Canada Life during August 2015. In exchange for $855 thousand, $1.2 million of reinsurance recoverables were removed from the estimated claims payable liability.

In September 2015, the Board of Regents authorized the Montana State University (MSU)-Billings campus to execute the purchase of real property in support of its campus master plan. The property will be purchased with non-state funds and the final purchase will be executed by MSU-Billings upon the review and approval by MSU, MUS Legal Counsel, the President of MSU, and the Commissioner of Higher Education. The offer price was $315,000 and closed on November 10, 2015.

In September 2015, the Board of Regents authorized Montana State University (MSU) to purchase real property including land and a building designed to house laboratories and offices in Bozeman. The purchase of this property will allow MSU to vacate existing leased space as those leases expire in the next several years. MSU expects to house laboratory and offices in the building. The listed price for the property is $4.8 million and the purchase closed at the listed price on November 30, 2015.

In September 2015, the Board of Regents authorized MSU to proceed with the issuance of debt in an amount up to $11.5 million to obtain the financing necessary to construct a parking facility and to purchase a building (as listed above) for lab and office space. Debt is expected to be issued in February of 2016.

On September 10, 2015, approximately $18 million Hospital Facilities Revenue Bonds, Series 2015C were issued by the FFA for the benefit of Bozeman Deaconess Health Services to refinance bonds issued in 2005.

On September 29, 2015, approximately $5.1 million Prerelease Center Revenue Refunding Bonds, Series 2015 were issued by the FFA for the benefit of Alternatives, Inc. (a prerelease center) to refinance bonds issued in 2006.

On October 29, 2015, the Montana Board of Housing (MBOH) issued $64.4 million of Single Family Mortgage Bonds Series 2015 B. The bonds will mature on June 1, 2016, through December 1, 2026, with interest rates from 0.50% to 3.125%. Bond proceeds of $30.0 million will be used to purchase single family mortgage loans for the MBOH's ownership program. Bond proceeds of $34.4 million, were issued in order to refund existing bond issues.

On November 20, 2015, the Montana State Fund Board of Directors declared a $35 million dividend at their board meeting. The dividend payments were issued in January 2016 to eligible policyholders for the 2013 policy year.

On November 24, 2015, approximately $6.2 million Refunding Revenue Bond, Series 2015 were issued by the FFA for the benefit of Community, Counseling, and Correctional Services, Inc. (a prerelease center) to refinance bonds issued in 2006.

An additional $6.0 million of debt was authorized in November 2015 to construct a new dining hall on the Bozeman campus. In combination with the $11.5 million debt previously authorized, MSU expects to issue debt in February 2016.

NOTE 19. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS

Constitutionality of Retirement Plan Funding

The Montana Constitution, Article VIII, §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, 2015, the Sheriffs' Retirement System (SRS), Game Warden & Peace Officers' Retirement System (GWPORS), and Public Employees' Retirement Benefit Defined Contribution Disability Other Post Employment Benefit (PERS-DCRP Disability) plans were not in compliance and do not amortize within 30 years. The unfunded liabilities in the other state retirement systems amortize in less than 30 years as of fiscal year ended June 30, 2015.

BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES				
Licenses/permits	$ 122,919	$ 122,919	$ 122,946	$ 27
Taxes:				
Natural resource	123,637	123,637	116,169	(7,468)
Individual income	1,104,794	1,104,794	1,158,636	53,842
Corporate income	155,022	155,022	171,836	16,814
Property	253,642	253,642	247,365	(6,277)
Fuel	-	-	-	-
Other	229,054	229,054	225,392	(3,662)
Charges for services/fines/forfeits/settlements	40,306	40,306	37,701	(2,605)
Investment earnings	-	-	3,650	3,650
Sale of documents/merchandise/property	373	373	368	(5)
Rentals/leases/royalties	13	13	18	5
Contributions/premiums	-	-	-	-
Grants/contracts/donations	3,766	3,766	9,777	6,011
Federal	29,589	29,589	27,784	(1,805)
Federal indirect cost recoveries	167	167	204	37
Other revenues	12,088	12,088	479	(11,609)
Total revenues	2,075,370	2,075,370	2,122,325	46,955
EXPENDITURES				
Current:				
General government	396,077	396,077	350,877	45,200
Public safety	300,696	300,696	291,093	9,603
Transportation	-	-	-	-
Health and human services	485,011	485,011	446,541	38,470
Education	993,229	993,229	985,103	8,126
Natural resources	36,590	36,590	32,582	4,008
Debt service:				
Principal retirement (RSI-1)	-	-	17	(17)
Interest/fiscal charges (RSI-1)	-	-	184	(184)
Capital outlay (Note RSI-1)	-	-	2,761	(2,761)
Total expenditures	2,211,603	2,211,603	2,109,158	102,445
Excess of revenue over (under) expenditures	(136,233)	(136,233)	13,167	149,400
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	-	-	-	-
General capital asset sale proceeds	36	36	130	94
Bond premium	-	-	-	-
Bond proceeds	-	-	-	-
Energy conservation loans	-	-	-	-
Transfers in (Note 12)	71,836	71,836	78,070	6,234
Transfers out (Note 12)	(257,268)	(257,268)	(60,274)	196,994
Total other financing sources (uses)	(185,396)	(185,396)	17,926	203,322
Net change in fund balances				
(Budgetary basis)	(321,629)	(321,629)	31,093	352,722
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	88	88
2. Securities lending costs	-	-	(10)	(10)
3. Inception of lease/installment contract	-	-	29	29
4. Adjustments for nonbudgeted activity	-	-	-	-
Net change in fund balances	-	-	-	-
(GAAP basis)	(321,629)	(321,629)	31,200	352,829
Fund balance - July 1	-	-	442,476	442,476
Adjustments to beginning fund balance	-	-	(2,500)	(2,500)
Increase (decrease) in inventories	-	-	158	158
Fund balances - June 30	$ (321,629)	(321,629)	471,334	792,963

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

Budgetary data is not broken down to the same account level as actual financial statement data, which accounts for some of the larger variances.

STATE SPECIAL REVENUE FUND					FEDERAL SPECIAL REVENUE FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
$	190,296 $	190,296 $	195,172 $	4,876 $	- $	- $	- $	-
	146,143	146,143	101,316	(44,827)	-	-	-	-
	-	-	-	-	-	-	-	-
	6	6	3	(3)	-	-	-	-
	16,850	16,850	14,167	(2,683)	-	-	-	-
	214,501	214,501	226,892	12,391	-	-	-	-
	132,165	132,165	131,500	(665)	3	3	-	(3)
	90,189	90,189	98,281	8,092	37,336	37,336	35,039	(2,297)
	-	-	17,435	17,435	-	-	303	303
	5,914	5,914	5,803	(111)	1	1	2	1
	645	645	917	272	14	14	14	-
	23,039	23,039	24,105	1,066	-	-	-	-
	14,278	14,278	20,264	5,986	50	50	(51)	(101)
	9,838	9,838	11,107	1,269	2,152,416	2,152,416	2,112,272	(40,144)
	49,088	49,088	41,186	(7,902)	68,604	68,604	71,524	2,920
	4,563	4,563	2,688	(1,875)	428	428	583	155
	897,515	897,515	890,836	(6,679)	2,258,852	2,258,852	2,219,686	(39,166)
	405,143	405,143	221,453	183,690	327,589	327,589	102,206	225,383
	97,313	97,313	93,298	4,015	26,901	26,901	10,659	16,242
	337,509	337,509	226,645	110,864	640,651	640,651	113,798	526,853
	188,465	188,465	158,040	30,425	1,516,008	1,516,008	1,320,150	195,858
	125,898	125,898	109,312	16,586	319,345	319,345	206,692	112,653
	316,681	316,681	184,773	131,908	152,320	152,320	65,787	86,533
	-	-	560	(560)	-	-	13	(13)
	-	-	672	(672)	-	-	8	(8)
	-	-	68,304	(68,304)	-	-	348,923	(348,923)
	1,471,009	1,471,009	1,063,057	407,952	2,982,814	2,982,814	2,168,236	814,578
	(573,494)	(573,494)	(172,221)	401,273	(723,962)	(723,962)	51,450	775,412
	502	502	2,586	2,084	-	-	-	-
	217	217	1,898	1,681	-	-	11	11
	-	-	2,897	2,897	-	-	-	-
	27,262	27,262	24,365	(2,897)	-	-	-	-
	-	-	2,120	2,120	-	-	-	-
	248,441	248,441	187,417	(61,024)	22,225	22,225	2,816	(19,409)
	(91,530)	(91,530)	(34,142)	57,388	(83,558)	(83,558)	(51,443)	32,115
	184,892	184,892	187,141	2,249	(61,333)	(61,333)	(48,616)	12,717
	(388,602)	(388,602)	14,920	403,522	(785,295)	(785,295)	2,834	788,129
	-	-	209	209	-	-	5	5
	-	-	(38)	(38)	-	-	(1)	(1)
	-	-	300	300	-	-	15	15
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	(388,602)	(388,602)	15,391	403,993	(785,295)	(785,295)	2,853	788,148
	-	-	1,523,740	1,523,740	-	-	14,739	14,739
	-	-	13,949	13,949	-	-	(6,418)	(6,418)
	-	-	(2,685)	(2,685)	-	-	-	-
	(388,602)	(388,602)	1,550,395	1,938,997	(785,295)	(785,295)	11,174	796,469

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY REPORTING

A. State Budget Process

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

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

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

Appropriations for debt service activities are continuing through statutory authority until the obligation is extinguished. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

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

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's Office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2015, reverted governmental fund appropriations were as follows: General Fund - $32.4 million, State Special Revenue Fund - $158.4 million, and Federal Special Revenue Fund - $274.8 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

B. Budget Basis

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

Required Supplementary Information
State of Montana as an Employer Entity

Judges' Retirement System
Schedule of Changes in Net Pension Liability/(Asset) and Related Ratios[1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2015
Total Pension Liability (TPL)	
Service costs	$1,594
Interest	3,824
Benefit payments	(3,023)
Net change in total pension liability	$2,395
Total pension liability - beginning	49,237
Total pension liability - ending	$51,632
Plan Fiduciary Net Position	
Contributions - employer	$1,651
Contributions - member	481
Net investment income	12,421
Benefit payments	(3,023)
Administrative expense	(100)
Net change in plan fiduciary net position	$11,430
Plan fiduciary net position - beginning	72,793
Plan fiduciary net position - ending	$84,223
Net Pension (Asset) - Beginning	($23,556)
Net Pension (Asset) - Ending	($32,591)
Plan fiduciary net position as a percentage of TPL	163.12%
Pensionable payroll	$6,355
Net pension (asset) as a percentage of pensionable payroll	(513%)

Judges' Retirement System
Schedule of Employer Contributions[1]
For the Fiscal Year Ended June 30
(in thousands)

	2015
Contractually required contributions	$1,684
Contributions made in relation to the contractually required contributions	1,684
Contribution deficiency/(excess)	-
Covered-employee payroll	$6,525
Contributions as a percentage of covered-employee payroll	26%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Judges' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2015

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2014, determined as of June 30, 2014.

The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Asset valuation method	4-year smoothed market
General wage growth	4.00%
Inflation	3.00%
Merit salary increases	0.00%
Investment rate of return	7.75%, net of pension plan investment expense, and including inflation

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Highway Patrol Officers' Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2015
Total Pension Liability (TPL)	
Service costs	$3,464
Interest	13,518
Benefit payments	(9,443)
Net change in total pension liability	$7,539
Total pension liability - beginning	175,594
Total pension liability - ending	$183,133
Plan Fiduciary Net Position	
Contributions - employer	$5,736
Contributions - member	1,458
Net investment income	18,677
Benefit payments	(9,443)
Administrative expense	(109)
Net change in plan fiduciary net position	$16,319
Plan fiduciary net position - beginning	$109,691
Plan fiduciary net position - ending	$126,010
Net Pension Liability - Beginning	$65,903
Net Pension Liability - Ending	$57,123
Plan fiduciary net position as a percentage of TPL	69%
Pensionable payroll	$14,149
Net pension liability as a percentage of pensionable payroll	404%

Highway Patrol Officers' Retirement System
Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2015
Contractually required contributions	$5,782
Contributions in relation to the contractually required contributions	5,782
Contribution deficiency/(excess)	-
Covered-employee payroll	$14,549
Contributions as a percentage of covered-employee payroll	40%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
Highway Patrol Officers' Retirement System
For the Year Ended June 30, 2015

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2014, determined as of June 30, 2014.

The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Asset valuation method	4-year smoothed market
General wage growth	4.00%
Inflation	3.00%
Merit salary increases	0.0 - 7.3%
Investment rate of return	7.75%, net of pension plan investment expense, and including inflation

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Game Wardens' and Peace Officers' Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios [1]
For the Fiscal Year Ended June 30

(dollars in thousands)

	2015
Total Pension Liability (TPL)	
Service costs	$7,850
Interest	11,258
Benefit payments	(5,229)
Net change in total pension liability	$13,879
Total pension liability - beginning	139,985
Total pension liability - ending	$153,864
Plan Fiduciary Net Position	
Contributions - employer	$3,762
Contributions - member	4,462
Net investment income	20,069
Benefit payments	(5,229)
Administrative expense	(162)
Net change in plan fiduciary net position	$22,902
Plan fiduciary net position - beginning	115,841
Plan fiduciary net position - ending	$138,743
Net Pension Liability - Beginning	$24,144
Net Pension Liability - Ending	$15,121
Plan fiduciary net position as a percentage of TPL	90%
Pensionable payroll	$41,637
Net pension liability as a percentage of pensionable payroll	36%

Game Wardens' and Peace Officers' Retirement System
Schedule of Employer Contributions
For the Fiscal Year Ended June 30

(dollars in thousands)

	2015
Contractually required contributions	$4,040
Contributions in relation to the contractually required contributions	4,040
Contribution deficiency/(excess)	-
Covered-employee payroll	$44,885
Contributions as a percentage of covered-employee payroll	9%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
Game Wardens' and Peace Officers' Retirement System
For the Year Ended June 30, 2015

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2014, determined as of June 30, 2014.

The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Asset valuation method	4-year smoothed market
General wage growth	4.00%
Inflation	3.00%
Merit salary increases	0.0 - 7.3%
Investment rate of return	7.75%, net of pension plan investment expense, and including inflation

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30

(dollars in thousands)

	2015
Employer's proportion of the net pension liability	53.223780%
Employer's proportionate share of the net pension liability	$663,174
Employer's covered-employee payroll	$597,083
Employer 's proportionate share of the net pension liability as a percentage of its covered-employee payroll	111%
Plan fiduciary net position as a percentage of the total pension liability	80%

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30

(dollars in thousands)

	2015
Contractually required contributions	$58,575
Contributions in relation to the contractually required contributions	58,575
Contribution deficiency/(excess)	-
Covered-employee payroll	$620,286
Contributions as a percentage of covered-employee payroll	9%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Public Employees' Retirement System-Defined Benefit Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2015

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2014, determined as of June 30, 2014.

The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Asset valuation method	4-year smoothed market
General wage growth	4.00%
Inflation	3.00%
Merit salary increases	0.0 - 6.0%
Investment rate of return	7.75%, net of pension plan investment expense, and including inflation

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Entity

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2015
Nonemployer's proportion of the net pension liability	0.961287%
Nonemployer's proportionate share of the net pension liability	$11,978
Plan fiduciary net position as a percentage of the total pension liability	80%

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Nonemployer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)

	2015
Contractually required contributions	$32,397
Contributions in relation to the contractually required contributions	32,397
Contribution deficiency/(excess)	-

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Public Employees' Retirement System-Defined Benefit Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2015

Method and assumptions used in calculations of contractually determined contributions: The contractually determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2014, are as follows:

Special Funding

The State contributes 0.1% of member compensation on behalf of local government entities per §19-3-319, MCA.

The State contributes 0.37% of member compensation on behalf of school district entities per §19-3-319, MCA.

Not Special Funding

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

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Sheriffs' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2015
Employer's proportion of the net pension liability	5.535%
Employer's proportionate share of the net pension liability	$2,304
Employer's covered-employee payroll	$3,580
Employer 's proportionate share of the net pension liability as a percentage of its covered-employee payroll	64%
Plan fiduciary net position as a percentage of the total pension liability	87%

Sheriffs' Retirement System
Schedule of Employer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)

	2015
Contractually required contributions	$388
Contributions in relation to the contractually required contributions	388
Contribution deficiency/(excess)	-
Covered-employee payroll	$3,836
Contributions as a percentage of covered-employee payroll	10%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Sheriffs' Retirement System
Notes to Required Supplementary Information
For the Year ended June 30, 2015

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2014, determined as of June 30, 2014.

The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Asset valuation method	4-year smoothed market
General wage growth	4.00%
Inflation	3.00%
Merit salary increases	0.0 - 7.3%
Investment rate of return	7.75%, net of pension plan investment expense, and including inflation

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Municipal Peace Officers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2015
Nonemployer's proportion of the net pension liability	66.888728%
Nonemployer's proportionate share of the net pension liability	$105,106
Plan fiduciary net position as a percentage of the total pension liability	67%

Municipal Peace Officers' Retirement System
Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2015
Contractually required contributions	$13,433
Contributions in relation to the contractually required contributions	13,433
Contribution deficiency/(excess)	-

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Municipal Peace Officers' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2015

Method and assumptions used in calculations of contractually determined contributions: The contractually determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2014, are as follows:

> The State contributes 29.37% of member compensation on behalf of all employer entities per §19-9-702, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Firefighters' Unified Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2015
Employer's proportion of the net pension liability	1.850026%
Employer's proportionate share of the net pension liability	$1,806
Employer's covered-employee payroll	$735
Employer 's proportionate share of the net pension liability as a percentage of its covered-employee payroll	246%
Plan fiduciary net position as a percentage of the total pension liability	77%

Firefighters' Unified Retirement System
Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2015
Contractually required contributions	$142
Contributions in relation to the contractually required contributions	142
Contribution deficiency/(excess)	-
Covered-employee payroll	$986
Contributions as a percentage of covered-employee payroll	14%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Firefighters' Unified Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2015

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2014, determined as of June 30, 2014.

The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Asset valuation method	4-year smoothed market
General wage growth	4.00%
Inflation	3.00%
Merit salary increases	0.0 - 7.3%
Investment rate of return	7.75%, net of pension plan investment expense, and including inflation

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Firefighters' Unified Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30

(dollars in thousands)

	2015
Nonemployer's proportion of the net pension liability	68.005182%
Nonemployer's proportionate share of the net pension liability	$66,384
Plan fiduciary net position as a percentage of the total pension liability	77%

Firefighters' Unified Retirement System
Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30

(dollars in thousands)

	2015
Contractually required contributions	$13,573
Contributions in relation to the contractually required contributions	13,573
Contribution deficiency/(excess)	-

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Firefighters' Unified Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2015

Method and assumptions used in calculations of statutorily determined contributions: The statutorily determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2014, are as follows:

> The State contributes 32.61% of member compensation on behalf of all employer entities per §19-13-604, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Volunteer Firefighters' Compensation Act
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2015
Nonemployer's proportion of the net pension liability	100%
Nonemployer's proportionate share of the net pension liability	$5,089
Plan fiduciary net position as a percentage of the total pension liability	87%

Volunteer Firefighters' Compensation Act
Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2015
Contractually required contributions	$1,913
Contributions in relation to the contractually required contributions	1,913
Contribution deficiency/(excess)	-

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Volunteer Firefighters' Compensation Act
Notes to Required Supplementary Information
For the Year Ended June 30, 2015

Method and assumptions used in calculations of actuarially determined contributions: The statutorily determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2014, are as follows:

The State contributes 5% of certain fire tax insurance premiums paid per §19-17-301, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Teachers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2015
Employer's proportion of the net pension liability	4.689747%
Employer's proportionate share of the net pension liability	$72,168
Employer's covered-employee payroll	$32,937
Employer 's proportionate share of the net pension liability as a percentage of its covered-employee payroll	219%
Plan fiduciary net position as a percentage of the total pension liability	70%

Teachers' Retirement System
Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2015
Contractually required contributions	$16,234
Contributions in relation to the contractually required contributions	16,234
Contribution deficiency/(excess)	-
Covered-employee payroll	$31,252
Contributions as a percentage of covered-employee payroll	52%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Teachers' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2015

Changes of assumptions: The following changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date:

- Assumed rate of inflation was reduced from 3.50% to 3.25%
- Payroll Growth Assumption was reduced from 4.50% to 4.00%
- Assumed real wage growth was reduced from 1.00% to 0.75%
- Investment return assumption was changed from net of investment and administrative expensed to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
  - For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members was updated to the following:

- For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
- For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2014, determined as of June 30, 2014.

The following actuarial methods and assumptions were used to determine actuarial contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	28 years
Asset valuation method	4-year smoothed market
Salary increase	4.00 to 8.51 percent, including inflation for Non- University Members and 5.00% for University Members
Inflation	3.25 percent
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Teachers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2015
Nonemployer's proportion of the net pension liability	38.777294%
Nonemployer's proportionate share of the net pension liability	$596,724
Plan fiduciary net position as a percentage of the total pension liability	70%

Teachers' Retirement System
Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2015
Contractually required contributions	$42,806
Contributions in relation to the contractually required contributions	42,806
Contribution deficiency/(excess)	-

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Teachers' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2015

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2014, are as follows:

> The State contributes 0.11% of member compensation on behalf of State government and University entities per §19-20-604, MCA.
>
> The State contributes 2.49% of member compensation on behalf of school district and community college entities per §19-20-604 and §19-20-607, MCA.
>
> The State contributes a $25 million payment from the General Fund per §19-20-607, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

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

In accordance with GASB Statement No. 45, the following information is presented to reflect the funding progress of the Other Postemployment Benefits Plans.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
State Agent Multiple Employer Plan						
1/1/2009	$ -	$357,664	$357,664	0.00%	$526,794	67.89%
1/1/2011	$ -	$337,274	$337,274	0.00%	$521,881	64.63%
1/1/2013	$ -	$366,739	$366,739	0.00%	$616,158	59.52%
MUS Agent Multiple Employer Plan						
7/1/2009	$ -	$183,230	$183,230	0.00%	$386,751	47.40%
7/1/2011	$ -	$109,831	$109,831	0.00%	$371,802	29.54%
7/1/2013	$ -	$100,247	$100,247	0.00%	$400,017	25.06%

		AMOUNT

CORPORATION FOR NATIONAL & COMMUNITY SERVICE

94.003	State Commissions	$238,148
94.005	Learn & Serve America-Higher Education	
	University of Denver SC 37138A-15-01	$8,553
94.006	AmeriCorps	$2,851,150
	University of Denver	$2,407
	University of Denver COMPACT SERVICE CORP 2013-2014	$8,187
	University of Denver SC37138A	$4,443
94.007	Program Development and Innovation Grants	$4,269
	HOPE Worldwide	$7,000
	Regis University	$3,709
	University of Wisconsin 493K765	$322
94.013	Volunteers in Service to America	$743,558
	TOTAL	**$3,871,746**
	CORPORATION FOR NATIONAL & COMMUNITY SERVICE TOTAL	**$3,871,746**

DEPARTMENT OF AGRICULTURE

10.025	Plant and Animal Disease, Pest Control, and Animal Care	$1,150,204
10.093	Voluntary Public Access and Habitat Incentive Program	$283
10.156	Federal-State Marketing Improvement Program	$11,914
10.162	Inspection Grading and Standardization	$8,247
10.163	Market Protection and Promotion	$123,149
10.169	Specialty Crop Block Grant Program	$366,033
10.443	Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers	
	Fort Peck Community College FPCC/SMITH	$20,067
10.446	Rural Community Development Initiative	
	Ravalli County Economic Development Authority ARTISTS IN BUSINESS	$6,287
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	$675,961
10.500	Cooperative Extension Service	$2,949,806
	Kansas State University S15074	$16,250
	Kansas State University S15148	$3,853
	Kansas State University S14185	$7,168
	Kansas State University S14127	$7,325
	University of Missouri C00048589-6	$8,231
	Washington State University 108815 G003339	$7,957
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	$14,729,887
10.558	Child and Adult Care Food Program	$11,227,073
10.560	State Administrative Expenses for Child Nutrition	$512,827
10.567	Food Distribution Program on Indian Reservations	$4,744,301

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2015

			AMOUNT
10.572	WIC Farmers' Market Nutrition Program (FMNP)		$52,760
10.574	Team Nutrition Grants		$454,478
10.576	Senior Farmers Market Nutrition Program		$88,050
10.578	WIC Grants To States (WGS)		$534
10.579	Child Nutrition Discretionary Grants Limited Availability		$527,531
10.582	Fresh Fruit and Vegetable Program		$1,797,379
10.601	Market Access Program		
	United States Livestock Genetics Export 10000U		$33,476
	Western United States Agricultural Trade Association 131		$12,255
10.652	Forestry Research		$485,128
10.664	Cooperative Forestry Assistance		$4,674,094
10.672	Rural Development, Forestry, and Communities		$43,750
10.674	Wood Utilization Assistance		$18,946
10.676	Forest Legacy Program		$24,884
10.680	Forest Health Protection		$130,481
10.682	National Forest Foundation		
	National Forest Foundation AH-102		$12,466
10.684	International Forestry Programs		$37,734
10.902	Soil and Water Conservation		$58,955
10.999	Long Term Standing Agreements For Storage, Transportation And Lease		$30,680
		TOTAL	**$45,060,404**
Child Nutrition Cluster			
10.553	School Breakfast Program		$7,910,689
10.555	National School Lunch Program		$28,931,685
10.556	Special Milk Program for Children		$16,974
10.559	Summer Food Service Program for Children		$1,681,672
		TOTAL	**$38,541,020**
Food Distribution Cluster			
10.565	Commodity Supplemental Food Program		$2,529,746
10.568	Emergency Food Assistance Program (Administrative Costs)		$228,322
10.569	Emergency Food Assistance Program (Food Commodities)		$1,458,928
		TOTAL	**$4,216,996**
Forest Service Schools and Roads Cluster			
10.665	Schools and Roads - Grants to States		$17,832,005
		TOTAL	**$17,832,005**
SNAP Cluster			
10.551	Supplemental Nutrition Assistance Program		$173,604,794
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program		$12,128,475
		TOTAL	**$185,733,269**

		AMOUNT
	DEPARTMENT OF AGRICULTURE TOTAL	**$291,383,694**

DEPARTMENT OF COMMERCE

11.302	Economic Development_Support for Planning Organizations	$24,367
11.303	Economic Development_Technical Assistance	$4,805
11.439	Marine Mammal Data Program	$167
11.550	Public Telecommunications Facilities Planning and Construction	
	Corporation for Public Broadcasting 1492	$250,728
11.558	ARRA State Broadband Data and Development Grant Program	$11,905
11.611	Manufacturing Extension Partnership	$512,700
	TOTAL	**$804,672**
Economic Development Cluster		
11.300	Investments for Public Works and Economic Development Facilities	$263,132
11.307	Economic Adjustment Assistance	$260,417
	TOTAL	**$523,549**
	DEPARTMENT OF COMMERCE TOTAL	**$1,328,221**

DEPARTMENT OF DEFENSE

12.002	Procurement Technical Assistance For Business Firms	
	Big Sky Economic Development Authority MSU PTAC 2015	$9,087
	Big Sky Economic Development Corporation SP4800-14-2-1422	$60,027
12.112	Payments to States in Lieu of Real Estate Taxes	$3,737
12.114	Collaborative Research and Development	
	Academy of Applied Science 14-14, 14-14A	$2,000
12.217	Electronic Absentee Systems for Elections	$15,000
12.357	ROTC Language and Culture Training Grants	
	Institute of International Education 2013-GO-MONTANA	$9,259
	Institute of International Education 2603-UMT-5-GO-015-PO1	$182,778
12.400	Military Construction, National Guard	$5,237,009
12.401	National Guard Military Operations and Maintenance (O&M) Projects	$23,013,062
12.404	National Guard ChalleNGe Program	$3,419,304
12.579	Language Training Center	
	Institute of International Education 2013-LTC-MONTANA	$614,722
	Institute of International Education 2603-UMT-5-LTC-LT4-PO2	$1,699,365
12.630	Basic, Applied, and Advanced Research in Science and Engineering	
	Academy of Applied Science W911NF-10-2-0076	$18,664
12.900	Language Grant Program	$93,125
	TOTAL	**$34,377,139**

		AMOUNT
	DEPARTMENT OF DEFENSE TOTAL	**$34,377,139**

DEPARTMENT OF EDUCATION

84.002	Adult Education - Basic Grants to States	$1,180,764
84.010	Title I Grants to Local Educational Agencies	$46,071,987
84.011	Migrant Education_State Grant Program	$1,253,389
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	$112,426
84.032	Federal Family Education Loans	$850,580
84.048	Career and Technical Education -- Basic Grants to States	$5,254,421
84.051	Career and Technical Education -- National Programs	$181,087
84.069	Leveraging Educational Assistance Partnership	$18,019
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	$12,716,276
84.133	National Institute on Disability and Rehabilitation Research	$557,905
	Baylor College of Medicine 101750549	$34,964
84.144	Migrant Education_Coordination Program	$102,500
84.169	Independent Living_State Grants	$261,732
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	$256,223
84.181	Special Education-Grants for Infants and Families	$2,581,590
84.184	Safe and Drug-Free Schools and Communities_National Programs	$334,226
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	$256,068
84.196	Education for Homeless Children and Youth	$170,354
84.224	Assistive Technology	$314,088
84.265	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	$17,882
84.287	Twenty-First Century Community Learning Centers	$5,579,286
84.323	Special Education - State Personnel Development	$726,679
84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	$169,228
84.326	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	$97,403
	California State University, Northridge F-11-2963-3-UMT	$239,235
84.327	Special Education_Educational Technology Media, and Materials for Individuals with Disabilities	
	Ohio State University 60036894	$17,200
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	$20,227
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	$4,191,833
84.335	Child Care Access Means Parents in School	$45,107
84.358	Rural Education	$437,351
84.365	English Language Acquisition State Grants	$499,557
84.366	Mathematics and Science Partnerships	$789,228
	Bozeman Public Schools 16 0350 1513 MSP	$9,165

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2015

			AMOUNT
84.367	Improving Teacher Quality State Grants		$11,118,713
84.369	Grants for State Assessments and Related Activities		$3,416,168
84.371	Striving Readers		$6,630,951
84.378	College Access Challenge Grant Program		$789,129
84.418	Promoting Readiness of Minors in Supplemental Security Income		
	University of Utah 10033712		$72,513
84.419	Preschool Development Grants		$368,690
84.928	National Writing Project		
	University of California, National Writing Project 93-MT01		$12,678
84.998	American Printing House for the Blind		$2,372
84.999	Miscellaneous Non-Major Grants		$143,757
		TOTAL	**$107,902,951**
School Improvement Grants Cluster			
84.377	School Improvement Grants		$1,827,043
		TOTAL	**$1,827,043**
Special Education Cluster (IDEA)			
84.027	Special Education_Grants to States		$38,520,469
84.173	Special Education_Preschool Grants		$1,100,019
		TOTAL	**$39,620,488**
Statewide Data Systems Cluster			
84.372	Statewide Longitudinal Data Systems		$1,685,211
		TOTAL	**$1,685,211**
Student Financial Assistance Cluster			
84.007	Federal Supplemental Educational Opportunity Grants		$1,460,558
84.033	Federal Work-Study Program		$2,361,842
84.038	Federal Perkins Loan Program - Federal Capital Contributions		$55,909
84.063	Federal Pell Grant Program		$53,771,203
84.268	Federal Direct Student Loans		$185,198,817
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)		$27,188
		TOTAL	**$242,875,517**
TRIO Cluster			
84.042	TRIO_Student Support Services		$1,626,248
84.044	TRIO_Talent Search		$1,075,465
84.047	TRIO_Upward Bound		$1,351,478
84.066	TRIO_Educational Opportunity Centers		$539,730
84.217	TRIO_McNair Post-Baccalaureate Achievement		$207,149
		TOTAL	**$4,800,070**
		DEPARTMENT OF EDUCATION TOTAL	**$398,711,280**

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2015

DEPARTMENT OF ENERGY

		AMOUNT
81.041	State Energy Program	$256,174
81.042	Weatherization Assistance for Low-Income Persons	$2,375,584
81.042	ARRA Weatherization Assistance for Low-Income Persons	$10,683
81.049	Office of Science Financial Assistance Program	
	BioEnergy Science Center	$2,492
81.086	Conservation Research and Development	$3,199,363
	Kootenai Tribe of Idaho 2002-011-00-FWO-15	$156,465
	Pacific States Marine Fisheries Commission 15-33G	$165,571
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	
	Washington State University 121240_G003325	$31,826
81.138	State Heating Oil and Propane Program	$6,795
81.999	Miscellaneous Non-Major Grants	$49,178
	TOTAL	**$6,254,131**
	DEPARTMENT OF ENERGY TOTAL	**$6,254,131**

DEPARTMENT OF HEALTH AND HUMAN SERVICES

		AMOUNT
93.041	Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	$34,660
93.042	Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	$115,847
93.043	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	$98,429
93.048	Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	$25,567
93.052	National Family Caregiver Support, Title III, Part E	$869,475
93.058	Food and Drug Administration_Research	$126,866
93.070	Environmental Public Health and Emergency Response	$501,066
93.071	Medicare Enrollment Assistance Program	$108,674
93.072	Lifespan Respite Care Program	$105,588
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	$5,084,016
93.090	Guardianship Assistance	$1,140,639
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	$235,388
93.093	Affordable Care Act (ACA) Health Profession Opportunity Grants	
	Blackfeet Community College	$68,669
93.110	Maternal and Child Health Federal Consolidated Programs	$519,253
	Utah State University PO214571-E	$460
	Utah State University PO253119-E	$7,871
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	$202,134

		AMOUNT
93.127	Emergency Medical Services for Children	$298,197
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	$193,429
93.150	Projects for Assistance in Transition from Homelessness (PATH)	$237,555
93.155	Rural Health Research Centers	
	National Rural Health Association 2015 SRHA TECH ASSIST AWARD	$7,520
93.157	Centers of Excellence	$381,903
93.165	Grants to States for Loan Repayment Program	$70,897
93.184	Disabilities Prevention	$302,010
93.217	Family Planning_Services	$2,128,446
93.236	Grants to States to Support Oral Health Workforce Activities	$461,001
93.241	State Rural Hospital Flexibility Program	$912,246
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	$5,287,956
93.251	Universal Newborn Hearing Screening	$277,492
93.262	Occupational Safety and Health Program	$102,055
	Colorado State University G-88360-1	$7,328
	Colorado State University G88360-2	$6,661
93.268	Immunization Cooperative Agreements	$9,999,873
93.270	Adult Viral Hepatitis Prevention and Control	$32,336
93.283	Centers for Disease Control and Prevention_Investigations and Technical Assistance	$2,584,928
93.292	National Public Health Improvement Initiative	
	Association of Maternal & Child Health Programs	$4,738
93.305	Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	$166,154
93.307	Minority Health and Health Disparities Research	$9,735,505
93.314	Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	$145,540
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	$461,536
93.324	State Health Insurance Assistance Program	$574,713
93.336	Behavioral Risk Factor Surveillance System	$32,606
93.358	Advanced Education Nursing Traineeships	$339,880
93.369	ACL Independent Living State Grants	$45,898
93.433	ACL National Institute on Disability, Independent Living, and Rehabilitation Research	$280,211
93.448	Food Safety and Security Monitoring Project	$121,415
93.449	Ruminant Feed Ban Support Project	$17,508
93.464	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	$135,572
93.500	Pregnancy Assistance Fund Program	$893,319
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	$1,722,800
	TEAM for West Virginia Children	$89,144
93.507	PPHF National Public Health Improvement Initiative	$98,502
93.516	Affordable Care Act (ACA) Public Health Training Centers Program	
	University of Colorado FY15.155.003/2-5-15872	$21,289

	AMOUNT
93.521 The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements;PPHF	$568,631
93.531 PPHF - Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by Prevention and Public Health Funds	$417,962
93.536 The Affordable Care Act Medicaid Incentives for Prevention of Chronic Disease Demonstration Project	$114,528
93.539 PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance Financed in Part by Prevention and Public Health Funds	$78,526
93.556 Promoting Safe and Stable Families	$747,065
93.563 Child Support Enforcement	$11,100,824
93.566 Refugee and Entrant Assistance_State Administered Programs	$31,370
93.568 Low-Income Home Energy Assistance	$18,922,301
93.569 Community Services Block Grant	$3,112,766
93.586 State Court Improvement Program	$312,005
93.590 Community-Based Child Abuse Prevention Grants	$217,716
93.597 Grants to States for Access and Visitation Programs	$99,146
93.599 Chafee Education and Training Vouchers Program (ETV)	$168,046
93.600 Head Start	$117,163
93.609 The Affordable Care Act - Medicaid Adult Quality Grants	$220,270
93.610 Health Care Innovation Awards (HCIA)	
Mineral Regional Health Center, Inc 331058-02-UMSA02	$19,878
Mineral Regional Health Center, Inc 331058-02-UMSA01	$9,852
93.612 Native American Programs	
Salish Kootenai Tribe 14-057	$6,715
93.617 Voting Access for Individuals with Disabilities_Grants to States	$18,037
93.624 ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance	$9,227
93.630 Developmental Disabilities Basic Support and Advocacy Grants	$470,931
93.632 University Centers for Excellence in Developmental Disabilities Education, Research, and Service	$526,251
93.643 Children's Justice Grants to States	$93,319
93.645 Stephanie Tubbs Jones Child Welfare Services Program	$612,228
93.652 Adoption Opportunities	$559,556
93.658 Foster Care_Title IV-E	$13,565,730
93.659 Adoption Assistance	$8,090,127
93.667 Social Services Block Grant	$8,735,112
93.669 Child Abuse and Neglect State Grants	$114,684
93.671 Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	$826,407
93.674 Chafee Foster Care Independence Program	$593,060
93.745 PPHF: Health Care Surveillance/Health Statistics - Surveillance Program Announcement: Behavioral Risk Factor Surveillance System Financed in Part by Prevention and Public Health Fund	$270,674

	AMOUNT
93.752 Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations financed in part by Prevention and Public Health Funds	$2,163,320
93.757 State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	$877,586
93.758 Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	$785,573
93.767 Children's Health Insurance Program	$80,296,815
93.789 Alternatives to Psychiatric Residential Treatment Facilities for Children	$860,529
93.791 Money Follows the Person Rebalancing Demonstration	$1,392,385
93.815 Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC).	$2,006
93.859 Biomedical Research and Research Training	$49,262
University of New Mexico 3RN79	$55,526
93.879 Medical Library Assistance	
University of Illinois PAF# 2010-06621-83-00	$2,288
93.884 Grants for Primary Care Training and Enhancement	
University of Pikeville 13-01	$15
University of Pikeville 15-001	$81,911
University of Pikeville D58HP23226	$51,745
93.912 Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	
Madison Valley Medical Center 14-01	$39,787
93.913 Grants to States for Operation of Offices of Rural Health	$170,980
93.917 HIV Care Formula Grants	$1,615,439
93.938 Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	$56,262
93.940 HIV Prevention Activities_Health Department Based	$975,212
93.944 Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	$149,034
Association of University Centers on Disabilities	$9,608
93.945 Assistance Programs for Chronic Disease Prevention and Control	$4,530,852
93.958 Block Grants for Community Mental Health Services	$1,371,030
93.959 Block Grants for Prevention and Treatment of Substance Abuse	$6,397,162
93.969 PPHF Geriatric Education Centers	$507,940
93.970 Health Professions Recruitment Program for Indians	$159,417
93.977 Preventive Health Services_Sexually Transmitted Diseases Control Grants	$266,205
93.988 Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	$58,000
93.991 Preventive Health and Health Services Block Grant	($30,415)
93.994 Maternal and Child Health Services Block Grant to the States	$2,248,339
93.999 Miscellaneous Non-Major Grants	$1,915

		AMOUNT
	National Network of Libraries of Pacific Northwest Region (University of Washington) HHS-N-276-2011-00008-C	$3,710
	TOTAL	**$223,322,310**
Aging Cluster		
93.044	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	$1,827,779
93.045	Special Programs for the Aging_Title III, Part C_Nutrition Services	$3,237,259
93.053	Nutrition Services Incentive Program	$1,358,534
	TOTAL	**$6,423,572**
CCDF Cluster		
93.575	Child Care and Development Block Grant	$11,346,952
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	$8,443,463
	TOTAL	**$19,790,415**
Medicaid Cluster		
93.775	State Medicaid Fraud Control Units	$578,517
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	$2,923,374
93.778	Medical Assistance Program	$819,491,526
93.778	ARRA Medical Assistance Program	($2,415)
	TOTAL	**$822,991,002**
Student Financial Assistance Cluster		
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	$374
93.364	Nursing Student Loans	$4
	TOTAL	**$378**
TANF Cluster		
93.558	Temporary Assistance for Needy Families	$25,392,100
	TOTAL	**$25,392,100**
	DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL	**$1,097,919,777**

DEPARTMENT OF HOUSING & URBAN DEVELOPMENT

14.103	Interest Reduction Payments_Rental and Cooperative Housing for Lower Income Families	$84,599
14.169	Housing Counseling Assistance Program	$383,379
14.231	Emergency Solutions Grant Program	$693,848
14.235	Supportive Housing Program	$60,258
14.238	Shelter Plus Care	$177,526
14.239	Home Investment Partnerships Program	$3,320,934
14.241	Housing Opportunities for Persons with AIDS	$999,763
14.323	Emergency Homeowners' Loan Program	$6,244

		AMOUNT
14.877	Public Housing Family Self-Sufficiency under Resident Opportunity and Supportive Services	
	Missoula Housing Authority 2012-FSSR-MT033-15191	$69,005
	TOTAL	**$5,795,556**
CDBG - State-Administered CDBG Cluster		
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	$4,023,742
	TOTAL	**$4,023,742**
Housing Voucher Cluster		
14.871	Section 8 Housing Choice Vouchers	$18,223,207
	TOTAL	**$18,223,207**
Section 8 Project-Based Cluster		
14.195	Section 8 Housing Assistance Payments Program	$20,323,291
14.856	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitation	$1,719,887
	TOTAL	**$22,043,178**
	DEPARTMENT OF HOUSING & URBAN DEVELOPMENT TOTAL	**$50,085,683**

DEPARTMENT OF JUSTICE

16.017	Sexual Assault Services Formula Program	$239,974
16.525	Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	$82,378
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	$378,518
16.550	State Justice Statistics Program for Statistical Analysis Centers	$132,960
16.554	National Criminal History Improvement Program (NCHIP)	$264,430
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	
	Bozeman Public Schools 2014-91788-MT-GX	$55,775
16.575	Crime Victim Assistance	$1,794,477
16.576	Crime Victim Compensation	$391,482
16.582	Crime Victim Assistance/Discretionary Grants	$107,546
16.585	Drug Court Discretionary Grant Program	$238,901
16.588	Violence Against Women Formula Grants	$839,603
16.589	Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	
	Missoula City-County 2008-WR-AX-0008	$18,885
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	$301,125
16.593	Residential Substance Abuse Treatment for State Prisoners	$56,651
16.606	State Criminal Alien Assistance Program	$19,566
16.726	Juvenile Mentoring Program	
	National 4-H Council 4-H NAT PROGRAM YR 5	$47,567
	National 4-H Council 4-H MENTORING PROGRAM YEAR 4	$70,107
16.727	Enforcing Underage Drinking Laws Program	$34,615
16.731	Tribal Youth Program	$21,444

		AMOUNT
16.735	PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities	$82,925
16.740	Statewide Automated Victim Information Notification (SAVIN) Program	$7,149
16.741	DNA Backlog Reduction Program	$378,900
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	$70,146
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	$29,846
16.751	Edward Byrne Memorial Competitive Grant Program	$95,993
16.754	Harold Rogers Prescription Drug Monitoring Program	$108,271
16.812	Second Chance Act Reentry Initiative	$323,286
16.816	John R. Justice Prosecutors and Defenders Incentive Act	$82,788
16.922	Equitable Sharing Program	$113,399
	TOTAL	**$6,388,707**
JAG Program Cluster		
16.738	Edward Byrne Memorial Justice Assistance Grant Program	$1,016,575
	TOTAL	**$1,016,575**
	DEPARTMENT OF JUSTICE TOTAL	**$7,405,282**

DEPARTMENT OF LABOR

17.002	Labor Force Statistics	$743,147
17.005	Compensation and Working Conditions	$100,583
17.225	Unemployment Insurance	$123,570,202
17.235	Senior Community Service Employment Program	$624,939
17.245	Trade Adjustment Assistance	$366,822
17.271	Work Opportunity Tax Credit Program (WOTC)	$121,665
17.273	Temporary Labor Certification for Foreign Workers	$199,189
17.277	Workforce Investment Act (WIA) National Emergency Grants	$2,494,376
17.280	Workforce Investment Act (WIA) Dislocated Worker National Reserve Demonstration Grants	$388
17.282	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	$7,084,720
	Pueblo Community College T-23780-12-60-A-8	$373,120
17.283	Workforce Innovation Fund	
	State of Utah 131903	$582,926
17.504	Consultation Agreements	$477,750
17.600	Mine Health and Safety Grants	$151,898
	TOTAL	**$136,891,725**
Employment Service Cluster		
17.207	Employment Service/Wagner-Peyser Funded Activities	$5,915,826
17.801	Disabled Veterans' Outreach Program (DVOP)	$550,419
17.804	Local Veterans' Employment Representative Program	$79,637
	TOTAL	**$6,545,882**

		AMOUNT
WIA Cluster		
17.258	WIA Adult Program	$1,971,615
17.259	WIA Youth Activities	$2,241,130
17.278	WIA Dislocated Worker Formula Grants	$1,676,866
	TOTAL	**$5,889,611**
	DEPARTMENT OF LABOR TOTAL	**$149,327,218**

DEPARTMENT OF STATE

19.009	Academic Exchange Programs - Undergraduate Programs	$255,792
19.010	Academic Exchange Programs - Hubert H. Humphrey Fellowship Program	
	Institute of International Education	$93,632
	Institute of International Education S-ECAGD-15-CA-1017	$1,227
19.401	Academic Exchange Programs - Scholars	$262,083
19.408	Academic Exchange Programs - Teachers	
	International Research & Exchange Board FY15-TEA-MSU-01	($283)
	International Research & Exchange Board FY14-TEA-MSU-01	$182,461
19.415	Professional and Cultural Exchange Programs - Citizen Exchanges	$840,649
19.500	Middle East Partnership Initiative (MEPI)	
	University of Delaware SUBAWARD 37436	$23,053
	TOTAL	**$1,658,614**
	DEPARTMENT OF STATE TOTAL	**$1,658,614**

DEPARTMENT OF THE INTERIOR

15.034	Agriculture on Indian Lands	
	Fort Belknap Community Council A10AV00583 FB	$44,831
15.114	Indian Education_Higher Education Grant Program	$4,570
15.224	Cultural Resource Management	$16,364
15.225	Recreation Resource Management	$53,937
15.231	Fish, Wildlife and Plant Conservation Resource Management	$51,314
15.232	Wildland Fire Research and Studies Program	
	Portland State University 204BAR456/L14AC00160	$13,175
15.236	Environmental Quality and Protection Resource Management	$1,339,664
15.238	Challenge Cost Share	$21,440
15.239	Management Initiatives	$2,325
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	$1,700,027
15.252	Abandoned Mine Land Reclamation (AMLR) Program	$15,310,429
15.427	Federal Oil and Gas Royalty Management State and Tribal Coordination	$294,509
15.517	Fish and Wildlife Coordination Act	$75,394
15.554	Cooperative Watershed Management Program	$13,562

		AMOUNT
15.608	Fish and Wildlife Management Assistance	$130,886
15.612	Endangered Species Section 6	$372,667
15.615	Cooperative Endangered Species Conservation Fund	$415,196
15.634	State Wildlife Grants	$659,806
15.637	Migratory Bird Joint Ventures	$21,876
15.657	Endangered Species Conservation - Recovery Implementation Funds	$32,048
15.664	Fish and Wildlife Coordination and Assistance Programs	$14,658
15.665	National Wetlands Inventory	$36,949
15.666	Endangered Species Conservation-Wolf Livestock Loss Compensation and Prevention	$95,020
15.669	Cooperative Landscape Conservation	($2,287)
15.814	National Geological and Geophysical Data Preservation Program	$24,077
15.904	Historic Preservation Fund Grants-In-Aid	$784,661
15.916	Outdoor Recreation_Acquisition, Development and Planning	$141,095
15.944	Natural Resource Stewardship	$15,250
15.945	Cooperative Research and Training Programs - Resources of the National Park System	$27,640
15.954	National Park Service Conservation, Protection, Outreach, and Education	$27,142
	TOTAL	**$21,738,225**
Fish and Wildlife Cluster		
15.605	Sport Fish Restoration Program	$9,293,142
15.611	Wildlife Restoration and Basic Hunter Education	$14,767,750
	TOTAL	**$24,060,892**
	DEPARTMENT OF THE INTERIOR TOTAL	**$45,799,117**

DEPARTMENT OF TRANSPORTATION

20.106	Airport Improvement Program	$1,199,327
20.200	Highway Research and Development Program	$173,437
20.218	National Motor Carrier Safety	$1,728,913
20.232	Commercial Driver's License Program Improvement Grant	$38,200
20.233	Border Enforcement Grants	$934,874
20.237	Commercial Vehicle Information Systems and Networks	$156,156
20.299	Miscellaneous Non-Major Grants	$286,002
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	$481,753
20.509	Formula Grants for Rural Areas	$9,753,504
20.515	State Planning and Research	$33,411
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	$1,387,665
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	$87,224
20.616	National Priority Safety Programs	$2,445,823
20.700	Pipeline Safety Program State Base Grant	$160,214
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	$112,796

		AMOUNT
20.933	National Infrastructure Investments	
	Gallatin County IM-MT-STPU 90-6(112)300	$2,736,698
	TOTAL	**$21,715,997**
Federal Transit Cluster		
20.500	Federal Transit_Capital Investment Grants	$20,157
20.526	Bus and Bus Facilities Formula Program	$1,111,901
	TOTAL	**$1,132,058**
Highway Planning and Construction Cluster		
20.205	Highway Planning and Construction	$442,151,528
20.219	Recreational Trails Program	$1,393,323
	TOTAL	**$443,544,851**
Highway Safety Cluster		
20.600	State and Community Highway Safety	$1,365,705
	Idaho Department of Transportation LINKENBACH HEALTH&SAFETY	$14,174
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	$356,342
20.610	State Traffic Safety Information System Improvement Grants	$466,825
20.611	Incentive Grant Program to Prohibit Racial Profiling	$5,455
	TOTAL	**$2,208,501**
Transit Services Programs Cluster		
20.513	Enhanced Mobility of Seniors and Individuals with Disabilities	$933,509
20.516	Job Access And Reverse Commute Program	$81,281
	TOTAL	**$1,014,790**
	DEPARTMENT OF TRANSPORTATION TOTAL	**$469,616,197**
DEPARTMENT OF TREASURY		
21.999	Miscellaneous Non-Major Grants	$87,394
	TOTAL	**$87,394**
	DEPARTMENT OF TREASURY TOTAL	**$87,394**
DEPARTMENT OF VETERANS AFFAIRS		
64.014	Veterans State Domiciliary Care	$163,879
64.015	Veterans State Nursing Home Care	$6,867,539
64.124	All-Volunteer Force Educational Assistance	$142,950
64.203	State Cemetery Grants	$205,403
	TOTAL	**$7,379,771**
	DEPARTMENT OF VETERANS AFFAIRS TOTAL	**$7,379,771**

		AMOUNT

ENVIRONMENTAL PROTECTION AGENCY

66.039	National Clean Diesel Emissions Reduction Program	$278,658
66.040	State Clean Diesel Grant Program	$89,340
66.202	Congressionally Mandated Projects	$32,218
66.433	State Underground Water Source Protection	$106,984
66.436	Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	$10,689
66.454	Water Quality Management Planning	$98,147
66.460	Nonpoint Source Implementation Grants	$1,230,720
	Soil and Water Conservation Districts of Montana MOU	$1,600
	Soil and Water Conservation Districts of Montana 319 MINI GRANT MOU 2015	$1,140
66.461	Regional Wetland Program Development Grants	$264,541
66.514	Science To Achieve Results (STAR) Fellowship Program	$68,184
66.605	Performance Partnership Grants	$5,654,703
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	$119,250
66.708	Pollution Prevention Grants Program	$171,371
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	$2,389,377
66.804	Underground Storage Tank Prevention, Detection and Compliance Program	$431,267
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	$888,288
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	$181,923
66.817	State and Tribal Response Program Grants	$660,378
66.951	Environmental Education Grants	$92,007
	TOTAL	**$12,770,785**
Clean Water State Revolving Fund Cluster		
66.458	Capitalization Grants for Clean Water State Revolving Funds	$12,063,262
	TOTAL	**$12,063,262**
Drinking Water State Revolving Fund Cluster		
66.468	Capitalization Grants for Drinking Water State Revolving Funds	$13,625,040
	TOTAL	**$13,625,040**
	ENVIRONMENTAL PROTECTION AGENCY TOTAL	**$38,459,087**

EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

30.002	Employment Discrimination-State and Local Fair Employment Practices Agency Contracts	$412,705
	TOTAL	**$412,705**
	EQUAL EMPLOYMENT OPPORTUNITY COMMISSION TOTAL	**$412,705**

		AMOUNT
EXECUTIVE OFFICE OF THE PRESIDENT		
95.001	High Intensity Drug Trafficking Areas Program	$31,542
	TOTAL	**$31,542**
	EXECUTIVE OFFICE OF THE PRESIDENT TOTAL	**$31,542**
GENERAL SERVICES ADMINISTRATION		
39.003	Donation of Federal Surplus Personal Property	$175,402
39.011	Election Reform Payments	$106,895
	TOTAL	**$282,297**
	GENERAL SERVICES ADMINISTRATION TOTAL	**$282,297**
HOMELAND SECURITY		
97.012	Boating Safety Financial Assistance	$484,095
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	$218,235
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	$3,056,642
97.039	Hazard Mitigation Grant	$550,605
97.041	National Dam Safety Program	$313,353
97.042	Emergency Management Performance Grants	$2,283,179
97.043	State Fire Training Systems Grants	$18,914
97.044	Assistance to Firefighters Grant	$130,576
97.045	Cooperating Technical Partners	$946,443
97.046	Fire Management Assistance Grant	$15,481
97.047	Pre-Disaster Mitigation	$3,334,624
97.052	Emergency Operations Center	$790,391
97.067	Homeland Security Grant Program	$5,709,016
	Flathead County Sheriff EMW-2011-SS-00052	($505)
97.120	Border Interoperability Demonstration Project	$1,125,374
	TOTAL	**$18,976,423**
	HOMELAND SECURITY TOTAL	**$18,976,423**
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.001	Science	$30,000
	Johns Hopkins University 106501; CLIN 1	$24,208
	TOTAL	**$54,208**
	NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL	**$54,208**

		AMOUNT
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION		
89.003	National Historical Publications and Records Grants	$7,140
	TOTAL	**$7,140**
	NATIONAL ARCHIVES AND RECORDS ADMINISTRATION TOTAL	**$7,140**
NATIONAL ENDOWMENT FOR THE HUMANITIES		
45.024	Promotion of the Arts_Grants to Organizations and Individuals	
	Arts Midwest 904	$25,000
45.025	Promotion of the Arts_Partnership Agreements	$768,400
45.129	Promotion of the Humanities_Federal/State Partnership	
	Humanities Montana 15R011	$3,400
	Humanities Montana 15R014	$5,000
	Humanities Montana 15R024	$1,000
	Humanities Montana 14R024	$2,471
	Humanities Montana 14R047	$2,250
	Humanities Montana 14R040	$338
	Humanities Montana SO-50606-14	$5,000
	Humanities Montana 14R050	$2,900
	Humanities Montana 14R037	$893
	Humanities Montana 14R019	$6,000
	Humanities Montana 14R009	$2,780
	Humanities Montana 14R008	$30
	Humanities Montana 14R034	($1,224)
45.149	Promotion of the Humanities_Division of Preservation and Access	$139,203
	Idaho State Historical Society MOU-PJ-50127-13	$123,364
	Michigan State University RC103697 MONTANA STATE	$3,350
45.163	Promotion of the Humanities_Professional Development	$112,194
45.301	Museums for America	$1,533
45.310	Grants to States	$1,073,862
45.312	National Leadership Grants	$151,443
45.313	Laura Bush 21st Century Librarian Program	$53,791
45.400	Peace Corps’ Global Health and PEPFAR Initiative Program	$10,627
	TOTAL	**$2,493,605**
	NATIONAL ENDOWMENT FOR THE HUMANITIES TOTAL	**$2,493,605**
NATIONAL SCIENCE FOUNDATION		
47.041	Engineering Grants	$3,816
47.049	Mathematical and Physical Sciences	$22,275

		AMOUNT
47.050	Geosciences	
	University of Southern California 51555903	$27,692
47.074	Biological Sciences	($1,557)
47.075	Social, Behavioral, and Economic Sciences	$93,038
47.076	Education and Human Resources	$1,234,956
	Salish Kootenai College UM-SA02	$7,711
	Salish Kootenai College SKC ANLSAMP 3	$17
	Salish Kootenai College UM-SA01	$1,047
	University of California, National Writing Project	$21,279
	University of California, National Writing Project 93-MT01-NSF2013	$19,460
	TOTAL	**$1,429,734**
	NATIONAL SCIENCE FOUNDATION TOTAL	**$1,429,734**

OTHER FEDERAL

99.999	Other Federal	$43,270
	TOTAL	**$43,270**
	OTHER FEDERAL TOTAL	**$43,270**

SMALL BUSINESS ADMINISTRATION

59.037	Small Business Development Centers	$653,617
59.058	Federal and State Technology Partnership Program	$63,447
59.059	Congressional Grants	$36,762
59.061	State Trade and Export Promotion Pilot Grant Program	$200,347
	TOTAL	**$954,173**
	SMALL BUSINESS ADMINISTRATION TOTAL	**$954,173**

SOCIAL SECURITY ADMINISTRATION

96.008	Social Security - Work Incentives Planning and Assistance Program	$90,020
	TOTAL	**$90,020**
Disability Insurance/SSI Cluster		
96.001	Social Security_Disability Insurance	$7,361,170
	TOTAL	**$7,361,170**
	SOCIAL SECURITY ADMINISTRATION TOTAL	**$7,451,190**

State of Montana
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RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
CORPORATION FOR NATIONAL & COMMUNITY SERVICE		
94.007	Program Development and Innovation Grants	$44,788
	CORPORATION FOR NATIONAL & COMMUNITY SERVICE TOTAL	**$44,788**
DEPARTMENT OF AGRICULTURE		
10.212	Small Business Innovation Research	
	Sustainable Bioproducts SUSBIO-MSU-USDA	$28,387
10.683	National Fish and Wildlife Foundation	
	National Fish and Wildlife Foundation 0103.13.038862	$9,050
	Yellowstone to Yukon Conservation Initiative 15-01-UM	$20,469
10.960	Technical Agricultural Assistance	
	Rutgers, The State University of New Jersey SUBAWARD NO. 5566	$20,133
Agricultural Research Service		
10.001	Agricultural Research_Basic and Applied Research	$686
Animal And Plant Health Inspection Service		
10.025	Plant and Animal Disease, Pest Control, and Animal Care	$326,192
Cooperative State Research, Education And Extension Service		
10.200	Grants for Agricultural Research, Special Research Grants	$170,919
	Fort Peck Community College BRESTER USRE	$15,540
	North Dakota State University FAR-0018591-2	$2,177
	University of Idaho BAK308-SB-001	$18,297
	University of Idaho BAK306-SB-001	$1,982
	University of Idaho BAK307-SB-003	($76)
	University of Washington BPO6777-748614	$8,853
	University of Washington SC 734586	$8,932
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	$2,956,076
10.206	Grants for Agricultural Research_Competitive Research Grants	($19)
10.207	Animal Health and Disease Research	$40,597
10.215	Sustainable Agriculture Research and Education	
	University of Wyoming 1002627	$2,202
	Utah State University SUBAWARD 120833024	$52,464
	Utah State University 100893005	$301
	Utah State University 100893032	$13,743
	Utah State University 110892005	$15,120
	Utah State University 110892006	$129,813
	Utah State University 120833011	$4,971
	Utah State University 120833015	$17,489
	Utah State University 130676003	$10,888
	Western Region SARE Program SW12-108/110892011	$69,913

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
	Western Region SARE Program 120833025	$146,964
10.500	Cooperative Extension Service	$434,794
	Auburn University 13-HHP-379816-MT	($1,500)
	Fort Peck Community College	$58,880
	Kansas State University S14066	$3,205
	University of Nebraska-Lincoln 25-6262-0004-002	$49
	University of Nebraska-Lincoln 25-6365-0040-134	($69)
	University of Nebraska-Lincoln 25-6365-0040-138	$4
	University of Wyoming 1001381	$5,322
	Utah State University 110897006	$17,568
	Utah State University 120834002	$913
	Western Region SARE Program 1002139	$17,266
	Western Region SARE Program OW12-044 110892010	$17,514
Departmental Management		
10.443	Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers	
	Little Big Horn College FRICK.2013-14	$46
Economic Research Service		
10.250	Agricultural and Rural Economic Research, Cooperative Agreements and Collaborations	$40,142
10.253	Consumer Data and Nutrition Research	
	Cornell Center for Behavioral Economics in Child Nutrition 62140-10296	$12,877
Farm Service Agency		
10.435	State Mediation Grants	
	University of Illinois 2014-06507-01	$19,850
Food and Nutrition Service		
10.594	Food Distribution Program on Indian Reservations Nutrition Education Grants	
	Confederated Salish and Kootenai Tribes	$18,910
Forest Service		
10.652	Forestry Research	$4,432,367
	National Forest Foundation AF-706	$42,836
	Portage, Inc. 2306S02	$4,561
10.676	Forest Legacy Program	$18,707
10.680	Forest Health Protection	$173,866
10.681	Wood Education and Resource Center (WERC)	$14
10.684	International Forestry Programs	$93,451
Miscellaneous		
10.999	Long Term Standing Agreements For Storage, Transportation And Lease	$14,274
10.R&D	Miscellaneous Research and Development	$151,989
National Institute Of Food And Agriculture		
10.202	Cooperative Forestry Research	$818,961
10.221	Tribal Colleges Education Equity Grants	
	Fort Peck Community College	$11,555

State of Montana
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RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
10.227	1994 Institutions Research Program	
	Aaniiih Nakoda College MCDERMOTT	$567
	Aaniiih Nakoda College MSU-38424-19763	$11,436
	Salish Kootenai College	$2,234
	Salish Kootenai College 24-171-MSU-91	$16,973
	Salish Kootenai College MOA/HARMON	$19,343
10.303	Integrated Programs	$556,440
10.304	Homeland Security_Agricultural	
	Kansas State University S13009	$22,854
10.307	Organic Agriculture Research and Extension Initiative	$271,913
	National Center for Appropriate Technology BELASCO	$16,447
10.309	Specialty Crop Research Initiative	
	Cornell University 73999-10426	$9,672
	University of Tennessee 8500042739	$954
10.310	Agriculture and Food Research Initiative (AFRI)	$890,040
	Boston University 4500001196	$8,447
	Colorado State University G-91600-3	$83,418
	Colorado State University	$7,688
	Colorado State University G-70001-1	$35,794
	Colorado State University G-91600-2	$103,189
	Emory University 2011-67023-30090	($61)
	Kansas State University S15184	$571
	North Carolina State University 2015-0097-05	$2,808
	University of California, Davis 201015718-18	$419,716
	University of Nebraska-Lincoln 25-6268-0005-004	$162,284
	University of Wyoming 1001391	$3,379
	University of Wyoming 1002178-MSU	$37,205
	Washington State University 115808 G002984	$125,681
	Washington State University 115808 G002983	$34,993
10.312	Biomass Research and Development Initiative Competitive Grants Program (BRDI)	
	Kansas State University S13098	$251,895
	University of Wyoming 1001828-MSU	$16,110
10.329	Crop Protection and Pest Management Competitive Grants Program	$48,900
Natural Resources Conservation Service		
10.902	Soil and Water Conservation	$382,736
	University of Wisconsin 363K915	$9,767
10.912	Environmental Quality Incentives Program	$238,809
Rural Housing Service		
10.446	Rural Community Development Initiative	
	Anaconda Local Development Corporation 1	$59,814
	DEPARTMENT OF AGRICULTURE TOTAL	**$14,352,431**

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
DEPARTMENT OF COMMERCE		
11.431	Climate and Atmospheric Research	$54,366
Economic Development Administration		
11.307	Economic Adjustment Assistance	$291,904
	Butte Local Development Corporation 05-69-05486	$37,396
National Oceanic And Atmospheric Administration (NOAA)		
11.439	Marine Mammal Data Program	$48,103
National Telecommunications And Information Administration		
11.549	State and Local Implementation Grant Program	$117,025
	DEPARTMENT OF COMMERCE TOTAL	**$548,794**
DEPARTMENT OF DEFENSE		
Advanced Research Projects Agency		
12.910	Research and Technology Development	
	Duke University 12-DARPA-1073	$230,470
	Northwestern University SP0020412-PRJ005187	$57,307
Defense Logistics Agency		
12.002	Procurement Technical Assistance For Business Firms	$2,743,756
Department Of The Air Force, Materiel Command		
12.800	Air Force Defense Research Sciences Program	$4,654,401
	Bridger Photonics PT FA8560-14-M-1787	$49,988
	Colorado School of Mines P0154036 (SUBK: 400757-5801)	$255,826
	University of Minnesota A001650202	$133,121
Department Of The Army, Office Of The Chief Of Engineers		
12.114	Collaborative Research and Development	$793,971
	Technology Assessment and Transfer, Inc. 6071-01	$74,970
Department Of The Navy, Office Of The Chief Of Naval Research		
12.300	Basic and Applied Scientific Research	$836,442
	Impact Technologies, LLC S1614A	$8
	Qualtech Systems, Inc. QSI-DSC-13-006	$4,113
	University of Oklahoma 2011-20	$358,415
Miscellaneous		
12.999	Miscellaneous Non-Major Grants	$1,673,518
	Science Applications International Corporation P010200731	$5,284
12.R&D	Miscellaneous Research and Development	
	Aerodyne Research Incorporated ARI 10779-3	$10,632
	Battelle 351972	$44
	Battelle PO# 351972	$9,863
	EDAptive Computing, Inc. MILTECH-N0042104D0007-0012	$9,765

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
	Leidos PO10169067	$7,180
	S2 Corporation S2-14-0006-02	$195,283
	S2 Corporation S2-4524-14-01	$6,110
	Sierra Nevada Corporation PO#: 240801	$31,503
	Sierra Nevada Corporation PO# 240811	$13,858
	UES, Inc. S-875-040-009	$26,070
	West Point Military Academy	$4,118
Office Of The Secretary Of Defense		
12.560	DOD, NDEP, DOTC-STEM Education Outreach Implementation	$59,289
12.630	Basic, Applied, and Advanced Research in Science and Engineering	$3,050
	Oklahoma State University AB-5-68050-UM	$7,604
U. S. Army Medical Command		
12.420	Military Medical Research and Development	$23,208
U.S. Army Materiel Command		
12.431	Basic Scientific Research	$428,070
	University of Alabama W911NF-10-2-0025	$690,627
	DEPARTMENT OF DEFENSE TOTAL	**$13,397,864**
DEPARTMENT OF EDUCATION		
Office Of Elementary And Secondary Education		
84.299	Indian Education -- Special Programs for Indian Children	$88,224
	Little Big Horn College ILEAD	$245,432
84.367	Improving Teacher Quality State Grants	
	University of California, Berkeley 09-MT02-SEED2012	$5,617
Office Of Special Education And Rehabilitative Services		
84.133	National Institute on Disability and Rehabilitation Research	$191,425
	University of Kansas H133B110006	$47,668
	DEPARTMENT OF EDUCATION TOTAL	**$578,366**
DEPARTMENT OF ENERGY		
81.049	Office of Science Financial Assistance Program	$1,936,680
	GroundMetrics, Inc. PO#: 389	$10,310
	Los Alamos National Security 187235	$39,491
	Montana Emergent Technologies MET-MSU	$137,592
	National Securities Technology 145845	$22,837
	National Securities Technology SC 145485 TO 04	$54,808
	Physical Sciences Inc. PSI CORP - MSU REPASKY	$32,219
	University of Southern California 159427/DE-SC0006813	$25,281
	University of Tennessee A12-0085-S001	$165,740
	University of Wyoming DE-SC0012671	$36,084
	Vista Clara Inc VISTA CLARA-MSU	$9,415

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
81.079	Regional Biomass Energy Programs	
	South Dakota State University 3TC147	$18,154
81.087	Renewable Energy Research and Development	$255,003
	Materia Inc	$96,400
	University of Toledo F-2013-30	$319,259
81.087	ARRA Renewable Energy Research and Development	$2,068
81.089	Fossil Energy Research and Development	$8,073,839
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	$384,300
	University of Wyoming DE-OE000657	$24,752
81.122	ARRA Electricity Delivery and Energy Reliability, Research, Development and Analysis	$25,416
81.135	Advanced Research Projects Agency - Energy	
	Donald Danforth Plant Science 21018-MT/21709-MT	$147,711
81.214	Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response Research, Outreach, Technical Analysis	
	American Indian Higher Education Consortium MSU-AISES RICH MACUR	$26,121
Miscellaneous		
81.999	Miscellaneous Non-Major Grants	$1,171
	Arizona Geological Survey DE-EE0002850	$10,666
	Battelle Energy Alliance DE-AC07-05ID14517	$11,606
	Bonneville Power Administration 60312	$107,768
	Sandia National Laboratories 1340328	$120,472
	Sandia National Laboratories 1440479	$33,161
	Sandia National Laboratories 1562069	$36,447
81.R&D	Miscellaneous Research and Development	
	Aerodyne Research Incorporated ARI 11051-1	$9,810
	Oregon Department of Fish and Wildlife ODFW AGREEMENT #323-14	$5,646
	Oregon Department of Fish and Wildlife ODFW AGREEMENT #362-13	$16,586
	DEPARTMENT OF ENERGY TOTAL	**$12,196,813**

DEPARTMENT OF HEALTH AND HUMAN SERVICES

93.276	Drug-Free Communities Support Program Grants	
	JBS International HHSS28342001T 253313	$2,434
93.283	Centers for Disease Control and Prevention_Investigations and Technical Assistance	
	Association of University Centers on Disabilities AUCD RTOI 2009-02-09 #439	($253)
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	$64,210
Administration for Community Living		
93.433	ACL National Institute on Disability, Independent Living, and Rehabilitation Research	$112,856
	University of Kansas H133B110006	$36,956
Agency for Healthcare Research and Quality		
93.225	National Research Service Awards_Health Services Research Training	
	New York University OHNEP	$2,000

State of Montana
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RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
Centers for Disease Control and Prevention		
93.136	Injury Prevention and Control Research and State and Community Based Programs	$235,125
	Mount Sinai School of Medicine 0254-5675-4609	$74,773
Health Care Financing Administration		
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	
	Mineral Regional Health Center FMBHP-SC3	$58,239
Health Resources And Services Administration		
93.107	Area Health Education Centers Point of Service Maintenance and Enhancement Awards	$902,906
93.155	Rural Health Research Centers	$64,927
93.178	Nursing Workforce Diversity	$191,713
93.247	Advanced Nursing Education Grant Program	$92,402
93.301	Small Rural Hospital Improvement Grant Program	$301,281
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	
	Gallatin County SRA/HAYNES	$3,500
93.824	Area Health Education Centers Infrastructure Development Awards	($139,082)
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	$294,397
Indian Health Service		
93.933	Demonstration Projects for Indian Health	
	Blackfeet Community College 2014-01-MSU	$38,480
93.970	Health Professions Recruitment Program for Indians	$290,906
Miscellaneous		
93.999	Miscellaneous Non-Major Grants	$193,349
	Cell Signaling Technology	$28,136
National Institutes Of Health		
93.113	Environmental Health	$1,662,867
	Scripps Research Institute 5-52250	$785
93.121	Oral Diseases and Disorders Research	$182,430
93.172	Human Genome Research	$142,613
	Stanford University 60463995-29913-C	$122,689
93.213	Research and Training in Complementary and Alternative Medicine	$26,228
93.242	Mental Health Research Grants	$347,655
	Indiana University BL--4631228-UM	$2,587
	University of Washington 753503	$105
93.279	Drug Abuse and Addiction Research Programs	$397,652
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	$359,192
93.307	Minority Health and Health Disparities Research	
	University of Nevada, Las Vegas 14-746Q-MSU-PG3-00	$133
93.310	Trans-NIH Research Support	$102,870
93.350	National Center for Advancing Translational Sciences	
	University of Washington 755827	$116

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RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
93.351	Research Infrastructure Programs	$538,673
	GeneSearch, Inc. 1R42OD018404-01A1	$30,470
93.389	National Center for Research Resources	$267,875
93.393	Cancer Cause and Prevention Research	$134,915
93.395	Cancer Treatment Research	$199,145
93.397	Cancer Centers Support Grants	
	University of Washington 75822	$72,486
93.837	Cardiovascular Diseases Research	$320,045
	Cornell University 69020-10278	$82,812
	Methodist Hospital 15350004-93	$231,000
93.838	Lung Diseases Research	$190,922
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	$54,295
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	$861,956
	The John B Pierce Laboratory SUBAWARD NO. 243-A	$128,633
	Thomas Jefferson University 080-19250-509101	($11)
	University of California, Berkeley 6806-PO 1-0001585349	$16,103
93.855	Allergy, Immunology and Transplantation Research	$3,479,645
	Indiana University PO 1464301/BL-4624889-MSU	$238,125
	Indiana University PO#1544833 (BL-4647305-MSU)	$25,660
	Sorrento Therapeutics, Inc. STTR PT R42 AI098182	$384
	Sorrento Therapeutics, Inc. 4R42AI098182-03	$235,081
	University of Connecticut 50074	$142,073
	University of Connecticut KFS #5619100, 49814	$151,298
	University of Kentucky 3048111727-15-011	$27,869
93.856	Microbiology and Infectious Diseases Research	
	Colorado State University G-7825-1	$152,922
93.859	Biomedical Research and Research Training	$12,434,558
	Mountain West Research Consortium 15-746Q-MSU-PG21-00	$65,655
	Stanford University 60705124-111946	$21,527
	University of Nebraska-Lincoln 24-6230-0156-102	($186)
	University of Nevada, Las Vegas 15-746Q-UMT-B51-00	$13,204
	University of Nevada, Las Vegas 15-746Q-UMT-PG28-00	$67,736
	University of Nevada, Las Vegas 14-747X-C-01	$189,162
	University of Nevada, Las Vegas 14-746Q-MSU-PG17-00	$19,149
	University of Nevada, Las Vegas 14-746Q-UMT-PG1-00	$9,320
	University of Nevada, Las Vegas 14-746Q-UMT-MG8-00	$3,557
	University of Nevada, Las Vegas 14-746Q-MSU-PG5-00	($135)
	University of Nevada, Las Vegas 14-746Q-UMT-PG2-00	$24,136
	University of New Mexico PO#: E0001892 SUBK#: 3RN79	$33,022
	University of Southern California Y82277 38763030	$123,865
	University of Washington 753204	$2,692
	University of Washington 743852	$33

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
	University of Washington 731953	$21,166
	University of Washington 761999	$143,206
93.865	Child Health and Human Development Extramural Research	$323,846
	GeneSearch, Inc. 1R41HD075502-01	$17,896
	Stanford University 60595107-49686	$382,135
93.866	Aging Research	$348,248
	Dermaxon, LLC R41AG046987-SA01	$9,671
93.867	Vision Research	$22,128
	University of California, Berkeley 00008466	$105,296
Substance Abuse And Mental Health Services Administration		
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	
	Community Connections	$41,117
	Harrison County Family Resource Network	$41,323
	Ohio County Substance Abuse Prevention Coalition	$41,168
	Potomac Highlands Guild	$41,183
	Prestera Center	$41,134
	Westbrook Health Services	$41,115
93.959	Block Grants for Prevention and Treatment of Substance Abuse	
	Oregon Department of Human Services 147702	$84,222
	DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL	**$28,491,702**
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
Office Of Policy Development And Research		
14.523	Transformation Initiative Research Grants: Sustainable Community Research Grant Program	
	Opportunity Link DAVID KACK WTI/OPPORTUNITY LI	$25,368
	DEPARTMENT OF HOUSING & URBAN DEVELOPMENT TOTAL	**$25,368**
DEPARTMENT OF JUSTICE		
National Institute Of Justice		
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	$12,901
Office For Victims Of Crime		
16.582	Crime Victim Assistance/Discretionary Grants	$93,940
Office Of Juvenile Justice And Delinquency Prevention		
16.727	Enforcing Underage Drinking Laws Program	
	Oregon Department of Human Services 134027	$87,707
	DEPARTMENT OF JUSTICE TOTAL	**$194,548**
DEPARTMENT OF LABOR		
Employment Training Administration		
17.261	WIA Pilots, Demonstrations, and Research Projects	$104,105
	DEPARTMENT OF LABOR TOTAL	**$104,105**

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
DEPARTMENT OF STATE		
Bureau Of Near Eastern Affairs		
19.500	Middle East Partnership Initiative (MEPI)	$300,387
Miscellaneous		
19.999	Miscellaneous Grants	$64,251
	DEPARTMENT OF STATE TOTAL	**$364,638**
DEPARTMENT OF THE INTERIOR		
15.232	Wildland Fire Research and Studies Program	$59,623
Bureau Of Indian Affairs		
15.034	Agriculture on Indian Lands	$44,453
Bureau Of Land Management		
15.224	Cultural Resource Management	$98,141
15.225	Recreation Resource Management	$46,288
15.228	National Fire Plan - Wildland Urban Interface Community Fire Assistance	$14,634
15.230	Invasive and Noxious Plant Management	$53,499
15.231	Fish, Wildlife and Plant Conservation Resource Management	$238,209
	World Wildlife Fund MK18	$22,256
15.235	Southern Nevada Public Land Management	
	University of Nevada, Las Vegas 13-716P-02	$73,837
15.236	Environmental Quality and Protection Resource Management	$377,297
15.238	Challenge Cost Share	$97,880
15.239	Management Initiatives	$12,230
Bureau Of Reclamation		
15.517	Fish and Wildlife Coordination Act	$71,045
Fish And Wildlife Service		
15.635	Neotropical Migratory Bird Conservation	$14,198
15.637	Migratory Bird Joint Ventures	$49,360
	Ducks Unlimited US-IM-5-1	$22,546
	Pheasants Forever 6018BJ653	$47,863
	Pheasants Forever PF2013-11	$34,042
15.650	Research Grants (Generic)	$366,620
	The Nature Conservancy 1260643850 / F12AP00432	$24,595
	University of California, Santa Cruz S0183989	$31,366
	University of California, Santa Cruz S0184028	$973
15.655	Migratory Bird Monitoring, Assessment and Conservation	$168,464
15.657	Endangered Species Conservation - Recovery Implementation Funds	$442,435
15.660	Endangered Species - Candidate Conservation Action Funds	$12,006
	Western Association of Fish and Wildlife SC-C-13-01	$87,730
15.663	National Fish and Wildlife Foundation	

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2015

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
	National Fish and Wildlife Foundation 0103.13.038862	$38,100
	World Wildlife Fund MK18	$8,454
	Yellowstone to Yukon Conservation Initiative 15-02-WTI-P	$2,807
15.664	Fish and Wildlife Coordination and Assistance Programs	$63,251
15.669	Cooperative Landscape Conservation	$38,517
15.670	Adaptive Science	$84,153
Miscellaneous		
15.999	Miscellaneous Non-Major Grants	$279,569
15.R&D	Miscellaneous Research and Development	$29,070
	Pheasants Forever 2014-08	$19,201
National Park Service		
15.904	Historic Preservation Fund Grants-In-Aid	$2,658
15.915	Technical Preservation Services	$30,521
15.923	National Center for Preservation Technology and Training	$38,372
15.926	American Battlefield Protection	$434
15.945	Cooperative Research and Training Programs - Resources of the National Park System	$936,074
	University of Wyoming 1001486-MSU	($4)
15.948	National Fire Plan-Wildland Urban Interface Community Fire Assistance	$31,938
U.S. Fish And Wildlife Service		
15.608	Fish and Wildlife Management Assistance	$11,460
15.611	Wildlife Restoration and Basic Hunter Education	
	South Dakota Game, Fish and Parks 15-0600-012	$74,986
	State of Texas TPWD CONTRACT NUMBER 4435514	$154
15.699	USDI/Fish & Wildlife Service	$1,627
U.S. Geological Survey		
15.805	Assistance to State Water Resources Research Institutes	$91,138
15.807	Earthquake Hazards Research Grants	$45,382
15.808	U.S. Geological Survey_ Research and Data Collection	$525,590
	Colorado State University PO 430885	$14,445
15.810	National Cooperative Geologic Mapping Program	$177,815
15.812	Cooperative Research Units Program	$468,508
15.815	National Land Remote Sensing_Education Outreach and Research	
	America View Inc AV13-MT01	$29,817
	America View Inc AV13-MT02	$69,525
15.819	Energy Cooperatives to Support the National Coal Resources Data System (NCRDS)	$13,922
15.820	National Climate Change and Wildlife Science Center	
	America View Inc AVCSC13-MT01	$881
	Colorado State University G-8841-2	$80,469
	Colorado State University G-06104-2	$6,546
	Colorado State University G-8892-1	$151,475
	Colorado State University G-8829-4	$35,643

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
	Colorado State University G-8829-1/G13AC00392	$39,828
	Colorado State University G-50003-1	$3,994
	Colorado State University G-0734-3	$47
	Colorado State University G-06108-1/G14AP00181	$102,779
	Colorado State University G-8892-2	$38,207
	University of Idaho GNK-SB-002	$9,400
15.899	USDI/Geological Survey	$2,986
	DEPARTMENT OF THE INTERIOR TOTAL	**$6,111,329**

DEPARTMENT OF TRANSPORTATION

20.514	Public Transportation Research	
	Aerodyne Research Incorporated ARI 11012-3	$21,925
Federal Highway Administration		
20.200	Highway Research and Development Program	$973,177
	California Department of Transportation 65A0500	$72,798
	California Department of Transportation 65A0400	$282
	California Department of Transportation 65A0501	$100,043
	CLR Analytics Inc.	$6,979
	ICF International 13DDSK0633	$22,992
	Idaho Department of Transportation 2013-02	($45)
	Iowa Department of Transportation SPR-3(042) CONTRACT 16786	$29,975
	National Academies of Science HR 17-69 SUB0000545	$120,217
	National Academies of Science HR 20-05(46-12) SUB0000608	$18,059
	Oregon Department of Transportation 27322	($7)
	Washington State Department of Transportation T6737-06	$9,998
	Washington State Department of Transportation T6737-05	$27,786
	Washington State Department of Transportation T6737-02	$60,566
	Washington State Department of Transportation T6737-04	$28,883
	Western Governors Association 20-126-10	$38,531
20.205	Highway Planning and Construction	$1,503,026
	Hunter Research, Inc 1535 TASK 12	$6,585
	Nevada Department of Transportation P520-12-803	$6
	Nevada Department of Transportation P531-13-803	$110,449
	South Dakota Department of Transportation SD2014-13	$14,343
	Southern Illinois University 767105-002	$8,883
	Wisconsin Department of Transportation 0092-15-12	$1,719
	Yellowstone Business Partners SB-2012-ID-05	$1,583
Federal Transit Administration		
20.520	Paul S. Sarbanes Transit in the Parks	$69,359
National Highway Traffic Safety Administration		
20.600	State and Community Highway Safety	

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2015

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
	Virginia Tech 451127-19060 (DTN22-11-D-00236	($18)
20.609	Safety Belt Performance Grants	
	Virginia Tech 451263-19060	$159
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	
	Virginia Tech 451336-19060	$14,891
Research And Special Programs Administration		
20.701	University Transportation Centers Program	$775,999
	University of Alaska Fairbanks UAF 14-0098 FP42825	$77,903
	DEPARTMENT OF TRANSPORTATION TOTAL	**$4,117,046**
ENVIRONMENTAL PROTECTION AGENCY		
66.709	Multi-Media Capacity Building Grants for States and Tribes	$600
Miscellaneous		
66.R&D	Miscellaneous Research and Development	
	Aerodyne Research Incorporated ARI 10964-1	($9)
Office Of Administration		
66.605	Performance Partnership Grants	
	Northern Cheyenne Tribe BG-98852313	$10,398
Office Of Air And Radiation		
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	$427,972
Office Of Chemical Safety And Pollution Prevention		
66.716	Research, Development, Monitoring, Public Education, Training, Demonstrations, and Studies	$23,688
66.717	Source Reduction Assistance	$36,378
Office Of Prevention, Pesticides And Toxic Substances		
66.708	Pollution Prevention Grants Program	$96,035
Office Of Research And Development		
66.509	Science To Achieve Results (STAR) Research Program	
	Little Big Horn College MSU-LBHC	$62,411
66.514	Science To Achieve Results (STAR) Fellowship Program	$13,438
Office of Solid Waste and Emergency Response		
66.813	Alternative or Innovative Treatment Technology Research, Demonstration, Training, and Hazardous Substance Research Grants	
	Sustainable Bioproducts MSU-EPA-SUSTAINABLE BIOPRODUCT	$28,953
Office Of Water		
66.419	Water Pollution Control State, Interstate, and Tribal Program Support	$277,538
66.436	Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	$25,000
66.461	Regional Wetland Program Development Grants	$143,796
	ENVIRONMENTAL PROTECTION AGENCY TOTAL	**$1,146,198**

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.001	Science	$4,638,630
	406 Aerospace LLC CUBESAT ZIGBEE	$11,387
	California Institute of Technology RSA NO. 1371988	$6,590
	Johns Hopkins University 970066	$24,160
	Lockheed Martin Corporation 8100002702	$408,062
	Lockheed Martin Corporation SP02H3901R; LINE ITEM#2	$60,840
	Princeton University 00001944	$63,302
	Qualtech Systems, Inc. QSI-DSC-14-004	$59,260
	Qualtech Systems, Inc. QUALTECH SBIR NNX13CJ36P	$7,290
	Research Foundation of The City University of New York 49691B	$9,552
	SETI Institute SC 3118	$8,633
	Smithsonian Astrophysical Observatory SV7-77003	$261,051
	Trout Unlimited NNX14AC91G	$16,758
	University of Alabama SUB2013-053	$12,803
	University of California, Berkeley SA1868-26308PG	$10,741
	University of California, Berkeley SA1868-26308PG; BB00090555	$8,818
	University of California, Santa Barbara KK1301	$123,267
	University of Kansas FY2012-038	$15,517
	University of Southern California 55747174	$31,482
	USDA Rocky Mountain Research Station 15-JV-11221637-051	$27,224
43.002	Aeronautics	$127,782
	Carnegie Institution of Washington DTM-3250-15 (PHASE E)	$22,239
43.008	Education	$794,707
43.009	Cross Agency Support	$423,870
Miscellaneous		
43.999	Miscellaneous Non-Major Grants	$229,185
	California Institute of Technology, Jet Propulsion Laboratory 1368208	$111
	California Institute of Technology, Jet Propulsion Laboratory 1422120	$117,917
	Southwest Research Institute E99044MO	$26,584
43.R&D	Miscellaneous Research and Development	$63,335
	NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL	**$7,611,097**
NATIONAL ENDOWMENT FOR THE HUMANITIES		
45.161	Promotion of the Humanities_Research	$60,777
Institute Of Museum And Library Services		
45.312	National Leadership Grants	$56,674
	NATIONAL ENDOWMENT FOR THE HUMANITIES TOTAL	**$117,451**

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
NATIONAL SCIENCE FOUNDATION		
47.041	Engineering Grants	$565,198
	Montana BioAgriculture, Inc 13-01	$9,756
	University of California, Merced 442149-TH-21238	$6,500
	University of Washington CMMI-1156413	$30,296
47.049	Mathematical and Physical Sciences	$1,877,064
	Association of Universities for Research in Astronomy N01312C-N	$7,894
	S2 Corporation S2-1330880-13-03	$93,308
	University of West Georgia 111554AUM	$25,946
	University Wisconsin-Milwaukee 153405537	$13,364
47.050	Geosciences	$2,230,987
	Atmospheric & Environmental Research, Inc. P1704-01	$951
	George Washington University 14-S17	$19,232
	University of Hawaii at Manoa MA130029	$26,389
	University of Missouri C00023524-3	$15,540
	University of Southern California OCE-0939564	$2,964
47.070	Computer and Information Science and Engineering	$415,821
47.074	Biological Sciences	$5,418,449
	Harvard University 131714-5092444	$14,886
	Washington State University 107476_G002258	$51
	Washington State University 118996_G003357	$96,501
47.075	Social, Behavioral, and Economic Sciences	$328,107
	Tufts University A130001	$31,372
47.076	Education and Human Resources	$1,732,150
	George Mason University E2033191	$16,853
	Louisiana Tech 32-3625-54110	$78
	Michigan State University RC104101MONTANA	$5,352
	Purdue University 4101-54555	$13
	Salish Kootenai College SKC ANLSAMP 4	$4,437
	Salish Kootenai College SKC ANLSAMP 5	$7,182
	Salish Kootenai College BP0624-392-1420-56300-00	($3)
	Salish Kootenai College HRD-1262779	$3,933
	University of Nebraska-Lincoln 25-0536-0019-002	$28,383
	University of Nebraska-Lincoln 25-0536-0015-004	$10,243
47.078	Polar Programs	$665,680
	University of Colorado SPO 1000046125/1548197	$132,740
47.079	Office of International and Integrative Activities	$1,269,107
	University of Nevada, Las Vegas 11-707D-G	$49,955
47.080	Office of Cyberinfrastructure	$2,028,250
47.081	Office of Experimental Program to Stimulate Competitive Research	($285,167)

RESEARCH AND DEVELOPMENT CLUSTER			AMOUNT
47.082	ARRA Trans-NSF Recovery Act Reasearch Support		$238,330
		NATIONAL SCIENCE FOUNDATION TOTAL	**$17,138,092**

SMALL BUSINESS ADMINISTRATION

59.058	Federal and State Technology Partnership Program		$100
	Defense Alliance of Minnesota	ADT CLUSTERS 13_14	$9,458
	Defense Alliance of Minnesota	ADT CLUSTERS 14_15	$31,072
		SMALL BUSINESS ADMINISTRATION TOTAL	**$40,630**

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

98.001	USAID Foreign Assistance for Programs Overseas		
	University of Georgia	RC282-392/4942936	$17,843
		UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT TOTAL	**$17,843**
		Total Research and Development Cluster	**$106,599,103**
		Total Expenditures of Federal Awards	**$2,742,399,741**

STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Note 1. Basis of Accounting

The assistance amounts presented in the accompanying Schedule of Expenditures of Federal Awards of the state of Montana are generally expenditures or reimbursement revenues recorded on the modified accrual basis of accounting. This basis recognizes expenditures in the accounting period in which the liability is incurred, and revenues when measurable, available, earned, and realizable. Assistance amounts reported on a basis other than modified accrual are discussed below.

Enterprise Fund Activity
The Unemployment Insurance, Section 8 Voucher, and Section 8 Project-Based programs are accounted for as enterprise fund activity. Enterprise funds use the full accrual basis of accounting.

Food Distribution Program
The amount reported for Food Distribution programs (CFDA #10.555, #10.565, #10.567, #10.569, 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 2015, Montana distributed $629,349 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed $9,821,550 in commodities in fiscal year 2015. The value at June 30, 2015 of commodities stored at the state's warehouse is $2,091,115, for which the state is liable in the event of loss. The state has insurance to cover this liability.

Federal Surplus Personal Property
In accordance with General Service Administration guidelines, the amount presented for Donation of Federal Surplus Personal Property (CFDA #39.003) is 23.68% of the original acquisition cost of the property.

Capitalization Grants for Clean Water State Revolving Funds
The amount presented for the Capitalization Grants for Clean Water State Revolving Funds Program (CFDA #66.458) represents federal contributions and administrative costs expended as of June 30, 2015. The amount of loans

outstanding as of June 30, 2015 in the Water Pollution Control Revolving Fund Program is $215,069,236.

<u>Capitalization Grants for Drinking Water State Revolving Funds</u>
The amount presented for the Capitalization Grants for Drinking Water State Revolving Funds Program (CFDA #66.468) represents federal contributions, administrative costs, and program set-aside costs expended as of June 30, 2015. The amount of loans outstanding for the program as of June 30, 2015 is $131,371,187.

<u>Economic Adjustment Assistance Program</u>
The amount presented for the Economic Adjustment Assistance Program (CFDA #11.307) represents federal contributions plus the administrative costs expended as of June 30, 2015. The amount of loans outstanding as of June 30, 2015 is $353,040 in non-American Recovery and Reinvestment Act of 2009 (ARRA) funds and $2,505,288 in ARRA funds.

<u>Temporary Assistance for Needy Families Loan Program</u>
The Temporary Assistance for Needy Families Program (CFDA #93.558) contributes to a housing loan program. The amount of housing loans outstanding as of June 30, 2015 is $471,277.

<u>Federal Family Education Loans</u>
The Montana Guaranteed Student Loan Program (MGSLP) guaranteed no new loans for the Federal Family Education Loans (CFDA #84.032) program during FY 2015. The outstanding loan balance (including principal, accrued interest, and collection cost) of loans guaranteed in previous years for which the federal government has imposed continuing compliance requirements was $81,130,204 at June 30, 2015. The dollar amount of Default Aversion Fees transferred from the federal fund to the agency's operating fund during fiscal year 2015 was $107,905 (net). In addition, MGSLP received or accrued revenue from the U.S. Department of Education in fiscal year 2015 of $17,694,745 for reinsurance to pay claims for loans due to death, disability, default, or bankruptcy of the debtor.

<u>Federal Perkins Loan Program – Federal Capital Contributions</u>
The amount reported for the Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038) represents federal contributions, administrative costs, and interest expended as of June 30, 2015. The amount of loans outstanding as of June 30, 2015 is $31,353,719.

<u>Nursing Student Loans Program</u>
The amount of loans outstanding for the Nursing Student Loans Program (CFDA #93.364) as of June 30, 2015 is $2,142,046.

<u>Nurse Faculty Loan Program</u>
The amount of loans outstanding for the Nurse Faculty Loan Program (CFDA #93.264) as of June 30, 2015 is $39,732.

Health Professions Student Loans, Including Primary Care Loans and Loans for Disadvantaged Students
The amount of loans outstanding for the Health Professions Student Loans, Including Primary Care Loans and Loans for Disadvantaged Students (CFDA #93.342) as of June 30, 2015 is $139,324.

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

Immunization Cooperative Agreements
The amount reported for the Immunization Cooperative Agreements (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 2015. The state used the Centers for Disease Control's price list to calculate the value of doses received. During fiscal year 2015, Montana received 153,051 vaccine doses valued at $8,614,067.

Tongue River –Northern Cheyenne Tribal Loan
The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe agreed to loan the state of Montana $11,300,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. No expenditures of tribal loan funds were incurred on project costs during fiscal year 2015. The amount of the loan outstanding as of June 30, 2015 is $6,664,103.

Middle Creek Dam Rehabilitation Project Loan
The Department of Natural Resources and Conservation and the U.S Department of the Interior, Bureau of Reclamation (BOR), entered into an agreement on September 21, 1990. The BOR agreed to loan the state of Montana "…a sum of money not to exceed the lesser of (1) $3,023,925 plus reimbursable interest during construction, or (2) the actual cost of the project, including reimbursable interest during construction..." The total loan repayable is $2,990,129, and reimbursable interest during construction is $281,857. As of June 30, 2015, the loan outstanding is $2,093,468, and reimbursable interest during construction is $185,543.

Note 2. Type A Federal Programs

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

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

Note 3. CFDA Number

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

The complete CFDA number is a five digit number, where the first two digits represent the federal agency, and the second three digits represent the program. Programs not assigned a CFDA number in the Catalog of Federal Domestic Assistance were assigned a CFDA number in the format **.999. Also refer to Note 11.

Note 4. Research and Development Grants

Research and Development includes all research activities, both basic and applied, and all development activities that are performed by a non-federal entity. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques, where such activities utilize the same facilities as other research and development activities, and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. Federal awards that meet the research and development criteria are listed in the Research and Development Cluster.

Note 5. Federal Excess Personal Property

The state of Montana receives Federal Excess Personal Property (FEPP). The title to this property remains with the federal agency. In accordance with General Services Administration guidelines, the amount presented in the FEPP is 23.68% of the original acquisition cost of the property.

The following is a list of the FEPP received by the state of Montana. The negative amount reflects property sold (title transferred at public sale) or other disposition. During FY 2015, beginning inventory amounts were adjusted to reflect the change in federal reporting percentage from 23.30% to 23.68%. In addition, an adjustment was made to correct beginning inventory balances reported for CFDA #10.664 and CFDA #10.999.

CFDA #	Program	FY 15 Amount	Inventory
10.203	Agricultural Experiment Stations	$1,421	$129,873
10.500	Cooperative Extension Service	$0	$3,202
10.664	Cooperative Forestry Assistance	$125,257	$5,319,938
10.999	Agriculture Miscellaneous – Non Major	$0	$138,413
12.999	Defense Miscellaneous - Non Major	$(13,432)	$561
43.999	NASA Miscellaneous – Non Major	$0	$674,880
47.999	NSF Miscellaneous – Non Major	$(2,551)	$194,582

For comparability purposes, the inventory amounts previously reported for FY 2014 FEPP are restated below. The adjusted inventory amounts shown reflect both the change in reporting percentage from 23.30% to 23.68% and the corrections to CFDA #10.664 and CFDA #10.999.

CFDA #	Program	FY 14 Amount	Inventory
10.203	Agricultural Experiment Stations	$(26,904)	128,452
10.500	Cooperative Extension Service	$0	$3,202
10.664	Cooperative Forestry Assistance	$20,210	$5,194,681
10.999	Agriculture Miscellaneous – Non Major	$(6,003)	$138,413
12.999	Defense Miscellaneous - Non Major	$(49,174)	$13,993
43.999	NASA Miscellaneous – Non Major	$0	$674,880
47.999	NSF Miscellaneous – Non Major	$(17,421)	$197,133

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

The Department of Natural Resources and Conservation (DNRC) receives Department of Defense Firefighting Property (FFP). The title to this property is transferred to the DNRC. In accordance with OMB guidelines, the amounts are presented at fair market value at the time of receipt by DNRC, which is determined to be 14% of the original acquisition cost of the property. The following is the value of FFP received by the state of Montana.

CFDA #	Program	FY 15 Amount	Inventory
12.999	DOD Firefighter Program	$126,319	$1,291,191

Note 7. Books for the Blind and Physically Handicapped:

The Montana State Library receives “talking book” machines, cassette books, accessories, and magazines from the federal government under the Blind and Physically Handicapped Program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June

30, 2015 was $992,574. The accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 8. Unemployment Benefits

The unemployment compensation system is a federal-state partnership. State unemployment insurance laws must conform to certain provisions of the federal law. Federal funds are expended for administrative costs. State unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund and are used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards.

The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for the Unemployment Insurance Program (CFDA #17.225).

State UI Expenditures	$106,228,010
Federal UI Expenditures	17,342,192
Total	$123,570,202

Note 9. Subgrants to State Agencies

Federal assistance transferred from one Montana state agency to another Montana state agency is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from non-state sources, which are considered subgrants by the awarding agency, are treated as pass-through grants to the state. These pass-through awards are listed below the direct federal awards reported on the Schedule of Expenditures of Federal Awards. Pass-through grant numbers are included for those awards that were assigned an identifying number.

Note 10. Pass through Awards to Non-State Entities

The following is a list of federal funds passed through from the state of Montana to non-state entities for fiscal year 2015.

CFDA #	Program Title	Amount Provided to Subrecipients
10.156	Federal-State Marketing Improvement Program	3,526
10.163	Market Protection and Promotion	104,779
10.169	Specialty Crop Block Grant Program	116,021
10.200	Grants for Agricultural Research, Special Research Grants	50,790
10.215	Sustainable Agriculture Research and Education	4,375
10.303	Integrated Programs	11,729
10.307	Organic Agriculture Research and Extension Initiative	21,335
10.310	Agriculture and Food Research Initiative (AFRI)	106,661
10.500	Cooperative Extension Service	14,251
10.553	School Breakfast Program	7,910,689
10.555	National School Lunch Program	28,903,582
10.556	Special Milk Program for Children	16,974
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	3,917,311
10.558	Child and Adult Care Food Program	735,132
10.559	Summer Food Service Program for Children	1,627,343
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	1,005,577
10.567	Food Distribution Program on Indian Reservations	1,623,625
10.568	Emergency Food Assistance Program (Administrative Costs)	88,537
10.572	WIC Farmers' Market Nutrition Program (FMNP)	84,483
10.579	Child Nutrition Discretionary Grants Limited Availability	80,000
10.582	Fresh Fruit and Vegetable Program	1,699,751
10.652	Forestry Research	45,866
10.664	Cooperative Forestry Assistance	2,915,154
10.665	Schools and Roads - Grants to States	17,832,005
10.676	Forest Legacy Program	15,876
10.680	Forest Health Protection	18,000
10.912	Environmental Quality Incentives Program	59,955
12.002	Procurement Technical Assistance For Business Firms	417,441
12.112	Payments to States in Lieu of Real Estate Taxes	3,737
12.300	Basic and Applied Scientific Research	10,692
12.431	Basic Scientific Research	24,244
12.800	Air Force Defense Research Sciences Program	8,000
12.999	Miscellaneous Non-Major Grants	72,989
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	3,779,849
14.239	Home Investment Partnerships Program	3,125,485
15.635	Neotropical Migratory Bird Conservation	13,790
15.650	Research Grants (Generic)	11,270
15.663	National Fish and Wildlife Foundation	41,000
15.805	Assistance to State Water Resources Research Institutes	11,454
15.812	Cooperative Research Units Program	11,081
15.904	Historic Preservation Fund Grants-In-Aid	105,784
15.916	Outdoor Recreation_Acquisition, Development and Planning	140,112
15.945	Cooperative Research and Training Programs - Resources of the National Park System	20,081
15.999	Miscellaneous Non-Major Grants	19,574
16.017	Sexual Assault Services Formula Program	227,966
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	289,376
16.575	Crime Victim Assistance	1,694,420
16.588	Violence Against Women Formula Grants	713,502
16.593	Residential Substance Abuse Treatment for State Prisoners	50,135
16.727	Enforcing Underage Drinking Laws Program	28,373
16.738	Edward Byrne Memorial Justice Assistance Grant Program	758,429
17.235	Senior Community Service Employment Program	593,228
17.258	WIA Adult Program	465,890
17.259	WIA Youth Activities	1,517,769
17.278	WIA Dislocated Worker Formula Grants	465
17.282	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	10,290
19.415	Professional and Cultural Exchange Programs - Citizen Exchanges	75,470
20.200	Highway Research and Development Program	153,696
20.205	Highway Planning and Construction	11,252,068
20.219	Recreational Trails Program	1,311,883
20.500	Federal Transit_Capital Investment Grants	20,157
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	347,605
20.509	Formula Grants for Rural Areas	9,121,796
20.513	Enhanced Mobility of Seniors and Individuals with Disabilities	823,421
20.515	State Planning and Research	16,540
20.516	Job Access And Reverse Commute Program	94,628
20.520	Paul S. Sarbanes Transit in the Parks	44,923
20.526	Bus and Bus Facilities Formula Program	181,513

CFDA #	Program Title	Amount Provided to Subrecipients
20.600	State and Community Highway Safety	177,974
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	39,098
20.611	Incentive Grant Program to Prohibit Racial Profiling	4,999
20.616	National Priority Safety Programs	840,381
20.701	University Transportation Centers Program	174,348
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	57,369
43.001	Science	350,591
43.008	Education	113,055
43.009	Cross Agency Support	254,073
45.025	Promotion of the Arts_Partnership Agreements	332,708
45.312	National Leadership Grants	18,550
47.041	Engineering Grants	3,748
47.050	Geosciences	519,869
47.074	Biological Sciences	1,319,147
47.076	Education and Human Resources	199,121
47.079	Office of International and Integrative Activities	328,339
47.081	Office of Experimental Program to Stimulate Competitive Research	-18,697
66.951	Environmental Education Grants	2,950
81.049	Office of Science Financial Assistance Program	556,898
81.089	Fossil Energy Research and Development	5,727,789
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	171,598
81.999	Miscellaneous Non-Major Grants	34,500
84.002	Adult Education - Basic Grants to States	984,712
84.010	Title I Grants to Local Educational Agencies	44,221,655
84.011	Migrant Education_State Grant Program	1,136,007
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	112,426
84.027	Special Education_Grants to States	34,671,226
84.048	Career and Technical Education -- Basic Grants to States	3,175,128
84.133	National Institute on Disability and Rehabilitation Research	17,600
84.144	Migrant Education_Coordination Program	102,500
84.173	Special Education_Preschool Grants	1,100,019
84.196	Education for Homeless Children and Youth	139,292
84.287	Twenty-First Century Community Learning Centers	5,285,403
84.323	Special Education - State Personnel Development	79,673
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	1,880,744
84.358	Rural Education	383,227
84.365	English Language Acquisition State Grants	397,710
84.366	Mathematics and Science Partnerships	925,172
84.367	Improving Teacher Quality State Grants	10,555,651
84.371	Striving Readers	6,288,647
84.377	School Improvement Grants	668,206
84.378	College Access Challenge Grant Program	9,443
93.041	Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	34,660
93.042	Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	115,847
93.043	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	98,429
93.044	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	1,469,663
93.045	Special Programs for the Aging_Title III, Part C_Nutrition Services	2,846,566
93.048	Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	15,174
93.052	National Family Caregiver Support, Title III, Part E	830,737
93.053	Nutrition Services Incentive Program	884,409
93.058	Food and Drug Administration_Research	120,393
93.071	Medicare Enrollment Assistance Program	96,974
93.072	Lifespan Respite Care Program	45,698
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	2,522,305
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	129,650
93.107	Area Health Education Centers Point of Service Maintenance and Enhancement Awards	505,488
93.110	Maternal and Child Health Federal Consolidated Programs	57,403
93.113	Environmental Health	298,075
93.127	Emergency Medical Services for Children	104,592
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	65,000
93.136	Injury Prevention and Control Research and State and Community Based Programs	98,553
93.150	Projects for Assistance in Transition from Homelessness (PATH)	228,144
93.155	Rural Health Research Centers	62,221
93.165	Grants to States for Loan Repayment Program	70,897
93.213	Research and Training in Complementary and Alternative Medicine	37,638
93.217	Family Planning_Services	1,643,368
93.236	Grants to States to Support Oral Health Workforce Activities	471,772
93.241	State Rural Hospital Flexibility Program	573,626

CFDA #	Program Title	Amount Provided to Subrecipients
93.242	Mental Health Research Grants	49,153
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	1,702,943
93.268	Immunization Cooperative Agreements	245,417
93.283	Centers for Disease Control and Prevention_Investigations and Technical Assistance	1,002,391
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	128,048
93.301	Small Rural Hospital Improvement Grant Program	212,448
93.324	State Health Insurance Assistance Program	395,261
93.433	ACL National Institute on Disability, Independent Living, and Rehabilitation Research	93,343
93.452	Health Improvement for Re-entering Ex-offenders Initiative (HIRE) HIV/AIDS	562,400
93.464	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	9,925
93.500	Pregnancy Assistance Fund Program	705,978
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	1,371,181
93.507	PPHF National Public Health Improvement Initiative	24,392
93.531	PPHF - Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by Prevention and Public Health Funds	223,388
93.536	The Affordable Care Act Medicaid Incentives for Prevention of Chronic Disease Demonstration Project	7,135
93.539	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance Financed in Part by Prevention and Public Health Funds	71,650
93.556	Promoting Safe and Stable Families	472,665
93.558	Temporary Assistance for Needy Families	2,879,074
93.566	Refugee and Entrant Assistance_State Administered Programs	14,176
93.568	Low-Income Home Energy Assistance	990,033
93.575	Child Care and Development Block Grant	4,938,573
93.586	State Court Improvement Program	22,928
93.590	Community-Based Child Abuse Prevention Grants	181,913
93.597	Grants to States for Access and Visitation Programs	97,412
93.599	Chafee Education and Training Vouchers Program (ETV)	166,062
93.630	Developmental Disabilities Basic Support and Advocacy Grants	470,931
93.652	Adoption Opportunities	62,332
93.658	Foster Care_Title IV-E	2,642,679
93.667	Social Services Block Grant	28,497
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	819,281
93.674	Chafee Foster Care Independence Program	573,998
93.757	State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	2,864
93.758	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	460,855
93.767	Children's Health Insurance Program	1,852,416
93.778	Medical Assistance Program	10,283,618
93.824	Area Health Education Centers Infrastructure Development Awards	-47,622
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	18,785
93.859	Biomedical Research and Research Training	1,190,761
93.865	Child Health and Human Development Extramural Research	2,876
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	3,737
93.917	HIV Care Formula Grants	1,258,919
93.940	HIV Prevention Activities_Health Department Based	681,597
93.945	Assistance Programs for Chronic Disease Prevention and Control	2,807,581
93.958	Block Grants for Community Mental Health Services	406,641
93.959	Block Grants for Prevention and Treatment of Substance Abuse	887,342
93.969	PPHF Geriatric Education Centers	22,946
93.991	Preventive Health and Health Services Block Grant	-169,895
93.994	Maternal and Child Health Services Block Grant to the States	1,039,632
94.006	AmeriCorps	2,623,262
94.007	Program Development and Innovation Grants	8,670
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	2,948,380
97.039	Hazard Mitigation Grant	750,353
97.042	Emergency Management Performance Grants	1,804,499
97.046	Fire Management Assistance Grant	19,481
97.047	Pre-Disaster Mitigation	372,719
97.052	Emergency Operations Center	715,000
97.067	Homeland Security Grant Program	5,274,106
97.120	Border Interoperability Demonstration Project	1,382,124
	Total	**301,160,835**

Note 11. Federal Awards not having a CFDA Number

The following schedule contains contract or grant numbers associated with awards that did not have a CFDA number and were assigned a XX.999 number in the Schedule of Expenditures of Federal Awards. Not all XX.999 awards reported on the SEFA had a grant or contract number. Also refer to Note 3.

Schedule of Unknown Federal CFDA Numbers (XX.999)

Federal Agency	State Agency	Contract or Grant Number	Amount
Department of Agriculture (10)			
	Montana State University - Bozeman	13-CS-11015600-057	1,202
	Montana State University - Bozeman	58-0510-4-039 N 7600043373	22,255
	University of Montana - Montana Tech	05-CS-11010800-010	14,274
	University of Montana - Montana Tech	65-0325-09-034	3,223
	University of Montana - Montana Tech	12-CS-11015600-054	4,000
Department of Defense (12)			
	University of Montana - Missoula	W9128F-14-2-0002, TO 0001	1,558,005
	University of Montana - Missoula	W9128F-14-2-0002, TO 0002	115,513
	University of Montana - Missoula	P010200731	5,284
Department of Education (84)			
	Office of Public Instruction	ED-IES-14-C-00X6	143,757
Department of Energy (81)			
	Department of Environmental Quality		49,178
	University of Montana - Montana Tech	DE-AC07-05ID14517	11,606
	University of Montana - Montana Tech	CR19476-429182	1,171
	University of Montana - Montana Tech	60312	107,768
	University of Montana - Montana Tech	1340328	120,472
	University of Montana - Montana Tech	1440479	33,161
	University of Montana - Montana Tech	DE-EE0002850	10,666
	University of Montana - Montana Tech	1562069	36,447
Department of Health and Human Services (93)			
	Department of Public Health and Human Services	BHSIS STATE AGREEMENTw SAMSHA	123,377
	Department of Public Health and Human Services	CPSCW130023-CONSUMER PRODUCT SAFETY	1,915
	Department of Public Health and Human Services	DASIS STATE AGREEMENT W SAMSHA	16,621
	Office of Public Instruction	HHS-N-276-2011-00008-C	3,710
	University of Montana - Missoula		28,136
	University of Montana - Montana Tech	211-2014-59580	52,097
	University of Montana - Montana Tech	15IPA1518046	1,254
Department of State (19)			
	University of Montana - Missoula	USIEF/OSI/2012/04	64,251
Department of the Interior (15)			
	University of Montana - Missoula	P13AC00618	42,921
	University of Montana - Missoula	PO #R14PX00371	9,473
	University of Montana - Montana Tech	H1580070001	2,580
	University of Montana - Montana Tech	H1200090004	8,845
	University of Montana - Montana Tech	P13AC01303	769
	University of Montana - Montana Tech	P13AC00350	31,396
	University of Montana - Montana Tech	P14AC00408	160,585
	University of Montana - Montana Tech	P13AC01383	23,000
Department of Treasury (21)			
	Department of Administration		23
	Department of Commerce	PL110-161:95X1350	87,371
National Aeronautics and Space Administration (43)			
	University of Montana - Missoula	NNX10AH57G	33,210
	University of Montana - Missoula	NNX11AF18G	195,975
	University of Montana - Missoula	1368208	111
	University of Montana - Missoula	1422120	117,917
	University of Montana - Missoula	E99044MO	26,584
Miscellaneous Federal Award (99)			
	Judicial Branch	SJI-14T-021	25,590
	Judicial Branch	SJI-15T-039	17,680

FY14 FINANCIAL SECTION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the state of Montana's basic financial statements and have issued our report thereon dated May 13, 2015. Our report includes adverse opinions on the Governmental and Business-Type Activities opinion units and qualifications on the Aggregate Discretely Presented Component Units and Remaining Fund Information. Our report includes a reference to other auditors who audited the financial statements of the Montana State University component units and University of Montana component units, as described in our report on the state of Montana's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Montana State University component units and University of Montana component units were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the state of Montana's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the state of Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of the state of Montana's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the state of Montana's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The identified instances of noncompliance are described below:

1. The Public Employees' Retirement Board administers eight defined benefit retirement systems. The Montana Constitution and state law require these systems to be actuarially sound. The actuarial valuation as of June 30, 2014, indicates the Sheriffs', Highway Patrol Officers', and Game Wardens' and Peace Officers' retirement systems are not actuarially sound.

State of Montana's Response to Findings

The state of Montana's response to the findings identified in our audit are described in the separately issued Department of Administration audit report (14-13), Public Employees' Retirement Administration audit report (14-08A), the state of Montana's financial audit report (14-01B), and are addressed in the Corrective Action Plan beginning on page D-1 of this report. The state's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the state's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

May 13, 2015

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction
We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2014, and the related notes which collectively comprise the State's basic financial statements, as follows:

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

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

Auditor's Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State University (MSU) component units and

the University of Montana (UM) component units, which represent 11.65, 26.97, and 6.35 percent, respectively of the assets, net position, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the university component units, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The MSU and UM component units were not audited in accordance with *Government Auditing Standards*.

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

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

Summary of Opinions

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

Basis for Adverse Opinions

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

The following identifies the misstatements:

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

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

Adverse Opinions

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

Basis for Qualified Opinions

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

Statement of Net Position	**(Under)/Overstated**
Component Unit Column	
Long-term liabilities	$45 million
Net position	($45 million)

Note 18A – Condensed Financial Statements	
Montana State Fund Column	
Long-term liabilities	$45 million
Net position	($45 million)

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

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

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

Qualified Opinions

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position as of June 30, 2014, and the results of operations of the Aggregate Discretely Presented Component Units and Aggregate Remaining Fund Information of the state of Montana for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund, State Special Revenue Fund, Federal Special Revenue Fund, Land Grant, Coal Severance Tax, Unemployment Insurance, and Economic Development Bonds major funds for the state of Montana, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

At June 30, 2014, the Game Wardens' and Peace Officers', Highway Patrol Officers', and Sheriffs' retirement systems were not actuarially sound. The Unfunded Actuarial Accrued Liability amortization period is infinite for the Game Wardens' and Peace Officers' and Sheriffs' retirement systems. The amortization period for the Highway Patrol Officers' Retirement System is 30.3 years. The maximum allowable amortization period is 30 years.

Other Matters

Required Supplementary Information

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

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

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

Old Fund Estimated Liabilities

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

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

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local government, and Non-Profit organizations, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2015, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the state of Montana's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

May 13, 2015

The State of Montana's Basic Financial Statements,Required Supplementary Information, and Schedule of Expenditures of Federal Awards

MANAGEMENT’S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana (State) provides this *Management’s Discussion and Analysis* of the State of Montana’s basic financial statements included in the Comprehensive Annual Financial Report (CAFR). This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State’s financial statements, which follow.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights
The assets and deferred outflows of resources of the State exceeded its liabilities and deferred inflows of resources at the end of fiscal year 2014 by $9.0 billion (reported as net position) compared with $8.2 billion at the end of fiscal year 2013. Of this amount, $1.4 billion may be used to meet the government’s general obligations to citizens and creditors. Component units reported net position of $1.7 billion for 2014 and $1.6 billion for 2013. These are discussed in more detail in the financial statement overview below.

Fund Highlights
As of the close of fiscal year 2014, the State’s governmental funds reported combined ending fund balances of $4.1 billion compared with $4.0 billion at fiscal year 2013. Of this amount, $1.5 billion is not in spendable form, primarily as permanent fund principle. Thus, $2.6 billion is available for spending. The fund balance in spendable form is segregated by constraint as follows: $1,050.0 million restricted, $1,107.7 million committed, $104.8 million assigned and $344.4 million unassigned. These changes are discussed in more detail in the financial analysis of the State’s major funds presented below.

The State’s business-type activity funds reported net position at the close of fiscal year 2014 in the amount of $330.2 million compared with the fiscal year-end 2013 net position of $284.7 million. Of the 2014 business-type activity fund equity $16.3 million was reported as net investment in capital assets. $313.9 million of net position was in spendable form with $18.9 million unrestricted and $295.0 million restricted to expenditure for a specific purpose. This represents a $45.5 million (16%) increase in spendable net position from the fiscal year-end 2013 balance of $269.8 million. These changes are discussed in more detail in the financial analysis of the State’s major funds presented below.

Long-term Debt
The State’s total governmental activity bonds and notes payable for governmental activities decreased by $22.9 million, from $296.8 million in fiscal year 2013 to $273.9 million, a 7.7% decrease in fiscal year 2014.

Business-type activities reported bonds and notes payable of $0 at fiscal year-end 2014. This represents a decrease of $70 thousand (100%) over the fiscal year-end 2013 reported amount of $70 thousand.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements
The basic financial statements include two kinds of financial statements that present different views of the State – the 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, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Over time, increases or decreases in the State's net position may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

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

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

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

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

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

Fund Financial Statements (Reporting the State's Major Funds)
A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

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

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

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

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

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

Required Supplementary Information
The basic financial statements are followed by a section of required supplementary information. This section contains a budgetary comparison schedule, which includes the reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund and major special revenue funds, as presented in the governmental fund financial statements. RSI also includes the schedule of funding progress for the pension 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. A sign of the improvement is evidenced by the net increase of $759 million in the State's combined net position from FY13.

Net Position
As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The State's combined net position (government and business-type activities) totaled $9.0 billion at the end of fiscal year 2014. Net position of the governmental activities increased $713 million (9%), and business-type activities experienced a $46 million (16%) increase. These changes are explained in detail in the major fund analysis below.

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

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

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

Net Position
June 30, 2014
(expressed in thousands)

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

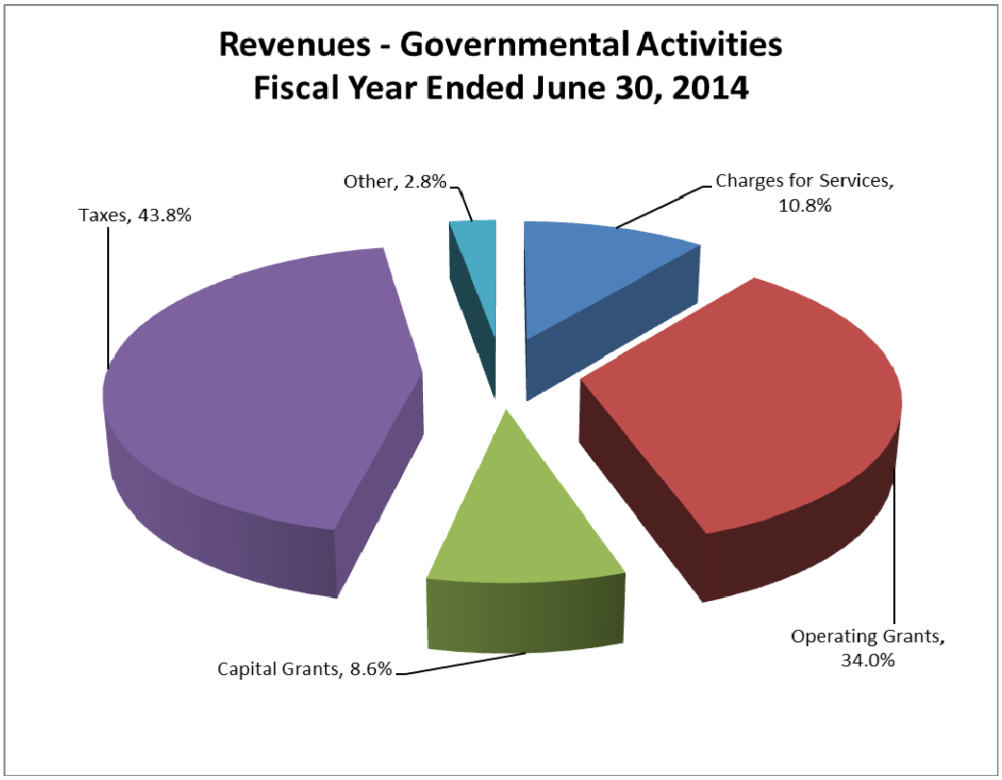
The following condensed financial information was derived from the government-wide Statement of Activities, and reflects how the State's net position changed during the fiscal year:

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

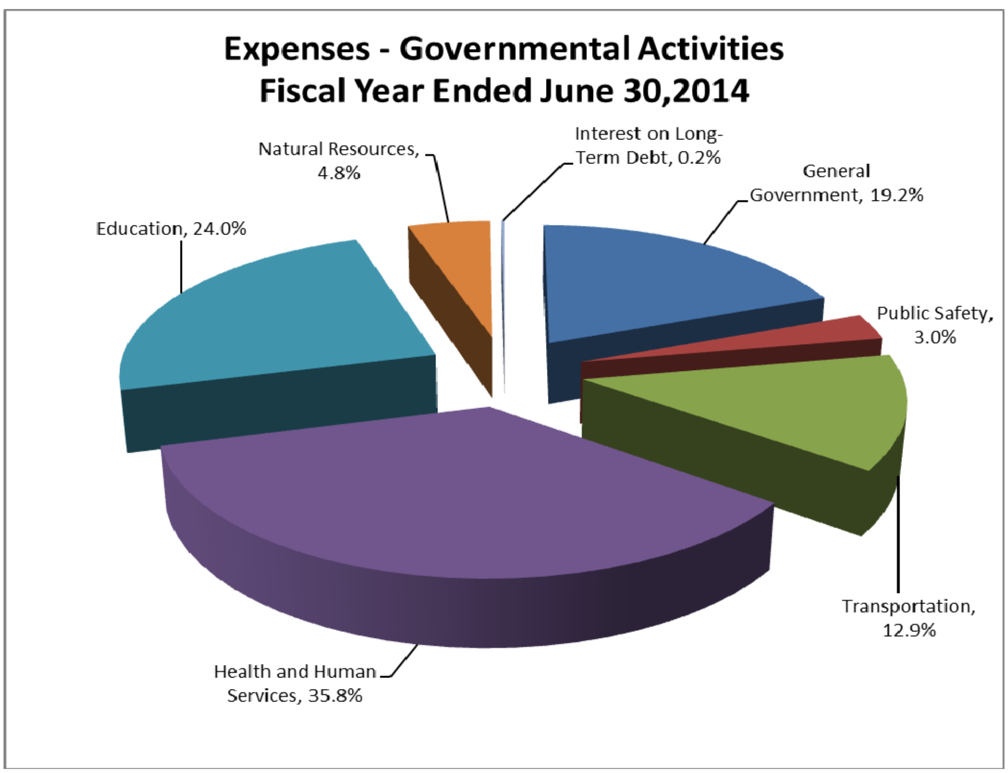
	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2014	2013	2014	2013	2014
Revenues:						
Program revenues						
Charges for services	$ 564,714	$ 578,819	$ 414,024	$ 426,471	$ 978,738	$ 1,005,290
Operating grants	1,780,611	1,823,987	96,590	64,982	1,877,201	1,888,969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

Governmental Activities

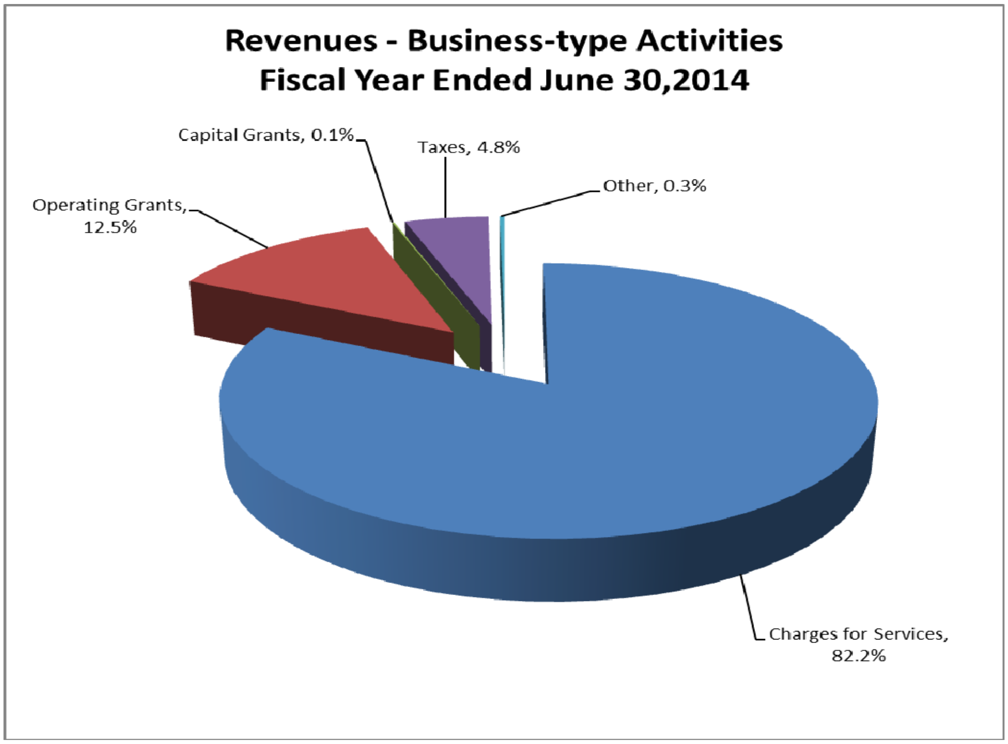
The following chart depicts revenues of the governmental activities for the fiscal year:



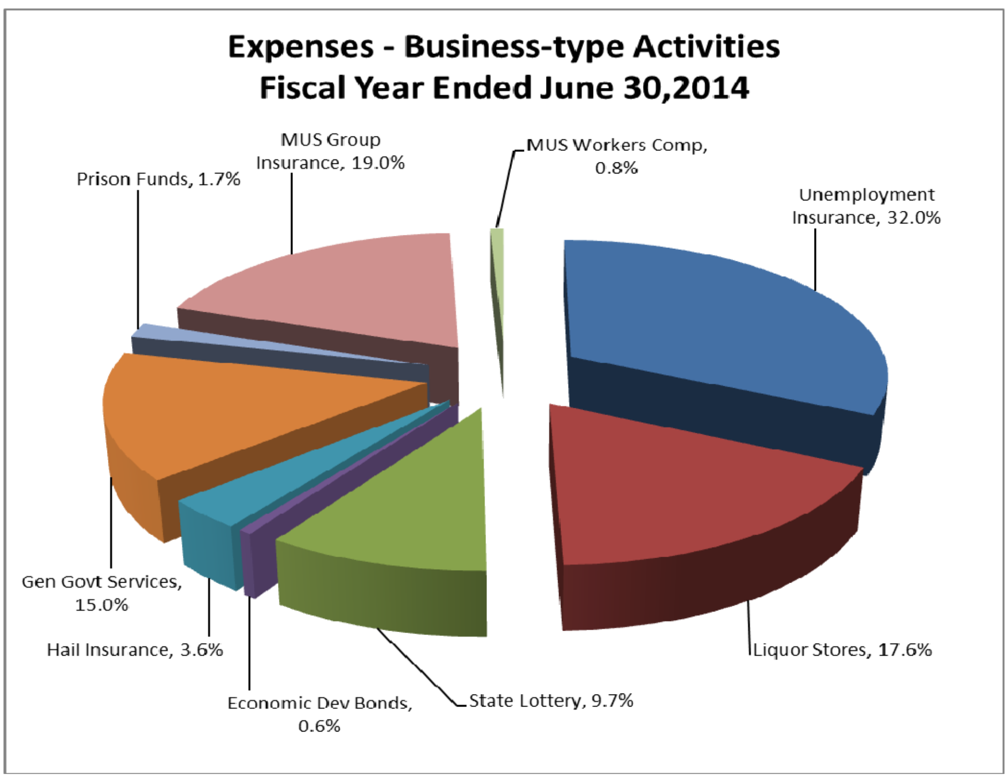
The following chart depicts expenses of the governmental activities for the fiscal year:



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



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



FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS

As the State completed the year, its governmental funds reported fund balances of $4.1 billion. Of this total amount, $2.6 billion (63%) constitutes spendable fund balance and $1.5 billion (37%) is classified as non-spendable. The analysis of the following major funds, providing the majority of the fund balance for the government, follows.

General Fund Revenues and Expenditures

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

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

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

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

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

General Fund Expenditure Budget Reversions

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

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

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

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

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

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

The remaining unspent appropriation of $2.0 million was attributable to miscellaneous reversions across other business units.

State Special Revenue Fund
At the end of the current fiscal year, the fund balance of the State Special Revenue Fund was $1.5 billion. The fund balance remained increased from fiscal year 2013 by $29 million or 2%. Total revenue increased by $57 million (7%) with expenditures increasing by $58 million (6%) for fiscal year 2014.

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

Federal Special Revenue Fund
Fund balance in the Federal Special Revenue Fund decreased by $4.9 million (25%) to $14.7 million. Revenues increased by $62.3 million (3%), expenditures increased by $40.8 million (2%), and transfers out increased by $15.8 million (60%). Because most federal programs are expenditure-driven, a direct correlation normally exists between revenues/transfers in and expenditures/transfers out. For the fiscal year increased expenditure and transfers out levels resulted in the overall decrease in fund balance. Programs such as Guaranteed Student Loan, Livestock Shell/Egg and some within the Fish Wildlife and Parks and Crime Control agencies are allowed to carry assets in their federal entities, creating a normal overall positive balance for the fund as a whole.

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

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

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounted to $7.3 billion, with related accumulated depreciation of $2.1 billion, leaving a net book value of $5.2 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was $0.3 billion or 7% in terms of net book value. Most increases in capital expenditures were seen in construction, or reconstruction, of roads and bridges. Additional information relating to the State's capital assets can be found in Note 5 of the notes to the financial statements.

Debt Administration

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

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

The State of Montana's general obligation debt decreased from $139.6 million at June 30, 2013 to $127.8 million at June 30, 2014. $5.2 million of cash is available in debt service funds to service general obligation debt leaving a balance of $122.6 million in net general obligation debt outstanding.

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

	Amount *(in thousands)*	**Percentage of Personal Income (1)**	**State Debt Per Capita (2)**
General obligation debt	$127,840	0.28%	$109
Total State debt	$265,171	0.70%	$270

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

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

ECONOMIC CONDITION AND OUTLOOK

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

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

The 63nd Legislative Session adjourned in late April 2013. Upon adjournment, it was anticipated that for the biennium, general fund revenue would be approximately $4,966 million while general fund expenditures would be approximately $4,330 million, thereby leaving an estimated general fund balance of approximately $298 million at the end of fiscal year 2015.

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

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

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

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

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

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

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

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

The Montana Constitution, Article VIII, Section 15 states that public retirement systems shall be funded on an actuarially sound basis. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is less than 30 years. As of June 30, 2014, the Sheriffs Retirement System (SRS), Game Warden & Peace Officers Retirement System (GWPORS), and Highway Patrol Officers' Retirement System (HPORS) were not in compliance and do not amortize within 30 years. The unfunded liabilities in the other state retirement systems amortize in less than 30 years as of fiscal year end 2014.

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

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Montana's finances for all of Montana's citizens, taxpayers, customers, investors, and creditors. The financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the State of Montana, State Accounting Bureau, Room 255 Mitchell Building, PO Box 200102, Helena, MT 59620.

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

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

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

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(amounts expressed in thousands)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(D) Other measurement focus adjustments include:

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

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(amounts expressed in thousands)

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

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

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(amounts expressed in thousands)

	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	$ 302,824	$ -	$ -	$ -	$ 7	$ 302,831
Taxes:	-					
Natural resource	334,026	-	-	-	184	334,210
Individual income	1,038,284	-	-	-	6,544	1,044,828
Corporate income	148,474	-	-	-	(3,434)	145,040
Property	267,029	-	-	-	-	267,029
Fuel	216,615	-	-	-	-	216,615
Other	340,027	-	-	-	96	340,123
Charges for services/fines/forfeits/settlements	202,912	-	-	-	(18,591)	184,321
Investment earnings	141,734	1,007	-	-	(33,987)	108,754
Securities lending income	927	-	-	-	(927)	-
Sale of documents/merchandise/property	21,836	-	-	-	-	21,836
Rentals/leases/royalties	76,824	-	-	-	-	76,824
Contributions/premiums	23,206	-	-	-	16	23,222
Insurance proceeds	1,302	-	-	-	17	1,319
Gain (loss) on sale of capital assets	-	-	2,125	-	-	2,125
Operating grants and donations	30,324	-	-	-	48,970	79,294
Federal	2,086,310	-	-	-	(452,195)	1,634,115
Federal indirect cost recoveries	110,981	-	-	-	-	110,981
Capital grants and contributions	-	-	-	-	460,814	460,814
Other revenues	4,483	-	-	-	225	4,708
Total revenues	5,348,118	1,007	2,125	-	7,739	5,358,989
EXPENDITURES						
Current	4,827,666	29,729	184,391	-	(18,063)	5,023,723
Debt service:						
Principal	33,617	-		(33,617)	-	-
Interest/fiscal charges	12,810	66		(2,116)	-	10,760
Capital outlay	457,306	-	(457,306)	-		-
Securities lending	142	-	-	-	(142)	-
Total expenditures	5,331,541	29,795	(272,915)	(35,733)	(18,205)	5,034,483
Excess of revenue over (under) expenditures	16,577	(28,788)	275,040	35,733	25,944	324,506
OTHER FINANCING SOURCES (USES)						
Inception of lease/installment contract	324	-	-	(324)	-	-
General capital asset sale proceeds	1,840	-	(1,840)	-	-	-
Refunding bonds issued	6,780	-	-	(6,780)	-	-
Payment to refunding bond escrow agent	(7,190)	-	-	7,190	-	-
Bond premium	662	-	-	(662)	-	-
Bond proceeds	11,680	-	-	(11,680)	-	-
Energy conservation loans	169	-	-	(169)	-	-
Transfers	44,435	3,428	-	-	-	47,863
Total other financing sources (uses)	58,700	3,428	(1,840)	(12,425)	-	47,863
Net change in net position	$ 75,277	$ (25,360)	$ 273,200	$ 23,308	$ 25,944	$ 372,369

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

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

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

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

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

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

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

(D) Other measurement focus adjustments include;

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

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

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

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

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

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(amounts expressed in thousands)

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

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

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

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

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

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

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

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

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

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(amounts expressed in thousands)

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

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Montana State Fund (State Fund) component unit presentation included in this report differs from the statements issued by that entity. Following the guidance set forth in GASB Statement No. 70, as implemented for fiscal year 2014, we believe that the general fund is providing a nonexchange financial guarantee to State Fund by providing resources from which State Fund pays claims related to Old Fund.

State Fund is defined in statute as a single separate legal entity. State Fund is a single legal entity that meets GASB statement 14 and 61 requirements to be reported as a discretely presented component unit of the State of Montana. State Fund handles all administration of the claims including: determining who a claimant is; what, if any, claims will be paid; and the amount of claims allowed to be paid.

The Montana State Fund column, as reported in the CAFR, includes both New Fund and Old Fund financial information; whereas the financial statements as presented by State Fund only include New Fund activity. Per 39-71-2321 MCA, State Fund is required to track the Old Fund and New Fund claims separately. The account name “Old Fund” is used to represent claims that occurred before July 1, 1990 and the account name “New Fund” is used to represent claims that occurred beginning July 1, 1990.

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

A. Reporting Entity

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

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

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

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

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

Facilities Financial Authority 2401 Colonial Drive, 3rd Floor PO Box 200506 Helena, MT 59620-0506	Universities and Colleges Commissioner of Higher Education 2500 Broadway Street Helena, MT 59620-3201

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

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

Montana State Fund (New Fund and Old Fund) - New Fund and Old Fund are one legally separate entity, thus a single component unit with separate accounting funds. The Montana State Fund column, as reported in the CAFR, includes both New Fund and Old Fund financial information. Montana State Fund is a nonprofit, independent public corporation governed by a board of directors appointed by the Governor. State Fund is audited annually by the State's Legislative Audit Division. New Fund provides workers compensation insurance for claims incurred after June 30, 1990, and is financed by member (employer) premiums.

Old Fund covers worker compensation claims that were incurred before July 1, 1990. Administrative operations and budgets may be reviewed by the Governor and the Legislature, but they have no authority over budgets or costs. In any fiscal year that Old Fund claims are not adequately funded, any amount necessary to pay claims must be transferred from the general fund to Old Fund. For the fiscal year ended June 30, 2014, the general fund was required to transfer $8.6 million to the Montana State Fund to support their activities to settle Old Fund claims.

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

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

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

Fiduciary Fund Component Units

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

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

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

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

The Public Employees' Retirement System (PERS) includes the Public Employees' Defined Benefit Retirement Plan and the Public Employees' Defined Contribution Retirement Plan, and is funded by member and employer contributions, investment earnings and contributions from the State General Fund. The Judges' Retirement System is funded by member and state employer contributions, and investment earnings. The Highway Patrol Officers' Retirement System is funded by member and state employer contributions, state contributions, and investment earnings. The Sheriffs' Retirement System is funded by member and employer contributions, and investment earnings. The Game Wardens' and Peace Officers' Retirement System is funded by member and employer contributions, and investment earnings. The Municipal Police Officers' Retirement System is funded by member and employer contributions, State General Fund contributions, and investment earnings. The Firefighters' Unified Retirement System is funded by member and employer contributions, and investment earnings, as well as State General Fund contributions from a portion of insurance premium taxes collected by the State of Montana. The Volunteer Firefighters' Compensation Act is funded by state contributions, from the State General Fund, which are a percentage of fire insurance premium taxes collected. The State of Montana Deferred Compensation Program is funded by member contributions and investment earnings. The State and thirty-five non-state entity employers contribute to the 457 Plan on behalf of their employees. The OPEB disablility plan is funded through an employer contribution of 0.3% of a member's compensation. The PERS also accounts for the administrative costs, paid from investment earnings, of the plan. These are allocated out to all plans.

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

B. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects. (1) The State Special Revenue Fund (SSRF) accounts for activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function. Several funds are defined in statute as Permanent Funds, however per GASB 54 these funds should be reported within the SSRF. The respective effect on fund balance is $75 million increase. (2) The Federal Special Revenue Fund accounts for activities funded from federal sources used in the operation of state government.

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

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

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

Proprietary Funds

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

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

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

Fiduciary Funds

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

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

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

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

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

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

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

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

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

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

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

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

D. Proprietary Activity Accounting and Financial Reporting

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

E. Cash/Cash Equivalents

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. For 2014, certain investments in STIP were reclassified as long-term investments. Further detail relating to cash and cash equivalents is provided in Note 3.

F. Receivables

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

G. Inventories

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

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

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

H. Restricted Net Position

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

I. Equity in Pooled Investments

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

J. Investments

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

K. Capital Assets

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

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

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

L. Deferred Outflows, Deferred Inflows, and Unearned Revenue

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

A portion of deferred inflows of resources in the government-wide, proprietary fund and fiduciary fund financial statements relate to unearned revenue. Unearned revenue in the governmental fund financial statements relates to both unearned and unavailable revenue. A liability for unavailable revenue is recorded when assets are recognized in connection with a transaction, but those assets are not considered available to finance expenditures of the current fiscal period.

M. Long-term Obligations

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

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

N. Capital Leases

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

O. Bond Discounts/Premiums/Issuance Costs

Bond premiums and discounts, as well as issuance costs, are recognized in the current period for governmental funds in the fund financial statements. Bond proceeds and bond premiums are reported as an other financing source, and bond discounts are reported as another financing use. Issuance costs are reported as debt service expenditures whether or not they are withheld from the bond proceeds. Bonds payable are recorded net of any applicable premium or discount. Further detail related to Long-term Debt is provided in Note 11.

P. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 80 hours of sick or annual leave to a nonrefundable sick leave pool. Excess annual leave that is being forfeited can also be contributed, with no maximum contribution. Based on a review, the adjusted ending balance of the pool for June 30, 2013, was 21,696 hours. For fiscal year 2014, 1,210 sick leave hours, 200 annual leave hours, and 2,721 excess annual leave hours were contributed to the sick leave pool, and 3,814 hours were withdrawn, leaving a balance of 22,013 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to contributors, except by grants approved through an application process.

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

Q. Nonexchange Financial Guarantee

Per GASB Statement 70, governments may extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements.

R. Fund Balance/Net Position

Fund Balance

The classifications for fund balance used for governmental funds are reported in two general classifications, nonspendable and spendable.

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

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

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

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Assignments of fund balance are created by the executive branch. An example of an assignment is money deposited into an account within the State Special Revenue fund by management and later appropriated by the legislature. The revenue source is not restricted or committed by legislation but is assigned by executive branch management and later appropriated by the legislature for a specific purpose. In governmental funds other than the general fund, assigned fund balance also represents the remaining amount that is not restricted or committed. The assigned fund balance for the general fund are encumbrances and assignments for the portion of current general fund balance that is projected to be used to fund expenditures and other cash outflows in excess of the expected revenues and other cash inflows in fiscal years as needed. Based on the Governor's budget proposal, the FY14 ending fund balance will be spent down by $80 million when comparing the FY14 actual to FY15 enacted/proposed budget. This represents management's intention to fund supplementals and other one-time-only expenditures.

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

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

Minimum General Fund - Fund Balance

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

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

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

Net Position

In funds other than governmental, net position represent the difference between assets and liabilities. The net investment in the capital assets portion of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide Statement of Net Position reported restricted net position of $3.0 billion.

S. Property Taxes

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

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

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

T. Other Taxes

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

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

U. Service Concession Arrangements

A Service Concession Arrangement (SCA) is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and the operator collects and is compensated by fees from a third party. No material service concession arrangements were found.

NOTE 2. OTHER ACCOUNTING ISSUES

A. New Accounting Guidance Implemented

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

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

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

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

B. Prior Period Adjustments

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

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

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

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

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

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

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

A. General

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

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

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

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

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 International Equity Pool (MTIP)	06/01/96	Nine Retirement Funds Only
Montana Private Equity Pool (MPEP)	05/01/02	Nine Retirement Funds Only
Montana Real Estate Pool (MTRP)	06/01/06	Nine Retirement Funds Only
Short Term Investment Pool (STIP)	07/01/74	All State Funds and Local Governments
All Other Funds (AOF) Investments Managed	NA	Non-Pool State Agency Investments

Separately issued external investment pool financial statements may be obtained by contacting:

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

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

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

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

State agencies that are allowed to retain their interest earnings within their funds are required to invest in STIP. Local government participation in STIP is voluntary.

(2) Investment securities are reported by investment portfolio and type in Table 2–Cash Equivalents, Table 3–Equity in Pooled Investments, and Table 4–Investments. The public equity Pools may include common stock, equity index shares, preferred stock, convertible equity securities, American Depositary Receipts (ADR), equity derivatives, and commingled funds. The MDEP portfolio is limited to domestic stock investments, while the MTIP portfolio includes holdings of securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges as depositary receipts. The MTIP portfolio invests in both developed and emerging markets. The MPEP portfolio includes venture capital, leveraged buyout, mezzanine, distressed debt, special situation, and secondary investments. The MTRP portfolio includes investments in private core, value-added, and opportunistic real estate. The STIP portfolio may include asset-backed securities, commercial paper, corporate, U.S. Government direct obligations, U.S. Government agency securities, repurchase agreements, institutional money market funds, certificates of deposit, and variable-rate (floating-rate) instruments. The State also invests in cash equivalents to provide a diversified investment portfolio and an overall competitive rate of return.

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

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

Convertible securities permit the holder to exchange, or "convert" the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer's common stock. ADR investments are receipts issued by a US 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.

These investments are made via limited partnership agreements in which BOI and other institutional investors invest as limited partners in funds managed by a general partner. These investments are riskier with higher potential return than public equity investments, and are less liquid because the funds are usually committed for at least ten years. Because of the risk and illiquidity, these investments are limited to sophisticated investors only.

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

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

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

During fiscal year 2014, the Bank lent BOI public securities and received as collateral: US dollar cash; US Government and government sponsored agency securities; US corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the G10 nations; and debt securities issued by certain supranational agencies. The Bank does not have the ability to sell collateral securities unless the borrower defaults.

BOI imposed no restrictions on the amount of securities available to lend during fiscal year 2014. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of default of the borrower. There were no losses during fiscal year 2014 resulting from a borrower default.

During fiscal year 2014, BOI and the borrowers maintained the right to terminate all securities lending transactions on notice. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment fund comprised of a liquidity pool and a duration pool. As of June 30, 2014, the Quality D Short Term Investment Fund (STIF) liquidity pool had an average duration of 37 days and an average weighted final maturity of 104 days for US dollar collateral. The duration pool had an average duration of 42 days and an average weighted final maturity of 1,770 days for US dollar collateral. As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of 41 days and an average weighted final maturity of 114 days for US dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 548 days for US dollar collateral. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. At year-end 2014, BOI's credit risk exposure to borrowers was indemnified by State Street Bank. The private equity and real estate pools do not participate in securities lending.

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

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of US Government securities, the pools' fixed income instruments have credit risk as measured by major credit rating services. This is the risk that the issuer of a fixed income security may default with regard to the timely payment of interest and principal. BOI policy requires TFIP fixed income investments "be rated investment grade securities (Baa3/BBB- or higher) with the exception up to 10% of the pool may be invested in below investment grade securities. Credit risk for the internal and external managers for the RFBP is detailed as follows:

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

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

1. limiting investments to Permissible Securities on the Approved List
2. prequalifying the financial institutions, brokers/dealers, intermediaries and advisers with whom the STIP will conduct business; and
3. diversifying the portfolio so potential losses on individual securities will be minimized."

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

Neither the MTIP, MDEP or MTRP investment policies address credit risk for the MTIP and MDEP external managers' cash equivalents investment in custodial bank's Short Term Investment Fund (STIF) or the MTRP STIP investment. As of June 30, 2014, the MTIP STIF balance was $5,748,968, while the MDEP STIF balance was $34,685,311. The June 30, 2014, MTRP STIP investment totaled $15,012,213. The STIF and STIP cash equivalent funds have not been rated by a NRSRO. One MDEP manager has a $227,075 cash equivalent investment as of June 30, 2014 in the T. Rowe Price Reserve Investment Fund with an average credit rating of AAA.

Of the 18 individual Investment Policy Statements for the funds categorized as the AOF, eight funds have specific policies associated with credit risk. The remaining funds have no policy addressing credit risk. One fund requires "corporate securities be rated A3/A- or higher by Moody's/S&P rating agencies to qualify for purchase." One fund requires fixed income investments, at the time of purchase, to be rated investment grade as defined either by Moody's or by Standard & Poor's (S&P) rating services. This fund's investment policy, revised in February 2013, states “the maximum fixed income credit risk will be limited to 2% of the total securities portfolio in any one name.” Five funds require, at the time of purchase, “the quality rating of any corporate bond shall be in the top of the single-A rating classification or better at the time of purchase (e.g. A1/A+ or higher) and have at least two ratings. Exposure to the securities of any one U.S. Agency is limited to 5% and in no event will an agency security be purchased if it carries a rating that is less than top-rated (AAA) at the time of purchase.” One fund requires “fixed income securities must be rated at least A- or A3 at the time of purchase.”

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

Custodial Credit Risk

Deposits

Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. As of June 30, 2014, BOI recorded cash deposits of $4,023,223; of this balance, $1,175,899, represented foreign cash deposits, at fair value, held in sub-custodial banks. These deposits are uninsured and the balances are exposed on the basis of no collateralization.

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

Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, BOI may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2014, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for the Montana Board of Investments and held in the possession of BOI’s custodial bank, State Street Bank. The Equity Index funds, US Bank repurchase agreement, real estate, mortgage and loan investments were purchased and recorded in BOI’s name. Commingled fund investments are registered in the name of the Montana Board of Investments. BOI does not have a policy addressing custodial risk for investments.

Concentration of Credit Risk

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

Bond Pools

Both the RFBP Core Internal Bond Pool and TFIP Investment Policy Statements (IPS) provide for a 2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities. The four RFBP external managers are limited to debt obligations of domestic and foreign corporations up to 3% of portfolio assets per issuer.

STIP

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

AOF

With the exception of eight funds, the 18 investment policy statements for various AOF state agencies do not address concentration of credit risk. One fund provides for a concentration limitation pertaining to repurchase obligations. The policy for another fund states, "the fixed income holdings rated lower than 'A3 or A- are limited to 25% of the fixed income portfolio at the time of purchase. This same fund is limited to stock investments not to exceed 12% of the book value of its total invested assets. In addition, this fund's and another fund's IPS provides for a 2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities." The policy for five funds sets "investment limits to reduce the risk of loss on individual corporate bonds, investment purchases in any one credit will be limited to 1% of the market value of the fund at the date of purchase or 2% of the lowest projected fund balance before the securities mature, whichever is lower". Limits are also set by corporate bond sector for these five funds. Investments by various governmental agencies, pooled as AOF, are excluded from the concentration of credit risk requirement. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2014.

This concentration of credit risk includes the rated securities from Table 2 – Cash Equivalents and Table 4 – Investments.

<u>Foreign Currency Risk</u>

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Although the MTIP, RFBP and MTRP do not have a formal policy to limit foreign currency risk, the MTIP policy provides for the "external managers to hedge currency in a defensive manner. The managers are not allowed to engage in currency speculation, such as over-hedging, reverse hedging, cross-hedging or other trading activity not specifically aimed at minimizing risk versus their benchmark or preserving the US dollar value of investments. The Managers' Investment Guidelines provide for currency hedging and emerging market limitations. At the pool level, MTIP will be managed on an un-hedged basis". The MPEP policy does not address foreign currency risk, but identifies "country risk as including all of the risks associated with international alternative investments along with the political, economic and currency risks associated with investing outside of the United States." As of the June 30, 2014 exchange date, BOI's foreign currency exposure by forward contracts, deposits and investment type are reported, in US dollars, at fair value in the tables in section C of this note excluding the foreign investments denominated in US dollars for the American Depositary Receipts (ADRs) and commingled index funds.

<u>Interest Rate Risk</u>

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with GASB Statement 40, BOI uses effective duration as a measure of interest rate risk for the Bond Pool and AOF portfolios. BOI's analytic software uses "an option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is defined as the average percentage change in a bond's price for a given change in interest rates. Prices move inversely to interest rates. The effective duration method incorporates the effect of embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-through securities, CMO, and ARM securities)." The TFIP and CIBP's duration is to remain within 20% of the established Index duration. Duration for two fixed income external managers must be within 25% of the established Index duration. With the exception of three funds, the AOFs' investment policies do not formally address interest rate risk. One fund limits securities three years to maturity and repurchase agreements seven days to maturity. A second fund's policy sets an average duration range of 2-5 years for fixed income securities except in extraordinary circumstances where a shorter duration may be advisable. A third fund's policy limits securities to 1-5 year US Treasury/Agency securities tolerating modest interest rate risk. Eight funds are described as having the "ability to assume interest rate risk." According to the STIP investment policy "the STIP portfolio will minimize interest rate risk by:

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

The STIF fund has an effective duration of .11. One MDEP investment manager invested $227,075 in the T. Rowe Price Reserve Investment Fund with duration of .10. The MDEP and MTIP investment policy statements do not address interest rate risk for cash equivalent (debt pool) investments.

The fixed coupon holdings in the Bond Pools and AOF bonds pay a fixed rate of interest until maturity while floating rate securities pay a variable rate of interest until maturity. As of June 30, 2014, these three portfolios and the STIP portfolio held certain variable rate issues. Interest payments on these securities are based on an underlying proxy, e.g., LIBOR.

Bond Pool and AOF investments are categorized to disclose credit and interest rate risk as of June 30, 2014. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated investment types. NA (not applicable) indicates if duration has not been calculated.

STIP investments are categorized to disclose credit risk and weighted average maturity (WAM) as of June 30, 2014. Credit risk reflects the weighted security quality rating by investment type as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated. The short-term credit ratings, provided by S&P's rating services are presented. An A1+ rating is the highest short-term rating by the S&P rating service. STIP interest rate risk is determined using the WAM method. The WAM measure expresses investment time horizons – the time when investments are due or reset and payable in days, months or years – weighted to reflect the dollar size of the individual investments within an investment type. The WAM is calculated in days.

<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.

Axon Financial Funding payments totaled $27,462,743 since November 2008. On July 6, 2010, Axon Financial Funding foreclosed with the issuance of a promissory note for $66,832,436 from AFF Financing LLC with a July 5, 2011 maturity date. Fiscal year 2014 payments from AFF Financing LLC totaled $6,783,298 consisting of $6,712,723 in principal and $70,575 in interest. On June 3, 2014, BOI elected to extend the AFF Financing LLC promissory note maturity date to July 2, 2015. In June and December 2009, BOI applied $13.5 million, in total, from the STIP reserve to the outstanding principal for the Axon Financial Funding securities. As of June 30, 2014, the AFF Financing LLC, classified as an Other Asset Backed security, has an outstanding amortized cost balance of $22,848,774. Refer to Note 17–Subsequent Events for additional information.

On October 14, 2009, BOI received its initial payment from Orion Finance USA. From this date through November 2010, payments from Orion Finance USA included principal of $13,433,642 and interest compensation of $1,804,738 in excess of the $903,922 accrued interest receivable for a total of $16,142,302. In November 2010, Orion Finance Corporation "granted a security interest in substantially all of its assets (the Collateral) to the Bank of New York Mellon, as Security Trustee." On December 8, 2010, the Security Trustee conducted "a public sale of 60 structured credit and 7 financial securities including but not limited to asset backed securities, collateralized debt obligations, collateralized loan obligations and residential mortgage backed securities included within the Collateral." BOI participated in the sale and collectively holds these individual securities as Orion Finance. From December 2010 through June 2014, BOI received principal and interest payments of $13,474,851 and $2,392,067, respectively. In June and December 2009, BOI applied $7.5 million, in total; from the STIP reserve to the outstanding principal for the Orion Finance USA securities. As of June 30, 2014, the Orion Finance collective holding, classified as Other Asset Backed, has an outstanding amortized cost balance of $15,591,507. Refer to Note 17–Subsequent Events for additional information.

STIP, Bond Pool and AOF
The Federal National Mortgage Association and Federal Home Loan Mortgage Corp. remain in conservatorship from September 7, 2008.

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

The BOI sold the $5 million AOF position in Lehman Brothers Holdings, Inc. 5% rate, January 14, 2011 maturity at a price of $26 on December 6, 2011. Because the bonds were previously written down to a price of $20, this sale generated a gain of $322,300. For the remaining $10 million variable rate position in Lehman Brothers Holdings, Inc. held in the TFIP and AOF portfolios, the BOI applied $519,119 in principal from the October 2013 bankruptcy payment resulting in a book value of $1 each as of June 30, 2014. The $55,931 October 2013 payment balance and the April 2014 payment of $638,206 were recorded to gain.

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

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

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

B. Cash/Cash Equivalents

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

Table 1 – Cash Deposit Amounts
(in thousands)

	Carrying Amount
Cash held by State/State's agent	$137,867
Uninsured and uncollateralized cash	5,142
Undeposited cash	570
Cash in US Treasury	224,549
Cash in MSU component units	6,531
Cash in UM component units	5,820
Less: outstanding warrants	(63,327)
	$317,152

As of June 30, 2014, the carrying amount of deposits for component units was $196,588,028 as included in Table 1.

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

Table 2 - Cash Equivalents
(in thousands)

	Fair Value	Credit Quality Rating	WAM in Days
Asset Backed commercial paper	$ 777,418	A1	30
Corporate commercial paper	138,958	A1	39
Corporate - variable	658,894	A1	38
Certificate of deposit – fixed	100,000	A1	219
Certificate of deposit – variable	391,996	A1+	32
Other asset backed	38,440	NR	NA
US government agency fixed	124,741	A1+	194
US government agency variable	200,003	A1+	31
Money market fund unrated	267,915	NR	1
Money market fund rated	21,000	A1+	1
Repurchase agreement (1)	10,349	0	0
US Government Direct Obligations	39,959	0	NA
Less: STIP included in pooled investment balance	(62,048)	NR	NA
Total cash equivalents (4)	$ 2,707,625		43
Securities lending collateral investment pool (2)	$ 1,862	NR	(See note 3)

(1) As of June 30, 2014, the repurchase agreement was collateralized at 102% for $10,555,693 by two Federal Loan Mortgage Corporation Gold securities maturing July 1, 2024 and November 1, 2024. These securities carry an AA+ credit quality rating.

(2) As of June 30, 2014, the fair value of the cash equivalents was $1,822,162. Collateral provided for the cash equivalents totaled $1,861,747 in cash. See also the Table 4 disclosed in Note 3 D – Investments.

(3) As of June 30, 2014, the Securities Lending Quality Trust liquidity pool has an average duration of 41 days and an average weighted final maturity of 114 days for US dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 548 days for US dollar collateral.

(4) As of June 30, 2014, local governments invested $489,883,980 and component units of the State of Montana invested $582,479,302 in STIP.

C. Equity in Pooled Investments

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

Table 3 – Equity in Pooled Investments
(in thousands)

	Carrying Amount	Fair Value
MDEP:		
Domestic equity pool	$2,491,555	$ 3,835,790
TFIP:		
Trust funds investment pool	2,060,978	2,188,659
RFBP:		
Retirement funds bond pool	2,097,741	2,142,497
MTIP:		
International equity pool	1,335,041	1,747,475
MPEP:		
Private equity pool	877,756	1,031,448
MTRP:		
Real estate pool	786,064	841,169
Total pooled investments	9,649,135	11,787,038
Pool adjustments (net)	19,862	19,862
Total equity in pooled investments	$9,668,997	$11,806,900

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

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

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2014, as required for applicable pools. Credit risk reflects the bond quality rating, by investment type, as of June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated investment types. If duration has not been calculated, duration is indicated by NA (not applicable).

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

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

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

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

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate bonds (rated)	$1,116,730	A-	4.89
Corporate bonds (unrated)	1,015	NR	12.41
International government	12,196	BBB+	4.57
Municipal government bonds	4,130	AA-	10.88
Sovereign bonds	31,502	AA-	5.33
US government direct obligations	471,749	AA+	6.50
US government agency	419,853	AA+	4.75
Montana mortgages	10,573	NR	NA
State Street (STIF)	73,733	NR	.11
STIP	555	NR	.12
Total fixed-income investments	$2,142,036	A+	5.07
Preferred Stock	453	BBB-	
Common Stock (1)	8		
Total Investment	$2,142,497		
Securities lending collateral Investment pool	$ 158,456	NR	(2)

(1) Due to a May 2012 bankruptcy restructuring, the RFBP received 259 shares of common stock and 400 warrants for its investments in General Maritime Corporation. In addition to the common stock and warrants, the RFBP held 4,400 shares of Southern Cal Ed as a preferred stock as of June 30, 2014.

(2) As of June 30, 2014, the Securities Lending Quality D Short Term Investment Fund liquidity pool had an average duration of .10 and an average weighted final maturity of .28 for US dollar collateral. The duration pool had an average duration of .11 and an average weighted final maturity of 4.85 for US dollar collateral.

The derivative instrument disclosures are described in the following paragraphs. The fair value balances and notional amounts of derivative instruments outstanding as of June 30, 2014, classified by type, and the changes in the fair value of such derivative instruments for the year ended June 30, 2014, as reported in the 2014 financial statements, are as follows (in thousands):

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

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

Maximum Loss before and after Netting and Collateral (in thousands)		
Maximum amount of loss BOI would face in case of default of all counterparties i.e. aggregated (positive) fair value of Over-the-Counter positions as of June 30, 2014.	$	193
Effect of collateral reducing maximum exposure		-
Liabilities subject to netting arrangements		-
Resulting net exposure	$	193

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

As of the June 30, 2014 exchange date, BOIs' foreign currency exposure by forward contracts, deposits and investment type are reported, in US dollars, at fair value in the tables below excluding the foreign investments denominated in US dollars for the American Depositary Receipts (ADRs), sovereign debt and commingled index funds.

Foreign Currency Exposure by Country
(in thousands)

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

Investment Commitments

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

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

D. Investments

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

Long-term Investments

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

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

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

The PERS Defined Contribution Retirement Plan and the deferred compensation plan's fixed assets were invested and managed on behalf of the plans by Pacific Investment Management Company (PIMCO) and State Street Bank Kansas City (SSKC) and a third-party insurer, Transamerica. The third party record keeper, Great-West Retirement Services, tracks and reports the daily trading and valuations of all investment options, including the assets held by the individual mutual fund companies. When participants invest in the fixed investment, they are guaranteed a rate of return. All money invested in the Montana Stable Value Fixed Fund of the PERS-DCRP and Deferred Compensation Plan are invested in the Pooled Trust. The Pooled Trust assets are invested by PIMCO based on an investment guideline schedule as agreed upon in the Pooled Trust Contract and approved by the PERB, PIMCO, and any third party insurers, such as Transamerica. Variable investments are held and managed by a selection of retail and institutional mutual funds, which cover all standard asset classes and categories.

Table 4 – Investments
(in thousands)

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

Table 4 – Investments
(in thousands)

	Carrying Amount	Fair Value
STIP/SIV Investments	$ 9,874	$ 9,874
Loans	20,970	20,856
Other equities	80,352	167,515
Deferred compensation	432,457	432,457
Defined contribution	127,741	127,741
529 College Savings Plan	125,175	125,175
VEBA	3,673	4,048
Investments of MSU component units	205,970	205,970
Investments of UM component units	226,453	226,454
Real Estate	70,000	74,073
Other	98,917	104,759
State Auditor	12,562	12,493
Total	$ 2,607,007	$ 2,759,550
Total investments (1)	$ 2,985,843	$ 3,136,001
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, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of .11 and an average weighted final maturity of .31 for U.S. dollar collateral. The duration pool had an average duration of .09 and an average weighted maturity of 1.50 for U.S. dollar collateral.

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

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

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

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

(2) The US Bank repurchase agreement, per contract, was collateralized at 102% for $10,555,693 by two Federal Home Loan Mortgage Corporation Gold securities maturing July 1, 2024 and November 1, 2024. This security carries AA+ credit quality ratings.

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE

A disaggregation of the net receivables and accounts payable (by fund type) as of June 30, 2014, follows (in thousands):

A. Receivables

	Governmental Funds					
	General	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental
Licenses and permits	$ -	$ 9,171	$ -	$ -	$ -	$ -
Taxes	287,360	78,204	-	7,133	-	1,809
Charges for services/fines/forfeitures	407	8,659	3,950	-	-	-
Investment income	2,317	3,778	-	5,290	1,816	984
Contributions/premiums	-	17,198	-	-	-	-
Reimbursements/overpayments	8,560	9,731	1,228	-	-	-
Grants/contracts/donations	-	45	51	-	-	-
Other	5,654	207	15,138	-	-	4,532
Total receivables	304,298	126,993	20,367	12,423	1,816	7,325
Less: allowance for doubtful accounts	(37,613)	(29,803)	(2,065)	-	-	(1)
Receivables, net	$266,685	$97,190	$18,302	$12,423	$1,816	$7,324

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

B. Payables

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

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

NOTE 5. CAPITAL ASSETS

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

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

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

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

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

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

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

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

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

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

NOTE 6. RETIREMENT PLANS

A. General

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

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

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

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

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

All pension plans, except for the PERS-DCRP Disability plan, provide retirement, disability, and death benefits to the plan members and their beneficiaries. The PERS-DCRP Disability plan only provides disability benefits to a member, and no beneficiaries, until they can attain retirement benefits from PERS-DCRP plan. A summary of the plan eligibility and benefits are found on the Summary of Defined Benefit Plan Provisions on the following pages. Related disclosures for the PERS-DCRP Disability plan can be found within Note 7 of this report. Benefits are established by state law and can only be amended by the Legislature.

B. Actuarial Status of Plans

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

The statutory funding rate is tested in the valuation of each public retirement plan to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. As of June 30, 2014, the Sheriffs Retirement System (SRS), Game Warden & Peace Officers Retirement System (GWPORS), Highway Patrol Officers' Retirement System (HPORS) and the Public Employee Retirement Benefit Defined Contribution Disability Other Post Employment Benefit (PERS-DCRP Disability) plan were not in compliance and do not amortize within 30 years.

C. Public Employee Defined Benefit Retirement Plans.

(1) State as the Single Employer

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

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

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

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
JRS						
6/30/2014	78,463	50,599	(27,864)	155.1%	6,355	(438.46)%
HPORS						
6/30/2014	117,226	183,400	66,174	63.9%	14,149	467.69%

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

Single Employer Systems Pension Plan Information:

	JRS (1)	HPORS
Contributions (in thousands):		
Employer	$ 1,651	$ 5,474
Employee	469	1,456
State (General Fund)		262
Actuarial valuation date	6/30/14	6/30/14
Actuarial cost method	Entry Age Normal	Entry Age Normal
Remaining amortization period	0 years	30.3 years
Asset valuation method	4-year smooth market	4-year smooth market
Actuarial assumptions:		
Investment rate of return	7.75%	7.75%
Projected salary increases	4.00%	4.00%
includes inflation factor	3.00%	3.00%
Merit	None	0.00% -7.30%
Benefit adjustments:		
GABA	3% after 1 year	3% after 1 year
Non-GABA	Biennial increase to salary of active member in like position	Varied based on statutorily guaranteed minimum not to exceed 5%

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

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

A summary of government employers participating in PERS-DBRP, SRS, GWPORS, MPORS, FURS, TRS, and VFCA by employer type at June 30, 2014, follows:

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

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

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

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

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

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

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

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

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

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

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

D. Public Employee Defined Contribution Retirement Plans

PERS-DCRP – Public Employees Retirement System - Defined Contribution Retirement Plan – The PERS Defined Contribution Retirement Plan (DCRP) is a multiple employer plan established July 1, 2002 and governed by Title 19, Chapters 2 & 3, MCA. This plan is available to eligible employees of the State, Montana University System, local governments, and school districts. All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the PERS-DBRP by filing an irrevocable election. Members may not be members of both the defined contribution and defined benefit retirement plans. Member and employer contribution rates are established by state law and may be amended only by the Legislature. At June 30, 2013, there were 2,188 active plan members.

The employer rate of 8.17% is allocated as follows: 4.19% to the member's retirement account, 2.64% to the defined benefit plan choice rate, 0.04% to the defined contribution education fund and 0.30% to the long term disability plan.

The PERS-DCRP also administers an other post-employment benefit (OPEB) disability plan. See Note 7 for additional information related to this portion of the plan.

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

The record keeper for the plan is Great-West Retirement Services (Great-West). Participants elect to defer a portion of their salary, within Internal Revenue Code limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed, provided IRS-specified criteria are met. At June 30, 2014, there were 8,519 participating plan members.

E. Montana University System Retirement Program

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

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

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

F. Summary of Significant Accounting Policies

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

G. Method Used to Value Investments

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

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

H. Long-term Contracts for Contributions

The Montana Legislature enacted a provision of the Employee Protection Act (EPA) (Title 19, Chapter 2, Part 706, MCA), related to the Employee Protection Act, allowing state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their employer pay a portion of the total cost of purchasing up to three years of "1-for -5"additional service. In fiscal year 2014, there were 223 employees participating in the program.

The employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the Public Employee Retirement Board (PERB) on the unpaid balance. Total contributions received (including interest) during fiscal year 2014 totaled $63,671. The outstanding balance at June 30, 2014, totaled $20,714.

I. Changes Since Last Valuation

Effective July 1, 2013, member's contributions to PERS-DBRP and PERS-DCRP increased from 6.9% to 7.9% of their compensation and employers must provide supplemental contributions to PERS-DBRP and PERS-DCRP of 1.27%, and 1%, respectively, of an employee's compensation. The employer supplemental contribution continues to rise by an additional .1% for both plans each succeeding year until it reaches a total amount of 2.27% for both plans in calendar year 2024. The additional employer and employee contributions will cease when the amortization period of the unfunded actuarial liability drops below 25 years and remains below 25 years following reduction.

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

Effective July 1, 2013, for members of PERS-DBRP, the Guaranteed Annual Benefit Adjustment (GABA) calculation was reduced to 1.5% for all retirees. GABA is further reduced by .1% for each 2% that funded ratio is less than 90%. The GABA will be zero if the amortization period exceeds 40 years. See litigation disclosures in section J below as this reduction has been enjoined by the District Court.

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

For new members to PERS-DBRP, HPORS, JRS, FURS, SRS, MPORS & GWPORS hired on or after July 1, 2013, there is a 110% annual cap on compensation considered as part of a member's highest or final average compensation, with the excess compensation, if any, divided by the members total months of service credit and added to the compensation for each month of considered part of the member's highest or final average compensation.

Bonuses paid on or after July 1, 2013 to any member are not treated as compensation for retirement purposes.

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

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

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

> Final Average Compensation: average of earned compensation paid in five consecutive years of full-time service that yields the highest average.
>
> Service Retirement: eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55.
>
> Early Retirement: eligible to receive an early retirement allowance if a member is not eligible for service retirement but has at least five years of creditable service and attained age 55.
>
> Professional Retirement Option: if the member has been credited with 30 or more years of service and has attained the age of 60 they are eligible for an enhanced allowance equal to 1.85% of average final compensation times all service at retirement. Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%.
>
> Annual Contribution: 8.15% of member's earned compensation.
>
> On or after July 1, 2013, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met: The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and the period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and a State or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board. A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination. If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the TRS Board.
>
> As of July 1, 2013, TRS required a 1% supplemental employer contribution. This increased the current employer rates as follows: School Districts contributions will increase from 7.47% to 8.47%, the Montana University System and State Agencies will increase from 9.85% to 10.85%, and the supplemental employer contribution will increase by 0.1% each fiscal year for fiscal year 2014 thru fiscal year 2024. Fiscal years beginning after June 30, 2024 the total supplemental employer contribution will be equal to 2%.
>
> TRS members hired prior to July 1, 2013 are required to contribute a supplemental contribution equal to an additional 1% of the member's earned compensation.
>
> The state provides an annual supplemental contribution of $25 million to the TRS in equal monthly installments.

J. Litigation

Wrzesien v. State. Three members of PERS who elected to participate in either the PERS Defined Contribution Retirement Plan or the University System's Montana University System Retirement Program (MUS-RP) (formally known as the Optional Retirement Program) have sued the State of Montana and MPERA over the PERS plan choice rate. The complaint alleges equal protection and due process violations, and requests issuance of a declaratory judgment granting plaintiffs the employer contributions paid toward the plan choice rate. Class action certification is also requested. The plaintiffs are represented by Travis Dye of Kalkstein, Johnson & Dye in Missoula, Montana. The State and MPERA are represented by J. Stuart Segrest and Michael G. Black of the Montana Attorney General's Office. The complaint was subsequently amended to include the 1 % in employer contributions for DCRP plan members that, pursuant to HB 454 (2013), go to the PERS defined benefit retirement plan starting July 1, 2013. In the event plaintiffs prevail, and class action certification is granted, over 3000 PERS DCRP and MUS-RP participants will be paid the contributions previously directed to the plan choice rate. At June 30, 2014, MPERA calculated the contributions from the MUS-RP Plan Choice at $5,083,250 and the contributions from the DCRP Plan Choice at $21,005,539.

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

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

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

Schedule of Contribution Rates
Fiscal Year 2014

PERS-DBRP

Member	**7.900%**	[19-3-315(1)(a)(i) & (ii), MCA]
Employer	**8.170%**	State & University
	8.070%	Local Governments
	7.800%	School Districts (K-12) [19-3-316, MCA]
State	**0.100%**	Local Government payroll - paid from the General Fund [19-3-319, MCA]
	0.370%	School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]

MPORS

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

FURS

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

SRS

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

HPORS

Member	**10.000%**	Hired prior to 7/1/1997 & not electing GABA
	10.050%	Hired after 6/30/1997 & members electing GABA [19-6-402, MCA]
Employer	**28.150%**	[19-6-404(1), MCA]
State	**10.180%**	Of salaries paid from the General Fund [19-6-404(2), MCA]

JRS

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

GWPORS

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

Schedule of Contribution Rates (cont.)
Fiscal Year 2014

VFCA

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

PERS-DCRP

Member	**7.900%**	[19-3-315(1)(a)(i) & (ii), MCA]
Employer	**8.170%**	State & University
	8.070%	Local Governments
	7.800%	School Districts (K-12) [19-3-316, MCA]
State	**0.100%**	Local Government payroll - paid from the General Fund
	0.370%	School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]

TRS

Member	**8.150%**	For members hired prior to 7/1/2013 [19-20-602 & 19-20-608, MCA]
	8.150%	For members hired after 7/1/2013 [19-20-602, MCA]
Employer	**10.850%**	State & University [19-20-605, MCA]
	8.470%	Contribution of total earned compensation of school district, an education coop., a county, or a community college. [19-20-605, MCA]
State	**0.110%**	State & University [19-20-604, MCA]
	2.490%	Contribution of the total earned compensation of school district and community college active members [19-20-607, MCA]

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

System	Fiscal Year Ended June 30	Actuarially Determined Contributions (ADC) (1)	Percentage Contributed	State's Portion of ADC (1)	Percentage Contributed
SINGLE EMPLOYER SYSTEMS:					
JRS (2) (3)	2014				
HPORS (3)	2014	6,121	93.71%	262	100.00%
MULTIPLE EMPLOYER SYSTEMS:					
PERS-DBRP	2012	148,104	53.68%	536	100.00%
	2013	86,664	93.85%	532	100.00%
	2014	138,768	93.96%	34,562	100.00%
SRS	2012	9,512	63.37%		
	2013	9,294	67.49%		
	2014	9,779	68..40%		
GWPORS	2012	4,843	71.65%		
	2013	4,717	75.82%		
	2014	4,976	75.60%		
MPORS	2012	5,047	119.97%	12,274	100.00%
	2013	4,695	133.77%	12,573	100.00%
	2014	17,922	108.85%	13,049	100.00%
FURS	2012	1,512	349.25%	11,797	100.00%
	2013	657	837.35%	12,358	100.00%
	2014	13,699	137.05%	13,007	100.00%
VFCA –	2012			1,635	100.00%
(Nonemployer	2013			1,711	100.00%
Contributor)	2014			1,818	100.00%
TRS	2012	108,993	81.90%		
	2013	130,534	70.20%		
	2014	148,363	100.00%		

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

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

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
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 after 6/30/2011** – HAC during any consecutive 60 months or shorter period of total service of compensation paid to the member **Hired after 6/30/2013** – HAC during any consecutive 60 months or shorter period of total service of compensation paid to the member – 110% annual cap on compensation considered as part of a member's highest average compensation	**Service Retirement** **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 after 6/30/2011** – Age 65, 5 years of membership service – Age 70, regardless of membership service **Early retirement, actuarially reduced** **Hired prior to 7/1/2011** – Age 50, 5 years of membership service; or – Any age, 25 years of membership service. **Hired after 6/30/2011** – Age 55, 5 years of membership service.	– 5 years membership service
MPORS	**Hired prior to 7/1/1977** – Average monthly compensation of final year of service **Hired after 6/30/1977** – Final Average Compensation (FAC) for last consecutive 36 months **Hired after 6/30/2013** – 110% annual cap on compensation considered as a part of a member's final average compensation	**Service retirement** – 20 years of membership service, regardless of age **Early retirement** – Age 50, 5 years of membership service	– 5 years membership service

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

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
FURS	**Hired prior to 7/1/1981 and not electing GABA** – Highest monthly average compensation (HMC) **Hired after 6/30/1981 & electing GABA** – HAC during any consecutive 36 months **Hired after 6/30/2013** – HAC during any consecutive 36 months – 110% annual cap on compensation considered as a part of a member's highest average compensation	**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 after 6/30/2011** – HAC during any consecutive 60 months **Hired after 6/30/2013** – HAC during any consecutive 60 months – 110% annual cap on compensation considered as a part of a member's highest average compensation	**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
HPORS	– HAC during any consecutive 36 months **Hired after 6/30/2013** – HAC during any consecutive 36 months – 110% annual cap on compensation considered as a part of a member's highest average compensation	**Service retirement** – 20 years of membership service, regardless of age **Early retirement** **Hired prior to 7/1/2013** – 5 years of membership service, actuarially reduced from age 60 **Hired after 6/30/2013** – 10 years of membership service, actuarially reduced from age 60	**Hired prior to 7/1/2013** – 5 years of membership service **Hired after 6/30/2013** – 10 years of membership service

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

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
JRS	**Hired prior to 7/1/1997 and non-GABA** – Monthly compensation at time of retirement **Hired after 6/30/1997 or electing GABA** – HAC during any consecutive 36 months (relates directly to monthly benefit formula) **Hired after 6/30/2013** – HAC during any consecutive 36 months (relates directly to monthly benefit formula) – 110% annual cap on compensation considered as a part of a member's highest average compensation	**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 after 6/30/2011** – HAC during any consecutive 60 months **Hired after 6/30/2013** – HAC during any consecutive 60 months – 110% annual cap on compensation considered as a part of a member's highest average compensation	**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, 2014 *(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	**Hired prior to 7/1/2013 (Tier 1)** – Final Average Compensation during any consecutive 3 years **Hired after 6/30/2013 (Tier 2)** – Final Average Compensation during any consecutive 5 years	**Service retirement (Tier 1)** – 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 **Service retirement (Tier 2)** – Age 60, 5 years of service, or any age with at least 25 years of service – Age 55, 30 or more years of full-time or part-time creditable service **Early Retirement (Tier 2)** – Age 55, 5 years of credible service, and ineligible for service retirement **Professional Retirement Option Additional Benefit (Tier 2)** – Age 60, 30 years of service	– 5 years membership service

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

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
PERS-DBRP	**Hired prior to 7/1/2011** – Less than 25 years of membership service: 1.785% of HAC per year of service credit – 25 years of membership service or more: 2% of HAC per year of service credit. . **Hired after 6/30/2011** – Less than 10 years of membership service: 1.5% of HAC per year of service credit 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit – 30 years or more of membership service: 2% of HAC per year of service credit.	**All active, inactive, and retired members** – Maximum rate for GABA is 1.5%; minimum rate for GABA is 0% – The 1.5% GABA is reduced 0.1% for each 2% PERS is funded below 90% – GABA is 0% whenever PERS amortization period is 40 years or more.	
MPORS	– 2.5% of FAC multiplied by years of service credit	**Hired after 7/1/1997 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 7/1/1997 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
FURS	**Hired prior to 7/1/1981 and not electing GABA** – The greater of 2.5% of HMC times year of service credit; OR (1) if less than 20 years of service, 2% of HMC multiplied by years of service credit; (2) if greater than or equal to 20 years of service, credit, 50% of HMC plus 2% of HMC multiplied by years of service credit in excess of 20 years **Hired after 6/30/1981 and those electing GABA** – 2.5% of HAC per year of service.	**Hired after 6/30/1997 or those electing GABA** – After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit	**Hired before 7/1/1997 and member did not elect GABA** – 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 (provided the member has at least ten years of membership service)

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

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
SRS	– 2.5% of HAC multiplied by years of service credit	**Retired at least 12 months, GABA equal to:** – 3.0% for members **hired before 7/1/2007** – 1.5% for members **hired on or after 7/1/2007**	
GWPORS	– 2.5% of HAC multiplied by years of service credit	**Retired at least 12 months, GABA will be made each year equal to:** – 3.0% for members **hired before 7/1/2007** – 1.5% for members **hired on or after 7/1/2007**	
HPORS	**Retired prior to 7/1/2013** – 2.5% of HAC per year of service credit. **Retired after 6/30/2013** – 2.6% of HAC per year of service credit	**Hired after 6/30/1997 or those electing GABA** – After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit **Hired after 6/30/2013** – After the member has completed 36 full months of retirement, the member's benefit increases by a maximum of 1.5% each January, inclusive of all other adjustments to the member's benefit	**Hired prior to 7/1/1997 and member did not elect GABA** – Monthly benefits are increased each July when they fall below a statutorily guaranteed minimum. Any annual increase is limited to 5.0% over the current benefit and may not exceed 60% of the current base salary of a probationary officer
JRS	**Non-GABA** – 3-1/3% of current salary per year of service credit for the first 15 years of service credit, plus 1.785% per year for each year after 15 years **GABA** – HAC per year of service credit for the first 15 years of service credit, plus 1.785% per year for each year after 15 years		
VFCA	$7.50 per year of credited service, capped at a maximum $225 a month		
TRS	**Hired before 7/1/2013 (Tier 1)** – 1.6667 x Average Final Contribution (AFC) x years of creditable service **Hired after 7/1/2013 (Tier 2)** – 1.85% x AFC x years of creditable service	**Both Tier 1 and Tier 2, with at least 36 months of benefit payments received prior to January 1 of that year** – Varies between 0.5% and 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation. – A temporary restraining order requires continued calculation of the GABA at the full 1.5% rate for Tier One members pending resolution of the litigation.	

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General

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

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

Montana Code Annotated, Title 19, Chapter 3, Section 2141, establishes a long-term disability plan trust fund (PERS-DCRP Disability) for all State of Montana Employees that participate in the Public Employee Retirement System-Defined Contribution Retirement Plan (PERS-DCRP). All new PERS members are initially members of the Public Employee Retirement System-Defined Benefit Retirement Plan (PERS-DBRP) and have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the PERS-DBRP by filing an irrevocable election. If an election is not filed the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. Only those participants that choose the PERS-DCRP are covered by the PERS-DCRP Disability plan.

B. Plan Descriptions

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

The healthcare OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements and footnotes. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the State or any of its component units. Accordingly, reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans.

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

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

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

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

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

See also the funding policy that follows.

C. Bases of Accounting

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

The healthcare OPEB plan document states "an employee enrolled in the State Plan who (a) is eligible to draw a state retirement benefit at the time he or she leaves active state employment; and (b) makes arrangements with the EBB (Employee Benefits Bureau) within 60 days of the date active employee coverage ends to continue post-retirement coverage, may continue with the state group on a self-pay basis, retroactive back to the date active employee coverage was lost." Therefore, the plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2014.

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

State Plan Participants

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

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

The number of MUS participants as of June 30, 2014 follows:

MUS Plan Participants

Enrollment	MSU-Billings	MSU-Bozeman	GFC-MSU	MSU-Northern	OCHE	HC-MSU	UM-Msla	UM-MT Tech	UM-Western	Other	Total
Active employees	522	2,841	142	189	81	110	2,396	422	198	352	7,253
Retired employees, spouses, and surviving spouses	232	1,210	25	101	40	35	846	187	102	95	2,873
Total	754	4,051	167	290	121	145	3,242	609	300	447	10,126

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

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

PERS-DCRP Disability Plan Participants

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

D. Funding Policies

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

As of June 2014, the State plan's administratively established retiree medical contributions vary between $299 and $1,109 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental contributions vary between $17.50 and $60 and vision hardware contributions vary between $5.76 and $16.76 depending on the coverage selected.

As of June 2014, the MUS plan's administratively established retiree medical premiums vary between $196 and $1,336 per month and are revised annually. The plan provides different coinsurance amounts depending on whether members use in-network or out-of-network providers. After an annual $500 deductible for most non-Medicare-eligible retirees, the MUS plan reimburses 75% for the first $10,000 in medical claims and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2014, 1,768 retirees (policyholders) were enrolled in the MUS plan.

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

E. Annual Other Postemployment Benefit Cost and Contributions

The annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45, represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The current State's ARC of $35.1 million is 5.69% of annual covered payroll. The State's annual covered payroll is $616.2 million. The current MUS's ARC of $9.8 million is 2.46% of annual covered payroll. The MUS's annual covered payroll is $400 million.

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

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

Annual OPEB Cost & Changes in Net OPEB Obligation

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

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

The State and University System's annual healthcare OPEB cost, the percentage of annual implicit contributions toward the OPEB cost through retiree claims paid on their behalf, and the net OPEB obligation for fiscal years 2014 through 2011 was as follows (in thousands):

Contribution Ratio

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State	6/30/2014	$36,823	19.1%	$219,109
	6/30/2013	34,544	10.0%	189,327
	6/30/2012	34,150	12.1%	158,244
	6/30/2011	36,302	8.8%	128,237
MUS	6/30/2014	$10,671	15.9%	$99,891
	6/30/2013	13,288	6.9%	90,916
	6/30/2012	12,662	1.6%	78,550
	6/30/2011	20,540	6.4%	66,096

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

PERS-DCRP Disability Contribution Ratio

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

F. Actuarial Methods and Assumptions

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

In the December 31, 2013, actuarial valuation, the projected unit cost funding method was used for the State. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is initially 10.00% for both medical and prescription drugs. Both medical costs and prescription drugs are reduced by decrements to a rate of 5.00%, medical costs after eleven years and prescription drugs after six years.

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

In the June 30, 2014, actuarial valuation, the projected unit cost funding method was used for MUS. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is 10.00% for both medical and prescription drugs, initially. Both medical costs and prescription drugs are reduced by decrements to a rate of 5.00%, medical costs after ten years and prescription drugs after five years.

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

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

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

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

Other Postemployment Benefits
State Agent Multiple Employer Plan

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands)		
Before Medicare eligibility	$8,857	$2,950
After Medicare eligibility	3,709	2,931
Actuarial valuation date	1/1/2013 (ARC calculated through December 31, 2013)	
Actuarial cost method	Projected unit cost funding	
Amortization method	Level percent of payroll, open	
Remaining amortization period	30 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 43 or 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	2.50%	
Participation		
Future retirees	55%	
Future eligible spouses	60%	
Marital status at retirement	70%	

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

Other Postemployment Benefits
MUS Agent Multiple Employer Plan

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands)		
Before Medicare eligibility	$7,284	$3,036
After Medicare eligibility	3,357	2,311
Actuarial valuation date	7/1/2013 (ARC Calculated through June 30, 2014)	
Actuarial cost method	Projected unit cost funding	
Amortization method	Level percent of payroll, open	
Remaining amortization period	30 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 43 or 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	2.50%	
Participation		
Future retirees	55%	
Future eligible spouses	60%	
Marital status at retirement	70%	

G. Termination Benefits

During the year ended June 30, 2014, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for six employees provided for up to seven months, one-time lump-sum incentive payments for two employees, and continuation of retirement plan contributions for one employee. In determining termination benefit liability related to the continued coverage of group health insurance benefits, it was assumed that these benefits would be paid for the entire period of the arrangement. The cost of termination benefits for the fiscal year was $86,415 for the State. No component unit of the State paid any termination benefits for the fiscal year.

NOTE 8. RISK MANAGEMENT

There are three primary government public entity risk pools and one claims-servicing pool that are reported within the enterprise fund. These pools include Hail Insurance, the Montana University System (MUS) Group Insurance Plan, the MUS Workers Compensation Program, and the Subsequent Injury claims-servicing pool. Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. The primary government reports its own risk management activity within two internal service funds: Employees Group Benefits Plans and Administration Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 1,479 policies during the 2014 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

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

The fund recorded a liability of $226,324 based on estimated claims through June 30, 2014. Any crop insurance liability is paid to the producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance or annuity contracts. A reinsurance contract was purchased for the 2014 growing season. Loss percentage for the 2014 growing season was not large enough to activate reimbursement from the reinsured contract.

(2) Montana University System (MUS) Group Insurance Plan – This plan is authorized by the Regents and in Title 20, Chapter 25, Part 13 of the Montana Code Annotated. The Plan's purpose is to provide medical, dental, prescription drug, and related group benefits coverage to employees of the Montana University System and affiliates, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term care, long-term disability, and accidental death and dismemberment insurance. Delta Dental administers the dental plan, EyeMed Vision Care administers the vision plan, and MedImpact is the administrator for the prescription drug program. Allegiance Benefit Plan Management is the claims administrator for the self-insured indemnity plan and a managed care plan. Pacific Source and Blue Cross and Blue Shield of Montana administer claims for two other managed care plans. Allegiance, Pacific Source, and Blue Cross and Blue Shield of Montana have contracts for utilization management: the utilization management program consists of hospital pre-authorization and medical necessity review as well as large case management. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund. The claims liability is calculated by Actuaries Northwest and estimated to be $6.4 million as of June 30, 2014, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Montana University System (MUS) Workers Compensation Program – This plan was formed to provide self-insured workers compensation coverage for employees of the Montana University System. The Montana University System Board of Regents provides workers compensation coverage under Compensation Plan Number One (Title 39, Chapter 71, Part 2101, MCA). The program is self-insured for workers compensation claims with losses in excess of $750,000 per occurrence ($500,000 for claims occurring prior to July 1, 2013) and $1,000,000 per aircraft occurrence covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of $1,000,000 above the self-insured amount of $750,000 ($500,000 for claims occurring prior to July 1, 2013). During fiscal year 2014, the program ceded $264,440 in premiums to reinsurers.

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

The fund recorded a liability of $7.6 million for estimated claims at June 30, 2014. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, and claims reserve development including the effects of inflation and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

(4) Subsequent Injury – The purpose of the Subsequent Injury Fund (SIF) is to assist individuals with a permanent impairment that may create an obstacle to employment, by offering a financial incentive to employers to hire SIF-certified individuals. The program is funded through an annual assessment on Montana self-insured employers and a surcharge on premium for private insured and Montana State Fund policyholders.

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

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

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

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

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

B. Entities Other Than Pools

(1) Employee Group Benefits Plans – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracted with Cigna and Delta Dental as administrators for medical and dental coverage. MedImpact is the administrator for the prescription drug program. Contributions are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments, and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2014, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, as well as other actuarially determined liabilities, were $22.1 million based on a formula provided by Actuaries Northwest, a consulting actuarial firm, of which $21.9 million is estimated to be paid in fiscal year 2015.

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

An annual actuarial study, prepared by Towers Watson Company, and issued for the accident period July 1, 2004 through June 30, 2014, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2014, estimated claims liability was $17.5 million.

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

	Employees Group Benefits Plans		Administration Insurance Plans	
	2014	2013	2014	2013
Amount of claims liabilities at the beginning of each fiscal year	$ 14,640	$ 11,900	$ 16,909	$ 19,297
Incurred claims:				
Provision for insured events of the current year	163,170	136,814	7,100	5,733
Increases (decreases) in provision for insured events of prior years	6,763	1,463	1,497	(2,685)
Total incurred claims	169,933	138,277	8,597	3,048
Payments:				
Claims attributable to insured events of the current year	(142,392)	(122,034)	(3,037)	(1,135)
Claims attributable to insured Events of prior years	(20,078)	(13,503)	(4,919)	(4,301)
Total payments	(162,470)	(135,537)	(7,956)	(5,436)
Total claims liability at end of each fiscal year	$ 22,103	$ 14,640	$ 17,550	$ 16,909

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2014, the Department of Transportation had contractual commitments of approximately $277.9 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matched with state special revenue funds.

B. Capital Construction

At June 30, 2014, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $15.5 million for capital projects construction. The primary government will fund $8 million of these projects, with the remaining $7.5 million coming from the state university system.

C. Coal Tax Loan and Mortgage Commitments

The Board of Investments (BOI) makes firm commitments to fund commercial loans and Veterans' Home Loan Mortgages (VHLM) from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to BOI policies. As of June 30, 2014, the BOI had committed, but not yet purchased, $8.3 million in loans from Montana lenders. In addition to the above commitments, lenders had reserved $30.0 million for loans as of June 30, 2014. As of June 30, 2014, $0.9 million represented lender reservations for the VHLM residential mortgage purchases with no purchase commitments.

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

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

D. Department of Corrections Bond Commitments

At June 30, 2014, the outstanding tax-exempt bonds issued by the Montana Facility Finance Authority were issued in the amount of $23.4 million of which $3.2 million is scheduled to be paid by June 30, 2014. These bonds have been issued to facilities operating treatment and prerelease centers. The Department of Corrections agrees to provide payment on behalf of the contractors for the total principal and interest payments in regard to these outstanding bonds.

E. Proprietary Fund Commitments

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

Proprietary Fund Commitments

Enterprise funds	Amount
Liquor Warehouse	$ 203
State Lottery	51
Other	90
Subtotal-Enterprise funds	$ 344

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

F. Encumbrances

As of June 30, 2014, the State of Montana encumbered expenditures as presented in the table below (*in thousands*):

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Nonmajor Governmental Funds	Total
Encumbrances	$10,366	$33,234	$34,591	$815	$79,006

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

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

A. Capital Leases/Installment Purchases

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

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

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

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

B. Operating Leases

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

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

NOTE 11. STATE DEBT

A. General Information

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

B. Short-term Debt

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

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

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

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

The Board of Investments (BOI) of the State of Montana is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than $190 million as amended by the 2007 Legislature. The purpose of the bonds is to provide funds for the BOI to make loans to eligible government units. The bonds are limited obligations of the BOI, payable solely from (1) repayments of principal and interest on loans made by the BOI to participating eligible governmental units, (2) investment income under the indenture, and (3) an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and are included in short-term debt. The amounts issued and outstanding at June 30, 2014, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2014
1997	$10,000	$ 9,040
1998	12,500	11,695
2000	15,000	14,335
2003	15,000	14,430
2004	18,500	18,200
2007	15,000	14,775
2010	12,000	11,975
2013	12,000	12,000
		$106,450

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

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	$ 106,615	$ -	$ 165	$106,450

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2014, were as follows (in thousands):

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

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

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

(2) Year of maturity refers to fiscal year.

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

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

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

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

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

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

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

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

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

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

D. Debt Service Requirements

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

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

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2014, was as follows (in thousands):

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

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

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

(3) Per GASB Statement No. 70, Montana State Fund’s claims related to Old Fund are classified as a Nonexchange Financial Guarantee. For FY11-13, this was reported as Estimated Future Claim Contribution to Component Unit. For more information see footnote 11 (I).

(4) Pollution remediation beginning balance was restated due to correction of an error.

F. Refunded and Early Retired Debt

Prepayments

The Department of Natural Resources and Conservation (DNRC) used current available resources to make a prepayment of $210,000 on special revenue series 2001F, leaving an outstanding obligation of $275,000. The DNRC also made a prepayment of $140,000 on special revenue series 2001E for payoff.

Defeased Debt Outstanding

The State of Montana has defeased certain general obligation and special revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2014, $43.3 million of bonds outstanding was considered defeased.

G. No-Commitment Debt

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

Montana Board of Investments (BOI)

Under the Economic Development Act, the BOI is authorized to issue stand-alone industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. At June 30, 2014, industrial revenue bonds outstanding aggregated $30.0 million.

The BOI is also authorized to issue Qualified Zone Academy Bonds (QZAB) under the Municipal Finance Consolidation Act. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2014, QZAB debt outstanding aggregated $10.0 million.

The BOI is also authorized to issue Qualified School Construction Bonds (QSCB) under the Municipal Finance Consolidation Act. The revenues of the borrower are pledged to repay the bonds. At June 30, 2014, QSCB debt outstanding aggregated $7.1 million.

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

Beginning Farm Loan Program

The Montana Department of Agriculture is authorized to request issuance of bonds by the BOI to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2014, was as follows: Hershberger Project – issued $129,412, outstanding $70,023.

H. Estimated Pollution Remediation Obligation

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

The State's estimated pollution remediation liability as of June 30, 2014 was $257.5 million. Of this liability, $30.5 million resulted in settlement agreements to provide restoration of natural resources, water supplies and natural resource-based recreational opportunities up to the settlement amount; $219.2 million is based on decrees or settlements for remediation activities. Other estimated liabilities have been recorded for soil and PCB contamination, as well as removal of asbestos contamination. The estimated pollution remediation liability was recorded in compliance with accounting and reporting standards and does not constitute Montana's total acceptance of the liability or responsibility on these matters.

I. Nonexchange Financial Guarantee

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

Summary of changes in guarantee liability:

Beginning Balance	Increases	Payments/Decreases	Ending Balance
$51.0 million	$2.6 million	$8.6 million	$45.0 million

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

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

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

	Due to Other Funds			
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds
Due from Other Funds				
Economic Development Bonds	$ -	$ -	$ -	$844
General Fund	-	52	-	76
Internal Service Funds	36	6	2	-
Nonmajor Governmental Funds	-	44	-	-
State Special Revenue	-	-	168	3
Total	$36	$102	$170	$923

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

(1) Total due from the state special revenue fund on the fund financial statement is reported as $6.7 million. The difference of $6.1 million between the amount reported above of $652,000 and the amount reported on the fund financial statement relates to long term receivables. The receivables were recorded in the fund financial statement and the long term liabilities were recorded in the government-wide statement.

(2) Total due from the non-major governmental funds on the financial statements is reported as $2.5 million. The difference of $2.2 million between the amount reported above of $275,000 and the amount reported on the financial statements relates to long term receivables. The receivables were recorded in the fund financial statement and the long term liability was recorded in the government-wide statement.

(3) Total due to the non-major enterprise funds on the fund financial statement is reported as $13.5 million. The difference of $376,000 between the amount reported above of $13.1 million and the amount reported on the fund financial statement relates to loans payable. The liabilities were recorded in the fund financial and the receivables were reported in the government-wide statement.

B. Interfund Loans Receivable/Payable

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

Interfund loans receivable/payable at June 30, 2014, consisted of the following (in thousands):

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

C. Advances To/From Other Funds

Advances to/from other funds represent the portion of interfund loans that are not expected to be repaid within one year from the date of the financial statements. Advances to/from other funds also include the noncurrent portion of balances related to amounts loaned by the Economic Development Bond Fund to other funds, under the Board of Investments INTERCAP loan program. For more information on the INTERCAP loan program, please refer to Note 11.

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

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

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

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

D. Interfund Transfers

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

Interfund transfers for the year ended June 30, 2014, consisted of the following (in thousands):

	Transfers In				
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant
Transfers Out					
Coal Severance Tax	$ -	$ -	$21,996	$ -	$ -
Federal Special Revenue	-	-	139	96	-
General Fund	-	-	-	887	-
Internal Service Funds	-	-	-	572	-
Land Grant	-	-	3	-	-
Nonmajor Enterprise Funds	-	1	41,629	-	-
Nonmajor Governmental Funds	19	-	-	-	-
State Special Revenue	-	5,002	11,669	2,690	6
Total	$19	$5,003	$75,436	$4,245	$6

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

NOTE 13. FUND DEFICITS

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

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

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 special revenue fund revenues and fund balances 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, 2014.

State Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Licenses/permits	$ 63,906	$30,230	$ 23,937	$ 1,923	$ 165	$ 63,279	$ 183,440
Taxes	263,841	4,207	216,622	-	2	14,891	499,563
Charges for services	26,761	11,555	7,911	37,241	1,614	20,789	105,873
Investment earnings	255	10,698	56	161	817	16,032	28,019
Securities lending income	-	80	-	1	5	96	183
Sale of documents/ merchandise/property	1,239	2,294	394	98	5	1,593	5,623
Rentals/leases/royalties	235	4	348	252	4	363	1,206
Contributions/premiums	23,183	-	-	-	-	-	23,183
Grants/contracts/ donations	1,896	741	1,258	11,219	1,886	3,897	20,897
Federal	8,699	-	2	(727)	5	-	7,979
Federal indirect recoveries	-	-	35,664	7	-	4,154	39,824
Other revenues	2,666	452	456	107	-	579	4,260
Transfers in	38,770	3,464	1,889	6,529	1,121	164,844	216,617
Total state special revenue	$431,453	$63,725	$288,537	$56,811	$5,624	$290,517	$1,136,667

Federal Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Taxes	$ -	$ -	$ -	$ -	$ -	$ 1	$ 1
Charges for services	663	1	-	3,722	40,340	(17)	44,709
Investment earnings	212	3	-	-	22	118	355
Securities lending income	-	-	-	-	-	5	5
Sale of documents/merchandise/ property	-	-	-	-	-	7	7
Rentals/leases/royalties	-	-	-	-	-	3	3
Grants/contracts/donations	-	-	-	-	-	9	9
Federal	114,892	9,201	460,392	1,211,094	172,604	83,877	2,052,060
Federal indirect cost recoveries	11	-	-	70,494	171	327	71,003
Other revenues	31	4	-	171	7	10	223
Transfers in	221	1,498	6	557	(27)	2,748	5,003
Total federal special revenue	$116,030	$10,707	$460,398	$1,286,038	$213,117	$87,088	$2,173,378

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

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

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

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, which governs the Montana Guaranteed Student Loan Program (MGSLP), guarantees loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a nonprofit corporation operating exclusively for the purpose of acquiring student loans. MHESAC has no employees. Its business operations are managed by the Student Assistance Foundation (SAF). Approximately 73.90%, or $1,047.9 million, of MGSLP's outstanding loan volume is held by MHESAC.

The Montana Association of Health Care Purchasers (MAHCP) has a member from the Department of Administration (DOA), Health Care and Benefits Division as well as a member from the Montana University System. Both serve on the board of MAHCP and receive no remuneration for their services. DOA paid this association $1.25 per health care plan member per year to maintain its membership. DOA also paid a monthly fee of $0.55 per health care plan member per month for data aggregation and analysis and consulting services performed by the association staff on behalf of member employers. DOA also paid $0.71 per pharmacy script to MAHCP for administration of the URx program, which includes the Ask-A-Pharmacist Program.

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

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

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

NOTE 16. CONTINGENCIES

Litigation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Spoklie is the last in a long line of case that were filed after passage of I-143. The following cases have been concluded in favor of the state: Kafka v. Montana Department of Fish Wildlife, and Parks, Hill County Docket No. DV-02-059, Buhmann et al. v. State of Montana et al., Lewis and Clark Docket No. DV-2002-555, Royal 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 and § 2-18-902, MCA, or under a third party beneficiary theory.

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

November 27, 2012 Order to hear this issue. The Plaintiffs also appealed to the Montana Supreme Court the District Court's definition of the class action.

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

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

On September 8, 2014, the District Court issued an order ruling on several motions that the parties had filed. The principal rulings were: (i) the Court authorized Plaintiffs to proceed with additional discovery to determine if the class definition should be altered or amended; (ii) given its order to allow additional discovery, the Court held in abeyance its decision on the State's Motion for Summary Judgment requesting that the class be limited to those who timely filed claims within the one-year filing restriction contained in the State's policy; (iii) the Court granted the Plaintiffs' motions asking the Court to require the State conform its health plans, procedures, notices and practices to comply with the Montana Supreme Court's rulings in this case and to pay covered medical expenses, await the resolution of claims against liability carriers, and then conduct a made-whole determination before it can exercise subrogation or accept reimbursements from its members or providers; and (iv) the Court ordered the parties to develop a class notice to be sent to past and current plan members dated back to eight years before this suit was filed. The State and Plaintiffs' counsel are currently working on the notice. Since discovery is ongoing, the State at this point it does not have sufficient information to determine the cost impact.

<u>Kohoutek, Inc. v. Montana</u> involves a class action constitutional challenge to the state's statute governing compensation for mandatory case-lot sales of liquor. Agency liquor stores are required by statute to provide an 8% discount to liquor licensees for sales of unbroken case-lots. Section § 16-2-101(2)(b)(ii)(B), MCA, provides for a weighted average discount ratio to offset for some or all of this mandatory case lot discount. The weighted average discount ratio is based on FY1994 sales. Plaintiffs contend that this provision, rooted in 1994 rather than based on actual sales, violates their rights to substantive due process and equal protection, and constitutes a taking.

Plaintiffs filed a Complaint for Declaratory, Injunctive, and Class Relief on March 25, 2014, before the Eighth Judicial District Court, ADV-14-181. The District Court for the Eighth Judicial District granted class certification by Order dated August 21, 2014. The case has been bifurcated into two parts—constitutionality and damages. The Court heard oral argument on the Plaintiffs' Motion for Partial Summary Judgment, addressing its constitutional claims, on January 20, 2015, and will decide on that issue in the near future.

If the Court finds the weighted average discount ratio unconstitutional, and this result is upheld on appeal to the Montana Supreme Court, the case will proceed to the damages portion. The fiscal impact of such a finding will be difficult to measure, as the Department of Revenue's records reflecting actual sales only date back to 2006, and Plaintiffs are alleging damages back to 1995. Moreover, such sales records are unaudited. In an attempt at measuring damages, the Department looked to HB173 from the 2007 Legislative Session that proposed to eliminate the weighted average discount ratio provision and base reimbursement on actual sales. Damages at this point are difficult to determine.

The Public Employee Retirement System and Teachers' Retirement System have pending litigation. Refer to Note 6(J) for additional disclosure in relation to their various legal proceedings.

The Department of Revenue finalized two protested property tax settlements in June 2014 both with Cellco Partnership for Verizon and Alltel. While the settlements were finalized in fiscal year 2014, the refunds to Cellco and the reclassification of the state's share from protested property taxes to regular property taxes did not occur until July 2014, fiscal year 2015. The Verizon settlement resulted in a $1,640,342 refund including $2,964 in interest to Cellco and a total of $2,707,363 released to regular property taxes for the state's share. The Alltel settlement resulted in a $136,666 refund including $336 in interest to Cellco and a total of $407,098 released to regular property taxes for the state's share.

Federal Contingencies

Food Distribution Program - The amount reported for Food Distribution programs (CFDA #10.555, #10.567, #10.569, #10.570 and #10.565) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2014, Montana distributed $619,424 of food commodities under CFDA #10.567 to other states.

The State of Montana distributed $9.4 million in commodities in fiscal year 2014. The value at June 30, 2014 of commodities stored at the state's warehouse is $2.04 million for which the state is liable in the event of loss. The state has insurance to cover this liability.

Miscellaneous Contingencies

Loan Enhancements – As of June 30, 2014, the Board of Investments (BOI) had provided loan enhancements from the Coal Severance Tax Permanent Trust Fund to the Municipal Finance Consolidation Act Bond Fund and the Facility Finance Authority, (a component unit of the State of Montana), totaling $222.6 million. The BOI's exposure to bond issues of the Municipal Finance Consolidation Act Bond Fund was $106.4 million, while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority was $116.1 million.

Gain Contingencies - Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2014 the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	State Special Revenue	Debt Service	Capital Projects	Nonexpendable Trust
Corporation Tax	$10,503	$ -	$ -	$ -	$ -
Coal Severance Tax	786	245	28	352	1,522
Resource Indemnity Trust Tax	-	76	-	-	-
Total	$11,289	$321	$28	$352	$1,522

Collectability of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. The corporation tax assessments include material estimates that could result in a significant reduction of the tax assessed once actual numbers are provided. Interest related to corporation tax assessments is distributed to the General Fund and is included in the assessment total above.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2014. The corporations have appealed the department's decision to deny or adjust the refund. As of June 30, 2014, these include $5.6 million of General Fund corporation tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2014. As of June 30, 2014, these include $1.7 million of protested property taxes recorded in the General Fund and $2 million recorded in State Special Revenue Funds.

NOTE 17. SUBSEQUENT EVENTS

Bond/Loan Issues

In July 2014, General Obligation Long-Range Buildings Program Refunding Bonds, Series 2014, were issued for $28,810,000 to be used for the purpose of refunding the General Obligation Long-Range Building Program Bonds, Series 2005B, Series 2006A and Series 2007D, with stated maturities in 2015.

In April 2015, the Board of Examiners approved the issuance of General Obligation Long-Range Building Program Refunding Bonds (Series 2015A) up to the amount of $9,575,000 to be used for the purpose of refunding the General Obligation Long-Range Building Program Bonds, Series 2005A and Series 2005H, with stated maturities in 2016.

Investment Related Issues

From July 1 through December 1, 2014, AFF Financing LLC payments total $4,358,350 representing $4,335,685 in principal and $22,665 in interest. For the same period, the BOI received payments associated with the Orion Finance collective holding of $1,661,717 with $1,561,955 and $99,762 applied to principal and interest, respectively.

On August 19, 2014, the BOI approved the staff recommendation to enter into a custodial bank contract with State Street Bank effective November 1, 2014. Due to contract negotiations, the current contract with State Street Bank was extended to December 31, 2014, changing the effective date of the new contract to January 1, 2015.

On October 2, 2014, the BOI received a bankruptcy payment of $463,564 related to the Lehman Brothers Holdings, Inc. Due to previous principal write downs; this payment was recorded as a gain.

Other Subsequent Events

On January 17, 2015, Governor Bullock declared by executive order an emergency relating to an oil pipeline spill. Pursuant to the executive order, several state agencies have been given authority to expend funds from the general fund to meet contingencies and needs arising from these conditions while they respond to, mitigate and alleviate the situation.

NOTE 18. COMPONENT UNITS

A. Condensed Financial Statements

Below are the condensed financial statements of the component units for the State of Montana as of June 30, 2014 (in thousands):

Condensed Statement of Net Position
Component Units

	Housing Authority	Facility Finance Authority	Montana State Fund	Montana State University	University of Montana	Total Component Units
Assets:						
Cash, investments and other assets	$688,029	$4,820	$1,694,768	$557,421	$451,165	$3,396,203
Due from primary government	-	-	-	510	1,375	1,885
Due from component units	-	-	-	5	108	113
Capital assets (net) (Note 18C)	6	29	29,764	412,621	341,257	783,677
Total assets	688,035	4,849	1,724,532	970,557	793,905	4,181,878
Deferred Outflows of Resources	704	-	-	7,530	3,408	11,642
Liabilities:						
Accounts payable and other liabilities	6,885	475	225,493	60,876	65,127	358,856
Due to primary government	-	-	-	2,311	1,205	3,516
Due to component units	-	-	-	107	6	113
Advances from primary government	-	-	-	21,051	12,805	33,856
Long-term liabilities (Note 18I)	530,104	87	1,043,717	290,175	196,468	2,060,551
Total liabilities	536,989	562	1,269,210	374,520	275,611	2,456,892
Net Position:						
Net investment in capital assets	6	29	29,764	282,933	214,824	527,556
Restricted	151,744	-	-	236,946	257,980	646,670
Unrestricted	-	4,258	425,558	83,688	48,898	562,402
Total net position	$151,750	$4,287	$ 455,322	$603,567	$521,702	$1,736,628

Condensed Statement of Activities
Component Units

	Housing Authority	Facility Finance Authority	Montana State Fund	Montana State University	University of Montana	Total Component Units
Expenses	$ 27,212	$ 871	$182,638	$ 522,698	$ 413,562	$1,146,981
Program Revenues:						
Charges of services	1,170	498	165,272	240,260	177,692	584,892
Operating grants and contributions	26,442	46	-	176,952	128,401	331,841
Capital grants and contributions	-	-	-	4,416	3,441	7,857
Total program revenues	27,612	544	165,272	421,628	309,534	924,590
Net (expense) program revenues	400	(327)	(17,366)	(101,070)	(104,028)	(222,391)
General Revenues:						
Unrestricted grants and contributions	-	-	-	504	-	504
Unrestricted investment earnings	-	-	81,556	6,831	33,552	121,939
Payment from State of Montana	-	-	9,395	113,827	94,457	217,679
Gain (loss) on sale of capital assets	-	-	(10)	221	(2)	209
Miscellaneous	58	-	126	-	-	184
Contributions to term and permanent endowments	-	-	-	10,793	13,070	23,863
Total general revenues and contributions	58	-	91,067	132,176	141,077	364,378
Change in net position	458	(327)	73,701	31,106	37,049	141,987
Total net position – July 1 – as previously reported	157,169	4,659	436,676	563,023	476,806	1,638,333
Prior period adjustments	(5,877)	(45)	(55,054)	9,436	7,848	(43,692)
Total net position – July 1 – as restated	151,292	4,614	381,622	572,459	484,654	1,594,641
Total net position – June 30	$151,750	$4,287	$455,323	$ 603,565	$ 521,703	$1,736,628

B. Cash/Cash Equivalents and Investments

Due to the integration of funds and combined financial information presented by the Montana Board of Investments, component unit cash and cash equivalents, equity in pooled investments and investments are included with the primary government in Note 3.

C. Capital Assets

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the "Other" caption for this schedule:

	Montana State University	University of Montana	Other	Total
Capital assets not being depreciated:				
Land	$ 6,669	$ 8,226	$ 1,139	$ 16,034
Construction Work In Progress	22,126	8,463	295	30,884
Capitalized Collections	8,623	17,692	-	26,315
Livestock for educational purposes	3,572	-	-	3,572
Total Capital Assets not being depreciated	40,990	34,381	1,434	76,805
Capital assets being depreciated:				
Infrastructure	42,443	8,177	-	50,620
Land Improvements	21,657	14,335	-	35,992
Buildings/Improvements	549,378	529,816	27,973	1,107,167
Equipment	148,755	81,611	7,516	237,882
Livestock	-	10	-	10
Library Books	63,916	58,431	-	122,347
Leasehold Improvements	1,807	-	-	1,807
Total Capital Assets being depreciated	827,956	692,380	35,489	1,555,825
Total accumulated depreciation	(466,882)	(390,753)	(7,503)	(865,138)
Total Capital Assets being depreciated net	361,074	301,627	27,986	690,687
Intangible Assets	1,137	2,786	379	4,302
MSU Component Unit Capital Assets, net	9,420	-	-	9,420
UM Component Unit Capital Assets, net	-	2,463	-	2,463
Discretely Presented Component Units capital assets net	$ 412,621	$ 341,257	$29,799	$ 783,677

D. Other Postemployment Benefits (OPEB)

Due to a correction in relation to the misapplication of an accounting principle in prior years, the Montana University System has a prior period adjustment to its beginning OPEB liability balance of approximately $18 million. Non-university component units are included in the State of Montana benefit plan, whereas the Office of the Commissioner of Higher Education (included in the primary government) is included in the Montana University System benefit plan. For these reasons component unit OPEB is included in Note 7.

E. Risk Management

The two component pools include Montana State Fund (New Fund) and Montana State Fund (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. In these funds, there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage for the last three years. These funds use the accrual basis of accounting. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

(1) Montana State Fund (New Fund) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990. New Fund is a self-supporting, competitive State fund, and functions as the guaranteed market. At June 30, 2014, approximately 24,400 employers were insured with the New Fund. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to New Fund within specified time frames.

An actuarial study prepared by Towers Watson, as of June 30, 2014, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Due to the fact that actual claim costs depend on such complex factors as inflation and changes in the law claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques in order to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2014, $924.6 million of unpaid claims and claim adjustment expenses were presented at face value.

New Fund is required by MCA 39-71-2311 to set premiums at least annually at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. It also requires the New Fund to establish a minimum surplus above risk-based capital requirements to support the New Fund against risks inherent in the business of insurance.

For the fiscal year ended June 30, 2014, the New Fund ceded premiums to other reinsurance companies to limit the exposure arising from large losses. These arrangements consist of excess of loss contracts that protect against individual occurrences over stipulated amounts, and an aggregate stop loss contract which protects the New Fund against the potential that aggregate losses will exceed expected levels expressed as a percentage of premium. For fiscal year 2014, the excess of loss contract provides coverage up to $100 million in which New Fund retains the first $5 million for the first layer of reinsurance coverage. The excess of loss protection applies to an individual occurrence with the maximum of $5 million on any one life.

The term of the current aggregate stop loss contract was July 1, 2013 through June 30, 2014. The contract provides coverage based on New Fund’s premium levels not to exceed 15% of the subject net earned premium. In the event reinsurers are unable to meet their obligations, under either the excess of loss contracts or the aggregate stop loss contract, New Fund would remain liable for all losses, as the reinsurance agreements do not discharge New Fund from its primary liability to the policyholders.

Premium revenue was reduced by premiums paid for reinsurance coverage of $9.5 million in fiscal year 2014.

Estimated claim reserves were reduced by $12.3 million for fiscal year 2014 for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excess of loss reinsurance contract. In fiscal year 2014, estimated claim reserves were reduced by an additional $20.6 million for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the aggregate stop loss contract.

(2) Montana State Fund (Old Fund) – The liability and payment of workers compensation claims for incidents occurring before July 1, 1990, are reported in the Old Fund.

An actuarial study prepared by Towers Watson, as of June 30, 2014, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. At June 30, 2014, $45.0 million of unpaid claims and claim adjustment expenses were reported at face value.

(3) Changes in Claims Liabilities for the Past Two Years – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in the aggregate liabilities for Montana State Fund and the State of Montana Old Fund during the past two years, net of estimated reinsurance recoverable. The information presented is at face value and has not been discounted.

Montana State Fund

	New Fund		Old Fund	
	2014	**2013**	**2014**	**2013**
Unpaid claims and claim adjustments expenses at beginning of year	$ 902,848	$ 889,941	$51,026	$59,162
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	150,940	139,204	-	-
Increase (decrease) in provision for insured events of prior years	(18,620)	(12,036)	1,398	1,761
Total incurred claims and claim adjustment expenses	132,320	127,168	1,398	1,761
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(26,807)	(25,706)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(83,763)	(88,555)	(7,390)	(9,897)
Total payments	(110,570)	(114,261)	(7,390)	(9,897)
Total unpaid claims and claim adjustment expenses at end of year	$ 924,598	$ 902,848	$45,034	$51,026

F. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2014, were as follows (in thousands):

Fiscal Year Ending June 30	Discretely Presented Component Units
2015	$292
2016	318
2017	179
2018	108
2019	35
2020-2024	-
Total minimum pmts	932
Less: interest	(62)
Present value of minimum payments	$870

G. Operating Leases

Future rental payments under operating leases at June 30, 2014 are as follows (in thousands):

Fiscal Year Ending June 30	Discretely Presented Component Units
2015	$ 4,430
2016	3,042
2017	2,842
2018	1,645
2019	1,416
2020-2024	4,367
2025-2029	1,360
Thereafter	2,993
Total future rental payments	$22,095

H. Debt Service Requirements

Debt service requirements of discretely presented component units at June 30, 2014, were as follows (in thousands):

Year Ended June 30	Montana Board of Housing		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	$ 12,845	$ 19,932	$ 7,441	$ 6,491	$ 7,608	$ 4,411
2016	14,075	19,562	7,601	6,233	7,804	4,132
2017	14,675	19,205	8,840	5,969	8,077	3,874
2018	15,440	18,793	8,995	5,711	8,386	3,565
2019	16,090	18,314	16,810	5,434	8,725	3,219
2020-2024	91,905	82,562	39,440	22,512	49,836	10,180
2025-2029	111,865	62,692	29,465	15,542	18,490	2,584
2030-2034	117,685	39,113	22,635	10,279	5,220	425
2035-2039	92,254	16,026	16,960	5,473	-	-
2040-2044	36,965	2,800	15,945	2,073	-	-
2045-2049	155	3	-	-	-	-
Total	$523,954	$299,002	$174,132	$85,717	$114,146	$32,390

I. Summary of Changes in Long-term Liabilities Payable

Long-term liability activity of discretely presented component units for the year ended June 30, 2014, was as follows (in thousands):

	Beginning Balance (3)	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Discretely presented component units						
Bonds/notes payable						
MT Board of Housing	$ 541,802	$ 31,972	$144,794	$ 528,980	$ 12,844	$ 516,136
Montana State University (MSU)	117,427	68,763	6,976	179,214	7,440	171,774
University of Montana (UM)	116,288	7,969	7,458	116,799	7,640	109,159
Total bonds/notes payable (1)	775,517	208,704	159,228	824,993	27,924	797,069
Other liabilities						
Lease/installment purch pay	1,027	137	293	871	271	600
Compensated absences pay	58,037	30,773	29,241	59,569	29,627	29,942
Arbitrage rebate tax payable	336	215	-	551	-	551
Prevailing wage claim	31	-	16	15	15	-
Estimated insurance claims (5)	953,874	133,718	117,960	969,632	116,978	852,654
Due to federal government	32,686	291	15	32,962	-	32,962
Derivative instrument liability	4,389	-	354	4,035	-	4,035
Reinsurance funds withheld	78,025	12,563	23,885	66,703	-	66,703
OPEB implicit rate subsidy (2)	89,988	10,915	1,762	99,141	-	99,141
Total other liabilities	1,218,393	188,612	173,526	1,233,479	146,891	1,086,588
	$1,993,910	$397,316	$332,754	$2,058,472	174,815	1,883,657
Long-term liabilities of Montana University System component units (4)					(107)	2,184
Total discretely presented component units Long-term liabilities					$174,708	$1,885,841

(1) When applicable, this amount includes unamortized discounts and unamortized premiums.

(2) The OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of an "implicit rate" subsidy in the related financial statements. While this liability is disclosed for financial purposes, it does not represent a legal liability of the State, or any of its component units. OPEB is reported as a single line item on the financial statements.

(3) Beginning balances are taken from component unit financial statements.

(4) Interentity transaction eliminations between Montana University System component units for debt shown in the component unit information can cause negative balances in component unit information.

(5) Per GASB Statement No. 70, Montana State Fund's claims related to Old Fund are classified as a Nonexchange Financial Guarantee. For more information see footnote 18 (L).

J. Refunded and Early Retired Debt

Universities

Defeased Debt Outstanding

The University of Montana has defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's consolidated financial statements. As of June 30, 2014, $109.7 million of bonds outstanding were considered defeased.

K. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

Facility Finance Authority (FFA)

The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana, with the exception of the Montana State Hospital Project and the Montana Developmental Center Project included in section C. Long-term Debt of the State Debt footnote, Note 11. At June 30, 2014, revenue bonds outstanding aggregated $1.04 billion and notes payable outstanding aggregated $22.3 million.

The Board of Investments and the FFA have entered into a capital reserve account agreement for certain bond issues. See Note Section 16 C. (Miscellaneous Contingencies) for more information.

Montana Board of Housing (BOH)

The BOH is authorized to issue bonds and make mortgage loans in order to finance housing which will provide decent, safe, and sanitary housing for persons and families of lower income in the State of Montana. The bonds are special, limited obligations, payable solely from pledged revenues and assets, not general obligations of the BOH. The bonds issued by the BOH do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2014, bonds outstanding aggregated $14.4 million.

L. Nonexchange Financial Guarantee

Pursuant to Montana Code Annotated (MCA) 39-71-2352, if in any fiscal year claims for injuries resulting from accidents occurring prior to July 1, 1990 are not adequately funded by Montana State Fund, any amount necessary to cover those claims must be transferred from the State's general fund to Montana State Fund. The State of Montana's primary government will extend the guarantee until all Old Fund claims are paid. Following the guidance set forth in GASB Statement No. 70 this qualifies as a nonexchange financial guarantee. The primary government of the State of Montana has no arrangements for recovering payments from Montana State Fund. The estimated nonexchange financial guarantee as of June 30, 2014 was $45.0 million.

Total Amount of Estimated Guarantee	$64.6 million
Amount Paid by Primary Government FY14	$ 8.6 million
Cumulative Amount Paid by Primary Government	$29.3 million
Ending Balance of Guarantee	$45.0 million

M. Derivative Transactions Related to Long-term Debt

Montana State University (MSU) has two interest rate swaps as of June 30, 2014. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraphs 27 (a) and (b) of Governmental Accounting Standards Board Statement Number 53, or as investment derivative instruments if they do not.

Derivative Description	Trade Date	Effective Date	Termination Date	Counterparty
$25.75 million fixed payer swap	3/10/2005	7/21/2005	*11/15/2035	Deutsche Bank AG*
$25.25 million basis swap	12/19/2006	11/15/2007	11/15/2035	Morgan Stanley Capital Services Inc.

*Counterparty may opt out in 2016

As of June 30, 2014, the fixed payer swap is classified as a hedging derivative instrument under Statement No. 53, whereas the million basis swap is an investment derivative instrument because there is no identified financial risk being hedged by the basis swap that can be expressed in terms of exposure to adverse changes in cash flows or fair values. Statement No. 53 includes four methods for evaluating hedge effectiveness; a governmental entity may use any of the evaluation methods outlined in the Statement and is not limited to using the same method from period to period. The four methods described in Statement No. 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. In Addition, Statement No. 53 permits a governmental entity to use other quantitative methods that are based on "established principles of financial economic theory." The fixed payer swap passes the established criteria using the regression analysis methodology.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. The time value is equal to the option value minus the intrinsic value. The option value was estimated using a trinomial option pricing model. Incorporating market volatility data, the trinomial model calculates all possible changes in the value of the underlying swap for each future cash flow period (up, down or unchanged) to form a trinomial tree. This tree is used to calculate the current value of the option.

On September 10, 2010, the Series J bonds were converted to index bonds. While in index mode the interest rate is reset weekly at a rate of SIFMA plus a fixed spread. The spread is based on the long-term, unenhanced rating assigned to the issuer; the current spread as of June 30, 2014 was 0.65%. The dependent variable in the regression is the interest rates of the hedged cash flows; the independent variable is the floating rates due under the hedging derivative. The counterparty to the fixed payer swap has the right to terminate the swap at $0 on December 14, 2016 (a European option). Upon entering into the transaction, MSU received consideration from the counterparty in the form of an off-market (lower) fixed swap rate. A portion of the consideration received was a result of the option being in-the-money at inception; that is, the option had intrinsic value as the cancelable swap's fixed rate of 3.953% was lower than the at-market rate of 4.110% on the trade date. The remainder of the up-front consideration reflects the time value the counterparty pays for holding the option. To MSU, the time value portion represents deferred investment revenue. The intrinsic value of the cancelable swap is considered a loan receivable for financial reporting purposes and is treated as an asset in the accompanying financial statements. Interest accrues to the balance of the asset each year and amortizes with each swap payment.

The table below summarizes the reported balances as of, and the derivative instrument activity during, the year ended June 30, 2014.

		Activity During 2014 Increase (Decrease)		Fair Values at June 30, 2014	
Cash flow hedges:	**Notional**	**Classification**	**Amount**	**Classification**	**Amount**
Cash flow hedge – Pay fixed interest rate swap	$22,475,000	Interest expense	$ 20,145	Loan receivable	$ 306,860
		Investment loss	338,749	Derivative liability	4,034,590
		Deferred outflow	(15,972)		
Investment derivative – Basis swap	$22,475,000	Investment loss	$339,870	Investment (excluding interest accrued)	$1,556,177

The objective and terms of MSU's hedging derivative outstanding as of June 30, 2014 is as follows:

Type	Objective	Notional amount	Effective Date	Termination Date	Cash (Paid)/ Received	Terms
Pay fixed, cancelable interest rate swap	Hedge interest rate risk on Series J 2005 Bonds	$22,475,000	7/21/2005	11/15/2035	-	Pay 3.953% Receive SIFMA

Credit Risk
It is MSU's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2014, counterparty ratings were A2 and Baa1 by Moody's and A+ and A- by Standard and Poor's. MSU manages credit risk by requiring its counterparties to post collateral in certain events. MSU is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than $5MM and the counterparty is rated A+ or A, by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, MSU is entitled to collateral up to 100% of the swap's fair value. MSU is not required to post collateral. MSU will continue to monitor counterparty credit risk.

MSU enters into derivative agreements with multiple counterparties to limit concentration of credit risk. Currently, MSU has interest rate swaps with two different counterparties and each counterparty accounts for approximately 50% of outstanding notional. MSU monitors counterparty credit risk on an ongoing basis.

Interest Rate Risk
Interest payments on variable rate debt will typically increase as interest rates increase. MSU believes it has significantly reduced interest rate risk by entering into a pay-fixed, receive floating interest rate swap. As interest rates increase, net swap payments decrease so that changes in hedged variable-rate debt interest payments, attributable to SIFMA, are largely offset by the net swap payments.

Basis Risk
The variable-rate cash flows being hedged by the pay-fixed swap will increase or decrease as SIFMA rates increase or decrease. Because the hedged cash flows are SIFMA based and the floating receipts of the pay-fixed swap are SIFMA based, there is no basis risk.

Termination Risk
MSU or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, MSU's fixed payer swap counterparty has the right to terminate the derivative if the credit rating of MSU's unenhanced long-term revenue bond rating is withdrawn, suspended or reduced below BBB-, in the case of S&P, or below Baa3 in the case of Moody's. If such an event occurs, MSU could be forced to terminate the fixed payer swap in a liability position. As of June 30, 2014, MSU's unenhanced long-term revenue bond rating was Aa3 by Moody's and A+ by Standard and Poor's.

Rollover Risk
MSU's hedging derivative includes a 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.

Foreign Currency Risk
All hedging derivatives are denominated in US Dollars and therefore MSU is not exposed to foreign currency risk.

Market Access Risk
Market access risk is the risk that the MSU will not be able to enter credit markets or that credit will become more costly. For example, to complete a derivative instrument's objective, an issuance of refunding bonds may be planned in the future. If at that time MSU is unable to enter credit market, expected cost savings may not be realized.

N. Related Party Transactions

Private nonprofit organizations with relations to the University of Montana (UM) include the Alumni Association, the Montana Technology Enterprise Center (MonTEC), the Montana Tech Booster Club and the Montana Tech Alumni Association.

The associations and booster club operate exclusively for the purpose of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with, UM. For the year ended June 30, 2014, $132,544 was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, UM provides the associations and booster club with office space, staff and some related office expenses.

MonTEC was established as a nonprofit 501(C) 3 corporation in fiscal year 2001 as a result of an agreement between UM and the Missoula Area Economic Development Foundation (MAEDF). MonTEC provides low cost lease space and business consulting to local "start-up" companies. The corporation's board of directors is comprised equally of members appointed by MAEDF and UM.

Private nonprofit organizations affiliated with Montana State University (MSU) include the MSU-Bozeman Bookstore, Friends of KUSM, and Friends of KEMC. Friends of Montana Public Television provided $913,625 during 2014 and Friends of KEMC Public Radio provided $700,000 during 2014 in support of MSU's television and radio stations.

O. Litigation Contingencies

Victory Insurance Company, Inc. v. Montana State Fund et al. Victory filed its Amended Complaint in this action on March 29, 2011, in which it asserted various tort claims against Montana State Fund. No specific amount of damages was stated in the complaint. In October 2012, the district court granted Montana State Fund's motion for summary judgment, and dismissed State Fund from the case. However, the plaintiff refiled the suit against Montana State Fund. Montana State Fund filed a second motion for summary judgment, and the district court granted judgment to Montana State Fund on December 26, 2013. The judgment was wholly in State Fund's favor, and the case was dismissed. An appeal has been filed with no decision yet on the appeal. Based on the district court's decision, State Fund anticipates the chances are remote that State Fund has potential liability with this matter.

Susan Hensley v. Montana State Fund Montana State Fund received a Petition for Hearing that was filed before the Workers' Compensation Court in October, 2013. The matter is Susan Hensley vs. Montana State Fund, WCC No. 2013-3235. Under HB 334, as passed by the legislature in 2011 and codified in 39-71-703 (2), MCA, when a claimant receives a Class I impairment, it is not payable unless the claimant has an actual wage loss as a result of the compensable injury or occupational disease. The law was effective July 1, 2011 and applicable to claims that occurred on or after that date. The petitioner in this matter is challenging the constitutionality of 39-71-703 (2), MCA. State Fund anticipates the chances are remote, but as with any litigated matter there is the possibility of an adverse decision. Should the statute be held unconstitutional, determined to be applicable to other claims and also determined to be retroactively applicable, potential liability is estimated to be at least $2.2 million per year, as based on NCCI initial pricing, and current estimated business volumes.

Montana State Fund received another Petition for Hearing that was filed before the Workers' Compensation Court. The matter is Steven Hanson vs. Montana State Fund, WCC No. 2014-3398. This is a companion case to Susan Hensley v. Montana State Fund and has been held in abeyance pending a decision in Hensley.

P. Loan Loss Contingency

On January 12, 2007, the Montana Facility Finance Authority (MFFA) made a loan to Gateway Community Services to purchase and remodel four condominium units. Funds for the loan came from the Permanent Coal Trust Fund under the Authority's Trust Fund Loan Program. Gateway subsequently defaulted on this loan. As of June 30, 2014, $569,376 is due to the Permanent Coal Trust Fund, reflecting $461,860 of principal and $107,516 of interest. Pursuant to MFFA policy, the MFFA will make the Perm Coal Trust Fund whole and funds have been designated for such an event.

On September 17, 2007, the MFFA made a loan to Gateway Community Services for overages resulting from the remodeling of condominium units referenced above. Funds for the loan came from the Authority's Direct Loan Program. As of June 30, 2014, $90,203 was due to the Authority, reflecting $73,170 of principal and $17,033 of interest.

The condominium owners pursued selling the building. As of June 30, 2013, there was a viable purchaser for the building; however, it was determined that the purchaser probably wouldn't pay the amount owed to the Authority on its loans. An additional $50,000 was added to the Loan Loss Contingency for the period ending June 30, 2013.

An environmental assessment was completed on the building in early 2014 resulting in over $123,000 of estimated remediation costs. A developer subsequently examined the building and identified several additional issues. Several executives met on June 25, 2014 to determine the feasibility of selling the building and concluded that there was no longer a viable purchaser.

An additional $400,026 was added to Loan Loss Contingency account for the fiscal year ended June 30, 2014, resulting in the full principal amount of $461,860 under the Trust Fund Loan Program. The principal amount of the Direct Loan, $73,170 was moved into bad debt, reflected in other operating expenses, resulting in the full write-off of the loan as of June 30, 2014.

Q. Subsequent Events

On November 20, 2014, the Board of Regents of the Montana University System authorized the University of Montana to issue up to $21,000,000 of Series N 2015 Refunding Revenue Bonds for the purpose of refunding the outstanding Series J 2005 Facilities Improvement and Refunding Revenue Bonds maturing after May 15, 2015, previously issued to finance and refinance certain improvements to the campuses of the University of Montana, and paying cost of issuance of the Series N 2015 Bonds. The revenue bonds will be issued prior to the optional redemption date of May 15, 2015, specified in the supplement to the Indenture of Trust. The University of Montana is seeking to private place the Series N Bonds with one or more commercial banks or institutional investors.

In September of 2014, the Board of Regents authorized the Billings campus of Montana State University to repair and replace the existing roof for the Student Union Building, and seek an Intercap loan in the amount of $850,000 to finance the project.

In November of 2014, the Board of Regents authorized the Bozeman campus of Montana State University to execute a lease with Bozeman Deaconess Hospital. This arrangement will provide space to accommodate elements of the University of Washington's School of Medicine Wyoming, Washington, Alaska, Montana, Idaho consortium (WWAMI) medical program by locating first, second and third year WWAMI students under one roof and facilitate additional integration of clinical and basic science teaching.

On July 7, 2014 the Board of the Facility Finance Authority determined that the Gateway Community Services loans should be written off and the mortgages released. The Board of the Facility Finance Authority further directed payment of $461,860 to the Permanent Coal Tax Trust Fund from funds designated for such an event. The Facility Finance Authority will continue to hold the promissory notes and the action taken did not signify a satisfaction of the note obligations. The Board of the Facility Finance Authority further directed that the one condominium owned by the Facility Finance Authority be offered to the other condominium owners. Steps to accomplish the write-off, releases and transfer are in process and expect to be completed prior to December 31, 2014.

On August 7, 2014, $30 million of bonds were issued by the Facility Finance Authority for the benefit of Missions United (Billings) to finance the construction of a continuing care retirement facility in the Billings Heights area and to refinance approximately $9.25 million of outstanding bonds to reduce the interest rate.

On November 5, 2014, $21.77 million of bonds were issued by the Facility Finance Authority for the benefit of Bozeman Deaconess Health Services to finance a portion of the costs to construct a hospital and medical office building in Big Sky, Montana.

On November 13, 2014, $17 million of bonds were issued by the Facility Finance Authority for the benefit of Kalispell Regional Medical Center to finance multiple projects including the cancer center expansion, Health Information Technology Data Center, construction overruns and geo thermal for the surgery tower, parking lot improvements and miscellaneous equipment.

On November 20, 2014, $61.69 million of bonds were issued by the Facility Finance Authority for the benefit of Sisters of Charity of Leavenworth Health System, with Montana hospitals located in Miles City, Billings and Butte, to refinance bonds issued in 2003 and 2006.

On November 25, 2014, $10 million of bonds were issued by the Facility Finance Authority for Bozeman Deaconess Health Services to finance a portion of the costs to install an Electronic Health Records system.

The Montana State Fund Board of Directors declared a $20 million dividend at its meeting on November 14, 2014. The dividend will be paid during fiscal year 2015 to eligible policyholders for the 2012 policy year.

On January 22, 2015, the Montana Board of Housing issued $20,000,000 of Single Family Program Bonds Series 2015A (1979 Single Family II Indenture). The bonds will mature on June 1, 2015 through June 1, 2040, with interest rates from 0.20% to 3.50%. The bond proceeds were or will be used to purchase single mortgage loans for the Board’s Homeownership Program.

NOTE 19. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS

Constitutionality of Retirement Plan Funding

The Montana Constitution, Article VIII, Section 15 states that public retirement systems shall be funded on an actuarially sound basis. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is less than 30 years. As of June 30, 2014, the Sheriffs Retirement System (SRS), Game Warden & Peace Officers Retirement System (GWPORS), Highway Patrol Officers' Retirement System (HPORS), and Public Employee Retirement Benefit Defined Contribution Disability Other Post Employment Benefit (PERS-DCRP Disability) plans were not in compliance and do not amortize within 30 years. The unfunded liabilities in the other state retirement systems amortize in less than 30 years as of fiscal year end 2014.

The actuarial condition of these plans are fully disclosed and reported as required by Generally Accepted Accounting Principles (GAAP), and explained in greater detail in Note 6 and Note 7 of the financial statements. The unfunded actuarial liability of these plans is long-term in nature and does not translate into an inability of the plans to meet their current obligations in the near future.

BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES				
Licenses/permits	$ 117,365	$ 117,365	$ 117,751	$ 386
Taxes:				
Natural resource	125,032	125,032	154,409	29,377
Individual income	1,039,082	1,039,082	1,038,284	(798)
Corporate income	154,096	154,096	148,471	(5,625)
Property	246,539	246,539	251,897	5,358
Fuel	-	-	-	-
Other	219,319	219,319	211,545	(7,774)
Charges for services/fines/forfeits/settlements	39,916	39,916	38,460	(1,456)
Investment earnings	-	-	3,382	3,382
Sale of documents/merchandise/property	418	418	411	(7)
Rentals/leases/royalties	26	26	28	2
Contributions/premiums	-	-	23	23
Grants/contracts/donations	3,766	3,766	8,979	5,213
Federal	31,531	31,531	26,271	(5,260)
Federal indirect cost recoveries	115	115	154	39
Other revenues	11,956	11,956	-	(11,956)
Total revenues	1,989,161	1,989,161	2,000,065	10,904
EXPENDITURES				
Current:				
General government	351,656	351,656	328,281	23,375
Public safety	291,530	291,530	281,126	10,404
Transportation	-	-	-	-
Health and human services	447,526	447,528	446,097	1,431
Education	965,505	965,505	936,813	28,692
Natural resources	34,664	34,664	32,083	2,581
Debt service:				
Principal retirement	-	-	14	(14)
Interest/fiscal charges	-	-	189	(189)
Capital outlay (Note RS-1)	-	-	4,464	(4,464)
Total expenditures	2,090,881	2,090,883	2,029,067	61,816
Excess of revenue over (under) expenditures	(101,721)	(101,723)	(29,002)	(72,721)
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	-	-	-	-
General capital asset sale proceeds	34	34	51	17
Bond premium	-	-	-	-
Bond proceeds	-	-	-	-
Energy conservation loans	-	-	-	-
Transfers in (Note 12)	69,366	69,366	75,436	6,070
Transfers out (Note 12)	(243,785)	(243,785)	(164,245)	79,540
Total other financing sources (uses)	(174,385)	(174,385)	(88,758)	85,627
Net change in fund balances	-	-	-	-
(Budgetary basis)	(276,106)	(276,108)	(117,760)	158,348
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	88	88
2. Securities lending costs	-	-	-	-
3. Inception of lease/installment contract	-	-	2	2
(GAAP basis)	(276,106)	(276,108)	(117,670)	158,437
Fund balance - July 1	-	-	561,016	561,016
Prior period adjustments	-	-	(615)	(615)
Increase (decrease) in inventories	-	-	(255)	(255)
Fund balances - June 30	$ (276,106)	$ (276,108)	$ 442,476	$ 718,584

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	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
$ 180,921	$ 180,921	$ 183,440	$ 2,519	$ -	$ -	$ -	$ -
160,831	160,831	141,146	(19,685)	-	-	-	-
-	-	-	-	-	-	-	-
6	6	3	(4)	-	-	-	-
16,454	16,454	15,132	(1,322)	-	-	-	-
214,379	214,379	216,615	2,236	-	-	-	-
127,468	127,468	126,667	(801)	2	2	1	(1)
107,151	107,151	105,873	(1,278)	49,749	49,749	44,709	(5,040)
-	-	28,019	28,019	-	-	355	355
5,639	5,639	5,623	(16)	-	-	7	7
818	818	1,206	388	19	19	3	(16)
22,506	22,506	23,183	677	-	-	-	-
22,356	22,356	20,897	(1,459)	30	30	9	(21)
10,328	10,328	7,979	(2,349)	1,880,777	1,880,777	2,052,060	171,283
49,228	49,228	39,824	(9,404)	45,447	45,447	71,003	25,556
3,668	3,668	4,260	592	3	3	223	220
921,755	921,755	919,867	(1,888)	1,976,029	1,976,029	2,168,370	192,341
333,930	333,930	254,413	79,517	251,363	251,363	113,070	138,293
86,020	86,020	80,684	5,336	22,630	22,630	11,278	11,352
296,617	296,617	223,948	72,669	519,758	519,758	100,126	419,632
164,997	164,997	152,793	12,204	1,389,714	1,389,714	1,283,910	105,804
118,010	118,010	112,422	5,588	240,876	240,876	211,752	29,124
302,794	302,795	183,648	119,147	135,809	135,809	65,278	70,531
-	-	507	(507)	-	-	18	(18)
-	-	528	(528)	-	-	5	(5)
-	-	76,889	(76,889)	-	-	351,994	(351,994)
1,302,368	1,302,369	1,085,832	216,537	2,560,151	2,560,151	2,137,431	422,720
(380,613)	(380,614)	(165,966)	(214,649)	(584,122)	(584,122)	30,939	(615,061)
485	485	1,301	816	-	-	1	1
139	139	153	14	-	-	3	3
-	-	150	150	-	-	-	-
11,830	11,830	11,680	(150)	-	-	-	-
-	-	169	169	-	-	-	-
257,521	257,521	216,617	(40,904)	18,939	18,939	5,003	(13,936)
(109,460)	(109,460)	(35,007)	74,453	(86,116)	(86,116)	(42,067)	44,049
160,514	160,514	195,063	34,549	(67,177)	(67,177)	(37,060)	30,117
-	-	-	-	-	-	-	-
(220,099)	(220,100)	29,098	249,197	(651,299)	(651,299)	(6,121)	645,178
-	-	183	183	-	-	5	5
-	-	(29)	(29)	-	-	-	-
-	-	322	322	-	-	-	-
(220,099)	(220,100)	29,574	249,674	(651,299)	(651,299)	(6,116)	645,183
-	-	1,494,473	1,494,473	-	-	19,667	19,667
-	-	(2,434)	(2,434)	-	-	1,188	1,188
-	-	2,127	2,127	-	-	-	-
$ (220,099)	$ (220,100)	$ 1,523,740	$ 1,743,839	$ (651,299)	$ (651,299)	$ 14,739	$ 666,038

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-1. BUDGETARY REPORTING

A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The constitution requires that legislative appropriations not exceed available revenues. The Legislature uses revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budget appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor, and the Legislative Fiscal Division receives a copy. The Office of Budget and Program Planning (OBPP) and the Governor analyze the requests, establish priorities, and develop the requests into the executive budget request submitted to the Legislature. Joint appropriations subcommittee hearings are held, and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The Legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. OBPP establishes appropriations for each program by accounting entity (fund) within an agency. The Legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the Legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the Legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2014, reverted governmental fund appropriations were as follows: General Fund - $9 million, State Special Revenue Fund - $51.9 million, and Federal Special Revenue Fund - $90.2 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

B. Budget Basis

The Legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in proprietary funds; certain loans from governmental funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.).

REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN INFORMATION

Pension Plan Information
Schedule of Funding Progress
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
Single Employer System						
JRS						
6/30/2012	63,195	46,190	(17,005)	137%	6,193	(275%)
6/30/2013	70,323	49,236	(21,087)	143%	6,276	(336%)
6/30/2014	78,463	50,600	(27,864)	155%	6,355	(438%)
HPORS						
6/30/2012	96,655	167,824	71,169	58%	13,618	523%
6/30/2013	105,736	175,594	69,858	60%	13,484	518%
6/30/2014	117,226	183,400	66,174	64%	14,149	468%
Multiple Employer Systems						
PERS-DBRP						
6/30/2012	3,816,920	5,661,281	1,844,361	67%	1,081,288	171%
6/30/2013	4,139,921	5,160,951	1,021,030	80%	1,104,000	92%
6/30/2014	4,595,805	6,177,505	1,581,700	74%	1,129,109	140%
SRS						
6/30/2012	211,535	284,559	73,024	74%	59,583	123%
6/30/2013	235,310	304,185	68,875	77%	61,467	112%
6/30/2014	264,945	326,077	61,132	81%	64,673	95%
GWPORS						
6/30/2012	97,691	128,927	31,236	76%	38,317	82%
6/30/2013	112,100	139,985	27,885	80%	39,471	71%
6/30/2014	129,429	154,595	25,166	84%	41,637	60%
MPORS						
6/30/2012	234,025	427,257	193,232	55%	41,745	463%
6/30/2013	262,678	450,043	187,365	58%	42,796	438%
6/30/2014	298,722	474,308	175,586	63%	44,427	395%
FURS						
6/30/2012	233,121	377,211	144,090	62%	36,177	398%
6/30/2013	263,483	396,769	133,286	66%	37,963	351%
6/30/2014	300,949	419,013	118,064	72%	39,892	296%
TRS						
7/1/2012	2,852,000	4,814,700	1,962,700	59%	735,600	267%
7/1/2013	3,067,900	4,592,700	1,524,800	67%	742,600	205%
7/1/2014	3,397,400	5,191,100	1,793,600	65%	750,600	239%
Nonemployer Contributor						
VFCA						
6/30/2012	26,531	36,146	9,615	73%	N/A	N/A
6/30/2013	28,294	37,830	9,536	75%	N/A	N/A
6/30/2014	31,281	37,975	6,694	82%	N/A	N/A

REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

The State of Montana and the Montana University System (MUS) implemented Governmental Accounting Standards Board (GASB) Statements 43 and 45 as of June 30, 2008 (see Notes 2 and 7).

The State of Montana and MUS OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements and footnotes. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the State or any of its component units.

In accordance with GASB Statement 45, the following information is presented to reflect the funding progress of the Other Postemployment Benefits Plans.

Other Postemployment Benefits Plan Information (1)
Schedule of Funding Progress
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
State Agent Multiple Employer Plan						
1/1/2009	$ -	$357,664	$357,664	0.00%	$526,794	67.89%
1/1/2011	$ -	$337,274	$337,274	0.00%	$521,881	64.63%
1/1/2013	$ -	$366,739	$366,739	0.00%	$616,158	59.52%
MUS Agent Multiple Employer Plan						
7/1/2009	$ -	$183,230	$183,230	0.00%	$386,751	47.40%
7/1/2011	$ -	$109,831	$109,831	0.00%	$371,802	29.54%
7/1/2013	$ -	$100,247	$100,247	0.00%	$400,017	25.06%

(1) The State and the MUS implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, for the fiscal year ended June 30, 2008. Information for prior years is not available.

		AMOUNT
CORPORATION FOR NATIONAL & COMMUNITY SERVICE		
94.003	State Commissions	$259,297
	Regis University 2012-2013 MOU	$15,354
94.006	AmeriCorps	$2,538,352
	Regis University	$2,821
	Regis University Colorado CC2011-2013	$5,132
	University of Denver	$94
	University of Denver COMPACT SERVICE CORP 2013-2014	$15,377
	University of Denver SC37138A	$1,873
94.007	Program Development and Innovation Grants	$63,472
	Regis University	$16,778
	University of Denver 08EDHCO001	$14,248
	University of Wisconsin 420K405	($25)
	University of Wisconsin 493K765	$19,823
94.009	Training and Technical Assistance	$688
94.013	Volunteers in Service to America	$644,202
	TOTAL	**$3,597,486**
	CORPORATION FOR NATIONAL & COMMUNITY SERVICE TOTAL	**$3,597,486**
DEPARTMENT OF AGRICULTURE		
10.025	Plant and Animal Disease, Pest Control, and Animal Care	$1,026,793
10.156	Federal-State Marketing Improvement Program	$10,827
10.162	Inspection Grading and Standardization	$21,301
10.163	Market Protection and Promotion	$34,450
10.169	Specialty Crop Block Grant Program	$288,257
10.217	Higher Education - Institution Challenge Grants Program	$7,045
10.308	Resident Instruction Grants for Insular Area Activities	
	National Agriculture in the Classroom - Western Region 2012-38858-19937	$2,986
10.446	Rural Community Development Initiative	
	Ravalli County Economic Development Authority	$56,885
10.459	Commodity Partnerships for Small Agricultural Risk Management Education Sessions	$41,947
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	$642,595
10.500	Cooperative Extension Service	$2,439,633
	Fort Belknap Community Council EFNEP 93-638	$32,946
	Kansas State University S12017.01	$380
	Kansas State University S14127	$2,176
	Kansas State University S14185	$3,363
	Kansas State University S13089	$6,011
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	$15,555,176

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2014

			AMOUNT
10.558	Child and Adult Care Food Program		$10,391,226
10.560	State Administrative Expenses for Child Nutrition		$823,776
10.567	Food Distribution Program on Indian Reservations		$4,385,794
10.572	WIC Farmers' Market Nutrition Program (FMNP)		$55,622
10.574	Team Nutrition Grants		$301,980
10.576	Senior Farmers Market Nutrition Program		$95,592
10.578	WIC Grants To States (WGS)		$3,249
10.579	Child Nutrition Discretionary Grants Limited Availability		$367,249
10.582	Fresh Fruit and Vegetable Program		$1,675,818
10.601	Market Access Program		
	United States Livestock Genetics Export 10000U		$21,885
	Western United States Agriculture Trade Association 131		$20,249
10.652	Forestry Research		$402,095
10.664	Cooperative Forestry Assistance		$4,967,697
10.672	Rural Development, Forestry, and Communities		$52,369
10.676	Forest Legacy Program		$726
10.680	Forest Health Protection		$11,958
10.684	International Forestry Programs		$458,842
10.700	National Agricultural Library		$1
10.902	Soil and Water Conservation		$99,909
10.912	Environmental Quality Incentives Program		$2
10.999	Long Term Standing Agreements For Storage, Transportation And Lease		$18,533
		TOTAL	**$44,327,343**
Child Nutrition Cluster			
10.553	School Breakfast Program		$7,209,537
10.555	National School Lunch Program		$28,977,353
10.556	Special Milk Program for Children		$18,921
10.559	Summer Food Service Program for Children		$1,498,817
		TOTAL	**$37,704,628**
Food Distribution Cluster			
10.565	Commodity Supplemental Food Program		$2,648,309
10.568	Emergency Food Assistance Program (Administrative Costs)		$164,855
10.569	Emergency Food Assistance Program (Food Commodities)		$1,418,473
		TOTAL	**$4,231,637**
Forest Service Schools and Roads Cluster			
10.665	Schools and Roads - Grants to States		$18,689,569
		TOTAL	**$18,689,569**
SNAP Cluster			
10.551	Supplemental Nutrition Assistance Program		$181,958,071

		AMOUNT
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	$12,404,636
	TOTAL	**$194,362,707**
	DEPARTMENT OF AGRICULTURE TOTAL	**$299,315,884**

DEPARTMENT OF COMMERCE

11.302	Economic Development_Support for Planning Organizations	$213
	Prospera	$2,500
11.400	Geodetic Surveys and Services (Geodesy and Applications of the National Geodetic Reference System)	$14,906
11.439	Marine Mammal Data Program	$9,833
11.550	Public Telecommunications Facilities Planning and Construction	
	Corporation For Public Broadcasting 1492	$243,857
11.553	Special Projects	
	Public Broadcasting Service 51-51-W1060620	$68,568
11.557	ARRA Broadband Technology Opportunities Program (BTOP)	$2,858
11.558	ARRA State Broadband Data and Development Grant Program	$35,714
11.611	Manufacturing Extension Partnership	$512,272
	TOTAL	**$890,721**
Economic Development Cluster		
11.307	Economic Adjustment Assistance	$1,376,784
11.307	ARRA Economic Adjustment Assistance	$6,283
	TOTAL	**$1,383,067**
	DEPARTMENT OF COMMERCE TOTAL	**$2,273,788**

DEPARTMENT OF DEFENSE

12.112	Payments to States in Lieu of Real Estate Taxes	$3,516
12.114	Collaborative Research and Development	
	Academy of Applied Science 14-14, 14-14A	$2,249
12.217	Electronic Absentee Systems for Elections	$15,000
12.357	ROTC Language and Culture Training Grants	
	Institute of International Education 2013-GO-MONTANA	$277,035
	Institute of International Education 2012-GO-MONTANA	$45,655
12.400	Military Construction, National Guard	$9,251,140
12.401	National Guard Military Operations and Maintenance (O&M) Projects	$27,151,590
12.404	National Guard ChalleNGe Program	$3,318,892
12.579	Language Training Center	
	Institute of International Education 2012-LTC-MONTANA	$635,062
	Institute of International Education 2013-LTC-MONTANA	$1,382,015
12.599	Congressionally Directed Assistance	$3,635

		AMOUNT
12.900	Language Grant Program	$82,882
12.999	Miscellaneous Non-Major Grants	
	Washington State University 118347-G003015	$15,253
	TOTAL	**$42,183,924**
	DEPARTMENT OF DEFENSE TOTAL	**$42,183,924**

DEPARTMENT OF EDUCATION

84.002	Adult Education - Basic Grants to States	$1,191,966
84.010	Title I Grants to Local Educational Agencies	$43,128,238
84.011	Migrant Education_State Grant Program	$832,880
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	$107,668
84.032	Federal Family Education Loans	$916,016
84.048	Career and Technical Education -- Basic Grants to States	$5,292,315
84.051	Career and Technical Education -- National Programs	$214,962
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	$13,787,798
84.133	National Institute on Disability and Rehabilitation Research	$877,131
	Baylor College of Medicine 101750549	$36,925
	Meeting the Challenge H133B110018	$2,939
84.144	Migrant Education_Coordination Program	$92,500
84.169	Independent Living_State Grants	$275,748
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	$219,032
84.181	Special Education-Grants for Infants and Families	$2,305,473
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	$353,914
84.196	Education for Homeless Children and Youth	$158,570
84.215	Fund for the Improvement of Education	$330
84.224	Assistive Technology	$482,414
84.265	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	$15,425
84.287	Twenty-First Century Community Learning Centers	$5,320,299
84.293	Foreign Language Assistance	
	Missoula County Public Schools	$3,230
84.323	Special Education - State Personnel Development	$641,697
84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	$169,371
84.326	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	$103,379
	California State University-Northridge F-11-2963-3-UMT	$134,014
	California State University-Northridge F-11-2963UMT	$47,392
84.327	Special Education_Educational Technology Media, and Materials for Individuals with Disabilities	
	Ohio State University 60036894	$5,131

		AMOUNT
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	$32,639
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	$3,391,423
84.335	Child Care Access Means Parents in School	$45,138
84.358	Rural Education	$449,321
84.359	Early Reading First	$429,201
84.365	English Language Acquisition State Grants	$681,994
84.366	Mathematics and Science Partnerships	$613,169
	Bozeman Public Schools 16 0350 1513 MSP	$16,614
84.367	Improving Teacher Quality State Grants	$12,332,495
	University of California, National Writing Project 93-MT01-SEED2012	$16,946
84.369	Grants for State Assessments and Related Activities	$3,376,811
84.371	Striving Readers	$6,531,265
84.378	College Access Challenge Grant Program	$1,671,720
84.418	Promoting Readiness of Minors in Supplemental Security Income	
	University of Utah 10033712	$36,155
84.928	National Writing Project	
	University of California, National Writing Project 93-MT01	$15,285
84.998	American Printing House for the Blind	$4,577
84.999	Miscellaneous Non-Major Grants	$105,713
	TOTAL	**$106,467,223**
School Improvement Grants Cluster		
84.377	School Improvement Grants	$2,394,655
84.388	ARRA School Improvement Grants, Recovery Act	$1,194,835
	ARRA Lame Deer School 1170	$3,546
	TOTAL	**$3,593,036**
Special Education Cluster (IDEA)		
84.027	Special Education_Grants to States	$37,968,195
84.173	Special Education_Preschool Grants	$1,128,945
	TOTAL	**$39,097,140**
Statewide Data Systems Cluster		
84.372	Statewide Longitudinal Data Systems	$1,983,207
	TOTAL	**$1,983,207**
Student Financial Assistance Cluster		
84.007	Federal Supplemental Educational Opportunity Grants	$1,355,933
84.033	Federal Work-Study Program	$2,157,702
84.038	Federal Perkins Loan Program - Federal Capital Contributions	$59,606
84.063	Federal Pell Grant Program	$58,423,564
84.268	Federal Direct Student Loans	$198,619,135

		AMOUNT
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	$18,215
	TOTAL	**$260,634,155**
Teacher Quality Partnership Grants Cluster		
84.336	Teacher Quality Partnership Grants	($4,962)
	TOTAL	**($4,962)**
TRIO Cluster		
84.042	TRIO_Student Support Services	$1,626,776
84.044	TRIO_Talent Search	$984,174
84.047	TRIO_Upward Bound	$1,166,031
84.066	TRIO_Educational Opportunity Centers	$611,313
84.217	TRIO_McNair Post-Baccalaureate Achievement	$220,162
	TOTAL	**$4,608,456**
	DEPARTMENT OF EDUCATION TOTAL	**$416,378,255**
DEPARTMENT OF ENERGY		
81.041	State Energy Program	$243,666
81.042	Weatherization Assistance for Low-Income Persons	$2,072,786
81.042	ARRA Weatherization Assistance for Low-Income Persons	$409,302
81.049	Office of Science Financial Assistance Program	
	Bioenergy Science Center	$8,435
81.086	Conservation Research and Development	$2,899,999
	Kootenai Tribe of Idaho 2002-011-00	$106,407
	Pacific States Marine Fisheries Commission 13-55/14-40	$92,939
81.087	Renewable Energy Research and Development	$15,619
81.112	Stewardship Science Grant Program	$24,626
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	
	Washington State University 121240_G003325	$8,842
81.999	Miscellaneous Non-Major Grants	$69,231
	TOTAL	**$5,951,852**
	DEPARTMENT OF ENERGY TOTAL	**$5,951,852**
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.041	Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	$17,998
93.042	Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	$53,962
93.043	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	$98,354

		AMOUNT
93.048	Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	$193,601
93.052	National Family Caregiver Support, Title III, Part E	$709,851
93.058	Food and Drug Administration_Research	$123,322
93.069	Public Health Emergency Preparedness	$73,957
93.070	Environmental Public Health and Emergency Response	$291,936
93.071	Medicare Enrollment Assistance Program	$74,809
93.072	Lifespan Respite Care Program	$32,755
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	$5,877,536
93.090	Guardianship Assistance	$979,094
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	$208,847
93.110	Maternal and Child Health Federal Consolidated Programs	$494,573
	Utah State University PO214571-E	$17,693
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	$159,642
93.127	Emergency Medical Services for Children	$293,039
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	$111,652
93.150	Projects for Assistance in Transition from Homelessness (PATH)	$283,676
93.157	Centers of Excellence	$254,597
93.165	Grants to States for Loan Repayment Program	$71,453
93.184	Disabilities Prevention	$297,985
	University of Illinois 200-2011-40306	$23,544
93.210	Tribal Self-Governance Program: IHS Compacts/Funding Agreements	
	Salish Kootenai Tribe	$8,897
93.217	Family Planning_Services	$2,023,871
93.236	Grants to States to Support Oral Health Workforce Activities	$436,803
93.241	State Rural Hospital Flexibility Program	$1,078,035
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	$3,228,522
93.251	Universal Newborn Hearing Screening	$203,862
93.262	Occupational Safety and Health Program	$102,583
	Colorado State University G88360-2	$535
	Colorado State University G-88360-1	$6,313
93.268	Immunization Cooperative Agreements	$9,877,901
93.270	Adult Viral Hepatitis Prevention and Control	$16,771
93.283	Centers for Disease Control and Prevention_Investigations and Technical Assistance	$4,834,497
	Association of Maternal & Child Health Programs 2013-05-0528-01	$2,643
	Association of University Centers On Disabilities 013723	$1,330
93.292	National Public Health Improvement Initiative	
	Association of Maternal & Child Health Programs	$1,688
93.307	Minority Health and Health Disparities Research	$9,674,566
93.324	State Health Insurance Assistance Program	$37,143

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2014

		AMOUNT
93.358	Advanced Education Nursing Traineeships	$345,913
93.414	ARRA - State Primary Care Offices	$54,564
93.448	Food Safety and Security Monitoring Project	$64,749
93.449	Ruminant Feed Ban Support Project	$22,817
93.500	Pregnancy Assistance Fund Program	$1,086,448
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	$2,254,410
93.507	PPHF National Public Health Improvement Initiative	$228,294
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements;PPHF	$935,858
93.531	PPHF - Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by Prevention and Public Health Funds	$781,546
93.536	The Affordable Care Act Medicaid Incentives for Prevention of Chronic Disease Demonstration Project	$101,785
93.539	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance Financed in Part by Prevention and Public Health Funds	$380,792
93.544	The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program	$164,281
93.556	Promoting Safe and Stable Families	$843,170
93.563	Child Support Enforcement	$10,865,262
93.566	Refugee and Entrant Assistance_State Administered Programs	$39,112
93.568	Low-Income Home Energy Assistance	$20,703,543
93.569	Community Services Block Grant	$3,157,682
93.586	State Court Improvement Program	$345,924
93.590	Community-Based Child Abuse Prevention Grants	$188,821
93.597	Grants to States for Access and Visitation Programs	$97,382
93.599	Chafee Education and Training Vouchers Program (ETV)	$180,531
93.600	Head Start	$109,695
93.603	Adoption Incentive Payments	$1,138
93.609	The Affordable Care Act - Medicaid Adult Quality Grants	$668,734
93.610	Health Care Innovation Awards (HCIA)	
	Mineral Regional Health Center, Inc 331058-02-UMSA01	$61,499
93.612	Native American Programs	
	Salish Kootenai Tribe 14-057	$48,419
93.617	Voting Access for Individuals with Disabilities_Grants to States	$10,616
93.630	Developmental Disabilities Basic Support and Advocacy Grants	$453,944
93.632	University Centers for Excellence in Developmental Disabilities Education, Research, and Service	$572,397
93.643	Children's Justice Grants to States	$119,819
93.645	Stephanie Tubbs Jones Child Welfare Services Program	$622,303
93.648	Child Welfare Research Training or Demonstration	
	Research Foundation for The State University of New York 11-33 RF 1098400-17-59109	($65)

		AMOUNT
	Research Foundation for The State University of New York 12-48	$120,839
93.652	Adoption Opportunities	$592,043
93.658	Foster Care_Title IV-E	$12,347,325
93.659	Adoption Assistance	$7,861,513
93.667	Social Services Block Grant	$6,939,468
93.669	Child Abuse and Neglect State Grants	$148,211
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	$794,588
93.674	Chafee Foster Care Independence Program	$549,183
93.708	ARRA - Head Start	$225,220
93.729	ARRA Health Information Technology and Public Health	$75,309
93.745	PPHF: Health Care Surveillance/Health Statistics - Surveillance Program Announcement: Behavioral Risk Factor Surveillance System Financed in Part by Prevention and Public Health Fund	$127,664
93.767	Children's Health Insurance Program	$80,308,752
93.789	Alternatives to Psychiatric Residential Treatment Facilities for Children	$637,641
93.791	Money Follows the Person Rebalancing Demonstration	$159,570
93.859	Biomedical Research and Research Training	
	University of New Mexico 3RN79	$13,370
93.879	Medical Library Assistance	
	University of Illinois PAF# 2010-06621-83-00	$5,065
93.884	Grants for Primary Care Training and Enhancement	
	University of Pikeville 13-01	$40,902
	University of Pikeville D58HP23226	$91,305
93.889	National Bioterrorism Hospital Preparedness Program	$6,117
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	
	Madison Valley Medical Center 13-01	$37,868
	Madison Valley Medical Center	$7,629
	St Lukes Community Hospital 2011-01	$45,951
93.913	Grants to States for Operation of Offices of Rural Health	$173,416
93.917	HIV Care Formula Grants	$1,303,242
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	$70,405
93.940	HIV Prevention Activities_Health Department Based	$929,699
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	$152,173
	Association of University Centers on Disabilities	$1,313
93.945	Assistance Programs for Chronic Disease Prevention and Control	$3,321,532
93.958	Block Grants for Community Mental Health Services	$1,230,677
93.959	Block Grants for Prevention and Treatment of Substance Abuse	$6,817,765
93.969	PPHF Geriatric Education Centers	$459,870
93.970	Health Professions Recruitment Program for Indians	$191,746

		AMOUNT
93.977	Preventive Health Services_Sexually Transmitted Diseases Control Grants	$275,170
93.991	Preventive Health and Health Services Block Grant	$657,257
93.994	Maternal and Child Health Services Block Grant to the States	$2,190,805
93.999	Miscellaneous Non-Major Grants	$50,717
	TOTAL	**$216,752,539**
Aging Cluster		
93.044	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	$1,997,743
93.045	Special Programs for the Aging_Title III, Part C_Nutrition Services	$3,341,544
93.053	Nutrition Services Incentive Program	$1,095,913
	TOTAL	**$6,435,200**
CCDF Cluster		
93.575	Child Care and Development Block Grant	$11,884,634
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	$8,196,628
	TOTAL	**$20,081,262**
Medicaid Cluster		
93.775	State Medicaid Fraud Control Units	$505,178
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	$2,813,351
93.778	Medical Assistance Program	$775,339,884
93.778	ARRA Medical Assistance Program	($52,032)
	TOTAL	**$778,606,381**
Student Financial Assistance Cluster		
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	$676
93.364	Nursing Student Loans	$86,578
	TOTAL	**$87,254**
TANF Cluster		
93.558	Temporary Assistance for Needy Families	$28,650,262
	TOTAL	**$28,650,262**
	DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL	**$1,050,612,898**

DEPARTMENT OF HOUSING & URBAN DEVELOPMENT

14.103	Interest Reduction Payments_Rental and Cooperative Housing for Lower Income Families	$126,846
14.169	Housing Counseling Assistance Program	$494,339
14.231	Emergency Solutions Grant Program	$661,502
14.235	Supportive Housing Program	$77,175
14.238	Shelter Plus Care	$163,851
14.239	Home Investment Partnerships Program	$2,646,140

		AMOUNT
14.241	Housing Opportunities for Persons with AIDS	$968,625
14.323	Emergency Homeowners' Loan Program	$16,070
14.877	Public Housing Family Self-Sufficiency under Resident Opportunity and Supportive Services	
	Missoula Housing Authority	$57,937
	TOTAL	**$5,212,485**
CDBG - State-Administered CDBG Cluster		
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	$7,527,169
	TOTAL	**$7,527,169**
Housing Voucher Cluster		
14.871	Section 8 Housing Choice Vouchers	$18,133,705
	TOTAL	**$18,133,705**
Section 8 Project-Based Cluster		
14.195	Section 8 Housing Assistance Payments Program	$19,466,623
14.856	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitation	$1,739,741
	TOTAL	**$21,206,364**
	DEPARTMENT OF HOUSING & URBAN DEVELOPMENT TOTAL	**$52,079,723**

DEPARTMENT OF JUSTICE

16.017	Sexual Assault Services Formula Program	$251,797
16.523	Juvenile Accountability Block Grants	$158,339
16.525	Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	$112,343
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	$536,150
16.541	Part E - Developing, Testing and Demonstrating Promising New Programs	$21,640
16.548	Title V_Delinquency Prevention Program	$19,986
16.550	State Justice Statistics Program for Statistical Analysis Centers	$84,664
16.575	Crime Victim Assistance	$1,865,655
16.576	Crime Victim Compensation	$389,616
16.585	Drug Court Discretionary Grant Program	$465,191
16.588	Violence Against Women Formula Grants	$992,176
16.589	Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	
	Missoula City-County 2008-WR-AX-0008	$16,432
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	$205,815
16.593	Residential Substance Abuse Treatment for State Prisoners	$150,590
16.606	State Criminal Alien Assistance Program	$20,904
16.609	Project Safe Neighborhoods	$7,155
16.726	Juvenile Mentoring Program	
	National 4-H Council	$116
	National 4-H Council 4-H MENTORING PROGRAM YEAR 4	$46,083
16.727	Enforcing Underage Drinking Laws Program	$102,658

		AMOUNT
16.731	Tribal Youth Program	$124,109
16.735	PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities	$54,126
16.740	Statewide Automated Victim Information Notification (SAVIN) Program	$28,432
16.741	DNA Backlog Reduction Program	$154,997
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	$47,856
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	$6,000
16.751	Edward Byrne Memorial Competitive Grant Program	$30,767
16.754	Harold Rogers Prescription Drug Monitoring Program	$189,044
16.812	Second Chance Act Reentry Initiative	$489,114
16.922	Equitable Sharing Program	$319,419
	TOTAL	**$6,891,174**
JAG Program Cluster		
16.738	Edward Byrne Memorial Justice Assistance Grant Program	$1,230,548
	TOTAL	**$1,230,548**
	DEPARTMENT OF JUSTICE TOTAL	**$8,121,722**

DEPARTMENT OF LABOR

17.002	Labor Force Statistics	$619,519
17.005	Compensation and Working Conditions	$73,588
17.225	Unemployment Insurance	$147,832,099
17.235	Senior Community Service Employment Program	$549,351
17.245	Trade Adjustment Assistance	$486,065
17.271	Work Opportunity Tax Credit Program (WOTC)	$57,415
17.273	Temporary Labor Certification for Foreign Workers	$43,563
17.274	Youthbuild	$77,943
17.277	Workforce Investment Act (WIA) National Emergency Grants	$1,250,509
17.280	Workforce Investment Act (WIA) Dislocated Worker National Reserve Demonstration Grants	$44,654
17.282	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	$989,636
17.283	Workforce Innovation Fund	
	State Of Utah	$351,356
17.504	Consultation Agreements	$441,748
17.600	Mine Health and Safety Grants	$186,278
	TOTAL	**$153,003,724**
Employment Service Cluster		
17.207	Employment Service/Wagner-Peyser Funded Activities	$5,489,322
17.801	Disabled Veterans' Outreach Program (DVOP)	$460,074
17.804	Local Veterans' Employment Representative Program	$103,981
	TOTAL	**$6,053,377**

		AMOUNT
WIA Cluster		
17.258	WIA Adult Program	$2,107,762
17.259	WIA Youth Activities	$2,164,662
17.278	WIA Dislocated Worker Formula Grants	$1,983,841
	TOTAL	**$6,256,265**
	DEPARTMENT OF LABOR TOTAL	**$165,313,366**

DEPARTMENT OF STATE

19.009	Academic Exchange Programs - Undergraduate Programs	$228,768
19.010	Academic Exchange Programs - Hubert H. Humphrey Fellowship Program	
	Institute of International Education S-ECAGD-13-CA-008(DT)	$69,508
	Institute of International Education S-ECAGD-14-CA-1037	$873
	Institute of International Education S-ECAGD-14-CA-1038	$36,817
19.401	Academic Exchange Programs - Scholars	$151,412
19.408	Academic Exchange Programs - Teachers	
	International Research and Exchanges Board FY12-TEA-MSU-01	$261
	International Research and Exchanges Board SUBGRANT NO. FY13-TEA-MSU-01	$180,094
19.415	Professional and Cultural Exchange Programs - Citizen Exchanges	$708,344
	TOTAL	**$1,376,077**
	DEPARTMENT OF STATE TOTAL	**$1,376,077**

DEPARTMENT OF THE INTERIOR

15.034	Agriculture on Indian Lands	
	Fort Belknap Community Council A10AV00583 FB	$24,087
15.114	Indian Education_Higher Education Grant Program	$41,555
15.224	Cultural Resource Management	$13,642
15.225	Recreation Resource Management	$44,304
15.231	Fish, Wildlife and Plant Conservation Resource Management	$61,290
15.236	Environmental Quality and Protection Resource Management	$769,032
15.238	Challenge Cost Share	$8,023
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	$1,629,841
15.252	Abandoned Mine Land Reclamation (AMLR) Program	$10,791,073
15.427	Federal Oil and Gas Royalty Management State and Tribal Coordination	$262,360
15.517	Fish and Wildlife Coordination Act	$71,669
15.608	Fish and Wildlife Management Assistance	$695,703
15.615	Cooperative Endangered Species Conservation Fund	$1,511,863
15.623	North American Wetlands Conservation Fund	
	Northern Great Plains Joint Venture	$24,000
15.632	Conservation Grants Private Stewardship for Imperiled Species	$130

		AMOUNT
15.634	State Wildlife Grants	$985,269
15.635	Neotropical Migratory Bird Conservation	$13,119
15.637	Migratory Bird Joint Ventures	$19,136
15.650	Research Grants (Generic)	$99,200
15.657	Endangered Species Conservation - Recovery Implementation Funds	$28,232
15.664	Fish and Wildlife Coordination and Assistance Programs	$14,472
15.669	Cooperative Landscape Conservation	$10,689
15.904	Historic Preservation Fund Grants-In-Aid	$726,697
15.916	Outdoor Recreation_Acquisition, Development and Planning	$817,295
15.922	Native American Graves Protection and Repatriation Act	$21,443
15.944	Natural Resource Stewardship	$25,365
15.945	Cooperative Research and Training Programs - Resources of the National Park System	$31,890
15.999	Miscellaneous Non-Major Grants	$11,505
	TOTAL	**$18,752,884**
Fish and Wildlife Cluster		
15.605	Sport Fish Restoration Program	$9,005,415
15.611	Wildlife Restoration and Basic Hunter Education	$10,608,846
	TOTAL	**$19,614,261**
	DEPARTMENT OF THE INTERIOR TOTAL	**$38,367,145**

DEPARTMENT OF TRANSPORTATION

20.106	Airport Improvement Program	$314,056
20.218	National Motor Carrier Safety	$1,663,863
20.232	Commercial Driver's License Program Improvement Grant	$196,139
20.233	Border Enforcement Grants	$777,371
20.237	Commercial Vehicle Information Systems and Networks	$136,674
20.299	Miscellaneous Non-Major Grants	$1,679,962
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	$377,326
20.509	Formula Grants for Rural Areas	$9,415,169
20.515	State Planning and Research	$72,927
20.607	Alcohol Open Container Requirements	$3,273,643
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	$6,693,349
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	$80,849
20.616	National Priority Safety Programs	$1,031,664
20.700	Pipeline Safety Program State Base Grant	$180,441
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	$69,871
20.933	National Infrastructure Investments	
	Gallatin County TG4F13	$6,239,526
	TOTAL	**$32,202,830**

		AMOUNT
Federal Transit Cluster		
20.500	Federal Transit_Capital Investment Grants	$1,139,328
	TOTAL	**$1,139,328**
Highway Planning and Construction Cluster		
20.205	Highway Planning and Construction	$422,487,564
20.205	ARRA Highway Planning and Construction	($380,353)
20.219	Recreational Trails Program	$1,360,852
	TOTAL	**$423,468,063**
Highway Safety Cluster		
20.600	State and Community Highway Safety	$1,757,801
	Idaho Department of Transportation Linkenbach Health and Safety	$64,797
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	$1,559,217
20.602	Occupant Protection Incentive Grants	$52,892
20.610	State Traffic Safety Information System Improvement Grants	$707,293
20.611	Incentive Grant Program to Prohibit Racial Profiling	$66,698
20.612	Incentive Grant Program to Increase Motorcyclist Safety	$77,130
	TOTAL	**$4,285,828**
Transit Services Programs Cluster		
20.513	Enhanced Mobility of Seniors and Individuals with Disabilities	$27,812
20.516	Job Access And Reverse Commute Program	$153,453
	TOTAL	**$181,265**
	DEPARTMENT OF TRANSPORTATION TOTAL	**$461,277,314**

DEPARTMENT OF TREASURY

21.999	Miscellaneous Non-Major Grants	$4,472
21.999	Miscellaneous Non-Major Grants	$125,613
	TOTAL	**$130,085**
	DEPARTMENT OF TREASURY TOTAL	**$130,085**

DEPARTMENT OF VETERANS AFFAIRS

64.014	Veterans State Domiciliary Care	$175,621
64.015	Veterans State Nursing Home Care	$7,025,573
64.124	All-Volunteer Force Educational Assistance	$135,707
64.203	State Cemetery Grants	$1,453,442
	TOTAL	**$8,790,343**
	DEPARTMENT OF VETERANS AFFAIRS TOTAL	**$8,790,343**

		AMOUNT
ENVIRONMENTAL PROTECTION AGENCY		
66.040	State Clean Diesel Grant Program	$109,277
66.202	Congressionally Mandated Projects	$57,114
66.433	State Underground Water Source Protection	$107,083
66.454	Water Quality Management Planning	$100,000
66.460	Nonpoint Source Implementation Grants	$2,032,714
	Soil and Water Conservation Districts of MT	$959
66.461	Regional Wetland Program Development Grants	$175,774
66.474	Water Protection Grants to the States	($219)
66.514	Science To Achieve Results (STAR) Fellowship Program	$75,709
66.605	Performance Partnership Grants	$5,844,244
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	$367,002
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	$2,396,478
66.804	Underground Storage Tank Prevention, Detection and Compliance Program	$469,445
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	$772,699
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	$189,625
66.817	State and Tribal Response Program Grants	$691,632
66.951	Environmental Education Grants	$49,687
	TOTAL	**$13,439,223**
Clean Water State Revolving Fund Cluster		
66.458	Capitalization Grants for Clean Water State Revolving Funds	$6,598,437
	TOTAL	**$6,598,437**
Drinking Water State Revolving Fund Cluster		
66.468	Capitalization Grants for Drinking Water State Revolving Funds	$7,426,485
	TOTAL	**$7,426,485**
	ENVIRONMENTAL PROTECTION AGENCY TOTAL	**$27,464,145**
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION		
30.002	Employment Discrimination-State and Local Fair Employment Practices Agency Contracts	$380,386
	TOTAL	**$380,386**
	EQUAL EMPLOYMENT OPPORTUNITY COMMISSION TOTAL	**$380,386**
EXECUTIVE OFFICE OF THE PRESIDENT		
95.001	High Intensity Drug Trafficking Areas Program	$38,668
	TOTAL	**$38,668**
	EXECUTIVE OFFICE OF THE PRESIDENT TOTAL	**$38,668**

		AMOUNT
GENERAL SERVICES ADMINISTRATION		
39.003	Donation of Federal Surplus Personal Property	$129,495
39.011	Election Reform Payments	$108,689
	TOTAL	**$238,184**
	GENERAL SERVICES ADMINISTRATION TOTAL	**$238,184**
HOMELAND SECURITY		
97.012	Boating Safety Financial Assistance	$444,776
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	$214,694
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	($1,026,722)
97.039	Hazard Mitigation Grant	$1,061,496
97.041	National Dam Safety Program	$205,827
97.042	Emergency Management Performance Grants	$2,954,925
97.043	State Fire Training Systems Grants	$17,384
97.045	Cooperating Technical Partners	$622,098
97.046	Fire Management Assistance Grant	$3,029,020
97.047	Pre-Disaster Mitigation	$2,043,916
97.055	Interoperable Emergency Communications	$17,970
97.067	Homeland Security Grant Program	$6,398,228
	Montana Department of Military Affairs EMW-2011-SS-00052	$10,820
97.120	Border Interoperability Demonstration Project	$1,928,629
	TOTAL	**$17,923,061**
	HOMELAND SECURITY TOTAL	**$17,923,061**
LIBRARY OF CONGRESS		
42.999	Miscellaneous Non-Major Grants	
	National Film Preservation Foundation FED12-043	$4,135
	National Film Preservation Foundation FED13-032	$6,010
	TOTAL	**$10,145**
	LIBRARY OF CONGRESS TOTAL	**$10,145**
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.001	Science	$5,669
	Johns Hopkins University 106501; CLIN 1	$21,371
	TOTAL	**$27,040**
	NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL	**$27,040**

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2014

		AMOUNT
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION		
89.003	National Historical Publications and Records Grants	$22,946
	TOTAL	**$22,946**
	NATIONAL ARCHIVES AND RECORDS ADMINISTRATION TOTAL	**$22,946**
NATIONAL ENDOWMENT FOR THE HUMANITIES		
45.024	Promotion of the Arts_Grants to Organizations and Individuals	$10,000
45.025	Promotion of the Arts_Partnership Agreements	$772,329
45.129	Promotion of the Humanities_Federal/State Partnership	
	Humanities Montana	$1,603
	Humanities Montana 13R013	$1,238
	Humanities Montana 13R030	$5
	Humanities Montana 13R054	$750
	Humanities Montana 14R008	$4,285
	Humanities Montana 14R024	$5,029
	Humanities Montana 14R034	$5,111
	Humanities Montana 14R040	$463
	Humanities Montana 14R022	$5,996
	Humanities Montana 14R009	$1,504
45.149	Promotion of the Humanities_Division of Preservation and Access	$183,263
	Idaho State Historical Society	$2,066
45.163	Promotion of the Humanities_Professional Development	$154,252
45.310	Grants to States	$988,582
45.312	National Leadership Grants	$159,738
45.313	Laura Bush 21st Century Librarian Program	$43,846
	TOTAL	**$2,340,060**
	NATIONAL ENDOWMENT FOR THE HUMANITIES TOTAL	**$2,340,060**
NATIONAL SCIENCE FOUNDATION		
47.074	Biological Sciences	$15,471
47.076	Education and Human Resources	$1,016,645
	Salish Kootenai College BSP08 24-392-1420-56300-00	$45,872
	Salish Kootenai College SKC ANLSAMP 3	$5,331
	Salish Kootenai College UM-SA01	$7,800
	University of California, National Writing Project 93-MT01-NSF2013	$10,443
	TOTAL	**$1,101,562**
	NATIONAL SCIENCE FOUNDATION TOTAL	**$1,101,562**

		AMOUNT
OTHER FEDERAL		
99.999	Other Federal	$24,410
	TOTAL	**$24,410**
	OTHER FEDERAL TOTAL	**$24,410**
PEACE CORPS		
08.999	Miscellaneous Non-Major Grants	$9,897
	TOTAL	**$9,897**
	PEACE CORPS TOTAL	**$9,897**
SMALL BUSINESS ADMINISTRATION		
59.037	Small Business Development Centers	$549,202
59.058	Federal and State Technology Partnership Program	$42,690
	Defense Alliance of Minnesota ADT CLUSTER - TECHLINK	$16,533
59.059	Congressional Grants	$165,406
59.061	State Trade and Export Promotion Pilot Grant Program	$63,446
	TOTAL	**$837,277**
	SMALL BUSINESS ADMINISTRATION TOTAL	**$837,277**
SOCIAL SECURITY ADMINISTRATION		
96.008	Social Security - Work Incentives Planning and Assistance Program	$65,031
	TOTAL	**$65,031**
Disability Insurance/SSI Cluster		
96.001	Social Security_Disability Insurance	$6,178,282
	TOTAL	**$6,178,282**
	SOCIAL SECURITY ADMINISTRATION TOTAL	**$6,243,313**

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2014

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
DEPARTMENT OF AGRICULTURE		
10.674	Wood Utilization Assistance	$48,990
10.777	Norman E. Borlaug International Agricultural Science and Technology Fellowship	($6)
Agricultural Marketing Service		
10.156	Federal-State Marketing Improvement Program	$3
Agricultural Research Service		
10.001	Agricultural Research_Basic and Applied Research	$12,045
Animal And Plant Health Inspection Service		
10.025	Plant and Animal Disease, Pest Control, and Animal Care	$223,533
	Montana Department of Livestock MOA	$6,573
	Montana Department of Livestock MOU	$35,150
	Montana Department of Livestock	$225,141
Cooperative State Research, Education And Extension Service		
10.200	Grants for Agricultural Research, Special Research Grants	$304,919
	Fort Peck Community College BRESTER USRE	$19,865
	Michigan State University RC064356LA	$17,009
	North Dakota State University FAR-0018591-2	$9,364
	North Dakota State University FAR-0016601	($415)
	South Dakota State University 3TD033	$20
	University of Idaho BAK306-SB-001	$3,470
	University of Idaho BAK307-SB-003	$3,562
	University of Idaho BAK308-SB-001	$20,463
	University of Idaho GPK584-SB-002	($68)
	University of Washington SC 734586	$7,055
	University of Washington SC 721204	$4,226
	University of Washington SUBCONTRACT NO. 748614	($5)
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	$2,520,174
10.206	Grants for Agricultural Research_Competitive Research Grants	$288,946
10.207	Animal Health and Disease Research	$33,846
10.215	Sustainable Agriculture Research and Education	
	Utah State University 110892006	$66,012
	Utah State University 120833015	$30,456
	Utah State University 110892005	$122,283
	Utah State University 100893005	$63,305
	Utah State University 100893030	$13,464
	Utah State University 100893032	$8,802
	Utah State University 120833024	$54,967
	Western Region SARE Program SW12-108/110892011	$44,298
	Western Region SARE Program 120833025	$87,420
10.500	Cooperative Extension Service	$561,047

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
	Auburn University 13-HHP-379816-MT	$26,609
	Fort Peck Community College	$105,942
	Kansas State University S13182	$3,185
	Kansas State University S14066	$18,140
	Mississippi State University 018000-340436-02	$180
	Missoula County Weed District	$5,949
	Purdue University 8000047641	$234
	Purdue University 8000054850	$86,594
	University of Nebraska Lincoln 25-6365-0040-134	$2,951
	University of Nebraska Lincoln 25-6365-0040-138	$2,279
	University of Nebraska Lincoln 25-6262-0004-002	$32,548
	University of Wyoming 1001723	$1,849
	University of Wyoming 1001769	$15,779
	University of Wyoming 1001381	$3,086
	Utah State University 110897006	$8,496
	Utah State University 120834001	($55)
	Utah State University 120834002	$13,075
	Western Region SARE Program 1002139	$734
	Western Region SARE Program OW12-044 110892010	$12,125
Departmental Management		
10.443	Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers	
	Little Big Horn College LBHC/FRICK	$122
	Little Big Horn College FRICK.2013-14	$8,804
Forest Service		
10.652	Forestry Research	$4,698,933
	National Forest Foundation AF-706	$10,828
	Salish Kootenai College 2011-38424-30518	$22,009
10.676	Forest Legacy Program	$3,473
10.680	Forest Health Protection	$153,227
10.681	Wood Education and Resource Center (WERC)	$23,130
10.682	National Forest Foundation	$16,863
	National Forest Foundation AE-110	$36,780
Miscellaneous		
10.999	Long Term Standing Agreements For Storage, Transportation And Lease	$5,243
National Institute Of Food And Agriculture		
10.202	Cooperative Forestry Research	$548,251
10.221	Tribal Colleges Education Equity Grants	
	Fort Peck Community College	$42,365
10.227	1994 Institutions Research Program	
	Aaniiih Nakoda College MSU-38424-19763	$16,041
	Salish Kootenai College 24-171-MSU-91	$699

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RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
	Salish Kootenai College MOA/HARMON	$19,309
10.303	Integrated Programs	$540,036
10.304	Homeland Security_Agricultural	
	Kansas State University S13009	$23,448
10.307	Organic Agriculture Research and Extension Initiative	$236,211
10.309	Specialty Crop Research Initiative	
	Washington State University 112674 G002969	$2,487
10.310	Agriculture and Food Research Initiative (AFRI)	$450,942
	Boston University 4500001196	$10,789
	Colorado State University G-91600-2	$6,294
	Colorado State University G-70001-1	$857
	Colorado State University G-91600-3	$16,657
	Emory University 2011-37023-30090	$38,550
	University of California Davis 201015718-18	$496,067
	University of Nebraska Lincoln 25-6268-0005-004	$111,895
	University of Wyoming 1002178-MSU	$21,694
	University of Wyoming 1001391	$27,773
	Washington State University 115808 G002983	$26,414
	Washington State University 115808 G002984	$93,704
10.312	Biomass Research and Development Initiative Competitive Grants Program (BRDI)	
	Kansas State University S13098	$155,509
Natural Resources Conservation Service		
10.902	Soil and Water Conservation	$275,013
	University of Wisconsin 363K915	$60,641
10.912	Environmental Quality Incentives Program	$236,068
Rural Housing Service		
10.446	Rural Community Development Initiative	
	Anaconda Local Development Corporation 1	$62,905
	DEPARTMENT OF AGRICULTURE TOTAL	**$13,675,645**
DEPARTMENT OF COMMERCE		
11.431	Climate and Atmospheric Research	$1,061
Economic Development Administration		
11.302	Economic Development_Support for Planning Organizations	$7,318
11.303	Economic Development_Technical Assistance	$11,634
11.307	Economic Adjustment Assistance	$177,501
	Butte Local Development 05-69-05486	$7,691
National Oceanic And Atmospheric Administration (NOAA)		
11.439	Marine Mammal Data Program	$48,513
11.440	Environmental Sciences, Applications, Data, and Education	($41)

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
National Telecommunications And Information Administration		
11.549	State and Local Implementation Grant Program	$13,426
	DEPARTMENT OF COMMERCE TOTAL	**$267,103**
DEPARTMENT OF DEFENSE		
Advanced Research Projects Agency		
12.910	Research and Technology Development	$3
	Duke University 12-DARPA-1073	$166,292
	Northwestern University SP0020412-PRJ005187	$133,726
Defense Logistics Agency		
12.002	Procurement Technical Assistance For Business Firms	$2,865,239
Department Of The Air Force, Materiel Command		
12.800	Air Force Defense Research Sciences Program	$4,072,559
	University of Minnesota A001650202	$119,067
Department Of The Army, Office Of The Chief Of Engineers		
12.114	Collaborative Research and Development	$537,492
	Advr Inc MSU-ADVR	$100
	Physical Sciences Inc SC58641-6377-001	($399)
	University of Colorado FY11.360.007	$222,043
Department Of The Navy, Office Of The Chief Of Naval Research		
12.300	Basic and Applied Scientific Research	$1,088,433
	Impact Technologies, LLC S1614A	$87,763
	Qualtech Systems Inc QSI-DSC-13-006	$12,393
	S2 Corp S2-4040-13-03	$19,191
	S2 Corp S2-0252-1202	($2)
	University of Oklahoma 2011-20	$352,639
Miscellaneous		
12.999	Miscellaneous Non-Major Grants	
	ACI Technologies, Inc. N00014-08-D-0758	$29,997
	Science Applications International Corporation W91CRB-11-D-0001	$171,719
	Washington State University 118347-G003168	$51,112
12.R&D	Miscellaneous Research and Development	
	Aerodyne Research Incorporated ARI-10925-1	$6,962
	Alion Science and Technology SUB1118329PT	$66,583
	EDAptive Computing, Inc. MILTECH-N0042104D0007-0012	$50,235
	ERC Inc RS131191	$12,500
	ERC Inc RS130624	$12,500
	Lockheed Martin Corporation XL3413890E	$10,009
	S2 Corp S2-14-0006-02	$43,555
	Sierra Nevada Corporation PO#: 240801	$36,751
	UES Inc S-875-040-009	$13,847

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RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
Office Of The Secretary Of Defense		
12.360	Research on Chemical and Biological Defense	$6,985
12.560	DOD, NDEP, DOTC-STEM Education Outreach Implementation	$78,840
12.630	Basic, Applied, and Advanced Research in Science and Engineering	$251,809
U. S. Army Medical Command		
12.420	Military Medical Research and Development	$872,343
U.S. Army Materiel Command		
12.431	Basic Scientific Research	$488,507
	University of Alabama W911NF-10-2-0025	$323,234
	DEPARTMENT OF DEFENSE TOTAL	**$12,204,027**
DEPARTMENT OF EDUCATION		
Office Of Elementary And Secondary Education		
84.299	Indian Education -- Special Programs for Indian Children	$305,135
	Little Big Horn College ILEAD	$560,391
84.367	Improving Teacher Quality State Grants	
	National Writing Project 09-MT02-SEED2012	$3,143
	University of California Berkeley 09-MT02-SEED2012	$3,387
Office Of Special Education And Rehabilitative Services		
84.133	National Institute on Disability and Rehabilitation Research	$257,269
	Portland State University 200OSC249	$18,156
	University of Kansas H133B110006	$58,720
84.373	Special Education_Technical Assistance on State Data Collection	
	Meeting the Challenge	$15,797
	DEPARTMENT OF EDUCATION TOTAL	**$1,221,998**
DEPARTMENT OF ENERGY		
81.049	Office of Science Financial Assistance Program	$939,293
	Inland Northwest Research Alliance T.O. 60-5007-302	$1,141
	Inland Northwest Research Alliance T.O. 60-5007-301	$7,952
	Intelligent Optical Systems Inc MSU-IOS	$6,748
	Los Alamos National Security 187235	$9,567
	Montana Emergent Technologies MET - MSU DOE STTR	$66,365
	National Securities Technology 145845	$51,594
	National Securities Technology #145485	$12,647
	Physical Sciences Inc PSI CORP - MSU REPASKY	$72,312
	University of Southern California 159427/DE-SC0006813	$188,163
	University of Tennessee A12-0085-S001	$221,323
	Vista Clara Inc VISTA CLARA-MSU	$126,679
81.079	Regional Biomass Energy Programs	
	South Dakota State University 3TC147	$2,639

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RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
81.087	Renewable Energy Research and Development	$234,758
	Consortium for Plant Biotechnology Research GO12026-324	$24,520
	University of Toledo F-2013-30	$252,855
81.087	ARRA Renewable Energy Research and Development	$337,450
	ARRA Arizona Geological Survey DE-EE0002850	$33,553
81.089	Fossil Energy Research and Development	$10,680,749
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	$256,166
	University of Wyoming DE-OE000657	$3,888
81.122	ARRA Electricity Delivery and Energy Reliability, Research, Development and Analysis	$44,059
	ARRA University of Minnesota A000211586	$13
81.133	ARRA Geologic Sequestration Training and Research Grant Program	$36,619
81.135	Advanced Research Projects Agency - Energy	
	Donald Danforth Plant Science 21018-MT	$168,205
81.214	Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response Research, Outreach, Technical Analysis	
	Aerodyne Research Incorporated ARI 10744-1	$15,000
	American Indian Higher Education Consortium MSU-AISES RICH MACUR	$19,296
	American Indian Science and Engineering Society MSU AIREI	($86)
Miscellaneous		
81.999	Miscellaneous Non-Major Grants	
	Battelle Energy Alliance DE-AC07-05ID14517	$104,661
	Battelle Energy Alliance 193698	$8,608
	Bonneville Power Administration 60312	$188,125
	Sandia National Laboratories 1340328	$142,274
	Sandia National Laboratories 1440479	$11,196
81.R&D	Miscellaneous Research and Development	
	Oregon Dept of Fish & Wildlife ODFW AGREEMENT #362-13	$3,956
	DEPARTMENT OF ENERGY TOTAL	**$14,272,288**
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.276	Drug-Free Communities Support Program Grants	
	JBS International JBS/MSU 253313	$3,849
	JBS International HHSS28342001T 253313	$4,798
Centers for Disease Control and Prevention		
93.136	Injury Prevention and Control Research and State and Community Based Programs	$125,929
	Mount Sinai School of Medicine 0254-5675-4609	$40,352
	Mount Sinai School of Medicine 0254-5674-4609	$22,895
93.262	Occupational Safety and Health Program	
	Colorado State University G-4686-3	$7,500
	Colorado State University G-4686-2	$5,162

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RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
Health Care Financing Administration		
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	$287,913
	Mineral Regional Health Center FMBHP-SC3	$144,522
Health Resources And Services Administration		
93.107	Area Health Education Centers Point of Service Maintenance and Enhancement Awards	$138,661
93.155	Rural Health Research Centers	$200,261
93.178	Nursing Workforce Diversity	$277,362
93.247	Advanced Nursing Education Grant Program	$270,783
93.301	Small Rural Hospital Improvement Grant Program	$428,501
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	
	Gallatin County	$121
	Gallatin County 12-07-5-31-028-0	$104
93.824	Area Health Education Centers Infrastructure Development Awards	$516,036
93.912 Provider	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Quality Improvement Program	$203,988
Indian Health Service		
93.970	Health Professions Recruitment Program for Indians	$242,281
Miscellaneous		
93.999	Miscellaneous Non-Major Grants	$61,521
National Institutes Of Health		
93.113	Environmental Health	$845,403
93.121	Oral Diseases and Disorders Research	$25,254
93.172	Human Genome Research	$82,402
	Stanford University 60463995-29913-C	$96,947
93.213	Research and Training in Complementary and Alternative Medicine	$400,050
93.242	Mental Health Research Grants	$415,061
	University of Washington 753503	$14,772
93.279	Drug Abuse and Addiction Research Programs	$453,699
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	$422,390
93.307	Minority Health and Health Disparities Research	$17,711
	Little Big Horn College RIMI SUBCONTRACT - 4W1905	$5,757
	University of Nevada, Las Vegas 14-746Q-MSU-PG3-00	$81,790
93.310	Trans-NIH Research Support	$100,204
93.350	National Center for Advancing Translational Sciences	
	University of Washington 755827	$28,077
93.351	Research Infrastructure Programs	$210,347
93.389	National Center for Research Resources	$1,770,189
	Resonon Inc RESONON FY09	$80,150
93.393	Cancer Cause and Prevention Research	
	Miriam Hospital 710-9691	$18,498
93.395	Cancer Treatment Research	$197,969

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
	SensoPath Technologies SENSOPATH 2011	$2
93.396	Cancer Biology Research	
	Stella Therapeutics 1R43CA165452-01A1	$5,200
93.701	ARRA Trans-NIH Recovery Act Research Support	$146,658
93.837	Cardiovascular Diseases Research	$298,247
	Gramercy Research Group 0005	$3,179
	Methodist Hospital 15350004-93	$1,033
93.838	Lung Diseases Research	$673,138
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	$60,979
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	$972,981
	The John B Pierce Laboratory 243-A	$294,507
	Thomas Jefferson University 080-19250-509101	$4,558
	University of California Berkeley 6806-PO 1-0001585349	$269,874
93.855	Allergy, Immunology and Transplantation Research	$2,944,685
	Indiana University BL-4624889-MSU	$155,983
	Sorrento Therapeutics Inc STTR PT R42 AI098182	$109,983
	University of Connecticut PSA #6325	($102)
	University of Connecticut 49814	$8,054
	University of Connecticut 50074	$8,054
93.856	Microbiology and Infectious Diseases Research	
	Colorado State University G-7825-1	$328,616
	Siga Technologies, Inc AI093387	$48,629
93.859	Biomedical Research and Research Training	$10,511,742
	University of Nebraska Lincoln 24-6230-0156-102	$10,186
	University of Nevada, Las Vegas 14-746Q-UMT-PG2-00	$48,809
	University of Nevada, Las Vegas 14-746Q-UMT-VS1-00	$8,399
	University of Nevada, Las Vegas 14-746Q-UMT-PG1-00	$70,465
	University of Nevada, Las Vegas 14-746Q-MSU-PG5-00	$82,501
	University of Nevada, Las Vegas 14-746Q-MSU-PG17-00	$35,846
	University of Nevada, Las Vegas 14-747X-C-00	$166,268
	University of New Mexico PO#: E0001892 SUBK#: 3RN79	$33,027
	University of Southern California Y82277 38763030	$141,350
	University of Washington 731953	$81,015
	University of Washington 743852	$2,754
	University of Washington 753204	$238,669
93.865	Child Health and Human Development Extramural Research	$406,752
	GeneSearch Inc 1R41HD075502-01	$57,563
	Stanford University 60595107-49686	$3,631
93.866	Aging Research	$144,721
	Dermaxon, LLC R41AG046987-SA01	$18,627
Office Of Population Affairs		
93.217	Family Planning_Services	

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RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
	Planned Parenthood MSU RINK	$5
93.974	Family Planning_Service Delivery Improvement Research Grants	$59,902
Substance Abuse And Mental Health Services Administration		
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	
	Community Connections	$9,435
	Harrison County Family Resource Network	$9,435
	Ohio County Substance Abuse Prevention Coalition	$9,437
	Potomac Highlands Guild	$9,431
	Prestera Center	$9,452
	Westbrook Health Services	$9,432
	DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL	**$26,762,321**
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
Office Of Policy Development And Research		
14.523	Transformation Initiative Research Grants: Sustainable Community Research Grant Program	
	Opportunity Link DAVID KACK WTI/OPPORTUNITY LI	$9,712
	DEPARTMENT OF HOUSING & URBAN DEVELOPMENT TOTAL	**$9,712**
DEPARTMENT OF JUSTICE		
Bureau Of Justice Assistance		
16.746	Capital Case Litigation Initiative	$48,338
Office For Victims Of Crime		
16.582	Crime Victim Assistance/Discretionary Grants	$61,601
Office Of Community Oriented Policing Services		
16.710	Public Safety Partnership and Community Policing Grants	$312,286
Office Of Juvenile Justice And Delinquency Prevention		
16.541	Part E - Developing, Testing and Demonstrating Promising New Programs	$36,914
16.727	Enforcing Underage Drinking Laws Program	
	Oregon Department of Human Services 134027	$205,464
	DEPARTMENT OF JUSTICE TOTAL	**$664,603**
DEPARTMENT OF STATE		
Bureau Of Near Eastern Affairs		
19.500	Middle East Partnership Initiative (MEPI)	$301,879
Miscellaneous		
19.999	Miscellaneous Grants	$103,939
	DEPARTMENT OF STATE TOTAL	**$405,818**
DEPARTMENT OF THE INTERIOR		
Bureau Of Land Management		
15.224	Cultural Resource Management	$80,570
15.225	Recreation Resource Management	$4,438

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
15.228	National Fire Plan - Wildland Urban Interface Community Fire Assistance	$25,652
15.230	Invasive and Noxious Plant Management	$40,690
15.231	Fish, Wildlife and Plant Conservation Resource Management	$211,378
15.235	Southern Nevada Public Land Management	
	University of Nevada, Las Vegas 13-716P-02	$212,391
15.236	Environmental Quality and Protection Resource Management	$254,361
15.238	Challenge Cost Share	$52,908
Bureau Of Reclamation		
15.517	Fish and Wildlife Coordination Act	$50,004
Fish And Wildlife Service		
15.635	Neotropical Migratory Bird Conservation	$24,008
15.637	Migratory Bird Joint Ventures	
	Ducks Unlimited US-IM-5-1	$7,484
	Ducks Unlimited ASC-3	$10,228
	Pheasants Forever 60181BJ653	$66,100
	Pheasants Forever PF2013-11	$12,071
15.649	Service Training and Technical Assistance (Generic Training)	$2,795
15.650	Research Grants (Generic)	$339,194
	The Nature Conservancy 1260643850 / F12AP00432	$16,299
	University of California Santa Cruz S0183989	$36,868
15.655	Migratory Bird Monitoring, Assessment and Conservation	$21,850
15.657	Endangered Species Conservation - Recovery Implementation Funds	$373,237
15.660	Endangered Species - Candidate Conservation Action Funds	$29,131
	Western Association Fish & Wildlife SC-C-13-01	$9,926
15.663	National Fish and Wildlife Foundation	
	National Fish & Wildlife Foundation 0103.13.038862	$6,900
	World Wildlife Fund MK18	$13,802
15.664	Fish and Wildlife Coordination and Assistance Programs	$75,817
Miscellaneous		
15.999	Miscellaneous Non-Major Grants	$225,908
15.R&D	Miscellaneous Research and Development	$36,194
National Park Service		
15.904	Historic Preservation Fund Grants-In-Aid	$6,625
15.915	Technical Preservation Services	$5
	Vanasse Hangen Brustlin Inc VHB 33259.12-02	$21,602
15.916	Outdoor Recreation_Acquisition, Development and Planning	$5,887
15.923	National Center for Preservation Technology and Training	$29,319
15.926	American Battlefield Protection	$6,950
15.945	Cooperative Research and Training Programs - Resources of the National Park System	$1,076,293
	University of Wyoming 1001486-MSU	$5,004
	University of Wyoming NPS Research Center 1001576F/1001940E - MSU	$3,045

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
15.948	National Fire Plan-Wildland Urban Interface Community Fire Assistance	$31,689
Office Of Surface Mining Reclamation And Enforcement		
15.299	Miscellaneous Non-Major Grants	$10,918
U.S. Fish And Wildlife Service		
15.608	Fish and Wildlife Management Assistance	$51,009
15.611	Wildlife Restoration and Basic Hunter Education	
	State of Texas TPWD CONTRACT NUMBER 4435514	$13,953
	Washington Department of Fish & Game 11-1527	$3,374
15.699	USDI/Fish & Wildlife Service	$4,553
U.S. Geological Survey		
15.805	Assistance to State Water Resources Research Institutes	$74,226
15.807	Earthquake Hazards Research Grants	$85,745
15.808	U.S. Geological Survey_ Research and Data Collection	$524,080
15.809	National Spatial Data Infrastructure Cooperative Agreements Program	$13,915
15.810	National Cooperative Geologic Mapping Program	$201,115
15.812	Cooperative Research Units Program	$574,851
15.814	National Geological and Geophysical Data Preservation Program	$10,575
15.815	National Land Remote Sensing_Education Outreach and Research	
	America View Inc AV13-MT01	$7,269
	America View Inc AV13-MT02	$33,949
	America View Inc AV08-MT04	$33,505
	America View Inc AV08-MT03	$3,490
15.819	Energy Cooperatives to Support the National Coal Resources Data System (NCRDS)	$16,258
15.820	National Climate Change and Wildlife Science Center	
	Colorado State University G-8841-2	$27,825
	Colorado State University G-0734-2	$36,042
	Colorado State University G-0734-3	$62,886
	Colorado State University G-8829-1/G13AC00392	$101,608
	Colorado State University G-8829-4	$33,806
	Colorado State University G-8892-2	$1,127
	Colorado State University G-8892-1	$52,305
15.899	USDI/Geological Survey	$25,317
15.899	USDI/Geological Survey	$29,839
	DEPARTMENT OF THE INTERIOR TOTAL	**$5,460,163**
DEPARTMENT OF TRANSPORTATION		
Federal Highway Administration		
20.200	Highway Research and Development Program	$778,454
	California Department of Transportation 65A0400	$79,163
	California Department of Transportation 65A0403	$45,599
	ICF International 13DDSK0633	$65,231
	ICF International 13DDSK0566 NCHRP 25-25 TASK86	$38,402

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
	Idaho Department of Transportation 2013-02	$37,858
	Minnesota Department of Transportation 99082	($39)
	Oregon Department of Transportation 27322	$17,157
	Oregon Department of Transportation 27846	($927)
	University of Iowa 1000686775	$10
	Washington State Department of Transportation T6737-04	$48,218
	Washington State Department of Transportation T6737-03	$78
	Washington State Department of Transportation T6737-02	$28,155
	Western Governors Association 20-126-10	$28,448
20.205	Highway Planning and Construction	$1,436,102
	Hunter Research, Inc. 1535 TASK 12	$25,463
	Nevada Department of Transportation P531-13-803	$53,350
	Nevada Department of Transportation P520-12-803	$64,427
	Ohio Department of Transportation 25186 (E120622)	$80,630
	Ohio University UT18338	$15,713
	Yellowstone Business Partners SB-2012-ID-05	$37,061
Federal Transit Administration		
20.520	Paul S. Sarbanes Transit in the Parks	$1,380,121
National Highway Traffic Safety Administration		
20.600	State and Community Highway Safety	
	Virginia Tech 451127-19060 (DTN22-11-D-00236	$153,565
20.609	Safety Belt Performance Grants	
	Virginia Tech 451263-19060	$8,617
Research And Special Programs Administration		
20.701	University Transportation Centers Program	$227,285
	University of Alaska Fairbanks UAF 14-0098 FP42825	$24,498
	DEPARTMENT OF TRANSPORTATION TOTAL	**$4,672,639**
DEPARTMENT OF VETERANS AFFAIRS		
64.018	Sharing Specialized Medical Resources	$23,723
	DEPARTMENT OF VETERANS AFFAIRS TOTAL	**$23,723**
ENVIRONMENTAL PROTECTION AGENCY		
66.709	Multi-Media Capacity Building Grants for States and Tribes	$69,257
Miscellaneous		
66.999	Miscellaneous Non-Major Grants	$21,805
	Cadmus Group 002-MNHP-1	($1,370)
66.R&D	Miscellaneous Research and Development	
	Aerodyne Research Incorporated ARI 10964-1	$6,909
	Confederated Tribes of the Umatilla Indian Reservation COST CENTER: 472-007	$3,162

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RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
Office Of Administration		
66.605	Performance Partnership Grants	
	Northern Cheyenne Tribe BG-98852313	$12,060
Office Of Air And Radiation		
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	$411,217
Office Of Chemical Safety And Pollution Prevention		
66.716	Research, Development, Monitoring, Public Education, Training, Demonstrations, and Studies	$14,606
66.717	Source Reduction Assistance	$98,941
Office Of Prevention, Pesticides And Toxic Substances		
66.708	Pollution Prevention Grants Program	$221,172
Office Of Research And Development		
66.509	Science To Achieve Results (STAR) Research Program	
	University of New England 2426-71745	$59,307
Office Of Water		
66.419	Water Pollution Control State, Interstate, and Tribal Program Support	$219,756
66.436	Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	$12,246
66.461	Regional Wetland Program Development Grants	$196,688
	New Mexico Environment Department, Surface Water Quality Bureau 14-667-2000-0011	$19,289
	New Mexico Environment Department, Surface Water Quality Bureau 12-667-5000-0004	$498
	ENVIRONMENTAL PROTECTION AGENCY TOTAL	**$1,365,543**
HOMELAND SECURITY		
97.082	Earthquake Consortium	$30,708
	HOMELAND SECURITY TOTAL	**$30,708**
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.001	Science	$3,776,084
	406 Aerospace LLC CUBESAT ZIGBEE	$145,135
	Boston University 4500001052	$7,146
	California Institute of Technology RSA NO. 1371988	$26,474
	Johns Hopkins University 970066	$21,679
	Lockheed Martin Corporation 8100002702	$514,276
	Lockheed Martin Corporation SP02H3901R; LINE ITEM#2	$181,490
	Princeton University 00001944	$101,202
	Qualtech Systems Inc QUALTECH SBIR NNX13CJ36P	$13,085
	Research Foundation of The City University of New York 49691B	$84,844
	Smithsonian Astrophysical Observatory SVO-80018	$28,811
	Smithsonian Astrophysical Observatory SV2-82014	($8)

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
	Smithsonian Astrophysical Observatory SV7-77003	$262,991
	South Dakota State University 3TB481	$15,900
	Trout Unlimited NNX14AC91G	$46,064
	University of Alabama SUB2013-053	$6,654
	University of California Berkeley SA1868-26308PG	$21,889
	University of California Santa Barbara KK1301	$55,651
	University of Kansas FY2012-038	$98,289
43.002	Aeronautics	$261,428
	Carnegie Institution of Washington DTM-3250-15 (PHASE E)	$27,788
	Smithsonian Astrophysical Observatory SV9-79014	($10)
43.008	Education	$533,847
43.009	Cross Agency Support	$625,679
Miscellaneous		
43.999	Miscellaneous Non-Major Grants	$466,755
	California Institute of Technology, Jet Propulsion Laboratory	$224,926
	Southwest Research Institute	$45,965
43.R&D	Miscellaneous Research and Development	$54,123
	Aerodyne Research Incorporated ARI-10919-1	$17,143
	The Woods Hole Research Center WHRC-MSU2009	$5
	NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL	**$7,665,305**

NATIONAL ENDOWMENT FOR THE HUMANITIES

45.161	Promotion of the Humanities_Research	$66,141
Institute Of Museum And Library Services		
45.312	National Leadership Grants	$25,806
	NATIONAL ENDOWMENT FOR THE HUMANITIES TOTAL	**$91,947**

NATIONAL SCIENCE FOUNDATION

47.041	Engineering Grants	$587,872
	Montana Bioagriculture, Inc. 13-01	$69,388
	Sustainable Bioproducts MSU-SP	$661
	University of Washington CMMI-1156413	$104,208
47.049	Mathematical and Physical Sciences	$1,879,190
	Association of Universities for Research in Astronomy N01312C-N	$7,106
	S2 Corp S2-1330880-13-03	$17,036
	S2 Corp S2-1249014-13-01	($1,082)
	S2 Corp S2-1217637-12-03	($2,218)
47.050	Geosciences	$1,762,511
	Atmospheric & Environmental Research, Inc. P1704-01	$13,260
	University of Georgia RR100-589/4892756	$4,528

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2014

RESEARCH AND DEVELOPMENT CLUSTER		AMOUNT
	University of Hawaii at Manoa M130029	$18,827
	University of Missouri C00023524-3	$25,542
47.070	Computer and Information Science and Engineering	$557,783
47.074	Biological Sciences	$4,721,213
	Northern Arizona University NAUBU - 1000010800	($1,602)
	Villanova University VU-5-25594	$11,145
	Washington State University 107476_G002258	$11,684
47.075	Social, Behavioral, and Economic Sciences	$245,030
	Tufts University A130001	$34,625
47.076	Education and Human Resources	$2,171,300
	Louisiana Tech 32-3625-54110	$1
	Purdue University 4101-54555	$17,921
	Salish Kootenai College BP0624-392-1420-56300-00	$18,275
	Salish Kootenai College SKC ANLSAMP 4	$676
47.078	Polar Programs	$1,148,188
	University of Colorado SPO 1000046125/1548197	$134,315
47.079	Office of International and Integrative Activities	$757,040
	University of Nevada, Las Vegas 11-707D-G	$56,145
47.080	Office of Cyberinfrastructure	$1,132,673
47.081	Office of Experimental Program to Stimulate Competitive Research	$2,587,657
47.082	ARRA Trans-NSF Recovery Act Reasearch Support	$844,422
	ARRA St. Olaf College 10-52613	$9,000
	ARRA University of Hawaii at Manoa Z923900	$18,076
	NATIONAL SCIENCE FOUNDATION TOTAL	**$18,962,396**

SMALL BUSINESS ADMINISTRATION

59.058	Federal and State Technology Partnership Program	$32,501
	Defense Alliance of Minnesota ADT CLUSTERS 13_14	$43,042
	SMALL BUSINESS ADMINISTRATION TOTAL	**$75,543**

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

98.001	USAID Foreign Assistance for Programs Overseas	
	University of Georgia RC282-392/4942936	$3,640
	UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT TOTAL	**$3,640**
	Total Research and Development Cluster	**$107,835,122**
	Total Expenditures of Federal Awards	**$2,720,266,078**

STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Note 1. Basis of Accounting

The assistance amounts presented in the accompanying Schedule of Expenditures of Federal Awards of the state of Montana are generally expenditures or reimbursement revenues recorded on the modified accrual basis of accounting. This basis recognizes expenditures in the accounting period in which the liability is incurred, and revenues when measurable and available. Assistance amounts reported on a basis other than modified accrual are discussed below.

Enterprise Fund Activity
The Unemployment Insurance, Section 8 Voucher, and Section 8 Project-Based programs are accounted for as enterprise fund activity. Enterprise funds use the full accrual basis of accounting.

Food Distribution Program
The amount reported for Food Distribution programs (CFDA #10.555, #10.565, #10.567, #10.569, #10.570, and #93.053) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2014, Montana distributed $619,424 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed $9,408,567 in commodities in fiscal year 2014. The value at June 30, 2014 of commodities stored at the state's warehouse is $2,043,669, for which the state is liable in the event of loss. The state has insurance to cover this liability.

Federal Surplus Personal Property
In accordance with General Service Administration guidelines, the amount presented for Donation of Federal Surplus Personal Property (CFDA #39.003) is 23.3% of the original acquisition cost of the property.

Capitalization Grants for Clean Water State Revolving Funds
The amount presented for the Capitalization Grants for Clean Water State Revolving Funds Program (CFDA #66.458) represents federal contributions and administrative costs expended as of June 30, 2014. The amount of loans

outstanding as of June 30, 2014 in the Water Pollution Control Revolving Fund Program is $197,692,246.

Capitalization Grants for Drinking Water State Revolving Funds
The amount presented for the Capitalization Grants for Drinking Water State Revolving Funds Program (CFDA #66.468) represents federal contributions, administrative costs, and program set-aside costs expended as of June 30, 2014. The amount of loans outstanding for the program as of June 30, 2014 is $127,505,659.

Economic Adjustment Assistance Program
The amount presented for the Economic Adjustment Assistance Program (CFDA #11.307) represents federal contributions plus the administrative costs expended as of June 30, 2014. The amount of loans outstanding as of June 30, 2014 is $300,987 in non-ARRA funds and $2,708,177 in ARRA funds.

Temporary Assistance for Needy Families Loan Program
The Temporary Assistance for Needy Families Program (CFDA #93.558) contributes to a housing loan program. The amount of housing loans outstanding as of June 30, 2014 is $509,153.

Federal Family Education Loans
The Montana Guaranteed Student Loan Program (MGSLP) guaranteed no new loans for the Federal Family Education Loans (CFDA #84.032) program during FY 2014. The outstanding loan balance (including principal, accrued interest, and collection cost) of loans guaranteed in previous years for which the federal government has imposed continuing compliance requirements was $83,472,843 at June 30, 2014. The dollar amount of Default Aversion Fees transferred from the federal fund to the agency's operating fund during fiscal year 2014 was $117,106 (net). In addition, MGSLP received or accrued revenue from the U.S. Department of Education in fiscal year 2014 of $25,726,308 for reinsurance to pay claims for loans due to death, disability, default, or bankruptcy of the debtor.

Federal Perkins Loan Program – Federal Capital Contributions
The amount reported for the Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038) represents federal contributions, administrative costs, and interest expended as of June 30, 2014. The amount of loans outstanding as of June 30, 2014 is $31,055,096.

Nursing Student Loans Program
The amount of loans outstanding for the Nursing Student Loans Program (CFDA # 93.364) as of June 30, 2014 is $2,072,482.

Nurse Faculty Loan Program
The amount of loans outstanding for the Nurse Faculty Loan Program (CFDA # 93.264) as of June 30, 2014 is $47,725.

<u>Health Professions Student Loans, Including Primary Care Loans and Loans for Disadvantaged Students</u>

The amount of loans outstanding for the Health Professions Student Loans, Including Primary Care Loans and Loans for Disadvantaged Students (CFDA #93.342) as of June 30, 2014 is $117,402.

<u>Minority Health and Health Disparities Research</u>

The amount reported for the Minority Health and Health Disparities program (CFDA #93.307) includes endowment funds of $9,375,000 along with interest earned on the endowment. The entire endowment amount is reported as expended each year, as the funds are restricted for the life of the endowment.

<u>Immunization Cooperative Agreements</u>

The amount reported for the Immunization Cooperative Agreements (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 2014. The state used the Centers for Disease Control's price list to calculate the value of doses received. During fiscal year 2014, Montana received 161,241 vaccine doses valued at $8,576,824.

<u>Tongue River –Northern Cheyenne Tribal Loan</u>

The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe agreed to loan the state of Montana $11,300,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. No expenditures of tribal loan funds were incurred on project costs during fiscal year 2014. The amount of the loan outstanding as of June 30, 2014 is $6,953,846.

<u>Middle Creek Dam Rehabilitation Project Loan</u>

The Department of Natural Resources and Conservation and the U.S Department of the Interior, Bureau of Reclamation (BOR), entered into an agreement on September 21, 1990. The BOR agreed to loan the state of Montana "…a sum of money not to exceed the lesser of (1) $3,023,925 plus reimbursable interest during construction, or (2) the actual cost of the project, including reimbursable interest during construction..." The total loan repayable is $2,990,129, and reimbursable interest during construction is $281,857. As of June 30, 2014, the loan outstanding is $2,164,313, and reimbursable interest during construction is $188,505.

Note 2. Type A Federal Programs

The State of Montana issues a biennial single audit report. The Montana Single Audit report for the two fiscal years ended June 30, 2015 will be issued by March 31, 2016.

The Type A program threshold will be determined based on actual expenditures incurred during the two fiscal years ended June 30, 2015.

Note 3. CFDA Number

The CFDA number assigned for each federal program listed in the Schedule of Expenditures of Federal Awards is based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

The complete CFDA number is a five digit number, where the first two digits represent the federal agency, and the second three digits represent the program. Programs not assigned a CFDA number in the Catalog of Federal Domestic Assistance were assigned a CFDA number in the format **.999. Also refer to Note 11.

Note 4. Research and Development Grants

Research and Development includes all research activities, both basic and applied, and all development activities that are performed by a non-federal entity. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques, where such activities utilize the same facilities as other research and development activities, and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. Federal awards that meet the research and development criteria are listed in the Research and Development Cluster, which is a separate section of this report.

Note 5. Federal Excess Personal Property

The state of Montana receives Federal Excess Personal Property (FEPP). The title to this property remains with the federal agency. In accordance with General Services Administration guidelines, the amount presented in the FEPP is 23.3% of the original acquisition cost of the property. The following is a list of the FEPP received by the state of Montana. The negative amount reflects property sold (title transferred at public sale) or other disposition.

CFDA #	Program	FY 14 Amount	Inventory
10.203	Agricultural Experiment Stations	$(26,472)	$126,391
10.500	Cooperative Extension Service	$0	$3,151
10.664	Cooperative Forestry Assistance	$11,386	$5,102,821
10.999	Agriculture Miscellaneous – Non Major	$(23,047)	$994,211

12.999	Defense Miscellaneous - Non Major	$(48,385)	$13,768
43.999	NASA Miscellaneous – Non Major	$0	$664,050
47.999	NSF Miscellaneous – Non Major	$(17,141)	$193,969

Note 6. Department of Defense (DOD) Firefighting Property (FFP)

The Department of Natural Resources (DNRC) receives Department of Defense Firefighting Property. The title to this property is transferred to the DNRC. In accordance with OMB guidelines, the amounts are presented at fair market value at the time of receipt by DNRC, which is determined to be 14% of the original acquisition cost of the property. The following is the value of FFP received by the state of Montana.

CFDA #	Program	FY 14 Amount	Inventory
12.999	DOD Firefighter Program	$209,238	$1,164,872

Note 7. Books for the Blind and Physically Handicapped:

The Montana State Library receives “talking book” machines, cassette books, accessories, and magazines from the federal government under the Blind and Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2014 was $1,053,898. The accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 8. Unemployment Benefits

The unemployment compensation system is a federal-state partnership. State unemployment insurance laws must conform to certain provisions of the federal law. Federal funds are expended for administrative costs. State unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund and are used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards.

The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for the Unemployment Insurance Program (CFDA #17.225).

State UI Expenditures	$117,875,447
Federal UI Expenditures	29,956,652
Total	$147,832,099

Note 9. Subgrants to State Agencies

Federal assistance transferred from one Montana state agency to another Montana state agency is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from non-state sources, which are considered subgrants by the awarding agency, are treated as pass-through grants to the state. These pass-through awards are listed below the direct federal awards reported on the Schedule of Expenditures of Federal Awards. Pass-through grant numbers are included for those awards that were assigned an identifying number.

Note 10. Pass through Awards to Non-State Entities

The following is a list of federal funds passed through from the state of Montana to non-state entities for fiscal year 2014.

CFDA #	Program Title	Amount Provided to Subrecipients
10.156	Federal-State Marketing Improvement Program	10,827
10.169	Specialty Crop Block Grant Program	103,804
10.303	Integrated Programs	11,874
10.307	Organic Agriculture Research and Extension Initiative	30,793
10.553	School Breakfast Program	7,209,537
10.555	National School Lunch Program	28,947,599
10.556	Special Milk Program for Children	18,921
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	4,145,727
10.558	Child and Adult Care Food Program	751,964
10.559	Summer Food Service Program for Children	1,435,696
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	722,436
10.567	Food Distribution Program on Indian Reservations	1,672,058
10.568	Emergency Food Assistance Program (Administrative Costs)	80,290
10.572	WIC Farmers' Market Nutrition Program (FMNP)	87,952
10.582	Fresh Fruit and Vegetable Program	1,599,893
10.652	Forestry Research	262,506
10.664	Cooperative Forestry Assistance	3,128,948
10.665	Schools and Roads - Grants to States	18,674,569
10.912	Environmental Quality Incentives Program	25,552
11.307	Economic Adjustment Assistance	16,840
12.002	Procurement Technical Assistance For Business Firms	482,154
12.112	Payments to States in Lieu of Real Estate Taxes	3,516
12.300	Basic and Applied Scientific Research	23,138
12.420	Military Medical Research and Development	252,725
12.431	Basic Scientific Research	25,291
12.800	Air Force Defense Research Sciences Program	44,263
12.R&D	Miscellaneous Research and Development	9,675
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	4,481,282
14.239	Home Investment Partnerships Program	2,297,992
15.611	Wildlife Restoration and Basic Hunter Education	5,796
15.635	Neotropical Migratory Bird Conservation	13,463
15.650	Research Grants (Generic)	8,730
15.657	Endangered Species Conservation - Recovery Implementation Funds	31,520
15.663	National Fish and Wildlife Foundation	6,000
15.812	Cooperative Research Units Program	31,063
15.904	Historic Preservation Fund Grants-In-Aid	77,682
15.916	Outdoor Recreation_Acquisition, Development and Planning	774,958
15.945	Cooperative Research and Training Programs - Resources of the National Park System	66,785
16.017	Sexual Assault Services Formula Program	240,075
16.523	Juvenile Accountability Block Grants	116,258
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	420,177
16.548	Title V_Delinquency Prevention Program	19,986
16.575	Crime Victim Assistance	1,775,894
16.588	Violence Against Women Formula Grants	779,025
16.593	Residential Substance Abuse Treatment for State Prisoners	132,444
16.609	Project Safe Neighborhoods	7,155
16.727	Enforcing Underage Drinking Laws Program	92,302
16.738	Edward Byrne Memorial Justice Assistance Grant Program	855,375
17.235	Senior Community Service Employment Program	533,348
17.258	WIA Adult Program	451,647
17.259	WIA Youth Activities	1,605,849
17.278	WIA Dislocated Worker Formula Grants	2,316
19.415	Professional and Cultural Exchange Programs - Citizen Exchanges	94,216
20.200	Highway Research and Development Program	24,234
20.205	Highway Planning and Construction	7,342,840
20.219	Recreational Trails Program	1,308,678
20.500	Federal Transit_Capital Investment Grants	1,139,328
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	457,827
20.509	Formula Grants for Rural Areas	7,423,848
20.513	Enhanced Mobility of Seniors and Individuals with Disabilities	330,805
20.515	State Planning and Research	28,568
20.516	Job Access And Reverse Commute Program	173,512
20.520	Paul S. Sarbanes Transit in the Parks	522,198
20.600	State and Community Highway Safety	606,644
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	245,495
20.602	Occupant Protection Incentive Grants	46,873
20.611	Incentive Grant Program to Prohibit Racial Profiling	25,484

CFDA #	Program Title	Amount Provided to Subrecipients
20.616	National Priority Safety Programs	136,900
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	69,871
43.001	Science	407,339
43.008	Education	75,756
43.009	Cross Agency Support	464,147
45.025	Promotion of the Arts_Partnership Agreements	353,004
45.310	Grants to States	11,714
47.041	Engineering Grants	38,509
47.050	Geosciences	82,502
47.074	Biological Sciences	531,194
47.076	Education and Human Resources	327,219
47.078	Polar Programs	25,403
47.079	Office of International and Integrative Activities	231,106
47.080	Office of Cyberinfrastructure	1,400
47.081	Office of Experimental Program to Stimulate Competitive Research	254,444
47.082	Trans-NSF Recovery Act Research Support	62,571
66.716	Research, Development, Monitoring, Public Education, Training, Demonstrations, and Studies	2,298
81.049	Office of Science Financial Assistance Program	9,066
81.089	Fossil Energy Research and Development	7,349,567
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	167,023
81.999	Miscellaneous Non-Major Grants	65,200
84.002	Adult Education - Basic Grants to States	971,137
84.010	Title I Grants to Local Educational Agencies	41,396,621
84.011	Migrant Education_State Grant Program	717,506
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	107,668
84.027	Special Education_Grants to States	34,400,555
84.048	Career and Technical Education -- Basic Grants to States	3,158,485
84.133	National Institute on Disability and Rehabilitation Research	65,190
84.144	Migrant Education_Coordination Program	92,500
84.173	Special Education_Preschool Grants	1,128,945
84.196	Education for Homeless Children and Youth	122,410
84.224	Assistive Technology	30,827
84.287	Twenty-First Century Community Learning Centers	5,029,047
84.323	Special Education - State Personnel Development	43,483
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	1,387,551
84.358	Rural Education	404,354
84.365	English Language Acquisition State Grants	594,805
84.366	Mathematics and Science Partnerships	707,582
84.367	Improving Teacher Quality State Grants	11,937,828
84.371	Striving Readers	6,220,808
84.377	School Improvement Grants	1,162,462
84.378	College Access Challenge Grant Program	288,634
93.041	Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	17,998
93.042	Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	53,962
93.043	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	98,354
93.044	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	1,660,974
93.045	Special Programs for the Aging_Title III, Part C_Nutrition Services	3,003,704
93.048	Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	166,714
93.052	National Family Caregiver Support, Title III, Part E	672,250
93.053	Nutrition Services Incentive Program	769,834
93.058	Food and Drug Administration_Research	116,663
93.071	Medicare Enrollment Assistance Program	72,800
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	2,746,651
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	153,724
93.107	Area Health Education Centers Point of Service Maintenance and Enhancement Awards	89,919
93.110	Maternal and Child Health Federal Consolidated Programs	226,057
93.113	Environmental Health	53,952
93.127	Emergency Medical Services for Children	131,678
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	11,000
93.136	Injury Prevention and Control Research and State and Community Based Programs	39,275
93.150	Projects for Assistance in Transition from Homelessness (PATH)	277,100
93.155	Rural Health Research Centers	195,659
93.165	Grants to States for Loan Repayment Program	217,430
93.213	Research and Training in Complementary and Alternative Medicine	85,807
93.217	Family Planning_Services	1,552,554

CFDA #	Program Title	Amount Provided to Subrecipients
93.236	Grants to States to Support Oral Health Workforce Activities	460,983
93.241	State Rural Hospital Flexibility Program	665,713
93.242	Mental Health Research Grants	94,153
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	760,909
93.268	Immunization Cooperative Agreements	275,129
93.279	Drug Abuse and Addiction Research Programs	13,565
93.283	Centers for Disease Control and Prevention_Investigations and Technical Assistance	1,769,098
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	274,014
93.301	Small Rural Hospital Improvement Grant Program	380,485
93.307	Minority Health and Health Disparities Research	1,543
93.500	Pregnancy Assistance Fund Program	605,572
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	1,625,145
93.531	PPHF - Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - Financed Solely by Prevention and Public Health Funds	414,032
93.536	The Affordable Care Act Medicaid Incentives for Prevention of Chronic Disease Demonstration Project	5,755
93.539	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance Financed in Part by Prevention and Public Health Funds	362,650
93.544	The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) Authorizes Coordinated Chronic Disease Prevention and Health Promotion Program	2,361
93.556	Promoting Safe and Stable Families	546,933
93.558	Temporary Assistance for Needy Families	3,671,650
93.566	Refugee and Entrant Assistance_State Administered Programs	6,544
93.568	Low-Income Home Energy Assistance	1,005,055
93.575	Child Care and Development Block Grant	5,874,020
93.586	State Court Improvement Program	104,961
93.590	Community-Based Child Abuse Prevention Grants	157,697
93.597	Grants to States for Access and Visitation Programs	95,680
93.599	Chafee Education and Training Vouchers Program (ETV)	178,244
93.600	Head Start	884
93.630	Developmental Disabilities Basic Support and Advocacy Grants	453,944
93.652	Adoption Opportunities	91,147
93.658	Foster Care_Title IV-E	2,474,668
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	786,951
93.674	Chafee Foster Care Independence Program	445,941
93.701	Trans-NIH Recovery Act Research Support	102,108
93.708	ARRA - Head Start	120,832
93.767	Children's Health Insurance Program	201,763
93.778	Medical Assistance Program	9,523,910
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	148,833
93.824	Area Health Education Centers Infrastructure Development Awards	258,854
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	47,652
93.855	Allergy, Immunology and Transplantation Research	35,516
93.859	Biomedical Research and Research Training	1,052,143
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	1,134
93.917	HIV Care Formula Grants	1,090,043
93.940	HIV Prevention Activities_Health Department Based	545,834
93.945	Assistance Programs for Chronic Disease Prevention and Control	955,807
93.958	Block Grants for Community Mental Health Services	246,393
93.959	Block Grants for Prevention and Treatment of Substance Abuse	1,027,266
93.969	PPHF Geriatric Education Centers	22,946
93.991	Preventive Health and Health Services Block Grant	374,227
93.994	Maternal and Child Health Services Block Grant to the States	1,097,163
94.006	AmeriCorps	2,415,936
94.007	Program Development and Innovation Grants	14,879
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	6,325,630
97.039	Hazard Mitigation Grant	659,175
97.042	Emergency Management Performance Grants	1,717,832
97.047	Pre-Disaster Mitigation	1,752,997
97.055	Interoperable Emergency Communications	17,970
97.067	Homeland Security Grant Program	5,986,258
97.120	Border Interoperability Demonstration Project	1,886,536
	Total	**$ 298,659,965**

Note 11. Federal Awards not having a CFDA Number

The following schedule contains contract or grant numbers associated with awards that did not have a CFDA number and were assigned a XX.999 number in the Schedule of Expenditures of Federal Awards. Not all XX.999 reported on the SEFA had a grant or contract number. Also refer to Note 3.

Schedule of Unknown Federal CFDA Numbers (XX.999)

Federal Agency	State Agency	Contract or Grant Number	Amount
Department of Agriculture (10)			
	Department of Labor and Industry	12-25-A-5094	$3,890.00
	Montana State University - Bozeman	13-CS-11015600-057	$1,281.00
	University of Montana - Montana Tech	05-CS-11010800-010	$4,943.00
	University of Montana - Montana Tech	65-0325-09-034	$13,362.00
	University of Montana - Montana Tech	09-CS-11011400-019	$300.00
Department of Defense (12)			
	University of Montana - Missoula	118347-G003015	$15,253
	University of Montana - Missoula	118347-G003168	$51,112
	University of Montana - Missoula	W91CRB-11-D-0001	$171,719
	University of Montana - Montana Tech	N00014-08-D-0758	$29,997
Department of Education (84)			
	Office of Public Instruction	ED-08-CO-0018	$91,577.00
	Office of Public Instruction	ED-08-CO-0076	$14,136.00
Department of Energy (81)			
	Department of Environmental Quality		$69,231
	University of Montana - Montana Tech	DE-AC07-05ID14517	$104,661
	University of Montana - Montana Tech	193698	$8,608
	University of Montana - Montana Tech	60312	$188,125
	University of Montana - Montana Tech	1340328	$142,274
	University of Montana - Montana Tech	1440479	$11,196
Department of Health and Human Services (93)			
	Department of Public Health and Human Services	BHSIS STATE AGREEMENT	$53,261.00
	Department of Public Health and Human Services	CPSCW130023	$2,885.00
	Department of Public Health and Human Services	HHSF223201210163C	$47,832.00
	Department of Public Health and Human Services	DASIS STATE AGREEMENT	$8,260.00
Department of State (19)			
	University of Montana - Missoula	USIEF/OSI/2012/04	$103,939
Department of the Interior (15)			
	Department of Environmental Quality	P11AC10290	$11,505.00
	University of Montana - Missoula	R14PX00371	$523.00
	University of Montana - Missoula	P13AC00618	$36,969.00
	University of Montana - Montana Tech	H1580070001	$9,488.00
	University of Montana - Montana Tech	P132006A183	-$296.00
	University of Montana - Montana Tech	H1200090004	$9,244.00
	University of Montana - Montana Tech	P13AC01303	$140,731.00
	University of Montana - Montana Tech	P14AC00408	$29,249.00
Department of Transportation (20)			
	University of Montana - Montana Tech	2012-29	$17,557
Department of Treasury (21)			
	Department of Administration		$4,472
	Department of Commerce	PL110-161:95X1350	$125,613
Environmental Protection Agency (66)			
	University of Montana - Missoula	002-MNHP-1	-$1,370
	University of Montana - Missoula	EP-R8-12-10	$21,805
National Aeronautics and Space Administration (43)			
	University of Montana - Missoula	NNX08AP59G	$19,685.00
	University of Montana - Missoula	NNX08AQ63A	$205,956.00
	University of Montana - Missoula	NNX09AP52G	$108,191.00
	University of Montana - Missoula	NNX10AH57G	$59,490.00
	University of Montana - Missoula	NNX10AN58H	$7,184.00
	University of Montana - Missoula	NNX11AF18G	$66,249.00
	University of Montana - Missoula	1364345	$35,144.00
	University of Montana - Missoula	1368208	$61,642.00
	University of Montana - Missoula	1422120	$128,140.00
	University of Montana - Missoula	E99044MO	$45,965.00
	University of Montana - Montana Tech		$41,460
The Library of Congress (42)			
	Montana Historical Society	FED12-043	$4,135
	Montana Historical Society	FED13-032	$6,010
Peace Corps (08)			
	University of Montana - Missoula	PC-12-8-052	$9,897
Miscellaneous Federal Award			
	Judicial Branch	SJI-14T-021	$24,410

Auditor's Report and Findings

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

The Legislative Audit Committee
of the Montana State Legislature:

Report on Compliance for Each Major Federal Program

We have audited the state of Montana's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the state of Montana's major federal programs for the two fiscal years ended June 30, 2015. The state of Montana's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of state of Montana's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the state of Montana's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the state of Montana's compliance.

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Basis for Qualified Opinion on Medicaid Cluster

As described in Finding 2015-012 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirement
2015-012	93.775 93.777 93.778	Medicaid Cluster	Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Medicaid Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Medicaid Cluster* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Medicaid Cluster for the two fiscal years ended June 30, 2015.

Basis for Qualified Opinion on Highway Planning and Construction Cluster

As described in Finding 2015-021 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirements
2015-021	20.205	Highway Planning and Construction Cluster	Reporting

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Highway Planning and Construction Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Highway Planning and Construction Cluster* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Highway Planning and Construction Cluster for the two fiscal years ended June 30, 2015.

Basis for Qualified Opinion on Formula Grants for Rural Areas

As described in Findings 2015-021 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirements
2015-021	20.509	Formula Grants for Rural Areas	Reporting

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Formula Grants for Rural Areas

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Formula Grants for Rural Areas* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Formula Grants for Rural Areas for the two fiscal years ended June 30, 2015.

Basis for Qualified Opinion on Student Financial Assistance Cluster

As described in Findings 2015-003, 2015-004, 2015-005, 2015-006, and 2015-024 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirements
2015-003	84.007 84.033 84.038 84.063 84.268	Student Financial Assistance Cluster	Special Tests and Provisions
2015-004	84.268	Student Financial Assistance Cluster	Special Tests and Provisions
2015-005	84.063 84.268 84.038	Student Financial Assistance Cluster	Special Tests and Provisions
2015-006	84.038	Student Financial Assistance Cluster	Special Tests and Provisions
2015-024	84.268	Student Financial Assistance Cluster	Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Student Financial Assistance Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Student Financial Assistance Cluster* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Student Financial Assistance Cluster for the two fiscal years ended June 30, 2015.

Basis for Qualified Opinion on Special Education Cluster (IDEA)

As described in Findings 2015-023 and 2015-027 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirements
2015-023	84.027	Special Education Cluster (IDEA)	Matching Level of Effort, Earmarking
2015-027	84.027	Special Education Cluster (IDEA)	Cash Management

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Special Education Cluster (IDEA)

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Special Education Cluster* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Special Education Cluster for the two fiscal years ended June 30, 2015.

Basis for Qualified Opinion on Title I Grants to Local Education Agencies

As described in Findings 2015-023 and 2015-027 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirements
2015-023	84.010	Title I Grants to Local Education Agencies	Activities Allowed or Unallowed and Matching, Level of Effort, Earmarking
2015-027	84.010	Title I Grants to Local Education Agencies	Cash Management

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Title I Grants to Local Education Agencies

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Title I Grants to Local Education Agencies* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Title I Grants to Local Education Agencies for the two fiscal years ended June 30, 2015.

Basis for Qualified Opinion on Improving Teacher Quality State Grants

As described in Finding 2015-023 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirements
2015-023	84.367	Improving Teacher Quality State Grants	Eligibility

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Improving Teacher Quality State Grants

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Improving Teacher Quality State Grants* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Improving Teacher Quality State Grants for the two fiscal years ended June 30, 2015.

Basis for Qualified Opinion on Child Nutrition Cluster

As described in Finding 2015-027 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirements
2015-027	10.555	Child Nutrition Cluster	Cash Management

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Child Nutrition Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Child Nutrition Cluster* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Child Nutrition Cluster for the two fiscal years ended June 30, 2015.

Basis for Qualified Opinion on TANF Cluster

As described in Finding 2015-011 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirements
2015-011	93.558	TANF Cluster	Activities Allowed or Unallowed

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on TANF Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on TANF Cluster* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the TANF Cluster for the two fiscal years ended June 30, 2015.

Basis for Qualified Opinion on Forest Service Schools and Roads Cluster

As described in Finding 2015-001 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirements
2015-001	10.665	Forest Service Schools and Roads Cluster	Subrecipient Monitoring

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Forest Service Schools and Roads Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Forest Service Schools and Roads Cluster* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Forest Service Schools and Roads Cluster for the two fiscal years ended June 30, 2015.

Basis for Qualified Opinion on Housing Voucher Cluster

As described in Finding 2015-020 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirements
2015-020	14.871	Housing Voucher Cluster	Cash Management

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Housing Voucher Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Housing Voucher Cluster* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Housing Voucher Cluster for the two fiscal years ended June 30, 2015.

Basis for Qualified Opinion on Unemployment Insurance

As described in Findings 2015-025 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirements
2015-025	17.225	Unemployment Insurance	Reporting

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Unemployment Insurance

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Unemployment Insurance* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Unemployment Insurance program for the two fiscal years ended June 30, 2015.

Basis for Qualified Opinion on Foster Care–Title IV-E
As described in Findings 2015-013 and 2015-014 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirements
2015-013	93.658	Foster Care–Title IV-E	Reporting
2015-014	93.658	Foster Care–Title IV-E	Subrecipient Monitoring

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Foster Care–Title IV-E
In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Foster Care–Title IV-E* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Foster Care–Title IV-E program for the two fiscal years ended June 30, 2015.

Basis for Qualified Opinion on Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
As described in Finding 2015-013 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirements
2015-013	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Reporting

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program for the two fiscal years ended June 30, 2015.

Basis for Qualified Opinion on CCDF Cluster
As described in Finding 2015-013 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirements
2015-013	93.575 93.596	CCDF Cluster	Reporting

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on CCDF Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on CCDF Cluster* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the CCDF Cluster for the two fiscal years ended June 30, 2015.

Basis for Qualified Opinion on Low-Income Home Energy Assistance

As described in Finding 2015-013 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirements
2015-013	93.568	Low-Income Home Energy Assistance	Reporting

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Low-Income Home Energy Assistance

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Low-Income Home Energy Assistance* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Low-Income Home Energy Assistance program for the two fiscal years ended June 30, 2015.

Basis for Qualified Opinion on Block Grants for Prevention and Treatment of Substance Abuse

As described in Finding 2015-013 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirements
2015-013	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Reporting

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Block Grants for Prevention and Treatment of Substance Abuse
In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Block Grants for Prevention and Treatment of Substance Abuse* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Block Grants for Prevention and Treatment of Substance Abuse program for the two fiscal years ended June 30, 2015.

Basis for Qualified Opinion on Clean Water State Revolving Fund Cluster
As described in Finding 2015-002 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirements
2015-002	66.458	Clean Water State Revolving Fund Cluster	Reporting

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Clean Water State Revolving Fund Cluster
In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Clean Water State Revolving Fund Cluster* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Clean Water State Revolving Fund Cluster for the two fiscal years ended June 30, 2015.

Basis for Qualified Opinion on Drinking Water State Revolving Fund Cluster
As described in Finding 2015-002 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding the following:

Finding #	CFDA #	Cluster Name	Compliance Requirements
2015-002	66.468	Drinking Water State Revolving Fund Cluster	Reporting

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

Qualified Opinion on Drinking Water State Revolving Fund Cluster
In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Drinking Water State Revolving Fund Cluster* paragraph, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Drinking Water State Revolving Fund Cluster for the two fiscal years ended June 30, 2015.

Unmodified Opinion on Each of the Other Major Federal Programs
In our opinion, the state of Montana complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the two fiscal years ended June 30, 2015.

Other Matters
The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2015-016 and 2015-019. Our opinions on each major federal program are not modified with respect to these matters.

The state of Montana's response to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. The state of Montana's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance
Management of the state of Montana is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the state of Montana's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the state of Montana's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items listed in the following table to be material weaknesses.

Finding #	CFDA #	Program or Cluster Name	Compliance Requirement
2015-001	10.665	Forest Service Schools and Roads Cluster	Subrecipient Monitoring
2015-005	84.063 84.268 84.038	Student Financial Assistance Cluster	Special Tests and Provisions
2015-006	84.038	Student Financial Assistance Cluster	Special Tests and Provisions
2015-013	10.557 93.568 93.575 and 93.596 93.959	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Low-Income Home Energy Assistance Child Care Cluster Block Grants for Prevention and Treatment of Substance Abuse	Reporting
2015-021	20.205 20.509	Highway Planning and Construction Cluster Formula Grants for Rural Areas	Reporting
2015-023	84.367 84.010	Improving Teacher Quality State Grants Title I Grants to Local Education Agencies	Eligibility Activities Allowed and Unallowed and Matching, Earmarking, and Level of Effort
	84.027	Special Education Cluster (IDEA)	Eligibility
2015-024	84.268	Student Financial Assistance Cluster	Special Tests and Provisions

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items listed in the following table to be significant deficiencies.

Finding #	CFDA #	Program or Cluster Name	Compliance Requirement
2015-007	Various	Research and Development Cluster	Activities Allowed and Unallowed and Allowable Costs/ Cost Principles
2015-008	93.775, 93.777, and 93.778 93.767	Medicaid Cluster Children's Health Insurance Program	Reporting
2015-009	93.775, 93.777, and 93.778 93.767	Medicaid Cluster Children's Health Insurance Program	Cash Management
2015-010	10.551 and 10.561	SNAP Cluster	Reporting
2015-015	Various	Research and Development Cluster	Activities Allowed and Unallowed and Allowable Costs/ Cost Principles
2015-017	84.038	Student Financial Assistance Cluster	Special Tests and Provision
2015-018	84.063 84.268	Student Financial Assistance Cluster	Special Tests and Provisions
2015-022	20.509	Formula Grants for Rural Areas	Subrecipient Monitoring
2015-026	93.558	TANF Cluster	Activities Allowed and Unallowed, Allowable Costs/ Cost Principles, Eligibility, and Special Tests and Provisions

The state of Montana's response to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. The state of Montana's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 25, 2016

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2015

Section I – Summary of Auditor's Results

Basic Financial Statements
For Each of the Two Fiscal Years Ended June 30, 2015

	2014	2015
Type of Auditor's report issued:	Modified	Unmodified
Internal control over financial reporting:		
• Material weakness identified?	Yes	No
• Significant deficiencies identified that are not considered to be a material weakness?	No	No
Noncompliance material to the financial statements noted?	Yes	Yes

Federal Awards
For the Two Fiscal Years Ended June 30, 2015

	2014 and 2015
Internal control over major programs:	
• Material weakness identified?	Yes
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified for all major programs except for the Medicaid Cluster, Highway Planning and Construction Cluster, Formula Grants for Rural Areas, Student Financial Assistance Cluster, Special Education Cluster (IDEA), Title I Grants to Local Education Agencies, Improving Teacher Quality State Grants, Child Nutrition Cluster, TANF Cluster, Forest Service Schools and Roads Cluster, Housing Voucher Cluster, Unemployment Insurance, Foster Care – Title IV-E, Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), CCDF Cluster, Low-Income Home Energy Assistance, Block Grants for Prevention and Treatment of Substance Abuse, Clean Water State Revolving Fund Cluster, and Drinking Water State Revolving Fund Cluster.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?		Yes
Dollar threshold used to distinguish between Type A and Type B programs:	$17,649,643*	
Auditee qualified as low-risk auditee?	No	

*We replaced one low-risk Type A Program with one high-risk Type B program.

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.551 & 10.561	SNAP Cluster
10.553, 10.555, 10.556 & 10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants & Children
10.558	Child and Adult Care Food Program
10.665	Forest Service Schools and Roads Cluster
12.401	National Guard Military Operations and Maintenance Projects
14.195 & 14.856	Section 8 Project-Based Cluster
14.871	Housing Voucher Cluster
15.252	Abandoned Mine Land Reclamation
15.605 & 15.611	Fish and Wildlife Cluster
17.225	Unemployment Insurance
20.205 & 20.219	Highway Planning and Construction Cluster
20.509	Formula Grants for Rural Areas
66.458	Clean Water State Revolving Fund Cluster
66.468	Drinking Water State Revolving Fund Cluster
84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.342, 93.264 & 93.364	Student Financial Assistance Cluster
84.010	Title I, Grants to Local Education Agencies
84.027 & 84.173	Special Education Cluster (IDEA)
84.032	Federal Family Education Loans
84.126	Vocational Rehabilitation Cluster
84.367	Improving Teacher Quality State Grants

93.558	TANF Cluster
93.568	Low-Income Home Energy Assistance
93.575 & 93.596	CCDF Cluster
93.563	Child Support Enforcement
93.658	Foster Care–Title IV-E
93.767	State Children's Insurance Program
93.775, 93.777 & 93.778	Medicaid Cluster
93.959	Block Grants for Prevention and Treatment of Substance Abuse**
Various	Research and Development Cluster

**High-risk Type B program

State of Montana
Schedule of Findings and Questioned Costs
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Section II – Financial Statement Findings

Finding 2015-1:

Criteria: Montana Code Annotated, §17-1-102(4), in part, states "…all state agencies…shall input all necessary transactions into the accounting system…before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles."

Montana Operations Manual Policy #302, in part, states "State agencies are responsible for implementing internal control procedures to ensure all transactions necessary for compliance with generally accepted accounting principles (GAAP) are recorded in SABHRS before fiscal year-end."

Montana Operations Manual Policy #399, in part, defines internal control as a coordinated set of policies and procedures used by managers and line workers to ensure their agencies, programs, or functions operate efficiently and effectively in conformance with applicable laws and regulations, and that related transactions are accurate, properly recorded, and executed in accordance with management's directives. Policy further requires management to establish and maintain internal controls, including internal controls over financial reporting, and indicates "agency management is responsible for the extent of the efficiency and effectiveness of internal controls, as well as any deficiencies."

Condition: In fiscal year 2014, the Department of Administration (department) did not have adequate internal controls to ensure the state of Montana's basic financial statements are prepared accurately, properly reviewed, or issued timely. During our audit of the basic financial statements, we identified numerous errors, indicating the written procedures and review processes were not adequate to prevent, or detect and correct errors.

Questioned Costs: No questioned costs identified.

Context: Misstatements were identified throughout the entire fiscal year 2014 basic financial statement preparation process. The following includes some examples of the significant and material errors we identified in the various versions of the financial statements and communicated to the department. Some of the errors appeared for the first time in the final financial statements.

User-Defined Reports

- We identified errors in the user-defined reports, which are the basis or foundation for creating the state's basic financial statements. If the initial financial statements contain undetected errors, the state's financial information is incorrect. The reports were ultimately corrected.

Statement of Activities

- Transportation expenses were overstated by approximately $220 million. This error was corrected.
- Capital grants and contributions program revenues were overstated for Natural Resources and understated for Transportation by approximately $445 million. These errors were corrected.
- Transfers of approximately $47.8 million were omitted from the financial statement. This error was not corrected.

Note Disclosures

- Errors were made throughout Capital Assets Note 5, related to infrastructure. The department reported Total Governmental Activities Accumulated Depreciation of $1.2 billion and it should have been approximately $210 million, resulting in an overstatement of approximately $1 billion. This error was not corrected.
- A $221 million adjustment for pollution remediation liabilities was not made which resulted in an overstatement in the State Debt Note 11. This error was corrected.
- The Prior Period Adjustments Note 2B did not adequately disclose corrections to the beginning net assets or fund balances for significant errors made to pollution remediation liabilities, other postemployment benefits, and infrastructure amounts. These errors were corrected.
- The Subsequent Events Note 17 does not include four bond issuances, which total approximately $62 million. This error was not corrected.
- Montana Real Estate Pool investment commitments included in Investments Note 3C contain the following misstatements related to Governmental Activities: commitment remaining is overstated by approximately $190 million and the fair value is overstated by approximately $621 million. These errors were not corrected.
- The Component Units Note 18 related to total bonds/notes payable, additions, does not total, resulting in an overstatement of approximately $100 million. This error was not corrected.

Required Supplementary Information

- The Management Discussion & Analysis includes Governmental Activities Net Position, end of year, and the Total Primary Government Net Position, end of year, amounts for 2013, however, the totals do not sum and the difference is approximately $224 million. This error was not corrected.

Component Units

- Many of the component units (i.e. Board of Housing, Facility Finance Authority, Montana State University, Montana State Fund, and Public Employees' Retirement Board) financial statements did not agree to the state's basic financial statements, including note disclosures, and while most were corrected, rounding differences continue to exist.

Effect: The state's basic financial statements for fiscal year 2014, including note disclosures, were not completed until nearly one year after the end of the fiscal year. Legislative and oversight bodies are the primary users of the audited financial statements. When audited financial statements are not available, officials use outdated information or unaudited numbers for decision-making purposes. In order for financial reports to be useful, they have to be issued soon enough after the reported events in order to affect decisions. The untimely release of the state's basic financial statements diminishes the usefulness that the information otherwise would have had. The errors we identified and communicated to the department were significant and material which resulted in modified opinions to our Independent Auditor's Report.

Cause: We believe the department relied on the audit process to identify the errors in the preparation of the state's basic financial statements, including note disclosures. With proper internal controls, financial reporting errors can be avoided or minimized before the audit process begins. Department personnel attributed training as the primary reason for the errors. While we agree training may be one reason for errors, adequately designed and implemented internal controls can significantly reduce errors, even when turnover exists.

Recommendation: We recommend the Department of Administration design and implement internal controls to ensure the state's basic financial statements are accurately prepared, review procedures appropriately detect and correct errors, and financial reporting is timely.

State of Montana
Schedule of Findings and Questioned Costs
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Section II – Financial Statement Findings

Finding 2015-2:

Criteria: Article VIII, Section 15, of the Montana Constitution requires public retirement systems be funded on an actuarially sound basis. Section 19-2-409, MCA, defines a defined benefit retirement system as being actuarially sound when its contributions are sufficient to pay the full actuarial cost of the plan over a scheduled period of no more than 30 years.

Condition: As of June 30, 2014, the Sheriffs' Retirement System (SRS), Highway Patrol Officers' Retirement System (HPORS), and Game Wardens' and Peace Officers' Retirement System (GWPORS) were actuarially unsound. Based on the actuarial evaluations, the unfunded liability for SRS and GWPORS did not amortize, while the HPORS had an unfunded liability that would amortize over a 30.3 year period.

As of June 30, 2015, two of these systems, SRS, and GWPORS, continue to be actuarially unsound because they do not amortized within 30 years. In addition to these two plans, the June 30, 2015, actuarial valuations determined the Public Employees Retirement System Defined Contribution Disability Other Post Employment Benefit (PERS-DC Disability OPEB) is not funded on an actuarial sound basis.

Questioned Costs: No questioned costs identified.

Context: The Montana Public Employee Retirement Administration (MPERA) administers eight defined benefit retirement systems, two defined benefit contribution plans, and an Other Post Employment Benefit. As of June 30, 2014, three of these systems were not actuarially sound. The Unfunded Actuarial Liability (UAL) and amortization periods are summarized in the table on the next page.

The 2013 Legislature enacted legislation affecting plan and member contributions for the HPORS. Effective July 1, 2013, member and state contributions increased by 1 percent and 2 percent, respectively. In addition, significant design changes were made related to the guaranteed annual benefit adjustment (GABA) and the vesting period. As of the June 30, 2015, actuarial valuation, the amortization period was less than 30 years.

Public Employees' Retirement Board (PERB) officials were unsuccessful in their attempt to introduce legislation during the 2015 Legislative Session to address the actuarial soundness of the SRS and GWPORS, and the plans remain unsound as of the June 30, 2015, actuarial valuation. PERB officials indicate it was not for lack of effort, but they did not have the needed support from key stakeholder groups. Since that time, PERB officials have continued to work with several key stakeholders to gather support for the legislation to consider during the 2017 Legislature to address the funding issues for SRS and GWPORS. The UAL and amortization periods for these systems are summarized in the table below.

As of the June 30, 2015 actuarial valuation, the PERS-DC Disability OPEB was actuarially unsound. The UAL and amortization period for the plan is summarized in the table below. PERB management is currently in the process of diversifying the assets of the plan into some longer-term securities since the assets are currently invested entirely in short-term fixed income securities. PERB personnel believe this action will increase the rate of return, and will resolve the funding issues of the plan going forward.

Retirement System	UAL as of June 30, 2014	Amortization Period as of June 30, 2014
SRS	$61.1 million	Does not amortize
HPORS	$66.2 million	30.3 years
GWPORS	$25.2 million	Does not amortize

Retirement System	UAL as of June 30, 2015	Amortization Period as of June 30, 2015
SRS	$60.6 million	Does not amortize
GWPORS	$20.8million	Does not amortize
PERS-DC Disability OPEB	$0.45 million	Does not amortize

Effect: The retirement systems are not actuarially sound, which is not in compliance with Montana Constitution and state law.

Cause: Funding mechanisms in state law have not been sufficient to achieve actuarial soundness for all retirement systems.

Recommendation: We recommend the Public Employees' Retirement Board continue to take necessary actions to ensure actuarial soundness of the Sheriffs' Retirement System, Game Wardens' and Peace Officers' Retirement System, Highway Patrol Officers' Retirement System, and the Public Employees Retirement System Defined Contribution Disability Other Post Employment Benefit plan.

State of Montana
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Section II – Financial Statement Findings

Finding 2015-3:

Criteria: Montana Code Annotated, §17-1-102(4), in part, states, "…all state agencies…shall input all necessary transactions into the accounting system…before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles."

Montana Operations Manual Policy #302, in part, states, "State agencies are responsible for implementing internal control procedures to ensure all transactions necessary for compliance with generally accepted accounting principles (GAAP) are recorded in SABHRS before fiscal year-end."

Montana Operations Manual Policy #399, in part, defines internal control as a coordinated set of policies and procedures used by managers and line workers to ensure their agencies, programs, or functions operate efficiently and effectively in conformance with applicable laws and regulations, and that related transactions are accurate, properly recorded, and executed in accordance with management's directives. Policy further requires management to establish and maintain internal controls, including internal controls over financial reporting.

When accounting for Other Post Employment Benefits (OPEB), Governmental Accounting Standards Board (GASB) Statement 45, paragraph 15, in part, requires when an employer has a net OPEB obligation, the annual OPEB cost should be equal to the annual required contribution (ARC), one year's interest on the net OPEB obligation, and an adjustment to the ARC. Because the calculation of interest is independent of the actuarial calculation, the ARC should be adjusted to offset the amount of interest (and principal, if any) already included in the ARC for amortization of past contribution deficiencies or excess contributions of the employer. GASB Statement 45, paragraph 16, in part, defines the adjustment to the ARC as being equal to the discounted present value of the balance of the net OPEB obligation at the beginning of the year, calculated using the same amortization methodology used in determining the ARC for that year.

Additionally, GASB Statement 45, paragraph 13(g), in part, requires employer contributions in relation to the ARC to be considered in determining the change in the net OPEB obligation.

Condition: Generally Accepted Accounting Principles (GAAP), outlined above, require the OPEB calculation to include an adjustment made to offset the amount of interest already included in the actuarial estimates. The Department of Administration (department) did not include this adjustment in its OPEB calculations made subsequent to the 2008 implementation, through fiscal year 2014. The department's internal controls were not adequate to ensure OPEB calculation and values reported were accurate for these fiscal years.

The state accounting policy related to accounting for OPEB, developed by the department, did not require the adjustment to be made. The Office of the Commissioner of Higher Education (CHE) followed state accounting policy in making calculations for the Montana University System activities. Because policy did not require the adjustment, the CHE calculations were also incorrect.

Additionally, the department and CHE did not consider employer contributions related to the ARC when calculating the change in the OPEB obligation.

Questioned Costs: No questioned costs identified.

Context: The errors in the department and CHE calculations impact the accounting records for all component units and the primary government.

Effect: As a result of omitting the adjustment and employer contributions from the department's calculation, the total OPEB liability was overstated on the state's accounting records by $69.3 million as of June 30, 2014, for non-university component units and the primary government. The OPEB liability for the Montana University System was overstated by $23.6 million.

Cause: The department did not have adequate controls in place to ensure calculations and values reported were accurate. We consider this to be a significant deficiency in internal controls.

Recommendation: We recommend the Department of Administration:

A. Record correcting entries to the state's accounting records to decrease the Other Post Employment Benefits liability, and

B. Include the required adjustment in its Other Post Employment Benefits calculations, as required by generally accepted accounting principles.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2015-001: U.S. Department of Agriculture
CFDA #10.665, Schools and Roads–Grants to States
Grant #Not applicable

Criteria: OMB Circular A-133, Subpart C, paragraph .300(b), states the auditee shall: "Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Federal law, 31 USC 7502(f)(2)(B) and (C), requires each pass-through entity to monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means; and review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity."

Condition: In fiscal year 2014 and 2015, the Department of Administration (department) received and distributed to county governments over $36 million in federal funds for the Schools & Roads–Grants to States (Schools & Roads) program. As the recipient and payer for these federal funds, the department is considered a pass-through entity and is therefore responsible for monitoring the counties' use of the funds. This is commonly known as "during the award" monitoring. Amounts payable to individual counties are calculated by the federal government. After funds are distributed, the department requires counties to provide a receipt indicating their intent for future use of the federal funds. The department's post-award monitoring of the counties or subrecipients includes receipt and review of the A-133 audit reports, if applicable.

During the fiscal years 2014 and 2015, we noted:

- The department does not conduct "during the award" monitoring of the counties' use of the federal funds;
- The department received two audit reports well after the 9-month time requirement during fiscal year 2014 and one audit report after the time requirement during fiscal year 2015.
- The department does not follow-up to ensure proper corrective action of findings included in the county audit reports.

Tracking the counties' intended use of funds and waiting to review the results of future audit reports does not ensure funds are properly used or findings are adequately addressed by the counties.

Questioned Costs: No questioned costs identified.

Context: There are 34 counties receiving these federal funds. For all subrecipients, the department is not conducting the required "during the award" monitoring and is not following-up on audit recommendations at the subrecipient level.

Effect: The department is not in compliance with federal regulations.

Cause: The department believes tracking the intended use and receiving the receipts of the Schools & Roads funds from the counties meets the monitoring requirement. In addition, the department stated they rely on county auditors to follow-up on audit recommendations, citing the lack of federal administrative funds for the award as the basis for their process.

Recommendation: We recommend the Department of Administration implement procedures to:

A. Conduct "during the award monitoring" to ensure subrecipients use federal Schools & Roads–Grants to States funds for allowable purposes, and

B. Issue management decisions and conduct follow-up on audit findings of subrecipients of federal Schools & Roads–Grants to States funds, as required by federal regulations.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2015-002: Environmental Protection Agency
CFDA #66.458 Capitalization Grants for Clean Water State Revolving Funds
Grant #CS300001-11, CS300001-12, CS300001-13, and CS300001-14

CFDA #66.468 Capitalization Grants for Drinking Water State Revolving Funds
Grant #FS998850-11, FS998850-12, and FS998850-13

Criteria: Federal regulation, 2 CFR 170, includes loans as a form of "federal financial assistance subject to the Transparency Act" and requires the department to report each subaward action obligating $25,000 or more in federal funds for each of its federal awards. The subaward information must be submitted to the federal government no later than the end of the month following the month in which the qualifying obligation was made.

Condition: The Department of Environmental Quality (department) provides low interest loans to local governments and communities for water pollution control and drinking water projects through the State Revolving Fund Programs (SRF). During the audit, we noted the department had not submitted Federal Funding Accountability and Transparency Act (FFATA) reports for its SRF loans.

Questioned Costs: No questioned costs identified.

Context: As of fiscal year-end 2014, the department had not completed FFATA reporting for any SRF obligations. The department complied with reporting requirements during fiscal year 2015.

Effect: For fiscal year 2014, the department was not in compliance with federal reporting requirements.

Cause: Department personnel indicated they were not aware that loans were included in the requirements of the Transparency Act.

Recommendation: We recommend the Department of Environmental Quality comply with the Federal Funding Accountability and Transparency Act by reporting loans distributed by the Clean Water and Drinking Water State Revolving Fund programs.

State of Montana
Schedule of Findings and Questioned Costs
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<u>Section III – Federal Award Findings and Questioned Costs</u>

Finding 2015-003: U.S. Department of Education
CFDA #84.007 – Federal Supplemental Educational Opportunity Grants

CFDA #84.033 – Federal Work-Study Program
Grant #Not applicable

CFDA #84.038 – Federal Perkins Loan–Federal Capital Contributions
Grant #Not applicable

CFDA #84.063 – Federal Pell Grant Program
Grant #Not applicable

CFDA #84.268 – Federal Direct Student Loans
Grant #Not applicable

Criteria: Federal regulation, 34 CFR 668.173, requires Title IV funds to be deposited or transferred into the Student Financial Assistance account on electronic fund transfers initiated to the Department of Education or appropriate Federal Family Education Loans lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew.

Federal regulation, 34 CFR 668.22, requires an institution to determine the withdrawal date for a student who withdraws without providing notification to the institution no later than 30 days after the end of the earlier of the (1) payment period or period of enrollment, (2) academic year in which the student withdrew, or (3) educational program from which the student withdrew.

Condition: Montana State University–Bozeman (MSU–Bozeman) did not process returns of Title IV program funds within federally-prescribed time frames for students who unofficially withdrew during the audit period.

Questioned Costs: No questioned costs identified.

Context: Of the students reviewed in our sample, MSU–Bozeman was required to return Title IV funds for 15 students. For 4 of these 15 students, the university did not return funds in a timely manner. Each of the untimely returns were for students who unofficially withdrew during the audit period. The university did not return these students' Title IV funds until between 84 and 90 days after the end of the applicable semester.

Effect: We determined MSU–Bozeman accurately completed the return of Title IV fund calculations during the audit period; however, MSU–Bozeman did not return funds within the federally-prescribed time frame for students who unofficially withdrew. MSU–Bozeman is not in compliance with federal regulations related to return of funds.

Cause: Management attributed these errors to staff misapplication of the federal regulations, noting staff started counting the days as of the date the student grades were posted to Banner, the university's accounting, human resource, and student data information system, not as of the last day of class for the semester in which the student withdrew.

Recommendation: We recommend Montana State University–Bozeman comply with federal compliance requirements by returning Title IV funds within the prescribed time frame for students who unofficially withdraw from the university.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2015-004: U.S. Department of Education
CFDA #84.268, Federal Direct Student Loans
Grant #Not applicable

Criteria: For the 2014-2015 aid year, 34 CFR 685.300(b)(5), requires that schools must agree to reconcile institutional records, on a monthly basis, with Direct Loan funds received from the Secretary of Education and Direct Loan disbursement records submitted to and accepted by the Secretary.

For the 2013-2014 aid year, 34 CFR 685.102, requires that schools reconcile direct loan information on a monthly basis.

Condition: Federal regulations require the Montana State University–Bozeman (MSU–Bozeman) to report their disbursements to the Direct Loan Servicing System via the Common Origination and Disbursement (COD). Each month, COD provides data files summarizing the direct loan processing activities for the month. MSU-Bozeman did not reconcile their internal Direct Loan financial data to United States Department of Education data within the federally-prescribed time frame.

Questioned Costs: No questioned costs identified.

Context: MSU–Bozeman has until July of the year following the aid year to close out its Direct Loan program for the aid year. Because of this, a campus can have multiple aid years active during a particular month. Based on our review, many data files remained unreconciled for several months. There were 16 and 4 monthly data files that had not been reconciled during the 2013-14 and 2014-15 academic years, respectively. Data files were not reconciled as they were received, and many files remained unreconciled for an extended period of time. Based on our review of guidelines published by the Department of Education and discussion with program personnel at the Department of Education, the intent of the federal regulation requiring reconciliation on a monthly basis is to reconcile each month's data file as it is received, prior to the receipt of the following month's file. This allows an institution to identify errors and take corrective action before receipt of the next month's file, ensuring the data file is accurate.

Effect: MSU–Bozeman is not in compliance with federal regulations related to the monthly reconciliation requirement governing the Direct Loan Program.

Cause: Staff did not reconcile data files as they were received. Staff did not prioritize the reconciliations because management did not believe there was an expectation for the files to be reconciled within a particular time frame. Management stated that so long as each individual data file was reconciled prior to the aid year closeout, the campus was in compliance with federal regulations.

Recommendation: We recommend Montana State University–Bozeman comply with federal requirements governing the Direct Loan program by reconciling the Direct Loan data files on a monthly basis.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2015-005: U.S. Department of Education
CFDA #84.063, Federal Pell Grant Program
Grant #Not applicable

CFDA #84.268, Federal Direct Student Loans
Grant #Not applicable

CFDA #84.038, Federal Perkins Loan–Federal Capital Contributions
Grant #Not applicable

Criteria: OMB Circular A-133, Subpart C paragraph .300(b), states the auditee shall: "Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Federal regulation, 34 CFR 674.16, in part, states: "The institution must report enrollment and loan status information, or any Title IV loan-related information required by the Secretary, to the Secretary by the deadline date established by the Secretary."

Federal regulation, 34 CFR 685.309, in part, states: "Unless it expects to submit its next updated enrollment report to the Secretary within the next 60 days, a school must notify the Secretary within 30 days after the date the school discovers that a loan under title IV of the Act was made to or on behalf of a student who was enrolled or accepted for enrollment at the school, and the student has ceased to be enrolled on at least a half-time basis or failed to enroll on at least a half-time basis for the period for which the loan was intended."

Federal regulation, 34 CFR 690.83, in part, states: "An institution shall submit, in accordance with deadline dates established by the Secretary, through publication in the FEDERAL REGISTER, other reports and information the Secretary requires and shall comply with the procedures the Secretary finds necessary to ensure that the reports are correct."

Condition: Montana State University–Billings (MSU–Billings) and Montana State University–Bozeman (MSU–Bozeman) did not report student enrollment information within the prescribed time frames. Additionally, MSU–Bozeman's procedures did not always result in accurate information being reported for enrollment status changes for students who graduated.

Questioned Costs: No questioned costs identified.

Context: At MSU–Billings two students graduated in May 2014 but the campus did not report any change in enrollment status until September 2014, approximately 120 days after the students' enrollment changes actually occurred. One student graduated in December 2014 but the campus did not report any change in enrollment status until February 2015, 63 days after the student's enrollment change. Three students graduated in April 2015 but the campus did not report any change in enrollment status until September 2015, approximately 125 days after the change occurred.

MSU–Bozeman did not report timely, and in some instances, accurate enrollment status changes for multiple students who graduated during the audit period. One student graduated in May 2014 but the campus did not report a status change for the student until September 2014, 152 days after the student's enrollment change. At that time, the student was reported as withdrawn instead of graduated. As of May 2015, the university had not reported the student's graduation to National Student Clearinghouse (NSC) and National Student Loan Data System (NSLDS).

Effect: The untimely enrollment reporting negatively impacted students whose Perkins Loans entered into repayment status during the audit period. Multiple students were not provided proper Perkins Loan exit counseling or were not sufficiently contacted during their Perkins Loan grace period as a result of untimely enrollment reporting.

Cause: Staff in the Registrar's Office at MSU–Billings were not aware their procedures resulted in untimely reporting of status changes during the audit period.

Staff at MSU–Bozeman attribute the noncompliance to several factors, most prominently the frequency and timing of submission to the NSLDS and deficiencies in the electronic reporting systems at NCS and NSLDS.

Recommendation: We recommend:

A. Montana State University–Bozeman implement internal control procedures to ensure accurate and timely submission of student enrollment status changes to the National Student Loan Data System.

B. Montana State University–Bozeman and Montana State University–Billings comply with requirements governing the Federal Perkins Loan, Federal Direct Loan, and Federal Pell Grant programs by reporting accurate student enrollment status changes to the National Student Loan Data System within prescribed time frames.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2015-006: U.S. Department of Education
CFDA #84.038, Federal Perkins Loan – Federal Capital Contributions
Grant #Not applicable

Criteria: OMB Circular A-133, Subpart C paragraph .300(b), states the auditee shall: "Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Federal regulations, 34 CFR 674.42 (b) and (c), require institutions to conduct an exit interview with a borrower before he or she leaves the institution, and to contact the borrower a minimum of three times during the initial grace period for loans with 9-month grace periods or two times for loans with 6-month grace periods.

Condition: Montana State University–Bozeman (MSU–Bozeman) and Montana State University–Billings (MSU–Billings) contracted with a third party (contractor) to act as the loan servicer for the Perkins Loans issued by each campus, including performing portions of the student repayment due care and diligence federal compliance requirements. During the audit period, both MSU–Bozeman and MSU–Billings utilized the contractor to contact students during their grace periods. MSU–Bozeman also utilized the contractor to provide exit counseling to students. MSU–Billings personnel perform in-house exit counseling for students with Perkins Loans.

We reviewed the repayment due care and diligence procedures used by both campuses, including the services contracted-out and those performed in-house, to determine whether they were sufficient to comply with federal regulations. Based on our review, exit counseling and grace period contact procedures were not adequate to ensure students received exit counseling or all grace period communications within the applicable time frames in federal regulations, and internal controls did not detect the noncompliance.

Questioned Costs: No questioned costs identified.

Context: During our audit, we identified three MSU–Bozeman students that did not receive exit counseling packets for the first and second grace period communications. For these students, the last grace period notice was the first contact the students received about entering into repayment status on their loans. At that time, the students were approximately one month out from the start of repayments on their loans. After we brought the issue to management's attention, personnel estimated that out of 749 loans entering into repayments during the audit period, exit counseling was not provided for 285 loans. Additionally, the first grace period, second grace period, and last grace period communications were not sent on 150, 184, and 1 loans, respectively.

During our audit, we identified three MSU–Billings students that did not receive at least one grace period communication. Exit counseling did not occur within federally-mandated time frames for all 70 students whose loans entered into repayment during the audit period.

Effect: MSU–Bozeman and MSU–Billings are not in compliance with federal regulations related to exit counseling and minimum notice requirements. For the students impacted, the communications provided to the students regarding their Perkins Loan repayments were not adequate under federal regulations.

Cause: At both campuses, we identified untimely enrollment reporting. Personnel responsible for Perkins student loan accounts stated they were not aware of the time delay in reporting enrollment status changes by the Registrar's Offices, and were not aware some students' borrowers did not receive all of the required documents associated with their loan repayment. In addition, MSU–Billings personnel were not aware of the requirement to conduct exit counseling prior to the student's separation.

Recommendation: We recommend:

A. Montana State University–Bozeman and Montana State University–Billings implement internal control procedures to ensure accurate student separation dates are provided to the loan servicer in a timely manner.

B. Montana State University–Billings modify internal control procedures to ensure exit counseling occurs prior to a student's separation from the campus.

C. Montana State University–Bozeman and Montana State University–Billings comply with requirements of the Federal Perkins Loan Program by conducting exit counseling prior to student's separation from the university and providing three notices during student's grace periods.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2015-007: Various* Federal Programs
CFDA #Various*, Research and Development Cluster
Grant #Various

Criteria: OMB Circular A-133, Subpart C paragraph .300(b), states the auditee shall: "Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Condition: Montana State University–Bozeman's (MSU–Bozeman) Office of Sponsored Programs (OSP) provides centralized oversight and management activities for the MSU–Bozeman's sponsored programs, including research and development (R&D) grants funded by the federal government. OSP staff include fiscal managers, who provide accounting, administrative, and financial functions for pre- and post-award activities on grants administered by MSU–Bozeman. Fiscal managers are involved with grants from the proposal through close-out stages. OSP internal policies require fiscal managers to review certain transactions charged to grants they manage, prior to the costs being paid by MSU–Bozeman. This transaction review process is one of the key ways in which fiscal managers monitor the reasonableness of expenses charged to the grants they manage. Fiscal manager review of expenses charged to R&D grant funds at MSU–Bozeman was not consistently documented during the audit period.

Questioned Costs: No questioned costs identified.

Context: As part of the audit work over the federal R&D grants at MSU–Bozeman, we selected 36 transactions charged to grant funds to review for proper approval in accordance with MSU policy. Of the 36 transactions, 12 required approval and there was no evidence of approval on 2 of the transactions. In our review of grant expenditures, we identified one unallowable charge, for approximately $15.00.

Effect: Fiscal manager review procedures are not consistently documented, and, as a result, OSP management cannot demonstrate the control was consistently applied throughout the audit process. Additionally, since documentation of review is not required, there is risk that transactions requiring review may not actually be reviewed prior to payment and the related expenses charged may not be reasonable.

Cause: Through our work, we noted the fiscal manager review and approval required by OSP internal policy is not consistently documented and in some instances is not documented at all. While OSP policy requires fiscal manager review, policy does not address how the review is to be documented or require the review to be documented. This is a weakness in the design of the fiscal manager review internal control.

Recommendation: We recommend Montana State University–Bozeman modify internal control procedures to ensure fiscal manager transaction review is consistently documented.

*See Appendix A

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Section III – Federal Award Findings and Questioned Costs

Finding 2015-008: U.S. Department of Health and Human Services
CFDA #93.775, 93.777, and 93.778, Medicaid Cluster
Grant #05-1305MT5MAP, 05-1305MT5ADM, 05-1305 MTINCT, 05-1405MT5MAP, 05-140MT5ADM, 05-1405MTIMPL, 05-1505MT5MAP, 05-1505MT5ADM, 05-1505MTIMPL

CFDA #93.767, Children's Health Insurance Program
Grant #05-1205MTCPBP, 05-1305MTCPBP, 05-1405MT5021, 05-1505MT1081

Criteria: OMB Circular A-133, Subpart C paragraph .300(b), states the auditee shall: "Maintain internal controls over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations and the provisions of contracts or grants agreements that could have a material effect on each of its Federal programs."

Condition: The quarterly CMS-64 reports are a summary of expenditures and are the primary reports submitted to the federal government for Medicaid by the Department of Public Health and Human Services (department). The report also contains data pertaining to the Children's Health Insurance Program. The controls in place to ensure the completeness and accuracy of the CMS-64 reports were not operating effectively in fiscal year 2015, as evidenced by errors in the December 31, 2014, and March 31, 2015, submitted reports.

Questioned Costs: No questioned costs identified.

Context: Of the eight quarterly reports required to be submitted for the audit period, there were two reports that contained errors. The reports for the quarters ended December 31, 2014, and March 31, 2015, were corrected and recertified as of late August 2015.

Effect: Failure to correct errors in a timely fashion could lead to reliance on the inaccurate or incomplete data reported and noncompliance with federal regulations requirements.

Cause: The errors in both reports resulted from changes in the manner in which data was required to be entered into the federal reporting system, insufficient training of new staff, and a lack of adequate written procedures detailing preparation of the CMS-64 reports.

Recommendation: We recommend the Department of Public Health and Human Services:

A. Reevaluate the internal controls in place to ensure completeness and accuracy of CMS-64 reporting.

B. Develop sufficient written procedures detailing the CMS-64 report preparation process.

C. Ensure staff who prepare the CMS-64 report are properly trained.

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Section III – Federal Award Findings and Questioned Costs

Finding 2015-009: United States Department of Health and Human Services
CFDA #93.775, 93.777, and 93.778, Medicaid Cluster
Grant #05-1305MT5MAP, 05-1305MT5ADM, 05-1305MTINCT, 05-1405MT5MAP, 05-1405MT5ADM, 05-1405MTIMPL, 05-1505MT5MAP, 05-1505MT5ADM, 05-1505MTIMPL

CFDA #93.767, Children's Health Insurance Program
Grant #05-1205MTCPBP, 05-1305MTCPBP, 05-1405MT5021, 05-1505MT1081

Criteria: OMB Circular A-133, Subpart C, Section .300(b) states the auditee shall: "Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Federal regulation, 31 CFR 205, implement the Cash Management Improvement Act (CMIA). The CMIA provides requirements and procedures for the transfer of federal financial assistance from federal agencies to the states, and specifies the terms and conditions under which an interest liability would be incurred.

Condition: The Montana Department of Public Health and Human Services (department) designated controls require CMIA reconciliations on a monthly basis for funds covered under the CMIA, to ensure revenue is recovered and expenditures are recorded correctly in compliance with the CMIA. Since December 2014, the department has not completed any monthly CMIA reconciliations for the Children's Health Insurance Program (CHIP) and Medicaid programs.

Questioned Costs: No questioned costs identified.

Context: In our preliminary review of cash draws, we determined monthly CMIA reconciliations were not completed for the month in which the cash draw occurred in three instances. Upon further discussion with department staff, we noted the department has not completed any CMIA reconciliations for Medicaid and CHIP since December 2014.

Effect: Due to the CMIA reconciliations not being performed on a monthly basis, the risk of errors in cash management increases, which could result in the state paying the federal government interest earned or the state losing interest earnings for funds not requested. In fiscal years 2014 and 2015, these two federal programs spent $1.7 billion; if the cash requests for these expenditures are not according to the CMIA, interest earned or lost could be significant.

Cause: Department personnel stated the reconciliations have not been performed since December 2014 due to staff turnover and insufficient training.

Recommendation: We recommend the Department of Public Health and Human Services:

A. Ensure staff who prepare the Cash Management Improvement Act (CMIA) reconciliations are properly trained.

B. Complete CMIA reconciliations on a monthly basis.

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Section III – Federal Award Findings and Questioned Costs

Finding 2015-010: U.S. Department of Agriculture
CFDA #10.551 and 10.561, SNAP Cluster
Grants #2012IE251843, 2012IS251443, 2012IS251943, 2012IS252043, 2013IE251843, 2012IS750343, 2013IS251443, 2013IS251943, 2013IS252043, 2013IS750343, 2013IS802643, 2013IS803643, 2014CQ251252043, 2014CQ251443, 2014CQ251943, 2014CQ252043, 2014IQ390343, 2014IQ750343, 2014IS251443, 2014IS251843, 2014IS251943, 2014IS252043, 2014IS750343, 2014IS802643, 2014IS803643, 2015IQ390343, 2015IQ750343, 2015IS251443, 2015IS251943, 2015IS252043, 2015IS802643

Criteria: OMB Circular A-133, Subpart C paragraph .300(b), states the auditee shall: "Maintain internal control over Federal programs that provides reasonable assurances that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grants agreement that could have a material effect on each of its Federal programs."

Condition: The Department of Public Health and Human Services (department) is required to complete and submit several reports related to the Supplemental Nutrition Assistance Program (SNAP) program to the federal government. These include a monthly FNS-46 report which accounts for benefits issued each month and a quarterly FNS-209 report which reports overpayments to households and any collections received. The department does not have procedures in place to document reviews of these required SNAP reports. Our review of the FNS-46 report found there are no documented controls in place to verify the information used to complete the report, which comes from one of the department's computer systems, is correct prior to submission.

Questioned Costs: No questioned costs identified.

Context: There are no documented controls in place to verify the information used to complete the FNS-46 report is correct prior to submission. There is no documentation that the monthly FNS-46 or quarterly FNS-209 reports were reviewed for accuracy prior to submission to the federal government.

Effect: A lack of adequate internal controls over reporting increases risk that the information submitted to the federal government is incorrect or contains errors.

Cause: Department personnel stated since the FNS-46 report only includes five items and one of the items does not change, it did not warrant a review prior to submission. For the FNS-209 report, the department does not have established controls to review the report before submission.

Recommendation: We recommend the Department of Public Health and Human Services:

A. Implement controls over the preparation of the FNS-46 and FNS-209 reports.

B. Document reviews of FNS-46 and FNS-209 reports prior to submission.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2015-011: U.S. Department of Health and Human Services
CFDA #93.558, Temporary Assistance for Needy Families State Programs
Grant #2014G996115 and 2015G996115

Criteria: Federal program instructions TANF-ACF-PI-2006-03, published June 2006, states "The State IV-A agency should attempt to recover the overpayment either by recouping it from the recipient through a reduction in the recipient's payment in one or more future months or by collecting cash repayment(s) from the recipient (or former recipient) under a lump sum or periodic repayment plan."

Condition: Under the Temporary Assistance for Needy Families (TANF) Program, individual recipients may receive a monthly TANF assistance benefit to which they are not entitled. The federal government refers to this as an overpayment. Overpayments can result from a client making an error or not following program requirements, or errors in the Department of Public Health and Human Services's (department) procedures to determine eligibility or calculate the benefit amount. The department did not seek recovery for benefit overpayments caused by department errors.

Questioned Costs: We question $326,410 of cash assistance payments disbursed as a result of department error during calendar year 2014 and 2015.

Context: This is a systemic issue and overpayments are continuing to grow. The federal government followed up on this finding as well, and noted the department indicated the system-related eligibility issues were resolved as of November 2013 and did not require recovery of the prior questioned costs.

- System overpayments prior to the implementation of the Combined Healthcare Information and Montana Eligibility System (CHIMES-EA) for the fiscal year 2012 up through October 31, 2012 was approximately $14,000.
- The amount of overpayments after the implementation of CHIMES-EA through June 30, 2013, was approximately $151,000.
- In calendar year 2014, $15 million in benefits were issued with overpayments of $192,538.
- In calendar year 2015 through August, $10 million in benefits were issued with overpayments of $133,872.

Department personnel stated that some of the overpayments were system-related, but the majority was related to the state not taking action on changes in a timely manner. Staff indicated they corrected the system-related errors that impacted payment calculations in 2013, which would reduce the department generated overpayments.

Effect: Department errors resulted in overpayments of cash assistance in the amounts of $192,538 and $133,872 during calendar years 2014 and 2015, respectively.

Cause: Department policy states it will not seek return of overpayments from recipients when a department error caused the overpayment. Department personnel stated the federal policy says the department "should," rather than "must" attempt to recover. Department personnel further stated, the federal Social Security Program Operations Manual System, effective January 31, 2005, indicates the state "may," not "should," recover overpayments.

Recommendation: We recommend the Department of Public Health and Human Services comply with federal regulations by attempting to recover Temporary Assistance for Needy Family cash assistance overpayments caused by department errors.

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Section III – Federal Award Findings and Questioned Costs

Finding 2015-012: U.S. Department of Health and Human Services
CFDA #93.775, 93.777, and 93.778, Medicaid Cluster
Grant #05-1305MT5MAP, 05-1305MT5ADM, 05-1305MTINCT, 05-1405MT5MAP, 05-1405MT5ADM, 05-1405MTIMPL, 05-1505MT5MAP, 05-1505MT5ADM, 05-1505MTIMPL

Criteria: Federal regulation, 45 CFR 95.621, in part, requires entities to establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems when significant changes occur. Entities must also review all Automated Data Processing (ADP) systems involved in the administration of the Medicaid program on a biennial basis. The reviews must include an evaluation of physical and data security operating procedures and personnel practices. The reports of the biennial ADP system security reviews are required to be maintained.

Condition: The Montana Department of Public Health and Human Services (department) identified four main ADP systems that are integral to administering the Medicaid program. Of these, two had a security review we were able to review. The other two had a draft security plan, but not a review that documented an evaluation of the procedures and practices.

Questioned Costs: No questioned costs identified.

Context: Department personnel stated that as of June 2015 they had hired a contractor to complete security risk assessments on 20 department applications and then prioritize all the systems to do annual reviews for the major systems. The department's plan for annual reviews are on a department wide basis, meaning many of the 20 applications to be addressed are not specific to Medicaid, for which this recommendation applies.

Effect: The department did not comply with federal regulations. Additionally, since all payments originate in one of these four systems, without a proper review, there is increased risk of improper or erroneous payments.

Cause: The department has multiple systems to track and monitor, and acknowledged that the two ADP systems in question should have had a risk assessment and security review completed.

Recommendation: We recommend the Department of Public Health and Human Services complete risk analyses and biennial reviews over Medicaid Automatic Data Processing systems as required by federal regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2015-013: U.S. Department of Agriculture
CFDA #10.557, Special Supplemental Nutrition Program For Women, Infants, and Children
Grant #14143MT705W1003

U.S. Department of Health and Human Services
CFDA #93.568, Low-Income Home Energy Assistance
Grant #14B1MTLIEA and 15B1MTLIEA

CFDA #93.575 and 93.596, CCDF Cluster
Grant #2014G996005, 2014G999004, 2014G999005, 2014G99WRFD, 2015G996005, 2015G999004, and 2015G999005

CFDA #93.658, Foster Care–Title IV-E
Grant #1401MT1401 and 1501MTFOST

CFDA #93.959, Block Grants for Prevention and Treatment of Substance Abuse
Grant #3B0T1010031-14S2 and 3B08T1010031-13S2

Criteria: OMB Circular A-133, Subpart C, Section .300(b) states the auditee shall: "Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Federal regulation, 2 CFR 170, requires the department to report each subaward action obligating $25,000 or more in federal funds for each of its federal awards. The subaward information must be submitted to the federal government no later than the end of the month following the month in which the qualifying obligation was made.

Condition: The Department of Public Health and Human Services (department) did not submit all required Federal Funding Accountability and Transparency Act (FFATA) reports during fiscal years 2014 and 2015 for multiple programs.

Questioned Costs: No questioned costs identified.

Context: The lack of reporting for multiple federal awards over the two-year period indicates a systemic issue rather than an isolated incident. For the grants noted, only 19 out of the 197 required reports were submitted.

Effect: Incomplete or inaccurate FFATA reporting reduces transparency which is contrary to the purpose of the Act.

Cause: Per the department personnel, the reason these reports were not submitted was due to turnover in the position responsible for FFATA reporting in December 2014 and a lack of documented effective controls over the FFATA reporting process. For the Foster Care program, however, the Child and Family Services Division incorrectly classified its subrecipients as vendors.

Recommendation: We recommend the Department of Public Health and Human Services:

A. Submit Federal Funding Accountability and Transparency Act reports as required by federal regulations.

B. Develop and implement effective internal controls to ensure Federal Funding Accountability and Transparency Act sub-award reporting is completed accurately and timely for federal programs.

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Section III – Federal Award Findings and Questioned Costs

Finding 2015-014: U.S. Department of Health and Human Services
CFDA #93.658, Foster Care–Title IV-E
Grant #1401MT1401, 1501MTFOST

Criteria: OMB Circular A-133, Sections 210(b) and (c) define a vendor as a seller providing goods or services that are required for the conduct of federal programs. The goods or services may be for an organization's own use or for the use of beneficiaries of the federal program. A subrecipient is defined as a nonfederal entity that expends federal awards received from a pass-through entity, such as the State, to carry out a federal program.

OMB Circular A-133, Section 400(d)(1) requires the subrecipient be informed of the federal award information, including CFDA title and number, federal awarding agency, award name and number, and award year.

OMB Circular A-133, Section 400(d)(3) requires the activities of subrecipients be monitored as necessary, to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition: The Montana Department of Health and Human Services (department) incorrectly classified its tribal organization Foster Care subrecipients as vendors. Our review of federal regulations indicated the tribes use the funds to carry out the Foster Care program and are subject to federal regulations. As a result, tribes meet the definition of subrecipients and should have been classified as such.

Due to this incorrect classification, the department failed to follow federal regulations that require subrecipients to be informed of federal award information. Additionally, because the department incorrectly classified the tribal organizations as vendors, the department did not perform subrecipient monitoring activities for the organizations.

Questioned Costs: No questioned costs identified.

Context: The department provides subawards to seven tribal organizations for Title IV-E Foster Care services.

Effect: Failure to provide subrecipients with the required federal award information and monitor subrecipient use of funds increases the risk of subrecipient noncompliance with federal requirements.

Cause: Department personnel stated the tribes are providing a service which resembles a vendor relationship.

Recommendation: We recommend the Department of Public Health and Human Services categorize the tribal organizations as subrecipients of the Foster Care program and comply with all federal regulations regarding subrecipients.

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Section III – Federal Award Findings and Questioned Costs

Finding 2015-015: Various* Federal Programs
CFDA #Various*, Research and Development Cluster
Grant #Various

Criteria: OMB Circular A-133, Subpart C, Section 300(b), states that the auditee shall: "Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Condition: The University of Montana–Missoula (university) Office of Research Sponsored Programs (ORSP) represented that grant expenditure reports, both summary and detail, are run monthly and reviewed at least quarterly by grant accountants. We could not confirm from inspection of various grant files whether the reviews had actually been performed.

Questioned Costs: No questioned costs identified.

Context: We identified six grant fund files of the 32 sampled that lacked evidence of review required by ORSP procedures for the quarter tested. Of these six, we confirmed by interview that one review had been performed, and by inspection that three grants had no expenditures in the quarter tested.

Effect: Lack of documentation makes it difficult for management to monitor compliance with policy. Additionally, if grant expenditures reviews do not occur, risk of unallowable expenditures being charged to the grant and not being detected increases.

Cause: University management stated the procedure describing staff review of the grant expenditures does not specify how the review is to be documented. By not specifying how to document the review in its procedure, management cannot determine whether staff have completed the reviews required by internal procedure.

Recommendation: We recommend the University of Montana–Missoula implement procedures to document the quarterly review of grant expenditures.

*See Appendix A

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Section III – Federal Award Findings and Questioned Costs

Finding 2015-016: U.S. Department of Health and Human Services
CFDA #93.859, Biomedical Research and Training
Grant #P20RR017670

Criteria: OMB Circular A-133, Subpart C, Section 300(c), states that the auditee shall: "Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs."

Condition: In April 2014, the University of Montana–Missoula (university) purchased equipment with federal funds under a grant agreement, after the equipment in use for the grant-funded project failed. The terms of the grant agreement listed the purposes for which the grant funds could be spent. At the time of the equipment purchase, the listed purposes did not include equipment. Although the university eventually received approval from the federal grantor agency in February 2015 to spend grant funds on equipment, the university did not have authority to purchase equipment with the grant funds at the time the equipment was purchased.

Questioned Costs: We questioned costs of $48,997 related to the equipment purchased with grant funds.

Context: We tested 11 grant expenditure transactions in excess of $25,000 at the university. The university purchased equipment related to research funded by one federal grant reviewed.

Effect: The equipment purchase resulted in unallowable costs charged to the grant. Expenditures for unallowed activities could jeopardize federal funding.

Cause: University staff said the university filed a request with the grantor agency in January 2014 to carryover funds to the next year for equipment related to the research funded by the grant, but the request was not approved until February 2015. According to university personnel, the grant work could not continue without the equipment, so a replacement was ordered and charged to the grant.

Recommendation: We recommend the University of Montana–Missoula limit charges to federal grants to activities allowed under terms of the grant agreement.

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Section III – Federal Award Findings and Questioned Costs

Finding 2015-017: U.S. Department of Education
CFDA #84.038, Federal Perkins Loan–Federal Capital Contributions
Grant #Not Applicable

Criteria: OMB Circular A-133, Subpart C paragraph .300(b), states the auditee shall: "Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Federal regulations, 34 CFR 674.42(b) and (c), require institutions to conduct an exit interview with a borrower before he or she leaves the institution, and to contact the borrower a minimum of three times during the initial grace period for loans with 9-month grace periods or two times for loans with 6-month grace periods.

Condition: The University of Montana–Missoula (university) contracts with a third-party to perform required due diligence contacts with borrowers, including exit counseling and grace period notices, to minimize risk of student default on Perkins loans. We noted instances where exit packages were not distributed and grace period notices were not sent for students that separated from the university. The university did not discover the lack of exit packages or grace period notices for the identified students prior to our communicating with them regarding the issue.

Questioned Costs: No questioned costs identified.

Context: In our sample of 25 student accounts, we identified 5 students who did not receive exit packages and 9 students who did not receive all the required grace period notices. The identified exceptions occurred in the 2013-2014 academic year when students separated from the university unexpectedly.

Effect: The university's control structure was not sufficient to ensure exit packages and grace period notices were provided to all students. Additionally, the university is not in compliance with federal regulations requiring exit conferences and grace period notifications for students entering Perkins loan payment status.

Cause: University personnel said noncompliance occurred when the actual date a student separates from the university differs from the estimated date of separation for that student. The contractor hired by the university to ensure exit counseling information and grace period notices are sent to each student with a Perkins loan has an estimated separation date for the student in its computer system. These separation dates are updated based on the student's activity at the university. When the system uploads actual separation dates from the federal clearing house and the actual separation date for a student is greater than 30 days before or 30 days after the estimated date that is already in the system, the system does not automatically flag the student for exit counseling or for sending grace period notices.

Recommendation: We recommend the University of Montana–Missoula implement improvements in its control procedure to ensure Perkins loan exit counseling and grace period notice generation occurs in a timely manner pursuant to federal regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2015-018: U.S. Department of Education
CFDA #84.063, Federal Pell Grant Program
Grant #Not Applicable

CFDA #84.268, Federal Direct Student Loans
Grant #Not Applicable

Criteria: Federal regulation, 34 CFR 685.301, requires institutions to ensure the student's loan amount, the anticipated and actual disbursement date or dates, and disbursement amounts are complete and accurate for Direct Loans.

Federal regulation, 34 CFR 690.83, requires institutions to report any changes in the amount of Pell Grant for which a student qualifies, including any related payment data changes by submitting the student's payment data that discloses the basis and result of the change in award for each student.

The March 2014 Compliance Supplement, page 5-3-42, requires institutions to report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the Common Origination and Disbursement (COD) system within 30 days of a disbursement. The June 2015 Compliance Supplement did not modify this requirement.

OMB Circular A-133, Subpart C paragraph .300(b), states the auditee shall: "Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Condition: The University of Montana–Missoula (university) received multiple notices from the Department of Education's Common Origination and Disbursement (COD) system that identified instances where amounts reimbursed for a Direct Loan or Pell Grant exceeded the amount disbursed to the student for the same aid for more than 30 days. These differences usually occur when the student decides to accept less loan or grant aid than initially awarded by the university. These differences are referred to as unsubstantiated balances. The university has not implemented a procedure to identify these unsubstantiated balances within the 30-day period allowed in federal regulations.

Questioned Costs: No questioned costs identified.

Context: While the university has not implemented procedures to identify unsubstantiated balances, the university did remit funds to the Department of Education for the federally-determined unsubstantiated amounts. When COD monitoring notices were received, the university returned cash for the amount by which the original reimbursement exceeded the amount disbursed to the student. We identified one instance in academic year 2013-2014 and three instances in academic year 2014-2015 where the university received COD monitoring notices associated with unsubstantiated balances.

Effect: The university did not comply with federal regulations. Additionally, by not reporting complete and accurate disbursement records to the Department of Education, the university may not receive future disbursements from the Department of Education in a timely manner or may improperly return funds to the Department of Education.

Cause: University personnel reconcile between the Department of Education Direct Loan files and the university's financial aid files, but the reconciliation is not completed in time to detect each difference within 30 days. A financial aid manager delivers the COD notices directly to the financial manager who draws federal cash, but not to the person performing the reconciliations.

Recommendation: We recommend the University of Montana–Missoula enhance communication between staff charged with monitoring and correcting discrepancies between loan funds disbursed to a student and the amount recorded as reimbursed with federal funds.

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Section III – Federal Award Findings and Questioned Costs

Finding 2015-019: U.S. Department of Housing and Urban Development
CFDA #14.871, Section 8 Housing Choice Vouchers
Grant #MT901

Criteria: Federal regulation, 24 CFR 982.312(d)(1), in part, requires families to promptly notify the Public Housing Agency (PHA) of absence from a housing unit. The Montana Department of Commerce's (department) administrative plan (Plan) specifies if the family is going to be absent from a unit for more than 30 days, they are required to notify their local field agent in advance of the absence, in writing, of the duration of time the family will be absent and justification for the absence. The Plan further states if a family is absent from a unit for more than 30 days without contacting the department, assistance is required to be terminated for the family.

Federal regulation, 24 CFR 982.552(c)(1)(i), in part, allows the PHA to deny or terminate assistance under the program if the family violates any obligations under the program, set forth in 24 CFR 982.551. Federal regulation, 24 CFR 982.551(b)(2) requires families to supply information requested by the PHA for use in regular income reexaminations. The department's Plan addresses unreported income, and indicates the first time a participant family fails to report any income increase, the family may not be terminated from assistance unless their failure to report results in unreported income of $2,000 or more since their entry into the program. The family will also be terminated from assistance the second time there is failure to report income change of any size, according to department policy.

Federal regulation, 24 CFR 5.609(a)(4), defines annual income as all amounts, monetary or not, which include amounts derived from assets to which any member of the family has access. The Plan indicates if the asset is a savings account, the anticipated income is determined by multiplying the market value of the account by the interest rate on the account.

Federal regulation, 24 CFR 982.507 in part, requires PHAs to determine whether rent is reasonable in comparison to rent for other comparable unassisted units. To make this determination, entities must consider factors such as location, quality, size, unit type, and age of the unit, as well as any amenities, housing services, maintenance, and utilities to be provided by the owner in accordance with the lease.

Federal regulation, 24 CFR 982.516(a)(1), requires PHAs to conduct a reexamination of family income and composition at least annually.

Condition: The department did not follow federal regulations and its internal policies for the program and continued to pay vouchers to landlords on behalf of some recipients no longer eligible for the program.

Questioned Costs: We question $63,664 charged to the program during fiscal years 2014 and 2015 for payments to landlords on behalf of recipients who were no longer eligible for benefits.

Context: We reviewed 98 files and identified 5 requirements not being followed in 11 different files. In several of the instances below, decisions were made to continue assistance but the department lacks documentation to support these decisions.

- The department determined one recipient was eligible for the program without including interest amounts from a savings account of which they were aware. The regulations define annual income, which includes the income from a savings account. The department should have considered this amount during the eligibility process to determine if the income met the limitation.
- The department became aware of one recipient's absence in excess of 30 days from the unit while trying to contact this recipient to perform an annual review and was unable to reach the recipient. Once the department became aware of the absence, the assistance was not terminated and disbursements to the landlord in the amount of $1,036 continued.
- The department did not conduct an annual reexamination for one recipient, as required. By not reexamining the information, eligibility status could be affected.
- We found the department did not follow federal regulations for one tenant regarding whether the rent paid to the landlord on their behalf was reasonable. When determining the reasonableness of the rent for the unit the tenant was renting, the department compared the unit to others that were not in the same market area, contrary to program requirements. The department did not comply with federal regulations, however, we found this did not result in an unreasonable rent amount paid to the landlord.
- There were seven instances where the department identified recipients that either did not report income of $2,000 or did not report multiple increases of income. Once discovered by the department, the recipients were not terminated from the program and disbursements to landlords continued, totaling $62,628.

Effect: The department did not follow federal regulations and department policy, resulting in approximately $63,664 paid to landlords on behalf of recipients who were no longer eligible for benefits.

Cause: Department personnel stated in some cases the current procedures were not followed, were not clear, or allowed for inconsistencies in the termination process.

Recommendation: We recommend the Department of Commerce comply with federal eligibility regulations and department policies for the Section 8 Housing Choice Vouchers Program.

State of Montana
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<u>Section III – Federal Award Findings and Questioned Costs</u>

Finding 2015-020: U.S. Department of Housing and Urban Development
CFDA #14.871, Section 8 Housing Choice Vouchers
Grant #MT901

Criteria: Federal regulation, 31 CFR 205, implements the Cash Management Improvement Act of 1990 (CMIA) and requires State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds for selected large programs. The agreements also specify the terms and conditions under which an interest liability would be incurred.

The United States Treasury and the state of Montana enter into a Treasury-State Agreement (agreement) in order to minimize the time between payment of expenditures and drawing funds from the federal government and to set disbursement patterns. The agreement in effect for fiscal years 2014 and 2015 requires, for the Section 8 Housing Choice Vouchers Program, the Montana Department of Commerce (department) to disburse funds to landlords by Electronic Fund Transfer so that the settlement date is the first day of the month and payments by warrant are issued on the first business day of the month.

Condition: The department paid landlords \$15,829,764 and \$15,741,352 in fiscal years 2014 and 2015, respectively. The department disbursed these funds to landlords throughout the month, not just the first day, and therefore was not following the required cash management methods for disbursements to landlords for rental payments.

Questioned Costs: No questioned costs identified.

Context: The department did not follow the disbursement pattern of the agreement for 73 days; 55 in fiscal year 2014; and 18 in fiscal year 2015.

Effect: The department is not in compliance with the agreement which could lead to increased interest owed to the federal government or decreased funding.

Cause: Department personnel stated disbursements are processed typically on the 1st and 15th of the month to accommodate partial payments to the landlords and changes to tenant records based on interim or annual reviews.

Recommendation: We recommend the Department of Commerce comply with the Treasury-State Agreement for the Section 8 Housing Choice Vouchers program.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2015-021: U.S. Department of Transportation
CFDA #20.205, Highway Planning and Construction
Grant #Not applicable

CFDA #20.509, Formula Grants for Rural Areas
Grant #MT18-X045, MT18-X052, and MT18-X057

Criteria: OMB Circular A-133, Subpart C, Section .300(b) states the auditee shall: "Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Federal regulation, 2 CFR 170, in part, requires the department to report each subaward action obligating $25,000 or more in federal funds for each of its federal awards. The subaward information must be submitted to the federal government no later than the end of the month following the month in which the qualifying obligation was made.

Condition: The Montana Department of Transportation (department) is not reporting subaward information for all of the Formula Grants for Rural Areas and Federal-Aid Highway Program for the required Federal Funding Accountability and Transparency Act (FFATA) reports.

Questioned Costs: No questioned costs identified.

Context: Formula Grants for Rural Areas subawards exceeding $8.9 million and $7.3 million were not reported for fiscal year 2015 or 2014, respectively. For Formula Grants for Rural Areas, 32 subawards should have been reported in fiscal year 2015 and 30 subawards should have been reported in fiscal year 2014.

We reviewed all documentation for the Highway Planning and Construction subawards and most were reported as required, but nine subawards were not reported and sixteen subawards were reported after the deadline.

Effect: The department did not comply with reporting requirements for the audit period.

Cause: Formula Grants for Rural Areas were not reported because the department did not have a reporting process in place.

The department staff indicated information necessary for reporting its Highway Planning and Construction subawards was not available on the federal reporting system in several instances. Although federal reporting instructions suggest contacting a federal official when information is unavailable, department employees had not done so at the time of our review. Department staff indicated other Highway Planning and Construction subawards were reported late due to department employee workload at fiscal year-end.

Recommendation: We recommend the Montana Department of Transportation:

A. Enhance internal controls, policies, and procedures to ensure compliance with the Federal Funding Accountability and Transparency Act for its Formula Grants for Rural Areas and Highway Planning and Construction federal awards.

B. Contact a federal official for assistance in subaward reporting when information is unavailable on the federal reporting system, per federal instructions.

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Section III – Federal Award Findings and Questioned Costs

Finding 2015-022: U.S. Department of Transportation
CFDA #20.509, Formula Grants for Rural Areas
Grant #MT18-X045, MT18-X052, and MT18-X057

Criteria: OMB Circular A-133, Subpart C paragraph .300(b), states the auditee shall: "Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Federal Law, 49 USC 5334(h), permits recipients, with the Secretary of Transportation approval, to transfer, sell, or lease property, equipment, or supplies acquired with Federal transit funds that are no longer needed for transit purposes. If a recipient sells the asset, the proceeds must be used to reduce the gross project costs of another federally funded capital transit project.

49 CFR 18.32(e) states: "When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently or previously supported by a Federal agency, disposition of the equipment will be made as follows: (1) Items of equipment with a current per-unit fair market value of less than $5,000 may be retained, sold or otherwise disposed of with no further obligation to the awarding agency. (2) Items of equipment with a current per unit fair market value in excess of $5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency's share of the equipment. (3) In cases where a grantee or subgrantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions."

Condition: The Montana Department of Transportation (department) administers the federal Formula Grants for Rural Areas (Transit) program to assist qualified organizations in providing transportation to the rural general public. Assistance is provided in the form of grants for operations or capital purchases, such as large vans which are used to transport individuals living in rural areas. To ensure grantees do not sell or otherwise dispose of vehicles, the department requests the Department of Justice to place a lien on the vehicle title at the time of purchase. Evidence the lien was requested was not available for all files reviewed.

When the useful life in years or mileage is met, the department releases the lien. After the lien is released, the grantee could sell or otherwise dispose of the vehicle without notifying the department. The department does not document each vehicle's value at the time of lien release, making proper treatment of future sale proceeds unclear.

Questioned Costs: No questioned costs identified.

Context: During the audit we reviewed files for the 48 vehicles where the useful life benchmarks had been met and noted four instances where no lien existed. In addition, we identified two instances where vehicle files did not contain evidence indicating a lien was requested for a vehicle purchased.

Effect: The department does not have controls in place to ensure compliance with federal requirements regarding equipment sale proceeds. In addition, the department does not track all vehicles from the time of purchase to sale or final disposal, and is unable to demonstrate compliance with federal regulations regarding equipment sale proceeds.

Cause: Standard department procedures are neither designed to ensure the lien is perfected at the time of purchase nor to track grantee vehicles after the respective liens are released. Additionally, reviews of grantees, which occur every three years, only consider vehicle sales within the previous years rather than sales for any vehicle originally purchased with Transit funds. The department represents in each of these cases the submitted paperwork included lien information, but the lien was not recorded on the vehicle title processed by the Department of Justice.

Recommendation: For vehicles purchased with federal Formula Grants for Rural Areas funds, we recommend the Montana Department of Transportation:

A. Confirm each lien is perfected at the time of purchase.

B. Monitor vehicles after lien release to ensure proceeds from vehicle sales are used as required by the federal regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2015-023: U.S. Department of Education
CFDA #84.367, Improving Teacher Quality State Grants
Grant #S367A140025

CFDA #84.010, Title I Grants to Local Educational Agencies
Grant #S010A120026, S010A130026, and S010A140026

CFDA #84.027, Special Education-Grants to States (IDEA, Part B)
Grant #H027A120096, H027A130148, and H027A140096

Criteria: OMB Circular A-133, Subpart C paragraph .300(b), states the auditee shall: "Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Federal regulations, 34 CFR 200.71, 34 CFR 300.705, and Elementary and Secondary Education Act, Title II, Part A, Subpart 2, Section 2121, in part, require the state to allocate federal funds to local education agencies (LEA) based on a calculation using census poverty data.

Elementary and Secondary Education Act, Title I, Section 1004, in part, permits the office to reserve up to one percent of its Title I award for state administrative costs, unless the total federal award amount to all states exceeds $14 billion. If the total award to all states exceeds this amount, the federal government puts a limit, or cap, on how much a state may have for administrative costs.

Elementary and Secondary Education Act, Title I, Section 9521, in part, requires the state to maintain a level of expenditures from state and local funds (i.e. a level of effort) that are not less than 90 percent of the preceding year or it must be reduced by the exact amount of the level of effort not achieved.

Condition: The Office of Public Instruction (office) receives federal funds to help disabled students, students at risk of not meeting academic standards, and to improve teacher quality. The office is responsible for disbursing these federal funds to LEAs based on allocation criteria outlined in federal regulations. We found allocation errors in the Title II; IDEA, Part B, and Title I, Part A programs.

Questioned Costs: No questioned costs identified.

Context: During the prior audit, we identified allocation errors in the IDEA, Part B and Title II programs. This indicates the office did not implement our prior audit recommendation, as the office failed to ensure accurate disbursements were made during our audit period to the LEAs, and thus LEAs did not receive the correct amount of funds for these programs and also the Title I, Part A program.

- For the Title I, Part A funds, the office uses a spreadsheet to calculate the disbursements to LEAs, which takes into consideration the amount allowed for the state administrative costs. The office exceeded the allowed amount for administrative costs in fiscal year 2015, resulting in the LEAs receiving $17,000 less than required by the federal government.
- For the Title I, Part A funds, we found the office made an incorrect entry into the fiscal year 2014 spreadsheet and erroneously reduced the award of one LEA by $6,832 and did not properly reduce the award of another by the same amount.
- For the Title II funds, the office utilizes a spreadsheet to calculate the allocations to LEAs based on census poverty data. In fiscal year 2014, a manual adjustment made in the spreadsheet to the census poverty data resulted in 139 out of 410 LEAs being misallocated a total of $549.
- For IDEA, Part B programs, 100 percent of the LEA allocations in both fiscal years were affected, though most misallocations were small. In total, the misallocations were approximately $32,351 and $16,864 for fiscal year 2014 and fiscal year 2015, respectively.

Effect: While the dollar amounts of the misallocations were relatively small, the large number of misallocations does indicate a weakness in internal controls over compliance with federal program requirements. This weakness increases the risk the LEAs will continue to not receive all of the funding to which they are entitled.

Cause: Office management stated these allocation errors were due, in general, to human error and have taken steps to remedy the control weaknesses for the 2015-16 school year allocations.

Recommendation: We recommend the Office of Public Instruction implement internal controls over federal allocation requirements and comply with federal regulations governing distributions to local education agencies.

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Section III – Federal Award Findings and Questioned Costs

Finding 2015-024: U.S. Department of Education
CFDA #84.268–Federal Direct Student Loans
Grant #Not applicable

Criteria: OMB Circular A-133, Subpart C paragraph .300(b), states the auditee shall: "Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Federal regulation, 34 CFR 685.300(b)(5), requires that schools must agree to reconcile institutional records, on a monthly basis, with Direct Loan funds received from the Secretary of Education and Direct Loan disbursement records submitted to and accepted by the Secretary.

Condition: Federal regulations require the Montana State University–Billings (MSU–Billings) to report their disbursements to the Direct Loan Servicing System via the Common Origination and Disbursement (COD). Each month, COD provides data files summarizing the direct loan processing activities for the month. MSU-Billings did not reconcile their internal Direct Loan financial data to United States Department of Education data within the federally-prescribed time frame.

Questioned Costs: No questioned costs identified.

Context: As of February 2015, the 2014-15 aid year data files for August 2014 through January 2015 had not been reconciled. Internal controls within the office did not identify the uncompleted reconciliations.

Effect: Noncompliance with federal regulations governing the Direct Loan program.

Cause: MSU–Billings's Office of Financial Aid and Scholarships (office) is responsible for completing the data file reconciliations. The office underwent a change in leadership during the audit period, resulting in reassignment of duties among staff within the office. As part of this process, the responsibility for monthly data file reconciliation was not assigned.

Recommendation: We recommend Montana State University–Billings:

A. Implement internal control procedures to ensure the Direct Loan data files are reconciled monthly.

B. Comply with federal regulations governing the Direct Loan program by reconciling the Direct Loan data files on a monthly basis.

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Section III – Federal Award Findings and Questioned Costs

Finding 2015-025: U.S. Department of Labor
CFDA #17.225, Unemployment Insurance
Grant #UI-25215-14-55-A-30 and UI-26545-15-55-A-30

Criteria: The Unemployment Insurance Data Validation Handbook (ETA), May 2013, approved by the Office of Management and Budget requires the Department of Labor and Industry (department) to validate four sets of data used for the Overpayment Detection and Recovery Activities (ETA 227), an Unemployment Insurance report.

Condition: The department has not been able to successfully validate the new data for the ETA 227 report, as required before submission to the federal system. The data validation process is important to ensure systemic data errors do not exist in the data used in the report.

Questioned Costs: No questioned costs identified.

Context: Through data validation, the department performs significant testing over the logic used in pulling the reporting elements from its information system. The department has not been able to successfully validate all required data for the quarterly report since fiscal year 2010. After February of 2012, the department began working on the programming changes necessary to validate all required data. The department made several unsuccessful attempts at validation. After each attempt, department personnel had to identify the problems and programming changes were often necessary.

Effect: The department is not in compliance with federal regulations.

Cause: Department staff stated between fiscal year 2010 and 2012, the federal government added new reporting elements to the report which caused the federal reporting environment to be unstable. Staff further stated they have been unable to successfully load the validation and have it pass through the validation process with these new elements.

Recommendation: We recommend the Department of Labor and Industry validate the data necessary for the Unemployment Insurance quarterly report as required by federal regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2015-026: U.S. Department of Health and Human Services
CFDA #93.558, Temporary Assistance for Needy Families State Programs
Grant #1202MTTANF, 1302MTTANF, 1402MTTANF, and 1502MTTANF

Criteria: OMB Circular A-133, Subpart C paragraph .300(b), states the auditee shall: "Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Condition: The Department of Public Health and Human Services (department) manages various public assistance programs through the Combined Healthcare Information and Montana Eligibility System–Enterprise Architecture (CHIMES-EA). CHIMES-EA is used by the Temporary Assistance for Needy Families (TANF) program, among other programs, to determine eligibility and calculate the monthly benefit amounts, track the number of months recipients are receiving benefits, and interfaces with other systems for compliance requirements. While the CHIMES-EA system is largely functioning as expected with regard to client analysis and the issuance of benefits, we identified the following areas for improvements to increase the system's accuracy and efficiency:

- The department does not have a process in place to review system and user generated overpayment claims.
- Users are not trained appropriately to set up and approve claims of overpayments in the system according to policy. A claim is established when a potential benefit overpayment is identified.
- There is no consolidated secondary review of overpayment information.
- Controls are inadequate to monitor manual benefit issuances, supplemental payments, and overrides.
- Training is not updated on a regular basis and does not cover enough scenarios. Users generally do not feel prepared for working actual cases based on training provided.
- The root cause of incorrect data is not being addressed. While 96 percent of data defects have been resolved, 76 percent of application defects remain open.

Questioned Costs: No questioned costs identified.

Context: CHIMES-EA contains the client data used for the determination of eligibility for the TANF program and the benefits issued. At the time of the audit, override capabilities and manual changes for benefits and eligibility determination were available to approximately 467 users out of 1,398 users in CHIMES-EA with no approval controls within the system.

- A claim is established in the system when a potential benefit overpayment is identified. The overpayment claim can be denied by the user when the benefit amount is determined appropriate and it will be approved if the amount is determined to be incorrect. In the last two years, CHIMES-EA generated 60 percent of the overpayment claims and users generated 40 percent of the overpayment claims. Of these overpayment claims, 87 percent of denied overpayment claims were established by the system, while only 18 percent of approved overpayment claims were established by the system.
- The majority of approved overpayment claims were manually established by the system users. There were at least 91 set up incorrectly. Of these 91, 11 had been denied by the supervisor and recreated correctly, 6 claims were identified and consolidated after they were approved, and the remaining 74 claims were approved.

Effect: The department does not have adequate controls in place to ensure eligibility and issuance of benefit payments are accurate in CHIMES-EA and numerous work arounds are used in the system which increases the risk of errors.

Cause: Overall, staff is performing manual processes that work around the system due to lack of trust in the system. Monitoring and reviews are not always taking place and software fixes correct individual data items, but not the underlying processes creating the data issues. Staff have indicated training is not adequate to provide the knowledge necessary to work actual cases.

Recommendation: We recommend the Department of Public Health and Human Services establish controls to ensure eligibility and the calculation of monthly benefits are in compliance with federal regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2015-027: U.S. Department of Education
CFDA #84.010, Title I Grants to Local Educational Agencies
Grant #S010A120026, S010A130026, and S010A140026

CFDA #84.027, Special Education – Grants to States (IDEA, Part B)
Grant #H027A120096, H027A130148, and H027A140096

U.S. Department of Agriculture
CFDA #10.555, National School Lunch Program
Grant #3MT300306

Criteria: Federal regulation, 31 CFR 205, in part, implements the Cash Management Improvement Act of 1990 (CMIA) and requires state recipients to enter into agreements that prescribe specific methods of drawing down federal funds for selected large federal programs. The agreements also specify the methods the State will use to develop and maintain clearance patterns and estimates. A state and a federal program agency must minimize the time elapsing between the transfer of funds from the United States Treasury and the state's payout of funds for federal assistance program purposes, whether the transfer occurs before or after the payout of funds.

Condition: The Office of Public Instruction (office) has three federal programs that are part of Montana's Treasury State Agreement (TSA): Title I Grants to Local Educational Agencies (Title I), the Special Education – Grants to States (IDEA, Part B), and the National School Lunch Program (NSLP) in the Child Nutrition Cluster. In fiscal years 2014 and 2015, the office did not maintain adequate controls to comply with the TSA clearance patterns.

Questioned Costs: No questioned costs identified.

Context: The office expends over $160 million in federal funds every year. The office's practice is to draw monthly, and miscellaneous activity that occurs outside of its normal business operations is not included until the next month's draw. In fiscal years 2014 and 2015, for Title I, IDEA, Part B, and the NSLP there were 36 total instances where the draw pattern did not follow the required clearance pattern and this noncompliance ranged from six days to approximately two months.

Effect: The office is not in compliance with the TSA.

Cause: Office personnel stated overall its current business practice does not align with the TSA and it intends to request modification to the TSA. The office's procedures were to complete draws once a month for each program. By only drawing once a month, the office does not include miscellaneous activity that may occur outside of its normal business operations until the next month's draw. Some program expenditures clear the state's treasury at a later date which makes the need for the timing of the requests for reimbursement differ between programs.

Recommendation: We recommend the Office of Public Instruction comply with the Treasury-State Agreement or request a change to the agreement to more accurately reflect the office's actual clearance pattern.

Research and Development Cluster Activity by CFDA # and Location

Federal Agency and CFDA Information	UM-Missoula	MSU-Bozeman
U.S. Department of Agriculture		
CFDA #10.001, Agricultural Research_Basic and Applied Research		X
CFDA #10.025, Plant and Animal Disease, Pest Control, and Animal Care		X
CFDA #10.156, Federal-State Marketing Improvement Program		X
CFDA #10.200, Grants for Agricultural Research, Special Research Grants	X	X
CFDA #10.202, Cooperative Forestry Research	X	
CFDA #10.203, Payments to Agricultural Experiment Stations Under the Hatch Act		X
CFDA #10.206, Grants for Agricultural Research_Competitive Research Grants		X
CFDA #10.207, Animal Health and Disease Research		X
CFDA #10.212, Small Business Innovation Research		X
CFDA #10.215, Sustainable Agriculture Research and Education		X
CFDA #10.221, Tribal Colleges Education Equity Grants		X
CFDA #10.227, 1994 Institutions Research Program	X	X
CFDA #10.250, Agricultural and Rural Economic Research, Cooperative Agreements, and Collaborations		X
CFDA #10.253, Consumer Data and Nutrition Research		X
CFDA #10.303, Integrated Programs		X
CFDA #10.304, Homeland Security_ Agricultural		X
CFDA #10.307, Organic Agriculture Research and Extension Initiative		X
CFDA #10.309, Specialty Crop Research Initiative		X
CFDA #10.310, Agriculture and Food Research Initiative (AFRI)	X	X
CFDA #10.312, Biomass Research and Development Initiative Competitive Grants Program (BRDI)		X
CFDA #10.329, Crop Protection and Pest Management Competitive Grants Program		X
CFDA #10.435, State Mediation Grants		X
CFDA #10.443, Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers		X
CFDA #10.446, Rural Community Development Initiative		X
CFDA #10.500, Cooperative Extension Service		X
CFDA #10.594, Food Distribution Program on Indian Reservations Nutrition Education Grants		X
CFDA #10.652, Forestry Research	X	X
CFDA #10.674, Wood Utilization Assistance	X	
CFDA #10.676, Forest Legacy Program		X
CFDA #10.680, Forest Health Protection	X	X
CFDA #10.681, Wood Education and Resource Center (WERC)	X	
CFDA #10.682, National Forest Foundation	X	
CFDA #10.683, National Fish and Wildlife Foundation	X	
CFDA #10.684, International Forestry Programs	X	
CFDA #10.777, Norman E. Borlaug International Agricultural Science and Technology Fellowship		X
CFDA #10.902, Soil and Water Conservation	X	X
CFDA #10.912, Environmental Quality Incentives Program	X	X
CFDA #10.960, Technical Agricultural Assistance		X
CFDA #10.R&D, Miscellaneous Research and Development		X
U.S. Department of Commerce		
CFDA #11.302, Economic Development_Support for Planning Organizations		X
CFDA #11.303, Economic Development_Technical Assistance		X
CFDA #11.431, Climate and Atmospheric Research	X	
CFDA #11.439, Marine Mammal Data Program		X
CFDA #11.440, Environmental Sciences, Applications Data, and Education		X
U.S. Department of Defense		
CFDA #12.002, Procurement Technical Assistance for Business Firms		X
CFDA #12.114, Collaborative Research and Development	X	X
CFDA #12.300, Basic and Applied Scientific Research	X	X
CFDA #12.360, Research on Chemical and Biological Defense		X
CFDA #12.420, Military Medical Research and Development	X	
CFDA #12.431, Basic Scientific Research	X	X

Federal Agency and CFDA Information		UM-Missoula	MSU-Bozeman
	CFDA #12.560, DOD, NDEP, DOTC-STEM Education Outreach Implementation		X
	CFDA #12.630, Basic, Applied, and Advanced Research in Science and Engineering	X	X
	CFDA #12.800, Air Force Defense Research Sciences Program	X	X
	CFDA #12.910, Research and Technology Development		X
	CFDA #12.999, Miscellaneous Non-Major Grants	X	
	CFDA #12.R&D, Miscellaneous Research and Development		X
U.S. Department of Housing and Urban Development			
	CFDA #14.523, Transformation Initiative Research Grants: Sustainable Community Research Grant Program		X
U.S. Department of the Interior			
	CFDA #15.034, Agriculture on Indian Lands		X
	CFDA #15.224, Cultural Resource Management	X	X
	CFDA #15.225, Recreation Resource Management	X	X
	CFDA #15.228, National Fire Plan - Wildland Urban Interface Community Fire Assistance	X	X
	CFDA #15.230, Invasive and Noxious Plant Management		X
	CFDA #15.231, Fish, Wildlife and Plant Conservation Resource Management	X	X
	CFDA #15.232, Wildland Fire Research and Studies Program	X	
	CFDA #15.235, Southern Nevada Public Land Management		X
	CFDA #15.236, Environmental Quality and Protection Resource Management	X	
	CFDA #15.238, Challenge Cost Share	X	X
	CFDA #15.299, Miscellaneous Non-Major Grants	X	
	CFDA #15.517, Fish and Wildlife Coordination Act		X
	CFDA #15.608, Fish and Wildlife Management Assistance		X
	CFDA #15.611, Wildlife Restoration and Basic Hunter Education	X	X
	CFDA #15.635, Neotropical Migratory Bird Conservation	X	
	CFDA #15.637, Migratory Bird Joint Ventures	X	
	CFDA #15.649, Service Training and Technical Assistance (Generic Training)	X	
	CFDA #15.650, Research Grants (Generic)	X	X
	CFDA #15.655, Migratory Bird Monitoring, Assessment and Conservation	X	X
	CFDA #15.657, Endangered Species Conservation - Recovery Implementation Funds	X	
	CFDA #15.660, Endangered Species - Candidate Conservation Action Funds	X	X
	CFDA #15.663, National Fish and Wildlife Foundation	X	X
	CFDA #15.664, Fish and Wildlife Coordination and Assistance Programs	X	
	CFDA #15.669, Cooperative Landscape Conservation		X
	CFDA #15.670, Adaptive Science	X	X
	CFDA #15.699, USDI/Fish & Wildlife Service	X	
	CFDA #15.805, Assistance to State Water Resources Research Institutes		X
	CFDA #15.808, U.S. Geological Survey_ Research and Data Collection	X	X
	CFDA #15.809, National Spatial Data Infrastructure Cooperative Agreements Program	X	
	CFDA #15.812, Cooperative Research Units Program	X	X
	CFDA #15.815, National Land Remote Sensing_Education Outreach and Research		X
	CFDA #15.820, National Climate Change and Wildlife Science Center	X	X
	CFDA #15.899, USDI/Geological Survey	X	
	CFDA #15.904, Historic Preservation Fund Grants-In-Aid		X
	CFDA #15.915, Technical Preservation Services		X
	CFDA #15.916, Outdoor Recreation_Acquisition, Development and Planning		X
	CFDA #15.923, National Center for Preservation Technology and Training		X
	CFDA #15.926, American Battlefield Protection	X	
	CFDA #15.945, Cooperative Research and Training Programs - Resources of the National Park System	X	X
	CFDA #15.948, National Fire Plan - Wildland Urban Interface Community Fire Assistance	X	
	CFDA #15.999, Miscellaneous Non-Major Grants	X	
	CFDA #15.R&D, Miscellaneous Research and Development		X
U.S. Department of Justice			
	CFDA #16.541, Part E - Developing, Testing and Demonstrating Promising New Programs	X	
	CFDA #16.560, National Institute of Justice Research, Evaluation, and Development Project Grants		X
	CFDA #16.582, Crime Victim Assistance/Discretionary Grants	X	
	CFDA #16.727, Enforcing Underage Drinking Laws Program		X
	CFDA #16.746, Capital Case Litigation Initiative	X	

Federal Agency and CFDA Information		UM-Missoula	MSU-Bozeman
U.S. Department of State			
	CFDA #19.500, Middle East Partnership Initiative (MEPI)		X
	CFDA #19.999, Miscellaneous Grants	X	
U.S. Department of Transportation			
	CFDA #20.200, Highway Research and Development Program		X
	CFDA #20.205, Highway Planning and Construction	X	X
	CFDA #20.514, Public Transportation Research		X
	CFDA #20.520, Paul S. Sarbanes Transit in the Parks		X
	CFDA #20.600, State and Community Highway Safety		X
	CFDA #20.609, Safety Belt Performance Grants		X
	CFDA #20.614, National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants		X
	CFDA #20.701, University Transportation Centers Program		X
U.S. National Aeronautics and Space Administration			
	CFDA #43.001, Science	X	X
	CFDA #43.002, Aeronautics		X
	CFDA# 43.008, Education		X
	CFDA #43.009, Cross Agency Support		X
	CFDA #43.999, Miscellaneous Non-Major Grants	X	
	CFDA #43.R&D, Miscellaneous Research and Development		X
U.S. National Endowment for the Humanities			
	CFDA #45.161, Promotion of the Humanities_Research	X	
	CFDA #45.312, National Leadership Grants		X
U.S. National Science Foundation			
	CFDA #47.041, Engineering Grants	X	X
	CFDA #47.049, Mathematical and Physical Sciences	X	X
	CFDA #47.050, Geosciences	X	X
	CFDA #47.070, Computer and Information Science and Engineering	X	X
	CFDA #47.074, Biological Sciences	X	X
	CFDA #47.075, Social, Behavioral, and Economic Sciences	X	X
	CFDA #47.076, Education and Human Resources	X	X
	CFDA #47.078, Polar Programs	X	X
	CFDA #47.079, Office of International and Integrative Activities	X	X
	CFDA #47.080, Office of Cyberinfrastructure	X	X
	CFDA #47.081, Office of Experimental Program to Stimulate Competitive Research		X
	CFDA #47.082, ARRA Trans-NSF Recovery Act Research Support	X	X
U.S. Small Business Administration			
	CFDA #59.058, Federal and State Technology Partnership Program		X
U.S. Department of Veterans Affairs			
	CFDA #64.018, Sharing Specialized Medical Resources		X
U.S. Environmental Protection Agency			
	CFDA #66.034, Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act		X
	CFDA #66.461, Regional Wetland Program Development Grants	X	X
	CFDA #66.509, Science To Achieve Results (STAR) Research Program		X
	CFDA #66.514, Science To Achieve Results (STAR) Fellowship Program	X	
	CFDA #66.605, Performance Partnership Grants	X	
	CFDA #66.708, Pollution Prevention Grants Program		X
	CFDA #66.716, Research, Development, Monitoring, Public Education, Training, Demonstrations, and Studies		X
	CFDA #66.717, Source Reduction Assistance		X
	CFDA #66.813, Alternative or Innovative Treatment Technology Research, Demonstration, Training, and Hazardous Substance Research Grants		X
	CFDA #66.999, Miscellaneous Non-Major Grants	X	
	CFDA #66.R&D, Miscellaneous Research and Development		X
U.S. Department of Energy			
	CFDA #81.049, Office of Science Financial Assistance Program	X	X
	CFDA #81.079, Regional Biomass Energy Programs		X
	CFDA #81.087, Renewable Energy Research and Development		X
	CFDA #81.089, Fossil Energy Research and Development		X

Federal Agency and CFDA Information		UM-Missoula	MSU-Bozeman
	CFDA #81.122, Electricity Delivery and Energy Reliability, Research, Development and Analysis		X
	CFDA #81.133, ARRA Geological Sequestration Training & Research Grant Program		X
	CFDA #81.135, Advanced Research Projects Agency - Energy		X
	CFDA #81.214, Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response Research, Outreach, Technical Analysis		X
	CFDA #81.R&D, Miscellaneous Research and Development		X
U.S. Department of Education			
	CFDA #84.133, National Institute on Disability and Rehabilitation Research	X	
	CFDA #84.299, Indian Education -- Special Programs for Indian Children		X
	CFDA #84.367, Improving Teacher Quality State Grants		X
	CFDA #84.373, Special Education_Technical Assistance on State Data Collection	X	
U.S. Department of Health and Human Services			
	CFDA #93.107, Area Health Education Centers Point of Service Maintenance and Enhancement Awards		X
	CFDA #93.113, Environmental Health	X	
	CFDA #93.121, Oral Diseases and Disorders Research		X
	CFDA #93.136, Injury Prevention and Control Research and State and Community Based Programs	X	
	CFDA #93.172, Human Genome Research	X	
	CFDA #93.178, Nursing Workforce Diversity		X
	CFDA #93.213, Research and Training in Complementary and Alternative Medicine		X
	CFDA #93.217, Family Planning_Services		X
	CFDA #93.225, National Research Service Awards_Health Services Research Training		X
	CFDA #93.242, Mental Health Research Grants	X	X
	CFDA #93.243, Substance Abuse and Mental Health Services_Projects of Regional and National Significance		X
	CFDA #93.247, Advance Nursing Education Grant Program		X
	CFDA #93.262, Occupational Safety and Health Program		X
	CFDA #93.276, Drug-Free Communities Support Program Grants		X
	CFDA #93.279, Drug Abuse and Addiction Research Programs	X	X
	CFDA #93.283, Centers for Disease Control and Prevention_Investigations and Technical Assistance	X	
	CFDA #93.286, Discovery and Applied Research for Technological Innovations to Improve Human Health		X
	CFDA #93.301, Small Rural Hospital Improvement Grant Program		X
	CFDA #93.307, Minority Health and Health Disparities Research		X
	CFDA #93.310, Trans-NIH Research Support		X
	CFDA #93.350, National Center for Advancing Translational Sciences	X	
	CFDA #93.351, Research Infrastructure Programs	X	X
	CFDA #93.389, National Center for Research Resources	X	X
	CFDA #93.393, Cancer Cause and Prevention Research	X	
	CFDA #93.395, Cancer Treatment Research	X	X
	CFDA #93.396, Cancer Biology Research	X	
	CFDA #93.397, Cancer Centers Support Grants		X
	CFDA #93.433, ACL National Institute on Disability, Independent Living, and Rehabilitation Research	X	
	CFDA #93.505, Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program		X
	CFDA #93.701, ARRA Trans-NIH Recovery Act Research Support		X
	CFDA #93.779, Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations		X
	CFDA #93.824, Area Health Education Centers Infrastructure Development Awards		X
	CFDA #93.837, Cardiovascular Diseases Research	X	X
	CFDA #93.838, Lung Diseases Research	X	X
	CFDA #93.846, Arthritis, Musculoskeletal and Skin Diseases Research		X
	CFDA #93.847, Diabetes, Digestive, and Kidney Diseases Extramural Research		X
	CFDA #93.853, Extramural Research Programs in the Neurosciences and Neurological Disorders	X	X
	CFDA #93.855, Allergy, Immunology and Transplantation Research	X	X

Federal Agency and CFDA Information	UM-Missoula	MSU-Bozeman
CFDA #93.856, Microbiology and Infectious Diseases Research	X	
CFDA #93.859, Biomedical Research and Research Training	X	X
CFDA #93.865, Child Health and Human Development Extramural Research	X	X
CFDA #93.866, Aging Research	X	X
CFDA #93.867, Vision Research		X
CFDA #93.912, Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program		X
CFDA #93.933, Demonstration Projects for Indian Health		X
CFDA #93.959, Block Grants for Prevention and Treatment of Substance Abuse		X
CFDA #93.970, Health Professions Recruitment Program for Indians	X	X
CFDA #93.974, Family Planning_Service Delivery Improvement Research Grants		X
CFDA #93.999, Miscellaneous Non-Major Grants	X	
U.S. Corporation for National and Community Service		
CFDA #94.007, Program Development and Innovation Grants	X	
U.S. Agency for International Development		
CFDA #98.001, USAID Foreign Assistance for Programs Overseas		X

Corrective Action Plan

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OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

STEVE BULLOCK
GOVERNOR

CAPITOL BUILDING - P.O. BOX 200802
HELENA, MONTANA 59620-0802

March 28, 2016

RECEIVED
MAR 29 2016
LEGISLATIVE AUDIT DIV.

Ms. Tori Hunthausen, CPA
Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
Helena MT 59620-1705

Re: Corrective Action Plan
Montana Single Audit Report #14-02
For the Two Fiscal Years Ended June 30, 2015

Dear Ms. Hunthausen:

In accordance with OMB Circular A-133 requirements, the state of Montana is responsible for follow-up and corrective action on all audit findings identified in the Montana Single Audit Report. As part of this responsibility, the state is required to prepare a corrective action plan to address each financial or federal audit finding included in this report. The Office of Budget and Program Planning compiles this information on behalf of the state and oversees the implementation status of these audit findings.

Attached is the State of Montana's Corrective Action Plan for the two fiscal years ended June 30, 2015. This summary document, which was prepared by each agency or university with a finding in this report, provides the name of the contact person responsible for the corrective action, the corrective action planned, and the anticipated completion date. As you can see from the attached summary, the corrective actions for the majority of the findings identified have either been already completed or will be finalized within the next few months. The exception is those findings requiring legislation or related to the development of new computer applications.

Sincerely,

Dan Villa
Budget Director

cc: Sonia Powell, Single Audit Coordinator

STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2015

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
2015-1	Various	**Internal Controls Over Financial Report Preparation** - The Department of Administration recognizes the need to design, implement, and strengthen internal controls over financial reporting. The department has implemented applicable controls, including updating and adhering to schedules and timelines, implementing effective review processes, and preparing templates, documentation, and communication procedures and schedules.	Cheryl Grey, Administrator State Financial Services Division Department of Administration	Completed
2015-2	Various	**Amortization of Certain Retirement Systems** - The Game Wardens' and Peace Officers' Retirement System (GWPORS) does not amortize; however, according to the FY 2015 GWPORS valuation, the Plan is anticipated to be actuarially sound within 15-20 years without any changes to the plan provisions and if all assumptions are met. The salaries of the correction officers make it difficult to request more contributions without it being an additional burden to the participants' take-home pay or in the recruitment of new officers. The Montana Public Employees' Retirement Administration's (MPERA) management is working with the unions and employers to negotiate an acceptable solution to GWPORS funding. The Public Employees' Retirement Board (PERB) intends to submit legislation regarding GWPORS funding to the 2017 Montana Legislature. The Sheriffs' Retirement System (SRS) does not amortize; however, investment returns have improved SRS's position. MPERA, PERB, the Governor's Office, and stakeholders are continuing to work together to determine acceptable funding mechanisms for the SRS. President Wilson and Director Schwinden have met with representatives from the Montana Association of Counties and the Sheriff's Association on two occasions to discuss plan funding alternatives. A tentative agreement has been reached with all stakeholders, and PERB intends to submit legislation regarding SRS funding to the 2017 Montana Legislature. As of June 30, 2015, the Highway Patrol Officers' Retirement System amortizes within 30 years. PERB and MPERA have been working closely with the Montana Board of Investments (BOI) to change the investment allocation of the Defined Contribution Retirement Plan (DCRP) Disability OPEB. The DCRP Disability OPEB does not amortize; however, the funding is short by merely 0.03%. Currently, the assets are invested entirely in short-term fixed income securities. PERB and BOI are working on an approach to further diversify the assets of the DCRP Disability OPEB into longer term asset classes with potentially higher returns over time. The action will be taken as soon as administratively possible, and we believe this action will resolve the funding issues of the DCRP Disability OPEB without making recommendations to the Montana Legislature.	Dore Schwinden Executive Director Public Employees' Retirement Administration	Ongoing
2015-3	Various	**OPEB Errors** - The Department of Administration has modified the process for recording activity related to Other Post Employment Benefits to include the interest, amortization, and implicit rate subsidy components. Related activity balances were also adjusted as necessary.	Cheryl Grey, Administrator State Financial Services Division Department of Administration	Completed

STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2015

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
2015-001	10.665	**Non-compliance and Internal Controls Over Federal Schools and Roads Grants** - The Department of Administration has developed procedures for "during the award" and follow-up on audit findings related to this program. Each county with an audit finding pertaining to the Schools and Roads Act federal funds is contacted, and documentation is requested, to verify the corrective action plan submitted by the counties to rectify the audit finding. Audit findings are also tracked and monitored for consistency and frequency.	Mark Bruno Director's Office Department of Administration	Completed
2015-002	66.458, 66.468	**Federal Non-compliance with the Transparency Act for SRF Loans** - The Department of Environmental Quality has consistently reported to the Environmental Protection Agency's Public Benefits Reporting (PBR) system the information required by the Federal Funding Accountability and Transparency Act (FFATA); however, during the audit, the department discovered that the PBR system was not importing the data to the FFATA system as expected. The department worked with the Environmental Protection Agency to resolve the data incompatibility issues between the two federal systems without success. At that time, the department decided to manually update the required data into the FFATA. Both the Drinking Water and Waste Water State Revolving Loan programs are now current with the FFATA reporting process.	Todd Teegarden, Bureau Chief Technical Financial Assistance Bureau Montana Department of Environmental Quality	Completed
2015-003	84.007, 84.033 84.038, 84.063 84.268	**Return of Title IV Funds** - Corrective action has been taken by Montana State University - Bozeman to ensure that unofficial withdrawal calculations are performed within the mandated timeframe.	Brandi Payne, Director Financial Aid Montana State University - Bozeman	Completed
2015-004	84.268	**Data File Reconciliations for the Direct Loan Program** - Montana State University - Bozeman has always intended to reconcile on a monthly basis but fell behind due to significant staff turnover. The university has compensating controls through daily and weekly reconciliation activities, which keep the university in compliance with cash management and disbursement rules. Per instructions from the U.S. Department of Education, the university will document the reason for the delay as the university returns to a regular and timely monthly reconciliation process.	Brandi Payne, Director Financial Aid Montana State University - Bozeman	3/31/2016
2015-005	84.063, 84.268 84.038	**Enrollment Reporting** - Montana State University - Bozeman will develop, document, and implement internal control procedures to ensure accurate and timely submission of student enrollment changes to the National Student Loan Data System. In doing so, the university will ensure compliance with requirements governing the Federal Perkins Loan, Federal Direct Loan, and Federal Pell Grant programs by reporting accurate student enrollment status changes to the National Student Loan Data System within prescribed time frames.	Tony Campeau Registrar Montana State University - Bozeman	6/30/2016
2015-005	84.063, 84.268 84.038	**Enrollment Reporting** - Montana State University - Billings will implement procedures to comply with requirements governing reporting of student enrollment information within the federally-prescribed time frame to the National Student Loan Data System.	Cheryl Johannes Registrar Montana State University - Billings	6/30/2016

STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2015

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
2015-006	84.038	**Perkins Loan Student Repayment** - Montana State University - Bozeman will develop, document, and implement internal control procedures to ensure accurate and timely submission of student enrollment changes to the National Student Loan Data System. The university is also manually computing the dates of separation, rather than relying on data provided to the National Student Loan Data System, to ensure that students receive adequate and timely communications.	Bonnie Holden, Director Student Accounts Montana State University - Bozeman	6/30/2016
2015-006	84.038	**Perkins Loan Student Repayment** - Montana State University - Billlings found there is an inconsistency of the separation dates entered into the national clearinghouse and the loan service company. The university is looking into alternatives for identifying the separation dates, ensuring exit interviews are completed prior to the student leaving the institution, and completing a minimum of three notifications within the grace period. Business Services is working with the Financial Aid office on the script/SQL that will pull the withdrawal/drop/graduation date needed. With the report, the university will be able to process the notifications and exit paperwork. This process will be done on a monthly basis, once a report is finalized.	Barb Shafer, Director Business Services Montana State University - Billings	5/31/2016
2015-007	Various	**Documentation of Fiscal Manager Review** - Montana State University - Bozeman concurs that the documentation of fiscal manager review is not consistent, but this does not imply that a thorough review has not taken place. An approval stamp has been made that will be permanently affixed/stamped to each Banner Payment Authorization that will delineate a consistent signature/approval line for the fiscal manager so that approvals are clearly documented and easy to locate. The Office of Sponsored Programs has modified our current written procedures to reflect this change.	Leslie Schmidt Assistant Vice President for Research Montana State University - Bozeman	Completed
2015-008	93.775, 93.777 93.778, 93.767	**CMS-64 Reporting** - The Department of Public Health and Human Services has developed detailed written procedures outlining the CMS-64 preparation process and has used the newly developed procedures to train all staff in the Medicaid Finance Unit on preparing the CMS-64 report. The department has review processes in place to ensure the completeness and accuracy of the CMS-64 report.	Becky Schlauch Business and Financial Services Division Administrator Department of Public Health and Human Services	Completed
2015-009	93.775, 93.777 93.778, 93.767	**Cash Management Control Deficiencies** - The Department of Public Health and Human Services has updated its procedures and provided training for all of the staff in the Medicaid Finance Unit. The department has caught up with its Cash Management Improvement Act reconciliations and will continue to do them on a monthly basis going forward.	Becky Schlauch Business and Financial Services Division Administrator Department of Public Health and Human Services	Completed
2015-010	10.551, 10.561	**SNAP Reporting** - The Department of Public Health and Human Services has implemented stronger controls over the preparation of the FNS-46 and FNS-209 reports with updated procedures and has begun documenting their review of these reports prior to submission.	Becky Schlauch Business and Financial Services Division Administrator Department of Public Health and Human Services	Completed
2015-011	93.558	**TANF Overpayment Recoveries** - The Department of Public Health and Human Services partially concurred with this audit finding. The department is following the guidance provided by its federal partner and its legal department.	Jamie Palagi, Administrator Human and Community Services Division Department of Public Health and Human Services	Completed

STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2015

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
2015-012	93.775, 93.777 93.778	**Medicaid ADP** - The Department of Public Health and Human Services has completed a Risk Analysis project that will result in a System Security Plan and Risk Assessment for all department applications, including the Medicaid administration applications. The department has implemented controls to track Medicaid administration systems and ensure periodic risk analysis and biennial reviews are completed.	Stuart Fuller Chief Information Officer Department of Public Health and Human Services	Completed
2015-013	10.557, 93.568 93.575, 93.596 93.658, 93.959	**FFATA Reporting** - The Department of Public Health and Human Services has submitted Federal Funding Accountability and Transparency Act reports for subrecipients and all required subawards.	Becky Schlauch Business and Financial Services Division Administrator Department of Public Health and Human Services	Completed
2015-014	93.658	**Foster Care Determination** - The Department of Public Health and Human Services has included all required language applicable to tribal organizations, as subrecipients of Foster Care-related funding, in contracts with these organizations.	Becky Schlauch Business and Financial Services Division Administrator Department of Public Health and Human Services	Completed
2015-015	Various	**Grant Expenditure Review** - The University of Montana - Missoula has modified departmental procedures to clarify the documentation process.	J. Fredenberg, Director Research and Sponsored Programs University of Montana - Missoula	Completed
2015-016	93.859	**R&D Equipment Purchase** - The University of Montana - Missoula has implemented an emergency purchase procedure.	J. Fredenberg, Director Research and Sponsored Programs University of Montana - Missoula	Completed
2015-017	84.038	**Perkins Loan Exit Packages** - The University of Montana - Missoula has implemented supplemental procedures to ensure timely notifications for Perkins loans.	C. Neilson, Assistant Director Business Services - Student Services University of Montana - Missoula	Completed
2015-018	84.063, 84.268	**Student Financial Aid Unsubstantiated Balances** - The University of Montana - Missoula has modified existing procedures to ensure timely resolution of discrepancies.	C. Neilson, Assistant Director Business Services - Student Services University of Montana - Missoula	Completed
2015-019	14.871	**Non-compliance Within Section 8 Housing** - The Department of Commerce hired a quality control specialist to work independently of Tenant-Based Section 8 and implemented monthly quality control reviews. New internal control procedures were developed and delivered to staff through training, and to field agents through a Power Point presentation.	Bruce Brensdal, Administrator Housing Division Department of Commerce	Completed
2015-020	14.871	**Non-compliance with State Treasury Agreement** - The payment process that Tenant-Based Section 8 uses complies with U.S. Housing and Urban Development's (HUD) regulatory requirements. The Department of Commerce will ask that language in the Cash Management Information Act Agreement be changed to reflect HUD requirements. In addition, the department will change its process to limit disbursements to within the first five business days of the 1st, and the 15th, of each month.	Bruce Brensdal, Administrator Housing Division Department of Commerce	7/1/2016

STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2015

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
2015-021	20.205, 20.509	**Internal Controls Over FFATA Reporting** - The Montana Department of Transportation has enhanced internal controls and updated procedures to ensure compliance with the Federal Funding Accountability and Transparency Act for its Highway Planning and Construction and Federal Transit Administration (FTA) federal awards. While the department has had no issues reporting FTA subawards, it continues to experience problems with some of the Highway Planning and Construction subawards not showing in the federal system. The department has been in contact with the Federal Highway Administration's division office for assistance.	Dave Hamer Administration Division Montana Department of Transportation Lynn Zanto Rail, Transit & Planning Division Montana Department of Transportation	Completed
2015-022	20.509	**Non-compliance and Internal Controls in Transit Program** - The Montana Department of Transportation will continue to confirm that each lien is perfected at the time of purchase by tracking it through the department's Public Transportation Management System program as well as a comprehensive tracking spreadsheet. The department has been in contact with the Motor Vehicle Division and has received snapshots verifying the liens have been filed. The department will strengthen monitoring of vehicles after lien release to ensure proceeds from vehicle sales over $5,000 are returned back into the transit program. This will be accomplished by continuing to receive the vehicle sale form, with the sale price and purchaser, and by certifying that the proceeds will be used in their transportation systems in accordance with state and federal laws. In addition, the department will follow up during compliance reviews every three years to ensure that vehicle sales during that three-year period were returned to the transit program.	Lynn Zanto Rail, Transit & Planning Division Montana Department of Transportation	Completed
2015-023	84.367, 84.010 84.027	**Federal Fund Misallocation** - The Office of Public Instruction, prior to this audit, implemented a secondary review of all allocation or Maintenance of Effort (MOE) calculations related to school funding. Based on the current audit findings, the office is in the process of enhancing these controls to include additional review of manual adjustments, as the current findings were all related to manual changes. Although there were identified misallocations, all of the schools have been made whole, and MOE levels have been adjusted to reflect correct allowable amounts.	Jay Phillips, Administrator Centralized Services Division Office of Public Instruction	7/1/2016
2015-024	84.268	**Data File Reconciliations for the Direct Loan Program** - The necessary steps were taken by the Montana State University - Billings Office of Financial Aid and Scholarships, and the Financial Services office, to ensure compliance with 34 CFR 685.300(b)(5). Monthly reconciliation has been, and continues to be, completed using the School Account Statement.	Emily Williamson, Director Financial Aid Montana State University - Billings	Completed

STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2015

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
2015-025	17.225	**ETA Reporting for Unemployment Insurance** - The Department of Labor and Industry has been working to make modifications to the ETA 227 Overpayments Report based on changes that were requested by the federal Department of Labor. With these changes, Montana was required to not only make adjustments to the report itself, but to the Data Validation Extracts. The most recent changes came out in July of 2015 with the report changes due by September 30, 2015. Those report changes were completed on time. In order to ensure stabilization of the report, the report should have one successful data run for a quarter's reporting time and then the validation can be conducted. There are four Data Validation items that require modification - Population 12, Population 13, Population 14, and new Population 15. Population 15 has been built from scratch and is ready for validation efforts, which will occur January through March of 2016. The other three population items still require modification and validation. Proposed timelines submitted to the National Office in the state's Quality Service Plan indicate that Population 12 has a completion date of 09/30/2016, Population 13 is targeted for completion 12/31/2016, and Population 14 is targeted for completion 03/31/2017.	Brenda Nordlund, Administrator Unemployment Insurance Division Montana Department of Labor and Industry	3/31/2017
2015-026	93.558	**CHIMES - Eligibility and Monthly Benefit Calculation Controls** - The Department of Public Health and Human Services has established a process to review metrics related to the source of the overpayments claims and address any functionality issues. A monthly report is now run, and evaluated quarterly, to identify any improvements needed in the overpayment process. The department will also update and strengthen training for overpayments as policy changes occur or review of the overpayment process indicates.	Becky Schlauch Business and Financial Services Division Administrator Department of Public Health and Human Services	Completed
2015-027	84.010, 84.027 10.555	**Cash Management for Title I, NSLP, and IDEA B** - The Office of Public Instruction understands the necessity to adhere to cash management policies. The instances identified in the audit report where the office did not adhere to the cash management policy is due to a change in the office's business practice. The office now utilizes a reimbursement basis, in which cash is ordered after the expenditure has been recorded in the state's system. The office has provided the Department of Administration with language representing this process to be included in the new Treasury State Agreement.	Jay Phillips, Administrator Centralized Services Division Office of Public Instruction	Completed

Summary Schedule of Prior Audit Findings

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OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

STEVE BULLOCK
GOVERNOR

CAPITOL BUILDING - P.O. BOX 200802
HELENA, MONTANA 59620-0802

March 28, 2016

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LEGISLATIVE AUDIT DIV.

Ms. Tori Hunthausen, CPA
Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
Helena MT 59620-1705

Re: Summary Schedule of Prior Audit Findings
Montana Single Audit Report #14-02
For the Two Fiscal Years Ended June 30, 2015

Dear Ms. Hunthausen:

In accordance with OMB Circular A-133 requirements, the state of Montana is responsible for follow-up and corrective action on all audit findings identified in the Montana Single Audit Report. As part of this responsibility, the state is required to prepare a summary schedule reporting the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to federal awards. The Office of Budget and Program Planning compiles this information on behalf of the state and oversees the implementation status of these audit findings.

Attached is the State of Montana's Summary Schedule of Prior Audit Findings for the two fiscal years ended June 30, 2015. This summary identifies the implementation status of all prior audit findings, except for those findings that have been fully corrected, are no longer valid, or do not warrant further action on the part of the state.

Sincerely,

Dan Villa
Budget Director

cc: Sonia Powell, Single Audit Coordinator

STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2015

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
Various Federal Agencies							
Various	Various Federal Agencies	1-1 2013-3	Actuarial soundness of the Teachers' Retirement System.		1	2006-07	
Various	Various Federal Agencies	1-2 2013-2	Actuarial soundness of the Public Employees' Retirement System.		2	2006-07	Discussed as part of finding 2015-2. As of June 30, 2015, two of the eight defined benefit plans, and one OPEB plan, are actuarially unsound. The Public Employees' Retirement Board will continue to work with key stakeholders to gather support for legislation for consideration by the 2017 Legislature to address the funding issues for the GWPORS and SRS plans. The PERS DC Disability OPEB will be addressed through diversifying the investments in the plan.
Various	Various Federal Agencies	2013-1	Insufficient controls and documentation over Comprehensive Annual Financial Report procedures.		2	2012-13	Discussed as part of finding 2015-1. This audit finding was fully implemented as of fiscal year 2015.
Various	Various Federal Agencies	2013-4	Errors in reporting state infrastructure adjustment entry.		1	2012-13	
Various	Various Federal Agencies	2013-5	Lack of controls over preparation of Schedule of Expenditures of Federal Awards.		1	2012-13	
Various	Various, Research and Development Cluster	2013-002	Inadequate controls in place to ensure compliance with all federal grant agreement requirements.		1	2012-13	

Category of Corrective Action Taken
1 - Finding has been fully corrected. 2 - Finding has not been corrected or partially corrected.
3 - Corrective action taken is significantly different than reported. 4 - Finding is no longer valid.

STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2015

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
U.S. Department of Agriculture							
10,551, 10.561	SNAP Cluster	2013-006	Employee and contractor computer access rights not reviewed.		1	2012-13	
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster	2013-016	Insufficient documentation and lack of monthly reconciliations.		1	2012-13	
10.555	National School Lunch Program	2013-012	Lack of oversight and insufficient documentation for Local Education Agency audits.		2	2012-13	Although the Office of Public Instruction was not in compliance with subrecipient monitoring requirements for fiscal year 2014, audit work completed for fiscal year 2015 showed that the office is working diligently to establish sound internal controls and to implement this prior audit recommendation. No further recommendation was made with regard to this audit finding.
10.555	National School Lunch Program	2013-015	Subaward information not reported to the federal government.		1	2012-13	
10.558	Child and Adult Food Care Program	2013-009	Lack of monitoring tools to verify fund distributions.		1	2012-13	
U.S. Department of Education							
84.007 84.032 84.033 84.038 84.063 84.268 84.375 84.376 93.342 93.925	Student Financial Aid Cluster	2-9	Insufficient controls over authorizing, and monitoring, access to university financial aid business processes.		1	2010-11	

Category of Corrective Action Taken

1 - Finding has been fully corrected. 2 - Finding has not been corrected or partially corrected.
3 - Corrective action taken is significantly different than reported. 4 - Finding is no longer valid.

STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2015

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
84.027, 84.173, 84.391, 84.392	Special Education Cluster (IDEA)	2013-011	Insufficient documentation for child counts.		1	2012-13	
84.027, 84.173, 84.391, 84.391	Special Education Cluster (IDEA)	2013-013	Lack of controls over inclusion of consolidations in allocation calculations.	$10,794	2	2012-13	Discussed as part of finding 2015-023.
84.010, 84.027, 84.367	Title 1 Grants to Local Education Agencies, Special Education - Grants to States, and Improving Teacher Quality State Grants	2013-012	Lack of oversight and insufficient documentation for Local Education Agency audits.		2	2012-13	Although the Office of Public Instruction was not in compliance with subrecipient monitoring requirements for fiscal year 2014, audit work completed for fiscal year 2015 showed that the office is working diligently to establish sound internal controls and to implement this prior audit recommendation. No further recommendation was made with regard to this finding.
84.010, 84.027, 84.367	Title 1 Grants to Local Education Agencies, Special Education - Grants to States, and Improving Teacher Quality State Grants	2013-015	Subaward information not reported to the federal government.		1	2012-13	
84.038	Federal Perkins Loan (FPL) - Federal Capital Contributions	2013-001	Inadequate written preparation and review procedures over the Fiscal Operations Report and Application to Participate.		1	2012-13	
84.367	Improving Teacher Quality State Grants	2013-014	Errors in allocation calculations.	Less than $10,000	2	2012-13	Discussed as part of finding 2015-023.

Category of Corrective Action Taken
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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2015

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
U.S. Department of Health and Human Services							
93.558 93.714 93.716	Temporary Assistance for Needy Families (TANF), Emergency Contingency Fund for TANF (ARRA), TANF Supplemental Grants (ARRA)	2-14	Insufficient review of TANF eligibility information resulting in benefit overpayments.	_ess than $10,00(	2	2010-11	Discussed as part of finding 2015-011.
93.778 93.767	Medical Assistance Program, Children's Health Insurance Program (CHIP)	2-20	Controls not adequate to identify suspended or debarred contractors.		2	2010-11	Per the most recent audit, while the Department of Public Health and Human Services did not fully implement the recommendation, they have made significant progress. No further recommendation was made with regard to this finding.
93.558	Temporary Assistance for Needy Families (TANF)	2-13	Insufficient subrecipient monitoring resulting in unsubstantiated costs.	$285,118	1	2010-11	
93.558	Temporary Assistance for Needy Families (TANF)	2013-003	Insufficient contract monitoring procedures.		1	2012-13	
93.558	Temporary Assistance for Needy Families (TANF)	2013-004	Contractor program reviews not performed.		1	2012-13	
93.558	Temporary Assistance for Needy Families (TANF)	2013-005	Noncompliance with federal reimbursement requirements for unallowable expenditures.	$166,198	2	2012-13	Discussed as part of finding 2015-011.
93.558	Temporary Assistance for Needy Families (TANF)	2013-006	Employee and contractor computer access rights not reviewed.		1	2012-13	

Category of Corrective Action Taken
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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2015

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
93.658	Foster Care - Title IV-E	2-12	Missing or late time verifications for tribal employees funded by grant money.		1	2010-11	
93.767	Children's Health Insurance Program (CHIP)	2013-007	Insufficient eligibility review process.	Less than $10,00(	1	2012-13	
93.767	Children's Health Insurance Program (CHIP)	2013-008	Noncompliance with federal CHIP bonus awards regulations.	$4,133,814	1	2012-13	
U.S. Department of Justice							
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants	2013-010	Lack of documentation for drug court treatment expenditures.	$11,548	1	2012-13	
U.S. Department of Labor							
17.225	Unemployment Insurance	2013-017	Insufficient segregation of duties over access to the Unemployment Insurance Tax system.		1	2012-13	
U.S. Department of Transportation							
20.205	Highway Planning and Construction	2-11	Noncompliance with Davis-Bacon Act requirements.	Between $200,000 and	1	2010-11	

Category of Corrective Action Taken
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3 - Corrective action taken is significantly different than reported. 4 - Finding is no longer valid.