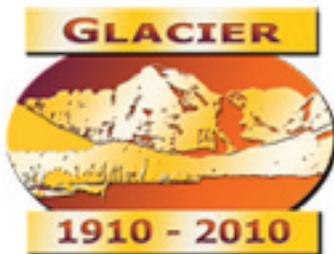


MONTANA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR FISCAL YEAR ENDED
JUNE 30, 2010**

REPORT LAYOUT

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section contains the transmittal letter, state organization chart, and a list of principal state officials. The Financial Section includes the independent auditor's report, the management's discussion and analysis, the basic financial statements, and the combining statements and schedules. The Statistical Section includes fiscal, economic, and demographic information about the State.

INTERNET ACCESS

The Comprehensive Annual Report is available at the Department of Administration, State Accounting Division's web site at:

<http://accounting.mt.gov/cafr/default.mcp>

COVER Photographs:

Clement Mountain Photo, Glacier National Park, courtesy of Montana Office of Tourism
Lake McDonald, Glacier National Park, courtesy of Lynn Pfankuch

State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2010

Prepared By:

Department of Administration

Janet Kelly, Director

Sheryl Olson, Deputy Director

State Accounting Division

Paul Christofferson, CPA, Administrator

Accounting Bureau

Julie Feldman, Bureau Chief

Accounting Principles/Financial Reporting Section

Cody Carter, CPA

Charles Idehen, CPA

Heather Jarvis, Accountant

Ingrid Mallo, CPA

Ginger Pfankuch, Accountant

Dan Stanger, Accountant

Operations Support

State Accounting, Budgeting, and Human Resource System (SABHRS)
Finance and Budget Bureau

Vincent Bell

Mariann Huso

Dan Mossman

State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2010

Table of Contents

INTRODUCTORY SECTION

	Page
Title Page.....	1
Table of Contents.....	2
Letter of Transmittal.....	6
Certificate of Achievement for Excellence in Financial Reporting.....	11
State Organization Chart.....	12
Selected State Officials.....	13

FINANCIAL SECTION

Independent Auditor's Report.....	16
Management's Discussion and Analysis.....	20

Basic Financial Statements

Government-wide Financial Statements	
Statement of Net Assets.....	32
Statement of Activities.....	34
Governmental Fund Financial Statements	
Balance Sheet.....	38
Reconciliation of Balance Sheet – Governmental Funds to the Statement of Net Assets.....	40
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	42
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities.....	44
Proprietary Fund Financial Statements	
Statement of Net Assets.....	48
Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	50
Statement of Cash Flows.....	52
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets.....	56
Statement of Changes in Fiduciary Net Assets.....	57
Component Unit Financial Statements	
Combining Statement of Net Assets.....	60
Combining Statement of Activities.....	62
Notes to the Financial Statements	
Note 1 – Summary of Significant Accounting Policies.....	64
Note 2 – Other Accounting Issues.....	74
Note 3 – Cash/Cash Equivalents and Investments.....	75
Note 4 – Disaggregation of Accounts Receivable and Payable.....	90
Note 5 – Capital Assets.....	92
Note 6 – Retirement Plans.....	94
Note 7 – Other Postemployment Benefits.....	107
Note 8 – Risk Management.....	112

Notes to the Financial Statements (<i>continued</i>)	
Note 9 – Commitments.....	118
Note 10 – Leases/Installment Purchases Payable.....	120
Note 11 – State Debt.....	121
Note 12 – Interfund Balances and Transfers.....	131
Note 13 – Fund Deficits.....	135
Note 14 – Major Purpose Presentation.....	136
Note 15 – Related Party Transactions.....	138
Note 16 – Contingencies.....	138
Note 17 – Subsequent Events.....	142
Note 18 – Material Violations of Finance-Related Legal Provisions.....	143

Required Supplementary Information

Budgetary Comparison Schedule – General and Major Special Revenue Funds.....	146
Notes to the Required Supplementary Information – Budgetary Reporting.....	148
Pension Plan Information – Schedule of Funding Progress.....	149
Notes to the Required Supplementary Information – Other Postemployment Benefits Plan Information.....	150
Other Postemployment Benefits Plan Information – Schedule of Funding Progress.....	150

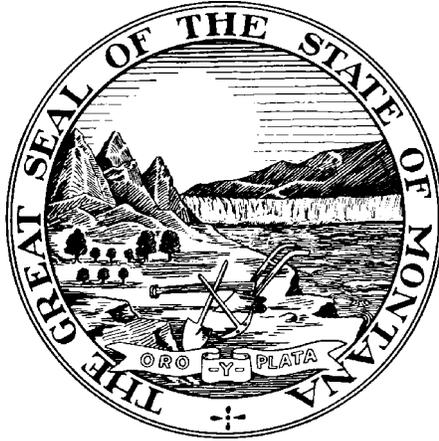
Supplementary Information

Nonmajor Governmental Funds	
Combining Balance Sheet – Governmental Funds by Fund Type.....	152
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds by Fund Type.....	153
Combining Balance Sheet – Debt Service Funds.....	156
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Debt Service Funds.....	158
Combining Balance Sheet – Capital Projects Funds.....	162
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Capital Projects Funds.....	163
Combining Balance Sheet – Permanent Funds.....	166
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Permanent Funds.....	168
Proprietary Funds	
Nonmajor Enterprise Funds	
Combining Statement of Net Assets.....	172
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	180
Combining Statement of Cash Flows.....	184
Internal Service Funds	
Combining Statement of Net Assets.....	194
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	198
Combining Statement of Cash Flows.....	202
Fiduciary Funds	
Pension (and Other Employee Benefit) Trust Funds	
Combining Statement of Fiduciary Net Assets.....	212
Combining Statement of Changes in Fiduciary Net Assets.....	214
Private-Purpose Trust Funds	
Combining Statement of Fiduciary Net Assets.....	218
Combining Statement of Changes in Fiduciary Net Assets.....	220
Agency Funds	
Combining Statement of Fiduciary Net Assets.....	224
Combining Statement of Changes in Assets and Liabilities.....	226

STATISTICAL SECTION

Index to the Statistical Sections	229
Schedule A-1 – Net Assets by Component	230
Schedule A-2 – Change in Net Assets	232
Schedule A-3 – Fund Balances, Governmental Funds.....	236
Schedule A-4 – Changes in Fund Balances, Governmental Funds.....	238
Schedule B-1 – Personal Income by Industry	240
Schedule B-2 – Personal Income Tax Rates	241
Schedule B-3 – Personal Income Tax Filers and Liability by Income Level.....	242
Schedule C-1 – Ratios of Outstanding Debt by Type	243
Schedule C-2 – Pledged Revenue Coverage.....	245
Schedule C-3 – Ratios of General Bonded Debt Outstanding	250
Schedule D-1 – Demographic and Economic Statistics.....	251
Schedule D-2 – Principal Employers	252
Schedule E-1 – Full-Time Equivalent State Employees by Function/Program	254
Schedule E-2 – Operating Indicators by Function/Program	256
Schedule E-3 – Capital Asset Statistics by Function/Program	260

INTRODUCTORY SECTION



**DEPARTMENT OF ADMINISTRATION
STATE ACCOUNTING DIVISION**



BRIAN SCHWEITZER, GOVERNOR

MITCHELL BUILDING
HELENA, MT 59620-0102

STATE OF MONTANA

Accounting Bureau Rm. 255 PO Box 200102 (406) 444-3092	SABHRS Finance and Budget Bureau Rm. 270 PO Box 200102 (406) 444-5700	Treasury Unit Rm. 261 PO Box 200140 Helena, MT 59620-0140 (406) 444-2624	Local Government Services Bureau 301 S. Park, Rm. 340 PO Box 200547 Helena, MT 59620-0547 (406) 841-2909
---	--	--	---

January 6, 2011

To the Citizens, Governor, and Members of the Legislature of the State of Montana:

In accordance with Title 17, Chapter 2, Part 110, Montana Code Annotated (MCA), we are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the State of Montana for the fiscal year ended June 30, 2010. Responsibility for the accuracy of the data presented and the completeness and fairness of the presentation rests with the Department of Administration. To the best of our knowledge and belief, the enclosed data are accurate in all material respects, and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the State of Montana. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

DESCRIPTION OF THE CAFR

This report and the accompanying financial statements and statistical tables were prepared in accordance with standards set forth by the Governmental Accounting Standards Board (GASB).

This CAFR is divided into three main sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, an organization chart for the State, and a table of contents. The financial section contains management's discussion and analysis, the independent auditor's report, government-wide financial statements, fund financial statements, notes to the financial statements, combining statements by fund type, and other schedules. The statistical section includes financial, economic, and demographic data.

This report includes all funds of those entities that comprise the State of Montana (the primary government) and its component units. The component units are entities that are legally separate from the State, but for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body; and (1) the State is able to impose its will on that organization; or (2) there is the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. The following component units are included in the State's financial reporting entity: Housing Authority, Facility Finance Authority, State Compensation Insurance Fund (Old and New), Montana State University, University of Montana, Public Employees Retirement Board, and Teachers Retirement System. These component units are discretely presented in the State's financial statements.

PROFILE OF THE GOVERNMENT

Montana became the 41st state when it was admitted to the Union in 1889, 25 years after the attainment of territorial status. While Montana has an area of 145,552 square miles, and is the nation's fourth largest state, it is also one of the most sparsely populated, with an estimated population of 974,989. Montana is vast, including rolling plains, the Northern Rocky Mountains, all of Glacier National Park, four of the five entrances to Yellowstone National Park, wheat farms, cattle ranches, tribal lands, and extensive natural resources.

In 1972, a constitutional convention convened, rewriting the State's constitution and establishing the current governmental structure. As shown in the organizational chart on page 12, state government is divided into three separate branches: legislative, executive, and judicial. Montana's Legislature consists of 50 senators and 100 representatives elected from single-member districts. The Legislature meets in regular biennial sessions for 90 days in odd-numbered years. Montana is governed by its constitution, and its laws are administered by its executive branch officers and various

boards and commissions. State government services provided to citizens include building and maintaining roads; providing public safety, health, and environmental protection services to protect the general welfare of the State's citizens; helping adults, children, and families through difficult times such as abuse, divorce, illness, death, and unemployment; fostering an attractive business climate to encourage economic growth; and protecting public lands and natural resources for conservation and recreational activities. The State also provides significant financial support to its higher education institutions, local governments, and school districts to help those entities meet the specific needs of their constituents.

ECONOMIC CONDITION AND OUTLOOK

Montana's primary economic base remains concentrated in agriculture, mining, wood products and other manufacturing, and nonresident travel. Montana's economy entered a recession at the end of 2008 that continued through 2009 and the first half of calendar year 2010. The recession in Montana has most impacted the areas of nonresident travel, and manufacturing (including forest products and construction). As a result of the recession, Montana's economy shrank by an estimated 1.9% in 2009 and, as a modest recovery is expected to begin, is projected to grow by an estimated 1.3% in 2010. The agricultural sector of the economy recovered slightly in 2010. The mining and government sectors of the economy have not been significantly impacted by the recession. Growth in the government workforce and related federal stimulus expenditures helped stabilize the State's economy. Overall, Montana's non-agricultural employment declined an estimated 2.8% in 2009. The decline slowed to an estimated 0.3% decrease in the first half of 2010. The overall unemployment rate increased from 5.4% to 6.7% in calendar year 2009. The rise in unemployment continued through June 2010 resulting in a rate of 7.3%. Montana's personal and corporate income tax revenues continued their decline in fiscal year 2010. The revenue from these sources appeared to be recovering in the first quarter of fiscal year 2011. For a more in-depth analysis of the impact of the recession on the State's financial position, the reader should refer to management's discussion and analysis and the financial statements contained in the CAFR.

Montana's wheat yields increased in 2010, with production projected to reach 215.4 million bushels, compared to the 2009 production level of 176.6 million bushels. Winter wheat yields increased to 93.6 million bushels, 5% higher than the 2009 level of 89.5 million bushels. Spring wheat yields reached 103.7 million bushels, up 47% from 2009. Durum production is estimated at 18.0 million bushels, up 9 percent from 2009. The overall increase in spring wheat production resulted from increased acreage planted and harvested in combination with overall record yields. Acres of winter wheat planted decreased 20%, but record yields of 48 bushels per acre resulted in an overall production increase. Durum producers seeded less acreage and obtained 15 bushels more per acre than in 2009 leading to an overall increase in production. Wheat prices were slightly lower in 2010, falling in the \$4.17 to \$5.83 per bushel range, reflecting the impact of the global economic downturn.

Montana's other major agricultural commodities include oats, barley, and cattle. Oat production in Montana decreased to an estimated 1.6 million bushels in 2010, representing an 8% decrease from 2009 levels. Barley production is estimated at 38.4 million bushels, which is 6% lower than last year. Montana's cattle herd decreased in 2010 to an estimated 2.55 million head. Montana ranks eleventh in the U.S. cattle and calf industry. Montana's 2008 receipts from cattle sales exceeded \$1.3 billion.

The recession did not significantly impact Montana's manufacturing industry until 2009. In 2009 employment in this industry, not including the self-employed, dropped from 20,200 to 19,100, or by 5.5%. This decline in employment has continued into the first half of 2010 with June's employment level ending at 17,400 for an additional 8.9% decrease. Including self-employed workers, the 2009 decline was from 23,800 to 21,400 employees. The value of production within the manufacturing sector dropped an estimated \$1 billion to approximately \$7 billion. Overall workers earnings dropped an estimated \$110 million to an estimated \$1 billion.

As a result of the continued decline in the housing market, prices for lumber and other wood products were again lower in 2009. The price decreases, coupled with the unavailability of raw materials, has led to a continuing decline in production. With timber production volume around 305 million board feet for the year, the timber harvest was the lowest since 1945. Estimated total sales value of the State's primary wood and paper products in 2009 was \$550 million, down about \$160 million from 2008. The total wood products industry estimated employment of 7,070 workers for 2009 was lower than the estimated 2008 level of 8,840. The 2009 lumber production level was 415 million board feet, down from 710 million board feet in 2008. Most major and smaller mills either closed or curtailed operations during 2009.

Nonresident travel to Montana in 2009 decreased an estimated 1% to approximately 10.0 million visitors. Overall visitor numbers for the national parks were either higher or unchanged. The visitor numbers for Yellowstone Park increased an

estimated 3.3% from 3 million visitors to just under 3.3 million visitors. Visits to Glacier Park remained unchanged at just over 2 million visitors. Nonresident travelers contribute to the tax base by paying the lodging tax; excise taxes, such as those on gasoline; and indirectly, by supporting employment in industries that pay corporate taxes and whose workers pay income, property, and other taxes. Estimated non-resident direct travel expenditures in Montana totaled \$2.3 billion in 2009, representing a decrease of \$0.4 billion. The estimated economic benefit of nonresident travel in Montana has dropped from \$4.2 billion for calendar year 2008 to \$3.5 billion for 2009, representing a \$687 million decrease (16.55%). This decrease was significantly less than the initial -2% estimated for calendar year 2009.

As of the end of calendar year 2008 an estimated 321 million barrels of proven oil reserves existed under Montana's land. As of the date of this letter these numbers have not been updated for 2009. These do not reflect the projected additional reserves existing in the Bakken and Tyler formations, Montana shares with North and South Dakota, that can be developed using new drilling technologies. In 2010, due to a decrease in crude oil and natural gas prices, the State saw a reduction in production and exploration activity, with estimated crude oil production for the state at 27.7 million barrels. This represents a 12.1% decrease from the 2008 production levels of 31.5 million barrels. The decline continued in fiscal year 2010 with a 21.3% reduction in production through June, when compared to 2009 information for the same period.

Historically, mining has been a significant part of Montana's economy. While there is no published data on proven reserves for metals mining, Montana has produced copper, molybdenum, lead, zinc, palladium, gold, silver, nickel, chromate, and other metals. The State currently has active metals mines producing primarily palladium, platinum, copper, molybdenum, gold, silver, lead, and zinc. In 2008 these active mines employed approximately 2,500 employees. Regulatory and siting issues, a shortage of experienced workers, the unavailability of mining supplies and venture capital, and the high cost of the fuel and power required to extract these metals, have impacted the potential future development in metals mining within the State. Montana has non-metals mines producing garnets, talc and limestone/cement. In 2008 these mines employed approximately 350 employees. The recession has minimally impacted this sector of the economy.

Montana's total coal reserves were estimated at 119,017 million short tons with recoverable reserves of 74,770 million short tons in 2009. This represents 24% of the total, and 29% of the recoverable, reserves in the U.S. Of these reserves 855 million short tons of coal, 8% of the US total, are located at producing mine sites. During 2009, Montana's coal production decreased to 40,266 thousand short tons (-15.7%). Although overall coal production was down in 2009, production through the first half of calendar year 2010 has increased by 930,000 short tons (4.7%). In a related issue, construction on the first new major power transmission line in Montana since the 1970s began during the fall of 2009 and continued into 2010. While this power transmission line is primarily intended for transmission of wind generated electricity, it will also be available to carry electricity generated from other sources, including coal.

The recession in Montana primarily impacted the secondary and tertiary sectors of the economy. As in most other states this recession has most impacted the construction industry. Employment in this industry declined from 29,700 to 22,900, or 22.9%, in calendar year 2009. This decline slowed significantly but continued into the first half of 2010 with the industry employment for June 2010 reported at 22,400 workers. This represents an additional drop of 0.5%. The recession also significantly impacted the trade, transportation and utilities and the leisure and hospitality sectors (including the non-resident travel related employment above) resulting in declines from 91,600 to 88,300, or 3.3% and 61,200 to 57,600, or 3.6%, respectively during 2009. The 2009 decrease in employment in these sectors was partially offset by an increase in the governmental and education and health services sectors from 85,900 to 89,000, or 3.1% and 60,100 to 62,200, or 2.1%, respectively.

MAJOR INITIATIVES

At the close of fiscal year 2010, the General Fund unreserved, undesignated fund balance decreased. This decrease was not to level expected by the 61st legislature and left Montana in much better financial condition than many other states in the US. The limited impact of the recession on the General Fund resulted primarily from lower than budgeted expenditures. The federal government's continuation of the increased Medicaid match combined with reduced educational expenditures, resulting from the Otter Creek Coal Lease Royalty payment received by the State, and the Governor's 5% expenditure reduction, resulted in the lower than budgeted General Fund expenditures. The corporate and personal income tax revenue decreases encountered in fiscal year 2010 have not continued into the first half of fiscal year 2011.

Both the decreased revenue and related expenditure activity are discussed in more detail in the management discussion and analysis included in this report.

FINANCIAL INFORMATION

Montana's Statewide Budgeting, Accounting, and Human Resource System (SABHRS) is a centrally maintained, fully computerized, double-entry accounting system. SABHRS records are computer-edited.

Management of the State is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss or misuse, and that adequate accounting data are compiled to allow for the preparation of financial statements in accordance with generally accepted accounting principles. In developing and evaluating the State's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that the above objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary restrictions are imposed via appropriations approved by the Legislature or established administratively as provided for by state law. Appropriations are required by state law for the general, state and federal special revenue, and capital projects funds. The level of budgetary control is generally established by fund. SABHRS is designed to provide budgetary control by preventing spending in excess of legislative and administrative authority and/or available cash. SABHRS also provides for encumbrance accounting as a technique for accomplishing budgetary control.

General Fund Balance

The unreserved, undesignated fund balance of the General Fund was reported at \$392.5 million at June 30, 2009. This compares to a combined unassigned and assigned (spendable) fund balance of \$322.4 million at June 30, 2010. The \$322.4 million fund balance consists of \$83.3 million assigned and \$239.1 million unassigned. The change in terminology results from the early implementation of GASB Statement 54 for fiscal year 2010. This represents a decrease of \$70.1 million (17.9%). This decrease was anticipated in the budget adopted by the previous legislature.

Cash Management

The uniform investment program established by the 1972 Montana Constitution directs that the Board of Investments has sole authority to invest state funds. The board operates under the "prudent person principle", which requires the board to (1) discharge its duties in the same manner as that of a prudent person acting in a like capacity with the same resources and aims; (2) diversify the holdings of each fund to minimize the risk of loss and maximize the rate of return; and (3) discharge duties solely in the interest of, and for the benefit of, the funds managed. Permissible investments include bonds, notes, debentures, equipment obligations, common stock (pension trust and Montana State fund only), commercial paper, bankers acceptances, interest bearing deposits in Montana financial institutions, real estate, and any other investment in a Montana business that continues existing jobs or creates new jobs. These investments are subject to statutory restrictions for quality and size of holdings.

Unless otherwise provided by law, treasury cash is pooled for investment, regardless of the fund from which it is deposited, and the pooled investment earnings are credited to the General Fund. The board reported total investment income from investments under its management of \$422 million, an increase of 22% from the \$345 million earned last year. The book value of board-managed investments increased by approximately \$306 million, or 2.6%, to \$12.2 billion at fiscal year-end 2010. The board publishes an annual audited report of all its investment activity. That report may be referenced for more in-depth investment information.

Other Post Employment Benefits - Implied Rate Subsidy Liability

The State of Montana reported the "implied rate subsidy" liability, required under the Governmental Accounting Standards Board (GASB) Statement No. 45, in this financial report and the related financial statements. Although the State reported this liability, and related expenses and expenditures, the State does not agree that this represents a legal liability and further believes that the presentation of this activity in the financial statements will eventually be misleading to the users of the statements. In this, the third year of implementation, the unfunded, net OPEB obligation, is \$122.5 million for the state system, and \$56.2 million for the Montana University System plans.

The State plans to continue funding the employee health insurance plan on a "pay as you go" basis, and does not intend to fund this liability. Because the State is not funding this liability, it will increase in 1/30th increments, plus interest, and within a few years, the financial statements will reflect the impact of a very large "implied rate subsidy" liability that does not have legal substance. The total actuarially accrued liability, which, absent a change in position by GASB, will be recorded on the State accounting system over the next 27 years, is estimated at \$357.7 and \$183.2 million for the State

and MUS systems, respectively. Accrued interest will further inflate this over time. We submitted a request to have GASB reconsider the requirement to report the implied rate subsidy. GASB refused to revisit this issue. A copy of the letter to GASB providing the our concerns with the implied rate subsidy reporting, required under GASB Statement No. 45, is available upon request.

INDEPENDENT AUDIT

The financial statements contained in Montana's Comprehensive Annual Financial Report were audited in accordance with generally accepted auditing standards by the State's Legislative Audit Division. The Legislative Auditor is appointed by, and reports to, the Legislative Audit Committee. The Deputy Legislative Auditor issued an unqualified opinion on the State's financial statements for fiscal year 2010.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Montana for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009. This was the twenty second year that the State received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to conform to the Certificate of Achievement Program requirements; we are submitting it to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated service of the entire staff of the Accounting Bureau and the cooperation of accounting personnel at the individual state agencies. I would like to express my appreciation to the Accounting Bureau and other agency personnel who participated in the preparation of this document. I would also like to thank the Legislature and all state agencies for their interest and support in planning and conducting the financial operations of Montana in a professional, responsible, and progressive manner.

Respectfully submitted,

/s/ Paul A Christofferson

Paul A. Christofferson, CPA, Administrator
State Accounting Division
Department of Administration

/s/ Julie Feldman

Julie Feldman, Bureau Chief
State Accounting Bureau
Department of Administration

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Montana

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



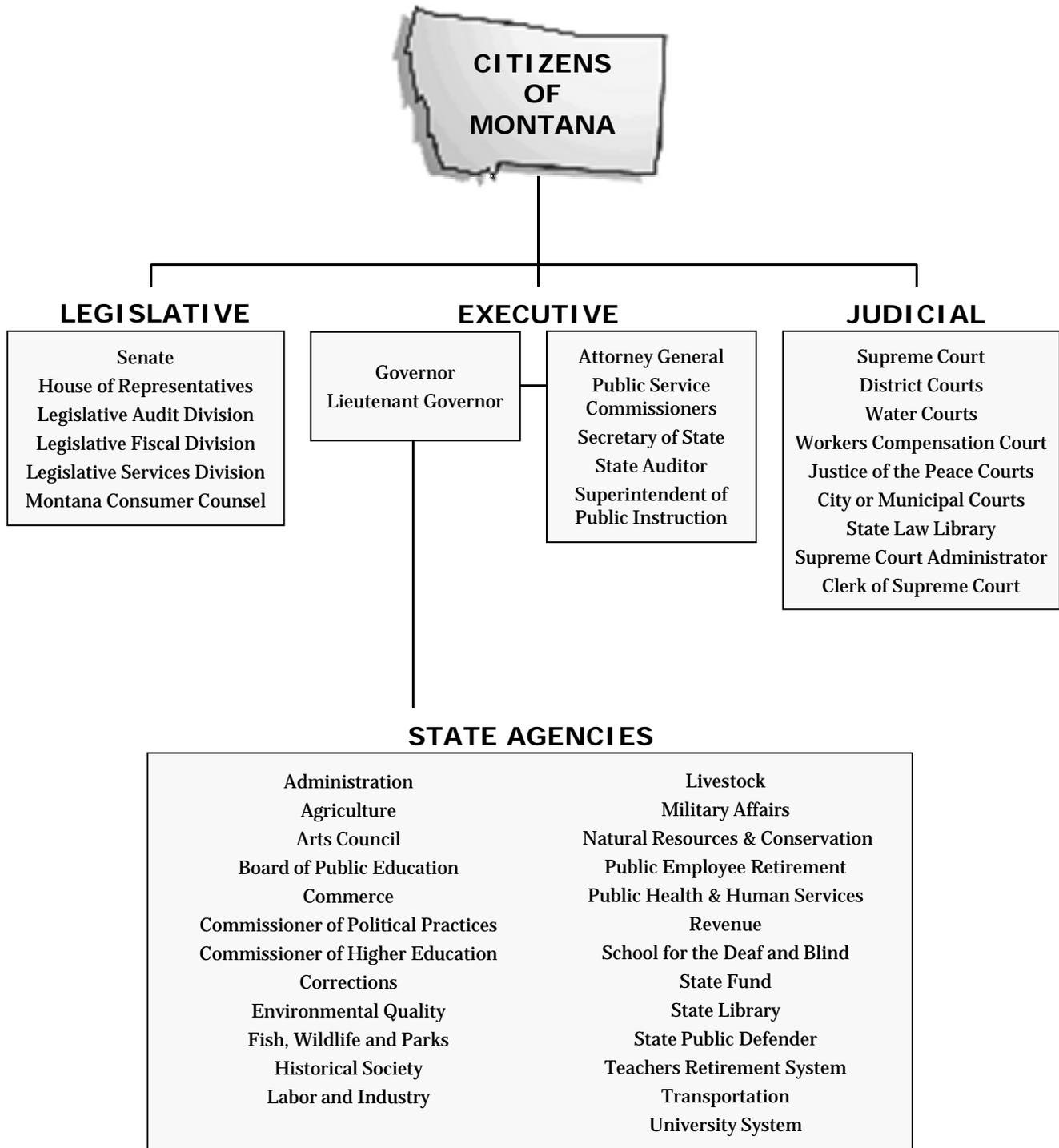
A stylized handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

STATE OF MONTANA ORGANIZATION CHART



State of Montana
SELECTED STATE OFFICIALS

EXECUTIVE

Brian Schweitzer

Governor

John Bohlinger

Lieutenant Governor

JUDICIAL

Mike McGrath

Chief Justice

LEGISLATIVE

Robert Story

President of the Senate

Bob Bergren

Speaker of the House

This page intentionally left blank.

FINANCIAL SECTION



LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

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

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

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material

misstatement. The financial statements of the university component units were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

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

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the state of Montana's basic financial statements. The Combining Statements listed in the table of contents are 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 by us in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

At July 1, 2010, the Public Employees' Retirement System – Defined Benefit Retirement Plan, Game Wardens' and Peace Officers', Sheriffs', and Teachers' retirement systems were not actuarially sound. The Unfunded Actuarial Accrued Liability amortization period is infinite for the Public Employees' Retirement System – Defined Benefit Retirement Plan, Game Wardens' and Peace Officers', and Sheriffs' retirement systems. The amortization period for the Teachers' retirement system is 49.5 years. The maximum allowable amortization period is 30 years.

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

control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. It is included in the Legislative Auditor's separately issued report (10-01) on the State's basic financial statements.

The Introductory Section and Statistical Section listed in the table of contents were not audited by us, and accordingly, we express no opinion on them.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

December 22, 2010

This page intentionally left blank.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

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

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights

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

Fund Highlights

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

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

Long-term Debt

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

Government-wide Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net Assets

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

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

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

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

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

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

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

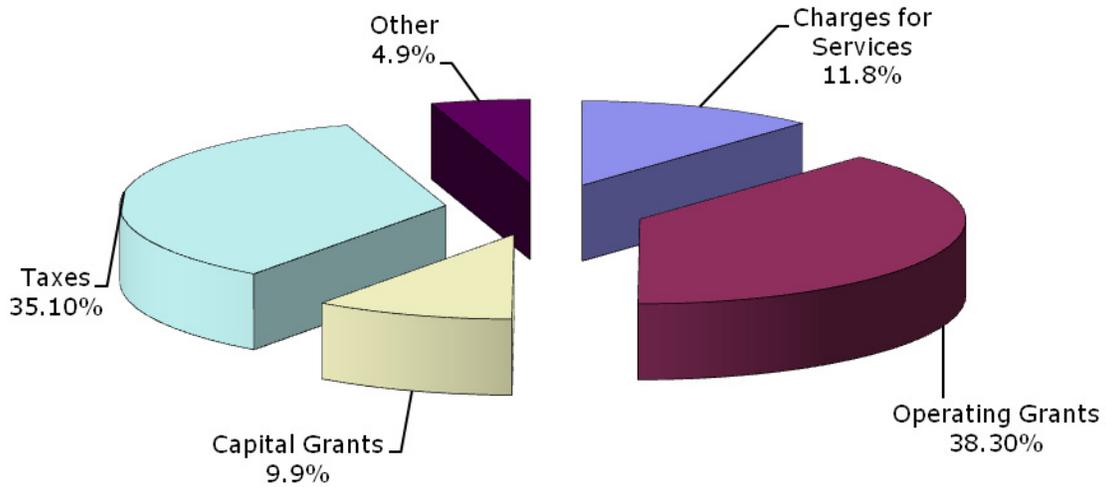
Changes in Net Assets
For Fiscal Year Ended June 30
(expressed in thousands)

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

Governmental Activities

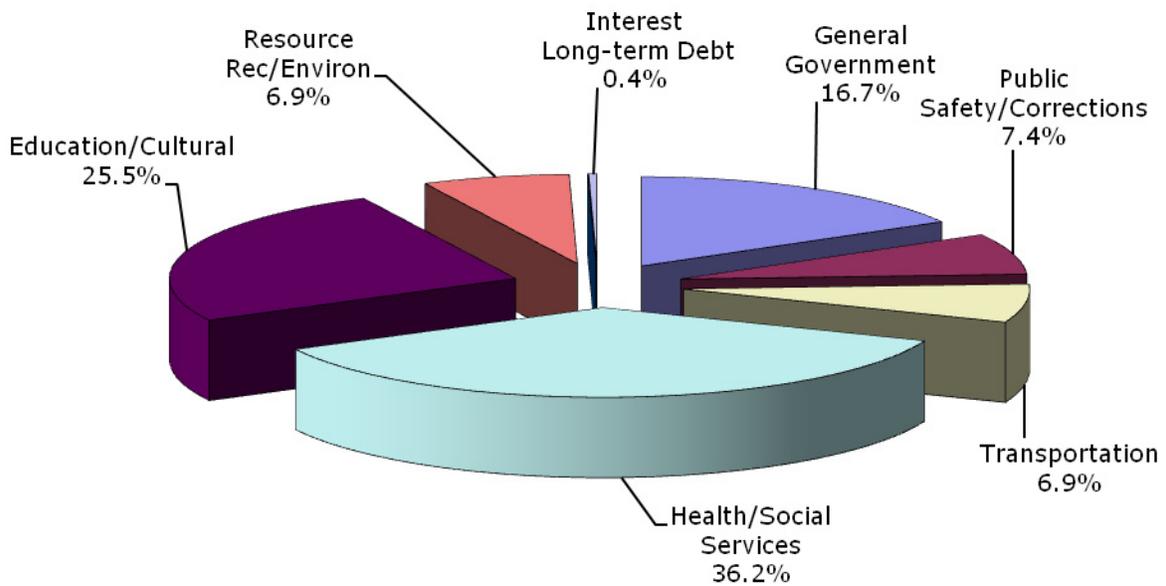
The following [chart](#) depicts revenues of the governmental activities for the fiscal year:

**Revenues - Governmental Activities
Fiscal Year Ended June 30, 2010**



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

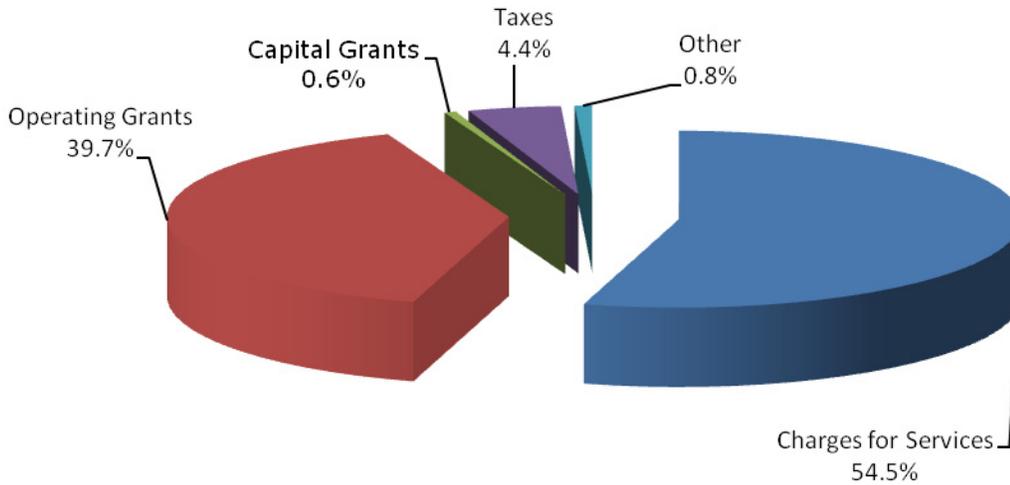
**Expenses - Governmental Activities
Fiscal Year Ended June 30, 2010**



Business-type Activities

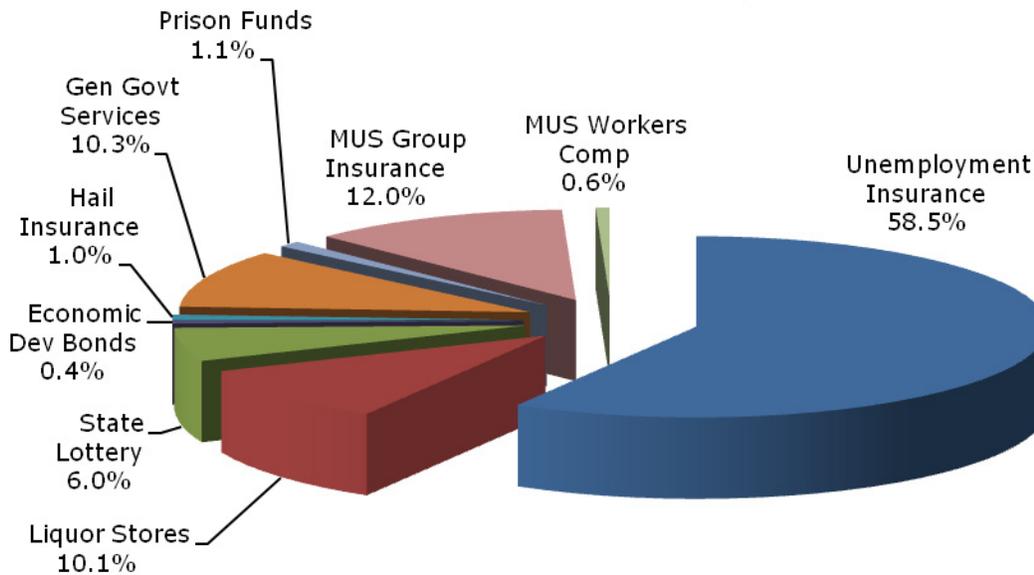
The following chart depicts revenues of the business-type activities for the fiscal year:

**Revenues - Business-type Activities
Fiscal Year Ended June 30, 2010**



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

**Expenses - Business-type Activities
Fiscal Year Ended June 30, 2010**



FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS

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

General Fund

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

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

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

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

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

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

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

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

State Special Revenue Fund

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

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

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

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

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

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

Federal Special Revenue Fund

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

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

Coal Severance Tax Permanent Fund

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

Land Grant Permanent Fund

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

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

Unemployment Insurance Enterprise Fund

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

Economic Development Bonds Enterprise Fund

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

CAPITAL ASSETS AND DEBT ADMINISTRATION**Capital Assets**

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

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

Debt Administration

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

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

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

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

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

(1) Personal income is for calendar year 2009.

(2) Based on estimated 2009 Montana population.

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

ECONOMIC CONDITION AND OUTLOOK

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

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

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

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

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

JUNE 30, 2010

(amounts expressed in thousands)

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

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

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

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

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

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

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

This page intentionally left blank.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

General Fund

This fund is the principal operating fund of the State. It accounts for all governmental financial resources, except for those required to be accounted for in another fund.

State Special Revenue Fund

This fund accounts for all activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

Federal Special Revenue Fund

This fund accounts for activities funded from federal sources used in the operation of state government.

Coal Severance Tax Fund

This fund, created by Article IX, Section 5, of the Montana Constitution and administered by the Department of Revenue, receives 50% of all coal tax collections. The principal can be expended only upon affirmative vote by three-fourths of each house of the Legislature.

Land Grant Fund

This fund is used by the Department of Natural Resources and Conservation to account for lands granted to the State for support of public schools and state institutions.

Nonmajor Funds

Nonmajor governmental funds are presented, by fund type, beginning on page 152.

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2010

(amounts expressed in thousands)

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

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

This page intentionally left blank.

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

June 30, 2010

(amounts expressed in thousands)

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

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

- (A) Management uses Internal Services funds to report the charges for and the costs of goods and services sold by state agencies solely within the state. Because the sales are primarily to governmental funds, the assets and liabilities of the Internal Service Funds are included in the governmental activities on the government-wide Statement of Net Assets. Internal Service Funds are reported using proprietary fund-type accounting in the fund-level financial statements. See page 192 for the listing of the Internal Service Funds
- (B) Capital assets used in governmental activities are not financial resources, and therefore, they are not included in the fund level financial statements. However, capital assets are economic resources and are reported in the government-wide Statement of Net Assets.
- (C) Long term liabilities such as leases, bonds, notes, mortgages, (including accrued interest) are not due and payable in the current period, and therefore, they are not included in the fund –level financial statements. However, from an economic perspective these liabilities reduce net assets and are reported in the Statement of Net Assets.
- (D) Other measurement focus adjustments include:
- Interfund balances receivable from or payable to Fiduciary funds are reported on the fund- level Balance Sheet- Governmental funds as due from/to other funds. On the government –wide Statement of Net Assets, these amounts are considered external receivables and payables.
 - Long-term assets and long-term taxes receivable are not available to pay for current period expenditures; therefore, the related revenue is reported as deferred revenue on the fund-level Balance Sheet- Governmental funds. From an economic perspective, this revenue is earned and the related deferred revenue is removed from the government –wide Statement of Net Assets when the revenue is recognized on the government-wide statement of Activities.
 - Other long term liabilities are not reported on the fund-level Balance Sheet- Governmental Funds because the amounts are not due and payable from current financial resources. However, from an economic perspective, these liabilities reduce net assets, and they are therefore reported on the government-wide Statement of Net Assets.
- (E) All interfund payable balances shown on the fund-level Balance Sheet –Governmental Funds are reported in the internal balances line on the governmental-wide Statement of Net Assets along with all governmental activities interfund receivables.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

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

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

This page intentionally left blank.

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

JUNE 30, 2010

(amounts expressed in thousands)

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

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

- (A) Management uses the Internal Services Funds (ISF) to report charges for and the costs of goods and services sold by state agencies solely within the state. ISF are intended to operate on the cost reimbursement basis and should break even each period. If an ISF makes a profit, the other funds of the state have been overcharged. If an ISF has an operating loss the other funds of the state have been undercharged. In order to show the true cost of services purchased from ISF, an adjustment is made that allocates the net revenue/expense of each ISF to the programs that purchased the services. Investment income, debt service, and transfers of the ISF are not allocated. See page 192 for the listing of ISF.
- (B) The following adjustments relate to capital assets:
- Capital assets, received as donations, are not reported on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds because they are not current financial resources. However, such donations increase net assets and are reported on both the government – wide Statement of Net Assets and Statement of Activities.
 - Depreciation is not reported on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds, but it is reported for the economic perspective on which the government –wide Statement of Activities is presented.
 - Expenditures reported for capital outlay on the fund-level Statement of Revenues, Expenditures and changes in Fund Balances - Governmental Funds are generally reported as a conversion of cash to a capital asset on the government wide Statement of Net Assets. They are not reported as expenses on the government –wide Statement of Activities.
 - On the fund –level Statement of Revenues, Expenditures, and Changes in fund Balances - Governmental Funds all cash received on disposal of capital assets is reported as a gain on sale of capital assets. On the government-wide Statement of Activities the reported gain or loss on sale is based on the carrying value of the assets as well as the cash received.
- (C) The following adjustments relate to debt issuance and debt service including leases:
- Payments on principal and debt refunding payments are reported as expenditures and other financing uses, respectively on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances – governmental Funds. These payments are reported as reduction of lease, bonds and other debt liability balances on the government – wide Statement of Net Assets and are not reported on the government – wide Statement of Activities.
 - Amortization of issuance cost, debt premium/discount, gains/loss on refunding are not reported on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances- - Governmental Funds, but are reported on the government – wide state of Activities.
 - Lease proceeds, issuance of debt, and debt refunding proceeds are all reported as other financing sources at the fund level Statement of Revenues, Expenditures, and Changes in fund Balances – Governmental Funds. From an economic perspective lease proceeds, debt issuances, and debt refunding proceeds reported as liabilities on the government-wide Statement of Net Assets and are not reported on the government – wide Statement of Activities.
- (D) Other measurement focus adjustments include;
- Long-term taxes receivable and certain other long-term assets are offset by deferred revenue and are not part of fund balance on the fund-level Balance Sheet - Governmental Funds; however, from a full accrual perspective, changes in the fund –level deferred revenue balances result in adjustments to revenue that are recognized and reported on the government-wide Statement of Activities.

This page intentionally left blank.

PROPRIETARY FUND FINANCIAL STATEMENTS

Unemployment Insurance

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

Economic Development Bonds

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

Nonmajor Funds

Nonmajor enterprise funds are presented beginning on page 170.

Governmental Activities – Internal Service Funds

Internal service funds are used to account for operations that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. These funds are presented in more detail beginning on page 192.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2010

(amounts expressed in thousands)

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

STATEMENT OF NET ASSETS**PROPRIETARY FUNDS**

JUNE 30, 2010

(amounts expressed in thousands)

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

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

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

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

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

This page intentionally left blank.

STATEMENT OF CASH FLOWS**PROPRIETARY FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

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

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

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

This page intentionally left blank.

FIDUCIARY FUND FINANCIAL STATEMENTS

Pension (and Other Employee Benefit) Trust Funds

These funds provide retirement, disability, death, and lump-sum payments to retirement system members.

Private-Purpose Trust Funds

These funds are used to account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments.

Investment Trust Fund

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

Agency Funds

Agency funds are used to account for assets held by the State as an agent for individuals, private organizations, and other governments.

Individual funds are presented, by fund type, beginning on page 211.

STATEMENT OF FIDUCIARY NET ASSETS**FIDUCIARY FUNDS**

JUNE 30, 2010

(amounts expressed in thousands)

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

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

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

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

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

This page intentionally left blank.

COMPONENT UNIT FINANCIAL STATEMENTS

Housing Authority

This authority facilitates the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes.

Facility Finance Authority

This authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing possible.

Montana State Fund (New and Old Fund)

This entity provides workers compensation insurance. Though reported in separate columns, The Montana State Fund (New Fund) and the State of Montana (Old Fund) are one legally separate entity, thus a single component unit with separate accounting funds. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990.

Montana Surplus Lines

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

Montana State University and University of Montana

These universities are funded through state appropriations, tuition, federal grants, and private donations and grants. In addition to instruction, these universities provide research and other services.

COMBINING STATEMENT OF NET ASSETS**COMPONENT UNITS**

JUNE 30, 2010

(amounts expressed in thousands)

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

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

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

COMBINING STATEMENT OF ACTIVITIES**COMPONENT UNITS**

JUNE 30, 2010

(amounts expressed in thousands)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Discretely Presented Component Units

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

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

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

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

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

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

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

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

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

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

Fiduciary Fund Component Units

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

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

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

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

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

B. Government-wide and Fund Financial Statements

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

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

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

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

Government-wide, Proprietary, and Fiduciary Fund Financial Statements

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

Governmental Fund Financial Statements

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

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

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

Fund Financial Statements

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

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

Governmental Funds

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

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

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

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

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

Proprietary Funds

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

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

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

Fiduciary Funds

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

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

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

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

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

Major Governmental Funds

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

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

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

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

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

Major Enterprise Funds

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

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

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

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

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

D. Proprietary Activity Accounting and Financial Reporting

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

E. Cash/Cash Equivalents

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

F. Receivables

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

Pledged receivables are disclosed in Note 2C.

G. Inventories

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

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

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

H. Restricted Assets

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

I. Equity in Pooled Investments

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

J. Investments

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

K. Capital Assets

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

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

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

L. Deferred Revenue

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

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

M. Long-term Obligations

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

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

N. Capital Leases

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

O. Bond Discounts/Premiums/Issuance Costs

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

P. Compensated Absences

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

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

Q. Fund Balance/Net Assets**Fund Balance**

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

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

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

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

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

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

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

Minimum General Fund - Fund Balance

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

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

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

Net Assets

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

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

R. Property Taxes

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

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

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

S. Other Taxes

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

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

NOTE 2. OTHER ACCOUNTING ISSUES**A. New Accounting Guidance Implemented**

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

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

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

B. Prior Period Adjustments

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

C. Functional Classification Change

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

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

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

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

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

A. General

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. Cash/Cash Equivalents

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

Table 1 - Cash Deposit Amounts
(in thousands)

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

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

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

Table 2 - Cash Equivalents
(in thousands)

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

(1) As of June 30, 2010, the repurchase agreement was collateralized at 102% for \$11,892,378 by one Federal Loan Mortgage Corporation Gold security maturing December 1, 2029. This security carries AAA credit quality rating.

(2) The government direct-indirect securities are included in the credit quality rating and effective duration table in Note 3 D (Investments).

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

Investment Risk Disclosures

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

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The STIP securities have credit risk as measured by major credit rating services. This risk is that the issuer of a STIP security may default in making timely principal and interest payments. The Board of Investment’s policy requires that STIP securities be rated an investment grade as defined by at least one of the Nationally Recognized Statistical Rating Organizations (NRSRO).

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk, and do not require disclosure of credit quality per GASB Statement 40.

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

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

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of fiscal year end, all STIP securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board's custodial bank, State Street Bank, or the State's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The STIP had concentration of credit risk exposure to the Federal Home Loan Bank of 5.56%, Federal National Mortgage Association (Fannie Mae) of 6.67 % and the Federal Home Loan Mortgage Corp. (Freddie Mac) of 10.00% as of June 30, 2010.

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

Interest Rate Risk

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

Legal and Credit Risk

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

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

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

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

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

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

C. Equity in Pooled Investments

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

Table 3 – Equity in Pooled Investments
(in thousands)

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

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

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

Investment Risk Disclosures

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

Credit Risk

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

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

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

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of fiscal year end, all the fixed-income securities were registered in the nominee name for the Montana Board of Investments. The Equity Index, US Bank repurchase agreement, real estate, mortgage, and loan investments were purchased and recorded in BOI's name. Commingled fund investments are registered in the name of the Montana Board of Investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement.

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

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

Interest Rate Risk

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

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

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

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

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

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

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

Legal Risk

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

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

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

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

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

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

Foreign Currency Risk

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

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

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

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

MPEP and MTRP Investments by Foreign Currency
(in thousands)

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

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

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

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

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

Maximum Loss before and after Netting and Collateral

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

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

D. Investments

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

Long-term Investments

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

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

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

Table 4 – Investments
(in thousands)

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

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

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

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

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

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

Investment Risk Disclosures

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

Credit Risk

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

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

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of fiscal year end, all the fixed-income securities were registered in the nominee name for the Montana Board of Investments. The Equity Index, US Bank repurchase agreement, real estate, mortgage, and loan investments were purchased and recorded in BOI's name. Commingled fund investments are registered in the name of the Montana Board of Investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement.

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

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

Interest Rate Risk

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

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

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

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

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

Legal Risk

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

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE

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

A. Receivables

	Governmental Funds					
	General	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental
Licenses and permits	\$ -	3,820	\$ -	\$ -	\$ -	\$ -
Taxes	202,964	71,025	-	4,644	-	88
Charges for services/ fines/forfeitures	42	15,149	4,552	-	48,894	362
Investment income	608	4,621	8	3,437	3,837	5,338
Contributions/premiums	-	22,347	-	-	-	-
Reimbursements/ overpayments	10,940	4,997	-	-	-	-
Grants/contracts/ donations	-	136	-	-	-	-
Other	3,998	2,321	9,824	-	-	61
Total receivables	218,552	124,416	14,384	8,081	52,731	5,849
Less: Allowance for doubtful accounts	(13,131)	(15,059)	(1,314)	-	-	-
Receivables, net	205,421	109,357	13,070	8,081	52,731	5,849
	Proprietary Funds					
	Economic					
	Unemployment Insurance	Development Bonds	Nonmajor Enterprise	Internal Service		
Charges for services	\$ -	\$ -	20,589	210		
Investment income	-	7,180	21	270		
Contributions/premiums	12,005	-	6,214	2,396		
Other	-	-	181	12		
Total receivables	12,005	7,180	27,005	2,888		
Less: Allowance for doubtful accounts	(5,070)	-	(38)	(11)		
Receivables, net	6,935	7,180	26,967	2,877		

B. Payables

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

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

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

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

Primary Government

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

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

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

Primary Government (continued)

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

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

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

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

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

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

B. Discretely Presented Component Units

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

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

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

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

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

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

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

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

B. Plan Descriptions

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

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

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

C. Public Employee Defined Benefit Retirement Plans.

(1) State as the Single Employer

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

Employers	JRS	HPORS
State agencies	1	1
Total	1	1

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

D. Public Employee Defined Contribution Retirement Plans

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

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

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

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

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

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

E. Optional Retirement Program

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

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

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

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

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

F. Summary of Significant Accounting Policies

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

G. Method Used to Value Investments

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

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

H. Long-term Contracts for Contributions

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

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

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

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

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

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

**Schedule of Contribution Rates
Fiscal Year 2010**

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

Pension Plan Information
Schedules of Funding Progress
(in thousands)

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

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

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

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

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

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

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

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

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

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

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

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)**A. General**

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

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

B. Plan Description

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

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

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

C. Basis of Accounting

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

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

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

State Plan Participants

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

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

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

MUS Plan Participants

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

D. Funding Policy

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

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

The MUS plan's administratively established retiree medical premiums vary between \$221 and \$778 per month and are revised annually. The plan provides different coinsurance amounts depending on whether members use preferred, non-preferred, or other hospitals. After an annual \$600 deductible for most non-Medicare-eligible retirees, the MUS plan reimburses 75% for the first \$1,250 in medical claims and 100% thereafter. There is an optional \$1,500 deductible plan available to retirees with a reduced premium. After the \$1,500 annual deductible, the plan pays 75% of the first \$2,500 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2010, 1,436 retirees (policyholders) were enrolled in the MUS plan.

E. Annual Other Postemployment Benefit Cost and Contributions

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

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

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

Annual OPEB Cost

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

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

Contribution Ratio

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

F. Actuarial Methods and Assumptions

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

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

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

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

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

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

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

G. Termination Benefits

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

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

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

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

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

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

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

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

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

NOTE 8. RISK MANAGEMENT

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

A. Public Entity Risk Pools

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Component Units

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

B. Entities Other Than Pools

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

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

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

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

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

NOTE 9. COMMITMENTS**A. Highway Construction**

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

B. Capital Construction

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

C. Coal Tax Loan and Mortgage Commitments

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

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

D. Department of Corrections Bond Commitments

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

E. Proprietary Fund Commitments

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

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

F. Encumbrances

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

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

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

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

A. Capital Leases/Installment Purchases

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

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

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

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

B. Operating Leases

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

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

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

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

B. Short-term Debt

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

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

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

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

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

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

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

C. Long-term Debt

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

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

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

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

D. Debt Service Requirements

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

Governmental Activities

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

Business-type Activities

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

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

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

E. Summary of Changes in Long-term Liabilities Payable

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

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

(1) The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The early retirement benefits payable will be liquidated by the general, state special revenue, and federal special revenue funds. The arbitrage rebate tax payable will be liquidated by debt service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.

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

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

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

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

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

F. Refunded and Early Retired Debt

Primary Government

Prepayments

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

Current Refundings

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

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

Defeased Debt Outstanding

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

Board of Investments

Prepayments

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

Universities

Defeased Debt Outstanding

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

G. No-Commitment Debt

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

Primary Government

Montana Board of Investments (BOI)

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

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

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

Beginning Farm Loan Program

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

Discretely Presented Component Units

Facility Finance Authority (FFA)

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

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

Housing Authority (HA)

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

H. Derivative Transactions Related to Long-term Debt

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

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

*Counterparty may opt out in 2016

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

I. Estimated Pollution Remediation Obligation

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

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

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

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

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

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

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

B. Interfund Loans Receivable/Payable

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

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

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

C. Advances To/From Other Funds

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

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

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

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

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

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

D. Interfund Transfers

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

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

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

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

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

NOTE 13. FUND DEFICITS

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

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

NOTE 14. MAJOR PURPOSE PRESENTATION

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

FEDERAL SPECIAL REVENUE BY SOURCE (in thousands)

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

STATE SPECIAL REVENUE BY SOURCE (in thousands)

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

GOVERNMENTAL FUND BALANCE BY FUNCTION

(in thousands)

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

NOTE 15. RELATED PARTY TRANSACTIONS

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

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

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

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

NOTE 16. CONTINGENCIES**A. Litigation**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. Federal Contingencies

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

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

C. Miscellaneous Contingencies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment Related Issues

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

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

NOTE 18. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS**Constitutionality of Retirement Plan Funding**

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

This page intentionally left blank.

REQUIRED SUPPLEMENTARY INFORMATION

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

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

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

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-1. BUDGETARY REPORTING

A. State Budget Process

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

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

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

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

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

B. Budget Basis

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

REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN INFORMATION
Pension Plan Information
Schedule of Funding Progress
(in thousands)

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

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

REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

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

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

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

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

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

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

SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET**NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE**

JUNE 30, 2010

(amounts expressed in thousands)

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
ASSETS				
Cash/cash equivalents	\$ 18,485	\$ 89,323	\$ 2,588	110,396
Receivables (net)	3,241	1,226	1,382	5,849
Due from other funds	7	1,410	50	1,467
Equity in pooled investments	-	-	301,457	301,457
Long-term loans/notes receivable	28,849	-	-	28,849
Advances to other funds	3,174	-	-	3,174
Investments	126	2,987	9,091	12,204
Securities lending collateral	80	1,909	23,338	25,327
Total assets	53,962	96,855	337,906	488,723
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	2	6,121	1	6,124
Interfund loans payable	-	560	-	560
Due to other funds	13	8,722	1,882	10,617
Advances from other funds	18,946	-	-	18,946
Deferred revenue	391	2	-	393
Securities lending liability	80	1,909	23,338	25,327
Total liabilities	19,432	17,314	25,221	61,967
Fund balances:				
Nonspendable	-	-	183,739	183,739
Restricted	10,803	-	8,722	19,525
Committed	23,336	54,137	128,313	205,786
Assigned	391	34,384	-	34,775
Unassigned	-	(8,980)	(8,089)	(17,069)
Total fund balances	34,530	79,541	312,685	426,756
Total liabilities and fund balances	\$ 53,962	\$ 96,855	\$ 337,906	\$ 488,723

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
REVENUES				
Licenses/permits	\$ -	\$ -	415 \$	415
Taxes:				
Natural resource	682	5,180	820	6,682
Other	-	1,897	-	1,897
Charges for services/finances/forfeits/settlements	989	155	12,613	13,757
Investment earnings	9,518	202	33,669	43,389
Securities lending income	5	31	267	303
Sale of documents/merchandise/property	3,435	-	-	3,435
Rentals/leases/royalties	-	-	124	124
Other revenues	(78)	(14)	-	(92)
Total revenues	14,551	7,450	47,908	69,909
EXPENDITURES				
Current:				
General government	-	1,696	-	1,696
Public safety/corrections	-	382	-	382
Health/social services	-	1,020	-	1,020
Education/cultural	-	-	19	19
Resource/recreation/environment	14	-	-	14
Debt service:				
Principal retirement	30,755	-	-	30,755
Interest/fiscal charges	17,430	-	-	17,430
Capital outlay	-	83,206	5	83,211
Securities lending	1	10	105	116
Total expenditures	48,200	86,314	129	134,643
Excess of revenue over (under) expenditures	(33,649)	(78,864)	47,779	(64,734)
OTHER FINANCING SOURCES (USES)				
General capital asset sale proceeds	-	-	6	6
Proceeds of refunding bond	20,220	-	-	20,220
Payment to refunding bond escrow agent	(20,985)	-	-	(20,985)
Bonds premium	975	-	-	975
Transfers in	45,982	45,435	1,299	92,716
Transfers out	(8,903)	(4,031)	(12,704)	(25,638)
Total other financing sources (uses)	37,289	41,404	(11,399)	67,294
Net change in fund balances	3,640	(37,460)	36,380	2,560
Fund balances - July 1 - as previously reported	30,890	124,976	276,305	432,171
Prior period adjustments	-	(7,975)	-	(7,975)
Fund balances - July 1 - as restated	30,890	117,001	276,305	424,196
Fund balances - June 30	\$ 34,530	\$ 79,541	\$ 312,685	\$ 426,756

This page intentionally left blank.

NONMAJOR DEBT SERVICE FUNDS

Debt service funds are used to account for the accumulation of resources for the payment of general long-term obligation principal and interest. A brief description of each debt service fund follows:

Coal Tax – This fund accounts for payments on special revenue renewable resource program (coal severance tax) bonds.

Long-Range Building Program – This fund accounts for payments on general obligation long-range building program bonds.

Water & Wastewater Development – This fund accounts for payments on the following general obligation bonds: wastewater treatment works revolving fund, renewable resource program, drinking water revolving fund, and water pollution control revolving fund.

Water Conservation – This fund accounts for payments on water conservation loans issued for the following projects: Little Dry and Petrolia.

Health Care – This fund accounts for payments on the following special revenue bonds: Montana State Hospital and Montana Developmental Center.

Information Technology – This fund accounts for payments on general obligation information technology bonds.

Energy Conservation Program – This fund accounts for payments on general obligation bonds issued for State Building Energy Conservation Projects.

Environmental Reclamation – This fund accounts for payments on the following general obligation bonds: hard rock mining reclamation and CERCLA program.

Highway – This fund accounts for payments on the U.S. Highway 93 GARVEES special revenue bonds.

COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
 JUNE 30, 2010
(amounts expressed in thousands)

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTEWATER DEVELOPMENT	WATER CONSERVATION
ASSETS				
Cash/cash equivalents	\$ 6,143	\$ 509	\$ 6,863	-
Receivables (net)	481	-	2,742	-
Due from other funds	-	-	7	-
Long-term loans/notes receivable	9,044	-	19,787	18
Advances to other funds	3,174	-	-	-
Investments	-	-	96	-
Securities lending collateral	-	-	61	-
Total assets	<u>18,842</u>	<u>509</u>	<u>29,556</u>	<u>18</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	-	2	-	-
Due to other funds	11	-	2	-
Advances from other funds	1,944	-	17,002	-
Deferred revenue	85	-	305	1
Securities lending liability	-	-	61	-
Total Liabilities	<u>2,040</u>	<u>2</u>	<u>17,370</u>	<u>1</u>
Fund balances:				
Restricted	-	-	6,577	-
Committed	16,802	116	5,609	17
Assigned	-	391	-	-
Total fund balances	<u>16,802</u>	<u>507</u>	<u>12,186</u>	<u>17</u>
Total liabilities and fund balances	<u>\$ 18,842</u>	<u>\$ 509</u>	<u>\$ 29,556</u>	<u>18</u>

	HEALTH CARE	ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	TOTAL
\$	4,226	\$ 472	\$ 272	\$ 18,486
	-	18	-	3,241
	-	-	-	7
	-	-	-	28,849
	-	-	-	3,174
	-	30	-	126
	-	19	-	80
	4,226	539	272	53,962
	-	-	-	2
	-	-	-	13
	-	-	-	18,946
	-	-	-	391
	-	19	-	80
	-	19	-	19,432
	4,226	-	-	10,803
	-	520	272	23,336
	-	-	-	391
	4,226	520	272	34,530
\$	\$ 4,226	\$ 539	\$ 272	\$ 53,962

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**NONMAJOR DEBT SERVICE FUNDS**

JUNE 30, 2010

(amounts expressed in thousands)

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTEWATER DEVELOPMENT	WATER CONSERVATION
REVENUES				
Taxes:				
Natural resource	\$ -	\$ -	\$ 410	\$ -
Charges for services/finances/forfeits/settlements	-	-	3	-
Investment earnings	415	5	8,884	-
Securities lending income	3	1	1	-
Other revenues	-	(78)	-	-
Sale of documents/merchandise/property	3,435	-	-	-
Total revenues	3,853	(73)	9,299	-
EXPENDITURES				
Current:				
Resource/recreation/environment	-	-	-	-
Debt service:				
Principal retirement	2,380	12,245	1,730	5
Interest/fiscal charges	979	6,409	1,663	1
Securities lending	1	-	-	-
Total expenditures	3,360	18,654	3,393	6
Excess of revenue over (under) expenditures	493	(18,727)	5,906	(6)
OTHER FINANCING SOURCES (USES)				
Bond premium	-	975	-	-
Proceeds of refunding bond	-	20,220	-	-
Payment to refunding bond escrow agent	-	(20,985)	-	-
Transfers in	2,526	18,292	3,852	-
Transfers out	(3,822)	-	(5,081)	-
Total other financing sources (uses)	(1,296)	18,502	(1,229)	-
Net change in fund balances	(803)	(225)	4,677	(6)
Fund balances - July 1 - as previously reported	17,605	732	7,509	23
Prior period adjustments	-	-	-	-
Fund balances - July 1 - as restated	17,605	732	7,509	23
Fund balances - June 30	\$ 16,802	\$ 507	\$ 12,186	\$ 17

	HEALTH CARE	INFORMATION TECHNOLOGY	ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	HIGHWAY	TOTAL
\$	- \$	- \$	- \$	272 \$	- \$	682
	-	-	985	-	-	988
	213	-	2	-	-	9,518
	-	-	-	-	-	5
	-	-	-	-	-	(78)
	-	-	-	-	-	3,435
	213	-	987	272	-	14,551
	-	-	9	5	-	14
	1,680	2,400	705	270	9,340	30,755
	1,264	57	230	186	6,641	17,430
	-	-	-	-	-	1
	2,944	2,457	944	461	15,981	48,200
	(2,731)	(2,457)	41	(189)	(15,981)	(33,649)
	-	-	-	-	-	975
	-	-	-	-	-	20,220
	-	-	-	-	-	(20,985)
	2,680	2,457	5	189	15,981	45,982
	-	-	-	-	-	(8,903)
	2,680	2,457	5	189	15,981	37,289
	(51)	-	46	-	-	3,640
	4,277	-	472	272	-	30,890
	-	-	1	-	-	1
	4,277	-	473	272	-	30,890
\$	4,226 \$	\$	520 \$	272 \$	\$	34,530

This page intentionally left blank.

NONMAJOR CAPITAL PROJECTS FUNDS

Capital project funds are used to account for financial resources used for the acquisition or construction of major governmental general capital assets. A brief description of each capital project fund follows:

Long-Range Building Program – This fund is maintained to account for resources received and expended for the State's long-range building program. The long-range building program includes costs for the acquisition, construction, and improvement of major capital assets financed by general obligation bonds and interest earned on bond proceeds.

Information Technology Projects – This fund accounts for resources received and expended for information technology projects for various upgrade and replacement activities.

Federal/Private Construction Grants – This fund accounts for federal grants, private donations, and federal matching funds that are restricted to general capital asset construction.

Capital Land Grant – This fund accounts for revenues and expenditures from the Capital Land Grant. Revenues are dedicated for the purpose of constructing capital buildings or additions thereto. Revenues may be transferred to a debt service fund for the payment of principal and interest on bonds issued for capital building construction.

COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS

JUNE 30, 2010

(amounts expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	FEDERAL/ PRIVATE CONSTRUCTION GRANTS	CAPITAL LAND GRANT	TOTAL
ASSETS					
Cash/cash equivalents	\$ 82,703	\$ 5,947	\$ -	\$ 673	\$ 89,323
Receivables (net)	1,224	2	-	-	1,226
Due from other funds	1,408	-	-	2	1,410
Investments	2,987	-	-	-	2,987
Securities lending collateral	1,909	-	-	-	1,909
Total assets	90,231	5,949	-	675	96,855
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	5,843	17	258	3	6,121
Interfund loans payable	560	-	-	-	560
Due to other funds	-	-	-	8,722	8,722
Deferred Revenue	2	-	-	-	2
Securities lending liability	1,909	-	-	-	1,909
Total liabilities	8,314	17	258	8,725	17,314
Fund balances:					
Committed	49,734	3,731	-	672	54,137
Assigned	32,183	2,201	-	-	34,384
Unassigned	-	-	(258)	(8,722)	(8,980)
Total fund balances	81,917	5,932	(258)	(8,050)	79,541
Total liabilities and fund balances	\$ 90,231	\$ 5,949	\$ -	\$ 675	\$ 96,855

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**NONMAJOR CAPITAL PROJECTS FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	FEDERAL/ PRIVATE CONSTRUCTION GRANTS	CAPITAL LAND GRANT	TOTAL
REVENUES					
Taxes:					
Natural resource	\$ 5,180	\$ -	\$ -	\$ -	5,180
Other	1,897	-	-	-	1,897
Charges for services/fines/forfeits/settlements	155	-	-	-	155
Investment earnings	201	-	-	-	201
Securities lending income	31	-	-	-	31
Other revenues	(14)	-	-	-	(14)
Total revenues	7,450	-	-	-	7,450
EXPENDITURES					
Current:					
General government	569	1,127	-	-	1,696
Public safety/corrections	-	382	-	-	382
Health/social services	1,020	-	-	-	1,020
Capital outlay	67,133	(66)	13,098	3,041	83,206
Securities lending	10	-	-	-	10
Total expenditures	68,732	1,443	13,098	3,041	86,314
Excess of revenue over (under) expenditures	(61,282)	(1,443)	(13,098)	(3,041)	(78,864)
OTHER FINANCING SOURCES (USES)					
Transfers in	25,573	5,083	13,143	1,636	45,435
Transfers out	(3,943)	(25)	-	(63)	(4,031)
Total other financing sources (uses)	21,630	5,058	13,143	1,573	41,404
Net change in fund balances	(39,652)	3,615	45	(1,468)	(37,460)
Fund balances - July 1 - as previously reported	121,569	1,570	(303)	2,140	124,976
Prior period adjustments	-	747	-	(8,722)	(7,975)
Fund balances - June 30	\$ 81,917	\$ 5,932	\$ (258)	\$ (8,050)	\$ 79,541

This page intentionally left blank.

NONMAJOR PERMANENT FUNDS

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used to support state government programs. A brief description of each permanent fund follows:

Resource Indemnity – Taxes paid by persons engaging in or carrying on the business of mining, extracting, or producing minerals are deposited in this fund. Only the net earnings of the trust may be appropriated until the principal reaches \$100 million. Interest earnings are expended from a special revenue fund. This fund is administered by the Department of Revenue.

Parks Trust and Cultural Trust – A portion of coal severance taxes are credited to these funds by the Department of Revenue. Income from the trusts is used for the acquisition and maintenance of state parks and historical sites by the Department of Fish, Wildlife and Parks. The Montana Arts Council uses income from the trusts for the protection of works of art in the State Capitol and for other cultural projects.

Real Property Trust – Money received by the Department of Fish, Wildlife and Parks from the sale of real property; the exploration and development of oil, gas, and mineral deposits; and leasing department real property is deposited in this fund. Interest is recorded in a special revenue fund and used for developing and maintaining real property of the department.

Noxious Weed Management – The Department of Agriculture accounts for revenues and interest earned on fees charged for the control of noxious weeds.

Historical Society Trusts – The fund accounts for memorials, bequests, and various other contributions to the Montana Historical Society. Includes the following trust funds: James H. Bradley Memorial, Thomas Teakle, Merritt-Wheeler Memorial, Historical Society Acquisitions, Sobotka Memorial, and Edger I. and Jane R. Stewart.

PHHS Trusts – This fund provides services and activities related to a broad range of child abuse and neglect prevention activities operated by non-profit or public community educational and service organizations.

Tobacco Settlement Interest – This fund holds interest earned by investing the Tobacco Settlement Principal.

Zortman/Landusky Water Treatment – This fund provides for long-term or perpetual water treatment at the Zortman and Landusky mine sites.

COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS
 JUNE 30, 2010
(amounts expressed in thousands)

	RESOURCE INDEMNITY	PARKS TRUST	CULTURAL TRUST	REAL PROPERTY TRUST
ASSETS				
Cash/cash equivalents	\$ 408	\$ 227	\$ 141	\$ 794
Receivables (net)	424	199	104	57
Due from other funds	-	-	-	-
Equity in pooled investments	107,492	20,669	11,497	14,237
Investments	26	16	9	49
Securities lending collateral	6,090	1,177	655	836
Total assets	<u>114,440</u>	<u>22,288</u>	<u>12,406</u>	<u>15,973</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	-	-	1	-
Due to other funds	835	-	45	-
Securities lending liability	6,090	1,177	655	836
Total liabilities	<u>6,925</u>	<u>1,177</u>	<u>701</u>	<u>836</u>
Fund balances:				
Nonspendable	107,023	21,111	11,705	15,137
Restricted	-	-	-	-
Committed	492	-	-	-
Unassigned	-	-	-	-
Total fund balances	<u>107,515</u>	<u>21,111</u>	<u>11,705</u>	<u>15,137</u>
Total liabilities and fund balances	<u>\$ 114,440</u>	<u>\$ 22,288</u>	<u>\$ 12,406</u>	<u>\$ 15,973</u>

	NOXIOUS WEED MANAGEMENT	HISTORICAL SOCIETY TRUSTS	DPHHS TRUSTS	TOBACCO SETTLEMENT INTEREST	ZORTMAN/ LANDUSKY WATER TREATMENT	TOTAL
\$	718 \$	125 \$	88 \$	60 \$	27 \$	2,588
	53	3	42	499	1	1,382
	-	-	-	50	-	50
	9,340	1,112	10,570	126,540	-	301,457
	1,184	5	5	4	7,793	9,091
	857	85	601	7,152	5,885	23,338
	12,152	1,330	11,306	134,305	13,706	337,906
	-	-	-	-	-	1
	503	-	-	499	-	1,882
	857	85	601	7,152	5,885	23,338
	1,360	85	601	7,651	5,885	25,221
	10,159	1,245	9,538	-	7,821	183,739
	8,722	-	-	-	-	8,722
	-	-	1,167	126,654	-	128,313
	(8,089)	-	-	-	-	(8,089)
	10,792	1,245	10,705	126,654	7,821	312,685
\$	12,152 \$	1,330 \$	11,306 \$	134,305 \$	13,706 \$	337,906

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**NONMAJOR PERMANENT FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

	RESOURCE INDEMNITY	PARKS TRUST	CULTURAL TRUST	REAL PROPERTY TRUST
REVENUES				
Licenses/permits	\$ -	\$ -	\$ -	415
Taxes:				
Natural resource	-	548	272	-
Charges for services/fines/forfeits/settlements	-	-	-	-
Investment earnings	12,157	2,302	1,286	1,577
Securities lending income	93	18	10	12
Rentals/leases/royalties	-	-	-	124
Total revenues	<u>12,250</u>	<u>2,868</u>	<u>1,568</u>	<u>2,128</u>
EXPENDITURE				
Current:				
Education/cultural	-	-	3	-
Capital outlay	-	-	-	-
Securities lending	37	7	4	5
Total expenditures	<u>37</u>	<u>7</u>	<u>7</u>	<u>5</u>
Excess of revenue over (under) expenditures	<u>12,213</u>	<u>2,861</u>	<u>1,561</u>	<u>2,123</u>
OTHER FINANCING SOURCES (USES)				
General capital asset sale proceeds	-	-	-	6
Transfers in	-	-	-	1
Transfers out	(5,213)	(829)	(553)	(567)
Total other financing sources (uses)	<u>(5,213)</u>	<u>(829)</u>	<u>(553)</u>	<u>(560)</u>
Net change in fund balances	<u>7,000</u>	<u>2,032</u>	<u>1,008</u>	<u>1,563</u>
Fund balances - July 1 - as previously reported	<u>100,515</u>	<u>19,079</u>	<u>10,697</u>	<u>13,574</u>
Fund balances - July 1 - as restated	<u>100,515</u>	<u>19,079</u>	<u>10,697</u>	<u>13,574</u>
Fund balances - June 30	<u>\$ 107,515</u>	<u>\$ 21,111</u>	<u>\$ 11,705</u>	<u>\$ 15,137</u>

	NOXIOUS WEED MANAGEMENT	HISTORICAL SOCIETY TRUSTS	DPHHS TRUSTS	TOBACCO SETTLEMENT INTEREST	ZORTMAN/ LANDUSKY WATER TREATMENT	TOTAL
\$	- \$	- \$	- \$	- \$	- \$	415
	-	-	-	-	-	820
	-	-	-	12,613	-	12,613
	1,116	142	1,162	13,082	845	33,669
	10	1	9	100	14	267
	-	-	-	-	-	124
	1,126	143	1,171	25,795	859	47,908
	-	16	-	-	-	19
	-	5	-	-	-	5
	4	-	4	39	5	105
	4	21	4	39	5	129
	1,122	122	1,167	25,756	854	47,779
	-	-	-	-	-	6
	98	-	-	()	1,200	1,299
	(503)	-	-	(5,039)	-	(12,704)
	(405)	-	-	(5,039)	1,200	(11,399)
	717	122	1,167	20,717	2,054	36,380
	10,075	1,123	9,538	105,937	5,767	276,305
	10,075	1,123	9,538	105,937	5,767	276,305
\$	10,792 \$	1,245 \$	10,705 \$	126,654 \$	7,821 \$	312,685

NONMAJOR ENTERPRISE FUNDS

Enterprise funds are used to account for operations that provide goods or services to the public on a user charge basis. A brief description of each enterprise fund follows:

Liquor Warehouse – This fund accounts for activities related to the sale and distribution of alcoholic beverages and licensing within the State. Profits and license fees are used to finance General Fund expenditures.

Hail Insurance – Any producer engaged in the growing of crops subject to damage by hail may participate in the hail insurance program. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and benefits paid by the Department of Agriculture.

State Lottery – This fund accounts for the operations of Montana's lottery.

Prison Industries – These operations provide training and employment for inmates. The products produced are sold to state agencies, non-profit organizations, and other customers in accordance with state policies.

MUS Group Insurance – This fund accounts for employee contributions to the Montana University System's medical/dental self-insurance plan.

MUS Workers Compensation – This fund accounts for self-insured workers compensation coverage for employees of the Montana University System.

Subsequent Injury – This fund accounts for the assessments collected from employers and benefits paid to workers who are certified as vocationally handicapped and are injured on the job.

Secretary of State Business Services – This fund accounts for the Business and Government Services activities and the Administrative Code Program of the Secretary of State's Office.

Historical Society Publications – This fund accounts for the Historical Society's sales from "Montana, The Magazine of Western History"; books; publications; and merchandise from the Historical Society store.

Surplus Property – The Department of Administration accounts for intragovernmental sales of state and federal surplus property to state agencies, local governments, and designated non-profit organizations.

West Yellowstone Airport – This fund, administered by the Department of Transportation, accounts for operations of the airport at West Yellowstone. User airlines are assessed rental and landing fees.

Local Government Audits – This fund accounts for the costs incurred by the Department of Administration for audits of local governments, required under Sections 2-7-501 through 522 of the Montana Code Annotated, and the fees assessed the local governments for the audits.

Flexible Spending Administration – This fund accounts for the fees collected from the participants in the Flexible Spending Programs and the related administrative costs of the plans administered by the Department of Administration and the Office of the Commissioner of Higher Education.

HUD Section 8 Housing – This fund accounts for a program that provides rental assistance to low-income families throughout Montana.

Other Enterprise Funds – This category includes several small enterprise funds administered by various agencies.

COMBINING STATEMENT OF NET ASSETS**NONMAJOR ENTERPRISE FUNDS**

JUNE 30, 2010

(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
ASSETS				
Current assets:				
Cash/cash equivalents	\$ 2,746	\$ 12,177	\$ 2,996	\$ 1,991
Receivables (net)	17,246	4,591	3,412	235
Interfund loans receivable	-	-	-	-
Due from other governments	-	-	-	-
Due from component units	-	-	-	8
Inventories	93	-	528	1,814
Securities lending collateral	-	444	46	-
Other current assets	25	-	90	15
Total current assets	20,110	17,212	7,072	4,063
Noncurrent assets:				
Advances to other funds	75	-	-	-
Long-term investments	-	694	71	-
Long-term notes/loans receivable	-	-	-	-
Other long-term assets	-	-	1,430	293
Capital assets:				
Land	-	-	-	690
Land improvements	-	-	-	731
Buildings/improvements	2,044	-	45	4,760
Equipment	528	-	1,461	4,038
Infrastructure	-	-	-	915
Construction in progress	-	-	-	54
Intangible assets	-	61	-	-
Other Depreciable Assets	-	-	-	3,145
Less accumulated depreciation	(1,821)	-	(456)	(6,419)
Total capital assets	751	61	1,050	7,914
Total noncurrent assets	826	755	2,551	8,207
Total assets	\$ 20,936	\$ 17,967	\$ 9,623	\$ 12,270

	MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
\$	32,456	\$ 14,865	\$ 583	\$ 2,775	\$ 122	17
	373	5	103	27	6	795
	-	-	-	3	-	-
	-	-	-	7	-	-
	-	-	25	-	-	-
	-	-	-	24	464	333
	1,305	563	20	109	-	-
	333	225	-	-	-	-
	34,467	15,658	731	2,945	592	1,145
	-	-	-	-	-	-
	2,042	880	50	171	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	118
	-	-	-	461	11	123
	-	-	-	-	-	-
	-	-	-	1,483	-	-
	-	-	-	16	-	-
	-	-	-	-	-	-
	-	-	-	(290)	(10)	(168)
	-	-	-	1,670	1	73
	2,042	880	50	1,841	1	73
\$	36,509	\$ 16,538	\$ 781	\$ 4,786	\$ 593	1,218

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS**NONMAJOR ENTERPRISE FUNDS**

JUNE 30, 2010

(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
ASSETS			
Current assets:			
Cash/cash equivalents	\$ 203	\$ 404	\$ 1,794
Receivables (net)	-	2	-
Interfund loans receivable	106	-	-
Due from other governments	-	-	-
Due from component units	-	-	-
Inventories	-	-	-
Securities lending collateral	-	-	23
Other current assets	-	-	-
	<hr/>	<hr/>	<hr/>
Total current assets	309	406	1,817
Noncurrent assets:			
Advances to other funds	-	-	-
Long-term investments	-	-	36
Long-term notes/loans receivable	-	-	-
Other long-term assets	-	-	-
Capital assets:			
Land	110	-	-
Land improvements	3,099	-	-
Buildings/improvements	487	-	-
Equipment	454	-	-
Infrastructure	-	-	-
Construction in progress	-	-	-
Intangible assets	-	-	-
Other Depreciable Assets	-	-	-
Less accumulated depreciation	(1,241)	-	-
	<hr/>	<hr/>	<hr/>
Total capital assets	2,909	-	-
	<hr/>	<hr/>	<hr/>
Total noncurrent assets	2,909	-	36
	<hr/>	<hr/>	<hr/>
Total assets	\$ 3,218	\$ 406	\$ 1,853

	HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
\$	6,475	\$ 1,342	\$ 80,946
	146	26	26,967
	22	-	131
	938	12	957
	-	-	33
	-	122	3,378
	261	6	2,777
	-	-	688
	<u>7,842</u>	<u>1,508</u>	<u>115,877</u>
	-	-	75
	409	10	4,363
	304	-	304
	-	-	1,723
	-	-	800
	-	-	3,830
	-	-	7,454
	52	165	7,293
	-	-	915
	-	-	1,537
	7	7	91
	-	-	3,145
	(47)	(80)	(10,532)
	<u>12</u>	<u>92</u>	<u>14,533</u>
	<u>726</u>	<u>102</u>	<u>20,998</u>
\$	\$ 8,568	\$ 1,610	\$ 136,875

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS**NONMAJOR ENTERPRISE FUNDS**

JUNE 30, 2010

(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 5,739	\$ 14	\$ 1,028	\$ 203
Lottery prizes payable	-	-	2,570	-
Interfund loans payable	-	-	-	-
Due to other governments	-	-	-	-
Due to other funds	12,848	79	2,572	-
Deferred revenue	1,137	4,556	136	50
Amounts held in custody for others	20	-	-	-
Securities lending liability	-	444	46	-
Estimated insurance claims	-	238	-	-
Compensated absences payable	160	21	108	121
Total current liabilities	19,904	5,352	6,460	374
Noncurrent liabilities:				
Lottery prizes payable	-	-	1,223	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	195	12	119	211
OPEB implicit rate subsidy	370	39	300	323
Total noncurrent liabilities	565	51	1,642	534
Total liabilities	20,469	5,403	8,102	908
NET ASSETS				
Invested in capital assets, net of related debt	751	61	1,050	7,914
Restricted for:				
Other purposes	-	12,503	-	-
Unrestricted	(284)	-	471	3,448
Total net assets	\$ 467	\$ 12,564	\$ 1,521	\$ 11,362

	MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
\$	5,326	\$ 65	\$ 1	\$ 119	\$ 50	13
	-	-	-	-	-	-
	-	-	-	-	-	45
	-	-	-	-	-	-
	-	-	-	104	-	604
	-	-	-	196	131	-
	-	-	-	-	-	-
	1,305	563	20	109	-	-
	6,600	1,854	600	-	-	-
	47	4	-	159	12	21
	13,278	2,486	621	687	193	683
	-	-	-	-	-	-
	-	6,947	2,612	-	-	-
	-	4	-	122	10	23
	49	8	-	536	72	42
	49	6,959	2,612	658	82	65
	13,327	9,445	3,233	1,345	275	748
	-	-	-	1,670	1	73
	23,126	7,093	(2,452)	-	-	-
	56	-	-	1,771	317	397
\$	23,182	\$ 7,093	(2,452)	\$ 3,441	\$ 318	470

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS**NONMAJOR ENTERPRISE FUNDS**

JUNE 30, 2010

(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 121	\$ 7	\$ 194
Lottery prizes payable	-	-	-
Interfund loans payable	-	-	-
Due to other governments	-	-	-
Due to other funds	-	-	-
Deferred revenue	19	-	-
Amounts held in custody for others	-	-	-
Securities lending liability	-	-	23
Estimated insurance claims	-	-	-
Compensated absences payable	13	14	-
Total current liabilities	<u>153</u>	<u>21</u>	<u>217</u>
Noncurrent liabilities:			
Lottery prizes payable	-	-	-
Estimated insurance claims	-	-	-
Compensated absences payable	18	3	-
OPEB implicit rate subsidy	19	34	-
Total noncurrent liabilities	<u>37</u>	<u>37</u>	<u>-</u>
Total liabilities	<u>190</u>	<u>58</u>	<u>217</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,909	-	-
Restricted for:			
Other purposes	-	-	-
Unrestricted	119	348	1,636
Total net assets	<u>\$ 3,028</u>	<u>\$ 348</u>	<u>\$ 1,636</u>

	HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
\$	45	\$ 112	\$ 13,037
	-	-	2,570
	-	-	45
	45	-	45
	-	-	16,207
	-	339	6,564
	-	-	20
	261	6	2,777
	-	-	9,292
	54	23	757
	405	480	51,314
	-	-	1,223
	-	-	9,559
	54	40	811
	172	79	2,043
	226	119	13,636
	631	599	64,950
	12	92	14,533
	6	319	40,595
	7,918	600	16,797
\$	\$ 7,936	\$ 1,011	\$ 71,925

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**NONMAJOR ENTERPRISE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
Operating revenues:				
Charges for services	\$ 67,871	\$ -	\$ 46,865	\$ 6,304
Investment earnings	-	32	16	-
Securities lending income	-	5	1	-
Contributions/premiums	-	6,886	-	-
Grants/contracts/donations	-	-	-	-
Other operating revenues	173	30	9	-
Total operating revenues	<u>68,044</u>	<u>6,953</u>	<u>46,891</u>	<u>6,304</u>
Operating expenses:				
Personal services	2,732	398	1,819	2,630
Contractual services	259	151	5,728	165
Supplies/materials	58,016	3	1,355	2,140
Benefits/claims	108	3,710	84	98
Depreciation	101	-	162	262
Amortization	-	21	-	-
Utilities/rent	162	12	139	154
Communications	71	7	827	44
Travel	23	34	56	12
Repair/maintenance	45	1	20	436
Lottery prize payments	-	-	25,941	-
Securities lending expense	-	2	-	-
Dividend expense	-	1,867	-	-
Other operating expenses	55	32	231	443
Total operating expenses	<u>61,572</u>	<u>6,238</u>	<u>36,362</u>	<u>6,384</u>
Operating income (loss)	<u>6,472</u>	<u>715</u>	<u>10,529</u>	<u>(80)</u>
Nonoperating revenues (expenses):				
Tax revenues	25,017	-	-	-
Gain (loss) on sale of capital assets	4	-	(2)	(78)
Total nonoperating revenues (expenses)	<u>25,021</u>	<u>-</u>	<u>(2)</u>	<u>(78)</u>
Income (loss) before contributions and transfers	<u>31,493</u>	<u>715</u>	<u>10,527</u>	<u>(158)</u>
Capital contributions	-	-	1,625	-
Transfers in	-	-	-	-
Transfers out	(32,020)	(98)	(10,631)	-
Change in net assets	<u>(527)</u>	<u>617</u>	<u>1,521</u>	<u>(158)</u>
Total net assets - July 1 - as previously reported	994	11,947	-	11,520
Prior period adjustments	-	-	-	-
Total net assets - July 1 - as restated	<u>994</u>	<u>11,947</u>	<u>-</u>	<u>11,520</u>
Total net assets - June 30	<u>\$ 467</u>	<u>\$ 12,564</u>	<u>\$ 1,521</u>	<u>\$ 11,362</u>

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATION	SURPLUS PROPERTY
\$ -	\$ -	\$ -	4,642	\$ 732	\$ 662
106	41	25	8	-	-
16	6	-	1	-	-
64,756	4,979	644	-	-	-
943	-	-	-	10	-
784	-	1	72	33	-
66,605	5,026	670	4,723	775	662
(11)	84	-	3,019	270	247
4,349	567	-	716	65	16
38	-	-	113	324	267
67,116	3,191	444	143	18	12
-	-	-	42	-	9
-	-	-	10	-	-
19	8	-	232	29	22
14	3	-	283	37	10
15	2	-	26	7	1
30	-	-	22	6	11
-	-	-	-	-	-
5	-	-	-	-	-
-	-	-	-	-	-
1,031	45	-	173	59	7
72,606	3,900	444	4,779	815	602
(6,001)	1,126	226	(56)	(40)	60
-	-	-	-	-	-
-	-	-	-	-	(4)
-	-	-	-	-	(4)
(6,001)	1,126	226	(56)	(40)	56
-	-	-	1,018	-	408
-	-	-	-	50	-
-	-	(58)	-	-	-
(6,001)	1,126	168	962	10	464
29,183	5,967	(2,620)	2,479	308	6
-	-	-	-	-	-
29,183	5,967	(2,620)	2,479	308	6
\$ 23,182	\$ 7,093	\$ (2,452)	\$ 3,441	\$ 318	\$ 470

(Continued on Next Page)

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**NONMAJOR ENTERPRISE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
Operating revenues:			
Charges for services	\$ 52	\$ 357	\$ 67
Investment earnings	-	-	2
Securities lending income	-	-	-
Contributions/premiums	-	-	13,809
Grants/contracts/donations	-	-	-
Other operating revenues	106	-	-
Total operating revenues	<u>158</u>	<u>357</u>	<u>13,878</u>
Operating expenses:			
Personal services	136	220	-
Contractual services	18	20	272
Supplies/materials	4	7	-
Benefits/claims	5	11	13,565
Depreciation	156	-	-
Amortization	-	-	-
Utilities/rent	31	29	-
Communications	4	8	-
Travel	2	1	-
Repair/maintenance	16	-	-
Lottery prize payments	-	-	-
Securities lending expense	-	-	-
Dividend expense	-	-	-
Other operating expenses	1	19	165
Total operating expenses	<u>373</u>	<u>315</u>	<u>14,002</u>
Operating income (loss)	<u>(215)</u>	<u>42</u>	<u>(124)</u>
Nonoperating revenues (expenses):			
Tax revenues	-	-	-
Gain (loss) on sale of capital assets	-	-	-
Total nonoperating revenues (expenses)	<u>-</u>	<u>-</u>	<u>-</u>
Income (loss) before contributions and transfers	<u>(215)</u>	<u>42</u>	<u>(124)</u>
Capital contributions	119	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Change in net assets	<u>(96)</u>	<u>42</u>	<u>(124)</u>
Total net assets - July 1 - as previously reported	<u>3,124</u>	<u>306</u>	<u>1,760</u>
Prior period adjustments	<u>-</u>	<u>-</u>	<u>-</u>
Total net assets - July 1 - as restated	<u>3,124</u>	<u>306</u>	<u>1,760</u>
Total net assets - June 30	<u>\$ 3,028</u>	<u>\$ 348</u>	<u>\$ 1,636</u>

	HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
\$	-	\$ 1,528	\$ 129,080
	44	-	274
	3	-	32
	-	-	91,074
	39,650	-	40,603
	1	209	1,418
	<u>39,698</u>	<u>1,737</u>	<u>262,481</u>
	1,018	557	13,119
	1,470	885	14,681
	42	279	62,588
	36,377	24	124,906
	-	11	743
	5	1	37
	99	27	963
	56	9	1,373
	34	33	246
	71	243	901
	-	-	25,941
	1	-	8
	-	-	1,867
	174	46	2,481
	<u>39,347</u>	<u>2,115</u>	<u>249,854</u>
	<u>351</u>	<u>(378)</u>	<u>12,627</u>
	-	-	25,017
	-	-	(80)
	-	-	24,937
	<u>351</u>	<u>(378)</u>	<u>37,564</u>
	-	4	3,174
	-	-	50
	-	(13)	(42,820)
	<u>351</u>	<u>(387)</u>	<u>(2,032)</u>
	7,585	1,160	73,719
	-	238	238
	<u>7,585</u>	<u>1,398</u>	<u>73,957</u>
\$	<u>7,936</u>	<u>\$ 1,011</u>	<u>\$ 71,925</u>

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from sales and services	\$ 67,435	\$ 6,862	\$ 46,314	\$ 6,358
Payments to suppliers for goods and services	(58,669)	(278)	(7,756)	(3,518)
Payments to employees	(2,797)	(456)	(1,803)	(2,741)
Grant receipts	-	-	-	-
Cash payments for claims	-	(3,813)	-	-
Cash payments for prizes	-	-	(24,828)	-
Other operating revenues	173	29	-	-
Other operating payments	-	(1,867)	-	-
Net cash provided by (used for) operating activities	<u>6,142</u>	<u>477</u>	<u>11,927</u>	<u>99</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Collection of taxes	25,017	-	-	-
Transfers to other funds	(34,299)	(92)	(10,631)	-
Transfers from other funds	-	-	-	-
Proceeds from interfund loans/advances	-	-	-	-
Payments of interfund loans/advances	-	-	-	-
Net cash provided by (used for) noncapital financing activities	<u>(9,282)</u>	<u>(92)</u>	<u>(10,631)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(50)	-	(565)	(115)
Proceeds from sale of capital assets	4	-	1	(78)
Net cash used for capital and related financing activities	<u>(46)</u>	<u>-</u>	<u>(564)</u>	<u>(193)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	-	-	68	-
Proceeds from sales or maturities of investments	-	286	333	-
Proceeds from securities lending transactions	-	5	-	-
Interest and dividends on investments	-	36	17	-
Payment of securities lending costs	-	(2)	-	-
Net cash provided by (used for) investing activities	<u>-</u>	<u>325</u>	<u>418</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	<u>(3,186)</u>	<u>710</u>	<u>1,150</u>	<u>(94)</u>
Cash and cash equivalents, July 1	5,932	11,467	1,846	2,085
Cash and cash equivalents, June 30	<u>\$ 2,746</u>	<u>\$ 12,177</u>	<u>\$ 2,996</u>	<u>\$ 1,991</u>

	MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
\$	68,902	\$ 5,361	\$ 708	\$ 4,665	\$ 740	\$ 473
	(5,598)	-	-	(1,878)	(511)	(528)
	(365)	(83)	-	(3,079)	(292)	(248)
	-	-	(301)	-	-	-
	(65,663)	(2,123)	-	-	-	-
	-	-	-	-	-	-
	784	-	1	72	43	-
	-	(728)	-	-	-	-
	(1,940)	2,427	408	(220)	(20)	(303)
	-	-	(58)	-	-	-
	-	-	-	-	-	-
	-	-	-	-	50	408
	-	-	-	(3)	-	-
	-	-	-	-	-	(105)
	-	-	(58)	(3)	50	303
	-	-	-	(23)	-	-
	-	-	-	-	-	-
	-	-	-	(23)	-	-
	-	154	-	-	-	-
	931	-	60	78	-	-
	16	6	-	1	-	-
	119	-	27	-	-	-
	(5)	44	-	9	-	-
	1,061	204	87	88	-	-
	(879)	2,631	437	(158)	30	-
	33,335	12,234	146	2,933	92	17
\$	\$ 32,456	\$ 14,865	\$ 583	\$ 2,775	\$ 122	\$ 17

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
NONMAJOR ENTERPRISE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from sales and services	\$ 52	\$ 355	\$ 14,401
Payments to suppliers for goods and services	(40)	(85)	-
Payments to employees	(138)	(225)	(300)
Grant receipts	-	-	-
Cash payments for claims	-	-	(13,677)
Cash payments for prizes	-	-	-
Other operating revenues	126	-	-
Other operating payments	-	-	-
Net cash provided by (used for) operating activities	<u>-</u>	<u>45</u>	<u>424</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Collection of taxes	-	-	-
Transfers to other funds	-	-	-
Transfers from other funds	-	-	-
Proceeds from interfund loans/advances	-	-	-
Payments of interfund loans/advances	-	-	-
Net cash provided by (used for) noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(7)	-	-
Proceeds from sale of capital assets	-	-	-
Net cash used for capital and related financing activities	<u>(7)</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	-	-	-
Proceeds from sales or maturities of investments	-	-	13
Proceeds from securities lending transactions	-	-	-
Interest and dividends on investments	-	-	2
Payment of securities lending costs	-	-	-
Net cash provided by (used for) investing activities	<u>-</u>	<u>-</u>	<u>15</u>
Net increase (decrease) in cash and cash equivalents	(7)	45	439
Cash and cash equivalents, July 1	210	359	1,355
Cash and cash equivalents, June 30	<u>\$ 203</u>	<u>\$ 404</u>	<u>\$ 1,794</u>

	HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
\$	-	\$ 2,291	\$ 224,917
	(38,262)	(1,594)	(118,717)
	(1,051)	(562)	(14,140)
	40,170	-	39,869
	-	-	(85,276)
	-	-	(24,828)
	1	209	1,438
	-	-	(2,595)
	858	344	20,668
	-	-	24,959
	721	(13)	(44,314)
	(721)	4	(259)
	(22)	-	(25)
	-	-	(105)
	(22)	(9)	(19,744)
	-	(68)	(828)
	-	-	(73)
	-	(68)	(901)
	90	8	320
	-	-	1,701
	-	-	28
	(18)	1	184
	(1)	(4)	41
	71	5	2,274
	907	272	2,297
	5,568	1,070	78,649
\$	\$ 6,475	\$ 1,342	\$ 80,946

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
NONMAJOR ENTERPRISE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ 6,472	\$ 715	\$ 10,529	\$ (80)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	101	-	162	262
Amortization	-	21	-	-
Securities lending expense	-	2	-	-
Investment earnings	-	(36)	-	-
Securities lending income	-	(5)	-	-
Change in assets and liabilities:				
Decr (incr) in accounts receivable	(393)	(1,294)	(2,066)	25
Decr (incr) in due from other funds	3	-	1	206
Decr (incr) in due from component units	2	-	-	(7)
Decr (incr) in due from other governments	-	-	-	-
Decr (incr) in inventories	(9)	-	267	(172)
Decr (incr) in other assets	(5)	(2)	2,028	-
Incr (decr) in accounts payable	(6)	(40)	(43)	(105)
Incr (decr) in lottery prizes payable	-	-	1,113	-
Incr (decr) in due to other funds	(130)	-	35	(138)
Incr (decr) in due to component units	-	-	-	-
Incr (decr) in due to other governments	-	-	-	-
Incr (decr) in deferred revenue	(40)	1,224	(115)	8
Incr (decr) in compensated absences payable	39	(5)	16	2
Incr (decr) in OPEB implicit rate subsidy	108	13	-	98
Incr (decr) in estimated claims	-	(116)	-	-
Net cash provided by (used for) operating activities	\$ 6,142	\$ 477	\$ 11,927	\$ 99
Schedule of noncash transactions:				
Capital asset acquisitions from contributed capital	\$ -	\$ -	\$ -	-
Capital contributions from other funds	\$ -	\$ -	\$ 1,625	-
Total noncash transactions	\$ -	\$ -	\$ 1,625	-

	MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
\$	(6,001)	\$ 1,126	\$ 226	\$ (56)	\$ (40)	60
	-	-	-	42	-	9
	-	-	-	10	-	-
	5	-	-	-	-	-
	(119)	(47)	(26)	(9)	-	-
	(16)	-	-	(1)	-	-
	829	-	18	(6)	(1)	(783)
	-	-	-	2	-	4
	2,374	382	47	1	-	4
	-	-	-	-	-	-
	(322)	-	-	1	6	(201)
	-	18	-	(390)	(1)	-
	1,199	6	-	(96)	7	(4)
	-	-	-	-	-	-
	(3)	(130)	-	72	(1)	591
	(6)	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	34	8	-
	-	1	-	33	(16)	5
	20	3	-	143	18	12
	100	1,068	143	-	-	-
\$	(1,940)	\$ 2,427	\$ 408	\$ (220)	\$ (20)	(303)
\$	-	\$ -	\$ -	1,018	\$ -	-
\$	-	\$ -	\$ -	-	\$ -	408
\$	-	\$ -	\$ -	1,018	\$ -	408

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued**NONMAJOR ENTERPRISE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ (215)	\$ 42	\$ (124)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:			
Depreciation	156	-	-
Amortization	-	-	-
Securities lending expense	-	-	-
Investment earnings	-	-	(2)
Securities lending income	-	-	-
Change in assets and liabilities:			
Decr (incr) in accounts receivable	(32)	(1)	344
Decr (incr) in due from other funds	-	-	-
Decr (incr) in due from component units	-	-	181
Decr (incr) in due from other governments	-	-	-
Decr (incr) in inventories	-	-	-
Decr (incr) in other assets	-	-	-
Incr (decr) in accounts payable	62	(6)	25
Incr (decr) in lottery prizes payable	-	-	-
Incr (decr) in due to other funds	-	(1)	-
Incr (decr) in due to component units	-	-	-
Incr (decr) in due to other governments	-	-	-
Incr (decr) in deferred revenue	20	-	-
Incr (decr) in compensated absences payable	4	-	-
Incr (decr) in OPEB implicit rate subsidy	5	11	-
Incr (decr) in estimated claims	-	-	-
Net cash provided by (used for)			
operating activities	\$ -	\$ 45	\$ 424
Schedule of noncash transactions:			
Capital asset acquisitions from contributed capital	\$ 119	\$ -	\$ -
Capital contributions from other funds	\$ -	\$ -	\$ -
Total noncash transactions	\$ 119	\$ -	\$ -

	HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
\$	351	\$ (378)	\$ 12,627
	-	11	743
	5	1	37
	1	-	8
	21	(1)	(219)
	(3)	-	(25)
	(57)	(26)	(3,443)
	-	356	572
	-	-	2,984
	(289)	5	(284)
	-	(4)	(434)
	865	-	2,513
	(63)	(44)	892
	-	-	1,113
	(13)	(35)	247
	-	-	(6)
	(8)	-	(8)
	-	427	1,566
	(5)	8	82
	53	24	508
	-	-	1,195
<hr/>			
\$	858	\$ 344	\$ 20,668
\$	-	\$ -	\$ 1,137
\$	-	\$ 4	\$ 2,037
\$	-	\$ 4	\$ 3,174

INTERNAL SERVICE FUNDS

Internal service funds are used to account for operations that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. A brief description of each internal service fund follows:

FWP Equipment – This fund is used to account for interdepartmental and intradepartmental sales and use of FWP equipment.

Highway Equipment – This fund is used to account for interdepartmental and intradepartmental sales and use of Department of Transportation equipment.

Employee Group Benefits – This fund receives employee (excluding higher education units) withholdings and state contributions to the medical self-insurance plan. The State contracted with Blue Cross and Blue Shield of Montana to oversee the administrative functions of the program.

Information Technology Services – State agencies and private users are assessed a fee for their use of the State's phone system, centralized data processing, and systems design services provided by the Department of Administration.

Administration Insurance – In this fund, the Department of Administration accounts for the State's property self-insurance program (including liability, property, flood, etc.).

Administration Supply – This fund is used by the Department of Administration to account for intragovernmental sales of office supplies and paper products to state agencies.

Motor Pool – State employee transportation is provided by the Department of Transportation through a pool of vehicles. The cost of operating the Motor Pool is recovered through rental rates charged to user agencies based on the average operating costs per mile for each class of vehicle.

Print & Mail Services – Agencies are assessed a fee for duplicating, typesetting, forms design, and graphic arts services.

Buildings & Grounds – Rental proceeds from state agencies are used to pay maintenance, security, and landscaping costs for state-owned property.

Central Service Funds – This fund group consists of four funds, used by the Department of Administration, the Department of Labor and Industry, the Department of Commerce, and the Office of Public Instruction, for administrative services provided on a cost recovery basis to programs within the departments.

DEQ Indirect Cost Pool – This fund is used to account for funds collected as indirect costs from the operating units of the Department of Environmental Quality and to fund the department's indirect cost pool operations that provide services to the department.

Payroll Processing – This fund accounts for the payments received from state agencies for the costs associated with the processing of payroll warrants. This fund also implements and maintains the State’s central human resource reporting system.

Warrant Processing – This fund accounts for the payments received from state agencies for the costs associated with the processing of all warrants other than payroll.

Investment Division – This fund accounts for costs associated with operations of the Board of Investments (BOI). BOI assists agencies in the investment of state funds. Costs of administering and accounting for each investment fund are allocated based on the dollar volume of investments held by user agencies.

Aircraft Operation – This fund is used by the Department of Natural Resources and Conservation to account for fees charged to users of state aircraft.

Justice Legal Services – The Attorney General's Office and the Department of Justice charge other state agencies a fee for legal assistance. The Department of Administration funds legal services with intradepartmental fees.

Personnel Training – This fund accounts for fees charged to state agencies for training state employees. The fees are used by the Department of Administration to pay instructors and purchase training materials.

Debt Collection – The debt collection component of this fund accounts for fees charged for the collection of bad debts.

Prison Industries – These operations provide training and employment for inmates, where the products produced are primarily sold to other state agencies.

SABHRS Finance and Budget Bureau – This fund implements and maintains the State’s central accounting and budget software reporting system that is used by state agencies.

Other Internal Services – This category includes several small internal service funds administered by various agencies.

COMBINING STATEMENT OF NET ASSETS**INTERNAL SERVICE FUNDS**

JUNE 30, 2010

(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
ASSETS					
Current assets:					
Cash/cash equivalents	\$ 684	\$ 3,494	\$ 24,777	\$ 9,409	\$ 24,338
Receivables (net)	12	7	2,659	57	7
Interfund loans receivable	-	-	-	-	-
Due from other governments	-	-	-	-	-
Due from other funds	54	149	-	83	-
Inventories	-	1,669	-	-	-
Securities lending collateral	-	-	4,374	-	827
Other current assets	-	-	26	450	-
Total current assets	750	5,319	31,836	9,999	25,172
Noncurrent assets:					
Long-term investments	-	-	33,540	-	1,295
Capital assets:					
Land	-	-	-	-	-
Land improvements	-	-	-	-	-
Buildings/improvements	-	-	-	793	-
Equipment	11,384	138,237	-	45,558	-
Construction in progress	-	4,496	-	1,115	-
Intangible assets	6	-	18	-	204
Less accumulated depreciation	(4,876)	(75,904)	-	(42,499)	-
Total capital assets	6,514	66,829	18	4,967	204
Total noncurrent assets	6,514	66,829	33,558	4,967	1,499
Total assets	7,264	72,148	65,394	14,966	26,671
LIABILITIES					
Current liabilities:					
Accounts payable	160	1,257	3,871	7,197	308
Interfund loans payable	-	-	-	-	-
Due to other funds	-	-	-	13	-
Deferred revenue	-	-	1,162	88	-
Lease/installment purchase payable	-	-	-	272	-
Securities lending liability	-	-	4,374	-	827
Estimated insurance claims	-	-	11,319	-	5,501
Compensated absences payable	5	414	36	967	47
Total current liabilities	165	1,671	20,762	8,537	6,683
Noncurrent liabilities:					
Advances from other funds	300	-	-	-	-
Lease/installment purchase payable	-	-	-	188	-
Estimated insurance claims	-	-	1,691	-	11,173
Compensated absences payable	10	375	26	872	129
OPEB implicit rate subsidy	28	1,128	119	1,659	137
Total noncurrent liabilities	338	1,503	1,836	2,719	11,439
Total liabilities	503	3,174	22,598	11,256	18,122
NET ASSETS					
Invested in capital assets, net of related debt	6,514	66,829	18	4,967	204
Unrestricted	247	2,145	42,778	(1,257)	8,345
Total net assets	\$ 6,761	\$ 68,974	\$ 42,796	\$ 3,710	\$ 8,549

	ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
\$	1,012 \$	1,308 \$	1,381 \$	4,968 \$	304 \$	1,484 \$	610 \$	366
	1	-	74	3	-	-	-	-
	45	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	9	399	-	-	-	-	-	-
	303	16	138	-	-	-	-	-
	-	-	-	-	-	-	-	-
	9	1	427	-	-	3	-	-
	1,379	1,724	2,020	4,971	304	1,487	610	366
	-	-	-	-	-	-	-	-
	-	236	-	-	-	-	-	-
	-	-	-	95	-	-	-	-
	-	-	-	1,091	-	-	-	-
	114	18,166	2,998	511	-	260	83	-
	-	-	-	141	-	-	-	-
	-	-	-	-	-	24	-	-
	(103)	(8,306)	(1,330)	(445)	-	(140)	(38)	-
	11	10,096	1,668	1,393	-	144	45	-
	11	10,096	1,668	1,393	-	144	45	-
	1,390	11,820	3,688	6,364	304	1,631	655	366
	403	150	486	375	48	189	47	61
	-	1,320	-	-	-	2	-	-
	-	1,940	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	229	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	20	15	68	91	42	265	84	119
	423	3,425	783	466	90	456	131	180
	-	5,038	-	-	-	-	-	-
	-	-	701	-	-	-	-	-
	-	-	-	-	-	-	-	-
	59	25	78	101	133	178	149	69
	77	55	311	264	120	521	164	228
	136	5,118	1,090	365	253	699	313	297
	559	8,543	1,873	831	343	1,155	444	477
	11	10,096	1,668	1,393	-	144	45	-
	820	(6,819)	147	4,140	(39)	332	166	(111)
\$	831 \$	3,277 \$	1,815 \$	5,533 \$	(39) \$	476 \$	211 \$	(111)

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS**INTERNAL SERVICE FUNDS**

JUNE 30, 2010

(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
ASSETS					
Current assets:					
Cash/cash equivalents	\$ 749	\$ 791	\$ 244	\$ 977	350
Receivables (net)	4	-	-	-	-
Interfund loans receivable	-	-	-	-	-
Due from other governments	-	-	-	-	-
Due from other funds	610	-	-	36	50
Inventories	-	6	38	-	-
Securities lending collateral	-	-	-	-	-
Other current assets	10	3	-	74	-
Total current assets	<u>1,373</u>	<u>800</u>	<u>282</u>	<u>1,087</u>	<u>400</u>
Noncurrent assets:					
Long-term investments	-	-	-	-	-
Capital assets:					
Land	-	-	-	-	-
Land improvements	-	-	-	-	-
Buildings/improvements	-	-	-	-	-
Equipment	564	-	149	11	62
Construction in progress	-	83	-	-	-
Intangible assets	-	120	-	6	-
Less accumulated depreciation	(448)	-	(100)	(8)	(35)
Total capital assets	<u>116</u>	<u>203</u>	<u>49</u>	<u>9</u>	<u>27</u>
Total noncurrent assets	<u>116</u>	<u>203</u>	<u>49</u>	<u>9</u>	<u>27</u>
Total assets	<u>1,489</u>	<u>1,003</u>	<u>331</u>	<u>1,096</u>	<u>427</u>
LIABILITIES					
Current liabilities:					
Accounts payable	263	143	10	181	103
Interfund loans payable	-	-	-	-	-
Due to other funds	47	-	-	-	-
Deferred revenue	-	-	-	-	-
Lease/installment purchase payable	-	-	18	-	-
Securities lending liability	-	-	-	-	-
Estimated insurance claims	-	-	-	-	-
Compensated absences payable	264	113	11	143	54
Total current liabilities	<u>574</u>	<u>256</u>	<u>39</u>	<u>324</u>	<u>157</u>
Noncurrent liabilities:					
Advances from other funds	-	-	-	-	-
Lease/installment purchase payable	-	-	23	-	-
Estimated insurance claims	-	-	-	-	-
Compensated absences payable	225	48	5	255	72
OPEB implicit rate subsidy	504	241	55	243	109
Total noncurrent liabilities	<u>729</u>	<u>289</u>	<u>83</u>	<u>498</u>	<u>181</u>
Total liabilities	<u>1,303</u>	<u>545</u>	<u>122</u>	<u>822</u>	<u>338</u>
NET ASSETS					
Invested in capital assets, net of related debt	116	203	49	9	27
Unrestricted	70	255	160	265	62
Total net assets	<u>\$ 186</u>	<u>\$ 458</u>	<u>\$ 209</u>	<u>\$ 274</u>	<u>\$ 89</u>

	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
\$	189 \$	- \$	146 \$	1,811 \$	356 \$	873 \$	80,621
	-	1	-	52	-	-	2,877
	-	-	-	-	-	-	45
	-	7	-	-	-	-	7
	7	-	-	-	-	-	1,397
	-	-	-	142	174	-	2,486
	-	-	-	-	-	-	5,201
	-	-	-	-	-	-	1,003
	196	8	146	2,005	530	873	93,637
	-	-	-	-	-	-	34,835
	-	-	-	-	-	-	236
	-	-	-	-	-	-	95
	-	-	-	2,820	-	-	4,704
	-	-	-	1,390	71	66	219,624
	-	-	-	-	-	-	5,835
	-	-	-	-	-	387	765
	-	-	-	(1,794)	(63)	(59)	(136,148)
	-	-	-	2,416	8	394	95,111
	-	-	-	2,416	8	394	129,946
	196	8	146	4,421	538	1,267	223,583
	43	6	5	80	94	52	15,532
	-	-	-	-	33	-	1,355
	-	-	-	-	-	-	2,000
	-	-	-	26	-	-	1,276
	-	-	-	-	-	-	519
	-	-	-	-	-	-	5,201
	-	-	-	-	-	-	16,820
	80	8	4	62	14	89	3,015
	123	14	9	168	141	141	45,718
	-	-	-	-	-	-	5,338
	-	-	-	-	-	-	912
	-	-	-	-	-	-	12,864
	129	3	-	23	16	122	3,102
	135	29	27	228	25	155	6,562
	264	32	27	251	41	277	28,778
	387	46	36	419	182	418	74,496
	-	-	-	2,416	8	394	95,111
	(191)	(38)	110	1,586	348	455	53,976
\$	(191) \$	(38) \$	110 \$	4,002 \$	356 \$	849 \$	149,087

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**INTERNAL SERVICE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
Operating revenues:					
Charges for services	\$ 3,422	\$ 23,848	\$ 296	\$ 41,430	-
Investment earnings	-	-	2,396	-	77
Securities lending income	-	-	40	-	12
Securities lending expense	-	-	(18)	-	(4)
Contributions/premiums	-	-	106,097	-	11,757
Grants/contracts/donations	-	-	2,235	-	-
Other operating revenues	-	184	1,413	22	-
Total operating revenues	3,422	24,032	112,459	41,452	11,842
Operating expenses:					
Personal services	127	7,144	913	14,928	998
Contractual services	122	419	5,589	2,186	5,273
Supplies/materials	1,157	6,485	83	1,228	39
Benefits/claims	9	325	102,827	510	5,058
Depreciation	549	5,960	-	2,255	-
Amortization	7	-	22	-	60
Utilities/rent	25	89	108	10,737	68
Communications	4	6	89	6,371	22
Travel	11	10	12	88	15
Repair/maintenance	626	4,014	2	1,736	14
Interest expense	-	-	-	27	-
Other operating expenses	4	300	920	1,108	215
Total operating expenses	2,641	24,752	110,565	41,174	11,762
Operating income (loss)	781	(720)	1,894	278	80
Nonoperating revenues (expenses):					
Insurance proceeds	-	1	-	-	235
Gain (loss) on sale of capital assets	(235)	38	-	-	-
Federal indirect cost recoveries	-	-	-	-	-
Total nonoperating revenues (expenses)	(235)	39	-	-	235
Income (loss) before contributions and transfers	546	(681)	1,894	278	315
Capital contributions	-	1,008	-	298	-
Transfers in	73	-	-	-	616
Transfers out	-	-	-	-	(640)
Changes in net assets	619	327	1,894	576	291
Total net assets - July 1 - as previously reported	6,142	68,646	39,391	2,226	8,232
Prior period adjustments	-	1	1,511	908	26
Total net assets - July 1 - as restated	6,142	68,647	40,902	3,134	8,258
Total net assets - June 30	\$ 6,761	\$ 68,974	\$ 42,796	\$ 3,710	\$ 8,549

	ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
\$	4,855	\$ 6,805	\$ 12,177	\$ 10,680	\$ 1,244	\$ 5,137	\$ 25	1,209
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	4	-	-	1	-	1,331	8
	4,855	6,809	12,177	10,680	1,245	5,137	1,356	1,217
	389	319	1,351	1,618	992	4,161	1,287	1,709
	42	434	111	3,140	42	801	26	261
	4,223	1,499	4,919	210	33	266	47	47
	22	15	87	80	39	179	50	71
	1	2,349	319	177	-	35	13	-
	-	-	-	-	-	12	-	-
	103	75	237	2,507	34	226	97	264
	27	1	4,585	32	21	97	26	187
	-	-	2	1	2	42	23	6
	6	284	533	1,445	10	24	2	20
	-	198	-	-	-	-	-	-
	26	134	60	207	15	679	27	51
	4,839	5,308	12,204	9,417	1,188	6,522	1,598	2,616
	16	1,501	(27)	1,263	57	(1,385)	(242)	(1,399)
	-	2	-	-	-	-	-	-
	-	270	(78)	29	-	(3)	-	-
	-	-	-	-	-	1,432	237	1,368
	-	272	(78)	29	-	1,429	237	1,368
	16	1,773	(105)	1,292	57	44	(5)	(31)
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	(470)	-	-	-	-
	16	1,773	(105)	822	57	44	(5)	(31)
	815	1,504	1,920	4,930	(96)	413	216	(80)
	-	-	-	(219)	-	19	-	-
	815	1,504	1,920	4,711	(96)	432	216	(80)
\$	831	\$ 3,277	\$ 1,815	\$ 5,533	(39)	\$ 476	\$ 211	(111)

(Continued on Next Page)

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**INTERNAL SERVICE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

	DEQ				
	INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
Operating revenues:					
Charges for services	\$ 4,360	\$ 4,265	\$ 994	\$ 4,869	\$ 599
Investment earnings	-	-	-	-	-
Securities lending income	-	-	-	-	-
Securities lending expense	-	-	-	-	-
Contributions/premiums	-	-	-	-	-
Grants/contracts/donations	-	-	-	-	-
Other operating revenues	9	-	-	-	1
Total operating revenues	4,369	4,265	994	4,869	600
Operating expenses:					
Personal services	3,900	1,764	207	2,371	1,122
Contractual services	755	1,148	223	1,190	72
Supplies/materials	252	107	(21)	35	204
Benefits/claims	152	76	15	70	32
Depreciation	51	-	23	1	14
Amortization	6	168	-	2	-
Utilities/rent	1,392	65	18	156	140
Communications	187	48	418	31	6
Travel	17	5	-	26	46
Repair/maintenance	89	386	22	1	337
Interest expense	-	-	4	-	-
Other operating expenses	231	64	13	452	12
Total operating expenses	7,032	3,831	922	4,335	1,985
Operating income (loss)	(2,663)	434	72	534	(1,385)
Nonoperating revenues (expenses):					
Insurance proceeds	-	-	-	-	-
Gain (loss) on sale of capital assets	-	-	-	(2)	(2)
Federal indirect cost recoveries	2,744	-	-	-	-
Total nonoperating revenues (expenses)	2,744	-	-	(2)	(2)
Income (loss) before contributions and transfers	81	434	72	532	(1,387)
Capital contributions	-	-	-	-	-
Transfers in	-	-	-	-	1,219
Transfers out	(2)	-	-	(472)	(3)
Changes in net assets	79	434	72	60	(171)
Total net assets - July 1 - as previously reported	107	24	127	214	246
Prior period adjustments	-	-	10	-	14
Total net assets - July 1 - as restated	107	24	137	214	260
Total net assets - June 30	\$ 186	\$ 458	\$ 209	\$ 274	\$ 89

	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
\$	1,347	\$ 282	\$ 109	\$ 5,211	\$ 618	\$ 4,157	137,939
	-	-	-	-	-	-	2,473
	-	-	-	-	-	-	52
	-	-	-	-	-	-	(22)
	-	-	-	-	-	-	117,854
	-	-	-	-	-	-	2,235
	-	-	-	-	-	-	2,973
	1,347	282	109	5,211	618	4,157	263,504
	1,116	139	146	1,216	303	1,410	49,630
	87	43	11	61	65	1,557	23,658
	31	38	3	2,569	95	92	23,641
	38	7	10	69	14	48	109,803
	-	-	-	202	5	-	11,954
	-	-	-	-	-	257	534
	67	27	3	136	28	34	16,636
	24	7	10	6	5	23	12,233
	3	14	-	-	3	10	336
	4	1	-	42	16	942	10,556
	-	-	-	-	-	-	229
	13	6	1	59	16	97	4,710
	1,383	282	184	4,360	550	4,470	263,920
	(36)	-	(75)	851	68	(313)	(416)
	-	-	-	-	-	-	238
	-	-	-	-	-	-	17
	-	-	-	-	104	-	5,885
	-	-	-	-	104	-	6,140
	(36)	-	(75)	851	172	(313)	5,724
	-	-	-	-	-	-	1,306
	-	-	-	-	-	-	1,908
	-	-	-	-	-	-	(1,587)
	(36)	-	(75)	851	172	(313)	7,351
	(155)	(38)	185	3,151	184	1,162	139,466
	-	-	-	-	-	-	2,270
	(155)	(38)	185	3,151	184	1,162	141,736
\$	(191)	\$ (38)	\$ 110	\$ 4,002	\$ 356	\$ 849	149,087

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt from sales and services	\$ 3,668	\$ 23,980	\$ 107,043	\$ 44,490	\$ 11,758
Payments to suppliers for goods and services	(1,960)	(12,113)	(6,995)	(20,836)	(5,646)
Payments to employees	(129)	(7,482)	(971)	(15,380)	(1,024)
Grant receipts	-	-	2,235	-	-
Cash payments for claims	-	-	(106,764)	-	(3,975)
Other operating revenues	-	1	10,269	22	-
Net cash provided by (used for) operating activities	<u>1,579</u>	<u>4,386</u>	<u>4,817</u>	<u>8,296</u>	<u>1,113</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Payment of principal and interest on bonds and notes	-	-	-	(288)	-
Transfers to other funds	-	-	-	-	(640)
Transfers from other funds	73	-	-	-	615
Proceeds from interfund loans/advances	300	-	-	-	-
Payment of interfund loans/advances	(585)	-	-	-	-
Contributed capital transfers from other funds	-	1,008	-	298	-
Net cash provided by (used for) noncapital financing activities	<u>(212)</u>	<u>1,008</u>	<u>-</u>	<u>10</u>	<u>(25)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	235
Acquisition of capital assets	(695)	(9,076)	-	(2,200)	75
Net cash used for capital and related financing activities	<u>(695)</u>	<u>(9,076)</u>	<u>-</u>	<u>(2,200)</u>	<u>310</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	-	(1,954)	-	299
Proceeds from securities lending transactions	-	-	41	-	12
Interest and dividends on investments	-	-	2,498	-	85
Payment of securities lending costs	-	-	(18)	-	(4)
Net cash provided by (used for) investing activities	<u>-</u>	<u>-</u>	<u>567</u>	<u>-</u>	<u>392</u>
Net increase (decrease) in cash and cash equivalents	<u>672</u>	<u>(3,682)</u>	<u>5,384</u>	<u>6,106</u>	<u>1,790</u>
Cash and cash equivalents, July 1	<u>12</u>	<u>7,176</u>	<u>19,393</u>	<u>3,303</u>	<u>22,548</u>
Cash and cash equivalents, June 30	<u>\$ 684</u>	<u>\$ 3,494</u>	<u>\$ 24,777</u>	<u>\$ 9,409</u>	<u>\$ 24,338</u>

	ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
\$	5,067	\$ 6,984	\$ 12,884	\$ 10,691	\$ 1,243	\$ 5,509	\$ 28	1,389
	(4,522)	(2,755)	(10,384)	(7,820)	(148)	(2,126)	(263)	(896)
	(381)	(336)	(1,405)	(1,663)	(1,008)	(4,156)	(1,312)	(1,754)
	-	-	-	-	-	-	-	-
	-	4	-	-	1	-	1,331	8
	164	3,897	1,095	1,208	88	(773)	(216)	(1,253)
	-	(215)	-	-	-	2	-	-
	-	-	-	(469)	-	-	99	-
	-	-	-	-	-	-	-	1,510
	105	(2,328)	-	-	-	(24)	237	-
	-	1,083	-	-	-	-	-	-
	-	2	-	-	-	-	-	-
	105	(1,458)	-	(469)	-	(22)	336	1,510
	-	-	-	-	-	-	-	-
	-	(1,795)	(142)	(178)	-	1,451	(5)	-
	-	(1,795)	(142)	(178)	-	1,451	(5)	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	269	644	953	561	88	656	115	257
	743	664	428	4,407	216	828	495	109
\$	1,012	\$ 1,308	\$ 1,381	\$ 4,968	\$ 304	\$ 1,484	\$ 610	366

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
INTERNAL SERVICE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from sales and services	\$ 4,299	\$ 4,267	\$ 1,095	\$ 4,907
Payments to suppliers for goods and services	(2,805)	(1,834)	(770)	(1,893)
Payments to employees	(4,026)	(1,790)	(216)	(2,425)
Grant receipts	-	-	-	-
Cash payments for claims	-	-	-	-
Other operating revenues	9	-	-	-
Net cash provided by (used for) operating activities	(2,523)	643	109	589
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Payment of principal and interest on bonds and notes	-	-	(6)	-
Transfers to other funds	(1)	-	-	(473)
Transfers from other funds	2,733	-	-	-
Proceeds from interfund loans/advances	-	-	-	-
Payment of interfund loans/advances	-	-	-	-
Contributed capital transfers from other funds	-	-	-	-
Net cash provided by (used for) noncapital financing activities	2,732	-	(6)	(473)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from insurance	-	-	-	-
Acquisition of capital assets	(8)	(82)	(16)	-
Net cash used for capital and related financing activities	(8)	(82)	(16)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	-	-	-	-
Proceeds from securities lending transactions	-	-	-	-
Interest and dividends on investments	-	-	-	-
Payment of securities lending costs	-	-	-	-
Net cash provided by (used for) investing activities	-	-	-	-
Net increase (decrease) in cash and cash equivalents	201	561	87	116
Cash and cash equivalents, July 1	548	230	157	861
Cash and cash equivalents, June 30	\$ 749	\$ 791	\$ 244	\$ 977

	AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
\$	621	\$ 1,460	\$ 285	\$ 109	\$ 5,534	\$ 623	\$ 4,158	262,092
	(814)	(233)	(147)	(30)	(3,123)	(182)	(2,874)	(91,169)
	(1,143)	(1,149)	(178)	(145)	(1,249)	(282)	(1,465)	(51,069)
	-	-	-	-	-	-	-	2,235
	-	-	-	-	-	-	-	(110,739)
	1	-	-	-	-	-	-	11,646
	(1,335)	78	(40)	(66)	1,162	159	(181)	22,996
	-	-	-	-	-	-	-	(507)
	(2)	-	-	-	-	-	-	(1,486)
	1,218	-	(1)	-	-	104	-	6,252
	-	-	-	-	-	(4)	-	(1,714)
	-	-	-	-	-	-	-	498
	-	-	-	-	-	-	-	1,308
	1,216	-	(1)	-	-	100	-	4,351
	-	-	-	-	-	-	-	235
	-	-	-	-	-	-	-	(12,671)
	-	-	-	-	-	-	-	(12,436)
	-	-	-	-	-	-	-	(1,655)
	-	-	-	-	-	-	-	53
	-	-	-	-	-	-	-	2,583
	-	-	-	-	-	-	-	(22)
	-	-	-	-	-	-	-	959
	(119)	78	(41)	(66)	1,162	259	(181)	15,870
	469	111	41	212	649	97	1,054	64,751
\$	\$ 350	\$ 189	\$ -	\$ 146	\$ 1,811	\$ 356	\$ 873	80,621

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
INTERNAL SERVICE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009
 (amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ 781	\$ (720)	\$ 1,894	\$ 278	\$ 80
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	549	5,960	-	2,255	-
Amortization	7	-	22	-	60
Interest expense	-	-	-	27	-
Securities lending expense	-	-	18	-	(4)
Investment earnings	-	-	(2,396)	-	(77)
Securities lending income	-	-	(41)	-	(12)
Federal indirect cost recoveries	-	-	-	-	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	-	19	5,759	(6)	8
Decr (incr) in due from other funds	246	(71)	13	2,882	80
Decr (incr) in due from component units	-	1	-	188	6
Decr (incr) in due from other governments	-	-	-	-	-
Decr (incr) in inventories	-	(148)	-	-	-
Decr (incr) in other assets	-	1	(7)	(1)	(50)
Incr (decr) in accounts payable	(12)	(906)	94	2,462	(621)
Incr (decr) in due to other funds	(3)	-	(8)	(254)	(112)
Incr (decr) in due to component units	-	-	-	-	(8)
Incr (decr) in deferred revenue	-	-	95	-	-
Incr (decr) in compensated absences payable	2	(75)	(25)	(45)	5
Incr (decr) in OPEB implicit rate subsidy	9	325	39	510	40
Incr (decr) in estimated claims	-	-	(640)	-	1,718
Net cash provided by (used for) operating activities	<u>\$ 1,579</u>	<u>\$ 4,386</u>	<u>\$ 4,817</u>	<u>\$ 8,296</u>	<u>\$ 1,113</u>

	ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
\$	16 \$	1,501 \$	(27) \$	1,263 \$	57 \$	(1,385) \$	(242) \$	(1,399)
	1	2,349	319	177	-	35	13	-
	-	-	-	-	-	12	-	-
	-	198	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	1,432	237	1,368
	(2)	-	(47)	(2)	-	-	-	-
	205	155	724	232	-	365	(237)	(1,189)
	9	8	43	-	-	(1,424)	3	2
	-	-	-	-	-	-	-	-
	57	-	15	-	-	-	-	-
	-	-	(248)	(230)	1	2	1	-
	(144)	(270)	257	(241)	(15)	(54)	(42)	(56)
	(4)	(55)	(12)	(91)	(3)	-	(12)	(47)
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	4	(4)	(16)	5	9	65	13	(3)
	22	15	87	95	39	179	50	71
	-	-	-	-	-	-	-	-
\$	164 \$	3,897 \$	1,095 \$	1,208 \$	88 \$	(773) \$	(216) \$	(1,253)

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
INTERNAL SERVICE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ (2,663)	\$ 434	\$ 72	\$ 534
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	51	-	23	1
Amortization	6	168	-	2
Interest expense	-	-	4	-
Securities lending expense	-	-	-	-
Investment earnings	-	-	-	-
Securities lending income	-	-	-	-
Federal indirect cost recoveries	2,744	-	-	-
Change in assets and liabilities:				
Decr (incr) in accounts receivable	1	-	-	-
Decr (incr) in due from other funds	(2,810)	1	82	(9)
Decr (incr) in due from component units	3	-	19	46
Decr (incr) in due from other governments	-	-	-	-
Decr (incr) in inventories	-	-	(26)	-
Decr (incr) in other assets	15	1	2	10
Incr (decr) in accounts payable	5	35	(10)	(68)
Incr (decr) in due to other funds	(24)	(93)	(70)	(6)
Incr (decr) in due to component units	-	-	-	(9)
Incr (decr) in deferred revenue	-	-	-	-
Incr (decr) in compensated absences payable	(3)	21	(2)	18
Incr (decr) in OPEB implicit rate subsidy	152	76	15	70
Incr (decr) in estimated claims	-	-	-	-
Net cash provided by (used for) operating activities	<u>\$ (2,523)</u>	<u>\$ 643</u>	<u>\$ 109</u>	<u>\$ 589</u>

	AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
\$	(1,385) \$	(36) \$	- \$	(75) \$	851 \$	68 \$	(313) \$	(416)
	14	-	-	-	201	5	-	11,953
	-	-	-	-	-	-	258	535
	-	-	-	-	-	-	-	229
	-	-	-	-	-	-	-	14
	-	-	-	-	-	-	-	(2,473)
	-	-	-	-	-	-	-	(53)
	-	-	-	-	-	104	-	5,885
	17	-	-	-	-	-	-	5,747
	5	112	7	-	321	(100)	-	1,014
	-	2	-	-	-	-	-	(1,094)
	-	-	(4)	-	-	-	-	(4)
	-	-	-	-	(19)	(27)	-	(148)
	-	-	-	-	-	-	-	(503)
	(37)	(31)	(19)	-	(47)	82	(39)	323
	-	(3)	(1)	(1)	(215)	(5)	(121)	(1,140)
	-	-	-	-	-	-	-	(17)
	-	-	-	-	-	-	-	95
	19	(4)	(30)	-	1	18	(14)	(41)
	32	38	7	10	69	14	48	2,012
	-	-	-	-	-	-	-	1,078
\$	(1,335) \$	78 \$	(40) \$	(66) \$	1,162 \$	159 \$	(181) \$	22,996

This page intentionally left blank.

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

These funds provide retirement, disability, death, and lump-sum payments to retirement system members. A brief description of each fund follows:

Public Employee Retirement System - Defined Benefit Retirement Plan – This fund provides retirement benefits to substantially all public employees not covered by another public system.

Municipal Police Officers Retirement System – This fund provides retirement benefits to all municipal police officers covered by the plan.

Firefighters Unified Retirement System – This fund provides retirement benefits for firefighters employed by first and second-class cities and other cities that wish to adopt the plan, and firefighters hired by the Montana Air National Guard.

Sheriffs Retirement System – This fund provides retirement benefits for sheriffs, detention officers, and State Department of Justice investigators.

Highway Patrol Officers Retirement System – This fund provides retirement benefits for all members of the Montana Highway Patrol.

Judges Retirement System – This fund provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge.

Game Wardens & Peace Officers Retirement System – This fund provides retirement benefits for all persons employed as game wardens, supervisory personnel, and state peace officers.

Volunteer Firefighters Compensation Act – This fund provides medical benefits and pension, disability, and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the State.

Public Employee Retirement System - Defined Contribution Retirement Plan – Members of the defined contribution retirement plan decide how to invest their contributions and a portion of their employer contributions in the available investment options.

Public Employee 457 Plan – All employees of the State, Montana University System, and contracting political subdivisions are eligible to participate in this plan. The 457 plan is a voluntary, tax-deferred retirement plan designed to supplement state service retirement, Social Security, and other retirement plans and savings.

Teachers Retirement System – This fund provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system.

Voluntary Employee Benefit Association – This fund provides members with individual health care expense trust accounts to pay the qualified health care expenses of members and their dependents and beneficiaries.

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
 JUNE 30, 2010
(amounts expressed in thousands)

	PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)					
	PUBLIC EMPLOYEES DEFINED BENEFITS	MUNICIPAL POLICE	FIRE FIGHTERS UNIFIED	SHERIFFS	HIGHWAY PATROL	JUDGES
ASSETS						
Cash/cash equivalents	\$ 62,711	\$ 2,323	\$ 2,665	\$ 4,648	\$ 1,690	\$ 1,470
Receivables (net):						
Accounts receivable	1,027	124	124	125	-	-
Interest	5,424	287	282	275	134	84
Due from primary government	-	10,932	10,872	-	-	-
Due from other PERB plans	3	-	-	-	-	-
Long-term notes/loans receivable	32	-	-	-	-	-
Total receivables	6,486	11,343	11,278	400	134	84
Investments at fair value:						
Equity in pooled investments	3,215,729	173,363	170,373	167,329	80,971	50,920
Other investments	31,912	148	170	287	94	89
Total investments	3,247,641	173,511	170,543	167,616	81,065	51,009
Securities lending collateral	215,178	11,631	11,432	11,302	5,446	3,440
Capital assets:						
Land	-	-	-	-	-	-
Buildings/improvements	-	-	-	-	-	-
Equipment	5	-	-	-	-	-
Accumulated depreciation	(5)	-	-	-	-	-
Intangible assets	211	2	2	2	2	2
Total capital assets	211	2	2	2	2	2
Other assets	-	-	-	-	-	-
Total assets	3,532,227	198,810	195,920	183,968	88,337	56,005
LIABILITIES						
Accounts payable	321	-	1	25	-	-
Due to other PERB plans	294	-	-	-	-	-
Deferred revenue	85	31	4	-	-	-
Securities lending liability	215,178	11,631	11,432	11,302	5,446	3,440
Compensated absences payable	237	-	-	-	-	-
OPEB implicit rate subsidy	208	5	4	6	2	-
Total liabilities	216,323	11,667	11,441	11,333	5,448	3,440
NET ASSETS						
Held in trust for pension benefits and other purposes	\$ 3,315,904	\$ 187,143	\$ 184,479	\$ 172,635	\$ 82,889	\$ 52,565

PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)

	GAME WARDENS PEACE OFFICERS	VOLUNTEER FIRE FIGHTERS	PUBLIC EMPLOYEES DEFINED CONTRIBUTION	PUBLIC EMPLOYEES 457 PLAN	TEACHERS RETIREMENT SYSTEM	VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION	TOTAL
\$	2,829	\$ 1,392	\$ 2,691	\$ 804	\$ 44,365	\$ 1,669	\$ 129,257
	-	-	-	3	19,917	3	21,323
	117	35	1	-	4,111	-	10,750
	-	-	-	-	-	-	21,804
	-	-	291	-	-	-	294
	-	-	-	-	-	-	32
	117	35	292	3	24,028	3	54,203
	71,063	21,122	-	-	2,426,072	-	6,376,942
	164	89	56,838	320,368	27,169	1,289	438,617
	71,227	21,211	56,838	320,368	2,453,241	1,289	6,815,559
	4,806	1,470	107	31	162,097	-	426,940
	-	-	-	-	35	-	35
	-	-	-	-	158	-	158
	-	-	-	-	143	-	148
	-	-	-	-	(200)	-	(205)
	2	1	5	2	106	-	337
	2	1	5	2	242	-	473
	-	-	-	-	7	-	7
	78,981	24,109	59,933	321,208	2,683,980	2,961	7,426,439
	34	-	96	283	111	31	902
	-	-	-	-	-	-	294
	-	-	-	-	-	-	120
	4,806	1,470	107	31	162,097	-	426,940
	-	-	17	11	183	-	448
	4	4	24	18	144	-	419
	4,844	1,474	244	343	162,535	31	429,123
\$	74,137	\$ 22,635	\$ 59,689	\$ 320,865	\$ 2,521,445	\$ 2,930	\$ 6,997,316

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)						
	PUBLIC EMPLOYEES DEFINED BENEFIT	MUNICIPAL POLICE	FIRE- FIGHTERS UNIFIED	SHERIFFS	HIGHWAY PATROL	JUDGES
ADDITIONS						
Contributions/premiums:						
Employer	\$ 80,246	\$ 6,860	\$ 5,129	\$ 5,637	\$ 4,763	1,468
Employee	78,614	4,046	4,362	5,325	1,261	595
Other contributions	669	11,027	10,928	12	288	-
Net investment earnings:						
Investment earnings	406,893	20,971	20,587	20,437	10,187	6,309
Administrative investment expenses	(20,229)	(1,063)	(1,044)	(1,029)	(503)	(315)
Securities lending income	1,661	90	88	87	42	27
Securities lending expense	(464)	(25)	(25)	(24)	(12)	(7)
Charges for services	4	-	-	-	-	-
Other additions	-	-	-	-	-	-
Total additions	547,394	41,906	40,025	30,445	16,026	8,077
DEDUCTIONS						
Benefits	212,252	15,729	14,599	8,279	7,557	2,118
Refunds	11,848	913	86	799	58	-
Administrative expenses:						
Personal services	1,683	-	-	-	-	-
Contractual services	864	1	8	8	4	1
Supplies/materials	88	-	-	-	-	-
Depreciation	()	-	-	-	-	-
Amortization	109	1	1	1	1	1
Utilities/rent	194	-	-	-	-	-
Communications	115	-	-	-	-	-
Travel	36	-	-	-	-	-
Repair/maintenance	-	-	-	-	-	-
Other operating expenses	103	76	62	88	29	9
Local assistance	-	-	-	-	-	-
Transfer to ORP	175	-	-	-	-	-
Transfer to PERS-DCRP	860	-	-	-	-	-
Total deductions	228,327	16,720	14,756	9,175	7,649	2,129
Changes in net assets	319,067	25,186	25,269	21,270	8,377	5,948
Net assets- July 1- as previously reported	2,998,359	162,042	159,295	151,447	74,549	46,641
Prior period adjustments	(1,522)	(85)	(85)	(82)	(37)	(24)
Net assets - July 1- as restated	2,996,837	161,957	159,210	151,365	74,512	46,617
Net assets - June 30	\$ 3,315,904	\$ 187,143	\$ 184,479	\$ 172,635	\$ 82,889	\$ 52,565

PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)

	GAME WARDENS/ PEACE OFFICERS	VOLUNTEER FIRE- FIGHTERS	PUBLIC EMPLOYEES DEFINED CONTRIBUTION	PUBLIC EMPLOYEES 457 PLAN	TEACHERS RETIREMENT SYSTEM	VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION	TOTAL
\$	3,612	\$ -	4,029	\$ 61	72,179	\$ 1,553	185,537
	4,334	-	6,140	18,607	62,845	-	186,129
	6	1,575	-	-	17,242	-	41,747
	8,326	2,689	6,121	37,829	309,402	(67)	849,684
	(429)	(131)	-	(627)	(15,351)	-	(40,721)
	36	11	1	-	1,254	-	3,297
	(10)	(3)	-	-	(350)	-	(920)
	-	-	164	330	-	-	498
	-	-	323	-	65	-	388
	15,875	4,141	16,778	56,200	447,286	1,486	1,225,639
	2,623	1,858	1,955	13,404	220,241	1,036	501,651
	900	-	-	-	4,166	-	18,770
	-	-	194	136	1,099	25	3,137
	1	-	397	1,080	416	10	2,790
	-	-	11	7	27	-	133
	-	-	-	-	9	-	9
	1	-	2	3	109	-	229
	-	-	25	15	63	-	297
	-	-	7	7	57	-	186
	-	-	6	5	16	-	63
	-	-	-	-	40	-	40
	55	58	16	8	71	38	613
	-	17	-	-	-	-	17
	-	-	-	-	-	-	175
	-	-	-	-	-	-	860
	3,580	1,933	2,613	14,665	226,314	1,109	528,970
	12,295	2,208	14,165	41,535	220,972	377	696,669
	61,880	20,436	45,524	279,330	2,301,619	2,359	6,303,481
	(38)	(9)	-	-	(1,146)	194	(2,834)
	61,842	20,427	45,524	279,330	2,300,473	2,553	6,300,647
\$	74,137	\$ 22,635	\$ 59,689	\$ 320,865	\$ 2,521,445	\$ 2,930	\$ 6,997,316

This page intentionally left blank.

PRIVATE-PURPOSE TRUST FUNDS

Private-purpose trust funds are used to account for assets held by the State in a trustee capacity, where both the trust principal and earnings benefit individuals, private organizations, or other governments. A brief description of each private-purpose trust fund follows:

College Savings Plan – This fund accounts for monies contributed towards a “qualified tuition program” under section 529 of the Internal Revenue Code of 1986, as amended. This plan is a voluntary college savings plan whose participants are both Montana residents and out-of-state individuals.

Escheated Property – This fund accounts for property that has reverted to the State due to the absence of legal claimants or heirs and is held in trust for distribution to these heirs when identified.

Plan Securities – This fund accounts for the unliquidated security bonds held on deposit from self-insured employers. These funds either revert to the employer at a later date or are cashed and assumed by the State to be used on the employee’s behalf.

Woodville Highway Replacement – This fund accounts for money paid to the Montana Department of Transportation by the Anaconda Company to provide the government of Butte-Silver Bow with traffic facilities. This money is held on deposit for the city/county government and is distributed to them at their request.

Moore-Sipple Connector – Money is held in trust to ensure the continued operation of the Moore-Sipple Connector. The balance in this fund reverts to the railroad company if the line is in operation until 2010. As the result of a court order, until this date is reached, the interest earnings on this money are provided to Central Montana Rail, Inc. for use in operating the railroad. The balance in the fund is currently retained in the fund by the Department of Transportation.

Environmental Reclamation – This fund accounts for environmental reclamation bonds held in trust to be either returned to the company upon successful reclamation of mining properties and related impacts or to be used by the State to complete the related reclamation process.

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUNDS
 JUNE 30, 2010
(amounts expressed in thousands)

	COLLEGE SAVINGS PLAN	ESCHEATED PROPERTY	PLAN SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
ASSETS				
Cash/cash equivalents	\$ 125,305	\$ 2,312	\$ -	44
Receivables (net):				
Interest	-	1	-	-
Total receivables	-	1	-	-
Investments at fair value:				
Other investments	118,992	141	-	3
Total investments	118,992	141	-	3
Securities lending collateral	-	90	-	2
Other assets	-	-	19,508	-
Total assets	244,297	2,544	19,508	49
LIABILITIES				
Accounts payable	-	11	-	-
Securities lending liability	-	90	-	2
Total liabilities	-	101	-	2
NET ASSETS				
Held in trust for other purposes	\$ 244,297	\$ 2,443	\$ 19,508	47

	MOORE- SIPPLE CONNECTOR	ENVIRONMENTAL RECLAMATION	TOTAL
\$	225 \$	19,081 \$	146,967
	-	6	7
	-	6	7
	14	1,161	120,311
	14	1,161	120,311
	9	742	843
	-	2,982	22,490
	249	23,972	290,618
	-	-	11
	9	742	843
	9	742	854
\$	239 \$	23,230 \$	289,764

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**PRIVATE-PURPOSE TRUST FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

	COLLEGE SAVINGS PLAN	ESCHEATED PROPERTY	PLAN SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
ADDITIONS				
Participant contributions	\$ 32,623	\$ -	\$ 3,132	\$ -
Net investment earnings:				
Investment earnings	15,635	6	-	-
Securities lending income	-	1	-	-
Other additions	-	4,213	-	-
Total additions	48,258	4,220	3,132	-
DEDUCTIONS				
Distributions	31,314	3,048	159	-
Administrative expenses:				
Contractual services	1,899	-	-	-
Total deductions	33,213	3,048	159	-
Change in net assets	15,045	1,172	2,973	-
Net assets - July 1 - as previously reported	229,252	1,271	16,535	47
Net assets - July 1 - as restated	229,252	1,271	16,535	47
Net assets - June 30	\$ 244,297	\$ 2,443	\$ 19,508	\$ 47

	MOORE- SIPPLE CONNECTOR	ENVIRONMENTAL RECLAMATION	TOTAL
\$	- \$	- \$	35,755
	1	57	15,699
	-	9	10
	-	641	4,854
	1	707	56,318
	-	415	34,936
	-	-	1,899
	-	415	36,835
	1	292	19,483
	238	22,938	270,281
	238	22,938	270,281
\$	239 \$	23,230 \$	289,764

This page intentionally left blank.

AGENCY FUNDS

Agency funds are used to account for assets held by the State as an agent for individuals, private organizations, and other governments. A brief description of each agency fund follows:

Performance Deposits – This fund accounts for deposits held by the State pending compliance with performance agreements.

Central Payroll – This fund accounts for the accumulation of state employee payroll and withholding by the Department of Administration, pending remittance to employees and other appropriate third parties.

Criminal Offender Restitution – Accounts for restitution payments received from prisoners and disbursed to their victims.

Custodial Accounts – This fund accounts for monies belonging to state institution residents, students of the School for the Deaf and Blind, and participants in the foster children and protective services programs. The fund also accounts for balances held by the Office of the Commissioner of Higher Education for remittance, on behalf of eligible employees of the Montana University System, to the TIAA-CREF (Teachers Insurance and Annuity Association-College Retirement Equities Fund) retirement fund. Department of Transportation employee union pension monies are held in this fund, awaiting remittance to the corresponding union. This fund also accounts for wages collected from employers on behalf of employee wage complaints filed under authority of the Montana Wages and Wage Protection Act.

Child Support Collections – This fund accounts for payments from parents under the Child Support Enforcement Program administered by the Department of Public Health and Human Services.

Uncleared Collections – This fund accounts for resources held pending distribution to other funds and local governments. The balances in this fund related to other fund types are distributed to those funds each fiscal year-end. Balances remaining relate to external parties.

Intergovernmental – This fund accounts for resources that flow through state agencies to federal and local governments.

Debt Collection – This fund accounts for amounts due to the State which have been written off as uncollectible by the receiving agency. The Department of Revenue continues to attempt to collect amounts owing for a period of time after they are deemed uncollectible by the receiving agency.

Milk Passthrough – This fund accounts for the distribution of the proceeds from the sale of pooled milk.

OPEB State – This fund accounts for the State's employee contributions received and premium payments made during the year for OPEB (Other Postemployment Benefits).

OPEB MUS – This fund accounts for the Montana University System's (MUS) employee contributions received and premium payments made during the year for OPEB (Other Postemployment Benefits).

COMBINING STATEMENT OF FIDUCIARY NET ASSETS**AGENCY FUNDS**

JUNE 30, 2010

(amounts expressed in thousands)

	PERFORMANCE DEPOSITS	CENTRAL PAYROLL	CRIMINAL OFFENDER RESTITUTION	CUSTODIAL ACCOUNTS	CHILD SUPPORT COLLECTIONS
ASSETS					
Cash/cash equivalents	\$ 1,820	\$ 20,989	\$ 120	\$ 1,667	\$ 45
Receivables (net):					
Accounts receivable	-	-	-	28	365
Total receivables	-	-	-	28	365
Investments at fair value:					
Other investments	-	-	-	17	-
Total investments	-	-	-	17	-
Securities lending collateral	-	-	-	11	-
Other assets	12,203	-	-	13	-
Total assets	14,023	20,989	120	1,736	410
LIABILITIES					
Accounts payable	113	-	5	122	115
Amounts held in custody for others	13,910	20,989	115	1,603	295
Securities lending liability	-	-	-	11	-
Total liabilities	14,023	20,989	120	1,736	410
NET ASSETS					
Held in trust for pension benefits					
and other purposes	\$ -	\$ -	\$ -	\$ -	\$ -

UNCLEARED COLLECTIONS	INTER- GOVERNMENTAL	DEBT COLLECTION	MILK PASS- THROUGH	TOTAL
\$ 197	\$ 127	\$ 162	\$ 61	\$ 25,188
-	-	-	-	393
-	-	-	-	393
-	-	-	-	17
-	-	-	-	17
-	-	-	-	11
-	-	-	-	12,216
197	127	162	61	37,825
195	68	2	39	659
2	59	160	22	37,155
-	-	-	-	11
197	127	162	61	37,825
\$ -	\$ -	\$ -	\$ -	\$ -

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**AGENCY FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2009		ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2010	
PERFORMANCE DEPOSITS:						
ASSETS						
Cash/cash equivalents	\$	1,783	\$ 172,184	172,147	\$	1,820
Receivables (net)		-	27	27		-
Other assets		13,299	698	1,794		12,203
Total assets	\$	15,082	\$ 172,909	173,968	\$	14,023
LIABILITIES						
Accounts payable	\$	15	\$ 1,768	1,670	\$	113
Amounts held in custody for others		15,067	3,476	4,633		13,910
Total liabilities	\$	15,082	\$ 5,244	6,303	\$	14,023
CENTRAL PAYROLL:						
ASSETS						
Cash/cash equivalents	\$	5,982	\$ 909,583	894,576	\$	20,989
Receivables (net)		-	-	-		-
Total assets	\$	5,982	\$ 909,583	894,576	\$	20,989
LIABILITIES						
Accounts payable	\$	-	\$ 10,994	10,994	\$	-
Amounts held in custody for others		5,982	858,957	843,950		20,989
Total liabilities	\$	5,982	\$ 869,951	854,944	\$	20,989
CRIMINAL OFFENDER RESTITUTION:						
ASSETS						
Cash/cash equivalents	\$	86	\$ 4,424	4,390	\$	120
Total assets	\$	86	\$ 4,424	4,390	\$	120
LIABILITIES						
Accounts Payable	\$	12	\$ 2,385	2,393	\$	5
Amounts held custody others		72	4,421	4,378		115
Total liabilities	\$	84	\$ 6,806	6,771	\$	120
CUSTODIAL ACCOUNTS:						
ASSETS						
Cash/cash equivalents	\$	1,797	\$ 8,851	8,981	\$	1,667
Receivables (net)		29	29	30		28
Investments		29	41	53		17
Securities lending collateral		23	33	45		11
Other assets		-	13	-		13
Total assets	\$	1,878	\$ 8,967	9,109	\$	1,736
LIABILITIES						
Accounts Payable	\$	102	\$ 2,574	2,554	\$	122
Amts held custody others		1,753	10,261	10,411		1,603
Securities lending liability		23	33	45		11
Total liabilities	\$	1,878	\$ 12,868	13,010	\$	1,736

FUND	BALANCE JUNE 30, 2009		ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2010	
CHILD SUPPORT COLLECTIONS:						
ASSETS						
Cash/cash equivalents	\$	663	\$ 76,550	77,168	\$	45
Receivables (net)		354	29	18		365
Total assets	\$	1,017	\$ 76,579	77,186	\$	410
LIABILITIES						
Accounts Payable	\$	149	\$ 54,712	54,746	\$	115
Amounts held custody others		868	76,534	77,107		295
Total liabilities	\$	1,017	\$ 131,246	131,853	\$	410
UNCLEARED COLLECTIONS:						
ASSETS						
Cash/cash equivalents	\$	489	\$ 23,957,898	23,958,190	\$	197
Due from other governments		112	-	112		-
Receivables (net)		-	50	50		-
Investments		-	15,000	15,000		-
Total assets	\$	601	\$ 23,972,948	23,973,352	\$	197
LIABILITIES						
Accounts Payable	\$	599	\$ 3,617	4,021	\$	195
Amounts held in custody others		2	2	2		2
Total liabilities	\$	601	\$ 3,619	4,023	\$	197
INTERGOVERNMENTAL:						
ASSETS						
Cash/cash equivalents	\$	235	\$ 2,383	2,491	\$	127
Total assets	\$	235	\$ 2,383	2,491	\$	127
LIABILITIES						
Accounts Payable	\$	188	\$ 2,176	2,296	\$	68
Amounts held in custody others		47	1,826	1,814		59
Total liabilities	\$	235	\$ 4,002	4,110	\$	127
DEBT COLLECTION:						
ASSETS						
Cash/cash equivalents	\$	114	\$ 4,560	4,512	\$	162
Receivables (net)		20	27,442	27,462		-
Total assets	\$	134	\$ 32,002	31,974	\$	162
LIABILITIES						
Accounts Payable	\$	3	\$ 5,577	5,578	\$	2
Amounts held in custody others		131	3,827	3,798		160
Total liabilities	\$	134	\$ 9,404	9,376	\$	162

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**AGENCY FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

FUND	BALANCE		ADDITIONS	DEDUCTIONS	BALANCE		
	JUNE 30, 2009				JUNE 30, 2010		
MILK PASSTHROUGH:							
ASSETS							
Cash/cash equivalents	\$	61	\$	999	999	\$	61
Total assets	\$	61	\$	999	999	\$	61
LIABILITIES							
Accounts Payable	\$	50	\$	988	999	\$	39
Amounts held custody others		11		999	988		22
Total liabilities	\$	61	\$	1,987	1,987	\$	61
OPEB STATE:							
ASSETS							
Cash/cash equivalents	\$	-	\$	29,357	29,357	\$	-
Other assets		-		78,190	78,190		-
Total assets	\$	-	\$	107,547	107,547	\$	-
OPEB MUS:							
ASSETS							
Cash/cash equivalents	\$	-	\$	41,219	41,219	\$	-
Other assets		-		41,219	41,219		-
Total assets	\$	-	\$	82,438	82,438	\$	-
TOTAL - ALL AGENCY FUNDS							
ASSETS							
Cash/cash equivalents	\$	11,211	\$	25,208,007	25,194,030	\$	25,188
Due from other governments		112		-	112		-
Receivables (net)		403		27,578	27,588		393
Investments		29		15,041	15,053		17
Securities lending collateral		23		33	45		11
Other assets		13,299		120,121	121,204		12,216
Total assets	\$	25,077	\$	25,370,780	25,358,032	\$	37,825
LIABILITIES							
Accounts Payable	\$	1,120	\$	84,787	85,248	\$	659
Amts held custody others		23,934		960,301	947,080		37,155
Securities lending liability		23		33	45		11
Total liabilities	\$	25,077	\$	1,045,121	1,032,373	\$	37,825

STATISTICAL SECTION

The Statistical Section provides additional historical context and detail to aid in using the information in the financial statements, notes to the financial statements, and required supplementary information of the primary government of the State of Montana in understanding and assessing the State's overall financial health.

Financial Trends Information

These schedules present trend information to help understand how the State's financial performance and fiscal health have changed over time.

Schedule A-1 – Net Assets by Component	230
Schedule A-2 – Change in Net Assets.....	232
Schedule A-3 – Fund Balances, Governmental Funds	236
Schedule A-4 – Changes in Fund Balances, Governmental Funds.....	238

Revenue Capacity Information

These schedules contain information to help understand the State's capacity to raise revenues and the sources of those revenues.

Schedule B-1 – Personal Income by Industry	240
Schedule B-2 – Personal Income Tax Rates.....	241
Schedule B-3 – Personal Income Tax Filers and Liability by Income Level	242

Debt Capacity Information

These schedules present information to help understand and assess the State's level of outstanding debt and the State's ability to issue additional debt in the future.

Schedule C-1 – Ratios of Outstanding Debt by Type	243
Schedule C-2 – Pledged Revenue Coverage	245
Schedule C-3 – Ratios of General Bonded Debt Outstanding	250

Demographic and Economic Information

These schedules contain demographic and economic indicators to help understand the environment within which the State's financial activities take place.

Schedule D-1 – Demographic and Economic Statistics.....	251
Schedule D-2 – Principal Employers.....	252

Operating Information

These schedules provide operating data to help understand how the information in the State's financial report relates to the services it provides and the activities it performs.

Schedule E-1 – Full-Time Equivalent State Employees by Function/Program	254
Schedule E-2 – Operating Indicators by Function/Program.....	256
Schedule E-3 – Capital Asset Statistics by Function/Program.....	260

Sources: Unless otherwise noted, the information in the following schedules is derived from the State of Montana Comprehensive Annual Financial Report.

SCHEDULE A-1 – NET ASSETS BY COMPONENT

Last Nine Fiscal Years

(accrual basis of accounting, amounts expressed in thousands)

	Fiscal								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Governmental activities									
Invested in capital assets, net of related debt	\$ 814,026	\$2,049,489	\$2,250,177	\$2,528,808	\$2,842,708	\$3,115,260	\$3,262,932	\$3,526,294	\$3,874,920
Restricted	1,742,193	1,817,193	1,858,088	2,159,185	2,202,592	2,347,395	2,617,435	2,329,850	1,983,143
Unrestricted	140,044	177,161	222,829	404,724	647,182	675,752	595,019	589,815	1,083,674
Total governmental activities net assets	\$2,696,263	\$4,043,843	\$4,331,094	\$5,092,717	\$5,692,482	\$6,138,407	\$6,475,386	\$6,445,959	\$6,941,737
Business-type activities									
Invested in capital assets, net of related debt	\$ 12,496	\$ 9,084	\$ 8,925	\$ 9,670	\$ 8,703	\$ 8,698	\$ 8,733	\$ 12,539	\$ 14,534
Restricted	203,710	202,268	212,473	240,514	269,687	314,722	337,036	255,493	159,335
Unrestricted	17,223	19,251	14,909	16,672	18,539	11,761	11,234	6,996	20,851
Total business-type activities net assets	\$ 233,429	\$ 230,603	\$ 236,307	\$ 266,856	\$ 296,929	\$ 335,181	\$ 357,003	\$ 275,028	\$ 194,720
Primary government									
Invested in capital assets, net of related debt	\$ 826,522	\$2,058,573	\$2,259,102	\$2,538,478	\$2,851,411	\$3,123,958	\$3,271,665	\$3,538,833	\$3,889,454
Restricted	1,945,903	2,019,461	2,070,561	2,399,699	2,472,279	2,662,117	2,594,471	2,585,343	2,142,478
Unrestricted	157,267	196,412	237,738	421,396	665,721	687,513	606,253	596,811	1,104,525
Total primary government net assets	\$2,929,692	\$4,274,446	\$4,567,401	\$5,359,573	\$5,989,411	\$6,473,588	\$6,832,389	\$6,720,987	\$7,136,457

This page intentionally left blank.

SCHEDULE A-2 – CHANGE IN NET ASSETS

Last Nine Fiscal Years

(accrual basis of accounting, amounts expressed in thousands)

Expenses	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental activities:					
General government	\$ 248,089	\$ 280,740	\$ 285,781	\$ 305,819	\$ 525,981
Public safety/corrections	205,983	194,885	227,786	258,610	245,810
Transportation	169,282	286,181	400,034	281,074	216,942
Health/social services	1,086,012	1,023,893	1,109,045	1,182,281	1,270,056
Education/cultural	845,324	899,575	874,846	900,542	976,046
Resource/recreation/environment	108,642	234,848	258,057	197,539	142,460
Economic development/assistance	164,761	169,270	144,687	144,777	150,449
Interest on long-term debt	22,763	19,910	15,088	14,375	19,569
Total governmental activities expenses	2,850,856	3,109,302	3,315,324	3,285,017	3,547,313
Business-type activities:					
Unemployment Insurance	83,944	92,639	93,882	75,291	72,661
Liquor Stores	38,074	40,097	42,827	45,503	50,514
State Lottery	26,585	27,320	28,669	27,681	31,020
Economic Development Bonds	3,251	2,426	2,197	2,630	3,441
Hail Insurance	2,045	2,029	1,949	3,153	4,632
General Government Services	11,134	14,177	48,395	50,329	51,017
Prison Funds	5,444	4,515	4,244	5,268	5,356
MUS Group Insurance	34,594	35,906	39,690	40,524	52,139
MUS Workers Compensation	-	-	2,552	2,842	2,978
Total business-type activities expenses	205,071	219,109	264,405	253,221	273,758
Total primary government expenses	\$ 3,055,927	\$ 3,328,411	\$ 3,579,729	\$ 3,538,238	\$ 3,821,071
Program Revenues					
Governmental activities:					
Charges for services:					
General government	\$ 38,368	\$ 42,849	\$ 59,384	\$ 49,637	\$ 59,166
Public safety/corrections	122,840	124,901	159,397	146,746	150,787
Transportation	32,269	61,316	33,943	38,101	31,766
Health/social services	40,847	31,074	32,983	31,467	30,022
Education/cultural	69,242	69,228	28,922	30,499	107,096
Resource/recreation/environment	45,787	67,380	137,714	121,539	77,064
Economic development/assistance	15,261	17,835	22,102	25,995	31,866
Operating grants and contributions	1,080,374	1,170,703	1,271,515	1,391,026	1,371,109
Capital grants and contributions	280,489	308,021	290,045	319,434	305,345
Total governmental activities program revenues	1,725,477	1,893,757	2,034,005	2,154,444	2,164,221
Business-type activities:					
Charges for services:					
Unemployment Insurance	59,771	66,493	67,873	72,866	76,754
Liquor Stores	45,630	46,955	49,521	52,081	58,975
State Lottery	33,670	34,696	36,740	33,815	39,923
Economic Development Bonds	13	19	8	5	7
Hail Insurance	301	2,568	3,748	7,404	3,057
General Government Services	11,202	12,658	13,197	14,244	15,589
Prison Funds	5,583	4,371	5,140	5,233	5,717
MUS Group Insurance	33,601	38,743	42,252	47,739	54,164
MUS Workers Compensation	-	-	2,424	2,978	3,543
Operating grants and contributions	29,335	10,442	55,487	58,433	58,051
Capital grants and contributions	602	510	177	159	378
Total business-type activities program revenues	219,708	217,185	493,752	294,957	316,158
Total primary government program revenues	\$ 1,945,257	\$ 2,110,942	\$ 2,527,757	\$ 2,449,401	\$ 2,480,379

2007	2008	2009	2010
\$ 450,646	\$ 634,984	\$ 549,847	\$ 774,881
293,193	322,769	408,239	342,803
197,510	488,450	438,649	320,085
1,266,098	1,380,629	1,529,104	1,677,261
1,065,504	1,144,637	1,137,772	1,179,788
256,751	258,058	363,179	318,300
152,154	152,456	170,027	-
19,418	18,344	18,721	17,692
3,701,274	4,400,327	4,615,538	4,630,810
72,378	90,269	235,949	354,793
55,521	59,227	61,446	61,569
30,416	32,984	33,787	36,365
4,167	4,552	3,523	2,167
4,663	11,064	4,087	6,238
53,851	56,697	60,157	62,797
6,487	6,670	10,681	6,463
58,532	59,334	55,023	72,606
2,647	3,109	3,675	3,900
288,662	323,906	468,328	606,898
\$ 3,989,936	\$ 4,724,233	\$5,083,866	\$5,237,708
\$ 61,713	\$ 83,720	\$ 68,982	\$ 127,163
153,577	149,534	144,748	147,839
34,963	42,348	37,204	26,531
30,547	38,137	35,554	43,338
96,903	150,906	113,433	34,309
80,320	80,933	39,929	232,861
38,441	38,520	43,182	-
1,395,324	1,493,944	1,635,769	1,985,977
325,352	380,856	467,611	510,996
2,217,140	2,458,898	2,586,412	3,109,014
83,661	85,801	75,591	89,501
63,943	69,242	67,242	68,032
41,567	43,826	43,841	46,865
22	33	26	22
6,042	7,730	6,859	6,915
18,176	19,844	21,548	22,601
5,600	7,150	6,620	6,304
57,159	62,666	52,147	64,756
4,047	4,660	5,003	4,979
64,691	63,524	118,058	226,049
171	540	1,360	3,174
345,079	365,016	398,295	539,198
\$ 2,562,219	\$ 2,823,914	\$2,984,707	\$3,648,211

SCHEDULE A-2 – CHANGE IN NET ASSETS - Continued

Last Nine Fiscal Years

(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
Net (expense)/revenue					
Governmental activities	\$(1,125,379)	\$(1,215,545)	\$(1,281,319)	\$(1,130,573)	\$(1,383,092)
Business-type activities	14,637	(1,924)	229,347	41,736	42,400
Total primary government net expense	<u>\$(1,110,742)</u>	<u>\$(1,217,469)</u>	<u>\$(1,051,972)</u>	<u>\$(1,088,837)</u>	<u>\$(1,340,692)</u>
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes					
Property	\$ 167,488	\$ 170,803	\$ 164,505	\$ 186,229	\$ 194,617
Fuel	191,248	190,030	198,332	190,897	212,276
Natural resource	96,336	111,776	131,053	191,723	260,382
Individual income	525,647	540,926	619,043	729,459	760,981
Corporate income	69,176	44,394	69,685	101,834	153,574
Other	188,256	201,929	253,953	257,526	289,978
Unrestricted grants and contributions	-	-	-	-	4,158
Settlements	58,549	35,754	25,181	28,313	28,248
Unrestricted investment earnings	151,716	206,970	32,734	52,792	36,188
Gain on sale of capital assets	(7,532)	311	204	34	53
Miscellaneous	4,460	24,045	6,412	4,358	4,741
Transfers	26,756	32,366	30,812	29,871	34,802
Total governmental activities	<u>1,472,100</u>	<u>1,559,844</u>	<u>1,531,914</u>	<u>1,773,036</u>	<u>1,979,998</u>
Business-type activities:					
Taxes					
Other	12,907	13,650	14,621	15,624	17,317
Settlements	-	-	-	-	-
Unrestricted investment earnings	16,382	16,028	319	190	1,016
Gain on sale of capital assets	(3)	-	-	-	-
Miscellaneous	1,040	5,750	9,956	2,945	4,146
Transfers	(26,756)	(32,366)	(30,812)	(29,871)	(34,802)
Total business-type activities	<u>3,570</u>	<u>3,062</u>	<u>(5,916)</u>	<u>(11,112)</u>	<u>(12,323)</u>
Total primary government	<u>1,475,670</u>	<u>1,562,906</u>	<u>1,525,998</u>	<u>1,761,924</u>	<u>1,967,675</u>
Change in Net Assets					
Governmental activities	346,721	344,299	250,595	642,463	596,906
Business-type activities	18,207	1,138	223,431	30,624	30,077
Total primary government	<u>\$ 364,928</u>	<u>\$ 345,437</u>	<u>\$ 474,026</u>	<u>\$ 673,087</u>	<u>\$ 626,983</u>

Source: *Statewide Accounting, Budgeting, and Human Resource System*Note: *The State did not begin reporting government-wide statements until it implemented GASB Statement 34 in fiscal year 2002.*

2007	2008	2009	2010
\$(1,484,134)	\$(1,941,429)	\$(2,029,126)	\$(1,521,795)
56,417	41,110	(70,033)	(69,700)
\$(1,427,717)	\$(1,900,319)	\$(2,099,159)	\$(1,591,495)

\$ 206,527	\$ 214,868	\$ 228,368	\$ 235,287
210,573	205,758	191,061	204,373
276,793	407,007	307,032	275,313
819,473	862,273	806,908	709,699
183,913	161,118	168,053	89,033
309,232	320,398	315,810	303,859
3,911	28	167	461
27,853	38,760	155,127	77,927
78,032	72,203	42,556	172,748
-	-	-	-
10,823	6,351	6,141	3,244
3,050	5,810	116,865	4,247
41,080	43,010	42,863	42,486
2,171,260	2,337,584	2,380,951	2,118,677

19,046	20,340	24,821	25,017
10	-	-	-
569	406	142	244
-	-	-	1
1,953	2,662	2,484	4,377
(41,080)	(43,010)	(42,863)	(42,486)
(19,502)	(19,602)	(15,416)	(12,847)
2,151,758	2,317,982	2,365,535	2,105,830

687,126	396,155	351,825	596,881
36,915	21,508	(85,449)	(80,547)
\$ 724,041	\$ 417,663	\$ 266,376	\$ 516,334

Montana Comprehensive Annual Financial Report
SCHEDULE A-3 – FUND BALANCES, GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2010

Last Nine Fiscal Years

(modified accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
General Fund								
Reserved	\$ 7,927	\$ 8,056	\$ 8,903	\$ 10,118	\$ 11,533	\$ 20,498	\$ 28,221	\$ 25,991
Unreserved	81,316	43,065	132,873	289,675	408,580	549,158	433,580	392,526
Total general fund	<u>\$ 89,243</u>	<u>\$ 51,121</u>	<u>\$ 141,776</u>	<u>\$ 299,793</u>	<u>\$ 420,113</u>	<u>\$ 569,656</u>	<u>\$ 461,801</u>	<u>\$ 418,517</u>
All other governmental funds								
Reserved	\$1,512,978	\$1,650,265	\$2,199,647	\$2,421,876	\$2,431,304	\$2,529,131	\$2,766,497	\$3,016,151
Unreserved, reported in:								
Special revenue funds	437,188	501,679	(83,891)	(51,010)	(53,266)	(48,292)	(47,864)	(30,881)
Debt service funds	21,985	10,731	7,003	5,456	6,783	5,920	1,083	(4,505)
Capital project funds	13,487	16,935	10,661	8,721	47,272	37,735	87,895	124,205
Total all other governmental funds	<u>\$1,985,638</u>	<u>\$2,179,610</u>	<u>\$2,133,420</u>	<u>\$2,385,043</u>	<u>\$2,432,093</u>	<u>\$2,524,494</u>	<u>\$2,807,611</u>	<u>\$3,104,970</u>

Source: Statewide Accounting, Budgeting, and Human Resource System

Note: Due to changes in the State's fund structure initiated when GASB Statement 34 was implemented, the fund balance information is available beginning in fiscal year 2002.

Note: Due to GASB Statement 54 a new table is included below for 2010.

SCHEDULE A-3 – FUND BALANCES, GOVERNMENTAL FUNDS

Last Nine Fiscal Years

(modified accrual basis of accounting, amounts expressed in thousands)

	<u>2010</u>
Nonspendable	
Inventory	\$ 27,017
Permanent fund Principle	1,143,435
Long-term notes/receivable	96
Prepaid Exp	1,361
Total Nonspendable	<u>\$1,171,910</u>
Restricted:	
General Government	13,785
Transportation	102,520
Health and Human Services	22,367
Natural Resources	438,411
Public Safety	317,294
Education	24,644
Total Restricted	<u>\$919,021</u>
Committed	
General Government	551,394
Transportation	6,403
Health and Human Services	65,050
Natural Resources	601,410
Public Safety	39,772
Education	1,540
Total Committed	<u>\$1,255,569</u>
Assigned	
General Government	33,427
Health and Human Services	148
Natural Resources	418
Public Safety	2,949
Education	138
FY 2011 Appropriation	70,270
Encumbrances	11,986
Total Assigned	<u>\$119,336</u>
Unassigned	<u>212,183</u>
Total Fund Balances	<u>\$3,688,019</u>

SCHEDULE A-4 – CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS

Last Nine Fiscal Years

(modified accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
Revenues					
Licenses/permits	\$ 202,490	\$ 210,611	\$ 240,612	\$ 245,244	\$ 259,073
Taxes	1,229,613	1,250,187	1,416,392	1,627,858	1,880,838
Charges for services/fines/forfeits/settlements	172,326	157,937	200,590	145,235	162,520
Investment earnings	145,984	204,406	49,363	143,937	62,977
Sale of documents/merchandise/property	15,571	13,104	31,687	22,655	21,412
Rentals/leases/royalties	24,438	28,324	22,868	43,723	63,318
Contributions/Premiums					
Grants/contracts/donations	20,864	24,560	27,984	27,984	25,987
Federal	1,342,612	1,488,048	1,518,634	1,583,989	1,612,717
Federal Indirect cost Recoveries					
Other revenues	15,011	32,927	32,042	17,253	20,989
Total revenues	3,168,909	3,410,100	3,514,220	3,857,878	4,109,831
Expenditures					
General government	228,772	239,707	252,486	293,808	466,886
Public safety/corrections	189,507	189,302	208,593	238,929	254,381
Transportation	440,172	510,866	529,555	523,022	559,695
Health/social services	1,079,303	1,018,333	1,114,064	1,186,462	1,274,947
Education/cultural	861,034	894,591	898,988	905,150	976,446
Resource/recreation/environment	111,388	184,359	250,590	206,903	204,413
Economic development/assistance	163,895	168,007	144,381	146,306	151,020
Debt service:					
Principal retirement	36,758	39,002	25,217	27,203	32,546
Interest/fiscal charges	19,780	18,166	14,812	14,171	20,745
Capital outlay	65,056	63,073	60,310	70,851	69,505
Securities lending	3,936	1,734	1,784	4,905	7,663
Total expenditures	3,199,601	3,327,140	3,500,780	3,617,710	4,018,247
Excess of revenue over (under) expenditures	(30,692)	82,960	13,440	240,168	91,584
Other financing sources (uses)					
Loan proceeds	2,132	2,235	-	-	-
Bonds issued	1,785	31,360	5,790	135,380	37,050
Refunding bonds issued	33,605	44,385	20,235	30,070	-
Bond premium	(139)	1,655	478	8,106	2,178
Payment to refunding bond escrow agent	(34,756)	(44,408)	(20,214)	(31,018)	-
Inception of lease/installment contract	482	321	1,297	517	876
Insurance proceeds	-	-	-	-	327
General capital asset sale proceeds	310	312	270	169	164
Transfers in	321,362	231,890	239,638	273,651	292,130
Transfers out	(296,729)	200,605	(210,166)	(244,868)	(259,247)
Total other financing sources (uses)	28,052	67,145	37,328	172,007	73,478
Net change in fund balances	\$ (2,640)	\$ 150,105	\$ 50,678	\$ 412,175	\$ 165,062
Debt service as a percentage of noncapital expenditures	2.0%	1.8%	1.2%	1.3%	1.6%

Source: *Statewide Accounting, Budgeting, and Human Resource System*Note: *Due to changes in the State's fund structure initiated when GASB Statement 34 was implemented, the fund balance information is available beginning in fiscal year 2002.*

2007	2008	2009	2010
\$ 285,890	\$ 283,755	\$ 283,423	\$ 283,658
2,009,620	2,162,928	2,005,327	1,809,426
160,571	188,518	255,068	238,758
171,047	165,165	114,857	232,668
20,460	19,711	15,271	17,500
51,442	65,176	73,080	143,714
			19,724
25,362	27,825	28,919	27,324
1,586,206	1,713,478	1,953,376	2,271,216
			112,918
17,280	30,952	144,890	4,520
4,327,878	4,657,508	4,874,211	5,163,712
401,331	545,661	428,723	666,191
284,777	311,094	335,877	338,776
575,157	360,383	311,838	197,197
1,267,854	1,372,335	1,526,287	1,675,253
1,050,239	1,137,548	1,136,056	1,181,591
247,090	300,207	238,834	288,913
152,442	149,057	168,778	-
33,103	33,767	34,199	31,682
19,080	18,931	19,079	18,213
95,834	351,111	464,378	650,589
5,261	7,244	2,917	873
4,132,168	4,587,338	4,666,966	5,049,278
195,710	70,170	207,245	114,437
-	-	-	3,800
-	59,490	-	-
16,740	-	-	28,270
946	828	-	1,294
(17,504)	-	-	(29,149)
49	874	615	171
115	1,681	886	670
10,946	6,497	5,960	3,614
306,867	413,286	391,661	491,045
(269,595)	(373,727)	(350,135)	(450,686)
48,564	108,929	48,987	49,030
\$ 244,274	\$ 179,099	\$ 256,232	\$ 163,467
1.4%	1.3%	1.2%	1.1%

Montana Comprehensive Annual Financial Report
SCHEDULE B-1 – PERSONAL INCOME BY INDUSTRY
 Last Ten Calendar Years
 (amounts expressed in thousands)

Fiscal Year Ended June 30, 2010

	Calendar Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Farm Earnings	\$ 256,184	\$ 341,929	\$ 187,285	\$ 336,736	\$ 544,076	\$ 598,945	\$ 190,096	\$ 408,523	\$ 468,182	\$ 310,053
Agricultural/forestry, fishing,	184,627	178,029	181,184	199,008	201,726	198,427	210,748	205,861	193,708	186,402
Mining	468,252	428,493	407,463	424,207	527,824	601,174	735,437	735,100	897,521	772,277
Construction/utilities	1,153,519	1,319,781	1,337,890	1,503,342	1,649,645	1,850,637	2,070,597	2,186,771	2,007,944	1677,216
Manufacturing	899,759	939,227	930,340	932,165	959,263	1,020,820	1,102,085	1,139,506	1,152,181	1,059,780
Transportation and public	947,804	963,361	956,872	990,495	1,058,487	1,121,137	1,228,453	1,231,036	1,269,832	1,250,836
Wholesale trade	625,730	642,182	670,340	702,274	769,190	818,971	879,070	964,006	985,176	938,306
Retail trade	1,424,933	1,480,328	1,559,887	1,617,823	1,679,641	1,745,539	1,843,169	1,959,131	1,935,405	1,843,250
Finance, insurance, and real	900,752	1,362,462	1,282,357	1,244,805	1,429,520	1,518,863	1,544,182	1,433,899	1,144,414	1,430,985
Services	4,649,459	5,070,660	5,404,330	5,670,453	6,077,871	6,501,206	7,088,480	7,533,395	7,915,541	8,005,007
Federal, civilian	842,657	852,298	913,334	974,085	1,047,116	1,085,934	1,134,414	1,180,607	1,207,987	1,268,108
Military	261,551	279,992	334,884	393,289	421,133	452,182	456,908	465,490	489,616	515,593
State and local government	2,186,874	2,322,581	2,415,951	2,594,624	2,669,870	2,817,801	2,973,386	3,169,949	3,364,342	3,494,129
Other (1)	6,398,152	6,749,946	6,787,966	7,168,740	7,459,502	7,847,207	8,989,644	9,834,100	10,778,049	11,171,289
Total personal income	\$21,200,253	\$22,931,269	\$23,370,083	\$24,752,046	\$26,494,864	\$28,178,843	\$30,446,669	\$32,475,467	\$33,515,577	\$48,637,193
Average effective rate (2)	2.4%	2.4%	2.2%	2.2%	2.3%	2.5%	2.5%	2.5%	2.6%	1.4%

Sources: *Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce*
Montana Department of Revenue

Notes: *Numbers include revised state personal income estimates for 1969-2008 released on October 16, 2009.*

(1) *Includes dividends, interest, rental income, residence adjustment, government transfers to individuals, and deductions for social insurance*

(2) *The total direct rate for personal income is not available. Average effective rate equals personal income tax revenue (Schedule B-2) divided by personal income.*

SCHEDULE B-2 – PERSONAL INCOME TAX RATES

Last Ten Calendar Years

(amounts expressed in thousands)

	Calendar Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Personal income tax revenue (1)	\$516,262	\$556,015	\$517,568	\$535,831	\$605,348	\$712,281	\$768,912	\$827,095	\$866,638	\$687,744
Personal income	\$21,200,253	\$22,931,386	\$23,370,279	\$24,752,242	\$26,495,404	\$28,179,101	\$30,447,102	\$32,447,374	\$34,110,898	\$33,923,301
Average effective rate (2)	2.4%	2.4%	2.2%	2.2%	2.3%	2.5%	2.5%	2.5%	2.6%	2.0%

Tax Rates on the Portion of Taxable Income in Ranges (3)

Calendar Year	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%
2000 Tax Rate Income Bracket	2.0% \$0-2.1	3.0% \$2.1-4.2	4.0% \$4.2-8.3	5.0% \$8.3-12.5	6.0% \$12.5-16.7	7.0% \$16.7-20.8	8.0% \$20.8-29.2	9.0% \$29.2-41.7	10.0% \$41.7-73	11.0% \$73 +
2001 Tax Rate Income Bracket	2.0% \$0-2.2	3.0% \$2.2-4.3	4.0% \$4.3-8.6	5.0% \$8.6-12.9	6.0% \$12.9-17.2	7.0% \$17.2-21.5	8.0% \$21.5-30.2	9.0% \$30.2-43.1	10.0% \$43.1-75.4	11.0% \$75.4 +
2002 Tax Rate Income Bracket	2.0% \$0-2.2	3.0% \$2.2-4.4	4.0% \$4.4-8.7	5.0% \$8.7-13.1	6.0% \$13.1-17.4	7.0% \$17.4-21.8	8.0% \$21.8-30.5	9.0% \$30.5-43.5	10.0% \$43.5-76.2	11.0% \$76.2 +
2003 Tax Rate Income Bracket	2.0% \$0-2.2	3.0% \$2.2-4.4	4.0% \$4.4-8.9	5.0% \$8.9-13.3	6.0% \$13.3-17.8	7.0% \$17.8-22.2	8.0% \$22.2-31.1	9.0% \$31.1-44.5	10.0% \$44.5-77.8	11.0% \$77.8 +
2004 Tax Rate Income Bracket	2.0% \$0-2.3	3.0% \$2.3-4.6	4.0% \$4.6-9.2	5.0% \$9.2-13.8	6.0% \$13.8-18.4	7.0% \$18.4-22.9	8.0% \$22.9-32.1	9.0% \$32.1-45.9	10.0% \$45.9-80.3	11.0% \$80.3 +
2005 Tax Rate Income Bracket	1.0% \$0-2.3	2.0% \$2.3-4.1	3.0% \$4.1-6.2	4.0% \$6.2-8.4	5.0% \$8.4-10.8	6.0% \$10.8-13.9	6.9% \$13.9 +	9.0% \$32.1-45.9	10.0% \$45.9-80.3	11.0% \$80.3 +
2006 Tax Rate Income Bracket	1.0% \$0-2.4	2.0% \$2.4-4.3	3.0% \$4.3-6.5	4.0% \$6.5-8.8	5.0% \$8.8-11.3	6.0% \$11.3-14.5		6.9% \$14.5 +		
2007 Tax Rate Income Bracket	1.0% \$0-2.5	2.0% \$2.5-4.4	3.0% \$4.4-6.6	4.0% \$6.6-9	5.0% \$9-11.6	6.0% \$11.6-14.9		6.9% \$14.9 +		
2008 Tax Rate Income Bracket	1.0% \$0-2.6	2.0% \$2.6-4.6	3.0% \$4.6-7	4.0% \$7-9.5	5.0% \$9.5-12.2	6.0% \$12.2-15.6		6.9% \$15.6 +		
2009 Tax Rate Income Bracket	1.0% \$0-2.6	2.0% \$2.6-4.5	3.0% \$4.6-6.9	4.0% \$6.9-9.3	5.0% \$9.3-12.0	6.0% \$12.2-15.4		6.9% \$15.4 +		

Sources: Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce; Montana Department of Revenue

Notes: Numbers include revised state personal income estimates for 1969-2008 released on October 16, 2009.

(1) Personal income tax revenue is reported on a fiscal year basis.

(2) Average effective rate equals personal income tax revenue divided by personal income.

(3) Amounts shown are for single and married filing separate returns. For all other filing status returns, double the income amounts in the columns.

SCHEDULE B-3 – PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL

Latest Completed Calendar Year and Five Years Ago

Income Level	Calendar Year 2004				Calendar Year 2009			
	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$9,999 and under	92,756	23.28%	\$ 2,485,845	0.40%	87,774	20.27%	\$ 1,077,616	0.16%
\$10,000–\$19,999	76,048	19.08	14,857,818	2.39	74,790	17.27	9,952,794	1.45
\$20,000–\$44,999	111,285	27.93	80,831,959	13.02	120,169	27.75	78,246,912	11.38
\$45,000–\$69,999	60,565	15.20	108,421,460	17.46	66,615	15.38	110,450,556	16.06
\$70,000–\$109,999	38,520	9.67	128,776,357	20.74	53,729	12.41	163,973,105	23.84
\$110,000–\$174,999	11,904	2.99	76,768,348	12.36	20,015	4.62	111,416,110	16.20
\$175,000–\$499,999	6,211	1.56	96,176,122	15.65	8,538	1.97	109,251,558	15.89
\$500,000 and higher	1,188	.30	111,599,882	17.97	1,416	0.33	103,375,536	15.03
Total	398,477	100.00%	\$620,917,791	100.00%	433,046	100.00%	\$687,744,188	100.00%

Source: Montana Department of Revenue

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented above are intended to provide alternate information regarding the sources of the State's revenue.

Montana Comprehensive Annual Financial Report
SCHEDULE C-1 – RATIOS OF OUTSTANDING DEBT BY TYPE

Fiscal Year Ended June 30, 2010

Last Nine Fiscal Years

(amounts expressed in thousands, except per capita amount, in dollars)

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Governmental activities									
General obligation bonds	\$214,135	\$227,625	\$219,645	\$213,195	\$230,065	\$208,015	\$201,560	\$182,585	\$169,150
Special revenue bonds	100,337	85,070	76,368	192,775	181,770	171,080	204,365	189,970	176,570
Notes payable	23,203	21,299	12,807	12,439	12,099	11,755	11,411	11,065	10,716
Lease/installment purchase payable	3,652	3,286	2,332	2,705	2,459	1,057	1,421	2,680	2,440
Total governmental activities	\$341,327	\$337,280	\$311,152	\$421,114	\$426,393	\$391,907	\$418,757	\$386,300	\$358,876
Business-type activities									
Bonds/notes payable	\$ 13,914	\$ 10,376	\$ 7,942	\$ 5,168	\$ 3,936	\$ 3,107	\$ 1,853	\$ 1,180	\$370
Total business-type activities	\$ 13,914	\$ 10,376	\$ 7,942	\$ 5,168	\$ 3,936	\$ 3,107	\$ 1,853	\$ 1,180	\$370
Total primary government	\$355,421	\$347,656	\$319,094	\$426,282	\$430,329	\$395,014	\$420,610	\$387,480	\$359,246
Debt as a percentage of personal income (1)	1.5%	1.5%	1.3%	1.6%	1.5%	1.3%	1.3%	1.2%	1.1%
Amount of debt per capita (2)	\$392	\$382	\$348	\$460	\$460	\$418	\$440	\$401	\$371

Source: *Statewide Accounting, Budgeting, and Human Resource System*

Notes: *The schedule information is available beginning in fiscal year 2002, the year GASB Statement 34 was implemented. Details regarding the State's debt can be found in Note 11 of the financial statements.*

(1) *Debt as a percentage of personal income equals total debt divided by total personal income from Schedule B-1. Used calendar year 2008 personal income for fiscal year 2009 debt percentage calculation. Numbers revised for prior years due to personal income estimate revisions.*

(2) *Amount of debt per capita is calculated by dividing total debt by total population from Schedule D-1. Numbers revised for prior years due to population estimate revisions.*

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE

Last Ten Fiscal Years

(amounts expressed in thousands)

Governmental Activities	Fiscal Year									
	2001	2002	2003	2003	2005	2006	2007	2008	2009	2010
Renewable Resource Program Bond										
Revenue										
Loan repayment (principal and interest)	\$3,317	\$3,933	\$3,464	\$3,464	\$ 4,247	\$3,036	\$2,576	\$1,549	\$3,157	1,710
Northwestern Energy	2,269	2,026	2,535	2,535	2,623	2,800	3,057	2,498	3,189	3,435
STIP interest earnings	-	-	59	59	100	176	460	329	96	19
Debt service fund interest	-	-	72	72	131	877	528	472	414	398
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	\$5,586	\$5,959	\$6,130	\$6,130	\$7,101	\$6,889	\$6,621	\$4,848	\$6,856	\$5,562
Debt service										
Principal	\$2,910	\$3,205	\$4,040	\$4,040	\$10,515	\$4,630	\$3,095	\$3,485	\$3,725	\$2,380
Interest	\$3,030	\$1,714	\$1,975	\$1,975	\$ 1,719	\$1,476	\$1,357	\$1,253	\$1,093	\$979
Coverage (1)	0.9	1.2	1.0	1.0	0.6	1.1	1.5	1.0	1.4	1.7

Governmental Activities	2000	2001	2002	2003	2004
Transportation Refunding Bond					
Revenue					
Motor fuel taxes	\$ 178,938	\$ 174,299	\$ 180,600	\$ 181,758	\$ 188,754
Gross vehicle weight fees	33,935	31,555	26,425	25,339	26,308
Other	5,141	6,408	6,211	4,132	41,715
Less: Operating expenses	(226,147)	(212,237)	(202,624)	(199,193)	(281,286)
Net available revenue	\$ (8,133)	\$ 25	\$ 10,612	\$ 12,036	\$ (24,509)
Debt service					
Principal	\$ 11,355	\$ 11,885	\$ 12,470	\$ 13,095	\$ 3,705
Interest	\$ 2,315	\$ 1,757	\$ 1,154	\$ 514	\$ 94
Coverage (1)	(0.6)	0.0	0.8	0.9	(6.5)

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued

Last Ten Fiscal Years

(amounts expressed in thousands)

	Fiscal Year					
	2005	2006	2007	2008	2009	2010
Governmental Activities						
US Highway 93 GARVEES Bond (2)						
Revenue						
Federal Highway Administration	\$ 160,060	\$ 278,109	\$ 300,808	\$ 345,583	\$ 381,604	\$ 464,400
Less: Operating expenses	(159,846)	(266,232)	(288,930)	(333,705)	(365,624)	(448,419)
Net available revenue	\$ 214	\$ 11,877	\$ 11,878	\$ 11,878	\$ 15,980	\$ 15,981
Debt service						
Principal	-	\$ 4,960	\$ 6,130	\$ 6,375	\$ 9,070	\$ 9,340
Interest	\$ 214	\$ 6,917	\$ 5,747	\$ 5,503	\$ 6,910	\$ 6,641
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Governmental Activities										
Middle Creek Dam Project Note Payable										
Revenue										
Middle Creek Water Users Assoc loan payments	\$104	\$104	\$119	\$99	\$99	\$82	\$96	\$89	\$83	\$90
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	\$104	\$104	\$119	\$99	\$99	\$82	\$96	\$89	\$83	\$90
Debt service										
Principal	\$ 35	\$ 37	\$ 38	\$39	\$41	\$42	\$44	\$46	\$48	\$50
Interest	\$ 69	\$ 67	\$ 81	\$60	\$59	\$40	\$52	\$43	\$35	\$40
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Montana Comprehensive Annual Financial Report
SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued
 Last Ten Fiscal Years
 (amounts expressed in thousands)

Fiscal Year Ended June 30, 2010

Governmental Activities	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Tongue River Dam Project Note Payable										
Revenue										
Tongue River Water Users Assoc loan payments	\$128	\$128	\$128	\$128	\$128	\$128	\$128	\$128	\$128	\$128
Revenue from sale of electricity	162	162	162	162	162	162	162	162	162	162
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	\$290	\$290	\$290	\$290	\$290	\$290	\$290	\$290	\$290	\$290
Debt service										
Principal	\$290	\$290	\$290	\$290	\$290	\$290	\$290	\$290	\$290	\$290
Interest	-	-	-	-	-	-	-	-	-	-
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Governmental Activities	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Water Conservation Note Payable (Little Dry Project)										
Revenue										
Little Dry Water Users Assoc loan payments	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3
Debt service										
Principal	\$2	\$2	\$2	\$2	\$2	\$2	\$2	\$2	\$2	\$2
Interest	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued

Last Ten Fiscal Years

(amounts expressed in thousands)

Governmental Activities	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Water Conservation Note Payable (Petrolia Project)										
Revenue										
Petrolia Irrigation District loan payments	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3
Debt service										
Principal	\$1	\$1	\$2	\$2	\$2	\$2	\$2	\$2	\$2	\$2
Interest	\$2	\$2	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Business-type Activities	Fiscal Year					
	2005	2006	2007	2008	2009	2010
Economic Development Bonds (Municipal Finance Consolidation Irrigation Dist)						
Revenue						
Principal and interest repayments	\$284	\$512	\$71	\$45	\$47	\$53
Investment income	5	3	5	3	1	
Less: Operating expenses	-	-	-	-	-	-
Net available revenue	\$289	\$515	\$76	\$48	\$48	\$53
Debt service						
Principal	\$325	\$450	\$40	\$45	\$45	\$50
Interest	\$ 81	\$ 30	\$31	\$28	\$25	\$21
Coverage (1)	0.7	1.1	1.1	0.7	0.7	0.7

Montana Comprehensive Annual Financial Report
SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued

Fiscal Year Ended June 30, 2010

Last Ten Fiscal Years
 (amounts expressed in thousands)

Business-type Activities	Fiscal Year					
	2005	2006	2007	2008	2009	2010
Economic Development Bonds						
(Conservation Reserve Enhancement Program)						
Revenue						
Principal and interest repayments	\$2,135	\$1,765	\$2,173	\$ 926	\$989	\$782
Investment income	4	9	16	10	1	0
Less: Operating expenses	-	-	-	-	-	-
Net available revenue	<u>\$2,139</u>	<u>\$1,774</u>	<u>\$2,189</u>	<u>\$ 936</u>	<u>\$990</u>	<u>\$782</u>
Debt service						
Principal	\$1,937	\$1,475	\$1,924	\$1,208	\$628	\$891
Interest	\$ 263	\$ 201	\$ 216	\$ 107	\$101	\$62
Coverage (1)	1.0	1.1	1.0	0.7	1.4	.8

Business-type Activities	Fiscal Year
	2005
Economic Development Bonds	
(Municipal Finance Consolidation Act Bonds)	
Revenue	
Principal and interest repayments	\$300
Investment income	-
Less: Operating expenses	-
Net available revenue	<u>\$300</u>
Debt service	
Principal	\$294
Interest	\$ 1
Coverage (1)	1.0

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued

Last Ten Fiscal Years

(amounts expressed in thousands)

	Fiscal Year			
	2004	2005	2006	2007
Business-type Activities				
MUS Workers Compensation Bonds Payable				
Revenue				
Workers compensation premiums	\$ 2,424	\$ 2,978	\$ 3,543	\$ 4,047
Less: Operating expenses	(2,489)	(2,785)	(2,932)	(2,614)
Net available revenue	<u>\$ (65)</u>	<u>\$ 193</u>	<u>\$ 611</u>	<u>\$ 1,433</u>
Debt service				
Principal	\$ 395	\$ 395	\$ 410	\$ 430
Interest	\$ 48	\$ 46	\$ 34	\$ 22
Coverage (1)	(0.1)	0.4	1.4	3.2

Sources: Montana Departments of Commerce (Board of Investments), Natural Resources and Conservation, Transportation Montana University System

Note: (1) Coverage equals net available revenue divided by debt service.
 (2) In fiscal year 2008, the Montana Department of Transportation revised data for fiscal year 2005.

SCHEDULE C-3 – RATIOS OF GENERAL BONDED DEBT OUTSTANDING

Last Nine Fiscal Years

(amounts expressed in thousands, except per capita amount, in dollars)

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Funds	Total	Percentage of Personal Income (1)	Debt Per Capital (2)
2002	\$214,135	\$15,327	\$198,808	0.87%	\$219
2003	227,625	14,304	213,321	0.91%	234
2004	219,645	14,946	204,699	0.83%	223
2005	213,195	12,957	200,238	0.76%	216
2006	230,065	13,700	216,365	0.77%	231
2007	208,015	15,471	192,544	0.63%	204
2008	201,560	11,967	189,593	0.58%	198
2009	182,585	8,985	173,600	0.52%	179
2010	169,150	13,486	169,099	0.46%	175

Source: *Statewide Accounting, Budgeting, and Human Resource System*

Notes: *The schedule information is available beginning in fiscal year 2002, the year GASB Statement 34 was implemented. Details regarding the State's debt can be found in Note 11 of the financial statements.*

- (1) *Debt as a percentage of personal income equals total debt divided by total personal income from Schedule B-1. Used calendar year 2009 personal income for fiscal year 2010 debt percentage calculation. Numbers revised for prior years due to personal income estimate revisions.*
- (2) *Debt per capita is calculated by dividing total debt by total population from Schedule D-1. Numbers revised for prior years due to population estimate revisions.*

SCHEDULE D-1 – DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Calendar Years

	Calendar Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Population										
Montana (<i>in thousands</i>)	903	906	910	917	926	935	945	957	967	975
Percentage change	0.6%	0.3%	0.4%	0.8%	1.0%	1.0%	1.1%	1.3%	1.0%	0.8%
National (<i>in thousands</i>)	282,172	285,040	287,727	290,211	292,892	295,561	298,363	301,290	304,060	307,007
Percentage change	1.1%	1.0%	0.9%	0.9%	0.9%	0.9%	0.9%	1.0%	0.9%	1.0%
Total Personal Income										
Montana (<i>in millions</i>)	21,200	22,931	23,370	24,752	26,495	28,179	30,447	32,447	34,111	33,923
Percentage change	7.1%	8.2%	1.9%	5.9%	7.0%	6.4%	8.0%	6.7%	3.2%	(.6%)
National (<i>in billions</i>)	8,555	8,879	9,055	9,369	9,929	10,477	11,257	11,900	12,380	12,165
Percentage change	8.2%	3.8%	2.0%	3.5%	6.0%	5.5%	7.4%	5.5%	2.9%	1.7%
Per Capita Personal Income										
Montana	23,470	25,315	25,685	27,000	28,613	30,141	32,204	33,897	35,237	34,794
Percentage change	6.5%	7.9%	1.5%	5.1%	6.0%	5.3%	6.8%	5.4%	2.1%	1.3%
National	30,318	31,149	31,470	32,284	33,899	35,447	37,728	39,458	40,673	39,626
Percentage change	7.0%	2.7%	1.0%	2.6%	5.0%	4.6%	6.4%	4.5%	2.0%	2.6%
Resident Civilian Labor Force and Employment										
Civilian labor force	469,083	470,262	466,787	469,119	473,532	479,553	493,004	502,219	510,816	498,897
Employed	446,742	449,175	445,739	448,805	454,259	461,936	479,614	485,221	487,870	468,211
Unemployed	22,341	21,087	21,048	20,314	19,273	17,617	16,390	16,998	22,946	30,686
Unemployment rate	4.8%	4.5%	4.5%	4.3%	4.0%	3.7%	3.3%	3.4%	4.5%	6.2%
Nonfarm Wage and Salary Workers (<i>in thousands</i>)										
Goods-producing industries										
Natural Resources and Mining	6.0	6.2	6.2	6.2	7.1	7.7	8.2	8.4	8.3	7.0
Construction	20.4	21.2	21.7	23.1	24.9	27.6	30.2	32.3	29.8	24.00
Durable goods	15.2	14.4	13.1	12.1	12.1	12.4	12.8	13.0	12.3	10.1
Nondurable goods	7.2	7.0	6.9	6.9	7.1	7.2	7.4	7.5	7.6	7.3
Subtotal goods-producing industries	48.8	48.8	47.9	48.3	51.2	54.9	58.6	61.2	58.0	48.4
Service-producing industries										
Transp, communications, and utilities	24.7	24.1	23.7	23.1	23.3	23.8	24.3	24.6	24.3	21.5
Trade	69.4	68.9	68.9	69.1	70.8	71.6	72.8	75.3	75.6	66.9
Finance, insurance, and real estate	18.5	18.8	19.3	20.3	21.1	21.4	22.0	21.8	21.9	21.1
Service	145.2	146.9	151.4	154.2	158.4	162.9	169.3	174.8	178.7	182.3
State and local government	70.6	70.7	71.1	72.0	72.9	72.7	72.1	73.9	74.1	74.4
Federal government	13.4	13.4	13.8	13.8	13.8	13.5	13.5	13.4	13.6	13.9
Subtotal service-producing industries	341.8	342.8	348.2	352.5	360.3	365.9	374.0	383.8	388.2	380.1
Total Nonfarm Wage and Salary Employment	390.6	391.6	396.1	400.8	411.5	420.8	432.6	445.0	446.2	428.5

Sources: *Population Division, U.S. Census Bureau**Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce**Bureau of Labor Statistics, U.S. Department of Labor*

Notes: *Total personal income is comprised of earned income, dividends, interest and rents, and government transfer payments. Per capita income is calculated by dividing personal income by population; amounts may not be exact due to rounding. Numbers for prior years revised due to releases of updated data.*

SCHEDULE D-2 – PRINCIPAL EMPLOYERS

Current Calendar Year and Nine Calendar Years Ago

Employer	2000			2009		
	Employees (1)	Rank	Percentage of Total State Employment (2)	Employees (1)	Rank	Percentage of Total State Employment (2)
State of Montana	19,500–20,000	1	5.31%	21,500–22,000	1	5.26%
Federal Government	13,500-14,000	2	3.69	12,500-13,000	2	3.08
Wal-Mart	2,000-2500	3	0.60	4,500-5,000	3	1.15
Billings Clinic Health System	2,000-2,500	5	0.60	3,000-3,500	4	0.79
Town Pump	1,500-2,000	9	0.47	2,000–2,500	5	0.54
St. Vincent Hospital	1,500-2,000	8	0.47	2,000–2,500	6	0.54
Albertson's	2,000-2,500	4	0.60	2,000–2,500	7	0.54
Benefis Healthcare	1,500-2,000	6	0.47	1,500–2,000	8	0.42
Avitus Group				1,500-2,000	9	0.42
St. Patrick Hospital	1,000-1,500	10	0.34	1,500–2,000	10	0.42
Montana Power Company	1,500-2,000	7	0.47			
Total State Employment	372,141			413,426		

Sources: *Montana Department of Labor
Bureau of Labor Statistics, U.S. Department of Labor*

Notes:: (1) *Number of employees based on March 2009 data.*
(2) *Percentage of total state employment based on the midpoints in the ranges given.*

This page intentionally left blank.

SCHEDULE E-1 – FULL-TIME EQUIVALENT STATE EMPLOYEES BY FUNCTION/PROGRAM

Last Nine Fiscal Years

Function/Program	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental:					
General government	1,375	1,614	1,575	1,562	1,615
Public safety/corrections	1,925	1,937	1,930	1,955	2,048
Transportation	2,036	2,055	2,025	2,023	2,063
Health/social services	2,674	2,577	2,539	2,575	2,621
Education/cultural	416	429	402	407	428
Resource/recreation/environment	1,430	1,694	1,731	1,765	1,853
Economic development/assistance	912	884	925	952	965
Total governmental	10,768	11,190	11,127	11,239	11,593
Business-type:					
Liquor Stores	28	28	29	27	38
State Lottery	30	31	30	32	32
Economic Development Bonds	4	4	4	4	4
Hail Insurance	2	2	3	2	3
General Government Services	109	102	94	104	96
Prison Funds	38	35	31	32	34
MUS Group Insurance	3	3	3	2	3
MUS Workers Compensation	-	-	-	-	-
Total business-type	214	205	194	203	210
Fiduciary:					
Pension Trust	46	49	47	46	48
Total fiduciary	46	49	47	46	48
Component unit:					
Housing Authority	18	17	19	21	20
Facility Finance Authority	2	2	2	2	2
State Compensation Insurance (New Fund)	228	239	252	261	265
Montana State University	3,878	3,916	3,960	3,994	3,940
University of Montana	3,064	3,129	3,187	3,238	3,281
Total component unit	7,190	7,303	7,420	7,516	7,508
Total full-time equivalent employees	18,218	18,747	18,788	19,004	19,359

Source: *Statewide Accounting, Budgeting, and Human Resource System*

Note: *The number of full-time equivalent employees is presented by functional/programmatic categories consistent with the level of expense detail required by GASB Statement 34. Thus, the employee information is available beginning in fiscal year 2002.*

Fiscal Year			
2007	2008	2009	2010
1,552	1,696	1,564	2,781
2,176	2,270	2,065	2,573
2,031	2,023	1,935	2,233
2,587	2,704	2,422	2,992
432	463	406	485
1,825	1,876	1,696	2,147
913	951	853	-
11,516	11,983	10,941	13,211
39	43	39	29
32	33	30	32
6	5	3	4
3	3	3	8
103	108	84	94
34	35	32	21
4	4	4	5
1	1	1	1
222	232	196	194
46	48	46	57
46	48	46	57
19	21	19	47
2	2	3	3
279	276	251	299
4,056	4,021	4,090	4,181
3,364	3,557	3,578	3,705
7,720	7,877	7,941	8,235
19,504	20,140	19,124	21,697

SCHEDULE E-2 – OPERATING INDICATORS BY FUNCTION/PROGRAM

Last Nine Fiscal Years

Function/Program	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental activities:					
General government					
Department of Revenue					
Electronically-filed income tax returns	140,034	168,231	195,880	224,653	236,200
Paper-filed income tax returns	290,009	265,998	243,247	200,102	203,100
Judiciary					
Supreme Court total filings (1)	798	860	882	738	760
District Court total filings (1)	33,443	37,456	38,579	38,619	42,000
Public safety/corrections					
Department of Corrections					
Incarcerated offenders	2,402	2,156	2,307	2,535	2,935
Supervised offenders	7,048	7,787	8,081	8,460	8,797
Department of Justice					
Driver's licenses issued	123,070	112,727	149,714	163,336	172,915
Vehicles registered (2)	1,117,152	1,153,352	1,262,990	972,849	1,550,713
Department of Military Affairs (Army Program Facilities Office)					
Work orders received	2,500	2,445	2,066	3,272	2,648
Work orders completed	1,950	2,102	1,555	2,843	2,349
Work orders unfunded or not completed	550	343	511	429	172
Transportation					
Department of Transportation					
Paved roads (miles)	18,980	18,998	19,017	19,020	19,050
Unpaved roads (miles)	51,717	51,641	51,624	51,623	55,281
Health/social services					
Department of Public Health and Human Services					
Senior citizens receiving personal long-term care assistance	2,856	2,707	2,801	2,808	2,869
Number of households provided with energy assistance	16,977	18,000	19,125	20,463	21,552
Education/cultural					
Office of Public Instruction					
K-12 public school enrollment	151,947	149,995	148,356	146,705	145,259
Public schools	877	866	859	852	840
Commissioner of Higher Education					
Total enrollment for Montana University System	28,795	29,184	29,520	29,122	29,181
Total enrollment for Colleges of Technology	3,295	3,489	3,663	3,641	3,910
Resource/recreation/environment					
Department of Natural Resources and Conservation					
Revenue generated on state trust lands (millions of dollars)	\$63.4	\$62.5	\$72.8	\$86.1	\$101.9
Oil production (millions of bbls)	16.05	18.1	19.9	20.9	36.2
Gas production (millions of mcf)	77.3	78.8	78.9	80.5	114.0
Department of Fish, Wildlife and Parks					
License and permit sales (3)	1,566,842	1,598,180	1,751,581	1,752,315	1,638,410
State park visitation (millions)	1.1	1.6	1.6	1.65	1.7

Fiscal Year			
2007	2008	2009	2010
234,543	299,194	317,211	333,911
266,891	187,188	178,114	151,945
676	649	N/A	N/A
41,546	45,143	N/A	N/A
2,608	2,439	2,573	2,491
9,838	10,433	10,453	10,535
181,804	156,088	164,230	169,046
1,657,285	1,610,753	1,634,914	969,176
3,386	3,610	3,114	3,380
2,781	3,441	2,941	3,095
1,373	750	746	863
19,447	19,465	20,704	20,469
54,883	55,472	56,632	55,193
2,857	3,004	3,165	
19,254	18,929	22,448	28,054 3,206
144,418	143,405	142,082	141,807
831	830	829	828
29,140	29,072	31,805	30,362
4,033	4,277	4,570	5,538
\$103.6	\$107.1	\$110.0	\$180.60
37.2	34.9	31.5	27.8
118.0	120.7	119.5	105.3
1,737,413	1,808,093	1,806,316	1,826,939
1.85	1.78	1.80	1.76

SCHEDULE E-2 – OPERATING INDICATORS BY FUNCTION/PROGRAM - Continued

Last Nine Fiscal Years

Function/Program	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental activities (continued):					
Resource/recreation/environment (continued)					
Department of Environmental Quality					
Environmental permit applications	3,819	5,047	5,192	6,245	8,044
Environmental violations	2,788	2,888	3,338	3,655	2,166
Economic development/assistance					
Department of Commerce (Community Development)					
Treasure State Endowment Project – applications	55	-	47	-	57
Treasure State Endowment Project – construction awards	-	40	-	40	N/A
Community Development Block Grant – public facility applications	8	13	10	14	11
Community Development Block Grant – public facility awards	8	12	7	8	7
Business-type activities:					
Unemployment Insurance					
Department of Labor					
Initial claims	58,821	60,300	56,743	50,216	46,697
Average weekly benefit (dollars)	\$185.67	\$195.43	\$200.93	\$209.37	\$202.67
Exhaustion rate (percent)	36.6%	36.4%	38.4%	32.7%	29.8%
Liquor Stores					
Department of Revenue					
Liquor licenses issued	2,210	2,157	2,233	2,262	2,267
Liquor cases distributed	463,881	490,153	513,885	535,635	578,111
State Lottery					
Department of Administration					
Total dollars in ticket sales (millions of dollars)	\$34	\$35	\$37	\$34	\$40
Transfer to the General Fund (millions of dollars)	\$7	\$7	\$8	\$7	\$9
General Government Services					
Department of Commerce (HUD Section 8)					
Applications reviewed – homebuyers assistance (dollars) (4) (5)	-	\$1,608,335	\$1,531,543	\$2,290,100	\$466,115
Grants awarded – homebuyers assistance (dollars) (4) (5)	-	\$1,608,335	\$1,531,543	\$1,547,323	\$466,115

N/A = not available

Sources: Governor's Office of Budget and Program Planning, Biennium Executive Budget
Montana Departments of Administration, Justice, Military Affairs, and Transportation
Montana Commissioner of Higher Education
Unemployment Insurance Data Summary, Employment & Training Administration, U.S. Department of Labor

Notes: (1) Operating indicators are reported on a calendar-year basis.
(2) Operating indicators for fiscal year 2007 revised in fiscal year 2008.
(3) Effective with fiscal year 2004, license and permit sales reported by license year.
(4) As of July 2006, an additional \$483,917 in remaining Community Housing Development Organization (CHDO) set-aside funds was available in the second 2006 application round (deadline: August 1).
(5) Effective with fiscal year 2007, reporting method revised to include both single and multiple family assistance..

Fiscal Year			
2007	2008	2009	2010
8,222	9,104	9,308	9,419
3,271	4,586	4,069	3,793
-	65	-	59
56	-	66	-
17	17	20	11
8	10	8	8
47,147	49,530	85,760	92,489
\$225.00	\$241.44	\$259.38	\$277.88
32.1%	32.3%	49.2%	56.40%
2,249	4,601	4,771	4,972
616,400	653,475	653,471	660,229
\$42	\$44	\$44	\$47
\$11	\$11	\$11	\$11
\$4,536,558	\$3,217,708	\$2,776,621	-
\$4,140,419	\$3,830,524	\$1,847,714	\$2,626,867

SCHEDULE E-3 – CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

Last Nine Fiscal Years

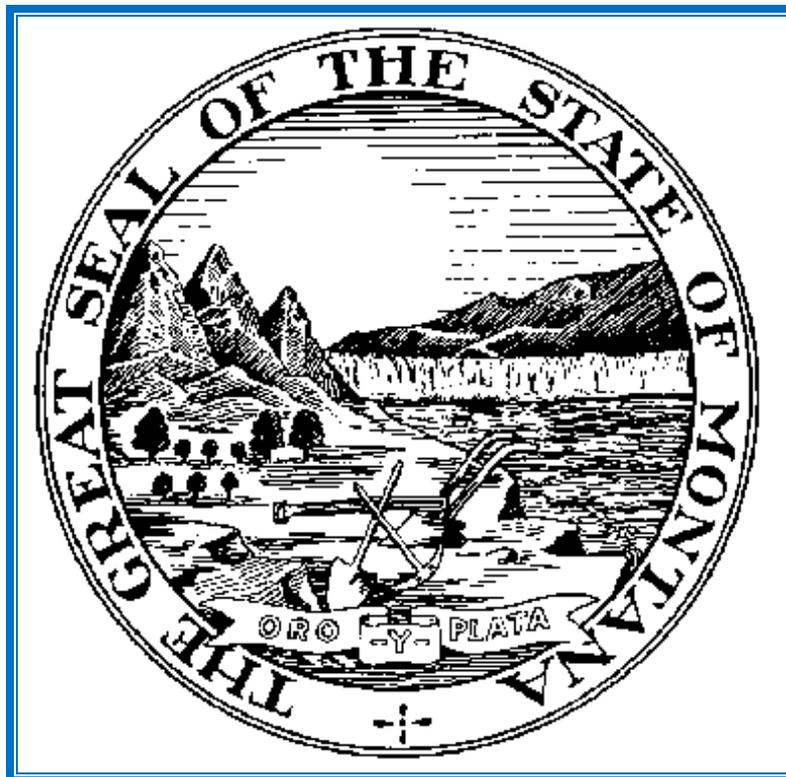
Function/Program	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Governmental activities:						
General government						
Department of Administration						
Buildings	50	47	47	48	48	47
Data processing equipment	762	825	866	861	916	997
Judiciary						
Vehicles	10	50	57	63	61	52
Public safety/corrections						
Department of Corrections						
Vehicles	413	418	269	288	297	280
Buildings	160	149	155	152	155	151
Department of Justice						
Vehicles	389	395	396	401	409	422
Laboratory/scientific equipment	192	158	164	168	166	251
Transportation						
Department of Transportation						
Vehicles	4,233	4,055	4,027	4,006	4,032	4,173
Buildings	720	763	852	751	729	718
Health/social services						
Department of Public Health and Human Services						
Vehicles	318	333	323	331	330	204
Buildings	137	134	135	129	127	127
Education/cultural						
Historical Society						
Buildings	311	707	15	14	3	2
Resource/recreation/environment						
Department of Natural Resources and Conservation						
Vehicles	810	853	766	925	672	760
Buildings	182	181	179	179	177	183
Department of Fish, Wildlife and Parks						
Vehicles	1,305	1,226	1,238	1,462	1,610	1,693
Buildings	1,287	743	761	742	816	763
Department of Environmental Quality						
Vehicles	52	60	60	60	59	66
Laboratory/scientific equipment	239	246	131	141	124	130
Economic development/assistance						
Department of Commerce						
Buildings	7	9	685	685	258	257
Business-type activities:						
State Lottery						
Department of Administration						
Vehicles	15	17	14	12	14	14
General government services						
Department of Administration						
Vehicles	21	24	14	13	14	13
Prison funds						
Department of Corrections						
Vehicles	40	40	42	45	48	48

Sources: *Statewide Accounting, Budgeting, and Human Resource System*
Vehicle Exposure and Commercial Property Schedules, Risk Management and Tort Defense Division
Department of Administration

Note: *The schedule information is available beginning in fiscal year 2002, the year GASB Statement 34 was implemented.*

Fiscal Years		
2008	2009	2010
50	50	55
1,110	1,139	1,917
52	51	24
283	294	192
149	151	246
524	486	606
287	211	259
4,289	4,305	2,482
783	784	969
189	195	193
131	131	153
2	2	5
798	517	710
181	181	87
1,844	1,837	2,693
769	840	794
60	66	108
134	159	719
261	266	4
15	15	15
13	13	36
49	52	56

This page intentionally left blank.



This information will be made available in alternate formats upon request by calling (406) 444-3092.

225 copies of this public document were published at an estimated cost of \$10.56 per copy, for a total cost of \$2,376 which includes \$2,376 for printing and \$0.00 for distribution.