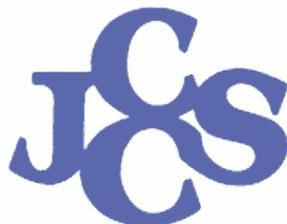


**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM**

**AUDITED FINANCIAL STATEMENTS  
With Supplemental Information**

**June 30, 2013 and 2012**



**Junkermier • Clark**

**Campanella • Stevens • P.C.**

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Certified Public Accountants and Business Advisors

**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

We have audited the accompanying financial statements of the 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, 2013 and 2012, 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 the 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 the financial statements that are free of 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 of 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 auditors' 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.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana University System - Workers' Compensation Program (an enterprise fund of the State of Montana) as of June 30, 2013 and 2012 and the changes in financial position and cash flows thereof for the years then ended in conformity 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, 2013 and 2012, 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 information presented on pages 5-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2013, on our consideration of Montana University System - Workers' Compensation Program's internal control over financial reporting and 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 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* and should be considered in conjunction with this report in considering the results of our audits.

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

Helena, Montana  
October 28, 2013

## MANAGEMENT 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, 2013. It should be read in conjunction with the Program's financial statements.

### **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 are prepared using the accrual basis of accounting; all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The financial statements include: *Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and, Statements of Cash Flows*. The Program's financial statements also include the *Notes to the Financial Statement* that provides additional detail for understanding 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 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 earned but unused vacation leave).

*Statements of Cash Flows* show 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 is concerned with the flow of cash in and cash out of the Program. The statement captures both the current operating results and the accompanying changes in the balance sheet.

*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**

MUS premium revenues are based on a rate applied to payroll and are therefore dependent on employment and wages at the member campuses. The Program utilizes an actuarial analysis to establish annual work comp premium needs and the Program has consistently adopted a rate with a correspondingly high confidence level to meet this need. The premium rates are applied to monthly payroll by each member campus and submitted to the Program. MUS payroll increased approximately 3% between FY12 and FY13.

Financial results indicate that FY13 premium revenues were \$4.28 million. 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 \$44,000. When non-operating revenues are added, total revenue for the Program is \$4.32 million. Revenue need was estimated by the actuary to be \$4 million.

## **Expenditures**

Claim payments, Safety Smart awards and ceded insurance premiums were the top 3 Program expenditures in FY13. Total actual expenditures for 2013 were \$3.12 million; however, the Adjusted Total Expenditure reported on the financial statements is \$327,898 due to a reduction in estimated claim liabilities.

- The Program made claim payments of \$2,142,264 during FY13, however; it also reduced estimated long-term claim liability and, in accordance with accounting standards, the change in estimate is reflected in the year the change is made. As a result, the Benefit and Claims expenditure on the financial statements is (\$646,710), reflecting the \$2.79 million reduction in estimated long-term liabilities recorded in FY13.
- \$300,000 in Safety Smart awards were made to the campuses in FY13. The Committee awards Safety Smart funds to campuses for safety and loss control projects to enhance workers safety and to address claim frequency and severity. Safety Smart awards are approved only when the MUS Work Comp Committee determines adequate funds are available. Campuses must spend the Safety Smart funds on work place/worker safety enhancements.
- Ceded insurance premiums totaled \$272,000 for FY13.

## **Net Position**

Net Position at year end was \$11.38 million, nearly \$4.0 million higher than at 2012 year end. The substantial increase in net position is due largely to the downward revision of estimated non-current claim liabilities.

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. The Program and its actuary recognize that the Program's equity exceeds that necessary to provide adequate reserves and has initiated several steps to decrease the Program's net position in a controlled manner consistent with its mission and goals.

## **Investments**

The Program's cash and investments as of June 30, 2013, totaled \$19.51 million, an approximate 8% increase over invested assets at year end 2012.

In 2007, the Board of Investments (the Board) purchased a \$25 million par issue of Orion Finance USA AND purchased 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 SIV securities are currently generating cash to be applied to the securities. The MUS WC Program's share of these investments as of June 30, 2013 is \$238,000 shown as long-term investments on the statement of net position as of June 30, 2013.

## **Claim Liabilities**

At the close of 2012, the Program carried total liabilities of \$10.97 million with \$1.75 million in current claims liability and \$9.08 million in non-current claims liability (also known as Incurred But Not Reported or IBNR). As a result of the continuing trend of lower than estimated claim liabilities, FY13 total claim liability estimate has been revised downward to approximately \$8.05 million; with \$1.94 million in current claim liabilities and \$6.11 million IBNR.

The Program continues to incorporate MUS claim data trends and experience into its estimate of current and non-current claim liability. When the self-funded Program was established, estimating current and non-current (IBNR) claim liabilities was based upon claim data incurred prior to self-insuring. As the MUS WC Program acquired actual self-insured claim experience, the early claim liability estimates were trending higher than actual claim liability experience. As a result, for FY13 reporting, the Program recognized a decrease in liabilities to reflect the actuarial estimates of claim liabilities. The program and actuary will continue to monitor the claim experience and make adjustments accordingly.

**Current Year Financial and Budget Results**

The table below depicts the financial results with value for the benefit and claim costs prior to the adjustment, the adjustment amount, and its impact on the total expenses for the year.

|   | <b>FY 2013 Actual</b> | <b>2013 Budget</b> | <b>Variance</b>  |
|---|-----------------------|--------------------|------------------|
| <b>REVENUE</b> (Premiums + Interest)        | <b>4,324,864</b>      | <b>4,340,842</b>   | <b>(15,978)</b>  |
| <b>OPERATING EXPENSES</b>                   |                       |                    |                  |
| Personnel services                          | 86,682                | 83,436             | (3,246)          |
| Operational expenses                        | 595,844               | 585,400            | (10,444)         |
| Benefits & Claims * Actual FY13             | 2,142,264             | 3,500,000          | 1,357,736        |
| <b>OPERATING EXPENSE SUBTOTAL</b>           | <b>2,824,790</b>      | <b>4,168,836</b>   | <b>1,344,046</b> |
| <b>OTHER EXPENSES AND ADJUSTMENTS</b>       |                       |                    |                  |
| Safety Smart Awards                         | 292,082               | 300,000            | 7,918            |
| Benefits & Claims * Future Claim Adjustment | (2,788,974)           |                    |                  |
| <b>TOTAL EXPENSES</b>                       | <b>327,898</b>        | <b>4,468,836</b>   | <b>4,140,938</b> |
| <b>CHANGE IN NET ASSETS</b>                 | <b>3,997,021</b>      | <b>(127,994)</b>   | <b>4,125,015</b> |

**Budget Variance**

The FY13 legislative budget authority was established at \$5,003,854 in the 2 year budget cycle prior to passage of HB334 in FY11. The 2013 budget depicted above was established internally after passage of HB334 and subsequent reduction of premium rates and expected costs. A pay raise approved by the BOR occurred after the creation of this internal budget.

Because the Program recognized its equity level was above the optimum range, it established FY12 and FY13 budgets with modest operating losses as an initial step toward decreasing the Program’s net position in a controlled manner consistent with its mission and goals. However, recognizing the revised claim liability estimate in accordance with accounting standards led to the very substantial gain in net position during the year.

*Claims Paid and Claims Expense* during FY13 was significantly lower than anticipated and the Program would have recognized a gain in net position during FY13, even without the adjustment to the claim liability. Multiple factors with a role in the lower claims expense in FY13 may be:

- 2<sup>nd</sup> lowest claim frequency in program’s history and significant reduction in # of claims reported in FY13 compared to previous 7 years;
- Maturation and closing of claims from 2009-2012; 2009 was an especially high claim frequency and severity year for MUS;
- Affects of increased worker safety and stay-at-work/return-to-work efforts and significant safety investments on campus;

- Reimbursement of claim dollars spent through Program's excess insurance;
- FY11 legislative changes.

### **DLI Benchmarks**

Annually, the Program undergoes an analysis and determination of financial ability to meet its obligations by the MT Department of Labor (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 in the Short-Term Investment Pool (STIP) administered by the MT Board of Investments. 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 a significant effect on the Program's financial position (net position) or on the results of operations (revenues, expenses) are summarized below:

- An additional \$600,000 in Safety Smart awards will be made to the campuses in FY14.
- The Program has implemented a premium holiday wherein no work comp premium payments are owed to the Program for the first 6 months of FY14. The premium holiday is expected to reduce WC Program's FY14 revenues by approximately 50%. This action is in response to the reduction in estimated claim liabilities and the Program's equity position.
- The Program was reimbursed approximately \$26,000 by its excess insurance policy in FY13. The Program will continue to receive reimbursements on the claim that has pierced the Self-Insured Retention (SIR) and is expected to remain open for the foreseeable future. A second claim has been reported to the excess carrier; however, the only ongoing costs are statutory survivor benefits and the WC Program does not expect to exceed its excess SIR on that claim for approximately 15 years.
- With 2 years of experience, The Program has recognized a net savings of approximately \$58,000 attributable to the changes in eligibility for certain work comp benefits as a result of HB334.
- 2013 was a relatively quiet legislative year for workers' compensation; though the interim is active with inquiry. A workers' compensation study bill (HJR25) has been assigned to the Economic Affairs Interim Committee to address subrogation, WC Court structure, and State Fund structure in addition to examination of key pieces of the 2011 reform legislation. Also, the Governor's Labor Management Advisory Council on Workers' Compensation (LMAC) has been reestablished by Governor Bullock to monitor the effectiveness of HB334 reforms (2011) and make recommendations to facilitate cooperation to improve Montana's workers' compensation system.

### **CONCLUSION**

MUS Work Comp has a strong financial statement with good liquidity and has developed reserves in excess of what is necessary to meet current and anticipated long-term obligations. As it enters its 2<sup>nd</sup> decade of operation (FY14), MUS Work Comp is taking measures to responsibly reduce its equity while maintaining financial stability. The program and 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  
STATEMENTS OF NET POSITION**

|   |    | <b>June 30</b>              |                             |
|---|----|-----------------------------|-----------------------------|
|   |    | <u><b>2013</b></u>          | <u><b>2012</b></u>          |
| <b>ASSETS</b>   |    |                             |                             |
| <b>Current Assets</b>                                   |    |                             |                             |
| Cash and cash equivalents                               | \$ | 19,214,506                  | \$ 17,712,707               |
| Interest receivable                                     |    | 2,830                       | 4,255                       |
| Reinsurance receivable                                  |    | 2,492                       | 11,407                      |
| Short-term securities lending collateral                |    | 50,075                      | 34,985                      |
| Prepaid expense   |    | <u>69,397</u>               | <u>314,141</u>              |
| Total current assets                                    |    | <u>19,339,300</u>           | <u>18,077,495</u>           |
| <b>Noncurrent Assets</b>                                |    |                             |                             |
| Long-term investments                                   |    | <u>238,015</u>              | <u>274,502</u>              |
| Total noncurrent assets                                 |    | <u>238,015</u>              | <u>274,502</u>              |
| Total assets  | \$ | <u><u>19,577,315</u></u>    | \$ <u><u>18,351,997</u></u> |
| <b>LIABILITIES</b>                                      |    |                             |                             |
| <b>Current Liabilities</b>                              |    |                             |                             |
| Vouchers payable  | \$ | 80,799                      | \$ 80,805                   |
| Current portion of compensated absences liability       |    | 5,423                       | 5,950                       |
| Current securities lending liability                    |    | 50,075                      | 34,985                      |
| Current portion of estimated claims liability           |    | <u>1,940,855</u>            | <u>1,753,552</u>            |
| Total current liabilities                               |    | <u>2,077,152</u>            | <u>1,875,292</u>            |
| <b>Noncurrent Liabilities</b>                           |    |                             |                             |
| Compensated absences liability - net of current portion |    | 87                          | 28                          |
| Estimated claims liability-net of current portion       |    | 6,107,171                   | 9,083,448                   |
| Estimated liability - OPEB                              |    | <u>15,961</u>               | <u>13,306</u>               |
| Total noncurrent liabilities                            |    | <u>6,123,219</u>            | <u>9,096,782</u>            |
| Total liabilities                                       | \$ | <u><u>8,200,371</u></u>     | \$ <u><u>10,972,074</u></u> |
| <b>NET POSITION</b>                                     |    |                             |                             |
| Unrestricted  |    | <u><u>\$ 11,376,944</u></u> | <u><u>\$ 7,379,923</u></u>  |

See the notes to financial statements.

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

|   | <u>Years ended June 30</u> |                     |
|---|----------------------------|---------------------|
|   | <u>2013</u>                | <u>2012</u>         |
| <b>OPERATING REVENUES</b>                 |                            |                     |
| Premiums                                  | \$ 4,280,481               | \$ 4,166,966        |
| <b>OPERATING EXPENSES</b>                 |                            |                     |
| Claims administration                     | 178,710                    | 179,430             |
| Actuary fees                              | 15,284                     | 17,075              |
| Consulting & Professional Services        | 1,395                      | -                   |
| Insurance and reinsurance expense         | 272,128                    | 249,016             |
| Audit fees                                | 11,550                     | 20,220              |
| Dues                                      | 2,940                      | 2,800               |
| Department of Labor assessment            | 75,741                     | 65,695              |
| Bank Service Charges                      | 90                         | 120                 |
| Office supplies, printing, postage        | 759                        | 325                 |
| Salaries, payroll taxes and benefits      | 86,682                     | 83,498              |
| Telephone                                 | 860                        | 613                 |
| Miscellaneous expense                     | 36,387                     | 35,063              |
| Safety awards                             | 292,082                    | 478,167             |
| Claims paid and claims expense (recovery) | <u>(646,710)</u>           | <u>3,397,522</u>    |
| Total operating expenses                  | <u>327,898</u>             | <u>4,529,544</u>    |
| <b>OPERATING INCOME (LOSS)</b>            | <u>3,952,583</u>           | <u>(362,578)</u>    |
| <b>NONOPERATING REVENUES (EXPENSES)</b>   |                            |                     |
| Interest and investment income            | 44,267                     | 45,662              |
| Other nonoperating income                 | <u>171</u>                 | <u>4,934</u>        |
| Total nonoperating revenues               | <u>44,438</u>              | <u>50,596</u>       |
| <b>CHANGE IN NET POSITION</b>             | 3,997,021                  | (311,982)           |
| <b>NET POSITION BEGINNING OF YEAR</b>     | <u>7,379,923</u>           | <u>7,691,905</u>    |
| <b>NET POSITION END OF YEAR</b>           | <u>\$ 11,376,944</u>       | <u>\$ 7,379,923</u> |

See the notes to financial statements.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
STATEMENTS OF CASH FLOWS**

|   | <u>Years ended June 30</u> |                      |
|---|----------------------------|----------------------|
|   | <u>2013</u>                | <u>2012</u>          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>         |                            |                      |
| Cash received from premiums                         | \$ 4,280,652               | \$ 4,328,430         |
| Claims paid and claims expense                      | (2,133,349)                | (1,844,015)          |
| Cash payments for insurance and reinsurance expense | (27,384)                   | (480,228)            |
| Cash payments for employees                         | (87,150)                   | (84,258)             |
| Cash payments for administrative expenses           | (285,797)                  | (294,324)            |
| Cash payments for other operating expenses          | <u>(327,523)</u>           | <u>(511,778)</u>     |
| Net cash provided by operating activities           | <u>1,419,449</u>           | <u>1,113,827</u>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>         |                            |                      |
| Reclassification of STIP from long-term investments | 36,487                     | (6,732)              |
| STIP security lending earnings received             | 171                        | 4,934                |
| Interest received                                   | <u>45,692</u>              | <u>44,553</u>        |
| Net cash provided by investing activities           | <u>82,350</u>              | <u>42,755</u>        |
| Net increase in cash                                | 1,501,799                  | 1,156,582            |
| <b>CASH AND CASH EQUIVALENTS BEGINNING OF YEAR</b>  | <u>17,712,707</u>          | <u>16,556,125</u>    |
| <b>CASH AND CASH EQUIVALENTS END OF YEAR</b>        | <u>\$ 19,214,506</u>       | <u>\$ 17,712,707</u> |

See the notes to financial statements.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
STATEMENTS OF CASH FLOWS (Continued)**

**RECONCILIATION OF OPERATING INCOME TO NET CASH  
PROVIDED BY OPERATING ACTIVITIES**

|   | <b>Years ended June 30</b> |              |
|---|----------------------------|--------------|
|   | <b>2013</b>                | <b>2012</b>  |
| Operating Income (Loss)   | \$ 3,952,583               | \$ (362,578) |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                            |              |
| Decrease (increase) in reinsurance receivables  | 8,915                      | 500,507      |
| Decrease (increase) in premium receivables  | -                          | 161,464      |
| (Increase) decrease in prepaid expense  | 244,744                    | (231,212)    |
| (Decrease) increase in vouchers payable   | (6)                        | (9,104)      |
| (Decrease) increase in compensated absences liability                                   | (468)                      | (760)        |
| Increase in estimated liability - OPEB  | 2,655                      | 2,510        |
| (Decrease) increase in estimated claims liability                                       | (2,788,974)                | 1,053,000    |
|   | (2,533,134)                | 1,476,405    |
| Net cash provided by operating activities   | \$ 1,419,449               | \$ 1,113,827 |

See the notes to financial statements.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013 and 2012**

**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 financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Government Accounting Standards Board (GASB). 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 Net Position:* Assets whose use by the Program 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 Net Position:* Assets that are not subject to externally imposed stipulations. Unrestricted assets 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 Programs'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.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2013 and 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Fund Accounting:***

The Program is considered a public entity risk pool and is reported 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 nonoperating.

***Administration of Claim Payments:***

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

***Allowance for Doubtful Accounts:***

The Program considers all premium receivables to be fully collectible. Therefore an allowance for uncollectible premiums is not necessary.

***Cash and Cash Equivalents:***

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

The Program is authorized to invest in the Short Term Investment Pool (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, banker's acceptances, certificates of deposit, corporate and government securities, repurchase agreements and variable-rate (floating-rate) instruments. Asset-backed securities represent debt securities collateralized by a pool of non-mortgage assets such as trade and loan receivables, equipment leases, and credit cards. Variable-rate (floating-rate) securities pay a variable rate of interest until maturity. The variable-rate securities float with the 91 day treasury bill or LIBOR (London Interbank Offered Rate).

***Cash and 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.

***Estimates:***

The preparation of the financial statements in conformity with generally accepted accounting principles 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.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2013 and 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Premium Revenue:***

Premium rates are established by the Program's Committee based on anticipated premium needed as determined by the actuary. Premium rates are adjusted periodically 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. The Program considers anticipated investment income in determining if a premium deficiency exists.

***Unpaid Claims Liabilities:***

The Program establishes claim 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, 2013, a change in the claims estimate was made, reducing the long-term claims liability by \$2,788,974. Per accounting standards, a change in estimate must be reflected in the year made. As a result of the change in estimate for future workers' compensation claims, program expenditures include the reduction of the long-term claims estimated to be paid by the program, resulting in a net reporting of Claims Paid and Claims Expense (Recovery) of \$(646,710). Excluding the adjustment, the program incurred \$2,142,264 of Claims Paid and Claims Expense.

The Program is self-insured for workers' compensation claims to a maximum of \$500,000 per each occurrence. Losses in excess of \$500,000 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 of \$500,000. During the fiscal year ended June 30, 2013 and 2012, the Program ceded \$272,128 and \$249,016 in premiums to reinsurers, respectively.

**2. CASH AND INVESTMENTS**

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

|   | <b>2013</b>   | <b>2012</b>   |
|---|---------------|---------------|
| Cash in bank                                      | \$ 127,248    | \$ 388,961    |
| Interfund cash                                    | 996,642       | 670,005       |
| Cash in Montana Board of Investments STIP Program | 18,090,616    | 16,653,741    |
| Totals  | \$ 19,214,506 | \$ 17,712,707 |

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, 2013 and 2012, is in US Bank which is entirely covered by federal depository insurance (FDIC).

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2013 and 2012**

**2. CASH AND INVESTMENTS (Continued)**

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

|                                | <b>2013</b>       |                   | <b>2012</b>       |                   |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                | <u>Cost</u>       | <u>Fair Value</u> | <u>Cost</u>       | <u>Fair Value</u> |
| Structured investment vehicles | <u>\$ 238,015</u> | <u>\$ 238,015</u> | <u>\$ 274,502</u> | <u>\$ 274,502</u> |

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 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 have ratings provided by Standard and Poor's, Moody's, or Fitch. Information regarding the credit ratings for funds held by the Short Term Investment Pool (STIP) is available in the Board of Investment's comprehensive annual financial report.

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. GASB 40 requires that a government entity disclose the amount invested in a separate issuer (except investments held in the U.S. government or investments guaranteed by the U.S. government) when that amount is at least 5% of total investments. The STIP Investment Policy Statement addresses concentration of credit risk by investment category. Information regarding the credit risk exposure for funds held by the Short Term Investment Pool (STIP) is available in the Board of Investment's comprehensive annual financial report.

As of June 30, 2013 and 2012 the Program had Structured Investment Vehicles that made up 100% of the total investments of \$238,015 and \$274,502, respectively.

Legal and Credit Risk

In January 2007, the 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 & Poors and Aaa by Moody's. As of June 30, 2008, these issues carried a D rating by Standard & Poors. On November 20, 2007, an insolvency event was declared by Axon Finance USA. Orion Financial Funding 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.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2013 and 2012**

**2. CASH AND INVESTMENTS (Continued)**

Legal and Credit Risk (Continued)

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, 2013 and 2012 is \$238,015 and \$274,502, respectively. These are shown as long-term investments on the statement of net position as of June 30, 2013 and 2012.

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, 2013 and 2012, all STIP securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the Bank. 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 Short Term Investment Pool (STIP) is available in the 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. Participants' equity in the pool approximates the fair value of the underlying investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Program investment policies do not formally address interest rate risk. In accordance with GASB Statement No. 40, the Program has selected the effective duration method to disclose interest rate risk.

GASB Statement No. 40 defines duration as a measure of the debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments as callable bonds, prepayments, and variable-rate debt.

**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 (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.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2013 and 2012**

**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.

**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

*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:

|      | <u>Employer</u> | <u>Employee</u> | <u>Total</u> |
|------|-----------------|-----------------|--------------|
| 2013 | 8.17%           | 6.9%            | 14.07%       |
| 2012 | 7.17%           | 6.9%            | 14.07%       |
| 2011 | 7.17%           | 6.9%            | 14.07%       |

Members hired after July 1, 2011:

|      | <u>Employer</u> | <u>Employee</u> | <u>Total</u> |
|------|-----------------|-----------------|--------------|
| 2013 | 8.17%           | 7.9%            | 16.07%       |

The amounts contributed by the Program to the plan during the years ended June 30, 2013 and 2012, were \$4,883 and \$4,686, respectively.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2013 and 2012**

**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, 2013 and 2012, the Program paid rent of \$6,811 and \$7,068, respectively.

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

|                              |           |               |
|------------------------------|-----------|---------------|
| 2014                         | \$        | 4,349         |
| 2015                         |           | 4,749         |
| 2016                         |           | 5,003         |
| 2017                         |           | 5,049         |
| 2018                         |           | 5,094         |
| Thereafter                   |           | <u>2,547</u>  |
| Total minimum future rentals | <u>\$</u> | <u>26,791</u> |

**7. UNPAID CLAIMS LIABILITIES**

As discussed in Footnote 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 estimates of the ultimate cost of claims. The management of the Program has set the unpaid claims liability at the actuary's best estimate for 2013 and 2012. Certain amounts presented in the prior year data have been reclassified in order to be consistent with current year's presentation. The following represents changes in the aggregate unpaid claims liabilities for the Program for:

|   | <u>2013</u>         | <u>2012</u>          |
|---|---------------------|----------------------|
| Total present value of estimated unpaid claim losses at beginning of year | \$ 10,837,000       | \$ 9,784,000         |
| Changes in the estimated unpaid claim losses:                             |                     |                      |
| Provision for insured events of the current year                          | 3,399,000           | 3,158,000            |
| Increase (decrease) in provision for insured events of prior years        | <u>(4,045,710)</u>  | <u>239,522</u>       |
| Total incurred claims   | <u>(646,710)</u>    | <u>3,397,522</u>     |
| Payments (including claims legal defense):                                |                     |                      |
| Claims paid attributable to insured events of current year                | 891,252             | 709,651              |
| Claims paid attributable to insured events of prior years                 | <u>1,251,012</u>    | <u>1,634,871</u>     |
| Total payments  | <u>2,142,264</u>    | <u>2,344,522</u>     |
| Total present value of estimated unpaid claim losses at end of year       | <u>\$ 8,048,026</u> | <u>\$ 10,837,000</u> |

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2013 and 2012**

**7. UNPAID CLAIMS LIABILITIES (Continued)**

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

|   | <b>2013</b>         | <b>2012</b>          |
|---|---------------------|----------------------|
| Estimated claims reported but unpaid                            | \$ 1,940,855        | \$ 1,753,552         |
| Estimated claims incurred but not reported and loss development | 6,107,171           | 9,083,448            |
|   | <b>\$ 8,048,026</b> | <b>\$ 10,837,000</b> |

**8. 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.

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.

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.mcp> or by contacting the Montana Department of Administration, P.O. Box 200102, Helena, MT 59620-0102.

As of June 30, 2013, 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.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2013 and 2012**

**8. OTHER POST-EMPLOYMENT BENEFITS (Continued)**

Funding Policy (Continued)

The Plan's administratively established self-insured retiree medical premiums vary between \$263 and \$982 per month 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, 2013 and 2012, the Program's annual OPEB cost (expense) of \$2,655 and \$2,510 was equal to the ARC. The actuarial determination was based on plan information as of July 1, 2009.

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.

The following table presents the Workers' Compensation Program OPEB cost for the fiscal years ended June 30, 2013 and 2012, the amount contributed, and changes in the Workers' Compensation Program OPEB plan for fiscal year 2013 and 2012:

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| Annual required contribution/OPEB cost  | \$ 1,997    | \$ 1,965    |
| Interest on net OPEB obligation         | 658         | 545         |
| Annual OPEB cost                        | 2,655       | 2,510       |
| Contributions made                      | -           | -           |
| Increase in net OPEB obligation         | 2,655       | 2,510       |
| Net OPEB obligation - beginning of year | 13,306      | 10,796      |
| Net OPEB obligation - end of year       | \$ 15,961   | \$ 13,306   |

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.

**MONTANA UNIVERSITY SYSTEM -  
WORKERS' COMPENSATION PROGRAM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2013 and 2012**

**8. OTHER POST-EMPLOYMENT BENEFITS (Continued)**

Actuarial Methods and Assumptions (Continued)

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            | 10.00%  |
| Healthcare Cost Trend Rate-Prescription drugs | 9.50%   |

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 includes 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.

**9. SUBSEQUENT EVENTS**

On May 1, 2013, the Montana University System - Workers' Compensation Program Committee approved a 6-month premium holiday for the first half of the fiscal year ending June 30, 2014. The Workers' Compensation Program is collecting no premium revenue during this time with the intent to spend down the fund balance.

Management has evaluated subsequent events through October 28, 2013, the date on which the financial statements were available to be issued.



**Junkermier • Clark  
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Certified Public Accountants and Business Advisors

**INDEPENDENT AUDITORS' REPORT ON  
REQUIRED SUPPLEMENTARY INFORMATION**

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

Our report on our audits of the basic financial statements of the Montana University System - Workers' Compensation Program for the years ended June 30, 2013 and 2012 appears on pages three and four. Our audits were made for the purpose of forming an opinion on such financial statements taken as a whole. The claims development 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. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 information is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2013 and 2012 taken as a whole.

The previous statements of net assets and the related statements of revenues, expenses and changes in net assets, and statements of cash flows were audited in accordance with generally accepted auditing standards as of and for the years ended June 30, 2004 through 2011 (none of which is presented herein) by us and other auditors who expressed an unqualified opinion on those financial statements. In our and their opinions, the supplemental information is fairly stated in all material respects in relation to the basic financial statements from which it has been derived taken as a whole.

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

Helena, Montana  
October 28, 2013

**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 the current accounting period and the prior period. The rows of the table are defined as follows:

- 1 This line shows the total of each period's earned contribution revenues and investment revenues.
- 2 This line shows each period's other operating cost of the Program including overhead and claims expense not allocable to individual claims.
- 3 This line shows the Program's incurred claims and allocated claims adjustment expense (both paid and accrued) as originally reported at the end of the first fiscal period in which the event that triggered coverage under the contract occurred.
- 4 This section of rows shows the cumulative amounts paid as of the end of successive periods for each fiscal period.
- 6 This section of rows shows how each policy period's incurred claims increased or decreased as of the end of successive periods. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
- 7 This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy periods mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature fiscal periods.

See the accompanying independent auditors' report on supplemental information.

MONTANA UNIVERSITY SYSTEM - WORKERS' COMPENSATION PROGRAM  
CLAIMS DEVELOPMENT INFORMATION

|  | Fiscal and Policy Year Ended |              |              |              |              |              |              |              |              |              |
|--|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|  | 2004                         | 2005         | 2006         | 2007         | 2008         | 2009         | 2010         | 2011         | 2012         | 2013         |
| 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 | \$ 4,052,791 |
| 2. Unallocated expenses  | 227,267                      | 279,716      | 263,904      | 259,412      | 386,512      | 460,508      | 441,977      | 426,068      | 883,006      | 702,480      |
| 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    |
| 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      |
| 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    |              |
| 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    |              |              |
| Three years later  | 1,147,508                    | 1,526,088    | 1,351,046    | 1,157,520    | 1,440,632    | 3,275,598    | 2,071,374    |              |              |              |
| Four years later   | 1,165,362                    | 1,554,903    | 1,386,285    | 1,203,059    | 1,497,940    | 3,450,482    |              |              |              |              |
| Five years later   | 1,210,361                    | 1,660,121    | 1,393,297    | 1,227,284    | 1,563,146    |              |              |              |              |              |
| Six years later  | 1,251,309                    | 1,691,861    | 1,401,236    | 1,238,378    |              |              |              |              |              |              |
| Seven years later  | 1,253,722                    | 1,759,234    | 1,408,799    |              |              |              |              |              |              |              |
| Eight years later  | 1,257,246                    | 1,769,993    |              |              |              |              |              |              |              |              |
| Nine years later   | 1,259,246                    |              |              |              |              |              |              |              |              |              |
| 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    |
| 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    |              |
| 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    |              |              |
| Three years later  | 1,830,000                    | 2,602,000    | 2,471,000    | 2,131,000    | 2,391,000    | 4,199,000    | 3,078,000    |              |              |              |
| Four years later   | 1,570,000                    | 2,622,000    | 2,069,000    | 1,804,000    | 2,335,000    | 3,987,000    |              |              |              |              |
| Five years later   | 1,499,000                    | 2,312,000    | 1,512,000    | 1,779,000    | 1,754,000    |              |              |              |              |              |
| Six years later  | 1,327,000                    | 1,965,000    | 1,511,000    | 1,412,000    |              |              |              |              |              |              |
| Seven years later  | 1,284,000                    | 1,825,000    | 1,422,000    |              |              |              |              |              |              |              |
| Eight years later  | 1,288,000                    | 1,825,000    |              |              |              |              |              |              |              |              |
| Nine years later   | 1,244,000                    |              |              |              |              |              |              |              |              |              |
| 7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year | (930,000)                    | (541,000)    | (1,031,000)  | (1,188,000)  | (939,000)    | 1,065,000    | 119,000      | 281,000      | 206,000      | -            |

See the accompanying independent auditors' report on required supplementary information



**Junkermier • Clark  
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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 the financial statements of Montana University System - Workers' Compensation Program, (an enterprise fund of the State of Montana) as of and for the years ended June 30, 2013, and have issued our report thereon dated October 28, 2013. 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.

**Internal Control Over Financial Reporting**

Management of Montana University System - Workers' Compensation Program is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Montana University System - Workers' Compensation Program's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Montana University System - Workers' Compensation Program's internal control over financial reporting.

*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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**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 October 28, 2013.

**Purpose of this Report**

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Helena, Montana  
October 28, 2013

**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, 2013.