



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

State of Montana

*For the Fiscal Year Ended
June 30, 2010*

JANUARY 2011

LEGISLATIVE AUDIT
DIVISION

10-01

**LEGISLATIVE AUDIT
COMMITTEE**

REPRESENTATIVES

TOM BURNETT
ROB COOK
BETSY HANDS
MARY McNALLY
CAROLYN PEASE-LOPEZ
WAYNE STAHL

SENATORS

MITCH TROPILA, CHAIR
GARY BRANAE
JOHN BRENDEN
TAYLOR BROWN
EDWARD BUTTREY
CLIFF LARSEN

AUDIT STAFF

FINANCIAL-COMPLIANCE
ALL
FINANCIAL-COMPLIANCE
AUDIT STAFF
CONTRIBUTED TO THIS
AUDIT

FRAUD HOTLINE
HELP ELIMINATE FRAUD,
WASTE, AND ABUSE IN
STATE GOVERNMENT.
CALL THE FRAUD
HOTLINE AT:
(STATEWIDE)
1-800-222-4446
(IN HELENA)
444-4446

FINANCIAL AUDITS

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996, and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2009, was issued March 1, 2010. The Single Audit Report for the two fiscal years ended June 30, 2011, will be issued by March 31, 2012. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705

Direct comments or inquiries to:
Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705
(406) 444-3122

Reports can be found in electronic format at:
<http://leg.mt.gov/audit>

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

January 2011

The Legislative Audit Committee
of the Montana State Legislature:

This financial audit report contains our Independent Auditor's Report on the basic financial statements and the Schedule of Expenditures of Federal Awards of the state of Montana for the fiscal year ended June 30, 2010. The basic financial statements were prepared by the State Accounting Division of the Department of Administration. The Schedule of Expenditures of Federal Awards was prepared by the Governor's Office of Budget and Program Planning.

Department of Administration and Governor's Office officials reviewed the contents of this report. The Department of Administration's response is on B-1. The response from the Governor's Office is on B-3.

We thank the Department of Administration's director, the State Accounting Division staff, and the Governor's Office staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

TABLE OF CONTENTS

Elected, Appointed and Administrative Officials.....	ii
Report Summary	S-1
CHAPTER I – INTRODUCTION	1
Audit Objectives.....	1
Introduction	1
Prior Audit Recommendations.....	2
INDEPENDENT AUDITOR’S REPORTS, BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	A-1
Independent Auditor’s Report	A-3
Management’s Discussion and Analysis	A-7
Statement of Net Assets.....	A-18
Statement of Activities.....	A-20
Balance Sheet–Governmental Funds	A-22
Reconciliation of the Balance Sheet–Governmental Funds to the Statement of Net Assets	A-23
Statement of Revenues, Expenditures, and Changes in Fund Balances–Governmental Funds.....	A-25
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	A-26
Statement of Net Assets–Proprietary Funds.....	A-28
Statement of Revenues, Expenses, and Changes in Fund Net Assets–Proprietary Funds	A-30
Statement of Cash Flows–Proprietary Funds	A-32
Statement of Fiduciary Net Assets–Fiduciary Funds.....	A-34
Statement of Changes in Fiduciary Net Assets–Fiduciary Funds.....	A-35
Combining Statement of Net Assets–Component Units	A-36
Combining Statement of Activities–Component Units	A-38
Notes to the Financial Statements.....	A-40
Budgetary Comparison Schedule–General And Major Special Revenue Funds	A-120
Pension Plan Information.....	A-123
Other Postemployment Benefits Plan Information (OPEB).....	A-124
Schedule of Expenditures of Federal Awards.....	A-125
Notes to the Schedule of Expenditures of Federal Awards	A-162
DEPARTMENT RESPONSE	
Department of Administration	B-1
Governor’s Office of Budget and Program Planning	B-3

ELECTED, APPOINTED AND ADMINISTRATIVE OFFICIALS

State of Montana

Brian Schweitzer, Governor

Department of Administration

Janet R. Kelly, Director

State Accounting Division

Paul Christofferson, CPA, Administrator

Accounting Bureau

Julie Feldman, Bureau Chief

Accounting Principles/Financial Reporting Section

Cody Carter, CPA, Accountant

Charles Idehen, CPA, Accountant

Heather Jarvis, Accountant

Ingrid Mallo, CPA, Accountant

Ginger Pfankuch, Accountant

Dan Stanger, Accountant

Governor's Office**Office of Budget and Program Planning**

David Ewer, Director

Mark Bruno, Single Audit Coordinator

For additional information concerning the basic financial statements, contact:

Paul Christofferson, Administrator
State Accounting Division
Department of Administration
Rm 225 Sam W. Mitchell Building
Helena, MT 59620-0102

e-mail: pachristofferson@mt.gov

For additional information concerning the Schedule of Expenditures of Federal Awards, contact:

Mark Bruno, Single Audit Coordinator
Governor's Office of Budget and Program Planning
P.O. Box 200802
Helena, MT 59620-0802

e-mail: mabruno@mt.gov



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL AUDIT

State of Montana

For the Fiscal Year Ended June 30, 2010

JANUARY 2011

10-01

REPORT SUMMARY

The basic financial statements provide legislators and taxpayers with a summary of the state's financial health. All operations and activities of the state are summarized in these statements. The Schedule of Expenditures of Federal Awards summarizes the state's use of federal funds.

Context

The state of Montana made changes to the basic financial statements in fiscal year 2009-10. Governmental fund balances are now presented in a manner that more clearly identifies the extent to which Montana is bound to honor constraints on available funds. A governmental fund balance labeled as nonspendable, restricted, committed or assigned indicates a type of constraint exists, limiting the legislature's ability to use those funds for general operations. Unassigned fund balance is free of constraints. At June 30, 2010, the General Fund unassigned fund balance was \$239,047,000. In addition, governmental fund expenditures are now aggregated into categories similar to those used for the state's adopted budget.

The Management's Discussion and Analysis provides the user of the basic financial statements with an analysis of the state's financial position at June 30, 2010, and summarizes changes that have occurred since June 30, 2009.

The Schedule of Expenditures of Federal Awards reports total federal assistance in fiscal year 2009-10 in excess of \$2.9 billion.

Results

In fiscal year 2009-10, the retirement systems' audits disclosed material noncompliance with the Montana Constitution and state law requiring those systems to be adequately funded for future periods. As of July 1, 2010, four retirement systems were not adequately funded. Additional information is available in the recent audits of the Public Employees' Retirement Board (10-08A) and the Teachers' Retirement System (10-09A).

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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

Chapter I – Introduction

Audit Objectives

We performed a financial audit of the state of Montana's basic financial statements for the fiscal year ended June 30, 2010. The objective of the audit was to express opinions on the opinion units contained in the state's basic financial statements and a related opinion on the Schedule of Expenditures of Federal Awards.

This report contains no recommendations. We discussed issues we identified during the audit with appropriate management personnel and will report any findings as part of our scheduled financial-compliance audits of state agencies.

Introduction

Department of Administration, State Accounting Division, personnel prepared the basic financial statements from the Statewide Accounting, Budgeting and Human Resources System with adjustment. Adjustments were made to accurately present financial activity in accordance with generally accepted accounting principles.

The Independent Auditor's Report is on page A-3 followed by the Management's Discussion and Analysis, the basic financial statements, the Budgetary Comparison Schedule, Pension Plan Information, Other Postemployment Benefits Plan Information, and accompanying notes. The Schedule of Expenditures of Federal Awards begins on page A-125. We issued unqualified opinions on the opinion units in the basic financial statements. We also issued an unqualified in-relation-to opinion on the Schedule of Expenditures of Federal Awards.

Our report on the state of Montana's internal control over financial reporting and on compliance with certain provisions of laws, regulations, and grant agreements, which is required by *Government Auditing Standards*, is on page A-1. Auditing standards require us to communicate, in writing, deficiencies in internal control over financial reporting we identified based on an audit of basic financial statements performed in accordance with *Government Auditing Standards* and considered to be significant or material. 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. Our report on page A-1 does not disclose any material weaknesses in internal control.

Auditing standards also require us to communicate, in writing, material noncompliance with the provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the determination of financial statement amounts. Our report on the consideration of internal control over financial reporting and on compliance with certain provisions of laws, regulations, and grant agreements identified noncompliance with the Montana Constitution and state law regarding actuarial soundness of certain retirement systems, which is required to be reported. Additional information is provided in the following paragraph.

Prior Audit Recommendations

We performed the prior audit of the state of Montana's basic financial statements for the fiscal year ended June 30, 2009. The prior audit did not contain any recommendations, but disclosed material noncompliance with the Montana Constitution and state law. At July 1, 2009, the Public Employees' Retirement System – Defined Benefit Retirement Plan, Game Wardens' and Peace Officers', Sheriffs', and Teachers' retirement systems were not actuarially sound. The amortization period for each system's Unfunded Actuarial Accrued Liability was infinite, meaning the liability does not amortize. The maximum allowable amortization period is 30 years. At July 1, 2010, the Unfunded Actuarial Accrued Liability amortization period continues to be infinite for the Public Employees' Retirement System – Defined Benefit Retirement Plan, Game Wardens' and Peace Officers', and Sheriffs' retirement systems. The amortization period for the Teachers' retirement system is 49.5 years. This information is disclosed in the reports on pages A-1 and A-3. The audits of the Public Employees' Retirement Board (10-08A) and the Teachers' Retirement System (10-09A) also disclosed this material noncompliance.

**Independent Auditor's Reports,
Basic Financial Statements, Required
Supplementary Information and Schedule
of Expenditures of Federal Awards**

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2010, which collectively comprise the state of Montana's basic financial statements and have issued our report thereon dated December 22, 2010. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Montana State University component units and University of Montana component units, as described in our report on the state of Montana's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Montana State University component units and University of Montana component units were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the state of Montana's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the state of Montana's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the state of Montana'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 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 the state of Montana's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The identified instances of noncompliance are described below:

1. The Public Employees' Retirement Board administers eight defined benefit retirement systems. The Montana Constitution and state law require these systems to be actuarially sound. The actuarial valuation as of July 1, 2010, indicates the Public Employees' Retirement System—Defined Benefit Retirement Plan, Sheriffs' Retirement System, and Game Wardens' and Peace Officers' Retirement System are not actuarially sound.
2. The Teachers' Retirement Board administers a defined benefit retirement system. The Montana Constitution requires this system to be actuarially sound. The actuarial valuation as of July 1, 2010, indicates the Teachers' Retirement System is not actuarially sound.

We noted certain matters that we reported to the management of the state of Montana during the course of our audit work.

This report is intended solely for the information and use of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

December 22, 2010

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2010, which collectively comprise the state's basic financial statements, as follows:

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

These financial statements are the responsibility of the state of Montana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State University component units and University of Montana component units, which represent 8.9, 23.3, and 4.8 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the university component units, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing*

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2C to the basic financial statements, the state of Montana changed its presentation of expenses by function for governmental activities on the Statement of Activities and current expenditures by function on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds in fiscal year 2009-10.

Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Pension Plan Information, and the Other Postemployment Benefits Plan Information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the state of Montana's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

At July 1, 2010, the Public Employees' Retirement System – Defined Benefit Retirement Plan, Game Wardens' and Peace Officers', Sheriffs', and Teachers' retirement systems were not actuarially sound. The Unfunded Actuarial Accrued Liability amortization period is infinite for the Public Employees' Retirement System – Defined Benefit Retirement Plan, Game Wardens' and Peace Officers', and

Sheriffs' retirement systems. The amortization period for the Teachers' retirement system is 49.5 years. The maximum allowable amortization period is 30 years.

In accordance with *Government Auditing Standards*, we have issued our report dated December 22, 2010, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

December 22, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana provides this *Management's Discussion and Analysis* of the State of Montana's basic financial statements included in the Comprehensive Annual Financial Report (CAFR). This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights

The assets of the State exceeded its liabilities at the end of fiscal year 2010 by \$6.9 billion (reported as net assets) compared with \$6.7 billion at the end of fiscal year 2009. Of this amount, \$1,083.7 million (reported as unrestricted net assets) may be used to meet the government's general obligations to citizens and creditors. Component units reported net assets of \$1,311.3 million compared with \$1,139.8 million at fiscal year end 2009. These are discussed in more detail in the financial statement overview below.

Fund Highlights

As of the close of fiscal year 2010, the State's governmental funds reported combined ending fund balances of \$3.7 billion compared with \$3.5 billion at fiscal year 2009. Of this amount, \$1.2 billion is not in spendable form, primarily permanent fund principle, and \$2.5 billion is available for spending. The \$2.5 billion that is spendable consists of: \$0.9 billion restricted to expenditure for specific purposes such as transportation, \$1.3 billion committed to expenditure for specific purposes such as natural resources, \$0.1 billion assigned for specific purposes such as encumbrances and \$0.2 billion unassigned, primarily in the general fund. The fund balance classifications are discussed in more detail in footnote 1 of the financial statements. At the end of the fiscal year, spendable fund balance for the General Fund was \$322.4 million, with \$83.3 million assigned and \$239.1 million unassigned, compared with unreserved fund balance of \$392.5 million at fiscal year end 2009, which is a decrease of \$70.2 million (17.9%). These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

The State's business-type activity funds reported net assets at the close of fiscal year 2010 in the amount of \$194.7 million compared with the fiscal year-end 2009 net assets of \$275.3 million. Of the business-type activity fund equity \$14.5 million was invested in capital assets, net of related debt. \$180.2 million of net assets was in spendable form with \$20.8 million unrestricted and \$159.4 million restricted to expenditure for a specific purpose. This represents an \$81.9 million (54.4%) decrease in spendable net assets from the fiscal year-end 2009 business-type activity fund combined restricted and unrestricted net asset balance of \$262.5 million. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

Long-term Debt

The State's total bonds and notes payable for governmental activities decreased by \$27.4 million, from \$388.3 million in fiscal year 2009 to \$360.9 million (7.05%) in fiscal year 2010.

Business-type activities reported bonds and notes payable of \$.4 million at fiscal year-end 2010. This represents a decrease of \$0.8 million (68.6%) over the fiscal year-end 2009 reported amount of \$1.2 million. For details relating to the states long term debt see footnote 11.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

Government-wide Financial Statements

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

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

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

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

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

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

Discretely Presented Component Units – These are operations for which the State has financial accountability, but they have certain independent qualities as well. For the most part, these entities operate similarly to private sector businesses and the business-type activities described above. The State has four authorities and two universities that are reported as discretely presented component units of the State.

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

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

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

Governmental Funds Financial Statements – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources.

They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position showed a slight decline from the last fiscal year. This decline was caused by the impacts of the current world-wide recession.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (government and business-type activities) totaled \$7.1 billion at the end of fiscal year 2010. Net assets of the governmental activities increased \$495.7 million (7.7%), and business-type activities had an \$82.8 million (30%) decrease.

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

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

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

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2010	2009	2010	2009	2010
Current and other assets	\$4,727,321	\$4,678,781	\$399,183	\$326,068	\$5,126,504	\$5,004,849
Capital assets	3,787,835	4,149,204	12,539	14,534	3,800,374	4,163,738
Total assets	8,515,156	8,827,985	411,722	340,602	8,926,878	9,168,587
Long-term liabilities	873,087	879,029	10,555	10,577	883,642	889,606
Other liabilities	1,196,110	1,007,219	126,139	135,305	1,322,249	1,142,524
Total liabilities	2,069,197	1,886,248	136,694	145,882	2,205,891	2,032,130
Invested in capital assets, net of related debt	3,526,294	3,874,920	12,539	14,534	3,538,833	3,889,454
Restricted	2,329,850	1,983,143	255,493	159,335	2,585,343	2,142,478
Unrestricted	589,815	1,083,674	6,996	20,851	596,811	1,104,525
Total net assets	\$6,445,959	\$6,941,737	\$275,028	\$194,720	\$6,720,987	\$7,136,457

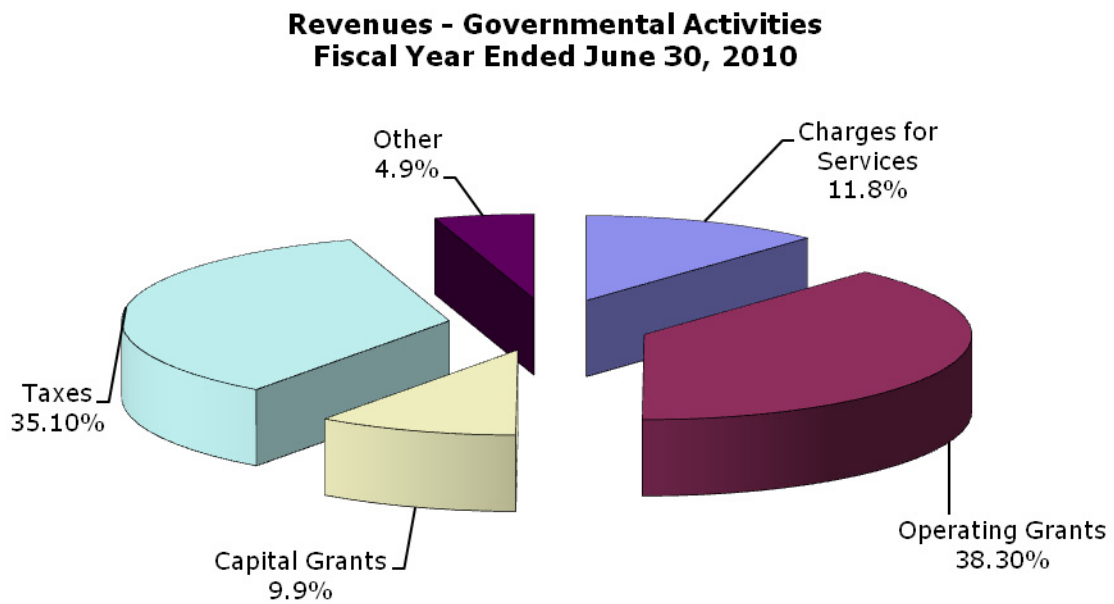
The following condensed financial information was derived from the government-wide Statement of Activities, and reflects how the State's net assets changed during the fiscal year:

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

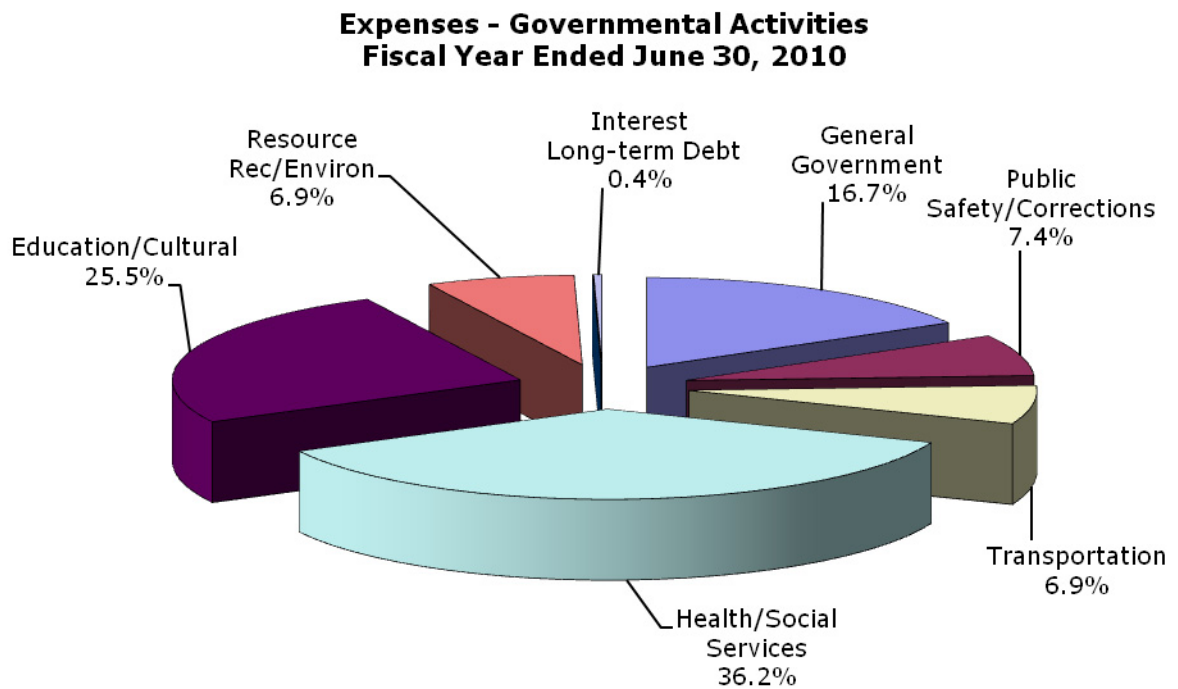
	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2010	2009	2010	2009	2010
Revenues:						
Program revenues						
Charges for services	\$ 483,032	\$ 612,041	\$278,877	\$309,975	\$ 761,909	\$ 922,016
Operating grants	1,635,769	1,985,977	118,058	226,049	1,753,827	2,212,026
Capital grants	467,611	510,996	1,360	3,174	468,971	514,170
General revenues						
Taxes	2,017,232	1,817,564	24,823	25,017	2,042,055	1,842,581
Other	320,856	258,627	2,629	4,622	323,485	263,249
Total revenues	4,924,500	5,185,205	425,747	568,837	5,350,247	5,754,042
Expenses:						
General government	549,847	774,881			549,847	774,881
Public safety/corrections	408,239	342,803			408,239	342,803
Transportation	438,649	320,085			438,649	320,085
Health/social services	1,529,104	1,677,261			1,529,104	1,677,261
Educational/cultural	1,137,772	1,179,788			1,137,772	1,179,788
Resource/rec/envirom	363,179	318,300			363,179	318,300
Econ dev/assistance	170,027	-			170,027	-
Interest on long-term debt	18,721	17,692			18,721	17,692
Unemployment Insurance			235,949	354,794	235,949	354,794
Liquor Stores			61,446	61,569	61,446	61,569
State Lottery			33,787	36,365	33,787	36,365
Economic Dev Bonds			3,523	2,167	3,523	2,167
Hail Insurance			4,087	6,238	4,087	6,238
Gen Govt Services			60,157	62,796	60,157	62,796
Prison Funds			10,681	6,463	10,681	6,463
MUS Group Insurance			55,023	72,606	55,023	72,606
MUS Workers Comp			3,675	3,900	3,675	3,900
Total expenses	4,615,538	4,630,810	468,328	606,898	5,083,866	5,237,708
Increase (decrease) in net assets before transfers	308,962	554,395	(42,581)	(38,061)	266,381	516,334
Transfers	42,863	42,486	(42,863)	(42,486)	-	-
Change in net assets	351,825	596,881	(85,444)	(80,547)	266,381	516,334
Net assets, beg of year (restated)	6,094,134	6,344,856	360,472	275,267	6,454,606	6,620,123
Net assets, end of year	\$6,445,959	\$6,941,737	\$275,028	\$194,720	\$6,720,987	\$7,136,457

Governmental Activities

The following [chart](#) depicts revenues of the governmental activities for the fiscal year:

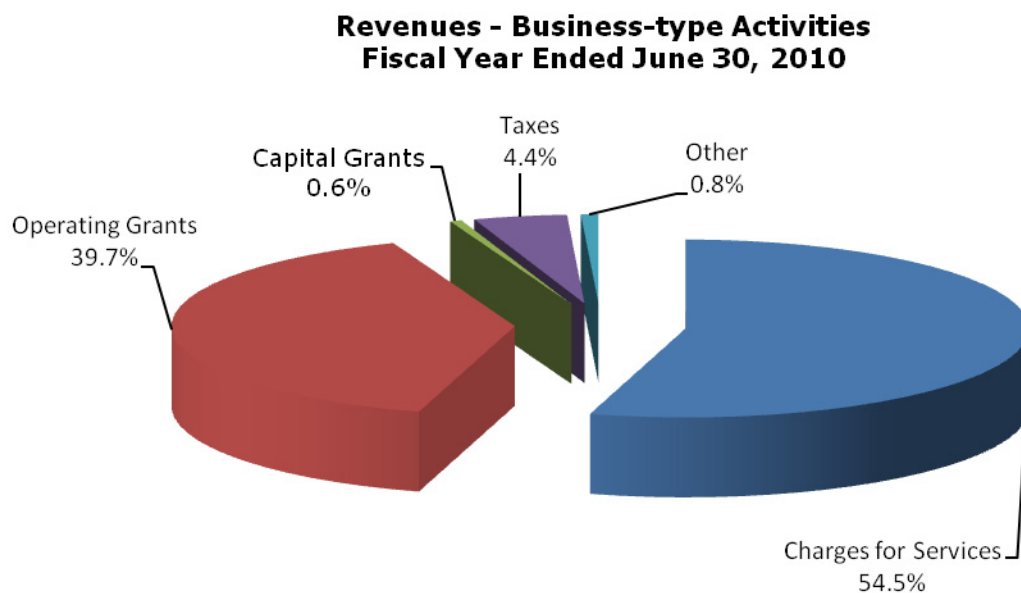


The following chart depicts expenses of the governmental activities for the fiscal year:

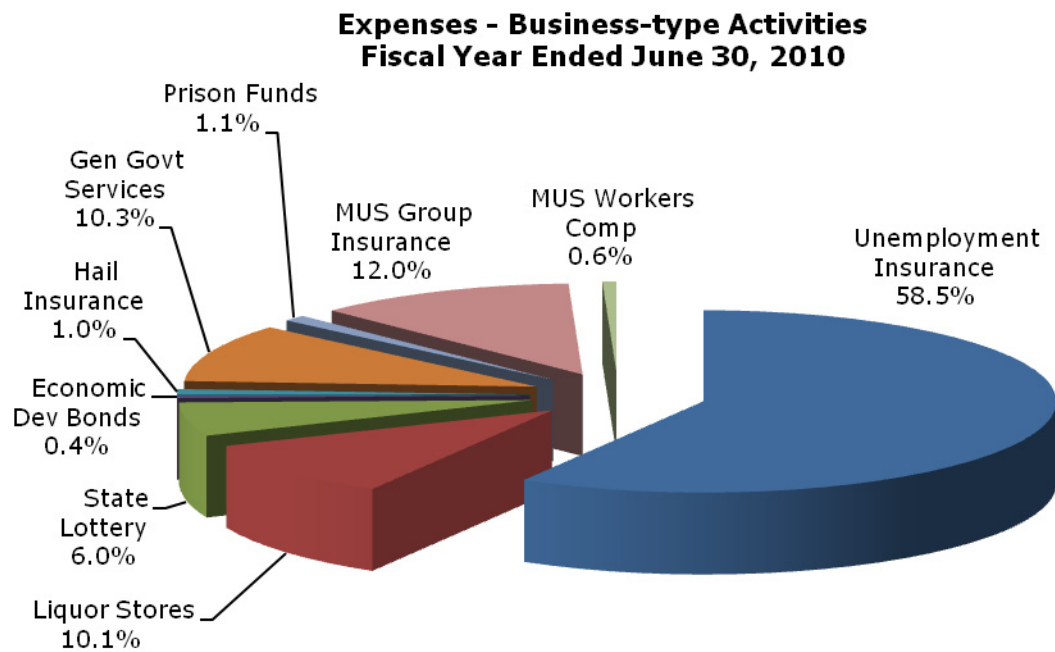


Business-type Activities

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



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



FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS

As the State completed the year, its governmental funds reported fund balances of \$3.7 billion. Of this total amount, \$2.5 billion (68.0%) constitutes spendable fund balance and \$1.2 billion (32.0%) is classified as non-spendable. The spendable fund balance is further classified as restricted, \$919 million (36.5%), committed, \$1,266 million (50.4%), assigned, \$119.3 million (4.7%), and unassigned, \$212.2 million (8.4%). The preceding percentages are calculated on total fund balances. These new fund balance classifications resulted from the early implementation of GASB Statement 54 and are defined in more detail in footnote 1. The analysis of these funds provides the explanation for the overall change in net assets at the government-wide level also since these represent the major operating funds of the state as a whole.

General Fund

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, combined unassigned and assigned (spendable) fund balance of the General Fund was \$322.4 million. This represents 12.8% of the 2.5 billion spendable governmental fund balances for all governmental funds. The ending combined General Fund unassigned and assigned fund balance was \$9.6 million higher than the anticipated \$312.7 million unreserved fund balance estimated by the 61st Legislature. Unassigned fund balance decreased, from the previously reported unreserved fund balance of \$392.5 million, during the fiscal year by \$70.2 million, primarily because of less income and natural resource tax revenues. General Fund expenditures for fiscal year 2010 decreased by \$122.9 million (7.2%). This decrease in expenditures partially offset the impact of decreased revenue collections. Additionally the state received an unanticipated bonus of \$81.5 million for the Otter Creek Coal lease that translated into decreased general fund education transfers, partially offsetting the decreased 2010 revenues. The Governor ordered a 5% General fund expenditure reduction that also offset the impact of the lower revenues and contributing to the higher than anticipated ending fund balance. The changes in both expenditures and revenues are discussed in detail below.

Lower Revenues Than Anticipated – Total General Fund revenues and transfers in were \$1,630.4 million for fiscal year 2010. This was \$185.9 million (10.2%) less than fiscal year 2009, and \$92.5 million (5.4%) less than what was projected for fiscal year 2010 by the legislature. The decrease in revenue from fiscal year 2009 to fiscal year 2010 was primarily in individual and corporate income, and oil/natural gas production, taxes. Individual and corporate income tax revenue decreased \$96.9 million (12.2%) and \$75.6 million (45.5%) respectively. During calendar year 2009 employment decreased by an estimated 12,200 jobs or 12.2%. This employment decline, combined with the continued national economic slowdown, contributed to the income and corporate tax decreases. Lower oil and gas prices led to decreased production within the State resulting in natural resource taxes falling by \$14.4 million (10.2%) in fiscal year 2010. Although natural resource taxes were under the previous year's collections they were above the budgeted amounts as discussed below

Individual income tax fell under the legislative revenue estimate by \$140.2 million (16.7%). Corporate income taxes were under the estimate by \$24.9 million (21.5%). The decrease in both individual and corporate income taxes was anticipated during the estimation process, but not to the magnitude encountered during fiscal year. The legislature projected natural resource tax collections of \$81.0 million. The actual collections of \$126.3 million exceeded the projection by \$45.3 million, 55.9%, and partially offset the decrease in income and corporate taxes.

General Fund Expenditure Budgets – General Fund expenditures were lower than appropriated by nearly \$141.9 million. Much of the unspent authority resulted from the Governor's 5% expenditure reduction. Other significant reversions include the following:

- General Government – \$4.3 million in Department of Commerce Montana American Recovery and Reinvestment Act (ARRA) funding was carried forward to fiscal year 2011.
- Public Safety and Corrections - The Department of Corrections did not spend carry-forwards of \$6.5 million had lower costs of \$.75 million realized from housing more inmates in community corrections centers rather than secure custody.
- Transportation – Transportation reverted \$2.5 million primarily in authority that was intended for consultants, experts and specialized legal counsel to analyze rail rates and service issues and to pursue related legal issues. The will be carried forward to fiscal year 2011.
- Health and Social Services – Unspent Medicaid Benefits and Administration of \$4.4 million reverted with \$2.6 million relating to caseloads. The \$2.6 million will roll forward into FY 2011. The continuation of the enhanced federal Medicaid matching percentage (FMAP) resulted in \$4.2 million less in 2010 general fund expenditures.

- Education/Cultural – K-12 Base Aid reverted \$82 million primarily as the result of the Otter Creek royalties paid into the state special revenue account and offset general fund expenditures.

Lower General Fund Expenditures – General Fund expenditures decreased by \$122.9 million (7.2%). The major factors behind this decrease are summarized below:

- Health and Social Services - The Department of Health and Human Services spent \$21.5 million (6.4%) less from the General Fund primarily as the result of governor's 5% expenditure reduction in combination with the increased federal matching percentage as discussed in the reversion section above, and the Federal Special Revenue Fund section below.
- Education and Cultural Including the base aid reduction discussed in the reversion section above, Office of Public Instruction expenditures, primarily payments to the local schools for K-12 funding, decreased by 93.3 million (14.2%). This general fund decrease was more than offset by increased higher education funding in the state and federal special revenue funds. Commissioner of Higher Education payments to the University system declined by 34.7 million (18.0%). This decrease resulted from increased federal funding provided for the university system.
- General Government and Economic Development – Most of the economic development function, previously reported as a separate function is now included in the general government function. When this change is included the general government function did not change significantly between fiscal years 2009 and 2010.

State Special Revenue Fund

At the end of the current fiscal year, the fund balance of the State Special Revenue Fund was \$1.5 billion. Fund balance increased during the fiscal year by \$135.3 million (9.7%).

Lower State Special Revenue Fund Revenues – Overall revenues decreased by \$142.3 million. This decrease in revenues was more than offset by a \$155.9 million (95.6%) increase in transfers in, to the level of \$319.0 million. A discussion of the major changes follows:

- Natural resource taxes decreased by \$12.9 million (9.66%) This was caused by lower coal, oil and timber production caused by the decreases in demand due to the recession.
- Charges for services/fines/forfeits/settlements decreased by \$22.7 million (13.7%) because the state received significantly less in pollution remediation settlement payments in 2010.
- Rentals/leases/royalties decreased \$25.9 million (97.6%) as the result of the impacts of the recession on the timber, coal and oil industries.
- Other revenues decreased \$111.9 million (97.1%). A material portion of the 2009 pollution remediation settlements were reported under other revenues instead of charges for services/fines- /forfeits/settlements.

Higher State Special Revenue Fund Transfers In - Transfers in increased by 155.9 million (95.6%) primarily as a result of the one-time only Otter Creek transfers from the Land Grant Fund, \$81.5 million, and additional ARRA loan funding provided the drinking and waste water programs managed by the Departments of Natural Resources and Environmental Quality.

Higher State Special Revenue Fund Expenditures - Expenditures within the State Special Revenue Fund increased by \$110.3 million (11.3%). The increase in the state special revenue fund resulted from:

- The overall increase in the General Government function relates to the reporting change moving most of economic development/assistance to this function. When the impact of this change is considered the overall change between years was an increase of \$23.5 million (9.2%). This increase was the result of increased expenditures grants to K-12 schools for facilities and technical projects of \$33.5 million.
- Public Safety/Corrections expenditures increased by \$11.0 million (16.7%). This increase was driven by increases in pollution remediation/reclamation expenditures from the Atlantic Richfield Corporation Upper Clark Fork River Restoration fund expenditures of \$20.0 million.
- Transportation expenditures decreased by \$47.1million (20.3%) as the result of increased state funded capital assets spending (result in a move from the transportation funding line to capital outlay) and resources allocated away from state funded projects to federal ARRA and Garvee bonded projects.
- Education/Cultural spending increased \$71.7 million because of the Otter Creek coal payment of \$81.5 million.
- Capital Outlay increased \$7.5 million as the result of increased highway infrastructure construction.

Federal Special Revenue Fund

Fund balance in the Federal Special Revenue Fund increased by \$12.2 million, 61.3%, to \$32.1 million. Revenues increased by \$424.3 million (22.5%) and expenditures increased by \$407.9 million (22.2%). Because most federal programs are expenditure-driven, a direct correlation normally exists between revenues and expenditures. Programs such as the Guaranteed Student Loan and Livestock Shell/Egg are allowed to carry assets in their federal entities, creating a normal overall positive balance for the fund as a whole.

As a result of federal stimulus funding, expenditures increased significantly in all functions within the Federal Special Revenue Fund. These increases range from \$34.5 million (66.2%) in the Resource/Recreation/Environment to \$162.5 million (15.2%) in the Health and Human Services functions. Transportation expenditures of \$340.3 million were reported as capital outlay. When these federal transportation infrastructure capital outlay expenditures are included the Transportation related expenditures increased overall.

Coal Severance Tax Permanent Fund

Fund balance in the Coal Severance Tax Permanent Fund increased by \$60.0 million (7.5%). Coal tax revenues decreased \$2.4 million (13.0%) due to decreased coal production within the state, while investment earnings increased \$46.8 million (143.3%). The decrease coal demand resulted from the continued national recession throughout the year with the investment earning recovering toward the end of the year, more than offsetting the decrease in coal tax revenue.

Land Grant Permanent Fund

Fund balance in the Land Grant Permanent Fund increased by \$53.8 million (12.0%). Within this fund investment earnings increased by \$36.0 million (205.0%) as the result of recovery in investments. The Otter Creek coal bonus payment flowed through this fund and was reflected as \$85.8 (100%) increase in this revenue category. Agricultural rentals increased \$3.2 million (21.7%) reflecting the strengthening economy in this area. Coal, Gas and oil royalties fell \$2.9 million, (36.4%), \$1.9 million (40.0%) and \$2.3 million (15.7%), respectively. Oil and gas bonus payments fell by \$4.7 million, 39.1%. These decreases were caused by the lower overall oil and gas prices resulting in overall reduced production combined with decreased demand for coal resulting from the recession.

Transfers out increased by 90.6 Million (126.3%). These primarily resulted from \$81.5 million of the Otter Creek bonus payment, discussed above, and increased earnings, flowing through to the State Special Revenue fund.

Unemployment Insurance Enterprise Fund

Net assets restricted for unemployment compensation decreased by \$79.4 million (40.5%). This reflects the impact of increased, and sustained, high unemployment throughout fiscal year 2010. Unemployment rose from 5.4% in July to 6.7% in December 2009. The unemployment rate for June 2010 was 7.3%. Unemployment premium collections increased by \$13.9 million (18.4%) as a result of recovery act spending. Federal grant revenue increased \$109.7 million (165.6%), primarily as a result of continued federal funding for extended benefits. Unemployment benefits paid increased by \$119.2 million (50.6%) more than offsetting the increased premium collections and federal funding.

Economic Development Bonds Enterprise Fund

Net assets increased by \$860,000 in fiscal year 2009. The fund did not experience significant changes in operations during fiscal year 2010. The increase in net assets was primarily generated as the result of earnings of \$365,000 and an operating transfer of \$495,000 from the board of investment internal service fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2010, amounted to \$6.0 billion, net of accumulated depreciation of \$1.8 billion, leaving a net book value of \$4.2 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was approximately 10.5 % in terms of net book value. Most of the year's capital expenditures were for construction or reconstruction of roads and bridges. Additional information on the State's capital assets can be found in Note 5 of the notes to the financial statements.

Debt Administration

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

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

The State of Montana's general obligation debt decreased from \$182.6 million at June 30, 2009, to \$169.2 million at June 30, 2010. \$13.5 million is available in debt service funds to service this debt leaving a balance of \$155.7 million in net general obligation debt outstanding.

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

	Amount <i>(in thousands)</i>	Percentage of Personal Income (1)	State Debt Per Capita (2)
General obligation debt	\$155,664	0.46%	\$160

(1) Personal income is for calendar year 2009.

(2) Based on estimated 2009 Montana population.

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

ECONOMIC CONDITION AND OUTLOOK

The unemployment rate for the State of Montana was 7.2% in the second quarter of 2010, which is a slight decrease from the rate of 7.3% during the second quarter of 2010. This compares favorably with the U.S. November rate of 9.8% but reflects the continued impact of the national recession on Montana's economy.

The 61st Legislative Session adjourned on April 27, 2009, with a projected ending general fund unreserved fund balance of \$312.7 million for the end of fiscal year 2010. During fiscal year 2010, Montana's economy continued to weaken as result of the recession but did not experience the severe decline encountered in most other states, with the combined unassigned and assigned General Fund balance, as of June 30, 2010, at the \$322.4 million level.

As of June 30, 2010 four of the state retirement systems were not actuarially sound, and had an unfunded actuarially accrued liability. These include the Teachers, Public Employees Defined Benefit Plan, Sheriffs, and Game Warden & Peace Officers retirement systems. The actuarial condition of these plans are fully disclosed and reported as required by Generally Accepted Accounting Principles (GAAP), and explained in greater detail in Note 6 and Note 18 of the financial statements. The unfunded actuarial liability of these plans is long-term in nature, and does not translate into an inability of the plans to meet their current obligations in the near future.

The other state retirement systems are actuarially sound as of fiscal year end 2010.

REQUESTS FOR INFORMATION

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

STATEMENT OF NET ASSETS

JUNE 30, 2010

(amounts expressed in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL	BUSINESS-TYPE		COMPONENT
	ACTIVITIES	ACTIVITIES	TOTAL	UNITS
ASSETS				
Cash/cash equivalents (Note 3)	\$ 1,401,779	\$ 207,829	\$ 1,609,608	\$ 395,293
Receivables (net)	397,368	41,082	438,450	120,343
Due from primary government	-	-	-	2,338
Due from other governments	188,033	977	189,010	23,877
Due from component units	191	1,678	1,869	522
Internal balances	(9,873)	9,874	1	-
Inventories	29,502	3,378	32,880	5,031
Advances to component units	8,469	8,352	16,821	-
Long-term loans/notes receivable	332,769	38,292	371,061	757,028
Equity in pooled investments (Note 3)	1,781,524	-	1,781,524	31,763
Investments (Note 3)	376,854	7,916	384,770	1,576,360
Securities lending collateral (Note 3)	158,738	2,785	161,523	175,575
Deferred charges	3,468	1,494	4,962	9,261
Other assets	9,959	2,411	12,370	75,160
Capital assets (net) (Note 5)	4,149,204	14,534	4,163,738	746,992
Total assets	8,827,985	340,602	9,168,587	3,919,543
LIABILITIES				
Accounts payable	450,107	13,684	463,791	81,015
Lottery prizes payable	-	3,793	3,793	-
Due to primary government	-	-	-	1,869
Due to other governments	56,605	45	56,650	146
Due to component units	2,338	-	2,338	522
Advances from primary government	-	-	-	16,821
Deferred revenue	36,232	6,570	42,802	73,047
Amounts held in custody for others	38,258	20	38,278	11,372
Securities lending liability (Note 3)	158,738	2,785	161,523	175,575
Other liabilities	3,435	-	3,435	10,914
Short-term debt (Note 11)	-	96,075	96,075	-
Long-term liabilities (Note 11):				
Due within one year	143,535	10,250	153,786	320,871
Due in more than one year	879,029	10,577	889,606	1,860,456
OPEB implicit rate subsidy (Note 7)	117,971	2,083	120,053	55,683
Total liabilities	1,886,248	145,882	2,032,130	2,608,291

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL	BUSINESS-TYPE	TOTAL	
	ACTIVITIES	ACTIVITIES		
NET ASSETS				
Invested in capital assets, net of related debt	\$ 3,874,920	\$ 14,534	\$ 3,889,454	490,287
Restricted for:				
General government	11,909	-	11,909	-
Transportation	102,428	-	102,428	-
Health and human services	15,435	-	15,435	-
Natural resources	222,419	-	222,419	-
Public safety	18,239	-	18,239	-
Education	20,904	-	20,904	-
Funds held as permanent investments:				
Nonexpendable	1,184,380	-	1,184,380	239,110
Expendable	407,429	-	407,429	-
Unemployment compensation	-	116,530	116,530	-
Housing authority	-	-	-	157,194
Other purposes	-	42,805	42,805	101,717
Unrestricted	1,083,674	20,851	1,104,525	322,944
Total net assets	\$ 6,941,737	\$ 194,720	\$ 7,136,457	1,311,252

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

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Primary government:					
Governmental activities:					
General government	\$ 774,881	\$ 127,163	\$ 230,767	\$ 1,841	\$ (415,110)
Public safety/corrections	342,803	147,839	36,311	64	(158,589)
Transportation	320,085	26,531	55,971	485,924	248,341
Health/social services	1,677,261	43,338	1,236,261	-	(397,662)
Education/cultural	1,179,788	34,309	249,308	543	(895,628)
Resource/recreation/environment	318,300	232,861	177,359	22,624	114,544
Principal on long-term debt	-	-	-	-	-
Interest on long-term debt	17,692	-	-	-	(17,692)
Total governmental activities	4,630,810	612,041	1,985,977	510,996	(1,521,796)
Business-type activities:					
Unemployment Insurance	354,793	89,501	182,850	-	(82,442)
Liquor Stores	61,569	68,032	-	-	6,463
State Lottery	36,365	46,865	-	1,625	12,125
Economic Development Bonds	2,167	22	2,532	-	387
Hail Insurance	6,238	6,915	37	-	714
General Government Services	62,797	22,601	39,687	1,549	1,040
Prison Funds	6,463	6,304	-	-	(159)
MUS Group Insurance	72,606	64,756	943	-	(6,907)
MUS Workers Compensation	3,900	4,979	-	-	1,079
Total business-type activities	606,898	309,975	226,049	3,174	(67,700)
Total primary government	5,237,708	922,016	2,212,026	514,170	(1,589,496)
Component units:					
Housing Authority	60,603	408	61,807	-	1,612
Montana Surplus Lines	440	-	-	-	(440)
Facility Finance Authority	417	613	76	-	272
State Compensation Insurance (New Fund)	191,796	166,265	-	-	(25,531)
State Compensation Insurance (Old Fund)	2,899	-	-	-	(2,899)
Montana State University	461,578	184,790	175,425	17,312	(84,051)
University of Montana	388,812	174,859	123,691	17,025	(73,237)
Total component units	\$ 1,106,545	\$ 526,935	\$ 360,999	\$ 34,337	\$ (184,274)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Changes in net assets:				
Net (expense) revenue	\$ (1,521,796)	\$ (67,700)	\$ (1,589,496)	\$ (184,274)
General revenues:				
Taxes:				
Property	235,287	-	235,287	-
Fuel	204,373	-	204,373	-
Natural resource	275,313	-	275,313	-
Individual income	709,699	-	709,699	-
Corporate income	89,033	-	89,033	-
Other (Note 1)	303,859	25,017	328,876	-
Unrestricted grants and contributions	461	-	461	567
Settlements	77,927	-	77,927	-
Unrestricted investment earnings	172,748	244	172,992	145,170
Payment from State of Montana	-	-	-	193,318
Gain (loss) on sale of capital assets	3,244	1	3,245	(125)
Miscellaneous	4,247	4,377	8,624	167
Contributions to term and permanent endowments	-	-	-	6,986
Transfers	42,486	(42,486)	-	-
Total general revenues, contributions, and transfers	2,118,677	(12,847)	2,105,830	346,083
Change in net assets	596,881	(80,547)	516,334	161,809
Total net assets - July 1 - as previously reported	6,445,959	275,028	6,720,987	1,139,762
Prior period adjustments (Note 2)	(101,103)	239	(100,864)	9,681
Total net assets - July 1 - as restated	6,344,856	275,267	6,620,123	1,149,443
Total net assets - June 30	\$ 6,941,737	\$ 194,720	\$ 7,136,457	\$ 1,311,252

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010
(amounts expressed in thousands)

	<u>SPECIAL REVENUE</u>			<u>PERMANENT</u>			
	<u>GENERAL</u>	<u>STATE</u>	<u>FEDERAL</u>	<u>COAL</u>	<u>LAND</u>	<u>NONMAJOR</u>	<u>TOTAL</u>
				<u>SEVERANCE</u>	<u>GRANT</u>		
				<u>TAX</u>			
ASSETS							
Cash/cash equivalents (Note 3)	\$ 334,959	\$ 768,075	\$ 59,754	\$ 30,257	\$ 17,715	\$ 110,396	\$ 1,321,156
Receivables (net) (Note 4)	205,421	109,357	13,070	8,081	52,730	5,849	394,508
Interfund loans receivable (Note 12)	44,210	50,503	-	-	-	-	94,712
Due from other governments	12,069	759	175,199	-	-	-	188,027
Due from other funds (Note 12)	51,920	3,545	1	-	8,550	1,467	65,483
Due from component units	17	85	2	86	-	-	190
Inventories	4,027	22,990	-	-	-	-	27,017
Equity in pooled investments (Note 3)	-	381,646	-	624,333	474,087	301,457	1,781,523
Long-term loans/notes receivable	96	299,576	4,247	-	-	28,849	332,768
Advances to other funds (Note 12)	1,088	19,422	-	404	-	3,174	24,088
Advances to component units	-	-	-	8,469	-	-	8,469
Investments (Note 3)	6,740	121,039	2,613	198,440	983	12,204	342,019
Securities lending collateral (Note 3)	-	63,253	1,022	36,518	27,416	25,327	153,536
Other assets	2,120	6,590	247	-	-	-	8,957
Total assets	662,667	1,846,839	256,155	906,588	581,481	488,723	4,742,453
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable (Note 4)	189,866	87,829	120,168	-	3,749	6,124	407,736
Interfund loans payable (Note 12)	-	7,485	85,444	-	-	560	93,489
Due to other governments	31	54,455	2,118	-	-	-	56,604
Due to other funds (Note 12)	443	35,553	1,653	4,287	39	10,617	52,592
Due to component units	21,918	843	1,308	-	72	-	24,141
Advances from other funds (Note 12)	-	18,596	3,283	-	-	18,946	40,825
Deferred revenue	98,030	30,956	8,698	-	48,609	393	186,686
Amounts held in custody for others	25,372	12,285	346	-	254	-	38,257
Securities lending liability (Note 3)	-	63,253	1,022	36,518	27,416	25,327	153,536
Other liabilities	-	731	-	-	-	-	731
Total Liabilities	335,660	311,986	224,040	40,805	80,139	61,967	1,054,597
Fund balances:							
Nonspendable	4,615	23,860	-	535,714	423,982	183,739	1,171,910
Restricted	-	789,619	32,517	-	77,360	19,525	919,021
Committed	-	729,551	-	330,069	-	205,786	1,265,406
Assigned	83,344	1,217	-	-	-	34,775	119,336
Unassigned	239,047	(9,392)	(403)	-	-	(17,069)	212,183
Total fund balances	327,006	1,534,855	32,114	865,783	501,342	426,756	3,687,856
Total liabilities and fund balances	\$ 662,666	\$ 1,846,841	\$ 256,154	\$ 906,588	\$ 581,481	\$ 488,723	\$ 4,742,453

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

**Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets**

June 30, 2010

(amounts expressed in thousands)

	(A)	(B)	(C)	(D)	(E)		
	Total	Internal	Capital	Debt	Other	Statement	
	Governmental	Service	Assets	Related	Measurement	of Net	
	Funds	Funds	Balances	Balances	Focus	Assets	
					Adjustments	Totals	
ASSETS:							
Cash and cash equivalent	\$ 1,321,156	\$ 80,621	\$ -	\$ -	2	\$ -	1,401,779
Receivables	394,508	2,877	-	-	(17)	-	397,368
Interfund loans receivable	94,712	46	-	-	-	(94,758)	-
Due from other governments	188,027	6	-	-	-	-	188,033
Due from other funds	65,483	1,397	-	-	-	(66,880)	-
Due from component units	190	-	-	-	1	-	191
Inventories	27,017	2,486	-	-	(1)	-	29,502
Internal Balances	-	-	-	-	-	(9,873)	(9,873)
Equity in pooled investments	1,781,523	-	-	-	1	-	1,781,524
Securites lending collateral	153,536	5,201	-	-	1	-	158,738
Advances to other funds	24,088	-	-	-	-	(24,088)	-
Advances to component units	8,469	-	-	-	-	-	8,469
Investments	342,019	34,835	-	-	-	-	376,854
Deferred charges	-	-	-	-	3,468	-	3,468
Capital assets	-	95,108	4,054,096	-	-	-	4,149,204
Long-term loans/notes receivable	332,768	-	-	-	1	-	332,769
Other assets	8,957	1,004	(3)	-	1	-	9,959
Total assets	\$ 4,742,453	\$ 223,581	\$ 4,054,093	\$ -	\$ 3,457	\$ (195,599)	\$ 8,827,985
LIABILITIES							
Current liabilities							
Accounts payable	407,736	15,532	-	-	26,839	-	450,107
Interfund loans payable	93,489	1,355	-	-	-	(94,844)	-
Due to other government	56,604	1	-	-	-	-	56,605
Due to other funds	52,592	2,000	-	-	-	(54,592)	-
Due to component units	24,141	-	-	-	(21,803)	-	2,338
Advances from other funds	40,825	5,338	-	-	-	(46,163)	-
Deferred revenue	186,686	1,276	-	-	(151,730)	-	36,232
Amounts held in custody for others	38,257	-	-	-	1	-	38,258
Securities lending liability	153,536	5,201	-	-	1	-	158,738
Other current liabilities	731	-	-	-	2,704	-	3,435
Long term liabilities							
Due within one year	-	20,350	-	123,185	-	-	143,535
Due in more than one year	-	16,879	-	862,150	-	-	879,029
OPEB implicit rate subsidy	-	6,562	-	111,409	-	-	117,971
Total liabilities	1,054,597	74,494	-	1,096,744	(143,988)	(195,599)	1,886,248
NET ASSETS							
Invested in capital assets, net of related debt	-	95,108	4,054,093	(274,281)	-	-	3,874,920
Restricted for:							
General government	13,785	-	-	(2,811)	935	-	11,909
Transportation	102,520	-	-	(22,643)	22,551	-	102,428
Health and human services	22,367	-	-	(6,931)	-	-	15,436
Natural resouces	438,410	-	-	(221,195)	5,204	-	222,419
Public safety	317,295	-	-	(299,056)	-	-	18,239
Education	24,644	-	-	(3,746)	6	-	20,904
Nonexpendable	1,171,911	-	-	-	12,469	-	1,184,380
Expendable	-	-	-	-	407,429	-	407,429
Unrestricted	1,596,924	53,979	-	(266,081)	(301,149)	-	1,083,673
Total net assets	\$ 3,687,856	\$ 149,087	\$ 4,054,093	\$ (1,096,744)	\$ 147,445	\$ -	\$ 6,941,737

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

- (A) Management uses Internal Services funds to report the charges for and the costs of goods and services sold by state agencies solely within the state. Because the sales are primarily to governmental funds, the assets and liabilities of the Internal Service Funds are included in the governmental activities on the government-wide Statement of Net Assets. Internal Service Funds are reported using proprietary fund-type accounting in the fund-level financial statements.
- (B) Capital assets used in governmental activities are not financial resources, and therefore, they are not included in the fund level financial statements. However, capital assets are economic resources and are reported in the government-wide Statement of Net Assets.
- (C) Long term liabilities such as leases, bonds, notes, mortgages, (including accrued interest) are not due and payable in the current period, and therefore, they are not included in the fund –level financial statements. However, from an economic perspective these liabilities reduce net assets and are reported in the Statement of Net Assets.
- (D) Other measurement focus adjustments include:
 - Interfund balances receivable from or payable to Fiduciary funds are reported on the fund- level Balance Sheet- Governmental funds as due from/to other funds. On the government –wide Statement of Net Assets, these amounts are considered external receivables and payables.
 - Long-term assets and long-term taxes receivable are not available to pay for current period expenditures; therefore, the related revenue is reported as deferred revenue on the fund-level Balance Sheet- Governmental funds. From an economic perspective, this revenue is earned and the related deferred revenue is removed from the government –wide Statement of Net Assets when the revenue is recognized on the government-wide statement of Activities.
 - Other long term liabilities are not reported on the fund-level Balance Sheet- Governmental Funds because the amounts are not due and payable from current financial resources. However, from an economic perspective, these liabilities reduce net assets, and they are therefore reported on the government-wide Statement of Net Assets.
- (E) All interfund payable balances shown on the fund-level Balance Sheet –Governmental Funds are reported in the internal balances line on the governmental-wide Statement of Net Assets along with all governmental activities interfund receivables.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

	SPECIAL REVENUE			PERMANENT			TOTAL
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	
REVENUES							
Licenses/permits	\$ 121,315	\$ 160,496	\$ -	\$ -	1,432	\$ 415	\$ 283,658
Taxes:							
Natural resource	126,342	120,872	-	21,582	-	6,682	275,478
Individual income	700,078	-	-	-	-	-	700,078
Corporate income	90,763	6	-	-	-	-	90,769
Property	220,724	14,564	-	-	-	-	235,288
Fuel	-	204,373	-	-	-	-	204,373
Other (Note 1)	205,425	96,119	-	-	-	1,897	303,441
Charges for services/fines/forfeits/settlements	45,167	143,098	36,736	-	-	13,757	238,758
Investment earnings	4,042	52,201	112	79,419	53,505	43,389	232,668
Securities lending income	368	647	12	540	420	303	2,290
Sale of documents/merchandise/property	247	5,417	13	-	8,387	3,435	17,499
Rentals/leases/royalties	20	645	-	-	142,925	124	143,714
Contributions/premiums	19	19,705	-	-	-	-	19,724
Grants/contracts/donations	8,499	18,708	101	-	16	-	27,324
Federal	35,005	13,407	2,222,804	-	-	-	2,271,216
Federal indirect cost recoveries	168	59,387	53,363	-	-	-	112,918
Other revenues	1,093	3,331	187	-	-	(92)	4,519
Total revenues	1,559,275	912,976	2,313,328	101,541	206,685	69,910	5,163,715
EXPENDITURES							
Current:							
General government	256,375	279,053	129,068	-	-	1,696	666,192
Public safety/corrections	249,288	76,369	12,737	-	-	382	338,776
Transportation	210	184,875	12,112	-	-	-	197,197
Health/social services	315,492	126,693	1,232,048	-	-	1,020	1,675,253
Education/cultural	733,001	159,730	288,841	-	-	19	1,181,591
Resource/recreation/environment	33,001	166,283	86,699	-	2,916	14	288,913
Debt service:							
Principal retirement	347	378	202	-	-	30,755	31,682
Interest/fiscal charges	38	726	19	-	-	17,430	18,213
Capital outlay	6,712	81,409	479,257	-	-	83,211	650,589
Securities lending	127	248	4	213	165	116	873
Total expenditures	1,594,591	1,075,764	2,240,987	213	3,081	134,643	5,049,279
Excess of revenue over (under) expenditures	(35,316)	(162,788)	72,341	101,328	203,604	(64,733)	114,436
OTHER FINANCING SOURCES (USES)							
Inception of lease/installment contract	66	63	43	-	-	-	172
Insurance proceeds	-	670	-	-	-	-	670
General capital asset sale proceeds	49	632	39	-	2,888	6	3,614
Refunding bond issued	-	8,050	-	-	-	20,220	28,270
Payment to refunding bond escrow agent	-	(8,163)	-	-	-	(20,985)	(29,148)
Bond premium	-	319	-	-	-	975	1,294
Bond proceeds	-	3,800	-	-	-	-	3,800
Transfers in (Note 12)	71,135	319,014	7,031	239	910	92,716	491,045
Transfers out (Note 12)	(121,440)	(32,447)	(67,290)	(41,555)	(162,316)	(25,638)	(450,686)
Total other financing sources (uses)	(50,190)	291,938	(60,177)	(41,316)	(158,518)	67,294	49,031
Net change in fund balances	(85,506)	129,150	12,164	60,012	45,086	2,561	163,467
Fund balances - July 1 - as previously reported	418,517	1,399,584	19,908	805,771	447,534	432,171	3,523,485
Prior period adjustments (Note 2)	(5,875)	4,142	42	-	8,722	(7,976)	(945)
Fund balances - July 1 - as restated	412,642	1,403,726	19,950	805,771	456,256	424,195	3,522,540
Increase (decrease) in inventories	(130)	1,979	-	-	-	-	1,849
Fund balances - June 30	\$ 327,006	\$ 1,534,855	\$ 32,114	\$ 865,783	\$ 501,342	\$ 426,756	\$ 3,687,856

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

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities**

JUNE 30, 2010

(amounts expressed in thousands)

	A		B		C		D	
	Total	Internal	Capital	Long	Term	Other	Statement	
	Governmental	Service	Related	Debt	Debt	Measurement	of Activities	
	Funds	Funds	Items	Transactions	Transactions	Focus	Totals	
REVENUES								
License/permits	\$ 283,658	\$ -	\$ -	\$ -	\$ -	\$ -	283,658	
Taxes:								
Natural resources	275,478	-	-	-	-	(165)	275,313	
Individual income	700,078	-	-	-	-	9,621	709,699	
Corporate income	90,769	-	-	-	-	(1,736)	89,033	
Property	235,288	-	-	-	-	(1)	235,287	
Fuel	204,373	-	-	-	-	-	204,373	
Other	303,441	-	-	-	-	418	303,859	
Charges for services/fines/forfeits/settlements	238,758	-	-	-	-	(13,987)	224,771	
Investment earnings	234,958	(4,046)	-	-	-	(58,164)	172,748	
Sale of documents/merchandise/property	17,499	-	-	-	-	-	17,499	
Rentals/leases/royalties	143,714	-	-	-	-	(17)	143,697	
Contributions/premiums	19,724	-	-	-	-	-	19,724	
Insurance proceeds	670	(238)	-	-	-	185	617	
Capital contributions	-	-	-	-	-	510,996	510,996	
Gain (Loss) on sale of capital assets	-	-	-	-	-	3,244	3,244	
Grants contracts and donations	27,324	-	-	-	-	(27,324)	-	
Unrestricted grants and contributions	-	-	-	-	-	461	461	
Federal	2,271,216	-	-	-	-	(285,238)	1,985,978	
Federal indirect cost recovery	112,918	-	-	-	-	(112,918)	-	
Other revenues	4,519	(1,673)	-	-	-	1,401	4,247	
Total revenues	5,164,385	(5,957)	-	-	-	26,776	5,185,204	
EXPENDITURES								
Current:								
Current	4,347,922	-	48,776	-	-	216,420	4,613,118	
Debt service	-	-	-	-	-	-	-	
Principal	31,682	-	-	(31,682)	-	-	-	
Interest/fiscal charges	18,213	-	-	(522)	-	-	17,691	
Capital outlay	650,589	-	(650,589)	-	-	-	-	
Securities lending	873	-	-	-	-	(873)	-	
Total expenditures	5,049,279	-	(601,813)	(32,204)	-	215,547	4,630,809	
Excess of revenue over (under) expenditures	115,106	(5,957)	601,813	32,204	-	(188,771)	554,395	
OTHER FINANCING SOURCES (USES)								
Inception of lease/installment contract	172	230	-	(402)	-	-	-	
General capital asset sale proceeds	3,614	-	-	(3,614)	-	-	-	
Refunding bonds issued	28,270	-	-	(28,270)	-	-	-	
Payment to refunding bonds escrow agent	(29,148)	-	-	29,148	-	-	-	
Bond premium	1,294	-	-	(1,294)	-	-	-	
Bond proceeds	3,800	-	-	(3,800)	-	-	-	
Transfers in	40,359	(1,626)	-	-	-	3,753	42,486	
Total other financing sources (uses)	48,361	(1,396)	-	(8,232)	-	3,753	42,486	
Net change in fund balance	\$ 163,467	\$ (7,353)	\$ 601,813	\$ 23,972	\$ (185,018)	\$	596,881	

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

- (A) Management uses the Internal Services Funds (ISF) to report charges for and the costs of goods and services sold by state agencies solely within the state. ISF are intended to operate on the cost reimbursement basis and should break even each period. If an ISF makes a profit, the other funds of the state have been overcharged. If an ISF has an operating loss the other funds of the state have been undercharged. In order to show the true cost of services purchased from ISF, an adjustment is made that allocates the net revenue/expense of each ISF to the programs that purchased the services. Investment income, debt service, and transfers of the ISF are not allocated.
- (B) The following adjustments relate to capital assets:
- Capital assets, received as donations, are not reported on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds because they are not current financial resources. However, such donations increase net assets and are reported on both the government – wide Statement of Net Assets and Statement of Activities.
 - Depreciation is not reported on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds, but it is reported for the economic perspective on which the government –wide Statement of Activities is presented.
 - Expenditures reported for capital outlay on the fund-level Statement of Revenues, Expenditures and changes in Fund Balances - Governmental Funds are generally reported as a conversion of cash to a capital asset on the government wide Statement of Net Assets. They are not reported as expenses on the government –wide Statement of Activities.
 - On the fund –level Statement of Revenues, Expenditures, and Changes in fund Balances - Governmental Funds all cash received on disposal of capital assets is reported as a gain on sale of capital assets. On the government-wide Statement of Activities the reported gain or loss on sale is based on the carrying value of the assets as well as the cash received.
- (C) The following adjustments relate to debt issuance and debt service including leases:
- Payments on principal and debt refunding payments are reported as expenditures and other financing uses, respectively on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances – governmental Funds. These payments are reported as reduction of lease, bonds and other debt liability balances on the government – wide Statement of Net Assets and are not reported on the government – wide Statement of Activities.
 - Amortization of issuance cost, debt premium/discount, gains/loss on refunding are not reported on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances- - Governmental Funds, but are reported on the government – wide state of Activities.
 - Lease proceeds, issuance of debt, and debt refunding proceeds are all reported as other financing sources at the fund level Statement of Revenues, Expenditures, and Changes in fund Balances – Governmental Funds. From an economic perspective lease proceeds, debt issuances, and debt refunding proceeds reported as liabilities on the government-wide Statement of Net Assets and are not reported on the government – wide Statement of Activities.
- (D) Other measurement focus adjustments include;
- Long-term taxes receivable and certain other long-term assets are offset by deferred revenue and are not part of fund balance on the fund-level Balance Sheet - Governmental Funds; however, from a full accrual perspective, changes in the fund –level deferred revenue balances result in adjustments to revenue that are recognized and reported on the government-wide Statement of Activities.

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

JUNE 30, 2010

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	ECONOMIC				ACTIVITIES -
	UNEMPLOYMENT	DEVELOPMENT	NONMAJOR	TOTAL	INTERNAL
	INSURANCE	BONDS			SERVICE
ASSETS					FUNDS
Current assets:					
Cash/cash equivalents (Note 3)	\$ 110,042	\$ 16,841	\$ 80,946	\$ 207,829	\$ 80,621
Receivables (net) (Note 4)	6,935	7,180	26,967	41,082	2,877
Interfund loans receivable (Note 12)	-	-	131	131	45
Due from other governments	20	-	957	977	7
Due from other funds (Note 12)	-	3,920	-	3,920	1,397
Due from component units	-	1,645	33	1,678	-
Inventories	-	-	3,378	3,378	2,486
Short-term investments (Note 3)	-	1,638	-	1,638	-
Securities lending collateral (Note 3)	-	8	2,777	2,785	5,201
Other current assets	-	-	688	688	1,003
Total current assets	116,997	31,232	115,877	264,106	93,637
Noncurrent assets:					
Advances to other funds (Note 12)	-	22,000	75	22,075	-
Advances to component units	-	8,352	-	8,352	-
Long-term investments (Note 3)	-	1,915	4,363	6,278	34,835
Long-term notes/loans receivable	-	37,988	304	38,292	-
Deferred charges	-	1,494	-	1,494	-
Other long-term assets	-	-	1,723	1,723	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	3,830	3,830	95
Buildings/improvements	-	-	7,454	7,454	4,704
Equipment	-	4	7,293	7,297	219,624
Infrastructure	-	-	915	915	-
Construction in progress	-	-	1,537	1,537	5,835
Intangible assets	-	-	91	91	765
Other Depreciable Assets	-	-	3,145	3,145	-
Less accumulated depreciation	-	(3)	(10,532)	(10,535)	(136,148)
Total capital assets	-	1	14,533	14,534	95,111
Total noncurrent assets	-	71,750	20,998	92,748	129,946
Total assets	116,997	102,982	136,875	356,854	223,583

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2010

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	ECONOMIC				ACTIVITIES -
	UNEMPLOYMENT	DEVELOPMENT			INTERNAL
	INSURANCE	BONDS	NONMAJOR	TOTAL	SERVICE
					FUNDS
LIABILITIES					
Current liabilities:					
Accounts payable (Note 4)	\$ 461	\$ 186	\$ 13,037	\$ 13,684	\$ 15,532
Lottery prizes payable	-	-	2,570	2,570	-
Interfund loans payable (Note 12)	-	-	45	45	1,355
Due to other governments	-	-	45	45	-
Due to other funds (Note 12)	-	-	16,207	16,207	2,000
Deferred revenue	6	-	6,564	6,570	1,276
Lease/installment purchase payable (Note 10)	-	-	-	-	519
Short-term debt (Note 11)	-	96,075	-	96,075	-
Bonds/notes payable - net (Note 11)	-	175	-	175	-
Amounts held in custody for others	-	-	20	20	-
Securities lending liability (Note 3)	-	8	2,777	2,785	5,201
Estimated insurance claims (Note 8)	-	-	9,292	9,292	16,820
Compensated absences payable (Note 11)	-	14	757	771	3,015
Arbitrage rebate tax payable (Note 11)	-	12	-	12	-
Total current liabilities	467	96,470	51,314	148,251	45,718
Noncurrent liabilities:					
Lottery prizes payable	-	-	1,223	1,223	-
Advances from other funds (Note 12)	-	-	-	-	5,338
Lease/installment purchase payable (Note 10)	-	-	-	-	912
Bonds/notes payable - net (Note 11)	-	195	-	195	-
Estimated insurance claims (Note 8)	-	-	9,559	9,559	12,864
Compensated absences payable (Note 11)	-	12	811	823	3,102
Arbitrage rebate tax payable (Note 11)	-	-	-	-	-
OPEB implicit rate subsidy (Note 7)	-	40	2,043	2,083	6,562
Total noncurrent liabilities	-	247	13,636	13,883	28,778
Total liabilities	467	96,717	64,950	162,134	74,496
NET ASSETS					
Invested in capital assets, net of related debt	-	1	14,533	14,534	95,111
Restricted for:					
Unemployment Compensation	116,530	-	-	116,530	-
Other Purposes	-	2,210	40,595	42,805	-
Unrestricted	-	4,054	16,797	20,851	53,976
Total net assets	\$ 116,530	\$ 6,265	\$ 71,925	\$ 194,720	\$ 149,087

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
Operating revenues:					
Charges for services	\$ -	\$ 22	\$ 129,080	\$ 129,102	\$ 137,939
Investment earnings	6,874	262	274	7,410	2,473
Securities lending income	-	-	32	32	52
Financing income	-	2,270	-	2,270	(22)
Contributions/premiums	89,500	-	91,074	180,574	117,854
Grants/contracts/donations	175,976	-	40,603	216,579	2,235
Other operating revenues	3,258	-	1,418	4,676	2,973
Total operating revenues	275,608	2,554	262,481	540,643	263,504
Operating expenses:					
Personal services	-	206	13,119	13,325	49,630
Contractual services	-	26	14,681	14,707	23,658
Supplies/materials	-	6	62,588	62,594	23,641
Benefits/claims	354,779	11	124,906	479,696	109,803
Depreciation	-	-	743	743	11,954
Amortization	-	-	37	37	534
Utilities/rent	-	45	963	1,008	16,636
Communications	-	9	1,373	1,382	12,233
Travel	-	2	246	248	336
Repairs/maintenance	-	-	901	901	10,556
Lottery prize payments	-	-	25,941	25,941	-
Securities lending expense	-	-	8	8	-
Interest expense	-	1,836	-	1,836	229
Arbitrage rebate tax	-	(7)	-	(7)	-
Dividend expense	-	-	1,867	1,867	-
Other operating expenses	15	33	2,481	2,529	4,710
Total operating expenses	354,794	2,167	249,854	606,815	263,920
Operating income (loss)	(79,186)	387	12,627	(66,172)	(416)
Nonoperating revenues (expenses):					
Tax revenues	-	-	25,017	25,017	-
Insurance proceeds	-	-	-	-	238
Gain (loss) on sale of capital assets	-	-	(80)	(80)	17
Federal indirect cost recoveries	-	-	-	-	5,885
Total nonoperating revenues (expenses)	-	-	24,937	24,937	6,140
Income (loss) before contributions and transfers	(79,186)	387	37,564	(41,235)	5,724
Capital contributions	-	-	3,174	3,174	1,306
Transfers in (Note 12)	-	472	50	522	1,908
Transfers out (Note 12)	(188)	-	(42,820)	(43,008)	(1,587)
Change in net assets	(79,374)	859	(2,032)	(80,547)	7,351
Total net assets - July 1 - as previously reported	195,904	5,406	73,719	275,029	139,466
Prior period adjustments (Note 2)	-	-	238	238	2,270
Total net assets - July 1 - as restated	195,904	5,406	73,957	275,267	141,736
Total net assets - June 30	\$ 116,530	\$ 6,265	\$ 71,925	\$ 194,720	\$ 149,087

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

This page intentionally left blank.

STATEMENT OF CASH FLOWS**PROPRIETARY FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	ECONOMIC				
	UNEMPLOYMENT INSURANCE	DEVELOPMENT BONDS	NONMAJOR	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	\$ 87,273	\$ 22	\$ 224,917	\$ 312,212	\$ 262,092
Payments to suppliers for goods and services	(15)	(122)	(118,717)	(118,854)	(91,169)
Payments to employees	-	(214)	(14,140)	(14,354)	(51,069)
Grant receipts	175,982	-	39,869	215,851	2,235
Cash payments for claims	(355,180)	-	(85,276)	(440,456)	(110,739)
Cash payments for prizes	-	-	(24,828)	(24,828)	-
Other operating revenues	3,265	-	1,438	4,703	11,646
Other operating payments	-	-	(2,595)	(2,595)	-
Net cash provided by (used for) operating activities	(88,675)	(314)	20,668	(68,321)	22,996
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	24,959	24,959	-
Transfers to other funds	(188)	-	(44,314)	(44,502)	(1,487)
Transfers from other funds	-	472	(258)	214	6,253
Proceeds from interfund loans/advances	(1,336)	-	(25)	(1,361)	(1,714)
Payments of interfund loans/advances	-	-	(105)	(105)	497
Payment of principal and interest on bonds and notes	-	(7,733)	-	(7,733)	(506)
Proceeds from issuance of bonds and notes	-	12,131	-	12,131	-
Payment of bond issuance costs	-	(280)	-	(280)	-
Contributed capital transfers from other funds	-	-	-	-	1,308
Net cash provided by (used for) noncapital financing activities	(1,524)	4,590	(19,743)	(16,677)	4,351
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	235
Acquisition of capital assets	-	-	(1,245)	(1,245)	(12,669)
Proceeds from sale of capital assets	-	-	(73)	(73)	-
Net cash used for capital and related financing activities	-	-	(1,318)	(1,318)	(12,434)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	(508)	320	(188)	(1,655)
Proceeds from sales or maturities of investments	-	1,728	1,699	3,427	-
Proceeds from securities lending transactions	-	-	28	28	53
Interest and dividends on investments	6,874	318	182	7,374	2,583
Payment of securities lending costs	-	-	41	41	(22)
Collections of principal and interest on loans	-	27,934	-	27,934	-
Cash payment for loans	-	(26,359)	-	(26,359)	-
Net cash provided by (used for) investing activities	6,874	3,113	2,270	12,257	959
Net increase (decrease) in cash and cash equivalents	(83,325)	7,389	1,877	(74,059)	15,872
Cash and cash equivalents, July 1	193,368	9,450	78,649	281,467	64,752
Cash and cash equivalents, June 30	\$ 110,043	\$ 16,839	\$ 80,526	\$ 207,408	\$ 80,624

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

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS	
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL		
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	\$ (79,179)	\$ 387	\$ 12,627	\$ (66,165)	\$	(416)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:						
Depreciation	-	-	743	743		11,953
Amortization	-	-	37	37		535
Loss on Equipment	-	2	-	2		-
Interest expense	-	1,836	-	1,836		229
Securities lending expense	-	-	8	8		14
Investment Earnings	(6,874)	(262)	(219)	(7,355)		(2,473)
Securities lending income	-	-	(25)	(25)		(53)
Financing income	-	(2,270)	-	(2,270)		-
Federal indirect cost recoveries	-	-	-	-		5,885
Arbitrage rebate tax	-	(7)	-	(7)		-
Change in assets and liabilities:				-		-
Decr (incr) in accounts receivable	(2,311)	-	(3,443)	(5,754)		5,747
Decr (incr) in due from other funds	131	-	572	703		1,014
Decr (incr) in due from component units	(14)	-	2,984	2,970		(1,094)
Decr (incr) in due from other governments	-	-	(284)	(284)		(4)
Decr (incr) in inventories	-	-	(434)	(434)		(148)
Decr (incr) in other assets	-	(1)	2,513	2,512		(503)
Incr (decr) in accounts payable	(428)	(6)	892	458		323
Incr (decr) in lottery prizes payable	-	-	1,113	1,113		-
Incr (decr) in due to other funds	-	(2)	247	245		(1,140)
Incr (decr) in due to component units	-	-	(6)	(6)		(17)
Incr (decr) in due to other governments	-	-	(8)	(8)		-
Incr (decr) in deferred revenue	5	-	1,566	1,571		95
Incr (decr) in amounts held in custody for others	(5)	-	-	(5)		-
Incr (decr) in compensated absences payable	-	(2)	82	80		(41)
Incr (decr) in OPEB implicit rate subsidy	-	11	508	519		2,012
Incr (decr) in estimated claims	-	-	1,195	1,195		1,078
Net cash provided by (used for) operating activities	\$ (88,675)	\$ (314)	\$ 20,668	\$ (68,321)	\$	22,996
Schedule of noncash transactions:						
Capital asset acquisitions from contributed capital	\$ -	\$ -	\$ -	\$ -	\$	-
Capital contributions from other funds	\$ -	\$ -	\$ 3,174	\$ 3,174	\$	-
Amortization of bond issuance costs	\$ -	\$ -	\$ -	\$ -	\$	-
Incr (decr) in fair value of investments	\$ -	\$ 44	\$ -	\$ 44	\$	-
Total noncash transactions	\$ -	\$ 44	\$ 3,174	\$ 3,218	\$	-

STATEMENT OF FIDUCIARY NET ASSETS**FIDUCIARY FUNDS**

JUNE 30, 2010

(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE- PURPOSE TRUST FUNDS	INVESTMENT TRUST	AGENCY FUNDS
ASSETS				
Cash/cash equivalents (Note 3)	\$ 129,257	\$ 146,967	\$ 336,972	\$ 25,188
Receivables (net):				
Accounts receivable	21,323	-	-	393
Interest	10,750	7	112	-
Due from primary government	21,804	-	-	-
Due from other PERB plans	294	-	-	-
Long-term loans/notes receivable	32	-	-	-
Total receivables	54,203	7	112	393
Investments at fair value:				
Equity in pooled investments (Note 3)	6,376,942	-	-	-
Other investments (Note 3)	438,617	120,311	21,619	17
Total investments	6,815,559	120,311	21,619	17
Securities lending collateral (Note 3)	426,940	843	13,817	11
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	158	-	-	-
Equipment	148	-	-	-
Accumulated depreciation	(205)	-	-	-
Intangible assets	337	-	-	-
Total capital assets	473	-	-	-
Other assets	7	22,490	-	12,216
Total assets	7,426,439	290,618	372,520	37,825
LIABILITIES				
Accounts payable	902	11	112	659
Due to other PERB plans	294	-	-	-
Deferred revenue	120	-	-	-
Amounts held in custody for others	-	-	-	37,155
Securities lending liability (Note 3)	426,940	843	13,817	11
Compensated absences payable	448	-	-	-
OPEB implicit rate subsidy	419	-	-	-
Total liabilities	429,123	854	13,929	37,825
NET ASSETS				
Held in trust for pension benefits				
and other purposes	\$ 6,997,316	\$ 289,764	\$ 358,591	\$ -

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**FIDUCIARY FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE- PURPOSE TRUST FUNDS	INVESTMENT TRUSTS
ADDITIONS			
Contributions/premiums:			
Employer	\$ 185,537	\$ -	-
Employee	186,129	-	-
Other contributions	41,747	35,755	771,727
Net investment earnings:			
Investment earnings	849,684	15,699	1,100
Administrative investment expense	(40,721)	-	(123)
Securities lending income	3,297	10	168
Securities lending expense	(920)	-	(57)
Charges for services	498	-	-
Other additions	388	4,854	76
Total additions	1,225,639	56,318	772,891
DEDUCTIONS			
Benefits	501,651	-	-
Refunds	18,770	-	-
Distributions	-	34,936	839,596
Administrative expenses:			
Personal services	3,137	-	-
Contractual services	2,790	1,899	-
Supplies/materials	133	-	-
Depreciation	9	-	-
Amortization	229	-	-
Utilities/rent	297	-	-
Communications	186	-	-
Travel	63	-	-
Repair/maintenance	40	-	-
Grants	-	-	-
Other operating expenses	613	-	25
Local assistance	17	-	-
Transfers to ORP	175	-	-
Transfers to PERS-DCRP	860	-	-
Transfer Out	-	-	-
Total deductions	528,970	36,835	839,621
Change in net assets	696,669	19,483	(66,730)
Net assets - July 1 - as previously reported	6,303,481	270,281	425,321
Prior period adjustments (Note 2)	(2,834)	-	-
Net assets - July 1 - as restated	6,300,647	270,281	425,321
Net assets - June 30	\$ 6,997,316	\$ 289,764	\$ 358,591

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

**COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS**

JUNE 30, 2010

(amounts expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	MONTANA STATE FUND (NEW FUND)
ASSETS			
Current assets:			
Cash/cash equivalents (Note 3)	\$ 159,578	\$ 2,136	\$ 28,149
Receivables (net)	19,851	278	63,970
Due from primary government	-	-	-
Due from other governments	1,827	-	-
Due from component units	-	-	-
Inventories	-	-	-
Long-term loans/notes receivable	723,967	1,252	-
Equity in pooled investments (Note 3)	-	-	-
Investments (Note 3)	135,752	137	1,102,416
Securities lending collateral (Note 3)	14	87	167,515
Deferred charges	6,527	-	-
Other assets	237	2	62,626
Capital assets (net) (Note 5)	9	-	37,719
Total assets	1,047,762	3,892	1,462,395
LIABILITIES			
Current liabilities:			
Accounts payable	6,016	11	19,573
Due to primary government	-	-	17
Due to component units	-	-	-
Due to other governments	-	-	-
Advances from primary government	-	-	-
Deferred revenue	-	-	47,054
Amounts held in custody for others	-	-	3,245
Securities lending liability (Note 3)	14	87	167,515
Other liabilities	-	-	-
Long-term liabilities (Note 11):			
Due within one year	162,623	21	114,476
Due in more than one year	721,741	10	791,076
OPEB implicit rate subsidy (Note 7)	165	13	2,562
Total liabilities	890,559	142	1,145,518
NET ASSETS			
Invested in capital assets, net of related debt	9	-	37,719
Restricted for:			
Funds held as permanent investments:			
Nonexpendable	-	-	-
Housing authority	157,194	-	-
Other purposes	-	-	-
Unrestricted	-	3,750	279,158
Total net assets	\$ 157,203	\$ 3,750	\$ 316,877

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

MONTANA STATE FUND (OLD FUND)	MONTANA SURPLUS LINES	MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
\$ 6,107	\$ -	\$ 143,521	\$ 55,802	\$ 395,293
72	-	17,605	18,567	120,343
-	-	562	1,776	2,338
-	-	12,315	9,735	23,877
-	-	10	512	522
-	-	3,233	1,798	5,031
-	-	21,947	9,862	757,028
-	-	15,332	16,431	31,763
4,167	-	147,683	186,205	1,576,360
1,336	-	4,064	2,559	175,575
-	-	915	1,819	9,261
-	-	7,396	4,899	75,160
-	-	359,985	349,279	746,992
11,682	-	734,568	659,244	3,919,543
409	-	31,958	23,048	81,015
110	-	1,083	659	1,869
-	-	512	10	522
-	-	-	146	146
-	-	10,451	6,370	16,821
-	-	10,425	15,568	73,047
-	-	6,069	2,058	11,372
1,336	-	4,064	2,559	175,575
-	-	5,825	5,089	10,914
9,842	-	18,432	15,477	320,871
48,152	-	151,092	148,385	1,860,456
-	-	28,997	23,946	55,683
59,849	-	268,908	243,315	2,608,291
-	-	238,252	214,307	490,287
-	-	105,791	133,319	239,110
-	-	-	-	157,194
-	-	53,327	48,390	101,717
(48,167)	-	68,290	19,913	322,944
\$ (48,167)	\$ -	\$ 465,660	\$ 415,929	\$ 1,311,252

COMBINING STATEMENT OF ACTIVITIES**COMPONENT UNITS**

JUNE 30, 2010

(amounts expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	MONTANA STATE FUND (NEW FUND)
EXPENSES	\$ 60,603	\$ 417	\$ 191,796
PROGRAM REVENUES:			
Charges for services	408	613	166,265
Operating grants and contributions	61,807	76	-
Capital grants and contributions	-	-	-
Total program revenues	62,215	689	166,265
Net (expenses) program revenues	1,612	272	(25,531)
GENERAL REVENUES:			
Unrestricted grants and contributions	-	-	-
Unrestricted investment earnings	-	-	121,469
Payment from State of Montana	-	-	-
Gain (loss) on sale of capital assets	-	-	(115)
Miscellaneous	104	-	63
Contributions to term and permanent endowments	-	-	-
Total general revenues and contributions	104	-	121,417
Change in net assets	1,716	272	95,886
Total net assets- July 1 - as previously reported	155,376	3,478	217,622
Prior period adjustments (Note 2)	111	-	3,369
Total net assets - July 1 - restated	155,487	3,478	220,991
Total net assets - June 30	157,203	3,750	316,877

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

MONTANA STATE FUND (OLD FUND)	MONTANA SURPLUS LINES	MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
\$ 2,899	\$ 440	\$ 461,578	\$ 388,812	\$ 1,106,545
-	-	184,790	174,859	526,935
-	-	175,425	123,691	360,999
-	-	17,312	17,025	34,337
-	-	377,527	315,575	922,271
(2,899)	(440)	(84,051)	(73,237)	(184,274)
-	-	567	-	567
227	-	5,259	18,215	145,170
-	-	108,936	84,382	193,318
-	-	89	(99)	(125)
-	-	-	-	167
-	-	3,195	3,791	6,986
227	-	118,046	106,289	346,083
(2,672)	(440)	33,995	33,052	161,809
(45,495)	440	425,464	382,877	1,139,762
-	-	6,201	-	9,681
(45,495)	440	431,665	382,877	1,149,443
(48,167)	-	465,660	415,929	1,311,252

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Discretely Presented Component Units

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

Housing Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$1.5 billion. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The authority is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 301 South Park, Room 240, PO Box 200528, Helena, MT 59620-0528.

Facilities Finance Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. The board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. Individual audit reports are issued every two years by the State's Legislative Audit Division. The report is issued under separate cover and available at 2401 Colonial Drive, 3rd Floor, PO Box 200506, Helena, MT 59620-0506.

Montana State Fund (New Fund and Old Fund) - Though reported in separate columns, The Montana State Fund (New Fund) and the State of Montana (Old Fund) are one legally separate entity, thus a single component unit with separate accounting funds. Both New Fund and Old Fund are a nonprofit, independent public corporation governed by a board of directors appointed by the Governor.

Montana State Fund - New Fund – New Fund provides workers compensation insurance for claims incurred after June 30, 1990, and is financed by member (employer) premiums. The New Fund is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 855 Front Street, Helena, MT 59604.

State of Montana – Old Fund – Old Fund covers worker compensation claims that were incurred before July 1, 1990. Administrative operations and budgets may be reviewed by the Governor and the Legislature, but they have

no authority over budgets or costs. The Old Fund is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 855 Front Street, Helena, MT 59604.

Universities and Colleges – The State Board of Regents has responsibility for the following institutions: The University of Montana - Missoula and the units under it including Montana Tech of the University of Montana, The University of Montana - Western and The University of Montana - Helena College of Technology; and Montana State University - Bozeman and the units under it including Montana State University - Billings, Montana State University - Northern, and the Montana State University College of Technology - Great Falls. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. The universities are audited annually by the State's Legislative Audit Division. The reports are issued under separate cover and are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 2500 Broadway Street, Helena, MT 59620-3201.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation; and (3) the Student Assistance Foundation of Montana, a private non-profit corporation. Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State and Federal support of local public education systems is reported in the General Fund, the State Special Revenue Fund and Federal Special Revenue Fund (for ARRA funds in FY10 and FY11).

Montana Surplus Lines – Montana Surplus Lines Agents' Association was a legally separate entity appointed as an advisory organization by the Montana Insurance Commissioner, and primarily performed services as directed by the Commissioner. The Association operated the Montana Surplus Lines Agents' Association Stamping Office. The Association, on behalf of the Commissioner, processed surplus lines transactions, collected applicable stamping fees, and sent tax statements to surplus lines agents who filed surplus lines transactions with the stamping office. Surplus lines insurance companies provide specialized insurance coverage, of an unusual or high risk nature, that is not provided by other insurance companies. On July 1, 2009, the Commissioner terminated the contract with MSLAA and the function was brought in-house.

Fiduciary Fund Component Units

Teachers Retirement System (Pension Trust Fund) – This retirement plan is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump-sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers Retirement System are paid from investment earnings of the fund. The plan is funded from employer and employee contributions and investment earnings. The board is a discretely presented component unit. The plan is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 1500 East Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

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

The Public Employees' Retirement System (PERS) includes the Public Employees' Defined Benefit Retirement Plan and the Public Employees' Defined Contribution Retirement Plan, and is funded by member and employer contributions, investment earnings and contributions from the state. The PERS also accounts for the administrative costs, paid from investment earnings, of the plan. These are allocated out to all plans. The Judges' Retirement System is funded by member and state employer contributions, and investment earnings. The Highway Patrol Officers' Retirement System is funded by member and state employer contributions, state contributions, and investment earnings. The Sheriffs' Retirement System is funded by member and employer contributions, and investment earnings. The Game Wardens' and Peace Offices' Retirement System is funded by member and employer contributions, and investment earnings. The Municipal Police Officers' Retirement System is funded by

member and employer contributions, state contributions, and investment earnings. The Firefighters' Unified Retirement System is funded by employee and employer contributions, and investment earnings, as well as state contributions from a portion of insurance premium taxes collected by the State of Montana. The Volunteer Firefighters' Compensation Act is funded by the state contributions of a percentage of fire insurance premium taxes collected. The State of Montana Deferred Compensation Program is funded by member contributions and investment earnings; there are two employers, Great Falls Transit and the town of Whitehall, that contribute to the program on behalf of their employees.

The board is a discretely presented component unit responsible for the ten separate public employee retirement plans including the Deferred Compensation Program. These are reported as pension and other employee benefit trust funds. The board is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131.

B. Government-wide and Fund Financial Statements

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

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

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

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

Government-wide, Proprietary, and Fiduciary Fund Financial Statements

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

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are realizable, measurable, earned, and available. Revenue is considered realizable when it is probable the amount will be collected. Revenue is considered measurable and realizable if the precise amount is known because the transaction is completed, or if there is enough information to provide a reasonable estimate of the net realizable revenue to be received. Revenue is considered to have been earned when the exchange of goods or services has taken place. Revenue is considered to be available if it is collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the State considers revenue to be available if it is collected within 60 days of the end of the

current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

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

Fund Financial Statements

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

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

Governmental Funds

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

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects.

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

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

Permanent Funds – To account for resources that are permanently restricted to the extent those only earnings, not principal, may be used for the purposes of supporting the government's programs.

Proprietary Funds

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

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

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

Fiduciary Funds

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

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

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

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

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

Major Governmental Funds

The General Fund is the State’s primary operating fund, as previously defined.

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

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

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

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

Major Enterprise Funds

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

The Economic Development Bonds Fund accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana’s small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

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

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

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

D. Proprietary Activity Accounting and Financial Reporting

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

E. Cash/Cash Equivalents

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. For 2010, certain investments in STIP were reclassified as long-term investments. (See Note 3 Cash/Cash Equivalents).

F. Receivables

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

Pledged receivables are disclosed in Note 2C.

G. Inventories

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

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

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

H. Restricted Assets

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

I. Equity in Pooled Investments

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

J. Investments

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

K. Capital Assets

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

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

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

L. Deferred Revenue

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

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

M. Long-term Obligations

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

Long-term liabilities expected to be financed from proprietary and fiduciary fund operations are accounted for in those funds.

N. Capital Leases

A capital lease is generally defined by Financial Accounting Standards Board (FASB) Statement No. 13, Accounting for Leases, as one which transfers benefits and risks of ownership to the lessee. At the inception of a capital lease, in the government-wide, proprietary fund, and fiduciary fund financial statements, a capital asset and a capital lease liability are recorded at the present value of the future minimum lease payments. In the governmental fund financial statements, because the modified accrual basis of accounting is used, no asset or liability is recorded related to assets under capital leases. Rather, in the governmental fund financial statements, at the inception of a capital lease, capital outlay expenditure and a other financing source (inception of lease/installment contract) are recorded at the net present value of the minimum lease payments.

O. Bond Discounts/Premiums/Issuance Costs

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

P. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 80 hours of sick or annual leave to a nonrefundable sick leave pool. Excess annual leave that is being forfeited can also be contributed, with no maximum contribution. Based on a review, the adjusted ending balance of the pool for June 30, 2009, was 7001 hours. For fiscal year 2010, 1805 sick leave hours, 523 annual leave hours, and 7327 excess annual leave hours were contributed to the sick leave pool, and 250 hours were withdrawn, leaving a balance of 16,406 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to contributors, except by grants approved through an application process.

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

Q. Fund Balance/Net Assets

Fund Balance

As discussed in further detail in footnote 2, the State of Montana early implemented Governmental Accounting Standards Board (GASB) Statement No. 54. As a result, the classifications for fund balance now used for governmental funds are reported in two general classifications, nonspendable and spendable.

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

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

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

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Assignments of fund balance are created by the executive branch. An example of an assignment is money deposited into an account within the State Special Revenue fund by the executive branch and later appropriated by the legislature. The revenue source is not restricted or committed by legislation but is assigned by executive branch management and later appropriated by the legislature for a specific purpose. In governmental funds other than the general fund, assigned fund balance also represents the remaining amount that is not restricted or committed. Also included in the assigned fund balance for the general fund are assignments for the portion of current general fund balance that is projected to be used to fund expenditures and other cash outflows in excess of the expected revenues and other cash inflows in fiscal year 2011, and encumbrances.

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

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

Minimum General Fund - Fund Balance

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

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

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

Net Assets

In funds other than governmental, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by

the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide Statement of Net Assets reported restricted net assets (in thousands) of \$2,142,540, of which \$410,398 is restricted by enabling legislation, which only includes legislation that becomes a constitutional restriction.

R. Property Taxes

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

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

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

S. Other Taxes

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

	Other				
	General Fund	State Special Revenue Fund	Governmental Funds	Business Type	Total
Accommodations	\$ 13,402	\$ 17,323	\$ -	\$ -	\$ 30,725
Agriculture sales	-	5,391	-	-	5,391
Cigarette/tobacco	37,329	48,593	1,897	-	87,819
Fire protection	-	3,297	-	-	3,297
Insurance premium	52,364	9,444	-	-	61,808
Liquor tax	4,982	1,931	-	25,007	31,920
Livestock	-	3,588	-	-	3,588
Other taxes	22,188	4,182	-	10	26,380
Public Service Commission	-	2,361	-	-	2,361
Telephone license	23,175	-	-	-	23,175
Video gaming	52,403	9	-	-	52,412
Total other taxes	\$ 205,843	\$ 96,119	\$ 1,897	\$ 25,017	\$ 328,876

NOTE 2. OTHER ACCOUNTING ISSUES

A. New Accounting Guidance Implemented

For the year ended June 30, 2010, the State of Montana implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 51 – “Accounting and Financial Reporting for Intangible Assets”. The objective of Statement No. 51 is to establish accounting and financial reporting requirements for intangible assets that enhance the comparability of the accounting and financial reporting of such assets among state and local governments. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also gives guidance on recognition issues such as what it is to be considered identifiable and establishes a specified-conditions approach to recognizing intangible assets that are internally generated.

For the year ended June 30, 2010, the State of Montana implemented the provisions of GASB Statement No. 53 – “Accounting and Financial reporting for Derivative Instruments”. The guidance in Statement No. 53 improves financial reporting by requiring governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully responsive, at fair value in their economic resources measurement focus financial statements. These improvements should allow users of those financial statements to more fully understand a government’s resources available to provide services. The application of interperiod equity means that changes in fair value are recognized in the reporting period to which they relate. The changes in fair value of hedging derivatives instruments do not affect investment revenue but are reported as deferrals. The changes in fair value of investment derivative (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. The disclosures provide a summary of the government’s derivative instrument activity and the information necessary to assess the government’s objectives for derivative instruments, their significant terms, and the risks associated with the derivative instruments. Disclosures pertaining to derivative instruments for the University of Montana and the Montana State University may be found in their respective comprehensive financial reports.

For the year ended June 30, 2010, the State of Montana early implemented the provisions of GASB Statement No. 54 - “Fund Balance Reporting and Governmental Fund Type Definitions”. The objective of Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. The clarifications of the governmental fund type definitions should reduce uncertainty about which resources can or should be reported in the respective fund types. These new classifications include nonspendable and spendable, which is further reported as restricted, committed, assigned and unassigned. The new fund balance classifications and the minimum fund balance disclosure provided in Statement 54 are discussed in detail in footnote 1, section Q. Statement 54 requires the disclosure of the purpose of every major special revenue fund in the financial statement notes. This additional disclosure is provided in footnote 14.

B. Prior Period Adjustments

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors or changes in accounting policy from prior periods. The most significant of these adjustments affected the governmental activities column in the Statement of Activities, and related to Montana Department of Transportation infrastructure corrections. An adjustment was also made to Land Grant and Nonmajor Governmental Funds in the amount of \$8,722,000 which is the amount due to reclassification of amounts from the Nonmajor Governmental Funds to Land Grant. Other significant adjustments affected the General Fund on the Statement of Revenues, Expenditures, and Changes in Fund Balances for the Governmental Funds; these related primarily to expenditure accrual adjustments. No other significant corrections were made for fiscal year 2010.

C. Functional Classification Change

In the fiscal year 2010 financial statements, governmental expenditures are reported in the general government, public safety/corrections, transportation, health/social services, education/cultural and resource/recreation /environment functions. With the re-examination of the reporting process resulting from the early implementation of the statement 54, the decision was made to align this reporting to more closely follow the functional classifications used in the state budgetary process. This resulted in the elimination of the previously reported economic development/assistance function with the related activity now included in the general government function.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

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

Cash/cash equivalents	\$2,643,285
Equity in pooled investments	\$8,190,229
Investments	\$2,541,694

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

A. General

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

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

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP is managed in a manner consistent with the SEC Rule 2a7. As a 2a7-like pool, the STIP utilizes an amortized cost unit value to report net assets. The portfolio may include asset-backed securities, commercial paper, corporate, U.S. government direct obligations, U.S. government agency securities, repurchase agreements, institutional money market funds, certificates of deposit and variable-rate (floating-rate) instruments. Investments must have a maximum maturity of 397 days or less unless they have rate reset dates. The portfolio is carried at amortized cost or book value with a constant unit value of \$1.00. State agencies that are allowed to retain their interest earnings within their funds are required to invest in STIP. Local government participation in STIP is voluntary. Separately issued external investment pool financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

The State's cash equivalents and investments are detailed in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments to disclose the level of investment risk, when applicable, assumed by the State at June 30, 2010.

(2) All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments. The State invests in certain types of securities, including U.S.

government direct-backed, U.S. government indirect-backed, corporate stock/bonds, foreign government bonds, common stock, municipals, equity index, preferred stock, convertible equity securities, asset-backed securities, American Depositary Receipts (ADRs), equity derivatives, commingled funds, venture capital, leveraged buyout, mezzanine, diversified real estate portfolio, distressed debt, special situation and secondary investments, and cash equivalents, to provide a diversified investment portfolio and an overall competitive rate of return.

U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. government. U.S. government indirect-backed obligations include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages.

Common stock represents ownership units (shares) of a public corporation. Common stock owners are entitled to vote on director selection and other important matters, as well as receive dividends on their holdings. Equity index investments are investments in selected mutual funds whose equity portfolios match a broad based index or composite. Preferred stock, as a class of stock, pays dividends at a specified rate and has preference in the payment of dividends and liquidation of assets. Preferred stock holders, ordinarily, do not have voting rights. Convertible securities are securities carrying the right to exchange, or “convert” the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer’s common stock. ADRs are receipts issued by a U.S. depository bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depository bank. Equity derivatives “derive” their value from other equity instruments such as futures and options. An institutional commingled fund combines assets from several institutional investors that are blended or pooled together, to reduce management and administration costs. The investor buys shares in the fund.

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

Distressed debt represents the private and public debt of companies that appear unlikely to meet their financial obligations.

Special situation investments include the investment in the exploration for oil and/or gas reserves or in the development of proven reserves, investment in land to harvest timber, and investments that have a special component usually related to geographical, economic, or social issues. Secondary investments are investments in previously owned limited partnerships. These investments may be direct or via a general partner specializing in secondary investments. Private equity investments are long-term, by design, and extremely hard to value.

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

Investments are presented in the Statement of Net Assets at fair value. Fair values for investment pool securities are determined primarily by reference to market prices supplied to the BOI by BOI’s custodial bank, State Street Bank. Amortized cost represents the original cost, adjusted for premium and discount amortization, where applicable. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life or maturity date of the securities. Amortized cost may also be referred to as book value.

Under the provisions of state statutes, the State has, via a Securities Lending Authorization Agreement, authorized the State's agent to lend the State's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the State receives a fee and the agent must initially receive collateral equal to 102% to 105% of the fair value of the loaned securities and maintain collateral equal to not less than 100% of the fair value of the loaned security. During the fiscal year, the State's agent loaned, on behalf of the State, certain securities held by the agent and received U.S. dollar and foreign currency cash, U.S. government securities, sovereign debt rated A or better, convertible bonds, and irrevocable bank letters of credit as collateral. The State's agent does not have the ability to pledge or sell collateral securities unless the borrower defaults. The State retains all rights and risks of ownership during the loan period. At year-end, the BOI has no credit risk exposure to borrowers because the amount the BOI owes the borrowers exceeds the amount the borrowers owe the system.

B. Cash/Cash Equivalents

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

Table 1 - Cash Deposit Amounts
(in thousands)

	Carrying Amount
Cash held by State/State's agent	\$157,363
Uninsured and uncollateralized cash	4,348
Undeposited cash	705
Cash in U.S. Treasury	112,993
Cash in MSU component units	6,119
Cash in UM component units	5,728
Less: outstanding warrants	(50,961)
Total cash deposits	<u>\$236,295</u>

As of June 30, 2010, the carrying amount of deposits for component units was \$124,010,976, as included in Table 1.

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

Table 2 - Cash Equivalents
(in thousands)

	Fair Value	Credit Quality Rating	WAM in Days
Asset Backed commercial paper	\$ 368,299	A1	17
Corporate commercial paper	196,596	A1+	31
Corporate variable	206,328	A2	35
Certificate of deposit – fixed	105,006	A3	71
Certificate of deposit – variable	235,000	A2	42
US government agency fixed	100,306	A1+	174
US government agency variable	760,103	A1+	40
Money market fund unrated	412,081	NR	1
Money market fund rated	10,000	A1+	1
Repurchase agreement (1)	11,659	NR	NA
US Government direct obligations (2)	4,993	AAA	NA
Corporate bonds (rated) (2)	15,067	A	NA
US Government agency (2)	50,539	AAA	NA
Less: STIP included in pooled investment balance	(68,987)	NR	NA
Total cash equivalents	<u>\$2,406,990</u>		<u>39</u>
Securities lending collateral investment pool	<u>\$ 86,636</u>	NR	<u>20</u>

- (1) As of June 30, 2010, the repurchase agreement was collateralized at 102% for \$11,892,378 by one Federal Loan Mortgage Corporation Gold security maturing December 1, 2029. This security carries AAA credit quality rating.
- (2) The government direct-indirect securities are included in the credit quality rating and effective duration table in Note 3 D (Investments).

As of June 30, 2010, local governments invested \$358,539,815 in STIP. As of June 30, 2010, component units of the State of Montana had investments in cash equivalents with a book value and fair value of \$526,639,298.

Investment Risk Disclosures

The investment risk disclosures are described in the following paragraphs and are identified by the specific pools or securities to which they pertain, when applicable.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. 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 Investment’s policy requires that STIP securities be rated an investment grade as defined by at least one of the Nationally Recognized Statistical Rating Organizations (NRSRO).

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 40.

STIP investments are categorized above to disclose credit risk as of fiscal year end. Credit risk reflects the security quality rating, by investment security type, as of the June 30 report date. If a security investment type is unrated, the

quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated by the NRSRO.

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 an outside party. As of fiscal year end, all STIP securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board's custodial bank, State Street Bank, or the State's name.

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 had concentration of credit risk exposure to the Federal Home Loan Bank of 5.56%, Federal National Mortgage Association (Fannie Mae) of 6.67 % and the Federal Home Loan Mortgage Corp. (Freddie Mac) of 10.00% as of June 30, 2010.

The concentration of credit risk for the rated securities is included in the disclosure in Note 3 D (Investments).

Interest Rate Risk

STIP interest rate risk is determined using the weighted average maturity (WAM) method. The WAM measure expresses investment time horizons: the time when investments are due and payable in days, months or years, weighted to reflect the dollar size of individual investments within an investment type.

Legal and Credit Risk

In January 2007, 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. Since June 30, 2008, these issues carry a D rating by Standard & Poors. 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.

As of June 30, 2008, \$2,729,889 was attributable to interest accrued to their respective maturity dates for the above securities. On November 14, 2008 and October 14, 2009, the Board received 100% payment of the accrued interest receivable from Axon Financial Funding of \$1,825,967 and Orion Finance USA of \$903,922, respectively.

For fiscal years 2010 and 2009, the Board received Axon Financial Funding payments on principal of \$21,239,711 and interest compensation of \$2,253,590 in excess of the accrued interest receivable. Axon Financial Funding payments totaled \$25,319,268 for the two fiscal years. On October 14, 2009, the Board received its initial payment from Orion Finance USA. Fiscal year 2010 payments from Orion Finance USA included principal of \$12,142,745 and interest compensation of \$1,759,182 in excess of the \$903,922 accrued interest receivable for a total of \$14,805,849. In June and December 2009, the Board applied \$21 million from the STIP reserve to the outstanding principal for the Axon Financial Funding and Orion Finance USA securities. As of June 30, 2010, the Axon Financial Funding and Orion Finance USA outstanding amortized cost balances are \$55,260,289 and \$30,357,255 million, respectively, for a combined SIV total of \$85,617,544. Refer to Note 17 – Subsequent Events for additional information.

The Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corp. (Freddie Mac) were put into conservatorship on September 7, 2008.

A STIP reserve account was established in November 2007. Income is distributed to STIP participants based on accrued interest and discount amortization. To avoid distributing cash to participants based on accrued interest on

certain SIVs that may be uncollectible; the accrued interest amount was deposited in this account. Additional accrued income was deposited in the account to pay for any incidental direct expenses incurred as a part of any SIV restructuring activity not to be paid from SIV assets. Accrued income was also deposited in the account to offset any potential principal loss on these securities in the future.

C. Equity in Pooled Investments

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

Table 3 – Equity in Pooled Investments
(in thousands)

	Carrying Amount	Fair Value
MDEP:		
Domestic equity pool	\$2,347,508	\$2,205,950
TFIP:		
Corporate bonds (rated)	691,087	716,824
Core real estate	54,000	53,595
Municipal government bonds (rated)	1,100	1,105
Municipal government bonds (unrated)	120	120
U.S. government direct obligations	360,274	375,574
U.S. government agencies	494,824	518,446
U.S. government agencies (unrated)	20,000	20,336
High yield bonds	90,000	92,694
STIP	35,294	35,294
STIP Structured Investment Vehicle	2,265	2,265
RFBP:		
Corporate bonds (rated)	876,749	893,712
International Government	13,059	13,220
U.S. government direct obligations	353,133	363,443
U.S. government agencies	464,974	484,277
U.S. government agencies (unrated)	30,000	30,504
Municipal bonds	100	99
State Street STIP	90,971	90,971
STIP	4,365	4,365
STIP Structured Investment Vehicle	280	280
MTIP:		
International stock pool	1,138,496	1,092,436
MPEP:		
Private equity pool	845,012	854,832
MTRP:		
Real estate pool	481,434	327,408
STIP	25,168	25,168
STIP Structured Investment Vehicle	1,615	1,615
Total pooled investments	8,421,828	8,204,533
Pool adjustments (net)	(14,304)	(14,304)
Total equity in pooled investments	<u>\$8,407,524</u>	<u>\$8,190,229</u>

As of June 30, 2010, the fair value of the underlying securities on loan was \$1,265,408,946. Collateral provided for the securities on loan totaled \$1,296,044,443, consisting of \$522,023,477 in cash and \$774,020,966 in securities.

As of June 30, 2010, component units of the State of Montana had equity in pooled investments with a book value of \$5,156,297,171 and a fair value of \$6,408,703,609, as included in Table 3.

Investment Risk Disclosures

The investment risk disclosures are described in the following paragraphs and are identified by the specific pools to which they pertain, when applicable.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the RFBP and TFIP fixed income instruments have credit risk as measured by major credit rating services. This is the risk that the issuer of a fixed income security may default with regard to the timely payment of interest and principal. The Board of Investments' policy requires RFBP and TFIP fixed income investments, at the time of purchase, to be rated investment grade as defined by Moody's (Baa3 or better) or by Standard & Poor's (S&P) (BBB- or better) rating services. 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. The credit ratings presented in the tables below are provided by the S&P rating service. If an S&P rating is not available, a Moody's rating has been used.

The Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) were put into conservatorship on September 7, 2008.

In regard to the Bond Pool and the Investment Pool portfolios, on September 14, 2008, Lehman Brothers filed for Chapter 11 bankruptcy. The Bond Pool, Investment Pool and AOF portfolios held a \$15 million position in Lehman Brothers Holdings, Inc., 2.778%, 05/25/2010. The AOF portfolio also includes a \$5 million position in Lehman Brothers Holdings, Inc., 5%, 01/14/2011. As of September 30, 2008, the book value of these bond positions was written down to 80% of par. On October 30, 2008, the book value of these bonds was further written down to 65% of par. Four additional write downs occurred during fiscal year 2009. As of June 30, 2010, the book value of these bonds represents 20% of par.

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 an outside party. As of fiscal year end, all the fixed-income securities were registered in the nominee name for the Montana Board of Investments. The Equity Index, US Bank repurchase agreement, real estate, mortgage, and loan investments were purchased and recorded in BOI's name. Commingled fund investments are registered in the name of the Montana Board of Investments.

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. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement.

The RFBP had concentration of credit risk exposure to the Federal National Mortgage Association (Fannie Mae) of 17.98% as of June 30, 2010. The TFIP had concentration of credit risk exposure to the same issuer of 15.46% as of June 30, 2010. The RFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp. (FHLMC-Freddie Mac) of 10.24% as of June 30, 2010. The TFIP had concentration of credit risk exposure to FHLMC of 8.76% as of June 30, 2010.

With the exception of one fund, the 19 investment policy statements for various AOF state agencies do not address concentration of credit risk. One fund requires credit risk to be limited to 3 percent per private issuer name and 6 percent per triple-A rated issues of government entities. The policy revised in May 2010 states, "the maximum fixed income credit risk will be limited to 2% of the total securities portfolio in any one name." Investments by various governmental agencies, pooled as the All Other Funds, are excluded from the concentration of credit risk requirement.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Bond Pool's and Investment Pool's duration is to remain within a specified range (e.g., plus or minus 20%) of the Index duration. The investment policies of the bond and investment pools do not formally address interest rate risk. In accordance with GASB Statement No. 40, the Board uses effective duration as a measure of interest rate risk for the bond and investment pool portfolios. BOI's analytic software uses "an option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is defined as the average percentage change in a bond's

price for a given change in interest rates. Prices move inversely to interest rates. The effective duration method incorporates the effect of embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-through securities, CMO, and ARM securities)."

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

The portfolios pay a fixed rate of interest until maturity while floating rate securities pay a variable rate of interest until maturity. As of fiscal year end, these portfolios held certain variable rate issues. Interest payments on these securities are based on an underlying proxy, e.g., LIBOR (London Interbank Offered Rate).

As of fiscal year end, the Bond Pool, Investment Pool and AOF portfolios held two Collateralized Debt Obligations (CDO) with a combined par of \$50 million. A CDO is a structured debt security backed by a portfolio consisting of secured or unsecured bonds issued by a variety of corporate or sovereign obligors. The CDO positions are categorized as rated corporate debt.

The bond and investment pools' investments are categorized below to disclose credit and interest rate risk as of June 30, 2010.

Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

Legal Risk

As of June 30, 2010, BOI was not aware of any legal risks regarding investments.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2010, as required for applicable pools. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

TFIP Credit Quality Rating and Effective Duration as of June 30, 2010 (in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Core Real Estate	\$ 53,595	NR	NA
Corporate Bonds (rated)	716,824	A+	4.99
High Yield Bond Fund	92,694	B+	4.09
Municipal Government Bonds (rated)	1,105	AA	.08
Municipal Government Bonds (unrated)	120	NR	4.57
U.S. Government Direct Obligations	375,574	AAA	5.97
U.S. Government Agency	518,446	AAA	2.44
U.S. Government Agency (unrated)	20,336	NR	7.93
STIP	37,559	NR	.11
Total fixed-income investments	\$1,816,253	AA-	4.33
Securities lending collateral investment pool	\$ 100,913	NR	.05

RFBP
Credit Quality Rating and Effective Duration as of June 30, 2010
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate Bonds (rated)	\$ 893,712	A-	4.92
International Government	13,220	AA	4.86
Municipal Government Bonds	99	A+	3.16
U.S. Government Direct Obligations	363,444	AAA	6.49
U.S. Government Agency	484,277	AAA	2.17
U.S. Government Agency (unrated)	30,504	NR	7.93
State Street Short Term Investment Fund (STIF)	90,971	NR	.08
STIP	4,645	NR	.11
Total fixed-income investments	<u>\$1,880,872</u>	<u>AA-</u>	<u>4.08</u>
Securities lending collateral investment pool	<u>\$ 205,756</u>	NR	.08

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The MTIP, RFBP, MPEP, and MTRP U.S. dollar cash and equity positions, by currency, are reported at fair value in the tables below.

MTIP and RFBP
Cash and Securities by Foreign Currency
(in thousands)

Currency	2010	
	Cash	Securities
Australian Dollar	\$ 189	\$ 22,163
Brazilian Real	408	6,040
Canadian Dollar	243	36,310
Danish Krone	51	5,122
Euro	839	113,979
Hong Kong Dollar	62	23,082
Indonesian Rupiah	10	834
Hungarian Forint	2	0
Israeli Shekel	0	1,289
Japanese Yen	670	82,073
South Korean Won	1	11,640
Malaysian Ringgit	23	4,326
Mexican Peso	0	680
Norwegian Krone	15	2,311
Philippine Peso	7	272
Polish Zloty	3	399
Singapore Dollar	38	6,883
South African Rand	0	2,536
Swedish Krona	15	5,517
Swiss Franc	40	25,563
New Taiwan Dollar	12	4,331
Thailand Baht	0	2,872
Turkish Lira	1	1,233
UK Pound Sterling	96	74,527
Total Cash and Securities	<u>\$2,725</u>	<u>\$ 433,982</u>

For fiscal year 2010, the securities total includes \$420,761,152 in MTIP equities and \$13,220,260 in RFBP fixed income investments.

MPEP and MTRP Investments by Foreign Currency
(in thousands)

Currency	Fund Manager Name	2010	
		Carrying Value	Fair Value
EURO	Terra Firma Fund III	\$15,328	\$4,484
EURO	HarbourVest Intl Private Equity Fund VI	929	855
EURO	Carlyle Europe Real Estate Partners III	10,884	5,819
Total MPEP and MTRP		\$27,141	\$11,158

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

Investment Derivatives	Change in Fair Value		Fair Value at June 30, 2010		Notional
	Classification	Amount	Classification	Amount	
Foreign currency forwards	Investment Revenue	\$ 1,986,012	LT debt/equity	\$ 357,976	0
Index futures long	Investment Revenue	922,484	Futures	0	6,800
Rights	Investment Revenue	(181,208)	Equity	0	0
TBA transaction long	Investment Revenue	1,411,857	LT debt	3,013	580,000
Warrants	Investment Revenue	(1,247)	Equity	101,145	45,041
Total derivatives		<u>\$ 4,137,898</u>		<u>\$ 462,134</u>	

A foreign currency forward is a contract to purchase one currency and sell another at an agreed upon exchange rate. Fair value represents the unrealized appreciation/depreciation on foreign currency forward transactions pending as of June 30, 2010 and is the difference between the execution exchange rate at and the prevailing exchange rate as of the report date.

Credit Risk - Credit risk is the risk that a counterparty will not fulfill its obligations. The tables below depict the BOI's credit risk exposure to its investment derivatives and applicable counterparty credit ratings.

Maximum Loss before and after Netting and Collateral

Maximum amount of loss the Board would face in case of default of all counterparties i.e. aggregated (positive) fair value of OTC (Over-the-Counter) positions as of June 30, 2010.	\$ 1,116,279
Effect of collateral reducing maximum exposure.	-
Liabilities subject to netting arrangements reducing exposure.	-
Resulting net exposure	\$ <u><u>1,116,279</u></u>

<u>Counterparty Name</u>	<u>Percentage of Net Exposure</u>	<u>S&P Rating</u>	<u>Fitch Rating</u>	<u>Moody's Rating</u>
Deutsche Bank AG London	38%	A+	AA-	Aa3
State Street Bank and Trust	31%	AA-	A+	Aa2
JP Morgan Chase Bank NA	14%	AA-	AA-	Aa1
Credit Suisse London Branch (GF	13%	A+	AA-	Aa1
Standard Chartered Bank	2%	A+	A+	A2
Westpac Banking Corporation	1%	AA	AA	Aa1
Goldman Sachs & Co.	0%	A	A+	A1

D. Investments

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

Long-term Investments

<u>Department</u>	<u>Percent Administered</u>
Board of Investments	69.63%
PERA (Public Employee Retirement Administration)	17.28
Board of Housing	6.00
College Savings Plan	5.45
Montana State University/University of Montana	1.21
Other (1)	<u>.43</u>
Total	<u><u>100.00%</u></u>

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

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

Table 4 – Investments
(in thousands)

	Carrying Amount	Fair Value
Primary government		
Corporate bonds (rated) (1)	\$ 24,909	\$ 25,871
U.S. govt agency (1)	100,265	106,938
U.S. govt direct (rated) (1)	880	959
Government securities	8,135	8,773
STIP/SIV investments	43,208	43,209
Loans	196,499	196,499
Other equities	2,520	2,521
Total	\$ 376,416	\$ 384,770
Component units/fiduciary funds		
Corporate bonds (rated) (1)	\$ 567,494	\$ 599,383
U.S. govt agency (1)	242,409	237,604
U.S. govt direct (rated) (1)	146,995	182,715
Government securities	8,935	9,035
STIP/SIV Investments	38,227	38,227
Mortgages	35,778	35,527
Other equities	102,407	110,790
Deferred compensation	320,319	320,319
Defined contribution	56,671	56,671
529 College Savings Plan	118,992	118,992
VEBA	1,304	1,289
Investments of MSU component units	132,055	132,055
Investments of UM component units	145,004	145,004
Real estate	17,027	17,346
Other	148,423	151,967
Total	\$ 2,082,040	\$ 2,156,924
Total investments	\$ 2,458,456	\$ 2,541,694
Securities lending collateral investment pool	\$ 205,394	\$ 205,394

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

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

All Other Funds - Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2010
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate Bonds (Rated) (1)	\$ 649,782	A	3.25
U.S. Government Direct Obligations (1)	195,384	AAA	4.67
U.S. government Agency(1)	379,072	AAA	2.83
US Bank Sweep Repurchase Agreement (1)(2)	11,659	NR	
Total	\$1,235,897	AA-	3.31

- (1) These rated securities are reported on both Table 2 – Cash Equivalents and Table 4 – Investments.
(2) The US Bank repurchase agreement, per contract, was collateralized at 102% for \$11,892,378 by one Federal Home Loan Mortgage Corporation Gold security maturing December 1, 2029. This security carries AAA credit quality rating.

Investment Risk Disclosures

The investment risk disclosures are described in the following paragraphs and are identified by the specific securities to which they pertain, when applicable.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the AOF (All Other Funds) fixed-income instruments have credit risk as measured by major credit rating services. This risk is that the issuer of a fixed-income security may default in making timely principal and interest payments. The Board of Investment's policy requires AOF fixed-income investments, at the time of purchase, to be rated an investment grade as defined by Moody's (Baa3 or better) or by Standard & Poor's (S&P) (BBB- or better) rating services. 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. The credit ratings presented in the above table are provided by S&P's rating services. If an S&P rating is not available, a Moody's rating has been used. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date.

In regard to the AOF portfolio, on September 14, 2008, Lehman Brothers filed for Chapter 11 bankruptcy. The Bond Pool, Investment Pool and AOF portfolios held a \$15 million position in Lehman Brothers Holdings, Inc., 2.778%, 05/25/2010. The AOF portfolio also includes a \$5 million position in Lehman Brothers Holdings, Inc., 5%, 01/14/2011. As of September 30, 2008, the book value of these bond positions was written down to 80% of par. On October 30, 2008, the book value of these bonds was further written down to 65% of par. Four additional write downs occurred during fiscal year 2009. As of June 30, 2010, the book value of these bonds represents 20% of par.

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 an outside party. As of fiscal year end, all the fixed-income securities were registered in the nominee name for the Montana Board of Investments. The Equity Index, US Bank repurchase agreement, real estate, mortgage, and loan investments were purchased and recorded in BOI's name. Commingled fund investments are registered in the name of the Montana Board of Investments.

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. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement.

With the exception of one fund, the 19 investment policy statements for various AOF state agencies do not address concentration of credit risk. One fund requires credit risk to be limited to 3 percent per private issuer name and 6 percent per triple-A rated issues of government entities. The policy, revised in May 2010, states, "the maximum fixed income credit risk will be limited to 2% of the total securities portfolio in any one name." Investments by various governmental agencies, pooled as the All Other Funds, are excluded from the concentration of credit risk requirement.

This concentration of credit risk includes the rated securities from Table 2 – Cash Equivalents and Table 4 – Investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. With the exception of one fund, the AOFs' investment policies do not formally address interest rate risk. This fund's policy sets an average duration range of 2-5 years for fixed income securities except in extraordinary circumstances where a shorter duration may be advisable. In accordance with GASB Statement No. 40, the Board uses effective duration as a measure of interest rate risk for the AOF portfolio. Our analytic software uses "an option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is defined as the average percentage change in a bond's price for a given change in interest rates. Prices move inversely to interest rates. The effective duration method incorporates the effect of embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-through securities, CMO, and ARM securities)."

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

The AOF bonds pay a fixed rate of interest until maturity while floating rate securities pay a variable rate of interest until maturity. As of fiscal year end, these portfolios held certain variable rate issues. Interest payments on these securities are based on an underlying proxy, e.g., LIBOR (London Interbank Offered Rate).

As of fiscal year end, the Bond Pool, Investment Pool and AOF portfolio held two Collateralized Debt Obligations (CDO) with a combined par of \$50 million. A CDO is a structured debt security backed by a portfolio consisting of secured or unsecured bonds issued by a variety of corporate or sovereign obligors. The CDO positions are categorized as rated corporate debt.

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

Legal Risk

As of June 30, 2010, there were no known legal risks regarding investments.

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE

A disaggregation of the net receivables and accounts payable (by fund type) as of June 30, 2010, follows (amounts in thousands):

A. Receivables

	Governmental Funds					
	General	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental
Licenses and permits	\$ -	3,820	\$ -	\$ -	\$ -	\$ -
Taxes	202,964	71,025	-	4,644	-	88
Charges for services/ fines/forfeitures	42	15,149	4,552	-	48,894	362
Investment income	608	4,621	8	3,437	3,837	5,338
Contributions/premiums	-	22,347	-	-	-	-
Reimbursements/ overpayments	10,940	4,997	-	-	-	-
Grants/contracts/ donations	-	136	-	-	-	-
Other	3,998	2,321	9,824	-	-	61
Total receivables	218,552	124,416	14,384	8,081	52,731	5,849
Less: Allowance for doubtful accounts	(13,131)	(15,059)	(1,314)	-	-	-
Receivables, net	205,421	109,357	13,070	8,081	52,731	5,849

	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Charges for services	\$ -	\$ -	20,589	210
Investment income	-	7,180	21	270
Contributions/premiums	12,005	-	6,214	2,396
Other	-	-	181	12
Total receivables	12,005	7,180	27,005	2,888
Less: Allowance for doubtful accounts	(5,070)	-	(38)	(11)
Receivables, net	6,935	7,180	26,967	2,877

B. Payables

Governmental Funds					
	General	State Special Revenue	Federal Special Revenue	Land Grant Permanent	Nonmajor Governmental
Tax refunds	\$ 126,930	\$ -	\$ -	\$ -	\$ -
Vendors/Individuals	52,355	77,509	116,151	-	6,107
Payroll	10,581	10,320	4,017	-	17
Accrued Interest	-	-	-	3,749	-
Total	<u>\$ 189,866</u>	<u>\$ 87,829</u>	<u>\$ 120,168</u>	<u>\$ 3,749</u>	<u>\$ 6,124</u>

Proprietary Funds				
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Vendors/Individuals	\$ 461	\$ 1	\$ 12,592	\$ 13,874
Payroll	-	5	445	1,654
Accrued Interest	-	180	-	4
Total	<u>\$ 461</u>	<u>\$ 186</u>	<u>\$ 13,037</u>	<u>\$ 15,532</u>

NOTE 5. CAPITAL ASSETS**A. Primary Government**

Changes in capital asset balances for the fiscal year ended June 30, 2010, are reflected in the following table (in thousands):

Primary Government

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 461,503	\$ 65,601	\$ (7,806)	\$ 519,300
Construction Work In Progress	224,227	459,073	(178,248)	505,052
Easements	88,659	366	(236)	88,789
Museum & Art	99,397	1,270	(36,306)	64,361
Other	10,421	(149)	(423)	9,849
Total Capital Assets not being depreciated	884,207	526,161	(223,019)	1,187,349
Capital assets being depreciated:				
Infrastructure	3,829,186	341,677	(255,752)	3,915,111
Land Improvements	28,245	4,222	(13)	32,454
Buildings/Improvements	440,433	31,803	(1,087)	471,149
Equipment	314,868	28,701	(16,643)	326,926
Easements - Amortized (2)	2,106	0	(73)	2,033
Other (2)	4,292	161	(16)	4,437
Total Capital Assets being depreciated	4,619,130	406,465	(273,584)	4,752,110
Less Accumulated Depreciation for:				
Infrastructure	(1,312,655)	(219,291)	181,326	(1,350,620)
Land Improvements	(6,481)	(1,494)	3	(7,972)
Buildings/Improvements	(225,369)	(20,046)	457	(244,958)
Equipment	(198,452)	(22,567)	12,401	(208,618)
Other	(3,791)	(193)	2	(3,982)
Total accumulated depreciation	(1,746,748)	(263,591)	194,189	(1,816,150)
Total capital assets being depreciated net	2,872,382	142,973	(79,395)	2,935,960
Intangible Assets	31,246	18,066	(23,417)	25,895
Governmental activities capital assets net	\$ 3,787,835	\$ 687,200	\$ (325,831)	\$ 4,149,204

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

(2) For 2010, Other Depreciable Assets are presented in more detail.

Primary Government (continued)

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Business-type activities				
Capital assets not being depreciated:				
Land	\$ 800	\$ -	\$ -	\$ 800
Construction Work In Progress	167	1,433	(63)	1,537
Total Capital Assets not being depreciated	967	1,433	(63)	2,337
Capital assets being depreciated:				
Infrastructure	884	31	-	915
Land Improvements	3,830	-	-	3,830
Buildings/Improvements	7,344	123	(13)	7,454
Equipment	6,037	1,392	(132)	7,297
Other	3,191	14	(60)	3,145
Total Capital Assets being depreciated	21,286	1,560	(205)	22,641
Less Accumulated Depreciation for:				
Infrastructure	(572)	(22)	-	(594)
Land Improvements	(567)	(168)	12	(723)
Buildings/Improvements	(4,552)	(192)	-	(4,744)
Equipment	(4,098)	(361)	-	(4,459)
Other Fixed Assets	(53)	-	38	(15)
Total accumulated depreciation	(9,842)	(743)	50	(10,535)
Total capital assets being depreciated net	11,444	817	(156)	12,106
Intangible Assets	128	15	(52)	91
Business Type activities capital assets net	12,539	2,265	(270)	14,534

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

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

	Amount
General Government	\$ 10,010
Public Safety/Corrections	8,286
Transportation (including depreciation of the highway system maintained by the state)	221,618
Health/Social Services	1,759
Educational/Cultural	714
Resource Development/Recreation (including depreciation of the state's dams)	7,634
Depreciation and amortization on capital assets held by the States internal service funds is charged to the various functions based on their usage of the assets.	13,570
Total depreciation expense - governmental activities	<u>\$263,591</u>

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

	Amount
Liquor Stores	\$ 101
State Lottery	162
General Government Services	218
Prison Funds	262
Total Depreciation Expense - Business-Type Activities	<u>\$ 743</u>

B. Discretely Presented Component Units

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

	Montana State University	University of Montana	Other	Total
Capital assets not being depreciated:				
Land	\$ 6,933	\$ 7,817	\$ 1,139	\$ 15,889
Construction Work In Progress	12,289	18,184	-	30,473
Capitalized Collections	8,297	17,160	-	25,457
Livestock for educational purposes	3,071	-	-	3,071
Total Capital Assets not being depreciated	30,590	43,161	1,139	74,890
Capital assets being depreciated:				
Infrastructure	34,836	6,770	-	41,606
Land Improvements	16,183	12,884	-	29,067
Buildings/Improvements	450,078	470,315	27,835	948,228
Equipment	125,984	62,942	7,165	195,091
Livestock	-	14	-	14
Library Books (1)	63,004	54,945	-	117,949
Total Capital Assets being depreciated	690,085	607,870	35,000	1,332,955
Total accumulated depreciation	(372,221)	(306,215)	(2,939)	(681,375)
Total Capital Assets being depreciated net	317,864	301,655	32,061	651,580
Intangible Assets	953	347	4,528	5,828
MSU Component Unit Capital Assets, net	10,578	-	-	10,578
UM Component Unit Capital Assets, net	-	4,116	-	4,116
Discretely Presented Component Units capital assets net	\$ 359,985	\$ 349,279	\$ 37,728	\$ 746,992

(1) For 2010, Other Depreciable Assets are presented in more detail.

NOTE 6. RETIREMENT PLANS**A. General**

The Public Employees' Retirement Board (PERB), a discretely presented component unit of the State of Montana, administers eight defined benefit plans: Public Employees' Retirement System-Defined Benefit Retirement Plan (PERS-DBRP), Judges' Retirement System (JRS), Highway Patrol Officers' Retirement System (HPORS), Sheriffs' Retirement System (SRS), Game Wardens' and Peace Officers' Retirement System (GWPORS), Municipal Police Officers' Retirement System (MPORS), Firefighters' Unified Retirement System (FURS), and Volunteer Firefighters Compensation Act (VFCA). The PERB also administers two defined contribution plans: The Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) and the Deferred Compensation (457) Plan. The PERB prepares a publicly issued comprehensive annual financial report that includes

financial statements and required supplementary information for PERS-DBRP, JRS, HPORS, SRS, GWPORS, MPORS, FURS, VFCA, as well as the two defined contribution plans, PERS-DCRP and Deferred Compensation plans. Separately issued financial statements can be obtained at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131.

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

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

B. Plan Descriptions

The State contributes to and/or administers ten plans in two categories: (1) the State as the single employer; and (2) the State as an employer contributor to cost-sharing, multiple-employer plans.

The number of years required to obtain vested rights varies among the plans. All plans provide early retirement options, death benefits, termination, and disability benefits. The post-retirement benefits of each of the plans are included in the tables that follow.

The funding policies for each plan provide for periodic employer and employee contributions (except VFCA) at rates specified by state law. An actuary determines the actuarial implications of the funding requirement in an annual actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the Entry Age Actuarial Cost Method, with both normal cost and amortization of the unfunded actuarial liability determined as a level percentage of payrolls. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost, in addition to amortizing the unfunded liability over a period not to exceed 30 years.

C. Public Employee Defined Benefit Retirement Plans.

(1) State as the Single Employer

A summary of government employees participating in JRS and HPORS by employer type at June 30, 2010, follows:

Employers	JRS	HPORS
State agencies	1	1
Total	1	1

JRS – Judges’ Retirement System – JRS is a single-employer defined benefit pension plan established in 1967 and governed by Title 19, chapters 2 & 5 of the Montana Code Annotated (MCA). This system provides retirement benefits for all Montana judges of district courts, justices of the Supreme Court, and the Chief Water Judge.

HPORS – Highway Patrol Officers’ Retirement System – HPORS is a single-employer, defined benefit pension plan, established July 1, 1971 and governed by Title 19, chapters 2 & 6 of the MCA. This system provides retirement benefits for all members of the Montana Highway Patrol, including supervisory personnel. Eligible members, retired prior to July 1, 1991, or their survivors may be eligible for an annual supplemental lump-sum payment distributed each September. Many factors must be considered for eligibility, including the number of years the recipient has received a service retirement or disability benefit, the recipient’s age, and whether the recipient is employed in a position covered by a retirement system under Title 19. This lump-sum payment is funded by registration fees requested by the PERB from the general fund. The average annual supplemental payment for non-

GABA retirees was \$2,678 in September 2010. This enhancement is limited to non-GABA (Guaranteed Annual Benefit Adjustment) retirees.

For the funded status, and funding progress of the JRS and HPORS, plans refer to the Required Supplementary Information.

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

A summary of government employers participating in PERS-DBRP, SRS, GWPORS, MPORS, FURS, and TRS by employer type at June 30, 2010, follows:

Employers	PERS-DBRP	SRS	GWPORS	MPORS	FURS	TRS
State agencies	34	1	4		1	9
Counties	55	56				
Cities/towns	97			30	16	
Rural Fire Districts					6	
Colleges/universities	5		3			5
Highs School	6					
School districts	231					351
Other Agencies	105					
Total	533	57	7	30	23	365

PERS-DBRP – Public Employees Retirement System - Defined Benefit Retirement Plan – PERS-DBRP is a defined benefit cost sharing, multiple-employer public retirement system established on July 1, 1945 and governed by Title 19, chapters 2 & 3 of the MCA. This plan provides retirement, disability and death benefits to substantially all public employees and their beneficiaries not covered by another public plan.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on an actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. As of June 30, 2010, the statutory contribution rates are insufficient. The unfunded actuarial accrued liability does not amortize.

SRS – Sheriffs Retirement System – This is a defined benefit cost-sharing, multiple-employer retirement system established on July 1, 1974 and governed by Title 19, chapters 2 & 7 of the MCA. The plan provides retirement benefits to all State Department of Justice criminal and gambling investigators hired after July 1, 1993, all detention officers hired after July 1, 2005, and all Montana sheriffs.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. As of June 30, 2010, the statutory contribution rates are insufficient. The unfunded actuarial accrued liability does not amortize.

GWPORS – Game Wardens & Peace Officers Retirement System – This is a defined benefit cost-sharing, multiple-employer retirement system established in 1963 and governed by Title 19, Chapters 2 & 8 of the MCA. The plan provides retirement benefits for all persons employed as game wardens, warden supervisory personnel, or state peace officers.

Actuarial Status: The Montana Constitution Article VIII, Section 15, requires public retirement plans be funded on an actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate, plus an amortization payment of the unfunded actuarial liability, if any over no more than 30 years. As of June 30, 2010, the statutory contribution rates are insufficient. The unfunded actuarial accrued liability does not amortize.

MPORS – Municipal Police Officers Retirement System – MPORS is a defined benefit cost-sharing, multiple-employer retirement system established in 1974 and governed by Title 19, chapters 2 & 9 of the MCA,. This plan covers all municipal police officers of first- and second-class cities and other cities that adopt the plan. It is a cost-sharing defined benefit plan with a special funding situation.

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

FURS – Firefighters Unified Retirement System – This is a defined benefit cost-sharing, multiple-employer retirement system established in 1981 and governed by Title 19, chapters 2 & 13 of the MCA, The plan provides retirement benefits for firefighters employed by first- and second-class cities, other cities and rural fire district departments that adopt the plan, and to firefighters hired by the Montana Air National Guard (MANG) on or after October 1, 2001.

VFCA – Volunteer Firefighters Compensation Act – This compensation plan, established in 1965 and governed by Title 19, chapters 2 & 17 of the MCA, provides pension, disability and survivorship benefits for all volunteer firefighters who are members of qualified volunteer fire companies in unincorporated areas; towns, villages and includes volunteer fire departments, fire districts, and fire service areas under the laws of the state. VFCA also provides limited benefits for death or injuries incurred in the line of duty. VFCA is a plan with a special funding situation.

TRS – Teachers Retirement System – This mandatory plan, established in 1937 and governed by Title 19, chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, special education cooperative, state agency, community college, or unit of the university system.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. As of June 30, 2010, the amortization period for the unfunded actuarial liability is 49.5.

D. Public Employee Defined Contribution Retirement Plans

A summary of government employers participating in the PERS-DCRP and Deferred Compensation plans by employer type at June 30, 2010 follows:

Employers	PERS-DCRP	457
State agencies	32	1
Counties	44	2
Cities/towns	44	4
Colleges/universities	5	6
High Schools	3	
School districts	81	2
Other Agencies	35	6
Total	244	21

PERS-DCRP – Public Employees Retirement System - Defined Contribution Retirement Plan – This plan is a multiple-employer plan established July 1, 2002 and governed by Title 19, chapter 2 & 3 of the MCA.

All new hires initially are members of the Public Employees Retirement System - Defined Benefit Retirement Plan (PERS-DBRP). New hires have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the current PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The choice is irrevocable. Members of the defined contribution retirement plan direct their contributions and a portion of their employer's contributions among the offered investment options. The remaining portion of their employer's contributions is to be used to reduce the Plan Choice Rate unfunded actuarial liability, to fund the long-term disability benefits to participants of the DCRP, and to fund an employee education program. The employer and employee plan contributions as of June 30, 2010, were \$4,028,919 and \$6,139,800, respectively.

457 – Deferred Compensation (457) Plan – The Deferred Compensation (457) plan was established in 1976 and is governed by Title 19, chapter 50, MCA, in accordance with Internal Revenue Service Code (IRC) 457. All employees of the State, the Montana University System, and contracting political subdivisions are eligible to participate.

The Deferred Compensation plan is a voluntary, supplemental retirement savings plan. Assets of the 457 Deferred Compensation plan are required to be held in trusts, custodial accounts, or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Participants elect to defer a portion of their salary, within IRC limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed provided IRC-specified criteria are met. Participant rights are fully vested in their accounts at the time of deposit. The employer and employee plan contributions as of June 30, 2010, were \$61,464 and \$18,607,433, respectively.

E. Optional Retirement Program

ORP – Optional Retirement Program – Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF); only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members, who did not elect the ORP participate in the Teachers' Retirement System or the Public Employees' Retirement System benefit plans. Beginning July 1, 1993, membership in the ORP was mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record

employee/employer contribution expenditures in the affected higher education sub-fund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire-transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF.

Required employee contributions were 7.03% of salary; required employer contributions were 5.84% of salary, for a total of 12.87% of salary contributed to the ORP (refer to the following table).

	TIAA-CREF <i>(in thousands)</i>
Covered payroll	\$195,975
Total payroll	368,970
Employer contributions	\$ 11,445
Percent of covered payroll	5.84%
Employee contributions	\$ 13,772
Percent of covered payroll	7.03%

F. Summary of Significant Accounting Policies

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

G. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments for the defined benefit retirement plans. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on a discounted cash flow. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services.

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

H. Long-term Contracts for Contributions

The Montana Legislature enacted a provision of the Employee Protection Act (EPA) (Title 19, Chapter 2, Part 706, MCA), related to the Employee Protection Act, allowing state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their employer pay a portion of the total cost of purchasing up to three years of "1-for -5" additional service. The employees participating under section 19-2-706, MCA increased from 192 in fiscal year 2009 to 199 in fiscal year 2010.

The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received, including interest, during fiscal year 2010 were \$75,418. As of June 30, 2010, outstanding balances were \$25,660.

A summary of contribution rates, funding progress, employer and employee contributions, and eligibility and benefits for each retirement plan is provided in the tables on the following pages.

The information presented in this schedule was determined as part of the actuarial valuations at the dates indicated in the table below. Additional information as of the latest actuarial valuation follows:

Pension Plan Information Single Employer Systems		
	JRS	HPORS
Contributions (in thousands)		
Employer	\$1,468	\$4,763
Employee	595	1,261
License and registration fees		287
Actuarial valuation date	6/30/2010	6/30/2010
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of payroll open	Level percentage of payroll open
Remaining amortization period	30 years (1)	29.9 years
Asset valuation method	4-year smoothed market	4-year smoothed market
Actuarial assumptions:		
Investment rate of return	7.75%	7.75%
Projected salary increases	4.00%	4.00%
includes inflation factor	3.00%	3.00%
Merit	None	0%-7.3%
Benefit adjustments		
GABA	3% after 1 year	3% after 1 year
Non-GABA	Biennial increase to salary of active member in like position	2% per year of service, not to exceed 60% of probationary officer's base salary and the increase may not exceed 5% of the current benefit.

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

**Schedule of Contribution Rates
Fiscal Year 2010**

Plan	Member	Employer	State
PERS-DBRP	6.9% [19-3-315, MCA]	7.17% State & University 7.07% Local Governments 6.8% School Districts (K-12) [19-3-316, MCA]	0.1% Local Government payroll - paid from the General Fund [19-3-319, MCA] 0.37% School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]
MPORS	7.0% - hired after 6/30/1975 & prior to 7/1/1979 & not electing GABA [19-9-710(b), MCA] 8.5% - hired after 6/30/1979 & prior to 7/1/1997 & not electing GABA [19-9-710(c), MCA] 9.0% - hired after 6/30/1997 & members electing GABA [19-9-710(d), MCA] & 19-9- 710(2), MCA]	14.41% [19-9-703, MCA]	29.37% of salaries - paid from the General Fund [19-9-702, MCA]
FURS	9.5% - hired prior to 7/1/1997 & not electing GABA [19-13-601(2)(a), MCA] 10.7% - hired after 6/30/1997 & members electing GABA [19-13-601(2)(b), MCA]	14.36% [19-13-605, MCA]	32.61% of salaries - paid from the General Fund [19-13-604, MCA]
SRS	9.245% [19-7-403, MCA]	10.115% [19-7-404, MCA]	
HPORS	9.0% - hired prior to 7/1/1997 & not electing GABA 9.05% - hired after 6/30/1997 & members electing GABA [19-6-402, MCA]	26.15% [19-6-404(1), MCA] 10.18% of salaries - paid from the General Fund [19-6-404(2), MCA]	
JRS	7.0% [19-5-402, MCA]	25.81% [19-5-404, MCA]	
GWPORS	10.56% [19-8-502, MCA]	9.0% [19-8-504, MCA]	
VFCA			5.0% of fire insurance premiums - paid from the General Fund [19-17-301, MCA]
PERS-DCRP	6.9% [19-3-315, MCA]	7.17% State & University 7.07% Local Governments 6.8% School Districts (K-12) [19-3-316, MCA]	0.1% Local Government payroll - paid from the General Fund 0.37% School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]
TRS	7.15% [19-20-602, MCA]	9.85% State & University [19-20-605, MCA]	0.11% of members' salaries [19-20-604, MCA] 2.38% contribution of the total earned compensation of school district and community college active members [19-20-607, MCA]

Pension Plan Information
Schedules of Funding Progress
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
Single Employer Systems						
JRS						
6/30/2010	61,277	42,513	(18,764)	144.14%	5,687	(329.95)
HPORS (1)						
6/30/2010	97,204	151,177	53,973	64.30%	13,036	414.03%
Multiple Employer Systems						
PERS-DBRP						
6/30/2010	3,889,890	5,241,819	1,351,929	74.21%	1,083,780	124.74%
SRS						
6/30/2010	200,739	246,734	45,995	81.36%	54,681	84.12%
GWPORS						
6/30/2010	85,151	113,855	28,704	74.79%	39,436	72.79%
MPORS						
6/30/2010	217,545	380,393	162,847	57.19%	37,220	437.53%
FURS						
6/30/2010	213,755	335,463	121,708	63.72%	33,339	365.06%
TRS						
7/1/2010	2,956,600	4,518,200	1,561,600	65.44%	747,000	209.00%
Nonemployer Contributor						
VFCA						
6/30/2010	26,575	34,512	7,936	77.00%	N/A	N/A

(1) The multiyear schedule of funding progress for the HPORS and JRS are presented in the Required Supplementary Information (RSI) following the notes to the financial statements.

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

System	Fiscal Year Ended June 30	Annual Required Contributions	Percentage Contributed	Annual Required State Contribution	Percentage Contributed
<u>SINGLE EMPLOYER SYSTEMS:</u>					
JRS (2)					
HPORS	2008	3,948	100.03%	290	100.00%
	2009	2,501	(165.97%)	286	100.00%
	2010	3,404	139.93%	287	100.00%
<u>MULTIPLE EMPLOYER SYSTEMS:</u>					
PERS-DBRP	2008	68,165	105.98%	378	100.00%
	2009	99,314	76.35%	357	100.00%
	2010	132,004	60.46%	537	100.00%
SRS	2008	4,444	108.78%		
	2009	6,507	79.81%		
	2010	7,735	72.88%		
GWPORS	2008	2,541	117.23%		
	2009	3,491	94.31%		
	2010	4,918	73.45%		
MPORS	2008	4,637	111.19%	9,452	100.00%
	2009	3,455	146.35%	10,186	100.00%
	2010	3,897	176.04%	10,932	100.00%
FURS	2008	4,187	106.68%	9,568	100.63%
	2009	118	3,852.37%	9,831	100.00%
	2010	850	603.27%	10,871	100.00%
VFCA – (Nonemployer Contributor)					
	2008			1,562	100.00%
	2009			1,580	100.00%
	2010			1,575	100.00%
TRS	2008	93,142	87.40%		
	2009	80,998	100.00%		
	2010	90,947	98.30%		

(1) The actuary valuations for 2008 and 2009 changed as a result of using a new actuary in 2010.

(2) The actuarial value of assets is greater than the actuarial accrued liabilities for FY2008-2010. The funding excess is large enough so that the sum of normal costs and the amortization of the funding excess is negative. Common actuarial practice is to set the ARC at zero.

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2010

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
PERS-DBRP	Highest average compensation during any consecutive 36 months	Normal retirement: 30 years, any age; Age 60, 5 years of service; or Age 65, regardless of service Early retirement, actuarially reduced: Age 50, 5 years of service; or Any age, 25 years of service	5 years membership service
MPORS	Hired on or after 7/1/1977 – average monthly compensation of final year of service; hired on or after 7/1/1977 – final average compensation (FAC) for last consecutive 36 months	Normal retirement 20 years, regardless of age; Early retirement : age 50, 5 years of service	5 years membership service
FURS	Hired prior to 7/1/1981 and not electing GABA – highest monthly compensation (HMC); hired on or after 7/1/81 and those electing GABA – highest average compensation (HAC) during any consecutive 36 months	Normal retirement; 20 years, regardless of age; Early retirement age 50, 5 years of service	5 years membership service
SRS	Highest average compensation during any consecutive 36 months	Normal retirement; 20 years regardless of age, has attained normal retirement age; Early retirement age 50, 5 years of service, actuarially reduced	5 years membership service
HPORS	Highest average compensation during any consecutive 36 months	Normal retirement; 20 years of membership service regardless of age, has attained normal retirement age; Early retirement age, 5 years of membership service, actuarially reduced from age 60	5 years membership service
JRS	Hired prior to July 1, 1997 and non-GABA prior to 1/1/1988 or 12/1/2005 – monthly compensation at time of retirement; hired on or after July 1, 1997 or electing GABA prior to 1/1/1988 or 12/1/2005 – HAC during any consecutive 36 months (relates directly to monthly benefit formula)	Normal retirement Age 60, 5 years of membership service; Involuntary retirement any age with 5 years of membership service – involuntary termination, actuarially reduced	5 years membership service
GWPORS	Highest average compensation during any consecutive 36 months	Normal retirement Age 50, 20 years of membership service; Early retirement age 55, 5 years of membership service	5 years membership service
VFCA		Normal retirement Age 55, 20 years of credited service (full benefit); age 60, 10 years of service (partial benefit). As of 4/25/2005 (Senate Bill 197), members may retire with greater than 20 years of service, but not more than 30 years of service.	10 years of service credit
PERS-DCRP		Termination of service	Immediate for participant's contributions and attributable income; 5 years for employer's contributions to individual accounts and attributable income
TRS	Final average compensation during any consecutive 3 years.	Age 60, 5 years of service, or any age with at least 25 years of service. Vested employees may retire at or after age 50 and receive reduced benefits.	5 years of membership service

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2010 (continued)

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
PERS-DBRP	<p>(i) If less than 25 years of membership service, the greater of (a) 1/56 of HAC multiplied by years of service credit.</p> <p>(ii) If 25 years of membership service or more, (a) 1/50 of HAC multiplied by years of service credit.</p> <p>Early retirement: Normal retirement benefit calculated using HAC, and service at early retirement and reduce for each month which the retirement age precedes the earlier of age 60 or the attainment of 30 years of service by 0.5% for the first 60 months and 0.3% for the next 60 months</p>	For retired members who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to (i) 3% for members hired before July 1, 2007 and (ii) 1.5% for members hired on or after July 1, 2007.	
MPORS	Hired on or after July 1, 1977 2.5% of FAC multiplied by years of service credit	Hired after June 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	If hired before July 1, 1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 1/2 the compensation of a newly confirmed police officer in the current fiscal year in the city or town from which the member was last employed.
FURS	Members hired prior to July 1, 1981 and not electing GABA are entitled to the greater of: 2.5% of HMC times year of service credit; or (1) if less than 20 years of service, 2% of HMC times year of service credit; or (2) if more than 20 years of service, 50% of the member's HMC plus years of service in excess of 20 times HMC times 2.0%. Members hired after 6/30/1981 and those electing GABA receive 2.5% of HAC per year of service credit.	For retired members who became active members on and after July 1, 1997 and those who elected to be covered under this provision and who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to 3%	For retired members who were hired prior to July 1, 1997 and who did not elect GABA, the minimum monthly benefit is provided equal to 50% of the current base compensation of a newly confirmed active firefighter of the employer that last employed the member as a firefighter. (Provided the member has at least ten years of membership service)
SRS	2.5% of HAC per year of service credit	For retired members who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment GABA equal to (i) 3% for members hired before July 1, 2007 and (ii) 1.5% for members hired on or after July 1, 2007.	
HPORS	2.5% of HAC per year of service	For retired members who became active members on or after July 1, 1997 and those who elected to be covered under this provision and who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to 3%	For retired members who were hired prior to July 1, 1997 and who did not elect GABA, the monthly benefits are increased each July when they fall below a statutorily guaranteed minimum. Any annual increase is limited to 5.0% over the current benefit and may not exceed 60% of the current base compensation of a probationary officer.
JRS	3.1/3% per year of current salary or highest average compensation for the first 15 years of service credit and 1.785% per year of the current salary or highest average compensation for serve credit over 15 years	For retired members who became active members on and after July 1, 1997 and those who elected to be covered under this provision and who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to 3%.	For retired members who were hired prior to July 1, 1997, and who did not elect GABA, the current salary of an active member in the same position is used to recalculate the monthly benefits

GWPORS	2.5% of HAC times year of service credit	For retired members who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to (i) 3% for members hired before July 1, 2007 and (ii) 1.5% for members hired on or after July 1, 2007
VFCA	\$7.50 per month for each year of service credit, but not exceeding 30 years. Age 55 with 20 years of service credit or age 60 with 10 years of service credit.	
PERS-DCRP	Dependent upon individual account balance. Various payout options available, including taxable lump sums, periodic payments per participant direction, and IRS permitted rollovers.	
TRS	1.6667% of average final compensation (AFC) per year of service	A guaranteed annual benefit adjustment (GABA) of 1.5% is payable each January if the retiree has received at least 36 monthly retirement benefit payments prior to January 1 of the year in which the adjustment is to be made.

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General

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

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

B. Plan Description

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

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

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

C. Basis of Accounting

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

The plan document states "an employee enrolled in the State Plan who (a) is eligible to draw a state retirement benefit at the time he or she leaves active state employment; and (b) makes arrangements with the EBB (Employee Benefits Bureau) within 60 days of the date active employee coverage ends to continue post-retirement coverage, may continue with the state group on a self-pay basis, retroactive back to the date active employee coverage was lost." Therefore, the plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2010.

The number of state participants as of December 31, 2009 follows:

State Plan Participants

Enrollment	State	Facility Finance Authority	Housing Authority	PERS	Montana State Fund (New Fund)	TRS	Total
Active employees	12,047	3	27	32	269	16	12,394
Retired employees, spouses, and surviving spouses (1)	5,478	-	2	-	6	-	5,486
Total	17,525	3	29	32	275	16	17,880

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

The number of MUS participants as of June 30, 2010 follows.

MUS Plan Participants

Enrollment	MSU- Billings	MSU- Bozeman	MSU- GFCOT	MSU- Northern	OCHE	UM- HCOT	UM- Missoula	UM- MT Tech	UM- Western	Other	Total
Active employees	480	2,726	124	189	101	78	2,280	385	169	283	6,815
Retired employees, spouses, and surviving spouses	175	911	25	90	23	26	687	150	93	79	2,259
Total	655	3,637	149	279	124	104	2,967	535	262	362	9,074

D. Funding Policy

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

As of June 2010, the State plan's administratively established retiree medical premiums vary between \$260 and \$916 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$34.10 and \$58.00 and vision premiums vary between \$7.64 and \$22.26 depending on the coverage selected.

The MUS plan's administratively established retiree medical premiums vary between \$221 and \$778 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 \$600 deductible for most non-Medicare-eligible retirees, the MUS plan reimburses 75% for the first \$1,250 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 \$2,500 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2010, 1,436 retirees (policyholders) were enrolled in the MUS plan.

E. Annual Other Postemployment Benefit Cost and Contributions

The annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45, represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The current State's ARC of \$33.986 million is 6.45% of annual covered payroll. The State's annual covered payroll is \$526.794 million. The current MUS's ARC of \$19.290 million is 4.99% of annual covered payroll. The MUS's annual covered payroll is \$386.571 million.

There are no long-term contracts for contributions to either plan. Contributions refer to contributions made in relation to the ARC. Since the State and MUS do not fund their plans, no contributions were made.

The following table presents the OPEB cost for the year, the amount contributed, and changes in the OPEB plan for fiscal year 2010 (in thousands): (Please note that the amounts in the State and MUS include some component unit portions and therefore, will not match the Statement of Net Assets.)

Annual OPEB Cost

	State	MUS
Annual required contribution/OPEB cost	\$33,986	\$19,290
Interest on net OPEB obligation	3,607	1,505
Annual OPEB cost	37,593	20,795
Contributions made	-	-
Increase in net OPEB obligation	37,593	20,795
Net OPEB obligation – beginning of year	84,869	35,401
Net OPEB obligation – end of year	\$122,462	\$56,196

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2010 through 2008 was as follows (in thousands):

Contribution Ratio

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State	6/30/2010	\$33,986	0%	\$122,462
	6/30/2009	41,551	0%	84,869
	6/30/2008	41,551	0%	41,551
MUS	6/30/2010	19,290	0%	56,196
	6/30/2009	17,332	0%	35,401
	6/30/2008	17,332	0%	17,332

F. Actuarial Methods and Assumptions

As of December 31, 2009, the State's actuarially accrued liability (AAL) for benefits was \$357.664 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$357.664 million, and the ratio of the UAAL to the covered payroll was 67.89%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the December 31, 2009, actuarial valuation, the projected unit credit funding method was used for the State. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is 10.00% for medical and 9.50% for prescription drugs, initially. Both medical costs and prescription drugs are reduced by decrements to a rate of 5.00%, medical costs after six years and prescription drugs after seven years.

As of June 30, 2010, the MUS actuarially accrued liability (AAL) for benefits was \$183.230 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$183.230 million, and the ratio of the UAAL to the covered payroll was 47.40%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the June 30, 2010, actuarial valuation, the projected unit credit funding method was used for MUS. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is 10.00% for medical and 9.50% for prescription drugs, initially. Both medical costs and prescription drugs are reduced by decrements to a rate of 5.00%, medical costs after six years and prescription drugs after seven years.

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

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

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

G. Termination Benefits

During the year ended June 30, 2010, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for five employees provided for up to six months and one-time incentive payments for six employees. In determining termination benefit liability related to the continued coverage of group health insurance benefits, it was assumed that these benefits would be paid for the entire six month period.

During the year ended June 30, 2010, Component Units of the State made the following termination benefit arrangements: continued coverage of health insurance benefits for four employees provided for up to six months and an additional one-time incentive payment to three of those four employees.

During the year ended June 30, 2010, the cost of termination benefits was \$95,868 and \$45,357 for the State and its Component Units, respectively.

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

Other Postemployment Benefits State Agent Multiple Employer Plan		
	Retiree/Surviving Spouse	Spouse
Contributions (in thousands)		
Before Medicare eligibility	\$7,120	\$2,146
After Medicare eligibility	2,741	1,956
Actuarial valuation date	1/1/2009 (ARC calculated through December 31, 2009)	
Actuarial cost method	Projected unit credit funding	
Amortization method	Level percent of payroll, open	
Remaining amortization period	30 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 43 or 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	2.50%	
Participation		
Future retirees	55%	
Future eligible spouses	60%	
Marital status at retirement	70.0%	

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

Other Postemployment Benefits MUS Agent Multiple Employer Plan		
	Retiree/Surviving Spouse	Spouse
Contributions (in thousands)		
Before Medicare eligibility	\$5,611	\$1,777
After Medicare eligibility	3,059	1,297
Actuarial valuation date	7/1/2009 (ARC Calculated through June 30, 2010)	
Actuarial cost method	Projected unit credit funding	
Amortization method	Level percent of payroll, open	
Remaining amortization period	30 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 43 or 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	2.50%	
Participation		
Future retirees	55%	
Future eligible spouses	60%	
Marital status at retirement	70.0%	

NOTE 8. RISK MANAGEMENT

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

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 2,179 policies during the 2010 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

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

The fund recorded a liability of \$237,807 based on estimated claims through June 30, 2010. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Montana University System (MUS) Group Benefits Plan – This plan was authorized by the Board of Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System and affiliates, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term care, long-term disability, accidental death and dismemberment, and vision insurance. Allegiance Benefit Plan Management is the claims administrator for the self-insured indemnity plan and a managed care plan. New West Health Services, Blue Cross and Blue Shield of Montana, and Peak administer claims for the three other managed care plans. Allegiance has a contract for utilization management; the utilization management program consists of hospital pre-authorization and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund. The claims liability is calculated by Actuaries Northwest and estimated to be \$6,600,000 as of June 30, 2010, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Montana University System (MUS) Workers Compensation Program – This fund was formed to provide self-insured workers compensation coverage for employees of the Montana University System. The Montana University System Board of Regents provides workers compensation coverage under Compensation Plan Number One (Title 39, Chapter 71, Part 2101, MCA). The program is self-insured for workers compensation claims to a maximum of \$500,000 per each occurrence; \$1,000,000 maximum per each aircraft related occurrence. Losses in excess of \$500,000/\$1,000,000 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 fiscal year 2010, the program ceded \$267,287 in premiums to reinsurers.

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

The fund recorded a liability of \$8,801,000 for estimated claims at June 30, 2010. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, and claims reserve development including the effects of inflation and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

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

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

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding fiscal year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis total population of registered Subsequent Injury Fund participants. As of June 30, 2010, the amount of this liability was estimated to be \$3,211,625. Since each insurer is responsible for its own claim liabilities, the pool is acting as a claims service and there is no transfer or pooling of risk.

(5) State Fund (New Fund) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990. The New Fund is a self-supporting, competitive State fund, and functions as the guaranteed market. At June 30, 2010, approximately 25,253 employers were insured with the New Fund. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Towers Watson, as of June 30, 2010, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Due to the fact that actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2010, \$838,765,340 of unpaid claims and claim adjustment expenses were presented at face value. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis, and all liability of the New Fund is terminated.

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. New Fund acquisition costs are capitalized and amortized ratably over the subsequent year. The amount of capitalized acquisition costs for the fiscal year ended June 30, 2010, was \$4,419,722.

MCA 39-71-2311 requires the New Fund set premiums at least annually at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. It also requires the New Fund to

establish a minimum surplus above risk-based capital requirements to secure the New Fund against risks inherent in the business of insurance.

For the fiscal year ended June 30, 2010, the New Fund ceded premiums to other reinsurance companies to limit the exposure arising from large losses. These arrangements consist of excess of loss contracts that protect against individual occurrences over stipulated amounts, and an aggregate stop loss contract which protects the New Fund against the potential that aggregate losses will exceed expected levels expressed as a percentage of premium. For fiscal year 2010, the excess of loss contract provides coverage up to \$100 million in which New Fund retains the first \$5 million for the first layer of reinsurance coverage. The excess of loss protection applies to an individual occurrence with the maximum of \$5 million on any one life.

The term of the current aggregate stop loss contract was July 1, 2008 through June 30, 2011. The contract provides coverage based on the New Fund's premium levels at a maximum of \$45 million per year and a minimum of \$36.6 million, but in aggregate not to exceed 100.0% of the sum of the annual limits for all contract years. In the event reinsurers are unable to meet their obligations, under either the excess of loss contracts or the aggregate stop loss contract, the New fund would remain liable for all losses, as the reinsurance agreements do not discharge the New Fund from its primary liability to the policyholders.

Premium revenue was reduced by premiums paid for reinsurance coverage of \$13.2 million in fiscal year 2010.

Estimated claim reserves were reduced by \$7.4 million for fiscal year 2010 for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excessive loss reinsurance contract. In fiscal year 2010, estimated claim reserves were reduced by an additional \$12.0 million for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due the aggregate stop loss contract.

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

An actuarial study prepared by Towers Watson, as of June 30, 2010, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. At June 30, 2010, \$71,136,458 of unpaid claims and claim adjustment expenses was reported at a net present value of \$57,994,103, discounted at a 3.5% rate.

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

	Primary Government					
	Hail Insurance		MUS Group Benefits		MUS Workers Compensation Program	
	2010	2009	2010	2009	2010	2009
Unpaid claims and claim adjustment expenses at beginning of year	\$ 354	\$ 3,475	\$ 6,900	\$ 6,500	\$ 7,733	\$ 6,357
Incurred claims and claim adjustment expenses:						
provision for insured events of the current year	3,961	2,601	67,096	60,296	2,959	2,922
Increase (decrease) in provision for Insured events of prior years	(255)	(2,009)	-	-	256	22
Total incurred claims and claim adjustment expenses	3,706	592	67,096	60,296	3,215	2,944
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(3,723)	(2,248)	(67,396)	(59,896)	(572)	(641)
Claims and claim adjustment expenses attributable to insured events of prior years	(99)	(1,465)	-	-	(1,575)	(927)
Total payments	(3,822)	(3,713)	(67,396)	(59,896)	(2,147)	(1,568)
Total unpaid claims and claim adjustment expenses at end of year	\$ 238	\$ 354	\$ 6,600	\$ 6,900	\$ 8,801	\$ 7,733

	<u>Component Units</u>			
	Montana State Fund (New)		Montana State Fund (Old)	
	2010	2009	2010	2009
Unpaid claims and claim adjustments expenses at beginning of year	\$ 813,305	\$ 752,253	\$ 79,163	\$ 86,733
Incurring claims and claim adjustment expenses:				
Provision for insured events of the current year	144,893	151,964	-	-
Increase (decrease) in provision for insured events of prior years	8,202	30,842	1,102	3,171
Total incurred claims and claim adjustment expenses	153,095	182,807	1,102	3,171
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(25,478)	(28,062)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(102,157)	(93,693)	(9,129)	(10,741)
Total payments	(127,635)	(121,755)	(9,129)	(10,741)
Total unpaid claims and claim adjustment expenses at end of year	\$ 838,765	\$ 813,305	\$ 71,136	\$ 79,163

B. Entities Other Than Pools

(1) Employee Group Benefits – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracts with Blue Cross/Blue Shield, PEAK, New West, and MedImpact for administration of its self-insured plans. Premiums are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments, and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2010, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, as well as other actuarially determined liabilities, were \$13,010,000 based on a formula provided by Actuaries Northwest, a consulting actuarial firm, of which \$11,318,700 is estimated to be paid in fiscal year 2011.

(2) Administration Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure of housing units. The State self-insures the \$500,000 deductible per occurrence for most property insurance, as well as various deductible amounts for other state property. The State also self-insures against losses of property below \$500,000 of value, with state agencies paying the first \$1,000. Commercial property insurance protects approximately \$4.5 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of \$500,000 for earthquake and \$500,000 for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Internal Service Fund.

An annual actuarial study, prepared by Towers Watson Company, and issued for the accident period July 1, 2000 through June 30, 2010, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2010, estimated claims liability was \$16,673,977.

(3) Changes in Claims Liabilities for the Past Two Years – These funds establish liabilities for both reported and incurred, but not reported, claims. Grandfathered claims are not included as they relate to future claims not yet incurred. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands). Note: figures for Group Employee Benefits for 2009 have been revised to exclude grandfathered claims previously included.

	Group Employees Benefits		Administration Insurance	
	2010	2009	2010	2009
Amount of claims liabilities at the beginning of each fiscal year	\$ 11,960	\$ 9,070	\$14,956	\$16,498
Incurring claims:				
Provision for insured events of the current year	123,941	117,000	5,333	5,548
Increases (decreases) in provision for insured events of prior years	(2,425)	1,591	1,311	1,182
Total incurred claims	121,516	118,591	6,644	6,730
Payments:				
Claims attributable to insured events of the current year	(111,462)	(104,882)	(1,223)	(1,483)
Claims attributable to insured events of prior years	(10,554)	(10,819)	(3,703)	(6,789)
Total payments	(122,016)	(115,701)	(4,926)	(8,272)
Total claims liability at end of each fiscal year	\$ 11,460	\$ 11,960	\$16,674	\$14,956

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2010, the Department of Transportation had contractual commitments of approximately \$261.1 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. Capital Construction

At June 30, 2010, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$23 million for capital projects construction. The primary government will fund \$21.8 million of these projects, with the remaining \$1.2 million coming from the state university system.

C. Coal Tax Loan and Mortgage Commitments

The Board of Investments (BOI) makes firm commitments to fund loans from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to BOI policies. As of June 30, 2010, the BOI had committed, but not yet purchased, \$28,712,720 in loans from Montana lenders. In addition to the above commitments, lenders had reserved \$24,002,450 for loans as of June 30, 2010.

The BOI makes reservations to fund mortgages from the Public Employees' and Teachers' retirement funds. As of June 30, 2010, there were no mortgage reservations. Effective December 1, 2005, all BOI residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a mortgage reservation and a funding commitment.

D. Department of Corrections Bond Commitments

At June 30, 2010, the outstanding tax-exempt bonds issued by the Montana Facility Authority were issued in the amount of \$30,946,981. These bonds have been issued to treatment and prerelease centers. The Department of Corrections agrees to provide payment on behalf of the contractors for the total principle and interest payments in regard to these outstanding bonds.

E. Proprietary Fund Commitments

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

	<u>Amount</u>
<u>Enterprise funds</u>	
Other	2
Liquor Warehouse	151
Historical Society Pubs	1
Surplus Property	1
Subtotal-Enterprise funds	<u>\$ 155</u>
<u>Internal service funds</u>	
Highway Equipment	\$ 827
Buildings & Grounds	246
Information Technology Services	1,012
Administration Supply	118
Commerce Central Services	4
Administration Insurance	3
Other Internal Services	116
FWP Equipment	37
SABHRS Finance & Budget Bureau	10
Employee Group Benefits	3
Labor Central Services	66
Other Information Services	30
Subtotal-Internal service funds	<u>\$ 2,472</u>
Total	<u>\$ 2,627</u>

F. Encumbrances

As of June 30, 2010, the State of Montana encumbered expenditures as presented by in the table below (in thousands):

	General	State Special	Federal Special	Nonmajor	
	Fund	Revenue	Revenue	Governmental	
	Fund	Fund	Fund	Funds	Total
Encumbrances	\$ 11,986	\$ 30,609	\$ 24,569	\$ 2,819	\$ 69,983

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

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

A. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2010, were as follows (in thousands):

Fiscal Year Ending June 30	Primary Government - Governmental Activities	Discretely Presented Component Units
2011	\$ 988	\$143
2012	865	94
2013	366	42
2014	140	17
2015	100	4
2016-2020	81	-
Total minimum pmts	2,540	300
Less: interest	(100)	(30)
Present value of minimum payments	<u>\$2,440</u>	<u>\$270</u>

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

Asset Class	Primary Government
Buildings	\$ 703
Equipment	3,976
Less: Accum Depreciation	<u>(1,437)</u>
Net Book Value	<u>\$3,242</u>

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2010 totaled \$20,796,000. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
2011	\$ 20,246	\$ 4,020
2012	17,722	3,570
2013	17,029	3,450
2014	15,942	3,297
2015	12,946	3,074
2016-2020	35,200	9,301
2021-2025	6,881	1,176
Thereafter	725	3,528
Total future rental payments	<u>\$126,691</u>	<u>\$31,416</u>

NOTE 11. STATE DEBT

A. General Information

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

B. Short-term Debt

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

The State issued two bond anticipation notes during fiscal year 2010 that pertain to irrigation and water. The proceeds were used to loan funds to local governments to rehabilitate irrigation systems and a rehabilitate a water system. The two revenue anticipation notes the State issued during fiscal year 2009 that were active during fiscal year 2010 pertain to drinking water and wastewater. The revenue anticipation notes were issued to match Environmental Protection Agency capitalization grants. The proceeds were used to loan funds to local governments, to construct and rehabilitate drinking water and wastewater systems. The following schedule summarizes the activity for the year ended June 30, 2010 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
RANs				
Drinking Water – 2009B	1,900	0	1,900	0
Waste Water – 2009C	500	0	500	0
BANs				
Irrigation – 2009A	0	1,556	0	1,556
Irrigation – 2009B	0	388	0	388

The Board of Investments (BOI) of the State of Montana is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than \$190 million as amended by the 2007 Legislature. The purpose of the bonds is to provide funds for the BOI to make loans to eligible government units. The bonds are limited obligations of the BOI, payable solely from (1) repayments of principal and interest on loans made by the BOI to participating eligible governmental units, (2) investment income under the indenture, and (3) an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and are included in short-term debt. The amounts issued and outstanding at June 30, 2010, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2010
1997	10,000	\$ 9,355
1998	12,500	12,010
2000	15,000	14,680
2003	15,000	14,710
2004	18,500	18,370
2007	15,000	14,950
2010	12,000	12,000
Total		<u>\$96,075</u>

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2010 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	\$88,620	\$12,000	\$4,545	\$96,075

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2010, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments		Balance June 30, 2010
				Fiscal Year 2011	In Year of Maturity (2)	
General obligation bonds						
Wastewater Treatment Works						
Revolving Fund (3)	1998A	\$ 3,510	3.75-5.15	\$ 565	565 (2011)	\$ 565
Drinking Water Revolving Fund (3)	1998F	3,065	3.6-4.85	160	230 (2019)	1,745
Drinking Water Revolving Fund (3)	2000A	2,990	4.25-5.6	135	135 (2011)	135
Water Pollution Control Revolving Fund (3)	2000B	3,325	4.25-5.6	155	155 (2011)	155
Long-Range Bldg Program	2000C	17,195	5.0-5.55	800	800 (2011)	800
Long-Range Bldg Program	2001B	11,430	4.1-5.75	510	535 (2012)	1,045
Information Technology	2001C	1,600	3.85-4.2	185	185 (2011)	185
Energy Conservation Program (5)	2001D	1,250	3.85-4.2	145	145 (2011)	145
Drinking Water Revolving Fund (3)	2001G	3,190	4.0-5.0	145	145 (2011)	145
Water Pollution Control Revolving Fund (3)	2001H	2,690	4.0-5.0	120	120 (2011)	120
Long-Range Bldg Program	2002B	10,475	3.35-4.7	495	730 (2023)	7,485
Hard Rock Mining Reclamation	2002C	2,500	3.5-4.7	105	200 (2023)	1,900
Long-Range Bldg Program	2003A	9,730	2.37-4.0	445	655 (2024)	7,335
Energy Conservation Program (5)	2003B	1,250	2.0-3.0	130	145 (2014)	550
Renewable Resource Program Refunding (4)	2003C	1,970	1.45-5.25	65	90 (2019)	685
Water Pollution Control Revolving Fund (3)	2003D	2,730	2.0-3.1	175	190 (2014)	730
Drinking Water Revolving Fund (3)	2003E	1,675	2.0-3.1	105	115 (2014)	440
Long-Range Bldg Program Refunding	2003G	26,610	2.0-5.0	1,815	2,310 (2017)	14,320
Water Pollution Control Revolving Fund (3)	2004A	2,665	2.0-3.8	165	185 (2015)	870
Long-Range Bldg Program	2004B	3,125	3.0-4.75	170	170 (2025)	2,335
Long-Range Bldg Program Refunding	2005A	14,945	3.0-5.25	1,290	1,205 (2019)	13,200
Long-Range Bldg Program	2005B	1,670	3.25-4.3	65	120 (2026)	1,435
Energy Conservation Program (5)	2005C	2,500	3.25-4.0	245	290 (2016)	1,600
CERCLA Program (6)	2005D	2,000	3.25-4.3	80	140 (2026)	1,715
Drinking Water Revolving Fund (3)	2005F	3,875	4.0-4.75	225	350 (2021)	3,090
Water Pollution Control Revolving Fund (3)	2005G	2,110	4.0-4.75	120	190 (2021)	1,675
Long-Range Bldg Program Refunding	2005H	10,055	3.0-5.0	50	1,300 (2020)	9,750
Long-Range Bldg Program	2006A	31,350	4.0-5.0	1,410	1,930 (2027)	27,690
Energy Conservation Program (5)	2006B	3,750	4.0-6.0	210	330 (2022)	3,210
CERCLA Program (6)	2006C	1,000	4.0	95	120 (2017)	745
Renewable Resource Program (4)	2006D	950	5.6-6.0	50	90 (2022)	825
Long-Range Bldg Program Refunding	2007A	16,740	4.25-5.0	1,785	2,465 (2018)	16,740

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments		Balance June 30, 2010
				Fiscal Year 2011	In Year of Maturity (2)	
Long-Range Bldg Program	2007D	11,720	4.375-4.75	425	3,865 (2028)	10,930
Long-Range Bldg Program	2008D	3,100	3.375-4.35	110	220 (2028)	2,785
Long-Range Bldg Program Refunding	2010A	20,220	2.0-4.0	3,200	710 (2021)	20,220
Drinking Water Revolving Fund Refunding (3)	2010B	5,400	2.0-4.0	70	110 (2026)	5,400
Water Pollution Control Revolving Fund Refunding (3)	2010C	6,450	2.0-4.0	65	210 (2026)	6,450
Total general obligation bonds		\$250,810		\$16,085		\$169,150
Special revenue bonds						
State Hospital Project (7)	1997	\$ 25,915	4.0-5.05	\$ 1,065	1,820 (2022)	\$ 16,930
Renewable Resource Program (8)	1997B	2,660	3.75-5.37	145	170 (2014)	625
Renewable Resource Program (8)	2001A	420	3.65-5.59	20	30 (2021)	275
Renewable Resource Program (8)	2001B	1,750	5.2-7.1	80	150 (2021)	1,225
Renewable Resource Program Refunding (8)	2001C	12,155	2.55-4.3	720	790 (2013)	2,265
Broadwater Power Proj Refunding (8)	2001D	21,450	2.25-4.7	1,340	1,795 (2018)	12,405
Renewable Resource Program (8)	2001E	885	2.1-4.85	40	65 (2022)	610
Renewable Resource Program (8)	2001F	900	3.3-6.2	40	75 (2022)	655
Developmental Center Project Refunding (7)	2003	11,510	3.0-5.0	690	970 (2019)	7,365
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	125	215 (2024)	2,305
Renewable Resource Program (8)	2004B	430	4.45-5.45	25	40 (2020)	320
U.S. Highway 93 GARVEES (9)	2005	122,795	3.65-5.19	7,320	11,315 (2020)	91,645
U.S. Highway 93 GARVEES (9)	2009	44,670	3.5-5.0	2,420	3,925 (2023)	39,945
Total special revenue bonds		\$248,540		\$ 14,030		\$176,570
Notes payable						
Water Conservation (Little Dry Project) (10)		\$ 50	5.0	\$ 3	1 (2012)	\$ 4
Water Conservation (Petrolia Project) (10)		50	5.0	2	2 (2016)	14
Middle Creek Dam Project (11)		3,272	8.125	56	209 (2034)	2,586
Tongue River Dam Project (12)		11,300	-	290	290 (2038)	8,113
Total notes payable		\$ 14,672		\$ 351		\$ 10,717
Subtotal governmental activities, before deferred balances						356,437
Deferred amount on refunding						(3,736)
Unamortized discount						(94)
Unamortized premium						8,300
Total governmental activities		\$514,022		\$30,466		\$360,907
Business-type Activities						
Bonds/notes payable						
Economic Development Bonds (13)						
Municipal Finance Consolidation Act Bonds (Irrigation Program) (14)	1988	\$ 4,976	6.60-7.75	\$ 55	70 (2014)	\$ 250
Conservation Reserve Enhancement Program (CRP Bonds) (15)		120	5.00-7.15	120	120 (2011)	120
Total bonds/notes payable		5,096		175		370
Total business-type activities		\$ 5,096		\$ 175		\$ 370

- (1) The interest range is over the life of the obligation.
- (2) Year of maturity refers to fiscal year.
- (3) These bonds provide matching funds to enable the State to obtain capitalization grants from the U.S Environmental Protection Agency for water system development loans to state political subdivisions.
- (4) The general obligation Renewable Resource Program Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. The bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.
- (5) Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.
- (6) The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42 United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA Bonds are secured additionally by a pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event cost recovery payments are insufficient.
- (7) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana Developmental Center Project and the Montana State Hospital Project.
- (8) Issued by the Department of Natural Resources and Conservation and backed by a pledge of coal severance taxes and project revenues.
- (9) The U.S. Highway 93 GARVEES (Grant Anticipation Revenue Vehicles) Bonds were issued for the purpose of improving a 44.8-mile stretch of U.S. Highway 93. Repayment of the bonds is secured by a pledge of certain federal aid revenues.
- (10) Loans obtained from Farmers Home Administration for the purpose of acquiring an irrigation (pumping) system for water distribution in the vicinity of Sidney, Montana (Little Dry Project) and to rehabilitate the Petrolia Reservoir and Canal in the vicinity of Winnett, Montana (Petrolia Project). A portion of the revenues generated by the facilities is pledged for repayment of the loans. In the fiscal year 2004 CAFR, the Little Dry Project Loan was incorrectly listed as a special revenue bond and the Petrolia Project Loan was incorrectly excluded from the long-term debt reported.
- (11) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation.
- (12) Northern Cheyenne Tribe loan to the Montana Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.
- (13) Economic Development Bonds & Municipal Finance Consolidation Act Bonds – This program is directed by the Board of Investments, which is attached to the Department of Commerce for administrative purposes. The program assists Montana's small businesses and local governments in obtaining low-cost financing.
- (14) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds, and the interest thereon, are payable solely from the collection of a special tax or assessment, which is a lien against real property in the Irrigation District. The Irrigation Bonds are limited obligations of the Board of Investments, due to an irrevocable pledge to lend money for deposit by the trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein, on any payment date. The indenture does not permit the issuance of additional bonds.
- (15) The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Investment Pool.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2010, were as follows (in thousands):

Governmental Activities

Year Ended June 30	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 16,085	\$ 6,615	\$ 14,030	\$ 8,278	\$ 351	\$ 47
2012	15,770	6,330	14,645	7,656	352	47
2013	16,345	5,454	15,310	7,005	353	47
2014	16,905	4,840	15,175	6,331	355	47
2015	15,280	4,203	15,695	5,632	368	47
2016-2020	57,185	12,381	85,685	16,261	1,877	232
2021-2025	22,730	4,108	16,030	1,442	1,971	232
2026-2030	8,850	653	-	-	2,097	232
2031-2035	-	-	-	-	2,123	232
2036-2040	-	-	-	-	870	-
Total	\$169,150	\$ 44,584	\$176,570	\$ 52,605	\$ 10,717	\$ 1,163

Business-type Activities

Year Ended June 30	Economic Development Bonds	
	Principal	Interest
2011	\$ 175	\$25
2012	60	13
2013	65	8
2014	70	3
Total	\$370	\$49

Debt service requirements of discretely presented component units at June 30, 2010, were as follows (in thousands):

Year Ended June 30	Housing Authority		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$162,525	\$ 36,330	\$ 3,691	\$ 6,237	\$ 5,597	\$ 6,422
2012	12,935	35,659	3,869	6,207	5,830	6,209
2013	13,980	35,083	5,774	4,355	6,087	5,946
2014	15,145	34,436	5,955	4,117	6,369	5,654
2015	15,920	33,736	6,240	3,865	6,637	5,364
2016-2020	95,866	156,223	34,615	15,147	37,765	21,843
2021-2025	128,910	129,129	23,810	7,681	46,880	10,696
2026-2030	165,090	91,886	11,795	4,452	12,600	2,383
2031-2035	165,255	48,703	13,510	1,833	3,135	296
2036-2040	90,135	11,663	1,550	30	-	-
2041-2045	10,570	879	-	-	-	-
Total	\$876,331	\$613,727	\$110,809	\$ 53,924	\$130,900	\$ 64,813

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2010, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Governmental activities						
Bonds/notes payable						
General obligation bonds	\$182,585	\$ 32,070	\$ 45,505	\$169,150	\$16,085	\$153,065
Special revenue bonds	189,970	-	13,400	176,570	14,030	162,540
Notes payable	11,065	-	348	10,717	351	10,366
	383,620	32,070	59,253	356,437	30,466	325,971
Deferred amount on refunding	(3,569)	-	166	(3,735)	-	(3,735)
Unamortized discount	(107)	12	-	(95)	-	(95)
Unamortized premium	8,324	-	24	8,300	-	8,300
Total bonds/notes payable	388,268	32,082	59,443	360,907	30,466	330,441
Other liabilities						
Lease/installment purchase payable	2,680	464	704	2,440	931	1,509
Compensated absences payable (1)	95,301	48,192	47,993	95,500	47,993	47,507
Early retirement benefits payable (1)	24	6	-	30	6	24
Arbitrage rebate tax payable (1)	230	39	28	241	145	96
Estimated insurance claims (1)	28,606	1,718	640	29,684	16,820	12,864
Pollution Remediation	495,495	70,484	32,217	533,762	47,174	486,588
OPEB implicit rate subsidy (2)	82,808	35,163	-	117,971	-	117,971
Total other liabilities	705,144	156,066	81,582	779,628	113,069	666,559
Total governmental activities						
Long-term liabilities	\$1,093,412	\$188,148	\$141,025	\$1,140,535	\$143,535	\$997,000
Business-type activities						
Bonds/notes payable						
Economic Development Bonds	\$ 1,180	\$ -	\$ 810	\$ 370	\$ 175	\$ 195
Total bonds/notes payable	1,180	-	810	370	175	195
Other liabilities						
Compensated absences payable	1,514	851	771	1,594	771	823
Arbitrage rebate tax payable	19	-	7	12	12	-
Estimated insurance claims	18,055	1,484	688	18,851	9,292	9,559
OPEB implicit rate subsidy (2)	1,479	604	-	2,083	-	2,083
Total other liabilities	21,067	2,939	1,466	22,540	10,075	12,465
Total business-type activities						
Long-term liabilities	\$ 22,247	\$ 2,939	\$ 2,276	\$ 22,910	\$10,250	\$ 12,660

- (1) The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The early retirement benefits payable will be liquidated by the general, state special revenue, and federal special revenue funds. The arbitrage rebate tax payable will be liquidated by debt service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.
- (2) The OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of an "implicit rate" subsidy in the related financial statements. While this liability is disclosed for financial purposes, it does not represent a legal liability of the State, or any of its component units.

Long-term liability activity of discretely presented component units for the year ended June 30, 2010, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Discretely presented component units						
Bonds/notes payable						
Housing Authority	\$ 872,411	\$ 150,071	\$ 139,096	\$ 883,386	\$162,525	\$ 720,861
Montana State University (MSU)	119,039	-	4,969	114,070	5,300	108,770
University of Montana (UM)	135,018	494	6,176	129,336	5,597	123,739
Total bonds/notes payable (1)	1,126,468	150,565	150,241	1,126,792	173,422	953,370
Other liabilities						
Lease/installment purch pay	414	83	227	270	121	149
Compensated absences pay	54,296	23,690	22,746	55,240	23,848	31,392
Arbitrage rebate tax payable	728	140	59	809	30	779
Estimated insurance claims	878,879	25,461	7,546	896,794	123,389	773,405
Due to federal government	32,025	405	4	32,426	-	32,426
Derivative swap liability	4,838	1,055	2,095	3,798	-	3,798
Reinsurance funds withheld	-	65,013	812	64,201	-	64,201
OPEB implicit rate subsidy (2)	35,183	20,500	-	55,683	-	55,683
Total other liabilities	1,006,363	136,347	33,489	1,109,221	147,388	961,833
	<u>\$2,132,831</u>	<u>\$286,912</u>	<u>\$183,730</u>	<u>\$2,236,013</u>	<u>\$320,810</u>	<u>\$1,915,203</u>
Long-term liabilities of Montana University System component units					61	936
Total discretely presented component units					<u>\$320,871</u>	<u>\$1,916,139</u>
Long-term liabilities						

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

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

F. Refunded and Early Retired Debt

Primary Government

Prepayments

The Department of Administration (D of A) used current available resources to make the following payments which resulted in the bonds being paid in full: \$1,765,000 of general obligation Series 1998B, \$9,160,000 of general obligation Series 1998D; \$2,225,000 of general obligation Series 2003H.

Current Refundings

On May 11, 2010, D of A issued Series general obligation 2010A Bonds in the amount of \$20,220,000 to make the following advanced refundings: \$7,810,000 of Series 1998D Bonds; \$6,170,000 of Series 2001B Bonds; \$6,370,000 of Series 2002D Bonds. The refunding resulted in an economic gain of \$1,450,532 and a difference in cash flow requirements of \$1,320,961.

On May 18, 2010, the Department of Natural Resources and Conservation (DNRC) issued general obligation Series 2010B Bonds in the amount of \$5,400,000 to make the following advanced refundings: \$1,880,000 of Series 2000A Bonds; \$2,080,000 of Series 2001G Bonds. Also on May 18, 2010, DNRC issued general obligation Series 2010C Bonds in the amount of \$6,450,000 to make the following advanced refunding: \$2,095,000 of Series 2000B Bonds; \$1,750,000 of Series 2001H Bonds. The refunding resulted in an economic gain of \$413,585 and a difference in cash flow requirements of \$360,678.

Defeased Debt Outstanding

The State of Montana has defeased certain general obligation and special revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2010, \$82,945,000 of bonds outstanding was considered defeased.

Board of Investments**Prepayments**

During fiscal year 2010, the Economic Development Bond fund used current available resources to make prepayments of \$474,000 on an outstanding note.

Universities**Defeased Debt Outstanding**

The University of Montana has defeased certain bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2010, \$43,221,810 of bonds outstanding were considered defeased for the University of Montana.

G. No-Commitment Debt

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

Primary Government**Montana Board of Investments (BOI)**

Under the Economic Development Act, the BOI is authorized to issue stand-alone industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. At June 30, 2010, industrial revenue bonds outstanding aggregated \$170.1 million.

The BOI is also authorized to issue Qualified Zone Academy Bonds (QZAB) under the Municipal Finance Consolidation Act. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2010, QZAB debt outstanding aggregated \$10.1 million.

Neither the industrial revenue bonds nor the QZAB debt issued by the BOI constitutes a debt, liability, obligation, or pledge of faith and credit of the State of Montana.

Beginning Farm Loan Program

The Montana Department of Agriculture is authorized to request issuance of bonds by the BOI to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2010, was as follows: Hershberger Project – issued \$129,412, outstanding \$98,796; Young Project – issued \$223,300, outstanding \$187,716.

Discretely Presented Component Units**Facility Finance Authority (FFA)**

The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2010, revenue bonds outstanding aggregated \$938.0 million, and notes payable outstanding aggregated \$26.1 million.

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

Housing Authority (HA)

HA is authorized to issue bonds and make mortgage loans in order to finance housing which will provide decent, safe, and sanitary housing for persons and families of lower income in the State of Montana. The bonds are special, limited obligations, payable solely from pledged revenues and assets, not general obligations of the HA. The bonds issued by the HA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2010, bonds outstanding aggregated \$10,761,935.

H. Derivative Transactions Related to Long-term Debt

Montana State University (MSU) has two interest rate swaps as of June 30, 2010. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraph 27 a and b of Governmental Accounting Standards Board Statement Number 53, or as investment derivative instruments if they do not. The following table summarizes the interest rate swaps outstanding as of June 30, 2010:

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

*Counterparty may opt out in 2016

As of the date of this report, the \$25.75 million fixed payer swap is classified as a hedging derivative instrument under Statement No. 53, whereas the \$25.25 million basis swap is an investment derivative instrument because there is no identified financial risk being hedged by the basis swap that can be expressed in terms of exposure to adverse changes in cash flows or fair values. Statement No. 53 includes four methods for evaluating hedge effectiveness; a governmental entity can use any of the evaluation methods outlined in the Statement and is not limited to using the same method from period to period. The four methods described in Statement No. 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. The fixed payer swap passes the established criteria using the regression analysis methodology.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. The table below summarizes the derivative instrument activity and the reported balances for the year ended June 30, 2010.

	Change in Fair Value during 2010 – Debit/(Credit)		Fair Value at June 30, 2010— Debit/(Credit)	
	Classification	Amount	Classification	Amount
Cash flow hedges:				
Fixed payer interest rate swap	Deferred outflow	\$ 1,055,390	Noncurrent liability	\$ (3,799,069)
Basis swap	Investment income	\$ (788,130)	Investment	\$ 1,658,449

The objective and terms of MSU's hedging derivative outstanding as of June 30, 2010 is as follows:

Type	Objective	Notional amount (000's)	Effective Date	Termination Date	Cash (Paid)/ Received (000's)	Terms
Fixed payer swap	Hedge interest rate risk on Series J 2005 Bonds	\$24.525	7/21/2005	11/15/2035	-	Pay 3.953% Receive SIFMA

It is MSU's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2010, all interest rate swap counterparties are rated A or higher by Fitch or S&P, or A2 or higher by Moody's. MSU manages

credit risk by requiring its counterparties to post collateral in certain events. MSU is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than \$5MM and the counterparty is rated A+ or A, by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, MSU is entitled to collateral up to 100% of the swap's fair value. MSU is not required to post collateral. MSU enters into derivative agreements with multiple counterparties to limit concentration of credit risk. Currently, MSU has interest rate swaps with two different counterparties and each counterparty accounts for approximately 50% of outstanding notional. MSU monitors counterparty credit risk on an ongoing basis.

Interest payments on variable rate debt will typically increase as interest rates increase. MSU believes it has significantly reduced interest rate risk by entering into a pay-fixed, receive floating interest rate swap. As interest rates increase, variable rate debt interest payments increase but net swap payments decrease. As interest rates decrease, variable rate debt payments decrease but net swap payments increase.

The variable rate debt hedged by MSU's derivative is variable rate demand obligation (VRDO) bond that is remarketed daily. MSU is exposed to basis risk because the variable rate receipts from the hedging derivative are based on a rate or index other than the interest rates paid on the VRDO bonds. MSU is exposed to basis risk to the extent that variable payments on the hedged item are not offset by the variable receipts from the hedging derivative. For the year ended June 30, 2010, the weighted average interest rate on MSU's variable rate hedged debt was 0.21%; SIFMA was 0.28%.

MSU or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, MSU's fixed payer swap counterparty has the right to terminate the derivative if the credit rating of MSU's unenhanced long-term revenue bond rating is withdrawn, suspended or reduced below BBB-, in the case of S&P, or below Baa3 in the case of Moody's. If such an event occurs, the MSU could be forced to terminate the fixed payer swap in a liability position. As of June 30, 2010, MSU's unenhanced long-term revenue bond rating was Aa3 by Moody's.

DBAG has the option to unwind the fixed payer swap in 2016, exposing MSU to rollover risk for the Series J Bonds' remaining term. If the swaption is not exercised in 2016, the swap terminates in November, 2035, at which time the Series J Bonds mature.

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

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

In August, 2005 the University of Montana (UM) entered into a forward SWAP agreement ("swaption") with Wachovia Bank, NA ("counterparty") to hedge the interest rate risk associated with the potential future issuance of variable-rate revenue bonds. In exchange, UM received \$2,094,500 from the counterparty. A portion of the payment was consideration for the estimated present value of the fixed rate payable under the agreement upon execution of the swaption. The swaption gave the counterparty the right to require that UM execute a floating-to-fixed swap in May 2010, based on a notional amount of \$47,000,000. Should the counterparty exercise its option, UM would expect to issue Series K 2010 taxable, variable rate bonds at the \$47,000,000 notional amount of the swap. The intention of UM in entering into the swaption was to refund its outstanding Series F 1999 Revenue Bonds and lower the cost of its borrowing.

Under terms of the swap, UM would pay the counterparty a fixed rate substantially equal to the fixed rate on the refunded bonds and receive a variable payment based on the one-month LIBOR rate, plus 30 basis points.

On December 21, 2009, UM terminated the swaption with the counterparty due to projected unfavorable long-term interest rates and the current volatility in the financial markets. In order to liquidate the derivative financial instrument amounting to \$2,094,500 and terminate the swaption agreement in its entirety, UM paid the counterparty

\$5,410,000 resulting in a net loss totaling \$3,315,500. The net loss is included in investment income reported at June 30, 2010.

I. Estimated Pollution Remediation Obligation

Estimated pollution remediation obligations are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The estimates were derived using the expected cash flows method as well as technical estimates from record of decisions, consent decrees and/or settlement agreements. Factors influencing the estimates are not known at this time. Prospective recoveries from other responsible parties may reduce the State's obligation. The amount of recoveries received in 2010 was \$5 million.

The State's estimated pollution remediation liability as of July 1, 2009 was estimated at \$495.5 million. The liability as of June 30, 2010 was \$533.8 million. Of this liability; \$261.9 million resulted in settlement agreements to provide restoration of natural resources, water supplies and natural resource-based recreational opportunities up to the settlement amount; \$254.1 million is based on decrees or settlements for remediation activities. Other estimated liabilities have been recorded for soil and PCB contamination. The estimated pollution remediation liability was recorded in compliance with accounting and reporting standards and does not constitute Montana's total acceptance of the liability or responsibility on these matters.

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

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

Balances due from/to other funds at June 30, 2010, consisted of the following (in thousands):

	Due to Other Funds				
	Coal Severance Tax Permanent	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds
Due From Other Funds					
Economic Development Bonds	\$ -	\$ -	\$ -	\$1,940	\$ -
Federal Special Revenue	-	-	-	-	-
General Fund	4,251	44	-	25	14,588
Internal Service Funds	36	332	80	22	603
Land Grant Trust	-	-	-	-	-
Nonmajor Governmental Funds	-	1,014	153	-	-
State Special Revenue	-	263	210	13	1,016
Total	\$4,287	\$1,653	\$443	\$2,000	\$16,207

	Nonmajor Governmental Funds	State Special Revenue	Land Grant Trust	Total
Due From Other Funds <i>(continued)</i>				
Economic Development Bonds	\$ 11	\$ 1,969	\$ -	\$ 3,920
Federal Special Revenue	-	-	-	-
General Fund	-	33,012	-	51,920
Internal Service Funds	-	324	-	1,397
Land Grant Trust	-	-	8,550	8,550
Nonmajor Governmental Funds	50	248	2	1,467
State Special Revenue	10,556	-	(8,513)	3,545
Total	\$10,617	\$35,553	\$ 39	\$70,799

B. Interfund Loans Receivable/Payable

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

Interfund loans receivable/payable at June 30, 2010, consisted of the following (in thousands):

	Interfund Loans Payable					
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	State Special Revenue	Total
Interfund Loans Receivable						
General Fund	\$34,845	\$ 1,320	\$560	\$ -	\$7,485	\$44,210
Internal Service Funds	-	-	-	45	-	45
Nonmajor Enterprise Funds	131	-	-	-	-	131
State Special Revenue	50,468	35	-	-	-	50,503
Total	\$85,444	\$1,355	\$560	\$45	\$7,485	\$94,889

C. Advances To/From Other Funds

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

Advances to/from other funds at June 30, 2010, consisted of the following (in thousands):

	Advances from Other Funds				
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Advances to Other Funds					
Coal Severance Tax Permanent	\$ -	\$ -	\$ -	\$ 404	\$ 404
Economic Development Bonds	-	5,038	1,944	15,018	22,000
General Fund	1,088	-	-	-	1,088
Nonmajor Enterprise Funds	75	-	-	-	75
Nonmajor Governmental Funds	-	-	-	3,174	3,174
State Special Revenue	2,120	300	17,002	-	19,422
Total	<u>\$3,283</u>	<u>\$5,338</u>	<u>\$18,946</u>	<u>\$18,596</u>	<u>\$46,163</u>

Additional detail for certain advance balances at June 30, 2010, follows (in thousands):

Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program	
Department	Balance
Natural Resources and Conservation	\$ 1,944
Environmental Quality	911
Justice	14,107
Transportation	5,038
Total	<u>\$22,000</u>

Advances from the Coal Severance Tax Permanent Fund	
Department	Balance
Justice	\$404
Total	<u>\$404</u>

D. Interfund Transfers

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

Interfund transfers for the year ended June 30, 2010, consisted of the following (in thousands):

	Transfers In				
	Coal Severance Tax Permanent	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant Permanent
Transfers Out					
Coal Severance Tax Permanent	\$ -	\$ -	\$26,914	\$ -	\$ -
Federal Special Revenue	-	-	14	-	-
General Fund	-	-	-	804	-
Internal Service Funds (1)	-	2	-	-	-
Land Grant Permanent	-	-	-	-	-
Nonmajor Enterprise Funds (2)	-	-	36,484	-	-
Nonmajor Governmental Funds	239	-	-	-	-
State Special Revenue	-	6,841	7,723	1,104	910
Unemployment Insurance	-	188	-	-	-
Total	\$239	\$7,031	\$71,135	\$1,908	\$910

	Transfers In (cont)				
	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Economic Development Bonds	Total
Transfers Out (cont.)					
Coal Severance Tax Permanent	\$ -	\$ 527	\$ 14,114	-	\$ 41,555
Federal Special Revenue	-	31,928	35,348	-	67,290
General Fund	50	40,435	80,151	-	121,440
Internal Service Funds (1)	-	-	-	472	474
Land Grant Permanent	-	1,636	160,680	-	162,316
Nonmajor Enterprise Funds (2)	-	-	5,643	-	42,127
Nonmajor Governmental Funds	-	2,321	23,078	-	25,638
State Special Revenue	-	15,869	-	-	32,447
Unemployment Insurance	-	-	-	-	188
Total	\$50	\$92,716	\$319,014	\$472	\$493,475

- (1) Total transfers-out for internal service funds on the financial statements is reported as \$1,586,962. The difference of \$1,112,777 between the amount reported above of \$474,185 and the amount reported on the financial statements relates to the movement of capital assets between a governmental fund type and the internal service fund type. When assets were transferred between these funds, the transferring fund recorded the net book value of the capital asset as a transfer-out, and the receiving fund type recorded the net book value of the capital asset as a capital contribution.
- (2) Total transfers-out for nonmajor enterprise funds on the financial statements is reported as \$42,819,759. The difference of \$694,203 between the amount reported above of \$42,125,556 and the amount reported on the financial statements relates to the movement of capital assets between a governmental fund type and the nonmajor enterprise fund type. When assets were transferred between these funds, the transferring fund recorded the net book value of the capital asset as a transfer-out, and the receiving fund type recorded the net book value of the capital asset as a capital contribution.

NOTE 13. FUND DEFICITS

The following funds have a deficit fund balance/net assets position at June 30, 2010, (in thousands):

Fund Type/Fund	Deficit
<u>Enterprise funds</u>	
Subsequent Injury	\$(2,452)
<u>Internal service funds</u>	
Admin Central Services	\$ (39)
Justice Legal Services	\$ (191)
OPI Central Services	\$ (111)
Personnel Training	\$ (38)
<u>Nonmajor Capital Project Funds</u>	
Federal/Private Construction Grants	\$ (258)
Capital Land Grant	\$(8,050)

NOTE 14. MAJOR PURPOSE PRESENTATION

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

FEDERAL SPECIAL REVENUE BY SOURCE (in thousands)							
	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Charges for services	\$ 515	\$ 12	\$ -	\$ 3,308	\$ 32,897	\$ 4	\$ 36,736
Investment earnings	21	4	-	-	87	-	112
Securities lending income	1	1	-	-	9	-	11
Sales of documents/merchandise/ property	-	-	-	-	-	13	13
Contributions/premiums	-	-	-	-	1	39	40
Grants/contracts/donations	-	62	-	-	-	-	62
Federal	167,452	9,035	486,358	1,175,315	247,166	137,478	2,222,804
Federal indirect cost recoveries	101	56	-	52,320	623	263	53,363
Other revenues	8	2	1	154	2	20	187
Transfers in	244	1,328	-	819	-	4,640	7,031
Total federal special revenue	\$ 168,342	\$ 10,500	\$ 486,359	\$ 1,231,916	\$ 280,785	\$ 142,457	\$ 2,320,359

STATE SPECIAL REVENUE BY SOURCE (in thousands)							
	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Licenses/permits	\$ 22,468	\$ 14,504	\$ 27,652	\$ 34,616	\$ 1,499	\$ 59,757	160,496
Taxes	125,383	2,371	195,793	54,926	17,733	39,728	435,934
Charges for services	22,744	48,397	7,045	35,281	914	28,717	143,098
Investment earnings	298	25,261	197	217	51	26,177	52,201
Securities lending income	35	245	23	32	1	311	647
Sales of Documents/merchandise/ property	1,200	1,897	315	127	300	1,578	5,417
Rentals/leases/royalties	221	3	277	23	4	117	645
Contributions/premiums	19,706	-	-	-	-	-	19,706
Grants/contracts/donations	6,888	786	445	4,703	1,729	4,157	18,708
Federal	11,549	32	-	1,286	-	540	13,407
Federal indirect cost recoveries	-	-	55,747	18	-	3,622	59,387
Other revenues	1,082	533	972	408	-	335	3,330
Transfers in	66,425	3,124	1,298	19,904	1,232	227,031	319,014
Total state special revenue	\$ 277,999	\$ 97,153	\$ 289,764	\$ 151,541	\$ 23,463	\$ 392,070	\$ 1,231,990

GOVERNMENTAL FUND BALANCE BY FUNCTION

(in thousands)

	SPECIAL REVENUE			PERMANENT			
				COAL	LAND		
	GENERAL	STATE	FEDERAL	SEVERANCE	GRANT	NONMAJOR	TOTAL
				TAX			
Fund balances:							
Nonspendable							
Inventory	\$ 4,028	\$ 22,990	\$ -	\$ -	\$ -	\$ -	\$ 27,018
Permanent fund principal	-	-	-	535,714	423,982	183,739	1,143,435
Long-term notes / receivable	96	-	-	-	-	-	96
Prepaid Expense	491	870	-	-	-	-	1,361
Total Nonspendable	4,615	23,860	-	535,714	423,982	183,739	1,171,910
Restricted							
General government	-	2,380	10,733	-	-	672	13,785
Transportation	-	102,520	-	-	-	-	102,520
Health and Human Services	-	18,441	456	-	-	3,470	22,367
Natural resources	-	345,572	95	-	77,360	15,383	438,410
Public safety	-	317,295	-	-	-	-	317,295
Education	-	3,411	21,233	-	-	-	24,644
Total Restricted	-	789,619	32,517	-	77,360	19,525	919,021
Committed							
General government	-	173,661	-	330,069	-	47,500	551,230
Transportation	-	6,403	-	-	-	-	6,403
Health and Human Services	-	65,050	-	-	-	128,577	193,627
Natural resources	-	472,833	-	-	-	28,991	501,824
Public safety	-	10,782	-	-	-	718	11,500
Education	-	822	-	-	-	-	822
Total Committed	-	729,551	-	330,069	-	205,786	1,265,406
Assigned							
General government	1,088	849	-	-	-	31,490	33,427
Health and Human Services	-	154	-	-	-	(6)	148
Natural resources	-	76	-	-	-	342	418
Public safety	-	-	-	-	-	2,949	2,949
Education	-	138	-	-	-	-	138
FY 2011 appropriation	70,270	-	-	-	-	-	70,270
Encumbrances	11,986	-	-	-	-	-	11,986
Total Assigned	83,344	1,217	-	-	-	34,775	119,336
Unassigned	239,047	(9,392)	(403)	-	-	(17,069)	212,183
Total fund balances	\$ 327,006	\$ 1,534,855	\$ 32,114	\$ 865,783	\$ 501,342	\$ 426,756	\$ 3,687,856

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents (Regents), an agency within the State, is the guarantor of loans owned by the Montana Education Student Assistance Corporation (MHESAC), a private non-profit. The Regents and MHESAC have one common voting board member and one common non-voting officer. Approximately 73.51% of the Regents' outstanding loan volume, or \$1,508,618,268, is held by MHESAC.

A staff member in the Department of Administration, Health Care and Benefits Division, serves as a Director of the Montana Association of Health Care Purchasers for no remuneration. The Department pays this association \$1 per member per year to maintain its membership as well as a monthly fee of \$.70 per member. The monthly fees are payment for data analysis, actuarial analysis, and consulting services performed by association staff on behalf of member employers. The Montana University System is also a member of this organization.

Office space for one of the regional public defender offices is provided at no charge to the office. The space is owned by the deputy public defender for that region. The value of the office is estimated to be \$12,400 per year.

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

NOTE 16. CONTINGENCIES

A. Litigation

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

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

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

In March 2006, a determination was made pursuant to the settlement that the OPMs had lost sufficient market share in 2003 to trigger an NPM adjustment analysis, and that disadvantages caused by the settlement were a significant factor in the market share loss. Similar findings have been made or agreed to for years 2004 through 2006. The State has filed a motion in the lawsuit seeking a declaration that it diligently enforced its qualifying statute during 2003. The OPMs moved to compel arbitration of the question, and the Montana Supreme Court has rejected the OPMs motion. In the opinion of the counsel, good factual arguments exist to show that the State diligently enforced its statute during the year in question. However, legal and procedural uncertainties exist that make an adverse determination reasonably possible. An adverse determination on the diligent enforcement issue could result in the loss of some or all of the State's payments for years 2003 through 2006, which would be recouped through an offset

of payments due in future years. At present, the NPM case involves roughly \$1.8 million that was withheld from the April 2006 payment to the State. The OPMs have asserted claims for NPM adjustments for later years as well. The outcome of these claims is also uncertain.

This settlement has also formed the basis for other lawsuits against the State. On July 1, 2002, a group of cigarette manufacturers and marketers filed suit against the Attorneys General of 31 states, including Montana, in the United States District Court for the Southern District of New York, seeking a declaration that the provisions of Title 16, Chapter 11, Part 4, MCA, violate several provisions of the United States Constitution, and seeking injunctive relief against the enforcement of the statutes. Grand River Enterprises Six Nations, Ltd., v. Pryor et al., Docket No. 02 CV 5068 (U.S. Dist. Ct., S.D.N.Y.). An adverse outcome could threaten the ability of the State to continue to receive payments from the tobacco companies under the settlement of the Mazurek case. The potential loss to the Treasury could amount to \$30-35 million annually. The federal district court had dismissed the complaint, but the United States Court of Appeals for the Second Circuit has reversed the trial court and remanded one of the claims for further proceedings. The United States Supreme Court has denied review, and the case has been remanded for further proceedings. In the opinion of counsel, good defenses exist to the claims, and an adverse result impairing or preventing receipt of the State's payment is possible, but unlikely.

Beginning in February 2001, the Montana Department of Fish, Wildlife and Parks became the defendant in a number of lawsuits challenging the constitutionality and enforcement of Initiative Measure 143, which banned the issuance of new licenses for game farms in Montana, prohibited the transfer of existing licenses, and prohibited game farm licenses from allowing the shooting of game farm animals on a game farm for a fee or other remuneration. Most of these cases sought declaratory and injunctive relief, but in some cases game farmers have alleged that I-143 takes their property without just compensation in violation of the state and federal constitutions, and in which they seek damages from the State for the alleged uncompensated taking. In two of the cases, Kafka v. Montana Department of Fish Wildlife, and Parks, Hill County Docket No. DV-02-059, and Buhmann et al. v. State of Montana et al., Lewis and Clark Docket No. DV-2002-555, the trial courts entered judgment in favor of the State on the taking claims, the Montana Supreme Court has affirmed that judgment, and the United States Supreme Court has denied further review. Five other cases have been dismissed. In the only remaining active case, Spoklie v. Montana Department of Fish, Wildlife and Parks, Sheridan County Docket No. 11013, the State intends to move for summary judgment. In the opinion of counsel, good defenses exist to all claims, and the possibility of an outcome adverse to the state is very remote.

In Terry Blanton v. DPHHS, filed in Montana Twentieth Judicial District Court, Lake County, Cause No. DV-06-37, a class-action lawsuit was filed on the part of plaintiffs who seek to "force DPHHS to obey federal Medicaid and anti-lien laws and the state 'made whole' doctrine." The lawsuit seeks payment from DPHHS of money allegedly wrongfully collected from third-party settlements or recoveries of Medicaid recipients. The lawsuit also seeks interest, costs, attorney fees, and declaratory and injunctive relief. On September 5, 2007, the court issued an order granting class certification. There is currently no trial date and no pretrial schedule.

In 2009 both plaintiffs and defendant DPHHS filed motions for summary judgment. The court granted partial summary judgment to plaintiffs on certain issues, primarily liability issues. In the fall of 2009 defendant DPHHS submitted a report to the court concerning each Medicaid reimbursement file of each class member with a breakdown of how third party awards were apportioned. DPHHS also requested Rule 54(b) certification on four orders of the district court resolving various liability issues in plaintiffs' favor, for the purpose of appealing to the Montana Supreme Court. On April 20, 2010, the district court granted Rule 54(b) certification on the four orders it had issued affecting liability issues. On May 6, 2010 DPHHS filed a Notice of Appeal. Briefing is scheduled to be completed by November 17, 2010.

At this time, counsel for DPHHS does not believe it is possible to make a reasonable assessment of the likelihood of plaintiffs' success on the merits. In addition, the fiscal impact on the State, should the plaintiffs prevail, and the amount of any potential award of attorney fees and costs, is not determinable at this time.

Coles, Individually and as Personal Representative for the Estate of Steven Bearcrane v. Black Ranches, Inc., Crow Tribal Court No. CAV 07-044, is a tort case filed against a policy holder of Montana State Fund. The case involves a wrongful death claim by the estate of an employee of the policyholder. Montana State Fund is providing a defense under a complete reservation of rights to the policy holder under Part Two of the State Fund's insurance policy, also

known as employers' liability coverage. The policy limits in this case are \$1,000,000. The exclusive remedy provisions of MCA Section 39-71-411 should this type of tort claim against the policy holder. However, if the plaintiffs are successful in convincing the court that MCA Section 39-71-411 does not provide a defense, and that employer-policyholder was at fault in causing the death of its employee, the damages may be substantial. The case was dismissed at the Crow Tribal Court level, and has been appealed to the Crow Tribal Appellate Court. The actual potential costs impact to the State Fund is not know at this time. Liability for Montana State Fund, up to its policy limits (\$1,000,000), is reasonably possible.

In October 2008 a lawsuit, Diaz et al. v. Blue Cross and Blue Shield of Montana et al., was filed in the Montana First Judicial District Court, Lewis and Clark County, Cause No. BVD-2008-956, by plaintiffs Jeanette Diaz, Leah Hoffman Berhardt, Rachel Laudon, individually and on behalf of others similarly situated, naming Blue Cross and Blue Shield of Montana, New West Health Services, Montana Comprehensive Health Association, State of Montana, and John Does 1-100 of Montana as defendants. The complaint alleges that the defendants have violated the "made whole" law of Montana and illegally given themselves subrogation rights. In December 2009, the District Court denied plaintiffs' motion requesting a class action. Plaintiffs appealed this decision to the Montana Supreme Court, and in October 2010 the Montana Supreme Court issued its decision. The decision did not rule on the class action issue but instead returned the case to the District Court to determine whether the "made whole" laws apply to the various types of third party administrators involved in the case (e.g. Blue Cross and Blue Shield and New West). At this time it is difficult to predict an outcome and monetary effect to the state because the state provides its insurance on a self-insured basis, which is different from a 2009 Montana Supreme Court case involving Blue Cross and Blue Shield of Montana in its private insurer capacity, and because the class issue remains outstanding.

W.R. Grace & Co Litigation – The Risk Management and Tort Defense Division disclosure of pending or threatened litigation includes approximately 1,400 claims against the State of Montana alleging that the State failed to warn of the hazards of asbestos associated with the operations of W.R. Grace & Co. in Lincoln County Montana.

There is a reasonable possibility that claims against the State could be resolved during fiscal year 2011. Court approval will be required for any such resolution of claims, and if that occurs the State may be required to make payments in settlement of claims during fiscal year 2011. If the State is required to make a settlement payment from the Administration Self Insurance Funds, discussed in Note 8 (B) (2), the State will seek reimbursement of that payment from its insurers, W.R. Grace, and any trust established in the W.R. Grace Bankruptcy, which is about to conclude. Because of unresolved legal and factual issues and the possibility of reimbursement it has not been possible reasonably to estimate the potential loss.

A complaint was filed in July 2009, SBC Archway III, LLC v. State of Montana in Montana First Judicial District Court, Lewis and Clark County, Cause No. BDV 1109-688, arising from the State's termination of three, 30-year "build to suit" leases with the developer following the 2009 legislature's rejection of funding for the leases in the 2010-11 biennium. The developer has purchased the property and prepared architectural plans for the building, but had not yet begun construction of the building at the time the leases were terminated. The developer is seeking damages including the cost of the property acquisition (purchase price of \$1.9 million, lost profits for the 30-year lease term, delay damages, and other costs incurred prior to lease termination). The case is currently in the discovery phase of litigation. In the opinion of counsel, the State has numerous strong defenses to the suit, including the contractual right to terminate in the event of a reduction of funds for the purposes of the leases and the 2009 legislature's rejection of funding for the leases. If the plaintiff were to prevail, the fiscal impact on the State is not determinable at this time.

Shattuck and others similarly situated v. Kalispell Regional Medical Center, Inc., Blue Cross And Blue Shield Of Montana, and the State Of Montana, Montana Supreme Court Docket No. DA 10-0486, Lewis and Clark County Docket No ADV-2008-53. This matter is before the Montana Supreme Court on interlocutory appeal of the District Court's ruling that the Montana Children's Health Insurance Plan/Healthy Montana Kids is an insurance covered by the "made whole" doctrine. The State's position is that CHIP/HMK is a public assistance program, not insurance governed by Title 33, MCA, and that the made whole doctrine does not apply to it. The State expects to prevail on this issue. The State also raised the Plaintiff's standing to bring the State in as a Defendant because the State asserted no claim for recovery against this Plaintiff and therefore no loss is associated this claim. Plaintiff seeks to have the lawsuit certified as a class action, however, which has not occurred. DPHHS cannot reasonably estimate a loss associated with a class action in this matter.

B. Federal Contingencies

Food Distribution Program - The amount reported for Food Distribution programs (CFDA #10.550, #10.567, #10.569, #10.570 and #10.565 and #93.053) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2010, Montana distributed \$416,694 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed \$8,534,859 in commodities in fiscal year 2010. The value at June 30, 2010 of commodities stored at the state's warehouse is \$1,750,231 for which the state is liable in the event of loss. The state has insurance to cover this liability.

C. Miscellaneous Contingencies

Loan Enhancements – As of June 30, 2010, the Board of Investments (BOI) had provided loan enhancements from the Coal Severance Tax Permanent Trust Fund to the Municipal Finance Consolidation Act Bond Fund and the Facility Finance Authority, (a component unit of the State of Montana), totaling \$197,444,677. The BOI's exposure to bond issues of the Municipal Finance Consolidation Act Bond Fund was \$96,325,000, while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority was \$101,119,677.

Gain Contingencies - Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2010, the following assessments (by fund type) were outstanding (in thousands):

		State Special Revenue
Taxes	General	
Corporation Tax	\$70,119	-
Oil and Gas Production Tax	\$323	\$53
Total	\$70,442	\$53

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

The oil and gas production tax noted above represents the state portion of the total protested amount of \$699,995 (in thousands).

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2010. The corporations have appealed the department's decision to deny or adjust the refund. As of June 30, 2010, these include \$3,096,613 of General Fund corporation tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2010. As of June 30, 2010, these include \$3,815,278 of protested property taxes recorded in the General Fund and \$4,310,159 recorded in State Special Revenue Funds.

NOTE 17. SUBSEQUENT EVENTS

Bond/Loan Issues

Montana Facility Finance Authority had the following bond issues. On August 11, 2010 two bond issues totaling \$17,855,000 were closed for Powell Community Memorial Hospital. Proceeds will be used to construct a replacement hospital in Deer Lodge. On October 28, 2010 two series of bonds totaling \$33,080,000 were issued for Barrett Hospital Development Corporation. Proceeds will be used to finance the construction of a new hospital in Dillon. On November 23, 2010 \$57,115,000 of bonds were issued for Kalispell Regional Medical Center. Proceeds will be used to expand, remodel and enlarge its surgical services tower and refinance existing bonds.

On July 1, 2010, the Board called all of the outstanding Montana Board of Housing Multi-family Mortgage Bonds 1996 Series A. The bonds, in the principal amount of \$660,000, were redeemed at 100.00% together with interest accrued to the redemption date.

On December 9, 2009, the Board of Housing agreed to participate in the U.S. Treasury New Issue Bond Program (NIBP) of the Housing Finance Agency Initiative and created a new indenture, Single Family XI Homeownership, for that purpose. The Board issued \$150,000,000.00 of bonds, 2009 Series A, and escrowed the proceeds as required by the agreement with U.S. Treasury. Originally, the program was to expire on December 31, 2010, and any remaining 2009 Series A bonds not converted to NIBP mortgage revenue bonds were to be redeemed by December 31, 2009. However, on September 1, 2010, the U.S. Department of Treasury extended the NIBP escrow draw period to December 31, 2011 from December 31, 2010 which extends the period these funds are available to the Board by one calendar year.

As part of the NIBP, the Board of Housing is purchasing eligible Montana single family residential mortgages. The Board is financing these mortgage purchases with the participation of the Federal Home Loan Bank (FHLB) of Seattle through a short-term financing agreement. On August 17, 2010, the Board drew \$8,000,000 from FHLB of Seattle for the purpose of funding mortgage purchases.

On November 10, 2010, the State of Montana issued \$550,000 General Obligation Long-Range Building Program Bonds, Series 2010G. This obligation was authorized by the 59th Montana Legislature in House Bill 540.

Prior to September 10, 2010, The Montana State University's Series J bonds had been outstanding as Variable Rate Demand Obligations (VRDOs) enhanced by a Wells Fargo Bank letter of Credit. Because the letter of credit was scheduled to terminate in September of 2010, The University sought pricing on a renewed letter of credit as well as a direct-placement transaction. After reviewing several options, the University selected the direct-placement transaction, and on September 10, 2010, amended its bond indenture to permit issuance of the Series J bonds in the indexed floater mode, and re-issued the bonds in whole to Wells Fargo Bank. In place of a letter of credit fee, the University now pays Wells Fargo Bank a pre-determined basis point spread over and above the SIFMA weekly indexed rate.

On October 21, 2010, the Board of Regents of Higher Education for the State of Montana authorized the University to issue a total of approximately \$65 million of Series K 2010 (Taxable and Tax Exempt) Refunding Revenue Bonds. The bonds were subsequently issued on December 6, 2010. The bond proceeds from the sale of the Series K 2010 bonds will provide funds to defease all or a portion of the University's outstanding Series E 1998 Bonds and Series F 1999 Bonds, and pay costs associated with the bond issuance.

The Department of Natural Resources and Conservation issued General Obligation Bonds (G.O.) on November 10, 2010. The Series 2010 F Bonds were for \$21,000,000. These taxable bond proceeds were issued to purchase land in Montana. The proceeds will be used to generate revenue for the school trust program and provide recreation to Montanans. The Series 2010 H Bonds were issued for \$1,000,000. These taxable bond proceeds were issued to fund the Best Management Practices loan program. Loans are made to individuals performing land best management practices for example: putting in an irrigation system. The borrower repayments pay the bonds.

The Department of Natural Resources and Conservation issued Coal Severance Tax (CST) A Bonds on September 30, 2010 for \$10,180,000. These bond proceeds were used to refund the 2001 D CST Bonds for the Broadwater

power plant at Toston Dam. The 2010 B CST Bonds were issued for \$1,730,000. These bond proceeds were used to fund projects approved in HB 8 by the 2009 Legislature for natural resource projects around the state. The 2010 C CST Bonds were issued for \$6,720,000. These bond proceeds were used to rehabilitate the Ruby Dam owned by the State of Montana.

Investment Related Issues

On July 6, 2010, the Board of Investments received an Axon Financial Funding payment of \$1,963,523 representing \$1,927,853 in principal and interest compensation of \$35,670 in excess of the accrued interest receivable. Subsequent to this payment, Axon Financial Funding foreclosed with the issuance of a July 6, 2010 promissory note for \$66,832,436 from AFF Financing LLC. On August 27, 2010 the Board received \$168,824 from Axon Financial Funding reserves. A payment of \$498,605 representing \$480,598 in principal and \$18,007 in interest was received from AFF financing on September 8, 2010. On October 7, 2010, AFF Financing LLC paid \$525,509 in principal and \$13,714 in interest for a total payment of \$539,223.

On September 28, 2010, the Board of Investment received an Orion Finance USA payment of \$1,336,453 representing \$1,290,897 in principal and \$45,556 in interest compensation.

NOTE 18. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS

Constitutionality of Retirement Plan Funding

The Montana Constitution, Article VIII, Section 15 states that public retirement systems shall be funded on an actuarially sound basis. As of June 30, 2010, the Public Employees Retirement System-Defined Benefit Retirement Plan (PERS-DBRP), Sheriffs Retirement System (SRS), Game Warden & Peace Officers Retirement System (GWPORS) and Teachers Retirement System (TRS) were not in compliance. Detailed information for the retirement plan can be found in Note 6.

BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010
 (amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Licenses/permits	\$ 120,046	\$ 120,046	\$ 121,315	\$ 1,269
Taxes:				
Natural resource	204,557	204,557	126,342	(78,215)
Individual income	840,263	840,263	700,078	(140,185)
Corporate income	115,638	115,638	90,763	(24,875)
Property	230,045	230,045	220,724	(9,322)
Fuel	-	-	-	-
Other	204,602	204,602	205,425	823
Charges for services/fines/forfeits/settlements	39,592	39,592	44,918	5,326
Investment earnings	9,311	9,311	4,035	(5,276)
Sale of documents/merchandise/property	(1,708)	(1,708)	247	1,955
Rentals/leases/royalties	1	1	1	-
Contributions/premiums	-	-	-	-
Grants/contracts/donations	4,918	4,918	8,508	3,590
Federal	29,169	29,169	35,005	5,836
Federal indirect cost recoveries	125	125	142	17
Other revenues	61	61	1,010	949
Total revenues	1,796,620	1,796,620	1,558,513	(238,107)
EXPENDITURES				
Current:				
General government	271,823	271,823	256,415	15,408
Public safety/corrections	264,010	264,010	251,725	12,285
Transportation (Note RS-1)	2,680	2,680	210	2,471
Health/social services	336,110	336,110	313,847	22,263
Education/cultural	806,142	806,142	731,577	74,565
Resource/recreation/environment	35,192	35,192	33,019	2,173
Debt service:				
Principal retirement	479	479	347	132
Interest/fiscal charges	-	-	38	(38)
Capital outlay (Note RS-1)	6,927	6,927	5,660	1,268
Total expenditures	1,723,363	1,723,363	1,592,838	130,527
Excess of revenue over (under) expenditures	73,257	73,257	(34,325)	(368,634)
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	2,232	2,232	-	(2,232)
General capital asset sale proceeds	49	49	49	-
Refunding bond issued	-	-	-	-
Payment to refunding bond escrow agent	-	-	-	-
Bond premium	-	-	-	-
Bond proceeds	-	-	-	-
Transfers in (Note 12)	73,840	73,840	64,924	(8,916)
Transfers out (Note 12)	(46,349)	(46,349)	(33,491)	12,858
Total other financing sources (uses)	29,772	29,772	31,482	1,710
Net change in fund balances (Budgetary basis)	103,029	103,029	(2,843)	(366,924)
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	368	368
2. Securities lending costs	-	-	(127)	(127)
3. Inception of lease/installment contract	-	-	66	66
4. Adjustments for nonbudgeted activity	-	-	(82,970)	(82,970)
Net change in fund balances (GAAP basis)	103,029	103,029	(85,506)	(449,587)
Fund balance - July 1	-	-	418,517	418,517
Prior period adjustments	-	-	(5,875)	(5,875)
Increase (decrease) in inventories	-	-	(130)	(130)
Fund balances - June 30	\$ 103,029	\$ 103,029	\$ 327,006	\$ (37,075)

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

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
\$ 176,044	\$ 176,044	\$ 160,496	\$ (15,548)	\$ -	\$ -	\$ -	-
287,291	287,291	120,872	(166,419)	-	-	-	-
-	-	-	-	-	-	-	-
10	10	6	(4)	-	-	-	-
14,888	14,888	14,564	(324)	-	-	-	-
196,733	196,733	204,373	7,640	-	-	-	-
100,691	100,691	96,119	(4,572)	1	1	-	(1)
105,410	105,410	142,311	36,901	47,651	47,651	36,735	(10,916)
7,753	7,753	23,216	15,463	806	806	112	(694)
7,106	7,106	5,413	(1,693)	-	-	-	-
2,173	2,173	603	(1,570)	-	-	-	-
20,569	20,569	19,706	(863)	-	-	-	-
15,213	15,213	14,974	(239)	106	106	100	(6)
12,086	12,086	13,407	1,321	2,103,791	2,103,791	2,028,860	(74,931)
68,470	68,470	59,387	(9,083)	84,070	84,070	53,363	(30,707)
140	140	2,950	2,810	2	2	131	129
1,014,577	1,014,577	878,397	(136,180)	2,236,427	2,236,427	2,119,301	(117,126)
350,310	350,310	285,312	64,998	211,168	211,168	133,435	77,733
74,010	74,010	73,398	612	29,106	29,106	12,737	16,369
303,266	303,266	239,147	64,119	462,213	462,213	392,470	69,743
156,430	156,430	126,669	29,761	1,470,060	1,470,060	1,232,264	237,796
132,302	132,302	159,730	(27,428)	318,818	318,818	288,841	29,977
235,231	235,231	166,084	69,147	174,847	174,847	87,227	87,620
2,702	2,702	378	2,324	724	724	202	522
-	-	8,890	(8,890)	-	-	19	(19)
72,772	72,772	19,059	53,713	164,583	164,583	46,764	117,819
1,327,023	1,327,023	1,078,667	248,356	2,831,519	2,831,519	2,193,959	637,560
(312,446)	(312,446)	(200,270)	(384,536)	(595,092)	(595,092)	(74,658)	(754,686)
4,684	4,684	616	(4,068)	14	14	-	(14)
226	226	212	(14)	4	4	4	-
8,050	8,050	8,050	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	319	319	-	-	-	-
4,119	4,119	3,800	(319)	-	-	-	-
290,184	290,184	275,130	(15,054)	11,413	11,413	6,201	(5,212)
(92,347)	(92,347)	(11,352)	80,995	(136,637)	(136,637)	(38,255)	98,382
214,916	214,916	276,775	61,859	(125,206)	(125,206)	(32,050)	93,156
(97,530)	(97,530)	76,505	(322,677)	(720,298)	(720,298)	(106,706)	(661,530)
-	-	647	647	-	-	12	12
-	-	(248)	(248)	-	-	(4)	(4)
-	-	63	63	-	-	42	42
-	-	52,184	52,184	-	-	118,821	118,821
(97,530)	(97,530)	129,151	(270,031)	(720,298)	(720,298)	12,163	(542,659)
-	-	1,399,584	1,399,584	-	-	19,908	19,908
-	-	4,139	4,139	-	-	44	44
-	-	1,979	1,979	-	-	-	-
\$ (97,530)	\$ (97,530)	\$ 1,534,853	\$ 1,135,671	\$ (720,298)	\$ (720,298)	\$ 32,115	\$ (522,707)

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-1. BUDGETARY REPORTING

A. State Budget Process

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

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

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

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2010, reverted governmental fund appropriations were as follows: General Fund - \$25.6 million, State Special Revenue Fund - \$65.7 million, and Federal Special Revenue Fund - \$87.3 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

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

B. Budget Basis

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

REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN INFORMATION

Pension Plan Information
Schedule of Funding Progress
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
Single Employer System						
JRS						
6/30/2008	62,040	39,435	(22,605)	157%	5,096	(444%)
6/30/2009	61,929	41,848	(20,081)	148%	5,110	(393%)
6/30/2010	61,277	42,513	(18,764)	144%	5,687	(330%)
HPORS						
6/30/2008	101,500	134,683	33,183	75%	10,866	305%
6/30/2009	99,652	137,815	38,163	72%	11,425	334%
6/30/2010	97,204	151,177	53,973	64%	13,036	414%
Multiple Employer Systems						
PERS-DBRP						
6/30/2008	4,065,307	4,504,743	439,436	90%	995,113	44%
6/30/2009	4,002,212	4,792,819	790,607	84%	1,043,215	76%
6/30/2010	3,889,890	5,241,819	1,351,929	74%	1,083,780	125%
SRS						
6/30/2008	199,453	204,549	5,096	98%	47,196	11%
6/30/2009	200,690	223,893	23,203	90%	51,457	45%
6/30/2010	200,739	246,734	45,995	81%	54,681	84%
GWPORS						
6/30/2008	77,511	83,449	5,938	93%	32,365	18%
6/30/2009	81,177	92,155	10,978	88%	36,023	30%
6/30/2010	85,151	113,855	28,704	75%	39,436	73%
MPORS						
6/30/2008	212,312	327,556	115,244	65%	32,181	358%
6/30/2009	214,345	345,261	130,916	62%	34,687	377%
6/30/2010	217,545	380,393	162,847	57%	37,220	438%
FURS						
6/30/2008	206,127	287,218	81,091	72%	29,158	278%
6/30/2009	209,775	306,236	96,460	69%	30,160	320%
6/30/2010	213,755	335,463	121,708	64%	33,339	365%
TRS (1)						
7/1/2008	3,159	4,110	794	79.9%	689	115.2%
7/1/2009	2,762	4,331	1,411	66.2%	683	206.6%
7/1/2010	2,956,600	4,518	1,561,600	65%	747	209%
Nonemployer Contributor						
VFCA						
6/30/2008	27,544	32,735	5,191	84%	N/A	N/A
6/30/2009	27,226	33,548	6,322	81%	N/A	N/A
6/30/2010	26,575	34,512	7,936	77%	N/A	N/A

(1) For TRS, the unfunded actuarial accrued liability (UAAL) amount doesn't equal column b minus column a as the UAAL amount includes the present value of future university supplemental contributions.

REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

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

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

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

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

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

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

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

AMOUNT**PEACE CORPS**

08.999	Miscellaneous Non-Major Grants	7,779
	TOTAL	\$7,779

DEPARTMENT OF AGRICULTURE

10.025	Plant and Animal Disease, Pest Control, and Animal Care	870,463
10.025	Plant and Animal Disease, Pest Control, and Animal Care: From National Plant Board	1,037
10.028	Wildlife Services	83,585
10.069	Conservation Reserve Program	1,245
10.072	Wetlands Reserve Program	10,549
10.162	Inspection Grading and Standardization	28,587
10.163	Market Protection and Promotion	550,481
10.169	Specialty Crop Block Grant Program	235,293
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	588,260
10.479	Food Safety Cooperative Agreements	197,413
10.500	Cooperative Extension Service	3,103,425
10.550	Food Donation	2,924,084
10.557	Special Supplemental Nutrition Program for Women, Infants, & Children	15,439,555
10.558	Child and Adult Care Food Program	10,406,216
10.560	State Administrative Expenses for Child Nutrition	637,875
10.565	Commodity Supplemental Food Program	1,916,437
10.567	Food Distribution Program on Indian Reservations	3,457,796
10.572	WIC Farmers' Market Nutrition Program (FMNP)	45,609
10.574	Team Nutrition Grants	234,267
10.576	Senior Farmers Market Nutrition Program	102,163
10.578	ARRA WIC Grants To States	287,029
10.579	Child Nutrition Discretionary Grants Limited Availability	35,068
10.579	ARRA Child Nutrition Discretionary Grants Limited Availability	169,981
10.580	Food Stamp Program Outreach/Participation Program	56,846
10.582	Fresh Fruit and Vegetable Program	703,461
10.601	Market Access Program: From US Livestock Genetic Exp.	5,912
10.601	Market Access Program: From W. US Ag Trade Assoc	2,316

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

AMOUNT

10.652	Forestry Research	93,856
10.664	Cooperative Forestry Assistance	6,562,699
10.664	ARRA Cooperative Forestry Assistance	3,940,650
10.672	Rural Development, Forestry, and Communities	155,436
10.676	Forest Legacy Program	11,619
10.688	ARRA Wildlife Fire Management	268,676
10.700	National Agricultural Library	2,117
10.901	Resource Conservation and Development	50,000
10.902	Soil and Water Conservation	53,006
10.912	Environmental Quality Incentives Program	24,443
10.916	ARRA Watershed Rehabilitation Program	1,452
10.918	Ground and Surface Water Conservation E.Q Incentive Program: From Flint Creek Water Users	5,969
10.960	Technical Agricultural Assistance	2,175
10.999	Miscellaneous Non-Major Grants	94,831
10.999	Miscellaneous Non-Major Grants: From Fort Belknap Council	44,154
10.999	Miscellaneous Non-Major Grants: From Salish & Kootenai Tribes	30,176
TOTAL		\$53,436,212

CHILD NUTRITION CLUSTER

10.553	School Breakfast Program	6,022,537
10.555	National School Lunch Program	22,827,252
10.556	Special Milk Program for Children	16,486
10.559	Summer Food Service Program for Children	1,104,037
TOTAL		\$29,970,312

EMERGENCY FOOD ASSISTANCE CLUSTER

10.568	Emergency Food Assistance Program (Administrative Costs)	171,395
10.568	ARRA Emergency Food Assistance Program (Administrative Costs)	93,249
10.569	Emergency Food Assistance Program (Food Commodities)	2,059,239
TOTAL		\$2,323,883

SCHOOLS AND ROADS CLUSTER

10.665	Schools and Roads: Grants to States	24,619,013
TOTAL		\$24,619,013

SNAP CLUSTER

10.551	Supplemental Nutrition Assistance Program (SNAP)	147,306,150
--------	--	-------------

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

		AMOUNT
10.551	ARRA Supplemental Nutrition Assistance Program (SNAP)	21,841,508
10.561	State Administrative Matching Grants for SNAP Program	10,925,377
10.561	ARRA State Administrative Matching Grants for SNAP Program	376,313
	TOTAL	\$180,449,348

DEPARTMENT OF COMMERCE

11.400	Geodetic Surveys and Services	9,246
11.417	Sea Grant Support	10,435
11.550	Public Telecommunication Facilities-Planning and Construction	331,815
11.550	Public Telecommunication Facilities-Planning and Construction: From Corp of Public Broadcast.	245,606
11.555	Public Safety Interoperable Communications Grant Program	1,171,190
11.568	ARRA State Broadband Data and Development	439,823
11.609	Measurement and Engineering Research and Standards	6,315
	TOTAL	\$2,214,430

PUBLIC WORKS AND E.D. CLUSTER

11.307	Economic Adjustment Assistance	339,293
11.307	ARRA Economic Adjustment Assistance	2,569,499
	TOTAL	\$2,908,792

DEPARTMENT OF DEFENSE

12.112	Payments to States in Lieu of Real Estate Taxes	48,829
12.400	Military Construction National Guard	13,927,036
12.401	National Guard Military Operations and Maintenance Projects	21,405,724
12.401	ARRA National Guard Military Operations and Maintenance Projects	1,818,612
12.404	National Guard Civilian Youth Opportunities	2,475,793
12.900	Language Grant Program: From Inst Internat. Ed., Inc	1,406,064
12.901	Mathematical Sciences Grants Program	79,675
	TOTAL	\$41,161,733

DEPARTMENT OF HOUSING & URBAN DEVELOPMENT

14.103	Interest Reduction Payments Rental and Cooperative Housing for Lower Income Families	234,396
14.169	Housing Counseling Assistance Program	166,864
14.231	Emergency Shelter Grants Program	397,200

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

		AMOUNT
14.235	Supportive Housing Program	71,737
14.238	Shelter Plus Care	181,720
14.239	Home Investment Partnerships Program	4,285,811
14.241	Housing Opportunities for Persons with AIDS	1,032,943
14.257	ARRA Homeless Prevention & Rapid Re-Housing Program	1,805,181
14.258	ARRA Tax Credit Assistance Program (Recovery Act Funded)	3,380,024
TOTAL		\$11,555,876
CDBG - STATE ADMIN. SMALL CITIES CLUSTER		
14.228	Community Development Block Grant/States Program	15,412,787
14.255	ARRA CDBG	56,590
TOTAL		\$15,469,377
HOUSING VOUCHER CLUSTER		
14.871	Section 8 Housing Choice Vouchers	19,369,725
TOTAL		\$19,369,725
SECTION 8 PROJECT-BASED CLUSTER		
14.195	Section 8 Housing Assistance Payments Program Special Allocations	18,847,584
14.856	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	1,842,162
TOTAL		\$20,689,746
DEPARTMENT OF THE INTERIOR		
15.114	Indian Education: Higher Education Grant Program	29,459
15.224	Cultural Resource Management	104,554
15.225	Recreation Resource Management	46,602
15.228	Wildland Urban Interface Community and Rural Fire Assistance	661,946
15.231	Fish, Wildlife and Plant Conservation Resource Management	440,154
15.234	Secure Rural Schools and Community Self-Determination	371,659
15.236	Environmental Quality and Protection Resource Management	1,234,711
15.236	ARRA Environmental Quality and Protection Resource Management	474,361
15.238	Challenge Cost Share	5,670
15.250	Regulation Surface Coal Mining and Surface Effects of Underground Coal Mining	1,245,261
15.252	Abandoned Mine Land Reclamation (AMLR) Program	12,343,739
15.504	Water Reclamation and Reuse Program	48,461
15.507	Water 2025	5,040

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

		AMOUNT
15.517	Fish and Wildlife Coordination Act	96,620
15.608	Fish and Wildlife Management Assistance	126,933
15.608	Fish and Wildlife Management Assistance: From Nat. Fish & Wild. Found	6,199
15.608	Fish and Wildlife Management Assistance: From Park Conser.District	20,570
15.612	Endangered Species Section 6	104,554
15.615	Cooperative Endangered Species Conservation Fund	1,685,256
15.631	National Fire Plan - Rural Fire Assistance	13,121
15.632	Conservation Grants Private Stewardship for Imperiled Species	28,357
15.633	Landowner Incentive	64,822
15.634	State Wildlife Grants	993,242
15.637	Migratory Bird Joint Ventures	5,673
15.650	Research Grants (Generic)	140,000
15.655	Migratory Bird Monitoring, Assessment and Conservation	115,210
15.808	U.S. Geological Survey-Research and Data Acquisition	17,954
15.814	National Geological and Geophysical Data Preservation Program	30,038
15.904	Historic Preservation Fund Grants-in-Aid	747,017
15.912	National Historic Landmark	194,593
15.916	Outdoor Recreation: Acquisition, Development and Planning	162,359
15.929	Save America's Treasures	157,255
15.999	Miscellaneous Non-Major Grants	382,670
TOTAL		\$22,104,060
 FISH AND WILDLIFE CLUSTER		
15.605	Sport Fish Restoration	7,950,628
15.611	Wildlife Restoration	18,232,051
TOTAL		\$26,182,679
 DEPARTMENT OF JUSTICE		
16.001	Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis	12,000
16.001	Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis: From City of Billings	10,392
16.004	Law Enforcement Assistance-Narcotics and Dangerous Drugs Training	776
16.012	Alcohol, Tobacco, and Firearms-Training Assistance	43
16.017	Sexual Assault Services Formula Program	54,651
16.200	Community Relations Service	65,718

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

	AMOUNT
16.203 Comprehensive Approaches to Sex Offender Management Discretionary Grant	6,479
16.304 Law Enforcement Assistance-National Crime Information Center	8,273
16.523 Juvenile Accountability Incentive Block Grants	132,149
16.525 Grants to Reduce Violent Crimes Against Women on Campus	(210)
16.529 Education and Training to End Violence Against and Abuse of Women with Disabilities: From MT Coal. Agnst Sex. Viol	77,773
16.540 Juvenile Justice and Delinquency Prevention: Allocation to States	480,129
16.548 Title V Delinquency Prevention	29,190
16.550 State Justice Statistics Program For Statistical Analysis Centers	108,719
16.554 National Criminal History Improvement Program (NCHIP)	180,000
16.560 National Institute of Justice Research, Evaluation, and Development Project Grants	70,513
16.575 Crime Victim Assistance	1,208,187
16.576 Crime Victim Compensation	438,560
16.580 Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Prog	125,468
16.585 Drug Court Discretionary Grant Program	60,947
16.588 Violence Against Women Formula Grants	835,049
16.588 ARRA Violence Against Women Formula Grants	270,248
16.590 Grants to Encourage Arrest Policies and Enforcement of Protection Orders	296,440
16.593 Residential Substance Abuse Treatment for State Prisoners	35,680
16.606 State Criminal Alien Assistance Program	34,794
16.607 Bulletproof Vest Partnership Program	9,173
16.609 Community Prosecution and Project Safe Neighborhoods	24,302
16.710 Public Safety Partnership and Community Policing Grants	481,690
16.727 Enforcing Underage Drinking Laws Program	293,077
16.731 Tribal Youth Program	39,227
16.738 Edward Byrne Memorial Justice Assistance Grant Program	364,858
16.742 Paul Coverdell Forensic Sciences Improvement Grant Program	104,511
16.744 Anti-Gang Initiative	10,780
16.753 Congressionally Recommended Awards	40,109
16.801 ARRA State Victim Assistance Formula Grant Program	511,084
16.803 ARRA EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT	1,956,975
16.810 ARRA Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Prg	482,404
TOTAL	\$8,860,158

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

AMOUNT**DEPARTMENT OF LABOR**

17.002	Labor Force Statistics	745,004
17.005	Compensation and Working Conditions Data	79,602
17.225	Unemployment Insurance	237,880,470
17.225	ARRA Unemployment Insurance	128,895,772
17.235	Senior Community Service Employment Program	180,571
17.245	Trade Adjustment Assistance-Workers	5,261,215
17.261	Employment and Training Administration Pilots, Demonstrations, and Research Projects	5,038
17.266	Work Incentive Grants	932,289
17.267	Incentive Grants - WIA Section 503	714,711
17.268	H-1B High Growth Job Training Grants	3,868,622
17.269	Community Based Job Training Grants	1,051,055
17.271	Work Opportunity Tax Credit Program (WOTC) & Welfare-to-Work Tax Credit (WtWTC)	38,476
17.273	Temporary Labor Certification for Foreign Workers	85,049
17.274	ARRA Youthbuild	387,247
17.275	Comp Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors: From MT EI. Joint Apprent.	744,187
17.279	Green Jobs Innovation Fund Grants	636,239
17.504	Consultation Agreements	461,716
17.600	Mine Health and Safety Grants	150,310
17.807	Transition Assistance Program	14,067
17.999	National Occupational Information Coordinating Committee	17,343

TOTAL	\$382,148,983
--------------	----------------------

EMPLOYMENT SERVICES CLUSTER

17.207	Employment Service	5,142,547
17.207	ARRA Employment Services	2,347,744
17.207	Employment Service: From North Carolina	5,436
17.801	Disabled Veterans Outreach Program (DVOP)	647,579
17.804	Local Veterans' Employment Representative Program	171,156

TOTAL	\$8,314,462
--------------	--------------------

WIA CLUSTER

17.258	WIA Adult Program	2,170,485
--------	-------------------	-----------

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

	AMOUNT
17.258 ARRA WIA Adult Program	1,039,710
17.259 WIA Youth Activities	2,219,160
17.259 ARRA WIA Youth Activities	2,438,066
17.260 WIA Dislocated Workers	1,910,798
17.260 ARRA WIA Dislocated Workers	1,351,942
TOTAL	\$11,130,161

DEPARTMENT OF STATE

19.009 Academic Exchange Programs - Undergraduate Programs	26,859
19.014 One-Time International Exchange Grant Program	41,691
19.999 Miscellaneous Grants: From Amer. Coun. for Int. Ed.	81,973
TOTAL	\$150,523

DEPARTMENT OF TRANSPORTATION

20.106 Airport Improvement Program	282,788
20.218 National Motor Carrier Safety	1,493,073
20.231 Performance and Registration Information Systems Management	188,143
20.233 Border Enforcement Grants	1,975,468
20.238 Commercial Drivers License Information System (CDLIS) Modernization Grant	27,779
20.240 Fuel Tax Evasion-Intergovernmental Enforcement Effort	(56)
20.505 Federal Transit Technical Studies Grant	339,414
20.509 Formula Grants for Other Than Urbanized Areas	5,360,481
20.509 ARRA Formula Grants for Other Than Urbanized Areas	3,789,791
20.514 Transit Planning and Research	17,794
20.515 State Planning and Research	90,213
20.607 Alcohol Open Container Requirements	37,847
20.614 National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants	81,566
20.700 Pipeline Safety	41,257
20.703 Interagency Hazardous Materials Public Sector Training and Planning Grants	157,559
20.930 Payments for Small Community Air Service Development	55,876
20.999 Miscellaneous Non-Major Grants	5,647
TOTAL	\$13,944,640

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

AMOUNT

FEDERAL TRANSIT CLUSTER

20.500	Federal Transit Capital Improvement Grants	644,119
	TOTAL	\$644,119

HIGHWAY PLAN. AND CONST. CLUSTER

20.205	Highway Planning and Construction	346,499,719
20.205	ARRA Highway Planning and Construction	116,201,402
20.219	Recreational Trails Program	1,289,133
	TOTAL	\$463,990,254

HIGHWAY SAFETY CLUSTER

20.600	State and Community Highway Safety	2,379,683
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	3,395,388
20.602	Occupant Protection	82,921
20.605	Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	88,021
20.610	State Traffic Safety Information System Improvement Grants	383,550
20.611	Incentive Grant Program to Prohibit Racial Profiling	68,357
20.612	Incentive Grant Program to Increase Motorcyclist Safety	94,390
	TOTAL	\$6,492,310

TRANSIT SERVICES PROGRAMS CLUSTER

20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	830,041
20.516	Job Access Reverse Commute	583,581
	TOTAL	\$1,413,622

DEPARTMENT OF TREASURY

21.999	Miscellaneous Non-Major Grants	10,939,902
	TOTAL	\$10,939,902

EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

30.002	Employment Discrimination-State and Local Fair Employment Practices	141,333
	TOTAL	\$141,333

GENERAL SERVICES ADMINISTRATION

39.003	Donation of Federal Surplus Personal Property	50,456
--------	---	--------

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

		AMOUNT
39.011	Election Reform Payments	65,533
	TOTAL	\$115,989
 NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.002	Technology Transfer	15,570
43.999	Miscellaneous Non-Major Grants	15,485
	TOTAL	\$31,055
 NATIONAL ENDOWMENT FOR THE HUMANITIES		
45.024	Promotion of the Arts-Grants to Organizations and Individuals	4,936
45.024	ARRA Promotion of the Arts-Grants to Organizations and Individuals	35,000
45.024	Promotion of the Arts-Grants to Organizations and Individuals: From Arts Midwest - Minneapolis	19,999
45.025	Promotion of the Arts-Partnership Agreements	982,393
45.129	Promotion of the Humanities-Federal/State Partnership	105,411
45.129	Promotion of the Humanities-Federal/State Partnership: From Humanities MT	6,577
45.310	State Library Program	1,116,994
45.312	Institute of Museum and Library Services - National Leadership Grants	48
45.313	Laura Bush 21st Century Librarian Program	52,764
	TOTAL	\$2,324,122
 NATIONAL SCIENCE FOUNDATION		
47.041	Engineering Grants: From Univ of Alaska	26,127
47.049	Mathematical and Physical Sciences	36,471
47.074	Biological Sciences	75,753
47.075	Social, Behavioral, and Economic Sciences	35,327
47.076	Education and Human Resources	1,420,562
47.076	Education and Human Resources: From Salish Kootenai College	262,818
47.076	Education and Human Resources: From Am Assoc. Adv. Science	74,422
47.082	ARRA Trans-NSF Recovery Act Research Support: From Black Hills State Univ.	2,547
47.999	Miscellaneous Non-Major Grants	20
	TOTAL	\$1,934,047

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

AMOUNT**SMALL BUSINESS ADMINISTRATION**

59.000	Small Business Administration-Technical Assistance Grant	247,026
59.005	Internet-Based Technical Assistance	122,539
59.037	Small Business Development Center	624,662
TOTAL		\$994,227

DEPARTMENT OF VETERANS AFFAIRS

64.014	Veterans State Domiciliary Care	94,487
64.015	Veterans State Nursing Home Care	4,112,135
64.124	All-Volunteer Force Educational Assistance	116,777
64.203	State Cemetery Grants	18,962
TOTAL		\$4,342,361

ENVIRONMENTAL PROTECTION AGENCY

66.039	ARRA National Clean Diesel Emissions Reduction Program	700,000
66.040	State Clean Diesel Grant Program	22,047
66.040	ARRA State Clean Diesel Program	48,373
66.202	Congressionally Mandated Projects	389,288
66.433	State Underground Water Source Protection	107,550
66.436	Surveys, Studies, Investigations & Demonstrations of the Clean Water Act	2,617
66.439	Targeted Watersheds Grants: From Trees Water and People	26,270
66.454	Water Quality Management Planning	100,000
66.454	ARRA Water Quality Management Planning	74,746
66.458	Capitalization Grants For State Revolving Funds	10,526,039
66.458	ARRA Capitalization Grants For State Revolving Funds	15,050,934
66.460	Nonpoint Source Implementation Grants	2,555,267
66.461	Regional Wetland Program Development Grants	340,382
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	14,910
66.468	Capitalization Grants for Drinking Water State Revolving Fund	8,837,036
66.468	ARRA Capitalization Grants for Drinking Water State Revolving Fund	13,213,926
66.471	State Grants to Reimburse Operators of Small Water Sys for Training Certification Costs	96,724
66.474	Water Protection Grants to the States	115,570

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

		AMOUNT
66.511	Office of Research and Development Consolidated Research/Training/Fellowships: From As. of Pesticide Safety	773
66.514	Science To Achieve Results (STAR) Fellowship Program	34,839
66.605	Performance Partnership Grants	5,986,298
66.608	One Stop Reporting	160,087
66.609	Protection of Children and Older Adults (Elderly) from Environmental Health Risks	12,878
66.708	Pollution Prevention Grants Program	33,596
66.717	Source Reduction Assistance	1,188
66.802	Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop.	3,304,628
66.804	State Underground Storage Tanks Program	342,876
66.805	Leaking Underground Storage Tank Trust Fund Program	788,251
66.805	ARRA Leaking Underground Storage Tank Trust Fund Program	772,478
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	185,619
66.817	State and Tribal Response Program Grants	680,328
66.951	Environmental Education Grants	17,699
66.999	Miscellaneous Non-Major Grants	8,368
TOTAL		\$64,551,585

DEPARTMENT OF ENERGY

81.041	State Energy Program	4,880,909
81.041	State Energy Program: From Washington State Universi	21,984
81.042	Weatherization Assistance for Low-Income Persons	2,748,172
81.042	ARRA Weatherization Assistance for Low-Income Persons	9,745,383
81.049	Office of Science Financial Assistance Program: From Inland NW Research All.	448
81.086	Conservation Research and Development	2,849,118
81.086	Conservation Research and Development: From Kootenia Tribe of Idaho	35,244
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training	23,522
81.119	State Energy Program Special Projects	5,616
81.119	State Energy Program Special Projects: From Washington State Universi	439
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	14,749
81.127	ARRA Energy Efficient Appliance Rebate Program (EEARP)	156,914
81.128	Energy Efficiency and Conservation Block Grant Program (EECBG)	146,128
TOTAL		\$20,628,626

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

AMOUNT**DEPARTMENT OF EDUCATION**

84.002	Adult Education - State Grant Program	1,233,716
84.011	Migrant Education - Basic State Grant Program	921,983
84.013	Title I Program for Neglected and Delinquent Children	110,231
84.017	International Research and Studies	115,602
84.048	Vocational Education - Basic Grants to States	5,457,421
84.069	Leveraging Educational Assistance Partnership	197,021
84.116	Fund for the Improvement of Postsecondary Education	294,558
84.128	Rehabilitation Services-Service Projects	159,506
84.129	Rehabilitation Long-Term Training	123,748
84.133	National Institute on Disability and Rehabilitation Research	751,660
84.133	National Institute on Disability and Rehabilitation Research: From OR Health Sci. Univ.	1,694
84.144	Migrant Education - Coordination Program(B)	84,390
84.169	Independent Living-State Grants	269,508
84.177	Rehabilitation Services-Independent Living Services for Older Individuals/Blind	217,608
84.185	Byrd Honors Scholarships	118,500
84.186	Safe and Drug-Free Schools and Communities - State Grants	1,408,151
84.187	Supported Employment Services for Individuals with Severe Disabilities	386,435
84.196	Education for Homeless Children and Youth	152,339
84.213	Even Start - State Educational Agencies	340,770
84.215	Fund for Improvement of Education	444,309
84.215	Fund for Improvement of Education: From Twin Bridges School	14,120
84.224	State Grants for Assistive Technology	288,975
84.224	State Grants for Assistive Technology: From Assist Tech Act Prog	4,521
84.243	Tech-Prep Education	427,110
84.265	Rehabilitation Training-State Vocational Rehabilitation Unit In-Service	58,420
84.268	Federal Direct Student Loans	3,103,129
84.287	Twenty-First Century Community Learning Centers	5,578,095
84.293	Foreign Language Assistance: From Missoula Pub. Schools	19,859
84.298	State Grants for Innovative Programs	34,720
84.299	Indian Education - Special Programs	294,534
84.323	Special Education - State Program Improvement Grants for Children with Disabilities	766,728

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

		AMOUNT
84.325	Special Education - Personnel Preparation to Improve Services and Results for Children	536,076
84.326	Special Education - Technical Assistance and Dissemination to Improve Services and Results	115,274
84.326	Special Education - Technical Assistance and Dissemination to Improve Services and Results: From CA St Univ. - Northridge	118,805
84.330	Advanced Placement Program	22,542
84.331	Grants to States for Incarcerated Youth Offenders	86,684
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	3,135,151
84.335	Child Care Access Means Parents in School	40,278
84.336	Teacher Quality Enhancement Grants	602,602
84.357	Reading First State Grants	851,896
84.358	Rural Education	251,818
84.359	Early Reading First	1,449,902
84.365	English Language Acquisition Grants	398,836
84.366	Mathematics and Science Partnerships	918,251
84.367	Improving Teacher Quality State Grants	13,370,662
84.367	Improving Teacher Quality State Grants: From MT Learning Center	4,730
84.368	Grants for Enhanced Assessment Instruments	(61,392)
84.369	Grants for State Assessments and Related Activities	3,372,112
84.372	Statewide Data Systems	213,794
84.373	Special Education -Technical Assistance on State Data Collection	300,053
84.377	School Improvement Grants	438,665
84.387	ARRA Education for Homeless Children and Youth	127,040
84.398	ARRA Independent Living State Grants	44,306
84.399	ARRA Independent Living Services for Older Individuals Who are Blind	13,781
84.998	American Printing House for the Blind	4,348
84.999	Miscellaneous Non-Major Grants	197,840
84.999	Miscellaneous Non-Major Grants: From Flathead Valley Community	611
84.999	Miscellaneous Non-Major Grants: From U of CA - Ntl Writ Prj	83,872
TOTAL		\$50,017,898
 EARLY INTERVENTION SERVICES (IDEA) CLUSTER		
84.181	Special Education-Grants for Infants and Families with Disabilities	2,016,146
84.393	ARRA Special Education - Grants for Infants and Families	62,418
TOTAL		\$2,078,564

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

AMOUNT**EDUCATIONAL TECHNOLOGY STATE GRANTS CLUSTER**

84.318	Education Technology State Grants	1,399,075
84.386	ARRA Education Technology State Grants	531,893
84.386	ARRA Education Technology State Grants: From Bridger Schools	48,405
TOTAL		\$1,979,373

SPECIAL EDUCATION CLUSTER

84.027	Special Education - Grants to States	33,876,997
84.173	Special Education - Preschool Grants	1,126,777
84.391	ARRA Special Education Grants to States	18,330,014
84.392	ARRA Special Education - Preschool Grants, Recovery Act	617,674
TOTAL		\$53,951,462

STATE FISCAL STABILIZATION FUND CLUSTER

84.394	ARRA State Fiscal Stabilization Fund (SFSF) - Education State Grants	56,284,989
84.397	ARRA State Fiscal Stabilization Fund (SFSF) - Government Services	9,792,446
TOTAL		\$66,077,435

STUDENT FINANCIAL ASSISTANCE CLUSTER

84.007	Federal Supplemental Educational Opportunity Grants	1,464,394
84.032	Federal Family Education Loans	2,195,958
84.033	Federal Work - Study Program	1,981,711
84.033	ARRA Federal Work - Study Program	192,227
84.038	Federal Perkins Loan Program - Federal Capital Contributions	75,212
84.063	Federal Pell Grant Program	52,540,397
84.375	Academic Competitiveness Grants	932,952
84.376	National Science and Mathematics Access to Retain Talent (SMART) Grants	1,117,563
93.342	Health Professions Student Loans, Including Primary Care Loans	786
93.364	Nursing Student Loan Program	14,003
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds	387,730
TOTAL		\$60,902,933

TITLE 1, PART A CLUSTER

84.010	Title I Grants To Local Education Agencies	42,053,967
84.389	ARRA Title I Grants to Local Educational Agencies, Recovery Act	15,305,604
TOTAL		\$57,359,571

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

AMOUNT**TRIO CLUSTER**

84.042	TRIO-Student Support Services	1,322,754
84.042	ARRA TRIO-Student Support Services	430,488
84.044	TRIO-Talent Search	1,063,611
84.047	TRIO-Upward Bound	2,068,920
84.066	TRIO-Educational Opportunity Centers	555,356
84.217	McNair Post - Baccalaureate Achievement	85,014
TOTAL		\$5,526,143

VOCATIONAL REHABILITATION CLUSTER

84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States	12,159,879
84.390	ARRA - Rehabilitation Services-Vocational Rehabilitation	662,216
TOTAL		\$12,822,095

NATIONAL ARCHIVES AND RECORDS ADMINISTRATION

89.003	National Historical Publications and Records Grants	14,924
TOTAL		\$14,924

ELECTION ASSISTANCE COMMISSION

90.401	Help America Vote Act Requirements Payments	905,631
TOTAL		\$905,631

DEPARTMENT OF HEALTH AND HUMAN SERVICES

93.041	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention	25,028
93.042	Special Programs for the Aging-Title VII, Chapter 2-LongTerm Care Ombudsman Services	73,466
93.043	Special Programs for the Aging-Title III, Part D - DiseasePrevention/Health Promotion Serv	104,078
93.048	Special Programs for the Aging - Title IV and Title II Discretionary Projects	690,214
93.052	Nation Family Caregiver Support Program	740,337
93.064	Laboratory Training, Evaluation, and Quality Assurance Programs	41,572
93.069	Public Health Emergency Preparedness	14,762,297
93.070	Environmental Public Health and Emergency Response	254,264
93.071	Medicare Enrollment Assistance Program	44,895
93.089	Emergency System for Advance Registration of Volunteer Health Professionals	5,471

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

	AMOUNT
93.104 Comprehensive Community Mental Health Services for Children with Serious Emotional Disturb (SED)	264,203
93.110 Maternal and Child Health Federal Consolidated Programs	227,692
93.110 Maternal and Child Health Federal Consolidated Programs: From Utah State University	8,280
93.116 Project Grant and Cooperative for Tuberculosis Control Program	195,058
93.127 Emergency Medical Services for Children	121,602
93.130 Primary Care Services-Resource Coordination and Development	121,565
93.150 Projects for Assistance in Transition from Homelessness (PATH)	291,601
93.157 Centers of Excellence	251,072
93.165 Grants to States for Loan Repayment Program	71,453
93.184 Disabilities Prevention	440,619
93.184 Disabilities Prevention: From Special Olympics	586
93.217 Family Planning Services	2,461,500
93.234 Traumatic Brain Injury-State Demonstration Grant Program	102,864
93.241 State Rural Hospital Flexibility Program	594,560
93.243 Substance Abuse and Mental Health Services-Projects of Regional and National Significance	4,134,636
93.249 Public Health Training Centers Grant Program: From Univ of Washington	19,076
93.251 Universal Newborn Hearing Screening	171,437
93.259 Rural Access to Emergency Devices Grant	86,980
93.262 Occupational Safety and Health Program	97,403
93.264 Nurse Faculty Loan Program (NFLP)	19,268
93.279 Drug Abuse Research Programs	40
93.283 Centers for Disease Control and Prevention-Investigations and Technical Assistance	7,155,174
93.307 Minority Health and Health Disparities Research	9,564,280
93.361 Nursing Research: From Washington State University	3,440
93.389 National Center for Research Resources	142,907
93.407 ARRA - Scholarships for Disadvantaged Students	174,031
93.414 ARRA - State Primary Care Offices	14,244
93.448 Food Safety and Security Monitoring Project	72,035
93.449 Ruminant Feed Ban Support Project	26,452
93.556 Promoting Safe and Stable Families	850,654
93.563 Child Support Enforcement	7,799,493
93.563 ARRA Child Support Enforcement	2,220,517

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

	AMOUNT
93.566 Refugee and Entrant Assistance-State Administered Programs	12,400
93.568 Low Income Home Energy Assistance	28,537,713
93.586 State Court Improvement Program	343,636
93.590 Community-Based Family Resource and Support Grants	213,673
93.597 Grants to States for Access and Visitation Programs	98,913
93.599 Chafee Education and Training Vouchers Program (ETV)	128,109
93.603 Adoption Incentive Payments	360
93.617 Voting Access for Individuals with Disabilities - Grants to States	50,000
93.630 Developmental Disabilities Basic Support and Advocacy Grants	704,372
93.630 Developmental Disabilities Basic Support and Advocacy Grants: From MT Council on Dev. Disab.	95,444
93.632 University Centers for Excellence in Developmental Disabilities Education, Res, and Ser.	493,718
93.643 Children's Justice Grants to States	93,257
93.645 Child Welfare Service-State Grant	727,981
93.648 Child Welfare Serv. Training: From Michigan State Univ.	8,565
93.648 Child Welfare Serv. Training: From Research Fnd at Sunny	79,281
93.658 Foster Care Title IV-E	12,857,508
93.658 ARRA Foster Care Title IV-E	333,122
93.659 Adoption Assistance	6,851,166
93.659 ARRA Adoption Assistance	581,442
93.667 Social Services Block Grant	7,068,703
93.669 Child Abuse and Neglect State Grants	94,614
93.671 Family Violence Prevention and Services/Grants for Battered Women's Shelters	749,769
93.674 Chafee Foster Care Independence Program	483,471
93.701 ARRA Trans-NIH Recovery Act Research Support	49,266
93.717 ARRA Preventing Healthcare-Associated Infections	8,633
93.723 ARRA Emergency Contingency Fund for Temporary Assistance	499,321
93.767 State Children's Insurance Program	37,281,656
93.768 Medicaid Infrastr, Grants To Support the Competitive Employ of People with Disabilities	841,542
93.789 Alternatives to Psychiatric Residential Treatment Facilities for Children	392,462
93.793 Medicaid Transformation Grants	196,992
93.889 National Bioterrorism Hospital Preparedness Program	1,939,810
93.912 Rural Outreach-Rural Network Developmental Program	1,988

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

		AMOUNT
93.913	Grants to States for Operation of Offices of Rural Health	165,182
93.917	HIV Care Formula Grants	836,491
93.938	Cooperative Agreements to Support School Health Programs	239,012
93.940	HIV Prevention Activities-Health Department Based	1,363,580
93.944	HIV/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	49,728
93.958	Block Grants for Community Mental Health Services	1,177,992
93.959	Block Grants for Prevention and Treatment of Substance Abuse	5,707,918
93.969	Geriatric Education Centers	330,565
93.970	Health Professions Recruitment Program for Indians	5,683
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	286,095
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluations	(31)
93.991	Preventive Health and Health Services Block Grant	705,750
93.994	Maternal and Child Health Services Block Grant to the States	2,637,902
93.999	Miscellaneous Non-Major Grants	58,856
TOTAL		\$169,829,954
AGING CLUSTER		
93.044	Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers	1,864,057
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services	3,151,147
93.053	Nutrition Services Incentive Program	1,098,552
93.705	ARRA Aging Home-Delivered Nutrition Services	80,001
93.707	ARRA Aging Congregate Nutrition Services for State	162,500
TOTAL		\$6,356,257
CCDF CLUSTER		
93.575	Child Care and Development Block Grant	14,063,604
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development	8,594,861
93.713	ARRA Child Care and Development Block Grant	3,006,713
TOTAL		\$25,665,178
CSBG CLUSTER		
93.569	Community Services Block Grant	2,988,707
93.710	ARRA Community Services Block Grant	2,958,282
TOTAL		\$5,946,989

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

AMOUNT

HEAD START CLUSTER

93.600	Head Start	108,639
		TOTAL \$108,639

IMMUNIZATION CLUSTER

93.268	Immunization Grant	8,564,234
93.712	ARRA Immunization	18,133
		TOTAL \$8,582,367

MEDICAID CLUSTER

93.775	State Medicaid Fraud Control Units	500,338
93.777	State Survey and Certification of Health Care Providers and Suppliers	2,641,060
93.778	Medical Assistance Program	635,167,997
93.778	ARRA Medical Assistance Program	112,041,713
		TOTAL \$750,351,108

TANF CLUSTER

93.558	Temporary Assistance for Needy Families (TANF)	27,634,981
93.714	ARRA Emergency Contingency Fund for Temporary Assistance	5,492,873
		TOTAL \$33,127,854

CORPORATION FOR NATIONAL & COMMUNITY SERVICE

94.003	State Commissions	178,081
94.004	Learn and Serve America-School and Community Based Programs	80,039
94.006	AmeriCorps	2,473,441
94.006	AmeriCorps: From Western Wash. Ujnv	578,421
94.007	Planning and Program Development Grants	75,874
94.009	Training and Technical Assistance	90,929
94.013	Volunteers in Service to America	856,991
94.013	ARRA Volunteers in Service to America	141,127
94.999	Miscellaneous Non-Major Grants	81,543
		TOTAL \$4,556,446

SOCIAL SECURITY ADMINISTRATION

96.008	Social Security-Benefits Planning, Assistance, and Outreach Program	60,512
--------	---	--------

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

		AMOUNT
96.999	Miscellaneous Non-Major Grants: From Griffin- Hammis Assoc	22,356
	TOTAL	\$82,868
DISABILITY INSURANCE/SSI CLUSTER		
96.001	Social Security - Disability Insurance	6,132,901
	TOTAL	\$6,132,901
HOMELAND SECURITY		
97.001	Pilot Demonstration or Earmarked Projects	140,533
97.012	Boating Safety Financial Assistance	460,449
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	136,393
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	69,167
97.039	Hazard Mitigation Grant	3,972
97.041	National Dam Safety Program	129,408
97.042	Emergency Management Performance Grants	3,585,933
97.043	State Fire Training Systems Grants	19,965
97.045	Cooperating Technical Partners	770,800
97.046	Fire Management Assistance Grant	309,584
97.047	Pre-Disaster Mitigation	1,437,711
97.070	Map Modernization Management Support	31,295
97.078	Buffer Zone Protection Plan (BZPP)	198,252
97.082	Earthquake Consortium	26,391
	TOTAL	\$7,319,853
HOMELAND SECURITY CLUSTER		
97.067	Homeland Security Grant Program	6,791,794
	TOTAL	\$6,791,794
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT		
98.001	USAID Foreign Assistance for Programs Overseas: From Acad. for Education Dev.	230,023
	TOTAL	\$230,023
OTHER FEDERAL		
32.001	Communications Information and Assistance and Investigation of Complaints: From Corp of Public Broadcast.	7,156
95.001	High Intensity Drug Trafficking Areas Program	47,976
95.001	High Intensity Drug Trafficking Areas Program: From City of Billings	5,536

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

		AMOUNT	
99.999	Other Federal		3,955
		TOTAL	\$64,623

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

AMOUNT**RESEARCH AND DEVELOPMENT CLUSTER****DEPARTMENT OF AGRICULTURE**

10.001	Agricultural Research-Basic and Applied Research	49,195
10.025	Plant and Animal Disease, Pest Control, and Animal Care	445,638
10.028	Wildlife Services	2,351
10.200	Grants for Agricultural Research, Special Research Grants	1,504,524
10.200	Grants for Agricultural Research, Special Research Grants: From Utah State University	56,568
10.200	Grants for Agricultural Research, Special Research Grants: From New Mexico State Univ.	25,048
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Washington	42
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Idaho	119,979
10.200	Grants for Agricultural Research, Special Research Grants: From Oregon State Univer.	82,582
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Wisconsin	24,072
10.200	Grants for Agricultural Research, Special Research Grants: From N. Dakota State Univ.	4,146
10.200	Grants for Agricultural Research, Special Research Grants: From S. Dakota Univ.	2,185
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of CA Davis	23,053
10.202	Cooperative Forestry Research	525,917
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	2,062,665
10.206	Grants for Agricultural Research-Competitive Research Grants	1,484,476
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of CA Davis	56,235
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of Minnesota	3,323
10.206	Grants for Agricultural Research-Competitive Research Grants: From Utah State University	12,006
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of Idaho	67,425
10.207	Animal Health and Disease Research	20,647
10.210	Food and Agriculture Sciences National Needs	181,694
10.215	Sustainable Agriculture Research and Education	23,093
10.215	Sustainable Agriculture Research and Education: From Utah State University	142,927
10.215	Sustainable Agriculture Research and Education: From Univ of Wyoming	3,802

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

AMOUNT

10.217	Higher Education Challenge Grants	307,396
10.221	Tribal Colleges Education Equity Grants: From Fort Peck Com. College	13,956
10.227	1994 Institutions Research Program: From Salish Kootenai College	8,401
10.227	1994 Institutions Research Program: From Fort Belknap College	24,166
10.227	1994 Institutions Research Program: From Chief Dull Knife College	7,145
10.250	Agricultural and Rural Economic Research	164,224
10.250	Agricultural and Rural Economic Research: From Univ. of Arizona	437
10.250	Agricultural and Rural Economic Research: From Colorado State Univ.	14,603
10.303	Integrated Programs	335,671
10.303	Integrated Programs: From Colorado State Univ.	79,510
10.303	Integrated Programs: From Salish Kootenai College	14,748
10.303	Integrated Programs: From Univ. of CA Davis	177,249
10.304	Homeland Security - Agricultural: From Kansas State	33,378
10.305	International Science and Education Grants	12,015
10.310	Agriculture and Food Research Initiative (AFRI)	166,437
10.310	Agriculture and Food Research Initiative (AFRI): From Univ. of Minnesota	33,117
10.352	Value-Added Producer Grants: From Kansas State	7,514
10.443	Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers: From Fort Peck Com. College	42,741
10.456	Rural Community Development Initiative	44,544
10.456	Rural Community Development Initiative: From National Center for Appro	32,636
10.500	Cooperative Extension Service	1,056,096
10.500	Cooperative Extension Service: From Univ. of Georgia	2,929
10.500	Cooperative Extension Service: From Auburn University	27,218
10.500	Cooperative Extension Service: From Univ. of CA Davis	10
10.500	Cooperative Extension Service: From Kansas State	167,977
10.500	Cooperative Extension Service: From Univ of Wyoming	7,382
10.500	Cooperative Extension Service: From Oregon State Univ.	148
10.500	Cooperative Extension Service: From Univ. of Nebraska	56,575
10.500	Cooperative Extension Service: From N. Dakota State Univ.	3,522
10.500	Cooperative Extension Service: From Univ. of Arizona	5,546
10.500	Cooperative Extension Service: From Colorado State Univ.	877
10.652	Forestry Research	5,038,300

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

AMOUNT

10.652	Forestry Research: From Arthur Carhart	99,947
10.652	Forestry Research: From National Forest Found.	32,965
10.652	Forestry Research: From SUNY Research Institute	10,431
10.652	Forestry Research: From Nat'l Fish & Wildlife Fo.	1,763
10.664	Cooperative Forestry Assistance	104,703
10.664	Cooperative Forestry Assistance: From Univ.of Idaho	1,169
10.674	Forest Products Lab: Technology Marketing Unit: From MT Comm. Develop. Corp	4,890
10.676	Forest Legacy Program	11,622
10.680	Forest Health Protection	30,689
10.683	National Fish and Wildlife Foundation: From Nat'l Fish & Wildlife Fo.	32,000
10.688	ARRA Wildlife Fire Management	45,778
10.762	Solid Waste Management Grants	28,350
10.769	Rural Development Grants: From Bitterroot Tool and Mach.	8,765
10.856	1890 Land Grant Institutions Rural Entrepreneurial Outreach Program: From Fort Peck Comm. College	1,065
10.859	Assistance to High Energy Cost Rural Communities: From Univ. of Nebraska	208
10.902	Soil and Water Conservation	30,062
10.912	Environmental Quality Incentives Program	153,548
10.960	Technical Agricultural Assistance	45,908
10.961	Scientific Cooperation and Research	8,195
10.999	Miscellaneous Non-Major Grants	6,189
10.999	Miscellaneous Non-Major Grants: From Nat. Fish & Wild. Assoc.	13,889
TOTAL		\$15,482,197

DEPARTMENT OF COMMERCE

11.001	Census Bureau Data Products	34,236
11.302	Economic Development Support for Planning Organizations	13,368
11.427	Fisheries Development & Utilization Research	294
11.431	Climate and Atmospheric Research	57,805
11.431	Climate and Atmospheric Research: From Anasphere Inc.	1
11.439	Marine Mammal Data Program	27,096
11.440	Environmental Sciences, Applications, Data, and Education	283
11.463	Habitat Conservation: From Miss. State Univ.	144,380

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

AMOUNT

11.611	Manufacturing Extension Partnership	1,093,005
11.999	Miscellaneous Non-Major Grants	(1,748)
TOTAL		\$1,368,720

DEPARTMENT OF DEFENSE

12.002	Procurement Technical Assistance For Business Firms	3,840,608
12.109	Protection, Clearing and Straightening Channels: From Aerodyne Research	6,163
12.114	Collaborative Research and Development	1,836,491
12.114	Collaborative Research and Development: From DANTES	(54)
12.114	Collaborative Research and Development: From ADVR Inc.	28,661
12.300	Basic and Applied Scientific Research	3,036,231
12.300	Basic and Applied Scientific Research: From Adv. Acoustics Concepts	322,058
12.300	Basic and Applied Scientific Research: From M&T Company	127,951
12.300	Basic and Applied Scientific Research: From Yale University	18,329
12.300	Basic and Applied Scientific Research: From S2 Corp	11,201
12.300	Basic and Applied Scientific Research: From Univ. of Maryland	24,090
12.420	Military Medical Research and Development	13,366
12.431	Basic Scientific Research	879,985
12.630	Basic, Applied, and Advanced Research in Science and Engineering	304,596
12.800	Air Force Defense Research Sciences Program	942,100
12.800	Air Force Defense Research Sciences Program: From Princeton University	5,420
12.800	Air Force Defense Research Sciences Program: From South Dak Sch of Mines	72,240
12.800	Air Force Defense Research Sciences Program: From Universal Technology	(798)
12.800	Air Force Defense Research Sciences Program: From ALD NanoSolutions	73,260
12.800	Air Force Defense Research Sciences Program: From Bridger Photonics	4,191
12.800	Air Force Defense Research Sciences Program: From Rutgers University	46,169
12.910	Research and Technology Development	252,973
12.910	Research and Technology Development: From Missile Defense Agency	878,768
12.910	Research and Technology Development: From S2 Corp	15,870
12.910	Research and Technology Development: From Rutgers University	35,028
12.999	Miscellaneous Non-Major Grants	42,458
12.999	Miscellaneous Non-Major Grants: From Bridger Photonics	144,200
12.999	Miscellaneous Non-Major Grants: From S2 Corp	21,599

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

		AMOUNT
12.999	Miscellaneous Non-Major Grants: From Colorado State Univ.	63,955
12.999	Miscellaneous Non-Major Grants: From Edison Welding Institute	1,491,245
12.999	Miscellaneous Non-Major Grants: From Radiance Technologies	161,592
TOTAL		\$14,699,946
 DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
14.910	ARRA Healthy Homes Technical Studies Grants	190,158
TOTAL		\$190,158
 DEPARTMENT OF THE INTERIOR		
15.034	Agriculture on Indian Lands	7,500
15.199	Tongue River Rehabilitation Grant: From Nez Perce Tribe	12,620
15.222	Cooperative Inspection Agreements with States and Tribes	93,830
15.224	Cultural Resource Management	371,610
15.228	Wildland Urban Interface Community and Rural Fire Assistance	26,856
15.230	Invasive and Noxious Plant Management	435,235
15.231	Fish, Wildlife and Plant Conservation Resource Management	378,265
15.231	Fish, Wildlife and Plant Conservation Resource Management: From Nat. Fish Wildlife Assoc.	524
15.232	Wildland Fire Research and Studies Program	29,998
15.234	Secure Rural Schools and Community Self-Determination	66,115
15.236	Environmental Quality and Protection Resource Management	9,560
15.238	Challenge Cost Share	42,275
15.238	Challenge Cost Share: From Washington State Univ.	476
15.252	Abandoned Mine Land Reclamation (AMLR) Program	2,114
15.255	Applied Science Program Cooperative Agreements Related to Coal Mining and Reclamation: From Washington State Univ.	76
15.299	Miscellaneous Non-Major Grants	100,642
15.299	Miscellaneous Non-Major Grants: From Nat'l Fish & Wildlife Fo.	3,000
15.517	Fish and Wildlife Coordination Act	10,996
15.524	Recreation Resources Management	2,070
15.608	Fish and Wildlife Management Assistance	178,943
15.608	Fish and Wildlife Management Assistance: From Washington State Universi	5
15.611	Wildlife Restoration	8,050
15.615	Cooperative Endangered Species Conservation Fund	265,796

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

AMOUNT

15.615	Cooperative Endangered Species Conservation Fund: From Calf. Fish and Game	27,803
15.649	Service Training and Technical Assistance (Generic Training)	31,259
15.650	Research Grants (Generic)	8,978
15.655	Migratory Bird Monitoring, Assessment and Conservation	25,580
15.805	Assistance to State Water Resources Research Institutes	61,172
15.807	Earthquake Hazards Reduction Program	67,789
15.808	U.S. Geological Survey-Research and Data Acquisition	554,990
15.808	U.S. Geological Survey-Research and Data Acquisition: From America View Inc.	22,741
15.809	National Spatial Data Infrastructure Competitive Cooperative Agreements Program	19,876
15.810	National Cooperative Geologic Mapping Program	244,670
15.811	Gap Analysis Program	47,183
15.812	Cooperative Research Units Program	861,525
15.815	National Land Remote Sensing Education Outreach and Research: From America View Inc.	59,586
15.904	Historic Preservation Fund Grants-in-Aid	2,620
15.915	Technical Preservation Services	35,113
15.915	Technical Preservation Services: From Univ.of Idaho	42,927
15.916	Outdoor Recreation: Acquisition, Development and Planning	407,449
15.921	Rivers, Trails and Conservation Assistance	56,270
15.921	Rivers, Trails and Conservation Assistance: From Univ. of Wyoming	1,304
15.999	Miscellaneous Non-Major Grants	1,907,623
15.AAL	Scientific Studies	50,601
15.DAS	BLM Cooperative Agreement	5,272
TOTAL		\$6,588,887

DEPARTMENT OF JUSTICE

16.541	Part E - Developing, Testing and Demonstrating Promising New Programs	244,645
16.710	Public Safety Partnership and Community Policing Grants	1,598,408
TOTAL		\$1,843,053

DEPARTMENT OF LABOR

17.268	H-1B High Growth Job Training Grants: From Fort Peck Com. College	1,395
TOTAL		\$1,395

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

AMOUNT**DEPARTMENT OF STATE**

19.500	Middle East Partnership Initiative (MEPI)	238,263
19.500	Middle East Partnership Initiative (MEPI): From IREX	39
TOTAL		\$238,302

DEPARTMENT OF TRANSPORTATION

20.109	Air Transportation Centers of Excellence: From Aerodyne Research	(19)
20.200	Federal Highway Administration	2,978,240
20.200	Federal Highway Administration: From Louis Berger Group	(124)
20.200	Federal Highway Administration: From Nat Acc. of Science	10
20.200	Federal Highway Administration: From Univ. of Iowa	54,095
20.200	Federal Highway Administration: From Wisconsin DOT	29,512
20.200	Federal Highway Administration: From Vanasse Hangen Brustlin	1,322
20.205	Highway Planning and Construction: From Ctr. for Native Eco Sys	15,499
20.215	Highway Training and Education	1,336
20.219	Recreational Trails Program	44,273
20.514	Transit Planning and Research	696,131
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants: From Univ. of Iowa	8,114
20.614	National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants: From Pacif Institute for Res.	123,313
20.704	RITA Hydrogen	571,904
20.762	Research Grants	415,803
20.999	Miscellaneous Non-Major Grants	152,909
TOTAL		\$5,092,318

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

43.001	Aerospace Education Services Program	3,685,406
43.001	Aerospace Education Services Program: From Univ. of California	39,242
43.001	Aerospace Education Services Program: From Lockheed Martin	658,536
43.001	Aerospace Education Services Program: From Southwest Res. Inst.	619
43.001	Aerospace Education Services Program: From Smithsonian Astrophys.	408,761
43.001	Aerospace Education Services Program: From Univ. of Illinois	34,361
43.001	Aerospace Education Services Program: From Calif. Inst. of Tech.	135,083

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

AMOUNT

43.001	Aerospace Education Services Program: From ADNET Inc.	60,441
43.002	Technology Transfer	324,857
43.002	Technology Transfer: From Carnegie Institution	61,318
43.002	Technology Transfer: From Jet Propulsion	577
43.002	Technology Transfer: From Arizona State Univ.	13,640
43.002	Technology Transfer: From Smithsonian Astrophy.	86,287
43.002	Technology Transfer: From ADVR Inc.	27,559
43.002	Technology Transfer: From Boeing Company	40,239
43.999	Miscellaneous Non-Major Grants	2,222,281
43.999	Miscellaneous Non-Major Grants: From Univ. of North Dakota	84,157
43.999	Miscellaneous Non-Major Grants: From Univ. of Maryland	82,798
43.999	Miscellaneous Non-Major Grants: From Univ. of North Dakota	17,652
43.999	Miscellaneous Non-Major Grants: From The Woods Hole Res.	26,387
43.999	Miscellaneous Non-Major Grants: From SW Research Institute	122,807
43.999	Miscellaneous Non-Major Grants: From Penn State Univ.	26,096
43.999	Miscellaneous Non-Major Grants: From CA Inst.-Tech Jet Prop.	301,628
43.999	Miscellaneous Non-Major Grants: From Qualtech Systems	51
TOTAL		\$8,460,783

NATIONAL ENDOWMENT FOR THE HUMANITIES

45.024	Promotion of the Arts-Grants to Organizations and Individuals: From New England Fndn Art	3,085
45.169	Promotion of the Humanities - Office of Digital Humanities	12,236
TOTAL		\$15,321

NATIONAL SCIENCE FOUNDATION

47.041	Engineering Grants	1,717,373
47.041	Engineering Grants: From Univ.of Minesota	6,098
47.041	Engineering Grants: From Bridger Photonics	139,620
47.049	Mathematical and Physical Sciences	1,033,961
47.049	Mathematical and Physical Sciences: From Univ. of CA Santa Cruz	42,524
47.049	Mathematical and Physical Sciences: From Univ. of Chicago	6,101
47.050	Geosciences	1,496,405
47.050	Geosciences: From Global Environmental St.	43,631

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

		AMOUNT
47.050	Geosciences: From Univ. of Hawaii Manoa	9,749
47.070	Computer and Information Science and Engineering	350,351
47.074	Biological Sciences	4,354,120
47.074	Biological Sciences: From Univ. of California	45,212
47.074	Biological Sciences: From Harvard University	7,106
47.074	Biological Sciences: From Washington State Universi	86,533
47.074	Biological Sciences: From Univ. of Nebraska	24,213
47.074	Biological Sciences: From Bridger Photonics	9,572
47.074	Biological Sciences: From Duke University	34
47.074	Biological Sciences: From W Virginia University	90,635
47.075	Social, Behavioral, and Economic Sciences	773,259
47.076	Education and Human Resources	2,878,845
47.076	Education and Human Resources: From Salish Kootenai College	489,667
47.076	Education and Human Resources: From Penn State Univ.	10,851
47.078	Polar Programs	721,586
47.078	Polar Programs: From University of Nebraska	9,963
47.079	International Science and Engineering (OISE)	84,083
47.080	Office of Cyberinfrastructure	3,527,837
47.082	ARRA Trans-NSF Recovery Act Researcg Support	3,024,037
47.082	ARRA Trans-NSF Recovery Act Researcg Support: From Univ. of Hawaii Manoa	25,284
47.082	ARRA Trans-NSF Recovery Act Researcg Support: From Bridger Photonics	19,014
47.999	Miscellaneous Non-Major Grants	7,548
47.999	Miscellaneous Non-Major Grants: From Portland State Univ.	188,941
TOTAL		\$21,224,153
 SMALL BUSINESS ADMINISTRATION		
59.000	Small Business Administration-Technical Assistance Grant	20,548
59.006	Business Development Program	110,633
TOTAL		\$131,181
 DEPARTMENT OF VETERANS AFFAIRS		
64.018	Sharing Specialized Medical Resources	30,858
TOTAL		\$30,858

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

AMOUNT**ENVIRONMENTAL PROTECTION AGENCY**

66.034	Surveys, Studies, Invest., Demonst and Special Purp Act Relating to the Clean Air Act	454,763
66.034	Surveys, Studies, Invest., Demonst and Special Purp Act Relating to the Clean Air Act: From Nez Perce Tribe	(1,574)
66.034	Surveys, Studies, Invest., Demonst and Special Purp Act Relating to the Clean Air Act: From Health Effects Inst.	84,425
66.419	Water Pollution Control-State and Interstate Program Support	30,283
66.436	Surveys, Studies, Investigations & Demonstrations of the Clean Water Act	2,866
66.460	Nonpoint Source Implementation Grants: From Clearwater Res Inc.	6,084
66.461	Regional Wetland Program Development Grants	216,618
66.461	Regional Wetland Program Development Grants: From NM Surface Water Qual.	1,564
66.463	Water Quality Cooperative Agreements: From Virginia Polytechnic Ins.	30
66.509	Science To Achieve Results (STAR) Research Program	140,564
66.509	Science To Achieve Results (STAR) Research Program: From Univ. of New England	26,948
66.512	Regional Environmental Monitoring and Assessment Program	78,429
66.606	Surveys, Studies, Investigations and Special Purpose Grants: From Boise State University	8,064
66.708	Pollution Prevention Grants Program	210,740
66.709	Multi-Media Capacity Building Grants for States and Tribes	94,714
66.714	Pesticide Environmental Stewardship Regional Grants	25,872
66.715	Lead Educational Outreach and Baseline Assessment of Tribal Children's Exposure: From NATCEN009	(90)
66.716	Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach	243,759
66.717	Source Reduction Assistance	7,852
66.802	Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop.: From Butte Silver Bow	8,806
66.999	Miscellaneous Non-Major Grants: From American Water Works	24
66.999	Miscellaneous Non-Major Grants: From Ruby Valley Cons. Dist.	7,079
	TOTAL	\$1,647,820

DEPARTMENT OF ENERGY

81.049	Office of Science Financial Assistance Program	1,414,299
81.049	Office of Science Financial Assistance Program: From Inland NW Research All.	49,431
81.049	Office of Science Financial Assistance Program: From Resonon Inc.	192,071

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

AMOUNT

81.064	Office of Scientific and Technical Information: From Miami Univ. of Ohio	541
81.079	Regional Biomass Energy Programs: From S. Dakota State Univ.	8,554
81.086	Conservation Research and Development: From Pacific State Marine	140,064
81.087	Renewable Energy Research and Development	506,046
81.087	Renewable Energy Research and Development: From Siemens Power Gen.	134,091
81.087	Renewable Energy Research and Development: From Inland NW Research All.	17,598
81.089	Fossil Energy Research and Development	5,066,271
81.089	Fossil Energy Research and Development: From Virginia Polytechnic Inst	100,716
81.104	Office of Environmental Cleanup and Acceleration	81,664
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	363,000
81.133	ARRA Geologic Sequestration Training and Research Grant Program	28,278
81.999	Miscellaneous Non-Major Grants: From Inland NW Research All.	107,954
81.999	Miscellaneous Non-Major Grants: From SM Stoller Corp	76,403
81.999	Miscellaneous Non-Major Grants: From Confed Tribes Of The Umat	73,160
81.999	Miscellaneous Non-Major Grants: From Battelle Energy Alliance	17
81.999	Miscellaneous Non-Major Grants: From Idaho National Laboratory	6,208
81.999	Miscellaneous Non-Major Grants: From Pacific Northwest Nationa	42,412
TOTAL		\$8,408,778

DEPARTMENT OF EDUCATION

81.112	Stewardship Science Grant Program: From Oregon Fish & Wildlife	10,198
84.016	Undergraduate International Studies and Foreign Language	64,794
84.017	International Research and Studies	79,832
84.031	Higher Education Institutional Aid: From Univ. of California	45,104
84.116	Fund for the Improvement of Postsecondary Education	89,167
84.116	Fund for the Improvement of Postsecondary Education: From New Mexico State Univ.	20,949
84.120	Minority Science and Engineering Improvement	52,514
84.133	National Institute on Disability and Rehabilitation Research	181,484
84.133	National Institute on Disability and Rehabilitation Research: From OR Health Sci. Univ.	769
84.133	National Institute on Disability and Rehabilitation Research: From Univ of Kansas	34,367
84.133	National Institute on Disability and Rehabilitation Research: From Portland State Univ.	52,940
84.133	National Institute on Disability and Rehabilitation Research: From Baylor College of	41,213

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

AMOUNT

84.184	Safe and Drug-Free Schools and Communities - National Programs	240,228
84.215	Fund for Improvement of Education: From Bozeman School Dist.	114,536
84.299	Indian Education - Special Programs	708,054
84.324	Special Education-Research and Innovation to Improve Services and Results for Children: From U of CA Riverside	9,830
84.373	Special Education -Technical Assistance on State Data Collection: From Meeting the Challenge	22,803
84.378	College Access Challenge Grant Program	176,862
TOTAL		\$1,945,644

DEPARTMENT OF HEALTH AND HUMAN SERVICES

93.107	Model State-Supported Area Health Education Centers	270,382
93.113	Biological Response to Environmental Health Hazards	1,713,441
93.113	Biological Response to Environmental Health Hazards: From Univ. of Washington	5,455
93.121	Oral Diseases and Disorders Research	15,922
93.136	Injury Prevention and Control Research and State and Community Based Programs	169,535
93.155	Rural Health Research Centers	549
93.161	Health Program for Toxic Substances and Disease Registry: From Mount Sinai Sch. of Med.	46,983
93.172	Human Genome Research: From Stanford University	90,235
93.178	Nursing Workforce Diversity	188,172
93.206	Human Health Studies Applied Research and Development	57,029
93.210	Tribal Self-Governance Program: IHS Compacts/Funding Agreements	152,079
93.213	Research and Training in Complementary and Alternative Medicine	1,450,348
93.226	Research on Healthcare Costs, Quality and Outcomes	52,458
93.231	Epidemiology Cooperative Agreements: From RMTEC	37,623
93.242	Mental Health Research Grants	1,037,156
93.242	Mental Health Research Grants: From Montana Molecular	36,919
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	555
93.247	Advanced Education Nursing Grant Program	341,027
93.262	Occupational Safety and Health Program: From Utah State University	7,085
93.262	Occupational Safety and Health Program: From The University of Utah	7
93.271	Alcohol Research Career Development Awards for Scientists and Clinicians	43,200
93.276	Drug-Free Communities Support Program Grants: From Wyoming Dept of Health	375,028

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

AMOUNT

93.279	Drug Abuse Research Programs	316,300
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	768,290
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance: From Assoc. Univ. Centers Dis	141,965
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	109,215
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health: From Univ. of Illinois	57,775
93.301	Small Rural Hospital Improvement Grant Program	424,132
93.307	Minority Health and Health Disparities Research	1,584,943
93.307	Minority Health and Health Disparities Research: From Little Big Horn	123,557
93.310	Trans-NIH Research Support: From Ateris Tech, LLC	123,588
93.358	Advanced Education Nursing Traineeships	36,731
93.359	Nurse Education, Practice and Retention Grants: From Univ. of Washington	6,684
93.361	Nursing Research	266,378
93.389	National Center for Research Resources	11,697,373
93.389	National Center for Research Resources: From ZDYE	348,690
93.389	National Center for Research Resources: From Resonon Inc.	90,614
93.389	National Center for Research Resources: From Univ. of Washington	28,490
93.389	National Center for Research Resources: From Seattle Childrens Res.	364
93.393	Cancer Cause and Prevention Research	366,245
93.393	Cancer Cause and Prevention Research: From Miriam Hospital	25,933
93.395	Cancer Treatment Research	223,209
93.395	Cancer Treatment Research: From Vanderbilt University	92,141
93.395	Cancer Treatment Research: From Univ. of CA San Diego	68,336
93.396	Cancer Biology Research	83,610
93.568	Low Income Home Energy Assistance: From National Center for Appro	314,357
93.631	Developmental Disabilities Projects of National Significance	177,728
93.701	ARRA Trans-NIH Recovery Act Research Support	5,668,848
93.701	ARRA Trans-NIH Recovery Act Research Support: From Harvard University	181,014
93.701	ARRA Trans-NIH Recovery Act Research Support: From Trans. Health Sciences	34,907
93.701	ARRA Trans-NIH Recovery Act Research Support: From Yale University	29,445
93.702	ARRA National Center for Research Resources, Recovery Act Construction Support	161,580

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

AMOUNT

93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	347,731
93.824	Basic/Core Area Health Education Centers	760,253
93.837	Heart and Vascular Diseases Research	266,383
93.837	Heart and Vascular Diseases Research: From Gramercy Research Grp.	11,014
93.838	Lung Diseases Research	974,378
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	22,001
93.847	Diabetes, Endocrinology and Metabolism Research	109,817
93.848	Digestive Diseases and Nutrition Research	17,008
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	1,547,619
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders: From Yale University	164,937
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders: From Univ. of California	89,949
93.855	Allergy, Immunology and Transplantation Research	3,122,404
93.855	Allergy, Immunology and Transplantation Research: From Indiana University	302,315
93.855	Allergy, Immunology and Transplantation Research: From Univ of Connecticut	92,500
93.856	Microbiology and Infectious Diseases Research	515,516
93.856	Microbiology and Infectious Diseases Research: From Colorado State Univ.	1,231,819
93.859	Biomedical Research and Research Training	3,763,208
93.859	Biomedical Research and Research Training: From Case Western Univ.	61,801
93.859	Biomedical Research and Research Training: From Ohio University	53,591
93.859	Biomedical Research and Research Training: From Univ of Connecticut	50,884
93.865	Child Health and Human Development Extramural Research: From Med. College of Georgia	41,517
93.866	Aging Research	276,283
93.867	Vision Research: From Univ. of Rochester	117,932
93.879	Medical Library Assistance	4,231
93.970	Health Professions Recruitment Program for Indians	275,899
93.974	Family Planning Service Delivery Improvement Research Grants	141,423
93.991	Preventive Health and Health Services Block Grant: From UCLA	9,750
93.999	Miscellaneous Non-Major Grants	1,708

TOTAL **\$44,017,501**

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2010

AMOUNT

CORPORATION FOR NATIONAL & COMMUNITY SERVICE

94.007	Planning and Program Development Grants: From Regis Univesity	10,187
	TOTAL	<u>\$10,187</u>

HOMELAND SECURITY

97.017	Pre-Disaster Mitigation (PDM) Competitive Grants: From Butte Silver Bow	78,833
97.043	State Fire Training Systems Grants	(2,454)
	TOTAL	<u>\$76,379</u>

OTHER FEDERAL

99.999	Other Federal	10,000
	TOTAL	<u>\$10,000</u>

TOTAL RESEARCH AND DEVELOPMENT CLUSTER	<u>\$131,483,581</u>
---	-----------------------------

TOTAL EXPENDITURES OF FEDERAL AWARDS	<u>\$2,923,821,908</u>
---	-------------------------------

**STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note 1. Basis of Accounting

The assistance amounts presented in the accompanying Schedule of Expenditures of Federal Awards of the State of Montana are generally expenditures or reimbursement revenues recorded on the modified accrual basis of accounting. This basis recognizes expenditures in the accounting period in which the liability is incurred and revenues when measurable and available. Assistance amounts reported on a basis other than modified accrual are discussed below.

Enterprise Fund Activity

The Unemployment Insurance, Section 8 Voucher and Section 8 Project-based programs are accounted for as enterprise fund activity. Enterprise funds use the full accrual basis of accounting.

Food Distribution Program

The amount reported for Food Distribution programs (CFDA #10.550, #10.567, #10.569, #10.570 and #10.565 and #93.053) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2010, Montana distributed \$416,694 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed \$8,516,810 in commodities in fiscal year 2010. The value at June 30, 2010 of commodities stored at the state's warehouse is \$1,750,231 for which the state is liable in the event of loss. The state has insurance to cover this liability.

Supplemental Nutrition Assistance Program

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an

alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 15 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2009.

Federal Surplus Personal Property

In accordance with General Service Administration guidelines, the amount presented for Donations of Federal Surplus Personal Property (CFDA #39.003) is 23.3 percent of the original acquisition cost of the property.

Capitalization Grants for State Revolving Funds

The amount presented for the Capitalization Grants for Water Pollution Control State Revolving Fund (CFDA #66.458) represents federal contributions, plus the administrative costs expended as of June 30, 2010. The amount of loans outstanding as of June 30, 2010 in the Water Pollution Control Revolving Fund Program is \$189,580,036.

The amount presented for the Drinking Water State Revolving Fund Program (CFDA #66.468) represents federal contributions, plus administrative costs expended as of June 30, 2010. The amount of loans outstanding for the program as of June 30, 2010 is \$113,863,606.

Special Economic Development and Adjustment Assistance Program

The amount presented for the Special Economic Development and Adjustment Assistance Program (CFDA #11.307) represents federal contributions, plus the administrative costs expended as of June 30, 2010. The amount of loans outstanding as of June 30, 2010 is \$339,293 in non-ARRA funds and \$2,569,500 in ARRA funds.

Temporary Assistance to Needy Families Loan Program

The Temporary Assistance to Needy Families (CFDA #93.558) contributes to a housing loan program. The amount of housing loans outstanding as of June 30, 2010 is \$636,428.

Federal Family Education Loans

The Montana Guaranteed Student Loan Program (MGSLP) guaranteed \$238,372,865 (net) in new loans for the Federal Family Education Loans (CFDA #84.032) program during fiscal year 2010. The outstanding loan balance (including principal, accrued interest and collection cost) of loans guaranteed in previous years for which the federal government has imposed continuing compliance requirement was \$54,084,101 at June 30, 2010. The dollar amount of Default Aversion Fees transferred from the Federal Fund to the Agency's

Operating Fund during fiscal year 2010 was \$640,188 (net).. In addition, MGSLP received or accrued revenue from the U.S. Department of Education in fiscal year 2010 of \$20,601,676 for reinsurance to pay claims for loans due to death, disability, default and bankruptcy of the debtor.

Federal Perkins Loan Program – Federal Capital Contributions

The amount reported for the Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038) represents federal contributions, plus the administrative costs, plus interest expended as of June 30, 2010. The amount of loans outstanding as of June 30, 2010 is \$32,993,955.

Nursing Student Loan Program

The amount of loans outstanding for the Nursing Student Loan Program (CFDA # 93.364) as of June 30, 2010 is \$1,943,555.

Nursing Faculty Loan Program

The amount of loans outstanding for the Nursing Faculty Loan Program (CFDA # 93.264) as of June 30, 2010 is \$101,864.

Minority Health and Health Disparities Research

The amount reported for the Minority Health and Health Disparities (CFDA #93.307) program includes the initial endowment and interest. The initial endowment was \$8,437,500.

Childhood Immunization Grants

The amount reported for the Childhood Immunization Grants (CFDA 93.268) includes the dollar value of vaccine doses received during FY10. The state used the CDC price list to calculate the value of doses received. During fiscal year 2010, Montana received 197,481 vaccine doses valued at \$7,259,054. In addition, Montana received 352,200 doses of H1N1 from CDC with a value of \$2,940,870.

Tongue River –Northern Cheyenne Tribal Loan

The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe agreed to loan the State of Montana \$11,300,000 federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. No expenditures of tribal loan funds were incurred on project costs during FY 2010. The amount of the loan outstanding as of June 30, 2010 is \$8,112,821.

Middle Creek Dam Rehabilitation Project Loan

The Department of Natural Resources and Conservation and the U.S Department of the Interior, Bureau of Reclamation (BOR) entered into an agreement on September 21, 1990. The BOR agreed to loan the State of Montana "...a sum of money not to exceed the lesser of (1) \$3,023,925 plus reimbursable interest during construction or (2) the actual cost of the project

including reimbursable interest during construction...” The total loan repayable is \$ 2,990,129 and interest during construction is \$281,857. The amount, as of June 30, 2010, of loan outstanding is \$2,383,456 and of interest during construction outstanding is \$202,912.

Note 2. Type A Federal Programs

The State of Montana issues a biennial single audit report. The Single Audit report for the two fiscal years ended June 30, 2011 will be issued by March 31, 2012.

The Type A program threshold will be determined based on actual expenditures incurred during the two fiscal years ended June 30, 2011. The type A program threshold is estimated to be \$17,714,041 for the biennial period.

Note 3. CFDA #

The CFDA # assigned for each federal program listed in the Schedule of Expenditures of Federal Awards was based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.999. The first two digits represent the federal agency, the third digit represents the division within the federal agency. Also see footnote 10.

Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes.

Note 4. Federal Excess Personal Property

The State of Montana receives Federal Excess Personal Property (FEPP). The title to this property remains with the federal agency. In accordance with General Services Administration guidelines, the amount presented in the FEPP is 23.3 percent of the original acquisition cost of the property. The following is a list of the FEPP received by the State of Montana.

<u>CFDA #</u>	<u>Program</u>	<u>FY 10 Amount</u>	<u>Inventory</u>
10.203	Payments to Ag. Exp. Station	\$4,472	\$174,958
10.500	Cooperative Extension Service	\$0	\$8,632
10.664	Cooperative Forestry Assistance	\$137,302	\$6,256,909
10.999	Agriculture Misc. Non. Major	\$0	\$160,738
12.999	Defense Misc. Non. Major	\$0	\$53,590
43.999	NASA Misc. Non. Major	\$0	\$664,080
47.999	NSF Misc. Non. Major	(\$24,863)	\$280,616

Note 5. Department of Defense (DOD) Firefighting Property (FFP)

The Department of Natural Resources (DNRC) receives DOD Firefighting Property. The title to this property is transferred to the DNRC. In accordance with OMB guidelines, the amounts are presented at fair market value at time of receipt by DNRC. This was determined to be 14% of the original acquisition cost of the property. The following is the value of FFP received by the State of Montana.

<u>CFDA #</u>	<u>Program</u>	<u>FY 10 Amount</u>	<u>Inventory</u>
12.999	DOD Firefighter Program	\$252,703	\$390,418

Note 6. Books for the Blind and Physically Handicapped:

The Montana State Library receives "talking book" machines, cassette books, accessories and magazines from the federal government under the Blind and Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2010, was \$1,274,283. The accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 7. Unemployment Benefits

The unemployment compensation system is a federal-state partnership. State unemployment insurance laws must conform to certain provisions of the federal law. Federal funds are expended for administrative costs. State unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund, and are used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards (SEFA).

The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for the Unemployment Insurance Program (CFDA #17.225), as well as a breakdown between administrative costs and benefit payments:

UI Administrative Costs	\$ 10,333,770
State UI Benefits	193,982,671
Federal UI Benefits	<u>162,381,032</u>
Total	\$366,697,473

Note 8. Subgrants to State Agencies

Federal assistance subgranted from one Montana state agency to another Montana state agency is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from non-state sources which are considered subgrants by the awarding agency are treated as pass through grants to the state and are reported on the Schedule of Expenditures of Federal Awards.

Note 9. Passthrough Awards to Non-State Entities

The following is a list of federal funds passed through from the state of Montana to non-state entities for fiscal year 2010.

<i>CFDA Number</i>	<i>Program Title</i>	<i>Amount Provided To Subrecipient</i>
10.069	Conservation Reserve Program	46,478
10.163	Market Protection and Promotion	124,548
10.169	Specialty Crop Block Grant Program	64,756
10.200	Grants for Agricultural Research, Special Research Grants	489,036
10.206	Grants for Agricultural Research & Competitive Research Grants	48,043
10.210	Food and Agricultural Sciences National Needs Graduate Fellowship Grants	40,269
10.217	Higher Education Challenge Grants	140,244
10.303	Integrated Programs	31,863
10.456	Partnership Agreements to Develop Non-Insurance Risk Management Tools for Producers (Farmers)	34,710
10.500	Cooperative Extension Service	138,891
10.550	Food Donation	2,924,084
10.553	School Breakfast Program	6,022,537
10.555	National School Lunch Program	22,794,362
10.556	Child and Adult Care Food Program	16,486
10.557	Special Supplemental Nutrition Program for WIC	3,770,453
10.558	Child and Adult Care Food Program	857,112
10.559	Summer Food Program for Children	1,049,321
10.561	State Administrative Matching Grants for Food Stamp Program	1,502,618
10.567	Food Distribution Program on Indian Reservations	1,518,265
10.568	Emergency Food Assistance Program (Administrative Costs)	88,613
10.572	WIC Farmers' Market Nutrition Program (FMNP)	102,163
10.579	ARRA Emergency Food Assistance Program (Administrative Costs)	204,297
10.582	Fresh Fruit and Vegetable Program	668,883
10.652	Forestry Research	1,928
10.664	Cooperative Forestry Assistance	8,233,941
10.665	Schools and Roads-Grants to States	24,619,013
10.672	Rural Development, Forestry, and Communities	15,004
10.683	National Fish and Wildlife Foundation	32,000
10.688	ARRA Recovery Act of 2009: Wildland Fire Management	214,595
10.769	Rural Business Enterprise Grants	6,517
11.555	Public Safety Interoperable Communications Grant Program	1,135,440
11.611	Manufacturing Extension Partnership	33,118
12.002	Procurement Technical Assistance For Business Firms	453,287
12.114	Collaborative Research and Development	294,112
12.300	Basic and Applied Scientific Research	359,811
12.630	Basic, Applied, and Advanced Research in Science and Engineering	5,400
12.800	Air Force Defense Research Sciences Program	199,233
12.910	Research & Technology Development	11,883
12.999	Defense - Miscellaneous	42,324
14.228	Community Development Block Grant/State's Program	7,199,790
14.239	Home Investment Partnerships Program	3,867,936
15.224	Miscellaneous Non-Major Grants	49,883
15.228	Wildland Urban Interface Community and Rural Fire Assistance	636,548
15.811	Gap Analysis Program	1,000
15.812	Cooperative Research Units Program	16,144
15.904	Historic Preservation Fund Grants-In-Aid	88,500
15.916	Outdoor Recreation-Acquisition, Development and Planning	142,463
15.999	Miscellaneous Department of the Interior	121,335
16.017	Sexual Assault Services Formula Program	43,585
16.523	Juvenile Accountability Incentive Block Grants	194,458
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	438,844
16.548	Title V Delinquency Prevention Program	62,782
16.575	Crime Victim Assistance	1,236,308
16.588	Violence Against Women Formula Grant	789,351
16.593	Residential Substance Abuse Treatment for State Prisoners	46,685
16.609	Community Prosecution and Project Safe Neighborhoods	66,605
16.727	Enforcing Underage Drinking Laws Program	367,340
16.738	Crime Victim Assistance	57,851
16.744	Anti-Gang Initiative	40,333
16.801	ARRA Violence Against Women Formula Grants	495,699
16.803	Violence Against Women Formula Grants	1,039,350
17.235	ARRA Youth Activities	758,434
17.258	WIA Adult Program	1,073,620
17.259	WIA Youth Activities	4,030,064
17.261	Employment and Training Administration Pilots, Demonstrations, and Research Projects	766,192
17.267	Enforcing Underage Drinking Laws Program	250,459
17.268	H-1B Job Training Grants	11,227
17.275	ARRA Prg of Compet. Grants for Worker Training and Placement in High Growth & Emerging Indust.	485,938
20.200	Federal-Aid Highways-Emergency Relief	6,721
20.205	Highway Planning and Construction	9,398,590

<i>CFDA Number</i>	<i>Program Title</i>	<i>Amount Provided To Subrecipient</i>
20.219	Recreational Trails	1,205,338
20.500	Federal Transit - Capital Investment Grants	644,119
20.505	Federal Transit - Metropolitan Planning Grants	354,259
20.509	Formula Grants for Other Than Urbanized Areas	8,484,712
20.513	Capital Assistance Program for the Elderly and Persons with Disabilities	754,516
20.514	Transit Planning and Research	245,898
20.515	State Planning and Research	27,743
20.516	Job Access Reverse Commute	725,537
20.600	State and Community Highway Safety	684,002
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	789,287
20.602	Occupant Protection	47,053
20.607	Alcohol Open Container Requirements	60,583
20.611	Incentive Grant Program to Prohibit Racial Profiling	149,791
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	128,306
20.704	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	198,211
20.762	Research Grants	12,514
39.011	Election Reform Payments	-44,032
43.001	Aerospace Education Services Program	252,341
43.002	Technology Transfer	10,791
43.999	Miscellaneous NASA	232,261
45.025	Promotion of the Arts-Partnership Agreements	603,598
45.310	State Library Program	16,325
47.041	Engineering Grants	3,041
47.049	Mathematical and Physical Sciences	66,943
47.050	Miscellaneous Non-Major Grants	60,963
47.074	Biological Sciences	420,388
47.075	Social, Behavioral, and Economic Sciences	6,816
47.076	Education and Human Resources	465,455
47.078	Polar Programs	17,320
47.080	Office of Cyberinfrastructure	85,705
47.082	ARRA Trans-NSF Recovery Act Research Support	252,350
59.000	SBDC/Microloan	181,500
59.005	Internet-Based Technical Assistance	73,400
66.034	Surveys, Studies, Research, Invest., Demon., and Special Purpose Act. Relating to the Clean Air Act	8,611
66.439	Targeted Watersheds Grants	6,100
66.512	Regional Environmental Monitoring and Assessment Program (REMAP) Research Projects	59,122
66.716	Miscellaneous Non-Major Grants	87,701
81.049	Office of Science Financial Assistance Program	124,033
81.087	Renewable Energy Research and Development	15,549
81.089	Fossil Energy Research and Development	7,244,683
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	127,284
84.002	Adult Education-State Grant Program	1,020,156
84.010	Title I Grants to Local Educational Agencies	40,364,670
84.011	Migrant Education-Basic State Grant Program	796,747
84.013	Title I Program for Neglected and Delinquent Children	110,231
84.027	Special Education - Grants to States	31,032,046
84.048	Vocational Education - Basic Grants to States	3,555,077
84.069	Leveraging Educational Assistance Partnership	157,605
84.128	Rehabilitation Services-Service Projects	5,000
84.133	National Institute on Disability and Rehabilitation Research	94,969
84.144	Migrant Education - Coordination Program	84,390
84.173	Special Education - Preschool Grants	1,126,777
84.186	Safe & Drug Free Schools and Communities - State Grants	1,344,471
84.196	Education for Homeless Children and Youth	99,244
84.213	Even Start - State Educational Agencies	329,427
84.215	Fund for the Improvement of Education	128,030
84.243	Tech-Prep Education	402,942
84.287	Twenty-First Century Community Learning Centers	5,316,566
84.318	Education Technology State Grants	1,333,753
84.323	Special Education-State Program Improvement Grants for Children with Disabilities	181,751
84.325	Special Education - Personnel Prep. to Improve Serv. & Results for Children with Disabilities	190,551
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	832,206
84.357	Reading First State Grants	764,955
84.358	Rural Education	223,258
84.365	English Language Acquisition Grants	291,414
84.366	Mathematics and Science Partnerships	817,100
84.367	Improving Teacher Quality State Grants	12,797,415
84.377	School Improvement Grants	357,592
84.386	ARRA Education Technology State Grants, Recovery Act	465,399
84.387	ARRA Education for Homeless Children and Youth, Recovery Act	127,040

<i>CFDA Number</i>	<i>Program Title</i>	<i>Amount Provided To Subrecipient</i>
84.389	ARRA Title I Grants to Local Educational Agencies, Recovery Act	15,305,604
84.391	ARRA Special Education Grants to States, Recovery Act	18,330,014
84.392	ARRA Special Education - Preschool Grants, Recovery Act	617,674
84.394	ARRA State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	25,331,029
84.397	ARRA State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	3,190,278
90.401	Help America Vote Act Requirements Payments	132,012
93.003	Public Health and Social Services Emergency Fund	881,938
93.041	Special Programs for the Aging -Title VII, Chapter 3: Prevention	25,028
93.042	Special Programs for the Aging -Title VII, Chapter 2: Long Term Care	73,466
93.043	Special Programs for the Aging - Title III, Part D: Disease Prevention	104,078
93.044	Special Programs for the Aging - Title III, Part B: Supportive Services	1,480,090
93.045	Special Programs for the Aging - Title III, Part C: Nutrition Services	2,832,809
93.048	Special Programs for the Aging - Title IV & and Title II - Discretionary Proj.	669,881
93.052	Nation Family Caregiver Support Program	695,634
93.053	Nutrition Services Incentive Program	811,526
93.069	Public Health Emergency Preparedness	4,570,380
93.071	Medicare Enrollment Assistance Program	42,525
93.104	Comprehensive Community Mental Health Services for Children	143,775
93.107	Model State-Supported Area Health Education Centers	188,824
93.110	Maternal and Child Health Federal Consolidated Programs	121,478
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	28,930
93.126	Small Business Innovation Research	91,849
93.135	Centers for Research and Demonstration for Health Promotion and Disease Prevention	309,511
93.150	Projects for Assistance in Transition from Homelessness (PATH)	282,695
93.165	Grants to States for Loan Repayment Program	71,453
93.213	Research and Training in Complementary and Alternative Medicine	2,299
93.217	Family Planning Services	1,887,906
93.226	Research on Healthcare Costs, Quality and Outcomes	16,000
93.241	State Rural Hospital Flexibility Program	554,578
93.242	Mental Health Research Grants	86,878
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	2,286,564
93.268	Immunization Grants	385,891
93.276	Drug-Free Communities Support Program Grants	147,355
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	4,987,482
93.286	Minority Health and Health Disparities Research	89,705
93.301	Small Rural Hospital Improvement Grants	402,937
93.307	Minority Health and Health Disparities Research	209,983
93.389	National Center for Research Resources	794,348
93.393	Cancer Cause and Prevention Research	87,473
93.556	Promoting Safe and Stable Families	570,317
93.558	Temporary Assistance for Needy Families (TANF)	5,094,382
93.566	Refugee and Entrant Assistance-State Administered Programs	7,102
93.568	Low-Income Home Energy Assistance	1,698,574
93.575	Child Care and Development Block Grant	4,459,558
93.590	Community-Based Family Resource and Support Grants	190,236
93.597	Grants to States for Access and Visitation Programs	97,234
93.599	Chafee Education and Training Vouchers Program (ETV)	126,375
93.600	Head Start	101,835
93.617	Voting Access for Individuals with Disabilities-Grants to States	50,000
93.630	Developmental Disabilities Basic Support and Advocacy Grants	480,958
93.631	Developmental Disabilities Projects of National Significance	22,000
93.658	Foster Care Title IV-E	2,907,629
93.671	Family Violence Prevention and Services/Grants for Battered Women	738,149
93.674	Chafee Foster Care Independent Living	77,981
93.701	ARRA Trans-NIH Recovery Act Research Support	273,155
93.705	ARRA Aging Home-Delivered Nutrition Services for States	80,001
93.707	ARRA Aging Congregate Nutrition Services for States	162,500
93.713	ARRA - Child Care and Development Block Grant	343,701
93.723	ARRA - Prevention and Wellness-State,	123,486
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	197,173
93.824	Basic/Core Area Health Education Centers	396,972
93.847	Diabetes, Endocrinology and Metabolism Research	69,220
93.855	ARRA Americorps	181,174
93.859	Biomedical Research and Research Training	359,000
93.917	HIV Care Formula Grants	121,648
93.940	HIV Prevention Activities-Health Department Based	971,266
93.959	Block Grants for Prevention and Treatment of Substance Abuse	1,293,728
93.969	Geriatric Education Centers	11,367
93.991	Preventive Health and Health Services Block Grant	355,517
93.994	Maternal and Child Health Services Block Grant to the States	1,201,641

<i>CFDA Number</i>	<i>Program Title</i>	<i>Amount Provided To Subrecipient</i>
93.999	Miscellaneous	46,890
94.004	Learn and Serve America - School and Community Based Program	21,523
94.006	Americorps	3,208,053
94.007	Planning and Program Development Grants	903
97.001	Pilot Demonstration or Earmarked Projects	140,533
97.036	Public Assistance Grants	44,283
97.039	Hazard Mitigation Grant	3,972
97.042	Emergency Management Performance Grants	2,461,206
97.047	Pre-Disaster Mitigation	1,384,956
97.067	Homeland Security Grant Program	6,698,393
97.078	Buffer Zone Protection Plan (BZPP)	198,252
	TOTAL	<u><u>366,605,292</u></u>

Note 10. Federal Awards not having a CFDA Number

The following schedule contains contract or grant numbers associated with awards that did not have a CFDA number and were assigned a XX.999 number in the Schedule of Expenditures of Federal Awards. Not all XX.999 reported on the SEFA had a grant or contract number.

Schedule of Unknown Federal CFDA Numbers (XX.999)

Federal Agency	State Agency	Contract or Grant Number	Amount
Peace Corp (08)			
	Univ. of Montana - Missoula	PC-08-8-152	\$2
	Univ. of Montana - Missoula	PC-09-8-078	\$7,777
Department of Agriculture (10)			
	Univ. of Montana - Western	AG-82X9-T-06-6106	\$51,779
	Univ. of Montana - Western	09-CS-11011100-035	\$600
	Montana State Univ. - Bozeman	04-CS-11015600-018	\$4,374
	Montana State Univ. - Bozeman	EFNEP 93-638	\$44,154
	Labor and Industry	12-25-A-5094	\$17,758
	Montana Tech - Butte	05-CS-11010800-010	\$3,431
	Montana Tech - Butte	65-0325-09-034	\$20,320
	Montana Tech - Butte	65-0325-4-104	\$2,836
Department of Commerce (11)			
	Univ. of Montana - Missoula	IPA #0809	\$21
	Univ. of Montana - Missoula	RA134108SE4095	\$34
	Univ. of Montana - Missoula	YA13209SE0499	-\$7,623
	Univ. of Montana - Missoula	IPA #0913	\$5,820
Department of Defense (12)			
	Univ. of Montana - Missoula	DPRA-09-0003	\$9,559
	Univ. of Montana - Missoula	W912HZ-08-2-0006	\$5,015
	Univ. of Montana - Missoula	W9128F-08-P-0201	\$25,669
	Univ. of Montana - Missoula	W912DY-09-2-0001	\$4,211
	Univ. of Montana - Missoula	W9128F-09-M-H009	\$7,563
	Univ. of Montana - Missoula	G-2412-1	\$63,955
	Univ. of Montana - Missoula	N00014-07-D-0578	\$100,851
	Montana Tech - Butte	N00014-07-D-0578/0004	\$1,491,245
	Montana Tech - Butte	W9113M-09-C-0138	\$161,592
Department of the Interior (15)			
	Dept of Revenue	0206CA25939	\$286,177
	Montana State Univ. - Bozeman	H1200040007/J9471071042 MSU-12	-\$68
	Montana State Univ. - Bozeman	J9815090710 H1200090004MSU-193	\$23,118
	Montana State Univ. - Bozeman	J9504090019	\$8,166
	Montana State Univ. - Bozeman	J1380106001/H1200090004	\$1,763
	Univ. of Montana - Missoula	2/7/09 LETTER	\$12,620
	Univ. of Montana - Missoula	L08AC13592	\$51,023
	Univ. of Montana - Missoula	L08AC13029	\$62
	Univ. of Montana - Missoula	L08AC13658	\$8,120
	Univ. of Montana - Missoula	L08AC15011	\$14,566
	Univ. of Montana - Missoula	L08AC14562, L09AC15312	\$26,506

Schedule of Unknown Federal CFDA Numbers (XX.999)

Federal Agency	State Agency	Contract or Grant Number	Amount
	Univ. of Montana - Missoula	L07AC14747	\$87
	Univ. of Montana - Missoula	IPA #L07PX05432	\$278
	Univ. of Montana - Missoula	2007-0038-000	\$3,000
	Univ. of Montana - Missoula	G008-07-W0973	\$2,668
	Univ. of Montana - Missoula	CA 1200-99-007, UMT-82	\$20,236
	Univ. of Montana - Missoula	J1434040172, UMT-05	\$9,516
	Univ. of Montana - Missoula	J1242049006, UMT-10	\$1,196
	Univ. of Montana - Missoula	J1435050009, UMT-16	\$448
	Univ. of Montana - Missoula	J1242040901, UMT-09	\$9
	Univ. of Montana - Missoula	J1580050583, UMT-26	-\$25
	Univ. of Montana - Missoula	J1242057016, UMT-35	\$28
	Univ. of Montana - Missoula	J1571060508, UMT-89,102,104,32	\$16
	Univ. of Montana - Missoula	J8400060012, UMT-94	\$11,643
	Univ. of Montana - Missoula	J1242057016, UMT-98	\$5,265
	Univ. of Montana - Missoula	J2380060105, UMT-106	\$16,606
	Univ. of Montana - Missoula	J1242057016, UMT-112	\$6,156
	Univ. of Montana - Missoula	J2303060026, UMT-113	\$5,646
	Univ. of Montana - Missoula	J1434060050, UMT-111	\$5,263
	Univ. of Montana - Missoula	J1460070003, UMT-118	-\$93
	Univ. of Montana - Missoula	J9836070003, UMT-117	\$1,828
	Univ. of Montana - Missoula	J1434070042, UMT-131	\$3,095
	Univ. of Montana - Missoula	J2380070139, UMT-133	-\$89
	Univ. of Montana - Missoula	J6140070135, UMT-134	\$7,145
	Univ. of Montana - Missoula	J1242077019, UMT-143	\$1,818
	Univ. of Montana - Missoula	J1750070064, UMT-144	\$3
	Univ. of Montana - Missoula	J1242070068, UMT-151	\$555
	Univ. of Montana - Missoula	J1242077023, UMT-148	\$3,567
	Univ. of Montana - Missoula	J2380070209, UMT-149	\$1
	Univ. of Montana - Missoula	J2310080035, UMT-153	\$2,623
	Univ. of Montana - Missoula	J2030080012, UMT-155	\$40,597
	Univ. of Montana - Missoula	J1434080019, UMT-161	\$2,267
	Univ. of Montana - Missoula	J1434080019, UMT-160	\$41,881
	Univ. of Montana - Missoula	J6490080025, UMT-162, 174	\$89,127
	Univ. of Montana - Missoula	J1435080074, UMT-157	\$29,674
	Univ. of Montana - Missoula	J1434080036, UMT-165	\$20,842
	Univ. of Montana - Missoula	J8755080013, UMT-166	\$3,937
	Univ. of Montana - Missoula	J1571060508, UMT-156	\$1,028
	Univ. of Montana - Missoula	J1242087007, UMT-167	\$696
	Univ. of Montana - Missoula	J1434080044, UMT-169	\$39,442

Schedule of Unknown Federal CFDA Numbers (XX.999)

Federal Agency	State Agency	Contract or Grant Number	Amount
	Univ. of Montana - Missoula	J1434080043, UMT-170	\$51,418
	Univ. of Montana - Missoula	L08AC14467	\$17,593
	Univ. of Montana - Missoula	J8136080054, UMT-168	\$8,180
	Univ. of Montana - Missoula	J1242087010, UMT-171	\$2,526
	Univ. of Montana - Missoula	J1433080022, UMT-176	\$9,754
	Univ. of Montana - Missoula	J1580080549, UMT-180	\$8,892
	Univ. of Montana - Missoula	J1465085378, UMT-182	\$5,192
	Univ. of Montana - Missoula	J1242080019, UMT-184	\$4,420
	Univ. of Montana - Missoula	J1580080544, UMT-175	\$13,672
	Univ. of Montana - Missoula	J2310080001, UMT-183	\$12,828
	Univ. of Montana - Missoula	J1586080018, UMT-179	\$645
	Univ. of Montana - Missoula	J1434080054	\$18,439
	Univ. of Montana - Missoula	J1434080055	\$19,018
	Univ. of Montana - Missoula	J2340080051	\$52,269
	Univ. of Montana - Missoula	J1242080026, UMT-189	\$8,050
	Univ. of Montana - Missoula	J1434080088, UMT-186	\$2,476
	Univ. of Montana - Missoula	J2303080037, UMT-187	\$28,798
	Univ. of Montana - Missoula	J1212080053, UMT-191	\$19,851
	Univ. of Montana - Missoula	J1580080519, UMT-172	\$14,467
	Univ. of Montana - Missoula	J1432050062, UMT-30	\$13,911
	Univ. of Montana - Missoula	J1242067023, UMT-115	\$6,316
	Univ. of Montana - Missoula	J1580090083, UMT-193	\$25,165
	Univ. of Montana - Missoula	J2240090009, UMT-194	\$484
	Univ. of Montana - Missoula	J1212080059, UMT-192	\$8,529
	Univ. of Montana - Missoula	J1434080053	\$25,650
	Univ. of Montana - Missoula	J1242090009, UMT-196	\$4,861
	Univ. of Montana - Missoula	J1242097003, UMT-198	\$2,067
	Univ. of Montana - Missoula	J1242090014, UMT-204	\$4,584
	Univ. of Montana - Missoula	J9560090096, UMT-202	\$34,734
	Univ. of Montana - Missoula	J7580090176, UMT-211	\$31,583
	Univ. of Montana - Missoula	J1242090017, UMT-212	\$31
	Univ. of Montana - Missoula	J1580090409, UMT-209	\$22,684
	Univ. of Montana - Missoula	J2310091050, UMT-213	\$98,932
	Univ. of Montana - Missoula	J1580090444, UMT-218	\$3,268
	Univ. of Montana - Missoula	J1242090038, UMT-222	\$2,291
	Univ. of Montana - Missoula	J2360097106	\$3,016
	Univ. of Montana - Missoula	J8750090352, UMT-205	\$14,708
	Univ. of Montana - Missoula	J1242090039, UMT-223	\$4,019
	Univ. of Montana - Missoula	J1580090464, UMT-215	\$35,420

Schedule of Unknown Federal CFDA Numbers (XX.999)

Federal Agency	State Agency	Contract or Grant Number	Amount
	Univ. of Montana - Missoula	J2119090014, UMT-219	\$11,273
	Univ. of Montana - Missoula	J6490090170, UMT-220	\$65,373
	Univ. of Montana - Missoula	J1434090054, UMT-221	\$4,574
	Univ. of Montana - Missoula	J1580090447, UMT-216	\$7,826
	Univ. of Montana - Missoula	J1242090050, UMT-228	\$23,099
	Univ. of Montana - Missoula	J2120090015, UMT-214	\$7,860
	Univ. of Montana - Missoula	J1580090465, UMT-214	\$32,930
	Univ. of Montana - Missoula	J986509R119, UMT-210	\$20,682
	Univ. of Montana - Missoula	J2303090040, UMT-224	\$20,738
	Univ. of Montana - Missoula	J1434100015, UMT-229	\$7,985
	Univ. of Montana - Missoula	J1580100211, UMT-233	\$25,649
	Univ. of Montana - Missoula	1580-0820-UCA OPAS	\$5,371
	Dept. of Envir. Quality	H1580060002	\$16,193
	Dept. Of Natural Resources	H1580070001	\$22,566
	Montana Tech - Butte	H1580070001	\$65,771
	Montana Tech - Butte	601818J400	\$21,867
Department of State (19)			
	Univ. of Montana - Missoula	S-ECAAS-07-GR-150(SS)	\$2,764
	Univ. of Montana - Missoula	S-ECAAS-07-GR-150(SS)	\$4,547
	Univ. of Montana - Missoula	S-ECAAS-08-GR-151(MA)	\$42,760
	Univ. of Montana - Missoula	S-ECAAS-08-GR-151(MA)	\$31,902
Department of Transportation (20)			
	Transportation	DTFH70-10-E-00004	\$5,647
Department of Treasury (21)			
	Commerce	PL110-161:95X1350	\$291,538
National Aeronautics and Space Administration (43)			
	Univ. of Montana - Missoula	NNG05GG13G	\$2,815
	Univ. of Montana - Missoula	NNX07AJ28G	\$161,895
	Univ. of Montana - Missoula	NNX08AG87A	\$423,447
	Univ. of Montana - Missoula	#1319876	\$60,753
	Univ. of Montana - Missoula	NNX08AP59G	\$268,413
	Univ. of Montana - Missoula	NNX08AQ63A	\$268,651
	Univ. of Montana - Missoula	NNX09AP52G	\$22,052
	Univ. of Montana - Missoula	NNX09AQ80G	\$101,398
	Univ. of Montana - Missoula	NNX10AM15G	\$15,485
	Univ. of Montana - Missoula	NNX10AH57G	\$1,434
	Univ. of Montana - Missoula	1356497	\$122,807
	Univ. of Montana - Missoula	3672-UM-NASA-J90G	\$26,096
	Univ. of Montana - Missoula	1350935	\$82,922

Schedule of Unknown Federal CFDA Numbers (XX.999)

Federal Agency	State Agency	Contract or Grant Number	Amount
	Univ. of Montana - Missoula	1364345	\$110,589
	Univ. of Montana - Missoula	1368208	\$29,758
	Univ. of Montana - Missoula	G306-09-W2441	\$13,040
	Univ. of Montana - Missoula	Z648002	\$24,343
	Univ. of Montana - Missoula	1388663	\$58,989
	Univ. of Montana - Missoula	1400503	\$19,370
	Montana Tech - Butte	NNA06AA64C	\$51
National Science Foundation (47)			
	Montana State Univ. - Bozeman	DGE-0540247	\$20
	Montana State Univ. - Bozeman	To Be Determined	\$7,548
Environmental Protection Agency (66)			
	Univ. of Montana - Missoula	507042	\$7,016
	Univ. of Montana - Missoula	CD97874601	\$7,079
	Montana Tech - Butte	NE-97860401-01	\$8,368
Department of Energy (81)			
	Montana Tech - Butte	444-008	\$73,160
	Montana Tech - Butte	DE-AC07--05ID14517	\$17
	Montana Tech - Butte	DE-AC07-05ID14517	\$6,208
	Montana Tech - Butte	DE-AC05-76RL01830	\$11,277
	Montana Tech - Butte	DE-AC05-76RL01830	\$8,971
	Montana Tech - Butte	DE-AC05-76RL01830	\$22,164
Department of Education (84)			
	Office of Public Instruction	ED-08-CO-0076	\$165,930
	Office of Public Instruction	ED-03-CO-0045	\$31,910
	Montana Tech - Butte	MTCOT-CFI 4R07	\$7,254
	Montana Tech - Butte	TP 2008-2010	\$611
Department of Public Health and Human Services (93)			
	Public Health and Human Ser.	HHSF223000840148C	\$39,202
	Public Health and Human Ser.	211-2009-M-30297	\$8,377
	Univ. of Montana - Missoula	09103000032	\$440
	Univ. of Montana - Missoula	07-11-1-01-002-0	\$473
	Montana Tech - Butte	200-2009-M-29841	\$1,708
Social Security Administration (96)			
	Univ. of Montana - Missoula	P.O. 2009-023	\$22,356
Homeland Security (97)			
	Montana Tech - Butte	PDMC-08-MT-2007	\$78,833
Other Federal (99)			
	Dept. of Administration	08-CS-11015600-092	\$10,000
	Montana Historical Society	FED09-038	\$3,955

STATE OF MONTANA

DEPARTMENT RESPONSE

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE

B-1



BRIAN SCHWEITZER, GOVERNOR

JANET R. KELLY, DIRECTOR

STATE OF MONTANA

(406) 444-2032
FAX (406) 444-6194

MITCHELL BUILDING
125 N. ROBERTS, RM 155
PO BOX 200101
HELENA, MONTANA 59620-0101

January 24, 2011

RECEIVED

JAN 24 2011

LEGISLATIVE AUDIT DIV.

Tori Hunthausen, Legislative Auditor
State Capitol, Room 160
PO Box 201075
Helena MT 59620-1705

RE: Financial Audit 10-01, State of Montana, for the fiscal year ended
June 30, 2010

Dear Tori:

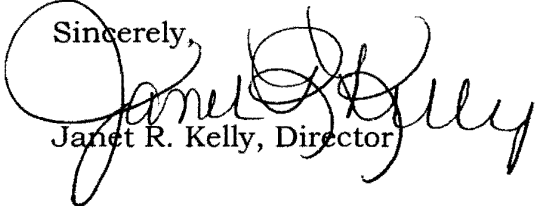
The Department of Administration's response to the material violation of finance-related legal provisions, resulting from the retirement systems that are not actuarially funded as required by the State Constitution, follows.

While this issue is disclosed and discussed in the financial reporting provided in the State of Montana Comprehensive Annual Financial Report (CAFR), the resolution of the underlying causes must be addressed by the Executive and Legislative Branches of the State and the related Retirement Boards. Both of these branches of State government and the Retirement Boards are currently studying the issue and working toward solutions that address the underlying causes.

The State of Montana CAFR and the basic financial statements derived from it, as contained in this report, properly report the issue.

I also want to thank you, and your staff, for your hard work auditing the State financial statements for the fiscal year ended June 30, 2010.

Sincerely,


Janet R. Kelly, Director

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

B-3

BRIAN SCHWEITZER
GOVERNOR



CAPITOL BUILDING - P.O. Box 200802
HELENA, MONTANA 59620-0802

January 24, 2011

Ms. Tori Hunthausen
Legislative Audit Division
Room 160, State Capitol
Helena, MT 59620-1705

RECEIVED

JAN 24 2011

LEGISLATIVE AUDIT DIV.

RE: State of Montana Financial Audit, (10-01)

Dear Ms. Hunthausen,

The Governor's Budget Office is pleased with your issuance of an unqualified opinion on our Schedule of Expenditure of Federal Awards (SEFA) for the State of Montana and its related footnotes.

We appreciate your staffs' professional and efficient approach in this audit.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Ewer".

David Ewer
Budget Director

Cc: Mark Bruno, Single Audit Coordinator