A Report to the Montana Legislature

Financial Audit

Public Employees' Retirement Board

For the Fiscal Year Ended June 30, 2011

December 2011

Legislative Audit Division

10-08B

Legislative Audit Committee

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Financial Audits

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

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

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

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

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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

December 2011

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on the Public Employees' Retirement Board (PERB), a component unit of the state of Montana, for the fiscal year ended June 30, 2011. There is one recommendation in this report related to four retirement systems that are not actuarially sound. The Montana Constitution requires the public retirement systems be funded on an actuarially sound basis. A defined benefit retirement system is defined in state law 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.

We issued an unqualified opinion on PERB's financial statements for the fiscal year ended June 30, 2011. PERB issues a Comprehensive Annual Financial Report that contains our audit opinion. Copies of the PERB's annual report for fiscal year 2010-11 can be obtained from the Montana Public Employee Retirement Administration. The annual report contains background, statistical, and actuarial information that is not included in this audit report which may be of interest to legislators or the public.

We thank the executive director and her staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

Tori Hunthausen, CPA
Legislative Auditor

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Appointed and Administrative Officials

			Term Expires
Public Employees' Retirement Board	John Nielsen, President	Glendive	3/31/12
	Terrence Smith, Vice President	Bozeman	3/31/14
	Darcy Halpin	Belgrade	3/31/13
	Patrick McKittrick	Great Falls	3/31/14
	Scott Moore	Miles City	3/31/15
	Dianna Porter	Butte	3/31/13
	Timm Twardoski	Helena	3/31/16

Administrative Officials

Roxanne Minnehan, Executive Director

Patricia Davis, Member Services Bureau Chief

Barbara Quinn, Fiscal Services Bureau Chief

Melanie Symons, Legal Counsel

Renae Justice, Internal Auditor

June Dosier, Information Systems Manager

For additional information concerning the Montana Public Employees' Retirement Board, contact:

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Montana Legislative Audit Division

Financial Audit
Public Employees' Retirement Board
For the Fiscal Year Ended June 30, 2011

December 2011 10-08B Report Summary

The contributions and investment income of four of the eight defined benefit retirement plans administered by the Public Employees' Retirement Board (PERB) are not sufficient to fund future benefits earned by members of those plans. The eight defined benefit retirement plans and the defined contribution plan administered by the PERB had 21,480 retirees or beneficiaries receiving benefits and 34,531 active members as of June 30, 2011.

Context

The PERB is an independent, seven-member board, appointed by the Governor to administer ten retirement systems consisting of eight defined benefit plans and two defined contribution plans. The defined benefit pension trust funds include the Public Employees' Retirement System-Defined Benefit Retirement Plan, Judges' Retirement System, Highway Patrol Officers' Retirement System, Sheriffs' Retirement System, Game Wardens' and Peace Officers' Retirement System, Municipal Police Officers' Retirement System, Firefighters' Unified Retirement System, and the Volunteer Firefighters' Compensation Act. The defined contribution pension trust funds include the Public Employees' Retirement System-Defined Contribution Retirement Plan and the Section 457 Deferred Compensation Plan. PERB's revenues consist of employee contributions, employer contributions, state and other contributing entities and investment income. Employee and employer contribution rates are set in statute. PERB's expenses consist mainly of distributions to retirees.

Results

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 do not have sufficient resources to fund the full actuarial cost of these systems as required by the Montana Constitution.

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	0

Source: Agency audit response included in final report.

For a complete copy of the report (10-08B) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at http://leg.mt.gov/audit
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail lad@mt.gov.

Chapter I – Introduction

Audit Scope

We performed a financial audit of the Public Employees' Retirement Board (PERB) for the fiscal year ended June 30, 2011. The objectives of our audit were to:

1. Obtain an understanding of the PERB's internal control systems to the extent necessary to support our audit of the PERB's financial statements.
2. Determine whether the PERB's financial statements present fairly the results of its operations for the fiscal year ended June 30, 2011.
3. Determine the PERB's compliance with selected applicable laws and regulations.

Our financial-compliance audit of the PERB's financial statements for the two fiscal years ended June 30, 2010, was issued in a separate report in December 2010 (10-08A).

Montana Public Employee Retirement Administration (MPERA) prepares the PERB's financial statements from the Statewide Accounting, Budgeting, and Human Resources System with adjustment. Adjustments are made to present financial activity in accordance with generally accepted accounting principles for pension trust funds.

Background

The PERB is a component unit of the state of Montana. A component unit is a legally separate organization for which the state of Montana is financially accountable. The PERB governs MPERA, which is responsible for daily administration of the retirement systems. The governor appoints the seven board members to five-year terms. The PERB administers ten retirement plans and the related member education funds. The retirement plans are eight defined benefit plans and two defined contribution plans.

Defined Benefit Pension Trust Funds

The PERB manages the activities of the following defined benefit pension trust funds:

- Public Employees' Retirement System-Defined Benefit Retirement Plan (PERS-DBRP)
- Judges' Retirement System (JRS)
- Highway Patrol Officers' Retirement System (HPORS)
- Sheriffs' Retirement System (SRS)
- Game Wardens' and Peace Officers' Retirement System (GWPORS)
- Municipal Police Officers' Retirement System (MPORS)
- Firefighters' Unified Retirement System (FURS)
- Volunteer Firefighters' Compensation Act (VFCA)

These funds provide pension, disability, and death benefits to eligible members. The monthly benefits are based on years of service and salary levels while still employed. The Volunteer Firefighters' Compensation Act provides pension, disability, and death benefits to volunteer firefighters who are members of eligible Montana volunteer fire companies, fire districts and fire service areas. Monthly benefits are based on years of service.

Defined Contribution Pension Trust Funds

The PERB manages the activities of the following defined contribution pension trust funds:

- Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP)
- Deferred Compensation Plan (457 Plan)

The PERS-DCRP holds the PERS contributions attributable to the employee and allows the employee to invest the contributions at his or her discretion, within approved investments. The 457 Plan allows employees to set aside a portion of their salary each payday toward retirement while deferring state and federal income taxes until future years. Employees participating in these two plans have two investment options:

- the fixed option, which guarantees both principal (accumulated contributions) and a pre-established quarterly rate of earnings; or
- the variable option, which consists of numerous mutual funds.

Participating employees are allowed to invest in both the fixed and variable options. Those participating in the variable option may invest in as many offered funds as desired.

Withdrawal of deferred compensation funds is only an option for employees upon separation from service, retirement, death, or upon an unforeseeable emergency meeting IRS-specified criteria while still employed. Withdrawals from PERS-DCRP are available upon termination of a PERS covered position.

Prior Audit Recommendation

The financial audit for the fiscal year ended June 30, 2009, contained one recommendation for the PERB to seek legislation to restore the actuarial soundness of the PERS-DBRP, SRS, and GWPORS as required by the Montana Constitution and state law. The three systems continued to be actuarially unsound at June 30, 2010. Article VIII, Section 15, of the Montana Constitution requires the public retirement systems be funded on an actuarially sound basis. A defined benefit retirement system is defined in state law 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.

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 scheduled period of no more than 30 years. This is discussed in more detail in the Findings and Recommendations section starting on page 5.

Chapter II – Findings and Recommendations

Four Retirement Systems Actuarially Unsound

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 June 30, 2011, actuarial valuations.

Article VIII, Section 15, of the Montana Constitution requires the 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. 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. The following tables show the UAAL and years to amortize the UAAL for the last four years.

Table 1
Retirement Systems Actuarially Unsound (in thousands)

Valuation Date	June 30, 2008	June 30, 2009	June 30, 2010	June 30, 2011
PERS-DBRP				
UAAL	$429,936	$790,607	$1,351,929	$1,596,736
Amortization Period	24.8 years	*	*	*
SRS				
UAAL	$5,096	$23,203	$45,995	$62,816
Amortization Period	16.3 years	*	*	*
GWPORS				
UAAL	$5,938	$10,978	$28,704	$29,444
Amortization Period	13.0 years	*	*	*
HPORS				
UAAL	$33,183	$38,163	$53,973	$60,468
Amortization Period	17.4 years	21.5 years	29.9 years	48.2 years

*Does not amortize

Source: Compiled by the Legislative Audit Division from Actuarial Valuation Reports.

The actuary attributes the unfunded liability of the systems primarily to investment returns below the actuarial assumptions of 7.75 percent for the four systems and to the insufficient funding of the Actuarial Required Contribution. For purposes of determining the unfunded actuarial accrued liability, an actuarial value of assets is used. The Actuarial Value of Assets (AVA) is the current market value, adjusted by a four-year smoothing of gains and losses on a market value basis. The asset adjustment method dampens the volatility in asset values that could occur because of fluctuations in market conditions. Each year's gain or loss is determined as the difference between the actual market return and the expected market return using the assumed rate of investment return. The table below shows the effects of the systems' asset-smoothing technique, which recognizes the gains or losses over a four-year period. The market value of assets (MVA) returned during 2011 was greater than the assumed 7.75 percent return. The AVA returned is primarily the result of the asset smoothing method being utilized for the calculation of the actuarial value of assets. Because only 25 percent of the gain or loss from the performance of the System is recognized in a given year, in periods of very good performance, the AVA can lag significantly behind the MVA. In a period of negative returns, the AVA does not decline as rapidly as the MVA.

Table 2

Actuarial Value of Assets as of June 30, 2011

System	Annual Rates of Return Market Value	Actuarial Value of Assets	Actuarial Loss on Investment
PERS-DBRP	21.70%	(0.08%)	$301.0 million
SRS	21.57%	0.65%	$14.3 million
GWPORS	21.36%	1.63%	$5.3 million
HPORS	21.79%	(0.04%)	$7.5 million

Source: Compiled by the Legislative Audit Division from Actuarial Valuation Reports.

In the 2011 Legislative Session, the funding of the PERS-DBRP, SRS, and GWPORS' plans were addressed. Some of the changes for the new members hired on or after July 1, 2011, in the PERS-DBRP retirement system include an increased employee contribution, changes in the age requirement for eligibility for early retirement and normal retirement, and changes in the calculation for the monthly retirement benefit. For the new members hired on or after July 1, 2011, in the SRS and GWPORS, changes include calculation for the monthly retirement benefit. PERB should continue to work with the legislature to ensure the systems are funded on an actuarially sound basis, in order to comply with the Montana Constitution and state law.

Recommendation #1

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.

Independent Auditor's Report

LEGISLATIVE AUDIT DIVISION

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 Statement of Fiduciary Net Assets – Pension Trust Funds of the Public Employees' Retirement Board, a component unit of the state of Montana, as of June 30, 2011, and the related Statement of Changes in Fiduciary Net Assets – Pension Trust Funds for the fiscal year ended June 30, 2011. The information contained in these financial statements is the responsibility of the Public Employees' Retirement Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Public Employees' Retirement Board as of June 30, 2011, and the changes in fiduciary net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, the Schedule of Funding Progress, the Schedule of Funding Progress for OPEB, and the Schedule of Employer Contributions & Other Contributing Entities 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 an opinion on the basic financial statements of the Public Employees' Retirement Board. The Schedules of Administrative Expenses, Investment Expenses, and Consultants; the Detail of Fiduciary Net Assets (PERS-DBRP and PERS-DBEd) and the Detail of Fiduciary Net Assets (PERS-DCRP, PERS-DCEd and PERS-DC Disability) as of June 30, 2011; and the related Detail of Changes in Fiduciary Net Assets (PERS-DBRP and PERS-DBEd) and the Detail of Changes in Fiduciary Net Assets (PERS-DCRP, PERS-DCEd and PERS-DC Disability) for the fiscal year then ended are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied 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', Sheriffs', and Highway Patrol Officers' retirement systems were not actuarially sound. The amortization period for the Unfunded Actuarial Accrued Liability is at 48.2 years for the Highway Patrol Officers' Retirement System. The Public Employees' Retirement System-Defined Benefit Retirement Plan, Game Wardens' and Peace Officers' Retirement System, and Sheriffs' Retirement System do not amortize. The maximum allowable amortization period is for a scheduled period of no more than 30 years.

Respectfully submitted,

Cindy Jorgenson, CPA
Deputy Legislative Auditor

November 9, 2011

Public Employees' Retirement Board
Management's Discussion and Analysis, Financial Statements, Notes, Required Supplementary Information and Supplementary Information

Public Employees' Retirement Board

A Component Unit of the State of Montana

Management's Discussion and Analysis

This section presents management's discussion and analysis of the Montana Public Employees' Retirement Board's (PERB) financial presentation and performance of the plans administered by the PERB for the year ending June 30, 2011.

Financial Highlights

- *The PERB's combined total net assets of the defined benefit plans increased by $802.0 million or 19.6% in fiscal year 2011. The increase was primarily due to the positive investment income in each of the plans.*

- *The PERB's defined contribution plans combined total net assets increased by $58.9 million or 15.5% in fiscal year 2011. The total increase in net assets was due to the positive investment income in both the PERS-defined contribution plan and the deferred compensation plan.*

- *Revenues (additions to plan net assets) for the PERB's defined benefit plans for fiscal year 2011 was $1.1 billion, which includes member and employer contributions of $227.8 million and a net investment gain of $881.3 million.*

- *Revenues (additions to plan net assets) for the PERB's defined contribution plans for fiscal year 2011 was $79.9 million, which includes member and employer contributions of $30.3 million and a net investment gain of $49.6 million.*

- *Expenses (deductions to plan net assets) for the PERB's defined benefit plans increased from $284.3 million in fiscal year 2010 to $307.4 million in fiscal year 2011 or about 8.1%. The increase in 2011 is primarily due to an increase in total benefit recipients.*

- *Expenses (deductions to plan net assets) for the PERB's defined contribution plans increased from $17.3 million in fiscal year 2010 to $21.1 million in fiscal year 2011 or about 22.0%. The increase in expenses is primarily due to an increase in distributions.*

- *The PERB's defined benefit plans' funding objectives are to meet long-term benefit obligations. As of June 30, 2011, the date of the latest actuarial valuation, three of the plans can pay off the Unfunded Actuarial Liability within 30 years or less. They are the Municipal Police Officers' Retirement System (MPORS), Firefighters' Unified Retirement System (FURS), and the Volunteer Firefighters' Compensation Act (VFCA). The plans that are not able to pay off the Unfunded Actuarial Liability within 30 years are the Public Employees' Retirement System (PERS), Highway Patrol Officers' Retirement System (HPORS), Sheriffs' Retirement System (SRS) and the Game Wardens' and Peace Officers' Retirement System (GWPORS). The Judges' Retirement System has a* *surplus. This means there are more assets than liabilities in the plan. As a whole the plans were actuarially funded at an average of 77%. It is important to understand that this measure reflects the Actuarial Value of Assets for the defined benefit plans, which are currently less than the actual fair value published in the financial statements. Investment earnings are critical to the defined benefit plans. The actuary uses a four-year smoothing method for determining the Actuarial Value of Assets. This method is used to reduce the impact of volatility in the market. It is important to note that with smoothing, the losses experienced in the 2007-2008 and 2008-2009 plan years exceed the gains that are now being reflected in the Actuarial Value of Assets.*

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the PERB's financial reporting which is comprised of the following components:

(1) Financial Statements
(2) Notes to the Financial Statements
(3) Required Supplementary Information

Collectively, this information presents the combined net assets held in trust for pension benefits for each of the plans administered by the PERB as of June 30, 2011. This financial information also summarizes the combined changes in net assets held in trust for pension benefits for the year then ended. The information in each of these components is briefly summarized as follows:

(1) Financial Statements for the fiscal year ended June 30, 2011, are presented for the fiduciary funds administered by the PERB. Fiduciary funds are used to account for resources held for the benefit of outside parties. The fiduciary funds are held for participants in eight defined benefit plans and two defined contribution plans.

- The Statement of Fiduciary Net Assets is presented for the pension trust funds at June 30, 2011. These financial statements reflect the resources available to pay benefits to retirees and beneficiaries at the end of the year reported.

- The Statement of Changes in Fiduciary Net Assets is presented for the pension trust funds for the year ended June 30, 2011. These financial statements reflect the changes in the resources available to pay benefits to retirees and beneficiaries at the end of the year reported.

(2) The Notes to the Financial Statements provide additional information that is essential for a full understanding of the data provided in the financial statements. The information in the Notes to the Financial Statements is described as follows:

- Note A provides a summary of significant accounting policies including the basis of accounting; capital assets and equipment used in operations including the new system project MPERAtiv; operating lease; GASB 50 Disclosures on funding; GASB 45 Disclosures regarding Other Post Employment Benefits (OPEB); and summaries of the method to value investments and other significant accounting policies or explanations.

- Note B provides information about litigation.

- Note C describes the membership and descriptions of each of the plans administered by the PERB. Summaries of benefits and contribution information are also provided.

(3) The Required Supplementary Information consists of the schedules of funding progress and required contributions and related notes concerning actuarial information of the defined benefit pension plans administered by the PERB.

Financial Analysis of the Systems – Defined Benefit Plans

Investments

The State of Montana Board of Investments (BOI), as authorized by state law, invests the defined benefit plans' assets in investment pools. Each plan owns an equity position in the pools and receives proportionate investment income from the pool in accordance with respective ownership. The investment pools are: Montana Short Term Investment Pool, Montana Domestic Equity Pool, Retirement Fund Bond Pool, Montana International Equity Pool, Montana Real Estate Pool and Montana Private Equity Pool. Each plan's allocated share of the investment in the pools is shown in the Statement of Fiduciary Net Assets of the plan. Investment gains and losses are reported in the Statement of Changes in Fiduciary Net Assets.

ECONOMIC CONDITION

According to the Board of Investments Chief Investment Officer, Clifford Sheets, "As we begin fiscal 2012 the economic backdrop is looking more precarious now than since the end of the "Great Recession." Many would say the recession never ended when looking at the continuing high level of unemployment and ongoing weakness in the housing market. This, despite a return of corporate profitability to pre-recession highs, and positive GDP growth since mid-2009. The first half of the calendar year was marked by a combination of the March earthquake in Japan, and the associated supply chain disruptions, and a spike in energy prices in the spring which resulted in a slowdown in global manufacturing and consumption. The result was a slippage in GDP growth to less than 1.5% though most observers viewed this as a temporary condition that would reverse during the second half of the year as manufacturing bounced back.

Yet, as the summer months passed the economic outlook deteriorated in the face of eroding consumer confidence and a flare up of European sovereign debt problems. The prior positive outlook for second half of 2011 GDP growth and that for 2012 has been progressively downgraded to a range of only 1.5 - 2.5%. This fading sense of optimism has been exacerbated by the growing frustration with the political standoff that has resulted in fiscal gridlock. Federal Reserve efforts to suppress long term interest rates are unlikely to have much impact on growth, though it may support the struggling housing market on the margin. In addition to the muted outlook for the domestic economy, the risks of fallout from the sovereign debt problems in Europe remain.

Nevertheless, a double dip recession is still the minority view in the U.S. Despite all the negatives hanging over the economy, the private sector - both business and households - seem resilient to some extent. Corporate profits may have peaked in the third calendar quarter, but any decline is expected to be small. Retail sales are holding up, and lower energy prices are expected to bolster consumer confidence. Employment growth in the private sector is expected to stay positive, though an ongoing loss of government jobs and the overall weak tone of economic activity are expected to keep unemployment high. On balance, at this time the capital markets are in a wait-and-see mode since the summer selloff. However, there is a chance of improving investor sentiment and higher prices depending on near-term developments in Europe, and the trend of economic activity during the fourth quarter."

Defined Benefit Plans Total Investments

At June 30, 2011, the PERB's defined benefit plans held total investments of $4.8 billion, an increase of $799 million from fiscal year

Fiduciary Net Assets - Defined Benefit Plans

As of June 30, 2011 *- and comparative totals for June 30, 2010*

(dollars in thousands)

	PERS		JRS		HPORS		SRS	
	2011	2010	2011	2010	2011	2010	2011	2010
Assets:								
Cash and Receivables	$73,164	69,198	1,565	1,554	2,028	1,824	5,743	5,048
Securities Lending Collateral	195,532	215,178	3,143	3,440	4,905	5,446	10,420	11,302
Investments	3,873,371	3,247,641	62,185	51,009	97,020	81,065	206,096	167,616
Property and Equipment	1	1						
Intangible Assets	105	211	1	2	1	2	1	2
Total Assets	4,142,173	3,532,229	66,894	56,005	103,954	88,337	222,260	183,968
Liabilities:								
Securities Lending Liability	195,532	215,178	3,143	3,440	4,905	5,446	10,420	11,302
Other Payables	4,533	1,145	92		200	2	148	31
Total Liabilities	200,065	216,323	3,235	3,440	5,105	5,448	10,568	11,333
Total Net Assets	$3,942,108	3,315,906	63,659	52,565	98,849	82,889	211,692	172,635

Changes In Fiduciary Net Assets - Defined Benefit Plans

For the year ended June 30, 2011 *- and comparative totals for June 30, 2010*

(dollars in thousands)

	PERS		JRS		HPORS		SRS	
	2011	2010	2011	2010	2011	2010	2011	2010
Additions:								
Contributions	$157,594	159,534	1,980	2,063	6,091	6,311	11,844	10,973
Investment Income (Loss)	715,398	387,861	11,392	6,013	17,911	9,714	37,539	19,471
Total Additions	872,992	547,395	13,372	8,076	24,002	16,025	49,383	30,444
Deductions:								
Benefits	231,223	212,186	2,240	2,118	7,866	7,557	9,237	8,277
Refunds	11,536	11,848			121	58	968	799
OPEB Expenses	78	66				1		2
Administrative Expenses	3,249	3,191	39	10	55	33	121	95
Miscellaneous Expenses	749	1,036						
Total Deductions	246,835	228,327	2,279	2,128	8,042	7,649	10,326	9,173
Incr/(Decr) in Net Assets	$626,157	$319,068	11,093	5,948	15,960	8,376	39,057	21,271
Prior Period Adjustments	45	-1,522		-24		-37		-82

2010 investment totals. Below are the schedules of Fiduciary Net Assets and Changes in Fiduciary Net Assets for the defined benefit plans including comparative totals from fiscal year 2010.

Analysis of Individual Systems

PERS-DBRP and Education

The PERS-DBRP provides retirement, disability, and death benefits for covered employees of the State, local governments, certain employees of the Montana University System, and school districts. Member and employer contributions and earnings on investments fund the benefits of the plan. All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. The PERS-

GWPORS		MPORS		FURS		VFCA		TOTAL	
2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
2,950	2,946	14,671	13,665	14,603	13,943	1,704	1,428	116,428	109,606
4,634	4,806	10,831	11,631	10,766	11,432	1,303	1,470	241,534	264,705
91,669	71,226	214,474	173,510	213,009	170,543	25,355	21,210	4,783,179	3,983,820
								1	1
1	2	1	2	1	2		1	111	224
99,254	78,980	239,977	198,808	238,379	195,920	28,362	24,109	5,141,253	4,358,356
4,634	4,806	10,831	11,631	10,766	11,432	1,303	1,470	241,534	264,705
373	38	104	36	86	9	70	4	5,606	1,265
5,007	4,844	10,935	11,667	10,852	11,441	1,373	1,474	247,140	265,970
94,247	74,136	229,042	187,141	227,527	184,479	26,989	22,635	4,894,113	4,092,386

GWPORS		MPORS		FURS		VFCA		TOTAL	
2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
7,721	7,952	20,844	21,933	20,122	20,419	1,596	1,575	227,792	230,760
16,335	7,924	39,175	19,972	38,751	19,606	4,792	2,566	881,293	473,127
24,056	15,876	60,019	41,905	58,873	40,025	6,388	4,141	1,109,085	703,887
2,863	2,622	17,013	15,728	15,605	14,598	1,938	1,857	287,985	264,943
993	900	1,000	913	128	86			14,746	14,604
	1		2		1		1	78	78
88	60	106	78	92	71	81	57	3,831	3,595
						15	17	764	1,053
3,944	3,583	18,119	16,721	15,825	14,756	2,034	1,932	307,404	284,273
20,112	12,255	41,900	25,184	43,048	25,269	4,354	2,209	801,681	419,614
	-38		-85		-85		-9	45	-1,881

DBRP and the DB Education Fund have been combined in these comparisons. The PERS-DBRP net assets held in trust for benefits at June 30, 2011 amounted to $3.9 billion, an increase of $626 million (18.9%) from $3.3 billion at June 30, 2010.

Additions to the PERS-DBRP net assets held in trust for benefits include employer, member and state contributions, and investment income. For the fiscal year ended June 30, contributions decreased to $157.6 million in fiscal year 2011 from $159.5 million in fiscal year 2010, a decrease of $1.9 million (1.2%). Contributions decreased due to a decrease in the number of active members contributing to the plan and fewer pay periods in fiscal year 2011 for state employees compared to fiscal year 2010. The plan recognized net investment income of $715 million for the fiscal year ended June 30, 2011, compared with net investment income of $388 million for the fiscal year ended June 30, 2010. The increase in investment income is a result of positive investment returns in the capital market performance despite the underlying economic news of high unemployment and deteriorating consumer confidence.

Deductions from the PERS-DBRP net assets held in trust for benefits primarily include retirement benefits, refunds, and administrative expenses. For fiscal year 2011, benefits amounted to $231.2 million, an increase of $19 million (9.0%) from fiscal year 2010. The increase in benefit payments was due to the increase in benefit recipients and the increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA). For fiscal year 2011, refunds amounted to $11.5 million, a decrease of $312 thousand (2.6%) from fiscal year 2010. The decrease in refunds was due to fewer people refunding their accounts and the refund amounts being a smaller dollar amount. For fiscal year 2011, the costs of administering the plan's benefits amounted to $3.2 million, an increase of $58 thousand (1.8%) from fiscal year 2010. The increase in administrative expenses for fiscal year 2011 was mainly due to the costs associated with the technological development of a new computer system to automate more processes pertaining to and impacting PERS-DBRP administration.

An actuarial valuation of the PERS-DBRP assets and benefit obligations is performed annually. At June 30, 2011, the date of the most recent actuarial valuation, the unfunded actuarial liability does not amortize within the required 30 years and the funded status of the plan decreased to 70% at June 30, 2011 from 74% at June 30, 2010.

The PERS-DBRP actuarial value of assets were less than actuarial liabilities by $1,609 million at June 30, 2011, compared with $1,352 million at June 30, 2010. The increase in the unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment losses of $301.2 million, a total liability gain deducting $91 million from the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions, and a $35.7 million liability gain based on the changes in the actuarial assumptions to reduce early retirement subsidies. Legislative changes were introduced for those hired on or after July 1, 2011 and for working retirees. These changes had no immediate impact on plan costs or liabilities.

JRS

The JRS provides retirement, disability, and death benefits for all Montana judges of the district courts, justices of the Supreme Court, and the Chief Water Judge. Member and *employer contributions and earnings on investments fund the benefits of the plan.* The JRS net assets held in trust for benefits at June 30, 2011 amounted to $63.7 million, an increase of $11.1 million (21.1%) from $52.6 million at June 30, 2010.

Additions to the JRS net assets held in trust for benefits include member and employer contributions, and investment income. For the fiscal year ended June 30, 2011, contributions amounted to $1.98 million, a decrease of $83 thousand (4.0%) from fiscal year 2010. Although the plan saw an increase in active members, the contributions decreased due to the total compensation reported for active members decreasing as a result of fewer pay periods in fiscal year 2011 compared to fiscal year 2010. The plan recognized net investment income of $11.4 million for the fiscal year ended June 30, 2011, compared with net investment income of $6.0 million for the fiscal year ended June 30, 2010. The increase in investment income is a result of positive investment returns in the capital market performance despite the underlying economic news of high unemployment and deteriorating consumer confidence.

Deductions from the JRS net assets held in trust for benefits mainly include retirement benefits, and administrative expenses. For fiscal year 2011, benefits amounted to $2.2 million, an increase of $122 thousand (5.7%) from fiscal year 2010. The increase in benefits was due to an increase in benefit recipients and an increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA) or the minimum benefit adjustment for non-GABA retirees. For fiscal year 2011, administrative expenses amounted to $39 thousand, an increase of $28.6 thousand (285.8%) from fiscal year 2010. The increase in administrative expenses for fiscal year 2011 was mainly due to the costs associated with the technological development of a new computer system to automate more processes pertaining to and impacting JRS administration.

An actuarial valuation of the JRS assets and benefit obligations is performed annually. At June 30, 2011, the date of the most recent actuarial valuation, the years to amortize the unfunded actuarial liability is still zero due to the actuarial surplus and the funded status of the plan decreased to 141% at June 30, 2011 from 144% at June 30, 2010.

The JRS actuarial value of assets were more than actuarial liabilities by $17.9 million at June 30, 2011, compared with a $18.8 million actuarial surplus at June 30, 2010. The decrease in the actuarial surplus as of the last actuarial valuation is due to recognizing past investment losses of $4.5 million and a total liability gain deducting $1.4 million from the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions.

HPORS

The HPORS provides retirement, disability, and death benefits for members of the Montana Highway Patrol. Member and employer contributions, driver registration fees, and earnings on investments fund the benefits of the plan. The HPORS net assets held in trust for benefits at June 30, 2011 amounted to $99.0 million, an increase of $16.1 million (19.3%) from $82.9 million at June 30, 2010.

Additions to the HPORS net assets held in trust for benefits include employer and member contributions, driver registration fees, and investment income. For the fiscal year ended June 30, contributions decreased to $6.1 million in fiscal year 2011 from $6.3 million in fiscal year 2010, a decrease of $220 thousand (3.5%). Contributions decreased due to a slight decrease in the number of participating members and a decrease in the total compensation reported for active members as a result of fewer pay periods in fiscal year 2011 compared to fiscal year 2010. The plan recognized net investment income of $17.9 million for the fiscal year ended June 30, 2011, compared with net investment income of $9.7 million for the fiscal year ended June 30, 2010. The increase in investment income is a result of positive investment returns in the capital market performance despite the underlying economic news of higher unemployment and deteriorating consumer confidence.

Deductions from the HPORS net assets held in trust for benefits mainly include retirement benefits, refunds, and administrative expenses. For fiscal year 2011, benefits amounted to $7.9 million, an increase of $308.7 thousand (4.1%) from fiscal year 2010. The increase in benefit payments was due to an increase in benefit recipients and the increases in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA) or the minimum benefit adjustment for non-GABA. For fiscal year 2011, refunds amounted to $121 thousand, an increase of $63 thousand (108.0%) from fiscal year 2010. The increase in refunds was due to more refunds being processed at larger dollar amounts. For fiscal year 2011, administrative expenses were $55 thousand, an increase of $21.6 thousand (65.3%) from fiscal year 2010. The increase in administrative expenses for fiscal year 2011 was mainly due to the costs associated with the technological development of a new computer system to automate more processes pertaining to and impacting HPORS administration.

An actuarial valuation of the HPORS assets and benefit obligations is performed annually. At June 30, 2011, the date of the most recent actuarial valuation, the years to amortize the unfunded actuarial liability increased to 48.2 years from 29.9 years at June 30, 2010 and the funded status of the plan decreased to 61% at June 30, 2011 from 64% at June 30, 2010.

The HPORS actuarial value of assets were less than actuarial liabilities by $60.5 million at June 30, 2011, compared with $54.0 million at June 30, 2010. The increase in the unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment losses of $7.5 million and a total liability gain deducting $2.1 million from the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions.

SRS

The SRS provides retirement, disability, and death benefits for all Department of Justice criminal investigators hired after July 1, 1993, detention officers hired after July 1, 2005, and all Montana sheriffs. Member and employer contributions and earnings on investments fund the benefits of the plan. The SRS net assets held in trust for benefits at June 30, 2011 amounted to $211.7 million, an increase of $39.1 million (22.6%) from $172.6 million at June 30, 2010.

Additions to the SRS net assets held in trust for benefits include member and employer contributions, and investment income. For the fiscal year ended June 30, contributions increased to $11.8 million in fiscal year 2011 from $10.9 million in fiscal year 2010, for an increase of $871 thousand (7.9%).

Contributions increased due to an increase in the number of active members contributing to the plan. The plan recognized net investment income of $37.5 million for the fiscal year ended June 30, 2011, compared with net investment income of $19.5 million for the fiscal year ended June 30, 2010. The increase in investment income is a result of positive investment returns in the capital market performance despite the underlying economic news of high unemployment and deteriorating consumer confidence.

Deductions from the SRS net assets held in trust for benefits mainly include retirement benefits, refunds, and administrative expenses. For fiscal year 2011, benefits amounted to $9.2 million, an increase of $960 thousand (11.6%) from fiscal year 2010. The increase in benefit payments was due to an increase in benefit recipients and an increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA). For fiscal year 2011, refunds amounted to $968 thousand, an increase of $169 thousand (21.1%) from fiscal year 2010. Although fewer people refunded their accounts, those that are refunding have higher account balances. For fiscal year 2011, administrative expenses amounted to $121 thousand, an increase of $26.3 thousand (27.7%) from fiscal year 2010. The increase in administrative expenses for fiscal year 2011 was mainly due to the costs associated with the technological development of a new computer system to automate more processes pertaining to and impacting SRS administration.

An actuarial valuation of the SRS assets and benefit obligations is performed annually. At June 30, 2011, the date of the most recent actuarial valuation, the unfunded actuarial liability does not amortize within 30 years or less and the funded status of the plan decreased to 76% at June 30, 2011 from 81% at June 30, 2010.

The SRS actuarial value of assets were less than actuarial liabilities by $62.8 million at June 30, 2011, compared with $46.0 million at June 30, 2010. The increase in the actuarial liability as of the last actuarial valuation is a result of recognizing past investment losses of $14.3 million and a total liability loss added $0.4 million to the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions. There was a legislative change to the plan that affects those hired on or after July 1, 2011. This change had no immediate impact on plan costs or liabilities.

GWPORS

The GWPORS provides retirement, disability, and death benefits for game wardens, warden supervisory personnel and state peace officers. Member and employer contributions and earnings on investments fund the benefits of the plan. The GWPORS net assets held in trust for benefits at June 30, 2011, amounted to $94.2 million, an increase of $20.1 million (27.1%) from $74.1 million at June 30, 2010.

Additions to the GWPORS net assets held in trust for benefits include member and employer contributions, and investment income. For the fiscal year ended June 30, contributions decreased to $7.7 million in fiscal year 2011 from $7.9 million in fiscal year 2010, for a decrease of $231 thousand (2.9%). Contributions decreased due to a decrease in the total compensation reported for active members as a result of fewer pay periods in fiscal year 2011 compared to fiscal year 2010. The plan recognized net investment income of $16.3 million for the fiscal year ended June 30, 2011, compared with net investment income of $7.9 million for the fiscal year ended June 30, 2011. The increase in investment income is a result of positive investment returns in the capital market performance despite the underlying economic news of high unemployment and deteriorating consumer confidence.

Deductions from the GWPORS net assets held in trust for benefits mainly include retirement benefits, refunds, and administrative expenses. For fiscal year 2011, benefits amounted to $2.9 million, an increase of $241 thousand (9.2%) from fiscal year 2010. The increase in benefit payments was due to the increase in benefit recipients and the increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA). For fiscal year 2011, refunds amounted to $993 thousand, an increase of $93 thousand (10.3%) from fiscal year 2010. Although fewer people refunded their accounts, those that are refunding have higher account balances. For fiscal year 2011, administrative expenses amounted to $88 thousand, an increase of $28 thousand (46.3%) from fiscal year 2010. The increase in administrative expenses for fiscal year 2011 was mainly due to the costs associated with the technological development of a new computer system to automate more processes pertaining to and impacting GWPORS administration.

An actuarial valuation of the GWPORS assets and benefit obligations is performed annually. At June 30, 2011, the date of the most recent actuarial valuation, the unfunded actuarial liability does not amortize within 30 years or less and the funded status of the plan remained at 75%.

The GWPORS actuarial value of assets were less than actuarial liabilities by $29.4 million at June 30, 2011, compared with $28.7 million at June 30, 2010. The increase in unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment losses of $5.3 million and a total liability gain deducting $6.7 million from the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions. There was a legislative change to the plan that affects those hired on or after July 1, 2011. This change had no immediate impact on plan costs or liabilities.

MPORS

The MPORS provides retirement, disability, and death benefits for municipal police officers employed by first- and second-class cities, and other cities that adopt the plan. MPORS also has an option for members to participate in a Deferred Retirement Option Plan (DROP). Member, employer and state contributions and earnings on investments fund the benefits of the plan. The MPORS net assets held in trust for benefits at June 30, 2011 amounted to $229.0 million, an increase of $41.9 million (22.4%) from $187.1 million at June 30, 2010.

Additions to the MPORS net assets held in trust for benefits include employer, member, and state contributions, and investment income. For the fiscal year ended June 30, contributions decreased to $20.8 million in fiscal year 2011 from $21.9 million in fiscal year 2010, for a decrease of $1.1 million (5.0%). Although the plan saw an increase in active members, the contributions decreased due to the total compensation reported for active members decreasing as a result of more experienced, higher compensated members retiring. The plan recognized net investment income of $39.2 million for the fiscal year ended June 30, 2011, compared with net investment income of $20.0 million for fiscal year ended June 30, 2010. The increase in investment income is a result of positive investment returns in the capital market performance despite the underlying economic news of high unemployment and deteriorating consumer confidence.

Deductions from the MPORS net assets held in trust for benefits mainly include retirement benefits, refunds, and administrative expenses. For fiscal year 2011, benefits amounted to $17.0 million, an increase of $1.3 million (8.2%) from fiscal year 2010. The increase in benefit payments was due to the increase in benefit recipients, and the increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA) or the minimum benefit adjustment for non-GABA retirees. For fiscal year 2011, refunds amounted to $1.0 million, an increase of $87 thousand (9.5%) from fiscal year 2010. Although fewer people refunded their accounts, those that are refunding have higher account balances. For fiscal year 2011, administrative expenses were $106 thousand, an increase of $27.5 thousand (35.3%) from fiscal year 2010. The increase in administrative expenses for fiscal year 2011 was mainly due to the costs associated with the technological development of a new computer system to automate more processes pertaining to and impacting MPORS administration.

An actuarial valuation of the MPORS assets and benefit obligations is performed annually. At June 30, 2011, the date of the most recent actuarial valuation, the years to amortize the unfunded actuarial liability increased to 25.0 years from 23.0 years at June 30, 2010 and the funded status of the plan decreased to 55% at June 30, 2011 from 57% at June 30, 2010.

The MPORS actuarial value of assets were less than actuarial liabilities by $179.7 million at June 30, 2011, compared with $162.8 million at June 30, 2010. The increase in the actuarial liability as of the last actuarial valuation is a result of recognizing past investment losses of $15.7 million and a total liability loss adding $0.5 million to the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions.

FURS

The FURS provides retirement, disability, and death benefits for firefighters employed by first- and second-class cities, other cities and rural fire departments that adopt the plan, and firefighters hired by the Montana Air National Guard (MANG) on or after October 1, 2001. Member, employer, and state contributions, and earnings on investments fund the benefits of the plan. The FURS net assets held in trust for benefits at June 30, 2011, amounted to $227.5 million, an increase of $43.0 million (23.3%) from $184.5 million at June 30, 2010.

Additions to the FURS net assets held in trust for benefits include employer, member, and state contributions, and investment income. For the fiscal year ended June 30, contributions decreased to $20.1 million in fiscal year 2011 from $20.4 million in fiscal year 2010, a decrease of $297 thousand (1.5%). Although the plan saw an increase in active members and a new employer, the contributions decreased due to the total compensation reported for active members decreasing as a result of more experienced, higher compensated members retiring. The plan recognized net investment income of $38.8 million for the fiscal year ended June 30, 2011, compared with net investment income of $19.6 million for the fiscal year ended June 30, 2010. The increase in investment income is a result of positive investment returns in the capital market performance despite the underlying economic news of high unemployment and deteriorating consumer confidence.

Deductions from the FURS net assets held in trust for benefits mainly include retirement benefits, refunds, and administrative expenses. For fiscal year 2011, benefits amounted to $15.6 million, an increase of $1.0 million (6.9%) from fiscal year 2010. The increase in benefit payments was due to the increase in benefit recipients, and the increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA) or the minimum benefit adjustment for non-GABA retirees. For fiscal year 2011, refunds amounted to $128 thousand, an increase of $42 thousand (49.2%) from fiscal year 2010. Although fewer people refunded their accounts, those that are refunding have higher account balances. For fiscal year 2011, administrative expenses were $92 thousand, an increase of $20.7 thousand (29.2%). The increase in administrative expenses for fiscal year 2011 was mainly due to the costs associated with the technological development of a new computer system to automate more processes pertaining to and impacting FURS administration.

An actuarial valuation of the FURS assets and benefit obligations is performed annually. At June 30, 2011, the date of the most recent actuarial valuation, the years to amortize the unfunded actuarial liability increased to 16.0 years from 14.7 years at June 30, 2010 and the funded status of the plan decreased to 62% at June 30, 2011 from 64% at June 30, 2010.

The FURS actuarial value of assets were less than actuarial liabilities by $135.2 million at June 30, 2011, compared with $121.7 million at June 30, 2010. The increase in unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment losses of $14.9 million and a total liability loss adding $0.8 million to the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions.

VFCA

The VFCA provides retirement, disability, and death benefits for volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas. State contributions and earnings on investments fund the benefits of the plan. The VFCA net assets held in trust for benefits at June 30, 2011 amounted to $27.0 million, an increase of $4.4 million (19.2%) from $22.6 million at June 30, 2010.

Additions to the VFCA net assets held in trust for benefits include state contributions, and investment income. For the fiscal year ended June 30, contributions increased to $1.596 million in fiscal year 2011 from $1.575 million in fiscal year 2010, an increase of $21 thousand (1.4%). Contributions increased because there was an increase in the fire insurance premium taxes distributed to the VFCA. The plan recognized net investment income of $4.8 million for the fiscal year ended June 30, 2011, compared with net investment income of $2.6 million for the fiscal year ended June 30, 2010. The increase in investment income is a result of positive investment returns in the capital market performance despite the underlying economic news of high unemployment and deteriorating consumer confidence.

Deductions from the VFCA net assets held in trust for benefits include retirement benefits, administrative expenses, and supplemental insurance payments. For fiscal year 2011, benefits amounted to $1.938 million, an increase of $81.1 thousand (4.4%) from fiscal year 2010. The increase in benefit payments was due to an increase in benefit recipients. For fiscal year 2011, administrative expenses amounted to $81 thousand, an increase of $24 thousand(42.3%) from fiscal year 2010. The increase in administrative expenses for fiscal year 2011 was mainly due to the costs associated with the technological development of a new computer system to automate more processes pertaining to and impacting VFCA administration. For fiscal year 2011, supplemental insurance payments amounted to $15 thousand, a decrease of $2 thousand from fiscal year 2010.

An actuarial valuation of the VFCA assets and benefit obligations is performed annually. At June 30, 2011, the date of the most recent actuarial valuation, the years to amortize the unfunded actuarial liability increased to 8.8 years from 7.7 years at June 30, 2010 and the funded status of the plan decreased to 74% at June 30, 2011 from 77% at June 30, 2010.

The VFCA actuarial value of assets were less than actuarial liabilities by $9.0 million at June 30, 2011, compared with $7.9 million at June 30, 2010. The increase in unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment losses of $2.1 million, a total liability gain deducting $0.35 million from the actuarial liability as a result of the experience of plan being different from the actuarial assumptions, and a liability loss of $151 thousand based on changes in the plan due to new legislation eliminating the 30 year cap on credited service.

Actuarial Valuations and Funding Progress

An experience study was performed during fiscal year 2010 for the six year period July 1, 2003 to June 30, 2009. The experience study resulted in several changes to the actuarial assumptions and implementation of new actuarial factors. An actuarial valuation of each of the defined benefit plans is performed annually. The most recent actuarial valuation was performed for fiscal year ended June 30, 2011.

The PERB's funding objective is to meet long-term benefit obligations through investment income and contributions. Accordingly, the collection of employer and member contributions and the income from investments provide the reserves needed to finance future retirement benefits. The Annual Required Contribution (ARC) is critical to the defined benefit plans'. It is the present value of the total cost of post-employment benefits earned to date by employees that is assigned to a given period and serves as a measurement of those pension costs for accounting and financial reporting purposes. The ARC has not been met in the past three years for the PERS-Defined Benefit Retirement Plan (PERS-DBRP), the Game Wardens' and Peace Officers' Retirement System (GWPORS), and the Sheriffs' Retirement System (SRS) and was not met in 2011 for Highway Patrol Officers' Retirement System (HPORS). Investment earnings are also critical to the defined benefit plans' funding; if there are investment losses this deteriorates the plans' funding. Market losses were experienced in fiscal years 2001 through 2003 and fiscal years 2008 and 2009. Positive returns were experienced in fiscal years 2004 through 2007 and fiscal years 2010 and 2011. The funding status decreased for all defined benefit plans in the latest valuation. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is less than 30 years. Montana's Constitution requires the public retirement plans to be funded on an actuarially sound basis.

All systems were actuarially funded within the required 30 years in 2007 and 2008. This was due to positive investment returns, recognition of all losses experienced in 2001 to 2003, and the $25 million cash infusion in 2006 from the State of Montana in the PERS-DBRP. For three of the systems, the PERS-DBRP, GWPORS, and the SRS, the impact of the negative investment returns resulted in the plans not amortizing within 30 years. Legislation from the 2007 session either increased employer contribution rates or decreased guaranteed annual benefit adjustment (GABA) for new hires or both effective July 1, 2007. Effective July 1, 2009, PERS-DBRP and SRS received the last employer contribution increase under the 2007 Legislative Session House Bill 131. According to the PERB's June 30, 2011 actuarial valuations, the unfunded liability in PERS-DBRP, GWPORS and SRS do not amortize and Highway Patrol Officers' Retirement System (HPORS) doesn't amortize within 30 years.

Funding ratios range from a high of 141% (JRS) to a low of 55% (MPORS). The Schedule of Funding Progress on pages A-66 and A-67 shows the funding for the last six fiscal years. The table also shows the amount by which actuarial assets exceeded or fell short of actuarial liabilities. The actuary performs a smoothing of investment gains or losses over a period of four years. At June 30, 2011, the actuarial value of assets of all plans was less than the market value of assets by $172.9 million due to a positive 21.31% market return in fiscal year 2011. The current smoothing reserve has a negative balance which will be reflected in the actuarial value of assets again in fiscal year 2012.

Defined Contribution Plans

The PERB administers two defined contribution plans: The Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) and the Deferred Compensation (457) Plan. The schedules of Fiduciary Net Assets and Changes in Fiduciary Net Assets for the two defined contribution plans including comparative totals from fiscal year 2010 are on page A-21.

PERS-DCRP

The PERS-DCRP is established under section 401(a) of the Internal Revenue Code and Title 19, chapters 2 & 3 of the Montana Code Annotated (MCA). This plan provides retirement, disability and death benefits for plan members. This plan was available to all active PERS members effective July 1, 2002. All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. The plan member and employer contributions and earnings on investments fund the benefits of the plan. The PERS-DCRP net assets held in trust for benefits at June 30, 2011 amounted to $78.8 million, an increase of $19.1 million (32.0%) from $59.7 million at June 30, 2010.

Additions to the PERS-DCRP net assets held in trust for benefits include contributions and investment income. For the fiscal year ended June 30, contributions increased to $10.8 million in fiscal year 2011 from $10.7 million in fiscal year 2010, an increase of $106 thousand (1.0%). Contributions increased due to an increase in the total compensation reported as a result of an increase in active participants. The plan recognized net investment income of $12.7 million for fiscal year ended 2011, compared with net investment income of $6.1 million in fiscal year 2010. The increase in investment income is a result of positive investment returns in the capital market performance despite the underlying economic news of high unemployment and deteriorating consumer confidence.

Deductions from the PERS-DCRP net assets include disability benefits, member distributions, administrative expenses, and miscellaneous expenses. For fiscal year 2011, disability benefits amounted to $19 thousand, compared to $14 thousand in fiscal year 2010. For fiscal year 2011, distributions amounted to $3.6 million, an increase of $1.7 million (87.2%). The increase in distributions was due to more defined contribution members taking service or lump sum distributions. For fiscal year 2011, the costs of administering the plan amounted to $417 thousand, an increase of $10 thousand (2.6%) from fiscal year 2010. The increase in administrative expenses for fiscal year 2011 was mainly due to the costs associated with the technological development of a new computer system to automate more processes pertaining to and impacting PERS-DCRP. The miscellaneous expenses, fees charged by the vendors to administer the plan, increased from $250 thousand in fiscal year 2010 to $299 thousand in fiscal year 2011, an increase of $49 thousand (19.5%) from fiscal year 2010. The increase in miscellaneous expenses was due to the increase in plan participant accounts and an increase in the average account balance.

Deferred Compensation (457) Plan

The Deferred Compensation Plan is established under section 457 of the Internal Revenue Code and Title 19, chapter 50 of the Montana Code Annotated (MCA). This plan is a voluntary supplemental retirement savings plan for those who choose and are eligible to participate. The Deferred Compensation Plan is funded by contributions and by investment earnings. The Deferred Compensation net assets held in trust for benefits at June 30, 2011 amounted to $360.6 million, an increase of $39.8 million (12.4%) from $320.9 million at June 30, 2010.

Additions to the Deferred Compensation Plan net assets held in trust for benefits include contributions and investment income. For fiscal year 2011, contributions increased to $19.6 million from $19.0 million in fiscal year 2010, an increase of $560 thousand (3.0%). Contributions increased due to an increase in the amount of money deferred to the plan and the addition of two new contracting employers participating in the plan for an overall increase in membership. The plan recognized net investment income of $36.9 million for fiscal year 2011, compared with net investment income of $37.2 million for fiscal year 2010. The decreased investment income is a result of losses in the stock market by participants.

Deductions from the Deferred Compensation Plan net assets mainly include member and beneficiary distributions, administrative expense, and miscellaneous expenses. For fiscal year 2011, distributions amounted to $15.4 million, an increase of $2.0 million (15.1%) from $13.4 million at June 30, 2010. The increase in distributions was due to more deferred compensation members taking distributions. The costs of administering the plan increased from $271 thousand in fiscal year 2010 to $283 thousand in fiscal year 2011, an increase of $12 thousand (4.3%) from fiscal year 2010. The increase in administrative expenses for fiscal year 2011 was mainly due to the costs associated with the technological development of a new computer system to automate more processes pertaining to and impacting the Deferred Compensation Plan administration. Miscellaneous expenses, the fees charged by the vendors to administer the plan, increased from $991 thousand in fiscal year 2010 to $1.0 million in fiscal year 2011, an increase of $16 thousand (1.6%) from fiscal year 2010. The increase in miscellaneous expenses was due to the increase in the number of plan participants and an increase in the average account balance.

Fiduciary Net Assets - Defined Contribution Plans

As of June 30, 2011 *- and comparative totals for June 30, 2010*

(dollars in thousands)

	PERS-DCRP		457-PLAN		TOTAL	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Assets:						
Cash and Receivables	$3,645	2,983	961	807	4,606	3,790
Securities Lending Collateral	44	107	13	31	57	138
Investments	75,298	56,838	360,009	320,368	435,307	377,206
Intangible Assets	3	5	1	2	4	7
Total Assets	78,990	59,933	360,984	321,208	439,974	381,141
Liabilities:						
Securities Lending Collateral	44	107	13	31	57	138
Other Payables	158	137	351	312	509	449
Total Liabilities	202	244	364	343	566	587
Total Net Assets	$78,788	59,689	360,620	320,865	439,408	380,554

Changes In Fiduciary Net Assets - Defined Contribution Plans

For the year ended June 30, 2011 *- and comparative totals for June 30, 2010*

(dollars in thousands)

	PERS-DCRP		457-PLAN		TOTAL	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Additions:						
Contributions	$10,762	10,656	19,559	18,999	30,321	29,655
Investment Income (Loss)	12,698	6,122	36,907	37,203	49,605	43,325
Total Additions	23,460	16,778	56,466	56,202	79,926	72,980
Deductions:						
Benefits	19	14			19	14
Distributions	3,619	1,933	15,416	13,398	19,035	15,331
OPEB Expenses	9	8	5	6	14	14
Administrative Expenses	417	407	283	271	700	678
Miscellaneous Expenses	299	250	1,007	991	1,306	1,241
Total Deductions	4,363	2,612	16,711	14,666	21,074	17,278
Incr/(Decr) in Net Assets	$19,097	14,166	39,755	41,536	58,852	55,702
Prior Period Adjustments						

Public Employees' Retirement Board

A Component Unit of the State of Montana

Statement of Fiduciary Net Assets - Pension Trust Funds

as of June 30, 2011

	PERS-DBRP	JRS	HPORS	SRS	GWPORS	MPORS
Assets						
Cash and Short-term Investments	$ 62,928,146	1,395,646	1,718,285	4,926,855	2,538,113	2,616,238
Securities Lending Collateral (Note A6)	195,531,959	3,143,078	4,904,593	10,419,583	4,633,694	10,830,594
Receivables						
Interest	5,957,602	95,559	149,385	316,634	140,796	330,032
Accounts Receivable	3,862,173	73,467	160,643	500,106	271,263	130,740
Due from Other Funds	404,186					
Due from Primary Government						11,593,690
Notes Receivable	11,739					
Total Receivables	10,235,700	169,026	310,028	816,740	412,059	12,054,462
Investments, at fair value (Note A6)						
Montana Domestic Equity Pool (MDEP)	1,434,773,301	23,097,726	35,968,884	76,579,639	34,016,826	79,542,357
Retirement Fund Bond Pool (RFBP)	969,118,608	15,497,354	24,318,404	51,323,160	22,834,041	53,728,827
Montana International Pool (MTIP)	727,764,569	11,733,045	18,258,320	38,871,334	17,251,933	40,333,517
Montana Private Equity Pool (MPEP)	484,323,775	7,787,966	12,135,734	25,805,704	11,524,425	26,844,317
Montana Real Estate Pool (MTRP)	256,367,580	4,046,036	6,313,128	13,434,402	6,002,774	13,980,617
Structured Investment Vehicles (SIV)	1,023,428	22,663	25,928	81,513	38,979	44,793
Defined Contributions Fixed Investments						
Defined Contributions Variable Investments						
Deferred Compensation Life Insurance						
Total Investments	3,873,371,261	62,184,790	97,020,398	206,095,752	91,668,978	214,474,428
Capital Assets						
Property and Equipment, at cost,						
net of Accumulated Depreciation (Note A2)	513					
Intangible Assets, at cost,						
net of Amortization Expense (Note A2)	105,037	918	938	1,054	1,019	996
Total Capital Assets	105,550	918	938	1,054	1,019	996
Total Assets	4,142,172,616	66,893,458	103,954,242	222,259,984	99,253,863	239,976,718
Liabilities						
Accrued Liability						
Securities Lending Liability	195,531,959	3,143,078	4,904,593	10,419,583	4,633,694	10,830,594
Accounts Payable	578,843	7,947	6,757	30,027	38,576	7,124
Due to Other Funds	281,760	8,103	29,231	90,334	57,191	77,839
Deferred Revenue	3,161,779	73,467	161,356	19,992	271,372	12,481
Compensated Absences	224,052	1,567	1,330	1,567	1,567	1,402
OPEB Implicit Rate Subsidy LT	286,469	507	2,057	6,259	4,324	5,363
Total Liabilities	200,064,862	3,234,669	5,105,324	10,567,762	5,006,724	10,934,803
Net Assets Held in Trust for Pension Benefits	$ 3,942,107,754	63,658,789	98,848,918	211,692,222	94,247,139	229,041,915

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

Defined Benefit Pension Plans			Defined Contribution Plans			
FURS	VFCA	Total Defined Benefit Pension Plans	PERS-DCRP	457 Plan	Total Defined Contribution Plans	Total Pension Trust Funds 2011
2,787,331	1,664,945	80,575,559	3,345,451	960,356	4,305,807	84,881,366
10,765,773	1,302,698	241,531,972	44,019	12,677	56,696	241,588,668
328,098	39,171	7,357,277	662	196	858	7,358,135
122,461		5,120,853	36,103		36,103	5,156,956
		404,186	262,689		262,689	666,875
11,365,441		22,959,131				22,959,131
		11,739				11,739
11,816,000	39,171	35,853,186	299,454	196	299,650	36,152,836
78,946,676	9,375,580	1,772,300,989				1,772,300,989
53,466,832	6,415,462	1,196,702,688				1,196,702,688
40,044,384	4,752,704	899,009,806				899,009,806
26,634,789	3,145,275	598,201,985				598,201,985
13,868,842	1,637,491	315,650,870				315,650,870
47,774	28,584	1,313,662	56,163	16,174	72,337	1,385,999
			7,970,596	224,800,328	232,770,924	232,770,924
			67,271,032	135,180,437	202,451,469	202,451,469
				12,316	12,316	12,316
213,009,297	25,355,096	4,783,180,000	75,297,791	360,009,255	435,307,046	5,218,487,046
		513				513
975	292	111,229	3,070	1,048	4,118	115,347
975	292	111,742	3,070	1,048	4,118	115,860
238,379,376	28,362,202	5,141,252,459	78,989,785	360,983,532	439,973,317	5,581,225,776
				4,838	4,838	4,838
10,765,773	1,302,698	241,531,972	44,019	12,677	56,696	241,588,668
7,033	6,402	682,709	103,864	308,842	412,706	1,095,415
64,042	58,374	666,874				666,874
9,423		3,709,870				3,709,870
1,385	1,274	234,144	21,304	14,350	35,654	269,798
4,300	4,280	313,559	32,932	22,598	55,530	369,089
10,851,956	1,373,028	247,139,128	202,119	363,305	565,424	247,704,552
227,527,420	26,989,174	4,894,113,331	78,787,666	360,620,227	439,407,893	5,333,521,224

Public Employees' Retirement Board

A Component Unit of the State of Montana

Statement of Changes in Fiduciary Net Assets - Pension Trust Funds
for the year ended June 30, 2011

	PERS-DBRP	JRS	HPORS	SRS	GWPORS	MPORS
Additions						
Contributions (Note C)						
Employer	$ 79,090,452	1,476,728	4,542,142	6,013,558	3,523,095	5,670,400
Plan Member	77,797,639	478,963	1,268,457	5,824,407	4,173,016	3,579,809
Membership Fees	96					
Interest Reserve Buyback	76,528	24,551	2,010	6,318	25,068	296
Retirement Incentive Program	82,925					
Miscellaneous Revenue	281					
State Contributions	545,643		278,464			11,593,690
Nonvested Member Forfeitures						
Total Contributions	157,593,564	1,980,242	6,091,073	11,844,283	7,721,179	20,844,195
Investments (Note A6)						
Net Appreciation (Depreciation)						
in Fair Value of Investments	613,578,435	9,950,195	15,351,036	33,171,879	14,590,201	33,444,777
Interest	106,060,195	1,509,286	2,664,956	4,590,350	1,845,703	5,961,710
Dividends	15,826,516	252,978	396,458	835,301	364,677	871,828
Investment Expense	(21,224,486)	(339,071)	(530,344)	(1,120,496)	(492,958)	(1,167,589)
Net Investment Income	714,240,660	11,373,388	17,882,106	37,477,034	16,307,623	39,110,726
Securities Lending Income						
Securities Lending Income	1,603,950	25,940	40,609	85,722	37,485	89,561
Securities Lending Rebate and Fees	(446,183)	(7,208)	(11,293)	(23,804)	(10,396)	(24,893)
Net Securities Lending Income	1,157,767	18,732	29,316	61,918	27,089	64,668
Total Net Investment Income	715,398,427	11,392,120	17,911,422	37,538,952	16,334,712	39,175,394
Total Additions	872,991,991	13,372,362	24,002,495	49,383,235	24,055,891	60,019,589
Deductions (Note C)						
Benefits	231,222,603	2,239,603	7,865,745	9,237,286	2,863,434	17,013,369
Refunds/Distributions	11,302,115		120,667	938,296	991,127	947,772
Refunds to Other Plans	233,688			29,443	2,014	51,961
Transfers to DCRP	609,001					
Transfers to ORP	139,945					
Supplemental Insurance Payments						
OPEB Expenses	78,460	114	96	114	114	102
Administrative Expenses	3,249,339	38,578	55,560	121,298	87,777	105,512
Miscellaneous Expenses						
Total Deductions	246,835,151	2,278,295	8,042,068	10,326,437	3,944,466	18,118,716
Net Increase (Decrease)	626,156,840	11,094,067	15,960,427	39,056,798	20,111,425	41,900,873
Net Assets Held in Trust for Pension Benefits						
Beginning of Year	3,315,905,638	52,564,722	82,888,491	172,635,424	74,135,714	187,141,042
Prior Period Adjustment	45,276					
End of Year	$ 3,942,107,754	63,658,789	98,848,918	211,692,222	94,247,139	229,041,915

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

Defined Benefit Pension Plans			Defined Contribution Plans			
		Total Defined Benefit			Total Defined Contribution	Total Pension Trust Funds
FURS	VFCA	Pension Plans	PERS-DCRP	457 Plan	Plans	2011
5,008,781		105,325,156	3,964,875	63,501	4,028,376	109,353,532
3,748,005		96,870,296	6,099,768	19,071,566	25,171,334	122,041,630
		96				96
		134,771				134,771
		82,925				82,925
		281	282,671	424,230	706,901	707,182
11,365,441	1,596,436	25,379,674				25,379,674
			415,137		415,137	415,137
20,122,227	1,596,436	227,793,199	10,762,451	19,559,297	30,321,748	258,114,947
33,342,636	3,959,076	757,388,235	11,355,783	30,352,273	41,708,056	799,096,291
5,638,582	859,640	129,130,422	1,333,946	7,344,383	8,678,329	137,808,751
862,763	105,564	19,516,085				19,516,085
(1,156,804)	(139,693)	(26,171,441)		(792,572)	(792,572)	(26,964,013)
38,687,177	4,784,587	879,863,301	12,689,729	36,904,084	49,593,813	929,457,114
88,681	10,784	1,982,732	8,797	2,385	11,182	1,993,914
(24,642)	(3,002)	(551,421)	(164)		(164)	(551,585)
64,039	7,782	1,431,311	8,633	2,385	11,018	1,442,329
38,751,216	4,792,369	881,294,612	12,698,362	36,906,469	49,604,831	930,899,443
58,873,443	6,388,805	1,109,087,811	23,460,813	56,465,766	79,926,579	1,189,014,390
15,605,138	1,938,060	287,985,238	18,531		18,531	288,003,769
128,292		14,428,269	3,618,570	15,415,941	19,034,511	33,462,780
		317,106				317,106
		609,001				609,001
		139,945				139,945
	14,850	14,850				14,850
100	92	79,192	8,709	4,790	13,499	92,691
91,748	81,139	3,830,951	417,360	282,759	700,119	4,531,070
			298,823	1,006,665	1,305,488	1,305,488
15,825,278	2,034,141	307,404,552	4,361,993	16,710,155	21,072,148	328,476,700
43,048,165	4,354,664	801,683,259	19,098,820	39,755,611	58,854,431	860,537,690
184,479,255	22,634,510	4,092,384,796	59,688,846	320,864,616	380,553,462	4,472,938,258
		45,276				45,276
227,527,420	26,989,174	4,894,113,331	78,787,666	360,620,227	439,407,893	5,333,521,224

Public Employees' Retirement Board

A Component Unit of the State of Montana

Notes to the Financial Statements

for the Fiscal Year Ended June 30, 2011

The Public Employees' Retirement Board (PERB) administers ten retirement plans and the related member education funds. The retirement plans are eight defined benefit plans and two defined contribution plans. The *defined benefit* retirement plans are the Public Employees' Retirement System (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 the Volunteer Firefighters' Compensation Act (VFCA). The *defined contribution* retirement plans are the Public Employees' Retirement System (PERS-DCRP) and the Deferred Compensation (IRC §457) Plan.

The PERS-DCRP was implemented July 1, 2002. All new PERS members, after July 1, 2002, have a 12-month window to file an irrevocable plan choice election. PERS members are provided education to help them decide between participation in the Defined Benefit Retirement Plan (PERS-DBRP) or the Defined Contribution Retirement Plan (PERS-DCRP). If members are employees of the university system they have a third choice, the Optional Retirement Program (ORP). Further education is provided for the members who choose the PERS-DCRP, including information on investment choices.

The PERB began administering the Deferred Compensation (457) Plan on July 1, 1999. The Deferred Compensation Plan is available to all employees of the State, the Montana University System and contracting political subdivisions. The Montana Public Employee Retirement Administration (MPERA) participates as an employer in the PERS-DBRP, PERS-DCRP and the Deferred Compensation Plan.

The assets of each plan are maintained separately, including member education funds. The assets may be used only for the payment of benefits to the members and administrative expenses of the appropriate plan, in accordance with the terms of each plan as prescribed in Title 19 of the Montana Code Annotated (MCA). The financial statements are presented by combining the PERS-DBRP and the DBRP Education Fund and by combining the PERS-DCRP, the DCRP Education Fund and the DCRP Disability Fund. A presentation of each individual fund is shown at the end of the financial section on pages A-78 to A-80.

A. Summary of Significant Accounting Policies

1. Basis of Accounting

The PERB is a discretely presented component unit Pension Trust Fund of the State of Montana financial reporting entity. The MPERA, staff of the PERB, prepares the accounting records and financial statements for the fiduciary pension trust funds using the accrual basis of accounting. For the pension trust funds, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period in which they are earned and become measurable. Benefits and refunds/distributions are recognized in the accounting period in which they are due and payable. Expenses are recognized in the period incurred. Administrative expenses are financed through investment earnings on the pension trust fund for the defined benefit plans. Interfund receivables and payables exist at year-end because all defined benefit administrative expenses are accounted for within PERS-DBRP and allocated to the other defined benefit plans at year-end.

The fiscal year 2011 financial statements contain a prior period adjustment to the PERS-DBRP for prior years' employer reporting errors where members should have been reported but were not reported.

Participants of the PERS-DCRP are charged, on a quarterly basis, a flat fee plus a basis point fee based on their individual account balances. The record keeper, Great-West Retirement Services (Great-West), withholds payment of Great-West's contractual expenses and the remaining fees are remitted to the PERB to cover the PERB's administrative expenses of the plan. The fees remitted to the PERB are recorded as *Miscellaneous Revenue* in the financial statements.

Participants of the Deferred Compensation Plan are charged, on a quarterly basis, a flat fee plus a basis point fee based on their individual account balances. The record keeper, Great-West, withholds payment of Great-West's contractual expenses and the remaining fees are remitted to the PERB to cover the PERB's administrative expenses of the plan. The fees remitted to the PERB are recorded as *Miscellaneous Revenue* in the financial statements.

2. Capital Assets and Equipment Used in Operations

Assets under \$5,000 are expensed in the year purchased. Assets valued at \$5,000 or more are recorded at cost less straight-line depreciation over the estimated useful life of five to ten years. Assets valued at \$100,000 or more are recorded at cost less straight-line depreciation over the estimated useful life of five to ten years. Equipment consists of a microfiche machine. Capital assets include the web-based employer reporting software and the MPERA website.

The accumulated depreciation on the web-based employer reporting system is \$1,602,768 as of June 30, 2011 and the carrying value as of June 30, 2011 is \$98,842. The accumulated depreciation on the MPERA website as of June 30, 2011 is \$99,146 and the carrying value is \$16,504.

MPERA is embarking on a project over the next three to five years where several phases will be implemented to improve operational efficiency, provide better service to our plan members and other customers and address disaster recovery concerns surrounding our paper driven processes. The project, appropriately named, MPERAtiv includes the implementation of a document imaging system, a data cleansing project, and implementation of a new public pension line of business software application. The

MPERAtiv project was prompted by the age and limitations of our systems that are increasingly difficult to maintain in addition to recommendations from the State's Information Technology (IT) division to move away from the old Integrated Database Management System (IDMS) platform. MPERA's IDMS systems were put in place in 1985 (retiree), 1993 (active), and 2006 (volunteer fire). The new line of business application will replace the IDMS systems as well as the Web Reporting application that was implemented in two phases between 2002 (payroll) and 2004 (457).

3. OPERATING LEASE

Operating leases are rental agreements where the payments are chargeable as rent and recorded as administrative expenses. The MPERA entered into a 10-year lease for office space in November 2003, at the location of 100 North Park Avenue, Helena, MT. The lease is payable monthly and includes inflationary adjustments over the period of the lease.

4. FUNDED STATUS AND FUNDING PROGRESS

The funded status of the eight defined benefit retirement plans, as of the most recent actuarial valuation date, appear in the table at the bottom of the page.

The net Funded Ratio decreased in fiscal year 2011 for all retirement plans.

Funded Ratio		
	6/30/2011	6/30/2010
PERS-DBRP	70%	74%
JRS	141%	144%
HPORS	61%	64%
SRS	76%	81%
GWPORS	75%	75%
MPORS	55%	57%
FURS	62%	64%
VFCA	74%	77%

Funded Status as of June 30, 2011

(dollar amounts are in thousands)

System	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
PERS-DBRP	$3,800,479	$5,410,144	$1,609,665	70.25%	$1,071,376	150.24%
JRS	61,274	43,414	(17,860)	141.13%	5,645	-316.38%
HPORS	95,274	155,742	60,468	61.17%	12,472	484.83%
SRS	203,689	266,506	62,817	76.43%	57,041	110.12%
GWPORS	90,437	119,881	29,444	75.44%	38,306	76.87%
MPORS	221,669	401,381	179,712	55.23%	39,470	455.30%
FURS	219,959	355,188	135,229	61.93%	34,852	388.01%
VFCA	26,183	35,195	9,012	74.39%	N/A*	N/A*

*Covered payroll is not applicable to VFCA because members are unpaid volunteers.

The required supplementary information (RSI), following the notes to the financial statements, presents similar information but uses a multi-year format to show trend information. These trends indicate whether the actuarial values of the plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities.

The information that follows is general and applicable to each defined benefit plan, except the VFCA's amortization method is a level dollar amount instead of a level percent of payroll like the other plans.

General to each DB Retirement System	
Valuation date	June 30, 2011
Actuarial cost method	Entry Age
Amortization method, except VFCA	Level percent payroll, open
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases:	
General Wage Growth*	4.00%
*includes inflation rate at	3.00%
Guaranteed annual benefit adjustment (GABA), except VFCA	3% after 1 year. Effective July, 1, 2007, 1.5% GABA for new hires of PERS, SRS and GWPORS.

Merit Projected Salary Increases	
PERS-DBRP	0% - 6%
JRS	0%
HPORS	0% - 7.3%
SRS	0% - 7.3%
GWPORS	0% - 7.3%
MPORS	0% - 7.3%
FURS	0% - 7.3%
VFCA	N/A

Remaining Amortization Period	
PERS-DBRP	Does not amortize
JRS	N/A*
HPORS	48.2 years
SRS	Does not amortize
GWPORS	Does not amortize
MPORS	25 years
FURS	16 years
VFCA	8.8 years
* Currently JRS has a surplus	

The minimum benefit adjustment (non-GABA) only affects four systems: JRS, HPORS, MPORS and FURS. A table showing the non-GABA adjustment for these systems follows.

Minimum Benefit Adjustment (non-GABA)	
Retiree benefit adjustment uses:	
JRS	Biennial increase to salary of active member in like position
HPORS	2% per year of service of probationary officer's base pay, not to exceed 5% increase over previous benefit
MPORS	50% of newly confirmed officer's pay
FURS	50% of newly confirmed officer's pay

5. Other Post-Employment Benefits (OPEB)

MPERA's allocated annual OPEB cost (expense) for the year ending June 30, 2011 was $92,692. The interest on the net OPEB obligation for the year ending June 30, 2011 was $4,240. For fiscal year 2010, MPERA's allocated annual OPEB cost (expense) was $88,913 and the interest was $4,067. The cost that was allocated to MPERA for the years ended June 30, 2011 and June 30, 2010 was $92,692 and $88,913, respectively.

The PERB annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2011 and prior are as follows.

Annual OPEB Cost			
Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	$91,792	0.00%	$ 91,792
6/30/2009	95,693	0.00%	187,485
6/30/2010	88,913	0.00%	276,398
6/30/2011	92,692	0.00%	369,090

MPERA's net OPEB (NOPEB) outstanding at June 30, 2011 was as follows: Annual Required Contribution (ARC) is $99,760; interest on the NOPEB is $4,240; adjustments to the ARC is $0; ncrease in the NOPEB is $104,000; and the NOPEB obligation is $369,090.

Funded Status and Funding Progress: The most recent actuarial valuation available was completed by the State of Montana for the calendar year ending December 31, 2009, where the MPERA allocation of the plan was as follows: Actuarial Accrued Liability (AAL) is $686,393; Actuarial Value of Plan Assets is $0; Unfunded Actuarial Accrued Liability (UAAL) is $686,393; Funded Ratio (Actuarial Value of Plan Assets/ AAL) is 0 percent; Covered Payroll (Active Plan Members) is $1,438,749; and the UAAL as a Percentage of Covered Payroll is 47.71%.

6. Method Used to Value Investments

According to Article VIII, section 13 of the Montana Constitution and section 19-2-504, MCA, the BOI has a fiduciary responsibility for investing the defined benefit retirement plan assets on behalf of the defined benefit plan members. Investments are determined in accordance with the statutorily and constitutionally mandated "prudent expert principle." Pursuant to Article VIII, section 15 of the Montana Constitution and sections 19-2-502 and 19-2-503, MCA, the PERB has a fiduciary responsibility for the administration of the pension trust funds. For the defined benefit pools, the PERB relies on the Investment Policy Statements that are drafted and approved by the BOI with the assistance of RV Kuhns & Associates, Inc., the investment consultant. Investments are reported at fair value. As of June 30, 2011, there were six major diversified pools, Montana Short Term Investment Pool (STIP), Montana Domestic Equity Pool (MDEP), Retirement Funds Bond Pool (RFBP), Montana International Equity Pool (MTIP), Montana Private Equity Pool (MPEP) and Montana Real Estate Investment Pool (MTRP).

The PERS-DCRP and Deferred Compensation Plan's fixed investments were administered through outside vendors Pacific Investment Management Company (PIMCO) and custodial bank State Street Bank Kansas City (SSKC) and a third-party insurer, Aegon. All money invested in the Fixed Investments of the PERS-DCRP and Deferred Compensation Plan were transferred to a Pooled Trust on March 1, 2010.

For both the PERS-DCRP and Deferred Compensation plan 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.

In addition to the laws cited previously, the PERS-DCRP investments are also governed by section 19-3-2122, MCA. There are separate investment policies for the Deferred Compensation and PERS-DCRP plans. The investment policies are reviewed by the PERB on an annual basis and the investment options are reviewed quarterly by an independent third party consultant and investment analyst. In the review, each investment alternative is compared to its peers and the appropriate benchmark. In addition, each investment alternative is reviewed for other indicators including, but not limited to: style drift, duplication, and fund manager or other organizational changes. Investment alternatives that are determined to have a sub-standard performance rating or other negative indicators may be recommended for probation or termination. During the reviews, the PERB may decide to retain, replace or place in a probation status any of the offered mutual funds. Investments are reported at fair value as of June 30, 2011.

The following are the summaries of the BOI's fiscal year end statements, the Aegon/PIMCO/SSKC contracts and a statement about the variable investments. The BOI fiscal year statements and information on the income can be obtained by contacting BOI at the following address:

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

STIP portfolio may include asset-backed securities, commercial paper, corporate and U.S. government direct obligations, U.S. government agency securities, repurchase agreements, institutional money market funds, certificates of deposit and variable-rate (floating rate) instruments. The purpose of STIP is the preservation of principal, while obtaining money market type returns and 24-hour liquidity. The BOI manages the STIP consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7 -like pool, is allowed to use an amortized cost rather than fair value to report net assets to compute unit values. The portfolio is carried at amortized cost or book value with a constant unit value of $1.00. State agencies with accounts that retain interest earnings are legally required to invest in STIP and the PERB elects to have all STIP income automatically reinvested. For fiscal year 2011 income was distributed on the first calendar day of each month. *Credit Risk* is the risk that the issuer of a STIP security may default in making timely principal and interest payments. 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 total investments credit quality rating for STIP is not rated (NR). The PERB portion of STIP is $80.6 million or 3.32%.

At June 30, 2011, the STIP balance included Structure Investment Vehicles (SIVs) that were no longer liquid. As a result these are no longer considered cash equivalents and are reclassified from cash to investments based on a pro rata share of the pension funds' investment in the pool.

MDEP may include common stock, equity index shares, preferred stock, convertible equity securities, American Depositary Receipts (ADR's), equity derivatives and commingled funds. The MDEP portfolio is limited to domestic stock or ADR investments. ADR investments are receipts issued by a U.S. depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. For *Custodial Credit Risk* as of June 30, 2011, all the MDEP securities were registered in the nominee name for the BOI and held in the possession of the BOI's custodial bank, State Street Bank. The PERB portion of MDEP is $1.8 billion or 62.24%.

RFBP portfolio includes corporate and foreign government bonds; U.S. government direct obligations and U.S. government agency securities; and cash equivalents. U.S. government direct obligations include U.S. Treasury securities and debt explicitly guaranteed by the U.S. government. U.S. government agency securities include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages. The bond pools also include structured financial instruments known as Real Estate Mortgage Investment Conduits (REMIC) securities. These investments are pass-through vehicles for multi-class mortgage -backed securities and some may be interest-only strips. These investments represent the separate purchase of the principal and interest cash flows of a mortgage security and receive cash flows from the interest payment component on underlying mortgage loans. *Credit Risk* is that the issuer of a fixed income security may default in making timely principal and interest payments. With the exception of the U.S. government securities, the RFBP fixed income instruments have credit risk as measured by major credit rating services. 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 total fixed income investments credit quality rating for RFBP is not rated (NR). For *Custodial Credit Risk* as of June 30, 2011, all the fixed income securities were registered in the nominee name for the BOI and held in the possession of the BOI's custodial bank, State Street Bank. The State Street repurchase agreement was purchased in the State of Montana BOI name. For *Interest Rate Risk* as of June 30, 2011, in accordance with GASB Statement No. 40, the BOI has selected the effective duration method to disclose interest rate risk. The fair value of total fixed income investments is $2,024,412,168 with an effective duration of 4.56 years. *Foreign Currency Risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment. The RFBP includes securities subject to foreign currency risk. The PERB portion of the foreign currency risk is $203.9 thousand or 50.40%. The PERB portion of the entire RFBP is $1.2 billion or 62.24%.

MTIP may include common stock, equity index shares, preferred stock, convertible equity securities, American Depositary Receipts (ADR's), equity derivatives, and commingled funds. ADR investments are receipts issued by a U.S. depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. The MTIP portfolio may include holdings of securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges. The MTIP portfolio invests in both developed and emerging markets. For *Custodial Credit Risk* as of June 30, 2011, all MTIP securities were registered in the nominee name for the BOI and held in the possession of the BOI's custodial bank, State Street Bank. *Foreign Currency Risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment. The MTIP includes securities subject to foreign currency risk. The PERB portion of the foreign currency risk is $2.0 million or 50.40%. The PERB portion of the entire MTIP is $899.0 million or 62.26%.

MPEP portfolio may include venture capital, leveraged buyout, mezzanine, distressed debt, special situation, and secondary investments. These investments are made via Limited Partnership Agreements in which the 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. Realized capital gains are not distributed unless the gains are needed to pay management fees. Income due participants is distributed monthly on the first calendar day of each month. For *Custodial Credit Risk* as of June 30, 2011, all MPEP investments were recorded in the name of the Montana BOI and held in the possession of the BOI's custodial bank, State Street Bank. *Foreign Currency Risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment. The MPEP includes securities subject to foreign currency risk. The PERB portion of the foreign currency risk is $12.9 million or 50.38%. The PERB portion of the entire MPEP is $598.2 million or 62.28%.

MTRP 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 and return and are less liquid than core investments. These investments are usually made through Limited Partnership Agreements. The MTRP invests its cash in STIP. Realized capital gains are not distributed unless the gains are needed to pay management fees. Income due participants is distributed monthly on the first calendar day of each month. *Custodial Credit Risk* as of June 30, 2011, all MTRP investments were recorded in the name of the Montana BOI and held in the possession of the BOI's custodial bank, State Street Bank. *Foreign Currency Risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment. The MTRP includes securities subject to foreign currency risk. The PERB portion of the foreign currency risk is $12.9 million or 50.46%. The PERB portion of the entire MTRP is $315.7 million or 62.13%.

All Other Funds (AOF) Investments portfolio for the pension plans includes real estate buildings and residential mortgages. Fair values are determined, primarily, by reference to market prices supplied to the BOI by its custodial bank, State Street Bank. The real estate investments and residential and multi-family mortgages are valued based on a discounted cash flow. The mortgages receivable funded by the retirement systems consist of residential mortgages. On May 1, 2011 the direct real estate buildings and residential mortgages, owned by the PERS, were sold to the MTRP and the RFBP and are no longer included in the AOF. Real estate investments held, in part, for the PERS include a building at 100 North Park Avenue in Helena, MT; a building at 2273 Boot Hill Court in Bozeman, MT; a building at 2401 Colonial Drive in Helena, MT; and property located on California Street in Helena, MT. The BOI also holds the building located at 1712 Ninth Avenue in Helena, MT for the sole benefit of the PERS. The *Custodial Credit Risk* as of June 30, 2011, all real estate and mortgage investments were registered in the name of the Montana BOI. There is no *Concentration of Credit Risk* for the PERB.

Securities Lending Collateral, governed under the provisions of state statutes, BOI authorized the custodial bank, State Street Bank, to lend the BOI securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The custodial 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. The BOI and the custodial bank split the earnings on security lending activities. The securities lending collateral, securities lending collateral liability, securities lending income, and securities lending expense consist of allocations to PERB on a pro rate basis of its ownership share of each pool with securities lending activity. At June 30, 2011, the BOI had no *credit risk* exposure to borrowers because the collateral pledged by the borrowers exceeded the value of the securities borrowed. The private equity and real estate pools do not participate in securities lending.

Fixed Investments for the PERS-DCRP and the Deferred Compensation Plan, are administered through outside vendors Pacific Investment Management Company (PIMCO) and custodial bank, State Street Bank Kansas City (SSKC), and a third-party insurer, Aegon. When participants invest in the fixed investment option they are guaranteed a rate of return. The fixed investment employs a synthetic stable value strategy where the investment manager, PIMCO, manages a diversified bond portfolio and Aegon guarantees the participants principal investments and earnings. Aegon calculates the rate of return each quarter called the “crediting rate”, which is used to credit earnings to participant accounts. Aegon sets a fixed quarterly rate of return based on the investment manager’s portfolio market value yield and duration.

The PERB entered into a Pooled Trust contract with Aegon, PIMCO and SSKC for all funds in the PERS-DCRP and Deferred Compensation Plan. The Pooled Trust qualifies as a group trust under sections 401(a), including section 401(a)(24) and 501(a), of the IRC of 1986, as amended. All monies invested in the Fixed Investments of the PERS-DCRP and Deferred Compensation Plan were transferred to the Pooled Trust.

Under the Pooled Trust agreement Aegon provides a guarantee of principal and sets a fixed quarterly rate of return based on the portfolio yield and duration. The Pooled Trust assets are invested by PIMCO and are held under a custodial agreement with SSKC. The Pooled Trust assets are invested by PIMCO based on an investment guideline schedule as agreed upon in the Pooled Trust Contract and approved by the PERB, Aegon and PIMCO. *Concentration of Credit Risk* is not addressed in the investment policy.

Variable Investments for the PERS-DCRP and Deferred Compensation Plan are held and managed in a selection of retail and institutional mutual funds, which cover all standard asset classes and categories. The selection of offered mutual funds is designed to provide participants with the ability to diversify investments and meet their individual investment goals and strategies. With advice from an independent investment analyst and assistance from the statutorily created Employee Investment Advisory Council, the PERB conducts quarterly reviews of the offered mutual funds. The goal of the reviews is to ensure that the offered mutual funds meet standards established in the Investment Policy Statements adopted by the PERB. The investment policies state: “Participants make individual investment decisions, subject to the investments offered under the plan and, ultimately, bear the risks and rewards of investment returns.” In the reviews, each investment alternative is compared to its peers and the appropriate benchmark. In addition, each investment alternative is reviewed for other indicators including, but not limited to: style drift, duplication, and fund manager or other organizational changes. Investment alternatives that are determined to have a sub-standard performance rating or other negative indicators may be recommended for probation or termination. During the reviews the PERB may decide to retain, replace or place in a probation status any of the offered mutual funds. *Concentration of Credit Risk* is not addressed in the investment policy and investments in mutual funds are not required to be disclosed.

Investments are reported at fair value as of June 30, 2011. Available funds in the PERS-DCRP and Deferred Compensation Plan are listed on pages A-60 and A-63, respectively. A listing may also be obtained by contacting MPERA.

B. Litigation

Each of the plans administered by the PERB may be involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management and legal counsel, the disposition of those matters will not have a material, adverse affect on any plan’s financial position as a whole.

Center for Mental Health. The legislature amended § 19-3-108(3), MCA in 1999 requiring PERS to exclude participation by certain employees, including those hired by regional mental health centers on or after July 1, 1999 from PERS participation. The Center for Mental Health (CMH) continued to improperly report employees as PERS members until 2009 when MPERA discovered these errors. MPERA subsequently returned the incorrectly paid contributions to the employees and the employer and corrected retirement benefits. The impacted employees hired legal counsel, Joseph Cosgrove of Hoyt and Blewett in Great Falls, to represent them. Cosgrove filed an administrative claim with Risk Management and Tort Defense (RMTD) and a complaint was filed against MPERA and the State on September 13, 2011 and served on the Office of the Attorney General on October 4, 2011. The complaint alleges MPERA and the State negligently breached their duties to administer and manage PERS. Plaintiffs seek damages for past and future economic damages, emotional distress, costs and disbursements. If plaintiffs are successful, tort-based damages may be limited to $1.5 million under § 2-9-108, MCA and will be paid through the state's self-insurance reserve fund, not the PERS trust fund. Any award of damages based on payment of retirement benefits or collection of interest on wrongly withheld contributions will not have a material, adverse effect on PERS's financial position as a whole.

John Crossman, et al. v. MPERA. In 2007 former volunteer firefighters contested MPERA's refusal to increase their VFCA retirement benefits based on 2003 and 2005 legislative amendments to § 19-17-404, MCA. Both of these amendments increased retirement benefits for members who serve as volunteer firefighters for more than twenty years. The claimants, who all served for more than twenty years, seek to have their retirement benefits recalculated according to the new benefit structure provided in the amended version of § 19-17-404, MCA. Because the claimants all retired prior to the effective dates of the amendments, MPERA determined that they are not eligible to have their retirement benefits recalculated. Following the filing of cross motions for summary judgment, the hearing examiner issued a proposed order granting MPERA's motion, which the PERB adopted as its Final Order in December 2008. Claimants then filed a petition for judicial review in the First Judicial District, Judge Dorothy McCarter presiding. Judge McCarter issued an order in January 2010 holding that the claimants are included within § 19-17-404, MCA, but remanding for a determination on whether their claim is barred by the two year statute of limitations under § 27-2-211(1)(c), MCA. The statute of limitations issue remains before the hearing examiner John Melcher for decision. In January 2011, Examiner Melcher denied cross motions for summary judgment and expanded the statute of limitations issue to a determination of which period of limitations is applicable. Examiner Melcher presided over an administrative hearing in early October 2011. A proposed order following the hearing is pending. If the claims are determined to not be barred by the statute of limitations, and the Supreme Court affirms Judge McCarter's decision, VFCA retires would be owed over $566,000 as of June 2011. In addition, based on retiree data as of June 2011, monthly benefits would also increase by approximately $7,432.50 for 282 retirees.

C. Plan membership, descriptions and contribution information

The plans are established and amended

statutorily by the Legislature. In all defined benefit plans (except VFCA), if a member leaves covered employment before retirement, the member contributions plus accrued interest may be refunded to the member. If a member returns to service and repays the withdrawn contributions plus the interest the contributions would have earned had they remained on deposit, membership service is restored. Membership in each plan as of June 30, 2011 and June 30, 2010 is detailed in the following charts.

PERS-DBRP Membership

	2011	2010		2011	2010
Number of participating employers	533	533			
Active plan members	28,659	28,834	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	17,509	16,872
Vested	2,535	2,471	Disability Retirements	231	261
Non-vested	5,787	5,402	Survivor Benefits	383	379
	8,322	7,873		18,123	17,512

JRS Membership

	2011	2010		2011	2010
Number of participating employers	1	1			
Active plan members	54	51	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	56	53
Vested	-	1	Disability Retirements	-	-
Non-vested	-	-	Survivor Benefits	2	2
	-	1		58	55

HPORS Membership

	2011	2010		2011	2010
Number of participating employers	1	1			
Active plan members	214	230	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	276	275
Vested	11	13	Disability Retirements	10	7
Non-vested	9	6	Survivor Benefits	16	13
	20	19		302	295

SRS Membership

	2011	2010		2011	2010
Number of participating employers	57	57			
Active plan members	1,230	1,181	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	392	362
Vested	48	36	Disability Retirements	31	35
Non-vested	196	157	Survivor Benefits	18	18
	244	193		441	415

GWPORS Membership

	2011	2010		2011	2010
Number of participating employers	7	7			
Active plan members	951	966	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	138	129
Vested	61	47	Disability Retirements	-	-
Non-vested	113	100	Survivor Benefits	7	7
	174	147		145	136

MPORS Membership

	2011	2010		2011	2010
Number of participating employers	31	30			
Active plan members	739	727	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	624	618
Vested	40	47	Disability Retirements	22	23
Non-vested	71	65	Survivor Benefits	30	29
	111	112		676	670

FURS Membership

	2011	2010		2011	2010
Number of participating employers	24	23			
Active plan members	579	570	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	524	518
Vested	13	13	Disability Retirements	7	7
Non-vested	60	53	Survivor Benefits	21	21
	73	66		552	546

VFCA Membership

	2011	2010		2011	2010
Number of participating companies	216	216			
Active plan members	2,105	2,315	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits			Service Retirements	1,183	1,149
Vested	870	827	Disability Retirements	-	-
			Survivor Benefits	-	-
				1,183	1,149

PERS-DCRP Membership

	2011	2010		2011	2010
Number of participating employers	261	244			
Active plan members	2,021	2, 018	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Periodic Distributions	8	1
Vested	143	125	Disability Payments	2	2
Non-vested	344	320	Survivor Payments	1	1
	487	445		11	4

Deferred Compensation (457) Membership

	2011	2010		2011	2010
Number of participating employers	23*	21*	Number of participating plan members	8,091	8,090
Number of participating employers that provide contributions on members' behalf	2	2	Number of participating plan members that are actively contributing to their deferred compensation accounts	4,648	4,760

*All State agencies are counted as one employer.

Public Employees' Retirement System-DBRP (PERS-DBRP)

Plan Description: The PERS-Defined Benefit Retirement Plan (DBRP) is a multiple -employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan covers the State, local governments, certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the *defined benefit* and *defined contribution* retirement plans. All new members from the universities also have a third option to join the university system's Optional Retirement Program (ORP). For members that choose to join the PERS-DCRP or the ORP, a percentage of the employer contribution will be used to maintain the funding of the PERS-DBRP.

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

PERS-DBRP Summary of Benefits

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

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

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

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

Hired on or after July 1, 2011: Age 55, 5 years of membership service.

Vesting 5 years of membership service

PERS-DBRP Summary of Benefits (continued)

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

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

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

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

At June 30, 2011 PERS had 533 participating employers, the same as fiscal year 2010. The participating employers consist of:

PERS-DBRP EMPLOYERS

Employers	June 30, 2011	June 30, 2010
State Agencies	34	34
Counties	55	55
Cities and Towns	97	97
Colleges and Universities	5	5
School Districts	231	231
High Schools	6	6
Other Agencies	105	105
Total	533	533

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2011 was 6.9% of the member's compensation. Members hired on or after July 1, 2011 have a contribution rate of 7.9%. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a request for retirement or refund is processed.

Each state agency and university system employer contributed 7.17% of PERS-covered payroll during fiscal year 2011. Participating local governments contributed 7.07% of PERS-covered payroll during fiscal year 2011. The State contributed the remaining 0.1% for local governments. Participating school districts contributed 6.8% of PERS-covered payroll during fiscal year 2011. The state contributed the remaining 0.37%. A percentage of the employers' contributions is used to fund the employee education program. (Reference Schedule of Contribution Rates on page A-65).

Plan Membership Elections: MPERA has included in the financial statements transfers of $609,001 in Transfers to DCRP and $139,945 in Transfers to ORP. These transfers reflect the DCRP and ORP contributions of participants that filed elections at or near the June 30 cutoff date. The contributions were transferred in early fiscal year 2012.

PERS-DBRP Active Membership by Employer Type

Employer Type	6/30/2011	6/30/2010
State Agencies	10,807	10,815
Counties	5,397	5,438
Cities	3,181	3,238
Universities	2,638	2,626
High Schools	60	64
School Districts	5,387	5,446
Other Agencies	1,189	1,207
Total	28,659	28,834

Additional Service Purchase Due to a Reduction in Force: Section 19-2-706, MCA allows state and university system employees who are eligible for a service retirement and whose positions have been eliminated due to a reduction in force, to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. 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. The employees participating under section 19-2-706, MCA increased from 199 in fiscal year 2010 to 209 in fiscal year 2011. The retirement incentive contributions received (including interest) during fiscal year 2011 totaled $82,925. The outstanding balance at June 30, 2011, totaled $11,739.

Public Employees' Retirement System-DBRP Education Fund: Education is provided to all members of the PERS regardless of plan choice as governed by section 19-3-112, MCA. The education must be presented with impartial and balanced information about plan choices, investments and retirement planning.

The education program consists of three primary components:

1) initial transfer education — complete as of July 1, 2003;
2) ongoing transfer education — for new members after the July 1, 2002 plan start date; and
3) ongoing investment/retirement planning education — for all active members.

The education program was funded by 0.04% of PERS-covered payroll in fiscal year 2011.

Actuarial Status: 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 liablity. During the year ended June 30, 2011, the PERS' assets gained 21.70% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was a negative 0.08%. This return was below the assumed rate of return of 7.75% and resulted in an actuarial loss on investments of $301 million.

Judges' Retirement System (JRS)

Plan Description: The JRS is a single-employer defined benefit plan established in 1967, and governed by Title 19, chapters 2 & 5 of the MCA. This system provides benefits for all Montana judges of the district courts, justices of the Supreme Court, and the Chief Water Judge. Benefits are established by state law and can only be amended by the Legislature. The JRS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows.

JRS Summary of Benefits

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

[1]Hired prior to July 1, 1997 and non-GABA prior to January 1, 1988 or December 1, 2005 - monthly compensation at time of retirement;

[2]Hired after June 30, 1997 or electing GABA prior to January 1, 1988 or December 1, 2005 - HAC during any consecutive 36 months.

Eligibility for benefit

Age 60, 5 years of membership service;
Any age with 5 years of membership service - involuntary termination, actuarially reduced.

Vesting 5 years of membership service

Monthly benefit formula

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

Guaranteed Annual Benefit Adjustment (GABA)

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

Minimum benefit adjustment (non-GABA)

Hired prior to July 1, 1997 - current salary of an active member in same position is used in the calculation of the monthly benefit each time the Legislature increases salaries for active judges.

At June 30, 2011 JRS had one participating employer, the same as fiscal year 2010. The participating employer consists of:

JRS EMPLOYERS		
Employer	June 30, 2011	June 30, 2010
State Agency — Supreme Court	1	1
Total	1	1

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2011 was 7.0% of the member's monthly compensation. Contributions are deducted from each member's salary and remitted by the participating employer. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

JRS Active Membership by Employee Type		
Employee Type	6/30/2011	6/30/2010
GABA	41	37
Non-GABA	13	14
Total	54	51

As the employer, the State contributed 25.81% of the total JRS-covered payroll to the retirement plan during fiscal year 2011. (Reference Schedule of Contribution Rates on page A-65).

Actuarial status: 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 sufficient to amortize the unfunded actuarial accrued liability. During the year ended June 30, 2011, the JRS' assets gained 21.65% on a market basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 0.42%. This return was below the assumed rate of return of 7.75% and resulted in an actuarial loss on investments of $4.5 million.

Highway Patrol Officers' Retirement System (HPORS)

Plan Description: The HPORS is a single-employer, defined benefit plan established July 1, 1971, and governed by Title 19, chapters 2 & 6 of the MCA. This system provides retirement benefits to all members of the Montana Highway Patrol, including supervisory personnel. Benefits are established by state law and can only be amended by the Legislature. The HPORS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation. Member rights for death and disability are vested immediately. All other rights are vested after five years of service. A brief summary of eligibility and benefits follows on the next page.

HPORS Summary of Benefits

Member's highest average compensation (HAC)
Highest average compensation during any consecutive 36 months.

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

Early Retirement
5 years of membership service, actuarially reduced from age 60.

Vesting 5 years of membership service

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

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

Minimum benefit adjustment (non-GABA)
Hired prior to July 1, 1997 - monthly benefits for non-GABA members are increased each July when they fall below a statutorily guaranteed minimum. Any annual increase is limited to 5.0% over the current benefit and may not exceed 60% of the current base salary of a probationary officer.

At June 30, 2011 HPORS had one participating employer, the same as fiscal year 2010. The participating employer consists of:

HPORS EMPLOYERS

Employer	June 30, 2011	June 30, 2010
State Agency — Department of Justice	1	1
Total	1	1

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2011 is 9.05% of the member's total compensation if hired on or after July 1, 1997 or for members electing GABA, and 9.0% for those members hired prior to July 1, 1997 and not electing GABA (all active members hired prior to July 1, 1997 have elected GABA). Contributions are deducted from each member's salary and remitted by the participating employer. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

As the employer, the State contributed 36.33% of the total HPORS-covered payroll during fiscal year 2011. The first 26.15% is payable from the same source used to pay members' compensation. The remaining amount, equal to 10.18%, is payable from a portion of the fees collected from drivers' license and duplicate drivers' license applications. (Reference Schedule of Contribution Rates on page A-65).

HPORS Active Membership by Employee Type		
Employee Type	6/30/2011	6/30/2010
GABA	214	230
Non-GABA	0	0
Total	214	230

Additional Service Purchase Due to a Reduction in Force: Section 19-2-706, MCA allows 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 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. No employees have taken advantage of this provision to date.

Supplemental Benefit for Retirees: Section 19-6-709, MCA provides eligible Montana highway patrol officers retired prior to July 1, 1991, or their survivors, an annual supplemental lump-sum payment distributed each September. This lump-sum payment is funded by registration fees requested by the PERB from the general fund. Factors impacting eligibility include the number of years the recipient has received a service retirement benefit or disability benefit, the recipient's age, and whether the recipient is employed in a position covered by a retirement system under Title 19.

Actuarial Status: 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 that 30 years. As of June 30, 2011, the HPORS amortizes in 48.2 years. During the year ended June 30, 2011, the HPORS' assets gained 21.79% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was a negative 0.04%. This return was below the assumed rate of return of 7.75% and resulted in an actuarial loss on investments of $7.5 million.

Sheriffs' Retirement System (SRS)

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

SRS Summary of Benefits

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

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

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

Vesting 5 years of membership service

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

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

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

At June 30, 2011 SRS had 57 participating employers, the same as fiscal year 2010. The participating employers consist of:

SRS EMPLOYERS

Employers	June 30, 2011	June 30, 2010
State Agencies — Department of Justice	1	1
Counties	56	56
Total	57	57

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2011 was 9.245% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

The employer contribution rate for fiscal year 2011 was 10.115%. (Reference Schedule of Contribution Rates on page A-65).

SRS Active Membership by Employer Type		
Employer Type	6/30/2011	6/30/2010
Dept of Justice	49	51
Counties	1,181	1,130
Total	1,230	1,181

Additional Service Purchase Due to a Reduction in Force: Section 19-2-706, MCA allows state 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 employer has up to ten years to complete payment for the service purchases and is charged the actuarial rate of return as established by the PERB on the unpaid balance. Three employees have taken advantage of this provision to date.

Actuarial Status: 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. During the year ending June 30, 2011, the SRS' assets gained 21.57% on a market value basis. However, due to the asset -smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 0.65%. This return was below the assumed rate of return of 7.75% and resulted in an actuarial loss on investments of $14.3 million.

Game Wardens' and Peace Officers' Retirement System (GWPORS)

Plan Description: The GWPORS is a multiple-employer, cost-sharing defined benefit plan established in 1963 and governed by Title 19, chapters 2 & 8, MCA. This system provides retirement benefits to all persons employed as a game warden, warden supervisory personnel, or state peace officer. Benefits are established by state law and can only be amended by the Legislature. The GWPORS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

A brief summary of eligibility and benefits follows.

GWPORS Summary of Benefits

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

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

GWPORS Summary of Benefits (continued)

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

Vesting 5 years of membership service

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

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

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

At June 30, 2011 GWPORS had seven participating employers, the same as fiscal year 2010. The participating employers consist of:

GWPORS EMPLOYERS

Employers	June 30, 2011	June 30, 2010
State Agencies	4	4
Colleges and Universities	3	3
Total	7	7

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2011 was 10.56% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

Each state agency and university employer contributed 9.0% of total GWPORS-covered payroll to the retirement plan during fiscal year 2011. (Reference Schedule of Contribution Rates on page A-65).

GWPORS Active Membership by Employer

Employer	6/30/2011	6/30/2010
Dept of Corrections	702	717
Dept FW&P	104	102
Dept of Livestock	35	31
Dept of Transport.	77	81
Universities	33	35
Total	951	966

Additional Service Purchase Due to a Reduction in Force: Section 19-2-706, MCA allows 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 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. No employees have taken advantage of this provision to date.

Actuarial Status: 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. During the year ending June 30, 2011, the GWPORS' assets gained 21.36% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 1.63%. This return was below the assumed rate of return of 7.75% and resulted in an actuarial loss on investments of $5.3 million.

Municipal Police Officers' Retirement System (MPORS)

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

A brief summary of eligibility and benefits follows.

MPORS Summary of Benefits

Member's final average compensation (FAC)
Hired prior to July 1, 1977 - average monthly compensation of final year of service;
Hired on or after July 1, 1977 - final average compensation (FAC) for last consecutive 36 months.

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

Early Retirement
Age 50, 5 years of membership service.

MPORS Summary of Benefits (continued)

Vesting 5 years of membership service

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

Guaranteed Annual Benefit Adjustment (GABA)
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 3.0% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA)
If hired before July 1, 1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than ½ the compensation of a newly confirmed officer in the city where the member was last employed.

At June 30, 2011 MPORS had 31 participating employers, one more than fiscal year 2010. The participating employers consist of:

MPORS EMPLOYERS

Employers	June 30, 2011	June 30, 2010
Cities	31	30
Total	31	30

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. Member contribution rates are dependent upon date of hire as a police officer. For fiscal year 2011, member contributions as a percentage of salary were 7.0% if employed after June 30, 1975 and prior to July 1, 1979; 8.5% if employed after June 30, 1979 and prior to July 1, 1997; and, 9.0% if employed on or after July 1, 1997 and for members electing GABA. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.
Employer contributions to the retirement plan are 14.41% of total MPORS-covered payroll. The State contributions are requested at the beginning of the fiscal year based on the previous fiscal year compensation and are due no later than November 1.

The State's contribution rate for fiscal year 2011 was 29.37%. (Reference Schedule of Contribution Rates on page A-65).

MPORS Active Membership
by Employee Type

Employee Type	6/30/2011	6/30/2010
GABA	730	719
Non-GABA	9	8
Total	739	727

Deferred Retirement Option Plan (DROP): Beginning July 2002, eligible members of MPORS can participate in the DROP by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, chapter 9, part 12, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During the participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit is calculated based on salary and years of service to date as of the beginning of the DROP period. The monthly benefit is paid into the members' 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. As of June 30, 2011, a total of 88 members have participated in the DROP.

DROP Participation

	6/30/2011	6/30/2010
Participants Beginning of Year	32	29
Participants Added	10	8
Completed DROP	5	5
Participants End of Year	37	32
DROP Distributions	$448,988	$406,814

Actuarial Status: 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 MPORS amortizes in 25.0 years. During the year ended June 30, 2011, the MPORS' assets gained 20.72% on a market basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 0.59%. This return was below the assumed rate of return of 7.75% and resulted in an actuarial loss on investments of $15.7 million.

Firefighters' Unified Retirement System (FURS)

Plan Description: The FURS is a multiple -employer, cost-sharing defined benefit plan established in 1981, and governed by Title 19, chapters 2 & 13, MCA. This system provides retirement benefits to firefighters employed by first- and second-class cities, other cities and rural fire district departments that adopt the plan, and to firefighters hired by the Montana Air National Guard (MANG) on or after October 1, 2001. Benefits are established by state law and can only be amended by the Legislature. The FURS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and compensation. Member rights for death and disability are vested immediately. All other member rights are vested after five years of service.

A brief summary of eligibility and benefits follows.

FURS Summary of Benefits

Member's compensation
Hired prior to July 1, 1981 and not electing GABA - highest monthly compensation (HMC);
Hired on or after July 1, 1981 and those electing GABA - highest average compensation (HAC) during any consecutive 36 months.

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

Early Retirement
Age 50, 5 years of membership service.

Vesting 5 years of membership service

Monthly benefit formula
1) Members hired prior to July 1, 1981 and not electing GABA are entitled to the greater of:
 2.5% of HMC per year of service; OR
 i) if less than 20 years of service -
 2% of HMC for each year of service;
 ii) if more than 20 years of service -
 50% of the member's HMC plus 2% of the member's HMC for each year of service over 20 years
2) Members hired after June 30, 1981 and those electing GABA:
 2.5% of HAC per year of service.

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

FURS Summary of Benefits (continued)

Minimum benefit adjustment (non-GABA)
If hired before July 1, 1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than ½ the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least ten years of membership service).

At June 30, 2011 FURS had 24 participating employers, one more than in fiscal year 2010. The participating employers consist of:

FURS EMPLOYERS

Employers	June 30, 2011	June 30, 2010
State Agencies - Department of Military Affairs	1	1
Cities	16	16
Rural Fire Districts	7	6
Total	24	23

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rates for fiscal year 2011 are 9.5% for members hired prior to July 1, 1997 and not electing GABA, and 10.7% for members hired on or after July 1, 1997 and members electing GABA. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

Employer contribution rates for fiscal year 2011 were 14.36% of the total FURS-covered payroll.

The State contribution was 32.61% of total compensation for all covered firefighters in fiscal year 2011. State contributions are requested at the beginning of each fiscal year based on previous fiscal year salary and are due no later than November 1. (Reference Schedule of Contribution Rates on page A-65).

FURS Active Membership by Employee Type

Employee Type	6/30/2011	6/30/2010
GABA	573	564
Non-GABA	6	6
Total	579	570

Additional Service Purchase Due to a Reduction in Force: Section 19-2-706, MCA allows 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 employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. No employees have taken advantage of this provision to date.

Actuarial Status: 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 FURS amortizes to 16.0 years. During the year ended June 30, 2011, the FURS' assets gained 20.71% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 0.84%. This return was below the assumed rate of return of 7.75% and resulted in an actuarial loss on investments of $14.9 million.

Volunteer Firefighters' Compensation Act (VFCA)

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

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

A brief summary of eligibility and benefits follows.

<u>VFCA Summary of Benefits</u>

Eligibility for benefit
Age 55, 20 years of credited service;
Age 60, 10 years of credited service.

Additional benefit
Members who retire after April 25, 2005 and have 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 July 1, 2011 and have greater than 30 years of credited service will receive $7.50 per month for each additional year of credited service 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 be capped at $225 a month (30 years of credited service) if the amortization period grows to greater than 20 years.

VFCA Summary of Benefits (continued)

Vesting 10 years of credited service

Monthly benefit formula
$7.50 per year of credited service

Contributions: The State is the only contributor to the VFCA. Contributions are 5% of fire insurance premium taxes collected on certain fire risks. The State Auditor makes annual payments to the Volunteer Firefighters' Compensation Act fund. (Reference Schedule of Contribution Rates on page A-65).

Group Insurance Payments: Supplemental payments are available to qualified volunteer fire companies that provide additional group medical insurance for their members in case of death or injury incurred while in the line of duty. The payment is made to the volunteer fire companies and is equal to $75 per year for each mobile firefighting unit owned by the volunteer fire company, up to a maximum of two units.

Actuarial Status: The annual required contribution increased from $987,116 at the June 30, 2010 valuation to $1,070,363 at the June 30, 2011 valuation. The required contribution is determined by amortizing the unfunded actuarial liability over a 20-year period. As of June 30, 2011, the VFCA amortizes to 8.8 years. During the year ended June 30, 2011, the VFCA's assets gained 20.98% on a market value basis. However, due to the asset-smoothing method which recognizes only a portion of the gains and losses, the return on the actuarial asset value was a negative 0.14%. This return was below the assumed rate of return of 7.75% and resulted in an actuarial loss on investments of $2.1 million.

Public Employees' Retirement System-DCRP (PERS-DCRP)

Plan Description: The PERS Defined Contribution Retirement Plan (DCRP) is a multiple employer plan established July 1, 2002 and governed by Title 19, chapters 2 & 3, MCA. This plan is available to eligible employees of the State, Montana University System, local governments, and school districts. All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the PERS-DBRP by filing an irrevocable election. Members may not be members of both the *defined contribution* and *defined benefit* retirement plans. The PERS-DCRP provides retirement, disability, and death benefits to plan members and their beneficiaries.

A brief summary of eligibility and benefits follows on the next page.

PERS-DCRP Summary of Benefits

Eligibility for benefit
Termination of Service

Vesting
Immediate for participant's contributions and attributable income;
5 years of membership service for the employer's contributions to individual accounts and attributable income.

Benefit
Depends upon eligibility and individual account balance;
Various payout options are available, including: taxable lump sums, periodic payments per participant direction and IRS permitted rollovers.

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2011 was 6.9% of member's compensation. Members hired on or after July 1, 2011 have a contribution rate of 7.9%. Contributions are deducted from each member's salary and remitted by participating employers. The entire amount of the member's contribution is credited to the individual account and maintained by the record keeper.

Each state agency and university system employer contributed 7.17% of PERS-covered payroll during fiscal year 2011. Participating local governments employers contribute 7.07% of PERS-covered payroll during fiscal year 2011. The State contributes the remaining 0.1% for local governments. Participating school districts contribute 6.8% of PERS-covered payroll during fiscal year 2011. The State contributed the remaining 0.37%. (Reference Schedule of Contribution Rates on page 81).

The employer rate of 7.17% is allocated as follows: 4.19% allocated to the member's retirement account, 2.64% allocated to the defined benefit plan choice rate, 0.04% allocated to the defined contribution education fund and 0.3% allocated to the long term disability plan.

PERS-DCRP Active Membership
by Employer Type

Employer Type	6/30/2011	6/30/2010
State Agencies	930	945
Counties	355	354
Cities	255	255
Universities	101	99
High Schools	3	4
School Districts	229	218
Other Agencies	148	143
Total	2,021	2,018

At June 30, 2011 PERS-DCRP had 261 reporting employers, 17 more than in fiscal year 2010. The participating employers consist of:

PERS-DCRP EMPLOYERS

Employers	June 30, 2011	June 30, 2010
State Agencies	31	32
Counties	45	44
Cities and Towns	48	44
Universities	4	5
School Districts	92	81
High Schools	2	3
Other Agencies	39	35
Total	261	244

Plan Membership Elections: Included in the financial statements are employer contribution transfers of $1,634.37 and member contribution transfers of $2,691.44. These transfers reflect the contribution transfers of DCRP participants that filed elections at or near the June 30 cutoff date, although the contributions were not moved until early fiscal year 2012.

DCRP Education Fund: Implemented July 1, 2002, the DCRP Education Fund (DCEd), as governed by section 19-3-112, MCA, was established to provide funding for the required education programs for members who have joined the PERS-DCRP. The DCEd was funded by 0.04% of the employers' contributions in fiscal year 2011.

DCRP Disability Fund: Implemented July 1, 2002, the DCRP Disability Fund (DC Disability), as governed by section 19-3-2117, MCA, will provide disability benefits to eligible members who have joined the PERS-DCRP. The DCRP Disability Fund received 0.3% of the employers' contribution.

The investment options offered are selected by the PERB in compliance with their Investment Policy Statement, the advice of an independent investment analyst, and assistance from the statutorily-created Employee Investment Advisory Council. Participants of the PERS-DCRP direct their contributions and a portion of their employer's contribution among the offered investment options. Participants may invest in any or all of the offered options and transfer between options on a daily basis, if desired. The remaining portion of their employer's contributions is 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 offered investment options fall into two primary types: (1) the fixed investment option and (2) the variable investment options. The variable investment options include mutual funds and bond funds and range from aggressive to conservative. The mutual funds cover all standard asset classes and categories. The investment options as of

June 30, 2011 are listed below.

PERS-DCRP Investment Options

International Stock Funds
American Funds New Perspective A
Oakmark International
Vanguard Total International Stock Index

Small Company Stock Funds
Vanguard Small Cap Growth Index
Vanguard Small Cap Index Signal
Target Small Cap Value

Mid-Sized Company Stock Funds
Munder Mid-Cap Core Growth A
Perkins Mid-Cap Value Fund T

Large Company Stock Funds
American Funds Growth Fund A
BlackRock Equity Index - Collective F
Vanguard Equity Income - Adm
JP Morgan US Equity

Balanced Funds
Vanguard Balanced Index - Inst'l

Bond Funds
Vanguard Total Bond Market Index Signal

Fixed Investment Options
Montana Fixed Fund

Fixed investments: The fixed investments of the PERS-DCRP are administered through outside vendors Pacific Investment Management Company (PIMCO) and custodial bank, State Street Bank Kansas City (SSKC), and a third-party insurer, Aegon. When participants invest in the fixed investment option they are guaranteed a rate of return. The fixed investment employs a synthetic stable value strategy where the investment manager, PIMCO, manages a diversified bond portfolio and Aegon guarantees the participants principal investments and earnings. Aegon calculates the rate of return each quarter, called the "crediting rate", which is used to credit earnings to participant accounts. Aegon sets a fixed quarterly rate of return based on the investment manager's portfolio yield and duration.

MPERA has a Pooled Trust contract with Aegon, PIMCO, and SSKC for all monies invested in the Fixed Investments in the PERS-DCRP and Deferred Compensation Plan. The Pooled Trust qualifies as a group trust under sections 401(a), including section 401(a)(24) and 501(a), of the IRC of 1986, as amended.

Administrative expenses and revenues that fund them are accounted for within the plan. Expenses for the DCRP can generally be classified as 1) administrative, including miscellaneous or 2) investment management. Following is a summary of revenues and expenses.

Administrative funding: PERB's administrative fee is a basis point (or percent) fee based on account balances. On a quarterly basis, the record keeper, Great-West Retirement Services (Great-West), withholds the basis point fee from each plan participant's account and submits the remainder to the PERB after paying Great-West fees. They are recorded as *Miscellaneous Revenue* in the financial statements.

The PERB receives 12(b)(1) or re-allotment fees from certain mutual fund companies. These fees are normally charged by the mutual funds for the purpose of individual record keeping or marketing. Because the mutual fund companies involved in the PERS -DCRP do not need to keep records of participants' accounts and do not market the plan, the fees are returned to the PERB. The PERB uses 12(b)(1) fees to pay administrative expenses associated with the PERS-DCRP. These amounts are recorded as *Miscellaneous Revenue*.

Record keeping fees: The record keeper, Great-West, charges a set administrative fee to all plan participants. On a quarterly basis, the fees are withheld from each plan participant's account. They are recorded as *Miscellaneous Expense* in the financial statements.

Fixed investment fees: The fixed investment crediting rate is declared net of expenses. Fees on the fixed investments are charged by each of the three providers, PIMCO, SSKC and Aegon. The fees are defined under each contract for specific services. The fees charged by PIMCO and SSKC for the externally managed fixed investments are classified as *Investment Expense*. The fees charged by Aegon are classified as *Miscellaneous Expense.*

Mutual fund/variable investments fees: All of the variable investments have investment management fees; some may have additional administrative fees. These fees are not presented on the financial statements. Mutual fund earnings are declared net of all expenses, both investment management and administrative, in accordance with the Securities and Exchange Commission and other regulatory authorities. Current reporting standards for mutual fund companies do not require costs to be made available in the detailed cost reports.

Deferred Compensation Plan (457)

Plan Description: The Deferred Compensation (457) Plan is a voluntary supplemental retirement savings plan established in 1976. The Deferred Compensation Plan is governed by Title 19, chapter 50, MCA, in accordance with Internal Revenue Code (IRC) §457. This plan is available to all employees of the State, Montana University System, and contracting political subdivisions.

Assets of the Deferred Compensation Plan are required to be held in trusts, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. The record keeper for the plan is Great-West Retirement Services (Great-West). Participants elect to defer a portion of their salary, within Internal Revenue Code limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed, provided IRS-specified criteria are met.

A brief summary of eligibility and benefits is on the next page.

Deferred Compensation Plan Summary

Contribution
Voluntary, tax-deferred

Eligibility for benefit
Not available to participant until separation from service, retirement, death, or upon an unforeseeable emergency, while still employed, provided IRS-specified criteria are met.

Vesting
Participants are fully vested in their accounts immediately.

Benefit
Lump sum or periodic benefit payment, at the option of the participant. Based on individual account balances and plan provisions. IRS permitted rollovers are also possible.

At June 30, 2011 the Deferred Compensation Plan had 23 participating employers, an increase of two from fiscal year 2010. The participating employers consist of:

DEFERRED COMPENSATION EMPLOYERS

Employers	June 30, 2011	June 30, 2010
State of Montana *	1	1
Counties	2	2
Colleges and Universities	5	6
School Districts	4	2
Cities	4	4
Other	7	6
Total	23	21

*The State of Montana includes 34 agencies; however, due to the nature of the reporting for the 457 plan we are unable to specifically determine which agencies have participating employees.

Contributions: The Deferred Compensation Plan is a voluntary, tax-deferred retirement plan designed to supplement retirement, Social Security and other retirement plans and savings. Participants designate the amount to contribute within IRC limitations.

Plan participants direct their deferred salary among the offered investment options. The investment options offered are selected by the PERB in compliance with their Investment Policy Statement, the advice of an independent investment analyst, and the statutorily-created Employee Investment Advisory Council. Participants may invest in any or all of the offered options and transfer between options on a daily basis, if desired.

The offered investment options fall into two primary types: (1) the fixed investment option and (2) the variable investment options. The variable investment options include mutual funds, bond funds and asset allocation funds. All options range from aggressive to conservative. The mutual funds cover all standard asset classes and categories. The asset allocation funds are preset funds that invest in the plans' underlying mutual funds to achieve a set investment objective. The investment options as of June 30, 2011 are as follows.

Deferred Compensation (457) Plan
Investment Options

International Stock Funds
Artisan International
Mutual Global Discovery Z
Dodge & Cox International
American Funds New Perspective R4

Small Company Stock Funds
Neuberger Berman Genesis-Trust
Vanguard Small Cap Growth Index
Vanguard Small Cap Index Signal

Mid Cap Company Stock Funds
Munder Mid-Cap Core Growth A
Columbia Mid-Cap Value Fund Z

Large Cap Stock Funds
Davis NY Venture A
Fidelity Contrafund
Vanguard Institutional Index
Calvert Social Investment Fund Equity

Balanced Funds
Dodge & Cox Balanced

Bond Funds
Neuberger Berman High Income Inv
PIMCO Total Return - Admin

Fixed Investment Options
Montana Fixed Fund

Asset Allocation Funds
Moderately Aggressive
Moderate
Conservative

In addition to the investments listed, plan participants previously had the option to direct a portion of their deferrals to a term life insurance policy provided through Allianz Life Insurance. The ability to invest in life insurance is allowed under the IRC and was offered to plan participants prior to life insurance being offered as a standard component of health insurance benefit packages. This investment option has been discontinued; however, plan participants who had previously elected this option may continue.

Fixed investments: The fixed investments of the Deferred Compensation Plan are administered through outside vendors Pacific Investment Management Company (PIMCO) and custodial bank, State Street Bank Kansas City (SSKC), and a third-party insurer, Aegon. When participants invest in the fixed investment options they are guaranteed a rate of return. The fixed investment employs a synthetic stable value strategy where the investment manager, PIMCO, manages a diversified bond portfolio and Aegon guarantees the participants principal investments and earnings. Aegon calculates the rate of return each quarter, called the "crediting rate", which is used to credit earnings to participant accounts. Aegon sets a fixed quarterly rate of return based on the investment manager's portfolio yield and duration.

MPERA has a Pooled Trust contract with Aegon, PIMCO and SSKC for all monies invested in the Fixed Investments in the PERS-DCRP and Deferred Compensation Plan. The Pooled Trust qualifies as a group trust under sections 401(a), including section 401(a)(24) and 501(a), of the IRC of 1986, as amended.

Administrative expenses and the revenues that fund them are accounted for within the plan. Expenses for the Deferred Compensation Plan can generally be classified as 1) administrative, including miscellaneous or 2) investment management. Following is a summary of all expenses.

Administrative funding: PERB's administrative fee is a basis point (or percent) fee based on account balances. On a quarterly basis, the record keeper, Great-West Retirement Services (Great-West), withholds the basis point fee from each plan participant's account and submits the remainder to the PERB after paying Great-West fees. They are recorded as *Miscellaneous Revenue* in the financial statements.

The PERB receives 12(b)(1) or re-allotment fees from certain mutual fund companies. These fees are normally charged by the mutual funds for the purpose of individual record keeping or marketing. Because the mutual fund companies involved in the Deferred Compensation Plan do not need to keep records of participants' accounts and do not market the plan, the fees are returned to the PERB. The PERB uses 12(b)(1) fees to pay administrative expenses associated with the Deferred Compensation Plan. These amounts are recorded as *Miscellaneous Revenue.*

Record keeping fees: The record keeper, Great-West, charges a set administrative fee to all plan participants. On a quarterly basis, the fees are withheld from each plan participant's account. These amounts are recorded as *Miscellaneous Expense* in the financial statements.

Fixed investment fees: The fixed investment crediting rate is declared net of expenses. Fees on the fixed investments are charged by each of the three providers, PIMCO, SSKC and Aegon. The fees are defined under each contract for specific services. The fees charged by PIMCO and SSKC for the externally managed fixed investments are classified as *Investment Expense*. The fees charged by Aegon are classified as *Miscellaneous Expense.*

Mutual fund/variable investments fee: All of the variable investments have investment management fees; some may have additional administrative fees. These fees are not presented on the financial statements. Mutual fund earnings are declared net of expenses, both investment management and administrative, in accordance with the Securities Exchange Commission and other regulatory authorities. Current reporting standards for mutual companies do not require costs to be made available in the detailed cost reports.

FY 2011 Schedule of Contribution Rates			
System	**Member**	**Employer**	**State**
PERS-DBRP*	**6.9%** for members hired prior to July 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%** of local government payroll – paid from the General Fund **0.37%** School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]
PERS-DCRP*	**6.9%** for members hired prior to July 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%** of local government payroll – paid from the General Fund **0.37**% School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]
JRS	**7.0%** [19-5-402, MCA]	**25.81%** [19-5-404, MCA]	
HPORS	**9.0%** - hired prior to 7-01-97 & not electing GABA **9.05%** - hired after 6-30-97 & 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]	
SRS	**9.245%** [19-7-403, MCA]	**10.115%** [19-7-404, MCA]	
GWPORS	**10.56%** [19-8-502, MCA]	**9.0%** [19-8-504, MCA]	
MPORS	**7.0%** - hired after 6-30-75 & prior to 7-1-79 & not electing GABA [19-9-710(b), MCA] **8.5%** - hired after 6-30-79 and prior to 7-1-97 & not electing GABA [19-9-710(c), MCA] **9.0%** - hired after 6-30-97 & 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 7-1-97 & not electing GABA [19-13-601(2)(a), MCA] **10.7%** - hired after 06-30-97 & 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]
VFCA			**5.0%** of fire insurance premiums, paid from the General Fund [19-17-301, MCA]

* Member contribution rates for members hired on or after July 1, 2011 increases to 7.9% of the member's compensation.

Public Employees' Retirement Board

A Component Unit of the State of Montana

Required Supplementary Information

Schedule of Funding Progress

(in thousands)

System	Actuarial Valuation Date	Actuarial Value of Assets[1] (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio % (a/b)	Covered Payroll[2] (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
PERS-DBRP	06/30/06	$ 3,459,084	$ 3,919,313	$ 460,229	88.26	$ 900,708	51.10
	06/30/07	3,825,234	4,201,251	376,017	91.05	947,424	39.69
	06/30/08	4,065,307	4,504,743	439,436	90.25	995,113	44.16
	06/30/09	4,002,212	4,792,819	790,607	83.50	1,043,215	75.79
	06/30/10	3,889,890	5,241,819	1,351,929	74.21	1,083,780	124.74
	06/30/11	**3,800,479**	**5,410,144**	**1,609,665**	**70.25**	**1,071,376**	**150.24**
JRS	06/30/06	51,808	37,159	(14,649)	139.42	4,762	-307.62
	06/30/07	57,778	36,863	(20,915)	156.74	4,841	-432.04
	06/30/08	62,040	39,435	(22,605)	157.32	5,096	-443.58
	06/30/09	61,929	41,848	(20,081)	147.98	5,110	-392.99
	06/30/10	61,277	42,513	(18,765)	144.13	5,687	-329.95
	06/30/11	**61,274**	**43,414**	**(17,860)**	**141.13**	**5,645**	**-316.38**
HPORS	06/30/06	87,189	112,002	24,813	77.85	7,878	314.97
	06/30/07	95,758	128,306	32,548	74.63	9,858	330.17
	06/30/08	101,500	134,683	33,183	75.36	10,866	305.38
	06/30/09	99,652	137,815	38,163	72.31	11,425	334.03
	06/30/10	97,204	151,177	53,973	64.30	13,036	414.03
	06/30/11	**95,274**	**155,742**	**60,468**	**61.17**	**12,472**	**484.83**
SRS	06/30/06	163,003	171,841	8,838	94.86	34,242	25.81
	06/30/07	183,894	189,036	5,142	97.28	43,611	11.79
	06/30/08	199,453	204,549	5,096	97.51	47,196	10.80
	06/30/09	200,690	223,893	23,203	89.64	51,457	45.09
	06/30/10	200,739	246,734	45,995	81.36	54,681	84.11
	06/30/11	**203,689**	**266,506**	**62,817**	**76.43**	**57,041**	**110.12**

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

[1] Refer to the "Notes to the Required Supplementary Information" for the Actuarial Asset Valuation Method (Page A-72).

[2] Applicable only to the PERS-DBRP, the annual covered payroll has been corrected for FY2006 - FY2009 due to a database field that was not sufficient in length. This correction also impacts the UAAL as a percent of covered payroll.

System	Actuarial Valuation Date	Actuarial Value of Assets [1] (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio % (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
GWPORS	06/30/06	$ 58,813	$ 64,183	$ 5,370	91.63	$ 25,846	20.78
	06/30/07	68,755	72,992	4,237	94.20	28,799	14.71
	06/30/08	77,511	83,449	5,938	92.88	32,365	18.35
	06/30/09	81,177	92,155	10,978	88.09	36,023	30.48
	06/30/10	85,151	113,855	28,704	74.79	39,436	72.79
	06/30/11	**90,437**	**119,881**	**29,444**	**75.44**	**38,306**	**76.87**
MPORS	06/30/06	175,919	291,099	115,180	60.43	27,644	416.65
	06/30/07	198,310	310,423	112,113	63.88	29,547	379.44
	06/30/08	212,312	327,556	115,244	64.82	32,181	358.11
	06/30/09	214,345	345,261	130,916	62.08	34,687	377.42
	06/30/10	217,545	380,393	162,848	57.19	37,220	437.52
	06/30/11	**221,669**	**401,381**	**179,712**	**55.23**	**39,470**	**455.30**
FURS	06/30/06	167,343	255,513	88,170	65.49	22,917	384.74
	06/30/07	188,545	269,399	80,854	69.99	24,250	333.42
	06/30/08	206,127	287,218	81,091	71.77	29,158	278.11
	06/30/09	209,775	306,236	96,460	68.50	30,160	319.83
	06/30/10	213,755	335,463	121,708	63.72	33,339	365.06
	06/30/11	**219,959**	**355,188**	**135,229**	**61.93**	**34,852**	**388.01**
VFCA	06/30/06	23,238	31,883	8,645	72.89	N/A	N/A
	06/30/07	25,862	31,599	5,737	81.84	N/A	N/A
	06/30/08	27,544	32,735	5,191	84.14	N/A	N/A
	06/30/09	27,226	33,548	6,322	81.16	N/A	N/A
	06/30/10	26,576	34,512	7,936	77.01	N/A	N/A
	06/30/11	**26,183**	**35,195**	**9,012**	**74.39**	**N/A**	**N/A**

Covered payroll is not applicable to VFCA because members are unpaid volunteers.

Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

Public Employees' Retirement Board

A Component Unit of the State of Montana

Required Supplementary Information

Schedule of Funding Progress for OPEB

(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio % (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2007		$ 1,047,666	$ 1,047,666	0.00	$1,326,012	79.03%
1/1/2009		$ 686,393	$ 686,393	0.00	$1,438,749	47.71%

As of June 30, 2011, the most recent actuarial valuation available was completed by the State of Montana for the calendar year ending December 31, 2009. The State of Montana finances claims on a pay-as-you-go basis and does not advance fund the OPEB liability. Therefore, the funded ratio remains at 0% at June 30, 2011.

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Public Employees' Retirement Board

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Required Supplementary Information

Schedule of Employer Contributions & Other Contributing Entities

System	Year Ended June 30	Annual Required Contributions	Actuarial Required Contribution Rate[1]	Percentage Contributed	Annual Required State Contribution [1]	Percentage Contributed
PERS-DBRP	2006 [2]	$ 70,885,689	7.87	89.50	$ 442,994	100.00
	2007 [2]	62,908,960	6.64	105.75	445,798	100.00
	2008 [2]	68,165,225	6.85	105.98	377,713	100.00
	2009 [2]	99,314,044	9.52	76.35	357,260	100.00
	2010	132,004,388	12.18	60.46	536,881	100.00
	2011	**144,957,239**	**13.53**	**54.56**	**545,643**	**100.00**
JRS[3]	2006	112,854	2.37	1,089.03		
	2007					
	2008					
	2009					
	2010					
	2011	**38,387**	**0.68**	**3,846.97**		
HPORS	2006	2,862,188	36.33	101.50	277,178	100.00
	2007	3,581,499	36.33	101.48	284,631	100.00
	2008	3,947,723	36.33	100.03	289,515	100.00
	2009	2,500,911	21.89	165.97	285,517	100.00
	2010	3,403,692	26.11	139.93	286,829	100.00
	2011	**3,926,052**	**31.48**	**115.69**	**278,464**	**100.00**
SRS	2006	3,896,731	11.38	90.42		
	2007	4,175,763	9.58	105.04		
	2008	4,443,543	9.42	108.78		
	2009	6,506,675	12.65	79.81		
	2010	7,734,578	14.15	72.88		
	2011	**8,747,310**	**15.34**	**68.75**		

Refer to the "Notes to the Required Supplementary Information" (Page A-72).

[1] The Annual Required State Contribution for HPORS includes a portion of the drivers' license fees. For MPORS and FURS it is based on covered payroll, which includes payroll adjustments.

[2] Applicable only to the PERS-DBRP, the annual covered payroll has been changed for FY2006 - FY2009 due to a database field that was not sufficient in length. This change impacts the the Annual Required Contributions and Percentage contributed.

[3] The actuarial value of assets is greater than the actuarial accrued liabilites for FY2007 - FY2010. The funding excess is 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.)

System	Year Ended June 30	Annual Required Contributions	Actuarial Required Contribution Rate[1]	Percentage Contributed	Annual Required State Contribution[1]	Percentage Contributed
GWPORS	2006	$ 2,336,515	9.04	102.34		
	2007	2,217,558	7.70	118.94		
	2008	2,540,673	7.85	117.23		
	2009	3,490,652	9.69	94.31		
	2010	4,917,654	12.47	73.45		
	2011	**4,903,232**	**12.80**	**71.85**		
MPORS	2006	3,983,471	14.41	101.30	8,118,982	100.77
	2007	4,258,134	14.41	100.58	8,678,793	100.00
	2008	4,637,223	14.41	111.19	9,451,808	100.00
	2009	3,454,837	9.96	146.35	10,185,974	100.00
	2010	3,896,969	10.47	176.04	10,931,612	100.00
	2011	**4,625,936**	**11.72**	**122.58**	**11,593,690**	**100.00**
FURS	2006	3,290,840	14.36	101.14	7,473,141	100.80
	2007	3,482,288	14.36	101.09	7,907,898	100.63
	2008	4,187,118	14.36	106.68	9,568,388	100.63
	2009	117,622	0.39	3,852.37	9,831,417	100.00
	2010	850,134	2.55	603.27	10,871,717	100.00
	2011	**1,341,808**	**3.85**	**373.29**	**11,365,441**	**100.00**
VFCA	2006				1,610,462	100.00
	2007				1,660,695	100.00
	2008				1,562,019	100.00
	2009				1,579,887	100.00
	2010				1,574,589	100.00
	2011				**1,596,436**	**100.00**

Public Employees' Retirement Board

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Notes to the Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of latest actuarial valuation follows:

	PERS-DBRP	JRS	HPORS
Valuation date	June 30, 2011	June 30, 2011	June 30, 2011
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open
Remaining amortization period in years:			
Unfunded Liability	Does not amortize[1]		48.2 [1]
Unfunded Credit [2]		0	
Asset valuation method	4-Year smoothed market	4-Year smoothed market	4-Year smoothed market
Actuarial assumptions:			
Investment rate of return compounded annually	7.75%	7.75%	7.75%
Projected salary increases			
General Wage Growth*	4.00%	4.00%	4.00%
Merit	0% - 6%	None	0% - 7.3%
*Includes inflation at	3.00%	3.00%	3.00%
Benefit Adjustments			
GABA	3% or 1.5% for new hires on or after July 1, 2007, after 1 year	3% after 1 yr	3% after 1 yr
Non-GABA	N/A	Biennial increase to salary of active member in like position	2% per yr service, not to exceed 5%, for probationary officer's base pay

[1] The amortization period for the unfunded actuarial liability in the PERS, SRS, GWPORS and HPORS exceeds 30 years.

[2] Assets are larger than the past service liability – creating an unfunded credit; the credit is amortized over future costs and the amortization period may not exceed 30 years.

SRS	GWPORS	MPORS	FURS	VFCA
June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011
Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level dollar amount, open
Does not amortize[1]	Does not amortize[1]	25	16	8.8 Based on Current Revenue
4-Year smoothed market	4-Year smoothed market	4-Year smoothed market	4-Year smoothed market	4-Year smoothed market
7.75%	7.75%	7.75%	7.75%	7.75%
4.00%	4.00%	4.00%	4.00%	N/A
0% - 7.3%	0% - 7.3%	0% - 7.3%	0% - 7.3%	N/A
3.00%	3.00%	3.00%	3.00%	
3% or 1.5% for new hires on or after July 1, 2007, after 1 year	3% or 1.5% for new hires on or after July 1, 2007, after 1 year	3% after 1 yr	3% after 1 yr	N/A
N/A	N/A	50% newly confirmed officer	50% newly confirmed officer	N/A

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Public Employees' Retirement Board

A Component Unit of the State of Montana

Schedule of Administrative Expenses

Year Ended June 30, 2011

	Defined Benefit Plans	PERS-DBRP Education Fund	Defined Contribution PERS-DCRP	Deferred Compensation (457) Plan
Personal Services				
Salaries	$ 1,320,234	$ 126,361	$ 147,749	$ 86,551
Board Members' Per Diem	6,847		1,135	968
Employee Benefits	440,039	44,450	52,191	29,599
Total Personal Services	1,767,120	170,811	201,075	117,118
Other Services				
Consulting Services	658,188	495	89,122	80,240
Legal Fees and Court Costs	18,617		218	130
Audit Fees	12,441		1,517	1,214
Medical Services	11,828			
Records Storage	25,369		2,819	
Pre-Retirement Seminars		500		
Computer Processing	172,509	194	19,451	2,574
Printing and Photocopy Charges	46,794	22,684	3,156	1,600
Warrant Writing Services	40,275		4,912	3,929
Other	161,493	1,134	19,840	15,711
Total Other Services	1,147,514	25,007	141,035	105,398
Communications				
Recruitment Costs	3,177		207	194
Postage and Mailing	75,488	4,913	601	4,852
Telephone	40,685	5,792	5,587	3,809
Total Communications	119,350	10,705	6,395	8,855
Other Expenses				
Supplies and Materials	114,036	5,713	13,444	11,092
Travel	30,794	7,308	8,187	6,771
Rent	191,263	20,433	25,505	17,829
Repairs and Maintenance	7,585	94	233	220
Compensated Absences	(4,718)	1,803	4,615	3,360
OPEB Expenses	71,768	7,424	8,709	4,790
Miscellaneous	206,223	9,910	16,871	12,116
Total Other Expenses	616,951	52,685	77,564	56,178
Total Administrative Expenses	**$ 3,650,935**	**$ 259,208**	**$ 426,069**	**$ 287,549**

Public Employees' Retirement Board

A Component Unit of the State of Montana

Schedule of Investment Expenses

Year Ended June 30, 2011

Plan	Investment Manager	Fees
PERS-DBRP	Board of Investments	$ 21,224,486
JRS	Board of Investments	339,071
HPORS	Board of Investments	530,344
SRS	Board of Investments	1,120,496
GWPORS	Board of Investments	492,958
MPORS	Board of Investments	1,167,589
FURS	Board of Investments	1,156,804
VFCA	Board of Investments	139,693
457	PIMCO	624,998
	State Street Bank	43,202
Total Investment Expense		**$ 26,839,641**

Public Employees' Retirement Board

A Component Unit of the State of Montana

Schedule of Consultants

Year Ended June 30, 2011

Individual or Firm	Nature of Service	Amount Paid
AMDEC Software	Computer Programming Services	$ 411,355
Provaliant Retirement, LLC.	Project Management	184,924
Cheiron	Actuarial Consultant	127,724
Wilshire Associates Inc.	Mutual Funds Performance Review	125,583
Ice Miller	Tax Consultant	25,050
Legislative Audit Division, Legislative Branch	Independent Auditors	15,172
Timothy D Schofield, MD PLLC	Medical Consultant	3,633

Public Employees' Retirement Board

A Component Unit of the State of Montana

Detail of Fiduciary Net Assets (PERS-DBRP and PERS-DBEd)

as of June 30, 2011

	PERS-DBRP	PERS-DBEd	TOTAL
Assets			
Cash and Short-term Investments	$ 60,705,584	$2,222,562	$ 62,928,146
Securities Lending Collateral	195,502,210	29,749	195,531,959
Receivables			
Interest	5,957,150	452	5,957,602
Accounts Receivable	3,862,173		3,862,173
Due from Other Funds	385,115	19,071	404,186
Notes Receivable	11,739		11,739
Total Receivables	10,216,177	19,523	10,235,700
Investments, at fair value			
Montana Domestic Equity Pool (MDEP)	1,434,773,301		1,434,773,301
Retirement Fund Bond Pool (RFBP)	969,118,608		969,118,608
Montana International Pool (MTIP)	727,764,569		727,764,569
Montana Private Equity Pool (MPEP)	484,323,775		484,323,775
Montana Real Estate Pool (MTRP)	256,367,580		256,367,580
Structured Investment Vehicles (SIV)	985,472	37,956	1,023,428
Total Investments	3,873,333,305	37,956	3,873,371,261
Capital Assets			
Property and Equipment, at cost, net of Accumulated Depreciation	513		513
Intangible Assets, at cost, net of Amortization Expense	105,037		105,037
Total Capital Assets	105,550		105,550
Total Assets	4,139,862,826	2,309,790	4,142,172,616
Liabilities			
Securities Lending Liability	195,502,210	29,749	195,531,959
Accounts Payable	570,739	8,104	578,843
Due to Other Funds	280,841	919	281,760
Deferred Revenue	3,161,779		3,161,779
Compensated Absences	210,659	13,393	224,052
OPEB Implicit Rate Subsidy LT	257,976	28,493	286,469
Total Liabilities	199,984,204	80,658	200,064,862
Net Assets Held in Trust for Pension Benefits	**$3,939,878,622**	**$2,229,132**	**$3,942,107,754**

Public Employees' Retirement Board

A Component Unit of the State of Montana

Detail of Changes in Fiduciary Net Assets (PERS-DBRP and PERS-DBEd)

for the Fiscal Year Ended June 30, 2011

	PERS-DBRP	PERS-DBEd	TOTAL
Additions			
Contributions			
Employer	$ 78,656,685	$ 433,767	$ 79,090,452
Plan Member	77,797,639		77,797,639
Membership Fees	96		96
Interest Reserve Buyback	76,528		76,528
Retirement Incentive Program	82,925		82,925
Miscellaneous Revenue	167	114	281
State Contributions	545,643		545,643
Total Contributions	157,159,683	433,881	157,593,564
Investment Income			
Net Appreciation (Depreciation)			
in Fair Value of Investments	613,578,435		613,578,435
Interest	106,054,421	5,774	106,060,195
Dividends	15,826,516		15,826,516
Investment Expense	(21,224,486)		(21,224,486)
Net Investment Income	714,234,886	5,774	714,240,660
Securities Lending Income			
Securities Lending Income	1,602,865	1,085	1,603,950
Securities Lending Rebate and Fees	(445,953)	(230)	(446,183)
Net Securities Lending Income	1,156,912	855	1,157,767
Total Net Investment Income	715,391,798	6,629	715,398,427
Total Additions	872,551,481	440,510	872,991,991
Deductions			
Benefits	231,222,603		231,222,603
Refunds/Distributions	11,302,115		11,302,115
Refunds to Other Plans	233,688		233,688
Transfers to DCRP	609,001		609,001
Transfers to ORP	139,945		139,945
OPEB Expenses	71,036	7,424	78,460
Administrative Expenses	2,997,555	251,784	3,249,339
Total Deductions	246,575,943	259,208	246,835,151
Net Increase (Decrease)	625,975,538	181,302	626,156,840
Net Assets Held in Trust for Pension Benefits			
Beginning of Year	**3,313,857,808**	**2,047,830**	**3,315,905,638**
Prior Period Adjusment	**45,276**		**45,276**
End of Year	**$3,939,878,622**	**$2,229,132**	**$3,942,107,754**

Public Employees' Retirement Board

A Component Unit of the State of Montana

Detail of Fiduciary Net Assets (PERS-DCRP, PERS-DCEd and PERS-DC Disability)

as of June 30, 2011

	PERS-DCRP	PERS-DCEd	PERS-DC DISABILITY	TOTAL
Assets				
Cash and Short-term Investments	$ 1,542,753	$ 168,499	$ 1,634,199	$ 3,345,451
Cash Collateral - SI	19,836	2,144	22,039	44,019
Receivables				
Interest	299	34	329	662
Accounts Receivables	36,103			36,103
Due from Other Funds	254,878	919	6,892	262,689
Total Receivables	291,280	953	7,221	299,454
Investments, at fair value				
Defined Contributions Fixed Investments	7,970,596			7,970,596
Defined Contributions Variable Investments	67,271,032			67,271,032
Structured Investment Vehicles (SIV)	25,308	2,736	28,119	56,163
Total Investments	75,266,936	2,736	28,119	75,297,791
Intangible Assets, at cost,				
net of Amortization Expense	3,070			3,070
Total Assets	77,123,875	174,332	1,691,578	78,989,785
Liabilities				
Accounts Payable	102,633	1,231		103,864
Compensated Absences	19,300	2,004		21,304
Securities Lending Liability	19,836	2,144	22,039	44,019
OPEB Implicit Rate Subisidy LT	30,634	2,298		32,932
Total Liabilities	172,403	7,677	22,039	202,118
Net Assets Held in Trust for Pension Benefits	**$ 76,951,472**	**$ 166,655**	**$ 1,669,539**	**$ 78,787,666**

Public Employees' Retirement Board

A Component Unit of the State of Montana

Detail of Changes in Fiduciary Net Assets (PERS-DCRP, PERS-DCEd and PERS-DC Disability)

for the Fiscal Year Ended June 30, 2011

	PERS-DCRP	PERS-DCEd	PERS-DC DISABILITY	TOTAL
Additions				
Contributions				
Employer	$ 3,667,960	$ 34,932	$ 261,983	$ 3,964,875
Plan Member	6,099,768			6,099,768
Miscellaneous Revenue	275,243	7,428		282,671
Forfeiture of Nonvested Member	415,137			415,137
Total Contributions	10,458,108	42,360	261,983	10,762,451
Investment Income				
Net Appreciation (Depreciation)				
in Fair Value of Investments	11,355,783			11,355,783
Interest	1,333,946			1,333,946
Net Investment Income	12,689,729			12,689,729
Securities Lending Income				
Securities Lending Income	3,679	441	4,677	8,797
Securities Lending Rebate and Fees	(146)	(18)		(164)
Net Securities Lending Income	3,533	423	4,677	8,633
Total Net Investment Income	12,693,262	423	4,677	12,698,362
Total Additions	23,151,370	42,783	266,660	23,460,813
Deductions				
Distributions	3,618,570			3,618,570
Benefits			18,531	18,531
OPEB Expensee	8,709			8,709
Administrative Expenses	379,978	37,382		417,360
Miscellaneous Expenses	298,823			298,823
Total Deductions	4,306,080	37,382	18,531	4,361,993
Net Increase (Decrease)	18,845,290	5,401	248,129	19,098,820
Net Assets Held in Trust for Pension Benefits				
Beginning of Year	**58,106,182**	**161,254**	**1,421,410**	**59,688,846**
Prior Period Adjustment				
End of Year	**$ 76,951,472**	**$ 166,655**	**$ 1,669,539**	**$ 78,787,666**

PUBLIC EMPLOYEES' RETIREMENT BOARD

BOARD RESPONSE

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION

BRIAN SCHWEITZER
GOVERNOR

STATE OF MONTANA

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HELENA, MT 59620-0131

December 2, 2011

Tori Hunthausen, CPA, Legislative Auditor
Legislative Audit Division
State Capitol, Room 160
Helena, MT 59650

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LEGISLATIVE AUDIT DIV.

Dear Ms. Hunthausen:

We appreciate the opportunity to respond to the recommendation in the Financial Audit of the Public Employees' Retirement Board (PERB) for fiscal year ended June 30, 2011. We understand there is one recommendation regarding the restoration of the actuarial soundness to the Public Employees' Retirement System-Defined Benefit Retirement Plan, Sheriffs' Retirement System, the Game Wardens' and Peace Officers' Retirement System and the Highway Patrol Officers' Retirement System.

<u>Recommendation #1</u>
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 the Highway Patrol Officers' Retirement System to restore the actuarial soundness as required by the Montana Constitution and state law.

<u>Response</u>
We concur. The retirement systems 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.

We appreciate the professionalism demonstrated by the audit staff and would like to extend our appreciation to you for the courtesy and consideration extended to MPERA during the audit.

Thank you for your assistance.

Sincerely,

Roxanne M. Minnehan

Roxanne M. Minnehan
Executive Director