



A REPORT
TO THE
MONTANA
LEGISLATURE

FEDERAL SINGLE AUDIT

Montana Single Audit Report

*For the Two Fiscal Years Ended
June 30, 2011*

MARCH 2012

LEGISLATIVE AUDIT
DIVISION

10-02

FEDERAL SINGLE AUDIT

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

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. The Single Audit Report complies with these reporting requirements and is intended for distribution to federal grantor agencies. The individual agency audit reports do not comply with these reporting requirements and are therefore not intended for distribution to federal grantor agencies.

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

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

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

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

March 2012

The Legislative Audit Committee
of the Montana State Legislature:

This is our Single Audit Report of the state of Montana for the two fiscal years ended June 30, 2011. This document contains the Independent Auditor's Reports on the state of Montana's basic financial statements for the fiscal years ended June 30, 2011 (page A-3), and June 30, 2010 (page B-3). The Independent Auditor's Reports also address the reasonableness of the schedules of expenditures of federal awards in relation to the basic financial statements. This report also contains reports on the state of Montana's internal controls and compliance with federal and state laws and regulations (pages A-1, B-1, and C-1), a Schedule of Findings and Questioned Costs (pages C-8 through C-43), a Corrective Action Plan (pages D-1 through D-5), and a Summary Schedule of Prior Audit Findings (pages E-1 through E-7). The Single Audit was conducted in accordance with *Government Auditing Standards* and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The audit disclosed certain questioned costs and deficiencies in internal control and compliance, which are summarized in the Schedule of Findings and Questioned Costs. We implemented Statement on Auditing Standards No. 117, *Compliance Audits*, for the fiscal year ended June 30, 2010. The Independent Auditor's Reports on pages A-1 and on B-1 summarize control deficiencies over financial reporting we consider to be significant deficiencies or material weaknesses. The Independent Auditor's Report on page C-1 categorizes the disclosed control deficiencies affecting compliance with federal regulations as significant deficiencies or material weaknesses.

Management at administering agencies have responded to the audit findings, and the responses are included in the corrective action plan prepared by the Office of Budget and Program Planning (page D-1). The status of findings previously reported in state of Montana Single Audit Reports, for which continued reporting is required under OMB Circular A-133, is included in the summary schedule of prior audit findings (page E-1), which was also prepared by the Office of Budget and Program Planning.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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FEDERAL SINGLE AUDIT

Montana Single Audit Report

For the Two Fiscal Years Ended June 30, 2011

MARCH 2012

10-02

REPORT SUMMARY

The state of Montana spent approximately \$2.9 billion in federal funds in fiscal year 2009-10 and \$3.1 billion in fiscal year 2010-11. Both years combined, this is an increase from the prior Single Audit biennium of approximately \$1.7 billion. This increase is largely due to the American Recovery and Reinvestment Act (ARRA) funds for programs such as Medicaid, Unemployment Insurance, Stabilization, Highway Construction and the Supplemental Nutrition Assistance Program.

Context

The Montana Single Audit report is compiled from the Montana Statewide Audit (10-01 and 11-01A) reports and the audits performed at each state agency. The Montana Statewide Audit report is included in the Single Audit report without modification. Results from each state agency are included as recommendations in the Single Audit report as required by federal regulations.

The federal government provides extensive requirements for recipients of federal grants. The audit of each state agency includes determining compliance with these requirements when the federal grant is determined to be a major federal program under federal audit guidelines. Programs with expenditures totaling at least \$19,892,405 during the audit period were identified as major federal programs residing at 10 different state agencies. The state of Montana had 32 major federal programs during the audit period.

Results

Audits at state agencies resulted in 21 recommendations related to major programs or otherwise required to be reported by federal audit guidelines. Of these recommendations, nine reported questioned costs totaling over \$4.6 million.

Federal audit regulations specifically require the Single Audit to report on whether each major federal program complied with federal requirements applicable to the major programs as well as the internal controls over those major programs. The auditor's report identifies seven major programs that did not comply with all the federal requirements applicable to those programs.

Federal audit requirements also define varying degrees of deficiencies in internal controls. These include a control deficiency, a significant deficiency, and a material weakness, in order from least to most serious. The audit reported 11 significant deficiencies and one material weakness.

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

*This report is a compilation of audit findings reported in previously issued state agency audit reports. The status of concurrence with the recommendations contained in the Single Audit report can be found in the agency audit reports where the finding originated.

For a complete copy of the report (10-02) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
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FY11 Financial Section

FY11 Financial Section

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



Deputy Legislative Auditors
Cindy Jorgenson
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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, 2011, which collectively comprise the state of Montana's basic financial statements and have issued our report thereon dated March 19, 2012. 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 Audit 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

Management of the state of Montana is responsible for establishing and maintaining effective 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, 2011, indicates the Public Employees' Retirement System-Defined Benefit Retirement Plan, Sheriffs' Retirement System, Highway Patrol Officers' Retirement System and the 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, 2011, 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 those 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

March 19, 2012

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, 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, 2011, 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 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 the University of Montana component units, which represent 10.1, 25.0, and 6.2 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.

Management has reported the Old Fund and the New Fund as the Montana State Fund component unit. The Old Fund is no longer part of the Montana State Fund component unit for financial reporting purposes because Generally Accepted Accounting Principles (GAAP) requires the primary government to report the activity of the Old Fund since it is now legally obligated to pay the remaining liabilities. In fiscal year 2010-11 the Old Fund's resources were depleted and the General Fund provided the resources to pay approximately \$50,000 in claims. Under provisions of state law, the General Fund has assumed the remaining estimated \$64.6 million in workers' compensation claim liabilities of the Old Fund, making it a general long-term debt of the primary government. GAAP requires the state to report the debt of a component unit as a liability if it is legally obligated to repay it. The General Fund cannot avoid sacrificing resources for the purpose of repaying the Old Fund claims. The Old Fund is improperly presented in a separate column or line item as part of the Montana State Fund component unit on the Statement of Activities, Combining Statement of Net Assets – Component Units, and Combining Statement of Activities – Component Units. The following table identifies the resulting misstatements (in thousands) on the Basic Financial Statements.

| <u>Statement of Net Assets</u> | <u>Over (Under) stated</u> (in thousands) |
|---|---|
| <u>Governmental Activities Column</u> | |
| Estimated Future Claim Contribution to Component Units | \$64,621 |
| Long-Term Liabilities (Due within One Year) | (\$9,888) |
| Long-Term Liabilities (Due in More than One Year) | (\$54,733) |
| <u>Component Units Column</u> | |
| Estimated Future Claim Contribution From Primary Government | \$64,621 |
| Long-Term Liabilities (Due within One Year) | \$9,888 |
| Long-Term Liabilities (Due in More than One Year) | \$54,733 |
| <u>Statement of Activities</u> | |
| <u>Expenses Column</u> | |
| Governmental Activities: General Government | \$64,621 |
| <u>Component Units Column</u> | |
| Payment from State of Montana | \$64,621 |
| <u>Combining Statement of Net Assets – Component Units</u> | |
| <u>Montana State Fund (Old Fund) Column</u> | |
| Estimated Future Claim Contribution from Primary Government | \$64,621 |
| Long-Term Liabilities (Due within One Year) | \$9,888 |
| Long-Term Liabilities (Due in More than One Year) | \$54,733 |
| <u>Combining Statement of Activities – Component Units</u> | |
| <u>Montana State Fund (Old Fund) Column</u> | |
| Payment from State of Montana | \$64,621 |

Other amounts presented for the Old Fund and not listed above should be reported in the General Fund. Additionally, Notes 1, 8, and 11 do not disclose the change in reporting entity and the state's resulting general obligation debt for the fiscal year ended June 30, 2011.

In our opinion, based on our audit and the reports of other auditors, except for the reporting of Old Fund activity as described in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, and the General Fund of the state of Montana, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities; the state special revenue, the federal special revenue, the land grant, the coal severance tax, Unemployment Insurance, and Economic Development Bonds major funds; and the aggregate remaining fund information of the State of Montana, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Pension Plan Information, and the Other Post Employment 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, 2011, the Public Employees' Retirement System – Defined Benefit Retirement Plan, Game Wardens' and Peace Officers', Highway Patrol 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 Highway Patrol Officers' Retirement System is 48.2 years. The amortization period for the Teachers' retirement system is 71 years. The maximum allowable amortization period is 30 years.

In accordance with *Government Auditing Standards*, we have issued our report dated March 19, 2012, 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

March 19, 2012

**The State of Montana's Management's Discussion
and Analysis, Financial Statements, Notes, and
Required Supplementary Information, and
Schedule of Expenditures of Federal Awards**

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, 2011. 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 2011 by \$7.4 billion (reported as net assets) compared with \$6.8 billion at the end of fiscal year 2010. Of this amount, \$889.4 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 \$1500.3 million compared with \$1,311.3 million at fiscal year-end 2010. These are discussed in more detail in the financial statement overview below.

Fund Highlights

As of the close of fiscal year 2011, the State's governmental funds reported combined ending fund balances of \$3.8 billion compared with \$3.7 billion at fiscal year 2010. Of this amount, \$1.3 billion is not in spendable form, primarily as permanent fund principle, and \$2.5 billion is available for spending. The \$2.5 billion fund balance in spendable form is segregated by constraint as follows: \$1.1 billion restricted, \$1.0 billion committed, \$52.3 million assigned and \$340 million unassigned, primarily in the General Fund. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

The State's business-type activity funds reported net assets at the close of fiscal year 2011 in the amount of \$186.7 million compared with the fiscal year-end 2010 net assets of \$194.7 million. Of the business-type activity fund equity \$15.6 million was invested in capital assets, net of related debt. \$171.1 million of net assets was in spendable form with \$12.3 million unrestricted and \$158.8 million restricted to expenditure for a specific purpose. This represents a \$9.5 million (5.3%) decrease in spendable net assets from the fiscal year-end 2010 balance of \$180.2 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 \$2.7 million, from \$360.9 million in fiscal year 2010 to \$358.2 million (0.7%) in fiscal year 2011.

Business-type activities reported bonds and notes payable of \$0.2 million at fiscal year-end 2011. This represents a decrease of \$0.2 million (50.0%) over the fiscal year-end 2011 reported amount of \$0.4 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, including all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements.

The *Statement of Net 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 which assists Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Discretely Presented Component Units – These are operations for which the State has financial accountability, but they have certain independent qualities as well. In order to be considered component units these entities must be legally separate to the extent that they may sue, or be sued, in their own right. For the most part, these entities operate similarly to private sector businesses and the business-type activities described above. The State has 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 can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are as follows:

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

The State has five governmental funds that are considered major funds for presentation purposes. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues,

expenditures, and changes in fund balances. The State's five major governmental funds are the General Fund, the State Special Revenue Fund, the Federal Special Revenue Fund, the Coal Severance Tax Fund, and the Land Grant Fund.

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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 \$7.6 billion at the end of fiscal year 2011. Net assets of the governmental activities increased \$406.6 million (5.9%), and business-type activities had a \$8.1 million (4.1%) decrease. These changes are explained in detail in the major fund analysis below

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 | |
|--|------------------------------------|-------------|-------------------------------------|-------------|-------------------------------------|-------------|
| | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 |
| Current and other assets | \$4,678,781 | \$4,889,350 | \$326,068 | \$319,280 | \$5,004,849 | \$5,208,630 |
| Capital assets | 4,149,204 | 4,455,465 | 14,534 | 15,963 | 4,163,738 | 4,471,428 |
| Total assets | 8,827,985 | 9,344,815 | 340,602 | 335,243 | 9,168,587 | 9,680,058 |
| Long-term liabilities | 879,029 | 861,287 | 10,577 | 12,276 | 889,606 | 873,563 |
| Other liabilities | 1,007,219 | 1,135,189 | 135,305 | 136,302 | 1,142,524 | 1,271,491 |
| Total liabilities | 1,886,248 | 1,996,476 | 145,882 | 148,578 | 2,032,130 | 2,145,054 |
| Invested in capital assets, net of related debt | 3,874,920 | 4,178,343 | 14,534 | 15,963 | 3,889,454 | 4,194,306 |
| Restricted | 1,983,143 | 2,292,979 | 159,335 | 158,735 | 2,142,478 | 2,451,714 |
| Unrestricted | 1,083,674 | 877,017 | 20,851 | 11,967 | 1,104,525 | 888,984 |
| Total net assets | \$6,941,737 | \$7,348,339 | \$194,720 | \$186,665 | \$7,136,457 | \$7,535,004 |

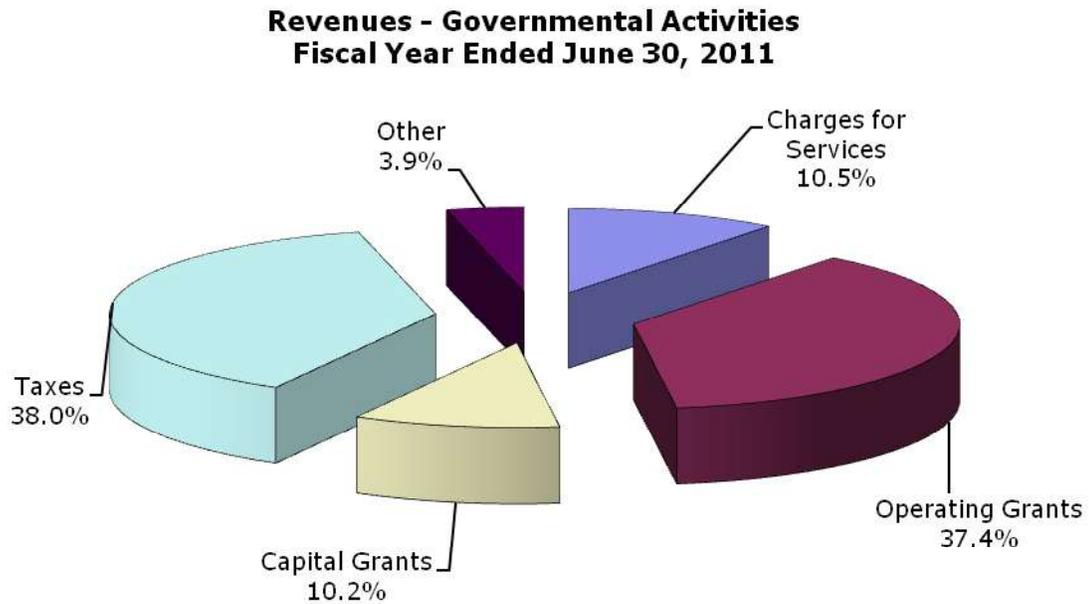
The following condensed financial information was derived from the government-wide Statement of Activities, and reflects how the State's net assets changed during the fiscal year:

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

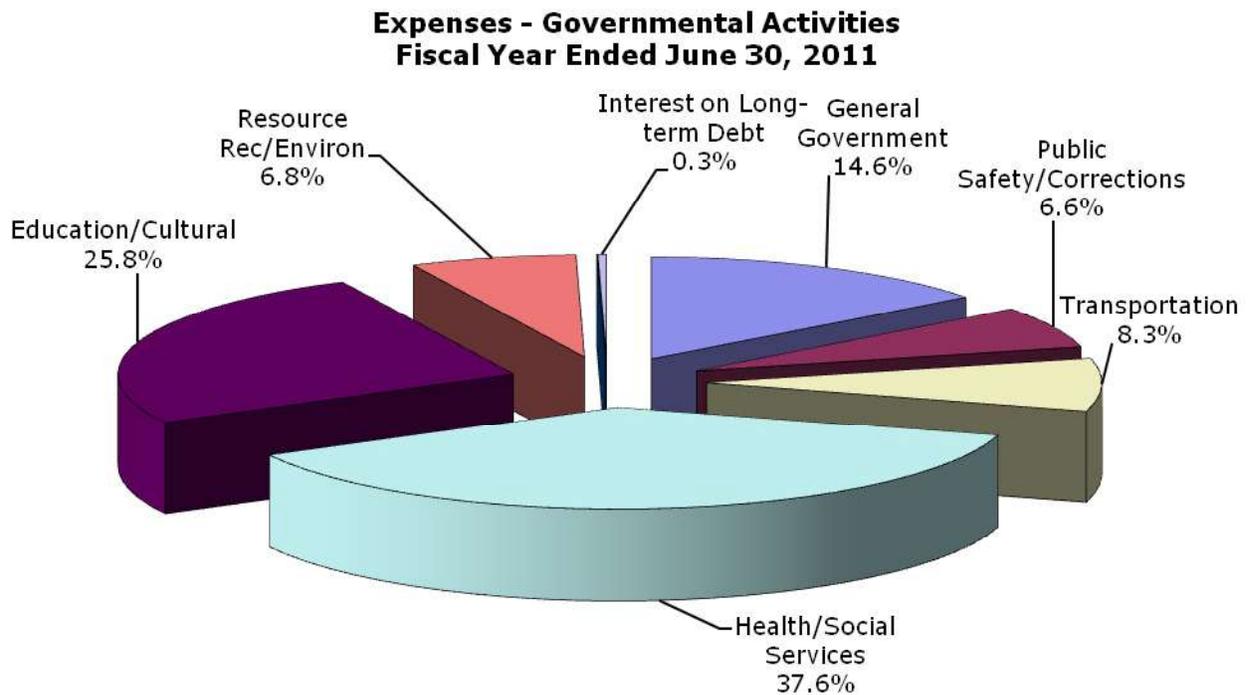
| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--|------------------------------------|--------------------|-------------------------------------|-------------------|-------------------------------------|--------------------|
| | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 |
| Revenues: | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 612,041 | \$ 551,722 | \$ 309,975 | \$ 362,776 | \$ 922,016 | \$ 914,498 |
| Operating grants | 1,985,977 | 1,962,876 | 226,049 | 168,222 | 2,212,026 | 2,131,098 |
| Capital grants | 510,996 | 537,194 | 3,174 | 281 | 514,170 | 537,475 |
| General revenues | | | | | | |
| Taxes | 1,817,564 | 1,997,392 | 25,017 | 21,797 | 1,842,581 | 2,019,189 |
| Other | 258,627 | 200,294 | 4,622 | 5,306 | 263,249 | 205,600 |
| Total revenues | <u>5,185,205</u> | <u>5,249,478</u> | <u>568,837</u> | <u>558,382</u> | <u>5,754,042</u> | <u>5,807,860</u> |
| Expenses: | | | | | | |
| General government | 774,881 | 752,565 | | | 774,881 | 752,565 |
| Public safety/corrections | 342,803 | 308,593 | | | 342,803 | 308,593 |
| Transportation | 320,085 | 390,523 | | | 320,085 | 390,523 |
| Health/social services | 1,677,261 | 1,765,871 | | | 1,677,261 | 1,765,871 |
| Educational/cultural | 1,179,788 | 1,209,969 | | | 1,179,788 | 1,209,969 |
| Resource/rec/envirom | 318,300 | 318,954 | | | 318,300 | 318,954 |
| Principal on long-term debt | - | 6 | | | | 6 |
| Interest on long-term debt | 17,692 | 16,314 | | | 17,692 | 16,314 |
| Unemployment Insurance | | | 354,794 | 278,086 | 354,794 | 278,086 |
| Liquor Stores | | | 61,569 | 63,573 | 61,569 | 63,573 |
| State Lottery | | | 36,365 | 35,481 | 36,365 | 35,481 |
| Economic Dev Bonds | | | 2,167 | 1,126 | 2,167 | 1,126 |
| Hail Insurance | | | 6,238 | 8,379 | 6,238 | 8,379 |
| Gen Govt Services | | | 62,796 | 63,003 | 62,796 | 63,003 |
| Prison Funds | | | 6,463 | 6,149 | 6,463 | 6,149 |
| MUS Group Insurance | | | 72,606 | 63,501 | 72,606 | 63,501 |
| MUS Workers Comp | | | 3,900 | 4,232 | 3,900 | 4,232 |
| Total expenses | <u>4,630,810</u> | <u>4,762,795</u> | <u>606,898</u> | <u>523,530</u> | <u>5,237,708</u> | <u>5,286,325</u> |
| Increase (decrease) in net assets before transfers | 554,395 | 486,683 | (38,061) | 34,852 | 516,334 | 521,535 |
| Transfers | 42,486 | 40,547 | (42,486) | (40,547) | - | - |
| Change in net assets | 596,881 | 527,230 | (80,547) | (5,695) | 516,334 | 521,353 |
| Net assets, beg of year (restated) | 6,344,856 | 6,821,109 | 275,267 | 192,360 | 6,620,123 | 7,013,469 |
| Net assets, end of year | <u>\$6,941,737</u> | <u>\$7,348,339</u> | <u>\$ 194,720</u> | <u>\$ 186,665</u> | <u>\$7,136,457</u> | <u>\$7,535,004</u> |

Governmental Activities

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

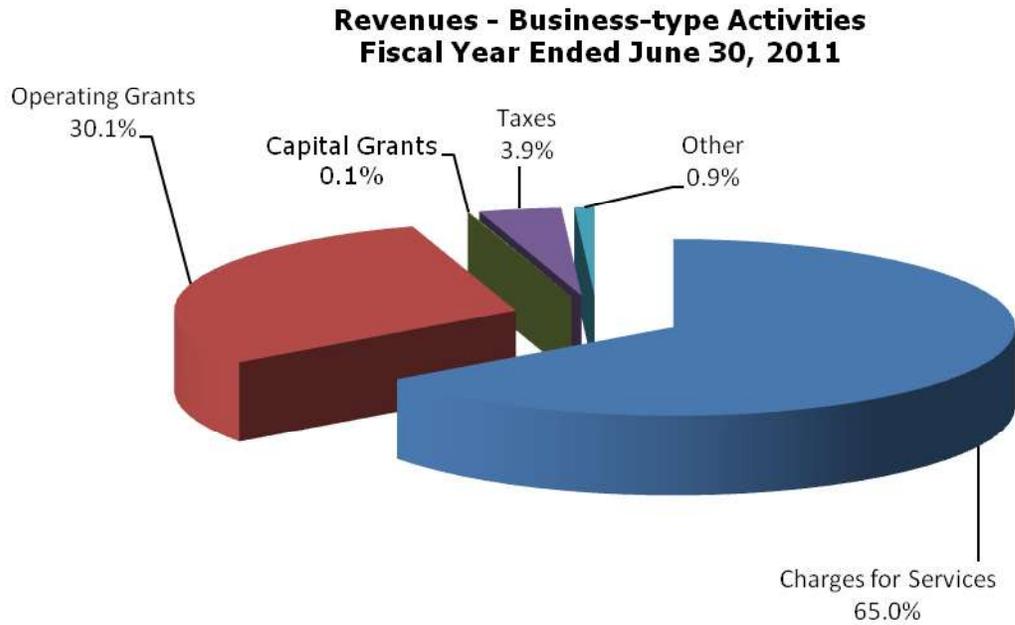


The following chart depicts expenses of the governmental activities for the fiscal year:

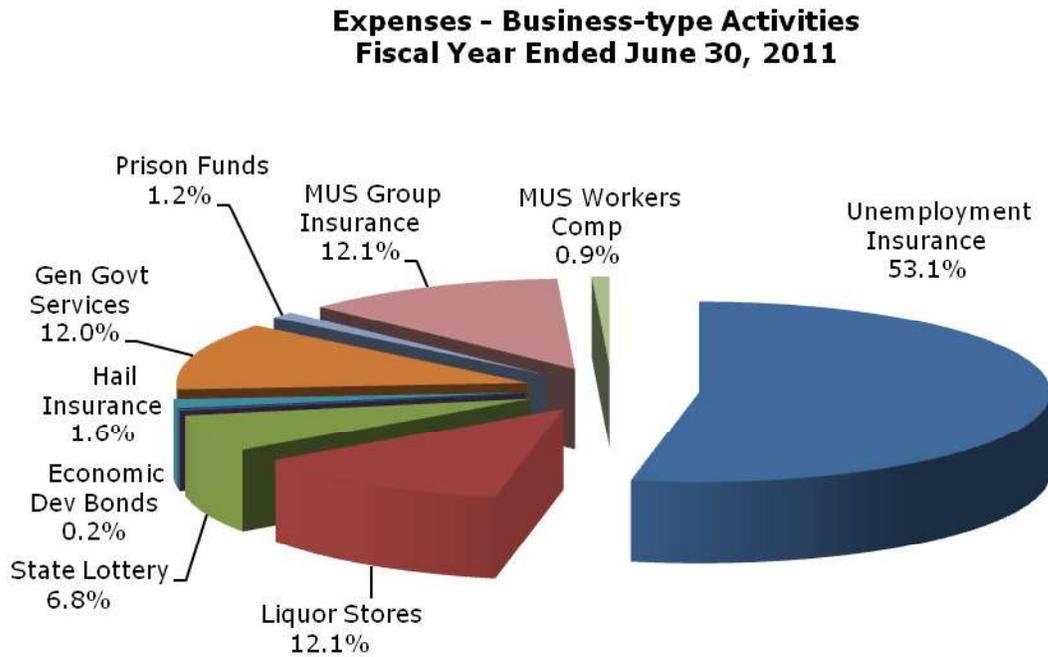


Business-type Activities

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 \$3.8 billion. Of this total amount, \$2.50 billion (66%) constitutes spendable fund balance and \$1.33 billion (35%) is classified as non-spendable. The spendable fund balance is further classified as restricted, \$1,106 million (44.2%), committed, \$1,005 million (40.1%), assigned, \$52 million (2.1%), and unassigned, \$340 million (13.6%). The preceding percentages are calculated on total spendable fund balance. The analysis of the following major funds, providing the majority of the net assets for the government, follows.

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 \$366.5 million. This represents 14.6% of the 2.5 billion spendable governmental fund balances for all governmental funds. The ending General Fund unassigned fund balance was \$114.6 million higher than the anticipated \$227.3 million unassigned fund balance estimated by the 62nd Legislature. Unassigned fund balance increased by \$102.8 million primarily when compared to the previously reported fund balance of \$239.0 million. This increase was primarily the result of a decrease in the estimated spend down of fund balance for subsequent fiscal year expenditures from \$71.4 million to \$0.00, and increased income, corporate and natural resource tax revenues, resulting from a modest economic recovery. General Fund expenditures for fiscal year 2011 increased by \$63.5 million (4.0%). This increase in expenditures primarily occurred in the Health and Human Services and Educational/Cultural functions. The increased revenues more than offset the rise in expenditures. The changes in both expenditures and revenues are discussed in detail below.

Higher Revenues Than Anticipated – Total General Fund revenues and transfers in were \$1,783.0 million for fiscal year 2011. This was \$152.6 million (9.4%) more than fiscal year 2010, and \$76.3 million (4.5%) more than what was projected for fiscal year 2011 by the legislature. The increase in revenue from fiscal year 2010 to fiscal year 2011 was primarily in individual and corporate income and natural resource taxes. The overall national recovery, combined with the record calendar year 2010 crop production along with higher farm commodity prices, contributed to the income and corporate tax increases. Higher natural resource prices were the underlying reason for the natural resource tax revenue increase.

General Fund Expenditure Budget Reversions

Much of the unspent funds were attributable to Governor's reductions per 17-7-140, MCA (\$28.3 million which affected most agencies statewide), the Otter Creek Bonus Payment (\$82 million affecting OPI), and HB 645 (\$24.2 million statewide but mostly impacting Health and Human Services). The major reversions are discussed in more detail below.

Public Health & Human Services Reversions

The Department of Public Health and Human Services (DPHHS) has unspent appropriation authority of nearly \$42 million for 2011. Authority for these unspent appropriations comes from a combination of the General Appropriations Act, House Bill (HB) 2 & 13, the Montana Reinvestment Act, HB645, planned reversions attributable to the Federal Medicaid Match (FMAP) enhancement, and the Governor's Reductions per 17-7-140, MCA. Significant portions of this unspent appropriation can be attributed to the following:

- Medicaid Benefits and Administration (primarily HB 645) — \$13.8 million.
- Restricted fund balances (excluding Medicaid)—\$0.4 million.
- Governor's 17-7-140, MCA, Reductions (\$14.2 million) - These reductions included a variety of operational, personal services, provider rate increases and program efficiencies.

The balance of the Department's unspent appropriation (approximately \$14 million) was attributable to planned reversions attributable to the enhanced FMAP rate per the JOBS Bill and other miscellaneous reversions across account types.

Office of Public Instruction Reversions

The Office of Public Instruction reverted approximately \$82 million of FY 2011 appropriations. The reversion is K-12 Base Aid due to the one-time-only Otter Creek bonus payment that went to the Guarantee Account offsetting the General Fund appropriation. K-12 Base Aid funding is biennial funding that rolled into FY 2011 at the end of FY 2010 and was then reverted at the end of FY 2011.

Higher General Fund Expenditures – General Fund expenditures increased by \$63.5 million (4.0%). The major factor behind this increase was the educational funding provided by the Otter Creek bonus payment. This payment directly reduced General Fund educational expenditures in 2010. The funding of these educational expenditures at a normal level led to an overall increase in general Fund Expenditures. Additionally Medicaid payments were greater as a result of increased caseloads.

State Special Revenue Fund

At the end of the current fiscal year, the fund balance of the State Special Revenue Fund was \$1.6 billion. Fund balance increased during the fiscal year by \$80.6 million (5.3%). This increase was caused by a combination of lower: revenues collections, expenditure levels, and transfers in combined with a significant prior period adjustment. These changes are discussed in detail below. Although revenues and transfers in decreased significantly, the transfers in of \$166.3 million, combined with decreased expenditures more than offset the decrease in revenues, resulting in the overall increased fund balance.

Lower State Special Revenue Fund Revenues – Overall revenues decreased by \$57.6 million. A discussion of the causes for the major changes follows:

- Charges for services/fines/forfeits/settlements decreased by \$50.4 million (35.3%) because the state received significantly less in pollution/wildlife remediation settlement payments in 2011. In 2011 the State received one major settlement relating to the Flying J Facility of \$2.4 million compared to \$42.5 million of mitigation payments in fiscal year 2010.
- Investment earnings decreased by \$18.7 million (35.9%) primarily as the result of the extremely low Short Term Investment Pool (STIP) earnings during fiscal year 2011.
- Federal indirect cost recoveries decreased by \$12.9 million (21.8%). \$12.6 million of this decrease related to reduced federal indirect cost recoveries in the Highway account resulting from a reduced indirect cost rate (from 17.48% to 13.35%) and the continued impact of ARRA expenditures on which the State did not recover indirect costs.

Lower State Special Revenue Fund Transfers In - Transfers in decreased significantly in 2011 because similar, significant, one time only transfers that occurred in 2010 (Otter Creek, \$81.5 million), were not repeated and the ARRA transfers were reduced in 2011, resulting in a \$152.7 (47.9%) million decrease in transfers-in for the year. As noted above the transfers in of \$166.3 million more than offset the decreased revenue in the fund resulting in the higher net asset balance at year end.

Lower State Special Revenue Fund Expenditures - Expenditures within the State Special Revenue Fund decreased by \$72.7 million (6.8%). The decrease was primarily in Education/Cultural Function. Spending in this function decreased \$73.8 million because expenditures funded by the Otter Creek coal payment of \$81.5 million in 2010, were instead made by the General Fund in 2011.

Permanent Fund Reclassifications – Prior Period Adjustments increased by \$56.1 million. As explained in Note 2 the State reclassified non-major permanent funds, established by State Legislative action, as Special Revenue Funds. Additional clarification provided by GASB staff, in related National Association of State Controllers meetings, resulted in related permanent fund classification changes of \$59.2 million.

Federal Special Revenue Fund

Fund balance in the Federal Special Revenue Fund increased by \$3.0 million (9.2%) to \$35.1 million. Revenues increased by \$77.3 million (3.3%), expenditures increased by \$107.3 million (4.8%) and transfers out decreased by \$21.9 million (32.5%). Because most federal programs are expenditure-driven, a direct correlation normally exists between revenues/transfers in and expenditures/transfers out. The increased expenditure level was offset by a partially offset by decrease in transfers out resulting in the net increase in overall fund balance. Programs such as Guaranteed Student Loan, Livestock Shell/Egg and some within the Fish Wildlife and Parks and Crime Control agencies are allowed to carry assets in their federal entities, creating a normal overall positive balance for the fund as a whole. The federal revenue and expenditure/transfer out increases resulted from the following:

- The Medicaid expenditures increased in both the General and Federal Funds during fiscal year 2011 resulting in additional expenditures and revenues of \$28.4 million in the Federal Fund. This increase was driven by both caseload increases and continuation of the ARRA federal matching increases;
- Additional Food Stamps were distributed resulting in increased program expenditures of \$21.2 million;
- Highway construction revenues funded by ARRA increased by \$18.6 million;

- Education stabilization funding increased by \$9.1 million;
- Transportation noncapital expenditures relating to highway construction increased by \$78.2 million as the result of increased noncapital asset expenditure activity, primarily grants to local governments and projects under the capitalization threshold, funded through ARRA and Federal Highway reimbursements. 2010 also included an unusually high amount of capitalized infrastructure assets resulting in a much lower than normal expenditure level for the year.
- The decrease in capital outlay of \$72.3 million directly relate to the changes in the Transportation function discussed above.
- The decrease in transfers out primarily related to ARRA funded waste and drinking water projects.

Coal Severance Tax Permanent Fund

Revenue in the Coal Severance Tax Permanent Fund decreased by \$21.6 million (21.3%). Coal tax revenues increased \$7.6 million (7.6%) due to increased coal production within the state, while investment earnings decreased \$29.4 million (37.0%). The increased coal demand resulted from the national and world-wide economic recovery that began in 2010. The revenues relating to appreciation of investments decreased by \$16.8 million (76.7%) as the result of lower projected growth in investment values at the end of the fiscal year, partially offsetting the increased coal tax revenues. Although there were significant changes in the revenues earned within the fund, net assets increased by \$45.8 million (5.3%). By definition, permanent fund transfers out cannot exceed the revenues earned.

Land Grant Permanent Fund

Fund balance in the Land Grant Permanent Fund increased by \$17.4 million (3.5%). Within this fund, investment earnings decreased by \$23.5 million (44.0%). This investment revenue decrease was primarily the result of the decrease in investment appreciation of \$21.9 million (76.7%) as discussed above. The \$73.4 million decrease in royalties was primarily the result of the Otter Creek coal bonus payment of \$81.5 million that flowed through this fund in 2010. Increased oil lease and coal royalties partially offset this decrease. The increase oil lease activity results from the leases that will be required to develop the projected extensive oil reserves, similar to those currently being developed in north Dakota, that exist under eastern and central Montana.

Transfers out decreased by 86.6 million (53.4%) primarily because the State did not have transfers similar to that caused by the 2010, \$81.5 million, Otter Creek bonus payment, discussed above, that flowed through to the State Special Revenue fund.

Unemployment Insurance Enterprise Fund

Net assets restricted for unemployment compensation decreased by \$15.7 million (13.5%). This decrease was significantly less than the \$79.4 million experienced in 2010. This net asset decrease reflects the impact of continued unemployment throughout fiscal year 2011. Overall unemployment rose from 7.3% in July, 2010, to 7.5% in July 2011. During fiscal year 2011 two unemployment rate increases were implemented resulting in increased premiums revenues of \$47.9 million (53.6%). The Federal additional benefits program was discontinued in 2011 contributing to a decrease in grant revenue of \$51.2 million (29.1%) and benefit payments of \$77.2 million (21.8%). Even though revenues increased and benefit payments decreased the overall expenditures were greater than the revenues collected resulting the net asset decrease.

Economic Development Bonds Enterprise Fund

Net assets increased by \$0.5 million (8.5%) in fiscal year 2011. The fund's net assets change results primarily from decreased interest paid during 2011. The lower interest rates that existed during 2010 and 2011 contributed directly to these lower interest costs. Both investment and financing earnings were less during 2011 but the lower interest and operating costs more than offset the lowered revenues resulting in the net income of \$0.5 million.

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, 2011, amounted to \$6.3 billion, with related accumulated depreciation of \$1.8 billion, leaving a net book value of \$4.5 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State’s investment in capital assets for the current fiscal year was approximately \$0.3 billion (7.1%) in terms of net book value. Most of the year’s capital expenditures were for construction, or reconstruction, of roads and bridges. Additional information relating to the State’s capital assets can be found in Note 5 of the notes to the financial statements.

Debt Administration

Montana receives excellent general obligation bond ratings from 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 increased from \$169.2 million at June 30, 2010, to \$174.3 million at June 30, 2011. \$15.9 million is available in debt service funds to service this debt leaving a balance of \$158.4 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 | \$158,425 | 0.46% | \$179 |

The ratio of all State debt to personal income as included in the Statistical Tables follows:

| | Amount <i>(in thousands)</i> | Percentage of Personal Income (1) | State Debt Per Capita (2) |
|------------------|--|--|--|
| Total State debt | \$356,037 | 1.0% | \$367 |

- (1) Personal income is for calendar year 2010.
- (2) Based on estimated 2010 Montana population.

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

ECONOMIC CONDITION AND OUTLOOK

The unemployment rate for the State of Montana was 7.5% in the second quarter of 2011, which represents an increase from the rate of 7.3% during the second quarter of 2010. This compares favorably with the U.S. June, 2011, rate of 9.2% but reflects the nature of the moderate economic recovery in Montana’s economy. An unusual aspect of the recovery is positive impact resulting from the employment of a portion Montana’s workforce, still maintaining residency in Montana, in the North Dakota oil fields. This employment of Montana residents in North Dakota and the related revenues derived from payments to landowners and other residents of the area resulted in an overall mild economic recovery for the State without the reduced unemployment that would normally accompany a recovery. While the economic data regarding this is difficult to obtain, the impacts exist in the cities of eastern Montana and western North Dakota and flow through to these financial statements. Increased oil lease activity in eastern and central Montana provide an indication of potential, significant, future oil exploration and production within Montana. The status of Montana’s economy is discussed in detail in the Transmittal letter.

The 62nd Legislative Session adjourned on April 28, 2011, with a projected unassigned General Fund balance of \$227.3 million as of the end of fiscal year 2011. During fiscal year 2011, Montana's economy began a moderate recovery ending the year with the unassigned General Fund balance, as of June 30, 2011, at the \$341.9 million level, significantly higher than anticipated in the budget process.

As of June 30, 2011 five 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, Game Warden & Peace Officers and Highway Patrol Officers retirement systems. The actuarial condition of these plans are fully disclosed and reported as required by Generally Accepted Accounting Principles (GAAP), and explained in greater detail in Note 6 and Note 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 2011.

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.

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STATEMENT OF NET ASSETS

JUNE 30, 2011

(amounts expressed in thousands)

| | PRIMARY GOVERNMENT | | | |
|--|--------------------|---------------|--------------|------------|
| | GOVERNMENTAL | BUSINESS-TYPE | COMPONENT | |
| | ACTIVITIES | ACTIVITIES | TOTAL | UNITS |
| ASSETS | | | | |
| Cash/cash equivalents (Note 3) | \$ 1,471,878 | \$ 205,888 | \$ 1,677,766 | \$ 415,957 |
| Receivables (net) | 421,071 | 41,893 | 462,964 | 109,456 |
| Due from primary government | - | - | - | 1,941 |
| Due from other governments | 217,581 | 3,092 | 220,673 | 22,828 |
| Due from component units | 1,003 | 1,764 | 2,767 | 348 |
| Estimated future claim contribution from primary government | - | - | - | 64,621 |
| Internal balances | (8,718) | 8,718 | - | - |
| Inventories | 26,922 | 3,360 | 30,282 | 5,353 |
| Advances to component units | 17,094 | 9,949 | 27,043 | - |
| Long-term loans/notes receivable | 356,953 | 36,594 | 393,547 | 676,785 |
| Equity in pooled investments (Note 3) | 1,861,260 | - | 1,861,260 | 32,502 |
| Investments (Note 3) | 362,088 | 3,569 | 365,657 | 1,711,518 |
| Securities lending collateral (Note 3) | 148,634 | 992 | 149,626 | 93,164 |
| Deferred charges | 3,391 | 1,394 | 4,785 | 7,188 |
| Other assets | 10,193 | 2,068 | 12,261 | 61,994 |
| Capital assets (net) (Note 5) | 4,455,465 | 15,963 | 4,471,428 | 763,348 |
| Total assets | 9,344,815 | 335,244 | 9,680,059 | 3,967,003 |
| LIABILITIES | | | | |
| Accounts payable | 477,874 | 17,770 | 495,644 | 77,365 |
| Lottery prizes payable | - | 3,257 | 3,257 | - |
| Due to primary government | - | - | - | 2,767 |
| Due to other governments | 60,337 | 21 | 60,358 | 15 |
| Due to component units | 1,941 | - | 1,941 | 348 |
| Advances from primary government | - | - | - | 27,044 |
| Estimated future claim contribution to component unit | 64,621 | - | 64,621 | - |
| Deferred revenue | 36,643 | 5,203 | 41,846 | 61,553 |
| Amounts held in custody for others | 39,017 | 20 | 39,037 | 10,644 |
| Securities lending liability (Note 3) | 148,634 | 992 | 149,626 | 93,164 |
| Other liabilities | 3,247 | - | 3,247 | 10,253 |
| Short-term debt (Note 11) | - | 95,530 | 95,530 | - |
| Long-term liabilities (Note 11): | | | | |
| Due within one year | 147,168 | 10,763 | 157,931 | 292,690 |
| Due in more than one year | 861,287 | 12,277 | 873,564 | 1,813,761 |
| OPEB implicit rate subsidy (Note 7) | 155,707 | 2,746 | 158,453 | 77,054 |
| Total liabilities | 1,996,476 | 148,579 | 2,145,055 | 2,466,658 |

| | PRIMARY GOVERNMENT | | | |
|---|---------------------|-------------------|---------------------|------------------|
| | GOVERNMENTAL | BUSINESS-TYPE | | COMPONENT |
| | ACTIVITIES | ACTIVITIES | TOTAL | UNITS |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | \$ 4,178,343 | \$ 15,581 | \$ 4,193,924 | 507,407 |
| Restricted for: | | | | |
| General government | 10,994 | - | 10,994 | - |
| Transportation | 109,939 | - | 109,939 | - |
| Health and human services | - | - | - | - |
| Natural resources | 321,849 | - | 321,849 | - |
| Public safety | 79,942 | - | 79,942 | - |
| Education | 25,125 | - | 25,125 | - |
| Funds held as permanent investments: | | | | |
| Nonexpendable | 1,293,499 | - | 1,293,499 | 251,301 |
| Expendable | 451,631 | - | 451,631 | - |
| Unemployment compensation | - | 100,799 | 100,799 | - |
| Housing authority | - | - | - | 156,523 |
| Other purposes | - | 57,936 | 57,936 | 133,779 |
| Unrestricted | 877,017 | 12,349 | 889,366 | 451,335 |
| Total net assets | \$ 7,348,339 | \$ 186,665 | \$ 7,535,004 | 1,500,345 |

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

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

(amounts expressed in thousands)

| FUNCTIONS/PROGRAMS | EXPENSES | PROGRAM REVENUES | | | NET (EXPENSE) REVENUE |
|---|--------------|----------------------------|---|---|-----------------------------|
| | | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS | |
| Primary government: | | | | | |
| Governmental activities: | | | | | |
| General government | \$ 752,565 | \$ 138,059 | \$ 207,772 | \$ - | (406,734) |
| Public safety/corrections | 308,593 | 145,754 | 12,789 | (11) | (150,061) |
| Transportation | 390,523 | 25,143 | 43,177 | 481,835 | 159,632 |
| Health/social services | 1,765,871 | 37,166 | 1,283,469 | - | (445,236) |
| Education/cultural | 1,209,969 | 40,720 | 294,683 | - | (874,566) |
| Resource/recreation/environment | 318,954 | 164,880 | 120,986 | 55,370 | 22,282 |
| Principal on long-term debt | 6 | - | - | - | (6) |
| Interest on long-term debt | 16,314 | - | - | - | (16,314) |
| Total governmental activities | 4,762,795 | 551,722 | 1,962,876 | 537,194 | (1,711,003) |
| Business-type activities: | | | | | |
| Unemployment Insurance | 278,086 | 137,439 | 124,791 | - | (15,856) |
| Liquor Stores | 63,573 | 73,298 | - | - | 9,725 |
| State Lottery | 35,481 | 46,047 | - | - | 10,566 |
| Economic Development Bonds | 1,126 | 18 | 1,641 | - | 533 |
| Hail Insurance | 8,379 | 6,710 | - | - | (1,669) |
| General Government Services | 63,003 | 23,044 | 41,394 | 281 | 1,716 |
| Prison Funds | 6,149 | 6,276 | - | - | 127 |
| MUS Group Insurance | 63,501 | 65,228 | 396 | - | 2,123 |
| MUS Workers Compensation | 4,232 | 4,716 | - | - | 484 |
| Total business-type activities | 523,530 | 362,776 | 168,222 | 281 | 7,749 |
| Total primary government | \$ 5,286,325 | \$ 914,498 | \$ 2,131,098 | \$ 537,475 | (1,703,254) |
| Component units: | | | | | |
| Housing Authority | \$ 50,061 | \$ 437 | \$ 48,947 | \$ - | (677) |
| Facility Finance Authority | 348 | 680 | - | - | 332 |
| State Compensation Insurance (New Fund) | 202,265 | 173,605 | - | - | (28,660) |
| State Compensation Insurance (Old Fund) | 16,658 | - | - | - | (16,658) |
| Montana State University | 471,019 | 198,135 | 191,171 | 10,258 | (71,455) |
| University of Montana | 405,165 | 182,128 | 133,236 | 15,010 | (74,791) |
| Total component units | \$ 1,145,516 | \$ 554,985 | \$ 373,354 | \$ 25,268 | (191,909) |

| | PRIMARY GOVERNMENT | | | COMPONENT UNITS |
|---|----------------------------|-----------------------------|----------------|--------------------|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | |
| Changes in net assets: | | | | |
| Net (expense) revenue | \$ (1,711,003) | \$ 7,749 | \$ (1,703,254) | (191,909) |
| General revenues: | | | | |
| Taxes: | | | | |
| Property | 241,961 | - | 241,961 | - |
| Fuel | 209,348 | - | 209,348 | - |
| Natural resource | 305,471 | - | 305,471 | - |
| Individual income | 810,108 | - | 810,108 | - |
| Corporate income | 121,801 | - | 121,801 | - |
| Other (Note 1) | 308,703 | 21,797 | 330,500 | - |
| Unrestricted grants and contributions | - | - | - | 893 |
| Settlements | 38,747 | 27 | 38,774 | - |
| Unrestricted investment earnings | 155,419 | 4,642 | 160,061 | 120,778 |
| Payment from State of Montana | - | - | - | 254,707 |
| Gain (loss) on sale of capital assets | 3,209 | - | 3,209 | 142 |
| Miscellaneous | 2,919 | 637 | 3,556 | 62 |
| Contributions to term and permanent endowments | - | - | - | 8,145 |
| Transfers | 40,547 | (40,547) | - | - |
| Total general revenues, contributions, and transfers | 2,238,233 | (13,444) | 2,224,789 | 384,727 |
| Change in net assets | 527,230 | (5,695) | 521,535 | 192,818 |
| Total net assets - July 1 - as previously reported | 6,941,737 | 194,720 | 7,136,457 | 1,311,252 |
| Prior period adjustments (Note 2) | (120,628) | (2,360) | (122,988) | (3,725) |
| Total net assets - July 1 - as restated | 6,821,109 | 192,360 | 7,013,469 | 1,307,527 |
| Total net assets - June 30 | \$ 7,348,339 | \$ 186,665 | \$ 7,535,004 | 1,500,345 |

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

BALANCE SHEET
GOVERNMENTAL FUNDS
 JUNE 30, 2011
 (amounts expressed in thousands)

| | SPECIAL REVENUE | | | PERMANENT | | | TOTAL |
|--|-----------------|--------------|------------|---------------|------------|------------|-----------|
| | GENERAL | STATE | FEDERAL | COAL | | NONMAJOR | |
| | | | | SEVERANCE TAX | LAND GRANT | | |
| ASSETS | | | | | | | |
| Cash/cash equivalents (Note 3) | \$ 382,920 | \$ 791,110 | \$ 66,657 | \$ 38,463 | \$ 17,629 | \$ 74,845 | 1,371,624 |
| Receivables (net) (Note 4) | 218,217 | 113,458 | 13,996 | 10,153 | 57,007 | 7,116 | 419,947 |
| Interfund loans receivable (Note 12) | 45,960 | 61,878 | 39 | - | - | - | 107,877 |
| Due from other governments | 11,504 | 934 | 205,140 | - | - | - | 217,578 |
| Due from other funds (Note 12) | 50,819 | 7,847 | - | 1 | - | 1,037 | 59,704 |
| Due from component units | - | 296 | - | 87 | - | 615 | 998 |
| Inventories | 2,473 | 20,531 | - | - | - | - | 23,004 |
| Equity in pooled investments (Note 3) | - | 412,200 | - | 688,102 | 501,052 | 259,907 | 1,861,261 |
| Long-term loans/notes receivable | 65 | 322,566 | 7,100 | - | - | 27,222 | 356,953 |
| Advances to other funds (Note 12) | 1,250 | 19,066 | - | - | - | 8,696 | 29,012 |
| Advances to component units | - | 3,046 | - | 8,381 | - | 5,667 | 17,094 |
| Investments (Note 3) | 16,367 | 116,831 | 1,475 | 170,696 | 186 | 17,282 | 322,837 |
| Securities lending collateral (Note 3) | - | 48,019 | 328 | 41,501 | 29,987 | 23,350 | 143,185 |
| Other assets | 2,396 | 6,744 | 207 | - | - | - | 9,347 |
| Total assets | \$ 731,971 | \$ 1,924,526 | \$ 294,942 | \$ 957,384 | \$ 605,861 | \$ 425,737 | 4,940,421 |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable (Note 4) | 203,854 | 89,580 | 138,773 | - | 3,767 | 3,424 | 439,398 |
| Interfund loans payable (Note 12) | - | 7,778 | 98,958 | - | - | - | 106,736 |
| Due to other governments | 38 | 57,188 | 3,111 | - | - | - | 60,337 |
| Due to other funds (Note 12) | 897 | 36,369 | 478 | 4,310 | 426 | 1,977 | 44,457 |
| Due to component units | 22,673 | 664 | 1,563 | - | - | - | 24,900 |
| Advances from other funds (Note 12) | - | 21,790 | 3,930 | - | - | 18,191 | 43,911 |
| Deferred revenue | 109,569 | 33,687 | 12,660 | - | 52,704 | 497 | 209,117 |
| Amounts held in custody for others | 25,062 | 13,691 | 63 | - | 198 | - | 39,014 |
| Securities lending liability (Note 3) | - | 48,019 | 328 | 41,501 | 29,987 | 23,350 | 143,185 |
| Other liabilities | 521 | 296 | - | - | - | - | 817 |
| Total Liabilities | 362,614 | 309,062 | 259,864 | 45,811 | 87,082 | 47,439 | 1,111,872 |
| Fund balances (Note 14): | | | | | | | |
| Nonspendable | 2,891 | 21,435 | - | 531,339 | 516,772 | 252,760 | 1,325,197 |
| Restricted | - | 1,046,555 | 35,078 | - | 2,007 | 22,663 | 1,106,303 |
| Committed | - | 547,285 | - | 380,234 | - | 77,342 | 1,004,861 |
| Assigned | 24,591 | 2,157 | - | - | - | 25,542 | 52,290 |
| Unassigned | 341,875 | (1,968) | - | - | - | (9) | 339,898 |
| Total fund balances | 369,357 | 1,615,464 | 35,078 | 911,573 | 518,779 | 378,298 | 3,828,549 |
| Total liabilities and fund balances | \$ 731,971 | \$ 1,924,526 | \$ 294,942 | \$ 957,384 | \$ 605,861 | \$ 425,737 | 4,940,421 |

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

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

- (A) Internal services funds (ISF): Management uses ISF to report the charges for and the costs of goods and services sold by state agencies solely within the state. Because the sales are primarily to governmental funds, the assets, liabilities and the net assets of the ISF are included in the governmental activities on the government-wide Statement of Net Assets. ISF are reported using proprietary fund-type accounting in the fund-level financial statements.
- (B) Capital assets balances: Capital assets used in governmental activities are not financial resources, and therefore, they are not included in the fund level financial statements. However, Capital assets are economic resources and are reported in the government-wide Statement of Net Assets.
- (C) Debt related balances: Long term liabilities such as leases, bonds, notes, mortgages, and certificate of participation (including accrued interest) are not due and payable in the current period, and therefore, they are not included in the fund –level financial statements. However, from an economic perspective these liabilities reduce net assets and are reported in the Statement of Net Assets. The portion reported as current in the reconciliation is payable within the following fiscal year. The largest portion of the long-term balance is related to Pollution Remediation, Bonds/Notes Payables and OPEB implicit rate subsidy.
- (D) Other measurement focus adjustments include:
- Interfund balances receivable from or payable to Fiduciary funds are reported on the fund- level Balance Sheet- Governmental funds as due from/to other funds. On the government –wide Statement of Net 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.
 - Compensated absences are a GAAP modification of the full accrual basis of accounting similar to claims and judgments discussed above. Therefore, both the current and long-term portions of the liability are shown on the government – wide statement of Net Assets, but they are not reported on the fund-level Balance Sheet- Governmental Funds.
- (E) Internal balances: All interfund activities such as Interfund loan receivable\payables, due from\due to and advances to\from other fund balances shown on the fund-level Balance Sheet –Governmental Funds are reported as internal balances. Per GAAP these balances should be eliminated from the governmental-wide Statement of Net Assets to avoid double counting.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

(amounts expressed in thousands)

| | SPECIAL REVENUE | | | PERMANENT | | | TOTAL |
|---|-----------------|--------------|-----------|---------------|------------|------------|--------------|
| | GENERAL | STATE | FEDERAL | COAL | | NONMAJOR | |
| | | | | SEVERANCE TAX | LAND GRANT | | |
| REVENUES (Note 14) | | | | | | | |
| Licenses/permits | \$ 118,749 | \$ 167,396 | \$ - | \$ - | \$ 1,435 | \$ - | 287,580 |
| Taxes: | | | | | | | |
| Natural resource | 136,550 | 130,169 | - | 29,220 | - | 9,589 | 305,528 |
| Individual income | 798,590 | - | - | - | - | - | 798,590 |
| Corporate income | 120,240 | 2 | - | - | - | - | 120,242 |
| Property | 227,085 | 14,876 | - | - | - | - | 241,961 |
| Fuel | - | 209,348 | - | - | - | - | 209,348 |
| Other | 206,699 | 102,519 | - | - | - | 1,835 | 311,053 |
| Charges for services/fees/forfeits/settlements | 43,616 | 92,655 | 42,785 | - | - | 12,086 | 191,142 |
| Investment earnings | 3,907 | 33,480 | 295 | 50,041 | 29,962 | 25,513 | 143,198 |
| Securities lending income | 379 | 832 | 13 | 650 | 483 | 275 | 2,632 |
| Sale of documents/merchandise/property | 329 | 3,984 | 1 | - | 9,186 | 3,708 | 17,208 |
| Rentals/leases/royalties | 20 | 759 | - | - | 69,543 | - | 70,322 |
| Contributions/premiums | (7) | 20,692 | - | - | - | - | 20,685 |
| Grants/contracts/donations | 4,313 | 18,825 | 263 | - | 38 | - | 23,439 |
| Federal | 34,039 | 11,425 | 2,292,626 | - | - | - | 2,338,090 |
| Federal indirect cost recoveries | 208 | 46,473 | 54,471 | - | - | - | 101,152 |
| Other revenues | 327 | 1,918 | 192 | - | - | - | 2,437 |
| Total revenues | 1,695,044 | 855,353 | 2,390,646 | 79,911 | 110,647 | 53,006 | 5,184,607 |
| EXPENDITURES | | | | | | | |
| Current: | | | | | | | |
| General government | 248,681 | 257,214 | 135,730 | - | - | 1,998 | 643,623 |
| Public safety/corrections | 253,553 | 78,156 | 14,961 | - | - | - | 346,670 |
| Transportation | 358 | 180,713 | 90,316 | - | - | - | 271,387 |
| Health/social services | 342,080 | 133,118 | 1,280,277 | - | - | 2,158 | 1,757,633 |
| Education/cultural | 781,841 | 85,933 | 340,748 | - | - | 16 | 1,208,538 |
| Resource/recreation/environment | 29,471 | 160,635 | 79,169 | - | 3,618 | 2 | 272,895 |
| Debt service: | | | | | | | |
| Principal retirement | 710 | 666 | 113 | - | - | 32,485 | 33,974 |
| Interest/fiscal charges | 67 | 847 | 12 | - | - | 15,436 | 16,362 |
| Capital outlay | 1,247 | 105,586 | 406,970 | - | 7,372 | 44,768 | 565,943 |
| Securities lending | 81 | 194 | 3 | 148 | 110 | 64 | 600 |
| Total expenditures | 1,658,089 | 1,003,062 | 2,348,299 | 148 | 11,100 | 96,927 | 5,117,625 |
| Excess of revenue over (under) expenditures | 36,955 | (147,709) | 42,347 | 79,763 | 99,547 | (43,921) | 66,982 |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Inception of lease/installment contract | 19 | 17 | - | - | - | - | 36 |
| Insurance proceeds | - | 4,326 | - | - | - | - | 4,326 |
| General capital asset sale proceeds | 131 | 887 | - | - | 3,112 | - | 4,130 |
| Refunding bond issued | - | 10,180 | - | - | - | - | 10,180 |
| Payment to refunding bond escrow agent | - | (10,700) | - | - | - | (362) | (11,062) |
| Bond premium | - | 767 | - | - | - | - | 767 |
| Bond proceeds | - | 30,450 | - | - | - | 550 | 31,000 |
| Transfers in (Note 12) | 87,944 | 166,307 | 2,935 | 393 | 1 | 93,786 | 351,366 |
| Transfers out (Note 12) | (77,510) | (36,605) | (45,414) | (34,366) | (75,684) | (47,355) | (316,934) |
| Total other financing sources (uses) | 10,584 | 165,629 | (42,479) | (33,973) | (72,571) | 46,619 | 73,809 |
| Net change in fund balances | 47,539 | 17,920 | (132) | 45,790 | 26,976 | 2,698 | 140,791 |
| Fund balances - July 1 - as previously reported | 327,006 | 1,534,855 | 32,114 | 865,783 | 501,342 | 426,756 | 3,687,856 |
| Prior period adjustments (Note 2) | (6,740) | 60,232 | 3,096 | - | (9,539) | (51,156) | (4,107) |
| Fund balances - July 1 - as restated | 320,266 | 1,595,087 | 35,210 | 865,783 | 491,803 | 375,600 | 3,683,749 |
| Increase (decrease) in inventories | 1,552 | 2,457 | - | - | - | - | 4,009 |
| Fund balances - June 30 | \$ 369,357 | \$ 1,615,464 | \$ 35,078 | \$ 911,573 | \$ 518,779 | \$ 378,298 | \$ 3,828,549 |

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, 2011

(amounts expressed in thousands)

| | (A) | (B) | (C) | (D) | Statement Of Activities |
|---|------------|--------------|------------|-------------|-------------------------------|
| | Internal | Capital | Long | Other | |
| | Service | Related | Term | Measurement | |
| | Fund | Items | Debt | Focus | Total |
| | Fund | Transactions | | | |
| REVENUES | | | | | |
| License/permits (Charges for Services) | \$ 287,580 | \$ - | \$ - | \$ (782) | \$ 286,798 |
| Taxes: | | | | | |
| Natural resources | 305,528 | - | - | (57) | 305,471 |
| Individual income | 798,590 | - | - | 11,518 | 810,108 |
| Corporate income | 120,242 | - | - | 1,559 | 121,801 |
| Property | 241,961 | - | - | - | 241,961 |
| Fuel | 209,348 | - | - | - | 209,348 |
| Other (Note 1) | 311,053 | - | - | (2,350) | 308,703 |
| Charges for services/fines/forfeits/settlements | 191,142 | - | - | 720 | 191,862 |
| Investment earnings (Unrestricted Investments) | 143,198 | 893 | - | 11,328 | 155,419 |
| Securities lending income (Unrestricted investment) | 2,632 | - | - | (2,632) | - |
| Sale of documents/merchandise/property | 17,208 | - | - | (654) | 16,554 |
| Rentals/leases/royalties (Charges for Services) | 70,322 | - | - | - | 70,322 |
| Contributions/premiums (Charges for Services) | 20,685 | - | - | 10 | 20,695 |
| Insurance proceeds | 4,326 | - | - | (88) | 4,238 |
| Gain (loss) on sale of capital assets | - | - | 3,209 | - | 3,209 |
| Operating grants and donations | 23,439 | - | - | 198 | 23,637 |
| Federal (Operating Grants) | 2,338,090 | - | - | (500,003) | 1,838,087 |
| Federal indirect cost recoveries | 101,152 | - | - | - | 101,152 |
| Capital grants and contributions | - | - | - | 537,194 | 537,194 |
| Other revenues | 2,437 | 254 | - | 228 | 2,919 |
| Total revenues | 5,188,933 | 1,147 | 3,209 | 56,189 | 5,249,478 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| Current | 4,500,746 | (16,156) | 39,614 | 222,277 | 4,746,481 |
| Debt service | | | | | |
| Principal | 33,974 | - | - | (33,974) | - |
| Interest/fiscal charges | 16,362 | 203 | - | (251) | 16,314 |
| Capital outlay | 565,943 | - | (565,943) | - | - |
| Securities lending | 600 | 16 | - | (616) | - |
| Total expenditures | 5,117,625 | (15,937) | (526,329) | (34,225) | 4,762,795 |
| Excess of revenue over (under) expenditures | 71,308 | 17,084 | 529,538 | 34,225 | 486,683 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Inception of lease/installment contract | 36 | - | - | (36) | - |
| General capital asset sale proceeds | 4,130 | - | - | (4,130) | - |
| Refunding bonds issued | 10,180 | - | - | (10,180) | - |
| Payment to refunding bond escrow agent | (11,062) | - | - | 11,062 | - |
| Bond premium | 767 | - | - | (767) | - |
| Bond proceeds | 31,000 | - | - | (31,000) | - |
| Transfers (Note 12) | 34,432 | 5,628 | - | 486 | 40,547 |
| Total other financing sources (uses) | 69,483 | 5,628 | - | (35,050) | 40,547 |
| Net change in fund balance | \$ 140,791 | \$ 22,713 | \$ 529,538 | \$ (825) | \$ (164,986) |
| | | | | | \$ 527,230 |

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

- (A) Internal service funds (ISF): Management uses the 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) Capital related items: The following adjustments relate to capital assets:
- Capital assets, received as donations, are not reported on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds because they are not current financial resources. However, such donations increase net 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) Long term debt: 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 are not reported on the government – wide Statement of Activities.
 - Amortization of issuance cost, debt premium/discount, gains/loss on refunding debts are not reported on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances- - Governmental Funds, but are reported on the government – wide 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.
 - Expenditures that primarily benefit present period are classified as current expenditures. In governmental funds, capital outlays are included as part of the current expenditures for each functional activity within that fund.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
 JUNE 30, 2011
 (amounts expressed in thousands)

| | BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS | | | | GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS |
|--|---|----------------------------------|-----------|------------|--|
| | UNEMPLOYMENT INSURANCE | ECONOMIC DEVELOPMENT BONDS | NONMAJOR | TOTAL | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash/cash equivalents (Note 3) | \$ 94,759 | \$ 22,408 | \$ 88,721 | \$ 205,888 | 100,255 |
| Receivables (net) (Note 4) | 9,897 | 7,781 | 24,215 | 41,893 | 1,124 |
| Interfund loans receivable (Note 12) | - | - | 3 | 3 | 355 |
| Due from other governments | 2,565 | - | 527 | 3,092 | 2 |
| Due from other funds (Note 12) | - | 2,899 | 3 | 2,902 | 216 |
| Due from component units | - | 1,764 | - | 1,764 | 3 |
| Inventories | - | - | 3,360 | 3,360 | 3,915 |
| Short-term investments (Note 3) | - | 983 | - | 983 | - |
| Securities lending collateral (Note 3) | - | 5 | 987 | 992 | 5,448 |
| Other current assets | - | - | 87 | 87 | 849 |
| Total current assets | 107,221 | 35,840 | 117,903 | 260,964 | 112,167 |
| Noncurrent assets: | | | | | |
| Advances to other funds (Note 12) | - | 17,980 | 75 | 18,055 | - |
| Advances to component units | - | 9,949 | - | 9,949 | - |
| Long-term investments (Note 3) | - | 1,301 | 1,285 | 2,586 | 39,253 |
| Long-term notes/loans receivable | - | 36,321 | 273 | 36,594 | - |
| Deferred charges | - | 1,394 | - | 1,394 | - |
| Other long-term assets | - | - | 1,981 | 1,981 | - |
| 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 | 8,366 | 8,370 | 224,868 |
| Infrastructure | - | - | 951 | 951 | - |
| Construction in progress | - | - | 2,703 | 2,703 | 7,244 |
| Intangible assets | - | - | 51 | 51 | 1,067 |
| Other Depreciable Assets | - | - | 3,206 | 3,206 | - |
| Less accumulated depreciation | - | (4) | (11,398) | (11,402) | (144,221) |
| Total capital assets | - | - | 15,963 | 15,963 | 93,993 |
| Total noncurrent assets | - | 66,945 | 19,577 | 86,522 | 133,246 |
| Total assets | 107,221 | 102,785 | 137,480 | 347,486 | 245,413 |

STATEMENT OF NET ASSETS**PROPRIETARY FUNDS**

JUNE 30, 2011

(amounts expressed in thousands)

| | BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS | | | | GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS |
|---|--|---|-----------------|--------------|---|
| | UNEMPLOYMENT INSURANCE | ECONOMIC DEVELOPMENT BONDS | NONMAJOR | TOTAL | |
| LIABILITIES | | | | | |
| Current liabilities: | | | | | |
| Accounts payable (Note 4) | \$ 6,404 | \$ 172 | \$ 11,194 | \$ 17,770 | 10,010 |
| Lottery prizes payable | - | - | 1,731 | 1,731 | - |
| Interfund loans payable (Note 12) | 12 | - | 25 | 37 | 1,462 |
| Due to other governments | - | - | 21 | 21 | - |
| Due to other funds (Note 12) | - | - | 12,205 | 12,205 | 1,858 |
| Deferred revenue | 6 | - | 5,197 | 5,203 | 1,378 |
| Lease/installment purchase payable (Note 10) | - | - | 80 | 80 | 138 |
| Short-term debt (Note 11) | - | 95,530 | - | 95,530 | - |
| Bonds/notes payable - net (Note 11) | - | 60 | - | 60 | - |
| Amounts held in custody for others | - | - | 20 | 20 | 1 |
| Securities lending liability (Note 3) | - | 5 | 987 | 992 | 5,448 |
| Estimated insurance claims (Note 8) | - | - | 9,769 | 9,769 | 16,151 |
| Compensated absences payable (Note 11) | - | 21 | 822 | 843 | 3,302 |
| Arbitrage rebate tax payable (Note 11) | - | 11 | - | 11 | - |
| Total current liabilities | 6,422 | 95,799 | 42,051 | 144,272 | 39,748 |
| Noncurrent liabilities: | | | | | |
| Lottery prizes payable | - | - | 1,526 | 1,526 | - |
| Advances from other funds (Note 12) | - | - | - | - | 3,156 |
| Lease/installment purchase payable (Note 10) | - | - | 302 | 302 | 405 |
| Bonds/notes payable - net (Note 11) | - | 135 | - | 135 | - |
| Estimated insurance claims (Note 8) | - | - | 11,130 | 11,130 | 16,211 |
| Compensated absences payable (Note 11) | - | 4 | 706 | 710 | 2,823 |
| OPEB implicit rate subsidy (Note 7) | - | 49 | 2,697 | 2,746 | 8,714 |
| Total noncurrent liabilities | - | 188 | 16,361 | 16,549 | 31,309 |
| Total liabilities | 6,422 | 95,987 | 58,412 | 160,821 | 71,057 |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt | - | - | 15,581 | 15,581 | 93,450 |
| Restricted for: | | | | | |
| Unemployment Compensation | 100,799 | - | - | 100,799 | - |
| Other Purposes | - | 2,974 | 54,962 | 57,936 | - |
| Unrestricted | - | 3,824 | 8,525 | 12,349 | 80,906 |
| Total net assets | \$ 100,799 | \$ 6,798 | \$ 79,068 | \$ 186,665 | 174,356 |

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, 2011

(amounts expressed in thousands)

| | UNEMPLOYMENT INSURANCE | ECONOMIC DEVELOPMENT BONDS | NONMAJOR | TOTAL | GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS |
|--|---------------------------|----------------------------------|------------|------------|--|
| Operating revenues: | | | | | |
| Charges for services | \$ - | \$ 18 | \$ 133,578 | \$ 133,596 | 131,043 |
| Investment earnings | 4,392 | 91 | 215 | 4,698 | 831 |
| Securities lending income | - | - | 35 | 35 | 63 |
| Financing income | - | 1,550 | - | 1,550 | - |
| Contributions/premiums | 137,439 | - | 91,488 | 228,927 | 141,398 |
| Grants/contracts/donations | 124,791 | - | 41,790 | 166,581 | 2,992 |
| Other operating revenues | - | - | 915 | 915 | 2,462 |
| Total operating revenues | 266,622 | 1,659 | 268,021 | 536,302 | 278,789 |
| Operating expenses: | | | | | |
| Personal services | - | 168 | 13,404 | 13,572 | 49,261 |
| Contractual services | - | 30 | 15,653 | 15,683 | 21,573 |
| Supplies/materials | - | 5 | 64,761 | 64,766 | 26,483 |
| Benefits/claims | 277,547 | 9 | 117,952 | 395,508 | 117,394 |
| Depreciation | - | - | 884 | 884 | 11,493 |
| Amortization | - | - | 34 | 34 | 432 |
| Utilities/rent | - | 44 | 1,021 | 1,065 | 14,551 |
| Communications | - | 9 | 1,302 | 1,311 | 11,798 |
| Travel | - | 1 | 212 | 213 | 253 |
| Repairs/maintenance | - | - | 962 | 962 | 10,430 |
| Lottery prize payments | - | - | 24,778 | 24,778 | - |
| Securities lending expense | - | - | 7 | 7 | 16 |
| Arbitrage rebate tax | - | (1) | - | (1) | - |
| Dividend expense | - | - | 750 | 750 | - |
| Interest expense | - | 837 | 23 | 860 | 193 |
| Other operating expenses | 539 | 24 | 2,564 | 3,127 | 4,618 |
| Total operating expenses | 278,086 | 1,126 | 244,307 | 523,519 | 268,495 |
| Operating income (loss) | (11,464) | 533 | 23,714 | 12,783 | 10,294 |
| Nonoperating revenues (expenses): | | | | | |
| Tax revenues | - | - | 21,797 | 21,797 | - |
| Insurance proceeds | - | - | - | - | 254 |
| Gain (loss) on sale of capital assets | - | - | (9) | (9) | 86 |
| Federal indirect cost recoveries | - | - | - | - | 6,449 |
| Total nonoperating revenues (expenses) | - | - | 21,788 | 21,788 | 6,789 |
| Income (loss) before contributions and transfers | (11,464) | 533 | 45,502 | 34,571 | 17,083 |
| Capital contributions | - | - | 317 | 317 | 2,410 |
| Transfers in (Note 12) | - | - | 54 | 54 | 5,466 |
| Transfers out (Note 12) | (1,584) | - | (39,053) | (40,637) | (2,248) |
| Change in net assets | (13,048) | 533 | 6,820 | (5,695) | 22,711 |
| Total net assets - July 1 - as previously reported | 116,530 | 6,265 | 71,925 | 194,720 | 149,087 |
| Prior period adjustments (Note 2) | (2,683) | - | 323 | (2,360) | 2,558 |
| Total net assets - July 1 - as restated | 113,847 | 6,265 | 72,248 | 192,360 | 151,645 |
| Total net assets - June 30 | \$ 100,799 | \$ 6,798 | \$ 79,068 | \$ 186,665 | \$ 174,356 |

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

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011
 (amounts expressed in thousands)

| | BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS | | | | GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS |
|---|--|-------------------------|------------|------------|---|
| | UNEMPLOYMENT INSURANCE | ECONOMIC DEVELOPMENT | | TOTAL | |
| | | BONDS | NONMAJOR | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Receipts from sales and services | \$ 134,926 | \$ 18 | \$ 225,145 | \$ 360,089 | \$ 274,900 |
| Payments to suppliers for goods and services | (539) | (113) | (121,835) | (122,487) | (94,497) |
| Payments to employees | - | (167) | (13,413) | (13,580) | (51,897) |
| Grant receipts | 123,576 | - | 41,793 | 165,369 | 2,992 |
| Cash payments for claims | (276,067) | - | (80,443) | (356,510) | (109,738) |
| Cash payments for prizes | - | - | (25,314) | (25,314) | - |
| Other operating revenues | 1 | - | 895 | 896 | 9,267 |
| Other operating payments | - | - | (1,108) | (1,108) | - |
| Net cash provided by (used for) operating activities | (18,103) | (262) | 25,720 | 7,355 | 31,027 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | |
| Collection of taxes | - | - | 21,762 | 21,762 | - |
| Transfers to other funds | (1,584) | - | (42,970) | (44,554) | (2,248) |
| Transfers from other funds | - | - | 335 | 335 | 5,467 |
| Proceeds from interfund loans/advances | - | - | 47 | 47 | 1,473 |
| Payments of interfund loans/advances | 12 | - | (45) | (33) | (4,540) |
| Payment of principal and interest on bonds and notes | - | (1,472) | (94) | (1,566) | (697) |
| Payment of bond issuance costs | - | 1 | - | 1 | - |
| Net cash provided by (used for) noncapital financing activities | (1,572) | (1,471) | (20,965) | (24,008) | (545) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Proceeds from insurance | - | - | - | - | 254 |
| Acquisition of capital assets | - | - | (232) | (232) | (7,554) |
| Proceeds from sale of capital assets | - | - | 36 | 36 | - |
| Net cash used for capital and related financing activities | - | - | (196) | (196) | (7,300) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Purchase of investments | - | (1,505) | 615 | (890) | (4,424) |
| Proceeds from sales or maturities of investments | - | 2,757 | 2,207 | 4,964 | - |
| Proceeds from securities lending transactions | - | - | 35 | 35 | 63 |
| Interest and dividends on investments | 4,392 | 125 | 366 | 4,883 | 829 |
| Payment of securities lending costs | - | - | (7) | (7) | (16) |
| Collections of principal and interest on loans | - | 24,162 | - | 24,162 | - |
| Cash payment for loans | - | (18,239) | - | (18,239) | - |
| Net cash provided by (used for) investing activities | 4,392 | 7,300 | 3,216 | 14,908 | (3,548) |
| Net increase (decrease) in cash and cash equivalents | (15,283) | 5,567 | 7,775 | (1,941) | 19,634 |
| Cash and cash equivalents, July 1 | 110,042 | 16,841 | 80,946 | 207,829 | 80,621 |
| Cash and cash equivalents, June 30 | \$ 94,759 | \$ 22,408 | \$ 88,721 | \$ 205,888 | \$ 100,255 |

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 | | TOTAL | |
| | | DEVELOPMENT BONDS | NONMAJOR | | |
| Reconciliation of operating income to net cash provided by operating activities: | | | | | |
| Operating income (loss) | \$ (11,464) | \$ 533 | \$ 23,714 | \$ 12,783 | \$ 10,294 |
| Adjustments to reconcile operating income to net cash provided by (used for) operating activities: | | | | | |
| Depreciation | - | - | 884 | 884 | 11,494 |
| Amortization | - | - | 34 | 34 | 432 |
| Interest expense | - | 837 | 23 | 860 | 193 |
| Securities lending expense | - | - | 7 | 7 | 16 |
| Investment Earnings | (4,393) | (91) | (368) | (4,852) | (829) |
| Securities lending income | - | - | (35) | (35) | (63) |
| Financing income | - | (1,550) | - | (1,550) | - |
| Federal indirect cost recoveries | - | - | - | - | 6,449 |
| Arbitrage rebate tax | - | (1) | - | (1) | - |
| Change in assets and liabilities: | | | | | |
| Decr (incr) in accounts receivable | (2,962) | - | 1,346 | (1,616) | 1,737 |
| Decr (incr) in due from other funds | 1,344 | - | 1 | 1,345 | 1,654 |
| Decr (incr) in due from component units | (2,545) | - | 33 | (2,512) | (3) |
| Decr (incr) in due from other governments | - | - | 426 | 426 | 4 |
| Decr (incr) in inventories | - | - | 17 | 17 | (1,428) |
| Decr (incr) in other assets | - | - | 507 | 507 | 1,711 |
| Incr (decr) in accounts payable | 1,916 | 3 | (1,223) | 696 | (5,527) |
| Incr (decr) in lottery prizes payable | - | - | (536) | (536) | - |
| Incr (decr) in due to other funds | - | - | (377) | (377) | (47) |
| Incr (decr) in due to other governments | - | - | (25) | (25) | - |
| Incr (decr) in deferred revenue | 1 | - | (1,372) | (1,371) | 100 |
| Incr (decr) in amounts held in custody for others | - | - | - | - | 2 |
| Incr (decr) in compensated absences payable | - | (1) | (40) | (41) | 10 |
| Incr (decr) in OPEB implicit rate subsidy | - | 8 | 655 | 663 | 2,150 |
| Incr (decr) in estimated claims | - | - | 2,049 | 2,049 | 2,678 |
| Net cash provided by (used for) operating activities | \$ (18,103) | \$ (262) | \$ 25,720 | \$ 7,355 | \$ 31,027 |
| Schedule of noncash transactions: | | | | | |
| Capital asset acquisitions from contributed capital | - | - | 36 | 36 | 2,410 |
| Capital contributions from other funds | - | - | 281 | 281 | - |
| Incr (decr) in fair value of investments | - | 16 | - | 16 | - |
| Total noncash transactions | \$ - | \$ 16 | \$ 317 | \$ 333 | \$ 2,410 |

STATEMENT OF FIDUCIARY NET ASSETS**FIDUCIARY FUNDS**

JUNE 30, 2011

(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) | \$ 135,574 | \$ 156,155 | \$ 408,172 | \$ 11,666 |
| Receivables (net): | | | | |
| Accounts receivable | 23,883 | - | - | 457 |
| Interest | 11,821 | 5 | 97 | - |
| Due from primary government | 22,959 | - | - | - |
| Due from other PERB plans | 667 | - | - | - |
| Long-term loans/notes receivable | 12 | - | - | - |
| Total receivables | <u>59,342</u> | <u>5</u> | <u>97</u> | <u>457</u> |
| Investments at fair value: | | | | |
| Equity in pooled investments (Note 3) | 7,681,835 | - | - | - |
| Other investments (Note 3) | 439,292 | 96,146 | 7,050 | 5 |
| Total investments | <u>8,121,127</u> | <u>96,146</u> | <u>7,050</u> | <u>5</u> |
| Securities lending collateral (Note 3) | 387,980 | 306 | 5,525 | 4 |
| Capital Assets: | | | | |
| Land | 35 | - | - | - |
| Buildings/improvements | 158 | - | - | - |
| Equipment | 148 | - | - | - |
| Accumulated depreciation | (226) | - | - | - |
| Intangible assets | 143 | - | - | - |
| Total capital assets | <u>258</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Other assets | 6 | 29,136 | - | 13,376 |
| Total assets | <u>8,704,287</u> | <u>281,748</u> | <u>420,844</u> | <u>25,508</u> |
| LIABILITIES | | | | |
| Accounts payable | 1,267 | 9 | 97 | 323 |
| Due to other PERB plans | 666 | - | - | - |
| Deferred revenue | 3,708 | - | - | - |
| Amounts held in custody for others | 5 | 1,184 | - | 25,181 |
| Securities lending liability (Note 3) | 387,980 | 306 | 5,525 | 4 |
| Compensated absences payable | 450 | - | - | - |
| OPEB implicit rate subsidy | 562 | - | - | - |
| Total liabilities | <u>394,638</u> | <u>1,499</u> | <u>5,622</u> | <u>25,508</u> |
| NET ASSETS | | | | |
| Held in trust for pension benefits | | | | |
| and other purposes | <u>\$ 8,309,649</u> | <u>\$ 280,249</u> | <u>\$ 415,222</u> | <u>\$ -</u> |

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, 2011
 (amounts expressed in thousands)

| | PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS | PRIVATE- PURPOSE TRUST FUNDS | INVESTMENT TRUSTS |
|--|---|---|------------------------------|
| ADDITIONS | | | |
| Contributions/premiums: | | | |
| Employer | \$ 184,427 | \$ - | - |
| Employee | 185,035 | - | - |
| Other contributions | 43,040 | 28,921 | 807,664 |
| Net investment earnings: | | | |
| Investment earnings | 1,510,571 | 14,055 | 919 |
| Administrative investment expense | (42,943) | - | (110) |
| Securities lending income | 3,187 | 11 | 173 |
| Securities lending expense | (885) | (2) | (37) |
| Charges for services | 690 | - | - |
| Other additions | 431 | 6,829 | - |
| Total additions | 1,883,553 | 49,814 | 808,609 |
| DEDUCTIONS | | | |
| Benefits | 543,648 | - | - |
| Refunds | 19,111 | - | - |
| Distributions | - | 57,651 | 751,928 |
| Administrative expenses: | | | |
| Personal services | 3,383 | - | - |
| Contractual services | 3,109 | 1,677 | - |
| Supplies/materials | 201 | - | - |
| Depreciation | 21 | - | - |
| Amortization | 193 | - | - |
| Utilities/rent | 317 | - | - |
| Communications | 205 | - | - |
| Travel | 71 | - | - |
| Repair/maintenance | 18 | - | - |
| Grants | - | 1 | - |
| Other operating expenses | 224 | - | - |
| Local assistance | 15 | - | - |
| Transfers to ORP | 140 | - | - |
| Transfers to PERS-DCRP | 609 | - | - |
| Total deductions | 571,265 | 59,329 | 751,928 |
| Change in net assets | 1,312,288 | (9,515) | 56,681 |
| Net assets - July 1 - as previously reported | 6,997,316 | 289,764 | 358,591 |
| Prior period adjustments (Note 2) | 45 | - | (50) |
| Net assets - July 1 - as restated | 6,997,361 | 289,764 | 358,541 |
| Net assets - June 30 | \$ 8,309,649 | \$ 280,249 | \$ 415,222 |

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

**COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS**

JUNE 30, 2011

(amounts expressed in thousands)

| | HOUSING AUTHORITY | FACILITY FINANCE AUTHORITY | MONTANA STATE FUND (NEW FUND) | MONTANA STATE FUND (OLD FUND) |
|--|----------------------|----------------------------------|--|--|
| ASSETS | | | | |
| Cash/cash equivalents (Note 3) | \$ 145,370 | \$ 2,985 | \$ 19,715 | \$ 17 |
| Receivables (net) | 20,112 | 271 | 58,105 | 16 |
| Due from primary government | - | - | - | - |
| Due from other governments | 103 | - | - | - |
| Due from component units | - | - | - | - |
| Estimated future claims contributions from primary government | - | - | - | 64,621 |
| Inventories | - | - | - | - |
| Long-term loans/notes receivable | 636,551 | 904 | - | - |
| Equity in pooled investments (Note 3) | - | - | - | - |
| Investments (Note 3) | 136,723 | 50 | 1,203,149 | - |
| Securities lending collateral (Note 3) | 5 | 39 | 89,190 | - |
| Deferred charges | 5,570 | - | - | - |
| Other assets | 226 | - | 49,059 | - |
| Capital assets (net) (Note 5) | 3 | - | 34,720 | - |
| Total assets | 944,663 | 4,249 | 1,453,938 | 64,654 |
| LIABILITIES | | | | |
| Accounts payable | 4,155 | 11 | 15,282 | 109 |
| Due to primary government | - | - | - | - |
| Due to component units | - | - | - | - |
| Due to other governments | - | - | - | - |
| Advances from primary government | - | - | - | - |
| Deferred revenue | - | - | 37,369 | - |
| Amounts held in custody for others | - | - | 2,775 | - |
| Securities lending liability (Note 3) | 5 | 39 | 89,190 | - |
| Other liabilities | - | - | - | - |
| Long-term liabilities (Note 11): | | | | |
| Due within one year | 137,302 | 12 | 110,516 | 9,888 |
| Due in more than one year | 646,430 | 20 | 824,873 | 54,733 |
| OPEB implicit rate subsidy (Note 7) | 245 | 20 | 3,405 | - |
| Total liabilities | 788,137 | 102 | 1,083,410 | 64,730 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 3 | - | 34,720 | - |
| Restricted for: | | | | |
| Funds held as permanent investments: | | | | |
| Nonexpendable | - | - | - | - |
| Housing authority | 156,523 | - | - | - |
| Other purposes | - | - | - | - |
| Unrestricted | - | 4,147 | 335,808 | (76) |
| Total net assets | \$ 156,526 | \$ 4,147 | \$ 370,528 | (76) |

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

| | MONTANA STATE UNIVERSITY | UNIVERSITY OF MONTANA | TOTAL |
|----|---|--------------------------------------|--------------|
| \$ | 166,375 | \$ 81,495 | \$ 415,957 |
| | 13,130 | 17,822 | 109,456 |
| | 998 | 943 | 1,941 |
| | 14,119 | 8,606 | 22,828 |
| | 51 | 297 | 348 |
| | - | - | 64,621 |
| | 3,423 | 1,930 | 5,353 |
| | 29,522 | 9,808 | 676,785 |
| | 15,555 | 16,947 | 32,502 |
| | 164,620 | 206,976 | 1,711,518 |
| | 2,311 | 1,619 | 93,164 |
| | - | 1,618 | 7,188 |
| | 7,252 | 5,457 | 61,994 |
| | 369,434 | 359,191 | 763,348 |
| | 786,790 | 712,709 | 3,967,003 |
| | 33,312 | 24,496 | 77,365 |
| | 1,715 | 1,052 | 2,767 |
| | 297 | 51 | 348 |
| | - | 15 | 15 |
| | 17,103 | 9,941 | 27,044 |
| | 9,311 | 14,873 | 61,553 |
| | 5,983 | 1,886 | 10,644 |
| | 2,311 | 1,619 | 93,164 |
| | 5,770 | 4,483 | 10,253 |
| | 18,991 | 15,981 | 292,690 |
| | 144,903 | 142,802 | 1,813,761 |
| | 40,127 | 33,257 | 77,054 |
| | 279,823 | 250,456 | 2,466,658 |
| | 246,121 | 226,563 | 507,407 |
| | 109,663 | 141,638 | 251,301 |
| | - | - | 156,523 |
| | 70,208 | 63,571 | 133,779 |
| | 80,975 | 30,481 | 451,335 |
| \$ | \$ 506,967 | \$ 462,253 | \$ 1,500,345 |

COMBINING STATEMENT OF ACTIVITIES**COMPONENT UNITS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

(amounts expressed in thousands)

| | HOUSING AUTHORITY | FACILITY FINANCE AUTHORITY | MONTANA STATE FUND (NEW FUND) | MONTANA STATE FUND (OLD FUND) |
|--|----------------------|----------------------------------|--|--|
| EXPENSES | \$ 50,061 | \$ 348 | \$ 202,265 | \$ 16,658 |
| PROGRAM REVENUES: | | | | - |
| Charges for services | 437 | 680 | 173,605 | - |
| Operating grants and contributions | 48,947 | - | - | - |
| Capital grants and contributions | - | - | - | - |
| Total program revenues | 49,384 | 680 | 173,605 | - |
| Net (expenses) program revenues | (677) | 332 | (28,660) | (16,658) |
| GENERAL REVENUES: | | | | |
| Unrestricted grants and contributions | - | - | - | - |
| Unrestricted investment earnings | - | 65 | 82,238 | 75 |
| Payment from State of Montana | - | - | - | 64,671 |
| Gain (loss) on sale of capital assets | - | - | 14 | - |
| Miscellaneous | - | - | 59 | 3 |
| Contributions to term and permanent endowments | - | - | - | - |
| Total general revenues and contributions | - | 65 | 82,311 | 64,749 |
| Change in net assets | (677) | 397 | 53,651 | 48,091 |
| Total net assets - July 1 - as previously reported | 157,203 | 3,750 | 316,877 | (48,167) |
| Prior period adjustments (Note 2) | - | - | - | - |
| Total net assets - July 1 - as restated | 157,203 | 3,750 | 316,877 | (48,167) |
| Total net assets - June 30 | \$ 156,526 | \$ 4,147 | \$ 370,528 | (76) |

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

| | MONTANA STATE UNIVERSITY | UNIVERSITY OF MONTANA | TOTAL |
|----|--------------------------------|-----------------------------|-----------|
| \$ | 471,019 \$ | 405,165 \$ | 1,145,516 |
| | 198,135 | 182,128 | 554,985 |
| | 191,171 | 133,236 | 373,354 |
| | 10,258 | 15,010 | 25,268 |
| | 399,564 | 330,374 | 953,607 |
| | (71,455) | (74,791) | (191,909) |
| | 893 | - | 893 |
| | 3,744 | 34,656 | 120,778 |
| | 105,859 | 84,177 | 254,707 |
| | 130 | (2) | 142 |
| | - | - | 62 |
| | 2,664 | 5,481 | 8,145 |
| | 113,290 | 124,312 | 384,727 |
| | 41,835 | 49,521 | 192,818 |
| | 465,660 | 415,929 | 1,311,252 |
| | (528) | (3,197) | (3,725) |
| | 465,132 | 412,732 | 1,307,527 |
| \$ | 506,967 \$ | 462,253 \$ | 1,500,345 |

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 separate legal entity reported as a component unit of the State of Montana, the Montana State Fund (State Fund), issued a financial report for fiscal year 2011 that State management believes does not comply with GAAP, as required under State statute. The State Fund financial statements do not report the Old Fund activity for which they are primarily liable, as required under GAAP. The Montana Legislative Auditor's Office (LAD) issued an "unqualified" opinion on this report that does not include the Old Fund financial reporting. Management does not believe that this provides the complete reporting for the State Fund required under GAAP. It is our opinion, to adjust the State Fund financial statements included in this report, to comply with the LAD recommended presentation, would violate State law, compromise consistency in financial statement reporting and be misleading to the financial statement users.

We do agree that the State primary government is required to report the liability to the State Fund for the obligation to provide funding for the related claims payments to State Fund and have recorded this in the government wide financial statements along with the related receivable in the State Fund, Old Fund, component unit financial statements. The reporting of the liability relating to the primary government obligation to the State Fund was never at issue with LAD.

In summary, management does not agree with the LAD recommended State Fund reporting change, and related qualification, because:

1. The legal liability for the Old Fund claims has not been transferred from the State Fund to the State of Montana, primary government, and, as a result GAAP requires that the State Fund continue reporting the contractual obligation to the related claimants. Management confirmed that the legal liability remains with the State Fund in a legal opinion issued by the Department of Administration (DofA) Chief Legal Counsel and a letter of advice from the Attorney General. Management requested the State Fund and LAD provide a legal opinion supporting the change in reporting as included in the State Fund financial statements. Neither of these entities provided a legal opinion, although LAD provided a legal letter that was considered in the DofA attorney's legal opinion.
2. State Law, MCA 17-1-102(2) and (4) and 17-2-110(3) require the State's accounting system and financial reports be in compliance with GAAP. Because it is management's opinion this LAD recommended reporting presentation is not in compliance with GAAP, management cannot present the CAFR in this format.
3. The related recommended audit adjustment would have resulted in misleading component unit statements in the CAFR. The recommended change would have removed an activity the State Fund is legally liable for, from the related component unit financial statements, and only reported this in the State of Montana financial reports. This would have been misleading to the financial statement users because it informs them that the liability no longer belongs to the State Fund.
4. The State Fund's presentation is not consistent with that of previous years. After the formation of the State Fund additional money was provided to fund the Old Fund liability through payments (transfers) to the State Fund from the primary government. Transferring additional funds to the State Fund, to pay their liability is consistent with the past practice, that provided the previous funding, and should be reported in the same manner. The fact that a specific primary revenue source is no longer involved should not have an impact on the reporting of this activity in the State Fund financial statements.
5. In addition to the resources provided to the State Fund, for the Old Fund liability in 2011, the primary government funded a significant amount of component unit financial activity. This includes \$105.9 million of the Montana State University expenditures (22.5%), \$84.2 million of the University of Montana expenditures (20.1%), and \$1.6 million (100%) of the Volunteer Fire Fighters Compensation Act Fund. The State also funds a substantial portion of the local government K-12 education expenditures, a significant amount of the Community College funding, and many other activities throughout the State, both as part of the appropriation process and as direct revenue and cash distributions. The act of funding does not require management to report these activities, of separate legal entities, as liabilities of the State of Montana primary government.

Management confirmed with GASB staff that the legal liability absolutely determines the financial reporting, through their technical inquiry process. As a result we firmly believe our interpretation of their Standards is correct, as discussed above. LAD did not accept the GASB staff interpretation.

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 Fund (Old Fund) are one legally separate entity, thus a single component unit with separate accounting funds. State Fund is a nonprofit, independent public corporation governed by a board of directors appointed by the Governor. State Fund is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 855 Front Street, Helena, MT 59604.

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.

Old Fund covers worker compensation claims that were incurred before July 1, 1990. Administrative operations and budgets may be reviewed by the Governor and the Legislature, but they have no authority over budgets or costs. In any fiscal year that Old Fund claims are not adequately funded, any amount necessary to pay claims must be transferred from the general fund to Old Fund. For the fiscal year ended June 30, 2011, the general fund was required to transfer \$50,000 to the State Fund to support their activities to settle Old Fund claims.

Universities and Colleges – The State Board of Regents has responsibility for the following institutions: The University of Montana - Missoula and the units under it including Montana Tech of the University of Montana, The University of Montana - Western and 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 The American Recovery and Reinvestment Act (ARRA) funds in FY10 and FY11).

Fiduciary Fund Component Units

Teachers Retirement System (Pension Trust Fund) – This retirement plan is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump-sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers Retirement System are paid from investment earnings of the fund. The plan is funded from employer and employee contributions and investment earnings, and the State's General Fund. The board is a discretely presented component unit. The plan is audited annually by the State's Legislative Audit Division. 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 (457 Plan).

The Public Employees' Retirement System (PERS) includes the Public Employees' Defined Benefit Retirement Plan and the Public Employees' Defined Contribution Retirement Plan, and is funded by member and employer contributions, investment earnings and contributions from the state General Fund. The PERS also accounts for the administrative costs, paid from investment earnings, of the plan. These are allocated out to all plans. The Judges' Retirement System is funded by member and state employer contributions, and investment earnings. The Highway Patrol Officers' Retirement System is funded by member and state employer contributions, state contributions, and investment earnings. The Sheriffs' Retirement System is funded by member and employer contributions, and investment earnings. The Game Wardens' and Peace 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 General Fund contributions, and investment earnings. The Firefighters' Unified Retirement System is funded by employee and employer contributions, and investment earnings, as well as state General Fund contributions from a portion of insurance premium taxes collected by the State of Montana. The Volunteer Firefighters' Compensation Act is funded by the state contributions, from the State General Fund, 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. (1)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. (2)The Federal Special Revenue Fund accounts for activities funded from federal sources used in the operation of state government.

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

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

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

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

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 2011, 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.

G. Inventories

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

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

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

H. Restricted Net Assets

Certain investments of the Economic Development Bonds Enterprise Fund are classified as restricted net 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 and internally generated software is \$500,000. The capitalization limit for intangibles is \$100,000. 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. (See Note 10—Leases/Installment Purchases Payable and Note 11—State Debt.)

N. Capital Leases

A capital lease is generally defined by Governmental Accounting Standards Board (GASB) Statement 62, 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 another financing use. Issuance costs are reported as debt service expenditures whether or not they are withheld from the bond proceeds. In proprietary fund types and in governmental funds as presented in the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds, which approximates the effective interest method. Bonds payable are recorded net of any applicable premium or discount, while issuance costs are reported as deferred charges.

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, 2010 as revised, was 13,311 hours. For fiscal year 2011, 1,306 sick leave hours, 402 annual leave hours, and 6,518 excess annual leave hours were contributed to the sick leave pool, and 2,901 hours were withdrawn, leaving a balance of 19,629 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 Note 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 2012, 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 once 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 \$2,451,714.

R. Property Taxes

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

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

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

S. Other Taxes

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

| | General Fund | State Special Revenue Fund | Other Governmental Funds | Business Type | Total |
|--------------------------|---------------------|-----------------------------------|---------------------------------|----------------------|-------------------|
| Accommodations | \$ 13,578 | \$ 18,673 | \$ - | \$ 7 | \$ 32,258 |
| Agriculture sales | - | 6,703 | - | - | 6,703 |
| Cigarette/tobacco | 36,503 | 47,311 | 1,835 | - | 85,649 |
| Contractors | | | | | |
| Gross Receipts | 6,806 | - | - | - | 6,806 |
| Energy Tax | 8,016 | - | - | - | 8,016 |
| Fire protection | - | 3,596 | - | - | 3,596 |
| Insurance premium | 55,798 | 9,990 | - | - | 65,788 |
| Liquor tax | 5,005 | 1,943 | - | 21,790 | 28,738 |
| Livestock | - | 3,522 | - | - | 3,522 |
| Other taxes | 7,753 | 4,724 | - | - | 12,477 |
| Public | | | | | |
| Service Commission | - | 4,706 | - | - | 4,706 |
| Telephone license | 22,404 | - | - | - | 22,404 |
| Video gaming | 49,827 | 10 | - | - | 49,837 |
| Total other taxes | \$ 205,690 | \$ 101,178 | \$ 1,835 | \$ 21,797 | \$ 330,500 |

NOTE 2. OTHER ACCOUNTING ISSUES

A. New Accounting Guidance Implemented

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.

For the year ended June 30, 2011, the State of Montana implemented the provisions of GASB Statement No. 64 - "Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53". The objective of Statement No. 64 is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

For the year ended June 30, 2011, the State of Montana implemented the provisions of GASB Statement No. 59 - "Financial Instruments Omnibus". The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice.

For the year ended June 30, 2011, the State of Montana implemented the provisions of GASB Statement No. 57 - "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans". The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). In addition, this Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agency multiple-employer OPEB plan's financial reporting requirements.

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 related to Montana Department of Transportation infrastructure corrections. Other prior period adjustments were to asset management by the Department of Justice. Additional adjustments were permanent funds whose constraints were internally imposed and were reclassified as state special revenue funds for reporting purposes as shown below (amounts in thousands).

| Fund | 2010 Permanent | | | Total prior-period adjustment | 2011 |
|-------------------------|----------------|------------|-----------|-------------------------------|---------------------------------|
| | Nonspendable | Restricted | Committed | | State Special Revenue Committed |
| Real Property Trust | \$ 548 | \$ 5,155 | \$ - | \$ 5,703 | \$ 5,913 |
| Coal Tax – FWP Trust | 2,173 | 18,937 | - | 21,110 | 22,240 |
| Real Prop– Wild Habitat | 1,014 | 8,420 | - | 9,434 | 10,176 |
| Older ontananMTrust | - | - | 9,480 | 9,480 | 10,116 |
| Cultural Trust | 11,627 | - | - | 11,627 | 12,162 |
| Endowment for Children | - | - | 1,225 | 1,225 | 1,301 |
| Noxious Weed Income | - | 633 | - | 633 | 744 |
| Totals | \$ 15,362 | \$ 33,145 | \$ 10,705 | \$ 59,212 | \$ 62,652 |

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

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

| | |
|------------------------------|--------------|
| Cash/cash equivalents | \$ 2,805,290 |
| Equity in pooled investments | \$ 9,575,597 |
| Investments | \$ 2,619,668 |

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 (STIP), 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 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, 2011.

(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 may invest 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.

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

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

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

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

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

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

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

During fiscal year 2011, the Bank lent BOI public securities and received as collateral: U.S. dollar cash; U.S. Government and government sponsored agency securities; U.S. corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the G10 nations; and debt securities issued by certain supranational agencies. The Bank does not have the ability to sell collateral securities unless the borrower defaults.

BOI imposed no restrictions on the amount of securities available to lend during fiscal year 2011. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of Default of the Borrower. There were no losses during fiscal year 2011 resulting from a borrower default.

During fiscal year 2011, BOI and the borrowers maintained the right to terminate all securities lending transactions on notice. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment fund comprised of a liquidity pool and a duration pool. As of June 30, 2011, the Quality D Short Term Investment Fund liquidity pool had an average duration of 36 days and an average weighted final maturity of 62 days for U.S. dollar collateral. The duration pool had an average duration of 32 days and an average weighted final maturity of 484 days for U.S. dollar collateral. As of June 30, 2011, the Securities Lending Quality Trust liquidity pool had an average duration of 34 days and an average weighted final maturity of 105 days for U.S. dollar collateral. The duration pool had an average duration of 32 days and an average weighted final maturity of 952 days for U.S. dollar collateral. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. At year-end 2011, BOI had no credit risk exposure to borrowers. The private equity and real estate Pools do not participate in securities lending.

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 | \$165,748 |
| Uninsured and uncollateralized cash | 1,104 |
| Undeposited cash | 381 |
| Cash in U.S. Treasury | 94,752 |
| Cash in MSU component units | 7,373 |
| Cash in UM component units | 7,627 |
| Less: outstanding warrants | (70,129) |
| Total cash deposits | <u>\$206,856</u> |

As of June 30, 2011, the carrying amount of deposits for component units was \$17,310,786, as included in Table 1.

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

Table 2 - Cash Equivalents
(in thousands)

| | Fair Value | Credit Quality Rating | WAM in Days |
|---|-----------------------|--------------------------------------|----------------------------|
| Asset Backed commercial paper | \$ 326,176 | A1 | 18 |
| Corporate commercial paper | 289,335 | A1 | 58 |
| Corporate - fixed | 7,174 | A1 | 15 |
| Corporate - variable | 522,126 | A2 | 34 |
| Certificate of deposit – fixed | 28,012 | A3 | 235 |
| Certificate of deposit – variable | 359,994 | A2 | 36 |
| Other asset backed | 24,592 | BBB | NA |
| US government agency fixed | 100,013 | A1+ | 155 |
| US government agency variable | 474,852 | A1+ | 20 |
| Money market fund unrated | 378,392 | NR | 1 |
| Money market fund rated | 111,000 | A1+ | 1 |
| Repurchase agreement (1) | 15,078 | NR | NA |
| Structured investment vehicles (SIV) | 21,726 | NR | NA |
| Less: STIP included in pooled investment balance | (60,036) | NR | NA |
| Total cash equivalents | <u>\$2,598,434</u> | | <u>35</u> |
| Securities lending collateral investment pool (2) | <u>\$ 32,271</u> | NR | <u>*</u> |

(1) As of June 30, 2011, the repurchase agreement was collateralized at 102% for \$15,379,417 by two Federal Loan Mortgage Corporation Gold securities maturing July 1, 2024 and December 1, 2029. These securities carry a AAA credit quality rating.

(2) As of June 30, 2011, the fair value of the cash equivalents was \$180,426,019. Collateral provided for the cash equivalents totaled \$184,182,574, consisting of \$32,271,105 in cash and \$151,911,469 in securities. See also the Table 4 disclosed in Note 3 D – Investments.

* As of June 30, 2011, the Securities Lending Quality Trust liquidity pool has an average duration of 34 days and an average weighted final maturity of 105 days for US dollar collateral. The duration pool had an average duration of 32 days and an average weighted final maturity of 952 days for US dollar collateral.

As of June 30, 2011, local governments invested \$415,221,685 in STIP. As of June 30, 2011, component units of the State of Montana had investments in cash equivalents with a book value and fair value of \$534,220,434.

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. This is the risk that the issuer of a fixed income security may default with regard to the timely payment of interest and principal.

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

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

The 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.

STIP investments are categorized above to disclose credit risk as of fiscal year end. Credit risk reflects the weighted security quality rating, by investment type, as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated. With the exception of one long-term rating for the Other Asset Backed investment type, short-term rating by the S&P rating services, are presented in Table 2. An A+ rating is the highest short-term rating by the S&P rating service.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, BOI may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2011, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for the Montana Board of Investments and held in the possession of BOI’s custodial bank, State Street Bank. The Equity Index funds, US Bank repurchase agreement, real estate, mortgage and loan investments were purchased and recorded in BOI’s name. Commingled fund investments are registered in the name of the Montana Board of Investments. BOI does not have a policy addressing custodial risk for investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. Investments explicitly guaranteed by the US government are excluded from the concentration of credit risk requirement. In October 2008, the US government extended the explicit guarantee to certain government agencies such as Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (FHLMC – Freddie Mac). Given the explicit guarantee extension, BOI had no concentration of credit risk exposure to Fannie Mae and Freddie Mac in STIP. Although the STIP Investment Policy does not specify concentration of credit risk exposure, the policy does provide for portfolio limitations by investment type.

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. According to the STIP investment policy “the STIP portfolio will minimize interest rate risk by:

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

Legal and Credit Risk

In January 2007, BOI purchased a \$25 million par issue of Orion Finance USA. In April 2007, BOI purchased two issues of Axon Financial Funding totaling \$90 million par and another \$25 million par issue of Orion Finance USA. As of June 30, 2007, these Structured Investment Vehicle (SIV) securities held in the STIP portfolio carried a combined amortized cost of \$139,991,131 representing 5.02% of the total portfolio. At the time of purchase and as of June 30, 2007, these four issues received the highest investment grade rating of AAA by Standard & Poor's and Aaa by Moody's. Since June 30, 2008 and through June 30, 2010, these issues carried a D rating by Standard & Poor's. On November 20, 2007, an insolvency event was declared by Axon Financial Funding. Orion Finance USA declared an insolvency event on January 14, 2008. On the January and April 2008 maturity dates, these securities matured at their amortized cost of \$140 million. BOI has determined that it is currently in the best interest of the STIP to continue to hold these securities in the investment portfolio. These securities are currently generating cash to be applied to the securities.

For fiscal years 2011 and 2010, BOI received Axon Financial Funding payments on principal of \$10,961,955 and interest compensation of \$481,261 in excess of the accrued interest receivable. Axon Financial Funding payments totaled \$27,451,615 since November 2008. On July 6, 2010, Axon Financial Funding foreclosed with the issuance of a promissory note for \$66,832,436 from AFF Financing LLC with a July 5, 2011 maturity date. Fiscal year 2011 payments from AFF Financing LLC totaled \$7,174,542 consisting of \$7,014,971 in principal and \$159,571 in interest. On June 28, 2011, BOI elected to extend the AFF Financing LLC promissory note maturity date to July 3, 2012. In June and December 2009, BOI applied \$13.5 million, in total, from the STIP reserve to the outstanding principal for the Axon Financial Funding securities. As of June 30, 2011, the AFF Financing LLC, classified as a SIV, has an outstanding amortized cost balance of \$46,317,465. Refer to Note 17 – Subsequent Events for additional information.

On October 14, 2009, BOI received its initial payment from Orion Finance USA. Fiscal years 2011 and 2010 payments from Orion Finance USA included principal of \$13,433,642 and interest compensation of \$1,804,738 in excess of the \$903,922 accrued interest receivable for a total of \$16,142,302. In November 2010, Orion Finance Corporation “granted a security interest in substantially all of its assets (the Collateral) to the Bank of New York Mellon, as Security Trustee”. On December 8, 2010, the Security Trustee conducted “a public sale of 60 structured credit and 7 financial securities including but not limited to asset backed securities, collateralized debt obligations, collateralized loan obligations and residential mortgage backed securities included within the Collateral”. BOI participated in the sale and collectively holds these individual securities as Orion Finance. From December 2010 through June 2011, BOI received principal and interest payments of \$4,474,455 and \$284,619, respectively. In June and December 2009, BOI applied \$7.5 million, in total, from the STIP reserve to the outstanding principal for the Orion Finance USA securities. As of June 30, 2011, the Orion Finance collective holding, classified as Other Asset Backed, has an outstanding amortized cost balance of \$24,591,903. 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 | \$2,432,167 | \$2,844,533 |
| TFIP: | | |
| Core real estate | 90,632 | 99,825 |
| Corporate bonds (rated) | 658,099 | 697,997 |
| Corporate bonds (unrated) | 1,000 | 1,316 |
| Municipal government bonds (rated) | 1,090 | 1,094 |
| U.S. government direct obligations | 388,813 | 401,289 |
| U.S. government agencies | 521,679 | 540,525 |
| High yield bonds | 90,000 | 98,279 |
| STIP | 49,943 | 49,943 |
| STIP Structured Investment Vehicle | 863 | 863 |
| RFBP: | | |
| Corporate bonds (rated) | 828,100 | 852,267 |
| Corporate bonds (unrated) | 1,029 | 1,042 |
| International Government | 24,333 | 25,725 |
| U.S. government direct obligations | 422,266 | 427,370 |
| U.S. government agencies | 581,485 | 592,777 |
| Montana mortgages | 26,484 | 26,102 |
| Municipal bonds | 1,516 | 1,573 |
| State Street STIP | 91,696 | 91,696 |
| STIP | 5,763 | 5,763 |
| STIP Structured Investment Vehicle | 100 | 100 |
| MTIP: | | |
| International stock pool | 1,212,866 | 1,441,328 |
| MPEP: | | |
| Private equity pool | 875,119 | 960,834 |
| MTRP: | | |
| Real estate pool | 600,956 | 504,950 |
| STIP | 3,311 | 3,311 |
| STIP Structured Investment Vehicle | 57 | 57 |
| Total pooled investments | 8,909,367 | 9,670,559 |
| Pool adjustments (net) | (94,962) | (94,962) |
| Total equity in pooled investments | <u>\$8,814,405</u> | <u>\$9,575,597</u> |

As of June 30, 2011, the fair value of the underlying securities on loan was \$1,175,709,542. Collateral provided for the securities on loan totaled \$1,201,541,089, consisting of \$498,340,931 in cash and \$703,200,518 in securities.

As of June 30, 2011, component units of the State of Montana had equity in pooled investments with a book value of \$5,248,714,553 and a fair value of \$7,714,337,016, 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 pools' fixed income instruments have credit risk as measured by major credit rating services. This is the risk that the issuer of a fixed income security may default with regard to the timely payment of interest and principal. The Board of Investments' (BOI) policy requires TFIP fixed income investments "be rated investment grade, or no lower than triple-B minus by one nationally recognized securities rating organization (NRSRO) at time of purchase" and RFBP fixed income investments, at the time of purchase, to be rated "at least by Moody's (Baa3 or better) or by Standard & Poor's (S&P) (BBB- or better) rating services." Credit risk for the internal and external managers for the RFBP is detailed as follows:

1. Core Internal Bond Pool (CIBP) – "Securities must be rated investment grade, or no lower than triple-B-minus, by one nationally recognized securities rating organization at the time of purchase. Split rated securities may not exceed 3% of portfolio market value."
2. Reams Asset Management Company LLC – "At time of purchase, securities must be rated at least single-B by one major credit rating agency. At least 80% of portfolio holdings shall be rated investment grade by one major credit rating agency at time of purchase."
3. Artio Global Management LLC – "At time of purchase, securities must be rated at least double-B by one major credit rating agency. At least 80% of portfolio holdings shall be rated investment grade by one major credit rating agency at time of purchase."
4. Neuberger Berman Fixed Income LLC – "At time of purchase, securities must be rated at least triple-C by one major credit rating agency. Securities rated below single-B will be limited to 25% of portfolio value."
5. Post Advisory Group LLC – "At time of purchase, securities must be rated at least triple-C by one major credit rating agency. Securities rated below single-B will be limited to 25% of portfolio value."

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

Neither the MTIP, MDEP nor MTRP investment policies address credit risk for the MTIP and MDEP external managers' cash equivalents investment in STIF of \$4,315,617 and \$22,859,444, respectively or the MTRP STIP investment of \$3,367,711. One MDEP manager has a \$226,494 cash equivalent investment in the T. Rowe Price Reserve Investment Fund with an average credit rating of AAA.

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

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., variable rate security with a May 25, 2010 maturity. In May 2009, BOI sold a \$5 million position in Lehman Brothers Holdings, Inc., variable rate security, held by the RFBP internal bond pool. This holding, written down to \$1 million, was sold at a loss of \$312,500. As of June 30, 2011, the book value of these bonds represents 20% of par. Refer to Note 17 – Subsequent Events for additional information.

Custodial Credit Risk

Deposits

Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. As of fiscal year end, BOI recorded cash deposits of \$13,561,670. Of this balance, \$3,580,118 represented foreign cash deposits, at fair value, held in sub-custodial banks. These deposits are uninsured and the balances are exposed on the basis of no collateralization.

In November 2008, the Federal Deposit Insurance Corporation (FDIC)'s Board of Directors established a program called the 'Temporary Liquidity Guarantee Program' (TLGP). This program was designed to assist in the stabilization of the nation's

financial system. Under the Transaction Account Guarantee (TAG) program, a component of the TLGP, the FDIC guarantees all funds held in qualifying noninterest bearing transaction accounts at participating insured depository institutions. Effective June 22, 2010, an amendment to the 12 CFR 370, in part, extended the TAG program until December 31, 2010, with the possibility of an additional extension of up to 12 months upon the determination by the FDIC's Board of Directors. Pursuant to the Dodd-Frank Provision, all funds in noninterest bearing accounts are insured in full by the FDIC from December 31, 2010 through December 31, 2012. Excluding the foreign cash deposits, the remaining custodial bank cash deposits are fully insured by the FDIC. The MTRP interest bearing checking account for the direct real estate investments is insured by the FDIC up to \$250,000. BOI does not have a policy addressing deposit custodial risk.

Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, BOI may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2011, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for the Montana Board of Investments and held in the possession of BOI's custodial bank, State Street Bank. The Equity Index funds, US Bank repurchase agreement, real estate, mortgage and loan investments were purchased and recorded in BOI's name. Commingled fund investments are registered in the name of the Montana Board of Investments. BOI does not have a policy addressing custodial risk for investments.

Concentration of Credit Risk

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

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

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 Pools' duration is to remain within 20% of the established Index duration. In accordance with GASB Statement No. 40, BOI uses effective duration as a measure of interest rate risk for the Bond 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)."

The MDEP and MTIP investment portfolios include the external managers' cash equivalents invested in the custodial bank's Short Term Investment Fund (STIF) of \$22,859,444 and \$4,315,617, respectively. The STIF fund has an effective duration of .09. One MDEP investment manager invested \$226,494 in the T. Rowe Price Reserve Investment Fund with duration of .24. The MDEP and MTIP investment policy statements do not address interest rate risk for cash equivalent (debt pool) investments.

Asset-backed securities held in the Bond Pools 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 Bond Pools pay a fixed rate of interest until maturity while floating rate securities pay a variable rate of interest until maturity. As of June 30, 2011, the bond portfolios held certain variable rate issues. Interest payments on these securities are based on an underlying proxy, e.g., LIBOR.

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, 2011, 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, 2011, as required for applicable pools. Credit risk reflects the bond quality rating, by investment type, as of June 30, 2011. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated investment types. If duration has not been calculated, duration is indicated by NA (not applicable).

TFIP
Credit Quality Rating and Effective Duration as of June 30, 2011
(in thousands)

| Security Investment Type | Fair Value | Credit Quality Rating | Effective Duration |
|---|--------------------|------------------------------|---------------------------|
| Core Real Estate | \$ 99,825 | NR | NA |
| Corporate Bonds (rated) | 697,997 | A | 5.06 |
| Corporate Bonds (unrated) | 1,316 | NR | (3.40) |
| High Yield Bond Fund | 98,279 | B | 3.91 |
| Municipal Government Bonds (rated) | 1,094 | AA | .44 |
| U.S. Government Direct Obligations | 401,289 | AAA | 5.66 |
| U.S. Government Agency | 540,525 | AAA | 4.31 |
| STIP | 50,806 | NR | .10 |
| Total fixed-income investments | <u>\$1,891,131</u> | AA- | 4.76 |
| Securities Lending Collateral Investment Pool | <u>\$ 112,038</u> | NR | * |

*As of June 30, 2011, the Securities Lending Quality Trust liquidity pool had an average duration of .09 and an average weighted final maturity of .29 for US dollar collateral. The duration pool had an average duration of .09 and an average weighted final maturity of 2.61 for US dollar collateral.

RFBP
Credit Quality Rating and Effective Duration as of June 30, 2011
(in thousands)

| Security Investment Type | Fair Value | Credit Quality Rating | Effective Duration |
|--|--------------------|-----------------------|--------------------|
| Corporate Bonds (rated) | \$ 852,267 | A- | 4.63 |
| Corporate Bonds (unrated) | 1,042 | NR | 2.03 |
| International Government | 25,725 | A+ | 4.88 |
| Municipal Government Bonds | 1,573 | AA+ | 10.80 |
| U.S. Government Direct Obligations | 427,370 | AAA | 5.71 |
| U.S. Government Agency | 592,777 | AAA | 4.55 |
| Montana Mortgages | 26,102 | NR | NA |
| State Street Short Term Investment Fund (STIF) | 91,696 | NR | .09 |
| STIP | 5,862 | NR | .10 |
| Total fixed-income investments | <u>\$2,024,414</u> | AA- | 4.56 |
| Securities lending collateral investment pool | <u>\$ 183,435</u> | NR | * |

*As of June 30, 2011, the Securities Lending Quality D Short Term Investment Fund liquidity pool had an average duration of .09 and an average weighted final maturity of .17 for US dollar collateral. The duration pool had an average duration of .10 and an average weighted final maturity of 1.34 for US dollar collateral.

Effective June 30, 2010, the BOI implemented the provisions of GASB Statement No. 53 – Accounting and Financial Reporting for Derivative Instruments. The derivative instrument disclosures are described in the following paragraphs. The fair value balances and notional amounts of derivative instruments outstanding as of June 30, 2011, classified by type, and the changes in the fair value of such derivative instruments for the year ended June 30, 2011, as reported in the 2011 financial statements, are as follows (in thousands):

| <u>Investment Derivatives</u> | <u>Change in Fair Value</u> | | <u>Fair Value at June 30, 2011</u> | | <u>Notional</u> |
|-------------------------------|-----------------------------|-----------------|------------------------------------|-----------------|-----------------|
| | <u>Classification</u> | <u>Amount</u> | <u>Classification</u> | <u>Amount</u> | |
| Currency forward contracts | Investment Revenue | \$ (2,290) | LT debt/equity | \$ (382) | 38,567 |
| Index futures long | Investment Revenue | 1,623 | Futures | - | 5 |
| Index futures short | Investment Revenue | 6 | | | |
| Rights | Investment Revenue | 455 | Equity | - | - |
| Warrants | Investment Revenue | 22 | Equity | - | - |
| Total derivatives | | <u>\$ (184)</u> | | <u>\$ (382)</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, 2011, and is the difference between the execution exchange rate at and the prevailing exchange rate as of the report date. An index futures long is an agreement to buy, on a stipulated future date, a specific amount of an indexed financial instrument. Rights represent a privilege granted to existing shareholders to subscribe to shares of a certain security at a specified price. Warrants are a security type, usually issued together with a bond or preferred stock, entitling the owner to purchase additional securities from the issuer.

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

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Although the MTIP, RFBP and MTRP do not have a formal policy to limit foreign currency risk, the MTIP policy provides for the “external managers to hedge currency in a defensive manner. The managers are not allowed to engage in currency speculation, such as over-hedging, reverse hedging, cross-hedging or other trading activity not specifically aimed at minimizing risk versus their benchmark or preserving the U.S. dollar value of investments. The managers’ Investment Guidelines provide for currency hedging and emerging market limitations. At the Pool level, MTIP will be managed on an un-hedged basis. The MPEP policy does not address foreign currency risk, but identifies “country risk as including all of the risks associated with international alternative investments along with the political, economic and currency risks associated with investing outside of the United States.” As of the June 30, 2011 exchange date, BOIs’ foreign currency exposure by forward contracts, deposits and investment type are reported, in US dollars, at fair value in the tables below excluding the foreign investments denominated in US dollars for the American Depositary Receipts (ADRs) and commingled index funds.

Foreign Currency Exposure by Country

| Foreign Currency Denomination | Currency | Fixed Income | Equities | Private Equity | Real Estate |
|--------------------------------------|-----------------|---------------------|-------------------|-----------------------|--------------------|
| Australian Dollar | \$ 57 | \$ 4,703 | \$ 31,244 | \$ - | \$ - |
| Brazilian Real | 2 | 5,642 | 12,631 | - | - |
| Canadian Dollar | 421 | 3,794 | 30,051 | - | - |
| Danish Krone | 30 | - | 8,437 | - | - |
| Euro | 693 | 1,519 | 156,232 | 18,745 | 16,802 |
| Hong Kong Dollar | 438 | - | 44,539 | - | - |
| Hungarian Forint | 1 | - | 987 | - | - |
| Indonesian Rupiah | 1 | - | 790 | - | - |
| Israeli Shekel | - | - | 113 | - | - |
| Japanese Yen | 620 | - | 94,915 | - | - |
| Malaysian Ringgit | 211 | - | 3,639 | - | - |
| Mexican Peso | 227 | 5,528 | 983 | - | - |
| New Zealand Dollar | - | 1,100 | - | - | - |
| Norwegian Krone | 87 | - | 5,475 | - | - |
| Philippine Peso | 14 | - | 358 | - | - |
| Polish Zloty | - | 2,625 | 1,447 | - | - |
| Singapore Dollar | 78 | - | 8,586 | - | - |
| South African Rand | - | - | 4,477 | - | - |
| South Korean Won | - | - | 9,727 | - | - |
| Swedish Krona | 78 | - | 11,082 | - | - |
| Swiss Franc | 112 | - | 32,165 | - | - |
| New Taiwan Dollar | 9 | - | 7,472 | - | - |
| Thailand Baht | - | - | 3,003 | - | - |
| Turkish Lira | - | - | 764 | - | - |
| UK Pound Sterling | 503 | 815 | 101,513 | - | - |
| Total Cash and Securities | \$3,582 | \$25,726 | \$ 570,630 | \$18,745 | \$16,802 |

Maximum Loss before and after Netting and Collateral (in thousands)

| | | |
|---|----|----|
| Maximum amount of loss BOI would face in case of default of all counterparties i.e. aggregated (positive) fair value of OTC (Over-the-Counter) positions as of June 30, 2011. | \$ | 53 |
| Effect of collateral reducing maximum exposure | | - |
| Liabilities subject to netting arrangements | | - |
| Resulting net exposure | \$ | 53 |

Counterparty Credit Rating

| <u>Counterparty Name</u> | <u>Percentage of Net Exposure</u> | <u>S&P Rating</u> | <u>Fitch Rating</u> | <u>Moody's Rating</u> |
|--------------------------|-----------------------------------|-----------------------|---------------------|-----------------------|
| State Street Bank | 43% | AA- | A+ | Aa2 |
| Deutsche Bank London | 29% | A+ | AA- | Aa3 |
| Credit Suisse London | 19% | A+ | AA- | Aa1 |
| Westpac Banking Corp | 9% | AA | AA | Aa2 |
| JP Morgan Chase Bank | 0% | NA | NA | NA |

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 | 67.21% |
| PERA (Public Employee Retirement Administration) | 19.98 |
| Board of Housing | 6.08 |
| College Savings Plan | 4.39 |
| Montana State University/University of Montana | 1.15 |
| Other (1) | 1.19 |
| Total | <u>100.00%</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.

The PERS Defined Contribution Retirement Plan and the deferred compensation plan's fixed assets were invested and managed on behalf of the plans by Pacific Investment Management Company (PIMCO) and State Street Bank Kansas City (SSKC) and a third-party insurer, Aegon. The third party record keeper, Great-West Retirement Services, tracks and reports the daily trading and valuations of all investment options, including the assets held by the individual mutual fund companies.

When participants invest in the fixed investment, they are guaranteed a rate of return. The PERS-DCRP fixed money is invested in a PIMCO mutual fund. The minimum average portfolio quality must be an A rating; the minimum issue quality must be a BB-rating; and the minimum commercial paper quality must be A2/P2. Variable investments are held and managed by a selection of retail and institutional mutual funds, which cover all standard asset classes and categories. VEBA (Voluntary Employee Benefit Association) investments are made in mutual fund equities and mutual fund fixed-income funds. The Montana 529 College Savings Plan is invested in Vanguard Group mutual funds and College Savings Bank fixed-income products.

Table 4 – Investments
(in thousands)

| | Carrying Amount | Fair Value |
|--|----------------------------|-----------------------|
| Primary government | | |
| Corporate bonds (rated) (1) | \$ 37,624 | \$ 38,292 |
| U.S. govt agency (1) | 87,797 | 92,528 |
| U.S. govt direct (rated) (1) | 26,512 | 27,389 |
| Government securities | 19,170 | 19,249 |
| STIP/SIV investments | 11,294 | 11,294 |
| Loans | 170,033 | 170,033 |
| Other equities | 7,190 | 6,872 |
| Total | <u>\$ 359,620</u> | <u>\$ 365,657</u> |
| Component units/fiduciary funds | | |
| Corporate bonds (rated) (1) | \$ 610,768 | \$ 645,194 |
| U.S. govt agency (1) | 249,036 | 269,051 |
| U.S. govt direct (rated) (1) | 158,060 | 167,895 |
| STIP/SIV Investments | 12,279 | 12,279 |
| Other equities | 99,008 | 137,532 |
| Deferred compensation | 360,009 | 360,009 |
| Defined contribution | 75,298 | 75,298 |
| 529 College Savings Plan | 95,755 | 95,755 |
| VEBA | 1,850 | 1,982 |
| Investments of MSU component units | 152,299 | 152,299 |
| Investments of UM component units | 172,207 | 172,207 |
| Other | 157,642 | 164,510 |
| Total | <u>\$ 2,144,211</u> | <u>\$ 2,254,011</u> |
| Total investments | <u>\$ 2,503,831</u> | <u>\$ 2,619,668</u> |
| Securities lending collateral investment pool | <u>\$ 118,987</u> | <u>\$ 118,987</u> |

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

As of June 30, 2011, the fair value of the investments on loan was \$392,987,686. Collateral provided for the investments on loan totaled \$401,598,422 consisting of \$118,987,041 in cash and \$282,611,381 in securities.

All Other Funds - Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2011
(in thousands)

| Security Investment Type | Fair Value | Credit Quality Rating | Effective Duration |
|---|--------------------|------------------------------|---------------------------|
| Corporate Bonds (Rated) (1) | \$ 681,062 | A | 3.37 |
| Corporate Bonds (Unrated) (1) | 1,316 | NR | (3.40) |
| U.S. Government Direct Obligations (1) | 254,093 | AAA | 4.07 |
| U.S. Government Agency(1) | 334,891 | AAA | 2.89 |
| US Bank Sweep Repurchase Agreement (1)(2) | 15,078 | NR | - |
| Total | <u>\$1,286,440</u> | <u>AA-</u> | <u>3.34</u> |

- (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 \$15,379,417 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. Of the 19 individual Investment Policy Statements for the funds categorized as the AOF, eight funds have specific policies associated with credit risk. The remaining funds have no policy addressing credit risk. Two funds require “corporate securities be rated A3/A- or higher by Moody’s/S&P rating agencies to qualify for purchase.” One fund requires fixed income investments, at the time of purchase, to be rated investment grade as defined either by Moody’s or by Standard & Poor’s (S&P) rating services. The investment policy, revised in May 2010, states “the maximum fixed income credit risk will be limited to 2% of the total securities portfolio in any one name”. Five funds require, at the time of purchase, “the quality rate of any corporate bond shall be in the top of the single-A rating classification or better at the time of purchase (eg. A1/A+ or higher) and have at least two ratings. Exposure to the securities of any one U.S. Agency is limited to 5% and in no event will an agency security be purchased if it carries a rating that is less than top-rated (AAA) at the time of purchase.”

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., variable rate security with a May 25, 2010 maturity. The AOF portfolio also includes a \$5 million position in Lehman Brothers Holdings, Inc., 5% rate, and January 14, 2011 maturity. As of September 30, 2008, the book value of these bond positions was written down to 80% of par. On October 30, 2008, the book value of these bonds was further written down to 65% of par. Four additional write downs occurred during fiscal year 2009. As of June 30, 2011, the book value of these bonds represents 20% of par. Refer to Note 17 – Subsequent Events for additional information.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, BOI may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2011, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for the Montana Board of Investments and held in the possession of BOI’s custodial bank, State Street Bank. The Equity Index funds, US Bank repurchase agreement, real estate, mortgage and loan investments were purchased and recorded in BOI’s name. Commingled fund investments are registered in the name of the Montana Board of Investments. BOI does not have a policy addressing custodial risk for investments.

Concentration of Credit Risk

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

With the exception of seven funds, the 19 investment policy statements for various AOF state agencies do not address concentration of credit risk. One fund provides for a concentration limitation pertaining to repurchase obligations. The policy for another fund states, "the fixed income holdings rated lower than 'A3 or A- are limited to 25 percent of the fixed income portfolio at the time of purchase. This same fund is limited to stock investments not to exceed 25 percent of the book value of its total invested assets. In addition, this fund's IPS provides for a 2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities." The policy for five funds sets "investment limits to reduce the risk of loss on individual corporate bonds, investment purchases in any one credit will be limited to 1% of the market value of the fund at the date of purchase or 2% of the lowest projected fund balance before the securities mature, whichever is lower. Limits are also set by corporate bond sector for these five funds." Investments by various governmental agencies, pooled as 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 two funds, the AOFs' investment policies do not formally address interest rate risk. One fund limits securities three years to maturity and repurchase agreements seven days to maturity. Another fund's policy sets an average duration range of 2-5 years for fixed income securities except in extraordinary circumstances where a shorter duration may be advisable. In accordance with GASB Statement No. 40, BOI uses effective duration as a measure of interest rate risk for the AOF portfolio. 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 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 AOF portfolio held one \$10 million par synthetic Collateralized Debt Obligations (CDO) variable rate position in Aria II, 0.00%, 10/10/2012. Although the current interest rate is zero, the variable rate is set to float with the six month LIBOR plus a variable spread on a notional amount percent. A CDO is a structured debt security backed by a portfolio consisting of bonds, loans, synthetic instruments or other structured finance securities issued by a variety of corporate or sovereign obligors. The CDO positions are categorized as rated corporate debt.

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, 2011, 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, 2011, 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 | \$ - | \$ 4,653 | \$ - | \$ - | \$ - | \$ - |
| Taxes | 224,433 | 77,542 | - | 6,905 | - | 1,740 |
| Charges for services/ fines/ forfeitures | 31 | 10,595 | 4,534 | - | 53,152 | - |
| Investment income | 367 | 5,109 | 5 | 3,248 | 3,855 | 4,626 |
| Contributions/ premiums | - | 19,895 | - | - | - | - |
| Reimbursements/ overpayments | 6,747 | 5,744 | - | - | - | - |
| Grants/ contracts/ donations | - | 545 | - | - | - | - |
| Other | 3,164 | 122 | 10,180 | - | - | 750 |
| Total | 234,742 | 124,205 | 14,719 | 10,153 | 57,007 | 7,116 |
| Less: Allowance for doubtful accounts | (16,525) | (10,747) | (723) | - | - | - |
| Receivables, net | \$ 218,217 | \$ 113,458 | \$ 13,996 | \$ 10,153 | \$ 57,007 | \$ 7,116 |

| | Proprietary Funds | | | |
|---------------------------------------|-----------------------------------|---|--------------------------------|-----------------------------|
| | Unemployment Insurance | Economic Development Bonds | Nonmajor Enterprise | Internal Service |
| Charges for services | \$ - | \$ - | \$ 24,259 | \$ 196 |
| Investment income | - | 7,781 | 15 | 340 |
| Contributions/ premiums | 4,456 | - | 155 | 579 |
| Reimbursements/ overpayments | 11,050 | - | - | - |
| Other | - | - | 31 | 12 |
| Total receivables | 15,506 | 7,781 | 24,460 | 1,127 |
| Less: allowance for doubtful accounts | (5,609) | - | (245) | (3) |
| Receivables, net | \$ 9,897 | \$ 7,781 | \$ 24,215 | \$ 1,124 |

B. Payables

| | Governmental Funds | | | | |
|---------------------|---------------------------|--------------------------------------|--|---------------------------------|----------------------------------|
| | General | State Special Revenue | Federal Special Revenue | Land Grant Permanent | Nonmajor Governmental |
| Tax refunds | \$ 131,007 | \$ - | \$ - | \$ - | \$ - |
| Vendors/Individuals | 60,960 | 78,508 | 134,384 | - | 3,416 |
| Payroll | 11,887 | 11,072 | 4,389 | - | 8 |
| Accrued Interest | - | - | - | 3,767 | - |
| Payables, net | <u>\$ 203,854</u> | <u>\$ 89,580</u> | <u>\$ 138,773</u> | <u>\$ 3,767</u> | <u>\$ 3,424</u> |

| | Proprietary Funds | | | |
|---------------------|-----------------------------------|---|--------------------------------|-----------------------------|
| | Unemployment Insurance | Economic Development Bonds | Nonmajor Enterprise | Internal Service |
| Vendors/Individuals | \$ 6,404 | \$ 1 | \$ 10,715 | \$ 8,177 |
| Payroll | - | 7 | 479 | 1,833 |
| Accrued Interest | - | 164 | - | - |
| Payables, net | <u>\$ 6,404</u> | <u>\$ 172</u> | <u>\$ 11,194</u> | <u>\$ 10,010</u> |

NOTE 5. CAPITAL ASSETS

A. Primary Government

Changes in capital asset balances for the fiscal year ended June 30, 2011, are reflected in the following table (in thousands):

| Governmental Activities | Beginning Balance (2) | Increases (1) | Decreases (1) | Ending Balance |
|--|--------------------------------------|--------------------------|--------------------------|---------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 519,300 | \$ 65,675 | \$ (2,846) | \$ 582,129 |
| Construction Work In Progress | 505,052 | 472,454 | (471,157) | 506,359 |
| Easements | 88,789 | 30,232 | - | 119,021 |
| Museum & Art | 64,361 | 153 | (9) | 64,505 |
| Other | 9,849 | 196 | - | 10,045 |
| Total Capital Assets not being depreciated | <u>1,187,351</u> | <u>568,710</u> | <u>(474,012)</u> | <u>1,282,049</u> |
| Capital assets being depreciated: | | | | |
| Infrastructure | 3,915,111 | 532,228 | (372,001) | 4,075,338 |
| Land Improvements | 32,454 | 4,472 | (72) | 36,854 |
| Buildings/Improvements | 471,149 | 55,688 | (4,729) | 522,108 |
| Equipment | 326,926 | 22,935 | (16,697) | 333,164 |
| Easements - Amortized | 2,033 | - | (73) | 1,960 |
| Other | 4,437 | 200 | - | 4,637 |
| Total Capital Assets being depreciated | <u>4,752,110</u> | <u>615,523</u> | <u>(393,572)</u> | <u>4,974,061</u> |
| Less Accumulated Depreciation for: | | | | |
| Infrastructure | (1,350,620) | (204,966) | 211,604 | (1,343,982) |
| Land Improvements | (7,972) | (2,203) | 139 | (10,036) |
| Buildings/Improvements | (244,958) | (17,186) | 2,511 | (259,633) |
| Equipment | (208,618) | (25,974) | 16,042 | (218,550) |
| Other | (3,982) | (190) | - | (4,172) |
| Total accumulated depreciation | <u>(1,816,150)</u> | <u>(250,519)</u> | <u>230,296</u> | <u>(1,836,373)</u> |
| Total capital assets being depreciated net | <u>2,935,960</u> | <u>365,004</u> | <u>(163,276)</u> | <u>3,137,688</u> |
| Intangible Assets | <u>25,895</u> | <u>23,135</u> | <u>(13,302)</u> | <u>35,728</u> |
| Governmental activities capital assets net | <u>\$ 4,149,206</u> | <u>\$ 956,849</u> | <u>\$ (650,590)</u> | <u>\$ 4,455,465</u> |

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

(2) Beginning balance has been adjusted due to footing error in prior year.

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 | 1,537 | 1,265 | (99) | 2,703 |
| Other (2) | - | 3,206 | - | 3,206 |
| Total Capital Assets not being depreciated | <u>2,337</u> | <u>4,471</u> | <u>(99)</u> | <u>6,709</u> |
| Capital assets being depreciated: | | | | |
| Infrastructure | 915 | 36 | - | 951 |
| Land Improvements | 3,830 | - | - | 3,830 |
| Buildings/Improvements | 7,454 | - | - | 7,454 |
| Equipment | 7,297 | 1,093 | (20) | 8,370 |
| Other (2) | 3,145 | - | (3,145) | - |
| Total Capital Assets being depreciated | <u>22,641</u> | <u>1,129</u> | <u>(3,165)</u> | <u>20,605</u> |
| Less Accumulated Depreciation for: | | | | |
| Infrastructure | (594) | (17) | - | (611) |
| Land Improvements | (723) | (149) | - | (872) |
| Buildings/Improvements | (4,744) | (182) | - | (4,926) |
| Equipment | (4,459) | (590) | 56 | (4,993) |
| Other Fixed Assets | (15) | - | 15 | - |
| Total accumulated depreciation | <u>(10,535)</u> | <u>(938)</u> | <u>71</u> | <u>(11,402)</u> |
| Total capital assets being depreciated net | <u>12,106</u> | <u>191</u> | <u>(3,094)</u> | <u>9,203</u> |
| Intangible Assets | 91 | 15 | (55) | 51 |
| Business Type activities capital assets net | <u>\$ 14,534</u> | <u>\$ 4,677</u> | <u>\$ (3,248)</u> | <u>\$ 15,963</u> |

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

(2) Balance was moved from depreciable to not depreciable for Capital Livestock that is deemed not depreciable.

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

| | Amount |
|---|-------------------|
| General Government | \$ 11,299 |
| Public Safety/Corrections | 6,857 |
| Transportation (including depreciation of the highway system maintained by the state) | 219,820 |
| Health/Social Services | 1,868 |
| Educational/Cultural | 692 |
| Resource Development/Recreation (including depreciation of the state's dams) | 9,686 |
| 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. | 297 |
| Total depreciation expense - governmental activities | <u>\$ 250,519</u> |

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

| | Amount |
|---|---------------|
| Liquor Stores | \$ 109 |
| State Lottery | 323 |
| Other Enterprise Funds | 223 |
| Prison Funds | 283 |
| Total Depreciation Expense - Business-Type Activities | <u>\$ 938</u> |

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

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 | 12,095 | 30,463 | 500 | 43,058 |
| Capitalized Collections | 8,320 | 17,430 | - | 25,750 |
| Livestock for educational purposes | 3,112 | - | - | 3,112 |
| Total Capital Assets not being depreciated | 30,460 | 55,710 | 1,639 | 87,809 |
| Capital assets being depreciated: | | | | |
| Infrastructure | 34,836 | 6,770 | - | 41,606 |
| Land Improvements | 17,427 | 12,884 | - | 30,311 |
| Buildings/Improvements | 470,745 | 480,141 | 27,941 | 978,827 |
| Equipment | 133,701 | 68,281 | 7,199 | 209,181 |
| Livestock | - | 17 | - | 17 |
| Library Books | 64,912 | 56,341 | - | 121,253 |
| Total Capital Assets being depreciated | 721,621 | 624,434 | 35,140 | 1,381,195 |
| Total accumulated depreciation | (395,376) | (327,124) | (4,404) | (726,904) |
| Total Capital Assets being depreciated net | 326,245 | 297,310 | 30,736 | 654,291 |
| Intangible Assets | 883 | 2,051 | 2,348 | 5,282 |
| MSU Component Unit Capital Assets, net | 11,846 | - | - | 11,846 |
| UM Component Unit Capital Assets, net | - | 4,120 | - | 4,120 |
| Discretely Presented Component Units | | | | |
| Capital Assets, net | \$ 369,434 | \$ 359,191 | \$ 34,723 | \$ 763,348 |

NOTE 6. RETIREMENT PLANS

A. General

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

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

The Teachers Retirement System (TRS) is a discretely presented component unit of the State of Montana and 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, 2011, 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 a portion of the fees collected from drivers’ license and duplicate drivers’ license application 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, 2011, follows:

| Employers | PERS-DBRP | SRS | GWPORS | MPORS | FURS | TRS |
|-----------------------|------------------|------------|---------------|--------------|-------------|------------|
| State agencies | 34 | 1 | 4 | | 1 | 9 |
| Counties | 55 | 56 | | | | |
| Cities/towns | 97 | | | 31 | 16 | |
| Rural Fire Districts | | | | | 7 | |
| Colleges/universities | 5 | | 3 | | | 5 |
| Highs School | 6 | | | | | |
| School districts | 231 | | | | | 351 |
| Other Agencies | 105 | | | | | |
| Total | 533 | 57 | 7 | 31 | 24 | 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, 2011, the statutory contribution rates are not sufficient to amortize the unfunded actuarial accrued liability in 30 years or less.

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 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, 2011, the statutory contribution rates are not sufficient to amortize the unfunded actuarial accrued liability in 30 years or less.

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, 2011, the statutory contribution rates are not sufficient to amortize the unfunded actuarial accrued liability in 30 years or less.

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 as of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover

to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated.

FURS – Firefighters Unified Retirement System – 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, chapter 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. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will amortize over 71 years. The plan's actuary has determined that as of July 1, 2011, the current employer contribution rate of 9.85% plus the General Fund contribution of 2.49% of members' salaries are not sufficient to meet the actuarial cost. The unfunded actuarial accrued liability of \$1.792.1 billion is included in the retirement plan's schedule of funding progress

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, 2011 follows:

| Employers | PERS-DCRP | |
|-----------------------|-----------|----|
| | 457 | |
| State agencies | 31 | 1 |
| Counties | 45 | 2 |
| Cities/towns | 48 | 4 |
| Colleges/universities | 4 | 5 |
| High Schools | 2 | - |
| School districts | 92 | 4 |
| Other Agencies | 39 | 7 |
| Total | 261 | 23 |

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, 2011, were \$3.9 million and \$6.1 million, respectively.

457 – Deferred Compensation 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 section 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, 2011, were \$63 thousand and \$19.1 million, 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 5.83% of salary, for a total of 12.86% of salary contributed to the ORP (refer to the following table).

| | <u>TIAA-CREF</u> <u>(in thousands)</u> |
|----------------------------|---|
| Covered payroll | \$200,855 |
| Total payroll | 370,175 |
| Employer contributions | \$ 11,716 |
| Percent of covered payroll | 5.83% |
| Employee contributions | \$ 14,116 |
| 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 199 in fiscal year 2010 to 209 in fiscal year 2011.

The employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the PERB on the unpaid balance. Total retirement incentive contributions received, including interest, during fiscal year 2011 were \$82,925. As of June 30, 2011, outstanding balances were \$11,739.

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 | \$1,477 | \$4,542 |
| Employee | 479 | 1,268 |
| License and registration fees | | 278 |
| Actuarial valuation date | 6/30/2011 | 6/30/2011 |
| Actuarial cost method | Entry age | Entry age |
| Amortization method | Level percentage of payroll open | Level percentage of payroll open |
| Remaining amortization period | 0 | 48.2 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 2011**

| Plan | Member | Employer | State |
|------------------|--|--|---|
| PERS-DBRP | 6.9% for members hired prior to 7/1/ 2011. 7.9% for members hired after 07/1/ 2011 [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% for members hired prior to 7/1/2011. 7.9% for members hired on or after 7/1/2011. [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 (1) | | | | | | |
| 6/30/2011 | 61,274 | 43,414 | (17,860) | 141.13% | 5,645 | (316.38)% |
| HPORS (1) | | | | | | |
| 6/30/2011 | 95,274 | 155,742 | 60,468 | 61.17% | 12,472 | 484.83% |
| Multiple Employer Systems | | | | | | |
| PERS-DBRP | | | | | | |
| 6/30/2011 | 3,800,479 | 5,410,144 | 1,609,665 | 70.25% | 1,071,376 | 150.24% |
| SRS | | | | | | |
| 6/30/2011 | 203,689 | 266,506 | 62,817 | 76.43% | 57,041 | 110.12% |
| GWPORS | | | | | | |
| 6/30/2011 | 90,437 | 119,881 | 29,444 | 75.44% | 38,306 | 76.87% |
| MPORS | | | | | | |
| 6/30/2011 | 221,669 | 401,381 | 179,712 | 55.23% | 39,470 | 455.30% |
| FURS | | | | | | |
| 6/30/2011 | 219,959 | 355,188 | 135,229 | 61.93% | 34,852 | 388.01% |
| TRS | | | | | | |
| 7/1/2011 | 2,866,500 | 4,658,600 | 1,792,100 | 61.50% | 746,700 | 240.00% |
| Nonemployer Contributor | | | | | | |
| VFCA | | | | | | |
| 6/30/2011 | 26,183 | 35,195 | 9,012 | 74.39% | 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 (1) | 2011 | 38,387 | 3,846.97% | | |
| HPORS | 2009 | 2,501 | (165.97%) | 286 | 100.00% |
| | 2010 | 3,404 | 139.93% | 287 | 100.00% |
| | 2011 | 3,926 | 115.69% | 278 | 100.00% |
| <u>MULTIPLE EMPLOYER SYSTEMS:</u> | | | | | |
| PERS-DBRP | 2009 | 99,314 | 76.35% | 357 | 100.00% |
| | 2010 | 132,004 | 60.46% | 537 | 100.00% |
| | 2011 | 144,957 | 54.56% | 546 | 100.00% |
| SRS | 2009 | 6,507 | 79.81% | | |
| | 2010 | 7,735 | 72.88% | | |
| | 2011 | 8,747 | 68.75% | | |
| GWPORS | 2009 | 3,491 | 94.31% | | |
| | 2010 | 4,918 | 73.45% | | |
| | 2011 | 4,903 | 71.85% | | |
| MPORS | 2009 | 3,455 | 146.35% | 10,186 | 100.00% |
| | 2010 | 3,897 | 176.04% | 10,932 | 100.00% |
| | 2011 | 4,626 | 122.58% | 11,594 | 100.00% |
| FURS | 2009 | 118 | 3,852.37% | 9,831 | 100.00% |
| | 2010 | 850 | 603.77% | 10,871 | 100.00% |
| | 2011 | 1,342 | 373.29% | 11,365 | 100.00% |
| VFCA – (Nonemployer Contributor) | 2009 | | | 1,580 | 100.00% |
| | 2010 | | | 1,575 | 100.00% |
| | 2011 | | | 1,596 | 100.00% |
| TRS (2) | 2009 | 80,998 | 100.00% | | |
| | 2010 | 90,947 | 98.30% | | |
| | 2011 | 91,859 | 98.30% | | |

(1) The actuarial value of assets is greater than the actuarial accrued liabilities for FY2007 - FY2010. The funding excess are large enough so that the sum of normal cost and the amortization of the funding excess is negative. Common actuarial practice is to set the ARC at zero. (No employer contribution would be required for these years.)

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

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2011

| Plan | Member's Highest Average Compensation (HAC) | Years of Service Required and/or Age Eligible for Benefit | Vesting |
|------------------|---|---|----------------------------|
| PERS-DBRP | Hired prior to 7/1/ 2011 - highest monthly compensation during any consecutive 36 months; Hired on or after 07/1/ 2011 - highest average compensation during any consecutive 60 months. | Hired prior to 7/1/2011: Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service. Hired on or after 7/1/ 2011: Age 65, 5 years of membership service; Age 70, regardless of membership service. | 5 years membership service |
| MPORS | Hired prior to 7/1/1977 – average monthly compensation of final year of service; hired on or after 7/1/1977 – 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 – (HMC) during any consecutive 36 months | Normal retirement; 20 years, regardless of age; Early retirement age 50, 5 years of service, actuarially reduced | 5 years membership service |
| SRS | Hired prior to 7/1/2011 - highest average compensation during any consecutive 36 months; hired on or after 7/1/2011 -highest average compensation during any consecutive 60 months | Normal retirement; 20 years regardless of 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; Early retirement, 5 years of membership service, actuarially reduced from age 60 | 5 years membership service |
| JRS | Hired prior to 7/1/1997 and non-GABA prior to 1/1/1988 or 12/1/2005 – monthly compensation at time of retirement; hired on or after 7/1/1997 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 | Hired prior to 7/1/2011 - highest average compensation during any consecutive 36 months; hired on or after 7/1/2011 -highest average compensation during any consecutive 60 months | Normal retirement, age 50, 20 years of membership service; Early retirement (reduced benefit), age 55, vested members who terminate employment prior to 20 years of membership service | 5 years membership service |

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2011 (continued)

| Plan | Member's Highest Average Compensation (HAC) | Years of Service Required and/or Age Eligible for Benefit | Vesting |
|------|--|---|-------------------------------|
| VFCA | | Normal retirement Age 55, 20 years of credited service (full benefit); age 60, 10 years of credited service (partial benefit). Additional benefits: members who retire after 4/25/2005 with greater than 20 years of credited service (with a maximum of 30 years) may receive additional benefits (maximum benefit \$225). Members who retire on or after 7/1/2011 and have greater than 30 years of credited service will receive \$7.50 per month for each additional year of credited service after 30 years if the pension trust fund is actuarially sound, amortizing any unfunded liabilities in 20 years or less. This determination will be made annually and a member's benefit will remain capped at \$225 a month (30 years of credited service) if the amortization period grows to greater than 20 years. | 10 years of credited service |
| TRS | 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 |

| 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, or (b) the actuarial equivalent of double the member's regular contributions plus interest plus the actuarial equivalent of any additional contributions plus interest.</p> <p>(ii) If 25 years of membership service or more, (a) 1/50 of HAC multiplied by years of service credit or (b) the actuarial equivalent of double the member's regular contributions plus interest plus the actuarial equivalent of any additional contributions plus interest.</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. | |

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2011 (continued)

| Plan | Monthly Benefit Formula | Guaranteed Annual Benefit Adjustment (GABA) | Minimum Benefit Adjustment (Non-GABA) |
|-------|---|---|--|
| MPORS | Hired before, July 1, 1977, 2.5% of average monthly compensation of final year of service multiplied by years of service credit. Hired on or after , July 1, 1977, 2.5% of FAC multiplied by years of service credit | Hired after June 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit. | 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 HAC 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 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 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. |
| 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 minimum monthly benefit provided is equal to 2% times service credits multiplied by the current base compensation of a probationary highway patrol officer. Such benefits may not exceed 60% of the current base compensation of a probationary highway patrol officer and the increase may not exceed 5% of the current benefit. For non-GABA members who retired prior to July, 1 1991, and meet eligibility requirements, a lump sum payment will be made each year based on the increase in the Consumer price Index |
| JRS | 3.1/3% per year of current salary or 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 |

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2011 *(continued)*

| Plan | Monthly Benefit Formula | Guaranteed Annual Benefit Adjustment (GABA) | Minimum Benefit Adjustment (Non-GABA) |
|---------------|---|---|--|
| 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. | | |
| 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. | |

Changes Since Last Valuation

- Effective July 1, 2011 The compounded annual interest rate credited to the contributions transferred from the define benefit plan to the member's Defined Contribution Retirement Plan (DCRP) will be 7.75%.
- For new members to (DBRP) hired on or after July 1, 2011 (a) Employee contribution to PERS will be 7.9% of salary. (b) Eligibility for early retirement changes to age 55 with a minimum of five years of membership service. (c) The Highest Average Compensation (HAC) used to calculate the retirement benefit will be based on a time period of 60 consecutive months. (d) Vesting 5 years of membership service. (e) For eligibility for benefit service retirement is age 65 with 5 years of membership service or age 70, regardless of membership service. (f) The multiplier used to calculate the retirement benefit will be: 1.5% per year if service is less than 10 years, 1.785% per year if the service is greater than or equal to 10 years but less than 30 years, 2% per year if service is greater than or equal to 30 years.
- Effective October 1, 2011, for members hired on or after July 1, 2011, the PERS-DBRP member's early retirement benefit is the actuarial equivalent, with the exception that the benefit must be reduced using actuarially equivalent factors based on the most recent valuation of the system.
- For new members to SRS and GWPORS the Highest Average Compensation (HAC) is based on 60 consecutive months.

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, 2011.

The number of state participants as of December 31, 2010 follows:

| Enrollment | State Plan Participants | | | | | Total |
|---|-------------------------|----------------------------|-------------------|-----------|-------------------------------|---------------|
| | State | Facility Finance Authority | Housing Authority | PERS | Montana State Fund (New Fund) | |
| Active employees | 12,329 | 3 | 21 | 34 | 274 | 12,677 |
| Retired employees, spouses, and surviving spouses (1) | 5,097 | 1 | 8 | 12 | 110 | 5,234 |
| Total | 17,426 | 4 | 29 | 46 | 384 | 17,911 |

- (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, 2011 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 | 482 | 2,771 | 115 | 199 | 86 | 80 | 2,345 | 396 | 174 | 319 | 6,967 |
| Retired employees, spouses, and surviving spouses | 177 | 923 | 21 | 105 | 29 | 29 | 844 | 143 | 63 | 77 | 2,411 |
| Total | 659 | 3,694 | 136 | 304 | 115 | 109 | 3,189 | 539 | 237 | 396 | 9,378 |

D. Funding Policy

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

As of June 2011, the State plan's administratively established retiree medical premiums vary between \$285 and \$982 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$34.90 and \$59.36 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 \$263 and \$982 per month and are revised annually. The plan provides different coinsurance amounts depending on whether members use preferred, non-preferred, or other hospitals. After an annual \$650 deductible for most non-Medicare-eligible retirees, the MUS plan reimburses 75% for the first \$1,300 in medical claims and 100% thereafter. There is an optional \$1,500 deductible plan available to retirees with a reduced premium. After the \$1,500 annual deductible, the plan pays 75% of the first \$3,000 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2011, 1,372 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 6.24% of annual covered payroll. The State's annual covered payroll is \$544.497 million. The current MUS's ARC of \$19.290 million is 5.03% of annual covered payroll. The MUS's annual covered payroll is \$383.487 million.

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

The following table presents the OPEB cost for the year, the amount contributed, and changes in the OPEB plan for fiscal year 2011 (in thousands):

| Annual OPEB Cost | | |
|---|--------------|------------|
| | State | MUS |
| Annual required contribution/OPEB cost | \$33,986 | \$19,290 |
| Interest on net OPEB obligation | 5,204 | 2,389 |
| Annual OPEB cost | 39,190 | 21,679 |
| Contributions made | - | - |
| Increase in net OPEB obligation | 39,190 | 21,679 |
| Net OPEB obligation – beginning of year | 122,462 | 56,196 |
| Net OPEB obligation – end of year | \$161,652 | \$77,875 |

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

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2011 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 | 6/30/2011 | \$33,986 | 0% | \$161,652 |
| | 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 | 6/30/2011 | 19,290 | 0% | 77,875 |
| | 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

The State and MUS are required by GASB 45 to obtain an actuarial evaluation every other year. Since an actuarial report was prepared for December 31, 2009 and June 30, 2010, respectively an actuarial evaluation was not prepared for December 31, 2010 or June 30, 2011, respectively.

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, 2011, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for four employees provided for up to six months and one-time incentive payments for eight employees, including payments to the retirement service purchase program. In determining termination benefit liability related to the continued coverage of group health insurance benefits, it was assumed that these benefits would be paid for the entire period of the arrangement.

During the year ended June 30, 2011, Component Units of the State made the following termination benefit arrangements: continued coverage of health insurance benefits for eight employees provided for up to twelve months and one-time incentive payments to two employees.

During the year ended June 30, 2011, the cost of termination benefits was \$117,167 and \$122,479 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% | |

**Other Postemployment Benefits
State Agent Multiple Employer Plan**

| | Retiree/Surviving Spouse | Spouse |
|------------------------------|-----------------------------|--------|
| Participation | | |
| Future retirees | 55% | |
| Future eligible spouses | 60% | |
| Marital status at retirement | 70% | |

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

**Other Postemployment Benefits
MUS Agent Multiple Employer Plan**

| | Retiree/Surviving Spouse | Spouse |
|-------------------------------|---|---------|
| Contributions (in thousands) | | |
| Before Medicare eligibility | \$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% | |

NOTE 8. RISK MANAGEMENT

There are three primary government public entity risk pools and one claims-servicing pool that are reported within the enterprise fund. These pools include Hail Insurance, the Montana University System (MUS) Group Insurance Plan, the MUS Workers Compensation Program, and the Subsequent Injury claims-servicing pool. The 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: Employees Group Benefits Plans and Administration Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage for the last three years. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock, 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 1,941 policies during the 2011 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 \$164,440 based on estimated claims through June 30, 2011. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Montana University System (MUS) Group Insurance Plan – This plan was authorized by the Board of Regents to provide medical, dental, prescription drug and related group benefits coverage to employees of the Montana University System and affiliates, as well as their dependents, retirees, and COBRA members. The MUS Group Insurance Plan is fully self-insured, except for life insurance, long-term care, long-term disability, accidental death and dismemberment, and vision insurance. Delta Dental administers the dental plan and MedImpact is the administrator for the prescription drug program. Allegiance Benefit Plan Management is the claims administrator for the self-insured indemnity plan and a managed care plan. New West Health Services, Blue Cross and Blue Shield of Montana, and Peak Health 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 \$7.600 million as of June 30, 2011, 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 program 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 2011, the program ceded \$250,215 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 \$9.784 million for estimated claims at June 30, 2011. 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, 2011, the amount of this liability was estimated to be \$3.351 million. Since each insurer is responsible for its own claim liabilities, the pool is acting as a claims service and there is no transfer or pooling of risk.

(5) Montana State Fund (New Fund) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990. The New Fund is a self-supporting, competitive State fund, and functions as the guaranteed market. At June 30, 2011, approximately 24,780 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, 2011, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Due to the fact that actual claim costs depend on such complex factors as inflation and changes in the law claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques in order to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2011, \$874.803 million of unpaid claims and claim adjustment expenses were presented at face value.

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. 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, 2011, was \$4.2 million.

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 support the New Fund against risks inherent in the business of insurance.

For the fiscal year ended June 30, 2011, 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 2011, 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 not to exceed 15% of the subject net earned premium. In the event reinsurers are unable to meet their obligations, under either the excess of loss contracts or the aggregate stop loss contract, 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 \$11.3 million in fiscal year 2011.

Estimated claim reserves were reduced by \$8.0 million for fiscal year 2011 for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excessive loss reinsurance contract. In fiscal year 2011, estimated claim reserves were reduced by an additional \$21.2 million for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due the aggregate stop loss contract.

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

An actuarial study prepared by Towers Watson, as of June 30, 2011, 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, 2011, \$64.621 million of unpaid claims and claim adjustment expenses were reported at face value. The liability presented on a discounted basis would be \$52.9 million, assuming that the Old Fund were to acquire a large sum that could be invested to support the liability and discount the payable at a rate of 2.5% (approximating current market rates).

(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.

| | <u>Primary Government</u> | | | | <u>MUS Workers Compensation Program</u> | |
|---|---------------------------|---------|---------------------------------|----------|---|----------|
| | <u>Hail Insurance</u> | | <u>MUS Group Insurance Plan</u> | | 2011 | 2010 |
| | 2011 | 2010 | 2011 | 2010 | | |
| Unpaid claims and claim adjustment expenses at beginning of year | \$ 238 | \$ 354 | \$ 6,600 | \$ 6,900 | \$ 8,801 | \$ 7,733 |
| Incurred claims and claim adjustment expenses: | | | | | | |
| provision for insured events of the current year | 6,309 | 3,961 | 67,327 | 67,096 | 3,608 | 2,959 |
| Increase (decrease) in provision for Insured events of prior years | 640 | (255) | - | - | (53) | 256 |
| Total incurred claims and claim adjustment expenses | 6,949 | 3,706 | 67,327 | 67,096 | 3,555 | 3,215 |
| Payments: | | | | | | |
| Claims and claim adjustment expenses attributable to insured events of the current year | (6,144) | (3,723) | (66,327) | (67,396) | (742) | (572) |
| Claims and claim adjustment expenses attributable to insured events of prior years | (879) | (99) | - | - | (1,830) | (1,575) |
| Total payments | (7,023) | (3,822) | (66,327) | (67,396) | (2,572) | (2,147) |
| Total unpaid claims and claim adjustment expenses at end of year | \$ 164 | \$ 238 | \$ 7,600 | \$ 6,600 | \$ 9,784 | \$ 8,801 |

| | <u>Component Units</u> | | | |
|---|-------------------------|------------|-------------------------|-----------|
| | Montana | | Montana | |
| | <u>State Fund (New)</u> | | <u>State Fund (Old)</u> | |
| | 2011 | 2010 | 2011 | 2010 |
| Unpaid claims and claim adjustments expenses at beginning of year | \$ 838,765 | \$ 813,305 | \$ 71,136 | \$ 79,163 |
| Incurred claims and claim adjustment expenses: | | | | |
| provision for insured events of the current year | 143,338 | 144,893 | - | - |
| Increase (decrease) in provision for insured events of prior years | 7,323 | 8,202 | 2,443 | 1,102 |
| Total incurred claims and claim adjustment expenses | 150,661 | 153,095 | 2,443 | 1,102 |
| Payments: | | | | |
| Claims and claim adjustment expenses attributable to insured events of the current year | (27,924) | (25,478) | - | - |
| Claims and claim adjustment expenses attributable to insured events of prior years | (86,699) | (102,157) | (8,958) | (9,129) |
| Total payments | (114,623) | (127,635) | (8,958) | (9,129) |
| Total unpaid claims and claim adjustment expenses at end of year | \$ 874,803 | \$ 838,765 | \$ 64,621 | \$ 71,136 |

B. Entities Other Than Pools

(1) Employee Group Benefits Plans – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracts with Blue Cross/Blue Shield, New West, and MedImpact for administration of its self-insured plans. Contributions are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments, and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2011, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, as well as other actuarially determined liabilities, were \$14.400 million based on a formula provided by Actuaries Northwest, a consulting actuarial firm, of which \$12.528 million is estimated to be paid in fiscal year 2012.

(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 \$4.8 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, 2001 through June 30, 2011, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2011, estimated claims liability was \$17.962 million.

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

| | Employees Group Benefits Plans | | Administration Insurance Plans | |
|--|---|-------------|---|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Amount of claims liabilities at the beginning of each fiscal year | \$ 11,460 | \$ 11,960 | \$ 16,674 | \$ 14,956 |
| Incurred claims: | | | | |
| Provision for insured events of the current year | 124,335 | 123,941 | 5,697 | 5,333 |
| Increases (decreases) in provision for insured events of prior years | (1,226) | (2,425) | (53) | 1,311 |
| Total incurred claims | 123,109 | 121,516 | 5,644 | 6,644 |
| Payments: | | | | |
| Claims attributable to insured events of the current year | (114,349) | (111,462) | (1,560) | (1,223) |
| Claims attributable to insured events of prior years | (7,692) | (10,554) | (2,796) | (3,703) |
| Total payments | (122,041) | (122,016) | (4,356) | (4,926) |
| Total claims liability at end of each fiscal year | \$ 12,528 | \$ 11,460 | \$ 17,962 | \$ 16,674 |

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2011, the Department of Transportation had contractual commitments of approximately \$316.4 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matched with state special revenue funds.

B. Capital Construction

At June 30, 2011, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$15.6 million for capital projects construction. The primary government will fund \$12.9 million of these projects, with the remaining \$2.7 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, 2011, the BOI had committed, but not yet purchased, \$15,834,799 in loans from Montana lenders, compared to \$28,712,720 as of June 30, 2010. In addition to the above commitments, lenders had reserved \$8,189,839 for loans as of June 30, 2011, compared to \$24,002,450 on the same date in 2010.

The BOI makes reservations to fund mortgages from the state's pension funds. Prior to May 1, 2011, the Public Employees' and Teachers' retirement funds provided resources for residential mortgage purchases. Effective May 1, 2011, the Montana Retirement Funds Bond Pool holds the residential mortgages in its portfolio. As of June 30, 2011 and 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, 2011, the outstanding tax-exempt bonds issued by the Montana Facility Authority were issued in the amount of \$29,521,533. These bonds have been issued to facilities operating treatment and prerelease centers. The Department of Corrections agrees to provide payment on behalf of the contractors for the total principal and interest payments in regard to these outstanding bonds.

E. Proprietary Fund Commitments

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

Proprietary Fund Commitments

| <u>Enterprise funds</u> | <u>Amount</u> |
|---------------------------------|---------------|
| Historical Society Publications | \$ 15 |
| Liquor Warehouse | 98 |
| Other | 192 |
| Subtotal-Enterprise funds | \$ 305 |
| | |
| <u>Internal service funds</u> | |
| Administration Supply | 33 |
| Buildings & Grounds | 477 |
| DEQ Indirect Cost Pool | 27 |
| Information Technology Services | 2,612 |
| FWP Equipment | 18 |
| Labor Central Services | 87 |
| Prison Industries | 53 |
| Other Internal Services | 4 |
| Subtotal-Internal service funds | \$ 3,311 |

F. Encumbrances

As of June 30, 2011, 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 | \$ 24,595 | \$ 60,703 | \$ 28,426 | \$ 832 | \$ 114,556 |

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, 2011, were as follows (in thousands):

| Fiscal Year Ending June 30 | Primary Government | | |
|--------------------------------------|----------------------------|---------------------------------|---|
| | Governmental Activities | Business- Type Activities | Discretely Presented Component Units |
| 2012 | \$ 778 | \$ 99 | \$172 |
| 2013 | 475 | 95 | 127 |
| 2014 | 238 | 91 | 80 |
| 2015 | 125 | 87 | 63 |
| 2016 | 55 | 61 | 9 |
| 2017-2021 | 36 | - | - |
| Total minimum | 1,707 | 433 | 451 |
| Less: interest | (171) | (51) | (45) |
| Present value of minimum payments | \$1,536 | \$ 382 | \$406 |

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

| Asset Class | Primary Government |
|--------------------------|-----------------------|
| Buildings | \$ 1,434 |
| Equipment | 4,762 |
| Less: Accum Depreciation | (3,371) |
| Net Book Value | \$2,825 |

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2011 totaled \$21,264,431. Future rental payments under operating leases are as follows (in thousands):

| Fiscal Year Ending June 30 | Primary Government | | |
|-------------------------------|----------------------------|-----------------------------|---|
| | Governmental Activities | Business-Type Activities | Discretely Presented Component Units |
| 2012 | \$ 19,079 | \$ 553 | \$ 3,802 |
| 2013 | 18,380 | 487 | 3,664 |
| 2014 | 16,481 | 457 | 3,386 |
| 2015 | 13,454 | 399 | 3,121 |
| 2016 | 8,920 | 317 | 2,456 |
| 2017-2021 | 26,698 | 455 | 7,128 |
| 2022-2026 | 5,970 | - | 1,176 |
| Thereafter | 979 | - | 3,293 |
| Total future rental payments | \$109,961 | \$ 2,668 | \$28,026 |

NOTE 11. STATE DEBT**A. General Information**

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

B. Short-term Debt

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

During fiscal year 2011, the State issued two bond anticipation notes that pertain to drinking water, wastewater and irrigation, and one bond anticipation note related to drinking water. The proceeds were used for water system improvements and to fund local governments to rehabilitate irrigation and water systems, respectively. The State issued two bond anticipation notes during fiscal year 2010, that were active in fiscal year 2011, which pertained to irrigation and water. The proceeds were used to loan funds to local governments to rehabilitate irrigation and water systems. The following schedule summarizes the activity for the year ended June 30, 2011 (in thousands):

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> |
|------------------------|--------------------------|------------------|-------------------|-----------------------|
| BANs | | | | |
| Irrigation – 2009A | 1,556 | - | 1,556 | - |
| Irrigation – 2009B | 388 | - | 388 | - |
| Irrigation – 2011 A | - | 1,179 | - | 1,179 |
| Irrigation – 2011 B | - | 1 | - | 1 |
| RANs | | | | |
| Drinking Water – 2011A | - | 850 | - | 850 |

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, 2011, were as follows (in thousands):

| <u>Series</u> | <u>Amount Issued</u> | <u>Balance June 30, 2011</u> |
|---------------|----------------------|------------------------------|
| 1997 | 10,000 | \$ 9,280 |
| 1998 | 12,500 | 11,930 |
| 2000 | 15,000 | 14,565 |
| 2003 | 15,000 | 14,605 |
| 2004 | 18,500 | 18,290 |
| 2007 | 15,000 | 14,860 |
| 2010 | 12,000 | 12,000 |
| Total | | <u>\$95,530</u> |

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2011 (in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance |
|--------------|--------------------------|------------------|-------------------|-----------------------|
| Demand bonds | \$96,075 | \$ - | \$545 | \$95,530 |

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, 2011, were as follows (in thousands):

| Governmental Activities | Series | Amount Issued | Interest Range (%) (1) | Principal Payments | | Balance June 30, 2011 |
|--|---------------|----------------------|-------------------------------|---------------------------|--------------------------------|------------------------------|
| | | | | Fiscal Year 2012 | In Year of Maturity (2) | |
| General obligation bonds | | | | | | |
| Drinking Water Revolving Fund (3) | 1998F | \$ 3,065 | 3.6-4.85 | \$ 170 | 200 (2016) | \$ 925 |
| Long-Range Bldg Program | 2001B | 11,430 | 4.1-5.75 | 535 | 535 (2012) | 535 |
| Long-Range Bldg Program | 2002B | 10,475 | 3.35-4.7 | 510 | 730 (2023) | 6,990 |
| Hard Rock Mining Reclamation | 2002C | 2,500 | 3.5-4.7 | 110 | 200 (2023) | 1,795 |
| Long-Range Bldg Program | 2003A | 9,730 | 2.37-4.0 | 465 | 655 (2024) | 6,890 |
| Energy Conservation Program (5) | 2003B | 1,250 | 2.0-3.0 | 135 | 145 (2014) | 420 |
| Water Pollution Control Revolving Fund (3) | 2003D | 2,730 | 2.0-3.1 | 180 | 190 (2014) | 555 |
| Drinking Water Revolving Fund (3) | 2003E | 1,675 | 2.0-3.1 | 110 | 115 (2014) | 335 |
| Long-Range Bldg Program Refunding | 2003G | 26,610 | 2.0-5.0 | 1,875 | 2,310 (2017) | 12,505 |
| Water Pollution Control Revolving Fund (3) | 2004A | 2,665 | 2.0-3.8 | 705 | 705 (2012) | 705 |
| Long-Range Bldg Program | 2004B | 3,125 | 3.0-4.75 | 180 | 170 (2025) | 2,165 |
| Long-Range Bldg Program Refunding | 2005A | 14,945 | 3.0-5.25 | 1,330 | 1,205 (2019) | 11,910 |
| Long-Range Bldg Program | 2005B | 1,670 | 3.25-4.3 | 70 | 120 (2026) | 1,370 |
| Energy Conservation Program (5) | 2005C | 2,500 | 3.25-4.0 | 255 | 290 (2016) | 1,355 |
| CERCLA Program (6) | 2005D | 2,000 | 3.25-4.3 | 85 | 140 (2026) | 1,635 |
| Drinking Water Revolving Fund (3) | 2005F | 3,875 | 4.0-4.75 | 235 | 350 (2021) | 2,865 |
| Water Pollution Control Revolving Fund (3) | 2005G | 2,110 | 4.0-4.75 | 125 | 190 (2021) | 1,555 |
| Long-Range Bldg Program Refunding | 2005H | 10,055 | 3.0-5.0 | 895 | 1,300 (2020) | 9,700 |
| Long-Range Bldg Program | 2006A | 31,350 | 4.0-5.0 | 1,465 | 1,930 (2027) | 26,280 |
| Energy Conservation Program (5) | 2006B | 3,750 | 4.0-6.0 | 220 | 330 (2022) | 3,000 |
| CERCLA Program (6) | 2006C | 1,000 | 4.0 | 100 | 120 (2017) | 650 |
| Renewable Resource Program (4) | 2006D | 950 | 5.6-6.0 | 55 | 90 (2022) | 775 |
| Long-Range Bldg Program Refunding | 2007A | 16,740 | 4.25-5.0 | 1,865 | 2,465 (2018) | 14,955 |
| Long-Range Bldg Program | 2007D | 11,720 | 4.375-4.75 | 445 | 3,865 (2028) | 10,505 |
| Long-Range Bldg Program | 2008D | 3,100 | 3.375-4.35 | 115 | 220 (2028) | 2,675 |
| Long-Range Bldg Program Refunding | 2010A | 20,220 | 2.0-4.0 | 3,135 | 710 (2021) | 17,020 |
| Drinking Water Revolving Fund Refunding (3) | 2010B | 5,400 | 2.0-4.0 | 410 | 110 (2026) | 5,330 |
| Water Pollution Control Revolving Fund Refunding (3) | 2010C | 6,450 | 2.0-4.0 | 465 | 210 (2026) | 6,385 |
| Trust Land | 2010F | 21,000 | 1.55-4.9 | 600 | 1,450 (2031) | 21,000 |
| Long-Range Bldg Program | 2010G | 550 | 1.5-2.7 | 40 | 60 (2021) | 550 |
| Renewable Resource Program (Taxable) (4) | 2010H | 1,000 | 1.0-3.85 | 70 | 115 (2021) | 1,000 |
| Total general obligation bonds | | \$235,640 | | \$16,955 | | \$174,335 |

| <u>Governmental Activities</u> | Series | Amount Issued | Interest Range (%) (1) | Principal Payments | | Balance June 30, 2011 |
|---|--------|------------------|------------------------|--------------------|-------------------------|-----------------------|
| | | | | Fiscal Year 2012 | In Year of Maturity (2) | |
| Special revenue bonds | | | | | | |
| State Hospital Project (7) | 1997 | \$ 25,915 | 4.0-5.05 | \$ 1,115 | 1,820 (2022) | \$ 15,865 |
| Renewable Resource Program (8) | 2001B | 1,750 | 5.2-7.1 | 85 | 140 (2020) | 995 |
| Renewable Resource Program Refunding (8) | 2001C | 12,155 | 2.55-4.3 | 1,045 | 500 (2013) | 1,545 |
| Renewable Resource Program (8) | 2001E | 885 | 2.1-4.85 | 40 | 65 (2022) | 570 |
| Renewable Resource Program (8) | 2001F | 900 | 3.3-6.2 | 40 | 75 (2022) | 615 |
| Developmental Center Project Refunding (7) | 2003 | 11,510 | 3.0-5.0 | 715 | 970 (2019) | 6,675 |
| Renewable Resource Program (8) | 2003A | 3,000 | 1.05-4.05 | 130 | 215 (2024) | 2,180 |
| Renewable Resource Program (8) | 2004B | 430 | 4.45-5.45 | 25 | 40 (2020) | 295 |
| U.S. Highway 93 GARVEES (9) | 2005 | 122,795 | 3.65-5.19 | 7,670 | 11,315 (2020) | 84,325 |
| U.S. Highway 93 GARVEES (9) | 2008 | 44,670 | 3.5-5.0 | 2,505 | 3,925 (2023) | 37,525 |
| Broadwater Power Proj Refunding (8) | 2010A | 10,180 | 3.0-4.0 | 1,325 | 1,605 (2018) | 10,180 |
| Renewable Resource Program (8) | 2010B | 1,730 | 2.0-3.6 | 70 | 115 (2031) | 1,730 |
| Renewable Resource Program (Taxable) (8) | 2010C | 6,720 | 0.9-4.2 | 325 | 1,280 (2013) | 6,720 |
| Total special revenue bonds | | <u>\$242,640</u> | | <u>\$ 15,090</u> | | <u>\$169,220</u> |
| Notes payable | | | | | | |
| Water Conservation (Little Dry Project) (10) | | \$ 50 | 5.0 | \$ 1 | 1 (2012) | \$ 1 |
| Water Conservation (Petrolia Project) (10) | | 50 | 5.0 | 2 | 2 (2016) | 12 |
| Middle Creek Dam Project (11) | | 3,272 | 8.125 | 58 | 219 (2034) | 2,533 |
| Tongue River Dam Project (12) | | 11,300 | - | 290 | 290 (2038) | 7,823 |
| Total notes payable | | <u>\$ 14,672</u> | | <u>\$ 351</u> | | <u>\$ 10,369</u> |
| Subtotal governmental activities, before deferred balances | | | | | | 353,924 |
| Deferred amount on refunding | | | | | | (3,514) |
| Unamortized discount | | | | | | (28) |
| Unamortized premium | | | | | | 7,790 |
| Total governmental activities | | <u>\$492,952</u> | | <u>\$32,396</u> | | <u>\$358,172</u> |
| Business-type Activities | | | | | | |
| Bonds/notes payable | | | | | | |
| <u>Economic Development Bonds (13)</u> | | | | | | |
| Municipal Finance Consolidation Act Bonds (Irrigation Program) (14) | 1988 | \$ 4,976 | 6.60-7.75 | \$ 60 | 70 (2014) | \$ 195 |
| Total bonds/notes payable | | <u>4,976</u> | | <u>60</u> | | <u>195</u> |
| Total business-type activities | | <u>\$ 4,976</u> | | <u>\$ 60</u> | | <u>\$ 195</u> |

- (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.8
- (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.
- (11) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation.
- (12) Northern Cheyenne Tribe loan to the Montana Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.
- (13) Economic Development Bonds & Municipal Finance Consolidation Act Bonds – This program is directed by the Board of Investments, which is attached to the Department of Commerce for administrative purposes. The program assists Montana's small businesses and local governments in obtaining low-cost financing.
- (14) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds, and the interest thereon, are payable solely from the collection of a special tax or assessment, which is a lien against real property in the Irrigation District. The Irrigation Bonds are limited obligations of the Board of Investments, due to an irrevocable pledge to lend money for deposit by the trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein, on any payment date. The indenture does not permit the issuance of additional bonds.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2011, were as follows (in thousands):

| Year Ended June 30 | Governmental Activities | | | | | |
|-----------------------|--------------------------|-----------|-----------------------|-----------|---------------|----------|
| | General Obligation Bonds | | Special Revenue Bonds | | Notes Payable | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2012 | \$ 16,955 | \$ 7,062 | \$ 15,090 | \$ 7,763 | \$ 351 | \$ 45 |
| 2013 | 17,085 | 6,150 | 15,155 | 7,136 | 353 | 45 |
| 2014 | 17,650 | 5,517 | 15,290 | 6,489 | 355 | 45 |
| 2015 | 16,035 | 4,872 | 15,955 | 5,810 | 368 | 45 |
| 2016 | 14,810 | 4,243 | 16,680 | 5,081 | 370 | 45 |
| 2017-2021 | 54,155 | 13,088 | 76,290 | 13,041 | 1,892 | 224 |
| 2022-2026 | 24,720 | 5,334 | 12,950 | 1,289 | 1,993 | 224 |
| 2027-2031 | 12,925 | 1,140 | 1,810 | 160 | 2,127 | 224 |
| 2032-2036 | - | - | - | - | 1,981 | 134 |
| 2037-2041 | - | - | - | - | 579 | - |
| Total | \$174,335 | \$ 47,406 | \$169,220 | \$ 46,769 | \$ 10,369 | \$ 1,031 |

Business-type Activities

| Year Ended June 30 | Economic Development Bonds | |
|-----------------------|----------------------------|----------|
| | Principal | Interest |
| 2012 | \$ 60 | \$ 13 |
| 2013 | 65 | 8 |
| 2014 | 70 | 2 |
| Total | \$ 195 | \$ 23 |

Debt service requirements of discretely presented component units at June 30, 2011, were as follows (in thousands):

| Year Ended June 30 | Housing Authority | | Montana State University | | University of Montana | |
|-----------------------|-------------------|-----------|--------------------------|-----------|-----------------------|-----------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2012 | \$136,705 | \$ 31,429 | \$ 3,837 | \$ 6,432 | \$ 6,165 | \$ 5,555 |
| 2013 | 12,615 | 30,807 | 5,774 | 4,579 | 6,392 | 5,323 |
| 2014 | 13,675 | 30,249 | 5,955 | 4,336 | 6,639 | 5,067 |
| 2015 | 14,445 | 29,641 | 6,240 | 4,077 | 6,882 | 4,805 |
| 2016 | 14,760 | 28,982 | 6,370 | 3,815 | 7,055 | 4,547 |
| 2017-2021 | 92,025 | 132,941 | 35,835 | 14,506 | 39,720 | 18,383 |
| 2022-2026 | 123,395 | 106,963 | 19,230 | 7,457 | 40,815 | 8,188 |
| 2027-2031 | 150,460 | 72,038 | 11,245 | 4,449 | 10,690 | 1,829 |
| 2032-2036 | 143,360 | 35,485 | 12,600 | 1,441 | 2,140 | 150 |
| 2037-2041 | 67,645 | 7,333 | - | - | - | - |
| 2042-2046 | 8,485 | 455 | - | - | - | - |
| Total | \$777,570 | \$506,323 | \$107,086 | \$ 51,092 | \$126,498 | \$ 53,847 |

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2011, 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 | \$169,150 | \$ 22,550 | \$ 17,365 | \$174,335 | \$16,955 | \$157,380 |
| Special revenue bonds | 176,570 | 18,630 | 25,980 | 169,220 | 15,090 | 154,130 |
| Notes payable | 10,717 | - | 348 | 10,369 | 351 | 10,018 |
| | 356,437 | 41,180 | 43,693 | 353,924 | 32,396 | 321,528 |
| Deferred amount on refunding | (3,735) | 1,650 | 1,429 | (3,514) | - | (3,514) |
| Unamortized discount | (95) | 67 | - | (28) | - | (28) |
| Unamortized premium | 8,300 | - | 510 | 7,790 | - | 7,790 |
| Total bonds/notes payable | 360,907 | 42,897 | 45,632 | 358,172 | 32,396 | 325,776 |
| Other liabilities | | | | | | |
| Lease/installment purchase payable | 2,440 | 169 | 1,073 | 1,536 | 703 | 833 |
| Operating lease rent holiday | - | 83 | - | 83 | - | 83 |
| Compensated absences payable (1) | 95,500 | 48,013 | 50,683 | 92,830 | 50,335 | 42,495 |
| Early retirement benefits payable (1) | 30 | - | 4 | 26 | 7 | 19 |
| Arbitrage rebate tax payable (1) | 241 | - | 133 | 108 | 1 | 107 |
| Estimated insurance claims (1) | 29,684 | 4,556 | 1,878 | 32,362 | 16,151 | 16,211 |
| Pollution Remediation | 533,762 | 107,563 | 117,987 | 523,338 | 47,575 | 475,763 |
| OPEB implicit rate subsidy (2) | 117,971 | 37,736 | - | 155,707 | - | 155,707 |
| Total other liabilities | 779,628 | 198,120 | 171,758 | 805,990 | 114,772 | 691,218 |
| Total governmental activities | | | | | | |
| Long-term liabilities | \$1,140,535 | \$241,017 | \$217,390 | \$1,164,162 | \$147,168 | \$1,016,994 |
| Business-type activities | | | | | | |
| Bonds/notes payable | | | | | | |
| Economic Development Bonds | \$ 370 | \$ - | \$ 175 | \$ 195 | \$ 60 | \$ 135 |
| Total bonds/notes payable | 370 | - | 175 | 195 | 60 | 135 |
| Other liabilities | | | | | | |
| Lease/installment purchase payable | - | 457 | 75 | 382 | 80 | 302 |
| Compensated absences payable | 1,594 | 811 | 852 | 1,553 | 843 | 710 |
| Arbitrage rebate tax payable | 12 | - | 1 | 11 | 11 | - |
| Estimated insurance claims | 18,851 | 2,735 | 687 | 20,899 | 9,769 | 11,130 |
| OPEB implicit rate subsidy (2) | 2,083 | 663 | - | 2,746 | - | 2,746 |
| Total other liabilities | 22,540 | 4,666 | 1,615 | 25,591 | 10,703 | 14,888 |
| Total business-type activities | | | | | | |
| Long-term liabilities | \$ 22,910 | \$ 4,666 | \$ 1,790 | \$ 25,786 | \$10,763 | \$ 15,023 |

(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, 2011, 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 | \$ 883,386 | \$ 41,263 | \$ 141,934 | \$ 782,715 | \$136,705 | \$ 646,010 |
| Montana State University (MSU) | 114,070 | 94 | 5,136 | 109,028 | 5,514 | 103,514 |
| University of Montana (UM) | 129,336 | 49,256 | 54,245 | 124,347 | 6,197 | 118,150 |
| Total bonds/notes payable (1) | 1,126,792 | 90,613 | 201,315 | 1,016,090 | 148,416 | 867,674 |
| Other liabilities | | | | | | |
| Lease/installment purch pay | 270 | 324 | 188 | 406 | 149 | 257 |
| Compensated absences pay | 55,240 | 23,527 | 24,631 | 54,136 | 24,418 | 29,718 |
| Arbitrage rebate tax payable | 809 | 67 | 31 | 845 | 518 | 327 |
| Estimated insurance claims | 896,759 | 166,246 | 123,581 | 939,424 | 119,175 | 820,249 |
| Due to federal government | 32,426 | 240 | 76 | 32,590 | - | 32,590 |
| Derivative swap liability | 3,798 | 82 | - | 3,880 | - | 3,880 |
| Reinsurance funds withheld | 64,201 | 10,344 | 16,657 | 57,888 | - | 57,888 |
| OPEB implicit rate subsidy (2) | 55,683 | 21,371 | - | 77,054 | - | 77,054 |
| Total other liabilities | 1,109,186 | 222,201 | 165,164 | 1,166,223 | 144,260 | 1,021,963 |
| | \$2,235,978 | \$312,814 | \$366,479 | \$2,182,313 | \$292,676 | \$1,889,637 |
| Long-term liabilities of Montana University System component units | | | | | 14 | 1,178 |
| Total discretely presented component units | | | | | \$292,690 | \$1,890,815 |
| 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 Natural Resources and Conservation (DNRC) used current available resources to make the following payments which resulted in the bonds being paid in full: \$620,000 of general obligation Series 2003C; \$480,000 of special revenue Series 1997B; \$255,000 of special revenue Series 2001A.

Current Refundings

On September 16, 2010, the DNRC issued special revenue Series 2010A Bonds in the amount of \$10,180,000 to make an advanced refunding of \$11,065,000 of Series 2001D Bonds. The refunding resulted in an economic gain of \$1,375,936 and a difference in cash flow requirements of \$1,271,196.

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, 2011, \$67,125,000 of bonds outstanding was considered defeased.

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, 2011, \$86,307,315 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, 2011, industrial revenue bonds outstanding aggregated \$161 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, 2011, QZAB debt outstanding aggregated \$10.1 million.

The BOI is also authorized to issue Qualified School Construction Bonds (QSCB) under the Municipal Finance Consolidation Act. The revenues of the borrower are pledged to repay the bonds. At June 30, 2011, QSCB debt outstanding aggregated \$8.4 million.

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

Beginning Farm Loan Program

The Montana Department of Agriculture is authorized to request issuance of bonds by the BOI to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2011, was as follows: Hershberger Project – issued \$129,412, outstanding \$92,988; Young Project – issued \$223,300, outstanding \$180,300.

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, with the exception of the State Hospital Project included in section C. Long-term Debt of the State Debt footnote, Note 11. At June 30, 2011, revenue bonds outstanding aggregated \$1.087 billion, and notes payable outstanding aggregated \$22.2 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, 2011, bonds outstanding aggregated \$10,398,851.

H. Derivative Transactions Related to Long-term Debt

Montana State University (MSU) has two interest rate swaps as of June 30, 2011. 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, 2011:

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

*Counterparty may opt out in 2016

As of June 30, 2011, 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. In addition, Statement No. 53 permits a governmental entity to use other quantitative methods that are based on “established principles of financial economic theory.” The fixed payer swap passes the established criteria using the regression analysis methodology.

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

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

The table below summarizes the reported balances as of, and the derivative instrument activity during, the year ended June 30, 2011.

| Cash flow hedges: | Notional | Activity During 2011 – Increase (Decrease) | | Fair Values at June 30, 2011— | |
|------------------------------|---------------|---|------------|-------------------------------|---------------------|
| | | Classification | Amount | Classification | Amount |
| Cash flow hedge – | | | | | |
| Pay fixed interest rate swap | \$ 24,150,000 | Interest Expense | \$ 234,515 | Loan receivable | <u>\$ 363,289</u> |
| | | Investment Revenue | 478,609 | Hybrid instrument liability | 1,076,413 |
| | | Deferred outflow | (975,297) | Noncurrent liability | <u>2,803,772</u> |
| | | | | Total liability | <u>3,880,185</u> |
| Investment derivative – | | | | | |
| Basis swap | 24,150,000 | Investment income | 121,395 | Investment | <u>\$ 1,779,844</u> |

The objective and terms of MSU's hedging derivative outstanding as of June 30, 2011 is as follows:

| Type | Objective | Notional amount (000's) | Effective Date | Termination Date | Cash (Paid)/Received (000's) | Terms |
|--|---|-------------------------|----------------|------------------|------------------------------|-----------------------------|
| Pay fixed, cancelable interest rate swap | Hedge interest rate risk on Series J 2005 Bonds | \$24.150 | 3/10/2005 | 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, 2011, 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, net swap payments decrease so that changes in hedged variable-rate debt interest payments, attributable to SIFMA, are largely offset by the net swap payments.

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

MSU or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, MSU's fixed payer swap counterparty has the right to terminate the derivative if the credit rating of MSU's unenhanced long-term revenue bond rating is withdrawn, suspended or reduced below BBB-, in the case of S&P, or below Baa3 in the case of Moody's. If such an event occurs, the MSU could be forced to terminate the fixed payer swap in a liability position. As of June 30, 2011, MSU's unenhanced long-term revenue bond rating was Aa3 by Moody's.

MSU's hedging derivative includes a cancellation option which allows the counterparty to cancel the swap on 12/14/2016. Should the counterparty exercise its option, MSU would be exposed to rollover risk as exercise would only be likely in a rate environment higher than that at the time the trade was originally entered into.

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

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 State's estimated pollution remediation liability as of July 1, 2010 was estimated at \$533.8 million. The liability as of June 30, 2011 was \$523.3 million. Of this liability, \$219.7 million resulted in settlement agreements to provide restoration of natural resources, water supplies and natural resource-based recreational opportunities up to the settlement amount; \$287.5 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, 2011, consisted of the following (in thousands):

| | Due to Other Funds | | | | |
|-----------------------------|---------------------------------------|-------------------------------|-----------------|----------------------------------|-------------------------------------|
| | Coal Severance Tax Permanent | Federal Special Revenue | General Fund | Internal Service Funds (3) | Nonmajor Enterprise Funds (4) |
| Due From Other Funds | | | | | |
| Economic Development Bonds | \$ - | \$ - | \$ - | \$ 868 | \$ - |
| General Fund | 4,273 | - | - | - | 11,818 |
| Internal Service Funds | 37 | 88 | 11 | - | - |
| Land Grant Trust | - | - | - | - | - |
| Nonmajor Enterprise Funds | - | 2 | 1 | - | - |
| Nonmajor Governmental Funds | - | 97 | 573 | - | - |
| State Special Revenue | - | 291 | 312 | 12 | 36 |
| Total | \$4,310 | \$478 | \$897 | \$880 | \$11,854 |

| | Due to Other Funds (cont) | | | |
|---|-----------------------------------|-----------------------------|------------------------|-----------|
| | Nonmajor Governmental Funds | State Special Revenue | Land Grant Trust | Total |
| Due From Other Funds (continued) | | | | |
| Economic Development Bonds | \$ 5 | \$ 2,026 | \$ - | \$ 2,899 |
| General Fund | - | 34,728 | - | 50,819 |
| Internal Service Funds | - | 80 | - | 216 |
| Land Grant Trust | - | (403) | 403 | 0 |
| Nonmajor Enterprise Funds | - | - | - | 3 |
| Nonmajor Governmental Funds (2) | 1091 | (62) | - | 1,699 |
| State Special Revenue (1) | 881 | - | 23 | 1,555 |
| Total | \$ 1,977 | \$ 36,369 | \$ 426 | \$ 57,191 |

- (1) Total due from the state special revenue fund on the fund financial statement is reported as \$7,847,000. The difference of \$6,292,190 between the amount reported above of \$1,554,810 and the amount reported on the fund financial statement relates to long term receivables. The receivables were recorded in the fund financial statement and the long term liabilities were recorded in the entitywide statement.
- (2) Total due from the non-major governmental funds on the financial statements is reported as \$1,037,000. The difference of \$661,906 between the amount reported above of \$1,083,906 and the amount reported on the financial statements relates to long term receivables. The receivables were recorded in the fund financial statement and the long term liability were recorded in the entitywide statement.
- (3) Total due to the internal service funds on the fund financial statement is reported as \$1,858,308. The difference of \$978,840 between the amount reported above of \$879,468 and the amount reported on the fund financial statement relates to loans payable. The liabilities were recorded in the fund financial statement and the receivables were reported in the entitywide statement.
- (4) Total due to the nonmajor enterprise funds on the fund financial statement is reported as \$12,204,619. The difference of \$350,676 between the amount reported above of \$11,853,943 and the amount reported on the fund financial statement relates to loans payable. The liabilities were recorded in the fund financial and the receivables were reported in the entitywide statement.

B. Interfund Loans Receivable/Payable

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

Interfund loans receivable/payable at June 30, 2011, consisted of the following (in thousands):

| | Interfund Loans Payable | | | | | Total |
|-----------------------------------|-------------------------------|------------------------------|---------------------------------|-----------------------------|---------------------------|------------|
| | Federal Special Revenue | Internal Service Funds | Nonmajor Enterprise Funds | State Special Revenue | Unemployment Insurance | |
| Interfund Loans Receivable | | | | | | |
| General Fund | \$ 38,196 | \$ - | \$ 25 | \$ 7,739 | \$ - | \$ 45,960 |
| Federal Special Revenue | - | - | - | 39 | - | 39 |
| Internal Service Funds | 355 | - | - | - | - | 355 |
| Nonmajor Enterprise Funds | 3 | - | - | - | - | 3 |
| State Special Revenue | 60,404 | 1,462 | - | - | 12 | 61,878 |
| Total | \$ 98,958 | \$ 1,462 | \$ 25 | \$ 7,778 | \$ 12 | \$ 108,235 |

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, 2011, consisted of the following (in thousands):

| | Advances from Other Funds | | | | Total |
|--------------------------------|----------------------------------|------------------------------|-----------------------------------|-----------------------------|-----------------|
| | Federal Special Revenue | Internal Service Funds | Nonmajor Governmental Funds | State Special Revenue | |
| Advances to Other Funds | | | | | |
| Economic Development Bonds | \$ - | \$ 2,856 | \$ 2,030 | \$13,094 | \$17,980 |
| General Fund | 1,250 | - | - | - | 1,250 |
| Nonmajor Enterprise Funds | 75 | - | - | - | 75 |
| Nonmajor Governmental Funds | - | - | - | 8,696 | 8,696 |
| State Special Revenue | 2,605 | 300 | 16,161 | - | 19,066 |
| Total | <u>\$ 3,930</u> | <u>\$ 3,156</u> | <u>\$18,191</u> | <u>\$21,790</u> | <u>\$47,067</u> |

Additional detail for certain advance balances at June 30, 2011, follows (in thousands):

| Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program | |
|--|-----------------|
| Department | Balance |
| Natural Resources and Conservation | \$ 2,030 |
| Environmental Quality | 705 |
| Justice | 12,389 |
| Transportation | 2,856 |
| Total | <u>\$17,980</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, 2011, 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 | \$ - | \$ - | \$26,783 | \$ - | \$ - |
| Federal Special Revenue | - | - | 50 | - | - |
| General Fund | - | - | - | 811 | - |
| Internal Service Funds (1) | - | - | - | - | - |
| Land Grant Permanent | - | - | - | - | - |
| Nonmajor Enterprise Funds (2) | - | - | 33,509 | - | - |
| Nonmajor Governmental Funds | 393 | - | 16,289 | - | - |
| State Special Revenue | - | 1,351 | 11,313 | 4,655 | 1 |
| Unemployment Insurance | - | 1,584 | - | - | - |
| Total | <u>\$393</u> | <u>\$2,935</u> | <u>\$87,944</u> | <u>\$5,466</u> | <u>\$1</u> |

| | Transfers In (cont) | | | Total |
|-------------------------------|---------------------------------|-----------------------------------|-----------------------------|------------------|
| | Nonmajor Enterprise Funds | Nonmajor Governmental Funds | State Special Revenue | |
| Transfers Out (cont.) | | | | |
| Coal Severance Tax Permanent | \$ - | \$ 1,583 | \$ 6,000 | \$ 34,366 |
| Federal Special Revenue | - | 25,514 | 19,850 | 45,414 |
| General Fund | 51 | 37,491 | 39,157 | 77,510 |
| Internal Service Funds (1) | - | 305 | - | 305 |
| Land Grant Permanent | - | 579 | 75,105 | 75,684 |
| Nonmajor Enterprise Funds (2) | - | - | 4,554 | 38,063 |
| Nonmajor Governmental Funds | - | 9,032 | 21,641 | 47,355 |
| State Special Revenue | 3 | 19,282 | - | 36,605 |
| Unemployment Insurance | - | - | - | 1,584 |
| Total | \$54 | \$ 93,786 | \$166,307 | \$356,886 |

- (1) Total transfers-out for internal service funds on the financial statements is reported as \$2,247,564. The difference of \$1,943,064 between the amount reported above of \$304,500 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 \$39,053,317. The difference of \$989,901 between the amount reported above of \$38,063,416 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, 2011, (in thousands):

| Fund Type/Fund | Deficit |
|--------------------------------------|----------------|
| <u>Enterprise funds</u> | |
| Subsequent Injury | \$ (1,892) |
| <u>Internal service funds</u> | |
| Aircraft Operation | (121) |
| Justice Legal Services | (292) |
| Personnel Training | (12) |

NOTE 14. MAJOR PURPOSE PRESENTATION

Fund Balances Classifications and Special Revenue by Purpose – The Governmental Accounting Standards Board, in Statement No. 54, requires presentation of governmental fund balances and special revenue fund revenues by specific purpose. In the basic financial statements, the fund balance classifications are presented in the aggregate. The tables presented below further display the fund balances by major purpose for the year ending June 30, 2011.

| | State Special Revenue By Source (in thousands) | | | | | Total |
|---|--|---------------|----------------|---------------------------|-----------|--------------|
| | General Government | Public Safety | Transportation | Health and Human Services | Education | |
| Licenses/permits | \$ 57,536 | \$ 26,781 | \$ 19,894 | \$ 1,743 | \$ 170 | \$ 167,396 |
| Taxes | 229,622 | 3,013 | 209,351 | - | 364 | 456,914 |
| Charges for services | 27,565 | 8,831 | 4,231 | 31,010 | 804 | 92,655 |
| Investment earnings | 431 | 13,093 | 228 | 902 | 782 | 33,480 |
| Securities lending income | 38 | 267 | 36 | 47 | 13 | 832 |
| Sales of documents/merchandise/property | 267 | 1,882 | 252 | 103 | 288 | 3,984 |
| Rentals/leases/royalties | 211 | 2 | 305 | 23 | 5 | 759 |
| Contributions/premiums | 20,692 | - | - | - | - | 20,692 |
| Grants/contracts/ donations | 1,783 | 676 | 645 | 7,531 | 3,174 | 18,825 |
| Federal | 11,304 | 68 | - | 9 | - | 11,425 |
| Federal indirect recoveries | 59 | - | 43,177 | 4 | 2 | 46,473 |
| Other revenues | 724 | 482 | 903 | (308) | 1 | 1,918 |
| Transfers in | 39,537 | 3,463 | 299 | 12,725 | 557 | 166,307 |
| Total state special revenue | \$ 389,769 | \$ 58,558 | \$ 279,321 | \$ 53,789 | \$ 6,160 | \$ 1,021,660 |

| | Federal Special Revenue By Source (in thousands) | | | | | Total |
|--|--|---------------|----------------|---------------------------|------------|--------------|
| | General Government | Public Safety | Transportation | Health and Human Services | Education | |
| Charges for services | \$ 621 | \$ - | \$ - | \$ 2,716 | \$ 39,446 | \$ 42,785 |
| Investment earnings | 193 | 5 | - | - | 97 | 295 |
| Securities lending income | 1 | 1 | - | - | 11 | 13 |
| Sale of documents/merchandise/property | - | - | - | - | - | 1 |
| Grants/contracts/donations | - | - | - | - | - | 263 |
| Federal | 156,151 | 11,798 | 481,190 | 1,222,453 | 290,883 | 2,292,626 |
| Federal indirect cost recoveries | 78 | 53 | - | 53,464 | 625 | 54,471 |
| Other revenues | 9 | 6 | - | 159 | 1 | 192 |
| Transfers in | 1,590 | 7 | - | 1,308 | - | 2,935 |
| Total federal special revenue | \$ 158,643 | \$ 11,870 | \$ 481,190 | \$ 1,280,100 | \$ 331,063 | \$ 2,393,581 |

**Governmental Fund Balance By Function
June 30, 2011**

(in thousands)

| | Special Revenue | | | | Permanent | | | | Total |
|-----------------------------|-------------------|---------------------|------------------|--------------------|-------------------|-------------------|---------------|-------------|---------------------|
| | General | State | Federal | Coal Severance Tax | Land Grant | Nonmajor | | | |
| Fund balances | | | | | | | | | |
| Nonspendable | | | | | | | | | |
| Inventory | \$ 2,474 | \$ 20,533 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 23,007 |
| Permanent fund principle | - | - | - | 531,339 | 516,772 | 252,760 | - | - | 1,300,871 |
| Long-term notes/receivables | 65 | - | - | - | - | - | - | - | 65 |
| Prepaid expense | 352 | 902 | - | - | - | - | - | - | 1,254 |
| Total nonspendable | 2,891 | 21,435 | - | 531,339 | 516,772 | 252,760 | - | - | 1,325,197 |
| Restricted | | | | | | | | | |
| General government | - | 2,673 | 9,490 | - | - | 983 | - | - | 13,146 |
| Transportation | - | 116,353 | - | - | - | - | - | - | 116,353 |
| Health and Human Services | - | 17,104 | 661 | - | - | 4,260 | - | - | 22,025 |
| Natural Resources | - | 614,893 | 776 | - | 2,007 | 17,281 | - | - | 634,957 |
| Public Safety | - | 290,306 | 462 | - | - | - | - | - | 290,768 |
| Education | - | 5,226 | 23,689 | - | - | 139 | - | - | 29,054 |
| Total restricted | - | 1,046,555 | 35,078 | - | 2,007 | 22,663 | - | - | 1,106,303 |
| Committed | | | | | | | | | |
| General government | - | 168,655 | - | 380,234 | - | 39,403 | - | - | 588,292 |
| Transportation | - | 4,445 | - | - | - | - | - | - | 4,445 |
| Health and Human Services | - | 72,102 | - | - | - | - | - | - | 72,102 |
| Natural Resources | - | 275,246 | - | - | - | 37,221 | - | - | 312,467 |
| Public Safety | - | 14,675 | - | - | - | 718 | - | - | 15,393 |
| Education | - | 12,162 | - | - | - | - | - | - | 12,162 |
| Total committed | - | 547,285 | - | 380,234 | - | 77,342 | - | - | 1,004,861 |
| Assigned | | | | | | | | | |
| General government | - | 2,116 | - | - | - | 23,689 | - | - | 25,805 |
| Natural Resources | - | 41 | - | - | - | - | - | - | 41 |
| Public Safety | - | - | - | - | - | 1,853 | - | - | 1,853 |
| Encumbrances | 24,591 | - | - | - | - | - | - | - | 24,591 |
| Total assigned | 24,591 | 2,157 | - | - | - | 25,542 | - | - | 52,290 |
| Unassigned | | | | | | | | | |
| Total fund balance | \$ 341,875 | \$ 1,615,464 | \$ 35,078 | \$ 911,573 | \$ 518,779 | \$ 378,298 | \$ (9) | \$ - | \$ 339,898 |
| Total fund balance | \$ 369,557 | \$ 1,615,464 | \$ 35,078 | \$ 911,573 | \$ 518,779 | \$ 378,298 | \$ (9) | \$ - | \$ 3,828,549 |

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. As of June 30, 2011 The Regents and MHESAC have only one common voting member. Approximately 77.59% of the Regents' outstanding loan volume, or \$1,363,123,448, is held by MHESAC.

The Regents, which governs Montana Guaranteed Student Loan Program (MGSLP), also has an agreement with Student Assistance Foundation of Montana (SAF) to share certain costs for the lease of computer equipment; computer and software maintenance costs; and personnel costs for employees of SAF who perform services that are of direct benefit to MGSLP. Certain SAF personnel are authorized to purchase computer equipment for use by both MGSLP and SAF. Costs for these purchases are covered under an agreement for services between the two entities. During fiscal year 2011, MGSLP's portion of shared costs reimbursed to SAF was \$414,854.

The Montana Association of Health Care Purchasers (MAHCP) has a member from the Department of Administration (DOA), Health Care and Benefits Division as well as a member from the Montana University System. Both serve on the board of MAHCP and receive no remuneration for their services. DOA 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.

Office space for one of the regional public defender offices is provided at no charge to the office. The space is owned by the former 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.

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

The associations and booster club operate exclusively for the purpose of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with, UM. For the years ended June 30, 2011 and 2010, \$66,187 and \$ 77,189, respectively, was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, UM provides the associations and booster club with office space, staff and some related office expenses.

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

UM contributed \$1.75 million in matching funds in conjunction with a grant awarded by U.S Economic Development Administration in fiscal year 2011. The total \$3.50 million from the matching funds and the grant will be used to undertake a renovation of MonTEC.

Private nonprofit organizations affiliated with Montana State University (MSU) include the MSU Foundation, the MSU-Billings Foundation, the MSU-Northern Foundation, the MSU-Bozeman Alumni Association, the MSU Bobcat Club, the MSU-Bozeman Bookstore, Friends of KUSM, Friends of KEMC and the Museum of the Rockies, Inc.

Friends of Montana Public Television provided \$779,897 during 2011 and \$767,519 during 2010 and Friends of KEMC Public Radio provided \$300,000 during 2011 and \$726,500 during 2010 in support of the MSU's television and radio stations.

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.

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

navigability and the case proceeded to trial on the issue of compensation for use of trust lands. In June of 2008 the Court issued its ruling and ordered that PPL owed the state almost \$41 million for past use of the riverbeds.

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

PPL appealed the case to the United State Supreme Court and in June of 2011 the Court agreed to hear the case. Although the United States Solicitor General originally joined Montana in urging the Court to reject PPL's petition for cert, the Solicitor General joined PPL at the merits stage and has argued that the Montana Supreme Court applied the wrong standard for navigability and the record does not support a finding of navigability at statehood. In addition to other amicus curiae filings, Montana is joined in its argument by 26 other states. The U.S. Supreme Court overturned the Montana Supreme Court in February of 2012. The U.S. Supreme Court decision will require Montana courts to examine whether stretches of the Missouri, Madison and Clark Fork rivers are navigable, according to the standards defined by the high court.

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

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

In 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. Following briefing the Montana Supreme Court issued a decision on May 24, 2011, upholding several of the district court's rulings, reversing several rulings, and remanding the case to the district court for further proceedings. The Supreme Court's decision provided clarification regarding a number of issues, and the litigation is proceeding in the district court.

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 bar 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 the 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 on the grounds that the tribal court did not have jurisdiction, and was then appealed to the Crow Tribal Appellate Court. The Crow Tribal Court dismissed the appeal. There is a possibility of further legal action in this case. The actual potential cost impact to the State Fund is not known at this time. Liability for Montana State Fund, up to its policy limits (\$1,000,000), is reasonably possible.

Victory Insurance Company, Inc. v. Montana State Fund et al. Victory filed its Amended Complaint in this action on March 29, 2011, in which it asserts various tort claims against Montana State Fund. No specific amounts of damages were stated in the complaint. Pre-trial discovery is ongoing at this time. The actual potential cost impact to the State Fund is not known at this time. Montana State Fund does not have sufficient information to determine potential liability or cost impact.

Montana State Fund has been notified of threatened litigation against a State Fund policyholder that may be covered by the employer's liability coverage of the State Fund's insurance policy. State Fund has an accepted workers' compensation claim based on the injury incurred in this case. The exclusive remedy provisions of MCA Section 39-71-411 should bar 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, then the employer-policyholder may be legally responsible for causing the injuries to its employee. It is reasonably possible that Montana State Fund may be called upon to indemnify the employer-policyholder, up to the policy limits of \$1,000,000. The actual potential cost impact to the State Fund is not known at this time.

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

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

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

Given the Montana Supreme Court's approval of a class action in Diaz, the potential exposure for damages against the State increases, should it ultimately be determined that the State has violated the applicable made-whole laws. A September 2009 Montana Supreme Court opinion addressed certain exclusions included in BCBS insurance forms. In that case, the Supreme Court found that the exclusions at issue violated the made-whole laws applicable to insurance companies. This decision could adversely affect the State's position in Diaz. At this time, however, it is difficult to predict an outcome and monetary effect to the State because certain facts in Diaz distinguish it from the 2009 Supreme Court ruling in the case involving BCBS. The State's health plan is different from the forms in the BCBS case because, among other distinctions, the State's health plan is self-funded, and State employees do not pay any premiums for their health benefits provided to them. These payments are made by the State.

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 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 in the amount of \$3,979,680 (plus ongoing expenses) for claimed costs and expenses (including the \$1.9 million cost to purchase the property), plus lost profits of \$9,878,421. Discovery has been completed and the case is set for trial early in 2012. In the opinion of counsel, the State has numerous strong legal 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. The State furthermore does not believe the developer can show lost profits under the leases.

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 2011, Montana distributed \$363,224 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed \$8,394,712 in commodities in fiscal year 2011. The value at June 30, 2011 of commodities stored at the state's warehouse is \$2,292,412 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, 2011, 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 \$226,374,677. The BOI's exposure to bond issues of the Municipal Finance Consolidation Act Bond Fund was \$95,725,000, while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority was \$130,349,677.

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, 2011 the following assessments (by fund type) were outstanding (in thousands):

| <u>Taxes</u> | <u>General</u> | <u>State Special Revenue</u> |
|----------------------------|-----------------|--------------------------------------|
| Corporation Tax | \$16,730 | \$ - |
| Oil and Gas Production Tax | 485 | 119 |
| Total | <u>\$17,215</u> | <u>\$119</u> |

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 \$1,044,333.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2011. The corporations have appealed the department's decision to deny or adjust the refund. As of June 30, 2011, these include \$1,279,129 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, 2011. As of June 30, 2011, these include \$4,454,658 of protested property taxes recorded in the General Fund and \$5,056,235 recorded in State Special Revenue Funds.

NOTE 17. SUBSEQUENT EVENTS**Bond/Loan Issues**

The Montana Facility Finance Authority closed 6 bond issues subsequent to June 30, 2011. On July 15, 2011 \$4,950,000 of bonds were issued for Sapphire Lutheran Homes to refinance existing debt with approximately \$420,000 used for remodeling. On August 3, \$4,174,486 of bonds were issued for Kalispell Regional Medical Center to purchase equipment. On August 24, \$140,000,000 of bonds were issued for Billings Clinic with \$30 million for capital projects and the remainder used to refinance existing debt. On August 30, two bonds were issued; one for \$10 million for Missions United to refinance existing debt, and a bond issue of \$4,500,000 for St. John's Lutheran Ministries with approximately \$1.8 million to be used for remodeling and capital improvements with the remainder to refinance existing debt. On September 28, 2011 \$20,700,000 of bonds were issued for Bozeman Deaconess Health Services to construct and equip a new and expanded emergency department. On January 31, 2012, \$25 million of bonds were issued for North Valley Hospital located in Whitefish to refinance existing debt.

On July 15, 2011, the Board of Housing (BOH) approved \$3,000,000 for a set-aside loan program to assist Montana flood victims finance repairs to flood damaged homes located in the 31 Montana Counties designated as federal disaster areas.

On August 5, 2011, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the United States to 'AA+' from 'AAA,' and assigned a negative outlook. On August 2, 2011, Moody's Investors Service confirmed the 'Aaa' government bond rating of the United States, but assigned a negative outlook.

On November 17, 2011, BOH issued \$58,175,000 of Single Family Homeownership Bonds Series 2011 B / 2009 C. The Bonds will mature on June 1, 2012, through December 1, 2041, with interest rates from 2.47% to 5.00%. Bond proceeds of \$20,000,000 were used to purchase single family mortgage loans for BOH's Homeownership Program. Bond proceeds of \$38,175,000 were used to refund existing bond issues.

On December 9, 2011, the Board elected to continue to participate in the U.S. Treasury New Issue Bond Program (NIBP) of the Housing Finance Agency Initiative. Originally, the program was to expire on December 31, 2011, and any remaining 2009 Series A bonds from the original program funding not converted to NIBP mortgage revenue bonds were to be redeemed by December 31, 2011. However, on November 17, 2011, the U.S. Department of Treasury extended the NIBP conversion period to December 31, 2012 which extends the period these funds are available to the Board by one calendar year. As of December 31, 2011, the Board had \$105,400,000 of NIBP Program funds remaining.

General Obligation Long-Range Building Program Refunding Bonds, Series 2011D, were issued July 19, 2011 for \$5,755,000 to be used for the purpose of refunding the General Obligation Long-Range Building Program Bonds, Series 2002B, with stated maturities in 2014 and thereafter.

In September 2011, the Montana Board of Regents authorized Montana State University-Bozeman to issue up to \$16 million in fixed rate bonds, the proceeds of which will be used to construct a suite-style residence hall and construct improvements to existing residence halls on the Bozeman campus. In November 2011, \$14.1 million par value bonds were issued a fixed interest rate at a total interest cost of 3.84%. The bonds will be repaid over a period of 15 years, from revenues pledged to the repayment of debt pursuant to the University's bond indenture.

In spring 2011, the Montana State University - Bozeman campus commenced an addition to its football stadium. Construction was completed in summer 2011, and included new seating, concessions areas, restroom facilities and a locker room. The total project cost was \$10 million, \$4 million of which was funded by the University through the State's Intercap Loan Program, and \$6 million of which was funded with donations through the MSU Foundation. As of June 30, 2011, the University had borrowed \$2,179,354, and subsequent to year-end drew an additional \$1,820,646 to complete the \$4 million University portion of the project. The final draw amount for the loan was made in August 2011.

The Department of Natural Resources & Conservation issued Revenue Anticipation Notes (RANs) on October 21, 2011, Series 2011B for \$1,100,000 in the Drinking Water State Revolving Fund (DWSRF) program and Series 2011C for \$1,900,000 in the Water Pollution Control State Revolving Fund (WPCSRF) program. These Taxable RANs are to match EPA Capitalization Grant funds.

Investment Related Issues

From July 1, 2011 through March 16, 2012, AFF Financing LLC payments total \$5,442,986 representing \$5,340,232 in principal and \$102,754 in interest. For the same period, the Board received payments associated with the Orion Finance collective holding of \$2,821,21 with \$2,352,745 and \$468,472 applied to principal and interest, respectively. On October 4, 2011, the Board received a partial refund from the Axon SIV Holdback/Reserve of \$11,128.

Because Lehman reached an agreement on their bankruptcy, BOI sold the \$5 million AOF position in Lehman Brothers Holdings, Inc. 5% rate, January 14, 2011 maturity at a price of \$26 on December 6, 2011. Because the bonds were previously written down to a price of \$20, this sale generated a gain of \$322,300.

Other Subsequent Events

On September 8, 2011, the First District Court in Billings approved a settlement of Libby Mine Claims in the amount of \$43 million. The settlement resolved claims asserted in 210 lawsuits including 1,178 claims of alleged asbestos related disease and 205 consortium claims. The state advanced \$26.8 million and NIC, a state insurer, advanced \$16.1 million.

In November 2011, the Montana Board of Regents approved the design of a new instructional building to house the college of business on the Bozeman campus, which is expected to be funded entirely by a \$25 million gift which was pledged in October 2011.

On February 23, 2012 the U.S. Supreme Court struck down the Montana court decision that said PPL Montana owes the state rent for operating hydroelectric dams on state-owned riverbeds. The decision was sent back to Montana courts for further examination. The \$40.96 million in accounts receivable reported in the Public Land Grant Permanent Fund may need to be reduced but the amount of reduction has not yet been determined.

On February 29, 2012, the Department of Environmental Quality received \$1.06 million from ExxonMobil for the Silvertip Pipeline Oil Spill. This included a \$300,000 penalty payment and cost recovery for all costs incurred by the six state agencies before January 1, 2011.

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, 2011, the Public Employees Retirement System-Defined Benefit Retirement Plan (PERS-DBRP), Sheriffs Retirement System (SRS), Game Warden & Peace Officers Retirement System (GWPORS), Highway Patrol Officers' Retirement System (HPORS) and Teachers Retirement System (TRS) were not in compliance. Detailed information for the retirement plan can be found in Note 6.

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**BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**
(amounts expressed in thousands)

| | GENERAL FUND | | | |
|---|---------------------|---------------------|-------------------|-------------------------------|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| REVENUES | | | | |
| Licenses/permits | \$ 107,668 | \$ 107,668 | \$ 118,749 | \$ 11,081 |
| Taxes: | | | | |
| Natural resource | 97,797 | 97,797 | 136,550 | 38,753 |
| Individual income | 852,746 | 852,746 | 798,590 | (54,156) |
| Corporate income | 121,371 | 121,371 | 120,240 | (1,131) |
| Property | 233,518 | 233,518 | 227,085 | (6,433) |
| Fuel | - | - | - | - |
| Other | 191,681 | 191,681 | 206,699 | 15,018 |
| Charges for services/fees/forfeits/settlements | 39,393 | 39,393 | 43,616 | 4,223 |
| Investment earnings | - | - | 3,907 | 3,907 |
| Sale of documents/merchandise/property | 1,558 | 1,558 | 329 | (1,229) |
| Rentals/leases/royalties | 2 | 2 | 20 | 18 |
| Contributions/premiums | - | - | (7) | (7) |
| Grants/contracts/donations | 3,780 | 3,780 | 4,313 | 533 |
| Federal | 31,798 | 31,798 | 34,039 | 2,241 |
| Federal indirect cost recoveries | 157 | 157 | 208 | 51 |
| Other revenues | 60 | 60 | 327 | 267 |
| Total revenues | <u>1,681,529</u> | <u>1,681,529</u> | <u>1,694,665</u> | <u>13,136</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 268,101 | 268,101 | 248,681 | 19,420 |
| Public safety | 263,368 | 263,368 | 253,553 | 9,815 |
| Transportation | 2,209 | 2,209 | 358 | 1,851 |
| Health and human services | 388,293 | 388,293 | 342,080 | 46,213 |
| Education | 610,324 | 610,324 | 781,841 | (171,517) |
| Natural resources | 32,192 | 32,192 | 29,471 | 2,721 |
| Debt service: | | | | |
| Principal retirement | 977 | 977 | 710 | 267 |
| Interest/fiscal charges | - | - | 67 | (67) |
| Capital outlay (Note RS-1) | 5,759 | 5,759 | 1,247 | 4,512 |
| Total expenditures | <u>1,571,223</u> | <u>1,571,223</u> | <u>1,658,008</u> | <u>(86,785)</u> |
| Excess of revenue over (under) expenditures | <u>110,306</u> | <u>110,306</u> | <u>36,657</u> | <u>73,649</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Insurance proceeds | 2,230 | 2,230 | - | (2,230) |
| General capital asset sale proceeds | (24) | (24) | 131 | 155 |
| Refunding bond issued | - | - | - | - |
| Payment to refunding bond escrow agent | - | - | - | - |
| Bond premium | - | - | - | - |
| Bond proceeds | - | - | - | - |
| Transfers in (Note 12) | 73,622 | 73,622 | 87,944 | 14,322 |
| Transfers out (Note 12) | (290,097) | (290,097) | (77,510) | 212,587 |
| Total other financing sources (uses) | <u>(214,269)</u> | <u>(214,269)</u> | <u>10,565</u> | <u>224,834</u> |
| Net change in fund balances (Budgetary basis) | <u>(103,963)</u> | <u>(103,963)</u> | <u>47,222</u> | <u>298,483</u> |
| RECONCILIATION OF BUDGETARY/GAAP REPORTING | | | | |
| 1. Securities lending income | - | - | 379 | 379 |
| 2. Securities lending costs | - | - | (81) | (81) |
| 3. Inception of lease/installment contract | - | - | 19 | 19 |
| 4. Adjustments for nonbudgeted activity | - | - | - | - |
| Net change in fund balances (GAAP basis) | <u>(103,963)</u> | <u>(103,963)</u> | <u>47,539</u> | <u>298,800</u> |
| Fund balance - July 1 | - | - | 327,006 | 327,006 |
| Prior period adjustments | - | - | (6,740) | (6,740) |
| Increase (decrease) in inventories | - | - | 1,552 | 1,552 |
| Fund balances - June 30 | <u>\$ (103,963)</u> | <u>\$ (103,963)</u> | <u>\$ 369,357</u> | <u>\$ 620,618</u> |

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 |
| \$ 185,594 | \$ 185,594 | \$ 167,396 | \$(18,198) | \$ - | \$ - | \$ - | \$ - |
| 133,122 | 133,122 | 130,169 | (2,953) | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 10 | 10 | 2 | (8) | - | - | - | - |
| 15,115 | 15,115 | 14,876 | (239) | - | - | - | - |
| 195,781 | 195,781 | 209,348 | 13,567 | - | - | - | - |
| 102,119 | 102,119 | 102,519 | 400 | - | - | - | - |
| 96,720 | 96,720 | 92,655 | (4,065) | 42,178 | 42,178 | 42,785 | 607 |
| - | - | 33,480 | 33,480 | - | - | 295 | 295 |
| 3,983 | 3,983 | 3,984 | 1 | - | - | 1 | 1 |
| 398 | 398 | 759 | 361 | - | - | - | - |
| 22,157 | 22,157 | 20,692 | (1,465) | - | - | - | - |
| 14,555 | 14,555 | 18,825 | 4,270 | 394 | 394 | 263 | (131) |
| 11,130 | 11,130 | 11,425 | 295 | 2,443,378 | 2,443,378 | 2,292,626 | (150,752) |
| 70,656 | 70,656 | 46,473 | (24,183) | 168,817 | 168,817 | 54,471 | (114,346) |
| 100 | 100 | 1,918 | 1,818 | - | - | 192 | 192 |
| 851,440 | 851,440 | 854,521 | 3,081 | 2,654,767 | 2,654,767 | 2,390,633 | (264,134) |
| 331,823 | 331,823 | 257,214 | 74,609 | 195,797 | 195,797 | 135,730 | 60,067 |
| 66,634 | 66,634 | 78,156 | (11,522) | 30,693 | 30,693 | 14,961 | 15,732 |
| 304,953 | 304,953 | 180,713 | 124,240 | 494,013 | 494,013 | 90,316 | 403,697 |
| 157,229 | 157,229 | 133,118 | 24,111 | 1,550,616 | 1,550,616 | 1,280,277 | 270,339 |
| 49,864 | 49,864 | 85,933 | (36,069) | 357,847 | 357,847 | 340,748 | 17,099 |
| 251,228 | 251,228 | 160,635 | 90,593 | 163,704 | 163,704 | 79,169 | 84,535 |
| 3,791 | 3,791 | 666 | 3,125 | 719 | 719 | 113 | 606 |
| - | - | 847 | (847) | - | - | 12 | (12) |
| 108,863 | 108,863 | 105,586 | 3,277 | 153,636 | 153,636 | 406,970 | (253,334) |
| 1,274,385 | 1,274,385 | 1,002,868 | 271,517 | 2,947,025 | 2,947,025 | 2,348,296 | 598,729 |
| (422,945) | (422,945) | (148,347) | (274,598) | (292,258) | (292,258) | 42,337 | (334,595) |
| 7,128 | 7,128 | 4,326 | (2,802) | 14 | 14 | - | (14) |
| 268 | 268 | 887 | 619 | - | - | - | - |
| 10,180 | 10,180 | 10,180 | - | - | - | - | - |
| - | - | (10,700) | (10,700) | - | - | - | - |
| - | - | 767 | 767 | - | - | - | - |
| 31,142 | 31,142 | 30,450 | (692) | - | - | - | - |
| 217,361 | 217,361 | 166,307 | (51,054) | 11,199 | 11,199 | 2,935 | (8,264) |
| (93,648) | (93,648) | (36,605) | 57,043 | (115,487) | (115,487) | (45,414) | 70,073 |
| 172,431 | 172,431 | 165,612 | (6,819) | (104,274) | (104,274) | (42,479) | 61,795 |
| (250,514) | (250,514) | 17,265 | (281,417) | (396,532) | (396,532) | (142) | (272,800) |
| - | - | - | - | - | - | - | - |
| - | - | 832 | 832 | - | - | 13 | 13 |
| - | - | (194) | (194) | - | - | (3) | (3) |
| - | - | 17 | 17 | - | - | - | - |
| - | - | - | - | - | - | - | - |
| (250,514) | (250,514) | 17,920 | (280,762) | (396,532) | (396,532) | (132) | (272,790) |
| - | - | 1,534,855 | 1,534,855 | - | - | 32,114 | 32,114 |
| - | - | 60,232 | 60,232 | - | - | 3,096 | 3,096 |
| - | - | 2,457 | 2,457 | - | - | - | - |
| \$ (250,514) | \$ (250,514) | \$ 1,615,464 | \$ 1,316,782 | \$ (396,532) | \$ (396,532) | \$ 35,078 | \$ (237,580) |

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 2011, reverted governmental fund appropriations were as follows: General Fund - \$155.3 million, State Special Revenue Fund - \$217.8 million, and Federal Special Revenue Fund - \$395.1 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 | | | | | | |
| 6/30/2009 | 61,929 | 41,848 | (20,081) | 148% | 5,110 | (393%) |
| 6/30/2010 | 61,277 | 42,513 | (18,764) | 144% | 5,687 | (330%) |
| 6/30/2011 | 61,274 | 43,414 | (17,860) | 141% | 5,645 | (316%) |
| HPORS | | | | | | |
| 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% |
| 6/30/2011 | 95,274 | 155,742 | 60,468 | 61% | 12,472 | 485% |
| Multiple Employer Systems | | | | | | |
| PERS-DBRP | | | | | | |
| 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% |
| 6/30/2011 | 3,800,479 | 5,410,144 | 1,609,665 | 70% | 1,071,376 | 150% |
| SRS | | | | | | |
| 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% |
| 6/30/2011 | 203,689 | 266,506 | 62,817 | 76% | 57,041 | 110% |
| GWPORS | | | | | | |
| 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% |
| 6/30/2011 | 90,437 | 119,881 | 29,444 | 75% | 38,306 | 77% |
| MPORS | | | | | | |
| 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% |
| 6/30/2011 | 221,669 | 401,381 | 179,712 | 55% | 39,470 | 455% |
| FURS | | | | | | |
| 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% |
| 6/30/2011 | 219,959 | 355,188 | 135,229 | 62% | 34,852 | 388% |
| TRS (1) | | | | | | |
| 7/1/2009 | 2,762,200 | 4,331,000 | 1,411,600 | 66% | 683,200 | 207% |
| 7/1/2010 | 2,956,600 | 4,518,200 | 1,561,600 | 65% | 747,000 | 209% |
| 7/1/2011 | 2,866,500 | 4,658,600 | 1,792,100 | 62% | 746,700 | 240% |
| Nonemployer Contributor | | | | | | |
| VFCA | | | | | | |
| 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 |
| 6/30/2011 | 26,183 | 35,195 | 9,012 | 74% | 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, 2011

AMOUNT

PEACE CORPS

| | | |
|--------|--------------------------------|-----------------|
| 08.999 | Miscellaneous Non-Major Grants | 11,017 |
| | TOTAL | \$11,017 |

DEPARTMENT OF AGRICULTURE

| | | |
|--------|---|------------|
| 10.001 | Agricultural Research-Basic and Applied Research | 4,000 |
| 10.025 | Plant and Animal Disease, Pest Control, and Animal Care | 1,000,073 |
| 10.028 | Wildlife Services | 56,391 |
| 10.069 | Conservation Reserve Program | 164 |
| 10.072 | Wetlands Reserve Program | 19,491 |
| 10.156 | Federal-State Marketing Improvement Program | 18,911 |
| 10.162 | Inspection Grading and Standardization | 35,092 |
| 10.163 | Market Protection and Promotion | 517,670 |
| 10.169 | Specialty Crop Block Grant Program | 181,274 |
| 10.217 | Higher Education Challenge Grants | 39,119 |
| 10.220 | Higher Education Multicultural Scholars Program | 797 |
| 10.475 | Cooperative Agreements with States for Intrastate Meat and Poultry Inspection | 587,351 |
| 10.479 | Food Safety Cooperative Agreements | 28,686 |
| 10.500 | Cooperative Extension Service | 2,799,339 |
| 10.500 | Cooperative Extension Service: From Kansas State Univ. | 15,250 |
| 10.500 | Cooperative Extension Service: From Fort Belknap Comm. Council | 54,454 |
| 10.550 | Food Donation | 3,038,406 |
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, & Children | 16,576,444 |
| 10.558 | Child and Adult Care Food Program | 10,604,590 |
| 10.560 | State Administrative Expenses for Child Nutrition | 882,942 |
| 10.565 | Commodity Supplemental Food Program | 2,353,235 |
| 10.567 | Food Distribution Program on Indian Reservations | 3,414,224 |
| 10.572 | WIC Farmers' Market Nutrition Program (FMNP) | 40,348 |
| 10.574 | Team Nutrition Grants | 353,630 |
| 10.576 | Senior Farmers Market Nutrition Program | 88,191 |
| 10.578 | ARRA WIC Grants To States | 237,038 |
| 10.579 | Child Nutrition Discretionary Grants Limited Availability | 47,908 |
| 10.580 | Food Stamp Program Outreach/Participation Program | 659,462 |
| 10.582 | Fresh Fruit and Vegetable Program | 1,146,880 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

AMOUNT

| | | |
|--------|--|-----------|
| 10.601 | Market Access Program: From US Livestock Genetics Export | 11,573 |
| 10.601 | Market Access Program: From West. US Ag. Trade Assoc. | 9,341 |
| 10.652 | Forestry Research | 299,617 |
| 10.664 | Cooperative Forestry Assistance | 5,365,849 |
| 10.676 | Forest Legacy Program | 2,030,804 |
| 10.680 | Forest Health Protection | 21,004 |
| 10.683 | National Fish and Wildlife Foundation: From Nat. Fish & Wild. Found. | 75,000 |
| 10.684 | International Forestry Programs | 236,888 |
| 10.687 | ARRA - Capital Improvement Maintenance | 48,663 |
| 10.688 | ARRA Wildlife Fire Management | 3,737,585 |
| 10.700 | National Agricultural Library | (658) |
| 10.901 | Resource Conservation and Development | 50,000 |
| 10.902 | Soil and Water Conservation | 74,422 |
| 10.912 | Environmental Quality Incentives Program | 78,085 |
| 10.999 | Miscellaneous Non-Major Grants | 13,136 |

TOTAL **\$56,852,669**

CHILD NUTRITION CLUSTER

| | | |
|--------|--|------------|
| 10.553 | School Breakfast Program | 6,325,319 |
| 10.555 | National School Lunch Program | 23,700,249 |
| 10.556 | Special Milk Program for Children | 18,046 |
| 10.559 | Summer Food Service Program for Children | 1,245,919 |

TOTAL **\$31,289,533**

EMERGENCY FOOD ASSISTANCE CLUSTER

| | | |
|--------|---|-----------|
| 10.568 | Emergency Food Assistance Program (Administrative Costs) | 188,368 |
| 10.568 | ARRA Emergency Food Assistance Program (Administrative Costs) | 99,067 |
| 10.569 | Emergency Food Assistance Program (Food Commodities) | 1,732,818 |

TOTAL **\$2,020,253**

SCHOOLS AND ROADS CLUSTER

| | | |
|--------|-------------------------------------|------------|
| 10.665 | Schools and Roads: Grants to States | 23,359,896 |
|--------|-------------------------------------|------------|

TOTAL **\$23,359,896**

SNAP CLUSTER

| | | |
|--------|---|-------------|
| 10.551 | Supplemental Nutrition Assistance Program (SNAP) | 161,595,587 |
| 10.551 | ARRA Supplemental Nutrition Assistance Program (SNAP) | 28,745,522 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

| | | AMOUNT |
|--|--|----------------------|
| 10.561 | State Administrative Matching Grants for SNAP Program | 11,896,637 |
| 10.561 | ARRA State Administrative Matching Grants for SNAP Program | 275,058 |
| TOTAL | | \$202,512,804 |
| | | |
| DEPARTMENT OF COMMERCE | | |
| | | |
| 11.400 | Geodetic Surveys and Services | 27,391 |
| 11.550 | Public Telecommunication Facilities-Planning and Construction | 635,369 |
| 11.550 | Public Telecommunication Facilities-Planning and Construction: From Corp for Public Broadcasting | 174,968 |
| 11.555 | Public Safety Interoperable Communications Grant Program | 5,233,537 |
| 11.557 | ARRA - Broadband Technology Opportunities Program (BTOP) | 607,526 |
| 11.568 | ARRA State Broadband Data and Development | 249,051 |
| 11.609 | Measurement and Engineering Research and Standards | 1,900 |
| TOTAL | | \$6,929,742 |
| | | |
| PUBLIC WORKS AND E.D. CLUSTER | | |
| 11.307 | Economic Adjustment Assistance | 347,020 |
| 11.307 | ARRA Economic Adjustment Assistance | 2,565,470 |
| TOTAL | | \$2,912,490 |
| | | |
| DEPARTMENT OF DEFENSE | | |
| | | |
| 12.112 | Payments to States in Lieu of Real Estate Taxes | 14,404 |
| 12.400 | Military Construction National Guard | 4,672,970 |
| 12.401 | National Guard Military Operations and Maintenance Projects | 21,685,620 |
| 12.401 | ARRA National Guard Military Operations and Maintenance Projects | 454,143 |
| 12.404 | National Guard Civilian Youth Opportunities | 3,035,141 |
| 12.599 | Congressionally Directed Assistance | 998,066 |
| 12.900 | Language Grant Program | 20,776 |
| 12.900 | Language Grant Program: From Inst. Int'l. Ed., Inc. | 548,583 |
| 12.901 | Mathematical Sciences Grants Program | 56,861 |
| TOTAL | | \$31,486,564 |
| | | |
| DEPARTMENT OF HOUSING & URBAN DEVELOPMENT | | |
| | | |
| 14.103 | Interest Reduction Payments Rental and Cooperative Housing for Lower Income Families | 233,228 |
| 14.169 | Housing Counseling Assistance Program | 165,566 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

| | | AMOUNT |
|---|---|---------------------|
| 14.231 | Emergency Shelter Grants Program | 394,503 |
| 14.235 | Supportive Housing Program | 66,980 |
| 14.238 | Shelter Plus Care | 197,435 |
| 14.239 | Home Investment Partnerships Program | 2,879,614 |
| 14.241 | Housing Opportunities for Persons with AIDS | 918,912 |
| 14.257 | ARRA Homeless Prevention & Rapid Re-Housing Program | 1,534,545 |
| 14.258 | ARRA Tax Credit Assistance Program (Recovery Act Funded) | 4,072,645 |
| | TOTAL | \$10,463,428 |
| CDBG - STATE ADMIN. SMALL CITIES CLUSTER | | |
| 14.228 | Community Development Block Grant/States Program | 14,482,251 |
| 14.255 | ARRA CDBG | 271,636 |
| | TOTAL | \$14,753,887 |
| HOUSING VOUCHER CLUSTER | | |
| 14.871 | Section 8 Housing Choice Vouchers | 18,176,269 |
| | TOTAL | \$18,176,269 |
| SECTION 8 PROJECT-BASED CLUSTER | | |
| 14.195 | Section 8 Housing Assistance Payments Program Special Allocations | 19,549,934 |
| 14.856 | Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation | 1,849,098 |
| | TOTAL | \$21,399,032 |
| DEPARTMENT OF THE INTERIOR | | |
| 15.114 | Indian Education: Higher Education Grant Program | 41,964 |
| 15.224 | Cultural Resource Management | 53,550 |
| 15.225 | Recreation Resource Management | 35,829 |
| 15.228 | Wildland Urban Interface Community and Rural Fire Assistance | 53,693 |
| 15.231 | Fish, Wildlife and Plant Conservation Resource Management | 363,163 |
| 15.233 | ARRA - Forests and Woodlands Resource Management | 58,229 |
| 15.234 | Secure Rural Schools and Community Self-Determination | 316,530 |
| 15.236 | Environmental Quality and Protection Resource Management | 1,159,758 |
| 15.236 | ARRA Environmental Quality and Protection Resource Management | 1,476,850 |
| 15.238 | Challenge Cost Share | 4,537 |
| 15.242 | National Fire Plan - Rural Fire Assistance | 708,812 |
| 15.250 | Regulation Surface Coal Mining and Surface Effects of Underground Coal Mining | 1,380,091 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

| | | AMOUNT |
|--------------------------------------|---|---------------------|
| 15.252 | Abandoned Mine Land Reclamation (AMLR) Program | 3,550,336 |
| 15.507 | ARRA WaterSMART (Sustaining and Manage America's Resources for Tomorrow) | 4,460 |
| 15.517 | Fish and Wildlife Coordination Act | 86,214 |
| 15.517 | ARRA Fish and Wildlife Coordination Act | 15,278 |
| 15.608 | Fish and Wildlife Management Assistance | 142,316 |
| 15.608 | Fish and Wildlife Management Assistance: From Nat. Fish & Wild. Found. | 70,847 |
| 15.608 | Fish and Wildlife Management Assistance: From Park Conservation District | 11,000 |
| 15.612 | Endangered Species Section 6 | 126,894 |
| 15.615 | Cooperative Endangered Species Conservation Fund | 17,081,117 |
| 15.631 | National Fire Plan - Rural Fire Assistance | 20,996 |
| 15.632 | Conservation Grants Private Stewardship for Imperiled Species | 50,887 |
| 15.633 | Landowner Incentive | 51,667 |
| 15.634 | State Wildlife Grants | 1,581,956 |
| 15.634 | State Wildlife Grants: From WA Dept. of Fish and Wildlife | 866 |
| 15.637 | Migratory Bird Joint Ventures | 6,924 |
| 15.655 | Migratory Bird Monitoring, Assessment and Conservation | 110,474 |
| 15.808 | U.S. Geological Survey-Research and Data Acquisition | 1,207 |
| 15.814 | National Geological and Geophysical Data Preservation Program | 34,822 |
| 15.904 | Historic Preservation Fund Grants-in-Aid | 835,058 |
| 15.916 | Outdoor Recreation: Acquisition, Development and Planning | 292,852 |
| 15.929 | Save America's Treasures | 34,788 |
| 15.999 | Miscellaneous Non-Major Grants | 320,574 |
| | TOTAL | \$30,084,539 |
| FISH AND WILDLIFE CLUSTER | | |
| 15.605 | Sport Fish Restoration | 8,578,089 |
| 15.611 | Wildlife Restoration | 6,087,576 |
| | TOTAL | \$14,665,665 |
| DEPARTMENT OF JUSTICE | | |
| 16.001 | Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis | 23,061 |
| 16.012 | Alcohol, Tobacco, and Firearms-Training Assistance | 20,786 |
| 16.017 | Sexual Assault Services Formula Program | 137,367 |
| 16.200 | Community Relations Service | 145,848 |
| 16.203 | Comprehensive Approaches to Sex Offender Management Discretionary Grant | 52,094 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

AMOUNT

| | AMOUNT |
|--|---------------|
| 16.304 Law Enforcement Assistance-National Crime Information Center | 16,898 |
| 16.523 Juvenile Accountability Incentive Block Grants | 381,989 |
| 16.529 Education and Training to End Violence Against and Abuse of Women with Disabilities: From MT Coal Against Dom. Violence | 20,670 |
| 16.540 Juvenile Justice and Delinquency Prevention: Allocation to States | 594,208 |
| 16.541 Part E - Developing, Testing and Demonstrating Promising New Programs | 180,912 |
| 16.548 Title V Delinquency Prevention | 34,644 |
| 16.550 State Justice Statistics Program For Statistical Analysis Centers | 77,042 |
| 16.554 National Criminal History Improvement Program (NCHIP) | 552,887 |
| 16.560 National Institute of Justice Research, Evaluation, and Development Project Grants | 37,187 |
| 16.575 Crime Victim Assistance | 1,804,403 |
| 16.576 Crime Victim Compensation | 268,111 |
| 16.580 Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Prog | 134,402 |
| 16.585 Drug Court Discretionary Grant Program | 93,916 |
| 16.588 Violence Against Women Formula Grants | 859,251 |
| 16.588 ARRA Violence Against Women Formula Grants | 492,574 |
| 16.590 Grants to Encourage Arrest Policies and Enforcement of Protection Orders | 4,835 |
| 16.593 Residential Substance Abuse Treatment for State Prisoners | 62,164 |
| 16.606 State Criminal Alien Assistance Program | 26,092 |
| 16.607 Bulletproof Vest Partnership Program | 22,168 |
| 16.609 Community Prosecution and Project Safe Neighborhoods | 90,521 |
| 16.710 Public Safety Partnership and Community Policing Grants | 379,184 |
| 16.726 Juvenile Mentoring Program: From National 4-H Council | 21,684 |
| 16.727 Enforcing Underage Drinking Laws Program | 362,972 |
| 16.731 Tribal Youth Program | 94,236 |
| 16.738 Edward Byrne Memorial Justice Assistance Grant Program | 1,293,258 |
| 16.741 Forensic DNA Backlog Reduction Program | 3,963 |
| 16.742 Paul Coverdell Forensic Sciences Improvement Grant Program | 137,114 |
| 16.753 Congressionally Recommended Awards | 286,937 |
| 16.754 Harold Rogers Prescription Drug Monitoring Program | 30,022 |
| 16.801 ARRA - State Victim Assistance Formula Grant Program | 52,916 |
| 16.803 ARRA-Eward Byrne Memorial Justice Assistance Grant (JAG) | 742,295 |
| 16.810 ARRA Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Prg | 842,459 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

| | | AMOUNT |
|--------|---|---------------------|
| 16.812 | Second Chance Act Prisoner Reentry Initiative | 33,709 |
| 16.816 | John R. Justice Prosecutors and Defenders Incentive Act | 96,259 |
| | TOTAL | \$10,511,038 |

DEPARTMENT OF LABOR

| | | |
|--------|---|----------------------|
| 17.002 | Labor Force Statistics | 773,703 |
| 17.005 | Compensation and Working Conditions Data | 83,685 |
| 17.225 | Unemployment Insurance | 294,408,720 |
| 17.225 | ARRA Unemployment Insurance | 198,036 |
| 17.235 | Senior Community Service Employment Program | 66,121 |
| 17.261 | Employment and Training Administration Pilots, Demonstrations, and Research Projects | 85,913 |
| 17.266 | Work Incentive Grants | 980,505 |
| 17.267 | Incentive Grants - WIA Section 503 | (11,765) |
| 17.269 | Community Based Job Training Grants | 921,594 |
| 17.269 | Community Based Job Training Grants: From Arkansas State University Newport | 8,645 |
| 17.271 | Work Opportunity Tax Credit Program (WOTC) & Welfare-to-Work Tax Credit (WtWTC) | 90,200 |
| 17.273 | Temporary Labor Certification for Foreign Workers | 83,214 |
| 17.274 | ARRA Youthbuild | 609,167 |
| 17.275 | Comp Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors: From MT Electrical Joint Apprenticeship | 5,137,386 |
| 17.504 | Consultation Agreements | 496,465 |
| 17.600 | Mine Health and Safety Grants | 133,955 |
| 17.807 | Transition Assistance Program | 14,001 |
| 17.999 | National Occupational Information Coordinating Committee | 73,726 |
| | TOTAL | \$304,153,271 |

EMPLOYMENT SERVICES CLUSTER

| | | |
|--------|---|--------------------|
| 17.207 | Employment Service | 6,178,707 |
| 17.207 | ARRA Employment Services | 583,171 |
| 17.207 | Employment Service: From North Carolina | 2,721 |
| 17.801 | Disabled Veterans Outreach Program (DVOP) | 610,347 |
| 17.804 | Local Veterans' Employment Representative Program | 298,336 |
| | TOTAL | \$7,673,282 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

AMOUNT

WIA CLUSTER

| | | |
|--------------|-----------------------------|--------------------|
| 17.258 | WIA Adult Program | 2,181,308 |
| 17.258 | ARRA WIA Adult Program | 94,679 |
| 17.259 | WIA Youth Activities | 2,249,980 |
| 17.259 | ARRA WIA Youth Activities | 197,632 |
| 17.260 | WIA Dislocated Workers | 3,267,955 |
| 17.260 | ARRA WIA Dislocated Workers | 184,880 |
| TOTAL | | \$8,176,434 |

DEPARTMENT OF STATE

| | | |
|--------------|---|------------------|
| 19.009 | Academic Exchange Programs - Undergraduate Programs | 224,306 |
| 19.014 | One-Time International Exchange Grant Program | 163,564 |
| 19.408 | Educational Exchange - Teachers from Secondary and Postsecondary Levels: From Inter Res. & Ex. Board | 179,043 |
| 19.500 | Middle East Partnership Initiative (MEPI): From Inst. of Translational Health Sci. | 174,841 |
| 19.999 | Miscellaneous Grants: From Amer. Councils for Internat. Educ. | 2,077 |
| TOTAL | | \$743,831 |

DEPARTMENT OF TRANSPORTATION

| | | |
|--------|--|-----------|
| 20.106 | Airport Improvement Program | (12) |
| 20.218 | National Motor Carrier Safety | 1,319,714 |
| 20.231 | Performance and Registration Information Systems Management | 27,736 |
| 20.233 | Border Enforcement Grants | 1,007,624 |
| 20.238 | Commercial Drivers License Information System (CDLIS) Modernization Grant | 532,643 |
| 20.505 | Federal Transit Technical Studies Grant | 416,635 |
| 20.509 | Formula Grants for Other Than Urbanized Areas | 7,433,475 |
| 20.509 | ARRA Formula Grants for Other Than Urbanized Areas | 5,831,170 |
| 20.515 | State Planning and Research | 88,396 |
| 20.608 | Minimum Penalties for Repeat Offenders for Driving While Intoxicated | 1,506,902 |
| 20.614 | National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants | 78,995 |
| 20.700 | Pipeline Safety | 71,281 |
| 20.703 | Interagency Hazardous Materials Public Sector Training and Planning Grants | 63,090 |
| 20.930 | Payments for Small Community Air Service Development | 953 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

| | | AMOUNT |
|--|--|----------------------|
| 20.999 | Miscellaneous Non-Major Grants | 7,909 |
| | | TOTAL |
| | | \$18,386,511 |
| FEDERAL TRANSIT CLUSTER | | |
| 20.500 | Federal Transit Capital Improvement Grants | 1,187,652 |
| | | TOTAL |
| | | \$1,187,652 |
| HIGHWAY PLAN. AND CONST. CLUSTER | | |
| 20.205 | Highway Planning and Construction | 365,386,106 |
| 20.205 | ARRA Highway Planning and Construction | 90,427,137 |
| 20.219 | Recreational Trails Program | 1,418,522 |
| | | TOTAL |
| | | \$457,231,765 |
| HIGHWAY SAFETY CLUSTER | | |
| 20.600 | State and Community Highway Safety | 2,100,919 |
| 20.601 | Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants | 2,316,000 |
| 20.602 | Occupant Protection | 163,245 |
| 20.605 | Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons | 6,116 |
| 20.610 | State Traffic Safety Information System Improvement Grants | 418,495 |
| 20.610 | State Traffic Safety Information System Improvement Grants: From National Motor Carrier Safety - AMMVA | 13,000 |
| 20.611 | Incentive Grant Program to Prohibit Racial Profiling | 14,659 |
| | | TOTAL |
| | | \$5,032,434 |
| TRANSIT SERVICES PROGRAM CLUSTER | | |
| 20.513 | Capital Assistance Program for Elderly Persons and Persons with Disabilities | 484,779 |
| 20.516 | Job Access Reverse Commute | 958,524 |
| | | TOTAL |
| | | \$1,443,303 |
| DEPARTMENT OF TREASURY | | |
| 21.999 | Miscellaneous Non-Major Grants | 124,987 |
| 21.999 | ARRA Miscellaneous Non-Major Grants | 5,824,550 |
| | | TOTAL |
| | | \$5,949,537 |
| EQUAL EMPLOYMENT OPPORTUNITY COMMISSION | | |
| 30.002 | Employment Discrimination-State and Local Fair Employment Practices | 102,260 |
| | | TOTAL |
| | | \$102,260 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

AMOUNT

GENERAL SERVICES ADMINISTRATION

| | | |
|--------------|---|------------------|
| 39.003 | Donation of Federal Surplus Personal Property | 2,740 |
| 39.011 | Election Reform Payments | 123,142 |
| TOTAL | | \$125,882 |

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

| | | |
|--------------|--------------------------------------|-----------------|
| 43.001 | Aerospace Education Services Program | 20,269 |
| 43.002 | Technology Transfer | 5,845 |
| 43.999 | Miscellaneous Non-Major Grants | 11,329 |
| TOTAL | | \$37,443 |

NATIONAL ENDOWMENT FOR THE HUMANITIES

| | | |
|--------------|--|--------------------|
| 45.024 | Promotion of the Arts-Grants to Organizations and Individuals | 52,639 |
| 45.025 | Promotion of the Arts-Partnership Agreements | 767,852 |
| 45.025 | ARRA Promotion of the Arts-Partnership Agreements | 95,050 |
| 45.129 | Promotion of the Humanities-Federal/State Partnership | 218,157 |
| 45.129 | Promotion of the Humanities-Federal/State Partnership: From Humanities Montana | 24,724 |
| 45.130 | Promotion of the Humanities - Challenge Grants: From Humanities Montana | 1,000 |
| 45.310 | State Library Program | 1,008,580 |
| 45.312 | Institute of Museum and Library Services - National Leadership Grants | 30,451 |
| 45.313 | Laura Bush 21st Century Librarian Program | 286,189 |
| TOTAL | | \$2,484,642 |

NATIONAL SCIENCE FOUNDATION

| | | |
|--------|--|-----------|
| 47.041 | Engineering Grants: From University of Alaska | 1,101 |
| 47.049 | Mathematical and Physical Sciences | (23) |
| 47.049 | Mathematical and Physical Sciences: From Brigham Young University | 5,206 |
| 47.074 | Biological Sciences | 77,070 |
| 47.075 | Social, Behavioral, and Economic Sciences | 9,947 |
| 47.076 | Education and Human Resources | 1,104,744 |
| 47.076 | Education and Human Resources: From Salish Kootenai College | 285,696 |
| 47.076 | Education and Human Resources: From American Assoc. for Adv. Science | 3,588 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

| | | AMOUNT |
|--|---|--------------------|
| 47.082 | ARRA Trans-NSF Recovery Act Research Support: From Black Hills State Univ. | 4,404 |
| TOTAL | | \$1,491,733 |
| SMALL BUSINESS ADMINISTRATION | | |
| 59.000 | Small Business Administration-Technical Assistance Grant | 214,671 |
| 59.005 | Internet-Based Technical Assistance | 6,982 |
| 59.037 | Small Business Development Center | 657,353 |
| 59.058 | Federal and State Technology Partnership Program | 48,249 |
| TOTAL | | \$927,255 |
| DEPARTMENT OF VETERANS AFFAIRS | | |
| 64.014 | Veterans State Domiciliary Care | 115,840 |
| 64.015 | Veterans State Nursing Home Care | 4,995,248 |
| 64.124 | All-Volunteer Force Educational Assistance | 93,708 |
| TOTAL | | \$5,204,796 |
| ENVIRONMENTAL PROTECTION AGENCY | | |
| 66.040 | State Clean Diesel Grant Program | 516,052 |
| 66.040 | ARRA State Clean Diesel Program | 1,678,144 |
| 66.202 | Congressionally Mandated Projects | 280,289 |
| 66.433 | State Underground Water Source Protection | 110,450 |
| 66.436 | Surveys, Studies, Investigations & Demonstrations of the Clean Water Act | 41 |
| 66.454 | Water Quality Management Planning | 101,000 |
| 66.454 | ARRA Water Quality Management Planning | 110,009 |
| 66.458 | Capitalization Grants For State Revolving Funds | 6,948,217 |
| 66.458 | ARRA Capitalization Grants For State Revolving Funds | 4,553,361 |
| 66.460 | Nonpoint Source Implementation Grants | 2,671,541 |
| 66.461 | Regional Wetland Program Development Grants | 192,259 |
| 66.467 | Wastewater Operator Training Grant Program (Technical Assistance) | 8,411 |
| 66.468 | Capitalization Grants for Drinking Water State Revolving Fund | 9,998,608 |
| 66.468 | ARRA Capitalization Grants for Drinking Water State Revolving Fund | 4,991,762 |
| 66.471 | State Grants to Reimburse Operators of Small Water Sys for Training Certification Costs | 77,190 |
| 66.474 | Water Protection Grants to the States | 95,086 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

| | | AMOUNT |
|--------|--|---------------------|
| 66.514 | Science To Achieve Results (STAR) Fellowship Program | 42,372 |
| 66.605 | Performance Partnership Grants | 5,695,695 |
| 66.608 | One Stop Reporting | 93,826 |
| 66.708 | Pollution Prevention Grants Program | 6,604 |
| 66.802 | Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop. | 3,108,280 |
| 66.804 | State Underground Storage Tanks Program | 354,709 |
| 66.805 | Leaking Underground Storage Tank Trust Fund Program | 1,393,306 |
| 66.805 | ARRA Leaking Underground Storage Tank Trust Fund Program | 496,141 |
| 66.809 | Superfund State and Indian Tribe Core Program Cooperative Agreements | 173,202 |
| 66.817 | State and Tribal Response Program Grants | 492,471 |
| 66.951 | Environmental Education Grants | 48,652 |
| | TOTAL | \$44,237,678 |

DEPARTMENT OF ENERGY

| | | |
|--------|--|---------------------|
| 81.041 | State Energy Program | 125,944 |
| 81.041 | ARRA State Energy Program | 12,012,137 |
| 81.041 | State Energy Program: From Washington State University | 136,840 |
| 81.042 | Weatherization Assistance for Low-Income Persons | 1,914,279 |
| 81.042 | ARRA Weatherization Assistance for Low-Income Persons | 12,709,559 |
| 81.042 | Weatherization Assistance for Low-Income Persons: From Univ. of Nebraska Lincoln | 10,106 |
| 81.049 | Office of Science Financial Assistance Program: From Inland NW Research All. | 7 |
| 81.086 | Conservation Research and Development | 2,470,348 |
| 81.087 | Renewable Energy Research and Development | 314,120 |
| 81.112 | Stewardship Science Grant Program | 92,871 |
| 81.117 | Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training | 101,960 |
| 81.119 | State Energy Program Special Projects | 23,423 |
| 81.127 | ARRA Energy Efficient Appliance Rebate Program (EEARP) | 761,368 |
| 81.128 | ARRA Energy Efficiency and Conservation Block Grant Program (EECBG) | 4,046,610 |
| 81.999 | Miscellaneous Non-Major Grants: From Pacific Northwest National Laboratory | 82,831 |
| | TOTAL | \$34,802,403 |

DEPARTMENT OF EDUCATION

| | | |
|--------|---------------------------------------|-----------|
| 84.002 | Adult Education - State Grant Program | 1,431,717 |
|--------|---------------------------------------|-----------|

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

| | | AMOUNT |
|--------|--|---------------|
| 84.011 | Migrant Education - Basic State Grant Program | 1,006,701 |
| 84.013 | Title I Program for Neglected and Delinquent Children | 103,920 |
| 84.017 | International Research and Studies | 43,222 |
| 84.048 | Vocational Education - Basic Grants to States | 5,453,006 |
| 84.051 | National Vocational Education Research | 41,764 |
| 84.069 | Leveraging Educational Assistance Partnership | 215,885 |
| 84.116 | Fund for the Improvement of Postsecondary Education | 235,171 |
| 84.116 | Fund for the Improvement of Postsecondary Education: From New Mexico State Univ. | 14,604 |
| 84.128 | Rehabilitation Services-Service Projects | 85,203 |
| 84.129 | Rehabilitation Long-Term Training | 84,108 |
| 84.133 | National Institute on Disability and Rehabilitation Research | 1,018,009 |
| 84.144 | Migrant Education - Coordination Program(B) | 105,191 |
| 84.184 | Safe and Drug-Free Schools and Communities - National Programs | 54,834 |
| 84.185 | Byrd Honors Scholarships | 132,257 |
| 84.186 | Safe and Drug-Free Schools and Communities - State Grants | 439,134 |
| 84.187 | Supported Employment Services for Individuals with Severe Disabilities | 338,436 |
| 84.213 | Even Start - State Educational Agencies | 289,006 |
| 84.215 | Fund for Improvement of Education | 29,226 |
| 84.224 | State Grants for Assistive Technology | 416,302 |
| 84.243 | Tech-Prep Education | 333,729 |
| 84.265 | Rehabilitation Training-State Vocational Rehabilitation Unit In-Service | 10,617 |
| 84.287 | Twenty-First Century Community Learning Centers | 5,604,979 |
| 84.293 | Foreign Language Assistance: From Missoula Co. Public Schools | 70,305 |
| 84.299 | Indian Education - Special Programs | 50,936 |
| 84.323 | Special Education - State Program Improvement Grants for Children with Disabilities | 712,667 |
| 84.325 | Special Education - Personnel Preparation to Improve Services and Results for Children | 15,270 |
| 84.326 | Special Education - Technical Assistance and Dissemination to Improve Services and Results | 136,651 |
| 84.326 | Special Education - Technical Assistance and Dissemination to Improve Services and Results: From CA State Univ. - Northridge | 125,328 |
| 84.330 | Advanced Placement Program | 31,677 |
| 84.331 | Grants to States for Incarcerated Youth Offenders | 31,506 |
| 84.334 | Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP) | 3,367,400 |
| 84.335 | Child Care Access Means Parents in School | 42,558 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

| | | AMOUNT |
|---|---|---------------------|
| 84.357 | Reading First State Grants | 44,812 |
| 84.358 | Rural Education | 298,148 |
| 84.359 | Early Reading First | 1,649,897 |
| 84.365 | English Language Acquisition Grants | 487,903 |
| 84.366 | Mathematics and Science Partnerships | 1,061,251 |
| 84.367 | Improving Teacher Quality State Grants | 13,426,187 |
| 84.367 | Improving Teacher Quality State Grants: From MT Learning Center | 4,726 |
| 84.368 | Grants for Enhanced Assessment Instruments | 75,068 |
| 84.369 | Grants for State Assessments and Related Activities | 3,755,617 |
| 84.371 | Striving Readers | 17,998 |
| 84.373 | Special Education -Technical Assistance on State Data Collection | 104,208 |
| 84.378 | College Access Challenge Grant Program | 1,086,209 |
| 84.410 | Education Jobs Fund | 30,737,469 |
| 84.998 | American Printing House for the Blind | 5,291 |
| 84.999 | Miscellaneous Non-Major Grants | 202,726 |
| 84.999 | Miscellaneous Non-Major Grants: From Univ of CA - Ntl Writing Project | 69,993 |
| 84.999 | Miscellaneous Non-Major Grants: From WEST ED | 39,542 |
| | TOTAL | \$75,138,364 |
| EARLY INTERVENTION SERVICES (IDEA) CLUSTER | | |
| 84.181 | Special Education-Grants for Infants and Families with Disabilities | 1,888,810 |
| 84.393 | ARRA Special Education - Grants for Infants and Families | 907,657 |
| | TOTAL | \$2,796,467 |
| EDUC. OF HOMELESS CHILDREN AND YOUTH CLUSTER | | |
| 84.196 | Education for Homeless Children and Youth | 215,638 |
| 84.387 | ARRA Education for Homeless Children and Youth, Recovery Act | 48,925 |
| | TOTAL | \$264,563 |
| EDUCATIONAL TECHNOLOGY STATE GRANTS CLUSTER | | |
| 84.318 | Education Technology State Grants | 836,032 |
| 84.386 | ARRA Education Technology State Grants | 1,838,912 |
| 84.386 | ARRA Education Technology State Grants: From Bridger School | 172,751 |
| | TOTAL | \$2,847,695 |

State of Montana
Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ending June 30, 2011

AMOUNT

INDEP. LIVING SERV.FOR OLDER AND BLIND CLUSTER

| | | |
|--------------|---|------------------|
| 84.177 | Rehabilitation Services-Independent Living Services for Older Individuals/Blind | 121,524 |
| TOTAL | | \$121,524 |

INDEPENDENT LIVING STATE GRANTS CLUSTER

| | | |
|--------------|--------------------------------------|------------------|
| 84.169 | Independent Living-State Grants | 428,016 |
| 84.398 | ARRA Independent Living State Grants | 57,040 |
| TOTAL | | \$485,056 |

SCHOOL IMPROVEMENT GRANTS CLUSTER

| | | |
|--------------|--|--------------------|
| 84.377 | School Improvement Grants | 146,855 |
| 84.388 | ARRA School Improvement Grants, Recovery Act | 2,576,764 |
| TOTAL | | \$2,723,619 |

SPECIAL EDUCATION CLUSTER

| | | |
|--------------|---|---------------------|
| 84.027 | Special Education - Grants to States | 34,035,292 |
| 84.173 | Special Education - Preschool Grants | 1,255,416 |
| 84.391 | ARRA Special Education Grants to States | 15,132,102 |
| 84.392 | ARRA Special Education - Preschool Grants, Recovery Act | 530,304 |
| TOTAL | | \$50,953,114 |

STATE FISCAL STABILIZATION FUND CLUSTER

| | | |
|--------------|--|---------------------|
| 84.394 | ARRA State Fiscal Stabilization Fund (SFSF) - Education State Grants | 46,772,525 |
| 84.397 | ARRA State Fiscal Stabilization Fund (SFSF) - Government Services | 30,957,668 |
| TOTAL | | \$77,730,193 |

STATEWIDE DATA SYSTEMS CLUSTER

| | | |
|--------------|------------------------|------------------|
| 84.372 | Statewide Data Systems | 869,882 |
| TOTAL | | \$869,882 |

STUDENT FINANCIAL ASSISTANCE CLUSTER

| | | |
|--------|---|-------------|
| 84.007 | Federal Supplemental Educational Opportunity Grants | 1,320,327 |
| 84.032 | Federal Family Education Loans | 1,107,413 |
| 84.033 | Federal Work - Study Program | 2,201,678 |
| 84.038 | Federal Perkins Loan Program - Federal Capital Contributions | 65,535 |
| 84.063 | Federal Pell Grant Program | 65,630,947 |
| 84.268 | Federal Direct Student Loans | 210,244,170 |
| 84.375 | Academic Competitiveness Grants | 1,207,486 |
| 84.376 | National Science and Mathematics Access to Retain Talent (SMART) Grants | 1,347,635 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

| | | AMOUNT |
|---|---|----------------------|
| 93.342 | Health Professions Student Loans, Including Primary Care Loans | 4,566 |
| 93.364 | Nursing Student Loan Program | 2,032 |
| 93.925 | Scholarships for Health Professions Students from Disadvantaged Backgrounds | 485,901 |
| | TOTAL | \$283,617,690 |
| TEACHER QUALITY PARTNERSHIP GRANTS CLUSTER | | |
| 84.336 | Teacher Quality Enhancement Grants | 534,069 |
| | TOTAL | \$534,069 |
| TITLE 1, PART A CLUSTER | | |
| 84.010 | Title I Grants To Local Education Agencies | 43,372,963 |
| 84.389 | ARRA Title I Grants to Local Educational Agencies, Recovery Act | 15,451,165 |
| | TOTAL | \$58,824,128 |
| TRIO CLUSTER | | |
| 84.042 | TRIO-Student Support Services | 1,106,647 |
| 84.042 | ARRA TRIO-Student Support Services | 423,730 |
| 84.044 | TRIO-Talent Search | 998,860 |
| 84.047 | TRIO-Upward Bound | 2,049,380 |
| 84.066 | TRIO-Educational Opportunity Centers | 581,128 |
| 84.217 | McNair Post - Baccalaureate Achievement | 278,733 |
| | TOTAL | \$5,438,478 |
| VOCATIONAL REHABILITATION CLUSTER | | |
| 84.126 | Rehabilitation Services-Vocational Rehabilitation Grants to States | 11,145,917 |
| 84.390 | ARRA - Rehabilitation Services-Vocational Rehabilitation | 1,025,583 |
| | TOTAL | \$12,171,500 |
| NATIONAL ARCHIVES AND RECORDS ADMINISTRATION | | |
| 89.003 | National Historical Publications and Records Grants | 11,563 |
| | TOTAL | \$11,563 |
| ELECTION ASSISTANCE COMMISSION | | |
| 90.401 | Help America Vote Act Requirements Payments | 666,421 |
| 90.402 | Help America Vote Mock Election Program | 29,454 |
| | TOTAL | \$695,875 |

State of Montana
Schedule of Expenditures of Federal Awards
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AMOUNT**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 | 82,767 |
| 93.043 | Special Programs for the Aging-Title III, Part D - DiseasePrevention/Health Promotion Serv | 105,131 |
| 93.048 | Special Programs for the Aging - Title IV and Title II Discretionary Projects | 262,174 |
| 93.052 | Nation Family Caregiver Support Program | 733,935 |
| 93.069 | Public Health Emergency Preparedness | 5,369,423 |
| 93.070 | Environmental Public Health and Emergency Response | 335,883 |
| 93.071 | Medicare Enrollment Assistance Program | 5,482 |
| 93.089 | Emergency System for Advance Registration of Volunteer Health Professionals | 45,843 |
| 93.090 | ARRA Guardianship Assistance | 343,526 |
| 93.092 | Affordable Care Act (ACA) Personal Responsibility Education Program | 30,721 |
| 93.104 | Comprehensive Community Mental Health Services for Children with Ser Emotl Disturb (SED) | 92,049 |
| 93.110 | Maternal and Child Health Federal Consolidated Programs | 230,402 |
| 93.110 | Maternal and Child Health Federal Consolidated Programs: From Utah State University | 11,503 |
| 93.116 | Project Grant and Cooperative for Tuberculosis Control Program | 182,478 |
| 93.127 | Emergency Medical Services for Children | 136,285 |
| 93.130 | Primary Care Services-Resource Coordination and Development | 172,239 |
| 93.150 | Projects for Assistance in Transition from Homelessness (PATH) | 279,700 |
| 93.157 | Centers of Excellence | 329,453 |
| 93.184 | Disabilities Prevention | 362,551 |
| 93.210 | Tribal Self-Governance Program: IHS Compacts/Funding Agreements | 28,909 |
| 93.217 | Family Planning Services | 2,402,440 |
| 93.234 | Traumatic Brain Injury-State Demonstration Grant Program | 42 |
| 93.236 | Grants for Dental Public Health Residency Training | 62,828 |
| 93.241 | State Rural Hospital Flexibility Program | 637,099 |
| 93.243 | Substance Abuse and Mental Health Services-Projects of Regional and National Significance | 3,458,892 |
| 93.249 | Public Health Training Centers Grant Program: From Univ. of Washington | 27,911 |
| 93.251 | Universal Newborn Hearing Screening | 156,630 |
| 93.259 | Rural Access to Emergency Devices Grant | 111,967 |
| 93.262 | Occupational Safety and Health Program | 118,586 |

State of Montana
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| | | AMOUNT |
|--------|--|---------------|
| 93.262 | Occupational Safety and Health Program: From Co. State Univ. | 7,086 |
| 93.264 | Nurse Faculty Loan Program (NFLP) | 81,504 |
| 93.283 | Centers for Disease Control and Prevention-Investigations and Technical Assistance | 8,677,165 |
| 93.307 | Minority Health and Health Disparities Research | 9,375,000 |
| 93.308 | Extramural Loan Repayment for Individ from Disadvant. Backgrounds Cond Clinical Research | 163,958 |
| 93.358 | Advanced Education Nursing Traineeships | 31,890 |
| 93.389 | National Center for Research Resources | 144,026 |
| 93.407 | ARRA - Scholarships for Disadvantaged Students | 314,782 |
| 93.411 | ARRA - Equipment to Enhance Training for Health Professionals | 132,065 |
| 93.414 | ARRA - State Primary Care Offices | 30,388 |
| 93.448 | Food Safety and Security Monitoring Project | 59,798 |
| 93.449 | Ruminant Feed Ban Support Project | 22,539 |
| 93.500 | ARRA - Pregnancy Assistance Fund Program | 33,881 |
| 93.505 | Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program | 23,498 |
| 93.507 | Strengthening Public Health Infrastructure for Improved Health Outcomes | 64,453 |
| 93.509 | ARRA Affordable Care Act (ACA) State Health Care Workforce Development Grants | 22,500 |
| 93.511 | Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review | 448,429 |
| 93.518 | Affordable Care Act - Medicare Improvements for Patients and Providers | 27,998 |
| 93.519 | Affordable Care Act (ACA) - Consumer Assistance Program Grants | 64,097 |
| 93.521 | The Affordable Care Act: Building Epidemiology, Lab, and Health Info Systems Capacity | 146,916 |
| 93.525 | State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges | 293,442 |
| 93.556 | Promoting Safe and Stable Families | 853,467 |
| 93.563 | Child Support Enforcement | 8,575,571 |
| 93.563 | ARRA Child Support Enforcement | 498,293 |
| 93.566 | Refugee and Entrant Assistance-State Administered Programs | 13,403 |
| 93.568 | Low Income Home Energy Assistance | 21,812,314 |
| 93.586 | State Court Improvement Program | 393,783 |
| 93.590 | Community-Based Family Resource and Support Grants | 222,937 |
| 93.597 | Grants to States for Access and Visitation Programs | 99,989 |
| 93.599 | Chafee Education and Training Vouchers Program (ETV) | 189,535 |

State of Montana
Schedule of Expenditures of Federal Awards
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| | | AMOUNT |
|--------|--|---------------|
| 93.603 | Adoption Incentive Payments | 364 |
| 93.617 | Voting Access for Individuals with Disabilities - Grants to States | 102,572 |
| 93.630 | Developmental Disabilities Basic Support and Advocacy Grants | 56,958 |
| 93.632 | University Centers for Excellence in Developmental Disabilities Education, Res, and Ser. | 510,672 |
| 93.643 | Children's Justice Grants to States | 102,708 |
| 93.645 | Child Welfare Service-State Grant | 664,007 |
| 93.648 | Child Welfare Serv. Training: From Reserch Found. at SUNY | 147,869 |
| 93.658 | Foster Care Title IV-E | 10,969,559 |
| 93.658 | ARRA Foster Care Title IV-E | 236,483 |
| 93.659 | Adoption Assistance | 6,751,103 |
| 93.659 | ARRA Adoption Assistance | 389,965 |
| 93.667 | Social Services Block Grant | 6,535,137 |
| 93.669 | Child Abuse and Neglect State Grants | 116,985 |
| 93.671 | Family Violence Prevention and Services/Grants for Battered Women's Shelters | 791,838 |
| 93.674 | Chafee Foster Care Independence Program | 364,502 |
| 93.701 | ARRA Trans-NIH Recovery Act Researcg Support | 143,052 |
| 93.717 | ARRA Preventing Healthcare-Associated Infections | 84,146 |
| 93.721 | ARRA - Health Information Technology Professionals in Health Care: From Bellevue Community College | 233,103 |
| 93.723 | ARRA Emergency Contingency Fund for Temporary Assistance | 60,360 |
| 93.729 | ARRA -Health Information Technology and Public Health | 12,124 |
| 93.767 | State Children's Insurance Program | 47,044,602 |
| 93.768 | Medicaid Infrastr, Grants To Support the Competitive Employ of People with Disabilities | 737,543 |
| 93.789 | Alternatives to Psychiatric Residential Treatment Facilities for Children | 821,612 |
| 93.793 | Medicaid Transformation Grants | 32,843 |
| 93.888 | Specially Selected Health Projects | 17,042 |
| 93.889 | National Bioterrorism Hospital Preparedness Program | 1,616,972 |
| 93.912 | Rural Outreach-Rural Network Developmental Program | 1,992 |
| 93.913 | Grants to States for Operation of Offices of Rural Health | 177,301 |
| 93.917 | HIV Care Formula Grants | 1,004,767 |
| 93.938 | Cooperative Agreements to Support School Health Programs | 226,256 |
| 93.940 | HIV Prevention Activities-Health Department Based | 1,352,119 |
| 93.944 | HIV/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance | 74,124 |

State of Montana
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| | | AMOUNT |
|---------------------------------|---|----------------------|
| 93.958 | Block Grants for Community Mental Health Services | 1,215,859 |
| 93.959 | Block Grants for Prevention and Treatment of Substance Abuse | 6,253,222 |
| 93.969 | Geriatric Education Centers | 363,263 |
| 93.970 | Health Professions Recruitment Program for Indians | 165,605 |
| 93.977 | Preventive Health Services-Sexually Transmitted Diseases Control Grants | 325,866 |
| 93.991 | Preventive Health and Health Services Block Grant | 538,055 |
| 93.994 | Maternal and Child Health Services Block Grant to the States | 2,457,335 |
| 93.999 | Miscellaneous Non-Major Grants | 73,814 |
| TOTAL | | \$161,740,283 |
| AGING CLUSTER | | |
| 93.044 | Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers | 1,787,593 |
| 93.045 | Special Programs for the Aging-Title III, Part C-Nutrition Services | 3,201,816 |
| 93.053 | Nutrition Services Incentive Program | 1,158,589 |
| 93.705 | ARRA Aging Home-Delivered Nutrition Services | 79,999 |
| 93.707 | ARRA Aging Congregate Nutrition Services for State | 162,500 |
| TOTAL | | \$6,390,497 |
| CCDF CLUSTER | | |
| 93.575 | Child Care and Development Block Grant | 14,895,283 |
| 93.596 | Child Care Mandatory and Matching Funds of the Child Care and Development | 10,373,176 |
| 93.713 | ARRA Child Care and Development Block Grant | 2,224,775 |
| TOTAL | | \$27,493,234 |
| CSBG CLUSTER | | |
| 93.569 | Community Services Block Grant | 3,272,933 |
| 93.710 | ARRA Community Services Block Grant | 1,542,080 |
| TOTAL | | \$4,815,013 |
| HEAD START CLUSTER | | |
| 93.600 | Head Start | 96,625 |
| 93.708 | ARRA - Head Start | 863 |
| TOTAL | | \$97,488 |
| IMMUNIZATION CLUSTER | | |
| 93.268 | Immunization Grant | 9,131,449 |
| 93.712 | ARRA Immunization | 208,627 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

| | | AMOUNT |
|---|---|----------------------|
| | | TOTAL |
| | | \$9,340,076 |
| MEDICAID CLUSTER | | |
| 93.775 | State Medicaid Fraud Control Units | 536,922 |
| 93.777 | State Survey and Certification of Health Care Providers and Suppliers | 2,664,690 |
| 93.778 | Medical Assistance Program | 697,787,859 |
| 93.778 | ARRA Medical Assistance Program | 80,797,821 |
| | | TOTAL |
| | | \$781,787,292 |
| TANF CLUSTER | | |
| 93.558 | Temporary Assistance for Needy Families (TANF) | 28,200,705 |
| 93.714 | ARRA Emergency Contingency Fund for Temporary Assistance | 3,530,747 |
| | | TOTAL |
| | | \$31,731,452 |
| CORPORATION FOR NATIONAL & COMMUNITY SERVICE | | |
| 94.003 | State Commissions | 274,617 |
| 94.004 | Learn and Serve America-School and Community Based Programs | 72,006 |
| 94.006 | AmeriCorps | 3,419,840 |
| 94.006 | AmeriCorps: From W WA University | 3,916 |
| 94.007 | Planning and Program Development Grants | 78,863 |
| 94.007 | Planning and Program Development Grants: From Regis University | 32,960 |
| 94.007 | Planning and Program Development Grants: From Elon University | 1,826 |
| 94.009 | Training and Technical Assistance | 83,097 |
| 94.013 | Volunteers in Service to America | 603,266 |
| 94.013 | ARRA Volunteers in Service to America | 10,605 |
| 94.999 | Miscellaneous Non-Major Grants | 75,076 |
| | | TOTAL |
| | | \$4,656,072 |
| SOCIAL SECURITY ADMINISTRATION | | |
| 96.008 | Social Security-Benefits Planning, Assistance, and Outreach Program | 89,048 |
| | | TOTAL |
| | | \$89,048 |
| DISABILITY INSURANCE/SSI CLUSTER | | |
| 96.001 | Social Security - Disability Insurance | 6,111,146 |
| | | TOTAL |
| | | \$6,111,146 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

AMOUNT

HOMELAND SECURITY

| | | |
|--------|---|--------------------|
| 97.001 | Pilot Demonstration or Earmarked Projects | 545,944 |
| 97.012 | Boating Safety Financial Assistance | 437,191 |
| 97.023 | Community Assistance Program State Support Services Element (CAP-SSSE) | 122,632 |
| 97.036 | Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 783,606 |
| 97.039 | Hazard Mitigation Grant | 37,733 |
| 97.041 | National Dam Safety Program | 244,347 |
| 97.042 | Emergency Management Performance Grants | 2,789,541 |
| 97.043 | State Fire Training Systems Grants | 17,882 |
| 97.045 | Cooperating Technical Partners | 1,091,049 |
| 97.046 | Fire Management Assistance Grant | 26,219 |
| 97.047 | Pre-Disaster Mitigation | 226,061 |
| 97.052 | Emergency Operations Centers | 229,011 |
| 97.078 | Buffer Zone Protection Plan (BZPP) | 384,622 |
| 97.082 | Earthquake Consortium | 42,905 |
| | TOTAL | \$6,978,743 |

HOMELAND SECURITY CLUSTER

| | | |
|--------|---------------------------------|--------------------|
| 97.067 | Homeland Security Grant Program | 9,281,761 |
| | TOTAL | \$9,281,761 |

OTHER FEDERAL

| | | |
|--------|---|------------------|
| 32.001 | Communications Information and Assistance and Investigation of Complaints: From Corp. for Public Broadcasting | 51,069 |
| 95.001 | High Intensity Drug Trafficking Areas Program | 128,166 |
| 95.001 | High Intensity Drug Trafficking Areas Program: From City of Billings | 3,682 |
| 95.001 | High Intensity Drug Trafficking Areas Program: From Lewis and Clark County | 12,742 |
| 99.999 | Other Federal | 11,995 |
| | TOTAL | \$207,654 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

AMOUNT

RESEARCH AND DEVELOPMENT CLUSTER

DEPARTMENT OF AGRICULTURE

| | | |
|--------|--|-----------|
| 10.001 | Agricultural Research-Basic and Applied Research | 50,452 |
| 10.025 | Plant and Animal Disease, Pest Control, and Animal Care | 339,550 |
| 10.028 | Wildlife Services | 5,406 |
| 10.069 | Conservation Reserve Program | 9,765 |
| 10.156 | Federal-State Marketing Improvement Program | 27,444 |
| 10.200 | Grants for Agricultural Research, Special Research Grants | 1,867,129 |
| 10.200 | Grants for Agricultural Research, Special Research Grants: From Idaho University | 86,214 |
| 10.200 | Grants for Agricultural Research, Special Research Grants: From Univ. of California Davis | 67,157 |
| 10.200 | Grants for Agricultural Research, Special Research Grants: From Utah State University | 12,581 |
| 10.200 | Grants for Agricultural Research, Special Research Grants: From University of Washington | 43,074 |
| 10.200 | Grants for Agricultural Research, Special Research Grants: From Oregon Dept of Human Serv. | 39,205 |
| 10.200 | Grants for Agricultural Research, Special Research Grants: From North Dakota State Univ. | 7,245 |
| 10.200 | Grants for Agricultural Research, Special Research Grants: From South Dakota State Univ. | 71,768 |
| 10.202 | Cooperative Forestry Research | 194,798 |
| 10.203 | Payments to Agricultural Experiment Stations Under the Hatch Act | 1,891,971 |
| 10.206 | Grants for Agricultural Research-Competitive Research Grants | 1,132,326 |
| 10.206 | Grants for Agricultural Research-Competitive Research Grants: From Univ. of California Davis | 128 |
| 10.206 | Grants for Agricultural Research-Competitive Research Grants: From University of Minnesota | 35 |
| 10.206 | Grants for Agricultural Research-Competitive Research Grants: From Univ. of Idaho | 29,131 |
| 10.206 | Grants for Agricultural Research-Competitive Research Grants: From Utah State University | 1,375 |
| 10.207 | Animal Health and Disease Research | 19,846 |
| 10.210 | Food and Agricultural Sciences National Needs | 151,380 |
| 10.215 | Sustainable Agriculture Research and Education | 31,515 |
| 10.215 | Sustainable Agriculture Research and Education: From Utah State University | 166,405 |
| 10.215 | Sustainable Agriculture Research and Education: From University of Wyoming | 24,794 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

AMOUNT

| | AMOUNT |
|---|---------------|
| 10.217 Higher Education Challenge Grants | 270,257 |
| 10.221 Tribal Colleges Education Equity Grants: From Fort Peck Com. College | 10,967 |
| 10.227 1994 Institutions Research Program: From Fort Peck Com. College | 44,701 |
| 10.227 1994 Institutions Research Program: From Chief Dull Knife College | 14,708 |
| 10.227 1994 Institutions Research Program: From Fort Belknap College | 1,019 |
| 10.250 Agricultural and Rural Economic Research | 116,775 |
| 10.250 Agricultural and Rural Economic Research: From Co. State Univ. | (380) |
| 10.303 Integrated Programs | 492,868 |
| 10.303 Integrated Programs: From Univ. of California Davis | (17,086) |
| 10.303 Integrated Programs: From Co. State Univ. | 69,073 |
| 10.304 Homeland Security - Agricultural: From Kansas State Univ. | 71,391 |
| 10.310 Agriculture and Food Research Initiative (AFRI) | 309,105 |
| 10.310 Agriculture and Food Research Initiative (AFRI): From University of Minnesota | (946) |
| 10.310 Agriculture and Food Research Initiative (AFRI): From Univ. of California Davis | 150,577 |
| 10.310 Agriculture and Food Research Initiative (AFRI): From Emory University | 11,416 |
| 10.443 Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers: From Fort Peck Com. College | 580 |
| 10.456 Rural Community Development Initiative | 1,685 |
| 10.456 Rural Community Development Initiative: From National Center for Appropriate Technology | 36,074 |
| 10.500 Cooperative Extension Service | 955,102 |
| 10.500 Cooperative Extension Service: From Univ. of Georgia | (4) |
| 10.500 Cooperative Extension Service: From Auburn University | 2,130 |
| 10.500 Cooperative Extension Service: From Oregon Dept of Human Serv. | 16,312 |
| 10.500 Cooperative Extension Service: From Kansas State Univ. | 121,827 |
| 10.500 Cooperative Extension Service: From Co. State Univ. | 532 |
| 10.500 Cooperative Extension Service: From University of Wyoming | 12,380 |
| 10.500 Cooperative Extension Service: From Univ. of Nebraska Lincoln | 117,227 |
| 10.500 Cooperative Extension Service: From North Dakota State Univ. | 15,284 |
| 10.500 Cooperative Extension Service: From Univ. of Arizona | 16,582 |
| 10.500 Cooperative Extension Service: From Western Region SARE Program | 19,978 |
| 10.652 Forestry Research | 5,125,439 |
| 10.652 Forestry Research: From A. Carhart | 127,447 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

AMOUNT

| | | |
|--------------|---|---------------------|
| 10.652 | Forestry Research: From SUNY Research Institute | 16,903 |
| 10.652 | Forestry Research: From Nat. Fish & Wild. Found. | 27,892 |
| 10.652 | Forestry Research: From Blackfoot Challenge | 15,253 |
| 10.652 | Forestry Research: From National Forest Foundation | 18,608 |
| 10.664 | Cooperative Forestry Assistance | 86,656 |
| 10.676 | Forest Legacy Program | 8,691 |
| 10.680 | Forest Health Protection | 67,008 |
| 10.681 | Wood Education and Resource Center (WERC) | 6,843 |
| 10.683 | National Fish and Wildlife Foundation: From Nat. Fish & Wild. Found. | 30,000 |
| 10.688 | ARRA Wildlife Fire Management | 3,940 |
| 10.762 | Solid Waste Management Grants | 199 |
| 10.859 | Assistance to High Energy Cost Rural Communities: From Univ. of Nebraska Lincoln | 2,300 |
| 10.902 | Soil and Water Conservation | 196,940 |
| 10.912 | Environmental Quality Incentives Program | 167,146 |
| 10.912 | Environmental Quality Incentives Program: From Pollinator Partnership | 12,770 |
| 10.960 | Technical Agricultural Assistance | 22 |
| 10.961 | Scientific Cooperation and Research | 10,329 |
| 10.999 | Miscellaneous Non-Major Grants | 14,336 |
| 10.999 | Miscellaneous Non-Major Grants: From Nat. Fish & Wild. Found. | (10) |
| TOTAL | | \$15,069,540 |

DEPARTMENT OF COMMERCE

| | | |
|--------------|---|------------------|
| 11.001 | Census Bureau Data Products | 9,227 |
| 11.303 | Economic Development-Technical Assistance | 98,341 |
| 11.427 | Fisheries Development & Utilization Research | 6 |
| 11.431 | Climate and Atmospheric Research | 78,699 |
| 11.439 | Marine Mammal Data Program | 46,363 |
| 11.440 | Environmental Sciences, Applications, Data, and Education | 3,376 |
| 11.463 | Habitat Conservation: From Mississippi State Univ. | 31 |
| 11.609 | Measurement and Engineering Research and Standards | 15,368 |
| 11.611 | Manufacturing Extension Partnership | 678,506 |
| TOTAL | | \$929,917 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

AMOUNT**DEPARTMENT OF DEFENSE**

| | | |
|--------|---|-----------|
| 12.002 | Procurement Technical Assistance For Business Firms | 3,849,147 |
| 12.002 | Procurement Technical Assistance For Business Firms: From S2CORP | 133,748 |
| 12.114 | Collaborative Research and Development | 1,345,884 |
| 12.114 | Collaborative Research and Development: From ADVR Inc. | 23,465 |
| 12.300 | Basic and Applied Scientific Research | 1,440,541 |
| 12.300 | Basic and Applied Scientific Research: From M&T | (95) |
| 12.300 | Basic and Applied Scientific Research: From Yale University | (113) |
| 12.300 | Basic and Applied Scientific Research: From Adv. Accoustics Concepts | 39,281 |
| 12.300 | Basic and Applied Scientific Research: From S2CORP | (19) |
| 12.300 | Basic and Applied Scientific Research: From Univ. of Maryland | 9,683 |
| 12.300 | Basic and Applied Scientific Research: From Impact Tech. LLC. | 41,662 |
| 12.300 | Basic and Applied Scientific Research: From Univ. of Oklahoma | 310,157 |
| 12.300 | Basic and Applied Scientific Research: From Aerodyne Research | 11,319 |
| 12.300 | Basic and Applied Scientific Research: From Edison Welding Institute | 1,171,381 |
| 12.360 | Research on Chemical and Biological Defense | 9,101 |
| 12.420 | Military Medical Research and Development | 484,333 |
| 12.431 | Basic Scientific Research | 321,489 |
| 12.630 | Basic, Applied, and Advanced Research in Science and Engineering | 307,510 |
| 12.800 | Air Force Defense Research Sciences Program | 1,707,299 |
| 12.800 | Air Force Defense Research Sciences Program: From S.D. School of Mines | 41,060 |
| 12.800 | Air Force Defense Research Sciences Program: From Ald NanoSolutions Inc. | 60,178 |
| 12.800 | Air Force Defense Research Sciences Program: From Rutgers University | 108,006 |
| 12.800 | Air Force Defense Research Sciences Program: From University of Minnesota | 155,853 |
| 12.910 | Research and Technology Development | 568,441 |
| 12.910 | Research and Technology Development: From Rutgers University | 36,532 |
| 12.999 | Miscellaneous Non-Major Grants | 5,329 |
| 12.999 | Miscellaneous Non-Major Grants: From Bridger Photoincs | 87,138 |
| 12.999 | Miscellaneous Non-Major Grants: From ACI Technologies, Inc. | 351,333 |
| 12.999 | Miscellaneous Non-Major Grants: From Tetrattec | 49,849 |
| 12.999 | Miscellaneous Non-Major Grants: From UES Inc. | 22,732 |
| 12.999 | Miscellaneous Non-Major Grants: From S2 Corp | 119,356 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

| | | AMOUNT |
|--|---|---------------------|
| 12.999 | Miscellaneous Non-Major Grants: From Radiance Technologies | 174,630 |
| | TOTAL | \$12,986,210 |
| DEPARTMENT OF HOUSING & URBAN DEVELOPMENT | | |
| 14.909 | ARRA Lead Hazard Reduction Demonstration Grant Program | 351,624 |
| | TOTAL | \$351,624 |
| DEPARTMENT OF THE INTERIOR | | |
| 15.034 | Agriculture on Indian Lands | 2,758 |
| 15.224 | Cultural Resource Management | 203,638 |
| 15.228 | Wildland Urban Interface Community and Rural Fire Assistance | 50,309 |
| 15.230 | Invasive and Noxious Plant Management | 422,225 |
| 15.231 | Fish, Wildlife and Plant Conservation Resource Management | 448,132 |
| 15.234 | Secure Rural Schools and Community Self-Determination | 75,443 |
| 15.236 | Environmental Quality and Protection Resource Management | 119,982 |
| 15.238 | Challenge Cost Share | 69,671 |
| 15.238 | Challenge Cost Share: From Washington State Univ. | 3,427 |
| 15.239 | Management Initiatives | 101,654 |
| 15.255 | Applied Science Program Cooperative Agreements Related to Coal Mining and Reclamation: From Washington State University | 967 |
| 15.299 | Miscellaneous Non-Major Grants | 37,551 |
| 15.299 | Miscellaneous Non-Major Grants: From Nat. Fish & Wild. Found. | 9,916 |
| 15.524 | Recreation Resources Management | 3,704 |
| 15.608 | Fish and Wildlife Management Assistance | 200,216 |
| 15.608 | Fish and Wildlife Management Assistance: From Univ. of Nebraska | 8,868 |
| 15.634 | State Wildlife Grants | 3,047 |
| 15.642 | Challenge Cost Share | 32,760 |
| 15.649 | Service Training and Technical Assistance (Generic Training) | 76,196 |
| 15.650 | Research Grants (Generic) | 377,400 |
| 15.655 | Migratory Bird Monitoring, Assessment and Conservation | 39,032 |
| 15.657 | Endangered Species Conservation - Recovery Implementation Funds | 389,798 |
| 15.805 | Assistance to State Water Resources Research Institutes | 141,304 |
| 15.807 | Earthquake Hazards Reduction Program | 62,778 |
| 15.808 | U.S. Geological Survey-Research and Data Acquisition | 580,322 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

| | AMOUNT |
|---|--------------------|
| 15.809 National Spatial Data Infrastructure Competitive Cooperative Agreements Program | 87 |
| 15.810 National Cooperative Geologic Mapping Program | 242,933 |
| 15.811 Gap Analysis Program | 13,061 |
| 15.812 Cooperative Research Units Program | 1,134,524 |
| 15.815 National Land Remote Sensing Education Outreach and Research: From America View Inc. | 91,087 |
| 15.819 Energy Cooperatives to Support the National Coal Resources Data System (NCRDS) | 14,171 |
| 15.904 Historic Preservation Fund Grants-in-Aid | 29,632 |
| 15.904 Historic Preservation Fund Grants-in-Aid: From University of Wyoming | 4,994 |
| 15.915 Technical Preservation Services | 7,332 |
| 15.915 Technical Preservation Services: From Idaho University | 15,756 |
| 15.916 Outdoor Recreation: Acquisition, Development and Planning | 170,302 |
| 15.921 Rivers, Trails and Conservation Assistance | 57,100 |
| 15.921 Rivers, Trails and Conservation Assistance: From Univ of Wyoming NPS Res. Center | 99 |
| 15.923 National Center for Preservation Technology and Training | 20,681 |
| 15.999 Miscellaneous Non-Major Grants | 2,036,102 |
| TOTAL | \$7,298,959 |
| DEPARTMENT OF JUSTICE | |
| 16.541 Part E - Developing, Testing and Demonstrating Promising New Programs | 269,083 |
| 16.710 Public Safety Partnership and Community Policing Grants | 1,425,499 |
| 16.727 Enforcing Underage Drinking Laws Program: From Oregon Dept of Human Serv. | 17,612 |
| 16.746 Capital Case Litigation | 2,421 |
| TOTAL | \$1,714,615 |
| DEPARTMENT OF STATE | |
| 19.500 Middle East Partnership Initiative (MEPI) | 267,783 |
| TOTAL | \$267,783 |
| DEPARTMENT OF TRANSPORTATION | |
| 20.109 Air Transportation Centers of Excellence: From Aerodyne Research | 18,634 |
| 20.200 Federal Highway Administration | 3,123,892 |
| 20.200 Federal Highway Administration: From Univ. of Iowa | 88,448 |
| 20.200 Federal Highway Administration: From Wisconsin DOT | 14,371 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

AMOUNT

| | | |
|--------|--|--------------------|
| 20.200 | Federal Highway Administration: From Vanasse Hangen Brustlin | 23,538 |
| 20.200 | Federal Highway Administration: From Nat. Academies of Science | 28,095 |
| 20.200 | Federal Highway Administration: From Oregon Dept of Transportation | 5,827 |
| 20.200 | Federal Highway Administration: From Washington Dept of Transportation | 4,684 |
| 20.205 | Highway Planning and Construction | 1,358,078 |
| 20.205 | Highway Planning and Construction: From Center for Native Ecosystems | (3,309) |
| 20.215 | Highway Training and Education | 164 |
| 20.219 | Recreational Trails Program | 36,378 |
| 20.514 | Transit Planning and Research | 786,734 |
| 20.520 | Paul S. Sarbanes Transit in the Parks | 590,575 |
| 20.601 | Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants: From Univ. of Iowa | (7,651) |
| 20.610 | State Traffic Safety Information System Improvement Grants: From Westat | 98,340 |
| 20.614 | National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants | 86,170 |
| 20.614 | National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants: From Pacific Inst. for Research | 10,764 |
| 20.701 | University Transportation Centers Program: From Univ. of Alaska Fairbanks | 12,152 |
| 20.704 | RITA Hydrogen | 409,747 |
| 20.762 | Research Grants | 647,946 |
| 20.999 | Miscellaneous Non-Major Grants: From Aerodyne Research | 12,206 |
| | TOTAL | \$7,345,783 |

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

| | | |
|--------|---|-----------|
| 43.001 | Aerospace Education Services Program | 4,336,256 |
| 43.001 | Aerospace Education Services Program: From Univ. of California | 28,545 |
| 43.001 | Aerospace Education Services Program: From Lockheed Martin Corp. | 995,122 |
| 43.001 | Aerospace Education Services Program: From Smithsonian Astrophysical | 570,437 |
| 43.001 | Aerospace Education Services Program: From Univ. of Illinois | 15,901 |
| 43.001 | Aerospace Education Services Program: From Cal. Inst. of Technology | 165,180 |
| 43.001 | Aerospace Education Services Program: From ADNET Systems | 20,074 |
| 43.001 | Aerospace Education Services Program: From Univ. of North Dakota | 33,402 |
| 43.001 | Aerospace Education Services Program: From Johns Hopkins Univ. | 36,125 |
| 43.001 | Aerospace Education Services Program: From ADVR Inc. | 2,345 |
| 43.001 | Aerospace Education Services Program: From Univ. Corp. for Atmosh. Res. | 20,701 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

| | | AMOUNT |
|--|---|--------------------|
| 43.002 | Technology Transfer | 196,157 |
| 43.002 | Technology Transfer: From Smithsonian Astrophysical | 118,140 |
| 43.002 | Technology Transfer: From Boeing Co. | 15,223 |
| 43.002 | Technology Transfer: From Carnegie Inst. of Wash. | 41,535 |
| 43.002 | Technology Transfer: From ADVR Inc. | 71,273 |
| 43.999 | Miscellaneous Non-Major Grants | 1,723,696 |
| 43.999 | Miscellaneous Non-Major Grants: From SW Research Inst. | 59,729 |
| 43.999 | Miscellaneous Non-Major Grants: From Pennsylvania State Univ. | 35,592 |
| 43.999 | Miscellaneous Non-Major Grants: From Ca Inst-Tech, JPL | 337,265 |
| 43.999 | Miscellaneous Non-Major Grants: From U OF CA, Irvine | 12,575 |
| 43.999 | Miscellaneous Non-Major Grants: From Univ. of North Dakota | 61,632 |
| 43.999 | Miscellaneous Non-Major Grants: From Univ. of Maryland | 23,368 |
| 43.999 | Miscellaneous Non-Major Grants: From The Woods Hole Research | 77,058 |
| | TOTAL | \$8,997,331 |
| NATIONAL ENDOWMENT FOR THE HUMANITIES | | |
| 45.129 | Promotion of the Humanities-Federal/State Partnership: From Hummanities Montana | 7,900 |
| 45.169 | Promotion of the Humanities - Office of Digital Humanities | 10,543 |
| | TOTAL | \$18,443 |
| NATIONAL SCIENCE FOUNDATION | | |
| 47.041 | Engineering Grants | 1,889,422 |
| 47.041 | Engineering Grants: From Bridger Photoincs | 133,808 |
| 47.049 | Mathematical and Physical Sciences | 1,788,169 |
| 47.049 | Mathematical and Physical Sciences: From Univ. of Calif. Santa Cruz | 51 |
| 47.049 | Mathematical and Physical Sciences: From Chief Dull Knife College | 157,043 |
| 47.049 | Mathematical and Physical Sciences: From Univ. of Maryland | 34,375 |
| 47.049 | Mathematical and Physical Sciences: From Assn. of Univ. for Research in Astronomy | 156 |
| 47.050 | Geosciences | 1,543,609 |
| 47.050 | Geosciences: From Univ. of Hawaii Manoa | 1,988 |
| 47.050 | Geosciences: From Univ. of Missouri | 119,455 |
| 47.070 | Computer and Information Science and Engineering | 113,903 |
| 47.074 | Biological Sciences | 4,229,694 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

AMOUNT

| | | |
|--------|--|---------------------|
| 47.074 | Biological Sciences: From Harvard Univ. | 14,585 |
| 47.074 | Biological Sciences: From Washington State University | 61,117 |
| 47.074 | Biological Sciences: From Univ. of Nebraska - Med. Ctr | 15,063 |
| 47.074 | Biological Sciences: From Bridger Photoincs | (532) |
| 47.074 | Biological Sciences: From W VA University | 4,139 |
| 47.074 | Biological Sciences: From Villanova University | 8,826 |
| 47.075 | Social, Behavioral, and Economic Sciences | 824,399 |
| 47.076 | Education and Human Resources | 2,325,988 |
| 47.076 | Education and Human Resources: From Salish Kootenai College | 333,506 |
| 47.076 | Education and Human Resources: From Louisiana Tech | 23,614 |
| 47.078 | Polar Programs | 723,394 |
| 47.078 | Polar Programs: From Univ. of Colorado | 224,935 |
| 47.079 | International Science and Engineering (OISE) | 244,733 |
| 47.079 | International Science and Engineering (OISE): From UNLV | 19,045 |
| 47.080 | Office of Cyberinfrastructure | 2,241,452 |
| 47.082 | ARRA Trans-NSF Recovery Act Research Support | 5,773,544 |
| 47.082 | ARRA Trans-NSF Recovery Act Research Support: From Univ. of Hawaii Manoa | 25,216 |
| 47.082 | ARRA Trans-NSF Recovery Act Research Support: From Bridger Photoincs | (42) |
| 47.999 | Miscellaneous Non-Major Grants: From Portland State Univ. | 6,455 |
| | TOTAL | \$22,881,110 |

SMALL BUSINESS ADMINISTRATION

| | | |
|--------|--|------------------|
| 59.000 | Small Business Administration-Technical Assistance Grant | 138,570 |
| 59.006 | Business Development Program | 161,489 |
| 59.058 | Federal and State Technology Partnership Program | 991 |
| 59.058 | Federal and State Technology Partnership Program: From Defense Alliance of Minnesota | 30,718 |
| | TOTAL | \$331,768 |

DEPARTMENT OF VETERANS AFFAIRS

| | | |
|--------|---------------------------------------|-----------------|
| 64.018 | Sharing Specialized Medical Resources | 64,667 |
| | TOTAL | \$64,667 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

AMOUNT

ENVIRONMENTAL PROTECTION AGENCY

| | | |
|--------------|--|--------------------|
| 66.034 | Surveys, Studies, Invest., Demonst and Special Purp Act Relating to the Clean Air Act | 373,777 |
| 66.034 | Surveys, Studies, Invest., Demonst and Special Purp Act Relating to the Clean Air Act: From Health Effects Institute | 21,441 |
| 66.419 | Water Pollution Control-State and Interstate Program Support | 171,601 |
| 66.436 | Surveys, Studies, Investigations & Demonstrations of the Clean Water Act | 32,760 |
| 66.460 | Nonpoint Source Implementation Grants: From Clearwater Research Council | 4,050 |
| 66.461 | Regional Wetland Program Development Grants | 287,640 |
| 66.461 | Regional Wetland Program Development Grants: From NM Surface Water Quality | (624) |
| 66.463 | Water Quality Cooperative Agreements: From Project Wet Foundation | 2,608 |
| 66.509 | Science To Achieve Results (STAR) Research Program | 148,857 |
| 66.509 | Science To Achieve Results (STAR) Research Program: From UNINEW003 | 14,169 |
| 66.512 | Regional Environmental Monitoring and Assessment Program | 196,200 |
| 66.514 | Science To Achieve Results (STAR) Fellowship Program | 11,008 |
| 66.516 | P3 Award: National Student Design Competition for Sustainability | 11,100 |
| 66.605 | Performance Partnership Grants: From N. Cheyenne Tribe | 13,800 |
| 66.606 | Surveys, Studies, Investigations and Special Purpose Grants: From Boise State University | 136 |
| 66.708 | Pollution Prevention Grants Program | 208,526 |
| 66.709 | Multi-Media Capacity Building Grants for States and Tribes | 61,344 |
| 66.714 | Pesticide Environmental Stewardship Regional Grants | 27,118 |
| 66.716 | Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach | 149,510 |
| 66.716 | Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach: From ADVR Inc. | 1,974 |
| 66.717 | Source Reduction Assistance | 21,133 |
| 66.999 | Miscellaneous Non-Major Grants: From Ruby Valley Conser. Dist. | 420 |
| 66.999 | Miscellaneous Non-Major Grants: From Fort Peck Tribe | 1,037 |
| 66.999 | Miscellaneous Non-Major Grants: From Tetra Tech, Inc. | 2,043 |
| 66.999 | Miscellaneous Non-Major Grants: From Missoula Area Econ. Development | 6,285 |
| TOTAL | | \$1,767,913 |

DEPARTMENT OF ENERGY

| | | |
|--------|--|---------|
| 81.041 | ARRA State Energy Program: From North American Power Group | 236,266 |
|--------|--|---------|

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

AMOUNT

| | AMOUNT |
|---|---------------|
| 81.049 Office of Science Financial Assistance Program | 1,333,828 |
| 81.049 Office of Science Financial Assistance Program: From Inland NW Research All. | 36,021 |
| 81.049 Office of Science Financial Assistance Program: From Resonon Inc. | 117,008 |
| 81.049 Office of Science Financial Assistance Program: From J Craig Venter Inst. | 20,345 |
| 81.049 Office of Science Financial Assistance Program: From Resodyn Corporation | 36,600 |
| 81.049 Office of Science Financial Assistance Program: From Los Alamos National Security | 168,322 |
| 81.079 Regional Biomass Energy Programs: From South Dakota State Univ. | 73,585 |
| 81.086 Conservation Research and Development: From Pacific States Marine | 147,626 |
| 81.087 Renewable Energy Research and Development | 778,639 |
| 81.087 Renewable Energy Research and Development: From Siemens Power Generation | 113,099 |
| 81.087 Renewable Energy Research and Development: From Consort. for Plant Biotech. Res. | 23,871 |
| 81.087 Renewable Energy Research and Development: From Inland NW Research All. | 5 |
| 81.087 Renewable Energy Research and Development: From Arizona Geological Survey | 103,940 |
| 81.089 Fossil Energy Research and Development | 1,992,231 |
| 81.089 Fossil Energy Research and Development: From Crow Tribe | 6,306 |
| 81.089 Fossil Energy Research and Development: From Little Big Horn College | 4,362 |
| 81.089 Fossil Energy Research and Development: From Virginia Polytechnic Institute & State University | 163,762 |
| 81.104 Office of Environmental Cleanup and Acceleration | 9,893 |
| 81.112 Stewardship Science Grant Program: From Oregon Fish and Wild. | 10,871 |
| 81.112 Stewardship Science Grant Program: From Gonzales Stroller Surv. LLC | 30,773 |
| 81.122 ARRA Electricity Delivery and Energy Reliability, Research, Development and Analysis | 254,994 |
| 81.122 Electricity Delivery and Energy Reliability, Research, Development and Analysis | 186,254 |
| 81.122 Electricity Delivery and Energy Reliability, Research, Development and Analysis: From Western Electricity Coordinating Council | 282,777 |
| 81.999 Miscellaneous Non-Major Grants: From Confed Tribes Of The Umatilla Indian Reser | 54,837 |
| 81.999 Miscellaneous Non-Major Grants: From Battelle Energy Alliance | 32,041 |
| 81.999 Miscellaneous Non-Major Grants: From Pacific Northwest National Laboratory | 111,307 |
| 81.999 Miscellaneous Non-Major Grants: From UT- Battelle | 57,869 |
| 81.999 Miscellaneous Non-Major Grants: From Idaho National Laboratory | 19,386 |
| 81.999 Miscellaneous Non-Major Grants: From Inland NW Research All. | 46,743 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

AMOUNT

| | | | |
|--------|---|--|--------------------|
| 81.999 | Miscellaneous Non-Major Grants: From S M Stroller Corp. | | 88,363 |
| | TOTAL | | \$6,541,924 |

DEPARTMENT OF EDUCATION

| | | | |
|--------|--|--|--------------------|
| 84.016 | Undergraduate International Studies and Foreign Language | | 60,273 |
| 84.017 | International Research and Studies | | 11,382 |
| 84.031 | Higher Education Institutional Aid: From Univ. of Cal Berkeley | | 37,817 |
| 84.116 | Fund for the Improvement of Postsecondary Education | | 45,421 |
| 84.120 | Minority Science and Engineering Improvement | | 53,601 |
| 84.133 | National Institute on Disability and Rehabilitation Research | | 73,713 |
| 84.133 | National Institute on Disability and Rehabilitation Research: From Univ of Kansas | | 38,143 |
| 84.133 | National Institute on Disability and Rehabilitation Research: From Portland State Univ. | | 45,073 |
| 84.133 | National Institute on Disability and Rehabilitation Research: From Baylor College of Medice | | 45,334 |
| 84.184 | Safe and Drug-Free Schools and Communities - National Programs | | 168,491 |
| 84.299 | Indian Education - Special Programs | | 272,211 |
| 84.373 | Special Education -Technical Assistance on State Data Collection: From Meeting The Challenge | | 34,534 |
| 84.378 | College Access Challenge Grant Program | | 195,405 |
| | TOTAL | | \$1,081,398 |

DEPARTMENT OF HEALTH AND HUMAN SERVICES

| | | | |
|--------|--|--|-----------|
| 93.103 | Food and Drug Administration Research | | 359 |
| 93.113 | Biological Response to Environmental Health Hazards | | 1,336,487 |
| 93.113 | Biological Response to Environmental Health Hazards: From University of Washington | | 6,045 |
| 93.136 | Injury Prevention and Control Research and State and Community Based Programs | | 116,739 |
| 93.136 | Injury Prevention and Control Research and State and Community Based Programs: From MT Sinai School - Medicine | | 37,151 |
| 93.136 | Injury Prevention and Control Research and State and Community Based Programs: From N. Cheyenne Tribe | | 58,607 |
| 93.172 | Human Genome Research | | 176,420 |
| 93.172 | Human Genome Research: From Stanford University | | 233,810 |
| 93.178 | Nursing Workforce Diversity | | 4,665 |
| 93.184 | Disabilities Prevention: From Univ. of Illinois | | 6,133 |
| 93.206 | Human Health Studies Applied Research and Development | | 8,858 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

| | | AMOUNT |
|--------|--|---------------|
| 93.213 | Research and Training in Complementary and Alternative Medicine | 1,225,546 |
| 93.231 | Epidemiology Cooperative Agreements: From RMTEC | 51,319 |
| 93.242 | Mental Health Research Grants | 654,682 |
| 93.243 | Substance Abuse and Mental Health Services-Projects of Regional and National Significance: From Univ. of Missouri | 60,921 |
| 93.247 | Advanced Education Nursing Grant Program | 365,922 |
| 93.262 | Occupational Safety and Health Program: From University of Utah | 2,884 |
| 93.276 | Drug-Free Communities Support Program Grants: From Wyoming Dept.of Health | 329,396 |
| 93.279 | Drug Abuse Research Programs | 331,602 |
| 93.283 | Centers for Disease Control and Prevention-Investigations and Technical Assistance | 133,173 |
| 93.283 | Centers for Disease Control and Prevention-Investigations and Technical Assistance: From Assoc. University Centers Dist. | 270,022 |
| 93.286 | Discovery and Applied Research for Technological Innovations to Improve Human Health | 4,701 |
| 93.286 | Discovery and Applied Research for Technological Innovations to Improve Human Health: From Univ. of Illinois | 32,758 |
| 93.301 | Small Rural Hospital Improvement Grant Program | 414,280 |
| 93.307 | Minority Health and Health Disparities Research | 1,171,401 |
| 93.307 | Minority Health and Health Disparities Research: From Little Big Horn College | 104,739 |
| 93.310 | Trans-NIH Research Support: From Ateris Tech, LLC | 3,718 |
| 93.359 | Nurse Education, Practice and Retention Grants: From University of Washington | 3,480 |
| 93.361 | Nursing Research | 149,757 |
| 93.389 | National Center for Research Resources | 9,684,783 |
| 93.389 | National Center for Research Resources: From ZDye Corp. | 177,257 |
| 93.389 | National Center for Research Resources: From Resonon Inc. | 16,244 |
| 93.389 | National Center for Research Resources: From University of Washington | 10 |
| 93.393 | Cancer Cause and Prevention Research | 449,167 |
| 93.393 | Cancer Cause and Prevention Research: From Miriam Hospital | 20,583 |
| 93.395 | Cancer Treatment Research | 224,453 |
| 93.395 | Cancer Treatment Research: From Vanderbilt Univ. | 41,752 |
| 93.395 | Cancer Treatment Research: From Univ. of Calif. San Diego | 26,146 |
| 93.395 | Cancer Treatment Research: From SensoPath Technologies | 20,547 |
| 93.396 | Cancer Biology Research | 85,375 |
| 93.509 | Affordable Care Act (ACA) State Health Care Workforce Development Grants | 52,318 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

AMOUNT

| | | |
|--------|--|-----------|
| 93.568 | Low Income Home Energy Assistance: From National Center for Appropriate Technology | 42 |
| 93.631 | Developmental Disabilities Projects of National Significance | 47,979 |
| 93.701 | ARRA Trans-NIH Recovery Act Research Support | 7,454,332 |
| 93.701 | ARRA Trans-NIH Recovery Act Research Support: From Harvard Univ. | 252,682 |
| 93.701 | ARRA Trans-NIH Recovery Act Research Support: From Inst. of Translational Health Sci. | 56,781 |
| 93.702 | ARRA National Center for Research Resources, Recovery Act Construction Support | 1,054,286 |
| 93.779 | Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations | 358,770 |
| 93.824 | Basic/Core Area Health Education Centers | 1,363,743 |
| 93.824 | Basic/Core Area Health Education Centers: From MT Health Res. & Ed. Found. | 3,149 |
| 93.837 | Heart and Vascular Diseases Research | 348,590 |
| 93.837 | Heart and Vascular Diseases Research: From Gramercy Res. Group | 7,977 |
| 93.838 | Lung Diseases Research | 862,431 |
| 93.846 | Arthritis, Musculoskeletal and Skin Diseases Research | 185,853 |
| 93.847 | Diabetes, Endocrinology and Metabolism Research | (63) |
| 93.853 | Extramural Research Programs in the Neurosciences and Neurological Disorders | 2,013,657 |
| 93.853 | Extramural Research Programs in the Neurosciences and Neurological Disorders: From Yale University | 135,866 |
| 93.853 | Extramural Research Programs in the Neurosciences and Neurological Disorders: From Univ. of California | 78,446 |
| 93.855 | Allergy, Immunology and Transplantation Research | 2,874,280 |
| 93.855 | Allergy, Immunology and Transplantation Research: From Indiana University | 26,161 |
| 93.855 | Allergy, Immunology and Transplantation Research: From Co. State Univ. | 22 |
| 93.855 | Allergy, Immunology and Transplantation Research: From Sorrento Therapeutics | 132,038 |
| 93.855 | Allergy, Immunology and Transplantation Research: From Univ. of Connecticut | 63,051 |
| 93.856 | Microbiology and Infectious Diseases Research | 99,358 |
| 93.856 | Microbiology and Infectious Diseases Research: From Co. State Univ. | 1,062,052 |
| 93.859 | Biomedical Research and Research Training | 2,184,602 |
| 93.859 | Biomedical Research and Research Training: From Case Western Univ. | 20,835 |
| 93.859 | Biomedical Research and Research Training: From Ohio University | 55,973 |
| 93.859 | Biomedical Research and Research Training: From Univ. of Connecticut | 60,828 |
| 93.859 | Biomedical Research and Research Training: From Univ. of Washington | 150,869 |
| 93.865 | Child Health and Human Development Extramural Research | 42,357 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

| | | AMOUNT |
|---|---|------------------------|
| 93.865 | Child Health and Human Development Extramural Research: From Medical College of Georgia | 25,383 |
| 93.866 | Aging Research | 306,291 |
| 93.867 | Vision Research: From University of Rchester | 138,973 |
| 93.912 | Rural Outreach-Rural Network Developmental Program | 119,095 |
| 93.970 | Health Professions Recruitment Program for Indians | 320,637 |
| 93.974 | Family Planning Service Delivery Improvement Research Grants | 203,450 |
| 93.999 | Miscellaneous Non-Major Grants | 37,479 |
| | TOTAL | \$40,242,465 |
| HOMELAND SECURITY | | |
| 97.017 | Pre-Disaster Mitigation (PDM) Competitive Grants: From Butte Silver Bow | 1,833 |
| | TOTAL | \$1,833 |
| UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT | | |
| 98.001 | USAID Foreign Assistance for Programs Overseas: From Oregon State Univ. | 130,059 |
| | TOTAL | \$130,059 |
| TOTAL RESEARCH AND DEVELOPMENT CLUSTER | | \$128,023,342 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | \$3,130,787,819 |

STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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 2011, Montana distributed \$363,224 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed \$8,394,712 in commodities in fiscal year 2011. The value at June 30, 2011 of commodities stored at the state's warehouse is \$2,292,412 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, 2011. The amount of loans outstanding as of June 30, 2011 in the Water Pollution Control Revolving Fund Program is \$198,190,786.

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, 2011. The amount of loans outstanding for the program as of June 30, 2011 is \$111,534,405.

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, 2011. The amount of loans outstanding as of June 30, 2011 is \$347,020 in non-ARRA funds and \$2,565,470 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, 2011 is \$605,896.

Federal Family Education Loans

The Montana Guaranteed Student Loan Program (MGSLP) guaranteed no new loans for the Federal Family Education Loans (CFDA #84.032) program during FY2011. 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 \$64,551,557 at June 30, 2011. The dollar amount of Default Aversion Fees transferred from the Federal Fund to the Agency's Operating Fund during FY2011 was \$393,563 (net). In addition, MGSLP received or accrued revenue from the U.S.

Department of Education in FY2011 of \$28,288,397 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, 2011. The amount of loans outstanding as of June 30, 2011 is \$33,008,728.

Nursing Student Loan Program

The amount of loans outstanding for the Nursing Student Loan Program (CFDA # 93.364) as of June 30, 2011 is \$1,785,474.

Nursing Faculty Loan Program

The amount of loans outstanding for the Nursing Faculty Loan Program (CFDA # 93.264) as of June 30, 2011 is \$131,802.

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 2011, Montana received 201,629 vaccine doses valued at \$7,965,715. In addition, Montana distributed no doses of H1N1 from CDC during fiscal year 2011.

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 2011. The amount of the loan outstanding as of June 30, 2011 is \$7,823,077.

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, 2011, of loan outstanding is \$2,331,957 and of interest during construction outstanding is \$200,626.

Note 2. Type A Federal Programs

The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the level of federal award expenditures to be used in defining Type A and Type B federal assistance programs.

Type A programs for the state of Montana are those which total federal awards expenditures equal or exceed \$19,892,405 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. The negative amount reflects property sold, and title transferred at public sale.

| CFDA # Program | FY 11 Amount | Inventory |
|--|--------------|-------------|
| 10.203 Payments to Ag. Exp. Station | \$10,718 | \$185,676 |
| 10.500 Cooperative Extension Service | \$0 | \$8,632 |
| 10.664 Cooperative Forestry Assistance | \$6,785 | \$5,965,608 |

| | | |
|-------------------------------------|------------|-----------|
| 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 | \$664,050 |
| 47.999 NSF Misc. Non. Major | \$(13,857) | \$266,760 |

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.

| CFDA # Program | FY 11 Amount | Inventory |
|--------------------------------|--------------|------------|
| 12.999 DOD Firefighter Program | \$ 80,918 | \$ 471,599 |

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, 2011, was \$1,259,853. 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).

| | |
|-------------------------|--------------------|
| State UI Expenditures | \$161,469,697 |
| Federal UI Expenditures | <u>133,137,058</u> |
| Total | \$294,606,755 |

Note 8. Subgrants to State Agencies

Federal assistance transferred from one Montana state agency to another Montana state agency is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from non-state sources which are considered subgrants by the awarding agency are treated as pass through grants to the state and are reported on the Schedule of Expenditures of Federal Awards.

Note 9. Pass through Awards to Non-State Entities

The following is a list of federal funds passed through from the state of Montana to non-state entities for fiscal year 2011.

| <i>CFDA Number</i> | <i>Program Title</i> | <i>Amount Provided To Subrecipient</i> |
|------------------------|--|--|
| 10.163 | Market Protection and Promotion | 100,691 |
| 10.169 | Specialty Crop Block Grant Program | 112,226 |
| 10.200 | Grants for Agricultural Research, Special Research Grants | 304,643 |
| 10.206 | Grants for Agricultural Research & Competitive Research Grants | 20,465 |
| 10.210 | Food and Agricultural Sciences National Needs Graduate Fellowship Grants | 32,687 |
| 10.217 | Higher Education Challenge Grants | 129,688 |
| 10.303 | Integrated Programs | 37,151 |
| 10.310 | Agriculture and Food Research Initiative (AFRI) | 33,126 |
| 10.500 | Cooperative Extension Service | 64,207 |
| 10.550 | Food Donation | 3,038,406 |
| 10.553 | School Breakfast Program | 6,325,319 |
| 10.555 | National School Lunch Program | 23,677,432 |
| 10.556 | Special Milk Program for Children | 18,046 |
| 10.557 | Child and Adult Care Food Program | 4,063,787 |
| 10.558 | Child and Adult Care Food Program | 861,368 |
| 10.559 | Summer Food Program for Children | 1,198,815 |
| 10.561 | State Administrative Matching Grants for Food Stamp Program | 985,168 |
| 10.567 | Food Distribution Program on Indian Reservations | 1,482,145 |
| 10.568 | Emergency Food Assistance Program (Administrative Costs) | 111,644 |
| 10.572 | WIC Farmers' Market Nutrition Program (FMNP) | 88,191 |
| 10.579 | ARRA Child Nutrition Discretionary Grants Limited Availability | 20,685 |
| 10.582 | ARRA Emergency Food Assistance Program (Administrative Costs) | 1,087,956 |
| 10.652 | Forestry Research | 45,072 |
| 10.664 | Cooperative Forestry Assistance | 3,284,143 |
| 10.665 | Schools and Roads-Grants to States | 23,345,258 |
| 10.683 | National Fish and Wildlife Foundation | 30,000 |
| 10.688 | ARRA Recovery Act of 2009: Wildland Fire Management | 3,292,154 |
| 11.555 | Public Safety Interoperable Communications Grant Program | 3,753,482 |
| 11.557 | ARRA Broadband Technology Opportunities Program (BTOP) | 72,664 |
| 11.611 | Manufacturing Extension Partnership | 5,180 |
| 12.002 | Procurement Technical Assistance For Business Firms | 841,855 |
| 12.114 | Collaborative Research and Development | 230,871 |
| 12.300 | Basic and Applied Scientific Research | 195,842 |
| 12.420 | Military Medical Research and Development | 18,491 |
| 12.630 | Basic, Applied, and Advanced Research in Science and Engineering | 5,400 |
| 12.800 | Air Force Defense Research Sciences Program | 189,887 |
| 12.999 | Defense - Miscellaneous | 24,703 |
| 14.228 | Community Development Block Grant/State's Program | 6,405,473 |
| 14.239 | Home Investment Partnerships Program | 2,422,736 |
| 15.233 | ARRA Forests and Woodlands Resource Management | 32,078 |
| 15.242 | National Fire Plan - Rural Fire Assistance | 585,510 |
| 15.649 | Miscellaneous Non-Major Grants | 6,075 |
| 15.650 | Research Grants (Generic) | 45,000 |
| 15.812 | Cooperative Research Units Program | 24,154 |
| 15.904 | Historic Preservation Fund Grants-In-Aid | 89,755 |
| 15.916 | Outdoor Recreation-Acquisition, Development and Planning | 269,042 |
| 15.929 | ARRA Save America's Treasures | 15,616 |
| 15.999 | Miscellaneous Department of the Interior | 153,517 |
| 16.017 | Sexual Assault Services Formula Program | 137,367 |
| 16.523 | Juvenile Accountability Incentive Block Grants | 348,636 |
| 16.540 | Juvenile Justice and Delinquency Prevention: Allocation to States | 493,878 |
| 16.548 | Title V Delinquency Prevention Program | 30,386 |
| 16.575 | Crime Victim Assistance | 1,718,971 |
| 16.588 | Violence Against Women Formula Grant | 1,109,459 |
| 16.593 | Residential Substance Abuse Treatment for State Prisoners | 50,613 |
| 16.609 | Community Prosecution and Project Safe Neighborhoods | 65,088 |
| 16.727 | Enforcing Underage Drinking Laws Program | 309,775 |
| 16.738 | Crime Victim Assistance | 843,740 |
| 16.744 | Anti-Gang Initiative | 31,000 |
| 16.801 | ARRA Violence Against Women Formula Grants | 40,101 |
| 16.803 | Violence Against Women Formula Grants | 468,245 |
| 17.235 | ARRA Youth Activities | 949,867 |
| 17.258 | WIA Adult Program | 633,658 |
| 17.259 | WIA Youth Activities | 1,870,568 |
| 17.267 | WIA Incentive Grants -Section 503 Grants to States | -11,784 |
| 17.275 | Enforcing Underage Drinking Laws Program | 2,484,154 |
| 20.200 | Federal-Aid Highways-Emergency Relief | 3,000 |
| 20.205 | Highway Planning and Construction | 12,580,467 |
| 20.219 | Recreational Trails | 1,323,483 |

| <i>CFDA Number</i> | <i>Program Title</i> | <i>Amount Provided To Subrecipient</i> |
|------------------------|---|--|
| 20.500 | Federal Transit - Capital Investment Grants | 601,059 |
| 20.505 | Federal Transit - Metropolitan Planning Grants | 404,015 |
| 20.509 | Formula Grants for Other Than Urbanized Areas | 11,611,406 |
| 20.513 | Capital Assistance Program for the Elderly and Persons with Disabilities | 268,562 |
| 20.514 | Transit Planning and Research | 454,940 |
| 20.515 | State Planning and Research | 2,303 |
| 20.516 | Job Access Reverse Commute | 669,801 |
| 20.520 | Paul S. Sarbanes Transit in the Parks | 181,270 |
| 20.600 | State and Community Highway Safety | 779,382 |
| 20.601 | Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants | 402,068 |
| 20.602 | Occupant Protection | 62,118 |
| 20.611 | Incentive Grant Program to Prohibit Racial Profiling | 12,932 |
| 20.703 | Interagency Hazardous Materials Public Sector Training and Planning Grants | 49,967 |
| 20.704 | Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants | 92,344 |
| 39.011 | Election Reform Payments | 9,867 |
| 43.001 | Aerospace Education Services Program | 573,340 |
| 43.999 | Miscellaneous NASA | 31,786 |
| 45.025 | Promotion of the Arts-Partnership Agreements | 504,444 |
| 45.310 | State Library Program | 13,625 |
| 47.041 | Engineering Grants | 27,271 |
| 47.049 | Mathematical and Physical Sciences | 93,545 |
| 47.050 | Geosciences | 1,126 |
| 47.074 | Biological Sciences | 279,190 |
| 47.075 | Social, Behavioral, and Economic Sciences | 12,890 |
| 47.076 | Education and Human Resources | 610,992 |
| 47.078 | Miscellaneous Non-Major Grants | 152,147 |
| 47.079 | International Science and Engineering (OISE) | 56,757 |
| 47.080 | Office of Cyberinfrastructure | 110,608 |
| 47.082 | ARRA Trans-NSF Recovery Act Research Support | 273,121 |
| 59.000 | SBDC/Microloan | 107,925 |
| 66.034 | Surveys, Studies, Research, Invest., Demon., and Special Purpose Act. Relating to the Clean Air Act | 21,441 |
| 66.512 | Regional Environmental Monitoring and Assessment Program (REMAP) Research Projects | 89,915 |
| 66.716 | Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach | 46,192 |
| 81.041 | ARRA State Energy Program | 99,865 |
| 81.049 | Office of Science Financial Assistance Program | 216,785 |
| 81.087 | Renewable Energy Research and Development | 135,571 |
| 81.089 | Fossil Energy Research and Development | 1,254,894 |
| 81.122 | Miscellaneous Non-Major Grants | 213,987 |
| 84.002 | Adult Education-State Grant Program | 1,138,541 |
| 84.010 | Title I Grants to Local Educational Agencies | 41,556,429 |
| 84.011 | Migrant Education-Basic State Grant Program | 888,251 |
| 84.013 | Title I Program for Neglected and Delinquent Children | 103,920 |
| 84.027 | Special Education - Grants to States | 30,410,903 |
| 84.048 | Vocational Education - Basic Grants to States | 3,546,362 |
| 84.069 | Leveraging Educational Assistance Partnership | 174,326 |
| 84.133 | National Institute on Disability and Rehabilitation Research | 130,043 |
| 84.144 | Migrant Education - Coordination Program | 85,719 |
| 84.173 | Special Education - Preschool Grants | 1,255,416 |
| 84.186 | Safe & Drug Free Schools and Communities - State Grants | 432,014 |
| 84.196 | Education for Homeless Children and Youth | 162,505 |
| 84.213 | Even Start - State Educational Agencies | 269,374 |
| 84.215 | Fund for the Improvement of Education | 602 |
| 84.243 | Tech-Prep Education | 126,670 |
| 84.287 | Twenty-First Century Community Learning Centers | 5,345,533 |
| 84.318 | Education Technology State Grants | 815,288 |
| 84.323 | Special Education-State Program Improvement Grants for Children with Disabilities | 57,302 |
| 84.334 | Gaining Early Awareness and Readiness for Undergraduate Programs | 1,510,533 |
| 84.357 | Reading First State Grants | 43,475 |
| 84.358 | Rural Education | 260,338 |
| 84.365 | English Language Acquisition Grants | 385,202 |
| 84.366 | Mathematics and Science Partnerships | 983,376 |
| 84.367 | Improving Teacher Quality State Grants | 12,898,301 |
| 84.377 | School Improvement Grants | 103,483 |
| 84.378 | College Access Challenge Grant Program | 442,750 |
| 84.386 | ARRA Education Technology State Grants, Recovery Act | 1,787,122 |
| 84.387 | ARRA Education for Homeless Children and Youth, Recovery Act | 48,925 |
| 84.389 | ARRA Title I Grants to Local Educational Agencies, Recovery Act | 15,451,165 |
| 84.391 | ARRA Special Education Grants to States, Recovery Act | 15,132,102 |
| 84.392 | ARRA Special Education - Preschool Grants, Recovery Act | 530,304 |

| <i>A-172</i> | <i>CFDA</i> | <i>Program Title</i> | <i>Amount Provided</i> |
|---------------|-------------|---|------------------------|
| <i>Number</i> | | | <i>To Subrecipient</i> |
| 84.394 | | ARRA State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act | 36,772,774 |
| 84.397 | | ARRA State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act | 4,835,386 |
| 84.410 | | Education Jobs Fund | 30,737,469 |
| 90.401 | | Help America Vote Act Requirements Payments | 19,177 |
| 93.003 | | Public Health and Social Services Emergency Fund | 144,463 |
| 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 | 82,767 |
| 93.043 | | Special Programs for the Aging - Title III, Part D: Disease Prevention | 105,131 |
| 93.044 | | Special Programs for the Aging - Title III, Part B: Supportive Services | 1,458,471 |
| 93.045 | | Special Programs for the Aging - Title III, Part C: Nutrition Services | 2,947,640 |
| 93.048 | | Special Programs for the Aging - Title IV & and Title II - Discretionary Proj. | 208,956 |
| 93.052 | | Nation Family Caregiver Support Program | 697,420 |
| 93.053 | | Nutrition Services Incentive Program | 931,774 |
| 93.071 | | Medicare Enrollment Assistance Program | 2,679 |
| 93.104 | | Comprehensive Community Mental Health Services for Children | 53,112 |
| 93.110 | | Maternal and Child Health Federal Consolidated Programs | 88,910 |
| 93.116 | | Project Grants and Cooperative Agreements for Tuberculosis Control Programs | 23,718 |
| 93.126 | | Small Business Innovation Research | 61,792 |
| 93.130 | | Primary Care Services Resource Coordination and Development | 32,900 |
| 93.135 | | Centers for Research and Demonstration for Health Promotion and Disease Prevention | 727,031 |
| 93.150 | | Projects for Assistance in Transition from Homelessness (PATH) | 275,492 |
| 93.165 | | Grants to States for Loan Repayment Program | 134,231 |
| 93.217 | | Family Planning Services | 1,868,653 |
| 93.236 | | Grants for Dental Public Health Residency Training | 50,000 |
| 93.241 | | State Rural Hospital Flexibility Program | 568,959 |
| 93.242 | | Mental Health Research Grants | 81,469 |
| 93.243 | | Substance Abuse and Mental Health Services_Projects of Regional and National Significance | 2,141,577 |
| 93.268 | | Immunization Grants | 433,824 |
| 93.276 | | Drug-Free Communities Support Program Grants | 128,209 |
| 93.283 | | Centers for Disease Control and Prevention-Investigations and Technical Assistance | 5,342,029 |
| 93.286 | | Discovery and Applied Research for Technological Innovations to Improve Human Health | 4,464 |
| 93.301 | | Small Rural Hospital Improvement Grants | 393,578 |
| 93.307 | | Minority Health and Health Disparities Research | 152,289 |
| 93.389 | | National Center for Research Resources | 637,573 |
| 93.393 | | Minority Health and Health Disparities Research | 113,824 |
| 93.416 | | ARRA - Health Careers Opportunity Program | 10,000 |
| 93.511 | | Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review | 15,280 |
| 93.518 | | Affordable Care Act - Medicare Improvements for Patients and Providers | 26,734 |
| 93.556 | | Promoting Safe and Stable Families | 589,020 |
| 93.558 | | Temporary Assistance for Needy Families (TANF) | 3,035,687 |
| 93.566 | | Refugee and Entrant Assistance-State Administered Programs | 10,904 |
| 93.568 | | Low-Income Home Energy Assistance | 1,462,191 |
| 93.575 | | Child Care and Development Block Grant | 5,431,788 |
| 93.590 | | Community-Based Family Resource and Support Grants | 202,568 |
| 93.597 | | Grants to States for Access and Visitation Programs | 98,566 |
| 93.599 | | Chafee Education and Training Vouchers Program (ETV) | 187,940 |
| 93.600 | | Head Start | 64,781 |
| 93.617 | | Voting Access for Individuals with Disabilities-Grants to States | 102,572 |
| 93.630 | | Developmental Disabilities Basic Support and Advocacy Grants | 416,068 |
| 93.631 | | Developmental Disabilities Projects of National Significance | 13,000 |
| 93.658 | | Foster Care Title IV-E | 2,170,300 |
| 93.671 | | Family Violence Prevention and Services/Grants for Battered Women | 786,045 |
| 93.674 | | Chafee Foster Care Independent Living | 40,215 |
| 93.701 | | ARRA Trans-NIH Recovery Act Research Support | 792,519 |
| 93.705 | | ARRA Aging Home-Delivered Nutrition Services for States | 79,999 |
| 93.707 | | ARRA Aging Congregate Nutrition Services for States | 162,500 |
| 93.713 | | ARRA - Child Care and Development Block Grant | 331,795 |
| 93.721 | | ARRA - Health Information Technology Professionals in Health Care | 97,703 |
| 93.723 | | ARRA - Prevention and Wellness-State, | 262,193 |
| 93.767 | | State Children's Insurance Program | 344,046 |
| 93.779 | | Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations | 194,197 |
| 93.824 | | ARRA Americorps | 822,993 |
| 93.855 | | Allergy, Immunology and Transplantation Research | 167,204 |
| 93.859 | | Biomedical Research and Research Training | 134,237 |
| 93.917 | | HIV Care Formula Grants | 320,040 |
| 93.940 | | HIV Prevention Activities-Health Department Based | 934,944 |
| 93.959 | | Block Grants for Prevention and Treatment of Substance Abuse | 1,211,619 |
| 93.969 | | Geriatric Education Centers | 31,990 |
| 93.974 | | Family Planning Service Delivery Improvement Research Grants | 16,422 |

| <i>CFDA Number</i> | <i>Program Title</i> | <i>Amount Provided To Subrecipient</i> |
|------------------------|--|--|
| 93.991 | Preventive Health and Health Services Block Grant | 347,564 |
| 93.994 | Maternal and Child Health Services Block Grant to the States | 1,168,675 |
| 94.004 | Learn and Serve America - School and Community Based Program | 15,397 |
| 94.006 | Americorps | 3,513,487 |
| 94.007 | Planning and Program Development Grants | 3,308 |
| 97.001 | Pilot Demonstration or Earmarked Projects | 167,761 |
| 97.036 | Public Assistance Grants | 783,473 |
| 97.039 | Hazard Mitigation Grant | 20,066 |
| 97.042 | Emergency Management Performance Grants | 1,798,618 |
| 97.046 | Fire Management Assistance Grant | 26,219 |
| 97.047 | Pre-Disaster Mitigation | 167,574 |
| 97.067 | Homeland Security Grant Program | 4,299,365 |
| 97.078 | Buffer Zone Protection Plan (BZPP) | 245,575 |
| TOTAL | | 396,672,114 |

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-09-8-078 | 1,953 |
| | Univ. of Montana - Missoula | PC-10-8-055 | 9,064 |
| Department of Agriculture (10) | | | |
| | Montana Tech - Butte | 05-CS-11010800-010 | 2,136 |
| | Montana Tech - Butte | 65-0325-09-034 | 6,411 |
| | Montana Tech - Butte | 09-CS-11011400-019 | 9,700 |
| | Montana Tech - Butte | 65-0325-4-104 | 2,500 |
| | Univ. of Montana - Western | 09-CS-11011100-035 | 300 |
| | Labor and Industry | 12-25-A-5094 | 6,425 |
| | Montana State Univ. - Bozeman | 2007-0079-001 | -10 |
| Department of Defense (12) | | | |
| | Univ. of Montana - Missoula | W912HZ-08-2-0006 | 331 |
| | Univ. of Montana - Missoula | W912DY-09-2-0001 | 1,947 |
| | Univ. of Montana - Missoula | W912DW-11-P-0068 | 3,051 |
| | Montana Tech - Butte | W9113M-09-C-0138 | 174,630 |
| | Montana Tech - Butte | N00014-08-D-0758 | 131,463 |
| | Montana Tech - Butte | N00014-08-D-0758 | 219,870 |
| | Montana State Univ. - Bozeman | NRO 000-08-C-0158 | 19,607 |
| | Montana State Univ. - Bozeman | USAF:FA8650-10-C-1722 | 67,531 |
| | Montana State Univ. - Bozeman | S2-10-0070-01 | 119,356 |
| | Montana State Univ. - Bozeman | 100-SWW-T26107/PO1061970 | 49,849 |
| | Montana State Univ. - Bozeman | P875-4 | 22,732 |
| Department of the Interior (15) | | | |
| | Montana State Univ. - Bozeman | J9504090019 | -220 |
| | Montana State Univ. - Bozeman | J1380106001/H1200090004 | 4,735 |
| | Montana State Univ. - Bozeman | P11AT00109 MSU-234/H1200090004 | 3,546 |
| | Univ. of Montana - Missoula | J8400060012, UMT-94 | 1,945 |
| | Univ. of Montana - Missoula | J2380060105, UMT-106 | 52,603 |
| | Univ. of Montana - Missoula | J2303060026, UMT-113 | 10,819 |
| | Univ. of Montana - Missoula | J1434060050, UMT-111 | 344 |
| | Univ. of Montana - Missoula | J1435050094, UMT-128 | 4,042 |
| | Univ. of Montana - Missoula | J1242077019, UMT-143 | 1,587 |
| | Univ. of Montana - Missoula | J2303070096, UMT-145 | 5,934 |
| | Univ. of Montana - Missoula | J2310080035, UMT-153 | 4,136 |
| | Univ. of Montana - Missoula | J2030080012, UMT-155, 206 | 6,041 |
| | Univ. of Montana - Missoula | J1435080074, UMT-157, 199 | 7,606 |
| | Univ. of Montana - Missoula | J8755080013, UMT-166, 178 | 3,014 |
| | Univ. of Montana - Missoula | J1571060508, UMT-156 | 12,814 |
| | Univ. of Montana - Missoula | J1434080044, UMT-169 | 25,905 |
| | Univ. of Montana - Missoula | J1434080043, UMT-170 | 26,260 |
| | Univ. of Montana - Missoula | J1433080022, UMT-176 | 6,254 |
| | Univ. of Montana - Missoula | J1580080588, UMT-177, 203 | 16,055 |
| | Univ. of Montana - Missoula | J1580080549, UMT-180 | 470 |
| | Univ. of Montana - Missoula | J1242080019, UMT-184 | 2,785 |
| | Univ. of Montana - Missoula | J1586080018, UMT-179 | 3,801 |
| | Univ. of Montana - Missoula | J1242080026, UMT-189 | 10,790 |
| | Univ. of Montana - Missoula | J1434080088, UMT-188 | 4,083 |

Schedule of Unknown Federal CFDA Numbers (XX.999)

| Federal Agency | State Agency | Contract or Grant Number | Amount |
|-----------------------|-----------------------------|---------------------------------|---------------|
| | Univ. of Montana - Missoula | J2303080037, UMT-187 | 1,244 |
| | Univ. of Montana - Missoula | J1212080053, UMT-191 | 7,123 |
| | Univ. of Montana - Missoula | J1242067023, UMT-115 | 2,818 |
| | Univ. of Montana - Missoula | J1580090083, UMT-193 | 647 |
| | Univ. of Montana - Missoula | J1212080059, UMT-192 | 11,471 |
| | Univ. of Montana - Missoula | J1434080053 | 54,662 |
| | Univ. of Montana - Missoula | J1242090014, UMT-204 | 416 |
| | Univ. of Montana - Missoula | J9560090096, UMT-202 | 15,124 |
| | Univ. of Montana - Missoula | J7580090176, UMT-211 | 1,529 |
| | Univ. of Montana - Missoula | J1242090017, UMT-212 | 4,969 |
| | Univ. of Montana - Missoula | J1580090409, UMT-209 | 6,280 |
| | Univ. of Montana - Missoula | J2310091050, UMT-213 | 3,861 |
| | Univ. of Montana - Missoula | J1580090444, UMT-218 | 4,518 |
| | Univ. of Montana - Missoula | J2310091046, UMT-208 | 89,167 |
| | Univ. of Montana - Missoula | J1242090038, UMT-222 | 1,641 |
| | Univ. of Montana - Missoula | J2360097106 | 8,863 |
| | Univ. of Montana - Missoula | J8750090352, UMT-205 | 5,211 |
| | Univ. of Montana - Missoula | J1242090039, UMT-223 | 3,801 |
| | Univ. of Montana - Missoula | J1580090464, UMT-215 | 25,149 |
| | Univ. of Montana - Missoula | J2119090014, UMT-219 | -109 |
| | Univ. of Montana - Missoula | J6490090170, UMT-220 | 6,948 |
| | Univ. of Montana - Missoula | J1434090021, UMT-200 | 6,637 |
| | Univ. of Montana - Missoula | J1434090054, UMT-221 | 425 |
| | Univ. of Montana - Missoula | J1242090045, UMT-225 | 1,607 |
| | Univ. of Montana - Missoula | J1242090050, UMT-228 | 1,901 |
| | Univ. of Montana - Missoula | J2120090015, UMT-214 | 2,000 |
| | Univ. of Montana - Missoula | J1242090048, UMT-226 | 24,998 |
| | Univ. of Montana - Missoula | J1242090049, UMT-227 | 2,304 |
| | Univ. of Montana - Missoula | J1580090465, UMT-214 | 2,667 |
| | Univ. of Montana - Missoula | J986509R119, UMT-210 | 15,108 |
| | Univ. of Montana - Missoula | J2303090040, UMT-224 | 37,510 |
| | Univ. of Montana - Missoula | J1434100015, UMT-229 | 48,101 |
| | Univ. of Montana - Missoula | J1242100004, UMT-230 | 5,000 |
| | Univ. of Montana - Missoula | J1580100211, UMT-233 | 151,402 |
| | Univ. of Montana - Missoula | J1580100301, UMT-234 | 39,173 |
| | Univ. of Montana - Missoula | J7481100013, UMT-232 | 5,113 |
| | Univ. of Montana - Missoula | J1580090380, UMT-207 | 9,411 |
| | Univ. of Montana - Missoula | J1580100376, UMT-237 | 41,531 |
| | Univ. of Montana - Missoula | J2370106514 | 144,458 |
| | Univ. of Montana - Missoula | J2301100201 | 9,400 |
| | Univ. of Montana - Missoula | J1434100037, UMT-238 | 8,975 |
| | Univ. of Montana - Missoula | J6490100437, UMT-240 | 3,511 |
| | Univ. of Montana - Missoula | J1465100319, UMT-239 | 50,159 |
| | Univ. of Montana - Missoula | J2301100204, UMT-243 | 1,418 |
| | Univ. of Montana - Missoula | J2301100200 | 16,568 |
| | Univ. of Montana - Missoula | J1242100023, UMT-245 | 8,813 |
| | Univ. of Montana - Missoula | J1242100024, UMT-244 | 1,671 |
| | Univ. of Montana - Missoula | J1580110107, UMT-247 | 32,492 |

Schedule of Unknown Federal CFDA Numbers (XX.999)

| Federal Agency | State Agency | Contract or Grant Number | Amount |
|--|-------------------------------|---------------------------------|---------------|
| | Univ. of Montana - Missoula | J1434110014, UMT-248 | 11,782 |
| | Univ. of Montana - Missoula | J1580110158, UMT-249 | 36,073 |
| | Univ. of Montana - Missoula | P11AT00115, UMT-254 | 5,595 |
| | Univ. of Montana - Missoula | P11AT0024, UMT-255 | 665 |
| | Univ. of Montana - Missoula | P11AT10306, UMT-256 | 2,711 |
| | Montana Tech - Butte | H1580070001 | 48,993 |
| | Dept. of Envir. Quality | H1580060002 | 31,036 |
| | Dept. Of Natural Resources | H1580070001 | 23,246 |
| | Dept of Revenue | 0206CA25939 | 217,381 |
| | Montana State Univ. - Bozeman | H1200040001 MSU-29 | 10,283 |
| | Montana State Univ. - Bozeman | 06FC602143 | 49,025 |
| | Montana State Univ. - Bozeman | 06FC602128 | 5,499 |
| | Montana State Univ. - Bozeman | J1460060025 MSU-111 | 145 |
| | Montana State Univ. - Bozeman | L08AC14286 | 3,220 |
| | Montana State Univ. - Bozeman | H8812-06-0502 | -17 |
| | Montana State Univ. - Bozeman | J1580070530 | 9,561 |
| | Montana State Univ. - Bozeman | H1200040001/J1580070509 | 15,638 |
| | Montana State Univ. - Bozeman | J1580080122 MSU-149 | 18 |
| | Montana State Univ. - Bozeman | J1580080436 / MSU-161/170 | -419 |
| | Montana State Univ. - Bozeman | J1580080405 | -62 |
| | Montana State Univ. - Bozeman | J1580080407 | 141,791 |
| | Montana State Univ. - Bozeman | J1212080049 | 7,256 |
| | Montana State Univ. - Bozeman | J1580080390 | -13 |
| | Montana State Univ. - Bozeman | J1580080614 MSU-173 | 5,405 |
| | Montana State Univ. - Bozeman | J1580090215/MSU-180 | 168,588 |
| | Montana State Univ. - Bozeman | J1580090381/H1200090004/MSU190 | 174 |
| | Montana State Univ. - Bozeman | J2120090011 MSU-186 | 59,917 |
| | Montana State Univ. - Bozeman | J1571091020 MSU-191 | 311 |
| | Montana State Univ. - Bozeman | J1580090462 MSU-200 | 54,866 |
| | Montana State Univ. - Bozeman | J1580090445 MSU-198 | 38,802 |
| | Montana State Univ. - Bozeman | J2146107001 MSU-208H1200090004 | 10,209 |
| | Montana State Univ. - Bozeman | H1200090004/J12471000030MSU211 | 16,654 |
| | Montana State Univ. - Bozeman | H1200090004/J1573107012 | 8,062 |
| | Montana State Univ. - Bozeman | J1580100209/MSU-217 | 42,176 |
| | Montana State Univ. - Bozeman | J1571100503;MSU-218;H120000900 | 21,655 |
| | Montana State Univ. - Bozeman | J1571100503;MSU-218;H120000900 | 8,977 |
| | Montana State Univ. - Bozeman | J2120100011 MSU-221 | 50,965 |
| | Montana State Univ. - Bozeman | J2146107010 MSU-224 | 45,131 |
| | Montana State Univ. - Bozeman | J8136100197 MSU-228 | 8,264 |
| | Montana State Univ. - Bozeman | J1580100341 MSU-222 | 20,378 |
| | Montana State Univ. - Bozeman | J1580100275 MSU-223 | 16,771 |
| | Montana State Univ. - Bozeman | J1580100410 MSU-229 | 10,960 |
| | Montana State Univ. - Bozeman | J1320119034/MSU 231 | 5,969 |
| Department of Labor (17) | | | |
| | Labor and Industry | MI-19021-09-60-A-30 | 73,726 |
| Department of Transportation (20) | | | |
| | Montana State Univ. - Bozeman | ARI 10686-2 | 12,206 |
| Library of Congress (42) | | | |

Schedule of Unknown Federal CFDA Numbers (XX.999)

| Federal Agency | State Agency | Contract or Grant Number | Amount |
|---|-------------------------------|-------------------------------------|---------------|
| | Montana Historical Society | 09-038 | 3,955 |
| | Montana Historical Society | 10-039 | 8,040 |
| National Aeronautics and Space Administration (43) | | | |
| | Univ. of Montana - Missoula | NNX07AJ28G | 82,436 |
| | Univ. of Montana - Missoula | NNX08AG87A | 255,739 |
| | Univ. of Montana - Missoula | NNX08AP59G | 50,015 |
| | Univ. of Montana - Missoula | NNX08AQ63A | 278,555 |
| | Univ. of Montana - Missoula | NNX09AP52G | 155,865 |
| | Univ. of Montana - Missoula | NNX09AQ80G | 16,991 |
| | Univ. of Montana - Missoula | NNX10AM15G | 11,329 |
| | Univ. of Montana - Missoula | NNX10AH57G | 39,455 |
| | Univ. of Montana - Missoula | NNX10AN58H | 23,809 |
| | Univ. of Montana - Missoula | NNX11AF18G | 170,596 |
| | Univ. of Montana - Missoula | 1356497 | 29,570 |
| | Univ. of Montana - Missoula | 3672-UM-NASA-J90G | 35,592 |
| | Univ. of Montana - Missoula | 1350935 | 79,239 |
| | Univ. of Montana - Missoula | 1364345 | 12,913 |
| | Univ. of Montana - Missoula | 1368208 | 65,070 |
| | Univ. of Montana - Missoula | 1388663 | 108,824 |
| | Univ. of Montana - Missoula | 1400503 | 59,884 |
| | Univ. of Montana - Missoula | 2010-2386 | 12,575 |
| | Univ. of Montana - Missoula | 1405851 | 30,159 |
| | Univ. of Montana - Missoula | 1422120 | 11,335 |
| | Montana State Univ. - Bozeman | NNA08CN85A | 636,006 |
| | Montana State Univ. - Bozeman | UND0014026 | -1 |
| | Montana State Univ. - Bozeman | Z641403 | 23,368 |
| | Montana State Univ. - Bozeman | NNA08CN85A | 14,229 |
| | Montana State Univ. - Bozeman | UND0015364 | 61,633 |
| | Montana State Univ. - Bozeman | WHRC-MSU2009 | 77,058 |
| National Science Foundation (47) | | | |
| | Montana State Univ. - Bozeman | 208FOU076 | 6,455 |
| Environmental Protection Agency (66) | | | |
| | Univ. of Montana - Missoula | CD97874601 | 420 |
| | Univ. of Montana - Missoula | P.O. 81417 | 1,037 |
| | Univ. of Montana - Missoula | EP-BPA-11-C-0013 | 2,043 |
| | Univ. of Montana - Missoula | BF-97810201-4 | 6,285 |
| Department of Energy (81) | | | |
| | Univ. of Montana - Missoula | 4000101914 | 57,869 |
| | Montana Tech - Butte | 444-008 | -91 |
| | Montana Tech - Butte | DE-AC07-05ID14517 | 32,041 |
| | Montana Tech - Butte | DE-AC05-76RL01830 | -202 |
| | Montana Tech - Butte | DE-AC05-76RL01830 | 19,846 |
| | Montana Tech - Butte | DE-AC05-76RL01830 | 91,663 |
| | Montana Tech - Butte | 190825 | 19,386 |
| | Montana Tech - Butte | 457-011 | 54,928 |
| | Dept. of Envir. Quality | DE-AC05-76RL01830, contract #136136 | 82,831 |
| | Montana State Univ. - Bozeman | 60-5004-301 | 2,035 |
| | Montana State Univ. - Bozeman | MSU-4101-090209 | 88,363 |

Schedule of Unknown Federal CFDA Numbers (XX.999)

| Federal Agency | State Agency | Contract or Grant Number | Amount |
|--|-------------------------------|---------------------------------|---------------|
| Department of Education (84) | Montana State Univ. - Bozeman | 60-5004-302 | 44,708 |
| | Office of Public Instruction | ED-08-CO-0076 | 202,217 |
| | Office of Public Instruction | ED-03-CO-0045 | 509 |
| | Office of Public Instruction | ED-04-CO-0060/0003 | 39,542 |
| Department of Public Health and Human Services (93) | Montana State Univ. - Bozeman | R01AG040020 | 1,165 |
| | Univ. of Montana - Missoula | GS00F0083N | 668 |
| | Montana Tech - Butte | 200-2009-M-29841 | 5,695 |
| | Montana Tech - Butte | 200-2010-M-33703 | 16,486 |
| | Public Health and Human Ser. | HHSF223000840148C | 45,401 |
| | Public Health and Human Ser. | 211-2009-M-30297 | -122 |
| | Montana State Univ. - Bozeman | 7K01DA019458-06 | 14,133 |

FY10 Financial Section

FY10 Financial Section

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LEGISLATIVE AUDIT DIVISION

B-1

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, 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

LEGISLATIVE AUDIT DIVISION

B-3

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, 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

**The State of Montana's Management's Discussion
and Analysis, Financial Statements, Notes, and
Required Supplementary Information, and
Schedule of Expenditures of Federal Awards**

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 |

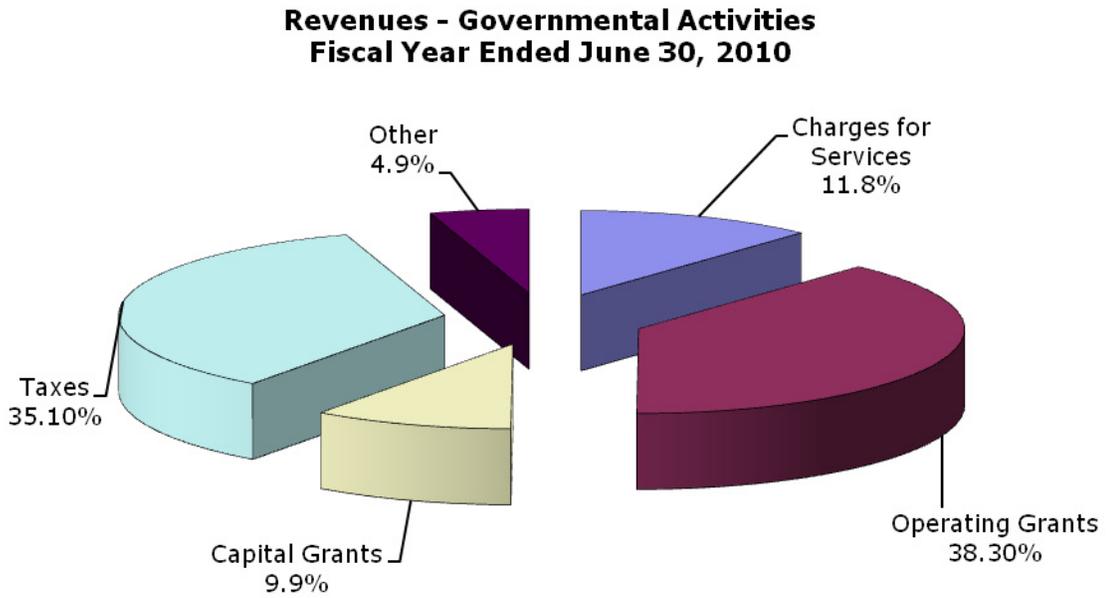
The following condensed financial information was derived from the government-wide Statement of Activities, and reflects how the State's net assets changed during the fiscal year:

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

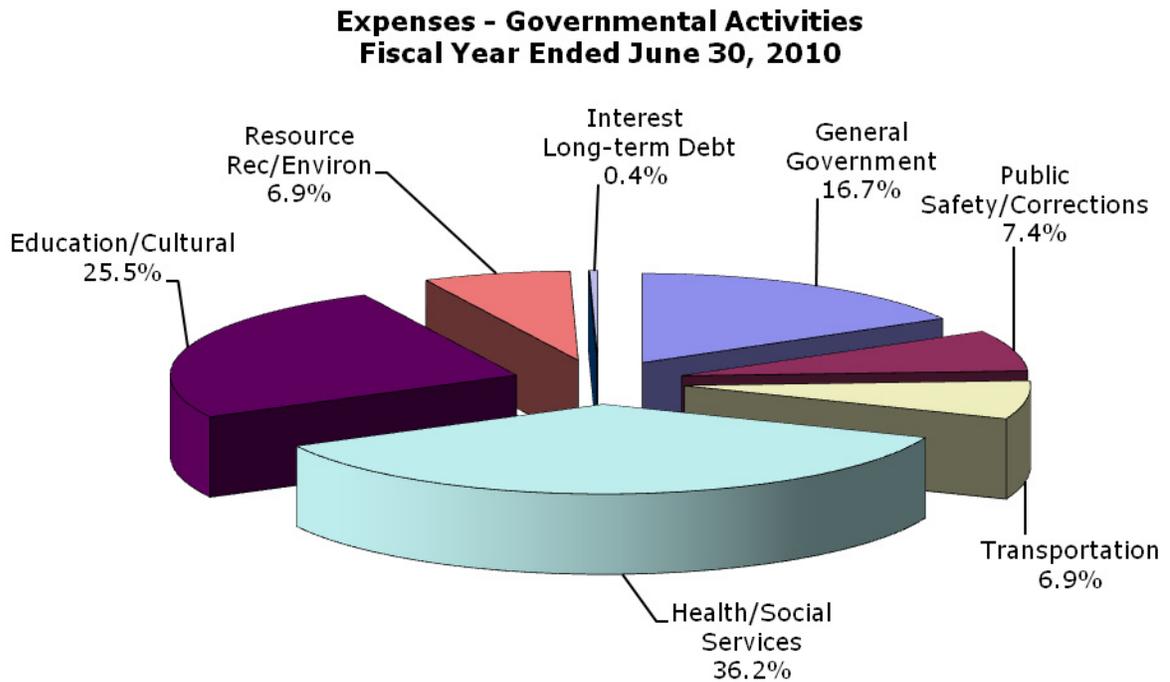
| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--|------------------------------------|--------------------|-------------------------------------|------------------|-------------------------------------|--------------------|
| | 2009 | 2010 | 2009 | 2010 | 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 | <u>4,924,500</u> | <u>5,185,205</u> | <u>425,747</u> | <u>568,837</u> | <u>5,350,247</u> | <u>5,754,042</u> |
| 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/envIRON | 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 | <u>4,615,538</u> | <u>4,630,810</u> | <u>468,328</u> | <u>606,898</u> | <u>5,083,866</u> | <u>5,237,708</u> |
| 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 | <u>\$6,445,959</u> | <u>\$6,941,737</u> | <u>\$275,028</u> | <u>\$194,720</u> | <u>\$6,720,987</u> | <u>\$7,136,457</u> |

Governmental Activities

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

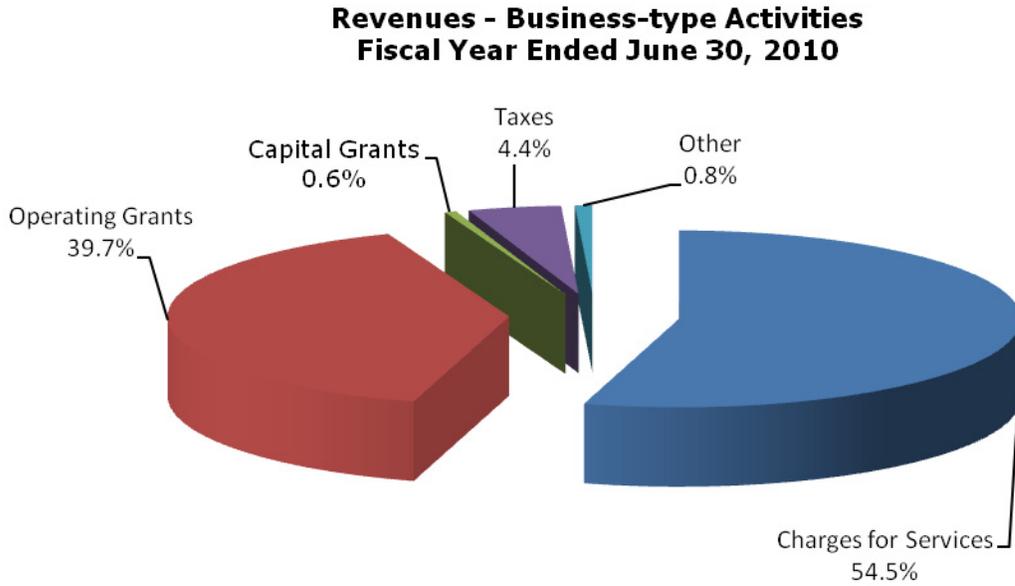


The following chart depicts expenses of the governmental activities for the fiscal year:

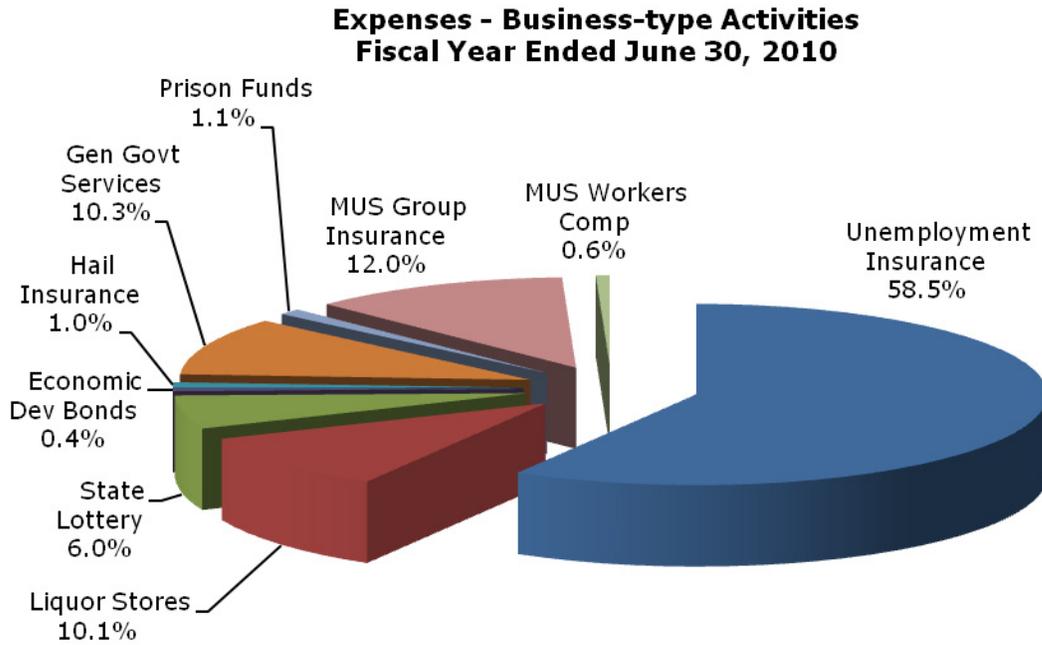


Business-type Activities

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 | | | COMPONENT UNITS |
|--|--------------------|----------------|------------------|--------------------|
| | GOVERNMENTAL | BUSINESS-TYPE | TOTAL | |
| | ACTIVITIES | ACTIVITIES | | |
| 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)

| | SPECIAL REVENUE | | | PERMANENT | | | TOTAL |
|--|-------------------|---------------------|-------------------|--------------------------|-------------------|-------------------|---------------------|
| | GENERAL | STATE | FEDERAL | COAL SEVERANCE TAX | LAND GRANT | NONMAJOR | |
| 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) | Statement |
|---|---------------------|-------------------|---------------------|-----------------------|---------------------|---------------------|
| | Internal | Capital | Debt | Other | Internal | of Net |
| | Service | Assets | Related | Measurement | Balances | Assets |
| | Funds | Balances | Balances | Focus | Elimination | Totals |
| | Total | | | Adjustments | | |
| | Governmental | | | | | |
| | Funds | | | | | |
| 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 |
| Securities 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) | 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 resources | 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) | \$ - | \$ 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 | Other | Statement |
| | Governmental | Service | Related | Term | Measurement | of Activities |
| | Funds | Funds | Items | Debt | Focus | Totals |
| | | | | Transactions | | |
| 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/fees/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 |
|--|---|-------------------------|-----------|------------|------------------------------|
| | UNEMPLOYMENT INSURANCE | ECONOMIC DEVELOPMENT | | TOTAL | INTERNAL SERVICE FUNDS |
| | | BONDS | NONMAJOR | | |
| ASSETS | | | | | |
| 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 ACTIVITIES - INTERNAL SERVICE FUNDS |
|---|---|-------------------------|-----------|------------|--|
| | UNEMPLOYMENT INSURANCE | ECONOMIC DEVELOPMENT | | TOTAL | |
| | | BONDS | NONMAJOR | | |
| 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 | | TOTAL | |
| | | BONDS | NONMAJOR | | |
| 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.

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STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

| | BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS | | | | GOVERNMENTAL |
|---|--|----------------------|------------|------------|------------------------------|
| | ECONOMIC | | | TOTAL | ACTIVITIES -- |
| | UNEMPLOYMENT INSURANCE | DEVELOPMENT BONDS | NONMAJOR | | INTERNAL SERVICE FUNDS |
| 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 | | TOTAL | |
| | | DEVELOPMENT BONDS | NONMAJOR | | |
| 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 | <u>54,203</u> | <u>7</u> | <u>112</u> | <u>393</u> |
| 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 | <u>6,815,559</u> | <u>120,311</u> | <u>21,619</u> | <u>17</u> |
| 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 | <u>473</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Other assets | 7 | 22,490 | - | 12,216 |
| Total assets | <u>7,426,439</u> | <u>290,618</u> | <u>372,520</u> | <u>37,825</u> |
| 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 | <u>429,123</u> | <u>854</u> | <u>13,929</u> | <u>37,825</u> |
| NET ASSETS | | | | |
| Held in trust for pension benefits and other purposes | <u>\$ 6,997,316</u> | <u>\$ 289,764</u> | <u>\$ 358,591</u> | <u>-</u> |

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 | <u>1,225,639</u> | <u>56,318</u> | <u>772,891</u> |
| 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 | <u>528,970</u> | <u>36,835</u> | <u>839,621</u> |
| Change in net assets | <u>696,669</u> | <u>19,483</u> | <u>(66,730)</u> |
| 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 | <u>6,300,647</u> | <u>270,281</u> | <u>425,321</u> |
| Net assets - June 30 | <u>\$ 6,997,316</u> | <u>\$ 289,764</u> | <u>\$ 358,591</u> |

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 |
| | <hr/> | <hr/> | <hr/> |
| 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 |
| | <hr/> | <hr/> | <hr/> |
| 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 |
| | <hr/> | <hr/> | <hr/> |
| 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 | | | | Total |
|---------------------------|--------------|----------------------------|--------------------|---------------|------------|
| | General Fund | State Special Revenue Fund | Governmental Funds | Business Type | |
| 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 | <u>(50,961)</u> |
| 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 | <u>\$1,816,253</u> | AA- | <u>4.33</u> |
| Securities lending collateral investment pool | <u>\$ 100,913</u> | 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> | AA- | 4.08 |
| 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 | | |
|---------------------------|----------------------|---------------------|-----------------------------|-------------------|----------|
| | Classification | Amount | Classification | Amount | Notional |
| 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>100.00%</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 | \$ 189,866 | \$ 87,829 | \$ 120,168 | \$ 3,749 | \$ 6,124 |

| | 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 | \$ 461 | \$ 186 | \$ 13,037 | \$ 15,532 |

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 | <u>884,207</u> | <u>526,161</u> | <u>(223,019)</u> | <u>1,187,349</u> |
| 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 | <u>4,619,130</u> | <u>406,465</u> | <u>(273,584)</u> | <u>4,752,110</u> |
| 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 | <u>(1,746,748)</u> | <u>(263,591)</u> | <u>194,189</u> | <u>(1,816,150)</u> |
| Total capital assets being depreciated net | <u>2,872,382</u> | <u>142,973</u> | <u>(79,395)</u> | <u>2,935,960</u> |
| Intangible Assets | <u>31,246</u> | <u>18,066</u> | <u>(23,417)</u> | <u>25,895</u> |
| Governmental activities capital assets net | <u>\$ 3,787,835</u> | <u>\$ 687,200</u> | <u>\$ (325,831)</u> | <u>\$ 4,149,204</u> |

(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 | <u>30,590</u> | <u>43,161</u> | <u>1,139</u> | <u>74,890</u> |
| 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 | <u>690,085</u> | <u>607,870</u> | <u>35,000</u> | <u>1,332,955</u> |
| Total accumulated depreciation | <u>(372,221)</u> | <u>(306,215)</u> | <u>(2,939)</u> | <u>(681,375)</u> |
| Total Capital Assets being depreciated net | <u>317,864</u> | <u>301,655</u> | <u>32,061</u> | <u>651,580</u> |
| 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 | <u>\$ 359,985</u> | <u>\$ 349,279</u> | <u>\$ 37,728</u> | <u>\$ 746,992</u> |

(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 (GWORS), 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).

| | <u>TIAA-CREF</u> <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 | <u>\$122,462</u> | <u>\$56,196</u> |

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.

| | <u>Primary Government</u> | | | | | |
|---|---------------------------|-------------|---------------------------|-------------|---|-------------|
| | <u>Hail Insurance</u> | | <u>MUS Group Benefits</u> | | <u>MUS Workers Compensation Program</u> | |
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| 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 |
| Incurred 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 |
| Incurred 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 |

| | Series | Amount Issued | Interest Range (%) (1) | Principal Payments | | Balance June 30, 2010 |
|--|--------|------------------|---------------------------|---------------------|----------------------------|--------------------------|
| | | | | Fiscal Year 2011 | In Year of Maturity (2) | |
| Governmental Activities | | | | | | |
| 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 | | <u>\$250,810</u> | | <u>\$16,085</u> | | <u>\$169,150</u> |
| 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 | | <u>\$248,540</u> | | <u>\$ 14,030</u> | | <u>\$176,570</u> |
| 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 | | <u>\$ 14,672</u> | | <u>\$ 351</u> | | <u>\$ 10,717</u> |
| Subtotal governmental activities, before deferred balances | | | | | | 356,437 |
| Deferred amount on refunding | | | | | | (3,736) |
| Unamortized discount | | | | | | (94) |
| Unamortized premium | | | | | | 8,300 |
| Total governmental activities | | <u>\$514,022</u> | | <u>\$30,466</u> | | <u>\$360,907</u> |
| 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 | | <u>5,096</u> | | <u>175</u> | | <u>370</u> |
| Total business-type activities | | <u>\$ 5,096</u> | | <u>\$ 175</u> | | <u>\$ 370</u> |

- (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 |
| | \$2,132,831 | \$286,912 | \$183,730 | \$2,236,013 | \$320,810 | \$1,915,203 |
| Long-term liabilities of Montana University System component units | | | | | 61 | 936 |
| Total discretely presented component units | | | | | \$320,871 | \$1,916,139 |
| Long-term liabilities | | | | | \$320,871 | \$1,916,139 |

(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 InvestmentsPrepayments

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

UniversitiesDefeased 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 GovernmentMontana 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 UnitsFacility 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 | | | | | Total |
|-----------------------------------|-------------------------------|------------------------------|-----------------------------------|---------------------------------|-----------------------------|-----------------|
| | Federal Special Revenue | Internal Service Funds | Nonmajor Governmental Funds | Nonmajor Enterprise Funds | State Special Revenue | |
| 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 | | | | Total |
|--------------------------------|--|---------------------------------------|--|--------------------------------------|-----------------|
| | Federal Special Revenue | Internal Service Funds | Nonmajor Governmental Funds | State Special Revenue | |
| 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 | \$3,283 | \$5,338 | \$18,946 | \$18,596 | \$46,163 |

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 | \$22,000 |

| Advances from the Coal Severance Tax Permanent Fund | |
|--|----------------|
| Department | Balance |
| Justice | \$404 |
| Total | \$404 |

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 | <u>\$239</u> | <u>\$7,031</u> | <u>\$71,135</u> | <u>\$1,908</u> | <u>\$910</u> |

| | 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 | <u>\$50</u> | <u>\$92,716</u> | <u>\$319,014</u> | <u>\$472</u> | <u>\$493,475</u> |

- (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 | <u>Deficit</u> |
|--|-----------------------|
| <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 |
| Contributions/premiums | - | - | - | - | - | - | 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 | | | NONMAJOR | TOTAL |
|------------------------------|-------------------|---------------------|------------------|-------------------|-------------------|-------------------|-------------|---------------------|
| | GENERAL | STATE | FEDERAL | COAL | SEVERANCE TAX | LAND GRANT | | |
| 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 |

Fund balances:

Nonspendable

Inventory

Permanent fund principal

Long-term notes / receivable

Prepaid Expense

Total Nonspendable

Restricted

General government

Transportation

Health and Human Services

Natural resources

Public safety

Education

Total Restricted

Committed

General government

Transportation

Health and Human Services

Natural resources

Public safety

Education

Total Committed

Assigned

General government

Health and Human Services

Natural resources

Public safety

Education

FY 2011 appropriation

Encumbrances

Total Assigned

Unassigned

Total fund balances

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 known 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 with 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):

| Taxes | General | State Special Revenue |
|----------------------------|----------------|--------------------------------------|
| 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 | <u>1,796,620</u> | <u>1,796,620</u> | <u>1,558,513</u> | <u>(238,107)</u> |
| 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 | <u>1,723,363</u> | <u>1,723,363</u> | <u>1,592,838</u> | <u>130,527</u> |
| Excess of revenue over (under) expenditures | <u>73,257</u> | <u>73,257</u> | <u>(34,325)</u> | <u>(368,634)</u> |
| 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) | <u>29,772</u> | <u>29,772</u> | <u>31,482</u> | <u>1,710</u> |
| 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) | <u>103,029</u> | <u>103,029</u> | <u>(85,506)</u> | <u>(449,587)</u> |
| 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 | <u>\$ 103,029</u> | <u>\$ 103,029</u> | <u>\$ 327,006</u> | <u>\$ (37,075)</u> |

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 |
| <i>CDBG - STATE ADMIN. SMALL CITIES CLUSTER</i> | | |
| 14.228 | Community Development Block Grant/States Program | 15,412,787 |
| 14.255 | ARRA CDBG | 56,590 |
| TOTAL | | \$15,469,377 |
| <i>HOUSING VOUCHER CLUSTER</i> | | |
| 14.871 | Section 8 Housing Choice Vouchers | 19,369,725 |
| TOTAL | | \$19,369,725 |
| <i>SECTION 8 PROJECT-BASED CLUSTER</i> | | |
| 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 El. 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 - Minneapoli | 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 Researcg 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
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For the Fiscal Year Ending June 30, 2010

| | | AMOUNT |
|--------|---|---------------|
| 93.104 | Comprehensive Community Mental Health Services for Children with Ser Emotl 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 Universi | 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

| | 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
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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
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AMOUNT

| | | 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 Billinas | 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

| | 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 Minesota | 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. Accoustics 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 Astrophy. | 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
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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
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| | 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 Research Support | 3,024,037 |
| 47.082 ARRA Trans-NSF Recovery Act Research Support: From Univ. of Hawaii Manoa | 25,284 |
| 47.082 ARRA Trans-NSF Recovery Act Research 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

| | | 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 | \$10,187 |

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 | \$76,379 |

OTHER FEDERAL

| | | | |
|--------|---------------|--------------|-----------------|
| 99.999 | Other Federal | | 10,000 |
| | | TOTAL | \$10,000 |

| | |
|--|----------------------|
| | \$131,483,581 |
|--|----------------------|

TOTAL RESEARCH AND DEVELOPMENT CLUSTER

| | |
|--|------------------------|
| | \$2,923,821,908 |
|--|------------------------|

TOTAL EXPENDITURES OF FEDERAL AWARDS

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 | | 366,605,292 |

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) | | | |
| | Transporation | 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 |

Auditor's Report & Findings

Auditor's Report and Findings

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LEGISLATIVE AUDIT DIVISION

C-1

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



Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Legislative Audit Committee
of the Montana State Legislature:

Compliance

We have audited the state of Montana's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the state of Montana's major federal programs for the two fiscal years ended June 30, 2011. The state of Montana's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of state of Montana's management. Our responsibility is to express an opinion on the state of Montana's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the state of Montana's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the state of Montana's compliance with those requirements.

As described in Finding 2-1 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding Procurement and Suspension and Debarment that are applicable to its Capitalization Grants for Clean Water State Revolving Funds (CFDA #66.458). Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

As described in Finding 2-6 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding Activities Allowed or Unallowed and Allowable Costs/Cost Principles that are applicable to its National Guard Military Operations and Maintenance Projects (CFDA #12.401). Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

As described in Finding 2-8 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding Special Tests and Provisions that are applicable to its Sport Fish Restoration Program (CFDA #15.605). Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

As described in Finding 2-13 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding Subrecipient Monitoring that are applicable to its Temporary Assistance for Needy Families (TANF) grant (CFDA #93.558). Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

As described in Finding 2-15 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding Subrecipient Monitoring that are applicable to its Weatherization Assistance for Low-Income Persons grant (CFDA #81.042). Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

As described in Finding 2-17 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding Period of Availability and Reporting that are applicable to its Low-Income Home Energy Assistance grant (CFDA #93.568). Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

As described in Finding 2-18 in the accompanying Schedule of Findings and Questioned Costs, the state of Montana did not comply with requirements regarding Reporting that are applicable to its Rehabilitation Services-Vocational Rehabilitation Grants to States (CFDA #84.126). Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraphs, the state of Montana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the two fiscal years ended June 30, 2011. However, the results of our auditing procedures also disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs, Section III, findings: 2-2, 2-4, 2-5, 2-7, 2-11, and 2-21.

Internal Control Over Compliance

Management of the state of Montana is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the state of Montana's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal

control over compliance. Accordingly, we do not express an opinion on the effectiveness of the state of Montana's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2-13 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2-3, 2-8, 2-9, 2-10, 2-12, 2-14, 2-16, 2-17, 2-18, 2-19, and 2-20 to be significant deficiencies.

The state of Montana's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan. We did not audit the state of Montana's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, 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

March 19, 2012

**State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2011**

Section I – Summary of Auditor’s Results

Basic Financial Statements

For Each of the Two Fiscal Years Ended June 30, 2011

| | <u>2010</u> | <u>2011</u> |
|--|-------------|-------------|
| Type of Auditor’s report issued: | Unqualified | Qualified |
| Internal control over financial reporting: | | |
| • Material weakness identified? | No | No |
| • Significant deficiencies identified that are not considered to be a material weakness? | No | No |
| Noncompliance material to the financial statements noted? | Yes | Yes |

Federal Awards

For the Two Fiscal Years Ended June 30, 2011

| | <u>2010 and 2011</u> |
|--|--|
| Internal control over major programs: | |
| • Material weakness identified? | Yes |
| • Significant deficiencies identified that are not considered to be material weaknesses? | Yes |
| Type of auditor’s report issued on compliance for major programs: | Unqualified for all major programs except for the Capitalization Grants for Clean Water State Revolving Funds, National Guard Military Operations and Maintenance, Sport Fish Restoration, Temporary Assistance for Needy Families (TANF), Weatherization Assistance for Low-Income Persons, Low-Income Home Energy Assistance, and Rehabilitation Services-Vocational Rehabilitation Grants to States |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes |

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|---|--|
| 10.551 & 10.561 | SNAP Cluster |
| 10.553, 10.555, 10.556 & 10.559 | Child Nutrition Cluster |
| 10.557 | Special Supplemental Nutrition Program for Women, Infants & Children |
| 10.558 | Child and Adult Care Food Program |
| 10.665 & 10.666 | Schools & Roads Cluster |
| 12.401 | National Guard Military Operations & Maintenance Projects |
| 14.228 & 14.255 | Community Development Block Grant/State Program |
| 14.195, 14.182, 14.856 & 14.249 | Section 8 Project-Based Cluster |
| 14.871 | Section 8 Housing Choice Vouchers |
| 15.605 & 15.611 | Fish & Wildlife Cluster |
| 17.225 | Unemployment Insurance |
| 20.205, 20.219 & 23.003 | Highway Planning and Construction Cluster |
| 20.509 | Formula Grants for Other Than Urbanized Areas |
| 66.458 | Capitalization Grants for Clean Water State Revolving Funds |
| 66.468 | Capitalization Grants for Drinking Water State Revolving Funds |
| 81.042 | Weatherization Assistance for Low-Income Persons |
| 84.007, 84.032, 84.033, 84.038, 84.063, 84.268, 84.375, 84.376, 84.379, 93.342, 93.364 & 93.925 | Student Financial Assistance Cluster |
| 84.010 & 84.389 | Title I Grants to Local Educational Agencies |
| 84.027, 84.173, 84.391 & 84.392 | Special Education Cluster |
| 84.032 | Federal Family Education Loans (Guaranty Agency) |
| 84.126 & 84.390 | Rehabilitation Services-Vocational Rehabilitation Grants to States |
| 84.367 | Improving Teacher Quality State Grants |
| 84.394 & 84.397 | State Fiscal Stabilization Fund Cluster |
| 84.410 | Education Jobs Fund |
| 93.069 | Public Health Emergency Preparedness |
| 93.558, 93.714 & 93.716 | Temporary Assistance for Needy Families |
| 93.568 | Low-Income Home Energy Assistance |
| 93.575, 93.596 & 93.713 | Child Care Cluster |

| | |
|--|------------------------------------|
| 93.658 | Foster Care Title IV-E |
| 93.767 | State Children's Insurance Program |
| 93.775, 93.776, 93.777 & 93.778 | Medicaid Cluster |
| Various | Research and Development Cluster |
| Dollar threshold used to distinguish between Type A and Type B programs: | \$19,892,405 |
| Auditee qualified as low-risk auditee? | No |

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2011

Section II - Financial Statement Findings

Finding 1-1: Various Federal Agencies
CFDA # Various

Criteria: Article VIII, Section 15, of the Montana Constitution requires public retirement systems be funded on an actuarially sound basis. Section 19-2-409, MCA, defines a defined benefit retirement system as being actuarially sound when its contributions are sufficient to pay the full actuarial cost of the plan over a scheduled period of no more than 30 years.

Condition: The Public Employees' Retirement System – Defined Benefit Retirement Plan (PERS-DBRP), Sheriffs' Retirement System (SRS), Game Wardens' and Peace Officers' Retirement System (GWPORS), and Highway Patrol Officers' Retirement System (HPORS) are actuarially unsound. Based on the actuarial valuation dated June 30, 2011, the PERS-DBRP, SRS, GWPORS, and HPORS have an Unfunded Actuarial Accrued Liability (UAAL) that will not amortize over a 30-year period.

Questioned Costs: No questioned costs identified.

Context: The Montana Public Employee Retirement Administration administers eight defined benefit retirement systems and four are not actuarially sound. PERS-DBRP has an unfunded actuarial accrued liability of \$1,596,735,834 and does not amortize. SRS has an unfunded actuarial accrued liability of \$62,816,385 and does not amortize. GWPORS has an unfunded actuarial accrued liability of \$29,444,452 and does not amortize. HPORS has an unfunded actuarial accrued liability of \$60,467,955 with an amortization period of 48.2 years. Three systems were also actuarially unsound in fiscal years 2008-09 and 2009-10. This is the first year that HPORS is not actuarially sound.

Effect: The retirement systems are not actuarially sound, which is not in compliance with the Montana Constitution and state law.

Cause: The actuary attributes the unfunded liability of the systems primarily to investment returns below the actuarial assumption of 7.75 percent for the four systems and to the insufficient funding of the Actuarial Required Contribution.

Recommendation: We recommend the Public Employees' Retirement Board propose necessary legislation for the Public Employees' Retirement System – Defined Benefit Retirement Plan, Sheriffs' Retirement System, Game Wardens' and Peace Officers' Retirement System, and Highway Patrol Officers' Retirement System to restore the actuarial soundness as required by the Montana Constitution and state law.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2011

Section II - Financial Statement Findings

Finding 1-2: Various Federal Agencies
CFDA # Various

Criteria: Article VIII, Section 15, of the Constitution of the state of Montana, requires public retirement systems to be funded on an actuarially sound basis. GASB statement 25, paragraph 36, subsection F provides that the maximum amortization period for an unfunded actuarially accrued liability (UAAL) is 30 years.

Condition: The most recent actuarial valuation of the Teachers' Retirement System, performed as of July 1, 2011, indicates the system is not actuarially sound. The July 1, 2011, actuarial valuation projected a contribution increase of 2.82 percent (from 17.11 percent to 19.93 percent) effective July 1, 2013, would be necessary to achieve the amortization of the UAAL over 30 years. The amortization period from July 1, 2010, to July 1, 2011, increased from 49.5 years to 71 years.

Questioned Costs: No questioned costs identified.

Context: The unfunded actuarial accrued liability has grown from \$757.8 million at July 1, 2004, to \$1,792.1 million at July 1, 2011. Of the last nine actuarial valuations, the amortization period of the UAAL was less than 30 years at July 1, 2002, and July 1, 2007. There was no actuarial valuation at July 1, 2003.

Effect: The retirement system is not actuarially sound as required by the Montana Constitution.

Cause: The Teachers' Retirement Board sponsored legislation in the 2011 Legislative Session. One of the proposed measures that became law effective July 1, 2011, is anticipated to make some improvement in the actuarial soundness of the system.

Recommendation: We recommend the Teachers' Retirement System continue to take necessary measures to ensure the retirement system is funded on an actuarially sound basis as required by the Montana Constitution.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2011

Section III – Federal Award Findings and Questioned Costs

Finding 2-1: U.S. Environmental Protection Agency
CFDA #66.458, Capitalization Grants for Clean Water State Revolving Funds
Grant #C301184-04

Criteria: Federal regulation, 40 CFR 35.3135(g), requires the state to commit or expend capitalization grant funds in accordance with state laws.

Section 7-5-2301, MCA, states that a contract for construction in excess of \$50,000 may not be entered into by a county governing body without a bidding process.

Condition: The Department of Environmental Quality (department) provided a \$501,708 loan to a county water and sewer district for improvements to its wastewater facility. The district receiving the loan executed a labor and materials contract for the project construction and did not request bids for the work.

Questioned Costs: We question \$418,072 in federal funds loaned, of which \$53,535 relates to fiscal year 2008-09 and \$364,537 relates to fiscal year 2009-10.

Context: All seven loan disbursements from the grant were reviewed and all were paid without a valid contract in place and contrary to state procurement laws.

Effect: The department is not in compliance with state and federal procurement requirements which resulted in questioned costs.

Cause: A department manager said the district did not bid the project because the contractor had done work on an earlier phase of the facility improvement that was under the bid limit. The manager said he should have detected the situation prior to approving the loan.

Recommendation: We recommend the Department of Environmental Quality review State Revolving Fund loan applications to ensure applicants follow construction contract provisions in state law.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2011

Section III – Federal Award Findings and Questioned Costs

Finding 2-2: U.S. Department of the Interior

CFDA #15.904, Historic Preservation Fund Grants-In-Aid

Grant #30-09-21832 and 30-08-21731

CFDA #15.929, Save America's Treasures

Grant #30-06-PA-2023, 30-07-PA-3023, and 30-08-PA-4024

Criteria: 2 CFR Part 225, Appendix E, Section C (2)(c) states the distribution base may be (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc.), (2) direct salaries and wages, or (3) another base which results in an equitable distribution. The Montana Historical Society's (society) fiscal year 2008-09 indirect cost plan required the base described as item 1.

Condition: The society received an approved federal indirect cost rate for fiscal years 2008-09 and 2009-10. However, the society applied the approved rate to an expenditure base that was not properly calculated in fiscal year 2008-09. The final fiscal year 2008-09 indirect cost recovery calculation did not exclude passthrough funds or expenditures for grants not allowing indirect cost recoveries.

Questioned Costs: We question indirect costs of \$11,353 for CFDA #15.904 and \$2,398 for CFDA #15.929 in fiscal year 2008-09.

Context: The prior society audit report also contained a recommendation related to indirect costs.

Effect: Noncompliance with federal regulations and \$13,751 in questioned costs.

Cause: The expenditure base calculation was not reviewed.

Recommendation: We recommend the Montana Historical Society establish review procedures to ensure indirect cost recoveries comply with the approved plan.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2011

Section III – Federal Award Findings and Questioned Costs

Finding 2-3: U.S. Department of Defense

CFDA #12.401, National Guard Military Operations and Maintenance (O&M)
Projects

Grant #W9124V-09-2-9007

Criteria: OMB Circular A-133, Subpart C, Section .300(b), states the auditee shall: “Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

Federal regulations, 29 CFR 3.4, require the representative of a Federal or State agency in charge at the site of the building or work to examine and perform checks over weekly contractor payroll reports.

Cooperative Agreement W9124V-09-2-1000, Article VIII, Section 815 also states that section 1606 of the Recovery Act requires laborers and mechanics employed by contractors and subcontractors on projects funded directly, in whole or in part, by Recovery Act funds, to be paid wages at rates not less than those prevailing on projects of a character similar in the locality as determined by the Secretary of Labor.

Condition: The Department of Military Affairs (department) requires contractors to submit payroll reports certifying the contractors paid prevailing wages. However, the department does not have controls in place to review the payroll reports it receives to verify if prevailing wages were, in fact, paid.

Questioned Costs: No questioned costs identified.

Context: In fiscal year 2009-10, the department spent \$1.5 million of its \$2.8 million ARRA grant on 23 construction contracts.

Effect: By not reviewing the payroll reports, the department does not know if the contractors are actually paying correct wages.

Cause: Department personnel believe it is not necessary to review the payrolls because the contractors certify they paid the required prevailing wages.

Recommendation: We recommend the Department of Military Affairs establish effective internal controls to ensure contractors pay prevailing wages in accordance with federal regulations.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2011

Section III – Federal Award Findings and Questioned Costs

Finding 2-4: U.S. Department of Homeland Security

CFDA #97.067, Homeland Security Grant Program

Grant #2006GET60062, 2007GET70011, 2008GET80023, and
2009SST90005

CFDA #97.042, Emergency Management Performance Grants

Grant #2008-EM-E8-0029 and 2009-EP-E9-0009

CFDA #97.001, Pilot Demonstration or Earmarked Projects

Grant #2008-IO-T8-0019 and 2009-IP-T9-0033

CFDA #97.036, Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Grant #FEMA-1767-DR-MT

CFDA #97.039, Hazard Mitigation Grant

Grant #FEMA-1767-DR-MT

CFDA #97.047, Pre-Disaster Mitigation

Grant #PDMC-08-MT-2005, PDMC-08-MT-2007, PDMC-08-MT-2008,
and PDMC-08-MT-2009

CFDA #97.078, Buffer Zone Protection Program (BZPP)

Grant #2006-BZ-T6-00039, 2007-BZ-T7-0015, 2008-BZ-T8-0028, and
2009-BF-T9-0034

U.S. Department of Commerce

CFDA #11.555, Public Safety Interoperable Communications Grant Program

Grant #2007-GS-HS-0010

Criteria: OMB Circular A-133, Subpart C, Section .300(b), states the auditee shall: “Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

Federal regulation, 2 CFR Part 225, Appendix A, Section C(1)(a), states that in order for costs to be allowable under federal awards, the costs must be necessary and reasonable for proper and efficient performance and administration of federal awards.

Condition: We identified the following two instances where employees of the Department of Military Affairs (department), Disaster and Emergency Services Division (division) charged time to federal grants that was not supported by actual work performed.

- ◆ Three employees are budgeted and paid entirely from the Emergency Management Performance Grant (EMPG). While a portion of their time is spent working on EMPG, these employees also perform duties in other federal or state programs.
- ◆ Division fiscal personnel provided the current four Homeland Security program staff codes to charge their time for work performed. However, these codes only charge two of the five grants in the Homeland Security program on which the program staff spends time.

Questioned Costs: Questioned costs are likely to exceed \$10,000.

Context: In fiscal years 2008-09 and 2009-10, the division charged employee salary and benefit expenditures totaling \$1.85 million to these federal programs.

Effect: The department is not in compliance with federal regulations which likely results in unallowable payroll charges.

Cause: Division personnel stated with the variety of tasks they perform, it is easier to charge EMPG rather than track the hours spent on the variety of programs. Also, program management assumed the codes provided by division fiscal personnel charged all five of the federal Homeland Security grants.

Recommendation: We recommend the Department of Military Affairs establish internal controls to ensure only allowable personal service costs are charged to federal programs in accordance with federal regulations.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2011

Section III – Federal Award Findings and Questioned Costs

Finding 2-5: U.S. Department of Homeland Security
CFDA #97.067, Homeland Security Grant Program
Grant #2009SSJT90002 and 2009SST90005

Criteria: The Fiscal Year 2009 Homeland Security Grant Program Guide requires the Department of Military Affairs (department) to obligate not less than 80 percent of grant funds under the State Homeland Security Program to local units of government within 45 days of receipt of funds.

Condition: In fiscal years 2008-09 and 2009-10, the department did not obligate the required minimum 80 percent of State Homeland Security Program funds to local governments. The total for both fiscal years that was not obligated on a timely basis amounted to \$3,646,103. Additionally, in fiscal year 2009-10, the department wanted to award \$64,227 of local government funds to a group that did not meet the definition of a local government. Rather than awarding the funds to the group, the department expended \$11,365 and \$52,862 on behalf of the group as state expenditures in fiscal years 2009-10 and 2010-11, respectively.

Questioned Costs: We question \$3,597,835 of fiscal year 2008-09 expenditures and \$112,495 of fiscal year 2009-10 expenditures that were not obligated according to federal regulations.

Context: The department has not been complying with the obligation federal regulations since 2007. We reviewed eight grant awards in fiscal years 2008-09 and 2009-10. We identified six instances where the department issued grant awards amounting to \$3,646,103 to local governments after the required 45-day timeframe.

Effect: The department is not in compliance with federal regulations requiring the obligation of funds which resulted in questioned costs.

Cause: Department staff indicated they were unable to obligate funds in the required timeframe because they were understaffed.

Recommendation: We recommend the Department of Military Affairs obligate and spend Homeland Security funds in accordance with federal guidelines.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2011

Section III – Federal Award Findings and Questioned Costs

Finding 2-6: U.S. Department of Defense

CFDA #12.401, National Guard Military Operations and Maintenance (O&M)
Projects

Grant #W9124V-09-2-1002 and W9124V-09-2-1007

Criteria: OMB Circular A-133, Subpart C, Section .300(b), states the auditee shall: “Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

Department of Military Affairs (department) policy requires all contracts and amendments be signed by authorized personnel.

Condition: During our audit of the department, we identified the following instances in the training contract where the department’s internal controls should be improved to ensure contracts are appropriately authorized and clearly document the department’s needs.

- ◆ The signed Unexploded Ordnance (UXO) training contract was written as a fixed price contract to provide training over a 64-day period. Department personnel represented the cost of the contract was based on supplies and a specific number of training hours at an hourly rate. The contract does not reflect the number of training hours, the hourly rate, or the cost for supplies.
- ◆ The training contract required the contractor to provide a logbook documenting all training at the completion of the contract. The UXO program did not receive this logbook.
- ◆ The contract was not clear on the time period of the training. The contract was valid for 64 days; however, the contract stated that training was to cover a 90-day period.
- ◆ One contract amendment was signed by a federal National Guard employee, who is not an employee of the department and is not authorized to sign on behalf of the department.

Questioned Costs: No questioned costs identified.

Context: The department had entered into five contracts related to the UXO program during fiscal years 2008-09, 2009-10, and 2010-11 as of October 2010. We reviewed three of the contracts. Of the three, one of the contracts resulted in the issues outlined above.

Effect: Written contracts bind the state and its contractors to specific performance. If the department does not appropriately authorize contracts or clearly document expectations for its contractors, it may become liable for costs that are not allowable according to federal or state laws and regulations.

Cause: Program personnel stated the UXO is a new program, and they are not aware of all the regulations. They were relying on the procurement office at the department to ensure the contracts met procurement standards.

Recommendation: We recommend the Department of Military Affairs:

- A. Provide training to UXO personnel regarding state and department policies and regulations.
- B. Follow its established procedures for contract authorization, and
- C. Establish adequate internal control to ensure contracts are clearly developed for costs to be allowable in accordance with federal regulations.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2011

Section III – Federal Award Findings and Questioned Costs

Finding 2-7: U.S. Department of Homeland Security
CFDA #97.042, Emergency Management Performance Grants
Grant #2007-EM-E7-0068

Criteria: Federal regulation, 44 CFR 13.36, requires the state, when procuring property and services under a grant, to follow the same policies and procedures it uses for procurements from its nonfederal funds.

State accounting policy, in the General Services Division Policy Manual section 0-0711.20, covers limited solicitations and states an agency must obtain a minimum of three viable quotes, if available. Documentation is required, including vendors contacted, quotes received, complete product description and/or service requirements, and all award conditions. The contract must be awarded to the lowest acceptable quote if cost is the only consideration. Other factors can be considered if the vendors were provided with all the criteria and their relative importance. The evaluation criteria must be completed prior to accepting responses.

Condition: The department sent a limited solicitation to vendors to assist in the development of the state's Disaster and Emergency plan. The solicitation requested the contractor have knowledge and experience in various areas. The solicitation did not specifically indicate the vendors needed knowledge and experience in all areas, nor did it state individuals would be ranked on their knowledge or experience in the requested areas of expertise. The department received two bids. The Disaster and Emergency Services Division management did not select the low bidder because they believed the low bidder was not as qualified as the higher bidder.

Questioned Costs: We question \$22,500 for the amount paid in fiscal year 2009-10 on the contract for which the department did not follow applicable regulations during the procurement process.

Context: Through discussions with department management, this appears to be an isolated instance.

Effect: The department did not comply with state and federal procurement regulations which resulted in questioned costs.

Cause: The department has controls over procurement; however in this instance management overrode the existing control structure and awarded the contract to the higher bidder because they believed the low bidder was not as qualified as the higher bidder.

Recommendation: We recommend the Department of Military Affairs follow its established control structure and state procurement policy when awarding contracts.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-8: U.S. Department of the Interior
CFDA #15.605, Sport Fish Restoration Program
Grant #F-113-R-11

Criteria: OMB Circular A-133, Subpart C, Section .300(b), states the auditee shall: “Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

Federal regulation, 50 CFR 80.3, states: “A State may participate in the benefits of the Act(s) only after it has passed legislation which assents to the provisions of the Acts and has passed laws for the conservation of fish and wildlife including a prohibition against the diversion of license fees paid by hunters and sport fishermen to purposes other than administration of the fish and wildlife agency. Subsequent legislation which amends these state laws shall be subject to review by the Secretary. If the legislation is found to be contrary to the assent provisions, the State shall become ineligible.”

Condition: Federal regulation requires language in state law to prohibit the diversion of license fees paid by fishermen for any other purpose other than the administration of the department. This requirement was codified in state law, §87-1-701, MCA. However, during the 2009 legislative session, amendments were enacted to modify language so state laws are gender neutral. Section 87-1-701, MCA, contained the term “fishermen.” This term was removed, along with the language regarding diversion of license fees. The department’s monitoring controls did not detect the change. The department contacted the United States Fish and Wildlife Service (USFWS) to notify them of the change in statute. The USFWS directed the department to request necessary changes in law during the 2013 legislative session and request the Montana Attorney General provide a document stating that statute, as amended by the 2009 Legislature, substantially complies with federal law. The department notified the USFWS that it intends to seek legislation to restore the deleted language and provided a document from the Attorney General stating Montana continues to follow the requirements of federal law, including the prohibition against the diversion of license fees.

Questioned Costs: No questioned costs identified.

Context: This is the only instance identified where the department was not aware of legislation that passed that would have a significant impact on the department.

Effect: If state law is contrary to federal provisions, the state shall become ineligible for fish restoration funds. Fiscal year 2010-11 expenditures for fish restoration were \$7.1 million.

Cause: The department has procedures to review legislative changes that affect operations and compliance, however they did not monitor this legislation because they believed the changes had no potential to have a significant effect.

Recommendation: We recommend the Department of Fish, Wildlife and Parks:

- A. Monitor all legislation that affects the department.
- B. Seek legislation to restore the language deleted from §87-1-701, MCA.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-9: U.S. Department of Education and U.S. Department of Health and Human Services
 CFDA #84.007, 84.032, 84.033, 84.038, 84.063, 84.268, 84.375, 84.376, 93.342, &
 93.925, Student Financial Assistance Cluster
 Grant # not applicable

Criteria: OMB Circular A-133, Subpart C, Section .300(b), states the auditee shall: “Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

The University of Montana (university) security plan states student workers should not have maintenance access to specified forms. The security plan further identifies roles that are incompatible.

Condition: The university implemented controls to authorize and monitor the level of access given to employees operating in the Banner Financial Aid Module. University personnel performed an annual review to identify employees with the incompatible roles. During the most recent security review, the university identified 11 student employees who had access to award financial aid to a student in the system. Additionally, the security review failed to detect 16 financial aid employees with incompatible duties.

Questioned Costs: No questioned costs identified.

Context: Our audit did not identify any unauthorized transactions resulting from inappropriate access, but there is an increased risk for these to occur.

Effect: Students could make unauthorized changes to award aid to themselves or other students. The financial aid employees could also divert financial aid money to themselves and assign responsibility to a student without being detected.

Cause: Financial aid management did not follow up to ensure student access was removed as requested. Additionally, university personnel stated in regards to the financial aid users that the incompatible roles are a result of the Registrar’s Office granting access to a form for a business purpose and not realizing the access, in combination with access granted by the Financial Aid Office, resulted in incompatible roles.

Recommendation: We recommend The University of Montana:

- A. Enhance security review procedures to identify incompatible access within business processes.
- B. Remove inappropriate access when identified by security reviews.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-10: U.S. Department of Transportation

CFDA #20.509, Formula Grants For Other Than Urbanized Areas

Grant #MT-18-X029-01, MT-18-X032-02, MT-18-X037-00, and (ARRA)
 MT-86-X001-00

CFDA #20.513, Capital Assistance Program for Elderly Persons and Persons with
 Disabilities

Grant #MT16-X004-00 & MT16-X005-00

CFDA #20.516, Job Access - Reverse Commute

Grant #MT37-X003-04

CFDA #20.500, Federal Transit - Capital Investment Grants

Grant #MT04-0009-01 & MT04-0014-00

Criteria: OMB Circular A-133, Subpart C, Section .300(b), states the auditee shall: “Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

Condition: In fiscal years 2009-10 and 2010-11 the department received approximately \$21 million in federal funding to provide for transit assistance in rural areas across the state. With this funding, the department issued a total of 17 solicitations for vehicle purchases to be used for public transportation services.

Federal regulations require the bidder to certify that it will comply with the Buy America requirements and that each transit vehicle manufacturer, as a condition of being authorized to bid, certify that it has complied with the requirements of the Disadvantaged Business Enterprise. Upon our request for the certifications, the department had the vendor sign the certifications. The certifications were signed four and a half months after the contract was awarded and three weeks after delivery of the vehicles.

Questioned Costs: No questioned costs identified.

Context: We reviewed one purchase order for three vehicles and found the department did not have the required certifications signed before the contract was awarded. As a result of the lack of signed

certifications we identified, department management had staff review each purchase to determine the extent of the problem and to ensure they had the required certifications. Department management found three additional solicitations that did not contain the required certifications. In some cases, the certifications were signed after the fact and in other cases the file did not include the certifications.

Effect: Without adequate controls, there is risk the vendors may not have complied with the Buy America and Disadvantaged Business Enterprise requirements.

Cause: Department controls were not designed to ensure the certifications were signed as required.

Recommendation: We recommend the Department of Transportation implement controls to ensure compliance with federal Buy America and Disadvantaged Business Enterprise certification requirements.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-11: U.S. Department of Transportation
CFDA #20.205, Highway Planning and Construction
Grant # not applicable

Criteria: Federal laws, 23 USC 113 and 40 USC 3142, require all federal aid projects to pay mechanics and laborers the prevailing wage rate for similar work performed within the same geographic area.

Condition: The Department of Transportation (department) Engineering Project Managers complete an initial review of certified weekly payrolls funded by federal grants, including the Federal Highway Planning and Construction Program. The Civil Rights Bureau also reviews the certified weekly payrolls and is ultimately responsible for the department's compliance with the Davis-Bacon requirements. Despite this dual review process, we found instances of noncompliance with prevailing wage requirements.

Questioned Costs: Likely questioned costs are between \$200,000 and \$350,000.

Context: We reviewed 15 highway projects, consisting of multiple contractors, for compliance with Davis-Bacon Act requirements. We found three indications of incorrect wage payments despite the department's dual review process. As a result, department personnel obtained additional documentation from the three contractors in question and determined two of the three had made incorrect wage payments to employees. In the two instances of noncompliance with Davis-Bacon Act requirements contractors were underpaid by \$79.

Effect: We evaluated the effect the internal control deficiency had on the total Federal Highway Planning and Construction Program in relation to the total expended for the 15 projects and estimated the total potential underpayment of Davis-Bacon wages to be between \$200,000 and \$350,000. This could result in unallowable costs that the department may not recover from contractors.

Cause: Department management indicated they were not sure why internal control procedures did not detect the errors, but it is likely due to the increased workload with ARRA funds.

Recommendation: We recommend the Department of Transportation follow its procedures to ensure compliance with Davis-Bacon Act requirements.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-12: U.S. Department of Health and Human Services
CFDA #93.658, Foster Care–Title IV-E
Grant #CAN G99107

Criteria: OMB Circular A-133, Subpart C, Section .300(b), states, “The auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

Condition: The Department of Public Health and Human Services (department) contracts with various Montana tribes for case management services in the Foster Care program. Attachments incorporated into each contract require monthly time samples showing employee activity for five consecutive days for all individuals whose positions receive Title IV-E Foster Care funding. The time samples are used to determine the average amount of time spent providing services to Title IV-E eligible children during the previous year, and the average is then used as the basis for reimbursement for each employee under the tribal contract.

Rather than requiring a time sample for one employee in June 2010, the department accepted an additional week of data for May 2010. For another contractor, we noted department files contained time samples for three months of the 2010-11 fiscal year when nine should have been reported. As a result of the audit observation, the department requested and received the time samples.

Questioned Costs: No questioned costs identified.

Context: The department has tribal contracts in place for seven tribes. We reviewed 12 months of time studies for one employee from each of two tribes. Our review identified one month for one employee that was not submitted as required under the contract. Of the six annual tribal contracts, we reviewed two and found one tribe’s reports had not been received timely as required under the contract.

Effect: There is risk that a significant change in IV-E eligible activities would not be identified by the department if they continued to tolerate noncompliance with tribal contract requirements. Additionally, the elapse of calendar time between when the date time study was completed by the worker and the time it was submitted to and received by the department increases the chances that information submitted is inaccurate.

Cause: Department employees indicated that they view the contract attachments as guides to establish consistencies among the tribes rather than requirements.

Recommendation: We recommend the Department of Public Health and Human Services obtain time verification for each tribal employee whose position is funded by Title IV-E money as required by foster care case management contracts.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-13: U.S. Department of Health and Human Services
CFDA #93.558, Temporary Assistance for Needy Families (TANF)
Grant # Various

Criteria: OMB Circular A-133, Subpart C, Section .300(b), states the auditee shall: “Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

OMB Circular A-133, Subpart D, Section .400(d)(3) states a pass-through entity shall monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Contract language further states that in the event the review indicates the contractor is not in compliance with the terms and conditions of this contract, the contractor will submit, within thirty (30) calendar days of receipt, a written program improvement plan detailing actions and time lines for correcting the deficiencies causing contractor noncompliance.

If the written summary identifies deficiencies in the contractor’s compliance with the terms and conditions of the contract, the contractor must submit to the department within thirty (30) calendar days from receipt of the department’s summary a written Program Improvement Plan [“PIP”] detailing actions and time lines the contractor proposes for correcting the deficiencies causing contractor noncompliance.

Condition: The department reviews financial audits submitted by the subrecipients and performs annual fiscal reviews of its subrecipients. For one subrecipient, the department found problems in two of three annual reviews. Consequently, TANF program staff requested specific procedures be performed at the subrecipient level by the department’s Audit Bureau to determine whether certain expenditures charged to the TANF grant were allowable costs under the contract with the subrecipient. The report prepared by the Audit Bureau identified \$285,118 in subrecipient expenditures reimbursed by the department which could not be substantiated as allowable costs under the contract. After reading the report, we concur with the department’s identification of these charges as questioned costs.

Questioned Costs: We question \$285,118 in costs which the department could not substantiate as allowable costs under the contract.

Context: The department administered approximately 86 TANF contracts in fiscal years 2009-10 and 2010-11. For one particular contract, unallowable costs continued over a period of four years.

Effect: By not enforcing the contract requirement for the subrecipient to submit a written program improvement plan, the department allowed problems identified by their staff to persist and not be corrected.

Cause: Department staff said that prior management personnel did not enforce the contract requirement for a written program improvement plan. The current manager was not aware that the contract required the subrecipient to submit a plan.

Recommendation: We recommend the Department of Public Health and Human Services enforce provisions of its contracts with TANF subrecipients regarding submission of a program improvement plan and evaluation of progress in implementing the plan.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-14: U.S. Department of Health and Human Services

CFDA #93.558, Temporary Assistance for Needy Families (TANF)

CFDA #93.714, ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs

CFDA #93.716, ARRA – Temporary Assistance for Needy Families (TANF) Supplemental Grants

Grant #2010G996115, 2011G996115, and 2010G991525

Criteria: OMB Circular A-133, Subpart C, Section .300(b), states the auditee shall: “Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

Condition: The TANF program provides cash assistance to needy families. Department of Public Health and Human Services (department) case workers determine eligibility of applicants for TANF assistance. At the time of application, the case worker obtains evidence of eligibility and enters the information into The Economic Assistance Management System (TEAMS). Edits within TEAMS determine eligibility and calculate the amount of monthly assistance based on the information input by the case worker. We found the department no longer requires supervisory reviews of the completeness and accuracy of eligibility information obtained by case workers and input into TEAMS.

One eligibility requirement to receive TANF is for certain individuals to participate in allowable work activities while receiving TANF cash assistance. If a family does not meet participation requirements, and does not have good cause for failing to meet the requirements, they may be disqualified from receiving benefits. This is known as a sanction. We noted two instances where a recipient received benefits during the sanctioned month while a fair hearing was scheduled. In one case, the recipient did not show up for the fair hearing and in the other case the recipient withdrew the request for the fair hearing. Federal regulations require the department to terminate or reduce the amount of assistance when a family receiving assistance refuses to engage in work. Both instances constitute refusal to engage in work.

Questioned Costs: Questioned costs were less than \$10,000.

Context: We noted two instances from the 29 cases we reviewed where a TANF recipient was sanctioned for not fulfilling the work participation requirement and received benefits that should have been recovered.

Effect: The lack of controls resulted in overpayment of benefits and questioned costs.

Cause: Department staff said the policy for two supervisory reviews of files each month on each case worker has been discontinued because of increased workloads in public assistance offices throughout the state. A department staff said fair hearing cases which involve a request for continued benefits occur infrequently, so the requirement to establish an overpayment is not familiar to many case workers.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Reestablish the requirement for reviews of TANF eligibility information input by case workers.
- B. Implement a control to ensure that assistance to the family is reduced or terminated when an individual refuses to engage in required work.

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Finding 2-15: U.S. Department of Energy

CFDA #81.042, Weatherization Assistance for Low-Income Persons
Grant #EE0000073 (Non-ARRA) & EE0000143 (ARRA)

Criteria: Federal law, 31 USC 7502(f)(2)(B), requires each pass-through entity to monitor the subrecipient's use of federal awards through site visits, limited scope audits, or other means.

The Department of Public Health and Human Services' (department) Weatherization State Plan states, "A monitoring report will be prepared outlining findings and described corrective actions. Copies of the monitoring report will be sent, within 30 days of the on-site visit, to the subgrantee and appropriate funding agencies."

The U.S. Department of Energy Weatherization Program Notice 10-1 (Effective December 18, 2009) also states: "Within 30 days after each visit, the Grantee will prepare a written report on its findings and send it to the subgrantee for corrective action, if applicable."

Condition: In fiscal year 2009-10, the department did not conduct any on-site monitoring reviews for one administering agency. During both fiscal years 2009-10 and 2010-11, the department submitted 15 monitoring reports to administering agencies, with 14 reports sent more than 30 days after the on-site visit.

Questioned Costs: No questioned costs identified.

Context: Of the 15 reports submitted, we noted five reports were submitted more than 60 days after the on-site visit.

Effect: The department is not in compliance with federal regulations. By not complying with U.S. Department of Energy issued program guidance and its approved Weatherization State Plan, the department delayed the initiation of corrective action on issues found during the monitoring visits.

Cause: The 30-day requirement for submitting the report to administering agencies was overlooked, a department manager said. As a standard practice, the department used a 60-day report turnaround period.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Complete the monitoring of administering agencies as required by the state plan.
- B. Submit administering agencies' on-site monitoring reports within the 30-day timeframe required by federal regulations.

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Finding 2-16: U.S. Department of Health and Human Services
CFDA#93.568 Low-Income Home Energy Assistance (LIHEAP)
Grant #2010G992201 & 2011G992201

Criteria: Circular A-133 section 400(d)(3) states that a pass-through entity shall, “Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.”

Condition: The Department of Public Health and Human Services (department) contracts with local administering agencies to assess eligibility of applicants for LIHEAP benefits. The department pays the energy provider or the applicant an amount to offset energy costs, based on eligibility assessed by the agencies. During its monitoring visits, department personnel determine whether the agencies properly assess applicant eligibility. The department directs the administering agencies to reimburse the department when overpayments occur due to agency errors as part of a corrective action plan. Three of eight administering agency monitoring reports contained corrective action plans to repay the department for benefit overpayments caused by agency errors.

Questioned Costs: Questioned costs were less than \$10,000.

Context: We reviewed 100 percent of the monitoring reports for fiscal years 2009-10 and 2010-11. Three of eight administering agency monitoring reports contained corrective action plans to repay the department for benefit overpayments caused by agency errors. The department had not followed-up on the required corrective actions.

Effect: As of May 2011, the department had not followed up on these corrective action plans, so \$3,541 of unallowable program costs had not been returned to the department.

Cause: A program manager said the department’s current policy does not require follow-up on repayment corrective actions earlier than the subsequent monitoring visit, which usually occurs at least a year later.

Recommendation: We recommend the Department of Public Health and Human Services implement procedures to recover LIHEAP overpayments identified in corrective action plans from its administering agencies.

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Finding 2-17: U.S. Department of Health and Human Services
CFDA #93.568, Low-Income Home Energy Assistance (LIHEAP)
Grant #2010G992201 and 2010G992212

Criteria: Federal law, 42 USC 8626, requires at least 90 percent of the LIHEAP block grant funds payable to the grantee to be obligated in the fiscal year in which they are appropriated. Up to 10 percent of the funds payable may be held available (or “carried over”) for obligation no later than the end of the following fiscal year. Funds not obligated by the end of the following fiscal year must be returned to the Administration for Children and Families (ACF).

OMB Circular A-133, Subpart C, Section .300(b), states the auditee shall: “Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Condition: In federal fiscal year 2009-10, the Department of Public Health and Human Services (department) received \$27,883,283 in federal LIHEAP funds. The maximum carry forward amount was \$2,788,328. However, the department carried forward \$3,110,803 to federal fiscal year 2010-11, \$322,474 more than the federally allowed 10 percent. In May the department implemented corrective action to reduce the excess carry forward.

Questioned Costs: No questioned costs identified.

Context: The department complied with the period of availability compliance requirements in federal fiscal year 2008-09. Therefore, the incident is isolated to federal fiscal year 2009-10.

Effect: The department is not in compliance with federal regulations.

Cause: According to the department, subgrantee administration obligations were counted twice. Currently, a single individual determines and verifies the amounts obligated. The department does not have a review process to confirm the financial information compiled in the report has been properly calculated.

Recommendation: We recommend the Department of Public Health and Human Services implement internal controls over calculating and compiling financial information supporting carry-forward to ensure compliance with federal regulations.

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Finding 2-18: U.S. Department of Education

CFDA #84.126, Rehabilitation Services - Vocational Rehabilitation Grants to States
Grant #H126A110038B, H126A100038A, H126A090038A

CFFA #84.390, Rehabilitation Services-Vocational Rehabilitation Grants to States,
Recovery Act
Grant #H390A090038

Criteria: U.S. Department of Education Policy Directive RSA-PD-11-02 requires the Department of Public Health and Human Services (department) to submit a financial status report twice a year for each of its current vocational rehabilitation grants. The reports are due 45 days after the end of the reporting period.

OMB Circular A-133, Subpart C, Section .300(b), states the auditee shall: “Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

Condition: We noted multiple instances of noncompliance with federal policy. These are noted below:

- ◆ The report for the federal fiscal year 2009-10 grant for the period ended September 30, 2010, was submitted June 22, 2011.
- ◆ The report for the federal fiscal year 2009-10 grant for the period ended March 31, 2011, had not been submitted as of June 30, 2011.
- ◆ On the September 30, 2010, and March 31, 2011, reports the department understated the state resources spent by the department on vocational rehabilitation and made errors in reporting indirect costs charged to the grant.
- ◆ On the September 30, 2010 report, state resource effort was understated by \$597,396.
- ◆ On the September 30, 2010 report, the department overstated its share of expenditures connected with committed funds that have not yet been spent by \$57,019.
- ◆ On the September 30, 2010 report, the amount reported for indirect costs exceeded the amount on the accounting records by \$6,583.
- ◆ On the March 31, 2011 report, the department claimed \$20,394 less in state resource effort than was recorded on the state’s accounting records.
- ◆ On the March 31, 2011 report, the department omitted three entries describing the department’s indirect cost allocation plan.

Questioned Costs: No questioned costs identified.

Context: The SF-425 is a new report, which, except for the Vocational Rehabilitation program, is prepared centrally within the department. The reports for the Vocational Rehabilitation program were prepared by the Budget Analyst, who also certified the reports. We identified multiple errors on each of the two SF-425 reports tested.

Effect: The reports provide erroneous information and thus do not comply with federal requirements. One of the understatements could cause the federal grantor to conclude that the state had not met its obligations under the grant or request return of current grant funds.

Cause: A department official said the program analyst position charged with preparing the reports was filled in December 2010 after being vacant for most of the previous five months. In addition, the department did not have written procedures related to grant reporting, making it more difficult for new personnel to master the reporting function. In addition to unfamiliarity with the financial data reported, caused by turnover, we found department personnel had not used the most recent guidance on completing the report provided by the grantor agency.

Recommendation: We recommend the Department of Public Health and Human Services:

- A. Submit financial reports for the vocational rehabilitation grant in the timeframe required by federal regulations.
- B. Report information for the vocational rehabilitation grant supported by the state's accounting records.
- C. Document internal controls associated with financial operations of its vocational rehabilitation grant in writing as required by state accounting policy.

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Finding 2-19: U.S. Department of Agriculture

CFDA #10.551, Supplemental Nutrition Assistance Program (SNAP)

CFDA #10.561, State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

Grant #2010IS251443, 2011IS251443, and 008006309S6008

Criteria: Federal regulation, 7 CFR 274.7(b), requires state agencies to establish control and security procedures to safeguard coupons that are similar to those used to protect currency. The state agency is required to 1) safeguard coupons from theft, embezzlement, loss, damage, or destruction; 2) avoid unauthorized transfer, negotiation, or use of coupons; (3) avoid issuance and transfer of altered or counterfeit coupons; and (4) promptly report in writing to FNS any loss, theft, or embezzlement of coupons. The state of Montana uses Electronic Benefit Transfer (EBT) cards in lieu of coupons.

Condition: Department of Public Health and Human Services (department) provides EBT cards to SNAP recipients to purchase food in authorized retail stores. The EBT cards are similar to debit cards. We found four instances in which department personnel did not follow controls to safeguard EBT cards.

Questioned Costs: No questioned costs identified.

Context: We reviewed documentation for 14 SNAP EBT cards mailed to beneficiaries which were returned to the department as undeliverable. We found four instances in which department personnel did not follow controls to safeguard EBT cards.

Effect: By not following the procedure of two employees signing the log approving reissuance of returned EBT cards, the department has increased risk of theft and misuse of those cards.

Cause: A department manager said employee oversight and a vacant EBT supervisor position contributed to the lapse in control. The EBT supervisor position became vacant in October 2010, and has been held open for vacancy savings, the manager said. The review of EBT card safeguards usually performed by the supervisor position was not assigned to other staff.

Recommendation: We recommend the Department of Public Health and Human Services follow its control procedures for safeguarding Electronic Benefit Transfer (EBT) cards to maintain compliance with federal requirements.

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Finding 2-20: U.S. Department of Health and Human Services
CFDA #93.778, Medical Assistance Program
Grant #1005MT5ADM
CFDA #93.767, Children’s Health Insurance Program (CHIP)
Grant #1105MT5021

Criteria: OMB Circular A-133, Subpart C, Section .300(b), states the auditee shall: “Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

Condition: We reviewed all Department of Public Health and Human Services (department) contracts that had activity over \$100,000 during our audit period, which totaled seventeen contracts in four divisions. Of those reviewed, three contracts did not have evidence of any review for suspension and debarment. One division has changed its internal process to include the suspension and debarment language in the contract, rather than completing the form. This process does not follow department policy. None of the divisions checked the federal listing annually as required by department policy.

Questioned Costs: No questioned costs identified.

Context: None of the divisions check the federal list for years of a multi-year contract subsequent to the initial year. This is a systemic issue.

Effect: These situations increase the potential risk of using federal and state funds while contracting with a firm that is suspended or debarred. For each contract reviewed, we checked the federal list to confirm the contractor had not been suspended or debarred.

Cause: Division personnel could not explain why the form was not included with the contract for one of the occurrences. In the two other incidences, division personnel stated they were not aware of the requirement to use the form. Personnel said the renewal process checklist did not include annual review of suspension and debarment, so they did not complete it.

Recommendation: We recommend the Department of Public Health and Human Services enhance and enforce its internal control policy and procedures to ensure compliance with federal suspension and debarment requirements.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2011

Section III – Federal Award Findings and Questioned Costs

Finding 2-21: U.S. Department of Health and Human Services
CFDA #93.630, Developmental Disabilities Basic Support and Advocacy Grants
Grant #G-1102MTBS27

Criteria: Public law 106-402, Section 125(d)(3)(A) – (C) states the designated state agency has the responsibilities to receive, account for, and disburse funds under this subtitle based on the State plan required in section 124 and provide for such fiscal control and fund accounting procedures as may be necessary to assure the proper disbursement of, and accounting for, funds paid to the State under this subtitle.

Federal Regulation 2 CFR 230, Appendix A(2)(a) and (g) state that in order for a cost to be allowable under an award, the cost must be reasonable for the performance of the award and adequately documented.

Condition: The Department of Commerce (department) is designated in both state and federal law as the state agency to receive funds under the Developmental Disabilities Basic Support and Advocacy Grant. During our audit period, the department disbursed approximately \$750,000 of these funds to MCDD, a private nonprofit corporation. We reviewed several reimbursement requests from MCDD that were paid by the department and found the examples described below. The examples indicate the department's controls are not adequate to ensure its documentation is sufficient to demonstrate that reimbursements to MCDD are allowable in accordance with federal regulations.

- ◆ A reimbursement included a “bar bill” of \$40. Federal regulations specifically prohibit the purchase of alcohol with federal funds. After we brought this bill to the department's attention, MCDD removed \$40 from a subsequent claim related to this item.
- ◆ Detailed support for reimbursements of \$2,303 and \$14,086 was missing from the department's files. The amounts were included in total on the MCDD claim.
- ◆ A reimbursement for annual membership dues for \$545 was reimbursed without any support for the type of membership. Not all types of memberships are allowable under federal regulations.
- ◆ A reimbursement of \$60.50 for “petty cash” was made with no other explanation or documentation.

Questioned Costs: Subsequent to our review of the items discussed above, MCDD provided additional support to the department to demonstrate allowability for the \$2,303, \$14,086 and membership dues. However, we believe it is likely the department does not have adequate support on file to demonstrate the allowability for other reimbursements. As a result, we believe questioned costs for unsupported expenditures for this federal program may exceed \$10,000.

Context: The department recorded expenditures for this grant of \$704,372 in fiscal year 2009-10 and \$56,958 in fiscal year 2010-11. We tested four of the higher dollar claims that occurred during these fiscal years.

Effect: The department does not have adequate controls to review MCDD claims for compliance with federal regulations that resulted in likely questioned costs exceeding \$10,000.

Cause: The person approving the reimbursements at the department does not have a copy of the state plan and department personnel indicated no other types of monitoring controls of MCDD are in place. Personnel indicated they rely on the personnel at MCDD as having approved the expenditures, as well as an accounting review of MCDD that includes completeness of the expense documentation.

Recommendation: We recommend the Department of Commerce implement controls to ensure reimbursements to MCDD are allowable per the state plan and federal regulations.

Corrective Action Plan

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Corrective Action Plan..... D-1

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2011**

| Finding # | CFDA # | CAP- Corrective Action Plan | Person Responsible for CAP | Target Date |
|-------------|------------------|--|---|-------------|
| Finding 1-1 | Various | The Public Employees Retirement Systems (PERS) are to be funded on an actuarially sound basis as required by the Montana Constitution and state law. In the 2011 Legislative session, the PERB proposed legislation that included both plan design changes, and additional contributions from employers and new members to address long-term plan sustainability. The result of the final legislation was to implement the plan design changes but all of the funding was removed from the bill except for a one time increase to new hires. One of the fundamental principles of defined benefit plans is to ensure the Actuarial Required Contributions (ARC) are received timely by the plans. The ARC has not been received for the past three years in the PERS, SRS and GWPORS and for FY 2011 in HPORS. The PERB is working with interim committees and will propose legislation to address the actuarial soundness of the four retirement plans. | Roxanne Minnehan, Executive Director, Public Employees Retirement Systems | 01/01/2013 |
| Finding 1-2 | Various | The Teachers Retirement Board has directed staff to schedule meetings around the State in 2012 to solicit ideas to help address the unfunded liability. The Board is exploring all reasonable alternatives, and will have legislation prepared for consideration in the 2013 legislative session. | David Senn, Executive Director, Teachers Retirement System | 01/01/2013 |
| Finding 2-1 | 66.458 | The Department of Environmental Quality reviews State Revolving Fund loan applications to ensure applicants follow construction contract provisions in state law. The amount listed, \$418,072, was part of one large wastewater project with two Water Pollution Control State Revolving Fund loans totaling \$13,500,000. DEQ's current project oversight procedures require the project engineer to review bidding requirements as each loan payment is made which should have prevented this finding from occurring. We believe this situation was an anomaly. | Todd Teegarden, Chief of Technical and Financial Assistance Bureau, Department of Environmental Quality | Completed |
| Finding 2-2 | 15.904 15.929 | Montana Historical Society prior to FY 2010 closing and audit processed journal 10ONL083 on July 16, 2010 to account for the indirect costs. This issue was resolved during the audit period however; Legislative auditors included this issue in their report. MHS will continue to review and monitor the indirect cost process on a quarterly bases. | Denise C. King, Administrator Centralized Services Division, Montana Historical Society | Completed |
| Finding 2-3 | 12.401 | The Department of Military Affairs (DMA) has implemented procedures to ensure contractors are paying prevailing wages. | Dan Hubber Deputy, Construction & Facility Management Office, Department of Military Affairs | 12/01/2010 |

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2011**

| Finding # | CFDA # | CAP- Corrective Action Plan | Person Responsible for CAP | Target Date |
|-------------|--|---|---|--------------------------------------|
| Finding 2-4 | 97.067 97.042 97.001 97.036 97.039 97.047 97.078 11.555 | DMA has implemented policies directing personnel to track their time according to which grant they are performing under. | Ed Tinsley Administrator Disaster and Emergency Services, Department of Military Affairs | 12/01/2010 |
| Finding 2-5 | 97.067 | DMA has recognized the inability to obligate grant funds in accordance to Homeland Security requirements. Grant Program staffing issues are being resolved through re-organization of the division. | Ed Tinsley Administrator Disaster and Emergency Services, Department of Military Affairs | 02/01/2012 |
| Finding 2-6 | 12.401 | DMA has provided procurement training to department personnel with procurement authority. New policies, procedures and internal controls have been established for contract monitoring. | Karen Revious Centralized Services, Department of Military Affairs | 08/01/2010 |
| Finding 2-7 | 97.042 | DMA has modified policies and procedures to correct this issue. Future solicitation for contract services will state clearly the ranking process and will follow Department and State processes. | Ed Tinsley Administrator Disaster and Emergency Services, Department of Military Affairs | 06/01/2010 |
| Finding 2-8 | 15.605 | Fish Wildlife and Parks will seek legislation in the next legislative session to restore the language removed from Sec. 87-1-701, MCA and will continue to monitor all legislation that affects the department. | Sue Daly Finance Chief Fish Wildlife and Parks | Partially Completed 04/01/2013 |

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2011**

| Finding # | CFDA # | CAP- Corrective Action Plan | Person Responsible for CAP | Target Date |
|--------------|--|---|--|-------------|
| Finding 2-9 | 84.007 84.032 84.033 84.038 84.063 84.268 84.375 84.376 93.342 93.925 | The University of Montana (UM) will coordinate with Banner data owners updating of the Banner Security Plan to refine incompatible access. | D. Norem, Banner System Coordinator University of Montana | 12/31/2011 |
| | Student Financial Assistance Cluster | UM Will coordinate the annual Banner Security Plan review with data owners. UM will implement on-line form so data owners can ensure completion of change request. | | 10/15/2011 |
| Finding 2-10 | 20.509 20.513 20.516 20.500 | Montana Department of Transportation (MDT) strengthened procedures in April 2011 to ensure required certifications are obtained from the successful bidder prior to awarding any Transit vehicle purchase orders. As part of the procedures, an individual from the Administration Division and an individual from the Rail, Transit and Planning Division open the Transit vehicle bid responses together. A checklist was developed to assist staff in verifying all required documents are included in the bid response. | Larry Flynn, Administrator, Administration Division and Lynn Zanto, Administrator, Rail, Transit and Planning Division, Montana Department of Transportation | Completed |
| Finding 2-11 | 20.205 | MDT strengthened procedures to include a detailed review of the first full payroll of every construction project to ensure compliance with Davis-Bacon and related Acts. MDT has also scheduled an internal audit over this area to help identify ways to improve this process by making it more effective and efficient. | Patty McCubbins, Chief, Civil Rights Bureau Vickie Murphy, Manager, Internal Audit Unit Montana Department of Transportation | 06/30/2012 |
| Finding 2-12 | 93.658 | The Department of Public Health and Human Services (DPHHS) will work with the Tribes, and if appropriate the Division of Cost Allocation within the Department of Health and Human Services, to identify time verification methods that meet the needs of all involved. If appropriate, contracts or task orders will be amended. | Marie Matthews, Business and Financial Services Administrator Department of Public Health and Human Services | 06/30/2012 |

| STATE OF MONTANA CORRECTIVE ACTION PLAN FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2011 | | | | |
|--|----------------------------|---|---|-------------|
| Finding # | CFDA # | CAP- Corrective Action Plan | Person Responsible for CAP | Target Date |
| Finding 2-13 | 93.558 | DPHHS has strengthened program improvement language in applicable contracts. The TANF Program Manager will ensure that both program and fiscal monitors require and enforce program improvement plan submission and progress evaluations in accordance with the timeframes outlined in the contract(s). | Marie Matthews, Business and Financial Services Administrator Department of Public Health and Human Services | Completed |
| Finding 2-14 | 93.558 93.714 93.716 | The TANF program has reinstated the requirement of supervisory reviews for TANF cases effective November 1, 2011. Policy clarification regarding establishment of overpayments of continued benefits following a sanction fair hearing has been communicated to all affected staff. | Marie Matthews, Business and Financial Services Administrator Department of Public Health and Human Services | Completed |
| Finding 2-15 | 81.042 | The Human and Community Services Division (HCSD) has clarified operating procedures. The monitoring will be completed in the time frame outlined in the state plan and the monitoring reports will be submitted to the awarding agencies within the 30 day federal guideline. | Marie Matthews, Business and Financial Services Administrator Department of Public Health and Human Services | Completed |
| Finding 2-16 | 93.568 | HCSD has implemented additional procedures to ensure overpayments are recovered in a timely fashion. | Marie Matthews, Business and Financial Services Administrator Department of Public Health and Human Services | Completed |
| Finding 2-17 | 93.568 | HCSD has implemented additional review procedures to ensure reported expenditures, obligations, carry forwards and their related documentation are in sync by September 30th of each year. | Marie Matthews, Business and Financial Services Administrator Department of Public Health and Human Services | Completed |

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2011**

| Finding # | CFDA # | CAP- Corrective Action Plan | Person Responsible for CAP | Target Date |
|--------------|------------------|--|---|-------------|
| Finding 2-18 | 84.126 84.390 | DPHHS is currently reviewing all procedures for completing the vocational rehabilitation financial reports. Procedures will be upgraded and/or developed as needed to ensure that reports are completed accurately and timely. | Marie Matthews, Business and Financial Services Administrator Department of Public Health and Human Services | 06/30/2012 |
| Finding 2-19 | 10.551 10.561 | The Electronic Benefit Transfer Program Manager has clarified responsibilities, ensuring that two persons perform the control duties and signed the log. | Marie Matthews, Business and Financial Services Administrator Department of Public Health and Human Services | Completed |
| Finding 2-20 | 93.778 93.767 | DPHHS policy has been re-distributed to all financial and contract staff across the department. Action to be Completed - The department is currently completing a review of department procurement policies and processes, including procurements completed via contract. Following this review, the department will implement agency wide changes in policies, procedures and/or processes that will increase the consistency of regulatory compliance. | Marie Matthews, Business and Financial Services Administrator Department of Public Health and Human Services | 06/30/2012 |
| Finding 2-21 | 93.630 | The department currently has MCDD scan in every invoice that they are requesting reimbursements for. They are making sure the name of the vendor shows on the scanned document. All invoices are reviewed for compliance with A-87 and the state plan. Invoices that are not clearly identified as to the purpose are clarified by MCDD staff. | Teri Juneau Department of Commerce Director's Office Accounting Manager | Completed |

Summary Schedule of Prior Audit Findings

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Summary Schedule of Prior Audit Findings..... E-1

**STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2011**

| CFDA # | Federal Program Name | Finding # | Prior Audit Finding | Questioned Costs | Corrective Action | Initial Year of Finding | Comments |
|---------------------------------|-----------------------------|------------------|--|-------------------------|--------------------------|--------------------------------|---|
| Various Federal Agencies | | | | | | | |
| Various | Various Federal Agencies | 1-1 | Actuarial soundness of the Teachers Retirement System (TRS). | | 2 | 06-07 | With the passage of HB 116 during the 2011 Legislature, it is projected to reduce the unfunded liabilities of the TRS by \$6.8 million and the amortization period to fund the unfunded liabilities by 2.3 years. |
| Various | Various Federal Agencies | 1-2 | Actuarial soundness of the Public Employees Retirement Systems (PERS). | | 2 | 06-07 | The Public Employees Retirement Board (PERB) did provide legislation in the 2011 session that was partially implemented for PERS, SRS and GWPORS, however all funding increases were removed by the legislature and, therefore, the systems remain actuarially unsound. |
| Various | Various Federal Agencies | 2-35, 2-12 | University internal controls over grants not working. | \$6,168 (06-07) | 1 | 06-07, 08-09 | |
| Various | Various Federal Agencies | 2-1 | SWCAP billing amounts. | Greater than \$10,000 | 1 | 08-09 | Although the Department of Administration did not concur that this resulted in a questioned cost, in FY 2010 the department billed agencies the amounts approved in the statewide cost . |
| Various | Various Federal Agencies | 1-1 | Unrecorded settlements. | | 1 | 08-09 | |
| Various | Various Federal Agencies | 2-5 | IDC rate calculation. | \$217,000 | 1 | 08-09 | |
| Various | Various Federal Agencies | 2-22 | Following travel and procard state policies. | \$6,150 | 1 | 08-09 | |
| Various | Various Federal Agencies | 2-23 | IDC rate calculation. | \$20,424 | 1 | 08-09 | |

Category of Corrective Action Taken:

- 1 Finding has been fully corrected. 2 Finding has not been corrected or partially corrected.
3 Corrective action taken is significantly different than reported.

**STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2011**

| CFDA # | Federal Program Name | Finding # | Prior Audit Finding | Questioned Costs | Corrective Action | Initial Year of Finding | Comments |
|---------------------------------------|---|------------|--|-----------------------|-------------------|-------------------------|----------|
| Various | Various Federal Agencies | 2-26 | Unallowable personal services. | Greater than \$10,000 | 1 | 08-09 | |
| Various | Various Federal Agencies | 2-15 | Supervisory review of CMIA | | 1 | 08-09 | |
| U.S. Department of Agriculture | | | | | | | |
| 10.551, 93.558, 93.563 | Food Stamps, Temporary Assistance for Needy Families, Child Support Enforcement | 2-13 | Inadequate migration procedures for EBT system. | | 1 | 06-07 | |
| 10.551, 93.558, 93.563 | Food Stamps, Temporary Assistance for Needy Families, Child Support Enforcement | 2-15 | Replacement procedures for lost/stolen Montana Access cards are insufficient. | | 1 | 06-07 | |
| 10.551, 10.551A, 93.558 | Supplemental Nutrition Assistance Program (SNAP), ARRA SNAP, Temporary Assistance for Needy Families, | 2-29 | TANF and SNAP Income verification. | \$25,572 | 1 | 08-09 | |
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children | 2-14, 2-31 | Number of required sites visits were not completed and reports were not completed. | | 1 | 04-05,08-09 | |

Category of Corrective Action Taken:

- 1 Finding has been fully corrected. 2 Finding has not been corrected or partially corrected.
3 Corrective action taken is significantly different than reported.

**STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2011**

| CFDA # | Federal Program Name | Finding # | Prior Audit Finding | Questioned Costs | Corrective Action | Initial Year of Finding | Comments |
|-----------------------------------|---|------------------|--|-------------------------|--------------------------|--------------------------------|-----------------|
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children | 2-16 | No investigation or assessment of risk on non-compliance vendors. | | 1 | 04-05 | |
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children | 2-28 | Noncompliance for conducting timely monitoring reviews for local agencies. | | 1 | 06-07 | |
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children | 2-34 | Financial disposition of food instruments. | | 1 | 08-09 | |
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children | 2-30,2-33 | Consideration and assessment of high-risk vendors, and documentation of compliance investigations. | | 1 | 06-07,08-09 | |
| 10.553, 10.555, 10.556, 10.559 | Child Nutrition Cluster | 2-14 | Improper milk eligibility rate. | \$365 | 1 | 08-09 | |
| U.S. Department of Defense | | | | | | | |
| 12.401 | National Guard Military Operations and Maintenance Projects | 2-6 | Unliquidated obligations. | \$17,378 | 1 | 08-09 | |

U.S. Department of Housing and Urban Development

Category of Corrective Action Taken:

1 Finding has been fully corrected. 2 Finding has not been corrected or partially corrected.

3 Corrective action taken is significantly different than reported.

**STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2011**

| CFDA # | Federal Program Name | Finding # | Prior Audit Finding | Questioned Costs | Corrective Action | Initial Year of Finding | Comments |
|---|---|------------------|---|-------------------------|--------------------------|--------------------------------|---|
| 14.871 | Section 8 Housing Choice Vouchers | 2-37 | Field agent calculation errors not corrected. | | 1 | 06-07 | |
| 14.871 | Section 8 Housing Choice Vouchers | 2-16 | Late submission of the SEMAP report. | | 1 | 08-09 | |
| 14.871 | Section 8 Housing Choice Vouchers | 2-17 | Incorrect rates on fair market value. | | 1 | 08-09 | |
| 14.871 | Section 8 Housing Choice Vouchers | 2-18 | Not performing enough reinspections. | | 1 | 08-09 | |
| 14.195 | Section 8 Housing Assist. Payments Program Special Allocations | 2-19 | Special claims paid in compliance with federal regulations. | \$826 | 1 | 08-09 | |
| U.S. Department of Labor | | | | | | | |
| 17.258, 17.259, 17.260, 17.258A, 17.259A, 17.260A | Workforce Investment Act Cluster, ARRA Workforce Investment Act Cluster | 2-21 | Subrecipients not obtaining CFDA or grant award numbers. | | 1 | 08-09 | |
| 17.225, 17.225A | Unemployment Insurance, ARRA Unemployment Insurance | 2-24 | Not completing BAM audits. | | 1 | 08-09 | This has been completed. BAM has resumed to full capacity since Oct 1, 2009. |
| 17.225, 17.225A | Unemployment Insurance, ARRA Unemployment Insurance | 2-25 | Cash management resulting in excess cash. | | 1 | 08-09 | This has been completed. A reconciliation of the benefit account has been completed as of June 2011. Changes to the refund/CMIA process were implemented in 2010. |
| U.S. Environmental Protection Agency | | | | | | | |

Category of Corrective Action Taken:

1 Finding has been fully corrected. 2 Finding has not been corrected or partially corrected.

STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2011

| CFDA # | Federal Program Name | Finding # | Prior Audit Finding | Questioned Costs | Corrective Action | Initial Year of Finding | Comments |
|---|---|------------|---|-----------------------|-------------------|-------------------------|----------|
| 66.458, 66.468 | Capitalization Grants for Clean Water Revolving Funds, Capitalization Grants for Drinking Water Revolving Funds | 2-2 | Control weakness in the SRF program. | | 1 | 08-09 | |
| U.S. Department of Energy | | | | | | | |
| 81.042, 93.568 | Weatherization Assistance for Low-Income Persons, Low Income Energy Assistance | 2-27 | LIEAP and Weatherization program eligibility issues. | Greater than \$10,000 | 1 | 08-09 | |
| U.S. Department of Education | | | | | | | |
| 84.063, 84.007, 84.033, 84.375, 84.376 | Student Financial Assistance Cluster | 2-13 | Improper cash management . | | 1 | 08-09 | |
| 84.038 | Federal Perkins Loan Program | 2-20 | Permissible use of Perkins loan funds. | \$8,836 | 1 | 08-09 | |
| 84.126 | Rehabilitation Services- Vocational Rehabilitation Grants | 2-28 | Voc Rehab compliance with eligibility determination. | \$27,876 | 1 | 08-09 | |
| U.S. Department of Health and Human Services | | | | | | | |
| 93.558 | Temporary Assistance to Families for Needy Children (TANF) | 2-30 | Not counting TANF out-of-state benefits towards 60 month limit. | | 1 | 08-09 | |
| 93.659, 93.659A | Adoption Assistance, ARRA Adoption Assistance | 2-29, 2-35 | Inadequate documentation to identify a child as difficult to place. | \$63,003 (08-09) | 1 | 06-07, 08-09 | |

Category of Corrective Action Taken:

1 Finding has been fully corrected. 2 Finding has not been corrected or partially corrected.

3 Corrective action taken is significantly different than reported.

**STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2011**

| CFDA # | Federal Program Name | Finding # | Prior Audit Finding | Questioned Costs | Corrective Action | Initial Year of Finding | Comments |
|--|--|-----------|---|------------------|-------------------|-------------------------|----------|
| 93.767 | State Children's Health Insurance Program (SCHIP) | 2-32 | CHIP QAR process not in accordance with state plan. | \$3,894 | 1 | 08-09 | |
| 93.778 | Medical Assistance Program | 2-16 | No periodic risk analyses or biennial system security reviews. | | 1 | 06-07 | |
| 93.575, 93.575A, 93.596, 93.775, 93.776, 93.777, 93.778, 93.778A | Various U.S. Dept. of Health and Human Services Programs | 2-36 | Reporting issues include supervisory review, accuracy of numbers and lately submission. | | 1 | 08-09 | |
| 93.069, 93.778, Various | Public Health Emergency Preparedness, Medical Assistance Program | 2-37 | Unallowable settlement charges to terminated employees. | \$65,802 | 1 | 08-09 | |
| 93.575, 93.596 | Child Care Cluster | 2-38 | Unallowable bad debt expenditures. | \$59,727 | 1 | 08-09 | |
| Various | Various U.S. Dept. of Health and Human Services Programs | 2-15 | Not following CMIA procedures. | | 1 | 08-09 | |
| 93.775, 93.776, 93.777, 93.778 | Medicaid Cluster | 2-39 | Untimely cost reports submissions. | | 1 | 08-09 | |
| 93.775, 93.776, 93.777, 93.778 | Medicaid Cluster | 2-40 | ADP systems not reviewed. | | 1 | 08-09 | |

Category of Corrective Action Taken:

- 1 Finding has been fully corrected. 2 Finding has not been corrected or partially corrected.
3 Corrective action taken is significantly different than reported.

**STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2011**

| CFDA # | Federal Program Name | Finding # | Prior Audit Finding | Questioned Costs | Corrective Action | Initial Year of Finding | Comments |
|---|----------------------------------|-----------|---|------------------|-------------------|-------------------------|--|
| U.S. Department of Homeland Security | | | | | | | |
| 97.004, 97.067 | Homeland Security Cluster | 2-42, 2-9 | Not in compliance with federal subrecipient monitoring. | \$40,000 (06-07) | 1 | 06-07,08-09 | The individual hired to conduct the subrecipient monitoring resigned at Military Affairs. A new person has not yet been hired and the duties have not been assigned to an existing employee. |
| 97.004, 97.067 | Homeland Security Cluster | 2-2 | Unallowable costs charged to grant. | Exceeds \$10,000 | 1 | 06-07 | |
| 97.004, 97.067 | Homeland Security Cluster | 2-7 | Not following internal controls. | \$58,127 | 1 | 08-09 | |
| 97.004, 97.067 | Homeland Security Cluster | 2-8 | Improper person approving time charged to federal grants. | | 1 | 08-09 | |
| 97.004, 97.067 | Homeland Security Cluster | 2-10 | Obligation of federal funds within 60 days. | | 2 | 08-09 | |
| 97.004, 97.067 | Homeland Security Cluster | 2-11 | Not following cash management procedures. | | 1 | 08-09 | |
| 97.046 | Fire Management Assistance Grant | 2-3 | No documents over suspended or debarred parties. | | 1 | 08-09 | |
| 97.046 | Fire Management Assistance Grant | 2-4 | Not following procurement procedures. | \$69,463 | 1 | 08-09 | |

Category of Corrective Action Taken:

- 1 Finding has been fully corrected. 2 Finding has not been corrected or partially corrected.
3 Corrective action taken is significantly different than reported.