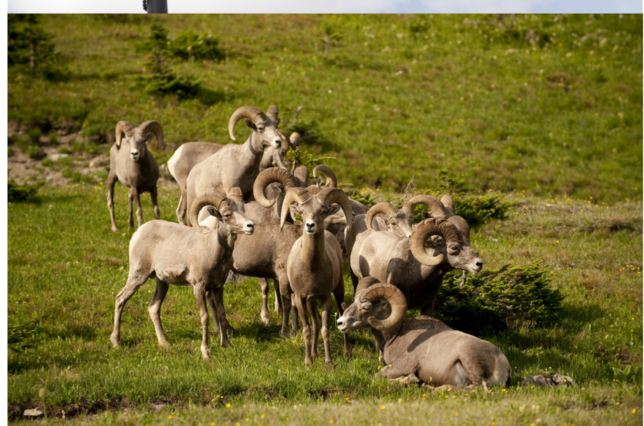
M O N T A N A






COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2011

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 Financial Report is available at the Department of Administration, State Accounting Division website at:

http://accounting.mt.gov/cafr/default.mcpx

Cover photographs courtesy of Montana Office of Tourism

State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2011

Prepared By:

Department of Administration

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State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2011

Table of Contents

INTRODUCTORY SECTION

FINANCIAL SECTION

Required Supplementary Information

Supplementary Information

STATISTICAL SECTION

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

March 29, 2012

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, 2011. 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, Montana State 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.

The Montana State Fund (State Fund) component unit presentation included in this report differs from the statements issued by that entity. We continue to include the Old Fund as part of the related statements because the Old Fund claims are a legal liability of the State Fund. We confirmed this in a legal opinion provided by the department’s Chief Legal Counsel. We also confirmed that this presentation is required through an inquiry to the Governmental Accounting and Standards Board (GASB). We believe the State Fund should reissue the related statements to include the Old Fund as required under GASB standards.

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 989,415. 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 13, 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, manufacturing, and nonresident travel. Montana's economy appeared to experience a mild rebound from the recession, with growth of 2.2% through the end of September 2011. Even though Montana's economy experienced this mild recovery, overall unemployment has increased in 2011 with June and September 2011 rates rising to7.5% and 7.7% respectively. All of Montana's tax revenues increased in fiscal year 2011. This increase was led by a significant rebound in general fund personal and corporate income taxes of $98.5 and $29.5 million respectively. For a more in-depth analysis of the impact of the recovery on the State's financial position, the reader should refer to management's discussion and analysis and the financial statements contained in the CAFR.

Agriculture

Montana's wheat yields decreased in 2011, with production projected to reach 178.3 million bushels, compared to the record 2010 production level of 215.4 million bushels. Winter wheat yields decreased to 89.8 million bushels, 4% lower than the 2010 level of 93.6 million bushels. Spring wheat yields reached 76.8 million bushels, down 27% from 2010. Durum production is estimated at 11.7 million bushels, down 35% from 2010. The overall decrease in winter wheat production resulted from lower acreage planted and harvested. An unusually cold wet spring contributed to the lower acreage planted. Yields were down for all strains of wheat, and other grains, produced in Montana as a result of the less than ideal weather conditions that continued throughout the spring and summer. Wheat prices have been higher in 2011, ranging from the $5.50 to $8.50 per bushel range offsetting the impact of lower production.

Montana's other major agricultural commodities include oats, barley, and cattle. Oat production in Montana decreased to an estimated 1.0 million bushels in 2011, representing a 39% decrease from 2011 levels. Barley production is estimated at 31.0 million bushels, which is 19% lower than last year. Montana's cattle herd decreased in 2011 to an estimated 2.5 million head. Montana ranks eleventh in the U.S. cattle and calf industry. Montana's 2010 receipts from cattle sales exceeded $1.1 billion.

Manufacturing

When using the seasonally adjusted estimates, Montana's manufacturing industry continued to decline in 2010. In 2010 employment in this industry, not including the self-employed, decreased from 19,100 to 17,900, or by 1.2%. This decline in employment has continued into the first half of 2011 with June's employment level ending at 16,000 for an additional 1.9% decrease. The value of production, within the manufacturing sector, rose an estimated $1.7 billion to approximately $10 billion in 2010, primarily due to price increases. Overall workers earnings remained the same at an estimated $1 billion.

Montana's timber harvest volume in 2010 increased to 321 million board feet, up slightly from 305 million board feet in 2009. This is the second lowest annual productions experienced in the state since 1945. Estimated total sales value of the State's primary wood and paper products in 2010 was $325 million, down about $225 million from 2009. The total wood products industry estimated employment of 6,840 workers for 2010 was lower than the estimated 2009 level of 7,060. The 2009 lumber production level was 480 million board feet, up from 415 million board feet in 2009. In January 2010 the State's largest forest products industry employer, and user of wood fiber, Smurfit-Stone Container, closed.

Nonresident Travel

Nonresident travel to Montana in 2010 increased an estimated 5% to approximately 10.5 million visitors. Overall visitor numbers for the national parks were higher. The visitor numbers for Yellowstone Park increased an estimated 9.1% from 3.3 million to 3.6 million visitors. Visits to Glacier Park increased from just over 2 million visitors to 2.3 million. 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 $2.6 billion in 2010, representing an increase of $0.3 billion. The estimated economic benefit of nonresident travel in Montana increased from $3.5 billion for calendar year 2009 to $4.0 billion for 2010, representing a $506 million increase, 14.59%. For fiscal year 2011 the initial reports indicate there will be an overall decrease in travel for the year, with travel returning to near 2009 levels.

Natural Resources/Mining

Montana's Natural Resource/Mining Sector of the economy employed 7,500 workers at the end of calendar year 2010. This represented a 9.6% decrease below the 8,300 workers employed at the end of December 2009. During calendar year 2011 employment has rebounded in this sector of the economy with the June employment level reaching 8,100 employees. The various sectors included in this category are discussed in more detail below.

As of the end of calendar year 2008 an estimated 321 million barrels of proven oil reserves existed under Montana's land. These numbers have not been updated since prior to 2008, and do not reflect the projected additional reserves existing in the Bakken and Tyler formations Montana shares with North and South Dakota. Reserves in these formations can now be developed using new drilling technologies. In a 2008 press release the USGS estimated 3.65 billion barrels of oil reserves exist in the Bakken formation alone. An update to the estimated reserves in the Bakken formation by the US Geological Service (USGS) is scheduled to begin in 2011. Although there is an increase in estimated reserves under Montana, in 2010 the State saw a continued reduction in production and exploration activity, with estimated crude oil production for the state at 25.3 million barrels. This represents an 8.6% decrease from the 2009 production levels of 27.7 million barrels. The decline continued at a slower pace in fiscal year 2011 with a 5.4% reduction in production through June, when compared to 2010 information for the same period. It is anticipated that the oil exploration and production in Montana will increase significantly in the future as the new oil reserves are developed.

Historically, minerals mining has been a significant part of Montana's economy. While there is no published data on proven reserves for metals mining, Montana's mines continue to produce copper, molybdenum, lead, zinc, palladium, gold, silver, cobalt, nickel, chromate, platinum, and other metals. Montana also produces non-metal minerals such as talc, limestone, and bentonite, garnets and sapphires.

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 2010, Montana's coal production increased to 44,732 thousand short tons (13.3%).

Secondary Economic Sectors

The recession in Montana primarily impacted the secondary and tertiary sectors (Construction, Trade/Transportation /Utilities, Information, Financial Activities, Professional and Business Services, Education and Health Services, Other services, and Government) of the economy. The overall decrease in these sectors slowed significantly in 2011 with a total decrease in employment of 4,800 jobs, moving from 754,100 in 2009 to 749,300 in 2010. The decrease in the constructions sector slowed, with 2,400 fewer jobs or 10.5% less. This compares with the 6,800 job decrease or -22.9% less in the construction sector for 2009. An additional factor affecting the employment picture in Montana is the employment of a significant number of construction workers from Montana in the North Dakota oil fields. This is not directly reflected in the analysis presented above.

MAJOR INITIATIVES AND LONG TERM OUTLOOK

The 2011 Legislature completed work and adjourned in late April 2011. Upon adjournment, it was anticipated that for the biennium, general fund revenue collections would be approximately $3,625 million while general fund expenditures would be approximately $3,716 million, thereby leaving an estimated general fund balance of approximately $150 million at the end of fiscal year 2013.

The 2013 biennium budget predominantly funds existing core services (i.e. health and human services, corrections, and education) at estimated caseload, population, and enrollment levels.

The following are other financial highlights of the 2013 biennium budget, as approved by the 2011 Legislature:

1. The 2011 Legislature reduced the class 8 (business equipment) property tax rate (SB 372). In addition to reducing tax liability for individuals and businesses, the bill also provides for full reimbursement, from the general fund, for the reduction in tax base caused by this bill to local governments and tax increment finance districts through entitlement share payments; school districts through school block grant payments; and the university system.
2. The Legislature and Governor passed and approved HB 334, a bill to reform the current worker's compensation program in Montana. This legislation has a number of provisions that, in aggregate, are expected to create a significant net reduction in the cost of the overall Montana workers compensation system.
3. The Legislature and Governor passed and approved HB 49 which authorized the sale of $16.15 million in State general obligation bonds if and when the water compact with the Blackfeet Tribe is ratified by the Tribe and U.S. Congress. No other general obligation debt was approved, although there remains previously authorized general obligation debt that could be issued.
4. 5% expenditure reduction plans required for consideration per 17-7-111, MCA were adopted by the Legislature. As a result, both general fund and state special expenditures were reduced accordingly.
5. The Legislature did not pass a state employee pay plan.

One-time general fund cash investments in the 2013 biennium include:

- University system units and research - $12.7 million
- Economic Development and high performance computing at the Department of Commerce - $4.1 million
- Area Agencies on Aging - $3.0 million
- Multi-district Cooperatives in K-12 education - $1.0 million

At the close of fiscal year 2011, the General Fund unassigned fund balance increased by $102.9 million (43.0%). Total fund balance increased by $42.4 million (13.0%). The budgets adopted by the 62nd legislature, as discussed above, anticipated an overall decrease in fund balance. This increased fund balance left Montana in much better financial condition than many other states in the US. Increased revenues combined with budgetary constraints, required as a result of the lower projected general fund balance during fiscal year 2011, contributed to the increase in total fund balance. The increase in unassigned fund balance was primarily caused by an assignment for the estimated "spend–down" of fund balance required under the Governmental Accounting Standards Board (GASB) Statement 54, as discussed in more detail below. The revenue increase was primarily driven by an increase in corporate and personal income taxes.

Both the increased 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 total fund balance of the General Fund was reported at $369.4 million at June 30, 2011. Of this fund balance $2.9 million is non-spendable. The remaining $366.5 million is spendable with $24.6 million assigned and $341.9 million unassigned. This compares to a combined unassigned and assigned, spendable, fund balance of $322.4 million at June 30, 2010. The $322.4 million fiscal year 2010 fund balance consisted of $83.3 million assigned and $239.1 million unassigned. The significant decrease in assigned fund balance resulted because we anticipated a spend-down of general fund balance for fiscal year 2011, when comparing revenues to expenditures, when the financial statements were prepared for fiscal year 2010. We do not anticipate a spend-down of fund balance for fiscal year 2012, as a result the related assignment of fund balance was not reported for fiscal year 2011.

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.

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 26 years, is estimated at $162.7 and $77.9 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 by the State's Legislative Audit Division (LAD). The Legislative Auditor is appointed by, and reports to, the Legislative Audit Committee. The Deputy Legislative Auditor issued a qualified opinion on the State's financial statements for fiscal year 2011. The qualified opinion is based on how Montana State Fund (State Fund) is presented within this report in regards to the Old Fund claims. In the LAD opinion, Old Fund should no longer be part of the State Fund component unit for financial reporting purposes and the primary government is legally obligated to pay the remaining liabilities of Old Fund.

Pursuant to advice received from the Governmental Accounting Standards Board (GASB), the Old Fund claims should be reported by the party legally obligated to pay them. We confirmed that the legal liability remained with the State Fund in a legal opinion issued by the Department of Administration (DOA) Chief Legal Counsel and a Letter of Advice from Montana's Attorney General (AG).

State Fund is defined in statute as a single separate legal entity with a contractual relationship to its claimants. State Fund is a single legal entity that meets GASB 14 requirements to be reported as a discretely presented component unit of the State of Montana.

Per 39-71-2321 MCA, State Fund is required to track the Old Fund and New Fund claims separately. The account name "Old Fund" is used to represent claims that occurred before July 1, 1990 and the account name "New Fund" is used to represent claims that occurred beginning July 1, 1990. There is not a legal distinction between "Old Fund" and "New Fund".

The General Fund is routinely required to transfer money to numerous accounts each year. These transfers are considered to be interfund transfers. The General Fund is not required to report a legal liability for those transfers.

The following excerpts are from the AG's Letter of Advice:

> …The law governing assets and liabilities of the Old Fund clearly provides that the legislature intended for the State Fund to "assume liability for all outstanding claims and indebtedness of the previously existing state fund." Mont. Code Ann. § 39-71-2319. In addition to designating the State Fund as the entity legally liable for outstanding claims and indebtedness of the Old Fund, the Legislature created a separate payment structure and a separate funding source for payment for claims of injury occurring before July 1, 1990 (claims against the Old Fund) and for those claims occurring on or after July 1, 1990 (claims against the State Fund). The legislature also provided for contingency funding in the event that revenue from the Old Fund liability tax did not cover the cost of claims. Section 39-71-2352(6) provides for that contingency, it states "[i]f in any fiscal year after the old fund liability tax is terminated claims for injuries resulting from accidents that occurred before July 1, 1990, are not adequately funded, any amount necessary to pay claims for injuries resulting from accidents that occurred before July 1, 1990, ***must be transferred from the general fund to the fund provided for in 39-71-2321***." (Emphasis added)[…].
>
> [T]he State Fund not the State of Montana remains the entity ***legally*** liable for such claims. This conclusion is supported both by the plain language of section 39-71-2319 and the contingency provision in section 39-71-2352(6). By providing for a transfer from the general fund to the Old Fund account, the Legislature created a payment structure that reflects the intent expressly stated in section 39-71-2319, "the State Fund shall assume liability for all outstanding claims and indebtedness of the previously existing state fund." […] The State Fund's ***legal*** liability did not terminate when the Old Fund liability tax reserves were depleted. The entity responsible for payment of claims – the State Fund – remains the same. It is the funding source for payment of those claims that has changed.

Additionally, we reported an obligation to the State Fund from the General Fund to provide resources to pay the claims, even though this is not clearly required under current reporting standards. In our opinion this provides valuable information to the financial statement users. Because this is not a long-term liability for the State primary government, as currently defined under GAAP, we did not include this with the long term debt as recommended by LAD, but instead presented this on a separate line. We believe this distinction is necessary for the users of the financial statements.

It is our opinion that the Old Fund reporting contained in this report is in accordance with generally accepted governmental accounting principles and the related audit opinion, as required by generally accepted auditing standards, should be unqualified.

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, 2010. This was the twenty third 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.

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, the cooperation of accounting personnel at the individual state agencies and staff in the Governor's Office of Budget and Program Planning. We would like to express our appreciation to the Accounting Bureau and other personnel who participated in the preparation of this document. We 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, 2010

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.

President

Executive Director

STATE OF MONTANA
ORGANIZATION CHART

CITIZENS OF MONTANA

LEGISLATIVE

Senate
House of Representatives
Legislative Audit Division
Legislative Fiscal Division
Legislative Services Division
Montana Consumer Counsel

EXECUTIVE

Governor
Lieutenant Governor

Attorney General
Public Service Commissioners
Secretary of State
State Auditor
Superintendent of Public Instruction

JUDICIAL

Supreme Court
District Courts
Water Courts
Workers Compensation Court
Justice of the Peace Courts
City or Municipal Courts
State Law Library
Supreme Court Administrator
Clerk of Supreme Court

STATE AGENCIES

Administration
Agriculture
Arts Council
Board of Public Education
Commerce
Commissioner of Political Practices
Commissioner of Higher Education
Corrections
Environmental Quality
Fish, Wildlife and Parks
Historical Society
Labor and Industry
Livestock
Military Affairs
Natural Resources & Conservation
Public Employee Retirement
Public Health & Human Services
Revenue
School for the Deaf and Blind
State Fund
State Library
State Public Defender
Teachers Retirement System
Transportation
University System

State of Montana
SELECTED STATE OFFICIALS

EXECUTIVE

Brian Schweitzer

Governor

John Bohlinger

Lieutenant Governor

JUDICIAL

Mike McGrath

Chief Justice

LEGISLATIVE

Jim Peterson

President of the Senate

Mike Milburn

Speaker of the House

FINANCIAL SECTION

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Montana, as of and for the year ended June 30, 2011, which collectively comprise the state's basic financial statements, as follows:

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

These financial statements are the responsibility of the state of Montana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State University component units and the University of Montana component units, which represent 10.1, 25.0, and 6.2 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the university component units, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the university component units were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as

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http://leg.mt.gov/audit

well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

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

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

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

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

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the state of Montana's basic financial statements. The introductory section, combining statements, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

At July 1, 2011, the Public Employees' Retirement System – Defined Benefit Retirement Plan, Game Wardens' and Peace Officers', Highway Patrol Officers', Sheriffs', and Teachers' retirement systems were not actuarially sound. The Unfunded Actuarial Accrued Liability amortization period is infinite for the Public Employees' Retirement System – Defined Benefit Retirement Plan, Game Wardens' and Peace Officers', and Sheriffs' retirement systems. The amortization period for the Highway Patrol Officers' Retirement System is 48.2 years. The amortization period for the Teachers' retirement system is 71 years. The maximum allowable amortization period is 30 years.

In accordance with Government Auditing Standards, we have issued our report dated March 19, 2012, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. It is included in the Legislative Auditor's separately issued report (11-01A) on the state's basic financial statements.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

March 19, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana provides this *Management's Discussion and Analysis* of the State of Montana's basic financial statements included in the Comprehensive Annual Financial Report (CAFR). This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights
The assets of the State exceeded its liabilities at the end of fiscal year 2011 by $7.4 billion (reported as net assets) compared with $6.8 billion at the end of fiscal year 2010. Of this amount, $889.4 million (reported as unrestricted net assets) may be used to meet the government's general obligations to citizens and creditors. Component units reported net assets of $1500.3 million compared with $1,311.3 million at fiscal year-end 2010. These are discussed in more detail in the financial statement overview below.

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

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

Long-term Debt
The State's total bonds and notes payable for governmental activities decreased by $2.7 million, from $360.9 million in fiscal year 2010 to $358.2 million (0.7%) in fiscal year 2011.

Business-type activities reported bonds and notes payable of $0.2 million at fiscal year-end 2011. This represents a decrease of $0.2 million (50.0%) over the fiscal year-end 2011 reported amount of $0.4 million. For details relating to the states long term debt see footnote 11.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-wide Financial Statements

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

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

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

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

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

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

Discretely Presented Component Units – These are operations for which the State has financial accountability, but they have certain independent qualities as well. In order to be considered component units these entities must be legally separate to the extent that they may sue, or be sued, in their own right. For the most part, these entities operate similarly to private sector businesses and the business-type activities described above. The State has four authorities and two universities that are reported as discretely presented component units of the State.

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net Assets
As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (government and business-type activities) totaled $7.6 billion at the end of fiscal year 2011. Net assets of the governmental activities increased $406.6 million (5.9%), and business-type activities had a $8.1 million (4.1%) decrease. These changes are explained in detail in the major fund analysis below

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

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

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

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

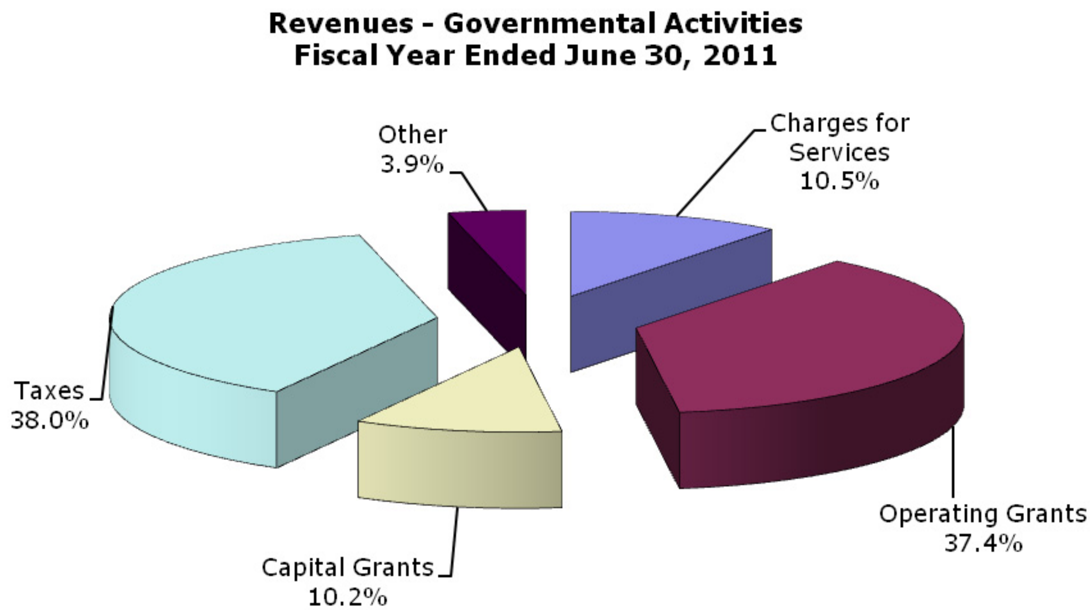
	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2011	2010	2011	2010	2011
Current and other assets	$4,678,781	$4,889,350	$326,068	$319,280	$5,004,849	$5,208,630
Capital assets	4,149,204	4,455,465	14,534	15,963	4,163,738	4,471,428
Total assets	8,827,985	9,344,815	340,602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

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

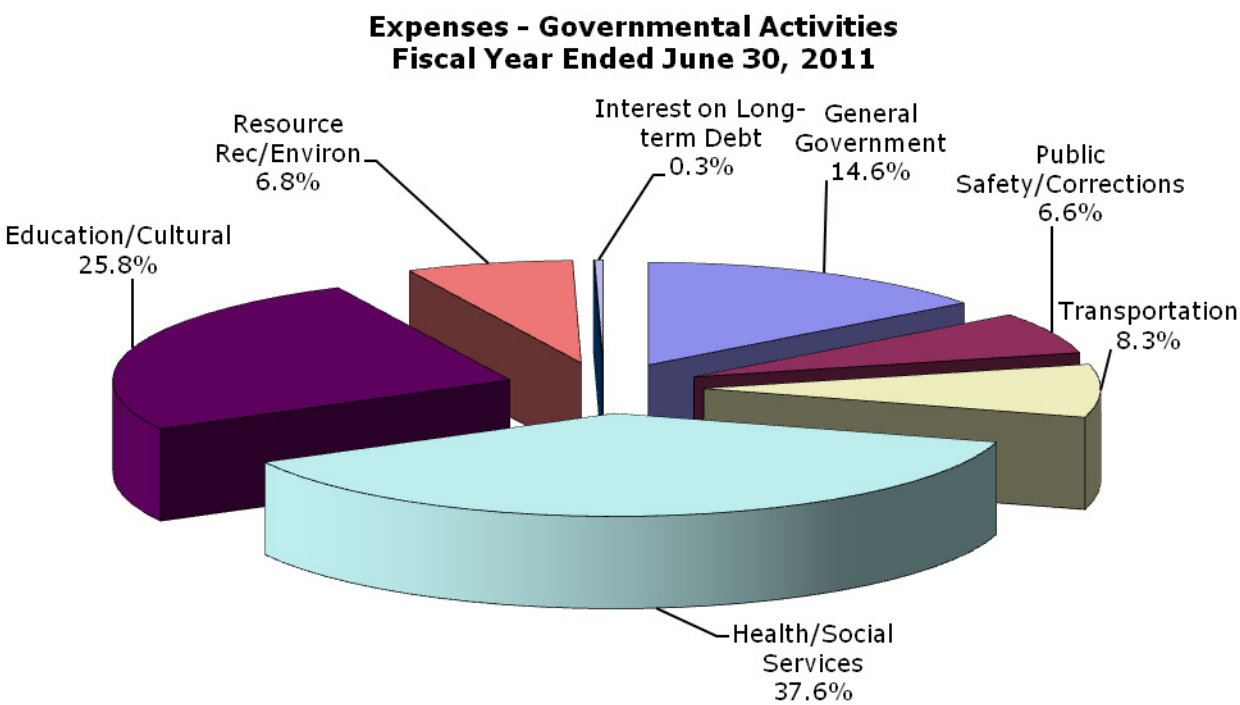
Changes in Net Assets
For Fiscal Year Ended June 30
(expressed in thousands)

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

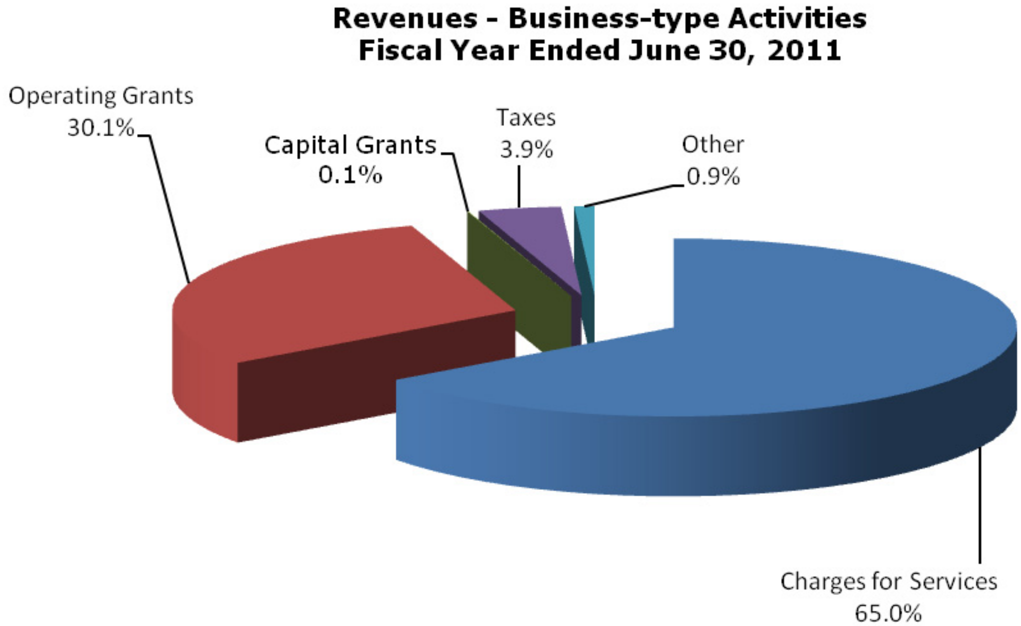
Governmental Activities
The following chart depicts revenues of the governmental activities for the fiscal year:



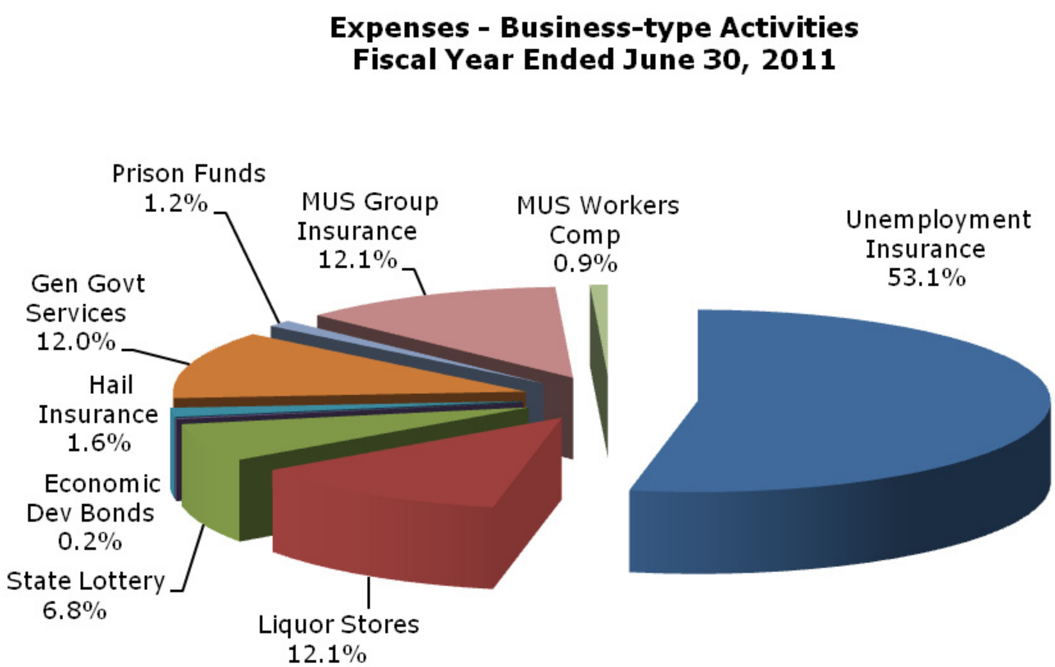
The following chart depicts expenses of the governmental activities for the fiscal year:



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



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



FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS

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

General Fund

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

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

<u>General Fund Expenditure Budget Reversions</u>

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

<u>Public Health & Human Services Reversions</u>

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

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

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

<u>Office of Public Instruction Reversions</u>

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

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

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

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

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

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

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

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

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

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

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

Coal Severance Tax Permanent Fund

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

Land Grant Permanent Fund

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

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

Unemployment Insurance Enterprise Fund

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

Economic Development Bonds Enterprise Fund

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounted to $6.3 billion, with related accumulated depreciation of $1.8 billion, leaving a net book value of $4.5 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

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

Debt Administration

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

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

The State of Montana's general obligation debt increased from $169.2 million at June 30, 2010, to $174.3 million at June 30, 2011. $15.9 million is available in debt service funds to service this debt leaving a balance of $158.4 million in net general obligation debt outstanding.

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

	Amount *(in thousands)*	**Percentage of Personal Income (1)**	**State Debt Per Capita (2)**
General obligation debt	$158,425	0.46%	$179

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

	Amount *(in thousands)*	**Percentage of Personal Income (1)**	**State Debt Per Capita (2)**
Total State debt	$356,037	1.0%	$367

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

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

ECONOMIC CONDITION AND OUTLOOK

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

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

As of June 30, 2011 five of the state retirement systems were not actuarially sound, and had an unfunded actuarially accrued liability. These include the Teachers, Public Employees Defined Benefit Plan, Sheriffs, Game Warden & Peace Officers and Highway Patrol Officers retirement systems. The actuarial condition of these plans are fully disclosed and reported as required by Generally Accepted Accounting Principles (GAAP), and explained in greater detail in Note 6 and Note 18 of the financial statements. The unfunded actuarial liability of these plans is long-term in nature, and does not translate into an inability of the plans to meet their current obligations in the near future.

The other state retirement systems are actuarially sound as of fiscal year end 2011.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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

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

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

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

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

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

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

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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, 2011
(amounts expressed in thousands)

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

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

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Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2011
(Amounts expressed in thousands)

		(A)	(B)	(C)	(D)	(E)	
	Total Governmental Fund	Internal Service Fund	Capital Assets Balances	Debt Related Balances	Other Measurement Focus Adjustments	Internal Balances Elimination	Statement of Net Assets Totals
ASSETS:							
Cash and cash equivalent	$ 1,371,624	$ 100,255	$ -	$ -	$ (1)	$ -	$ 1,471,878
Receivables	419,947	1,124	-	-	-	-	421,071
Interfund loans receivable	107,877	355	-	-	-	(108,232)	-
Due from other governments	217,578	2	-	-	1	-	217,581
Due from other funds	59,704	216	-	-	2	(59,922)	-
Due from component units	998	3	-	-	2	-	1,003
Inventories	23,004	3,915	-	-	3	-	26,922
Internal Balances	-	-	-	-		(8,718)	(8,718)
Equity in pooled investments	1,861,261	-	-	-	(1)	-	1,861,260
Securities lending collateral	143,185	5,448	-	-	1	-	148,634
Advances to other funds	29,012	-	-	-	-	(29,012)	-
Advances to component units	17,094	-	-	-	-	-	17,094
Investments	322,837	39,253	-	-	(2)	-	362,088
Deferred charges	-	-	-	-	3,391	-	3,391
Capital assets	-	93,993	4,361,472		0	-	4,455,465
Long-term loans/notes receivable	356,953	-	-	-	-	-	356,953
Other assets	9,347	849	-	-	(3)	-	10,193
Total assets	$ 4,940,421	$ 245,413	$ 4,361,472	$ -	$ 3,393	$ (205,884)	$ 9,344,815
LIABILITIES							
Current Liabilities							
Accounts payable	439,398	10,010	-	-	28,466	-	477,874
Interfund loans payable	106,736	1,462	-	-	-	(108,198)	-
Due to other government	60,337	-	-	-	-	-	60,337
Due to other funds	44,457	1,858	-	-	-	(46,315)	-
Due to component units	24,900		-	-	(22,959)	-	1,941
Advances from other funds	43,911	3,156	-	-	4,304	(51,371)	-
Estimated future claim contribution to component unit	-	-	-	-	64,621	-	64,621
Deferred revenue	209,117	1,378	-	-	(173,852)	-	36,643
Amounts held in custody for others	39,014	1	-	-	2	-	39,017
Securities lending liability	143,185	5,448	-	-	1	-	148,634
Other current liabilities	817	-	-	-	2,430 -	-	3,247
Long term liabilities							
Due within one year	-	19,592	-	127,578	(2)	-	147,168
Due in more than one year	-	19,438	-	841,851	(2)	-	861,287
OPEB implicit rate subsidy	-	8,714	-	146,992	1	-	155,707
Total liabilities	1,111,872	71,057	-	1,116,421	(96,990)	(205,884)	1,996,476
NET ASSETS							
Invested in capital assets, net of related debt	-	93,450	4,332,128	(241,415)	(5,820)	-	4,178,343
Restricted for:							
General government	13,146	-	-	(2,459)	307	-	10,994
Transportation	116,353	-	29,344	(137,135)	101,377	-	109,939
Health and human services	22,025	-	-	(28,276)	6,251	-	-
Natural resources	634,957	-	-	(273,403)	(39,705)	-	321,849
Public safety	290,768	-	-	(255,462)	44,636	-	79,942
Education	29,054	-	-	(2,018)	(1,911)	-	25,125
Funds held as permanent investments:							
Nonexpendable	1,325,197	-	-	-	(31,698)	-	1,293,499
Expendable	-	-	-	-	451,631	-	451,631
Unrestricted	1,397,049	80,906	-	(176,253)	(424,685)	-	877,017
Total net assets	$ 3,828,549	$ 174,356	$ 4,361,472	$ (1,116,421)	$ 100,383	$ -	$ 7,348,339

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

(A) Internal services funds (ISF): Management uses ISF to report the charges for and the costs of goods and services sold by state agencies solely within the state. Because the sales are primarily to governmental funds, the assets, liabilities and the net assets of the ISF are included in the governmental activities on the government-wide Statement of Net Assets. ISF are reported using proprietary fund-type accounting in the fund-level financial statements. See page 192 for the listing of the ISF.

(B) Capital assets balances: Capital assets used in governmental activities are not financial resources, and therefore, they are not included in the fund level financial statements. However, Capital assets are economic resources and are reported in the government-wide Statement of Net Assets.

(C) Debt related balances: Long term liabilities such as leases, bonds, notes, mortgages, and certificate of participation (including accrued interest) are not due and payable in the current period, and therefore, they are not included in the fund –level financial statements. However, from an economic perspective these liabilities reduce net assets and are reported in the Statement of Net Assets. The portion reported as current in the reconciliation is payable within the following fiscal year. The largest portion of the long-term balance is related to Pollution Remediation, Bonds/Notes Payables and OPEB implicit rate subsidy.

(D) Other measurement focus adjustments include:

- Interfund balances receivable from or payable to Fiduciary funds are reported on the fund- level Balance Sheet-Governmental funds as due from/to other funds. On the government –wide Statement of Net Assets, these amounts are considered external receivables and payables.
- Long-term assets and long-term taxes receivable are not available to pay for current period expenditures; therefore, the related revenue is reported as deferred revenue on the fund-level Balance Sheet- Governmental funds. From an economic perspective, this revenue is earned and the related deferred revenue is removed from the government –wide Statement of Net Assets when the revenue is recognized on the government-wide statement of Activities.
- Compensated absences are a GAAP modification of the full accrual basis of accounting similar to claims and judgments discussed above. Therefore, both the current and long-term portions of the liability are shown on the government – wide statement of Net Assets, but they are not reported on the fund-level Balance Sheet-Governmental Funds.

(E) Internal balances: All interfund activities such as Interfund loan receivable\payables, due from\due to and advances to\from other fund balances shown on the fund-level Balance Sheet –Governmental Funds are reported as internal balances. Per GAAP these balances should be eliminated from the governmental-wide Statement of Net Assets to avoid double counting.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

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

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

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

JUNE 30, 2011

(amounts expressed in thousands)

	Total Governmental Fund	(A) Internal Service Fund	(B) Capital Related Items	(C) Long Term Debt Transactions	(D) Other Measurement Focus	Statement Of Activities Total
REVENUES						
License/permits (Charges for Services)	$ 287,580	$ -	$ -	$ -	$ (782)	$ 286,798
Taxes:						
Natural resources	305,528	-	-	-	(57)	305,471
Individual income	798,590	-	-	-	11,518	810,108
Corporate income	120,242	-	-	-	1,559	121,801
Property	241,961	-	-	-	-	241,961
Fuel	209,348	-	-	-	-	209,348
Other (Note 1)	311,053	-	-	-	(2,350)	308,703
Charges for services/fines/forfeits/settlements	191,142	-	-	-	720	191,862
Investment earnings (Unrestricted Investments)	143,198	893	-	-	11,328	155,419
Securities lending income (Unrestricted investment)	2,632	-	-	-	(2,632)	-
Sale of documents/merchandise/property	17,208	-	-	-	(654)	16,554
Rentals/leases/royalties (Charges for Services)	70,322	-	-	-	-	70,322
Contributions/premiums (Charges for Services)	20,685	-	-	-	10	20,695
Insurance proceeds	4,326	-	-	-	(88)	4,238
Gain (loss) on sale of capital assets	-	-	3,209	-	-	3,209
Operating grants and donations	23,439	-	-	-	198	23,637
Federal (Operating Grants)	2,338,090	-	-	-	(500,003)	1,838,087
Federal indirect cost recoveries	101,152	-	-	-	-	101,152
Capital grants and contributions	-	-	-	-	537,194	537,194
Other revenues	2,437	254	-	-	228	2,919
Total revenues	5,188,933	1,147	3,209	-	56,189	5,249,478
EXPENDITURES						
Current:						
Current	4,500,746	(16,156)	39,614	-	222,277	4,746,481
Debt service						
Principal	33,974	-	-	(33,974)	-	-
Interest/fiscal charges	16,362	203	-	(251)	-	16,314
Capital outlay	565,943	-	(565,943)	-	-	-
Securities lending	600	16	-	-	(616)	-
Total expenditures	5,117,625	(15,937)	(526,329)	(34,225)	221,661	4,762,795
Excess of revenue over (under) expenditures	71,308	17,084	529,538	34,225	(165,472)	486,683
OTHER FINANCING SOURCES (USES)						
Inception of lease/installment contract	36	-	-	(36)	-	-
General capital asset sale proceeds	4,130	-	-	(4,130)	-	-
Refunding bonds issued	10,180	-	-	(10,180)	-	-
Payment to refunding bond escrow agent	(11,062)	-	-	11,062	-	-
Bond premium	767	-	-	(767)	-	-
Bond proceeds	31,000	-	-	(31,000)	-	-
Transfers (Note 12)	34,432	5,628	-	-	486	40,547
Total other financing sources (uses)	69,483	5,628	-	(35,050)	486	40,547
Net change in fund balance	$ 140,791	$ 22,713	$ 529,538	$ (825)	$ (164,986)	$ 527,230

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

(A) Internal service funds (ISF): Management uses the ISF to report charges for and the costs of goods and services sold by state agencies solely within the state. ISF are intended to operate on the cost reimbursement basis and should break even each period. If an ISF makes a profit, the other funds of the state have been overcharged. If an ISF has an operating loss the other funds of the state have been undercharged. In order to show the true cost of services purchased from ISF, an adjustment is made that allocates the net revenue/expense of each ISF to the programs that purchased the services. Investment income, debt service, and transfers of the ISF are not allocated. See page 192 for the listing of ISF.

(B) Capital related items: The following adjustments relate to capital assets:

- Capital assets, received as donations, are not reported on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds because they are not current financial resources. However, such donations increase net assets and are reported on both the government – wide Statement of Net Assets and Statement of Activities.
- Depreciation is not reported on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds, but it is reported for the economic perspective on which the government –wide Statement of Activities is presented.
- Expenditures reported for capital outlay on the fund-level Statement of Revenues, Expenditures and changes in Fund Balances - Governmental Funds are generally reported as a conversion of cash to a capital asset on the government wide Statement of Net Assets. They are not reported as expenses on the government –wide Statement of Activities.
- On the fund –level Statement of Revenues, Expenditures, and Changes in fund Balances - Governmental Funds all cash received on disposal of capital assets is reported as a gain on sale of capital assets. On the government-wide Statement of Activities the reported gain or loss on sale is based on the carrying value of the assets as well as the cash received.

(C) Long term debt: The following adjustments relate to debt issuance and debt service including leases:

- Payments on principal and debt refunding payments are reported as expenditures and other financing uses, respectively on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances – governmental Funds. These payments are reported as reduction of lease, bonds and other debt liability balances on the government – wide Statement of Net Assets are not reported on the government – wide Statement of Activities.
- Amortization of issuance cost, debt premium/discount, gains/loss on refunding debts are not reported on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances- - Governmental Funds, but are reported on the government – wide state of Activities.
- Lease proceeds, issuance of debt, and debt refunding proceeds are all reported as other financing sources at the fund level Statement of Revenues, Expenditures, and Changes in fund Balances – Governmental Funds. From an economic perspective lease proceeds, debt issuances, and debt refunding proceeds reported as liabilities on the government-wide Statement of Net Assets and are not reported on the government – wide Statement of Activities.

(D) Other measurement focus adjustments include;

- Long-term taxes receivable and certain other long-term assets are offset by deferred revenue and are not part of fund balance on the fund-level Balance Sheet - Governmental Funds; however, from a full accrual perspective, changes in the fund –level deferred revenue balances result in adjustments to revenue that are recognized and reported on the government-wide Statement of Activities.
- Expenditures that primarily benefit present period are classified as current expenditures. In governmental funds, capital outlays are included as part of the current expenditures for each functional activity within that fund.

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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, 2011
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	$ 94,759	$ 22,408	$ 88,721	$ 205,888	$ 100,255
Receivables (net) (Note 4)	9,897	7,781	24,215	41,893	1,124
Interfund loans receivable (Note 12)	-	-	3	3	355
Due from other governments	2,565	-	527	3,092	2
Due from other funds (Note 12)	-	2,899	3	2,902	216
Due from component units	-	1,764	-	1,764	3
Inventories	-	-	3,360	3,360	3,915
Short-term investments (Note 3)	-	983	-	983	-
Securities lending collateral (Note 3)	-	5	987	992	5,448
Other current assets	-	-	87	87	849
Total current assets	107,221	35,840	117,903	260,964	112,167
Noncurrent assets:					
Advances to other funds (Note 12)	-	17,980	75	18,055	-
Advances to component units	-	9,949	-	9,949	-
Long-term investments (Note 3)	-	1,301	1,285	2,586	39,253
Long-term notes/loans receivable	-	36,321	273	36,594	-
Deferred charges	-	1,394	-	1,394	-
Other long-term assets	-	-	1,981	1,981	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	3,830	3,830	95
Buildings/improvements	-	-	7,454	7,454	4,704
Equipment	-	4	8,366	8,370	224,868
Infrastructure	-	-	951	951	-
Construction in progress	-	-	2,703	2,703	7,244
Intangible assets	-	-	51	51	1,067
Other Depreciable Assets	-	-	3,206	3,206	-
Less accumulated depreciation	-	(4)	(11,398)	(11,402)	(144,221)
Total capital assets	-	-	15,963	15,963	93,993
Total noncurrent assets	-	66,945	19,577	86,522	133,246
Total assets	107,221	102,785	137,480	347,486	245,413

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

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

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

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

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

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

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

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

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

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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, 2011
(amounts expressed in thousands)

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

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

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

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

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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. In any fiscal year that Old Fund claims are not adequately funded with its own resources, the amount necessary to pay these claims must be transferred from the General Fund to Old Fund.

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, 2011
(amounts expressed in thousands)

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

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

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

COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

A. Reporting Entity

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

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

<u>Housing Authority</u> – 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.

<u>Facilities Finance Authority</u> – 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.

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

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

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

<u>Universities and Colleges</u> – The State Board of Regents has responsibility for the following institutions: The University of Montana - Missoula and the units under it including Montana Tech of the University of Montana, The University of Montana - Western and The University of Montana - Helena College of Technology; and Montana State University - Bozeman and the units under it including Montana State University - Billings, Montana State University - Northern, and the Montana State

University College of Technology - Great Falls. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. The universities are audited annually by the State's Legislative Audit Division. The reports are issued under separate cover and are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 2500 Broadway Street, Helena, MT 59620-3201.

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

Fiduciary Fund Component Units

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

Public Employees' Retirement Board (Pension and Other Employee Benefit Trust Funds) – The board is appointed by the Governor and administers ten separate retirement plans for the purpose of providing retirement, disability, death, and lump-sum payments to plan members. These legally separate plans include the Public Employees' Retirement Plan – Defined Benefit and Defined Contribution and the associated education funds; the Judges'; the Highway Patrol Officers'; the Sheriffs'; the Game Wardens' and Peace Officers'; the Municipal Police Officers'; and the Firefighters' Unified Retirement Systems; as well as the Volunteer Firefighters' Compensation Act. The board also administers the State of Montana Deferred Compensation Program (457 Plan).

The Public Employees' Retirement System (PERS) includes the Public Employees' Defined Benefit Retirement Plan and the Public Employees' Defined Contribution Retirement Plan, and is funded by member and employer contributions, investment earnings and contributions from the state General Fund. The PERS also accounts for the administrative costs, paid from investment earnings, of the plan. These are allocated out to all plans. The Judges' Retirement System is funded by member and state employer contributions, and investment earnings. The Highway Patrol Officers' Retirement System is funded by member and state employer contributions, state contributions, and investment earnings. The Sheriffs' Retirement System is funded by member and employer contributions, and investment earnings. The Game Wardens' and Peace Offices' Retirement System is funded by member and employer contributions, and investment earnings. The Municipal Police Officers' Retirement System is funded by member and employer contributions, state General Fund contributions, and investment earnings. The Firefighters' Unified Retirement System is funded by employee and employer contributions, and investment earnings, as well as state General Fund contributions from a portion of insurance premium taxes collected by the State of Montana. The Volunteer Firefighters' Compensation Act is funded by the state contributions, from the State General Fund, of a percentage of fire insurance premium taxes collected. The State of Montana Deferred Compensation Program is funded by member contributions and investment earnings; there are two employers, Great Falls Transit and the Town of Whitehall, that contribute to the program on behalf of their employees.

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

B. Government-wide and Fund Financial Statements

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

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

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

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

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

Governmental Fund Financial Statements
Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are realizable, measurable, earned, and available. Revenue is considered realizable when it is probable the amount will be collected. Revenue is considered measurable and realizable if the precise amount is known because the transaction is completed, or if there is enough information to provide a reasonable estimate of the net realizable revenue to be received. Revenue is considered to have been earned when the exchange of goods or services has taken place. Revenue is considered to be available if it is collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the State considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

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

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

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

Governmental Funds
<u>General Fund</u> – To account for all governmental financial resources, except those required to be accounted for in another fund.

<u>Special Revenue Funds</u> – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects. (1)The State Special Revenue Fund accounts for activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function. (2)The Federal Special Revenue Fund accounts for activities funded from federal sources used in the operation of state government.

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

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

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

Proprietary Funds

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

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

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

Fiduciary Funds

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

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

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

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

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

Major Governmental Funds

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

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

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

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

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

Major Enterprise Funds

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

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

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

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

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

D. Proprietary Activity Accounting and Financial Reporting

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

E. Cash/Cash Equivalents

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. For 2011, certain investments in STIP were reclassified as long-term investments. (See Note 3 Cash/Cash Equivalents).

F. Receivables

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

G. Inventories

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

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

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

H. Restricted Net Assets

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

I. Equity in Pooled Investments

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

J. Investments

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

K. Capital Assets

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

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

The capitalization limit for buildings and building/land improvements is $25,000. The capitalization threshold for infrastructure and internally generated software is $500,000. The capitalization limit for intangibles is $100,000. Agencies are allowed to capitalize additions to collections and land acquisitions at any cost. The capitalization limit for other capital assets is set at $5,000. Purchases under these thresholds are recorded as expenditures/expenses in the current period.

L. Deferred Revenue

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

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

M. Long-term Obligations

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

Long-term liabilities expected to be financed from proprietary and fiduciary fund operations are accounted for in those funds. (See Note 10–Leases/Instalmment Purchases Payable and Note 11–State Debt.)

N. Capital Leases

A capital lease is generally defined by Governmental Accounting Standards Board (GASB) Statement 62, as one which transfers benefits and risks of ownership to the lessee. At the inception of a capital lease, in the government-wide, proprietary fund, and fiduciary fund financial statements, a capital asset and a capital lease liability are recorded at the present value of the future minimum lease payments. In the governmental fund financial statements, because the modified accrual basis of accounting is used, no asset or liability is recorded related to assets under capital leases. Rather, in the governmental fund financial statements, at the inception of a capital lease, capital outlay expenditure and a other financing source (inception of lease/installment contract) are recorded at the net present value of the minimum lease payments.

O. Bond Discounts/Premiums/Issuance Costs

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

P. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 80 hours of sick or annual leave to a nonrefundable sick leave pool. Excess annual leave that is being forfeited can also be contributed, with no maximum contribution. Based on a review, the adjusted ending balance of the pool for June 30, 2010 as revised, was 13,311 hours. For fiscal year 2011, 1,306 sick leave hours, 402 annual leave hours, and 6,518 excess annual leave hours were contributed to the sick leave pool, and 2,901 hours were withdrawn, leaving a balance of 19,629 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to contributors, except by grants approved through an application process.

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

Q. Fund Balance/Net Assets

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

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

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

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

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Assignments of fund balance are created by the executive branch. An example of an assignment is money deposited into an account within the State Special Revenue fund by the executive branch and later appropriated by the legislature. The revenue source is not restricted or committed by legislation but is assigned by executive branch management and later appropriated by the legislature for a specific purpose. In governmental funds other than the general fund, assigned fund balance also represents the remaining amount that is not restricted or committed. Also included in the assigned fund balance for the general fund are assignments for the portion of current general fund balance that is projected to be used to fund expenditures and other cash outflows in excess of the expected revenues and other cash inflows in fiscal year 2012, and encumbrances.

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

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

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

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

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

Net Assets

In funds other than governmental, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide Statement of Net Assets reported restricted net assets (in thousands) of $2,451,714.

R. Property Taxes

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

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

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

S. Other Taxes

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

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

NOTE 2. OTHER ACCOUNTING ISSUES

A. New Accounting Guidance Implemented

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

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

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

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

B. Prior Period Adjustments

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors or changes in accounting policy from prior periods. The most significant of these adjustments affected the governmental activities column in the Statement of Activities related to Montana Department of Transportation infrastructure corrections. Other prior period adjustments were to asset management by the Department of Justice. Additional adjustments were permanent funds whose constraints were internally imposed and were reclassified as state special revenue funds for reporting purposes as shown below (amounts in thousands).

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

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

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

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

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

A. General

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

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

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

The State's cash equivalents and investments are detailed in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments to disclose the level of investment risk, when applicable, assumed by the State at June 30, 2011.

(2) All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments. The State may invest in certain types of securities, including U.S. government direct-backed, U.S. government indirect-backed, corporate stock/bonds, foreign government bonds, common stock, municipals, equity index, preferred stock, convertible equity securities, asset-backed securities, American Depositary Receipts (ADRs), equity derivatives, commingled funds, venture capital, leveraged buyout, mezzanine, diversified real estate portfolio, distressed debt, special situation and secondary investments, and cash equivalents, to provide a diversified investment portfolio and an overall competitive rate of return.

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

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

Convertible securities permit the holder to exchange, or "convert" the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer's common stock. ADR investments are receipts issued by a U.S. depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. Equity derivatives, such as futures and options, "derive" their value from underlying equity instruments. An institutional commingled fund combines assets from several institutional investors that are blended or pooled together to reduce management and administration costs. The investor buys shares in the fund.

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

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

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

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

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

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

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

B. Cash/Cash Equivalents

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

Table 1 - Cash Deposit Amounts
(in thousands)

	Carrying Amount
Cash held by State/State's agent	$165,748
Uninsured and uncollateralized cash	1,104
Undeposited cash	381
Cash in U.S. Treasury	94,752
Cash in MSU component units	7,373
Cash in UM component units	7,627
Less: outstanding warrants	(70,129)
Total cash deposits	$206,856

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

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

Table 2 - Cash Equivalents
(in thousands)

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

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

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

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

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

Investment Risk Disclosures

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

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. This is the risk that the issuer of a fixed income security may default with regard to the timely payment of interest and principal.

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

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

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

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

Custodial Credit Risk

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

Concentration of Credit Risk

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

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

Interest Rate Risk

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

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

Legal and Credit Risk

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

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

On October 14, 2009, BOI received its initial payment from Orion Finance USA. Fiscal years 2011 and 2010 payments from Orion Finance USA included principal of $13,433,642 and interest compensation of $1,804,738 in excess of the $903,922 accrued interest receivable for a total of $16,142,302. In November 2010, Orion Finance Corporation "granted a security interest in substantially all of its assets (the Collateral) to the Bank of New York Mellon, as Security Trustee". On December 8, 2010, the Security Trustee conducted "a public sale of 60 structured credit and 7 financial securities including but not limited to asset backed securities, collateralized debt obligations, collateralized loan obligations and residential mortgage backed securities included within the Collateral". BOI participated in the sale and collectively holds these individual securities as Orion Finance. From December 2010 through June 2011, BOI received principal and interest payments of $4,474,455 and $284,619, respectively. In June and December 2009, BOI applied $7.5 million, in total, from the STIP reserve to the outstanding principal for the Orion Finance USA securities. As of June 30, 2011, the Orion Finance collective holding, classified as Other Asset Backed, has an outstanding amortized cost balance of $24,591,903. Refer to Note 17 – Subsequent Events for additional information.

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

A STIP reserve account was established in November 2007. Income is distributed to STIP participants based on accrued interest and discount amortization. To avoid distributing cash to participants based on accrued interest on certain SIVs that may be uncollectible; the accrued interest amount was deposited in this account. Additional accrued income was deposited in the account to pay for any incidental direct expenses incurred as a part of any SIV restructuring activity not to be paid from SIV assets. Accrued income was also deposited in the account to offset any potential principal loss on these securities in the future.

C. Equity in Pooled Investments

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

Table 3 – Equity in Pooled Investments
(in thousands)

	Carrying Amount	Fair Value
MDEP:		
Domestic equity pool	$2,432,167	$2,844,533
TFIP:		
Core real estate	90,632	99,825
Corporate bonds (rated)	658,099	697,997
Corporate bonds (unrated)	1,000	1,316
Municipal government bonds (rated)	1,090	1,094
U.S. government direct obligations	388,813	401,289
U.S. government agencies	521,679	540,525
High yield bonds	90,000	98,279
STIP	49,943	49,943
STIP Structured Investment Vehicle	863	863
RFBP:		
Corporate bonds (rated)	828,100	852,267
Corporate bonds (unrated)	1,029	1,042
International Government	24,333	25,725
U.S. government direct obligations	422,266	427,370
U.S. government agencies	581,485	592,777
Montana mortgages	26,484	26,102
Municipal bonds	1,516	1,573
State Street STIP	91,696	91,696
STIP	5,763	5,763
STIP Structured Investment Vehicle	100	100
MTIP:		
International stock pool	1,212,866	1,441,328
MPEP:		
Private equity pool	875,119	960,834
MTRP:		
Real estate pool	600,956	504,950
STIP	3,311	3,311
STIP Structured Investment Vehicle	57	57
Total pooled investments	8,909,367	9,670,559
Pool adjustments (net)	(94,962)	(94,962)
Total equity in pooled investments	$8,814,405	$9,575,597

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

As of June 30, 2011, component units of the State of Montana had equity in pooled investments with a book value of $5,248,714,553 and a fair value of $7,714,337,016, as included in Table 3.

Investment Risk Disclosures

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

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the pools' fixed income instruments have credit risk as measured by major credit rating services. This is the risk that the issuer of a fixed income security may default with regard to the timely payment of interest and principal. The Board of Investments' (BOI) policy requires TFIP fixed income investments "be rated investment grade, or no lower than triple-B minus by one nationally recognized securities rating organization (NRSRO) at time of purchase" and RFBP fixed income investments, at the time of purchase, to be rated "at least by Moody's (Baa3 or better) or by Standard & Poor's (S&P) (BBB- or better) rating services." Credit risk for the internal and external managers for the RFBP is detailed as follows:

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

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

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

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

On September 14, 2008, Lehman Brothers filed for Chapter 11 bankruptcy. The Bond Pool, Investment Pool and AOF portfolios held a $15 million position in Lehman Brothers Holdings, Inc., variable rate security with a May 25, 2010 maturity. In May 2009, BOI sold a $5 million position in Lehman Brothers Holdings, Inc., variable rate security, held by the RFBP internal bond pool. This holding, written down to $1 million, was sold at a loss of $312,500. As of June 30, 2011, the book value of these bonds represents 20% of par. Refer to Note 17 – Subsequent Events for additional information.

Custodial Credit Risk

Deposits

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

In November 2008, the Federal Deposit Insurance Corporation (FDIC)'s Board of Directors established a program called the 'Temporary Liquidity Guarantee Program' (TLGP). This program was designed to assist in the stabilization of the nation's financial system. Under the Transaction Account Guarantee (TAG) program, a component of the TLGP, the FDIC guarantees all funds held in qualifying noninterest bearing transaction accounts at participating insured depository institutions. Effective June 22, 2010, an amendment to the 12 CFR 370, in part, extended the TAG program until December 31, 2010, with the possibility of an additional extension of up to 12 months upon the determination by the FDIC's Board of Directors. Pursuant to the Dodd-Frank Provision, all funds in noninterest bearing accounts are insured in full by the FDIC from December 31, 2010 through December 31, 2012. Excluding the foreign cash deposits, the remaining custodial bank cash deposits are fully insured by the FDIC. The MTRP interest bearing checking account for the direct real estate investments is insured by the FDIC up to $250,000. BOI does not have a policy addressing deposit custodial risk.

Investments

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

Concentration of Credit Risk

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Bond Pools' duration is to remain within 20% of the established Index duration. In accordance with GASB Statement No. 40, BOI uses effective duration as a measure of interest rate risk for the Bond Pool portfolios. BOI's analytic software uses "an option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is defined as the average percentage change in a bond's price for a given change in interest rates. Prices move inversely to interest rates. The effective duration method incorporates the effect of embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-through securities, CMO, and ARM securities)."

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

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

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

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

Legal Risk
As of June 30, 2011, BOI was not aware of any legal risks regarding investments.

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

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

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

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

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

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

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

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

	Change in Fair Value		Fair Value at June 30, 2011		
Investment Derivatives	Classification	Amount	Classification	Amount	Notional
Currency forward contracts	Investment Revenue	$ (2,290)	LT debt/equity	$ (382)	38,567
Index futures long	Investment Revenue	1,623	Futures	-	5
Index futures short	Investment Revenue	6			
Rights	Investment Revenue	455	Equity	-	-
Warrants	Investment Revenue	22	Equity	-	-
Total derivatives		$ (184)		$ (382)	

A foreign currency forward is a contract to purchase one currency and sell another at an agreed upon exchange rate. Fair value represents the unrealized appreciation/depreciation on foreign currency forward transactions pending as of June 30, 2011, and is the difference between the execution exchange rate at and the prevailing exchange rate as of the report date. An index futures long is an agreement to buy, on a stipulated future date, a specific amount of an indexed financial instrument. Rights represent a privilege granted to existing shareholders to subscribe to shares of a certain security at a specified price. Warrants are a security type, usually issued together with a bond or preferred stock, entitling the owner to purchase additional securities from the issuer.

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

Foreign Currency Risk

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

Foreign Currency Exposure by Country

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

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

Counterparty Credit Rating

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

D. Investments

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

Long-term Investments

Department	Percent Administered
Board of Investments	67.21%
PERA (Public Employee Retirement Administration)	19.98
Board of Housing	6.08
College Savings Plan	4.39
Montana State University/University of Montana	1.15
Other (1)	1.19
Total	100.00%

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

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

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

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

Table 4 – Investments
(in thousands)

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

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

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

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

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

(1) These rated securities are reported on both Table 2 – Cash Equivalents and Table 4 – Investments.
(2) The US Bank repurchase agreement, per contract, was collateralized at 102% for $15,379,417 by one Federal Home Loan Mortgage Corporation Gold security maturing December 1, 2029. This security carries AAA credit quality rating.

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

Credit Risk
Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Of the 19 individual Investment Policy Statements for the funds categorized as the AOF, eight funds have specific policies associated with credit risk. The remaining funds have no policy addressing credit risk. Two funds require "corporate securities be rated A3/A- or higher by Moody's/S&P rating agencies to qualify for purchase." One fund requires fixed income investments, at the time of purchase, to be rated investment grade as defined either by Moody's or by Standard & Poor's (S&P) rating services. The investment policy, revised in May 2010, states "the maximum fixed income credit risk will be limited to 2% of the total securities portfolio in any one name". Five funds require, at the time of purchase, "the quality rate of any corporate bond shall be in the top of the single-A rating classification or better at the time of purchase (eg. A1/A+ or higher) and have at least two ratings. Exposure to the securities of any one U.S. Agency is limited to 5% and in no event will an agency security be purchased if it carries a rating that is less than top-rated (AAA) at the time of purchase."

On September 14, 2008, Lehman Brothers filed for Chapter 11 bankruptcy. The Bond Pool, Investment Pool and AOF portfolios held a $15 million position in Lehman Brothers Holdings, Inc., variable rate security with a May 25, 2010 maturity. The AOF portfolio also includes a $5 million position in Lehman Brothers Holdings, Inc., 5% rate, and January 14, 2011 maturity. As of September 30, 2008, the book value of these bond positions was written down to 80% of par. On October 30, 2008, the book value of these bonds was further written down to 65% of par. Four additional write downs occurred during fiscal year 2009. As of June 30, 2011, the book value of these bonds represents 20% of par. Refer to Note 17 – Subsequent Events for additional information.

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

Concentration of Credit Risk

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

With the exception of seven funds, the 19 investment policy statements for various AOF state agencies do not address concentration of credit risk. One fund provides for a concentration limitation pertaining to repurchase obligations. The policy for another fund states, "the fixed income holdings rated lower than 'A3 or A- are limited to 25 percent of the fixed income portfolio at the time of purchase. This same fund is limited to stock investments not to exceed 25 percent of the book value of its total invested assets. In addition, this fund's IPS provides for a 2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities." The policy for five funds sets "investment limits to reduce the risk of loss on individual corporate bonds, investment purchases in any one credit will be limited to 1% of the market value of the fund at the date of purchase or 2% of the lowest projected fund balance before the securities mature, whichever is lower. Limits are also set by corporate bond sector for these five funds." Investments by various governmental agencies, pooled as the All Other Funds, are excluded from the concentration of credit risk requirement.

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

Interest Rate Risk

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

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

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

As of fiscal year end, the AOF portfolio held one $10 million par synthetic Collateralized Debt Obligations (CDO) variable rate position in Aria II, 0.00%, 10/10/2012. Although the current interest rate is zero, the variable rate is set to float with the six month LIBOR plus a variable spread on a notional amount percent. A CDO is a structured debt security backed by a portfolio consisting of bonds, loans, synthetic instruments or other structured finance securities issued by a variety of corporate or sovereign obligors. The CDO positions are categorized as rated corporate debt.

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

Legal Risk

As of June 30, 2011, there were no known legal risks regarding investments.

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE

A disaggregation of the net receivables and accounts payable (by fund type) as of June 30, 2011, follows (amounts in thousands):

A. Receivables

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

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

B. Payables

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

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

NOTE 5. CAPITAL ASSETS

A. Primary Government

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

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

(1) The increases and decreases noted above include adjustments related to prior periods and corrections of errors.
(2) Beginning balance has been adjusted due to footing error in prior year.

Primary Government *(continued)*

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Business-type activities				
Capital assets not being depreciated:				
Land	$ 800	$ -	$ -	$ 800
Construction Work In Progress	1,537	1,265	(99)	2,703
Other (2)	-	3,206	-	3,206
Total Capital Assets not being depreciated	2,337	4,471	(99)	6,709
Capital assets being depreciated:				
Infrastructure	915	36	-	951
Land Improvements	3,830	-	-	3,830
Buildings/Improvements	7,454	-	-	7,454
Equipment	7,297	1,093	(20)	8,370
Other (2)	3,145	-	(3,145)	-
Total Capital Assets being depreciated	22,641	1,129	(3,165)	20,605
Less Accumulated Depreciation for:				
Infrastructure	(594)	(17)	-	(611)
Land Improvements	(723)	(149)	-	(872)
Buildings/Improvements	(4,744)	(182)	-	(4,926)
Equipment	(4,459)	(590)	56	(4,993)
Other Fixed Assets	(15)	-	15	-
Total accumulated depreciation	(10,535)	(938)	71	(11,402)
Total capital assets being depreciated net	12,106	191	(3,094)	9,203
Intangible Assets	91	15	(55)	51
Business Type activities capital assets net	$ 14,534	$ 4,677	$ (3,248)	$ 15,963

(1) The increases and decreases noted above include adjustments related to prior periods and corrections of errors.
(2) Balance was moved from depreciable to not depreciable for Capital Livestock that is deemed not depreciable.

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

	Amount
General Government	$ 11,299
Public Safety/Corrections	6,857
Transportation (including depreciation of the highway system maintained by the state)	219,820
Health/Social Services	1,868
Educational/Cultural	692
Resource Development/Recreation (including depreciation of the state's dams)	9,686
Depreciation and amortization on capital assets held by the States internal service funds is charged to the various functions based on their usage of the assets.	297
Total depreciation expense - governmental activities	$ 250,519

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

	Amount
Liquor Stores	$ 109
State Lottery	323
Other Enterprise Funds	223
Prison Funds	283
Total Depreciation Expense - Business-Type Activities	$ 938

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

B. Discretely Presented Component Units

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

	Montana State University	University of Montana	Other	Total
Capital assets not being depreciated:				
Land	$ 6,933	$ 7,817	$ 1,139	$ 15,889
Construction Work In Progress	12,095	30,463	500	43,058
Capitalized Collections	8,320	17,430	-	25,750
Livestock for educational purposes	3,112	-	-	3,112
Total Capital Assets not being depreciated	30,460	55,710	1,639	87,809
Capital assets being depreciated:				
Infrastructure	34,836	6,770	-	41,606
Land Improvements	17,427	12,884	-	30,311
Buildings/Improvements	470,745	480,141	27,941	978,827
Equipment	133,701	68,281	7,199	209,181
Livestock	-	17	-	17
Library Books	64,912	56,341	-	121,253
Total Capital Assets being depreciated	721,621	624,434	35,140	1,381,195
Total accumulated depreciation	(395,376)	(327,124)	(4,404)	(726,904)
Total Capital Assets being depreciated net	326,245	297,310	30,736	654,291
Intangible Assets	883	2,051	2,348	5,282
MSU Component Unit Capital Assets, net	11,846	-	-	11,846
UM Component Unit Capital Assets, net	-	4,120	-	4,120
Discretely Presented Component Units Capital Assets, net	$ 369,434	$ 359,191	$ 34,723	$ 763,348

NOTE 6. RETIREMENT PLANS

A. General

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

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

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

B. Plan Descriptions

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

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

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

C. Public Employee Defined Benefit Retirement Plans.

(1) State as the Single Employer
A summary of government employees participating in JRS and HPORS by employer type at June 30, 2011, follows:

Employers	JRS	HPORS
State agencies	1	1
Total	1	1

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

HPORS – Highway Patrol Officers' Retirement System – HPORS is a single-employer, defined benefit pension plan, established July 1, 1971 and governed by Title 19, chapters 2 & 6 of the MCA. This system provides retirement benefits for all members of the Montana Highway Patrol, including supervisory personnel. Eligible members, retired prior to July 1, 1991, or their survivors may be eligible for an annual supplemental lump-sum payment distributed each September. Many factors must be considered for eligibility, including the number of years the recipient has received a service retirement or disability benefit, the recipient's age, and whether the recipient is employed in a position covered by a retirement system under Title 19. This lump-sum payment is funded by a portion of the fees collected from drivers' license and duplicate drivers' license application fees requested by the PERB from the general fund. The average annual supplemental payment for non-GABA retirees was $2,678 in September 2010. This enhancement is limited to non-GABA (Guaranteed Annual Benefit Adjustment) retirees.

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

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

A summary of government employers participating in PERS-DBRP, SRS, GWPORS, MPORS, FURS,, and TRS by employer type at June 30, 2011, follows:

Employers	PERS-DBRP	SRS	GWPORS	MPORS	FURS	TRS
State agencies	34	1	4		1	9
Counties	55	56				
Cities/towns	97			31	16	
Rural Fire Districts					7	
Colleges/universities	5		3			5
Highs School	6					
School districts	231					351
Other Agencies	105					
Total	533	57	7	31	24	365

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

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on an actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. As of June 30, 2011, the statutory contribution rates are not sufficient to amortize the unfunded actuarial accrued liability in 30 years or less.

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

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on an actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. As of June 30, 2011, the statutory contribution rates are not sufficient to amortize the unfunded actuarial accrued liability in 30 years or less.

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

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on an actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate, plus an amortization payment of the unfunded actuarial liability, if any over no more than 30 years. As of June 30, 2011, the statutory contribution rates are not sufficient to amortize the unfunded actuarial accrued liability in 30 years or less.

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

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

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

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

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

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will amortize over 71 years. The plan's actuary has determined that as of July 1, 2011, the current employer contribution rate of 9.85% plus the General Fund contribution of 2.49% of members' salaries are not sufficient to meet the actuarial cost. The unfunded actuarial accrued liability of $1.792.1 billion is included in the retirement plan's schedule of funding progress

D. Public Employee Defined Contribution Retirement Plans

A summary of government employers participating in the PERS-DCRP and Deferred Compensation plans by employer type at June 30, 2011 follows:

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

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

All new hires initially are members of the Public Employees Retirement System - Defined Benefit Retirement Plan (PERS-DBRP). New hires have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the current PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The choice is irrevocable. Members of the defined contribution retirement plan direct their contributions and a portion of their employer's contributions among the offered investment options. The remaining portion of their employer's contributions is to be used to reduce the Plan Choice Rate unfunded actuarial liability, to fund the long-term disability benefits to participants of the DCRP, and to fund an employee education program. The employer and employee plan contributions as of June 30, 2011, were $3.9 million and $6.1 million, respectively.

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

The Deferred Compensation plan is a voluntary, supplemental retirement savings plan. Assets of the 457 Deferred Compensation plan are required to be held in trusts, custodial accounts, or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Participants elect to defer a portion of their salary, within IRC limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed provided IRC-specified criteria are met. Participant rights are fully vested in their accounts at the time of deposit. The employer and employee plan contributions as of June 30, 2011, were $63 thousand and $19.1 million, respectively.

E. Optional Retirement Program

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

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education sub-fund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire-transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF.

Required employee contributions were 7.03% of salary; required employer contributions were 5.83% of salary, for a total of 12.86% of salary contributed to the ORP (refer to the following table).

	TIAA-CREF *(in thousands)*
Covered payroll	$200,855
Total payroll	370,175
Employer contributions	$ 11,716
Percent of covered payroll	5.83%
Employee contributions	$ 14,116
Percent of covered payroll	7.03%

F. Summary of Significant Accounting Policies

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

G. Method Used to Value Investments

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

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

H. Long-term Contracts for Contributions

The Montana Legislature enacted a provision of the Employee Protection Act (EPA) (Title 19, Chapter 2, Part 706, MCA), related to the Employee Protection Act, allowing state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their employer pay a portion of the total cost of purchasing up to three years of "1-for -5"additional service. The employees participating under section 19-2-706, MCA increased from 199 in fiscal year 2010 to 209 in fiscal year 2011.

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

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

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

Pension Plan Information
Single Employer Systems

	JRS	HPORS
Contributions (in thousands)		
Employer	$1,477	$4,542
Employee	479	1,268
License and registration fees		278
Actuarial valuation date	6/30/2011	6/30/2011
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of payroll open	Level percentage of payroll open
Remaining amortization period	0	48.2 years
Asset valuation method	4-year smoothed market	4-year smoothed market
Actuarial assumptions:		
Investment rate of return	7.75%	7.75%
Projected salary increases	4.00%	4.00%
includes inflation factor	3.00%	3.00%
Merit	None	0%-7.3%
Benefit adjustments		
GABA	3% after 1 year	3% after 1 year
Non-GABA	Biennial increase to salary of active member in like position	2% per year of service, not to exceed 60% of probationary officer's base salary and the increase may not exceed 5% of the current benefit.

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

Schedule of Contribution Rates
Fiscal Year 2011

Plan	Member	Employer	State
PERS-DBRP	**6.9%** for members hired prior to 7/1/ 2011. **7.9%** for members hired after 07/1/ 2011 [19-3-315, MCA]	**7.17%** State & University **7.07%** Local Governments **6.8%** School Districts (K-12) [19-3-316, MCA]	**0.1%** Local Government payroll - paid from the General Fund [19-3-319, MCA] **0.37%** School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]
MPORS	**7.0%** - hired after 6/30/1975 & prior to 7/1/1979 & not electing GABA [19-9-710(b), MCA] **8.5%** - hired after 6/30/1979 & prior to 7/1/1997 & not electing GABA [19-9-710(c), MCA] **9.0%** - hired after 6/30/1997 & members electing GABA [19-9-710(d), MCA] & 19-9-710(2), MCA]	**14.41%** [19-9-703, MCA]	**29.37%** of salaries - paid from the General Fund [19-9-702, MCA]
FURS	**9.5%** - hired prior to 7/1/1997 & not electing GABA [19-13-601(2)(a), MCA] **10.7%** - hired after 6/30/1997 & members electing GABA [19-13-601(2)(b), MCA]	**14.36%** [19-13-605, MCA]	**32.61%** of salaries - paid from the General Fund [19-13-604, MCA]
SRS	**9.245%** [19-7-403, MCA]	**10.115%** [19-7-404, MCA]	
HPORS	**9.0%** - hired prior to 7/1/1997 & not electing GABA **9.05%** - hired after 6/30/1997 & members electing GABA [19-6-402, MCA]	**26.15%** [19-6-404(1), MCA] **10.18%** of salaries - paid from the General Fund [19-6-404(2), MCA]	
JRS	**7.0%** [19-5-402, MCA]	**25.81%** [19-5-404, MCA]	
GWPORS	**10.56%** [19-8-502, MCA]	**9.0%** [19-8-504, MCA]	
VFCA			**5.0%** of fire insurance premiums - paid from the General Fund [19-17-301, MCA]
PERS-DCRP	**6.9%** for members hired prior to 7/1/2011. **7.9%** for members hired on or after 7/1/2011. [19-3-315, MCA]	**7.17%** State & University **7.07%** Local Governments **6.8%** School Districts (K-12) [19-3-316, MCA]	**0.1%** Local Government payroll - paid from the General Fund **0.37%** School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]
TRS	**7.15%** [19-20-602, MCA]	[**9.85%** State & University [19-20-605, MCA]	**0.11%** of members' salaries [19-20-604, MCA] **2.38%** contribution of the total earned compensation of school district and community college active members [19-20-607, MCA]

Pension Plan Information
Schedules of Funding Progress
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
			Single Employer Systems			
JRS (1)						
6/30/2011	61,274	43,414	(17,860)	141.13%	5,645	(316.38)%
HPORS (1)						
6/30/2011	95,274	155,742	60,468	61.17%	12,472	484.83%
			Multiple Employer Systems			
PERS-DBRP						
6/30/2011	3,800,479	5,410,144	1,609,665	70.25%	1,071,376	150.24%
SRS						
6/30/2011	203,689	266,506	62,817	76.43%	57,041	110.12%
GWPORS						
6/30/2011	90,437	119,881	29,444	75.44%	38,306	76.87%
MPORS						
6/30/2011	221,669	401,381	179,712	55.23%	39,470	455.30%
FURS						
6/30/2011	219,959	355,188	135,229	61.93%	34,852	388.01%
TRS						
7/1/2011	2,866,500	4,658,600	1,792,100	61.50%	746,700	240.00%
			Nonemployer Contributor			
VFCA						
6/30/2011	26,183	35,195	9,012	74.39%	N/A	N/A

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

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

System	Fiscal Year Ended June 30	Annual Required Contributions	Percentage Contributed	Annual Required State Contribution	Percentage Contributed
SINGLE EMPLOYER SYSTEMS:					
JRS (1)	2011	38,387	3,846.97%		
HPORS	2009	2,501	(165.97%)	286	100.00%
	2010	3,404	139.93%	287	100.00%
	2011	3,926	115.69%	278	100.00%
MULTIPLE EMPLOYER SYSTEMS:					
PERS-DBRP	2009	99,314	76.35%	357	100.00%
	2010	132,004	60.46%	537	100.00%
	2011	144,957	54.56%	546	100.00%
SRS	2009	6,507	79.81%		
	2010	7,735	72.88%		
	2011	8,747	68.75%		
GWPORS	2009	3,491	94.31%		
	2010	4,918	73.45%		
	2011	4,903	71.85%		
MPORS	2009	3,455	146.35%	10,186	100.00%
	2010	3,897	176.04%	10,932	100.00%
	2011	4,626	122.58%	11,594	100.00%
FURS	2009	118	3,852.37%	9,831	100.00%
	2010	850	603.77%	10,871	100.00%
	2011	1,342	373.29%	11,365	100.00%
VFCA –	2009			1,580	100.00%
(Nonemployer	2010			1,575	100.00%
Contributor)	2011			1,596	100.00%
TRS (2)	2009	80,998	100.00%		
	2010	90,947	98.30%		
	2011	91,859	98.30%		

(1) The actuarial value of assets is greater than the actuarial accrued liabilities for FY2007 - FY2010. The funding excess are large enough so that the sum of normal cost and the amortization of the funding excess is negative. Common actuarial practice is to set the ARC at zero. (No employer contribution would be required for these years.)
(2) The actuary valuations for 2009 changed as a result of using a new actuary in 2010.

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

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
PERS-DBRP	Hired prior to 7/1/ 2011 - highest monthly compensation during any consecutive 36 months; Hired on or after 07/1/ 2011 - highest average compensation during any consecutive 60 months.	Hired prior to 7/1/2011: Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service. Hired on or after 7/1/ 2011: Age 65, 5 years of membership service; Age 70, regardless of membership service.	5 years membership service
MPORS	Hired prior to 7/1/1977 – average monthly compensation of final year of service; hired on or after 7/1/1977 – final average compensation (FAC) for last consecutive 36 months	Normal retirement 20 years, regardless of age; Early retirement : age 50, 5 years of service	5 years membership service
FURS	Hired prior to 7/1/1981 and not electing GABA – highest monthly compensation (HMC); hired on or after 7/1/81 and those electing GABA – (HMC) during any consecutive 36 months	Normal retirement; 20 years, regardless of age; Early retirement age 50, 5 years of service, actuarially reduced	5 years membership service
SRS	Hired prior to 7/1/2011 - highest average compensation during any consecutive 36 months; hired on or after 7/1/2011 -highest average compensation during any consecutive 60 months	Normal retirement; 20 years regardless of age; Early retirement, age 50, 5 years of service, actuarially reduced	5 years membership service
HPORS	Highest average compensation during any consecutive 36 months	Normal retirement; 20 years of membership service regardless of age; Early retirement, 5 years of membership service, actuarially reduced from age 60	5 years membership service
JRS	Hired prior to 7/1/1997 and non-GABA prior to 1/1/1988 or 12/1/2005 – monthly compensation at time of retirement; hired on or after 7/1/1997 or electing GABA prior to 1/1/1988 or 12/1/2005 – HAC during any consecutive 36 months (relates directly to monthly benefit formula)	Normal retirement, Age 60, 5 years of membership service; Involuntary retirement any age with 5 years of membership service – involuntary termination, actuarially reduced	5 years membership service
GWPORS	Hired prior to 7/1/2011 - highest average compensation during any consecutive 36 months; hired on or after 7/1/2011 -highest average compensation during any consecutive 60 months	Normal retirement, age 50, 20 years of membership service; Early retirement (reduced benefit), age 55, vested members who terminate employment prior to 20 years of membership service	5 years membership service

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

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
VFCA		Normal retirement Age 55, 20 years of credited service (full benefit); age 60, 10 years of credited service (partial benefit). Additional benefits: members who retire after 4/25/2005with greater than 20 years of credited service (with a maximum of 30 years) may receive additional benefits (maximum benefit $225). Members who retire on or after 7/1/2011 and have greater than 30 years of credited service will receive $7.50 per month for each additional year of credited service after 30 years if the pension trust fund is actuarially sound, amortizing any unfunded liabilities in 20 years or less. This determination will be made annually and a member's benefit will remain capped at $225 a month (30 years of credited service) if the amortization period grows to greater than 20 years.	10 years of credited service
TRS	Final average compensation during any consecutive 3 years.	Age 60, 5 years of service, or any age with at least 25 years of service. Vested employees may retire at or after age 50 and receive reduced benefits.	5 years of membership service

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
PERS-DBRP	(i) If less than 25 years of membership service, the greater of (a) 1/56 of HAC multiplied by years of service credit, or (b) the actuarial equivalent of double the member's regular contributions plus interest plus the actuarial equivalent of any additional contributions plus interest. (ii) If 25 years of membership service or more, (a) 1/50 of HAC multiplied by years of service credit or (b) the actuarial equivalent of double the member's regular contributions plus interest plus the actuarial equivalent of any additional contributions plus interest. 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	For retired members who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to (i) 3% for members hired before July 1, 2007 and (ii) 1.5% for members hired on or after July 1, 2007.	

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

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
MPORS	Hired before, July 1, 1977, 2.5% of average monthly compensation of final year of service multiplied by years of service credit. Hired on or after , July 1, 1977, 2.5% of FAC multiplied by years of service credit	Hired after June 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	If hired before July 1, 1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 1/2 the compensation of a newly confirmed police officer in the current fiscal year in the city or town from which the member was last employed.
FURS	Members hired prior to July 1, 1981 and not electing GABA are entitled to the greater of: 2.5% of HAC times year of service credit; or (1) if less than 20 years of service, 2% of HMC times year of service credit; or (2) if more than 20 years of service, 50% of the member's HMC plus years of service in excess of 20 times HMC times 2.0%. Members hired after 6/30/1981 and those electing GABA receive 2.5% of HAC per year of service credit.	For retired members who became active members on or after July 1, 1997 and those who elected to be covered under this provision and who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to 3%	For retired members who were hired prior to July 1,1997and who did not elect GABA, the minimum monthly benefit is provided equal to 50% of the current base compensation of a newly confirmed active firefighter of the employer that last employed the member as a firefighter.
SRS	2.5% of HAC per year of service credit	For retired members who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment GABA equal to (i) 3% for members hired before July 1, 2007 and (ii) 1.5% for members hired on or after July 1, 2007..	
HPORS	2.5% of HAC per year of service	For retired members who became active members on or after July 1, 1997 and those who elected to be covered under this provision and who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to 3%	For retired members who were hired prior to July, 1 1997 and who did not elect GABA, the minimum monthly benefit provided is equal to 2% times service credits multiplied by the current base compensation of a probationary highway patrol officer. Such benefits may not exceed 60% of the current base compensation of a probationary highway patrol officer and the increase may not exceed 5% of the current benefit. For non-GABA members who retired prior to July, 1 1991, and meet eligibility requirements, a lump sum payment will be made each year based on the increase in the Consumer price Index
JRS	3.1/3% per year of current salary or highest average compensation for the first 15 years of service credit and 1.785% per year of the current salary or highest average compensation for serve credit over 15 years	For retired members who became active members on and after July 1, 1997 and those who elected to be covered under this provision and who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to 3%	For retired members who were hired prior to July 1, 1997, and who did not elect GABA, the current salary of an active member in the same position is used to recalculate the monthly benefits

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

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
GWPORS	2.5% of HAC times year of service credit	For retired members who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to (i) 3% for members hired before July 1, 2007 and (ii) 1.5% for members hired on or after July 1, 2007	
VFCA	$7.50 per month for each year of service credit, but not exceeding 30 years. Age 55 with 20 years of service credit or age 60 with 10 years of service credit.		
TRS	1.6667% of average final compensation (AFC) per year of service	A guaranteed annual benefit adjustment (GABA) of 1.5% is payable each January if the retiree has received at least 36 monthly retirement benefit payments prior to January 1 of the year in which the adjustment is to be made.	

Changes Since Last Valuation

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

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General

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

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

B. Plan Description

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

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

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

C. Basis of Accounting

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

The plan document states "an employee enrolled in the State Plan who (a) is eligible to draw a state retirement benefit at the time he or she leaves active state employment; and (b) makes arrangements with the EBB (Employee Benefits Bureau) within 60 days of the date active employee coverage ends to continue post-retirement coverage, may continue with the state group on a self-pay basis, retroactive back to the date active employee coverage was lost." Therefore, the plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2011.

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

State Plan Participants

Enrollment	State	Facility Finance Authority	Housing Authority	PERS	Montana State Fund (New Fund)	TRS	Total
Active employees	12,329	3	21	34	274	16	12,677
Retired employees, spouses, and surviving spouses (1)	5,097	1	8	12	110	6	5,234
Total	17,426	4	29	46	384	22	17,911

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

The number of MUS participants as of June 30, 2011 follows:

MUS Plan Participants

Enrollment	MSU-Billings	MSU-Bozeman	MSU-GFCOT	MSU-Northern	OCHE	UM-HCOT	UM-Missoula	UM-MT Tech	UM-Western	Other	Total
Active employees	482	2,771	115	199	86	80	2,345	396	174	319	6,967
Retired employees, spouses, and surviving spouses	177	923	21	105	29	29	844	143	63	77	2,411
Total	659	3,694	136	304	115	109	3,189	539	237	396	9,378

D. Funding Policy

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

As of June 2011, the State plan's administratively established retiree medical premiums vary between $285 and $982 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between $34.90 and $59.36 and vision premiums vary between $7.64 and $22.26 depending on the coverage selected.

The MUS plan's administratively established retiree medical premiums vary between $263 and $982 per month and are revised annually. The plan provides different coinsurance amounts depending on whether members use preferred, non-preferred, or other hospitals. After an annual $650 deductible for most non-Medicare-eligible retirees, the MUS plan reimburses 75% for the first $1,300 in medical claims and 100% thereafter. There is an optional $1,500 deductible plan available to retirees with a reduced premium. After the $1,500 annual deductible, the plan pays 75% of the first $3,000 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2011, 1,372 retirees (policyholders) were enrolled in the MUS plan.

E. Annual Other Postemployment Benefit Cost and Contributions

The annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45, represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The current State's ARC of $33.986 million is 6.24% of annual covered payroll. The State's annual covered payroll is $544.497 million. The current MUS's ARC of $19.290 million is 5.03% of annual covered payroll. The MUS's annual covered payroll is $383.487 million.

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

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

Annual OPEB Cost

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

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

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2011 through 2008 was as follows (in thousands):

Contribution Ratio

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State	6/30/2011	$33,986	0%	$161,652
	6/30/2010	33,986	0%	122,462
	6/30/2009	41,551	0%	84,869
	6/30/2008	41,551	0%	41,551
MUS	6/30/2011	19,290	0%	77,875
	6/30/2010	19,290	0%	56,196
	6/30/2009	17,332	0%	35,401
	6/30/2008	17,332	0%	17,332

F. Actuarial Methods and Assumptions

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

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

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

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

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

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

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

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

G. Termination Benefits

During the year ended June 30, 2011, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for four employees provided for up to six months and one-time incentive payments for eight employees, including payments to the retirement service purchase program. In determining termination benefit liability related to the continued coverage of group health insurance benefits, it was assumed that these benefits would be paid for the entire period of the arrangement.

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

During the year ended June 30, 2011, the cost of termination benefits was $117,167 and $122,479 for the State and its Component Units, respectively.

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

Other Postemployment Benefits
State Agent Multiple Employer Plan

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands)		
Before Medicare eligibility	$7,120	$2,146
After Medicare eligibility	2,741	1,956

Actuarial valuation date	1/1/2009 (ARC calculated through December 31, 2009)
Actuarial cost method	Projected unit credit funding
Amortization method	Level percent of payroll, open
Remaining amortization period	30 years
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 43 or 45
Actuarial assumptions:	
Discount rate	4.25%
Projected payroll increases	2.50%

Other Postemployment Benefits
State Agent Multiple Employer Plan

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

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

Other Postemployment Benefits
MUS Agent Multiple Employer Plan

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands)		
Before Medicare eligibility	$5,611	$1,777
After Medicare eligibility	3,059	1,297
Actuarial valuation date	7/1/2009 (ARC Calculated through June 30, 2010)	
Actuarial cost method	Projected unit credit funding	
Amortization method	Level percent of payroll, open	
Remaining amortization period	30 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 43 or 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	2.50%	
Participation		
Future retirees	55%	
Future eligible spouses	60%	
Marital status at retirement	70%	

NOTE 8. RISK MANAGEMENT

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

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 1,941 policies during the 2011 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

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

The fund recorded a liability of $164,440 based on estimated claims through June 30, 2011. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Montana University System (MUS) Group Insurance Plan – This plan was authorized by the Board of Regents to provide medical, dental, prescription drug and related group benefits coverage to employees of the Montana University System and affiliates, as well as their dependents, retirees, and COBRA members. The MUS Group Insurance Plan is fully self-insured, except for life insurance, long-term care, long-term disability, accidental death and dismemberment, and vision insurance. Delta Dental administers the dental plan and MedImpact is the administrator for the prescription drug program. Allegiance Benefit Plan Management is the claims administrator for the self-insured indemnity plan and a managed care plan. New West Health Services, Blue Cross and Blue Shield of Montana, and Peak Health administer claims for the three other managed care plans. Allegiance has a contract for utilization management; the utilization management program consists of hospital pre-authorization and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund. The claims liability is calculated by Actuaries Northwest and estimated to be $7.600 million as of June 30, 2011, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Montana University System (MUS) Workers Compensation Program – This program was formed to provide self-insured workers compensation coverage for employees of the Montana University System. The Montana University System Board of Regents provides workers compensation coverage under Compensation Plan Number One (Title 39, Chapter 71, Part 2101, MCA). The program is self-insured for workers compensation claims to a maximum of $500,000 per each occurrence; $1,000,000 maximum per each aircraft related occurrence. Losses in excess of $500,000/$1,000,000 are covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of $1,000,000 above the self-insured amount of $500,000. During fiscal year 2011, the program ceded $250,215 in premiums to reinsurers.

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

The fund recorded a liability of $9.784 million for estimated claims at June 30, 2011. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, and claims reserve development including the effects of inflation and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

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

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

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding fiscal year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis total population of registered Subsequent Injury Fund participants. As of June 30, 2011, the amount of this liability was estimated to be $3.351 million. Since each insurer is responsible for its own claim liabilities, the pool is acting as a claims service and there is no transfer or pooling of risk.

(5) Montana State Fund (New Fund) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990. The New Fund is a self-supporting, competitive State fund, and functions as the guaranteed market. At June 30, 2011, approximately 24,780 employers were insured with the New Fund. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Towers Watson, as of June 30, 2011, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Due to the fact that actual claim costs depend on such complex factors as inflation and changes in the law claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques in order to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

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

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. New Fund acquisition costs are capitalized and amortized ratably over the subsequent year. The amount of capitalized acquisition costs for the fiscal year ended June 30, 2011, was $4.2 million.

MCA 39-71-2311 requires the New Fund set premiums at least annually at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. It also requires the New Fund to establish a minimum surplus above risk-based capital requirements to support the New Fund against risks inherent in the business of insurance.

For the fiscal year ended June 30, 2011, the New Fund ceded premiums to other reinsurance companies to limit the exposure arising from large losses. These arrangements consist of excess of loss contracts that protect against individual occurrences over stipulated amounts, and an aggregate stop loss contract which protects the New Fund against the potential that aggregate losses will exceed expected levels expressed as a percentage of premium. For fiscal year 2011, the excess of loss contract provides coverage up to $100 million in which New Fund retains the first $5 million for the first layer of reinsurance coverage. The excess of loss protection applies to an individual occurrence with the maximum of $5 million on any one life.

The term of the current aggregate stop loss contract was July 1, 2008 through June 30, 2011. The contract provides coverage based on the New Fund's premium levels not to exceed 15% of the subject net earned premium. In the event reinsurers are unable to meet their obligations, under either the excess of loss contracts or the aggregate stop loss contract, the New fund would remain liable for all losses, as the reinsurance agreements do not discharge the New Fund from its primary liability to the policyholders.

Premium revenue was reduced by premiums paid for reinsurance coverage of $11.3 million in fiscal year 2011.

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

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

An actuarial study prepared by Towers Watson, as of June 30, 2011, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. At June 30, 2011, $64.621 million of unpaid claims and claim adjustment expenses were reported at face value. The liability presented on a discounted basis would be $52.9 million, assuming that the Old Fund were to acquire a large sum that could be invested to support the liability and discount the payable at a rate of 2.5% (approximating current market rates).

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

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

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

B. Entities Other Than Pools

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

(2) Administration Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure of housing units. The State self-insures the $500,000 deductible per occurrence for most property insurance, as well as various deductible amounts for other state property. The State also self-insures against losses of property below $500,000 of value, with state agencies paying the first $1,000. Commercial property insurance protects approximately $4.8 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of $500,000 for earthquake and $500,000 for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Internal Service Fund.

An annual actuarial study, prepared by Towers Watson Company, and issued for the accident period July 1, 2001 through June 30, 2011, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2011, estimated claims liability was $17.962 million.

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

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

NOTE 9. COMMITMENTS

A. Highway Construction

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

B. Capital Construction

At June 30, 2011, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $15.6 million for capital projects construction. The primary government will fund $12.9 million of these projects, with the remaining $2.7 million coming from the state university system.

C. Coal Tax Loan and Mortgage Commitments

The Board of Investments (BOI) makes firm commitments to fund loans from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to BOI policies. As of June 30, 2011, the BOI had committed, but not yet purchased, $15,834,799 in loans from Montana lenders, compared to $28,712,720 as of June 30, 2010. In addition to the above commitments, lenders had reserved $8,189,839 for loans as of June 30, 2011, compared to $24,002,450 on the same date in 2010.

The BOI makes reservations to fund mortgages from the state's pension funds. Prior to May 1, 2011, the Public Employees' and Teachers' retirement funds provided resources for residential mortgage purchases. Effective May 1, 2011, the Montana Retirement Funds Bond Pool holds the residential mortgages in its portfolio. As of June 30, 2011 and 2010, there were no mortgage reservations. Effective December 1, 2005, all BOI residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a mortgage reservation and a funding commitment.

D. Department of Corrections Bond Commitments

At June 30, 2011, the outstanding tax-exempt bonds issued by the Montana Facility Authority were issued in the amount of $29,521,533. These bonds have been issued to facilities operating treatment and prerelease centers. The Department of Corrections agrees to provide payment on behalf of the contractors for the total principal and interest payments in regard to these outstanding bonds.

E. Proprietary Fund Commitments

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

Proprietary Fund Commitments

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

F. Encumbrances

As of June 30, 2011, the State of Montana encumbered expenditures as presented by in the table below (in thousands):

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Nonmajor Governmental Funds	Total
Encumbrances	$ 24,595	$ 60,703	$ 28,426	$ 832	$ 114,556

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

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

A. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2011, were as follows (in thousands):

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

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

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

B. Operating Leases

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

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

NOTE 11. STATE DEBT

A. General Information

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

B. Short-term Debt

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

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

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

The Board of Investments (BOI) of the State of Montana is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than $190 million as amended by the 2007 Legislature. The purpose of the bonds is to provide funds for the BOI to make loans to eligible government units. The bonds are limited obligations of the BOI, payable solely from (1) repayments of principal and interest on loans made by the BOI to participating eligible governmental units, (2) investment income under the indenture, and (3) an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and are included in short-term debt. The amounts issued and outstanding at June 30, 2011, were as follows (in thousands):

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

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

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

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2011, were as follows (in thousands):

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

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

(1) The interest range is over the life of the obligation.

(2) Year of maturity refers to fiscal year.

(3) These bonds provide matching funds to enable the State to obtain capitalization grants from the U.S Environmental Protection Agency for water system development loans to state political subdivisions.

(4) The general obligation Renewable Resource Program Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. The bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.

(5) Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.8

(6) The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42

United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA Bonds are secured additionally by a pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event cost recovery payments are insufficient.

(7) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana Developmental Center Project and the Montana State Hospital Project.

(8) Issued by the Department of Natural Resources and Conservation and backed by a pledge of coal severance taxes and project revenues.

(9) The U.S. Highway 93 GARVEES (Grant Anticipation Revenue Vehicles) Bonds were issued for the purpose of improving a 44.8-mile stretch of U.S. Highway 93. Repayment of the bonds is secured by a pledge of certain federal aid revenues.

(10) Loans obtained from Farmers Home Administration for the purpose of acquiring an irrigation (pumping) system for water distribution in the vicinity of Sidney, Montana (Little Dry Project) and to rehabilitate the Petrolia Reservoir and Canal in the vicinity of Winnett, Montana (Petrolia Project). A portion of the revenues generated by the facilities is pledged for repayment of the loans.

(11) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation.

(12) Northern Cheyenne Tribe loan to the Montana Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.

(13) Economic Development Bonds & Municipal Finance Consolidation Act Bonds – This program is directed by the Board of Investments, which is attached to the Department of Commerce for administrative purposes. The program assists Montana's small businesses and local governments in obtaining low-cost financing.

(14) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds, and the interest thereon, are payable solely from the collection of a special tax or assessment, which is a lien against real property in the Irrigation District. The Irrigation Bonds are limited obligations of the Board of Investments, due to an irrevocable pledge to lend money for deposit by the trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein, on any payment date. The indenture does not permit the issuance of additional bonds.

D. Debt Service Requirements

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

Governmental Activities

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

Business-type Activities

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

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

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

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2011, was as follows (in thousands):

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

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

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

Long-term liability activity of discretely presented component units for the year ended June 30, 2011, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Discretely presented component units						
Bonds/notes payable						
Housing Authority	$ 883,386	$ 41,263	$ 141,934	$ 782,715	$136,705	$ 646,010
Montana State University (MSU)	114,070	94	5,136	109,028	5,514	103,514
University of Montana (UM)	129,336	49,256	54,245	124,347	6,197	118,150
Total bonds/notes payable (1)	1,126,792	90,613	201,315	1,016,090	148,416	867,674
Other liabilities						
Lease/installment purch pay	270	324	188	406	149	257
Compensated absences pay	55,240	23,527	24,631	54,136	24,418	29,718
Arbitrage rebate tax payable	809	67	31	845	518	327
Estimated insurance claims	896,759	166,246	123,581	939,424	119,175	820,249
Due to federal government	32,426	240	76	32,590	-	32,590
Derivative swap liability	3,798	82	-	3,880	-	3,880
Reinsurance funds withheld	64,201	10,344	16,657	57,888	-	57,888
OPEB implicit rate subsidy (2)	55,683	21,371	-	77,054	-	77,054
Total other liabilities	1,109,186	222,201	165,164	1,166,223	144,260	1,021,963
	$2,235,978	$312,814	$366,479	$2,182,313	$292,676	$1,889,637
Long-term liabilities of Montana University System component units					14	1,178
Total discretely presented component units Long-term liabilities					$292,690	$1,890,815

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

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

F. Refunded and Early Retired Debt

Primary Government

Prepayments

The Department of Natural Resources and Conservation (DNRC) used current available resources to make the following payments which resulted in the bonds being paid in full: $620,000 of general obligation Series 2003C; $480,000 of special revenue Series 1997B; $255,000 of special revenue Series 2001A.

Current Refundings

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

Defeased Debt Outstanding

The State of Montana has defeased certain general obligation and special revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2011, $67,125,000 of bonds outstanding was considered defeased.

Universities

Defeased Debt Outstanding

The University of Montana has defeased certain bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2011, $86,307,315 of bonds outstanding were considered defeased for the University of Montana.

G. No-Commitment Debt

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

Primary Government

Montana Board of Investments (BOI)

Under the Economic Development Act, the BOI is authorized to issue stand-alone industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. At June 30, 2011, industrial revenue bonds outstanding aggregated $161 million.

The BOI is also authorized to issue Qualified Zone Academy Bonds (QZAB) under the Municipal Finance Consolidation Act. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2011, QZAB debt outstanding aggregated $10.1 million.

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

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

Beginning Farm Loan Program

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

Discretely Presented Component Units

Facility Finance Authority (FFA)

The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana, with the exception of the State Hospital Project included in section C. Long-term Debt of the State Debt footnote, Note 11. At June 30, 2011, revenue bonds outstanding aggregated $1.087 billion, and notes payable outstanding aggregated $22.2 million.

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

Housing Authority (HA)

HA is authorized to issue bonds and make mortgage loans in order to finance housing which will provide decent, safe, and sanitary housing for persons and families of lower income in the State of Montana. The bonds are special, limited obligations, payable solely from pledged revenues and assets, not general obligations of the HA. The bonds issued by the HA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2011, bonds outstanding aggregated $10,398,851.

H. Derivative Transactions Related to Long-term Debt

Montana State University (MSU) has two interest rate swaps as of June 30, 2011. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraph 27 (a) and (b) of Governmental Accounting Standards Board Statement Number 53, or as investment derivative instruments if they do not. The following table summarizes the interest rate swaps outstanding as of June 30, 2011:

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

*Counterparty may opt out in 2016

As of June 30, 2011, the $25.75 million fixed payer swap is classified as a hedging derivative instrument under Statement No. 53, whereas the $25.25 million basis swap is an investment derivative instrument because there is no identified financial risk being hedged by the basis swap that can be expressed in terms of exposure to adverse changes in cash flows or fair values. Statement No. 53 includes four methods for evaluating hedge effectiveness; a governmental entity can use any of the evaluation methods outlined in the Statement and is not limited to using the same method from period to period. The four methods described in Statement No. 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. In addition, Statement No. 53 permits a governmental entity to use other quantitative methods that are based on “established principles of financial economic theory.” The fixed payer swap passes the established criteria using the regression analysis methodology.

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

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

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

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

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

Type	**Objective**	**Notional amount (000's)**	**Effective Date**	**Termination Date**	**Cash (Paid)/ Received (000's)**	**Terms**
Pay fixed, cancelable interest rate swap	Hedge interest rate risk on Series J 2005 Bonds	$24.150	3/10/2005	11/15/2035	-	Pay 3.953% Receive SIFMA

It is MSU's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2011, all interest rate swap counterparties are rated A or higher by Fitch or S&P, or A2 or higher by Moody's. MSU manages credit risk by requiring its counterparties to post collateral in certain events. MSU is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than $5MM and the counterparty is rated A+ or A, by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, MSU is entitled to collateral up to 100% of the swap's fair value. MSU is not required to post collateral. MSU enters into derivative agreements with multiple counterparties to limit concentration of credit risk. Currently, MSU has interest rate swaps with two different counterparties and each counterparty accounts for approximately 50% of outstanding notional. MSU monitors counterparty credit risk on an ongoing basis.

Interest payments on variable rate debt will typically increase as interest rates increase. MSU believes it has significantly reduced interest rate risk by entering into a pay-fixed, receive floating interest rate swap. As interest rates increase, net swap payments decrease so that changes in hedged variable-rate debt interest payments, attributable to SIFMA, are largely offset by the net swap payments.

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

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

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

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

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

I. Estimated Pollution Remediation Obligation

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

The State's estimated pollution remediation liability as of July 1, 2010 was estimated at $533.8 million. The liability as of June 30, 2011 was $523.3 million. Of this liability, $219.7 million resulted in settlement agreements to provide restoration of natural resources, water supplies and natural resource-based recreational opportunities up to the settlement amount; $287.5 million is based on decrees or settlements for remediation activities. Other estimated liabilities have been recorded for soil and PCB contamination. The estimated pollution remediation liability was recorded in compliance with accounting and reporting standards and does not constitute Montana's total acceptance of the liability or responsibility on these matters.

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

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

Balances due from/to other funds at June 30, 2011, consisted of the following (in thousands):

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

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

(1) Total due from the state special revenue fund on the fund financial statement is reported as $7,847,000. The difference of $6,292,190 between the amount reported above of $1,554,810 and the amount reported on the fund financial statement relates to long term receivables. The recebables were recorded in the fund financial statement and the long term liabilities were recorded in the entitywide statement.

(2) Total due from the non-major governmtal funds on the financial statements is reported as $1,037,000. The difference of $661,906 between the amount reported above of $1,083,906 and the amount reported on the financial statements relates to long term receivables. The recevables were recorded in the fund financial statement and the long term liability were recorded in the entitywide statement.

(3) Total due to the internal service funds on the fund financial statement is reported as $1,858,308. The difference of $978,840 between the amount reported above of $879,468 and the amount reported on the fund financial statement relates to loans payable The liabilities were recorded in the fund financial statement and the receivables were reported in the entitywide statement.

(4) Total due to the nonmajor enterprise funds on the fund financial statement is reported as $12,204,619. The difference of $350,676 between the amount reported above of $11,853,943 and the amount reported on the fund financial statement relates to loans payable The liabilities were recorded in the fund financial and the receivables were reported in the entitywide statement.

B. Interfund Loans Receivable/Payable

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

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

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

C. Advances To/From Other Funds

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

Advances to/from other funds at June 30, 2011, consisted of the following (in thousands):

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

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

Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program	
Department	**Balance**
Natural Resources and Conservation	$ 2,030
Environmental Quality	705
Justice	12,389
Transportation	2,856
Total	$17,980

D. Interfund Transfers

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

Interfund transfers for the year ended June 30, 2011, consisted of the following (in thousands):

	Transfers In				
	Coal Severance Tax Permanent	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant Permanent
Transfers Out					
Coal Severance Tax Permanent	$ -	$ -	$26,783	$ -	$ -
Federal Special Revenue	-	-	50	-	-
General Fund	-	-	-	811	-
Internal Service Funds (1)	-	-	-	-	-
Land Grant Permanent	-	-	-	-	-
Nonmajor Enterprise Funds (2)	-	-	33,509	-	-
Nonmajor Governmental Funds	393	-	16,289	-	-
State Special Revenue	-	1,351	11,313	4,655	1
Unemployment Insurance	-	1,584	-	-	-
Total	$393	$2,935	$87,944	$5,466	$1

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

(1) Total transfers-out for internal service funds on the financial statements is reported as $2,247,564. The difference of $1,943,064 between the amount reported above of $304,500 and the amount reported on the financial statements relates to the movement of capital assets between a governmental fund type and the internal service fund type. When assets were transferred between these funds, the transferring fund recorded the net book value of the capital asset as a transfer-out, and the receiving fund type recorded the net book value of the capital asset as a capital contribution.

(2) Total transfers-out for nonmajor enterprise funds on the financial statements is reported as $39,053,317. The difference of $989,901 between the amount reported above of $38,063,416 and the amount reported on the financial statements relates to the movement of capital assets between a governmental fund type and the nonmajor enterprise fund type. When assets were transferred between these funds, the transferring fund recorded the net book value of the capital asset as a transfer-out, and the receiving fund type recorded the net book value of the capital asset as a capital contribution.

NOTE 13. FUND DEFICITS

The following funds have a deficit fund balance/net assets position at June 30, 2011, (in thousands):

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

NOTE 14. MAJOR PURPOSE PRESENTATION

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

State Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Licenses/permits	$ 57,536	$ 26,781	$ 19,894	$ 1,743	$ 170	$ 61,272	$ 167,396
Taxes	229,622	3,013	209,351	-	364	14,564	456,914
Charges for services	27,565	8,831	4,231	31,010	804	20,214	92,655
Investment earnings	431	13,093	228	902	782	18,044	33,480
Securities lending income	38	267	36	47	13	431	832
Sales of documents/ merchandise/property	267	1,882	252	103	288	1,192	3,984
Rentals/leases/royalties	211	2	305	23	5	213	759
Contributions/premiums	20,692	-	-	-	-	-	20,692
Grants/contracts/ donations	1,783	676	645	7,531	3,174	5,016	18,825
Federal	11,304	68	-	9	-	44	11,425
Federal indirect recoveries	59	-	43,177	4	2	3,231	46,473
Other revenues	724	482	903	(308)	1	116	1,918
Transfers in	39,537	3,463	299	12,725	557	109,726	166,307
Total state special revenue	$ 389,769	$ 58,558	$ 279,321	$ 53,789	$ 6,160	$ 234,063	$ 1,021,660

Federal Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Charges for services	$ 621	$ -	$ -	$ 2,716	$ 39,446	$ 2	$ 42,785
Investment earnings	193	5	-	-	97	-	295
Securities lending income	1	1	-	-	11	-	13
Sale of documents/merchandise/ property	-	-	-	-	-	1	1
Grants/contracts/donations	-	-	-	-	-	263	263
Federal	156,151	11,798	481,190	1,222,453	290,883	130,151	2,292,626
Federal indirect cost recoveries	78	53	-	53,464	625	251	54,471
Other revenues	9	6	-	159	1	17	192
Transfers in	1,590	7	-	1,308	-	30	2,935
Total federal special revenue	$ 158,643	$ 11,870	$ 481,190	$ 1,280,100	$ 331,063	$ 130,715	$ 2,393,581

Governmental Fund Balance By Function
June 30, 2011

(in thousands)

	General	Special Revenue: State	Special Revenue: Federal	Permanent: Coal Severance Tax	Permanent: Land Grant	Nonmajor	Total
Fund balances							
Nonspendable							
Inventory	$ 2,474	$ 20,533	$ -	$ -	$ -	$ -	$ 23,007
Permanent fund principle	-	-	-	531,339	516,772	252,760	1,300,871
Long-term notes/receivables	65	-	-	-	-	-	65
Prepaid expense	352	902	-	-	-	-	1,254
Total nonspendable	2,891	21,435	-	531,339	516,772	252,760	1,325,197
Restricted							
General government	-	2,673	9,490	-	-	983	13,146
Transportation	-	116,353	-	-	-	-	116,353
Health and Human Services	-	17,104	661	-	-	4,260	22,025
Natural Resources	-	614,893	776	-	2,007	17,281	634,957
Public Safety	-	290,306	462	-	-	-	290,768
Education	-	5,226	23,689	-	-	139	29,054
Total restricted	-	1,046,555	35,078	-	2,007	22,663	1,106,303
Committed							
General government	-	168,655	-	380,234	-	39,403	588,292
Transportation	-	4,445	-	-	-	-	4,445
Health and Human Services	-	72,102	-	-	-	-	72,102
Natural Resources	-	275,246	-	-	-	37,221	312,467
Public Safety	-	14,675	-	-	-	718	15,393
Education	-	12,162	-	-	-	-	12,162
Total committed	-	547,285	-	380,234	-	77,342	1,004,861
Assigned							
General government	-	2,116	-	-	-	23,689	25,805
Natural Resources	-	41	-	-	-	-	41
Public Safety	-	-	-	-	-	1,853	1,853
Encumbrances	24,591	-	-	-	-	-	24,591
Total assigned	24,591	2,157	-	-	-	25,542	52,290
Unassigned	341,875	(1,968)	-	-	-	(9)	339,898
Total fund balance	$ 369,357	$ 1,615,464	$ 35,078	$ 911,573	$ 518,779	$ 378,298	$ 3,828,549

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents (Regents), an agency within the State, is the guarantor of loans owned by the Montana Education Student Assistance Corporation (MHESAC), a private non-profit. As of June 30, 2011 The Regents and MHESAC have only one common voting member. Approximately 77.59% of the Regents' outstanding loan volume, or $1,363,123,448, is held by MHESAC.

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

The Montana Association of Health Care Purchasers (MAHCP) has a member from the Department of Administration (DOA), Health Care and Benefits Division as well as a member from the Montana University System. Both serve on the board of MAHCP and receive no remuneration for their services. DOA pays this association $1 per member per year to maintain its membership as well as a monthly fee of $.70 per member. The monthly fees are payment for data analysis, actuarial analysis, and consulting services performed by association staff on behalf of member employers.

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

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

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

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

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

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

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

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

NOTE 16. CONTINGENCIES

A. Litigation

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

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

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

In March 2006, a determination was made pursuant to the settlement that the OPMs had lost sufficient market share in 2003 to trigger an NPM adjustment analysis, and that disadvantages caused by the settlement were a significant factor in the market share loss. Similar findings have been made or agreed to for years 2004 through 2006. The State has filed a motion in the lawsuit seeking a declaration that it diligently enforced its qualifying statute during 2003. The OPMs moved to compel arbitration of the question, and the Montana Supreme Court has rejected the OPMs motion. In the opinion of the counsel, good factual arguments exist to show that the State diligently enforced its statute during the year in question. However, legal and procedural uncertainties exist that make an adverse determination reasonably possible. An adverse determination on the diligent enforcement issue could result in the loss of some or all of the State's payments for years 2003 through 2006, which would be recouped through an offset of payments due in future years. At present, the NPM case involves roughly $1.8 million that was withheld from the April 2006 payment to the State. The OPMs have asserted claims for NPM adjustments for later years as well. The outcome of these claims is also uncertain.

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

PPL v. Montana involves ownership of sections of riverbed on the Missouri, Clark Fork and Madison rivers. The case originated in 2003, when a group of parents of school age children sued PPL in Federal Court alleging that the company must pay rent for the use of state owned riverbeds to generate hydroelectric power. After the Federal Court dismissed the case for lack of jurisdiction, PPL filed an action in state district court seeking a declaration that the state could not charge them rent for use of the riverbeds at issue. The state intervened in the case and counterclaimed for a declaration that PPL and its co-plaintiffs unlawfully occupied state lands and must compensate the State land trust on behalf of its public beneficiaries for the use of those lands. The legal test for ownership of the riverbeds is whether the rivers at issue were navigable at the time of statehood. Based upon the historical record, the District Court granted the State summary judgment on the question of navigability and the case proceeded to trial on the issue of compensation for use of trust lands. In June of 2008 the Court issued its ruling and ordered that PPL owed the state almost $41 million for past use of the riverbeds.

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

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

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

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

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

In 2009 both plaintiffs and defendant DPHHS filed motions for summary judgment. The court granted partial summary judgment to plaintiffs on certain issues, primarily liability issues. In the fall of 2009 defendant DPHHS submitted a report to the court concerning each Medicaid reimbursement file of each class member with a breakdown of how third party awards were apportioned. DPHHS also requested Rule 54(b) certification on four orders of the district court resolving various liability issues in plaintiffs' favor, for the purpose of appealing to the Montana Supreme Court. On April 20, 2010, the district court granted Rule 54(b) certification on the four orders it had issued affecting liability issues. Following briefing the Montana Supreme Court issued a decision on May 24, 2011, upholding several of the district court's rulings, reversing several rulings, and remanding the case to the district court for further proceedings. The Supreme Court's decision provided clarification regarding a number of issues, and the litigation is proceeding in the district court.

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

Coles, Individually and as Personal Representative for the Estate of Steven Bearcrane v. Black Ranches, Inc., Crow Tribal Court No. CAV 07-044, is a tort case filed against a policy holder of Montana State Fund. The case involves a wrongful death claim by the estate of an employee of the policyholder. Montana State Fund is providing a defense under a complete reservation of rights to the policy holder under Part Two of the State Fund's insurance policy, also known as employers' liability coverage. The policy limits in this case are $1,000,000. The exclusive remedy provisions of MCA Section 39-71-411 should bar this type of tort claim against the policy holder. However, if the plaintiffs are successful in convincing the court that MCA Section 39-71-411 does not provide a defense, and that the employer-policyholder was at fault in causing the death of its employee, the damages may be substantial. The case was dismissed at the Crow Tribal Court level on the grounds that the tribal court did not have jurisdiction, and was then appealed to the Crow Tribal Appellate Court. The Crow Tribal Court dismissed the appeal. There is a possibility of further legal action in this case. The actual potential cost impact to the State Fund is not known at this time. Liability for Montana State Fund, up to its policy limits ($1,000,000), is reasonably possible.

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

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

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

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

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

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

A complaint was filed in July 2009, SBC Archway III, LLC v. State of Montana in Montana First Judicial District Court, Lewis and Clark County, Cause No. BDV 1109-688, arising from the State's termination of three, 30-year "build to suit" leases with the developer following the 2009 legislature's rejection of funding for the leases in the 2010-11 biennium. The developer purchased the property and prepared architectural plans for the building, but had not yet begun construction of the building at the time the leases were terminated. The developer is seeking damages in the amount of $3,979,680 (plus ongoing expenses) for claimed costs and expenses (including the $1.9 million cost to purchase the property), plus lost profits of $9,878,421. Discovery has been completed and the case is set for trial early in 2012. In the opinion of counsel, the State has numerous strong legal defenses to the suit, including the contractual right to terminate in the event of a reduction of funds for the purposes of the leases and the 2009 legislature's rejection of funding for the leases. The State furthermore does not believe the developer can show lost profits under the leases.

B. Federal Contingencies

Food Distribution Program - The amount reported for Food Distribution programs (CFDA #10.550, #10.567, #10.569, #10.570 and #10.565 and #93.053) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2011, Montana distributed $363,224 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed $8,394,712 in commodities in fiscal year 2011. The value at June 30, 2011 of commodities stored at the state's warehouse is $2,292,412 for which the state is liable in the event of loss. The state has insurance to cover this liability.

C. Miscellaneous Contingencies

Loan Enhancements – As of June 30, 2011, the Board of Investments (BOI) had provided loan enhancements from the Coal Severance Tax Permanent Trust Fund to the Municipal Finance Consolidation Act Bond Fund and the Facility Finance Authority, (a component unit of the State of Montana), totaling $226,374,677. The BOI's exposure to bond issues of the Municipal Finance Consolidation Act Bond Fund was $95,725,000, while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority was $130,349,677.

Gain Contingencies - Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2011 the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	State Special Revenue
Corporation Tax	$16,730	$ -
Oil and Gas Production Tax	485	119
Total	$17,215	$119

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

The oil and gas production tax noted above represents the state portion of the total protested amount of $1,044,333.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2011. The corporations have appealed the department's decision to deny or adjust the refund. As of June 30, 2011, these include $1,279,129 of General Fund corporation tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2011. As of June 30, 2011, these include $4,454,658 of protested property taxes recorded in the General Fund and $5,056,235 recorded in State Special Revenue Funds.

NOTE 17. SUBSEQUENT EVENTS

Bond/Loan Issues

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

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

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

On November 17, 2011, BOH issued $58,175,000 of Single Family Homeownership Bonds Series 2011 B / 2009 C. The Bonds will mature on June 1, 2012, through December 1, 2041, with interest rates from 2.47% to 5.00%. Bond proceeds of $20,000,000 were used to purchase single family mortgage loans for BOH's Homeownership Program. Bond proceeds of $38,175,000 were used to refund existing bond issues.
On December 9, 2011, the Board elected to continue to participate in the U.S. Treasury New Issue Bond Program (NIBP) of the Housing Finance Agency Initiative. Originally, the program was to expire on December 31, 2011, and any remaining 2009 Series A bonds from the original program funding not converted to NIBP mortgage revenue bonds were to be redeemed by December 31, 2011. However, on November 17, 2011, the U.S. Department of Treasury extended the NIBP conversion period to December 31, 2012 which extends the period these funds are available to the Board by one calendar year. As of December 31, 2011, the Board had $105,400,000 of NIBP Program funds remaining.

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

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

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

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

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

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

Other Subsequent Events

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

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

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

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

NOTE 18. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS

Constitutionality of Retirement Plan Funding
The Montana Constitution, Article VIII, Section 15 states that public retirement systems shall be funded on an actuarially sound basis. As of June 30, 2011, the Public Employees Retirement System-Defined Benefit Retirement Plan (PERS-DBRP), Sheriffs Retirement System (SRS), Game Warden & Peace Officers Retirement System (GWPORS), Highway Patrol Officers' Retirement System (HPORS) and Teachers Retirement System (TRS) were not in compliance. Detailed information for the retirement plan can be found in Note 6.

REQUIRED SUPPLEMENTARY INFORMATION

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

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

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

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-1. BUDGETARY REPORTING

A. State Budget Process

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

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

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

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2011, reverted governmental fund appropriations were as follows: General Fund - $155.3 million, State Special Revenue Fund - $217.8 million, and Federal Special Revenue Fund - $395.1 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

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

B. Budget Basis

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

REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN INFORMATION

Pension Plan Information
Schedule of Funding Progress
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
Single Employer System						
JRS						
6/30/2009	61,929	41,848	(20,081)	148%	5,110	(393%)
6/30/2010	61,277	42,513	(18,764)	144%	5,687	(330%)
6/30/2011	61,274	43,414	(17,860)	141%	5,645	(316%)
HPORS						
6/30/2009	99,652	137,815	38,163	72%	11,425	334%
6/30/2010	97,204	151,177	53,973	64%	13,036	414%
6/30/2011	95,274	155,742	60,468	61%	12,472	485%
Multiple Employer Systems						
PERS-DBRP						
6/30/2009	4,002,212	4,792,819	790,607	84%	1,043,215	76%
6/30/2010	3,889,890	5,241,819	1,351,929	74%	1,083,780	125%
6/30/2011	3,800,479	5,410,144	1,609,665	70%	1,071,376	150%
SRS						
6/30/2009	200,690	223,893	23,203	90%	51,457	45%
6/30/2010	200,739	246,734	45,995	81%	54,681	84%
6/30/2011	203,689	266,506	62,817	76%	57,041	110%
GWPORS						
6/30/2009	81,177	92,155	10,978	88%	36,023	30%
6/30/2010	85,151	113,855	28,704	75%	39,436	73%
6/30/2011	90,437	119,881	29,444	75%	38,306	77%
MPORS						
6/30/2009	214,345	345,261	130,916	62%	34,687	377%
6/30/2010	217,545	380,393	162,847	57%	37,220	438%
6/30/2011	221,669	401,381	179,712	55%	39,470	455%
FURS						
6/30/2009	209,775	306,236	96,460	69%	30,160	320%
6/30/2010	213,755	335,463	121,708	64%	33,339	365%
6/30/2011	219,959	355,188	135,229	62%	34,852	388%
TRS (1)						
7/1/2009	2,762,200	4,331,000	1,411,600	66%	683,200	207%
7/1/2010	2,956,600	4,518,200	1,561,600	65%	747,000	209%
7/1/2011	2,866,500	4,658,600	1,792,100	62%	746,700	240%
Nonemployer Contributor						
VFCA						
6/30/2009	27,226	33,548	6,322	81%	N/A	N/A
6/30/2010	26,575	34,512	7,936	77%	N/A	N/A
6/30/2011	26,183	35,195	9,012	74%	N/A	N/A

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

REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

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

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

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

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

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

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

SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
JUNE 30, 2011
(amounts expressed in thousands)

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
ASSETS				
Cash/cash equivalents	$ 16,368	$ 57,384	$ 1,093	$ 74,845
Receivables (net)	4,425	1,748	943	7,116
Due from other funds	1	983	53	1,037
Due from component units	615	-	-	615
Equity in pooled investments	-	-	259,907	259,907
Long-term loans/notes receivable	27,222	-	-	27,222
Advances to other funds	8,696	-	-	8,696
Advances to component units	5,667	-	-	5,667
Investments	6,441	350	10,491	17,282
Securities lending collateral	98	275	22,977	23,350
Total assets	$ 69,533	$ 60,740	$ 295,464	$ 425,737
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	122	3,302	-	3,424
Due to other funds	6	615	1,356	1,977
Advances from other funds	18,191	-	-	18,191
Deferred revenue	496	1	-	497
Securities lending liability	98	275	22,977	23,350
Total Liabilities	18,913	4,193	24,333	47,439
Fund Balances:				
Nonspendable	-	-	252,760	252,760
Restricted	12,421	928	9,314	22,663
Committed	37,782	30,503	9,057	77,342
Assigned	417	25,125	-	25,542
Unassigned	-	(9)	-	(9)
Total fund balances	50,620	56,547	271,131	378,298
Total liabilities and fund balances	$ 69,533	$ 60,740	$ 295,464	$ 425,737

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
REVENUES				
Taxes:				
Natural resource	$ 2,576	$ 7,013	$ -	$ 9,589
Other	-	1,835	-	1,835
Charges for services/fines/forfeits/settlements	174	62	11,850	12,086
Investment earnings	10,336	111	15,067	25,514
Securities lending income	5	20	250	275
Sale of documents/merchandise/property	3,676	-	32	3,708
Total revenues	16,767	9,041	27,199	53,007
EXPENDITURES				
Current:				
General government	121	1,877	-	1,998
Health/social services	-	2,158	-	2,158
Education/cultural	-	-	16	16
Resource/recreation/environment	2	-	-	2
Debt service:				
Principal retirement	32,485	-	-	32,485
Interest/fiscal charges	15,436	-	-	15,436
Capital outlay	-	44,758	10	44,768
Securities lending	1	5	58	64
Total expenditures	48,045	48,798	84	96,927
Excess of revenue over (under) expenditures	(31,278)	(39,757)	27,115	(43,920)
OTHER FINANCING SOURCES (USES)				
Proceeds of refunding bond	-	550	-	550
Payment to refunding bond escrow agent	(362)	-	-	(362)
Transfers in	56,932	35,620	1,234	93,786
Transfers out	(9,291)	(27,373)	(10,691)	(47,355)
Total other financing sources (uses)	47,279	8,797	(9,457)	46,619
Net change in fund balances	16,001	(30,960)	17,658	2,699
Fund balances - July 1 - as previously reported	34,530	79,541	312,685	426,756
Prior period adjustments	89	7,966	(59,212)	(51,157)
Fund balances - July 1 - as restated	34,619	87,507	253,473	375,599
Fund balances - June 30	$ 50,620	$ 56,547	$ 271,131	$ 378,298

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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.

Trust Lands – This fund accounts for payments on taxable trust lands bonds.

COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
JUNE 30, 2011
(amounts expressed in thousands)

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTEWATER DEVELOPMENT	WATER CONSERVATION
ASSETS				
Cash/cash equivalents	$ 7,083	$ 539	$ 6,631	$ -
Receivables (net)	651	-	3,155	-
Due from other funds	1	-	-	-
Due from component units	-	-	-	-
Long-term loans/notes receivable	8,992	-	18,217	13
Advances to other funds	8,696	-	-	-
Advances to component units	-	-	-	-
Investments	109	-	2,415	-
Securities lending collateral	85	-	9	-
Total assets	$ 25,617	$ 539	$ 30,427	$ 13
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	-	122	-	-
Due to other funds	2	-	4	-
Advances from other funds	1,180	-	17,011	-
Deferred revenue	220	-	276	-
Securities lending liability	85	-	9	-
Total liabilities	1,487	122	17,300	-
Fund Balances:				
Restricted	-	-	8,160	-
Committed	24,130	-	4,967	13
Assigned	-	417	-	-
Total fund balances	24,130	417	13,127	13
Total liabilities and fund balances	$ 25,617	$ 539	$ 30,427	$ 13

HEALTH CARE	ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	TOTAL
$ 349	$ 364	$ 1,402	$ 16,368
-	-	619	4,425
-	-	-	1
-	615	-	615
-	-	-	27,222
-	-	-	8,696
-	5,667	-	5,667
3,912	5	-	6,441
-	4	-	98
$ 4,261	$ 6,655	$ 2,021	$ 69,533
-	-	-	122
-	-	-	6
-	-	-	18,191
-	-	-	496
-	4	-	98
-	4	-	18,913
4,261	-	-	12,421
-	6,651	2,021	37,782
-	-	-	417
4,261	6,651	2,021	50,620
$ 4,261	$ 6,655	$ 2,021	$ 69,533

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTEWATER DEVELOPMENT	WATER CONSERVATION	HEALTH CARE
REVENUES					
Taxes:					
Natural resource	$ -	$ -	$ 555	$ -	$ -
Charges for services/fines/forfeits/settlements	-	-	7	-	-
Investment earnings	460	2	9,631	2	240
Securities lending income	3	-	2	-	-
Sale of documents/merchandise/property	3,676	-	-	-	-
Total revenues	4,139	2	10,195	2	240
EXPENDITURES					
Current:					
General government	-	121	-	-	-
Resource/recreation/environment	-	-	-	-	-
Debt service:					
Principal retirement	3,620	12,570	3,600	5	1,755
Interest/fiscal charges	848	5,282	1,322	1	1,189
Securities lending	1	-	-	-	-
Total expenditures	4,469	17,973	4,922	6	2,944
Excess of revenue over (under) expenditures	(330)	(17,971)	5,273	(4)	(2,704)
OTHER FINANCING SOURCES (USES)					
Payment to refunding bond escrow agent	(362)	-	-	-	-
Transfers in	11,112	17,881	1,578	-	2,739
Transfers out	(3,092)	-	(5,999)	-	-
Total other financing sources (uses)	7,658	17,881	(4,421)	-	2,739
Net change in fund balances	7,328	(90)	852	(4)	35
Fund balances - July 1 - as previously reported	16,802	507	12,186	17	4,226
Prior period adjustments	-	-	89	-	-
Fund balances - July 1 - as restated	16,802	507	12,275	17	4,226
Fund balances - June 30	$ 24,130	$ 417	$ 13,127	$ 13	$ 4,261

INFORMATION TECHNOLOGY	ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	HIGHWAY	TRUST LANDS	TOTAL
$ -	$ -	$ 2,021	$ -	$ -	$ 2,576
-	167	-	-	-	174
-	1	-	-	-	10,336
-	-	-	-	-	5
-	-	-	-	-	3,676
-	168	2,021	-	-	16,767
-	-	-	-	-	121
-	1	1	-	-	2
185	730	280	9,740	-	32,485
4	203	175	6,237	175	15,436
-	-	-	-	-	1
189	934	456	15,977	175	48,045
(189)	(766)	1,565	(15,977)	(175)	(31,278)
-	-	-	-	-	(362)
189	7,097	184	15,977	175	56,932
-	(200)	-	-	-	(9,291)
189	6,897	184	15,977	175	47,279
-	6,131	1,749	-	-	16,001
-	520	272	-	-	34,530
-	-	-	-	-	89
-	520	272	-	-	34,619
$ -	$ 6,651	$ 2,021	$ -	$ -	$ 50,620

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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, 2011
(amounts expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	FEDERAL/PRIVATE CONSTRUCTION GRANTS	CAPITAL LAND GRANT	TOTAL
ASSETS					
Cash/cash equivalents	$ 48,333	$ 8,119	$ 2	$ 930	$ 57,384
Receivables (net)	1,748	-	-	-	1,748
Due from other funds	983	-	-	-	983
Investments	350	-	-	-	350
Securities lending collateral	275	-	-	-	275
Total assets	$ 51,689	$ 8,119	$ 2	$ 930	$ 60,740
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	3,048	250	2	2	3,302
Due to other funds	615	-	-	-	615
Deferred Revenue	1	-	-	-	1
Securities lending liability	275	-	-	-	275
Total liabilities	3,939	250	2	2	4,193
Fund balances:					
Restricted	-	-	-	928	928
Committed	24,487	6,016	-	-	30,503
Assigned	23,272	1,853	-	-	25,125
Unassigned	(9)	-	-	-	(9)
Total fund balances	47,750	7,869	-	928	56,547
Total liabilities and fund balances	$ 51,689	$ 8,119	$ 2	$ 930	$ 60,740

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	FEDERAL/ PRIVATE CONSTRUCTION GRANTS	CAPITAL LAND GRANT	TOTAL
REVENUES					
Taxes:					
Natural resource	$ 7,013	$ -	$ -	$ -	$ 7,013
Other	1,835	-	-	-	1,835
Charges for services/fines/forfeits/settlements	62	-	-	-	62
Investment earnings	111	-	-	-	111
Securities lending income	20	-	-	-	20
Total revenues	9,041	-	-	-	9,041
EXPENDITURES					
Current:					
General government	396	1,481	-	-	1,877
Health/social services	2,158	-	-	-	2,158
Capital outlay	43,444	425	607	282	44,758
Securities lending	5	-	-	-	5
Total expenditures	46,003	1,906	607	282	48,798
Excess of revenue over (under) expenditures	(36,962)	(1,906)	(607)	(282)	(39,757)
OTHER FINANCING SOURCES (USES)					
Bond proceeds	550	-	-	-	550
Transfers in	29,993	4,183	865	579	35,620
Transfers out	(26,991)	(340)	-	(42)	(27,373)
Total other financing sources (uses)	3,552	3,843	865	537	8,797
Net change in fund balances	(33,410)	1,937	258	255	(30,960)
Fund balances - July 1 - as previously reported	81,917	5,932	(258)	(8,050)	79,541
Prior period adjustments	(757)	-	-	8,723	7,966
Fund balances - June 30	$ 47,750	$ 7,869	$ -	$ 928	$ 56,547

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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. Funds in these trusts that were established as permanent funds by legislature have been reclassified as State Special Revenue Funds.

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. Funds in this trust were established as permanent funds by legislature and have been reclassified as State Special Revenue Funds.

Noxious Weed Management – The Department of Agriculture accounts for revenues and interest earned on fees charged for the control of noxious weeds. Funds in this trusts that were established as permanent funds by legislature have been reclassified as State Special Revenue Funds.

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.

DPHHS 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. Funds in these trusts were established as permanent funds by legislature and have been reclassified as State Special Revenue Funds.

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.

Heritage Trust – This fund accounts for the proceeds from sales of the Montana Heritage Commission Board property in order to provide historical properties benefits.

COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS
JUNE 30, 2011
(amounts expressed in thousands)

	RESOURCE INDEMNITY	CULTURAL TRUST	NOXIOUS WEED MANAGEMENT
ASSETS			
Cash/cash equivalents	$ 434	$ 77	$ 234
Receivables(net)	409	-	-
Due from other funds	-	-	-
Equity in pooled investments	109,057	-	8,865
Investments	8	1	1,123
Securities lending collateral	6,501	1	674
Total Assets	$ 116,409	$ 79	$ 10,896
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other funds	828	-	-
Securities lending liability	6,501	1	674
Total liabilities	7,329	1	674
Fund balances:			
Nonspendable	100,000	78	10,222
Restricted	23	-	-
Committed	9,057	-	-
Total fund balances	109,080	78	10,222
Total liabilities and fund balances	$ 116,409	$ 79	$ 10,896

HISTORICAL SOCIETY TRUSTS	TOBACCO SETTLEMENT INTEREST	ZORTMAN/ LANDUSKY WATER TREATMENT	HERITAGE TRUST	TOTAL
$ 150	$ 103	$ 63	$ 32	$ 1,093
4	528	2	-	943
-	53	-	-	53
1,183	140,802	-	-	259,907
2	2	9,355	-	10,491
72	8,387	7,342	-	22,977
$ 1,411	$ 149,875	$ 16,762	$ 32	$ 295,464
-	528	-	-	1,356
72	8,387	7,342	-	22,977
72	8,915	7,342	-	24,333
1,200	140,960	300	-	252,760
139	-	9,120	32	9,314
-	-	-	-	9,057
1,339	140,960	9,420	32	271,131
$ 1,411	$ 149,875	$ 16,762	$ 32	$ 295,464

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR PERMANENT FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

	RESOURCE INDEMNITY	PARKS TRUST	CULTURAL TRUST	REAL PROPERTY TRUST	NOXIOUS WEED MANAGEMENT
REVENUES					
Charges for services/fines/forfeits/settlements	$ -	$ -	$ -	$ -	$ -
Investment earnings	6,620	-	-	-	29
Securities lending income	104	-	-	-	-
Sales of documents/merchandise/property	-	-	-	-	-
Total revenues	6,724	-	-	-	29
EXPENDITURE					
Current:					
Education/cultural	-	-	-	-	-
Capital outlay	-	-	-	-	-
Securities lending	24	-	-	-	-
Total expenditures	24	-	-	-	-
Excess of revenue over (under) expenditures	6,700	-	-	-	29
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	33
Transfers out	(5,135)	-	-	-	-
Total other financing sources (uses)	(5,135)	-	-	-	33
Net change in fund balances	1,565	-	-	-	62
Fund balances - July 1 - as previously reported	107,515	21,111	11,705	15,137	10,792
Prior period adjustments	-	(21,111)	(11,627)	(15,137)	(632)
Fund balances - July 1 - as restated	107,515	-	78	-	10,160
Fund balances - June 30	$ 109,080	$ -	$ 78	$ -	$ 10,222

HISTORICAL SOCIETY TRUSTS	DPHHS TRUSTS	TOBACCO SETTLEMENT INTEREST	ZORTMAN/ LANDUSKY WATER TREATMENT	HERITAGE TRUST	TOTAL
$ -	$ -	$ 11,850	$ -	$ -	$ 11,850
119	-	7,915	384	-	15,067
1	-	125	20	-	250
-	-	-	-	32	32
120	-	19,890	404	32	27,199
16	-	-	-	-	16
10	-	-	-	-	10
-	-	28	6	-	58
26	-	28	6	-	84
94	-	19,862	398	32	27,115
-	-	-	1,201	-	1,234
-	-	(5,556)	-	-	(10,691)
-	-	(5,556)	1,201	-	(9,457)
94	-	14,306	1,599	32	17,658
1,245	10,705	126,654	7,821	-	312,685
-	(10,705)	-	-	-	(59,212)
1,245	-	126,654	7,821	-	253,473
$ 1,339	$ -	$ 140,960	$ 9,420	$ 32	$ 271,131

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, 2011
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
ASSETS				
Current assets:				
Cash/cash equivalents	$ 2,534	$ 11,114	$ 2,718	$ 1,978
Receivables (net)	17,406	2,912	1,825	314
Interfund loans receivable	-	-	-	-
Due from other governments	-	-	-	-
Due from other funds	-	-	-	3
Inventories	85	-	367	2,232
Securities lending collateral	-	146	29	-
Other current assets	20	-	27	7
Total current assets	20,045	14,172	4,966	4,534
Noncurrent assets:				
Advances to other funds	75	-	-	-
Long-term investments	-	186	37	-
Long-term notes/loans receivable	-	-	-	-
Other long-term assets	-	-	1,689	292
Capital assets:				
Land	-	-	-	690
Land improvements	-	-	-	731
Buildings/improvements	2,044	-	45	4,760
Equipment	599	-	2,416	4,059
Infrastructure	-	-	-	951
Construction in progress	351	-	670	60
Intangible assets	-	40	-	-
Other Depreciable Assets	-	-	-	3,206
Less accumulated depreciation	(1,931)	-	(725)	(6,702)
Total capital assets	1,063	40	2,406	7,755
Total noncurrent assets	1,138	226	4,132	8,047
Total assets	$ 21,183	$ 14,398	$ 9,098	$ 12,581

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
$ 35,955	$ 16,556	$ 1,038	$ 2,955	$ 110	$ 236
619	676	380	15	2	31
-	-	-	3	-	-
-	-	-	3	-	-
-	-	-	-	-	-
-	-	-	30	444	66
426	210	12	32	-	-
-	18	-	9	-	2
37,000	17,460	1,430	3,047	556	335
-	-	-	-	-	-
543	268	41	41	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	118
-	-	-	503	11	123
-	-	-	-	-	-
-	-	-	1,622	-	-
-	-	-	6	-	-
-	-	-	-	-	-
-	-	-	(329)	(10)	(174)
-	-	-	1,802	1	67
543	268	41	1,843	1	67
$ 37,543	$ 17,728	$ 1,471	$ 4,890	$ 557	$ 402

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS - Continued
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2011
(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
ASSETS			
Current assets:			
Cash/cash equivalents	$ 172	$ 391	$ 2,220
Receivables (net)	-	-	6
Interfund loans receivable	-	-	-
Due from other governments	-	-	-
Due from other funds	-	-	-
Inventories	-	-	-
Securities lending collateral	-	-	8
Other current assets	-	-	-
Total current assets	172	391	2,234
Noncurrent assets:			
Advances to other funds	-	-	-
Long-term investments	-	-	10
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	(1,402)	-	-
Total capital assets	2,748	-	-
Total noncurrent assets	2,748	-	10
Total assets	$ 2,920	$ 391	$ 2,244

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ 9,244	$ 1,500	$ 88,721
19	10	24,215
-	-	3
524	-	527
-	-	3
-	136	3,360
122	2	987
4	-	87
9,913	1,648	117,903
-	-	75
156	3	1,285
273	-	273
-	-	1,981
-	-	800
-	-	3,830
-	-	7,454
30	171	8,366
-	-	951
-	-	2,703
-	5	51
-	-	3,206
(28)	(97)	(11,398)
2	79	15,963
431	82	19,577
$ 10,344	$ 1,730	$ 137,480

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS - Continued
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2011
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
LIABILITIES				
Current liabilities:				
Accounts payable	$ 5,949	$ 10	$ 471	$ 246
Lottery prizes payable	-	-	1,731	-
Interfund loans payable	-	-	-	-
Due to other governments	-	-	-	-
Due to other funds	9,351	63	2,791	-
Deferred revenue	1,200	3,094	130	83
Current lease liabilitiy	-	-	72	-
Amounts held in custody for others	20	-	-	-
Securities lending liability	-	146	29	-
Estimated insurance claims	-	164	-	-
Compensated absences payable	174	13	130	134
Total current liabilities	16,694	3,490	5,354	463
Noncurrent liabilities:				
Lottery prizes payable	-	-	1,526	-
Long term lease liability	-	-	271	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	148	21	70	208
OPEB implicit rate subsidy	490	54	395	421
Total noncurrent liabilities	638	75	2,262	629
Total liabilities	17,332	3,565	7,616	1,092
NET ASSETS				
Invested in capital assets, net of related debt	1,063	40	2,063	7,755
Restricted for:				
Other purposes	-	10,793	-	-
Unrestricted	2,788	-	(581)	3,734
Total net assets	$ 3,851	$ 10,833	$ 1,482	$ 11,489

	MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
$	3,590 $	90 $	- $	155 $	29 $	21
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	127	143	-
	-	-	-	8	-	-
	-	-	-	-	-	-
	426	210	12	32	-	-
	7,600	1,404	601	-	-	-
	23	7	-	182	6	24
	11,639	1,711	613	504	178	45
	-	-	-	-	-	-
	-	-	-	31	-	-
	-	8,380	2,750	-	-	-
	24	-	-	118	3	21
	70	11	-	698	91	56
	94	8,391	2,750	847	94	77
	11,733	10,102	3,363	1,351	272	122
	-	-	-	1,763	1	67
	25,810	7,626	(1,892)	-	-	-
	-	-	-	1,776	284	213
$	25,810 $	7,626 $	(1,892) $	3,539 $	285 $	280

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS - Continued
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2011
(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
LIABILITIES			
Current liabilities:			
Accounts payable	$ 9	$ 12	$ 470
Lottery prizes payable	-	-	-
Interfund loans payable	-	-	-
Due to other governments	-	-	-
Due to other funds	-	-	-
Deferred revenue	-	-	-
Current lease liabilitiy	-	-	-
Amounts held in custody for others	-	-	-
Securities lending liability	-	-	8
Estimated insurance claims	-	-	-
Compensated absences payable	17	20	-
Total current liabilities	26	32	478
Noncurrent liabilities:			
Lottery prizes payable	-	-	-
Long term lease liability	-	-	-
Estimated insurance claims	-	-	-
Compensated absences payable	16	-	-
OPEB implicit rate subsidy	25	48	-
Total noncurrent liabilities	41	48	-
Total liabilities	67	80	478
NET ASSETS			
Invested in capital assets, net of related debt	2,748	-	-
Restricted for:			
Other purposes	105	-	1,766
Unrestricted	-	311	-
Total net assets	$ 2,853	$ 311	$ 1,766

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ 55	$ 87	$ 11,194
-	-	1,731
25	-	25
21	-	21
-	-	12,205
-	420	5,197
-	-	80
-	-	20
122	2	987
-	-	9,769
63	29	822
286	538	42,051
-	-	1,526
-	-	302
-	-	11,130
52	25	706
231	107	2,697
283	132	16,361
569	670	58,412
2	79	15,581
9,773	981	54,962
-	-	8,525
$ 9,775	$ 1,060	$ 79,068

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
Operating revenues:				
Charges for services	$ 73,298	$ -	$ 46,047	$ 6,276
Investment earnings	-	26	8	-
Securities lending income	-	5	1	-
Contributions/premiums	-	6,710	-	-
Grants/contracts/donations	-	-	-	-
Other operating revenues	158	13	1	-
Total operating revenues	73,456	6,754	46,057	6,276
Operating expenses:				
Personal services	2,740	397	1,835	2,418
Contractual services	236	163	5,869	138
Supplies/materials	59,948	2	1,449	2,060
Benefits/claims	120	6,955	95	98
Depreciation	109	-	270	281
Amortization	-	21	-	-
Utilities/rent	156	12	155	190
Communications	88	7	770	19
Travel	15	51	40	8
Repair/maintenance	121	1	19	522
Lottery prize payments	-	-	24,778	-
Securities lending expense	-	1	-	-
Dividend expense	-	750	-	-
Interest expense	-	-	22	-
Other operating expenses	40	19	179	415
Total operating expenses	63,573	8,379	35,481	6,149
Operating income (loss)	9,883	(1,625)	10,576	127
Nonoperating revenues (expenses):				
Tax revenues	21,797	-	-	-
Gain (loss) on sale of capital assets	-	-	-	-
Total nonoperating revenues (expenses)	21,797	-	-	-
Income (loss) before contributions and transfers	31,680	(1,625)	10,576	127
Capital contributions	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(28,296)	(106)	(10,615)	-
Change in net assets	3,384	(1,731)	(39)	127
Total net assets - July 1 - as previously reported	467	12,564	1,521	11,362
Prior period adjustments	-	-	-	-
Total net assets - July 1 - as restated	467	12,564	1,521	11,362
Total net assets - June 30	$ 3,851	$ 10,833	$ 1,482	$ 11,489

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATION	SURPLUS PROPERTY
$ -	$ -	$ -	$ 4,788	$ 646	$ 476
87	41	9	6	-	-
16	8	-	1	-	-
65,228	4,716	1,005	-	-	-
396	-	-	-	-	-
402	-	1	-	14	-
66,129	4,765	1,015	4,795	660	476
373	82	-	2,978	267	246
5,336	546	-	1,005	58	15
25	1	-	116	257	608
56,446	3,558	558	162	19	14
-	-	-	39	-	7
-	-	-	10	-	-
34	8	-	241	20	23
17	3	-	280	25	10
12	1	-	22	3	1
5	-	-	22	10	16
-	-	-	-	-	-
3	2	-	-	-	-
-	-	-	-	-	-
-	-	-	1	-	-
1,250	31	-	(37)	84	7
63,501	4,232	558	4,839	743	947
2,628	533	457	(44)	(83)	(471)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
2,628	533	457	(44)	(83)	(471)
-	-	-	36	-	281
-	-	-	-	51	-
-	-	(35)	-	(1)	-
2,628	533	422	(8)	(33)	(190)
23,182	7,093	(2,452)	3,441	318	470
-	-	138	106	-	-
23,182	7,093	(2,314)	3,547	318	470
$ 25,810	$ 7,626	$ (1,892)	$ 3,539	$ 285	$ 280

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COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - Continued
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
Operating revenues:			
Charges for services	$ 64	$ 363	$ 147
Investment earnings	-	-	2
Securities lending income	-	-	-
Contributions/premiums	-	-	13,829
Grants/contracts/donations	20	-	-
Other operating revenues	119	-	-
Total operating revenues	203	363	13,978
Operating expenses:			
Personal services	140	308	-
Contractual services	19	15	237
Supplies/materials	5	5	-
Benefits/claims	6	15	13,533
Depreciation	161	-	-
Amortization	-	-	-
Utilities/rent	29	29	-
Communications	4	8	-
Travel	1	-	-
Repair/maintenance	11	-	-
Lottery prize payments	-	-	-
Securities lending expense	-	-	-
Dividend expense	-	-	-
Interest expense	-	-	-
Other operating expenses	5	20	152
Total operating expenses	381	400	13,922
Operating income (loss)	(178)	(37)	56
Nonoperating revenues (expenses):			
Tax revenues	-	-	-
Gain (loss) on sale of capital assets	-	-	-
Total nonoperating revenues (expenses)	-	-	-
Income (loss) before contributions and transfers	(178)	(37)	56
Capital contributions	-	-	-
Transfers in	3	-	-
Transfers out	-	-	-
Change in net assets	(175)	(37)	56
Total net assets - July 1 - as previously reported	3,028	348	1,636
Prior period adjustments	-	-	74
Total net assets - July 1 - as restated	3,028	348	1,710
Total net assets - June 30	$ 2,853	$ 311	$ 1,766

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ -	$ 1,473	$ 133,578
36	-	215
4	-	35
-	-	91,488
41,374	-	41,790
-	207	915
41,414	1,680	268,021
1,047	573	13,404
1,499	517	15,653
30	255	64,761
36,344	29	117,952
-	17	884
1	2	34
98	26	1,021
67	4	1,302
22	36	212
112	123	962
-	-	24,778
1	-	7
-	-	750
-	-	23
369	30	2,564
39,590	1,612	244,307
1,824	68	23,714
-	-	21,797
(9)	-	(9)
(9)	-	21,788
1,815	68	45,502
-	-	317
-	-	54
-	-	(39,053)
1,815	68	6,820
7,936	1,011	71,925
24	(19)	323
7,960	992	72,248
$ 9,775	$ 1,060	$ 79,068

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

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from sales and services	$ 73,204	$ 6,873	$ 46,002	$ 6,236
Payments to suppliers for goods and services	(60,415)	(218)	(8,076)	(3,730)
Payments to employees	(2,740)	(400)	(1,862)	(2,403)
Grant receipts	-	-	-	-
Cash payments for claims	-	(7,013)	-	-
Cash payments for prizes	-	-	(25,314)	-
Other operating revenues	158	13	-	-
Other operating payments	-	(751)	-	-
Net cash provided by (used for) operating activities	10,207	(1,496)	10,750	103
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Collection of taxes	21,797	-	-	-
Transfers to other funds	(32,144)	(106)	(10,719)	-
Transfers from other funds	-	-	-	-
Proceeds from interfund loans/advances	-	-	-	-
Payments of interfund loans/advances	-	-	-	-
Payment of principal and interest on bonds and notes	-	-	(94)	-
Net cash provided by (used for) noncapital financing activities	(10,347)	(106)	(10,813)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(72)	-	-	(116)
Proceeds from sale of capital assets	-	-	-	-
Net cash used for capital and related financing activities	(72)	-	-	(116)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	-	-	(258)	-
Proceeds from sales or maturities of investments	-	508	34	-
Proceeds from securities lending transactions	-	5	1	-
Interest and dividends on investments	-	27	8	-
Payment of securities lending costs	-	(1)	-	-
Net cash provided by (used for) investing activities	-	539	(215)	-
Net increase (decrease) in cash and cash equivalents	(212)	(1,063)	(278)	(13)
Cash and cash equivalents, July 1	2,746	12,177	2,996	1,991
Cash and cash equivalents, June 30	$ 2,534	$ 11,114	$ 2,718	$ 1,978

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERY
$ 65,373	$ 4,555	$ 892	$ 4,734	$ 662	$ 636
(6,585)	-	-	(1,748)	(458)	(409)
(402)	(83)	-	(2,943)	(280)	(244)
-	-	-	-	-	-
(56,891)	(3,084)	(422)	-	-	-
-	-	-	-	-	-
403	-	2	-	14	-
-	(357)	-	-	-	-
1,898	1,031	472	43	(62)	(17)
-	-	(35)	-	-	-
-	-	-	-	(1)	-
-	-	-	-	51	281
-	-	-	-	-	-
-	-	-	-	-	(45)
-	-	-	-	-	-
-	-	(35)	-	50	236
-	-	-	(37)	-	-
-	-	-	36	-	-
-	-	-	(1)	-	-
-	612	-	-	-	-
1,499	-	9	131	-	-
16	8	-	1	-	-
89	42	9	6	-	-
(3)	(2)	-	-	-	-
1,601	660	18	138	-	-
3,499	1,691	455	180	(12)	219
32,456	14,865	583	2,775	122	17
$ 35,955	$ 16,556	$ 1,038	$ 2,955	$ 110	$ 236

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from sales and services	$ 84	$ 365	$ 13,971
Payments to suppliers for goods and services	(77)	(78)	(538)
Payments to employees	(138)	(300)	-
Grant receipts	-	-	-
Cash payments for claims	-	-	(13,033)
Cash payments for prizes	-	-	-
Other operating revenues	98	-	-
Other operating payments	-	-	-
Net cash provided by (used for) operating activities	(33)	(13)	400
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Collection of taxes	-	-	-
Transfers to other funds	-	-	-
Transfers from other funds	3	-	-
Proceeds from interfund loans/advances	-	-	-
Payments of interfund loans/advances	-	-	-
Payment of principal and interest on bonds and notes	-	-	-
Net cash provided by (used for) noncapital financing activities	3	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(1)	-	-
Proceeds from sale of capital assets	-	-	-
Net cash used for capital and related financing activities	(1)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	-	-	-
Proceeds from sales or maturities of investments	-	-	26
Proceeds from securities lending transactions	-	-	-
Interest and dividends on investments	-	-	-
Payment of securities lending costs	-	-	-
Net cash provided by (used for) investing activities	-	-	26
Net increase (decrease) in cash and cash equivalents	(31)	(13)	426
Cash and cash equivalents, July 1	203	404	1,794
Cash and cash equivalents, June 30	$ 172	$ 391	$ 2,220

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ -	$ 1,558	$ 225,145
(38,477)	(1,026)	(121,835)
(1,035)	(583)	(13,413)
41,793	-	41,793
-	-	(80,443)
-	-	(25,314)
-	207	895
-	-	(1,108)
2,281	156	25,720
-	-	21,762
-	-	(42,970)
-	-	335
47	-	47
-	-	(45)
-	-	(94)
47	-	(20,965)
-	(6)	(232)
-	-	36
-	(6)	(196)
254	7	615
-	-	2,207
4	-	35
184	1	366
(1)	-	(7)
441	8	3,216
2,769	158	7,775
6,475	1,342	80,946
$ 9,244	$ 1,500	$ 88,721

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COMBINING STATEMENT OF CASH FLOWS - Continued
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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)	$ 9,883	$ (1,625)	$ 10,576	$ 127
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	109	-	270	281
Amortization	-	21	-	-
Securities lending expense	-	1	-	-
Interest expense	-	-	22	-
Investment earnings	-	(27)	(8)	-
Securities lending income	-	(5)	(1)	-
Change in assets and liabilities:				
Decr (incr) in accounts receivable	(158)	1,679	(39)	(79)
Decr (incr) in due from other funds	-	-	-	(3)
Decr (incr) in due from component units	-	-	-	8
Decr (incr) in due from other governments	-	-	-	-
Decr (incr) in inventories	9	-	161	(419)
Decr (incr) in other assets	5	-	63	9
Incr (decr) in accounts payable	210	(4)	(143)	39
Incr (decr) in lottery prizes payable	-	-	(536)	-
Incr (decr) in due to other funds	-	(16)	324	-
Incr (decr) in due to other governments	-	-	-	-
Incr (decr) in deferred revenue	63	(1,464)	(6)	32
Incr (decr) in compensated absences payable	(33)	1	(28)	10
Incr (decr) in OPEB implicit rate subsidy	119	16	95	98
Incr (decr) in estimated claims	-	(73)	-	-
Net cash provided by (used for) operating activities	$ 10,207	$ (1,496)	$ 10,750	$ 103
Schedule of noncash transactions:				
Capital asset acquisitions from contributed capital	-	-	-	-
Capital contributions from other funds	-	-	-	-
Total noncash transactions	$ -	$ -	$ -	$ -

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERY
$ 2,628	$ 533	$ 457	$ (44)	$ (83)	$ (471)
-	-	-	39	-	7
-	-	-	10	-	-
3	2	-	-	-	-
-	-	-	1	-	-
(89)	(42)	(9)	(6)	-	-
(16)	(8)	-	(1)	-	-
(247)	(672)	(139)	12	4	762
-	-	-	4	-	-
-	-	25	-	-	-
-	-	-	-	-	-
-	-	-	(6)	19	267
333	208	-	(139)	1	-
(1,736)	25	(1)	142	(20)	8
-	-	-	-	-	-
-	-	-	(81)	-	(604)
-	-	-	-	-	-
-	-	-	(69)	11	-
1	(1)	-	19	(13)	1
21	3	-	162	19	13
1,000	983	139	-	-	-
$ 1,898	$ 1,031	$ 472	$ 43	$ (62)	$ (17)
-	-	-	36	-	-
-	-	-	-	-	281
$ -	$ -	$ -	$ 36	$ -	$ 281

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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)	$ (178)	$ (37)	$ 56
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:			
Depreciation	161	-	-
Amortization	-	-	-
Securities lending expense	-	-	-
Interest expense	-		-
Investment earnings	-	-	(2)
Securities lending income	-	-	-
Change in assets and liabilities:			
Decr (incr) in accounts receivable	106	2	(6)
Decr (incr) in due from other funds	-	-	-
Decr (incr) in due from component units	-	-	-
Decr (incr) in due from other governments	-	-	-
Decr (incr) in inventories	-	-	-
Decr (incr) in other assets	-	-	-
Incr (decr) in accounts payable	(110)	3	352
Incr (decr) in lottery prizes payable	-	-	-
Incr (decr) in due to other funds	-	-	-
Incr (decr) in due to other governments	-	-	-
Incr (decr) in deferred revenue	(20)	-	-
Incr (decr) in compensated absences payable	2	4	-
Incr (decr) in OPEB implicit rate subsidy	6	15	-
Incr (decr) in estimated claims	-	-	-
Net cash provided by (used for) operating activities	$ (33)	$ (13)	$ 400
Schedule of noncash transactions:			
Capital asset acquisitions from contributed capital	-	-	-
Capital contributions from other funds	-	-	-
Total noncash transactions	$ -	$ -	$ -

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ 1,824	$ 68	$ 23,714
-	17	884
1	2	34
1	-	7
-	-	23
(184)	(1)	(368)
(4)	-	(35)
128	(7)	1,346
-	-	1
-	-	33
414	12	426
-	(14)	17
27	-	507
34	(22)	(1,223)
-	-	(536)
-	-	(377)
(25)	-	(25)
-	81	(1,372)
6	(9)	(40)
59	29	655
-	-	2,049
$ 2,281	$ 156	$ 25,720
-	-	36
-	-	281
$ -	$ -	$ 317

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.

Other Internal Services – This category includes several small internal service funds administered by various 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.

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2011
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
ASSETS					
Current assets:					
Cash/cash equivalents	$ 1,283	$ 1,310	$ 38,844	$ 8,346	$ 30,932
Receivables (net)	12	23	912	64	6
Interfund loans receivable	-	-	-	355	-
Due from other governments	-	-	-	-	-
Due from other funds	-	-	-	-	-
Due from component units	-	-	-	-	-
Inventories	-	1,883	-	-	-
Securities lending collateral	-	-	5,101	-	347
Other current assets	-	-	10	81	-
Total current assets	1,295	3,216	44,867	8,846	31,285
Noncurrent assets:					
Long-term investments	-	-	38,810	-	443
Capital assets:					
Land	-	-	-	-	-
Land improvements	-	-	-	-	-
Buildings/improvements	-	-	-	793	-
Equipment	11,367	143,537	-	46,907	-
Construction in progress	-	2,845	-	2,556	-
Intangible assets	-	-	-	-	303
Less accumulated depreciation	(5,384)	(79,463)	-	(44,650)	-
Total capital assets	5,983	66,919	-	5,606	303
Total noncurrent assets	5,983	66,919	38,810	5,606	746
Total assets	7,278	70,135	83,677	14,452	32,031
LIABILITIES					
Current liabilities:					
Accounts payable	279	875	2,638	2,693	361
Interfund loans payable	-	1,400	-	-	-
Due to other funds	-	-	-	12	-
Deferred revenue	-	-	1,373	-	-
Amounts held in custody for others	-	-	-	-	-
Lease/installment purchase payable	-	-	-	-	-
Securities lending liability	-	-	5,101	-	347
Estimated insurance claims	-	-	12,528	-	3,623
Compensated absences payable	8	500	61	1,016	56
Total current liabilities	287	2,775	21,701	3,721	4,387
Noncurrent liabilities:					
Advances from other funds	300	-	-	-	-
Lease/installment purchase payable	-	-	-	-	-
Estimated insurance claims	-	-	1,872	-	14,339
Compensated absences payable	5	354	21	704	128
OPEB implicit rate subsidy	37	1,490	163	2,201	182
Total noncurrent liabilities	342	1,844	2,056	2,905	14,649
Total liabilities	629	4,619	23,757	6,626	19,036
NET ASSETS					
Invested in capital assets, net of related debt	5,983	66,919	-	5,606	303
Unrestricted	666	(1,403)	59,920	2,220	12,692
Total net assets	$ 6,649	$ 65,516	$ 59,920	$ 7,826	$ 12,995

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ 1,013	$ 1,301	$ 986	$ 3,687	$ 382	$ 1,943	$ 545	$ 906
(3)	-	18	3	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
4	-	-	-	-	-	-	-
3	-	-	-	-	-	-	-
318	21	160	-	-	-	-	-
-	-	-	-	-	-	-	-
9	-	585	-	-	4	61	-
1,344	1,322	1,749	3,690	382	1,947	606	906
-	-	-	-	-	-	-	-
-	236	-	-	-	-	-	-
-	-	-	95	-	-	-	-
-	-	-	1,091	-	-	-	-
115	16,586	2,482	566	-	291	83	-
-	-	-	1,321	-	-	-	-
-	-	-	-	-	11	-	-
(103)	(9,142)	(1,310)	(625)	-	(176)	(52)	-
12	7,680	1,172	2,448	-	126	31	-
12	7,680	1,172	2,448	-	126	31	-
1,356	9,002	2,921	6,138	382	2,073	637	906
321	184	352	687	39	200	109	71
-	-	-	-	-	-	-	-
-	867	-	979	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	118	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
22	13	59	122	66	294	77	100
343	1,064	529	1,788	105	494	186	171
-	2,856	-	-	-	-	-	-
-	-	401	-	-	-	-	-
-	-	-	-	-	-	-	-
62	14	82	75	105	157	127	67
100	72	406	361	164	714	215	303
162	2,942	889	436	269	871	342	370
505	4,006	1,418	2,224	374	1,365	528	541
12	7,680	653	2,448	-	126	31	-
839	(2,684)	850	1,466	8	582	78	365
$ 851	$ 4,996	$ 1,503	$ 3,914	$ 8	$ 708	$ 109	$ 365

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS - Continued
INTERNAL SERVICE FUNDS
JUNE 30, 2011
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
ASSETS					
Current assets:					
Cash/cash equivalents	$ 1,303	$ 851	$ 109	$ 1,184	$ 210
Receivables (net)	2	-	-	-	-
Interfund loans receivable	-	-	-	-	-
Due from other governments	-	-	-	-	-
Due from other funds	148	-	-	37	17
Due from component units	-	-	-	-	-
Inventories	-	6	9	-	-
Securities lending collateral	-	-	-	-	-
Other current assets	22	2	-	75	-
Total current assets	1,475	859	118	1,296	227
Noncurrent assets:					
Long-term investments	-	-	-	-	-
Capital assets:					
Land	-	-	-	-	-
Land improvements	-	-	-	-	-
Buildings/improvements	-	-	-	-	-
Equipment	597	-	149	11	62
Construction in progress	-	18	-	-	-
Intangible assets	-	546	-	4	-
Less accumulated depreciation	(497)	-	(123)	(9)	(37)
Total capital assets	100	564	26	6	25
Total noncurrent assets	100	564	26	6	25
Total assets	1,575	1,423	144	1,302	252
LIABILITIES					
Current liabilities:					
Accounts payable	197	80	8	197	89
Interfund loans payable	-	-	-	-	-
Due to other funds	-	-	-	-	-
Deferred revenue	(11)	-	-	-	-
Amounts held in custody for others	(1)	2	-	-	-
Lease/installment purchase payable	-	-	20	-	-
Securities lending liability	-	-	-	-	-
Estimated insurance claims	-	-	-	-	-
Compensated absences payable	284	101	7	164	77
Total current liabilities	469	183	35	361	166
Noncurrent liabilities:					
Advances from other funds	-	-	-	-	-
Lease/installment purchase payable	-	-	4	-	-
Estimated insurance claims	-	-	-	-	-
Compensated absences payable	254	77	8	220	58
OPEB implicit rate subsidy	661	324	68	317	149
Total noncurrent liabilities	915	401	80	537	207
Total liabilities	1,384	584	115	898	373
NET ASSETS					
Invested in capital assets, net of related debt	100	564	2	6	25
Unrestricted	91	275	27	398	(146)
Total net assets	$ 191	$ 839	$ 29	$ 404	$ (121)

JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$ 132	$ 42	$ 158	$ 3,095	$ 245	$ 1,448	$ 100,255
-	1	-	86	-	-	1,124
-	-	-	-	-	-	355
-	2	-	-	-	-	2
10	-	-	-	-	-	216
-	-	-	-	-	-	3
-	-	-	1,343	175	-	3,915
-	-	-	-	-	-	5,448
-	-	-	-	-	-	849
142	45	158	4,524	420	1,448	112,167
-	-	-	-	-	-	39,253
-	-	-	-	-	-	236
-	-	-	-	-	-	95
-	-	-	2,820	-	-	4,704
-	-	-	1,972	77	66	224,868
-	-	-	-	-	504	7,244
-	-	-	-	-	203	1,067
-	-	-	(2,524)	(67)	(59)	(144,221)
-	-	-	2,268	10	714	93,993
-	-	-	2,268	10	714	133,246
142	45	158	6,792	430	2,162	245,413
38	6	5	336	25	220	10,010
-	-	-	-	62	-	1,462
-	-	-	-	-	-	1,858
-	-	-	16	-	-	1,378
-	-	-	-	-	-	1
-	-	-	-	-	-	138
-	-	-	-	-	-	5,448
-	-	-	-	-	-	16,151
75	8	2	64	23	103	3,302
113	14	7	416	110	323	39,748
-	-	-	-	-	-	3,156
-	-	-	-	-	-	405
-	-	-	-	-	-	16,211
149	8	-	27	5	116	2,823
172	35	38	300	42	200	8,714
321	43	38	327	47	316	31,309
434	57	45	743	157	639	71,057
-	-	-	2,268	10	714	93,450
(292)	(12)	113	3,781	263	809	80,906
$ (292)	$ (12)	$ 113	$ 6,049	$ 273	$ 1,523	$ 174,356

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
Operating revenues:					
Charges for services	$ 2,806	$ 22,816	$ 542	$ 40,290	$ -
Investment earnings	-	-	748	-	83
Securities lending income	-	-	47	-	16
Contributions/premiums	-	-	129,648	-	11,750
Grants/contracts/donations	-	-	2,992	-	-
Other operating revenues	-	183	1,075	45	2
Total operating revenues	2,806	22,999	135,052	40,335	11,851
Operating expenses:					
Personal services	117	7,535	1,023	14,900	1,103
Contractual services	95	304	5,996	1,084	4,785
Supplies/materials	1,332	9,256	47	1,083	34
Benefits/claims	9	362	110,263	542	5,068
Depreciation	558	6,173	-	1,939	-
Amortization	6	-	18	-	78
Utilities/rent	25	88	119	8,708	62
Communications	4	8	71	6,296	23
Travel	10	17	10	38	20
Repair/maintenance	713	4,347	-	1,762	3
Securities lending expense	-	-	13	-	3
Interest expense	-	-	-	16	-
Other operating expenses	5	223	840	1,170	301
Total operating expenses	2,874	28,313	118,400	37,538	11,480
Operating income (loss)	(68)	(5,314)	16,652	2,797	371
Nonoperating revenues (expenses):					
Insurance proceeds	3	-	-	-	227
Gain (loss) on sale of capital assets	(47)	(13)	-	-	-
Federal indirect cost recoveries	-	-	-	-	-
Total nonoperating revenues (expenses)	(44)	(13)	-	-	227
Income (loss) before contributions and transfers	(112)	(5,327)	16,652	2,797	598
Capital contributions	-	1,576	-	810	-
Transfers in	-	-	-	-	4,236
Transfers out	-	-	-	-	(388)
Changes in net assets	(112)	(3,751)	16,652	3,607	4,446
Total net assets - July 1 - as previously reported	6,761	68,974	42,796	3,710	8,549
Prior period adjustments	-	293	472	509	-
Total net assets - July 1 - as restated	6,761	69,267	43,268	4,219	8,549
Total net assets - June 30	$ 6,649	$ 65,516	$ 59,920	$ 7,826	$ 12,995

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ 4,740	$ 6,383	$ 10,663	$ 9,286	$ 1,289	$ 5,183	$ 25	$ 1,139
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,139	9
4,740	6,383	10,663	9,286	1,289	5,183	1,164	1,148
393	350	1,364	1,781	1,064	4,207	1,291	1,486
39	316	130	2,940	37	758	34	259
4,101	1,568	4,005	235	20	250	44	60
23	17	95	96	44	193	51	75
-	2,038	269	181	-	36	14	-
-	-	-	-	-	12	-	-
103	73	224	2,364	35	227	97	278
28	1	4,293	33	22	91	24	186
-	-	-	-	1	31	9	8
8	359	421	1,181	2	101	11	20
-	-	-	-	-	-	-	-
-	134	53	(10)	-	-	-	-
25	55	81	248	17	628	14	73
4,720	4,911	10,935	9,049	1,242	6,534	1,589	2,445
20	1,472	(272)	237	47	(1,351)	(425)	(1,297)
-	24	-	-	-	-	-	-
-	187	(28)	4	-	-	(17)	-
-	-	-	-	-	1,581	340	1,773
-	211	(28)	4	-	1,581	323	1,773
20	1,683	(300)	241	47	230	(102)	476
-	-	-	-	-	-	-	-
-	-	-	-	-	2	-	-
-	-	-	(1,860)	-	-	-	-
20	1,683	(300)	(1,619)	47	232	(102)	476
831	3,277	1,815	5,533	(39)	476	211	(111)
-	36	(12)	-	-	-	-	-
831	3,313	1,803	5,533	(39)	476	211	(111)
$ 851	$ 4,996	$ 1,503	$ 3,914	$ 8	$ 708	$ 109	$ 365

(Continued on Next Page)

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - Continued
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
Operating revenues:					
Charges for services	$ 3,998	$ 3,659	$ 829	$ 4,417	$ 438
Investment earnings	-	-	-	-	-
Securities lending income	-	-	-	-	-
Contributions/premiums	-	-	-	-	-
Grants/contracts/donations	-	-	-	-	-
Other operating revenues	6	-	-	-	1
Total operating revenues	4,004	3,659	829	4,417	439
Operating expenses:					
Personal services	3,864	1,369	209	2,372	1,178
Contractual services	497	1,134	154	1,238	64
Supplies/materials	232	20	40	28	175
Benefits/claims	157	83	14	73	40
Depreciation	49	-	23	1	2
Amortization	-	132	-	2	-
Utilities/rent	1,413	65	18	160	143
Communications	212	39	350	33	8
Travel	16	3	-	32	33
Repair/maintenance	29	346	22	2	220
Securities lending expense	-	-	-	-	-
Interest expense	-	-	-	-	-
Other operating expenses	201	87	14	346	14
Total operating expenses	6,670	3,278	844	4,287	1,877
Operating income (loss)	(2,666)	381	(15)	130	(1,438)
Nonoperating revenues (expenses):					
Insurance proceeds	-	-	-	-	-
Gain (loss) on sale of capital assets	-	-	-	-	-
Federal indirect cost recoveries	2,671	-	-	-	-
Total nonoperating revenues (expenses)	2,671	-	-	-	-
Income (loss) before contributions and transfers	5	381	(15)	130	(1,438)
Capital contributions	-	-	-	-	-
Transfers in	-	-	-	-	1,228
Transfers out	-	-	-	-	-
Changes in net assets	5	381	(15)	130	(210)
Total net assets - July 1 - as previously reported	186	458	209	274	89
Prior period adjustments	-	-	(165)	-	-
Total net assets - July 1 - as restated	186	458	44	274	89
Total net assets - June 30	$ 191	$ 839	$ 29	$ 404	$ (121)

JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$ 1,198	$ 275	$ 182	$ 6,354	$ 372	$ 4,159	$ 131,043
-	-	-	-	-	-	831
-	-	-	-	-	-	63
-	-	-	-	-	-	141,398
-	-	-	-	-	-	2,992
-	-	-	-	-	2	2,462
1,198	275	182	6,354	372	4,161	278,789
1,067	131	142	1,225	336	754	49,261
55	25	10	68	14	1,537	21,573
29	40	2	3,700	103	79	26,483
37	6	11	72	17	46	117,394
-	-	-	206	4	-	11,493
-	-	-	-	-	184	432
67	26	3	187	30	36	14,551
24	5	11	7	5	24	11,798
4	11	-	3	1	6	253
3	1	-	129	12	738	10,430
-	-	-	-	-	-	16
-	-	-	-	-	-	193
13	4	-	159	17	83	4,618
1,299	249	179	5,756	539	3,487	268,495
(101)	26	3	598	(167)	674	10,294
-	-	-	-	-	-	254
-	-	-	-	-	-	86
-	-	-	-	84	-	6,449
-	-	-	-	84	-	6,789
(101)	26	3	598	(83)	674	17,083
-	-	-	24	-	-	2,410
-	-	-	-	-	-	5,466
-	-	-	-	-	-	(2,248)
(101)	26	3	622	(83)	674	22,711
(191)	(38)	110	4,002	356	849	149,087
-	-	-	1,425	-	-	2,558
(191)	(38)	110	5,427	356	849	151,645
$ (292)	$ (12)	$ 113	$ 6,049	$ 273	$ 1,523	$ 174,356

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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	$ 2,861	$ 23,133	$ 131,661	$ 40,278	$ 11,750
Payments to suppliers for goods and services	(2,067)	(14,597)	(6,610)	(25,333)	(5,181)
Payments to employees	(118)	(7,421)	(4,835)	(13,962)	(1,089)
Grant receipts	-	-	2,992	-	-
Cash payments for claims	-	-	(106,004)	-	(3,734)
Other operating revenues	-	-	1,353	45	2
Net cash provided by (used for)				-	
operating activities	676	1,115	18,557	1,028	1,748
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Payment of principal and interest on bonds and notes	-	-	-	(476)	-
Transfers to other funds	-	-	-	-	(388)
Transfers from other funds	-	-	-	-	4,236
Proceeds from interfund loans/advances	-	1,400	-	-	-
Payment of interfund loans/advances	-	-	-	-	-
Net cash provided by (used for) noncapital financing activities	-	1,400	-	(476)	3,848
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	3	-	-	-	227
Acquisition of capital assets	(80)	(4,699)	-	(1,615)	(177)
Proceeds from sale of capital assets	-	-	-	-	-
Net cash used for capital and related financing activities	(77)	(4,699)	-	(1,615)	50
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	-	(5,270)	-	852
Proceeds from securities lending transactions	-	-	47	-	16
Interest and dividends on investments	-	-	746	-	83
Payment of securities lending costs	-	-	(13)	-	(3)
Net cash provided by (used for) investing activities	-	-	(4,490)	-	948
Net increase (decrease) in cash and cash equivalents	599	(2,184)	14,067	(1,063)	6,594
Cash and cash equivalents, July 1	684	3,494	24,777	9,409	24,338
Cash and cash equivalents, June 30	$ 1,283	$ 1,310	$ 38,844	$ 8,346	$ 30,932

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ 4,747	$ 6,783	$ 10,719	$ 9,286	$ 1,289	$ 5,183	$ 25	$ 1,139
(4,404)	(2,349)	(9,473)	(6,705)	(143)	(2,072)	(234)	(866)
(386)	(359)	(1,363)	(1,761)	(1,068)	(4,201)	(1,318)	(1,515)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	1,582	1,478	1,782
(43)	4,075	(117)	820	78	492	(49)	540
-	(134)	(53)	10	-	-	-	-
-	-	-	(1,860)	-	-	-	-
-	-	-	-	-	2	-	-
44	-	-	-	-	-	-	-
-	(4,538)	-	-	-	(2)	-	-
44	(4,672)	(53)	(1,850)	-	-	-	-
-	24	-	-	-	-	-	-
-	566	(225)	(251)	-	(33)	(16)	-
-	-	-	-	-	-	-	-
-	590	(225)	(251)	-	(33)	(16)	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1	(7)	(395)	(1,281)	78	459	(65)	540
1,012	1,308	1,381	4,968	304	1,484	610	366
$ 1,013	$ 1,301	$ 986	$ 3,687	$ 382	$ 1,943	$ 545	$ 906

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from sales and services	$ 4,188	$ 3,661	$ 829	$ 4,416
Payments to suppliers for goods and services	(2,744)	(1,761)	(734)	(1,828)
Payments to employees	(3,795)	(1,348)	(209)	(2,381)
Grant receipts	-	-	-	-
Cash payments for claims	-	-	-	-
Other operating revenues	2,938	-	-	-
Net cash provided by (used for) operating activities	587	552	(114)	207
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Payment of principal and interest on bonds and notes	-	-	(44)	-
Transfers to other funds	-	-	-	-
Transfers from other funds	-	-	-	-
Proceeds from interfund loans/advances	-	-	-	-
Payment of interfund loans/advances	-	-	-	-
Net cash provided by (used for) noncapital financing activities	-	-	(44)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from insurance	-	-	-	-
Acquisition of capital assets	(33)	(492)	23	-
Proceeds from sale of capital assets	-	-	-	-
Net cash used for capital and related financing activities	(33)	(492)	23	-
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	554	60	(135)	207
Cash and cash equivalents, July 1	749	791	244	977
Cash and cash equivalents, June 30	$ 1,303	$ 851	$ 109	$ 1,184

AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$ 471	$ 1,195	$ 278	$ 182	$ 6,295	$ 372	$ 4,159	$ 274,900
(681)	(200)	(113)	(26)	(3,780)	(253)	(2,343)	(94,497)
(1,160)	(1,052)	(123)	(144)	(1,213)	(337)	(739)	(51,897)
-	-	-	-	-	-	-	2,992
-	-	-	-	-	-	-	(109,738)
1	-	-	-	-	84	2	9,267
(1,369)	(57)	42	12	1,302	(134)	1,079	31,027
-	-	-	-	-	-	-	(697)
-	-	-	-	-	-	-	(2,248)
1,229	-	-	-	-	-	-	5,467
-	-	-	-	-	29	-	1,473
-	-	-	-	-	-	-	(4,540)
							-
1,229	-	-	-	-	29	-	(545)
-	-	-	-	-	-	-	254
-	-	-	-	(18)	-	(504)	(7,554)
-	-	-	-	-	-	-	-
-	-	-	-	(18)	-	(504)	(7,300)
-	-	-	-	-	(6)	-	(4,424)
-	-	-	-	-	-	-	63
-	-	-	-	-	-	-	829
-	-	-	-	-	-	-	(16)
-	-	-	-	-	(6)	-	(3,548)
(140)	(57)	42	12	1,284	(111)	575	19,634
350	189	-	146	1,811	356	873	80,621
$ 210	$ 132	$ 42	$ 158	$ 3,095	$ 245	$ 1,448	$ 100,255

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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)	$ (68)	$ (5,314)	$ 16,652	$ 2,797	$ 371
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	558	6,173	-	1,939	-
Amortization	6	-	18	-	78
Interest expense	-	-	-	16	-
Securities lending expense	-	-	13	-	3
Investment earnings	-	-	(746)	-	(83)
Securities lending income	-	-	(47)	-	(16)
Federal indirect cost recoveries	-	-	-	-	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	-	(15)	1,747	(7)	1
Decr (incr) in due from other funds	55	149	472	83	-
Decr (incr) in due from component units	-	-	-	-	-
Decr (incr) in due from other governments	-	-	-	-	-
Decr (incr) in inventories	-	(215)	-	-	-
Decr (incr) in other assets	-	293	16	370	-
Incr (decr) in accounts payable	118	(382)	(1,232)	(4,504)	53
Incr (decr) in due to other funds	-	-	-	(1)	-
Incr (decr) in deferred revenue	-	-	209	(88)	-
Incr (decr) in amounts held in custody for others	-	-	-	-	-
Incr (decr) in compensated absences payable	(2)	64	20	(119)	7
Incr (decr) in OPEB implicit rate subsidy	9	362	45	542	46
Incr (decr) in estimated claims	-	-	1,390	-	1,288
Net cash provided by (used for) operating activities	$ 676	$ 1,115	$ 18,557	$ 1,028	$ 1,748
Schedule of noncash transactions:					
Capital asset acquisitions from contributed capital	-	1,576	-	810	-
Total noncash transactions	$ -	$ 1,576	$ -	$ 810	$ -

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ 20	$ 1,472	$ (272)	$ 237	$ 47	$ (1,351)	$ (425)	$ (1,297)
-	2,038	270	181	-	36	14	-
-	-	-	-	-	12	-	-
-	134	53	(10)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	1,581	340	1,773
4	-	55	-	-	-	-	-
6	399	-	-	-	-	-	-
(3)	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
(15)	(6)	(21)	-	-	-	-	-
-	-	(157)	-	-	(1)	(63)	-
(83)	33	(134)	310	(9)	12	62	10
-	1	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
5	(12)	(5)	5	(5)	8	(28)	(21)
23	16	94	97	45	195	51	75
-	-	-	-	-	-	-	-
$ (43)	$ 4,075	$ (117)	$ 820	$ 78	$ 492	$ (49)	$ 540
-	-	-	-	-	-	-	-
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

COMBINING STATEMENT OF CASH FLOWS - Continued
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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)	$ (2,666)	$ 381	$ (15)	$ 130
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	49	-	23	1
Amortization	-	132	-	2
Interest expense	-	-	-	-
Securities lending expense	-	-	-	-
Investment earnings	-	-	-	-
Securities lending income	-	-	-	-
Federal indirect cost recoveries	2,671	-	-	-
Change in assets and liabilities:				
Decr (incr) in accounts receivable	1	-	-	-
Decr (incr) in due from other funds	461	-	-	(1)
Decr (incr) in due from component units	-	-	-	-
Decr (incr) in due from other governments	-	-	-	-
Decr (incr) in inventories	-	-	29	-
Decr (incr) in other assets	(11)	1	(161)	(1)
Incr (decr) in accounts payable	(66)	(63)	(2)	16
Incr (decr) in due to other funds	(47)	-	-	-
Incr (decr) in deferred revenue	(11)	-	-	-
Incr (decr) in amounts held in custody for others	-	2	-	-
Incr (decr) in compensated absences payable	49	17	(1)	(13)
Incr (decr) in OPEB implicit rate subsidy	157	82	13	73
Incr (decr) in estimated claims	-	-	-	-
Net cash provided by (used for) operating activities	$ 587	$ 552	$ (114)	$ 207

Schedule of noncash transactions:				
Capital asset acquisitions from contributed capital	-	-	-	-
Total noncash transactions	$ -	$ -	$ -	$ -

AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
$ (1,438)	$ (101)	$ 26	$ 3	$ 598	$ (167)	$ 674	$ 10,294
2	-	-	-	206	4	-	11,494
-	-	-	-	-	-	184	432
-	-	-	-	-	-	-	193
-	-	-	-	-	-	-	16
-	-	-	-	-	-	-	(829)
-	-	-	-	-	-	-	(63)
-	-	-	-	-	84	-	6,449
-	-	-	-	(49)	-	-	1,737
33	(3)	-	-	-	-	-	1,654
-	-	-	-	-	-	-	(3)
-	-	4	-	-	-	-	4
-	-	-	-	(1,200)	-	-	(1,428)
-	-	-	-	1,425	-	-	1,711
(15)	(5)	-	-	256	(69)	167	(5,527)
-	-	-	-	-	-	-	(47)
-	-	-	-	(10)	-	-	100
-	-	-	-	-	-	-	2
10	16	6	(2)	5	(2)	8	10
39	36	6	11	71	16	46	2,150
-	-	-	-	-	-	-	2,678
$ (1,369)	$ (57)	$ 42	$ 12	$ 1,302	$ (134)	$ 1,079	$ 31,027
-	-	-	-	24	-	-	2,410
$ -	$ -	$ -	$ -	$ 24	$ -	$ -	$ 2,410

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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, 2011
(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	$ 62,929	$ 2,616	$ 2,787	$ 4,926	$ 1,718	$ 1,395
Receivables (net):						
Accounts receivable	3,862	131	122	500	161	73
Interest	5,958	330	328	317	149	96
Due from primary government	-	11,594	11,365	-	-	-
Due from other PERB plans	404	-	-	-	-	-
Long-term notes/loans receivable	12	-	-	-	-	-
Total receivables	10,236	12,055	11,815	817	310	169
Investments at fair value:						
Equity in pooled investments	3,872,348	214,430	212,962	206,014	96,994	62,162
Other investments	1,023	45	48	82	26	23
Total investments	3,873,371	214,475	213,010	206,096	97,020	62,185
Securities lending collateral	195,532	10,831	10,766	10,420	4,905	3,143
Capital assets:						
Land	-	-	-	-	-	-
Buildings/improvements	-	-	-	-	-	-
Equipment	5	-	-	-	-	-
Accumulated depreciation	(5)	-	-	-	-	-
Intangible assets	105	1	1	1	1	1
Total capital assets	105	1	1	1	1	1
Other assets	-	-	-	-	-	-
Total assets	4,142,173	239,978	238,379	222,260	103,954	66,893
LIABILITIES						
Accounts payable	579	7	7	30	7	8
Due to other PERB plans	282	78	64	90	29	8
Deferred revenue	3,162	12	9	20	161	73
Amounts held in custody for others	-	-	-	-	-	-
Securities lending liability	195,532	10,831	10,766	10,420	4,905	3,143
Compensated absences payable	224	1	1	2	1	2
OPEB implicit rate subsidy	286	5	4	6	2	1
Total liabilities	200,065	10,934	10,851	10,568	5,105	3,235
NET ASSETS						
Held in trust for pension benefits and other purposes	$ 3,942,108	$ 229,044	$ 227,528	$ 211,692	$ 98,849	$ 63,658

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
$ 2,538	$ 1,665	$ 3,346	$ 961	$ 48,886	$ 1,807	$ 135,574
271	-	36	-	18,727	-	23,883
141	39	1	-	4,462	-	11,821
-	-	-	-	-	-	22,959
-	-	263	-	-	-	667
-	-	-	-	-	-	12
412	39	300	-	23,189	-	59,342
91,630	25,327	-	-	2,899,968	-	7,681,835
39	29	75,298	360,009	688	1,982	439,292
91,669	25,356	75,298	360,009	2,900,656	1,982	8,121,127
4,634	1,303	44	13	146,389	-	387,980
-	-	-	-	35	-	35
-	-	-	-	158	-	158
-	-	-	-	143	-	148
-	-	-	-	(221)	-	(226)
1	-	3	1	28	-	143
1	-	3	1	143	-	258
-	-	-	-	6	-	6
99,254	28,363	78,991	360,984	3,119,269	3,789	8,704,287
39	6	104	309	86	85	1,267
57	58	-	-	-	-	666
271	-	-	-	-	-	3,708
-	-	-	5	-	-	5
4,634	1,303	44	13	146,389	-	387,980
2	1	21	14	181	-	450
4	4	33	23	193	1	562
5,007	1,372	202	364	146,849	86	394,638
$ 94,247	$ 26,991	$ 78,789	$ 360,620	$ 2,972,420	$ 3,703	$ 8,309,649

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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	$ 79,090 $	5,670 $	5,009 $	6,014 $	4,542 $	1,477
Employee	77,798	3,580	3,748	5,824	1,268	479
Other contributions	705	11,594	11,365	6	280	25
Net investment earnings:						
Investment earnings	735,465	40,278	39,844	38,598	18,412	11,712
Administrative investment expenses	(21,225)	(1,168)	(1,157)	(1,120)	(530)	(339)
Securities lending income	1,604	90	89	86	41	26
Securities lending expense	(446)	(25)	(25)	(24)	(11)	(7)
Charges for services	-	-	-	-	-	-
Other additions	-	-	-	-	-	-
Total additions	872,991	60,019	58,873	49,384	24,002	13,373
DEDUCTIONS						
Benefits	231,301	17,013	15,605	9,237	7,866	2,240
Refunds	11,536	1,000	128	968	121	-
Administrative expenses:						
Personal services	1,898	4	4	6	4	6
Contractual services	1,033	20	20	22	19	22
Supplies/materials	103	2	2	3	2	3
Depreciation	-	-	-	-	-	-
Amortization	106	1	1	1	1	1
Utilities/rent	212	-	-	-	-	-
Communications	130	-	-	-	-	-
Travel	38	-	-	-	-	-
Repair/maintenance	7	-	-	-	-	-
Other operating expenses	(281)	78	64	90	29	8
Local assistance	-	-	-	-	-	-
Transfer to ORP	140	-	-	-	-	-
Transfer to PERS-DCRP	609	-	-	-	-	-
Total deductions	246,832	18,118	15,824	10,327	8,042	2,280
Changes in net assets	626,159	41,901	43,049	39,057	15,960	11,093
Net assets- July 1- as previously reported	3,315,904	187,143	184,479	172,635	82,889	52,565
Prior period adjustments	45	-	-	-	-	-
Net assets - July 1- as restated	3,315,949	187,143	184,479	172,635	82,889	52,565
Net assets - June 30	$ 3,942,108 $	229,044 $	227,528 $	211,692 $	98,849 $	63,658

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
$ 3,523 $	- $	3,972 $	64 $	72,880 $	2,186 $	184,427
4,173	-	6,100	19,072	62,993	-	185,035
25	1,596	-	7	17,437	-	43,040
16,801	4,924	12,698	37,699	554,141	(1)	1,510,571
(493)	(140)	-	(792)	(15,979)	-	(42,943)
37	11	2	-	1,201	-	3,187
(10)	(3)	-	-	(334)	-	(885)
-	-	274	416	-	-	690
-	-	415	-	16	-	431
24,056	6,388	23,461	56,466	692,355	2,185	1,883,553
2,864	1,938	3,646	15,421	235,172	1,345	543,648
993	-	-	-	4,365	-	19,111
6	3	205	121	1,099	27	3,383
22	16	436	1,112	374	13	3,109
3	2	13	11	57	-	201
-	-	-	-	21	-	21
1	-	2	1	78	-	193
-	-	26	18	61	-	317
-	-	6	9	60	-	205
-	-	8	7	18	-	71
-	-	-	-	11	-	18
57	58	19	11	64	27	224
-	15	-	-	-	-	15
-	-	-	-	-	-	140
-	-	-	-	-	-	609
3,946	2,032	4,361	16,711	241,380	1,412	571,265
20,110	4,356	19,100	39,755	450,975	773	1,312,288
74,137	22,635	59,689	320,865	2,521,445	2,930	6,997,316
-	-	-	-	-	-	45
74,137	22,635	59,689	320,865	2,521,445	2,930	6,997,361
$ 94,247 $	26,991 $	78,789 $	360,620 $	2,972,420 $	3,703 $	8,309,649

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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 interest earnings on this money are provided to Central Montana Rail, Inc. for use in operating the railroad. The balance is currently retained in the fund that is managed by the Department of Transportation.

Reclamation Performance Deposits – This fund accounts for agricultural licenses and/or 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 process.

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUNDS
JUNE 30, 2011
(amounts expressed in thousands)

	COLLEGE SAVINGS PLAN	ESCHEATED PROPERTY	PLAN SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
ASSETS				
Cash/cash equivalents	$ 131,224	$ 2,696	$ -	$ 47
Receivables (net):				
Interest	-	1	-	-
Total receivables	-	1	-	-
Investments at fair value:				
Other investments	95,755	45	-	-
Total investments	95,755	45	-	-
Securities lending collateral	-	35	-	1
Other assets	-	-	24,823	-
Total assets	226,979	2,777	24,823	48
LIABILITIES				
Accounts payable	-	9	-	-
Amounts held in custody for others	-	-	-	-
Securities lending liability	-	35	-	1
Total liabilities	-	44	-	1
NET ASSETS				
Held in trust for other purposes	$ 226,979	$ 2,733	$ 24,823	$ 47

MOORE-SIPPLE CONNECTOR	RECLAMATION PERFORMANCE DEPOSITS	TOTAL
$ 234	$ 21,954	$ 156,155
-	4	5
-	4	5
5	341	96,146
5	341	96,146
3	267	306
-	4,313	29,136
242	26,879	281,748
-	-	9
-	1,184	1,184
3	267	306
3	1,451	1,499
$ 239	$ 25,428	$ 280,249

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

	COLLEGE SAVINGS PLAN	ESCHEATED PROPERTY	PLAN SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
ADDITIONS				
Participant contributions	$ 23,606	$ -	$ 5,315	$ -
Net investment earnings:				
Investment earnings	13,995	7	-	-
Securities lending income	-	1	-	-
Securities lending expense	-	-	-	-
Other additions	-	3,977	-	-
Total additions	37,601	3,985	5,315	-
DEDUCTIONS				
Distributions	53,242	3,695	-	-
Administrative expenses:				
Grants	-	-	-	-
Contractual services	1,677	-	-	-
Total deductions	54,919	3,695	-	-
Change in net assets	(17,318)	290	5,315	-
Net assets - July 1 - as previously reported	244,297	2,443	19,508	47
Net assets - July 1 - as restated	244,297	2,443	19,508	47
Net assets - June 30	$ 226,979	$ 2,733	$ 24,823	$ 47

MOORE-SIPPLE CONNECTOR	RECLAMATION PERFORMANCE DEPOSITS	TOTAL
$ -	$ -	$ 28,921
1	52	14,055
-	10	11
-	(2)	(2)
-	2,852	6,829
1	2,912	49,814
-	714	57,651
1	-	1
-	-	1,677
1	714	59,329
-	2,198	(9,515)
239	23,230	289,764
239	23,230	289,764
$ 239	$ 25,428	$ 280,249

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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, 2011
(amounts expressed in thousands)

	PERFORMANCE DEPOSITS	CENTRAL PAYROLL	CRIMINAL OFFENDER RESTITUTION	CUSTODIAL ACCOUNTS	CHILD SUPPORT COLLECTIONS
ASSETS					
Cash/cash equivalents	$ 1,688	$ 7,178	$ 158	$ 1,777	$ 199
Recievables (net):					
Accounts receivable	-	-	-	29	427
Total receivables	-	-	-	29	427
Investments at fair value:					
Other investments	-	-	-	5	-
Total investments	-	-	-	5	-
Securities lending collateral	-	-	-	4	-
Other assets	13,367	-	-	9	-
Total assets	15,055	7,178	158	1,824	626
LIABILITIES					
Accounts payable	45	2	-	(6)	259
Amounts held in custody for others	15,010	7,176	158	1,826	367
Securities lending liability	-	-	-	4	-
Total liabilities	15,055	7,178	158	1,824	626
NET ASSETS					
Held in trust for pension benefits and other purposes	$ -	$ -	$ -	$ -	$ -

UNCLEARED COLLECTIONS	INTER-GOVERNMENTAL	DEBT COLLECTION	MILK PASS-THROUGH	TOTAL
$ 2	$ 37	$ 562	$ 65	$ 11,666
-	1	-	-	457
-	1	-	-	457
-	-	-	-	5
-	-	-	-	5
-	-	-	-	4
-	-	-	-	13,376
2	38	562	65	25,508
-	-	6	17	323
2	38	556	48	25,181
-	-	-	-	4
2	38	562	65	25,508
$ -	$ -	$ -	$ -	$ -

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2010	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2011
PERFORMANCE DEPOSITS:				
ASSETS				
Cash/cash equivalents	$ 1,820	$ 172,184	$ 172,316	$ 1,688
Receivables (net)	-	27	27	-
Other assets	12,203	2,783	1,619	13,367
Total assets	$ 14,023	$ 174,994	$ 173,962	$ 15,055
LIABILITIES				
Accounts payable	$ 113	$ 1,767	$ 1,835	$ 45
Amounts held in custody for others	13,910	5,732	4,632	15,010
Total liabilities	$ 14,023	$ 7,499	$ 6,467	$ 15,055
CENTRAL PAYROLL:				
ASSETS				
Cash/cash equivalents	$ 20,989	$ 903,825	$ 917,636	$ 7,178
Total assets	$ 20,989	$ 903,825	$ 917,636	$ 7,178
LIABILITIES				
Accounts payable	$ -	$ 10,996	$ 10,994	$ 2
Amounts held in custody for others	20,989	853,245	867,058	7,176
Total liabilities	$ 20,989	$ 864,241	$ 878,052	$ 7,178
CRIMINAL OFFENDER RESTITUTTION:				
ASSETS				
Cash/cash equivalents	$ 120	$ 4,428	$ 4,390	$ 158
Total assets	$ 120	$ 4,428	$ 4,390	$ 158
LIABILITIES				
Accounts Payable	$ 5	$ 2,388	$ 2,393	$ -
Amounts held custody others	115	4,421	4,378	158
Total liabilities	$ 120	$ 6,809	$ 6,771	$ 158
CUSTODIAL ACCOUNTS:				
ASSETS				
Cash/cash equivalents	$ 1,667	$ 9,067	$ 8,957	$ 1,777
Receivables (net)	28	30	29	29
Investments	17	16	28	5
Securities lending collateral	11	-	7	4
Other assets	13	14	18	9
Total assets	$ 1,736	$ 9,127	$ 9,039	$ 1,824
LIABILITIES				
Accounts Payable	$ 122	$ 2,575	$ 2,703	$ (6)
Amts held custody others	1,603	10,147	9,924	1,826
Securities lending liability	11	38	45	4
Total liabilities	$ 1,736	$ 12,760	$ 12,672	$ 1,824

FUND	BALANCE JUNE 30, 2010	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2011
CHILD SUPPORT COLLECTIONS:				
ASSETS				
Cash/cash equivalents	$ 45	$ 77,267	$ 77,113	$ 199
Receivables (net)	365	80	18	427
Total assets	$ 410	$ 77,347	$ 77,131	$ 626
LIABILITIES				
Accounts Payable	$ 115	$ 54,890	$ 54,746	$ 259
Amounts held custody others	295	77,123	77,051	367
Total liabilities	$ 410	$ 132,013	$ 131,797	$ 626
UNCLEARED COLLECTIONS:				
ASSETS				
Cash/cash equivalents	$ 197	$ 23,957,995	$ 23,958,190	$ 2
Total assets	$ 197	$ 23,957,995	$ 23,958,190	$ 2
LIABILITIES				
Accounts Payable	$ 195	$ 3,826	$ 4,021	$ -
Amounts held in custody others	2	1	1	2
Total liabilities	$ 197	$ 3,827	$ 4,022	$ 2
INTERGOVERNMENTAL:				
ASSETS				
Cash/cash equivalents	$ 127	$ 2,401	$ 2,491	$ 37
Receivables (net)	-	1	-	1
Total assets	$ 127	$ 2,402	$ 2,491	$ 38
LIABILITIES				
Accounts Payable	$ 68	$ 2,227	$ 2,295	$ -
Amounts held in custody others	59	1,825	1,846	38
Total liabilities	$ 127	$ 4,052	$ 4,141	$ 38
DEBT COLLECTION:				
ASSETS				
Cash/cash equivalents	$ 162	$ 4,912	$ 4,512	$ 562
Receivables (net)	-	27,449	27,449	-
Total assets	$ 162	$ 32,361	$ 31,961	$ 562
LIABILITIES				
Accounts Payable	$ 2	$ 5,570	$ 5,566	$ 6
Amounts held in custody others	160	4,194	3,798	556
Total liabilities	$ 162	$ 9,764	$ 9,364	$ 562

(Continued on Next Page)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (continued)

AGENCY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2010	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2011
MILK PASSTHROUGH:				
ASSETS				
Cash/cash equivalents	$ 61	$ 1,003	$ 999	$ 65
Total assets	$ 61	$ 1,003	$ 999	$ 65
LIABILITIES				
Accounts Payable	$ 39	$ 987	$ 1,009	$ 17
Amounts held custody others	22	1,013	987	48
Total liabilities	$ 61	$ 2,000	$ 1,996	$ 65
OPEB STATE:				
ASSETS				
Cash/cash equivalents	$ -	$ 23,157	$ 23,157	$ -
Other assets	-	23,157	23,157	-
Total assets	$ -	$ 46,314	$ 46,314	$ -
OPEB MUS:				
ASSETS				
Cash/cash equivalents	$ -	$ 10,203	$ 10,203	$ -
Other assets	-	10,203	10,203	-
Total assets	$ -	$ 20,406	$ 20,406	$ -
TOTAL - ALL AGENCY FUNDS				
ASSETS				
Cash/cash equivalents	$ 25,188	$ 25,166,442	$ 25,179,964	$ 11,666
Receivables (net)	393	27,587	27,523	457
Investments	17	16	28	5
Securities lending collateral	11	-	7	4
Other assets	12,216	36,157	34,997	13,376
Total assets	$ 37,825	$ 25,230,202	$ 25,242,519	$ 25,508
LIABILITIES				
Accounts Payable	$ 659	$ 85,226	$ 85,562	$ 323
Amts held custody others	37,155	957,701	969,675	25,181
Securities lending liability	11	38	45	4
Total liabilities	$ 37,825	$ 1,042,965	$ 1,055,282	$ 25,508

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.

Revenue Capacity Information
These schedules contain information to help understand the State's capacity to raise revenues and the sources of those revenues.

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.

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.

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.

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 Ten Fiscal Years
(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
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	$4,178,343
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	2,292,979
Unrestricted	140,044	177,161	222,829	404,724	647,182	675,752	595,019	589,815	1,083,674	877,017
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	$7,348,339
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	$ 15,581
Restricted	203,710	202,268	212,473	240,514	269,687	314,722	337,036	255,493	159,335	158,735
Unrestricted	17,223	19,251	14,909	16,672	18,539	11,761	11,234	6,996	21,851	12,349
Total business-type activities net assets	$ 233,429	$ 230,603	$ 236,307	$ 266,856	$ 296,929	$ 335,181	$ 357,003	$ 275,028	$ 194,720	$ 186,665
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	$4,193,924
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	2,451,714
Unrestricted	157,267	196,412	237,738	421,396	665,721	687,513	606,253	596,811	1,104,525	889,366
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	$7,535,004

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SCHEDULE A-2 – CHANGE IN NET ASSETS
Last Ten Fiscal Years
(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year				
Expenses	**2002**	**2003**	**2004**	**2005**	**2006**
Governmental activities:					
General government	$ 248,089	$ 280,740	$ 285,781	$ 305,819	$ 525,981
Public safety	205,983	194,885	227,786	258,610	245,810
Transportation	169,282	286,181	400,034	281,074	216,942
Health and human services	1,086,012	1,023,893	1,109,045	1,182,281	1,270,056
Education	845,324	899,575	874,846	900,542	976,046
Natural resources	108,642	234,848	258,057	197,539	142,460
Economic development/assistance	164,761	169,270	144,687	144,777	150,449
Principal on long-term debt	-	-	-	-	-
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	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	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	2011
$ 450,646	$ 634,984	$ 549,847	$ 774,881	$ 752,565
293,193	322,769	408,239	342,803	308,593
197,510	488,450	438,649	320,085	390,523
1,266,098	1,380,629	1,529,104	1,677,261	1,765,871
1,065,504	1,144,637	1,137,772	1,179,788	1,209,969
256,751	258,058	363,179	318,300	318,954
152,154	152,456	170,027	-	-
-	-	-	-	6
19,418	18,344	18,721	17,692	16,314
3,701,274	4,400,327	4,615,538	4,630,810	4,762,795
72,378	90,269	235,949	354,793	278,086
55,521	59,227	61,446	61,569	63,573
30,416	32,984	33,787	36,365	35,481
4,167	4,552	3,523	2,167	1,126
4,663	11,064	4,087	6,238	8,379
53,851	56,697	60,157	62,797	63,003
6,487	6,670	10,681	6,463	6,149
58,532	59,334	55,023	72,606	63,501
2,647	3,109	3,675	3,900	4,232
288,662	323,906	468,328	606,898	523,530
$ 3,989,936	$ 4,724,233	$5,083,866	$5,237,708	$5,286,325
$ 61,713	$ 83,720	$ 68,982	$ 127,163	$138,059
153,577	149,534	144,748	147,839	145,754
34,963	42,348	37,204	26,531	25,143
30,547	38,137	35,554	43,338	37,166
96,903	150,906	113,433	34,309	40,720
80,320	80,933	39,929	232,861	164,880
38,441	38,520	43,182	-	-
1,395,324	1,493,944	1,635,769	1,985,977	1,962,876
325,352	380,856	467,611	510,996	537,194
2,217,140	2,458,898	2,586,412	3,109,014	3,051,792
83,661	85,801	75,591	89,500	137,439
63,943	69,242	67,242	68,032	73,298
41,567	43,826	43,841	46,865	46,047
22	33	26	22	18
6,042	7,730	6,859	6,915	6,710
18,176	19,844	21,548	22,601	23,044
5,600	7,150	6,620	6,304	6,276
57,159	62,666	52,147	64,756	65,228
4,047	4,660	5,003	4,979	4,716
64,691	63,524	118,058	226,049	168,222
171	540	1,360	3,174	281
345,079	365,016	398,295	539,197	531,279
$ 2,562,219	$ 2,823,914	$2,984,707	$3,648,211	$3,583,071

SCHEDULE A-2 – CHANGE IN NET ASSETS - Continued
Last Ten 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	$(1,110,742)	$(1,217,469)	$(1,051,972)	$(1,088,837)	$(1,340,692)
General Revenues and Other Changes in Net					
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	1,472,100	1,559,844	1,531,914	1,773,036	1,979,998
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	3,570	3,062	(5,916)	(11,112)	(12,323)
Total primary government	1,475,670	1,562,906	1,525,998	1,761,924	1,967,675
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	$ 364,928	$ 345,437	$ 474,026	$ 673,087	$ 626,983

Source: Statewide Accounting, Budgeting, and Human Resource System

2007	2008	2009	2010	2011
$(1,484,134)	$(1,941,429)	$(2,029,126)	$(1,521,796)	$(1,711,003)
56,417	41,110	(70,033)	(67,700)	7,749
$(1,427,717)	$(1,900,319)	$(2,099,159)	$(1,589,496)	$(1,703,254)
$ 206,527	$ 214,868	$ 228,368	$ 235,287	$ 241,961
210,573	205,758	191,061	204,373	209,348
276,793	407,007	307,032	275,313	305,471
819,473	862,273	806,908	709,699	810,108
183,913	161,118	168,053	89,033	121,801
309,232	320,398	315,810	303,859	308,703
3,911	28	167	461	-
27,853	38,760	155,127	77,927	38,747
78,032	72,203	42,556	172,748	155,419
10,823	6,351	6,141	3,244	3,209
3,050	5,810	116,865	4,247	2,919
41,080	43,010	42,863	42,488	40,547
2,171,260	2,337,584	2,380,951	2,118,677	2,238,233
19,046	20,340	24,821	25,017	21,797
10	-	-	-	27
569	406	142	244	4,642
-	-	-	1	-
1,953	2,662	2,484	4,377	637
(41,080)	(43,010)	(42,863)	(42,486)	(40,547)
(19,502)	(19,602)	(15,416)	(12,847)	(13,444)
2,151,758	2,317,982	2,365,535	2,105,830	2,224,789
687,126	396,155	351,825	596,881	527,230
36,915	21,508	(85,449)	(80,547)	(5,695)
$ 724,041	$ 417,663	$ 266,376	$ 516,334	$ 521,535

SCHEDULE A-3 – FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten 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	$ 89,243	$ 51,121	$ 141,776	$ 299,793	$ 420,113	$ 569,656	$ 461,801	$ 418,517
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	$1,985,638	$2,179,610	$2,133,420	$2,385,043	$2,432,093	$2,524,494	$2,807,611	$3,104,970

Source: *Statewide Accounting, Budgeting, and Human Resource System*

Note: *Due to GASB Statement 54 a new table is included below for fiscal years after 2009..*

SCHEDULE A-3 – FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting, amounts expressed in thousands)

	2010	2011
Nonspendable:		
Inventory	$ 27,018	$ 23,007
Permanent fund principle	1,143,435	1,300,871
Long-term notes/receivable	96	65
Prepaid expenses	1,361	1,254
Total nonspendable	$1,171,910	$1,325,197
Restricted:		
General government	13,785	13,146
Transportation	102,520	116,353
Health and human services	22,367	22,025
Natural resources	438,410	634,957
Public safety	317,295	290,768
Education	24,644	29,054
Total restricted	$919,021	$1,106,303
Committed:		
General government	551,394	588,292
Transportation	6,403	4,445
Health and human services	65,050	72,102
Natural resources	601,410	312,467
Public safety	39,772	15,393
Education	1,540	12,162
Total committed	$1,255,569	$1,004,861
Assigned:		
General government	33,427	25,805
Health and human services	148	-
Natural resources	418	41
Public safety	2,949	1,853
Education	138	-
FY 2011 appropriation	70,270	-
Encumbrances	11,986	24,591
Total assigned	$ 119,336	$ 52,290
Unassigned	212,183	339,898
Total fund balances	$3,688,019	$3,828,549

SCHEDULE A-4 – CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten 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	189,507	189,302	208,593	238,929	254,381
Transportation	440,172	510,866	529,555	523,022	559,695
Health and human services	1,079,303	1,018,333	1,114,064	1,186,462	1,274,947
Education	861,034	894,591	898,988	905,150	976,446
Natural resources	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)					
Bond 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*

2007	2008	2009	2010	2011
$ 285,890	$ 283,755	$ 283,423	$ 283,658	$ 287,580
2,009,620	2,162,928	2,005,327	1,809,427	1,986,722
160,571	188,518	255,068	238,758	191,142
171,047	165,165	114,857	232,668	143,198
20,460	19,711	15,271	17,499	17,208
51,442	65,176	73,080	143,714	70,322
-	-	-	19,724	20,685
25,362	27,825	28,919	27,324	23,439
1,586,206	1,713,478	1,953,376	2,271,216	2,338,090
			112,918	101,152
17,280	30,952	144,890	6,809	5,069
4,327,878	4,657,508	4,874,211	5,163,715	5,184,607
401,331	545,661	428,723	666,192	643,623
284,777	311,094	335,877	338,776	346,670
575,157	360,383	311,838	197,197	271,387
1,267,854	1,372,335	1,526,287	1,675,253	1,757,633
1,050,239	1,137,548	1,136,056	1,181,591	1,208,538
247,090	300,207	238,834	288,913	272,895
152,442	149,057	168,778	-	-
33,103	33,767	34,199	31,682	33,974
19,080	18,931	19,079	18,213	16,362
95,834	351,111	464,378	650,589	565,943
5,261	7,244	2,917	873	600
4,132,168	4,587,338	4,666,966	5,049,279	5,117,625
195,710	70,170	207,245	114,436	66,982
-	-	-	3,800	-
-	59,490	-	-	31,000
16,740	-	-	28,270	10,180
946	828	-	1,294	767
(17,504)	-	-	(29,148)	(11,062)
49	874	615	172	36
115	1,681	886	670	4,326
10,946	6,497	5,960	3,614	4,130
306,867	413,286	391,661	491,045	351,366
(269,595)	(373,727)	(350,135)	(450,686)	(316,934)
48,564	108,929	48,987	49,031	73,809
$ 244,274	$ 179,099	$ 256,232	$ 163,467	$ 140,791
1.4%	1.3%	1.2%	1.1%	1.1%

SCHEDULE B-1 – PERSONAL INCOME BY INDUSTRY
Last Ten Calendar Years
(amounts expressed in thousands)

	Calendar Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Farm Earnings	$ 341,929	$ 187,285	$ 336,736	$ 544,076	$ 598,945	$ 190,096	$ 408,523	$ 468,182	$ 310,053	$ 625,246
Agricultural/forestry, fishing, and other	178,029	181,184	199,008	201,726	198,427	210,748	205,861	193,708	186,402	162,669
Mining	428,493	407,463	424,207	527,824	601,174	735,437	735,100	897,521	772,277	664,485
Construction/utilities	1,319,781	1,337,890	1,503,342	1,649,645	1,850,637	2,070,597	2,186,771	2,007,944	1,677,216	2,067,925
Manufacturing	939,227	930,340	932,165	959,263	1,020,820	1,102,085	1,139,506	1,152,181	1,059,780	1,032,034
Transportation and public utilities	963,361	956,872	990,495	1,058,487	1,121,137	1,228,453	1,231,036	1,269,832	1,250,836	913,489
Wholesale trade	642,182	670,340	702,274	769,190	818,971	879,070	964,006	985,176	938,306	940,214
Retail trade	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	1,947,337
Finance, insurance, and real estate	1,362,462	1,282,357	1,244,805	1,429,520	1,518,863	1,544,182	1,433,899	1,445,414	1,430,985	1,433,145
Services	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	8,217,674
Federal, civilian	852,298	913,334	974,085	1,047,116	1,085,934	1,134,414	1,180,607	1,207,987	1,268,108	1,314,102
Military	279,992	334,884	393,289	421,133	452,182	456,908	465,490	489,616	515,593	528,570
State and local government	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	3,599,170
Other (1)	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	11,302,305
Total personal income	$22,931,269	$23,370,083	$24,752,046	$26,494,864	$28,178,843	$30,446,669	$32,475,374	$33,110,898	$33,923,231	$34,748,365
Average effective rate (2)	2.4%	2.2%	2.2%	2.3%	2.5%	2.5%	2.5%	2.6%	2.4%	2.1%

Sources: *Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce*
Montana Department of Revenue

Notes: *(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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Personal income tax revenue (1)	$556,015	$517,568	$535,831	$605,348	$712,281	$768,912	$827,095	$866,638	$815,138	$717,834
Personal income	$22,931,269	$23,370,083	$24,752,046	$26,494,864	$28,178,843	$30,446,669	$32,475,374	$33,110,898	$33,923,231	$34,748,365
Average effective rate (2)	2.4%	2.2%	2.2%	2.3%	2.5%	2.5%	2.5%	2.6%	2.4%	2.1%

	Tax Rates on the Portion of Taxable Income in Ranges (3)									
Calendar Year 2001										
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%
Income Bracket	$0-2.2	$2.2-4.3	$4.3-8.6	$8.6-12.9	$12.9-17.2	$17.2-21.5	$21.5-30.2	$30.2-43.1	$43.1-75.4	$75.4 +
Calendar Year 2002										
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%
Income Bracket	$0-2.2	$2.2-4.4	$4.4-8.7	$8.7-13.1	$13.1-17.4	$17.4-21.8	$21.8-30.5	$30.5-43.5	$43.5-76.2	$76.2 +
Calendar Year 2003										
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%
Income Bracket	$0-2.2	$2.2-4.4	$4.4-8.9	$8.9-13.3	$13.3-17.8	$17.8-22.2	$22.2-31.1	$31.1-44.5	$44.5-77.8	$77.8 +
Calendar Year 2004										
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%
Income Bracket	$0-2.3	$2.3-4.6	$4.6-9.2	$9.2-13.8	$13.8-18.4	$18.4-22.9	$22.9-32.1	$32.1-45.9	$45.9-80.3	$80.3 +
Calendar Year 2005										
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%	9.0%	10.0%	11.0%
Income Bracket	$0-2.3	$2.3-4.1	$4.1-6.2	$6.2-8.4	$8.4-10.8	$10.8-13.9	$13.9 +	$32.1-45.9	$45.9-80.3	$80.3 +
Calendar Year 2006										
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%			
Income Bracket	$0-2.4	$2.4-4.3	$4.3-6.5	$6.5-8.8	$8.8-11.3	$11.3-14.5	$14.5 +			
Calendar Year 2007										
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%			
Income Bracket	$0-2.5	$2.5-4.4	$4.4-6.6	$6.6-9	$9-11.6	$11.6-14.9	$14.9 +			
Calendar Year 2008										
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%			
Income Bracket	$0-2.6	$2.6-4.6	$4.6-7	$7-9.5	$9.5-12.2	$12.2-15.6	$15.6 +			
Calendar Year 2009										
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%			
Income Bracket	$0-2.6	$2.6-4.5	$4.5-6.9	$6.9-9.3	$9.3-12	$12-15.4	$15.4 +			
Calendar Year 2010										
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%			
Income Bracket	$0-2.6	$2.6-4.6	$4.6-6.9	$6.9-9.4	$9.4-12.1	$12.1-15.6	$15.6 +			

Sources: Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce; Montana Department of Revenue
Notes: (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

	Calendar Year 2005				Calendar Year 2010			
Income Level	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	88,252	21.94%	$ 838,106	0.13%	83,075	19.15%	$ 1,002,053	0.14%
$10,000–$19,999	74,255	18.46	7,477,443	1.18	73,901	17.03	9,664,094	1.31
$20,000–$44,999	110,911	27.57	66,183,783	10.47	119,522	27.55	77,048,789	10.41
$45,000–$69,999	62,123	15.44	105,721,387	16.73	67,529	15.56	111,794,760	15.11
$70,000–$109,999	43,048	10.70	136,393,116	21.58	56,735	13.08	174,167,452	23.54
$110,000–$174,999	14,510	3.61	84,625,272	13.39	22,044	5.08	123,254,680	16.66
$175,000–$499,999	7,597	1.89	104,526,671	16.54	9,447	2.18	119,928,175	16.21
$500,000 and higher	1,575	0.39	126,314,720	19.98	1,600	0.37	122,975,616	16.62
Total	402,271	100.00%	$632,080,498	100.00%	433,853	100.00%	$739,835,619	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.

SCHEDULE C-1 – RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years
(amounts expressed in thousands, except per capita amount, in dollars)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental activities										
General obligation bonds	$214,135	$227,625	$219,645	$213,195	$230,065	$208,015	$201,560	$182,585	$169,150	$174,335
Special revenue bonds	100,337	85,070	76,368	192,775	181,770	171,080	204,365	189,970	176,570	169,220
Notes payable	23,203	21,299	12,807	12,439	12,099	11,755	11,411	11,065	10,716	10,369
Lease/installment purchase payable	3,652	3,286	2,332	2,705	2,459	1,057	1,421	2,680	2,440	1,536
Total governmental activities	$341,327	$337,280	$311,152	$421,114	$426,393	$391,907	$418,757	$386,300	$358,876	$355,460
Business-type activities										
Bonds/notes payable	$ 13,914	$ 10,376	$ 7,942	$ 5,168	$ 3,936	$ 3,107	$ 1,853	$ 1,180	$ 370	$ 195
Lease/installment purchase payable	-	-	-	-	-	-	-	-	-	382
Total business-type activities	$ 13,914	$ 10,376	$ 7,942	$ 5,168	$ 3,936	$ 3,107	$ 1,853	$ 1,180	$ 370	$ 577
Total primary government	$355,421	$347,656	$319,094	$426,282	$430,329	$395,014	$420,610	$387,480	$359,246	$356,037
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%	1.0%
Amount of debt per capita (2)	$392	$382	$348	$460	$460	$418	$440	$401	$371	$367

Source: *Statewide Accounting, Budgeting, and Human Resource System*

Notes: *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 for personal income for fiscal year for 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)

	Fiscal Year									
Governmental Activities	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Renewable Resttource Program Bond										
Revenue										
Loan repayment (principal and interest)	$3,933	$3,464	$3,464	$ 4,247	$3,036	$2,576	$1,549	$3,157	$1,710	$1,746
Northwestern Energy	2,026	2,535	2,535	2,623	2,800	3,057	2,498	3,189	3,435	3,676
STIP interest earnings	-	59	59	100	176	460	329	96	19	17
Debt service fund interest	-	72	72	131	877	528	472	414	398	444
Less: Operating expenses	-	-	-	-	-	-	-	-		
Net available revenue	$5,959	$6,130	$6,130	$7,101	$6,889	$6,621	$4,848	$6,856	$5,562	$5,883
Debt service										
Principal	$3,205	$4,040	$4,040	$10,515	$4,630	$3,095	$3,485	$3,725	$2,380	$3,620
Interest	$1,714	$1,975	$1,975	$ 1,719	$1,476	$1,357	$1,253	$1,093	$ 979	$ 848
Coverage (1)	1.2	1.0	1.0	0.6	1.1	1.5	1.0	1.4	1.7	1.3

Governmental Activities	**2002**	**2003**	**2004**
Transportation Refunding Bond			
Revenue			
Motor fuel taxes	$ 180,600	$ 181,758	$ 188,754
Gross vehicle weight fees	26,425	25,339	26,308
Other	6,211	4,132	41,715
Less: Operating expenses	(202,624)	(199,193)	(281,286)
Net available revenue	$ 10,612	$ 12,036	$ (24,509)
Debt service			
Principal	$ 12,470	$ 13,095	$ 3,705
Interest	$ 1,154	$ 514	$ 94
Coverage (1)	0.8	0.9	(6.5)

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year						
Governmental Activities	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
US Highway 93 GARVEES Bond (2)							
Revenue							
Federal Highway Administration	$ 160,060	$ 278,109	$ 300,808	$ 345,583	$ 381,604	$ 464,400	$457,372
Less: Operating expenses	(159,846)	(266,232)	(288,930)	(333,705)	(365,624)	(448,419)	(441,395)
Net available revenue	$ 214	$ 11,877	$ 11,878	$ 11,878	$ 15,980	$ 15,981	$ 15,977
Debt service							
Principal	-	$ 4,960	$ 6,130	$ 6,375	$ 9,070	$ 9,340	$ 9,740
Interest	$ 214	$ 6,917	$ 5,747	$ 5,503	$ 6,910	$ 6,641	$ 6,237
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Governmental Activities	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Middle Creek Dam Project Note Payable										
Revenue										
Middle Creek Water Users Assoc loan payments	$104	$119	$99	$99	$82	$96	$89	$83	$90	$72
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	$104	$119	$99	$99	$82	$96	$89	$83	$90	$72
Debt service										
Principal	$37	$38	$39	$41	$42	$44	$46	$48	$50	$51
Interest	$67	$ 81	$60	$59	$40	$52	$43	$35	$40	$21
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)

	Fiscal Year									
Governmental Activities	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
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

	Fiscal Year									
Governmental Activities	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
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)

	Fiscal Year									
Governmental Activities	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
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	$2	$2	$2	$2	$2	$2	$2	$2	$2
Interest	$2	$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

	Fiscal Year					
Business-type Activities	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Economic Development Bonds						
(Municipal Finance Consolidation Irrigation Dist)						
Revenue						
Principal and interest repayments	$512	$71	$45	$47	$53	$58
Investment income	3	5	3	1	-	-
Less: Operating expenses	-	-	-	-	-	-
Net available revenue	$515	$76	$48	$48	$53	$58
Debt service						
Principal	$450	$40	$45	$45	$50	$55
Interest	$ 30	$31	$28	$25	$21	$17
Coverage (1)	1.1	1.1	0.7	0.7	0.7	0.8

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year					
Business-type Activities	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Economic Development Bonds						
(Conservation Reserve Enhancement Program)						
Revenue						
Principal and interest repayments	$1,765	$2,173	$ 926	$989	$782	$454
Investment income	9	16	10	1	-	-
Less: Operating expenses	-	-	-	-	-	-
Net available revenue	$1,774	$2,189	$ 936	$990	$782	$454
Debt service						
Principal	$1,475	$1,924	$1,208	$628	$891	$120
Interest	$ 201	$ 216	$ 107	$101	$62	$3
Coverage (1)	1.1	1.0	0.7	1.4	0.8	3.7

	Fiscal Year
Business-type Activities	**2005**
Economic Development Bonds	
(Municipal Finance Consolidation Act Bonds)	
Revenue	
Principal and interest repayments	$300
Investment income	-
Less: Operating expenses	-
Net available revenue	$300
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			
Business-type Activities	**2004**	**2005**	**2006**	**2007**
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	$ (65)	$ 193	$ 611	$ 1,433
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 Ten 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%	182
2010	169,150	13,486	155,664	0.46%	162
2011	174,335	15,910	158,425	0.46%	163

Source: Statewide Accounting, Budgeting, and Human Resource System

Notes: 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 for personal income and fiscal year for 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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Population										
Montana *(in thousands)*	906	910	917	926	933	940	947	955	962	969
Percentage change	0.3%	0.4%	0.8%	1.0%	0.8%	0.8%	0.7%	0.8%	0.7%	0.7%
National *(in thousands)*	285,040	287,727	290,211	292,801	295,507	298,217	300,913	303,598	306,272	308,936
Percentage change	1.0%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Total Personal Income										
Montana *(in millions)*	22,931	23,370	24,752	26,495	28,179	30,447	32,475	34,111	33,923	34,748
Percentage change	8.2%	1.9%	5.9%	7.0%	6.4%	8.0%	6.7%	5.0%	(.6%)	2.4%
National *(in billons)*	8,879	9,055	9,369	9,929	10,477	11,257	11,900	12,380	12,165	12,357
Percentage change	3.8%	2.0%	3.5%	6.0%	5.5%	7.4%	5.5%	4.0%	(1.7%)	1.6%
Per Capita Personal Income										
Montana	25,315	25,685	27,000	28,613	30,141	32,204	33,897	35,237	34,794	35,068
Percentage change	7.9%	1.5%	5.1%	6.0%	5.3%	6.8%	5.3%	4.0%	(1.3%)	0.8%
National	31,149	31,470	32,284	33,899	35,447	37,728	39,458	40,673	39,626	39,945
Percentage change	2.7%	1.0%	2.6%	5.0%	4.6%	6.4%	4.5%	3.1%	(2.6%)	0.8%
Resident Civilian Labor Force and Employment										
Civilian labor force	470,262	466,787	469,119	473,532	479,553	493,004	502,219	510,816	498,897	497,538
Employed	449,175	445,739	448,805	454,259	461,936	479,614	485,221	487,870	468,211	461,602
Unemployed	21,087	21,048	20,314	19,273	17,617	16,390	16,998	22,946	30,686	35,936
Unemployment rate	4.5%	4.5%	4.3%	4.0%	3.7%	3.3%	3.4%	4.5%	6.2%	7.2%
Nonfarm Wage and Salary Workers *(in thousands)*										
Goods-producing industries										
Natural Resources and Mining	6.2	6.2	6.2	7.1	7.7	8.2	8.4	8.3	7.0	7.5
Construction	21.2	21.7	23.1	24.9	27.6	30.2	32.3	29.8	24.0	22.7
Durable goods	14.4	13.1	12.1	12.1	12.4	12.8	13.0	12.3	10.1	9.5
Nondurable goods	7.0	6.9	6.9	7.1	7.2	7.4	7.5	7.6	7.3	7.0
Subtotal goods-producing industries	48.8	47.9	48.3	51.2	54.9	58.6	61.2	58.0	48.4	46.7
Service-producing industries										
Transp, communications, and utilities	24.1	23.7	23.1	23.3	23.8	24.3	24.6	24.3	21.5	24.1
Trade	68.9	68.9	69.1	70.8	71.6	72.8	75.3	75.6	66.9	70.3
Finance, insurance, and real estate	18.8	19.3	20.3	21.1	21.4	22.0	21.8	21.9	21.1	21.2
Service	146.9	151.4	154.2	158.4	162.9	169.3	174.8	178.7	182.3	175.5
State and local government	70.7	71.1	72.0	72.9	72.7	72.1	73.9	74.1	74.4	75.7
Federal government	13.4	13.8	13.8	13.8	13.5	13.5	13.4	13.6	13.9	14.8
Subtotal service-producing industries	342.8	348.2	352.5	360.3	365.9	374.0	383.8	388.2	380.1	381.6
Total Nonfarm Wage and Salary Employment	391.6	396.1	400.8	411.5	420.8	432.6	445.0	446.2	428.5	428.3

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

	2001			2010		
Employer	**Employees**	**Rank**	**Percentage of Total State Employment** (2)	**Employees** (1)	**Rank**	**Percentage of Total State Employment** (2)
State of Montana	19,500-20,000	1	5.24%	22,000-22,500	1	5.42%
Federal Government	12,000-12,500	2	3.25%	14,500-15,000	2	3.59%
Wal-Mart	3,000-3,500	3	0.86%	4,500-5,000	3	1.16%
Billings Clinic	2,000-2,500	4	0.60%	3,000-3,500	4	0.79%
Town Pump	1,500-2,000	8	0.46%	2,000-2,500	5	0.55%
Albertson's	2,000-2,500	5	0.60%	2,000-2,500	6	0.55%
St. Vincent Hospital	1,500-2,000	7	0.46%	2,000-2,500	7	0.55%
Benefis Healthcare	1,500-2,000	6	0.46%	2,000-2,500	8	0.55%
Avitus Group				1,500-2,000	9	0.43%
Kalispell Regional Medical Group				1,500-2,000	10	0.43%
Montana Power Company	1,500-2,000	9	0.46%			
Stillwater Mining	1,000-1,500	10	0.33%			
Total Statewide Employment	377,127			410,639		

Sources: Montana Department of Labor
Bureau of Labor Statistics, U.S. Department of Labor

Notes:: (1) Number of employees based on March 2011 data.
(2) Percentage of total state employment based on the midpoints in the ranges given.

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SCHEDULE E-1 – FULL-TIME EQUIVALENT STATE EMPLOYEES BY FUNCTION/PROGRAM
Last Ten Fiscal Years

	Fiscal Year				
Function/Program	**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)	234	251	265	280	293
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	7,195	7,315	7,433	7,535	7,536
Total full-time equivalent employees	18,223	18,759	18,801	19,023	19,387

Source: Statewide Accounting, Budgeting, and Human Resource System

Fiscal Year				
2007	2008	2009	2010	2011
1,552	1,696	1,564	2,781	2,596
2,176	2,270	2,065	2,573	2,786
2,031	2,023	1,935	2,233	2,234
2,587	2,704	2,422	2,992	3,092
432	463	406	485	492
1,825	1,876	1,696	2,147	2,157
913	951	853	-	-
11,516	11,983	10,941	13,211	13,357
39	43	39	29	29
32	33	30	32	32
6	5	3	4	4
3	3	3	8	7
103	108	84	94	106
34	35	32	21	32
4	4	4	5	5
1	1	1	1	1
222	232	196	194	216
46	48	46	57	58
46	48	46	57	58
19	21	19	47	47
2	2	3	3	3
297	298	298	300	285
4,056	4,021	4,090	4,181	4,285
3,364	3,557	3,578	3,705	3,746
7,738	7,899	7,988	8,236	8,366
19,522	20,162	19,171	21,698	21,997

SCHEDULE E-2 – OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

	Fiscal Year				
Function/Program	**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	2011
234,543	299,194	317,211	333,911	375,095
266,891	187,188	178,114	151,945	116,698
676	649	677	650	750
41,546	45,143	43,672	45,622	47,585
2,608	2,439	2,573	2,491	2,528
9,838	10,433	10,453	10,535	10,399
181,804	156,088	164,230	156,671	143,365
1,657,285	1,610,753	1,634,914	1,056,227	1,049,978
3,386	3,610	3,114	3,380	3,528
2,781	3,441	2,941	3,095	3,426
1,373	750	746	863	465
19,447	19,465	20,704	20,469	19,644
54,883	55,472	56,632	55,193	56,108
2,857	3,004	3,165	3,206	3,565
19,254	18,929	22,448	28,054	25,029
144,418	143,405	142,082	141,807	141,693
831	830	829	828	827
29,140	29,072	31,805	30,362	31,934
4,033	4,277	4,570	5,538	6,051
$103.6	$107.1	$110.0	$180.6	$108.7
37.2	34.9	31.5	27.8	25.3
118.0	120.7	119.5	105.3	70.1
1,737,413	1,808,093	1,806,316	1,800,613	1,750,000
1.85	1.78	1.80	1.90	1.77

SCHEDULE E-2 – OPERATING INDICATORS BY FUNCTION/PROGRAM - Continued
Last Ten Fiscal Years

	Fiscal Year				
Function/Program	**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	-
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	2011
8,222	9,104	9,308	9,419	9,554
3,271	4,586	4,069	3,793	6,412
-	65	-	65	-
56	-	66	-	-
17	17	20	11	16
8	10	8	8	7
47,147	49,530	85,760	92,489	81,815
$225.00	$241.44	$259.38	$277.88	$265.36
32.1%	32.3%	49.2%	56.4%	54.9%
2,249	4,601	4,771	4,972	5,110
616,400	653,475	653,471	660,229	682,832
$42	$44	$44	$47	$46
$11	$11	$11	$11	$11
$4,536,558	$3,217,708	$2,776,621	N/A	N/A
$4,140,419	$3,830,524	$1,847,714	$2,626,867	$272,566

SCHEDULE E-3 – CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten 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

Fiscal Years			
2008	2009	2010	2011
50	50	55	52
1,110	1,139	1,917	1,954
52	51	24	24
283	294	192	124
149	151	246	177
524	486	606	555
287	211	259	262
4,289	4,305	2,482	2,151
783	784	969	965
189	195	193	182
131	131	153	153
2	2	5	5
798	517	710	777
181	181	87	83
1,844	1,837	2,693	1,295
769	840	794	830
60	66	108	106
134	159	719	715
261	266	4	4
15	15	15	12
13	13	36	51
49	52	56	70

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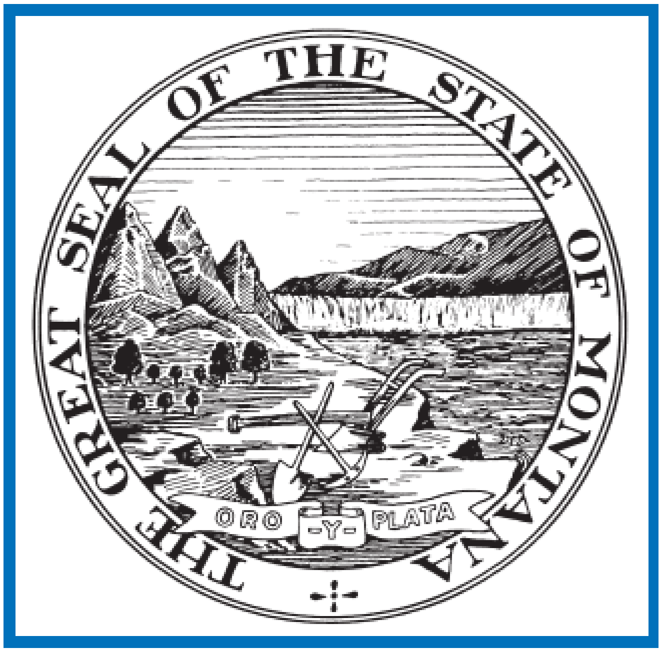

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