MONTANA UNIVERSITY SYSTEM - WORKERS' COMPENSATION PROGRAM

AUDITED FINANCIAL STATEMENTS
With Supplemental Information

June 30, 2014 and 2013

Junkermier · Clark
Campanella · Stevens · P.C.

Certified Public Accountants and Business Advisors

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

November 2014

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Montana University System Workers' Compensation Program for the fiscal year ended June 30, 2014.

The audit was conducted by Junkermier, Clark, Campanella, Stevens, P.C., under a contract between the firm and our office. The contents of this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report is included in the back of the audit report.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

14C-04

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MONTANA UNIVERSITY SYSTEM -
WORKERS' COMPENSATION PROGRAM

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INDEPENDENT AUDITORS' REPORT

To the Legislative Audit Committee
of the Montana State Legislature
Helena, Montana

Report on the Financial Statements
We have audited the accompanying financial statements of Montana University System - Workers' Compensation Program, an enterprise fund of the State of Montana, which comprise the statement of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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 includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. 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 evaluating 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 opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana University System - Workers' Compensation Program (an enterprise fund of the State of Montana) as of June 30, 2014 and 2013, and the results of its operations, changes in its financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements present only the Montana University System - Workers' Compensation Program and do not purport to, and do not, present fairly the financial position of the State of Montana as of June 30, 2014 and 2013, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8 and the schedule of claims development information on pages 23 and 24 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 financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report Issued in Accordance with *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2014 , on our consideration of Montana University System - Workers' Compensation Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Montana University System - Workers' Compensation Program's internal control over financial reporting and compliance.

Junkermier, Clark, Campanella, Stevens, P.C.

Helena, Montana
November 10, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Montana University System Workers' Compensation Program (Program) provides this *Management's Discussion and Analysis* of the Program's financial statements. This narrative overview and analysis of the financial activities of the Program is for the fiscal year ended June 30, 2014. It should be read in conjunction with the Program's financial statements and accompanying notes.

OVERVIEW OF THE FINANCIAL STATEMENTS

The *financial statements* provide a broad view of the Program's short-term and long-term operations and financial position. These statements are prepared using the accrual basis of accounting with revenues recognized as soon as they are earned and expenses recognized as soon as the related liability is incurred, regardless of the related cash flow timing. The financial statements include: *Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows, and the Notes to the Financial Statements.*

The *Statement of Net Position* presents the Program's assets and liabilities, with the difference between the two reported as "net position."

The *Statement of Revenues, Expenses and Changes in Net Position* presents changes to the Program's net position during the fiscal year. Changes in assets and liabilities 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 earned but unused vacation leave).

Statement of Cash Flows shows how changes in balance sheet accounts and income affect cash and cash equivalents, and breaks the analysis down to operating, investing, and financing activities. The cash flow statement reflects the flow of cash in and cash out of the Program.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Position and Results of Operation

Revenue

The Program's premium revenues are based on a rate applied to payroll and are therefore dependent on employment and wages at the member campuses. MUS payroll increased approximately 2.85% between fiscal years 2013 and 2014.

The Program utilizes an actuarial analysis to establish annual workers' compensation premium needs and adopts a rate expected to meet this need. The premium rates are applied to monthly payroll by each member campus and submitted to the Program. In mid-fiscal year 2013, the Program recognized that its equity level was growing beyond the range indicated by the actuary, and that the increase was not being adequately tempered through the Program's initial reduction efforts; therefore, the Program's Management Committee adopted a premium holiday for the first 6-months of fiscal year 2014 (July-December 2013) and the Program did not collect premium revenues during that time period. The rates applied to payroll the second half of fiscal year 2014 (Jan-June 2014) resulted in total premium revenues of $2,169,693, which is approximately half of revenue collected in fiscal year 2013.

The Program earns modest interest on funds deposited with Montana Board of Investments Short Term Investment Pool (STIP) and interest bearing bank accounts used to pay claim costs. Total interest from both sources was approximately $24,908 as of June 30, 2014. When non-operating revenues were added, total revenue for the Program was $2,194,629.

Expenses

Total Program expenses for fiscal year2014 were $3,197,931. Claim payments, $afety $mart awards and ceded insurance premiums were the top Program expenditures during the fiscal year.

- The Program made claim payments of $2,360,371; however, it also reduced estimated long-term claim liability and, in accordance with accounting standards, the change in estimate was reflected in the year the change was made. As a result, the Benefit and Claims expenditure on the financial statements is 1,931,362, reflecting the $429,009 reduction in estimated long-term liabilities recorded in fiscal year 2014.
- $590,000 in $afety $mart awards were authorized in fiscal year 2014. $afety $mart was initiated in fiscal year 2012 as a mechanism for reducing the Program equity in a controlled manner consistent with its mission and goals. When authorized, $afety $mart funds are awarded to campuses specifically for safety and loss control projects to enhance workers' safety and to address claim frequency and severity.
- Ceded insurance premiums totaled $264,440 during the fiscal year.

Net Position

Net position at fiscal year end was $10,376,720; approximately $1 million lower than net position at 2013 fiscal year end. The decrease in net position is attributable to the 6-month premium holiday during which no premium revenue was received by the Program.

Insurance programs acknowledge that it is entirely possible for a given year's losses to exceed premium revenues collected in that year and that reserves built through positive results achieved most years can offset larger than expected losses in exceptional years. In its history as a self-insured, the Program's losses have consistently been less than initially anticipated and have resulted in the Program building redundant reserves. The Program began modest steps to reduce its net position starting in fiscal year 2012 and in fiscal year 2014 took the more aggressive step of a 6-month premium holiday to spend down the Program's net position.

Investments

The Program's total assets (primarily cash and investments) as of June 30, 2014, totaled $18,140,067; a $1,437,248 decrease (7.34%) compared to invested assets at fiscal year end 2013. The Program's assets are managed by the Montana Board of Investments (Board) as required by state statute.

In 2007, the Board purchased a $25 million par issue of Orion Finance USA and two issues of Axon Financial Funding totaling $90 million par and another $25 million par issue of Orion Finance USA. These four issues were downgraded from the highest investment grade rating by Standard & Poor's and Moody's at time of purchase, to a D rating by Standard & Poor's with an insolvency event declared by each. On the January and April 2008 maturity dates, these securities matured at their amortized cost of $140 million.

These Structured Investment Vehicle (SIV) securities are currently generating cash to be applied to the securities. The Program's share of these investments as of June 30, 2014 is $180,918 shown as long-term investments on the *Statement of Net Position*.

Claim Liabilities

At $7,619,017, the total claim liability estimate for fiscal year 2014 was approximately 7.1% less than the previous fiscal year end. Of the total, $2,358,193 is estimated current claim liabilities and $5,260,824 is estimated non-current claims liability (also known as Incurred But Not Reported or IBNR). At the close of fiscal year 2013, the Program carried $1,940,855 in current claims liability and $6,107,171 in IBNR.

The Program and Program's actuary will continue to incorporate Montana University System claim data trends and experience into its estimate of current and non-current claim liability and make adjustments accordingly.

Current Year Financial and Budget Results

	FY 2014 Actual	2014 Budget	Variance
REVENUE (Premiums + Interest+ Non-op. income)	2,194,629	2,373,900	(179,271)
OPERATING EXPENSES			
Personnel services	91,689	89,000	(2,689)
Operational expenses	584,880	610,350	25,470
Benefits & Claims	1,931,362	3,800,000	1,868,638
OPERATING EXPENSE SUBTOTAL	2,607,931	4,499,350	1,891,419
OTHER EXPENSES AND ADJUSTMENTS			
$afety $mart Awards	590,000	600,000	10,000
TOTAL EXPENSES	3,197,931	5,099,350	1,901,419
CHANGE IN NET POSITION	(1,003,302)	(2,725,450)	1,722,148

Budget Variance Fiscal Year 2014

The legislative budget authority was established at $4,551,191; the internal Program budget of $2,373,900 was established based on an anticipated 50% reduction in revenues and an expected operating loss. With authorization of $afety $mart expenditures, the Program also recognized that a budget amendment would be needed if claim costs approached the budgeted amount.

Due to the Program's equity being above its optimum range, the Program intended to reduce its net assets through a one-time reduction in premium revenue. The Program's reduction in net assets was less than anticipated due in part to downward revised claim liability estimates and less than anticipated claim losses.

At fiscal year end, the estimated claims liability was reduced by $429,009 in alignment with actuarial estimates. Per accounting standards, a change in an estimate must be reflected in the year made. Benefit and Claims expense reported above reflects the reduction of estimated long-term claims costs. Excluding the adjustment, the Program's Claims Paid and Claims Expense for the fiscal year totaled $2,360,371.

DLI Benchmarks

Annually, the Program undergoes an analysis and determination of financial ability to meet its obligations by the Montana Department of Labor and Industry (DLI) Self-Insurers' Regulatory Department. The Program is meeting all DLI benchmarks.

Capital Asset and Long-Term Debt Activity

No significant activity regarding capital assets occurred during the year. The Program's assets will continue to be invested by the Board as required by state statute. The Program does not carry any significant debt other than its estimated claim liabilities.

Currently Known Facts, Decisions or Conditions

Currently known facts, decisions, or conditions that are expected to have an impact on the Program's financial position (net assets) or on the results of operations (revenues and expenses) are summarized below:

- An additional $600,000 in $afety $mart funds were authorized for fiscal year 2015.
- There is no premium holiday in fiscal year 2015 and premium rates remain unchanged from fiscal year 2014.
- The Program was reimbursed approximately $15,000 by its excess insurance policy in FY14. An additional $21,000 in fiscal year 2014 bills was submitted for reimbursement but the funds were not received by year end. The Program will continue to receive reimbursements on a fiscal year 2009 claim that has pierced the Self-Insured Retention (SIR) and is expected to remain open for the foreseeable future. A second claim was reported to the excess carrier in late fiscal year 2013; however, the only ongoing costs with that claim are statutory survivor benefits and the Program does not expect claim costs to exceed its excess SIR ($500,000) for approximately 14 years.
- During fiscal year 2014, the Other Post Employment Benefits (OPEB) liability was determined to be overestimated in prior years. An adjustment was made and the net change resulted in a net position increase of $3,917. This OPEB long term liability reduction resulted in a restatement of fiscal year 2013 Miscellaneous expense and Estimated liability-OPEB.
- There are numerous workers' compensation related legislative proposals anticipated during the 2015 legislative session that could have a potential impact on the Program.

CONCLUSION

Montana University System Workers' Compensation Program has a strong financial position with good liquidity. The Program is carefully managing its reserves to bring them within the actuarial range anticipated to meet current and long-term obligations and operating costs. The Program and its actuary will continue to monitor the fiscal health of the Program and refine revenues to align with its specific experience as a self-insured entity.

MONTANA UNIVERSITY SYSTEM -
WORKERS' COMPENSATION PROGRAM
STATEMENT OF NET POSITION

	June 30	
	2014	**2013**
ASSETS		
Current Assets		
Cash and cash equivalents	$ 17,817,996	$ 19,214,506
Interest receivable	1,613	2,830
Reinsurance receivable	30,017	2,492
Short-term securities lending collateral	12,234	50,075
Prepaid expense	97,289	69,397
Total current assets	17,959,149	19,339,300
Noncurrent Assets		
Long-term investments	180,918	238,015
Total noncurrent assets	180,918	238,015
Total assets	$ 18,140,067	$ 19,577,315
LIABILITIES		
Current Liabilities		
Vouchers payable	$ 112,024	$ 80,799
Current portion of compensated absences liability	5,670	5,423
Current securities lending liability	12,234	50,075
Current portion of estimated claims liability	2,358,193	1,940,855
Total current liabilities	2,488,121	2,077,152
Noncurrent Liabilities		
Compensated absences liability - net of current portion	150	87
Estimated claims liability-net of current portion	5,260,824	6,107,171
Estimated liability - OPEB	14,252	12,883
Total noncurrent liabilities	5,275,226	6,120,141
Total liabilities	$ 7,763,347	$ 8,197,293
NET POSITION		
Unrestricted	$ 10,376,720	$ 11,380,022

See the notes to financial statements.

MONTANA UNIVERSITY SYSTEM -
WORKERS' COMPENSATION PROGRAM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years ended June 30	
	2014	**2013**
OPERATING REVENUES		
Premiums	$ 2,169,693	$ 4,280,481
OPERATING EXPENSES		
Claims administration	182,546	178,710
Actuary fees	15,790	15,284
Consulting & Professional Services	-	1,395
Insurance and reinsurance expense	264,440	272,128
Audit fees	12,000	11,550
Dues	2,940	2,940
Department of Labor assessment	69,397	75,741
Bank Service Charges	217	90
Office supplies, printing, postage	765	759
Salaries, payroll taxes and benefits	91,689	86,682
Telephone	612	860
Miscellaneous expense	36,173	35,595
Safety awards	590,000	292,082
Claims paid and claims expense (recovery)	1,931,362	(646,710)
Total operating expenses	3,197,931	327,106
OPERATING INCOME (LOSS)	(1,028,238)	3,953,375
NONOPERATING REVENUES (EXPENSES)		
Interest and investment income	24,908	44,267
STIP security lending earnings	30	171
STIP security lending expenses	(2)	(55)
Total nonoperating revenues	24,936	44,383
CHANGE IN NET POSITION	(1,003,302)	3,997,758
NET POSITION BEGINNING OF YEAR	11,380,022	7,379,923
PRIOR PERIOD ADJUSTMENT (NOTE 8)	-	2,341
NET POSITION BEGINNING OF YEAR -AS RESTATED	11,380,022	7,382,264
NET POSITION END OF YEAR	$ 10,376,720	$ 11,380,022

See the notes to financial statements.

MONTANA UNIVERSITY SYSTEM -
WORKERS' COMPENSATION PROGRAM
STATEMENT OF CASH FLOWS

	Years ended June 30	
	2014	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from premiums	$ 2,169,693	$ 4,280,481
Claims paid and claims expense	(2,387,896)	(2,133,349)
Cash payments for insurance and reinsurance expense	(292,332)	(27,384)
Cash payments for employees	(91,379)	(87,150)
Cash payments for administrative expenses	(251,448)	(285,626)
Cash payments for other operating expenses	(626,398)	(327,468)
Net cash provided by operating activities	(1,479,760)	1,419,504
CASH FLOWS FROM INVESTING ACTIVITIES		
Reclassification of STIP from long-term investments	57,097	36,487
STIP security lending earnings received	30	171
STIP security lending expenses paid	(2)	(55)
Interest received	26,125	45,692
Net cash provided by investing activities	83,250	82,295
Net change in cash	(1,396,510)	1,501,799
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	19,214,506	17,712,707
CASH AND CASH EQUIVALENTS END OF YEAR	$ 17,817,996	$ 19,214,506

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	Years ended June 30	
	2014	**2013**
Operating Income (Loss)	$ (1,028,238)	$ 3,953,375
Adjustments to reconcile operating income to net cash provided by operating activities:		
Decrease (increase) in reinsurance receivables	(27,525)	8,915
(Increase) decrease in prepaid expense	(27,892)	244,744
(Decrease) increase in vouchers payable	31,225	(6)
(Decrease) increase in compensated absences liability	310	(468)
Increase in estimated liability - OPEB	1,369	1,918
(Decrease) increase in estimated claims liability	(429,009)	(2,788,974)
	(451,522)	(2,533,871)
Net cash provided by operating activities	$ (1,479,760)	$ 1,419,504

See the notes to financial statements.

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Description of Program:

The Montana University System - Workers' Compensation Program (the Program) was organized to provide self-insured workers' compensation coverage for employees of the Montana University System. The Montana University System Board of Regents elected to provide workers' compensation coverage under the Compensation Plan Number One (MCA 39-71-2101) as of July 1, 2003. Prior to that date, the Montana University System obtained its workers' compensation coverage through participation in the Montana State Fund. Each member of the Program is jointly and severally liable for the full amount of any and all known or unknown claims of each member arising during the member's participation in the program.

Basis of Accounting:

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units, specifically standards applicable to public entity risk pools. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and reporting principles.

Professional standards require resources to be classified for accounting and reporting purposes into the following three net position categories:

- *Invested in capital assets, net of related debt:* Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- *Restricted:* This component of net position is subject to externally imposed stipulations that can be fulfilled by actions of the Program pursuant to those stipulations or that expire by the passage of time.

- *Unrestricted:* This component of net position is not subject to externally imposed stipulations and may be designated for specific purposes by action of management or the Committee or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for use, it is the Program's policy to use restricted first, then unrestricted resources as they are needed.

Reporting Entity:

In accordance with governmental accounting and financial reporting standards, there are no component units to be included with the Montana University System-Workers' Compensation Program as a reporting agency.

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting:

The Program is considered a public entity risk pool and is classified as an enterprise fund of the State of Montana; that is, a fund that is financed and operated in a manner similar to private business enterprises, where the intent of the Program is that the expenses of meeting its organizational purpose be financed or recovered primarily through user charges and investment earnings, and the periodic determination of revenue earned and expense incurred as appropriate for capital maintenance, public policy, management control, accountability and other purposes. The Program maintains its records on the accrual basis of accounting with revenues recorded when earned and expenses recorded when the obligation is incurred. Operating revenues and expenses generally arise from providing insurance coverage. All other revenues and expenses are classified as non-operating.

Administration of Claim Payments:

The Program contracts directly with Intermountain Claims, Inc. for claims administration services.

Allowance for Doubtful Accounts:

Management of the Program considers all premium receivables to be fully collectible. Therefore an allowance for uncollectible premiums is not deemed necessary by management.

Cash and Cash Equivalents:

Cash and cash equivalents consist of cash in checking and savings accounts and specific investments held on behalf of the Program in pooled accounts with the Montana Board of Investments Short-Term Investment Program (STIP). The Program considers all highly-liquid investments with maturity of three months or less when purchased to be cash equivalents.

The Program is required by statute to invest in the STIP, which is administered by the State of Montana Board of Investments, who has a policy that STIP is managed in a manner consistent with the SEC Rule 2a7. As a 2a7-like pool, the STIP utilizes an amortized cost unit value to report net assets. The STIP portfolio includes asset-backed securities, commercial paper, corporate and U.S. government direct obligations, U.S. government agency securities, repurchase agreements, institutional money market funds, certificates of deposit, and variable rate securities. Asset-backed securities represent debt securities collateralized by a pool of mortgage and non-mortgage assets such as trade and loan receivables, equipment leases, and credit cards. Commercial paper is unsecured short-term debt with maturities ranging from 1 to 270 days. U.S. government direct obligations include U.S. Treasury securities and debt explicitly guaranteed by the U.S. government. U.S. government agency securities include U.S. government agency and mortgage-backed securities. Repurchase agreements (REPOs) represent an agreement between a seller and a buyer, usually of U.S. 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 variable rate securities reset to LIBOR (London Interbank Offered Rate).

Investments:

As required by Professional Standards, investments have been reported at fair value.

Premium Receivable:

These amounts represent premium receivable from a component unit (Montana University System) of the State of Montana.

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates:

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenue and expenses. The major estimates are unpaid claims liabilities. Due to their prospective nature, actual results could differ from those estimates.

Premium Revenue:

Premium rates for all members are based on rates established by the Program's Committee based on anticipated premium needed as determined by the actuary. Premium rates are adjusted annually based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the period for which coverage is provided. Members may be subject to supplemental assessments in the event of deficiencies and in the event of increased costs due to changes in law or excessive claims costs. The Program considers anticipated investment income in determining if a premium deficiency exists.

Unpaid Claims Liabilities:

The Program establishes claim liabilities **(**loss reserves**)** for unpaid claims liabilities based on actuarial estimates of the ultimate cost of claims (including future allocated claim adjustment expenses) that have been reported but not paid or settled and that have been incurred but not reported. The liability includes the unallocated claims adjustment expense. The liabilities are 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 reviews of claims information, experience with similar claims and other factors. Adjustments to estimated claims liabilities are charged or credited to expense in the periods in which they are made.

During the fiscal year ended June 30, 2014, the long-term claims liability estimate was reduced by $846,347. As a result of the change in estimate, net reporting of claims liability was $1,931,362. Excluding the adjustment, the program incurred $2,360,371 of Claims Paid and Claims Expense during the fiscal year.

The Program is self-insured for workers' compensation claims to a maximum of $750,000 per occurrence after July 1, 2013. Prior to July 1, 2013, the Program is self-insured for workers' compensation claims to a maximum of $500,000 per occurrence. Losses in excess of those limits or $1,000,000 for an aircraft-related claim, are 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. During the fiscal year ended June 30, 2014 and 2013, the Program ceded $264,440 and $272,128 in premiums to reinsurers, respectively.

Reclassifications:

Certain amounts presented in the prior year financial statements have been reclassified in order to be consistent with the current year's presentation.

STIP gross earnings of $171 which were recorded as cash from premiums and cash payments for administrative expenses for the year ended June 30, 2013, have been reclassified to the investing section of the cash flow statement in the current year.

NOTE 2 -- CASH AND INVESTMENTS

Cash and cash equivalents at June 30 consist of the following:

	2014	2013
Cash in bank	$ 292,025	$ 127,248
Interfund cash	1,202,597	996,642
Cash in Montana Board of Investments STIP Program	16,323,374	18,090,616
Totals	$ 17,817,996	$ 19,214,506

Interfund cash represents the cash held in the State of Montana Treasury. All of the cash on deposit in operating, savings and claims accounts at June 30, 2014 and 2013, is in US Bank which is covered up to the limits imposed by the Federal Depository Insurance Corporation (FDIC).

The following table presents the cost and the fair value of investments at June 30,

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Structured investment vehicles	$ 180,918	$ 180,918	$ 238,015	$ 238,015

Effective June 30, 2005, the Program implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 "Deposits and Investment Risk Disclosures". The investment risk disclosures are described in the following paragraphs.

Credit Risk
Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Short Term Investment Pool (STIP) securities have credit risk as measured by major credit rating services. This risk is that the issuer of a STIP security may default in making timely principal and interest payments. The Board of Investments' policy specifies that STIP securities be rated an investment grade as defined by Standard and Poor's, Moody's, or Fitch's rating services. Information regarding the credit ratings for funds held by the STIP is available in the Board of Investment's comprehensive annual financial report.

The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. 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 more than seven days. Investments explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement. In October 2008, the U.S. 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, the Program had no concentration of credit risk exposure to Fannie Mae and Freddie Mac in STIP.

NOTE 2 -- CASH AND INVESTMENTS (Continued)

Legal and Credit Risk

In January 2007, the Montana Board of Investments (the Board) purchased a $25 million par issue of Orion Finance USA. In April 2007, the Board 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.

The Board has determined that it is currently in the best interest of the STIP to continue to hold these securities in the investment portfolio. These SIV securities are currently generating cash to be applied to the securities.

The Montana University System - Workers' Compensation Program's share of these investments as of June 30, 2014 and 2013 is $180,918 and $238,015, respectively. These are shown as long-term investments on the statement of net position as of June 30, 2014 and 2013.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of the outside party.

As of June 30, 2014 and 2013, all STIP securities were registered in the nominee name for the Montana Board of Investments and held in the possession of State Street Bank and Trust. According to the STIP Investment Policy, "repurchase agreements will be collateralized by the market value of U.S. Treasury and/or U.S. Agency securities at 102% of the value of the repurchase agreement." Information regarding the collateralization and risk of funds held by the STIP is available in the Montana Board of Investment's comprehensive annual financial report. There is no regulatory oversight for the investment pool, and the pool does not have a credit quality rating.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Program investment policies do not formally address 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)."

NOTE 2 -- CASH AND INVESTMENTS (Continued)

Interest Rate Risk (Continued)
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. As of June 30, 2014, and 2013, the portfolio had a dollar-weighed average portfolio maturity of 43 days. Information regarding the investments and corresponding maturities held by the STIP is available in the Board of Investment's comprehensive annual financial report.

NOTE 3 -- SECURITIES LENDING

The State of Montana Board of Investments has authorized the use of securities lending transactions - loans of debt or equity securities to broker-dealer and other entities for collateral with a corresponding agreement for Board of Investments to return the collateral for the same securities in the future. The Board has contracted with the custodial bank, State Street Bank and Trust (the Bank). The Bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities while the securities are on loan. The Board and the Bank split the earnings on security lending activities. The Board retains all rights and risks of ownership during the loan period. Information regarding the Short Term Investment Pool securities lending transactions is available in the Board of Investments' comprehensive annual financial report.

NOTE 4 -- RELATED PARTIES

Certain employees of the campuses of the university system provide services to the Program at no charge. The value of such services has not been determined.

NOTE 5 -- PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Plan Description

The Public Employees' Retirement System (PERS) is a statewide retirement plan established in 1945 and governed by Title 19, Chapters 2 and 3 of the Montana Code Annotated providing retirement services to substantially all public employees. The PERS is a mandatory multiple-employer, cost-sharing plan administered by the Public Employees' Retirement Division (PERD).

The PERS offers retirement, disability, and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary. Members' rights become vested after five years of service. The authority to establish, amend, and provide cost of living adjustments for the plan is assigned to the State legislature.

The plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. The report is available at the following address:

100 North Park Avenue Suite 200, P.O. Box 200131, Helena, MT 59620-0131

NOTE 5 -- PUBLIC EMPLOYEES' RETIREMENT SYSTEM (Continued)

Funding Policy

Contribution rates for the plan are required and determined by State law. The PERS rates for employees and employers expressed as a percentage of covered payroll, were as follows:

Members hired before July 1, 2011:

	Employer	Employee	Total
2014	8.17%	6.9%	15.07%
2013	8.17%	6.9%	15.07%
2012	7.17%	6.9%	14.07%

The amounts contributed by the Program to the plan during the years ended June 30, 2014 and 2013, were $5,732 and $4,883, respectively.

NOTE 6 -- LEASE AND RENT EXPENSE

The Program as part of the Office of the Commissioner of Higher Education entered into a ten year lease agreement with Student Assistance Foundation of Montana to lease a portion of office space at the building located on 2500 Broadway, Helena, Montana. The commencement date of the lease was January, 1, 2009. During the years ended June 30, 2014 and 2013, the Program paid rent of $7,534 and $6,811, respectively.

The following is a schedule by year of minimum future lease payments for the years ended June 30:

2015	$ 4,749
2016	5,003
2017	5,049
2018	5,094
2019	2,547
Total minimum future lease payments	$ 22,442

NOTE 7 -- UNPAID CLAIMS LIABILITIES

As discussed in Note 1, the Program establishes actuarial estimated unpaid claims liabilities (undiscounted basis). The estimated unpaid claims incurred but not reported and loss development liability have been adjusted to reflect the actuarial best estimates of the ultimate costs of claims for 2014 and 2013.

NOTE 7 -- UNPAID CLAIMS LIABILITIES (Continued)

The following represents changes in the aggregate unpaid claims liabilities for the Program for:

	2014	2013
Total present value of estimated unpaid claim losses at beginning of year	$ 8,048,026	$ 10,837,000
Changes in the estimated unpaid claim losses:		
Provision for insured events of the current year	3,329,000	3,399,000
Increase (decrease) in provision for insured events of prior years	(1,397,638)	(4,045,710)
Total incurred claims	1,931,362	(646,710)
Payments (including claims legal defense):		
Claims paid attributable to insured events of current year	1,010,715	891,252
Claims paid attributable to insured events of prior years	1,349,656	1,251,012
Total payments	2,360,371	2,142,264
Total present value of estimated unpaid claim losses at end of year	$ 7,619,017	$ 8,048,026

The estimated liability for workers' compensation claims as of June 30, consist of the following:

	2014	2013
Estimated claims reported but unpaid	$ 2,358,193	$ 1,940,855
Estimated claims incurred but not reported and loss development	5,260,824	6,107,171
	$ 7,619,017	$ 8,048,026

NOTE 8 - PRIOR PERIOD ADJUSTMENTS

During the current year, it was determined the OPEB liability under the Montana University System Employee Group Benefits Plan had been overestimated in prior years. As a result, change in net position for the year ended June 30, 2013 has increased $737. In addition, net position for the years ended June 30, 2013 and 2012, have increased from previously reported balances by $3,078 and $2,341, respectively.

NOTE 9 -- OTHER POST-EMPLOYMENT BENEFITS

A retiree may continue coverage with the Montana University System Employee Group Benefits Plan if the retiree is eligible to receive a State Retirement Benefit from Teacher Retirement System (TRS) or the Public Employee Retirement System (PERS) at the time they leave their employment with the Montana University System. Retirees who are in the Optional Retirement Plan (ORP) (through TIAA-CREF) or any other defined contribution plan must have worked five or more years and be age 50, or have worked 25 years with the Montana University System to be eligible for Retiree insurance benefits.

An eligible Retiree must make arrangements with the Human Resources/Benefits Office to continue coverage as a Retiree on a self-pay basis within 63 days of retirement.

NOTE 9 -- OTHER POST-EMPLOYMENT BENEFITS (Continued)

Plan Description

The Montana University System Employee Group Benefits Plan is considered a multiple employer agent plan. The Plan allows 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 Program. The Plan is reported as an agency fund. There are no assets or liabilities as only contributions collected and distributions made are reflected in the fund. See the funding policy that follows.

Plan Description (Continued)

The MUS Group Benefits Plan does not issue a standalone financial report, but is subject to audit as part of the State of Montana's Comprehensive Annual Financial Report (CAFR). A copy of the most recent CAFR can be obtained online at http://accounting.mt.gov/cafr/default.mcpx or by contacting the Montana Department of Administration, P.O. Box 200102, Helena, MT 59620-0102.

As of June 30, 2014, the number of MUS Worker's Compensation Program active participants in the health insurance plan was 1.

Funding Policy

The MUS Benefits Program funds the post employment benefits on a pay-as-you-go basis from premiums from campuses and retirees. Montana Code Annotated, Title 20, Chapter 25, Part 13 gives authority for establishing and amending the funding policy to the Montana University System.

The Plan's administratively established self-insured retiree medical premiums vary between $263 and $982 per month and are revised annually. The Plan provides different coinsurance amounts depending on whether members use preferred, non-preferred, or other hospitals. After an annual $650 deductible for most non-Medicare-eligible retirees, the MUS plan reimburses 75% for the first $1,300 in medical claims and 100% thereafter. There is an optional $1,500 deductible plan available to retirees with a reduced premium. After the $1,500 annual deductible, the Plan pays 75% of the first $3,000 and 100% thereafter. The Plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare.

Annual Other Post-employment Benefit Cost and Contributions

The Program's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The calculated ARC represents an amount that, if funded, would cover normal cost each year and amortize any unfunded actuarial liability over a period not to exceed 30 years. For the fiscal year ended June 30, 2014 and 2013, the Program's annual OPEB cost (expense) of $1,649 and $2,070 was equal to the ARC. The actuarial determination was based on plan information as of July 1, 2013.

There are no long-term contracts for contributions to the Plan. Contributions refer to contributions made in relation to ARC. Since MUS does not fund the Plan, no contributions were made.

NOTE 9 -- OTHER POST-EMPLOYMENT BENEFITS (Continued)

The following table presents the Workers' Compensation Program OPEB cost for the fiscal years ended June 30, 2014 and 2013, the amount contributed, and changes in the Workers' Compensation Program OPEB plan for fiscal year 2014 and 2013:

	2014	2013
Annual required contribution/OPEB cost	$ 1,511	$ 1,952
Interest on net OPEB obligation	638	551
Amortization	(500)	(433)
Annual OPEB cost	1,649	2,070
Contributions made	(280)	(152)
Increase (decrease) in net OPEB obligation	1,369	1,918
Net OPEB obligation - beginning of year	12,883	10,965
Net OPEB obligation - end of year	$ 14,252	$ 12,883

Actuarial Methods and Assumptions

The projected unit credit funding method was used to determine the cost of the Montana University System Employee Group Benefits Plan. This method's objective is to fund each participant's benefits under the Plan as they accrue. The total benefit to which each participant is expected to become entitled at retirement is categorized into units, each associated with a year of past or future credited service.

The actuarial assumptions included, in addition to marital status at retirement, mortality rates and retirement age:

Interest/Discount Rate	4.25%
Payroll Growth Rate	2.50%
Participation	55% of future retirees are assumed to elect medical coverage, 60% of the future retirees who elect coverage and are married are assumed to elect spousal coverage as well
Healthcare Cost Trend Rate-Medical	8.00%
Healthcare Cost Trend Rate-Prescription drugs	8.00%

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 review and revision as actual results are compared with past expectations, and new estimates are made about the future.

NOTE 10 -- SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 10, 2014, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

MONTANA UNIVERSITY SYSTEM -
WORKERS' COMPENSATION PROGRAM
CLAIMS DEVELOPMENT INFORMATION

The table on the following pages illustrates how the Program's earned revenues (net of excess loss coverage) and investment income compare to related costs of loss (net of loss assumed by excess loss coverage insurers) and other expenses assumed by the Program as of the end of each of the previous ten years. The rows of the table are defined as follows:

1 This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue.

2 This line shows each fiscal year's other operating costs of the Program including overhead and claims expense not allocable to individual claims.

3 This line shows the Program's gross incurred claims and allocated claim adjustment expenses and net incurred claims and allocated adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called *policy* year).

4 This section of ten rows shows the cumulative net amounts paid as of the end of successive years for each policy year.

5 This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.

6 This section of ten rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.

7 This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

See the accompanying independent auditors' report.

MONTANA UNIVERSITY SYSTEM - WORKERS' COMPENSATION PROGRAM
CLAIMS DEVELOPMENT INFORMATION

	Fiscal and Policy Year Ended										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1. Net earned (required contribution and investment revenues)	$ 2,273,944	$ 2,850,849	$ 3,510,259	$ 4,153,570	$ 4,777,099	$ 4,930,524	$ 4,758,849	$ 4,515,064	$ 3,968,546	$ 4,052,736	$ 1,930,189
2. Unallocated expenses	227,267	279,716	263,904	259,412	386,512	460,508	441,977	426,068	883,006	701,688	1,002,129
3. Estimated incurred claims and expenses, end of policy year	2,174,000	2,366,000	2,453,000	2,600,000	2,693,000	2,922,000	2,959,000	3,115,000	3,158,000	3,399,000	3,329,000
4. Gross paid (cumulative) as of:											
End of policy year	551,749	382,154	390,972	367,913	469,399	640,717	572,486	742,041	709,651	891,252	1,010,989
One year later	1,019,751	1,001,996	910,335	932,787	1,099,932	1,764,405	1,446,724	1,608,465	1,185,473	1,803,450	
Two years later	1,123,504	1,227,600	1,254,242	1,092,644	1,286,205	2,997,006	1,835,851	1,900,333	1,277,606		
Three years later	1,147,508	1,526,088	1,351,046	1,157,520	1,440,632	3,275,598	2,071,374	1,961,168			
Four years later	1,165,362	1,554,903	1,386,285	1,203,059	1,497,940	3,450,482	2,190,713				
Five years later	1,210,361	1,660,121	1,393,297	1,227,284	1,563,146	3,630,194					
Six years later	1,251,309	1,691,861	1,401,236	1,238,378	1,571,929						
Seven years later	1,253,722	1,759,234	1,408,799	1,238,514							
Eight years later	1,257,246	1,769,993	1,410,797								
Nine years later	1,259,246	1,785,717									
Ten years later	1,261,093										
5. Reestimated ceded claims and expenses	-	-	-	-	-	-	-	-	-	-	-
6. Reestimated net incurred claims and expenses											
End of policy year	2,174,000	2,366,000	2,453,000	2,600,000	2,693,000	2,922,000	2,959,000	3,115,000	3,158,000	3,399,000	3,329,000
One year later	2,174,000	2,565,000	2,267,356	2,293,413	2,686,541	3,046,000	3,017,000	3,428,000	3,364,000	3,693,000	
Two years later	2,037,000	2,459,000	2,510,000	2,412,000	2,630,000	3,977,000	3,000,000	3,396,000	2,650,000		
Three years later	1,830,000	2,602,000	2,471,000	2,131,000	2,391,000	4,199,000	3,078,000	3,032,000			
Four years later	1,570,000	2,622,000	2,069,000	1,804,000	2,335,000	3,987,000	2,923,000				
Five years later	1,499,000	2,312,000	1,512,000	1,779,000	1,754,000	3,657,000					
Six years later	1,327,000	1,965,000	1,511,000	1,412,000	1,769,000						
Seven years later	1,284,000	1,825,000	1,422,000	1,231,000							
Eight years later	1,288,000	1,825,000	1,388,000								
Nine years later	1,244,000	1,785,000									
Ten years later	1,246,000										
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	(928,000)	(581,000)	(1,065,000)	(1,369,000)	(924,000)	735,000	(36,000)	(83,000)	(508,000)	294,000	-

See the accompanying independent auditors' report.

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INDEPENDENT AUDITORS' 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*

To the Legislative Audit Committee
of the Montana State Legislature
Helena, Montana

We have audited, 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, the financial statements of Montana University System - Workers' Compensation Program, (an enterprise fund of the State of Montana) which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenue, expense and changes in net position and cash flows for the years then ended and the related notes to the financial statements, and have issued our report thereon dated November 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Montana University System - Workers' Compensation Program's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Montana University System - Workers' Compensation Program's internal control. Accordingly, we do not express an opinion on the effectiveness of Montana University System - Workers' Compensation Program'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 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 control 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 over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether Montana University System - Workers' Compensation Program'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Montana University System - Workers' Compensation Program in a separate letter dated November 10, 2014.

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 entity'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 purpose.

Junkermier, Clark, Campanella, Stevens, P.C.

Helena, Montana
November 10, 2014

MONTANA UNIVERSITY SYSTEM -
WORKERS' COMPENSATION PROGRAM
SCHEDULE OF FINDINGS AND RESPONSES

The results of our tests disclosed no instances of noncompliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters or any internal control deficiencies considered to be significant deficiencies or material weaknesses, which were required to be reported under *Government Auditing Standards* as of June 30, 2014.