



A REPORT
TO THE
MONTANA
LEGISLATURE

FEDERAL SINGLE AUDIT

Montana Single Audit Report

*For the Two Fiscal Years Ended
June 30, 2009*

FEBRUARY 2010

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DIVISION

08-02

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FEDERAL SINGLE AUDIT

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

Government Auditing Standards, the Single Audit Act Amendments of 1996, and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. The Single Audit Report complies with these reporting requirements and is intended for distribution to federal grantor agencies. The individual agency audit reports are not intended to comply with these reporting requirements and are therefore not intended for distribution to federal grantor agencies.

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

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

Single Audit Coordinator
Office of Budget and Program Planning
P.O. Box 200802
Helena, MT 59620-0802
(406) 444-3616
[Http://mt.gov/budget/audit](http://mt.gov/budget/audit)

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

Reports can be found in electronic format at:
[Http://leg.mt.gov/audit](http://leg.mt.gov/audit)

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

February 2010

The Legislative Audit Committee
of the Montana State Legislature:

This is our Single Audit Report of the state of Montana for the two fiscal years ended June 30, 2009. This document contains the independent auditor's reports on the state of Montana's basic financial statements for the fiscal years ended June 30, 2009 (page A-3), and June 30, 2008 (page B-5). The Independent Auditor's Reports also address the reasonableness of the schedules of expenditures of federal awards in relation to the basic financial statements. This report also contains reports on the state of Montana's internal controls and compliance with federal and state laws and regulations (pages A-1, B-1, and C-1), a schedule of findings and questioned costs (pages C-4 through C-65), a corrective action plan (pages D-1 through D-9), and a summary schedule of prior audit findings (pages E-1 through E-8). The Single Audit was conducted in accordance with *Government Auditing Standards* and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The audit disclosed certain questioned costs and deficiencies in internal control and compliance, which are summarized in the schedule of findings and questioned costs. We implemented Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, related to reporting control deficiencies over financial reporting for the fiscal year ended June 30, 2009. The Independent Auditor's Report on page A-1 and B-1 summarizes control deficiencies over financial reporting we consider to be significant deficiencies or material weaknesses. The Independent Auditor's Report on page C-1 categorizes the disclosed control deficiencies affecting compliance with federal regulations as significant deficiencies or material weaknesses.

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

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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FY09 Financial Section

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

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

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2009, which collectively comprise the state of Montana's basic financial statements and have issued our report thereon dated December 22, 2009. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Montana State Lottery, the Montana University System Self-Funded Workers' Compensation Program, the Montana State University component units, and the University of Montana component units, as described in our report on the state of Montana's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Montana State University component units and the University of Montana component units were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the state of Montana's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The identified instances of noncompliance are described below:

1. The Public Employees' Retirement Board administers eight defined benefit retirement systems. The Montana Constitution and state law require these systems to be actuarially sound. The actuarial valuation as of July 1, 2009, indicates the Public Employees' Retirement System—Defined Benefit Retirement Plan, Sheriffs' Retirement System, and Game Wardens' and Peace Officers' Retirement System are not actuarially sound.
2. The Teachers' Retirement Board administers a defined benefit retirement system. The Montana Constitution requires this system to be actuarially sound. The actuarial valuation as of July 1, 2009, indicates the Teachers' Retirement System is not actuarially sound.

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

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

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

December 22, 2009

LEGISLATIVE AUDIT DIVISION

A-3

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
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, 2009, which collectively comprise the state's basic financial statements, as follows:

Statement of Net Assets
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Statement of Net Assets - Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds
Statement of Cash Flows - Proprietary Funds
Statement of Fiduciary Net Assets - Fiduciary Funds
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
Combining Statement of Net Assets - Component Units
Combining Statement of Activities - Component Units

These financial statements are the responsibility of the state of Montana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery and the Montana University System Self-Funded Workers' Compensation Program, which represent 0.3, 0.1, and 21.3 percent, respectively, of the assets, net assets, and revenues of the aggregate remaining fund information. We also did not audit the financial statements of the Montana State University component units and University of Montana component units, which represent, 8.8, 25.6, and (0.6) 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 Montana State Lottery, the Montana University System

Self-Funded Workers' Compensation Program, and university component units, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

At July 1, 2009, the Public Employees' Retirement System – Defined Benefit Retirement Plan, Game Wardens' and Peace Officers', Sheriffs', and Teachers' retirement systems were not actuarially sound. The amortization period for each system's Unfunded Actuarial Accrued Liability is infinite. The maximum allowable amortization period is 30 years.

In accordance with *Government Auditing Standards*, we have issued our report dated December 22, 2009, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

December 22, 2009

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

INTRODUCTION

Management of the State of Montana provides this *Management's Discussion and Analysis* of the State of Montana's Comprehensive Annual Financial Report (CAFR) for readers of the State's financial statements. This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2009. 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 2009 by \$6.7 billion (reported as net assets) compared with \$6.8 billion at the end of fiscal year 2008. Of this amount, \$596.8 million (reported as unrestricted net assets) may be used to meet the government's general obligations to citizens and creditors. Component units reported net assets of \$1,139.8 million compared with \$1,185.1 million at fiscal year end 2008.

Fund Highlights

As of the close of fiscal year 2009, the State's governmental funds reported combined ending fund balances of \$3.5 billion compared with \$3.3 billion at fiscal year 2008. Of this amount, \$481.3 million is available for spending at the government's discretion (reported as unreserved fund balance). The remaining amount of \$3.0 billion is restricted for specific purposes, such as education. At the end of the fiscal year, unreserved fund balance for the General Fund was \$392.5 million compared with \$433.6 million in fiscal year 2008, which is a decrease of \$41.1 million (9.5%). 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 2009 in the amount of \$275.0 million compared with the fiscal year-end 2008 net assets of \$357 million. Of the business-type activity fund equity \$7.0 million was unrestricted at fiscal year-end 2009, with \$12.5 million invested in capital assets, net of related debt, leaving a restricted balance of \$255.5 million. This represents a \$4.2 million (37.5%) decrease from the fiscal year-end 2008 business-type activity fund unrestricted net asset balance of \$11.2 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 \$34.4 million, from \$422.7 million in fiscal year 2008 to \$388.3 million (8.1%) in fiscal year 2009.

Business-type activities reported bonds and notes payable of \$1.2 million at fiscal year-end 2009. This represents a decrease of \$0.7 million (36.8%) over the fiscal year-end 2008 reported amount of \$1.9 million. For details relating to the states long term debt see footnote 11.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

Government-wide Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (government and business-type activities) totaled \$6.7 billion at the end of fiscal year 2009. Net assets of the governmental activities decreased \$29.4 million (0.5%), and business-type activities had an \$82 million (23%) decrease.

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

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

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

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2009	2008	2009	2008	2009
Current and other assets	\$4,320,143	\$4,727,321	\$495,962	\$399,183	\$4,816,105	\$5,126,504
Capital assets	3,553,591	3,787,835	8,733	12,539	3,562,324	3,800,374
Total assets	7,873,734	8,515,156	504,695	411,722	8,378,429	8,926,878
Long-term liabilities	461,857	873,087	10,857	10,555	472,714	883,642
Other liabilities	936,491	1,196,110	136,835	126,139	1,073,326	1,322,249
Total liabilities	1,398,348	2,069,197	147,692	136,694	1,546,040	2,205,891
Invested in capital assets, net of related debt	3,262,932	3,526,294	8,733	12,539	3,271,665	3,538,833
Restricted	2,617,435	2,329,850	337,036	255,493	2,954,471	2,585,343
Unrestricted	595,019	589,815	11,234	6,996	606,253	596,811
Total net assets	\$6,475,386	\$6,445,959	\$357,003	\$275,028	\$6,832,389	\$6,720,987

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)

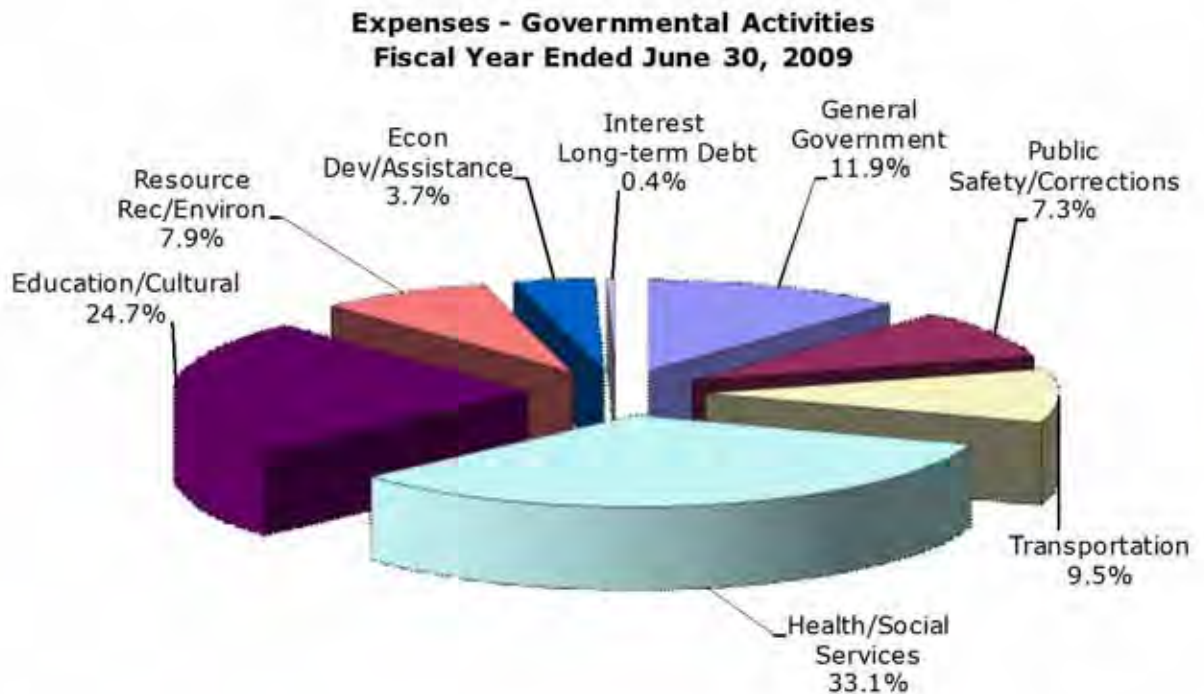
	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2009	2008	2009	2008	2009
Revenues:						
Program revenues						
Charges for services	\$ 584,098	\$ 483,032	\$300,952	\$278,877	\$ 885,050	\$ 761,909
Operating grants	1,493,944	1,635,769	63,524	118,058	1,557,468	1,753,827
Capital grants	380,856	467,611	540	1,360	381,396	468,971
General revenues						
Taxes	2,171,422	2,017,232	20,340	24,823	2,191,762	2,042,055
Other	123,152	320,856	3,068	2,629	126,220	323,485
Total revenues	4,753,472	4,924,500	388,424	425,747	5,141,896	5,350,247
Expenses:						
General government	634,984	549,847			634,984	549,847
Public safety/corrections	322,769	408,239			322,769	408,239
Transportation	488,450	438,649			488,450	438,649
Health/social services	1,380,629	1,529,104			1,380,629	1,529,104
Educational/cultural	1,144,637	1,137,772			1,144,637	1,137,772
Resource/rec/enviro	258,058	363,179			258,058	363,179
Econ dev/assistance	152,456	170,027			152,456	170,027
Interest on long-term debt	18,344	18,721			18,344	18,721
Unemployment Insurance			90,269	235,949	90,269	235,949
Liquor Stores			59,227	61,446	59,227	61,446
State Lottery			32,984	33,787	32,984	33,787
Economic Dev Bonds			4,552	3,523	4,552	3,523
Hail Insurance			11,064	4,087	11,064	4,087
Gen Govt Services			56,697	60,157	56,697	60,157
Prison Funds			6,670	10,681	6,670	10,681
MUS Group Insurance			59,334	55,023	59,334	55,023
MUS Workers Comp			3,109	3,675	3,109	3,675
Total expenses	4,400,327	4,615,538	323,906	468,328	4,724,233	5,083,866
Increase (decrease) in net assets before transfers	353,145	308,962	64,518	(42,581)	417,663	266,381
Transfers	43,010	42,863	(43,010)	(42,863)	-	-
Change in net assets	396,155	351,825	21,508	(85,444)	417,663	266,381
Net assets, beg of year (restated)	6,079,231	6,094,134	335,495	360,472	6,414,726	6,454,606
Net assets, end of year	\$6,475,386	\$6,445,959	\$357,003	\$275,028	\$6,832,389	\$6,720,987

Governmental Activities

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

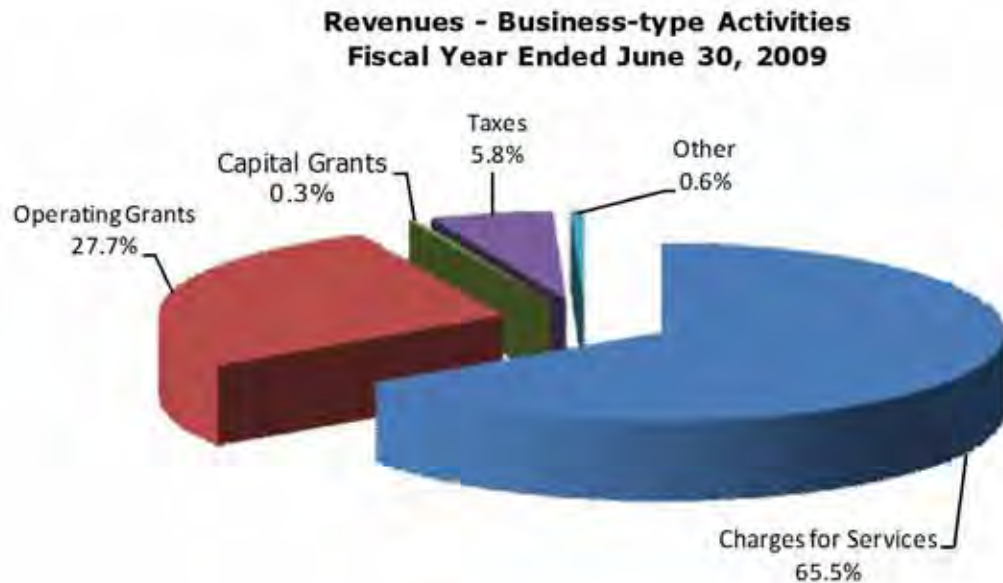


The following chart depicts expenses of the governmental activities for the fiscal year:

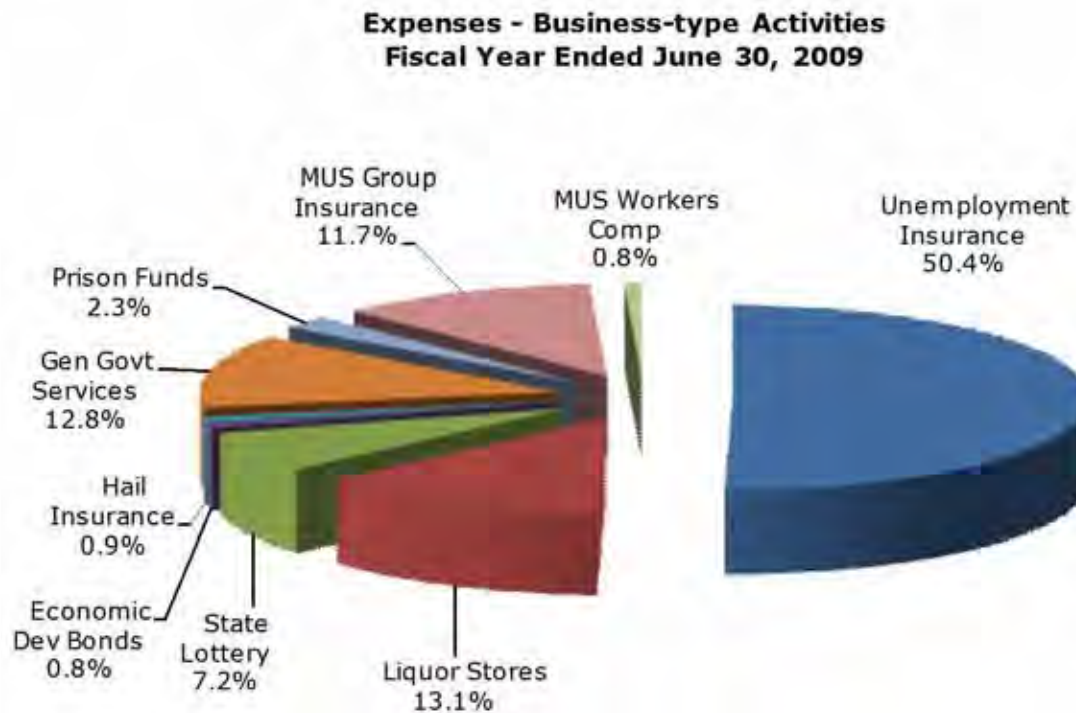


Business-type Activities

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 \$3.5 billion. Of this total amount, \$481.3 million (13.8%) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved because it is legally segregated for a specific future use, or is not available for new spending, as it has already been dedicated for various commitments. The analysis of these funds provides the explanation for the overall change in net assets at the government-wide level also since these represent the major operating funds of the state as a whole.

General Fund

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$392.5 million. This represents 81.5% of the 481.3 million unreserved governmental fund balance for all governmental funds. The ending General Fund unreserved fund balance was \$208.7 million higher than the anticipated \$183.8 million estimated by the 60th Legislature. Unreserved fund balance decreased during the fiscal year by \$41.1 million, primarily because of less income and natural resource tax revenues. General Fund expenditures for fiscal year 2009 decreased by \$151.9 million (8.1%). This decrease in expenditures offset the impact of decreased revenue collections resulting in the higher than anticipated ending unreserved fund balance. The decreases in both expenditures and revenues are discussed in detail below.

Lower Revenues Than Anticipated – Total General Fund revenue was \$1,744.5 million for fiscal year 2009. This was \$133.3 million (7.1%) less than fiscal year 2008, and \$100.1 million (5.4%) less than what was projected for fiscal year 2009 by the legislature. The decrease in revenue from fiscal year 2008 to fiscal year 2009 was primarily in individual income and oil/natural gas production taxes. Individual income tax revenue decreased \$55.1 million (6.5%). During FY 2009 employment decreased by an estimated 9,900 jobs or 2.2%. While this represents the fourth lowest unemployment rate in the nation, this combined with the national economic slowdown contributed to this income tax decrease. Lower oil and gas prices led to decreased production within the State resulting in natural resource taxes decreasing by \$45.4 million (24.4%) in fiscal year 2009.

Individual income tax fell under the legislative revenue estimate by \$55.6 million (6.5%). Natural resource taxes were under the estimate by \$6.7 million (4.5%). The decrease in both income and natural resource taxes was anticipated during the estimation process, but not to the magnitude encountered during fiscal year.

General Fund Expenditure Budgets – General Fund expenditures were lower than appropriated by nearly \$100.7 million. The related reversions include the following:

- General Government – \$5.3 million in Legislative Branch funding caused by delays in filling positions, project reprioritization within branch-wide network services, budget staffing issues, recruiting issues and high staff turnover.
- Health and Social Services - The Department of Health and Human Services reverted \$11 million of authority as the result of a decrease in Medicaid eligible recipients and an increase in the federal Medicaid matching rate as discussed further in the Federal Special Revenue Fund analysis below. This trend is not expected to continue into future fiscal years.
- Public Safety and Corrections - The Department of Corrections had lower than anticipated growth in the adult secure population causing reversions of \$15.2 million. The Department of Justice incurred \$3.6 million less in major litigation for the Yellowstone River Compact, most of which will be carried forward to the 2011 biennium.
- Economic Development/Assistance - \$15.8 million in authority was reverted by the Department of Commerce. \$2.5 million of this was New Worker Training Authority reverted as a direct result of the recession. \$12.8 million of the remaining reversions were re-appropriated in the 2011 biennium.
- Education/Cultural – K-12 Base Aid reverted \$10 million as the result of unanticipated common schools royalties paid into the state special revenue account and used to offset general fund expenditures. Another \$2.6 million was reverted as a result of fewer bond issues by schools than anticipated.

These reversions do not necessarily translate into decreased expenditures in the General Fund.

Lower General Fund Expenditures – General Fund expenditures decreased by \$151.9 million (8.1%). The major factors behind this decrease are summarized below:

- General Government - A one-time property tax offset payment program of \$94.6 million occurred in fiscal year 2008. This program was not continued into fiscal year 2009.
- Resource Recreation and Environment – A special revenue fund was established in the special session for firefighting costs. This change was the primary driver in the \$50.8 million (70.8%) decrease in costs at the Department of Natural Resources in the General Fund.
- Health and Social Services - The Department of Health and Human Services spent \$16.9 million (4.8%) less from the General Fund primarily as the result of a decrease in Medicaid eligible recipients and the increased federal matching percentage as discussed in the reversion section above, and the Federal Special Revenue Fund section below.
- Including the base aid reduction discussed in the reversion section above, Office of Public Instruction expenditures, primarily payments to the local schools for K-12 funding, decreased by 28.7 million (4.2%) . This decrease was offset by increased higher education funding of \$14.5 million (8.1%) from the General Fund.

State Special Revenue Fund

At the end of the current fiscal year, the fund balance of the State Special Revenue Fund was \$1.4 billion. Fund balance increased during the fiscal year by \$221.6 million (18.8%).

Higher State Special Revenue Fund Revenues - Fines and forfeitures and federal indirect cost recoveries increased \$69.6 million (72.3%) and \$11.9 million (27.4%) respectively. The increased fines and forfeitures were primarily generated by three major pollution remediation and restoration settlements related to the Butte area, Clark Fork River and Smelter Hill. These represent revenue sources that are not of an on-going nature. The federal indirect cost recovery increase was caused by the full recovery of transportation related indirect costs. These increases were partially offset by decreased natural resource taxes of \$59.8 million (30.9%). This decrease resulted partially from the fall in oil, natural gas, copper, and other natural resource prices which, in turn, caused decreased production of these minerals within the State generating the lower revenue.

Lower State Special Revenue Fund Transfers In - Transfers in were less by \$32.1 million (16.5%) primarily as a result of a decrease in mineral and timber royalty activity.

Higher State Special Revenue Fund Expenditures - Expenditures within the State Special Revenue Fund increased by \$19.5 million (2.4%). Expenditures in the General Government function decreased \$51.1 million (23.1%) primarily because of a \$46.9 million reduction in oil production tax distributions to the counties. The decreased expenditures in the general government function were primarily offset by increases in the following functions and activities:

- Public Safety/Corrections expenditures increased by \$10.8 million (19.8%). This increase was primarily driven by increases in pollution remediation/reclamation expenditures from the Butte/Silverbow Creek reserve and consumer education settlement expenditures.
- Resource/Recreation/Environmental expenditures increased by \$22.9 million (17.2%). Fire suppression spending increases of \$11.7 million resulted from moving this activity from the General Fund. Other significant increases in activity within this function occurred in Fish, Wildlife and Parks, \$4.1 million, and Environmental, \$5.7 million.
- Economic development increased by \$11.2 million (15%). These increases were in the Big Sky economic development projects, \$7.7 million (46.7%), and visitor and tourism development, \$2.8 million (22.5%).
- Capital Outlay increased \$7.5 million as the result of increased highway infrastructure construction.

Federal Special Revenue Fund

Fund balance in the Federal Special Revenue Fund increased by \$18.2 million. This increase resulted primarily as the result of the recognition of \$21.8 million of the \$26.6 fire fighting revenue deferred in fiscal year 2008.

Revenues increased by \$233.3 million (14.9%) and expenditures increased by \$185.8 million (11.3%). Because most federal programs are expenditure-driven, a direct correlation normally exists between revenues and expenditures. Programs such as Guaranteed Student Loan, Section Eight Housing, Livestock Shell/Egg are allowed to carry assets in their federal entities, creating a normal overall positive balance for the fund as a whole.

Expenditures primarily increased in the health/social services and general government functions by \$162.5 million (17.9%) and \$15.8 million (99.2%) respectively. The increases were in the following activities:

- General government expenditures increased as the result of higher distributions of federal Forest Reserve funds to the counties.
- Health/social services spending increased in the Medicaid Title XIX program by \$125.5 million resulting primarily from an increased federal matching percentage. \$60.1 million of the increased federal funding in the Medicaid Title XIX program resulted from additional American Recovery and Reinvestment Act (ARRA) funding. Other significant increases in federal funding for the health and social services function included Supplemental Nutrition Assistance Program (SNAP) Benefits, 24.2 million, and the Children's Health Insurance Program (CHIP), \$4.8 million. Of the increase in Supplemental Nutrition Assistance Program spending, \$4.4 million of the funding was provided through ARRA. The additional SNAP needs directly relate to the current US economic recession.
- The decrease in transportation related expenditures of \$53.3 million (40.3%) was offset by the capitalization of federally funded assets, primarily transportation related infrastructure of \$82.6 million (34.7%).

Coal Severance Tax Permanent Fund

Reserved fund balance in the Coal Severance Tax Permanent Fund increased by \$13 million (1.6%). Coal tax revenues increased \$2.4 million (10.9%) due to increased coal production, primarily for export outside the US, while investment earnings decreased \$10.2 million (23.8%) as a result of the impact of the continued national recession.

On December 21, 2009, the Montana Land Board approved the solicitation of competitive bids on State coal leases at Otter Creek. If the bidding process is successful, and coal production ensues, these leases could result in significant increased revenues in the Coal Tax Permanent, Land Grant Permanent, and State General funds.

Land Grant Permanent Fund

Reserved fund balance in the Land Grant Permanent Fund decreased by \$2.7 million (0.6%). Within this fund investment earnings fell by \$10.2 million (36.8%) as the result of the impact of the recession on investments. Timber sales fell by \$2.4 million (24.2%), and the sale of right of way fell by \$1.8 million (84%) as the result of the impacts of recession on the timber industry. These decreases in revenue were largely offset by increases in oil and gas bonus payments of \$9.9 million (449.5%) and coal royalties of \$2 million (33.7%). Coal production continues to increase in Montana and future oil exploration and production is expected to increase even though the current oil production level decreased as a result of the recession.

Unemployment Insurance Enterprise Fund

Net assets restricted for unemployment compensation decreased by \$81.2 million (29.3%). This reflects the impact of increased, and sustained, high unemployment throughout fiscal year 2009. Unemployment rose from 4.4% in July to 5.4% in December 2008. The unemployment rate for July 2009 was 6.7%. Unemployment premium collections decreased by \$10.2 million (11.9%) as a result of the recession. Federal grant revenue increased \$59.7 million (905.1%), primarily as a result of ARRA funding for extended benefits, \$26.5 million and the temporary extended unemployment compensation act, \$33.2 million. Unemployment benefits paid increased by \$145.3 million (160.9%).

Economic Development Bonds Enterprise Fund

Net assets increased by \$765,000 in fiscal year 2009. The fund did not experience significant changes in operations during fiscal year 2008. The increase in net assets was primarily generated as the result of an operating transfer of \$725,000 from the board of investment internal service fund.

General Governmental Functions

Revenue sources for general governmental functions, which are reported in the General, Special Revenue, Debt Service, Capital Projects, and Permanent funds, increased 4.7% from fiscal year 2008 to fiscal year 2009. Revenues from various sources for fiscal year 2009, and the amount and percentage of increases and decreases in relation to prior year revenues are shown in the following table (amounts in thousands):

Revenue Source	Amount	2009 Percent of Total	Increase (Decrease) from 2008	Percent Increase (Decrease)
Licenses/permits	\$ 283,423	5.8%	\$ (332)	(0.1)%
Taxes	2,005,328	41.1	(157,600)	(7.3)
Chg srv/fines/forfeits/settle	255,068	5.2	66,550	35.3
Investment earnings	114,857	2.4	(50,308)	(30.5)
Securities lending income	7,531	0.2	(1,348)	(15.2)
Sales doc/merch/property	15,271	0.3	(4,440)	(22.5)
Rentals/leases/royalties	73,080	1.5	7,904	12.1
Contributions/premiums	20,576	0.4	3,395	19.8
Grants/contracts/donations	28,919	0.6	1,094	3.9
Federal	1,843,050	37.8	226,137	14.0
Federal indir cost rcvly	110,326	2.3	13,761	14.3
Other revenues	116,783	2.4	111,891	2,287.2
Total revenues	\$4,874,212	100.0%	\$216,704	4.7%

Total expenditures for all governmental functions increased 1.7% from fiscal year 2008 to fiscal year 2009. Expenditures by function for fiscal year 2009, and the amount and percentage of increases or decreases in relation to the previous year amounts are depicted in the table below:

Expenditure Function	Amount (in thousands)	2009 Percent of Total	Increase (Decrease) from 2008	Percent Increase (Decrease)
General government	\$ 428,723	9.2%	\$ (116,939)	(21.4)%
Public safety/corrections	335,877	7.2	24,783	8.0
Transportation	311,838	6.7	(48,545)	(13.5)
Health/social services	1,526,287	32.7	153,952	11.2
Education/cultural	1,136,056	24.3	(1,492)	(0.1)
Resource/recreation/environment	238,834	5.1	(61,373)	(20.4)
Economic development/assistance	168,778	3.6	19,722	13.2
Securities lending	2,917	0.1	(4,327)	(59.7)
Debt service	53,278	1.1	580	1.1
Capital outlay	464,378	10.0	113,267	32.3
Total expenditures	\$4,666,966	100.0%	\$ 79,628	1.7%

The changes in revenues and expenditures are discussed in detail in the major fund analysis.

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, 2009, amounted to \$5.6 billion, net of accumulated depreciation of \$1.8 billion, leaving a net book value of \$3.8 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 5.6 % in terms of net book value. Most of the year's capital expenditures were for construction or reconstruction of roads and bridges. Additional information on the State's capital assets can be found in Note 5 of the notes to the financial statements.

Debt Administration

Montana receives excellent general obligation bond ratings from both Moody's Investor Service (Aa2), Standard and Poor's Corporation (AA) and Fitch Ratings (AA). The State received a bond rating upgrade from Standard and Poor's in 2008.

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

The State of Montana's general obligation debt decreased from \$201.6 million at June 30, 2008, to \$182.6 million at June 30, 2009. \$9 million is available in debt service funds to service this debt leaving a balance of \$173.6 million in net general obligation debt outstanding.

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

	Amount <i>(in thousands)</i>	Percentage of Personal Income (1)	State Debt Per Capita (2)
General obligation debt	\$173,600	0.52%	\$179

(1) Personal income is for calendar year 2008.

(2) Based on estimated 2009 Montana population.

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

ECONOMIC CONDITION AND OUTLOOK

The unemployment rate for the State of Montana was 6.4% in the second quarter of 2009, which is an increase from the rate of 4.4% during the second quarter of 2008. In October 2009, the State's rate returned to 6.4% after attaining highs of 6.7% in both July and September. This compares favorably with the U.S. rate of 10.2% but reflects the continued impact of the national recession on Montana's economy.

The 61st Legislative Session adjourned on April 27, 2009, with a projected ending general fund balance of \$282.4 million for the 2011 biennium. During fiscal year 2009, Montana's economy showed weakening related to the recession but did not experience the severe decline encountered in most other states, with the General Fund balance, as of June 30, 2009, at the \$392.5 million level.

As of June 30, 2009 four of the state retirement systems were not actuarially sound, and had an unfunded actuarially accrued liability. These include the Teachers, Public Employees Defined Benefit Plan, Sheriffs, and Game Warden & Peace Officers retirement systems. The actuarial condition of these plans are fully disclosed and reported as required by Generally Accepted Accounting Principles (GAAP), and explained in greater detail in Note 6 and Note 18 of the financial statements. The unfunded actuarial liability of these plans is long-term in nature, and does not translate into an inability of the plans to meet their current obligations in the near future.

The other state retirement systems are actuarially sound as of fiscal year end 2009.

REQUESTS FOR INFORMATION

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

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STATEMENT OF NET ASSETS

JUNE 30, 2009

(amounts expressed in thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
ASSETS				
Cash/cash equivalents (Note 3)	\$ 1,416,374	\$ 281,467	\$ 1,697,841	\$ 241,455
Receivables (net)	388,649	36,101	424,750	79,655
Due from primary government	-	-	-	4,862
Due from other governments	212,200	676	212,876	28,205
Due from component units	2,070	5,052	7,122	1,207
Internal balances	(9,154)	9,154	-	-
Inventories	27,506	3,265	30,771	5,053
Advances to component units	8,557	7,548	16,105	-
Long-term loans/notes receivable	287,589	36,145	323,734	850,143
Equity in pooled investments (Note 3)	1,613,742	-	1,613,742	28,649
Investments (Note 3)	397,992	10,856	408,848	1,468,655
Securities lending collateral (Note 3)	367,702	4,786	372,488	188,540
Deferred charges	3,513	1,315	4,828	7,850
Other assets	10,581	2,818	13,399	60,673
Capital assets (net) (Note 5)	3,787,835	12,539	3,800,374	701,989
Total assets	8,515,156	411,722	8,926,878	3,666,936
LIABILITIES				
Accounts payable	481,315	12,917	494,232	78,601
Lottery prizes payable	-	2,680	2,680	-
Due to primary government	-	-	-	7,122
Due to other governments	42,557	53	42,610	145
Due to component units	4,723	138	4,861	1,207
Advances from primary government	-	-	-	16,105
Deferred revenue	39,885	5,233	45,118	28,506
Amounts held in custody for others	36,661	20	36,681	66,645
Securities lending liability (Note 3)	367,702	4,786	372,488	188,540
Other liabilities	2,943	-	2,943	9,348
Short-term debt (Note 11)	-	88,620	88,620	-
Long-term liabilities (Note 11):				
Due within one year	137,516	10,213	147,729	200,287
Due in more than one year	873,087	10,555	883,642	1,895,485
OPEB implicit rate subsidy (Note 7)	82,808	1,479	84,287	35,184
Total liabilities	2,069,197	136,694	2,205,891	2,527,175

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
NET ASSETS				
Invested in capital assets, net of related debt	\$ 3,526,294	\$ 12,539	\$ 3,538,833	\$ 435,852
Restricted for:				
Transportation	98,510	-	98,510	-
Fish, wildlife, and parks	75,558	-	75,558	-
Federal grants	27,886	-	27,886	-
Debt service/construction	720	-	720	12,569
Unemployment compensation	-	195,904	195,904	-
Funds held as permanent investments:				
Nonexpendable	1,414,841	-	1,414,841	223,254
Expendable	21,014	-	21,014	-
Housing authority	-	-	-	155,356
Resource/environment	458,765	-	458,765	-
Other purposes	232,556	59,589	292,145	79,467
Unrestricted	589,815	6,996	596,811	233,263
Total net assets	\$ 6,445,959	\$ 275,028	\$ 6,720,987	\$ 1,139,761

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

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

(amounts expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE
Primary government:					
Governmental activities:					
General government	\$ 549,847	\$ 68,982	\$ 93,398	\$ 1,438	\$ (386,029)
Public safety/corrections	408,239	144,748	77,415	6,569	(179,507)
Transportation	438,649	37,204	47,391	405,457	51,403
Health/social services	1,529,104	35,554	1,083,800	-	(409,750)
Education/cultural	1,137,772	113,433	175,544	42,930	(805,865)
Resource/recreation/environment	363,179	39,929	105,005	10,480	(207,765)
Economic development/assistance	170,027	43,182	53,216	737	(72,892)
Interest on long-term debt	18,721	-	-	-	(18,721)
Total governmental activities	4,615,538	483,032	1,635,769	467,611	(2,029,126)
Business-type activities:					
Unemployment Insurance	235,949	75,591	78,156	-	(82,202)
Liquor Stores	61,446	67,242	-	-	5,796
State Lottery	33,787	43,841	-	-	10,054
Economic Development Bonds	3,523	26	3,531	-	34
Hail Insurance	4,087	6,859	174	-	2,946
General Government Services	60,157	21,548	35,452	1,360	(1,797)
Prison Funds	10,681	6,620	-	-	(4,061)
MUS Group Insurance	55,023	52,147	559	-	(2,317)
MUS Workers Compensation	3,675	5,003	186	-	1,514
Total business-type activities	468,328	278,877	118,058	1,360	(70,033)
Total primary government	\$ 5,083,866	\$ 761,909	\$ 1,753,827	\$ 468,971	\$ (2,099,159)
Component units:					
Housing Authority	\$ 52,741	\$ 419	\$ 54,601	\$ -	\$ 2,279
Facility Finance Authority	380	448	92	-	160
State Compensation Insurance (New Fund)	231,722	204,064	-	-	(27,658)
State Compensation Insurance (Old Fund)	9,590	-	-	-	(9,590)
Montana Surplus Lines	593	644	-	-	51
Montana State University	461,434	179,095	141,647	26,346	(114,346)
University of Montana	373,263	161,461	118,627	16,416	(76,759)
Total component units	\$ 1,129,723	\$ 546,131	\$ 314,967	\$ 42,762	\$ (225,863)

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

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Changes in net assets:				
Net (expense) revenue	\$ (2,029,126)	\$ (70,033)	\$ (2,099,159)	\$ (225,863)
General revenues:				
Taxes:				
Property	228,368	-	228,368	-
Fuel	191,061	-	191,061	-
Natural resource	307,032	-	307,032	-
Individual income	806,908	-	806,908	-
Corporate income	168,053	-	168,053	-
Other	315,810	24,823	340,633	-
Unrestricted grants and contributions	167	-	167	603
Settlements	155,127	-	155,127	-
Unrestricted investment earnings	42,556	142	42,698	(12,735)
Payment from State of Montana	-	-	-	189,570
Gain (loss) on sale of capital assets	6,141	-	6,141	(81)
Miscellaneous	116,865	2,487	119,352	3
Contributions to term and permanent endowments	-	-	-	8,578
Transfers	42,863	(42,863)	-	-
Total general revenues, contributions, and transfers	2,380,951	(15,411)	2,365,540	185,938
Change in net assets	351,825	(85,444)	266,381	(39,925)
Total net assets - July 1 - as previously reported	6,475,386	357,003	6,832,389	1,185,114
Prior period adjustments (Note 2)	(381,252)	3,469	(377,783)	(5,428)
Total net assets - July 1 - as restated	6,094,134	360,472	6,454,606	1,179,686
Total net assets - June 30	\$ 6,445,959	\$ 275,028	\$ 6,720,987	\$ 1,139,761

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2009

(amounts expressed in thousands)

	SPECIAL REVENUE			PERMANENT		NONMAJOR	TOTAL
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT		
ASSETS							
Cash/cash equivalents (Note 3)	\$ 451,702	\$ 676,530	\$ 41,830	\$ 32,631	\$ 7,175	\$ 141,755	\$ 1,351,623
Receivables (net) (Note 4)	195,470	110,527	13,164	9,483	45,901	6,796	381,341
Interfund loans receivable (Note 12)	30,165	68,959	-	-	-	925	100,049
Due from other governments	10,424	1,942	199,530	-	-	303	212,199
Due from other funds (Note 12)	46,644	12,391	2,321	-	-	2,163	63,519
Due from component units	842	817	59	84	-	-	1,802
Inventories	4,157	21,009	-	-	-	-	25,166
Equity in pooled investments (Note 3)	-	352,969	-	553,826	439,842	267,104	1,613,741
Long-term loans/notes receivable	107	258,163	396	-	-	28,925	287,591
Advances to other funds (Note 12)	1,980	19,524	-	396	-	3,237	25,137
Advances to component units	-	-	-	8,556	-	-	8,556
Investments (Note 3)	18,065	121,641	2,812	205,959	476	15,748	364,701
Securities lending collateral (Note 3)	-	114,168	1,440	102,907	80,257	55,266	354,038
Other assets	2,835	6,446	279	-	-	-	9,560
Total assets	\$ 762,391	\$ 1,765,086	\$ 261,831	\$ 913,842	\$ 573,651	\$ 522,222	\$ 4,799,023
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable (Note 4)	194,959	101,526	125,669	-	4,833	10,059	437,046
Interfund loans payable (Note 12)	-	4,995	91,950	-	-	-	96,945
Due to other governments	43	40,397	2,116	-	-	-	42,556
Due to other funds (Note 12)	9,404	31,392	5,054	5,164	-	2,424	53,438
Due to component units	24,400	1,999	1,740	-	-	14	28,153
Advances from other funds (Note 12)	-	19,598	1,892	-	-	21,607	43,097
Deferred revenue	89,777	39,704	11,856	-	40,955	681	182,973
Amounts held in custody for others	25,291	11,092	206	-	72	-	36,661
Securities lending liability (Note 3)	-	114,168	1,440	102,907	80,257	55,266	354,038
Other liabilities	-	631	-	-	-	-	631
Total liabilities	343,874	365,502	241,923	108,071	126,117	90,051	1,275,538
Fund balances:							
Reserved for:							
Encumbrances	18,931	21,653	259	-	-	771	41,614
Inventories	4,157	21,009	-	-	-	-	25,166
Long-term loans/notes receivable	107	258,163	396	-	-	28,925	287,591
Advances to other funds/component units	1,980	19,524	-	8,952	-	3,237	33,693
Special revenue (Note 14)	-	1,102,320	26,949	-	-	-	1,129,269
Debt service	-	-	-	-	-	3,233	3,233
Trust principal (Note 14)	-	100	-	796,819	447,534	276,305	1,520,758
Escheated property	816	-	-	-	-	-	816
Unreserved, designated, reported in nonmajor (Note 1):							
Debt service funds	-	-	-	-	-	8,210	8,210
Unreserved, undesignated	392,526	(23,185)	(7,696)	-	-	-	361,645
Unreserved, undesignated, reported in nonmajor:							
Debt service funds	-	-	-	-	-	(12,715)	(12,715)
Capital projects funds	-	-	-	-	-	124,205	124,205
Total fund balances	418,517	1,399,584	19,908	805,771	447,534	432,171	3,523,485
Total liabilities and fund balances	\$ 762,391	\$ 1,765,086	\$ 261,831	\$ 913,842	\$ 573,651	\$ 522,222	\$ 4,799,023

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

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2009

(amounts expressed in thousands)

Total fund balances for governmental funds	\$	3,523,485
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. (Including ISF Capital Assets)

Land	461,503	
Land improvements	28,245	
Buildings/improvements	440,433	
Equipment	314,868	
Infrastructure	3,829,186	
Other capital assets	204,875	
Construction in progress	224,227	
Intangible assets	31,246	
Less accumulated depreciation	<u>(1,746,748)</u>	
Total capital assets		3,787,835

Certain revenues are earned, but not available and therefore deferred in the funds.		144,271
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets. Excluding ISF Capital Assets and LT Liabilities reported in specific areas.		87,928
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Deferred issue costs are reported as current expenditures in the funds. These costs are amortized over the life of the bonds and included in governmental activities in the statement of net assets.		3,513
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Accrued interest	(5,219)	
Lease/installment purchase payable	(2,680)	
Bonds/notes payable (net)	(388,267)	
Compensated absences payable	(95,299)	
OPEB implicit rate subsidy	(82,808)	
Early retirement benefits payable	(24)	
Arbitrage rebate tax payable	(230)	
Estimated Insurance Claims	(28,606)	
Estimated Pollution Liability	(495,495)	
Other liabilities	<u>(2,445)</u>	
Total long-term liabilities		<u>(1,101,073)</u>

Net assets of governmental activities	\$	<u>6,445,959</u>
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The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009
 (amounts expressed in thousands)

	SPECIAL REVENUE			PERMANENT		NONMAJOR	TOTAL
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT		
REVENUES							
Licenses/permits	\$ 120,494	\$ 161,141	\$ -	\$ -	\$ 1,375	\$ 414	\$ 283,424
Taxes:							
Natural resource	140,754	133,800	-	24,822	-	7,644	307,020
Individual income	797,022	-	-	-	-	-	797,022
Corporate income	166,403	3	-	-	-	-	166,406
Property	216,314	12,053	-	-	-	-	228,367
Fuel	-	191,061	-	-	-	-	191,061
Other (Note 1)	211,088	102,387	-	-	-	1,977	315,452
Charges for services/fines/forfeits/settlements	39,430	165,811	34,157	-	-	15,670	255,068
Investment earnings	15,885	26,435	421	32,645	17,539	21,930	114,855
Securities lending income	1,750	1,998	45	1,578	1,258	902	7,531
Sale of documents/merchandise/property	308	3,814	3	-	7,938	3,208	15,271
Rentals/leases/royalties	21	26,562	-	-	46,383	114	73,080
Contributions/premiums	-	20,576	-	-	-	-	20,576
Grants/contracts/donations	1,795	27,021	108	-	(4)	(1)	28,919
Federal	31,610	11,859	1,799,581	-	-	-	1,843,050
Federal indirect cost recoveries	140	55,530	54,656	-	-	-	110,326
Other revenues	1,478	115,239	55	-	-	11	116,783
Total revenues	1,744,492	1,055,290	1,889,026	59,045	74,489	51,869	4,874,211
EXPENDITURES							
Current:							
General government	227,222	169,735	31,695	-	-	71	428,723
Public safety/corrections	220,924	65,344	47,737	-	-	1,872	335,877
Transportation	825	231,942	79,071	-	-	-	311,838
Health/social services	336,983	118,194	1,069,565	-	-	1,547	1,526,289
Education/cultural	859,429	87,991	184,461	-	3,587	588	1,136,056
Resource/recreation/environment	30,861	155,800	52,161	-	-	12	238,834
Economic development/assistance	34,538	85,745	47,628	-	-	867	168,778
Debt service:							
Principal retirement	293	362	174	-	-	33,370	34,199
Interest/fiscal charges	45	735	21	-	-	18,278	19,079
Capital outlay	5,766	56,863	320,573	-	6,401	74,775	464,378
Securities lending	630	754	15	643	514	361	2,917
Total expenditures	1,717,516	973,465	1,833,101	643	10,502	131,741	4,666,968
Excess of revenue over (under) expenditures	26,976	81,825	55,925	58,402	63,987	(79,872)	207,243
OTHER FINANCING SOURCES (USES)							
Inception of lease/installment contract	195	9	411	-	-	-	615
Insurance proceeds	-	876	10	-	-	-	886
General capital asset sale proceeds	65	385	40	-	5,470	-	5,960
Transfers in (Note 12)	73,096	163,126	2,127	889	1	152,420	391,659
Transfers out (Note 12)	(143,502)	(22,260)	(41,061)	(46,271)	(71,734)	(25,304)	(350,132)
Total other financing sources (uses)	(70,146)	142,136	(38,473)	(45,382)	(66,263)	127,116	48,988
Net change in fund balances	(43,170)	223,961	17,452	13,020	(2,276)	47,244	256,231
Fund balances - July 1 - as previously reported	461,801	1,177,997	1,707	792,751	450,220	384,937	3,269,413
Prior period adjustments (Note 2)	(699)	(1,941)	749	-	(410)	(10)	(2,311)
Fund balances - July 1 - as restated	461,102	1,176,056	2,456	792,751	449,810	384,927	3,267,102
Increase (decrease) in inventories	585	(433)	-	-	-	-	152
Fund balances - June 30	\$ 418,517	\$ 1,399,584	\$ 19,908	\$ 805,771	\$ 447,534	\$ 432,171	\$ 3,523,485

The notes to the financial statements are an 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**
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

Net change in fund balances - total governmental funds \$ 256,231

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (Note 5)

Capital outlay	464,378	
Depreciation expense	(149,017)	315,361
Excess of capital outlay over depreciation expense		

In the statement of activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold. (5,961)

Donations of capital assets or transfers of capital assets to other funds affects net assets in the statement of activities, but these transactions do not appear in the governmental funds because they are not financial resources. 49,493

Inventories of governmental funds are recorded as expenditures when purchased. However, in the statement of activities, inventories are expensed when consumed. 152

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (61,175)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. 3,867

The incurrence of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of these differences is as follows:

Capital lease financing	(615)	
Principal retirement	34,199	
Issuance costs deferral	707	
Bond issuance costs amortization	(400)	
Bond discount amortization	(12)	
Bond premium amortization	1,311	
Total long-term debt proceeds/repayment		35,190

Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds. The details of these differences is as follows:

Accrued interest	(240)	
Compensated absences	(4,000)	
OPEB implicit rate subsidy	(40,384)	
Pollution Remediation	(196,015)	
Insurance Proceeds	(885)	
Early retirement benefits	4	
Arbitrage rebate tax	89	
Other liabilities	98	
Total additional expenditures		(241,333)
Change in net assets of governmental activities		<u>\$ 351,825</u>

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2009

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL
	ECONOMIC				ACTIVITIES --
	UNEMPLOYMENT	DEVELOPMENT	NONMAJOR	TOTAL	INTERNAL
	INSURANCE	BONDS			SERVICE
					FUNDS
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	\$ 193,368	\$ 9,450	\$ 78,649	\$ 281,467	\$ 64,751
Receivables (net) (Note 4)	4,624	7,917	23,560	36,101	7,218
Interfund loans receivable (Note 12)	-	-	74	74	250
Due from other governments	6	-	670	676	-
Due from other funds (Note 12)	-	3,914	574	4,488	6,777
Due from component units	131	1,903	3,018	5,052	357
Inventories	-	-	3,265	3,265	2,337
Short-term investments (Note 3)	-	1,735	-	1,735	-
Securities lending collateral (Note 3)	-	8	4,778	4,786	13,665
Other current assets	-	-	763	763	1,023
Total current assets	198,129	24,927	115,351	338,407	96,378
Noncurrent assets:					
Advances to other funds (Note 12)	-	24,103	75	24,178	-
Advances to component units	-	7,548	-	7,548	-
Long-term investments (Note 3)	-	3,075	6,046	9,121	33,290
Long-term notes/loans receivable	-	35,022	1,123	36,145	-
Deferred charges	-	1,315	-	1,315	-
Other long-term assets	-	-	2,056	2,056	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	3,830	3,830	95
Buildings/improvements	-	-	7,344	7,344	4,704
Equipment	-	6	6,031	6,037	214,809
Infrastructure	-	-	884	884	-
Construction in progress	-	-	167	167	3,268
Intangible assets	-	-	128	128	1,190
Other Depreciable Assets	-	-	3,191	3,191	-
Less accumulated depreciation	-	(4)	(9,838)	(9,842)	(132,109)
Total capital assets	-	2	12,537	12,539	92,193
Total noncurrent assets	-	71,065	21,837	92,902	125,483
Total assets	198,129	95,992	137,188	431,309	221,861

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2009

(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)	\$ 889	\$ 701	\$ 11,327	\$ 12,917	\$ 15,471
Lottery prizes payable	-	-	1,524	1,524	-
Interfund loans payable (Note 12)	1,336	-	150	1,486	1,942
Due to other governments	-	-	53	53	-
Due to other funds (Note 12)	-	2	18,098	18,100	3,247
Due to component units	-	-	138	138	17
Deferred revenue	-	-	5,233	5,233	1,180
Lease/installment purchase payable (Note 10)	-	-	-	-	416
Short-term debt (Note 11)	-	88,620	-	88,620	-
Bonds/notes payable - net (Note 11)	-	336	-	336	-
Amounts held in custody for others	-	-	20	20	-
Securities lending liability (Note 3)	-	8	4,778	4,786	13,665
Estimated insurance claims (Note 8)	-	-	9,099	9,099	17,527
Compensated absences payable (Note 11)	-	12	747	759	3,139
Arbitrage rebate tax payable (Note 11)	-	19	-	19	-
Total current liabilities	2,225	89,698	51,167	143,090	56,604
Noncurrent liabilities:					
Lottery prizes payable	-	-	1,156	1,156	-
Advances from other funds (Note 12)	-	-	-	-	6,218
Lease/installment purchase payable (Note 10)	-	-	-	-	891
Bonds/notes payable - net (Note 11)	-	844	-	844	-
Estimated insurance claims (Note 8)	-	-	8,956	8,956	11,080
Compensated absences payable (Note 11)	-	15	740	755	3,035
OPEB implicit rate subsidy (Note 7)	-	29	1,450	1,479	4,567
Total noncurrent liabilities	-	888	12,302	13,190	25,791
Total liabilities	2,225	90,586	63,469	156,280	82,395
NET ASSETS					
Invested in capital assets, net of related debt	-	2	12,537	12,539	92,192
Restricted for:					
Unemployment Compensation	195,904	-	-	195,904	-
Other Purposes	-	1,936	57,653	59,589	-
Unrestricted	-	3,468	3,529	6,997	47,274
Total net assets	\$ 195,904	\$ 5,406	\$ 73,719	\$ 275,029	\$ 139,466

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, 2009

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
Operating revenues:					
Charges for services	\$ -	\$ 25	\$ 125,237	\$ 125,262	\$ 130,932
Investment earnings	11,897	404	1,082	13,383	2,473
Securities lending income	-	1	145	146	291
Financing income	-	3,132	-	3,132	(131)
Contributions/premiums	75,596	-	77,736	153,332	113,124
Grants/contracts/donations	66,261	-	35,288	101,549	3,340
Other operating revenues	1,805	-	968	2,773	3,662
Total operating revenues	155,559	3,562	240,456	399,577	253,691
Operating expenses:					
Personal services	-	196	13,345	13,541	47,118
Contractual services	-	19	14,646	14,665	25,390
Supplies/materials	-	3	63,281	63,284	24,144
Benefits/claims	235,628	14	101,372	337,014	107,042
Depreciation	-	1	694	695	12,527
Amortization	-	-	150	150	501
Utilities/rent	-	44	1,047	1,091	15,112
Communications	-	13	1,401	1,414	11,666
Travel	-	3	300	303	425
Repair/maintenance	-	-	911	911	8,632
Grants	-	-	5	5	-
Lottery prize payments	-	-	23,080	23,080	-
Interest expense	-	3,213	-	3,213	298
Securities lending expense	-	-	42	42	-
Arbitrage rebate tax	-	(20)	-	(20)	-
Dividend expense	-	-	2,913	2,913	-
Other operating expenses	321	37	2,173	2,531	3,253
Total operating expenses	235,949	3,523	225,360	464,832	256,108
Operating income (loss)	(80,390)	39	15,096	(65,255)	(2,417)
Nonoperating revenues (expenses):					
Tax revenues	-	-	24,821	24,821	-
Insurance proceeds	-	-	-	-	143
Gain (loss) on sale of capital assets	-	-	(48)	(48)	(32)
Federal indirect cost recoveries	-	-	(8)	(8)	5,385
Increase (decrease) value of livestock	-	-	(3,451)	(3,451)	-
Total nonoperating revenues (expenses)	-	-	21,314	21,314	5,496
Income (loss) before contributions and transfers	(80,390)	39	36,410	(43,941)	3,079
Capital contributions	-	-	1,359	1,359	702
Transfers in (Note 12)	-	725	64	789	2,249
Transfers out (Note 12)	(803)	-	(42,848)	(43,651)	(2,163)
Change in net assets	(81,193)	764	(5,015)	(85,444)	3,867
Total net assets - July 1 - as previously reported	277,097	4,642	75,264	357,003	135,533
Prior period adjustments (Note 2)	-	-	3,470	3,470	66
Total net assets - July 1 - as restated	277,097	4,642	78,734	360,473	135,599
Total net assets - June 30	\$ 195,904	\$ 5,406	\$ 73,719	\$ 275,029	\$ 139,466

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

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STATEMENT OF CASH FLOWS**PROPRIETARY FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	\$ 72,707	\$ 26	\$ 201,183	\$ 273,916	\$ 247,558
Payments to suppliers for goods and services	(257)	(118)	(113,921)	(114,296)	(89,505)
Payments to employees	-	(223)	(13,387)	(13,610)	(46,564)
Grant receipts	66,304	-	35,326	101,630	8,533
Cash payments for claims	(236,510)	-	(66,305)	(302,815)	(101,686)
Cash payments for prizes	-	-	(23,526)	(23,526)	-
Other operating revenues	3,608	-	883	4,491	(1,431)
Other operating payments	-	-	(3,191)	(3,191)	-
Net cash provided by (used for) operating activities	(94,148)	(315)	17,062	(77,401)	16,905
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	24,821	24,821	-
Transfers to other funds	(803)	-	(37,551)	(38,354)	(2,160)
Transfers from other funds	-	725	78	803	2,377
Proceeds from interfund loans/advances	1,336	-	(64)	1,272	2,902
Payments of interfund loans/advances	-	-	(92)	(92)	(2,677)
Payment of principal and interest on bonds and notes	-	(13,664)	(94)	(13,758)	(287)
Contributed capital transfers from other funds	-	-	-	-	731
Net cash provided by (used for) noncapital financing activities	533	(12,939)	(12,902)	(25,308)	886
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	143
Acquisition of capital assets	-	-	(3,559)	(3,559)	(12,088)
Proceeds from sale of capital assets	-	-	4	4	368
Net cash used for capital and related financing activities	-	-	(3,555)	(3,555)	(11,577)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	(817)	(610)	(1,427)	(8,267)
Proceeds from sales or maturities of investments	-	9,835	1,156	10,991	-
Proceeds from securities lending transactions	-	1	126	127	300
Interest and dividends on investments	11,897	471	1,100	13,468	2,511
Payment of securities lending costs	-	-	(35)	(35)	(131)
Collections of principal and interest on loans	-	26,934	-	26,934	-
Cash payment for loans	-	(22,950)	-	(22,950)	-
Net cash provided by (used for) investing activities	11,897	13,474	1,737	27,108	(5,587)
Net increase (decrease) in cash and cash equivalents	(81,718)	220	2,342	(79,156)	627
Cash and cash equivalents, July 1	275,086	9,230	76,309	360,625	64,124
Cash and cash equivalents, June 30	\$ 193,368	\$ 9,450	\$ 78,651	\$ 281,469	\$ 64,751

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

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS	
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL		
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	\$ (80,390)	\$ 39	\$ 15,095	\$ (65,256)	\$	(2,417)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:						
Depreciation	-	1	694	695		12,527
Amortization	-	-	150	150		501
Interest expense	-	3,213	-	3,213		292
Securities lending expense	-	-	42	42		114
Investment Earnings	(11,897)	(404)	(1,099)	(13,400)		(2,473)
Securities lending income	-	(1)	(123)	(124)		(291)
Financing income	-	(3,132)	-	(3,132)		-
Federal indirect cost recoveries	-	-	8	8		5,254
Arbitrage rebate tax	-	(20)	-	(20)		-
Change in assets and liabilities:						
Decr (incr) in accounts receivable	(1,229)	-	(21)	(1,250)		(2,158)
Decr (incr) in due from other funds	(4)	-	(145)	(149)		550
Decr (incr) in due from component units	45	-	(532)	(487)		9
Decr (incr) in due from other governments	-	-	27	27		(1)
Decr (incr) in inventories	-	-	4,444	4,444		76
Decr (incr) in other assets	-	2	(354)	(352)		(316)
Incr (decr) in accounts payable	(678)	(2)	1,667	987		44
Incr (decr) in lottery prizes payable	-	-	(445)	(445)		-
Incr (decr) in due to other funds	-	(1)	(18)	(19)		459
Incr (decr) in due to component units	-	-	(13)	(13)		(32)
Incr (decr) in due to other governments	-	-	43	43		(1)
Incr (decr) in deferred revenue	-	-	(1,211)	(1,211)		106
Incr (decr) in amounts held in custody for others	5	-	(62)	(57)		-
Incr (decr) in compensated absences payable	-	(24)	(3)	(27)		275
Incr (decr) in OPEB implicit rate subsidy	-	14	754	768		2,379
Incr (decr) in estimated claims	-	-	(1,836)	(1,836)		2,008
Net cash provided by (used for) operating activities	\$ (94,148)	\$ (315)	\$ 17,062	\$ (77,401)	\$	16,905
Schedule of noncash transactions:						
Capital asset acquisitions from contributed capital	\$ -	\$ -	\$ -	\$ -	\$	-
Capital contributions from other funds	\$ -	\$ -	\$ -	\$ -	\$	702
Amortization of bond issuance costs	\$ -	\$ -	\$ -	\$ -	\$	-
Incr (decr) in fair value of investments	\$ -	\$ 22	\$ -	\$ 22	\$	-
Total noncash transactions	\$ -	\$ 22	\$ -	\$ 22	\$	702

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2009

(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)	\$ 69,569	\$ 144,972	\$ 389,936	\$ 11,211
Receivables (net):				
Accounts receivable	16,006	-	-	402
Interest	12,574	11	361	1
Due from primary government	23,446	-	-	112
Due from other PERB plans	484	-	-	-
Long-term loans/notes receivable	51	-	-	-
Total receivables	52,561	11	361	515
Investments at fair value:				
Equity in pooled investments (Note 3)	5,793,032	-	-	-
Other investments (Note 3)	390,370	106,007	35,385	29
Total investments	6,183,402	106,007	35,385	29
Securities lending collateral (Note 3)	549,016	1,358	27,908	23
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	158	-	-	-
Equipment	69	-	-	-
Accumulated depreciation	(205)	-	-	-
Intangible assets	580	-	-	-
Total capital assets	637	-	-	-
Other assets	-	19,329	-	13,299
Total assets	6,855,185	271,677	453,590	25,077
LIABILITIES				
Accounts payable	1,171	38	361	1,120
Due to primary government	87	-	-	-
Due to other PERB plans	484	-	-	-
Deferred revenue	167	-	-	-
Amounts held in custody for others	8	-	-	23,934
Securities lending liability (Note 3)	549,016	1,358	27,908	23
Compensated absences payable	486	-	-	-
OPEB implicit rate subsidy	285	-	-	-
Total liabilities	551,704	1,396	28,269	25,077
NET ASSETS				
Held in trust for pension benefits and other purposes	\$ 6,303,481	\$ 270,281	\$ 425,321	\$ -

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, 2009

(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE- PURPOSE TRUST FUNDS	INVESTMENT TRUST
ADDITIONS			
Contributions/premiums:			
Employer	\$ 171,620	\$ -	\$ -
Employee	176,017	-	-
Participant contributions		42,093	-
Other contributions	36,761	-	837,356
Net investment earnings:			
Investment earnings	(1,585,299)	(21,581)	6,493
Administrative investment expense	(35,701)	-	-
Securities lending income	11,219	12	846
Securities lending expense	(4,925)	(5)	(284)
Charges for services	536	-	-
Other additions	282	18,940	-
Total additions	(1,229,490)	39,459	844,411
DEDUCTIONS			
Benefits	469,165	-	-
Refunds	21,186	-	-
Distributions	-	30,903	919,056
Administrative expenses:			
Personal services	2,994	-	-
Contractual services	1,635	1,962	-
Supplies/materials	121	-	-
Depreciation	8	-	-
Amortization	212	-	-
Utilities/rent	288	-	-
Communications	213	-	-
Travel	69	-	-
Repair/maintenance	36	-	-
Grants	-	6	-
Other operating expenses	1,610	-	-
Local assistance	17	-	-
Transfers to ORP	174	-	-
Transfers to PERS-DCRP	1,043	-	-
Transfer Out	33	-	-
Total deductions	498,804	32,871	919,056
Change in net assets	(1,728,294)	6,588	(74,645)
Net assets - July 1 - as previously reported	8,030,988	261,518	499,966
Prior period adjustments (Note 2)	787	2,175	-
Net assets - July 1 - as restated	8,031,775	263,693	499,966
Net assets - June 30	\$ 6,303,481	\$ 270,281	\$ 425,321

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

COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
 JUNE 30, 2009
(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)	\$ 15,253	\$ 1,922	\$ 31,389	\$ 13,268
Receivables (net)	21,702	279	19,674	134
Due from primary government	9	-	5	-
Due from other governments	7	-	-	-
Due from component units	-	-	549	27
Inventories	-	-	-	-
Long-term loans/notes receivable	815,685	1,167	-	-
Equity in pooled investments (Note 3)	-	-	-	-
Investments (Note 3)	172,686	170	993,222	7,374
Securities lending collateral (Note 3)	40	134	175,758	1,569
Deferred charges	7,850	-	-	-
Other assets	269	-	50,287	-
Capital assets (net) (Note 5)	19	-	19,890	-
Total assets	1,033,520	3,672	1,290,774	22,372
LIABILITIES				
Accounts payable	4,708	13	16,478	174
Due to primary government	10	4	1,321	-
Due to component units	-	-	27	549
Due to other governments	-	-	-	-
Advances from primary government	-	-	-	-
Deferred revenue	-	-	6,018	-
Amounts held in custody for others	-	-	55,973	-
Securities lending liability (Note 3)	40	134	175,758	1,569
Other liabilities	-	-	-	-
Long-term liabilities (Note 11):				
Due within one year	14,213	12	139,115	10,975
Due in more than one year	859,087	25	676,709	54,600
OPEB implicit rate subsidy (Note 7)	87	6	1,753	-
Total liabilities	878,145	194	1,073,152	67,867
NET ASSETS				
Invested in capital assets, net of related debt	19	-	19,890	-
Restricted for:				
Debt service/construction	-	-	-	-
Funds held as permanent investments:				
Nonexpendable	-	-	-	-
Housing authority	155,356	-	-	-
Other purposes	-	-	-	-
Unrestricted	-	3,478	197,732	(45,495)
Total net assets	\$ 155,375	\$ 3,478	\$ 217,622	\$ (45,495)

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

MONTANA SURPLUS LINES		MONTANA STATE UNIVERSITY		UNIVERSITY OF MONTANA		TOTAL
\$	465	\$	123,097	\$	56,061	\$ 241,455
	147		17,534		20,185	79,655
	-		1,822		3,026	4,862
	-		19,361		8,837	28,205
	-		29		602	1,207
	-		3,129		1,924	5,053
	-		22,595		10,696	850,143
	-		14,333		14,316	28,649
	120		126,119		168,964	1,468,655
	-		7,406		3,633	188,540
	-		-		-	7,850
	-		4,289		5,828	60,673
	-		351,054		331,026	701,989
-	732	-	690,768	-	625,098	3,666,936
	283		32,659		24,286	78,601
	-		4,946		841	7,122
	-		602		29	1,207
	-		-		145	145
	-		11,082		5,023	16,105
	9		9,700		12,779	28,506
	-		4,421		6,251	66,645
	-		7,406		3,633	188,540
	-		6,159		3,189	9,348
	-		20,130		15,842	200,287
	-		149,877		155,187	1,895,485
	-		18,322		15,016	35,184
	292		265,304		242,221	2,527,175
	-		223,713		192,230	435,852
	-		12,569		-	12,569
	-		101,223		122,031	223,254
	-		-		-	155,356
	-		28,741		50,726	79,467
	440		59,218		17,890	233,263
\$	440	\$	425,464	\$	382,877	\$ 1,139,761

COMBINING STATEMENT OF ACTIVITIES**COMPONENT UNITS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

(amounts expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	MONTANA STATE FUND (NEW FUND)	MONTANA STATE FUND (OLD FUND)
EXPENSES	\$ 52,741	\$ 380	\$ 231,722	\$ 9,590
PROGRAM REVENUES:				
Charges for services	419	448	204,064	-
Operating grants and contributions	54,601	92	-	-
Capital grants and contributions	-	-	-	-
Total program revenues	55,020	540	204,064	-
Net (expenses) program revenues	2,279	160	(27,658)	(9,590)
GENERAL REVENUES:				
Unrestricted grants and contributions	-	-	-	-
Unrestricted investment earnings	-	-	20,726	607
Payment from State of Montana	-	-	-	-
Gain (loss) on sale of capital assets	-	-	-	-
Miscellaneous	1	-	2	-
Contributions to term and permanent endowments	-	-	-	-
Total general revenues and contributions	1	-	20,728	607
Change in net assets	2,280	160	(6,930)	(8,983)
Total net assets - July 1 - as previously reported	153,095	3,318	224,552	(36,512)
Prior period adjustments (Note 2)	-	-	-	-
Total net assets - July 1 - as restated	153,095	3,318	224,552	(36,512)
Total net assets - June 30	\$ 155,375	\$ 3,478	\$ 217,622	\$ (45,495)

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

MONTANA SURPLUS LINES		MONTANA STATE UNIVERSITY		UNIVERSITY OF MONTANA		TOTAL
\$	593	\$	461,434	\$	373,263	\$ 1,129,723
	644		179,095		161,461	546,131
	-		141,647		118,627	314,967
	-		26,346		16,416	42,762
	644		347,088		296,504	903,860
	51		(114,346)		(76,759)	(225,863)
	-		603		-	603
	(26)		(7,140)		(26,902)	(12,735)
	-		108,023		81,547	189,570
	-		89		(170)	(81)
	-		-		-	3
	-		4,267		4,311	8,578
	(26)		105,842		58,786	185,938
	25		(8,504)		(17,973)	(39,925)
	390		439,421		400,850	1,185,114
	25		(5,453)		-	(5,428)
	415		433,968		400,850	1,179,686
\$	440	\$	425,464	\$	382,877	\$ 1,139,761

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Discretely Presented Component Units

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

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

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

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

Montana State Fund - New Fund – New Fund provides workers compensation insurance for claims incurred after June 30, 1990, and is financed by member (employer) premiums. The New Fund is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 5 South Last Chance Gulch, Helena, MT 59601.

State of Montana – Old Fund – Old Fund covers worker compensation claims that were incurred before July 1, 1990. Administrative operations and budgets may be reviewed by the Governor and the Legislature, but they have no authority over budgets or costs. The Old Fund is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 5 South Last Chance Gulch, Helena, MT 59601.

Montana Surplus Lines – Montana Surplus Lines Agents' Association is a legally separate entity appointed as an advisory organization by the Montana Insurance Commissioner, and primarily performs services as directed by the Commissioner. The Association operates the Montana Surplus Lines Agents' Association Stamping Office. The Association, on behalf of the Commissioner, processes surplus lines transactions, collects applicable stamping fees, and sends tax statements to surplus lines agents who have filed surplus lines transactions with the stamping office. Surplus lines insurance companies provide specialized insurance coverage, of an unusual or high risk nature,

that is not provided by other insurance companies. The association was audited annually through December 31, 2008 by Galusha, Higgins & Galusha, PC. The report is issued under separate cover, and is available at 840 Helena Avenue, Helena, MT 59601.

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

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

Fiduciary Fund Component Units

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

Public Employees' Retirement Board (Pension and Other Employee Benefit Trust Funds) – The board is appointed by the Governor and administers ten separate retirement plans for the purpose of providing

retirement, disability, death, and lump-sum payments to plan members. These legally separate plans include the Public Employees' Retirement Plan – Defined Benefit and Defined Contribution and the associated education funds; the Judges'; the Highway Patrol Officers'; the Sheriffs'; the Game Wardens' and Peace Officers'; the Municipal Police Officers'; and the Firefighters' Unified Retirement Systems; as well as the Volunteer Firefighters' Compensation Act. The board also administers the State of Montana Deferred Compensation Program.

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

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

B. Government-wide and Fund Financial Statements

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

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

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

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

Government-wide, Proprietary, and Fiduciary Fund Financial Statements

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

Governmental Fund Financial Statements

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

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

Fund Financial Statements

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

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

Governmental Funds

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

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

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

Capital Projects Funds – To account for resources used for the acquisition or construction of major capital

facilities, other than those financed by proprietary or trust funds.

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

Proprietary Funds

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

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

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

Fiduciary Funds

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

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

Private-Purpose Trust Funds – These funds are used to account for assets held by the State in a trustee

capacity, where both the principal and earnings benefit individuals, private organizations, or other governments. Examples include the State's escheated property fund, unliquidated security bonds held on deposit from self-insured employers, environmental reclamation bonds held in trust, and others.

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

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

Major Governmental Funds

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

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

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

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

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

Major Enterprise Funds

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

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

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

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

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

D. Proprietary Activity Accounting and Financial Reporting

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

E. Cash/Cash Equivalents

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. For 2009, certain investments in STIP were reclassified as long-term investments. (See Note 3).

F. Receivables

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

Pledged receivables are disclosed in Note 2C.

G. Inventories

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

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

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

H. Restricted Assets

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

I. Equity in Pooled Investments

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

J. Investments

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

portfolio (See Note 3 on Cash/Cash Equivalents and Investments).

K. Capital Assets

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

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

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

L. Deferred Revenue

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

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

M. Long-term Obligations

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

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

N. Capital Leases

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

O. Bond Discounts/Premiums/Issuance Costs

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

P. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 80 hours of sick or annual leave to a nonrefundable sick leave pool. Excess annual leave that is being forfeited can also be contributed, with no maximum contribution. Based on a review, the adjusted ending balance of the pool for June 30, 2008, was 3,775 hours. For fiscal year 2009, 1,420 sick leave hours, 326 annual leave hours, and 4,550 excess annual leave hours were contributed to the sick leave pool, and 3,070 hours were withdrawn, leaving a balance of 7,001 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. Advances to Other Funds

Noncurrent portions of long-term interfund receivables are reported as advances and are offset equally by a fund balance reserve account in the fund financial statements, which indicates that they do not constitute expendable available financial resources. The transaction is recognized by the receiving fund as advances from other funds.

R. Fund Balance/Net Assets

The State reserves those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for the future use of financial resources. The debt service funds designated fund balances represent management's desire to maintain fund balance for future debt service payments.

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 \$2,585,343, of which \$1,052,327 is restricted by enabling legislation.

S. Property Taxes

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

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

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

T. Other Taxes

On the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds, the revenue category "Other Taxes" in the General, State Special Revenue, and Nonmajor Governmental funds consists of the following taxes (in thousands):

	General Fund	State Special Revenue Fund	Nonmajor Governmental Funds	Total
Accommodations	\$ 12,449	\$17,090	\$ -	\$ 29,539
Agriculture sales	-	3,696	-	3,696
Cigarette/tobacco	39,320	49,101	1,977	90,398
Fire protection	-	3,494	-	3,494
Insurance premium	49,765	14,865	-	64,630
Livestock	-	3,601	-	3,601
Other taxes	24,873	6,828	-	31,701
Public Service Commission	-	3,685	-	3,685
Telephone license	22,223	-	-	22,223
Video gaming	62,458	27	-	62,485
Total other taxes	\$211,088	\$102,387	\$1,977	\$315,452

NOTE 2. OTHER ACCOUNTING ISSUES

A. New Accounting Guidance Implemented

For the year ended June 30, 2009, the State of Montana and its component units (the State) implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 49 – “Accounting and Financial Reporting for Pollution Remediation Obligations”. GASB Statement No. 49 specifies the accounting and financial reporting for pollution remediation obligations, including contaminations. These obligations address the current or potential detrimental effects of existing pollution in pollution remediation activities. Should an obligating event occur, GASB Statement No. 49 requires a government to estimate the components of expected pollution remediation outlays and determine whether these outlays should be accrued as a liability or capitalized when goods and services are acquired. Per GASB Statement No. 49, an obligating event occurs when (1) a government is compelled to take pollution remediation action because of an imminent endangerment, (2) a government violates a pollution prevention-related permit or license, (3) a government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party for remediation, or as a government responsible for sharing costs, (4) a government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation or (5) a government commences or legally obligates itself to commence pollution remediation. If the pollution remediation outlays are incurred (1) to prepare property for sale in anticipation of a sale, (2) to prepare property for use when the property was acquired with known or suspected pollution that was expected to be remediated, (3) to perform pollution remediation that restores a pollution-caused decline in service utility that was recognized as an asset impairment, or (4) to acquire property, plant and equipment that have a future alternative use other than remediation efforts they should be capitalized in government-wide and proprietary fund financial statements. If the pollution remediation outlays do not qualify for capitalization, they should be accrued as a liability and expensed when a range of expected outlays is reasonably estimable or as an expenditure upon receipt of goods and services.

For the year ended June 30, 2009, the State implemented the provisions of GASB Statement No. 52 – “Land and Other Real Estate Held as Investments by Endowments”. This statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report land and other real estate investments at fair value. Furthermore, governments

are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions used to determine fair value, and other information currently presented for other investments reported at fair value.

For the year ended June 30, 2009, the State implemented the provisions of GASB Statement No. 55 – “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”. The objective of GASB Statement No. 55 is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB’s authoritative literature rather than in the American Institute of Certified Public Accountants (AICPA) where it resided previous to this statement.

For the year ended June 30, 2009, the State implemented the provisions of GASB Statement No. 56 – “Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards”. The objective of GASB Statement No. 56 is to incorporate the AICPA’s accounting and financial reporting guidance into the GASB authoritative literature. This Statement addresses related party transactions, going concern considerations, and subsequent events which were previously not included in the authoritative literature that establishes accounting principles but rather in the auditing literature. GASB Statement No. 56 does not establish new accounting standards but rather incorporates the AICPA’s existing guidance into GASB standards, to the extent appropriate in a governmental environment.

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. Based on the implementation of GASB 49, the State’s estimated pollution remediation liability as of July 1, 2008 was estimated at \$308.8 million. No other significant corrections were made for fiscal year 2009.

C. Pledged Receivables

During the year ended June 30, 2002, the common school mineral royalties’ income stream, which included oil, coal, gas, gravel, and metalliferous royalties over 30 years totaling approximately \$138.9 million, were sold to the Department of Natural Resources and Conservation (DNRC). The present value of the future revenues, at the date of sale, was estimated to be \$46.4 million. The Secretary of State

reviewed the provisions of the transactions as specified in Senate Bill (SB) 495, and determined that a discount rate of 9.8% would represent the fair market value, since the amount of the royalties dedicated is fixed, and the risk is limited to variation in the timing of receipts.

As of June 30, 2009, \$14 million of the \$138.9 million is yet to be collected.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

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

Cash/cash equivalents	\$2,554,984
Equity in pooled investments	\$7,435,423
Investments	\$2,409,294

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

A. General

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

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

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP will, and does, operate in a manner consistent with the SEC Rule 2a7. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net

assets to compute unit values. The portfolio is carried at amortized cost or book value. 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, 2009.

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

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

Common stock represents ownership units (shares) of a public corporation. Common stock owners are entitled to vote on director selection and other important matters, as well as receive dividends on their holdings. Equity index investments are investments in selected mutual funds whose equity portfolios match a broad based index or composite. Preferred stock, as a class of stock, pays dividends at a specified rate and has preference in the payment of dividends and liquidation of assets. Preferred stock holders, ordinarily, do not have voting rights. Convertible securities are securities carrying the right to exchange, or "convert" the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer's common stock. ADRs are receipts issued by a U.S. depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of

the American depository bank. Equity derivatives “derive” their value from other equity instruments such as futures and options. An institutional commingled fund combines assets from several institutional investors that are blended or pooled together, to reduce management and administration costs. The investor buys shares in the fund.

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

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

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

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

Investments are presented in the Statement of Net Assets at fair value. Fair values for investment pool securities are determined primarily by reference to market prices supplied to the BOI by BOI’s custodial bank, State Street Bank. Amortized cost represents the

original cost, adjusted for premium and discount amortization, where applicable. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life or maturity date of the securities. Amortized cost may also be referred to as book value.

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

B. Cash/Cash Equivalents

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

Table 1 - Cash Deposit Amounts
(in thousands)

	Carrying Amount
Cash held by State/State's agent	\$154,960
Uninsured and uncollateralized cash	1,553
Undeposited cash	825
Cash in U.S. Treasury	193,355
Cash in MSU component units	6,243
Cash in UM component units	4,696
Less: outstanding warrants	(46,389)
Total cash deposits	\$315,243

As of June 30, 2009, the carrying amount of deposits for component units was \$124,727,492, as included in Table 1.

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

Table 2 - Cash Equivalents
(in thousands)

	Fair Value	Credit Quality Rating	WAM in Days
Commercial paper	\$ 299,327	A1	23
Corporate fixed	164,976	A1+	16
Corporate variable-rate	36,474	A3	196
Municipal variable-rate	364,248	A3	67
Certificate of deposit – fixed	25,000	A1+	360
Certificate of deposit – variable	105,000	A1	62
US government agency fixed	140,672	A1+	73
US government agency variable	750,531	A1+	45
Money market fund unrated	121,428	NR	1
Money market fund rated	180,000	A1+	1
Repurchase agreement	15,846	NR	NA
Money market	67,294	NR	NA
Less: STIP included in pooled investment balance	(31,055)		
Total cash equivalents	\$2,239,741		46
Securities lending collateral investment pool	\$ 151,016	NR	43

(1) As of June 30, 2009, a repurchase agreement, per contract, was collateralized at 102% for \$16,162,802 by two Federal Loan Mortgage Corporation Gold securities maturing September 1, 2018 and November 1, 2035. These securities carry AAA credit quality ratings.

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

As of June 30, 2009, local governments invested \$425,320,891 in STIP.

As of June 30, 2009, component units of the State of Montana had investments in cash equivalents with a book value and fair value of \$311,907,592.

Investment Risk Disclosures

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

Credit Risk

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

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

STIP investments are categorized above to disclose credit risk as of June 30, 2009. Credit risk reflects the security quality rating, by investment security type, as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated by the NRSRO.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2009, all STIP securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board's custodial bank, State Street Bank, or the State's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The STIP had concentration of credit risk exposure to the Federal Home Loan Bank of 6.86%, Federal National Mortgage Association (Fannie Mae) of 7.55 % and the Federal Home Loan Mortgage Corp. (Freddie Mac) of 5.71% as of June 30, 2009.

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

Interest Rate Risk

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

Legal and Credit Risk

In January 2007, 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 & Poors and Aaa by Moody's. As of June 30, 2009 and 2008, these issues carried a D rating by Standard & Poors. On November 20, 2007, an insolvency event was declared by Axon Finance USA. Orion Financial Funding 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 SIV securities are currently undergoing restructuring while the underlying securities in the vehicle generate cash. At this time, there is no certain date for completion of the restructuring, which will likely include the creation of new securities to replace the original securities.

Of the \$5,687,990 interest receivable total as of June 30, 2008, \$2,729,889 is attributable to the above securities for interest accrued to their respective maturity dates. While payment of the Orion Finance USA interest receivable of \$903,922 remains unknown as of June 30, 2009, BOI received 100% payment of \$1,825,967 on the Axon Financial Funding interest receivable on November 14, 2008.

In fiscal year 2009, the Board also received Axon Financial Funding payments on principal of \$12,374,434 and interest compensation of \$1,807,998 in excess of the accrued interest receivable. Axon Financial Funding payments totaled \$16,008,399 for fiscal year 2009. In June 2009, the Board applied \$14 million from the STIP reserve to the outstanding principal for Axon Financial Funding and Orion Finance USA securities. As of June 30, 2009, the Axon Financial Funding and Orion Finance USA outstanding balance are \$68,625,566 and \$45 million, respectively, for a combined SIV total of \$113,625,566. This

outstanding balance has been reclassified from cash equivalent to a long term investment.

On August 28, 2009 the Board received an Axon Financial Funding payment of \$4,086,193 representing \$3,893,968 in principal and interest compensation of \$192,225. An additional interest compensation payment of \$153,270 from Axon Financial Funding was received on October 1, 2009.

On October 14, 2009 the Board received its initial payment from Orion Finance USA totaling \$12,490,293. This payment applied \$9,867,165 to principal, \$903,922 to the accrued interest receivable as of January 15, 2008, January 21, 2008, and April 20, 2008, and \$1,719,206 to interest compensation.

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 Bond Pool (TFBP), 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	\$2,529,967	\$2,117,338
TFBP:		
Corporate bonds (rated)	679,374	654,271
Municipal government bonds (rated)	1,110	1,110
Municipal government bonds (unrated)	880	880
U.S. government direct-backed	301,020	304,797
U.S. government indirect-backed	600,750	614,933
U.S. government agencies (unrated)	36,529	31,302
STIP	26,467	24,265
STIP Structured Investment Vehicle	2,202	2,202
RFBP:		
Corporate bonds (rated)	862,471	801,929
Corporate bonds (unrated)	16	17
U.S. government direct-backed	253,899	252,322
U.S. government indirect-backed	551,395	569,776
U.S. government agencies (unrated)	43,760	35,919
Repurchase Agreement	47,287	47,287
STIP	119	109
STIP Structured Investment Vehicle	10	10
MTIP:		
International stock pool	1,059,446	973,481
MPEP:		
Private equity pool	774,020	671,456
MTRP:		
Real estate pool	385,106	283,474
STIP	4,470	4,098
STIP Structured Investment Vehicle	372	372
Total pooled investments	8,160,670	7,391,349
Pool adjustments (net)	44,075	44,075
Total equity in pooled investments	<u>\$8,204,745</u>	<u>\$7,435,423</u>

At June 30, 2009, the carrying and fair value of the underlying securities on loan was \$840,460,826 and \$1,402,928,631, respectively. The collateral provided for the securities on loan totaled \$597,809,843.

As of June 30, 2009, component units of the State of Montana had equity in pooled investments with a book value of \$5,103,327,133 and a fair value of \$5,822,207,279, 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 pool fixed-income instruments have

credit risk as measured by major credit rating services. This risk is that the issuer of a fixed-income security may default in making timely principal and interest payments. The Board of Investment's policy requires pool fixed-income investments, at the time of purchase, to be rated an investment grade as defined by Moody's or by Standard & Poor's (S&P) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the following tables are provided by S&P's rating services. If an S&P rating is not available, a Moody's rating has been used.

Custodial Credit Risk

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

Concentration of Credit Risk

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

Although the RFBP investment policy does not address concentration of credit risk, the TFBP investment policy states: "with the exception of U.S. government/agency securities, additional purchases will not be made in a credit if the credit risk exceeds 2 percent of the portfolio at the time of purchase". The RFBP had concentration of credit risk exposure to the Federal National Mortgage Association (Fannie Mae) of 16.06% as of June 30, 2009, while the TFBP had concentration of credit risk exposure to the same issuer of 22.63% as of June 30, 2009. The RFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp. (Freddie Mac) of 13.44% as of June 30, 2009, while the TFBP had concentration of credit risk exposure to the same issuer of 13.60% as of June 30, 2009. As of June 30, 2009, MDEP had no single issue investments that exceeded 5% of its portfolio.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with GASB Statement 40, the board has selected the effective duration method to disclose interest rate risk. This information, as provided by the custodial bank, is "An option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is calculated as the average percentage change in a bond's value (price plus accrued interest) under shifts of the Treasury curve plus/minus 100 basis points. The effective duration method incorporates the effect of the embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-throughs, CMOs, and ARMs)."

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

As reported in the U.S. government agency category, the RFBP portfolio held REMIC securities totaling \$215,648 at amortized cost as of June 30, 2009, while the TFBP portfolio held REMIC securities totaling \$34,264 at amortized cost. REMICs (Real Estate Mortgage Investment Conduits) are pass-through vehicles for multiclass mortgage-backed securities. These securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages.

The Bond Pools and AOF portfolio fixed income securities pay a fixed rate of interest until maturity while the variable rate (floating rate) securities pay a variable rate of interest until maturity. As of June 30, 2009, these portfolios held six variable rate issues. These securities float with LIBOR (London Interbank Offered Rate).

As of June 30, 2009, the Bond Pools and AOF portfolio held five Collateralized Debt Obligations (CDO). A CDO is security backed by a pool of bonds, loans, and other assets. CDOs do not specialize in one type of debt, but are often non-mortgage loans or bonds. These CDO positions, totaling \$135 million par, are categorized as rated corporate debt in the three portfolios.

Legal Risk

As of June 30, 2009, 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, 2009, as required for applicable pools. 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). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

TFBP
Credit Quality Rating and Effective Duration as of June 30, 2009
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate bonds (rated)	\$ 654,271	A	3.93
Municipal government bonds (rated)	1,110	AA	1.62
Municipal government bonds (unrated)	880	NR	4.31
U.S. government direct-backed	304,797	AAA	6.53
U.S. government indirect-backed	614,933	AAA	3.24
U.S. government agency (unrated)	31,302	NR	6.47
STIP	26,467	NR	.13
Total fixed-income investments	<u>\$1,633,760</u>	AA	4.14
Securities lending collateral investment pool	<u>\$ 296,273</u>	NR	.12

RFBP
Credit Quality Rating and Effective Duration as of June 30, 2009
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate bonds (rated)	\$ 801,929	A-	4.29
Corporate bonds (unrated)	17,277	NR	1.36
U.S. government direct-backed	252,322	AAA	5.99
U.S. government indirect-backed	569,776	AAA	3.05
U.S. government agency (unrated)	35,919	NR	7.63
STIP	118,747	NR	.13
Total fixed-income investments	<u>\$1,795,970</u>	AA	4.08
Securities lending collateral investment pool	<u>\$ 313,453</u>	NR	.08

Foreign Currency Risk

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

MPEP and MTRP Investments by Foreign Currency
(in thousands)

Currency	Fund Manager Name	2009	
		Carrying Value	Fair Value
EURO	Terra Firma Fund III	\$13,887	\$4,056
EURO	HarbourVest Intl Private Equity Fund VI	187	142
EURO	Carlyle Europe Real Estate Partners III	8,844	5,768
Total MPEP and MTRP		<u>\$22,918</u>	<u>\$9,966</u>

The U.S. dollar balances of the MTIP cash and investments are disclosed by currency in the following table.

MTIP
Cash by Currency
(in thousands)

Cash	2009	
	Carrying Amount	Fair Value
Australian Dollar	\$ 481	\$ 483
Brazilian Real	39	39
Canadian Dollar	105	104
Danish Krone	36	36
Hong Kong Dollar	232	232
Euro	2,006	2,008
Israeli Shekel	1	1
Japanese Yen	1,003	995
South Korean Won	12	12
Malaysian Ringgit	66	66
Mexican Peso	38	38
New Zealand Dollar	6	7
Norwegian Krone	92	91
Philippine Peso	21	21
Singapore Dollar	74	75
South African Rand	17	17
Swedish Krona	93	93
Swiss Franc	258	258
New Taiwan Dollar	1,040	1,042
Thailand Baht	22	22
Turkish Lira	1	1
UK British Pound	86	86
Total cash	\$5,729	\$5,727

The U.S. dollar balances of the MTIP equities by currency are presented in the following table.

MTIP
Equities by Currency
(in thousands)

Cash	2009	
	Carrying Amount	Fair Value
Australian Dollar	\$ 30,261	\$ 32,904
Brazilian Real	4,628	5,251
Canadian Dollar	31,433	32,035
Czech Koruna	215	201
Danish Krone	3,866	4,578
Euro	170,568	147,535
Hong Kong Dollar	36,060	39,977
Indonesian Rupiah	933	991
Hungarian Forint	1,167	847
Israeli Shekel	458	479
Japanese Yen	124,323	111,939
South Korean Won	13,108	13,389
Malaysian Ringgit	2,127	2,307
Mexican Peso	1,113	1,028
Norwegian Krone	6,199	5,254
Philippine Peso	257	306
Polish Zloty	1,687	976
Singapore Dollar	7,483	8,206
South African Rand	3,358	3,562
Swedish Krona	9,103	8,897
Swiss Franc	38,690	34,738
New Taiwan Dollar	9,613	9,423
Thailand Baht	2,325	3,075
Turkish Lira	1,331	1,403
UK British Pound	93,001	85,236
Total equity	<u>\$593,307</u>	<u>\$554,537</u>

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	71.26%
PERA (Public Employee Retirement Administration)	14.98
Board of Housing	7.92
College Savings Plan	4.85
Montana State University/University of Montana	.01
Other (1)	.98
Total	<u>100.00%</u>

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

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

Table 4 – Investments
(in thousands)

	Carrying Amount	Fair Value
Primary government		
Corporate (rated) (1)	\$ 27,890	\$ 27,490
U.S. govt direct/indirect (rated) (1)	1,213	1,289
U.S. govt mortgage-backed (rated) (1)	91,064	95,229
Govt securities	23,090	21,622
STIP/SIV investments	56,960	56,960
Other equities	213,745	206,258
Total	\$ 413,962	\$ 408,848
Component units/fiduciary funds		
Corporate (rated) (1)	\$ 500,168	\$ 480,058
U.S. govt direct/indirect (rated) (1)	55,509	57,708
U.S. govt mortgage-backed (rated) (1)	380,812	398,894
Govt securities	25,918	28,477
Other equities	274,219	290,913
Deferred compensation	278,822	278,820
Defined contribution	43,018	43,018
College Savings Plan	104,286	104,286
VEBA	953	803
Investments of MSU component units	112,414	112,414
Investments of UM component units	133,679	133,679
Real estate	16,981	17,294
STIP/SIV investments	54,082	54,082
Total	\$1,980,861	\$2,000,446
Total investments	\$2,394,823	\$2,409,294
Securities lending collateral investment pool	\$ 209,254	\$ 209,254

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

All Other Funds - Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2009
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate (1)	\$ 537,914	A	3.64
Corporate Unrated (1)	\$ 3,000	NR	(2.20)
U.S. government direct-backed (1)	120,978	AAA	6.20
U.S. government indirect-backed (1)	398,775	AAA	3.32
Total	\$1,060,667	AA	3.74

(1) These rated securities are reported on both Table 2 – Cash Equivalents and Table 4 – Investments.

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

Investment Risk Disclosures

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

Credit Risk

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

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a

transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2009, all the fixed-income and other equity securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board's custodial bank, State Street Bank. The Equity Index, Real Estate, Mortgage and Loan investments are registered in the name of the Montana Board of Investments. State Street and US Bank repurchase agreements were purchased in the State of Montana Board of Investments name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. With the exception of one fund, the 19 remaining BOI investment policy statements for various state agencies do not address concentration of credit risk. One fund requires credit risk to be limited to 3 % in any one name except AAA rated issues will be limited to 6%. Investments issued or explicitly guaranteed by the U.S. government and investments by various state agencies are excluded from the concentration of credit risk requirement. As of June 30, 2009, Montana had concentration of credit risk exposure to Federal National Mortgage Association of 7.55%

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. The All Other Funds' investment policies do not formally address interest rate risk. In accordance with GASB Statement 40, the board has selected the effective duration method to disclose interest rate risk.

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE

A disaggregation of the net receivables and accounts payable (by fund type) as of June 30, 2009, follows (amounts in thousands):

A. Receivables

Receivables	Governmental Funds					
	General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental
Licenses and permits	\$ 13	\$ 3,922	\$ -	\$ -	\$ -	\$ -
Taxes	192,385	62,717	-	5,602	-	1,549
Charges for services/ fines/forfeitures	2,158	24,333	1,464	-	40,956	-
Investment income	-	5,871	15	3,881	4,945	4,683
Contributions/premiums	20	3,991	-	-	-	-
Reimbursements/ Overpayments	607	-	-	-	-	-
Grants/contracts/ donations	-	313	-	-	-	-
Rentals/royalties	-	13,591	-	-	-	-
Other	4,283	5,629	12,868	-	-	564
Total receivables	199,466	120,367	14,347	9,485	45,901	6,796
Less: allowance for doubtful accounts	(3,996)	(9,840)	(1,183)	-	-	-
Receivables, net	\$195,470	\$110,527	\$13,164	\$9,483	\$45,901	\$6,796

Receivables	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Charges for services	\$ -	\$ -	\$17,468	\$ 244
Investment income	-	7,917	2	299
Contributions/premiums	9,678	-	3,102	6,725
Sales of documents/ merchandise/property	-	-	1,815	-
Other	-	-	1,203	12
Total receivables	9,678	7,917	23,590	7,280
Less: allowance for doubtful accounts	(5,054)	-	(30)	(62)
Receivables, net	\$ 4,624	\$7,917	\$23,560	\$7,218

B. Payables

Payables	Governmental Funds					
	General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental
Tax refunds	\$122,189	\$ -	\$ -	\$-	\$ -	\$ -
Vendors/individuals	52,612	80,788	117,286	-	-	9,694
Payroll	19,854	18,724	7,552	-	-	53
Accrued interest	-	-	-	-	4,833	1
Other	304	2,014	831	-	-	311
Total	\$194,959	\$101,526	\$125,669	\$-	\$4,833	\$10,059

Payables	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Vendors/individuals	\$889	\$ -	\$10,461	\$12,392
Payroll	-	11	876	3,073
Accrued interest	-	690	-	6
Total	\$889	\$701	\$11,337	\$15,471

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

Changes in capital asset balances for the fiscal year ended June 30, 2009, are reflected in the following table (in thousands):

Primary Government

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 434,111	\$ 28,717	\$ (1,325)	\$ 461,503
Construction work in progress	207,827	198,152	(181,752)	224,227
Easements (2)	83,693	4,966	-	88,659
Museum & Art (2)	62,889	91,508	(55,000)	99,397
Other (2)	9,524	1,430	(533)	10,421
Total capital assets, not being depreciated	798,044	324,773	(238,610)	884,207
Capital assets, being depreciated				
Infrastructure	3,686,615	332,526	(189,955)	3,829,186
Land improvements	24,815	3,430	-	28,245
Buildings/improvements	429,724	12,340	(1,631)	440,433
Equipment	298,359	29,920	(13,411)	314,868
Other	6,350	150	(102)	6,398
Total capital assets, being depreciated	4,445,863	378,366	(205,099)	4,619,130
Less: accumulated depreciation for:				
Infrastructure	(1,316,303)	(118,440)	122,088	(1,312,655)
Land improvements	(5,185)	(1,296)	-	(6,481)
Buildings/improvements	(211,317)	(15,584)	1,532	(225,369)
Equipment	(188,655)	(21,065)	11,268	(198,452)
Other	(3,736)	(204)	149	(3,791)
Total accumulated depreciation	(1,725,196)	(156,589)	135,037	(1,746,748)
Total capital assets, being depreciated, net	2,720,667	221,777	(70,062)	2,872,382
Intangible assets	34,880	15,470	(19,104)	31,246
Governmental activity capital assets, net	<u>\$ 3,553,591</u>	<u>\$562,020</u>	<u>\$ (327,776)</u>	<u>\$ 3,787,835</u>

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

(2) For 2009, Other NonDepreciable Assets are presented in more detail.

Primary Government (continued)

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 800	\$ -	\$ -	\$ 800
Construction work in progress	567	92	(492)	167
Total capital assets, not being depreciated	1,367	92	(491)	967
Capital assets, being depreciated				
Infrastructure	884	-	-	884
Land improvements	2,343	1,487	-	3,830
Buildings/improvements	7,331	13	-	7,344
Equipment	5,831	373	(167)	6,037
Other – Livestock	-	3,191	-	3,191
Total capital assets, being depreciated	16,389	5,064	(166)	21,286
Less: accumulated depreciation for:				
Infrastructure	(556)	(16)	-	(572)
Land/improvements	(452)	(115)	-	(567)
Buildings/improvements	(4,357)	(195)	-	(4,552)
Equipment	(3,844)	(316)	62	(4,098)
Other – Livestock	-	(53)	-	(53)
Total accumulated depreciation	(9,209)	(695)	62	(9,842)
Total capital assets, being depreciated, net	7,180	4,369	(105)	11,444
Intangible assets	186	106	(164)	128
Business-type activity capital assets, net	<u>\$8,733</u>	<u>\$4,567</u>	<u>\$(761)</u>	<u>\$ 12,539</u>

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

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

	Amount
General government	\$ 5,256
Public safety/corrections	6,371
Transportation (including depreciation of the highway system maintained by the State)	114,799
Health/social services	1,970
Education/cultural	1,852
Resource/recreation/environment (including depreciation of the State's dams).	5,600
Economic development/assistance	642
Depreciation and amortization on capital assets held by the State's internal service funds is charged to the various functions based on their usage of the assets.	12,527
Total depreciation expense – governmental activities	<u>\$149,017</u>

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

	Amount
Liquor Stores	\$ 98
State Lottery	45
Economic Development Bonds	1
General Government Services	183
Prison Funds	368
Total depreciation expense – business-type activities	<u>695</u>

B. Discretely Presented Component Units

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

Discretely Presented Component Units

	Montana State University (MSU)	University of Montana (UM)	Other	Total
Capital assets, not being depreciated				
Land	\$ 6,933	\$ 7,533	\$ 1,139	\$ 15,605
Construction work in progress	32,925	62,086	11,790	106,801
Capitalized collections	8,278	16,827	-	25,105
Livestock for educational purposes	3,071	-	-	3,071
Total capital assets, not being depreciated	51,207	86,446	12,929	150,582
Capital assets, being depreciated				
Infrastructure	34,802	6,759	-	41,561
Land improvements	15,636	12,884	-	28,520
Buildings/improvements	406,456	397,390	-	803,846
Equipment	116,128	58,932	4,940	180,000
Other	62,150	53,581	-	115,731
Total capital assets, being depreciated	635,172	529,546	4,940	1,169,658
Less: accumulated depreciation	(347,734)	(289,627)	(3,992)	(641,353)
Total capital assets, being depreciated, net	287,438	239,919	948	538,305
Intangible assets	969	416	6,032	7,417
Capital assets (net) of MSU component units	11,440	-	-	14,440
Capital assets (net) of UM component units	-	4,245	-	4,245
Discretely presented component units				
Total capital assets, net	\$351,054	\$331,026	\$19,909	\$ 701,989

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 (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 (IRC 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 plans. Separately issued financial statements can be obtained at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131.

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

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

B. Plan Descriptions

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

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

The funding policies for each plan provide for periodic employer and employee contributions (except VFCA) at rates specified by state law. An actuary determines the actuarial implications of the funding requirement in an annual actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry-age normal-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, 2009, 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 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 Montana Code Annotated (MCA). This system provides retirement benefits for all members of the Montana Highway Patrol, including supervisory personnel. Members or their survivors may be eligible for an annual supplemental lump-sum payment distributed each September. Many factors must be considered for eligibility, including the number of years the recipient has received a service retirement or disability benefit, the recipient's age, and whether the recipient is employed in a position covered by a retirement system under Title 19. This lump-sum payment is funded by registration fees requested by the PERB from the general fund. There has not been a supplemental payment as of 6/30/2009 because of the ongoing salary negotiations between the Department of Justice and the State Office of Labor Relations Union. 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, 2009, follows:

Employers	PERS-DBRP	SRS	GWPORS	MPORS	FURS	TRS
State agencies	34	1	4		1	8
Counties	55	56				
Cities/towns	96			29	16	
Rural Fire Districts					4	
Colleges/universities	5		3			5
Highs School	5					349
School districts	232					
Other Agencies	102					
Total	529	57	7	29	21	362

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, 2009, 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 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, 2009, 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, 2009, 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 of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service. The DROP account cannot be distributed until employment is formally terminated.

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

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

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

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not amortize. The 2007 Legislature increased the State's General Fund contribution rate from 2.11%, to 2.49% effective July 1, 2009. The plan's actuary has determined that as of July 1, 2009, the current employer contribution rate of

7.47% 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 \$1.4 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, 2009 follows:

Employers	PERS-DCRP	457
State agencies	31	1
Counties	45	2
Cities/towns	46	4
Colleges/universities	5	6
High Schools	3	
School districts	103	3
Other Agencies	38	3
Total	271	19

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, 2009, were \$3,730,213 and \$5,723,408, 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 (IRC) 457. All employees of the State, the Montana University System, and contracting political subdivisions are eligible to participate.

The Deferred Compensation plan is a voluntary, supplemental retirement savings plan. Assets of the 457 Deferred Compensation plan are required to be held in

trusts, custodial accounts, or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Participants elect to defer a portion of their salary, within IRC limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed provided IRC-specified criteria are met. Participant rights are fully vested in their accounts at the time of deposit. The employer and employee plan contributions as of June 30, 2009, were \$65,226 and \$19,660,721, 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 <i>(in thousands)</i>
Covered payroll	\$189,761
Total payroll	361,272
Employer contributions	\$ 11,054
Percent of covered payroll	5.83%
Employee contributions	\$ 13,342
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 183 in fiscal year 2008 to 192 in fiscal year 2009.

The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received, including interest, during fiscal year 2009 were \$120,782. As of June 30, 2009, outstanding balances were \$23,787.

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	\$1,347	\$4,151
Employee	570	1035
License and registration fees		286
Actuarial valuation date	6/30/2009	6/30/2009
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of payroll open	Level percentage of payroll open
Remaining amortization period	30 years (1)	21.5 years
Asset valuation method	4-year smoothed market	4-year smoothed market
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases	4.25%	4.25%
includes inflation factor	3.25%	3.25%
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 5% for probationary officer's base salary

(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 2009**

Plan	Member	Employer	State
PERS-DBRP	6.9% [19-3-315, MCA]	7.035% State & University 6.935% 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] 0.235% School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]
MPORS	5.8% - hired on or before 6/30/1975 & not electing GABA [19-9-710(a), MCA] 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]	9.825% [19-7-404, MCA]	
HPORS	9.0% - hired prior to 7/1/1997 & not electing GABA 9.05% - hired after 6/30/1997 & members electing GABA [19-6-402, MCA]	26.15% [19-6-404(1), MCA] 10.18% of salaries - paid from the General Fund [19-6-404(2), MCA]	
JRS	7.0% [19-5-402, MCA]	25.81% [19-5-404, MCA]	
GWPORS	10.56% [19-8-502, MCA]	9.0% [19-8-504, MCA]	
VFCA			5.0% of fire insurance premiums - paid from the General Fund [19-17-301, MCA]
PERS-DCRP	6.9% [19-3-315, MCA]	7.035% State & University 6.935% Local Governments 6.8% School Districts (K-12) [19-3-316, MCA]	0.1% Local Government payroll - paid from the General Fund 0.235% School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]
TRS	7.15% [19-20-602, MCA]	9.47% State & University [19-20-605, MCA]	0.11% of members' salaries [19-20-604, MCA] 2.00% contribution of the total earned compensation of school district and community college active members [19-20-607, MCA]

Pension Plan Information
Schedules of Funding Progress
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
Single Employer Systems						
JRS						
6/30/2009	61,929	41,848	(20,081)	147.99%	5,110	(392.97%)
HPORS (1)						
6/30/2009	99,652	137,815	38,163	72.31%	11,425	334.03%
Multiple Employer Systems						
PERS-DBRP						
6/30/2009	4,002,212	4,792,819	790,607	83.50%	1,003,215	78.81%
SRS						
6/30/2009	200,690	223,893	23,203	89.64%	51,457	45.09%
GWPORS						
6/30/2009	81,177	92,155	10,978	88.09%	36,023	30.48%
MPORS						
6/30/2009	214,345	345,261	130,916	62.08%	34,687	377.42%
FURS						
6/30/2009	209,775	306,236	96,460	68.50%	30,160	319.83%
TRS						
7/1/2009	2,762,200	4,331,000	1,411,600	66.18%	683,200	206.60%
Nonemployer Contributor						
VFCA						
6/30/2009	27,226	33,548	6,322	81.16%	N/A	N/A

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

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

System	Fiscal Year Ended June 30	Annual Required Contributions	Percentage Contributed	Annual Required State Contribution	Percentage Contributed
<u>SINGLE EMPLOYER SYSTEMS:</u>					
JRS	2007	(230)	(542.23%)		
	2008	(274)	(479.74%)		
	2009	(381)	(353.74%)		
HPORS	2007	3,581	101.48%	285	100.00%
	2008	3,948	100.03%	290	100.00%
	2009	2,501	(165.97%)	286	100.00%
<u>MULTIPLE EMPLOYER SYSTEMS:</u>					
PERS- DBRP	2007	60,253	110.41%	446	100.00%
	2008	65,425	110.42%	378	100.00%
	2009	95,506	79.39%	357	100.00%
SRS	2007	4,176	105.04%		
	2008	4,444	108.78%		
	2009	6,507	79.81%		
GWPORS	2007	2,218	118.94%		
	2008	2,541	117.23%		
	2009	3,491	94.31%		
MPORS	2007	4,258	100.58%	8,679	100.00%
	2008	4,637	111.19%	9,452	100.00%
	2009	3,455	146.35%	10,186	100.00%
FURS	2007	3,482	101.09%	7,908	100.63%
	2008	4,187	106.68%	9,568	100.63%
	2009	118	3,852.37%	9,831	100.00%
VFCA – (Nonemployer Contributor)	2007			1,661	100.00%
	2008			1,562	100.00%
	2009			1,580	100.00%
TRS	2007	73,418(1)	136.67%		
	2008	63,121	106.45%		
	2009	68,047	100.07%		

(1) Actual employer contribution amount includes a \$50 million one-time contribution made by the State in fiscal year 2007.

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2009

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

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Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2009 (continued)

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
PERS-DBRP	<p>(i) If less than 25 years of membership service, the greater of (a) 1/56 of HAC multiplied by years of service credit, or (b) the actuarial equivalent of double the member's regular contributions plus interest plus the actuarial equivalent of any additional contributions plus interest.</p> <p>(ii) If 25 years of membership service or more, (a) 1/50 of HAC multiplied by years of service credit or (b) the actuarial equivalent of double the member's regular contributions plus interest plus the actuarial equivalent of any additional contributions plus interest.</p> <p>Early retirement: Normal retirement benefit calculated using HAC, and service at early retirement and reduce for each month which the retirement age precedes the earlier of age 60 or the attainment of 30 years of service by 0.5% for the first 60 months and 0.3% for the next 60 months</p>	For retired members who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to (i) 3% for members hired before July 1, 2007 and (ii) 1.5% for members hired on or after July 1, 2007.	
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 and after July 1, 1997 and those who elected to be covered under this provision and who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to 3%	For retired members who were hired prior to July 1, 1997 and who did not elect GABA, the minimum monthly benefit is provided equal to 50% of the current base compensation of a newly confirmed active firefighter of the employer that last employed the member as a firefighter.
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%	<p>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.</p> <p>For non-GABA members who retired prior to July 1, 1991, and meet eligibility</p>

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

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General

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

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

B. Plan Description

Both the State of Montana and MUS are agent multiple employer plans. The participating employers under the State Plan are Facility Finance Authority, Housing Authority, Public Employees' Retirement System (PERS), Montana State Fund (New Fund), and Teachers' Retirement System (TRS). The participating employers under the MUS plan are Dawson Community College (Dawson CC), Flathead Valley Community College (Flathead CC), , Miles Community College (Miles CC), Montana State University – Billings (MSU-Billings), Montana State University – Bozeman (MSU-Bozeman), Montana State University – Great Falls College of Technology (MSU-GFCOT), Montana State University – Northern (MSU-Northern), University of Montana – Montana Tech (UM-MT Tech), Office of Commissioner on Higher Education (OCHE), State Bar, University of Montana – Helena College of Technology (UM-HCOT), University

of Montana – Missoula (UM-Missoula), and University of Montana – Western (UM-Western). Each participating employer is required by GASB Statement No. 43 to disclose additional information regarding funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

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

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

C. Basis of Accounting

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

The plan document states "an employee enrolled in the State Plan who (a) is eligible to draw a state retirement benefit at the time he or she leaves active state employment; and (b) makes arrangements with the EBB (Employee Benefits Bureau) within 60 days of the date active employee coverage ends to continue post-retirement coverage, may continue with the state group on a self-pay basis, retroactive back to the date active employee coverage was lost." Therefore, the plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2009.

The number of state participants as of December 31, 2008 follows:

State Plan Participants

Enrollment	State	Facility Finance Authority	Housing Authority	PERS	Montana State Fund (New Fund)	TRS	Total
Active employees	12,445	3	20	34	282	16	12,800
Retired employees, spouses, and surviving spouses (1)	3,328						3,328
Total	15,733	3	20	34	282	16	16,128

- (1) Due to the inability to determine, without considerable effort, the last place an employee worked before retiring, all retirees are listed as State; however, 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, 2009 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	488	2,745	129	191	96	72	2,280	395	178	304	6,888
Retired employees, spouses, and surviving spouses	211	1,101	26	98	31	28	821	176	97	90	2,679
Total	699	3,846	155	298	127	110	3,101	571	275	394	9,567

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.

The State plan's administratively established retiree medical premiums vary between \$182 and \$836 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$34.10 and \$58.00 and vision premiums vary between \$7.64 and \$22.26 depending on the coverage selected.

The MUS plan's administratively established retiree medical premiums vary between \$209 and \$734 per month and are revised annually. The plan provides different coinsurance amounts depending on whether members use preferred, non-preferred, or other hospitals. After an annual \$600 deductible for most non-Medicare-eligible retirees, the MUS plan reimburses 75% for the first \$1,250 in medical claims and 100% thereafter. After a \$400 deductible for Medicare-eligible retirees, the plan reimburses 75% for the first \$1,250 in medical claims and 100% thereafter. There is an optional \$1,500 deductible plan available to retirees with a reduced

premium. After the \$1,500 annual deductible, the plan pays 75% of the first \$2,500 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2009, 1,543 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 \$41.551 million is 7.99% of annual covered payroll. The State's annual covered payroll is \$665.363 million. The current MUS's ARC of \$17.332 million is 4.96% of annual covered payroll. The MUS's annual covered payroll is \$349.259 million.

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

The following table presents the OPEB cost for the year, the amount contributed, and changes in the OPEB plan for fiscal year 2009 (in thousands): Please note that the amounts in the State and MUS include some component unit portions and therefore, will not match the Statement of Net Assets.)

Annual OPEB Cost

	State	MUS
Annual required contribution/OPEB cost	\$41,551	\$17,332
Interest on net OPEB obligation	1,767	737
Annual OPEB cost	43,318	18,069
Contributions made	-	-
Increase in net OPEB obligation	43,318	18,069
Net OPEB obligation – beginning of year	41,551	17,332
Net OPEB obligation – end of year	\$84,869	\$35,401

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2009 and 2008 was as follows (in thousands):

Contribution Ratio

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State	6/30/2009	\$41,551	0%	\$84,869
	6/30/2008	\$41,551	0%	\$41,551
MUS	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: therefore, no actuarial evaluation was made for June 30, 2009 fiscal year. As of December 31, 2007, the State's actuarially accrued liability (AAL) for benefits was \$449.321 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$449.321 million, and the ratio of the UAAL to the covered payroll was 86.41%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the December 31, 2007, actuarial valuation, the projected unit credit funding method was used for the State. The actuarial assumptions included a 4.25% discount rate and a 3.00% payroll growth rate. The projected annual healthcare cost trend rate is 7.00% for medical and 13.30% for prescription drugs, initially. Prescription drugs are reduced by decrements to a rate of 5.00% after eight years. Medical costs increase to 8.00% for the next three years. Then, these costs are reduced by decrements to a rate of 5.00% after five additional years.

As of June 30, 2009, the MUS actuarially accrued liability (AAL) for benefits was \$182.597 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$182.597 million, and the ratio of the UAAL to the covered payroll was

52.28%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the June 30, 2009, actuarial valuation, the projected unit credit funding method was used for MUS. The actuarial assumptions included a 4.25% discount rate and a 3.00% payroll growth rate. The projected annual healthcare cost trend rate is 7.00% for medical and 13.30% for prescription drugs, initially. Prescription drugs are reduced by decrements to a rate of 5.00% after eight years. Medical costs increase to 8.00% for the next three years. Then, these costs are reduced by decrements to a rate of 5.00% after five additional 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, 2009, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for three employees provided for up to six months and retention of accrued annual vacation and sick leave balances for one employee until they obtained a permanent status or two years from termination whichever comes earlier. In determining termination benefit liability related to the continued coverage of group health insurance benefits, it was assumed that these benefits would be paid for the entire six month period. The exact rate was used to determine the benefit liability due to retaining accrued annual vacation and sick leave balances.

During the year ended June 30, 2009, Component Units of the State made the following termination benefit arrangements: continued coverage of health insurance benefits for 15 employees provided for up to six months and one-time incentive to retire payments to eight employees. To calculate the total benefit liability for the one-time incentive to retire payments, applicable taxes were added.

During the year ended June 30, 2009, the cost of termination benefits was \$14,563 and \$267,868 for the State and its Component Units, respectively.

A termination benefit of job retraining and career development programs provided by the state through the service delivery areas dislocated worker programs has not been recognized because the expected benefits are not estimable.

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	\$5,579	\$1,994
After Medicare eligibility	2,211	1,815
Actuarial valuation date	1/1/2007 (ARC calculated through December 31, 2007)	
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	3.00%	
Participation		
Future retirees	47%	
Future eligible spouses	60%	
Marital status at retirement	71.80%	

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	\$5,671	\$1,515
After Medicare eligibility	2,961	1,186
Actuarial valuation date	7/1/2007	
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	3.00%	
Participation		
Future retirees	45%	
Future eligible spouses	59%	
Marital status at retirement	59.00%	

NOTE 8. RISK MANAGEMENT

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

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 1,996 policies during the 2009 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 \$353,611 based on estimated claims through June 30, 2009. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Montana University System (MUS) Group Benefits Plan – This plan was authorized by the Board of Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term disability, accidental death and dismemberment, long-term care, and vision insurance. Allegiance Benefit Plan Management is the claims administrator for the self-insured indemnity plan and a managed care plan. New West Health Services, Blue Cross/Blue Shield of Montana, and Peak administer claims for the three other managed care plans. Star Point 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 Mercer Consultants and estimated to be \$6,900,000 as of June 30, 2009, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Montana University System (MUS) Workers Compensation Program – This fund was formed to provide self-insured workers compensation coverage for employees of the Montana University System. The Montana University System Board of Regents provides workers compensation coverage under Compensation Plan Number One (Title 39, Chapter 71, Part 2101, MCA). The program is self-insured for workers compensation claims to a maximum of \$500,000 per each occurrence. Losses in excess of \$500,000 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 2009, the program ceded \$240,712 in premiums to reinsurers.

Premium rates for all participating employees are based on rates established by the MUS Workers Compensation Program Committee. 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 \$7,733,000 for estimated claims at June 30, 2009. 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, 2009, the amount of this liability was estimated to be \$3,068,282. Since each insurer is responsible for its own claim liabilities, the pool is acting as a claims service and there is no transfer or pooling of risk.

(5) State Fund (New Fund) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund is a self-supporting, competitive State fund, and functions as the guaranteed market. At June 30, 2009, approximately 26,398 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 Perrin, as of June 30, 2009, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2009, \$813,304,712 of unpaid claims and claim adjustment expenses were presented at face value. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis, and all liability of the New Fund is terminated.

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. New Fund acquisition costs are capitalized and amortized ratably over the subsequent year. The amount of capitalized acquisition costs for the fiscal year ended June 30, 2009, was \$4,638,094. For the fiscal year ended June 30, 2009, \$5,091,054 of acquisition costs was amortized.

MCA 39-71-2330 requires the New Fund set premiums at least annually at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. It also requires the New Fund to establish a minimum surplus above risk-based capital requirements to secure the New Fund against risks inherent in the business of insurance.

For the fiscal year ended June 30, 2009, 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. The excess of loss contracts provide coverage of \$95 million for fiscal year 2009. During fiscal year 2009, the New Fund retained the first \$5 million for the first layer of reinsurance coverage. Individual, per person coverage was provided up to \$5 million per any one individual loss for fiscal year 2009.

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

Premium revenue was reduced by premiums paid for reinsurance coverage of \$13.7 million in fiscal year 2009.

Estimated claim reserves were reduced by \$7.3 million for fiscal year 2009 for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excessive loss reinsurance contract. In fiscal year 2009, estimated claim reserves were reduced by an additional \$10.7 million for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due the aggregate stop loss contract.

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

An actuarial study prepared by Towers Perrin, as of June 30, 2009, 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, 2009, \$79,162,697 of unpaid claims and claim adjustment expenses was reported at a net present value of \$65,574,542, discounted at a 3.5% rate.

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

	Primary Government				MUS Workers Compensation Program	
	Hail Insurance		MUS Group Benefits			
	2009	2008	2009	2008	2009	2008
Unpaid claims and claim adjustment expenses at beginning of year	\$ 3,475	\$ 519	\$6,500	\$ 6,250	\$6,357	\$ 5,503
Incurred claims and claim adjustment expenses:						
provision for insured events of the current year	2,601	5,435	60,296	54,564	2,922	2,693
Increase (decrease) in provision for Insured events of prior years	(2,009)	4,259	-	-	22	(181)
Total incurred claims and claim adjustment expenses	592	9,694	60,296	54,564	2,944	2,512
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(2,248)	(1,960)	(59,896)	(54,314)	(641)	(433)
Claims and claim adjustment expenses attributable to insured events of prior years	(1,465)	(4,778)	-	-	(927)	(1,225)
Total payments	(3,713)	(6,738)	(59,896)	(54,314)	(1,568)	(1,658)
Total unpaid claims and claim adjustment expenses at end of year	\$ 354	\$ 3,475	\$ 6,900	\$ 6,500	\$ 7,733	\$ 6,357

	Component Units			
	Montana State Fund (New)		Montana State Fund (Old)	
	2009	2008	2009	2008
Unpaid claims and claim adjustments expenses at beginning of year	\$752,253	\$ 679,209	\$ 86,733	\$ 98,233
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	151,964	195,325	-	-
Increase (decrease) in provision for insured events of prior years	30,842	17,612	3,171	(212)
Total incurred claims and claim adjustment expenses	182,807	212,937	3,171	(212)
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(28,062)	(35,773)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(93,693)	(104,120)	(10,741)	(11,288)
Total payments	(121,755)	(139,893)	(10,741)	((11,288)
Total unpaid claims and claim adjustment expenses at end of year	\$ 813,305	\$ 752,253	\$79,163	\$ 86,733

(8) Risk Management Trend Information – The following tables only present risk management trend information for the State Fund (New Fund) and the MUS Workers Compensation Insurance. Both funds have a three to five-year development cycle contemplated by GASB Statement 10. The State Fund (Old Fund) does not charge a premium for its services. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five-year development cycle. The MUS Group Benefits Fund pays claims within the calendar year, and the plan limits the timing for submission of claims; therefore, it has no three to five-year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The tables illustrate how the earned revenues (net of reinsurance) of the funds and their investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the funds as of the end of the fiscal year (in thousands). Section 3

shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

	MUS Workers Compensation Program					
	2004	2005	2006	2007	2008	2009
1. Premiums and investment revenue						
Earned	\$2,425	\$3,048	\$3,709	\$4,392	\$4,997	\$5,171
Ceded	(151)	(197)	(199)	(238)	(220)	(241)
Net earned	\$2,274	\$2,851	\$3,510	\$4,154	\$4,777	\$4,930
2. Unallocated expenses including overhead						
	\$ 227	\$ 280	\$ 264	\$ 259	\$ 387	\$ 461
3. Estimated losses and expenses end of accident year						
Incurred	\$2,174	\$2,366	\$2,453	\$2,600	\$2,693	\$2,922
Ceded	-	-	-	-	-	-
Net incurred	\$2,174	\$2,366	\$2,453	\$2,600	\$2,693	\$2,922
4. Net paid (cumulative) as of:						
End of policy year	\$ 552	\$ 382	\$ 391	\$ 368	469	641
One year later	1,020	1,002	910	933	1,100	
Two years later	1,124	1,228	1,254	1,093		
Three years later	1,148	1,526	1,351			
Four years later	1,165	1,555				
Five years later	1,210					
5. Re-estimated ceded losses and expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6. Re-estimated net incurred losses and expense:						
End of policy year	\$2,174	\$2,366	\$2,453	\$2,600	\$2,693	\$2,922
One year later	2,174	2,565	2,267	2,293	2,687	
Two years later	2,037	2,459	2,510	2,412		
Three years later	1,830	2,602	2,471			
Four years later	1,570	2,622				
Five years later	1,499					
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year						
	\$ (675)	\$ 256	\$18,000	\$(188,000)	\$(6,459)	\$-

(State Fund (New Fund) Table presented on next page)

Montana State Fund (New Fund)										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1. Premiums and investment revenue										
Earned	94,625	112,233	119,627	156,955	164,859	222,882	242,394	278,813	258,693	223,420
Ceded	855	2,952	(465)	5,654	6,563	6,788	13,618	14,856	14,676	13,702
Net earned	93,770	109,282	120,092	151,301	158,297	216,095	228,776	263,957	244,017	209,718
2. Unallocated expenses including overhead	21,649	26,188	28,713	31,548	37,569	39,078	40,548	41,947	47,778	49,215
3. Estimated losses and expenses end of accident year										
Incurred	65,957	68,267	81,560	110,153	120,705	134,290	155,057	170,652	177,100	159,229
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	65,957	68,267	81,560	110,153	120,705	134,290	155,057	170,652	177,100	159,229
4. Net paid (cumulative) as of:										
End of policy year	13,177	14,140	16,693	22,982	26,123	25,721	30,977	32,708	31,002	29,009
One year later	29,218	32,888	38,185	48,861	50,888	57,239	66,063	67,928	67,034	
Two years later	37,555	45,218	52,359	63,773	66,140	72,229	84,014	85,646		
Three years later	43,649	55,248	60,029	72,957	74,697	82,647	94,091			
Four years later	48,322	61,846	64,922	79,060	80,233	88,236				
Five years later	52,027	66,031	68,343	84,340	83,788					
Six years later	54,473	69,553	71,566	88,645	-					
Seven years later	57,077	72,367	74,253	-	-					
Eight years later	59,228	75,269	-	-	-					
Nine years later	60,690	-	-	-	-					
5. Re-estimated ceded losses and expenses	-	-	-	8,600	2,138	-	-	-	-	-
6. Re-estimated net incurred losses and expense:										
End of policy year	65,957	68,267	81,560	110,153	120,705	134,290	155,057	170,652	177,100	159,229
One year later	66,421	71,094	86,799	110,532	112,609	136,235	157,711	171,783	174,279	-
Two years later	66,662	81,053	91,241	112,443	124,413	138,447	163,433	170,786	-	-
Three years later	70,302	88,157	94,615	117,245	127,827	144,484	164,358	-	-	-
Four years later	72,492	92,329	99,755	115,414	129,051	143,820	-	-	-	-
Five years later	73,423	95,727	100,925	119,976	127,702	-	-	-	-	-
Six years later	76,048	98,124	105,651	121,686	-	-	-	-	-	-
Seven years later	77,930	102,847	104,874	-	-	-	-	-	-	-
Eight years later	80,680	103,475	-	-	-	-	-	-	-	-
Nine years later	81,400	-	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	\$15,444	\$ 35,208	\$ 23,314	\$ 11,533	\$ 6,997	\$ 9,530	\$ 9,301	\$ 134	\$ (2,821)	\$ -

B. Entities Other Than Pools

(1) Employee Group Benefits – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracts with Blue Cross/Blue Shield, PEAK, New West, and CVS Caremark for administration of its self-insured plans. Premiums are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments, and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2009, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, as well as other actuarially determined liabilities, were \$13,650,000 based on a formula provided by Actuaries Northwest, a consulting actuarial firm, of which \$11,875,500 is estimated to be paid in fiscal year 2010.

(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 \$250,000 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 \$250,000 of value, with state agencies paying the first \$1,000. Commercial property insurance protects approximately \$4.4 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 Perrin Company, and issued for the accident period July 1, 1999 through June 30, 2009, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2009, estimated claims liability was \$14,956,151.

(3) Changes in Claims Liabilities for the Past Two Years – These funds establish liabilities for both reported and incurred, but not reported, claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	Group Employees Benefits		Administration Insurance	
	2009	2008	2009	2008
Amount of claims liabilities at the beginning of each fiscal year	\$ 10,100	\$ 12,508	\$16,498	\$15,121
Incurred claims:				
Provision for insured events of the current year	112,776	101,540	5,548	6,271
Increases (decreases) in provision for insured events of prior years	3,550	(2,408)	1,182	5,869
Total incurred claims	116,326	99,132	6,730	12,140
Payments:				
Claims attributable to insured events of the current year	(98,115)	(88,340)	(1,483)	(1,462)
Claims attributable to insured events of prior years	(14,661)	(13,200)	(6,789)	(9,301)
Total payments	(112,776)	(101,540)	(8,272)	(10,763)
Total claims liability at end of each fiscal year	\$ 13,650	\$ 10,100	\$14,956	\$16,498

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

At June 30, 2009, the Department of Transportation had contractual commitments of approximately \$255.8 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. Capital Construction

At June 30, 2009, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$46.4 million for capital projects construction. The primary government will fund \$36.1 million of these projects, with the remaining \$10.3 million coming from the Montana 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, 2009, the BOI had committed, but not yet purchased, \$22,760,363 in loans from Montana lenders. In addition to the above commitments, lenders had reserved \$26,207,197 for loans as of June 30, 2009.

The BOI makes reservations to fund mortgages from the Public Employees and Teachers retirement funds. As of June 30, 2009, the BOI had mortgage reservations/commitments totaling \$214,625.

D. Proprietary Fund Commitments

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

	<u>Amount</u>
<u>Enterprise funds</u>	
State Lottery	\$ 158
Other Enterprise Funds	78
Liquor Warehouse	61
Housing Authority	42
Subtotal-Enterprise funds	<u>\$ 339</u>
<u>Internal service funds</u>	
Highway Equipment	\$ 1,637
Buildings & Grounds	204
Information Technology Services	170
Administration Payroll Processing	67
Motor Pool	48
DEQ Indirect Cost Pool	27
Administration Supply	23
Administration Central Services	20
Commerce Central Services	17
Administration Insurance	10
Justice Legal Services	5
Other Internal Services	4
FWP Equipment	4
Print & Mail Services	1
SABHRS Finance & Budget Bureau	1
Subtotal-Internal service funds	<u>\$2,238</u>
Total	<u>\$2,577</u>

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, 2009, were as follows (in thousands):

Fiscal Year Ending June 30	Primary Government - Governmental Activities	Discretely Presented Component Units
2010	\$ 1,016	\$252
2011	822	120
2012	741	73
2013	243	17
2014	23	-
Total minimum pmts	2,845	462
Less: interest	(165)	(47)
Present value of minimum payments	<u>\$2,680</u>	<u>\$415</u>

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

Asset Class	Primary Government
Buildings	\$641
Equipment	3,112
Less: Accum Depreciation	<u>(1,018)</u>
Net Book Value	<u>\$2,735</u>

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2009 totaled \$19,950,000. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
2010	\$19,834	\$ 3,630
2011	16,450	2,522
2012	13,043	2,260
2013	11,593	2,225
2014	10,273	2,173
2015-2019	33,946	10,569
2020-2024	14,842	506
Thereafter	5,669	-
Total future rental payments	<u>\$125,650</u>	<u>\$23,885</u>

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

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

B. Short-term Debt

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

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

	Beginning Balance	Additions	Reductions	Ending Balance
RANs				
Drinking Water - 2008	\$650	\$ 0	\$650	\$ 0
Drinking Water – 2008F	0	700	700	0
Drinking Water – 2009B	0	1,900	0	1,900
Waste Water – 2009C	0	500	0	500

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, 2009, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2009
1995	7,500	4,295
1997	10,000	9,415
1998	12,500	12,055
2000	15,000	14,750
2003	15,000	14,735
2004	18,500	18,370
2007	15,000	15,000
Total		<u>\$88,620</u>

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2009 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	\$98,045	\$-	\$9,425	\$88,620

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, 2009, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments		Balance June 30, 2009
				Fiscal Year 2010	In Year of Maturity (2)	
General obligation bonds						
Wastewater Treatment Works						
Revolving Fund (3)	1998A	\$ 3,510	3.75-5.15	\$ 170	195 (2013)	\$ 735
Long-Range Bldg Program	1998B	34,545	4.2-5.1	1,765	1,765 (2010)	1,765
Long-Range Bldg Program Refunding	1998D	14,855	4.4-5.0	1,350	1,720 (2015)	9,160
Drinking Water Revolving Fund (3)	1998F	3,065	3.6-4.85	155	230 (2019)	1,900
Drinking Water Revolving Fund (3)	2000A	2,990	4.25-5.6	130	240 (2021)	2,145
Water Pollution Control Revolving Fund (3)	2000B	3,325	4.25-5.6	145	270 (2021)	2,395
Long-Range Bldg Program	2000C	17,195	5.0-5.55	760	800 (2011)	1,560
Long-Range Bldg Program	2001B	11,430	4.1-5.75	490	830 (2021)	7,705
Information Technology	2001C	1,600	3.85-4.2	175	185 (2011)	360
Energy Conservation Program (5)	2001D	1,250	3.85-4.2	140	145 (2011)	285
Drinking Water Revolving Fund (3)	2001G	3,190	4.0-5.0	140	235 (2022)	2,365
Water Pollution Control Revolving Fund (3)	2001H	2,690	4.0-5.0	115	200 (2022)	1,985
Long-Range Bldg Program	2002B	10,475	3.35-4.7	475	730 (2023)	7,960
Hard Rock Mining Reclamation	2002C	2,500	3.5-4.7	100	200 (2023)	2,000
Long-Range Bldg Program Refunding	2002D	15,805	2.5-3.7	1,450	1,685 (2014)	7,820
Long-Range Bldg Program	2003A	9,730	2.37-4.0	435	655 (2024)	7,770
Energy Conservation Program (5)	2003B	1,250	2.0-3.0	125	145 (2014)	675
Renewable Resource Program Refunding (4)	2003C	1,970	1.45-5.25	60	90 (2019)	745
Water Pollution Control Revolving Fund (3)	2003D	2,730	2.0-3.1	170	190 (2014)	900
Drinking Water Revolving Fund (3)	2003E	1,675	2.0-3.1	105	115 (2014)	545
Long-Range Bldg Program Refunding	2003G	26,610	2.0-5.0	2,105	2,310 (2017)	16,425
Information Technology Refunding	2003H	8,725	2.0-4.0	2,225	2,225 (2010)	2,225
Water Pollution Control Revolving Fund (3)	2004A	2,665	2.0-3.8	160	185 (2015)	1,030
Long-Range Bldg Program	2004B	3,125	3.0-4.75	170	170 (2025)	2,505
Long-Range Bldg Program Refunding	2005A	14,945	3.0-5.25	1,255	1,205 (2019)	14,455
Long-Range Bldg Program	2005B	1,670	3.25-4.3	65	120 (2026)	1,500
Energy Conservation Program (5)	2005C	2,500	3.25-4.0	240	290 (2016)	1,840
CERCLA Program (6)	2005D	2,000	3.25-4.3	80	140 (2026)	1,795
Drinking Water Revolving Fund (3)	2005F	3,875	4.0-4.75	215	350 (2021)	3,305
Water Pollution Control Revolving Fund (3)	2005G	2,110	4.0-4.75	120	190 (2021)	1,795
Long-Range Bldg Program Refunding	2005H	10,055	3.0-5.0	50	1,300 (2020)	9,800
Long-Range Bldg Program	2006A	31,350	4.0-5.0	1,355	1,930 (2027)	29,045
Energy Conservation Program (5)	2006B	3,750	4.0-6.0	200	330 (2022)	3,410
CERCLA Program (6)	2006C	1,000	4.0	90	120 (2017)	835
Renewable Resource Program (4)	2006D	950	5.6-6.0	45	90 (2022)	870
Long-Range Bldg Program Refunding	2007A	16,740	4.25-5.0	-	2,465 (2018)	16,740
Long-Range Bldg Program	2007D	11,720	4.375-4.75	410	3,865 (2028)	11,340
Long-Range Bldg Program	2009D	3,100	3.375-4.35	110	220 (2028)	2,895
Total general obligation bonds		\$292,670		\$17,350		\$182,585
Special revenue bonds						
State Hospital Project (7)	1997	\$ 25,915	4.0-5.05	\$ 1,015	1,820 (2022)	\$ 17,945
Renewable Resource Program (8)	1997B	2,660	3.75-5.37	135	170 (2014)	760
Renewable Resource Program (8)	2001A	420	3.65-5.59	20	30 (2021)	295
Renewable Resource Program (8)	2001B	1,750	5.2-7.1	75	150 (2021)	1,300
Renewable Resource Program	2001C	12,155	2.55-4.3	685	790 (2013)	2,950

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments		Balance June 30, 2009
				Fiscal Year 2010	In Year of Maturity (2)	
Refunding (8)						
Broadwater Power Proj Refunding (8)	2001D	21,450	2.25-4.7	1,240	1,795 (2018)	13,645
Renewable Resource Program (8)	2001E	885	2.1-4.85	40	65 (2022)	650
Renewable Resource Program (8)	2001F	900	3.3-6.2	35	75 (2022)	690
Developmental Center Project						
Refunding (7)	2003	11,510	3.0-5.0	665	970 (2019)	8,030
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	125	215 (2024)	2,430
Renewable Resource Program (8)	2004B	430	4.45-5.45	25	40 (2020)	345
U.S. Highway 93 GARVEES (9)	2005	122,795	3.65-5.19	7,000	11,315 (2020)	98,645
U.S. Highway 93 GARVEES (9)	2009	44,670	3.5-5.0	2,340	3,925 (2023)	42,285
Total special revenue bonds		<u>\$248,540</u>		<u>\$13,400</u>		<u>\$189,970</u>
Notes payable						
Water Conservation (Little Dry Project) (10)		\$ 50	5.0	\$ 3	1 (2012)	\$ 6
Water Conservation (Petrolia Project) (10)		50	5.0	2	2 (2016)	16
Middle Creek Dam Project (11)		3,272	8.125	54	209 (2034)	2,640
Tongue River Dam Project (12)		11,300	-	290	290 (2038)	8,403
Total notes payable		<u>\$ 14,672</u>		<u>\$ 349</u>		<u>\$ 11,065</u>
Subtotal governmental activities, before deferred balances						383,620
Deferred amount on refunding						(3,569)
Unamortized discount						(107)
Unamortized premium						8,324
Total governmental activities		<u>\$555,882</u>		<u>\$31,099</u>		<u>\$388,268</u>
Business-type Activities						
Bonds/notes payable						
<u>Economic Development Bonds (13)</u>						
Municipal Finance Consolidation Act Bonds (Irrigation Program) (14)	1988	\$ 4,976	6.60-7.75	\$ 50	70 (2014)	\$ 300
Conservation Reserve Enhancement Program (CRP Bonds) (15)		880	6.0-7.50	286	98 (2014)	880
Total bonds/notes payable		<u>5,856</u>		<u>336</u>		<u>1,180</u>
Total business-type activities		<u>\$ 5,856</u>		<u>\$ 336</u>		<u>\$ 1,180</u>

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

(2) Year of maturity refers to fiscal year.

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

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

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

(6) The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42 United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA Bonds are secured additionally by a pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event cost recovery payments are insufficient.

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

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

- (9) The U.S. Highway 93 GARVEES (Grant Anticipation Revenue Vehicles) Bonds were issued for the purpose of improving a 44.8-mile stretch of U.S. Highway 93. Repayment of the bonds is secured by a pledge of certain federal aid revenues.
- (10) Loans obtained from Farmers Home Administration for the purpose of acquiring an irrigation (pumping) system for water distribution in the vicinity of Sidney, Montana (Little Dry Project) and to rehabilitate the Petrolia Reservoir and Canal in the vicinity of Winnett, Montana (Petrolia Project). A portion of the revenues generated by the facilities is pledged for repayment of the loans. In the fiscal year 2004 CAFR, the Little Dry Project Loan was incorrectly listed as a special revenue bond and the Petrolia Project Loan was incorrectly excluded from the long-term debt reported.
- (11) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation.
- (12) Northern Cheyenne Tribe loan to the Montana Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.
- (13) Economic Development Bonds & Municipal Finance Consolidation Act Bonds – This program is directed by the Board of Investments, which is attached to the Department of Commerce for administrative purposes. The program assists Montana's small businesses and local governments in obtaining low-cost financing.
- (14) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds, and the interest thereon, are payable solely from the collection of a special tax or assessment, which is a lien against real property in the Irrigation District. The Irrigation Bonds are limited obligations of the Board of Investments, due to an irrevocable pledge to lend money for deposit by the trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein, on any payment date. The indenture does not permit the issuance of additional bonds.
- (15) The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Bond Pool.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2009, were as follows (in thousands):

Governmental Activities

Year Ended June 30	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 17,350	\$ 7,585	\$ 13,400	\$ 8,857	\$ 349	\$ 44
2011	15,285	6,915	14,030	8,278	351	43
2012	15,575	6,300	14,645	7,656	352	42
2013	16,195	5,661	15,310	7,005	353	41
2014	16,620	4,982	15,175	6,330	355	40
2015-2019	63,760	15,288	84,505	20,294	1,864	181
2020-2024	26,890	5,024	32,905	3,041	1,951	145
2025-2029	10,910	1,083	-	-	2,070	102
2030-2034	-	-	-	-	2,261	49
2035-2039	-	-	-	-	1,159	2
Total	\$182,585	\$ 52,838	\$189,970	\$ 61,461	\$ 11,065	\$ 689

Business-type Activities

Year Ended June 30	Economic Development Bonds	
	Principal	Interest
2010	\$ 336	\$80
2011	296	56
2012	305	36
2013	173	15
2014	70	3
Total	\$1,180	\$190

Debt service requirements of discretely presented component units at June 30, 2009, were as follows (in thousands):

Year Ended June 30	Housing Authority		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 14,065	\$ 43,056	\$ 3,722	\$ 5,774	\$ 5,813	\$ 6,678
2011	14,835	42,453	3,722	5,790	5,642	6,440
2012	15,380	41,803	3,869	5,761	5,876	6,223
2013	16,665	41,114	5,774	3,920	6,135	5,958
2014	17,890	40,341	5,955	3,693	6,419	5,663
2015-2019	105,695	188,044	33,345	14,681	36,187	23,646
2020-2024	140,890	158,448	28,495	7,280	46,435	13,181
2025-2029	185,595	117,364	12,290	3,815	18,800	3,211
2030-2034	200,745	66,851	12,885	1,814	5,720	557
2035-2039	136,298	19,239	4,505	96	-	-
2040-2044	16,020	1,563	-	-	-	-
Total	\$864,078	\$760,276	\$114,562	\$52,624	\$137,027	\$71,557

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2009, 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	\$201,560	\$ -	\$ 18,975	\$182,585	\$17,350	\$165,235
Special revenue bonds	204,365	-	14,395	189,970	13,400	176,570
Notes payable	11,411	-	346	11,065	349	10,716
	417,336	-	33,716	383,620	31,099	352,521
Deferred amount on refunding	(4,149)	579	-	(3,570)	-	(3,570)
Unamortized discount	(119)	12	-	(107)	-	(107)
Unamortized premium	9,635	0	1,311	8,324	-	8,324
Total bonds/notes payable	422,703	591	35,027	388,267	31,099	357,168
Other liabilities						
Lease/installment purchase payable	1,421	2,070	811	2,680	1,016	1,664
Compensated absences payable (1)	91,124	55,340	51,163	95,301	51,164	44,137
Early retirement benefits payable (1)	44	-	20	24	5	19
Arbitrage rebate tax payable (1)	320	-	90	230	1	229
Estimated insurance claims (1)	26,598	3,550	1,542	28,606	17,527	11,079
Pollution Remediation	-	495,495	-	495,495	36,704	458,791
OPEB implicit rate subsidy (2)	40,029	42,779	-	82,808	-	82,808
Total other liabilities	159,536	599,234	53,626	705,144	106,417	598,727
Total governmental activities						
Long-term liabilities	\$582,239	\$599,825	\$88,653	\$1,093,411	\$137,516	\$955,895
Business-type activities						
Bonds/notes payable						
Economic Development Bonds	\$ 1,853	\$ -	\$ 673	\$ 1,180	\$ 336	\$ 844
Total bonds/notes payable	1,853	-	673	1,180	336	844
Other liabilities						
Compensated absences payable	1,540	734	760	1,514	760	755
Arbitrage rebate tax payable	39	-	20	19	19	-
Estimated insurance claims	19,892	1,776	3,613	18,055	9,098	8,956
OPEB implicit rate subsidy (2)	713	766	-	1,479	-	1,479
Total other liabilities	22,184	3,276	4,393	21,067	9,877	11,190
Total business-type activities						
Long-term liabilities	\$ 24,037	\$ 3,276	\$ 5,066	\$ 22,247	\$10,213	\$ 12,034

(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, 2009, 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	\$ 946,911	\$ 34,054	\$ 108,554	\$ 872,411	\$ 14,065	\$ 858,346
Montana State University (MSU)	123,660	95	4,715	119,040	5,261	113,779
University of Montana (UM)	140,476	266	5,725	135,017	5,813	129,204
Total bonds/notes payable (1)	1,211,047	34,415	118,994	1,126,468	25,139	1,101,329
Other liabilities						
Lease/installment purch pay	668	-	254	414	222	192
Compensated absences pay	50,209	27,180	23,093	54,296	25,640	28,656
Arbitrage rebate tax payable	877	184	333	728	72	656
Estimated insurance claims	820,688	185,978	127,787	878,879	148,960	729,919
Due to federal government	31,786	238	-	32,024	-	32,024
Other	2,095	-	-	2,095	-	2,095
OPEB implicit rate subsidy (2)	17,226	17,958	-	35,184	-	35,184
Total other liabilities	923,549	231,538	151,467	1,003,620	174,894	828,726
	<u>\$2,134,596</u>	<u>\$265,953</u>	<u>\$270,461</u>	<u>\$2,130,088</u>	<u>\$200,033</u>	<u>\$1,930,055</u>
Long-term liabilities of Montana University System component units					254	614
Total discretely presented component units						
Long-term liabilities					<u>\$200,287</u>	<u>\$1,930,669</u>

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

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

F. Refunded and Early Retired Debt

Primary Government

Pre-payments

During fiscal year 2009, the Department of Natural Resources and Conservation (DNRC) used current available resources to make the following pre-payments on outstanding bonds: \$375,000 of general obligation Series 2001E; \$1,395,000 of general obligation Series 1998A, and \$780,000 of special revenue Series 1997B.

DNRC also used current available resources to make the following payments which resulted in the bonds being paid in full: \$290,000 of general obligation Series 2001E; \$115,000 of special revenue Series 1997A and \$500,000 of special revenue Series 2004A.

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, 2009, \$61,045,000 of bonds outstanding was considered defeased.

Universities

Defeased Debt Outstanding

Montana State University and the University of Montana have 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, 2009, \$445,000 and \$46,579,503 of bonds outstanding were considered defeased for Montana State University and the University of Montana, respectively.

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, 2009, industrial revenue bonds outstanding aggregated \$180.1 million.

The BOI is also authorized to issue Qualified Zone Academy Bonds (QZAB) under the Municipal Finance Consolidation Act. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2009, QZAB debt outstanding aggregated \$10.1 million.

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

Beginning Farm Loan Program

The Montana Department of Agriculture is authorized to request issuance of bonds by the BOI to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2009, was as follows: Hershberger Project – issued \$129,412, outstanding \$104,329; Young Project – issued \$223,300, outstanding \$193,742.

Discretely Presented Component Units

Facility Finance Authority (FFA)

The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2009, revenue bonds outstanding aggregated \$870.3 million, and notes payable outstanding aggregated \$7.1 million.

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

Housing Authority (HA)

The 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, 2009, bonds outstanding aggregated \$10,159,678.

H. Derivative Transactions Related to Long-term Debt

Interest Rate Exchange Agreements

In March 2005, Montana State University (MSU) entered into a forward-starting interest rate swap agreement (“swaption”) with Deutsche Bank AG (“DBAG”). The notional amount of the swap as of June 30, 2009, was \$24,975,000, and equaled MSU’s Revenue Bonds Series J 2005 bond principal outstanding. The instrument was intended to synthetically fix the Series J 2005 bonds issued July 21, 2005, from a variable rate to an intended rate of 3.953%.

The Series J bonds are the only bond issuance with variable rate exposure. Because of general market conditions related to subprime mortgage concerns and more specifically, because the insurer of the Series J Bonds, Ambac, was downgraded, auctions of MSU’s Series J bonds began to fail during the year ended June 30, 2008, resulting in the application of a “penalty rate” (as opposed to a market rate).

On September 11, 2008, MSU remarketed its Series J bonds in the Variable Rate Demand market, to reduce the then-negative basis difference and restore liquidity to its bondholders. The swap with DBAG remained unchanged, with the rate received from DBAG at the SIFMA weekly index; however, the rate paid to bondholders is now at the daily reset rate. This arrangement still contains basis risk, although now based on weekly versus daily rates of the same variable rate demand market.

DBAG has the option to unwind the swap in 2016, exposing MSU to rollover risk for the Series J bonds’ remaining term. If the swaption is not exercised in 2016, the swap terminates in November, 2035, at which time the Series J 2005 bonds mature.

At June 30, 2009, the negative fair value of the swap was (\$2,743,679). Such value was provided to MSU by an independent valuation firm, and is calculated using mid-market levels as of the close of business on June 30.

In August 2005, the University of Montana (UM) entered into a forward SWAP agreement (“swaption”) with Wachovia Bank, NA (“counterparty”) to hedge the interest rate risk associated with the potential future

issuance of variable-rate revenue bonds. The swaption gives the counterparty the right to require that UM execute a floating-to-fixed swap in May 2010, based on a notional amount of \$47,000,000. Should the counterparty exercise its option, UM would expect to issue Series K 2010 taxable, variable-rate bonds at the \$47,000,000 notional amount of the swap. The intention of UM in entering into the swaption was to refund its outstanding Series F 1999 Revenue Bonds and lower the cost of its borrowing.

The counterparty has the right to exercise the swap on May 15, 2010, the call date of the Series F 1999 Revenue Bonds. If the swaption is exercised, it will also become effective on May 15, 2010. Under terms of the swap, UM will pay the counterparty a fixed rate substantially equal to the fixed rate on the refunded bonds, and receive a variable payment based on the one-month LIBOR rate, plus 30 basis points.

Once the refunded Series F 1999 Revenue Bonds escrow matures in 2019, the floating-rate Series K 2010 Parity Bonds will be converted to tax-exempt bonds, and the swap will convert to tax-exempt rates as well. Should the option to enter the swap not be exercised by the counterparty, UM would not be required to repay the swaption purchase price.

At June 30, 2009, the swaption has a negative fair value of (\$5,652,978). On December 21, 2009, UM terminated the forward swaption with the counterparty due to projected unfavorable long-term interest rates and current volatility in the financial markets. In order to liquidate the derivative financial instrument amounting to \$2,094,500 and terminate the swaption agreement in its entirety, UM paid the counterparty \$5,410,000 resulting in a net loss totaling \$3,315,500.

Constant Maturity Swap

In July 2006, MSU entered into a forward-starting basis swap agreement ("constant maturity swap") with Morgan Stanley Capital Services, Inc. ("Morgan Stanley"). The agreement took effect November 15, 2007, at a notional amount of \$25,250,000, decreasing to \$1,550,000 by November 15, 2034, at which time the instrument expires.

At June 30, 2009, the fair value of the constant maturity swap was \$870,319. Such value was provided to the university by an independent valuation firm, and was calculated using mid-market levels as of the close of business on June 30.

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. No recoveries were recorded in 2009.

The State's estimated pollution remediation liability as of July 1, 2008 was estimated at \$308.8 million. The liability as of June 30, 2009 was \$495.5 million. Of this liability; \$256.3 million resulted in settlement agreements to provide restoration of natural resources, water supplies and natural resource-based recreational opportunities up to the settlement amount; \$225.4 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.

In addition to the estimated pollution remediation liabilities recorded in the financial statements, Montana has other potential liabilities related to four sites that are in various stages of litigation or investigation that are not reasonably estimable at this time.

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, 2009, consisted of the following (in thousands):

	Due To Other Funds					
	Coal Severance Tax Permanent	Economic Development Bonds	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds
Due From Other Funds						
Economic Development Bonds	\$ -	\$ -	\$ -	\$ -	\$2,022	\$ -
Federal Special Revenue	-	-	-	364	-	2
General Fund	4,629	1	563	-	231	16,574
Internal Service Funds	22	1	1,436	2,510	595	179
Nonmajor Enterprise Funds	-	-	6	516	24	-
Nonmajor Governmental Funds	-	-	61	831	332	-
State Special Revenue	513	-	2,988	5,183	42	1,343
Total	\$5,164	\$2	\$5,054	\$9,404	\$3,246	\$18,098

	Nonmajor Governmental Funds	State Special Revenue	Total
Due From Other Funds (continued)			
Economic Development Bonds	\$ 25	\$ 1,867	\$ 3,914
Federal Special Revenue	-	1,955	2,321
General Fund	-127	24,773	46,644
Internal Service Funds	2	2,032	6,777
Nonmajor Enterprise Funds	-	28	574
Nonmajor Governmental Funds	202	737	2,163
State Special Revenue	2,322	-	12,391
Total	\$2,424	\$31,392	\$74,784

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, 2009, consisted of the following (in thousands):

	Interfund Loans Payable				
	Federal Special Revenue	Internal Service Funds	Unemployment Insurance Fund	Nonmajor Enterprise Funds	State Special Revenue
Interfund Loans Receivable					
General Fund	\$24,149	\$ 1,320	\$ -	\$ -	\$4,696
Internal Service Funds	100	-	-	150	-
Nonmajor Enterprise Funds	74	-	-	-	-
Nonmajor Governmental Fund	626	-	-	-	299
State Special Revenue	67,001	622	1,336	-	-
Total	\$91,950	\$1,942	\$1,336	\$150	\$4,995

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, 2009, consisted of the following (in thousands):

	Advances from Other Funds			
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
				Total
Advances to Other Funds				
Coal Severance Tax Permanent	\$ -	\$ -	\$ -	\$ 396
Economic Development Bonds	-	4,238	3,900	15,965
General Fund	-	1,980	-	-
Nonmajor Enterprise Funds	75	-	-	-
Nonmajor Governmental Funds	-	-	-	3,237
State Special Revenue	1,817	-	17,707	-
Total	\$1,892	\$6,218	\$21,607	\$19,598

Additional detail for certain advance balances at June 30, 2009, follows (in thousands):

Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program	
Department	Balance
Natural Resources and Conservation	\$ 3,900
Environmental Quality	1,108
Justice	14,857
Transportation	4,238
Total	\$24,103

Advances from the Coal Severance Tax Permanent Fund	
Department	Balance
Justice	\$396
Total	\$396

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, 2009, consisted of the following (in thousands):

Transfers In						
	Coal Severance Tax Permanent	Federal Special Revenue	General Fund	Internal Service Funds (3)	Land Grant Permanent	Nonmajor Enterprise Funds
Transfers Out						
Coal Severance Tax Permanent	\$ -	\$ -	\$26,958	\$ -	\$ -	\$ -
Federal Special Revenue General Fund	-	-	14	-	-	-
Internal Service Funds (1)	-	-	-	645	-	51
Land Grant Permanent	-	-	-	-	-	-
Nonmajor Enterprise Funds (2)	-	-	36,158	-	-	-
Nonmajor Governmental Funds	889	73	-	-	-	-
State Special Revenue Pension Trust	-	1,251	9,966	1,321	1	13
Unemployment Insurance	-	-	-	33	-	-
	-	803	-	-	-	-
Total	\$889	\$2,127	\$73,096	\$1,999	\$1	\$64

	Nonmajor Governmental Funds	State Special Revenue	Economic Development Bonds	Total
Transfers Out				
Coal Severance Tax Permanent	\$ -	\$ 19,313	-	\$ 46,271
Federal Special Revenue General Fund	23,943	17,104	-	41,061
Internal Service Funds (1)	114,993	27,813	-	143,502
Land Grant Permanent	-	-	725	725
Nonmajor Enterprise Funds (2)	1,133	70,601	-	71,734
Nonmajor Governmental Funds	-	6,596	-	42,754
State Special Revenue	2,643	21,699	-	25,304
Pension Trust	9,708	-	-	22,260
Unemployment Insurance	-	-	-	33
	-	-	-	803
Total	\$152,420	\$163,126	\$725	\$394,447

- (1) Total transfers-out for internal service funds on the financial statements is reported as \$2,162,384. The difference of \$1,437,384 between the amount reported above of \$725,000 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 capital contribution, and the receiving fund type recorded the net book value of the capital asset as a transfer-out.
- (2) Total transfers-out for nonmajor enterprise funds on the financial statements is reported as \$39,156,842. The difference of \$94,340 between the amount reported above of \$39,062,502 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 capital contribution, and the receiving fund type recorded the net book value of the capital asset as a transfer-out.
- (3) Total transfers-in for internal service funds on the financial statements is reported as \$2,249,132. The difference of \$250,000 between the amount reported above of \$1,999,132 and the amount reported on the financial statements relates to the movement of capital assets between a component unit and the internal service fund type. On the component unit it is classified as a payment to primary government.

NOTE 13. FUND DEFICITS

The following funds have a deficit fund balance/net assets position at June 30, 2009, (in thousands):

Fund Type/Fund	Deficit
<u>Enterprise funds</u>	
Subsequent Injury	\$(2,620)
<u>Internal service funds</u>	
Admin Central Services	\$ (96)
Justice Legal Services	\$ (155)
OPI Central Services	\$ (80)
Personnel Training	\$ (38)

NOTE 14. RESERVED FUND BALANCES

Special Revenue Funds – The State and Federal Special Revenue Funds reserved fund balances are for the following purposes (in thousands):

Fund Type/Purpose	Amount
<u>State Special Revenue funds</u>	
General Government	\$ 36,960
Public Safety/Corrections	291,878
Transportation	96,102
Health/Social Services	87,010
Education/Cultural	7,575
Resource/Recreation/Environment	482,942
Economic Development/Assistance	99,853
Total state special revenue funds	<u>\$1,102,320</u>
<u>Federal Special Revenue funds</u>	
General Government	\$ 3,097
Public Safety/Corrections	352
Health/Social Services	1,430
Education/Cultural	21,159
Resource/Recreation/Environment	576
Economic Development/Assistance	335
Total federal special revenue funds	<u>\$26,949</u>

Coal Severance Tax Permanent Trust Fund – The reserve for trust principal is comprised of the following (in thousands):

Purpose	Amount
Big Sky Economic Development Fund	\$ 42,087
Coal Severance Tax Bond Fund	9,949
Treasure State Endowment Fund	173,801
Treasure State Endowment Regional Water System Fund	50,223
Coal Severance Tax Permanent Fund	522,444
Coal Severance Tax Income Fund	(1,685)
Total	<u>\$796,819</u>

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 Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation and by the Student Assistance Foundation of Montana (SAF) and subsidiaries. The Regents and MHESAC have three common board members. Approximately 76.93% of the Regents' outstanding loan volume, \$1,576,254,803, is held by either MHESAC or SAF and subsidiaries. During fiscal year 2000, MHESAC undertook a reorganization under which its operating staff and assets were transferred to the Student Assistance Foundation of Montana, and MHESAC entered into agreements with SAF to provide management and loan servicing to MHESAC. The Board of Regents and SAF have one common board member. The Office of Commissioner of Higher Education (OCHE) paid SAF during fiscal year 2009 for its share of various costs, such as personnel costs for employees of SAF who performed services that were of direct benefit to the State, equipment leases, computer maintenance costs, utilities, and other shared operating expenses. The total amount of these expenses for fiscal year 2009 amounted to \$562,558. Additionally, OCHE (including the Guaranteed Student Loan Program) paid \$186,869 to SAF for leased space in the building OCHE occupies with SAF at 2500 Broadway, Helena, MT 59601.

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

NOTE 16. CONTINGENCIES

A. Litigation

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

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

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

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

diligent enforcement issue could result in the loss of some or all of the State's payments for years 2003 through 2006, which would be recouped through an offset of payments due in future years. At present, the NPM case involves roughly \$1.8 million that was withheld from the April 2006 payment to the State. The OPMs have asserted claims for NPM adjustments for later years as well. The outcome of these claims is also uncertain.

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

Beginning in February 2001, the Montana Department of Fish, Wildlife and Parks became the defendant in a number of lawsuits challenging the constitutionality and enforcement of Initiative Measure 143, which banned the issuance of new licenses for game farms in Montana, prohibited the transfer of existing licenses, and prohibited game farm licenses from allowing the shooting of game farm animals on a game farm for a fee or other remuneration. Most of these cases sought declaratory and injunctive relief, but several cases are now pending in which game farmers have alleged that I-143 takes their property without just compensation in violation of the state and federal constitutions, and in which they seek damages from the State for the alleged uncompensated taking. One of the cases, Spoklie v. State of Montana, U.S. District Ct., D. Mont. Docket No. CV-02-102-GF-SHE, has been dismissed in its entirety, and the dismissal has now been affirmed by the Ninth Circuit of Appeals. In two of the cases, Kafka v. Montana Department of Fish Wildlife, and Parks,

Hill County Docket No. DV-02-059, and Buhmann et al. v. State of Montana et al., Lewis and Clark Docket No. DV-2002-555, the trial courts entered judgment in favor of the State on the taking claims, the Montana Supreme Court has affirmed that judgment, and the United States Supreme Court has denied further review. These cases can be considered concluded in favor of the State. Royal Tine Ranch v. State, Flathead County Docket No. DV-02-606C, is submitted on cross-motions for summary judgment. Counsel for the State and for the Plaintiff have agreed to the voluntary dismissal of the case with prejudice. A similar agreement is in place in 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. In Spoklie v. Montana Department of Fish, Wildlife and Parks, Sheridan County Docket No. 11013, the State's motion for summary judgment is 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.

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. The state defendants do not feel that the material facts in the case have been sufficiently developed to permit a determination of the likelihood of 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 also not determinable at this time.

In October 2008 a complaint, Diaz et al. v. Blue Cross & Blue Shield 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, Rachael Laudon, individually and on behalf of others similarly situated, naming Blue Cross and Blue Shield of Montana, New West Health Services, Montana Comprehensive Health Association, and the State of Montana as defendants. The complaint alleges that the defendants have violated the "made whole" law of Montana and illegally given themselves subrogation rights. There is currently before the Court a

motion for class certification and cross motions for summary judgment. A hearing regarding the class certification motion was held August 24-25, 2009, but the court has yet to issue an Order. If the court denies certification, the potential damages would be very minimal. If the court grants class certification the potential exposure to the State increases. A recent Supreme Court opinion that addresses private insurance exclusions was decided against the private insurer, in that case Blue Cross and Blue Shield of Montana. This decision could adversely affect the State's position in the Diaz case. At this time it is difficult to predict an outcome and monetary effect to the state because the state provides its insurance on a self insured basis, which was not at issue in the recent Montana Supreme Court case, and because the court has yet to rule on the certification issue.

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

Working Rx, Inc., v. Montana State Fund. The original complaint was filed and served in September 2006, but was dismissed to provide for the presentation of the claim to the Department of Administration as required in Title 2, Chapter 9, Section 301, MCA. The complaint also named other parties as defendants. Working Rx filed an amended complaint in November 2009, in which it is seeking \$6,497,249.92, based on an unjust enrichment claim. Montana State Fund is now the only named defendant. Whether Montana State Fund or the Old Fund has any responsibility to Working Rx for payment of pharmacy claims is the basis of the claim. Montana State Fund does not have sufficient information to determine potential liability or cost impact.

Coles, Individually and as Personal Representatives 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. 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.

W.R Grace & Co Litigation – The Risk Management and Tort Defense Division disclosure of pending or threatened litigation includes approximately 1,000 claims against the State of Montana alleging that the State failed to warn of the hazards of asbestos exposure associated with the operations of W.R Grace & Co. in Lincoln County Montana. To date, it has not been possible to reasonably estimate the amount of the potential loss for each specific claim.

The W.R Grace bankruptcy is about to conclude, and there is a possibility that claims against the State could be resolved during fiscal year 2010. If that occurs, and if there is court approval of any such resolution of claims, the State may be required to make payments in settlement of claims during fiscal year 2010.

If the Claims are resolved, and if the State is required to make a settlement payment from the Administration Self Insurance Funds, discussed in Note 8 (B) (2), the State will seek reimbursement of that payment from its insurers, W.R. Grace, and any trust established in the W.R. Grace Bankruptcy.

B. Federal Contingencies

USDA Commodities – In fiscal year 2009, the State distributed \$9,079,521 in commodities. The value of the commodities stored in the State's warehouses was \$2,033,204 at June 30, 2009, for which the State is liable in the event of loss.

C. Miscellaneous Contingencies

Loan Guarantees – As of June 30, 2009, the Board of Investments (BOI) had provided loan guarantees from the Coal Severance Tax Permanent Trust Fund to the Economic Development Bonds Enterprise Fund and the

Facility Finance Authority, (a component unit of the State of Montana), totaling \$198,465,022. The BOI's exposure to bond issues of the Economic Development Bonds Enterprise Fund was \$88,920,000, while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority was \$109,545,022.

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, 2009, the State share of the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	State Special Revenue
Coal severance	\$ 91	\$15
Corporation tax	34,825	-
Total	<u>\$34,916</u>	<u>\$15</u>

Collectability of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed to the General Fund.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2009. The corporations have appealed the Department of Revenue's assessment. As of June 30, 2009, these include \$6,288,524 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, 2009. As of June 30, 2009, these include \$3,913,319 of protested property taxes recorded in the General Fund and \$4,429,231 recorded in the State Special Revenue Fund.

NOTE 17. SUBSEQUENT EVENTS

Bond/Loan Issues

On July 1, 2009, U.S. Bank established a mandatory 100% redemption of the conduit debt bonds for The Gainey Foundation for \$3,290,000. The bonds were redeemed in accordance with the loan agreement which requires a renewed or substitute letter of credit be presented to the Bank 45 days prior to the expiration or termination of the current letter of credit.

On August 19, 2009 the Facility Financing Authority issued \$610,000 in bonds for the Rimrock Foundation

to refinance three loans for building purchases, finance the basement for a modular home, and to purchase part of a cooling system for a building. These bonds will mature on August 1, 2029.

In September 2009, the Department of Natural Resources and Conservation pursuant to Montana Code Annotated Title 17, Chapter 5, Part 731 issued two Coal Tax Severance Bond Anticipation Notes. Series A is a tax exempt note in the amount of \$1,625,000, the proceeds of which are for project costs made to local governments to improve dams and irrigation facilities. Series B is a taxable note in the amount of \$410,000 to fund water projects. It will be made to the Deadman Basin Water Users Association to fix its irrigation facilities.

Investment Related Issues

On August 28, 2009, the Board received an Axon Financial Funding payment of \$4,086,193 representing \$3,893,968 in principal and interest compensation of \$192,225. An additional interest compensation payment of \$153,270 from Axon Financial Funding was received on October 1, 2009.

On October 14, 2009 the Board received its initial payment from Orion Finance USA totaling \$12,490,293. This payment applied \$9,867,165 to principal, \$903,922 to the accrued interest receivable as of January 15, 2008, January 21, 2008, and April 20, 2008, and \$1,719,206 to interest compensation.

Other Issues

On July 22, 2009, the owner of a Montana mine agreed to pay \$12.2 million in additional royalties and interest to settle a lawsuit brought by the federal government and the US departments of Justice and Interior. Almost 50 percent of the settlement money will go to the state of Montana because production at the Rosebud Mine in Colstrip occurred on federal lands in the state. Western Energy, the owner of the mine and subsidiary of Westmoreland Coal Co., also agreed to report future royalties according to the Interior Department requirements. The settlement said Western Energy originally claimed improper transportation allowances. Westmoreland says Western Energy has agreed to reimburse 80 percent of the settlement amount and to pay 80 percent of future royalty payments owed to the government.

On December 9, 2009, the State of Montana received 3 settlement agreements from the United States Bankruptcy Court for the Southern District of Texas Corpus Christi Division in regard to ASARCO, LLC in the amount of \$40.2 million. The purpose of these funds is to be used for performing response/remedial

actions and restoration actions in connection with the various sites per the terms of the settlement agreement.

On November 3, 2009 the Montana Supreme Court issued its opinion in the Satterlee v. Lumberman's Mutual Casualty Company v. Montana State Fund, 2009 MT 368, which affirmed the Workers' Compensation Court decision holding section 39-71-710, MCA constitutional as not violating Satterlee's right to equal protection and substantive due process. The range of estimated liability was not included in the Montana State Fund or Old Fund loss reserves. The contingency previously disclosed in the notes to the financial statements has been removed.

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 plans shall be funded on an actuarially sound basis. As of June 30, 2009, the Public Employees Retirement System-Defined Benefit Retirement Plan (PERS-DBRP), Sheriffs Retirement System (SRS), Game Warden & Peace Officers Retirement System (GWPORS) and Teachers Retirement System (TRS) were not in compliance. Detailed information for the retirement plan can be found in Note 6.

BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009
 (amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Licenses/permits	\$ 99,570	\$ 99,570	\$ 120,545	\$ 20,975
Taxes:				
Natural resource	131,604	131,604	137,569	5,965
Individual income	850,648	850,648	797,580	(53,068)
Corporate income	167,064	167,064	166,355	(709)
Property	206,859	206,859	217,042	10,183
Fuel	-	-	-	-
Other	211,083	211,083	211,542	459
Charges for services/fines/forfeits/settlements	35,720	35,720	35,628	(92)
Investment earnings	22,267	22,267	15,885	(6,382)
Sale of documents/merchandise/property	451	451	308	(143)
Rentals/leases/royalties	2	2	1	(1)
Contributions/premiums	-	-	(17)	(17)
Grants/contracts/donations	1,900	1,900	1,797	(103)
Federal	29,860	29,860	31,935	2,075
Federal indirect cost recoveries	132	132	114	(18)
Other revenues	-	-	85	85
Total revenues	1,757,160	1,757,160	1,736,369	(20,791)
EXPENDITURES				
Current:				
General government	240,776	239,670	231,920	7,750
Public safety/corrections	247,734	247,670	221,155	26,515
Transportation (Note RS-1)	3,356	3,365	825	2,540
Health/social services	411,134	355,055	334,516	20,539
Education/cultural	877,162	875,315	859,266	16,049
Resource/recreation/environment	32,451	35,602	32,393	3,209
Economic development/assistance	36,509	49,455	33,231	16,224
Debt service:				
Principal retirement	760	797	293	504
Interest/fiscal charges	45	45	45	-
Capital outlay (Note RS-1)	6,587	8,906	1,518	7,388
Total expenditures	1,856,514	1,815,880	1,715,162	100,718
Excess of revenue over (under) expenditures	(99,354)	(58,720)	21,207	79,927
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	3,436	3,436	1,406	(2,030)
General capital asset sale proceeds	69	69	63	(6)
Transfers in	75,270	75,270	62,509	(12,761)
Transfers out	(22,433)	(36,611)	(36,341)	270
Total other financing sources (uses)	56,342	42,164	27,637	(14,527)
Net change in fund balances (Budgetary basis)	(43,012)	(16,556)	48,844	65,400
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	1,750	1,750
2. Securities lending costs	-	-	(630)	(630)
3. Inception of lease/installment contract	-	-	140	140
4. Adjust expenditures for encumbrances	-	-	(193)	(193)
5. Adjustments for nonbudgeted activity	-	-	(93,780)	(93,780)
Net change in fund balances (GAAP basis)	(43,012)	(16,556)	(43,869)	(27,313)
Unreserved fund balances - July 1	433,580	433,580	433,580	-
Prior period adjustments	-	-	-	-
Decrease (increase):				
Encumbrances reserve	-	-	309	309
Long-term loans/notes receivable reserve	-	-	49	49
Advances to other funds reserve	-	-	664	664
Special revenue reserve	-	-	-	-
Trust principal	-	-	10	10
Escheated property reserve	-	-	1,783	1,783
Unreserved fund balances - June 30	\$ 390,568	\$ 417,024	\$ 392,526	\$ (24,498)

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
\$ 181,255	\$ 181,255	\$ 165,305	\$ (15,950)	\$ -	\$ -	\$ -	\$ -
183,944	183,944	236,882	52,938	-	-	-	-
-	-	-	-	-	-	-	-
15	15	3	(12)	-	-	-	-
13,373	13,373	14,538	1,165	-	-	-	-
216,065	216,065	206,924	(9,141)	-	-	-	-
103,581	103,581	102,038	(1,543)	1	1	-	(1)
104,195	104,195	90,348	(13,847)	59,634	59,634	34,156	(25,478)
15,186	15,186	7,006	(8,180)	1,007	1,007	421	(586)
5,794	5,794	3,463	(2,331)	-	-	-	-
2,341	2,341	26,473	24,132	-	-	-	-
20,124	20,124	19,893	(231)	-	-	-	-
19,532	19,532	13,355	(6,177)	1,973	1,973	41	(1,932)
19,979	19,979	11,974	(8,005)	2,150,117	2,150,117	1,677,911	(472,206)
34,758	34,758	53,861	19,103	55,837	55,837	54,997	(840)
-	-	12	12	-	-	-	-
920,142	920,142	952,075	31,933	2,268,569	2,268,569	1,767,526	(501,043)
284,791	286,649	166,950	119,699	38,496	41,714	31,704	10,010
54,066	57,861	50,301	7,560	89,527	101,983	50,049	51,934
340,284	352,661	260,141	92,520	375,748	358,570	321,203	37,367
135,668	136,614	115,807	20,807	1,092,282	1,195,233	1,068,750	126,483
101,687	103,004	87,513	15,491	266,777	258,609	184,457	74,152
258,442	263,785	142,303	121,482	88,529	123,658	51,427	72,231
117,141	122,184	97,313	24,871	59,696	103,625	42,788	60,837
7,644	7,636	362	7,274	260	338	174	164
847	847	847	-	21	21	21	-
89,470	72,579	21,489	51,090	45,218	103,279	31,743	71,536
1,390,040	1,403,820	943,026	460,794	2,056,554	2,287,030	1,782,316	504,714
(469,898)	(483,678)	9,049	492,727	212,015	(18,461)	(14,790)	3,671
7,676	7,676	3,046	(4,630)	721	721	131	(590)
265	265	153	(112)	-	-	-	-
247,708	247,708	184,249	(63,459)	54,357	54,357	12,351	(42,006)
(21,221)	(21,146)	(10,889)	10,257	(108,862)	(113,706)	(40,059)	73,647
234,428	234,503	176,559	(57,944)	(53,784)	(58,628)	(27,577)	31,051
(235,470)	(249,175)	185,608	434,783	158,231	(77,089)	(42,367)	34,722
-	-	2,001	2,001	-	-	45	45
-	-	(756)	(756)	-	-	(15)	(15)
-	-	11	11	-	-	416	416
-	-	16,705	16,705	-	-	(2,185)	(2,185)
-	-	18,453	18,453	-	-	62,307	62,307
(235,470)	(249,175)	222,022	471,197	158,231	(77,089)	18,201	95,290
(22,064)	(22,064)	(22,064)	-	(25,800)	(25,800)	(25,800)	-
-	-	-	-	-	-	-	-
-	-	(2,642)	(2,642)	-	-	256	256
-	-	(19,174)	(19,174)	-	-	(43)	(43)
-	-	(2,863)	(2,863)	-	-	-	-
-	-	(198,364)	(198,364)	-	-	(310)	(310)
-	-	(100)	(100)	-	-	-	-
-	-	-	-	-	-	-	-
\$ (257,534)	\$ (271,239)	\$ (23,185)	\$ 248,054	\$ 132,431	\$ (102,889)	\$ (7,696)	\$ 95,193

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 2009, reverted governmental fund appropriations were as follows: General Fund - \$74.6 million, State Special Revenue Fund - \$279.7 million, and Federal Special Revenue Fund - \$216.4 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						
6/30/2007	57,778	36,863	(20,915)	157%	4,841	((432%)
6/30/2008	62,040	39,435	(22,605)	157%	5,096	(444%)
6/30/2009	61,929	41,848	(20,081)	148%	5,110	(393%)
HPORS						
6/30/2007	95,758	128,306	32,548	75%	9,858	330%
6/30/2008	101,500	134,683	33,183	75%	10,866	305%
6/30/2009	99,652	137,815	38,163	72%	11,425	334%
Multiple Employer Systems						
PERS-DBRP						
6/30/2007	3,825,234	4,201,251	376,017	91%	907,424	41%
6/30/2008	4,065,307	4,504,743	439,436	90%	955,113	46%
6/30/2009	4,002,212	4,792,819	790,607	84%	1,003,215	79%
SRS						
6/30/2007	183,894	183,036	5,142	97%	43,611	12%
6/30/2008	199,453	204,549	5,096	98%	47,196	11%
6/30/2009	200,690	223,893	23,203	90%	51,457	45%
GWPORS						
6/30/2007	68,755	72,992	4,237	94%	28,799	15%
6/30/2008	77,511	83,449	5,938	93%	32,365	18%
6/30/2009	81,177	92,155	10,978	88%	36,023	30%
MPORS						
6/30/2007	198,310	310,423	112,113	64%	29,547	379%
6/30/2008	212,312	327,556	115,244	65%	32,181	358%
6/30/2009	214,345	345,261	130,916	62%	34,687	377%
FURS						
6/30/2007	188,545	269,399	80,854	70%	24,250	333%
6/30/2008	206,127	287,218	81,091	72%	29,158	278%
6/30/2009	209,775	306,236	96,460	69%	30,160	320%
TRS (1)						
7/1/2007	3,006.2	3,928.5	768.9	79.6%	664.1	115.8%
7/1/2008	3,159.1	4,110.8	794.6	79.9%	689.5	115.2%
7/1/2009	2,762.2	4,331.0	1,411.6	66.2%	683.2	206.6%
Nonemployer Contributor						
VFCA						
6/30/2007	25,862	31,599	5,737	82%	NA	NA
6/30/2008	27,544	32,735	5,191	84%	NA	NA
6/30/2009	27,226	33,548	6,322	81%	NA	NA

(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						
<i>(in thousands)</i>						
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%
MUS Agent Multiple Employer Plan						
7/1/2007	-	182,597	182,597	0.00%	349,259	52.28%

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

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2009

AMOUNT**PEACE CORPS**

08.999	Miscellaneous Non-Major Grants	9,949
	TOTAL	\$9,949

DEPARTMENT OF AGRICULTURE

10.025	Plant and Animal Disease, Pest Control, and Animal Care	1,192,842
10.028	Wildlife Services	90,024
10.072	Wetlands Reserve Program	12,155
10.162	Inspection Grading and Standardization	95,086
10.163	Market Protection and Promotion	399,249
10.169	Specialty Crop Block Grant Program	134,135
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	604,556
10.479	Food Safety Cooperative Agreements	99,137
10.500	Cooperative Extension Service	3,652,480
10.500	Cooperative Extension Service: From Univ. of Minnesota	63,362
10.550	Food Donation	3,138,902
10.557	Special Supplemental Nutrition Program for Women, Infants, & Children	13,999,792
10.558	Child and Adult Care Food Program	10,392,937
10.560	State Administrative Expenses for Child Nutrition	391,524
10.565	Commodity Supplemental Food Program	1,971,018
10.567	Food Distribution Program on Indian Reservations	4,034,386
10.572	WIC Farmers' Market Nutrition Program (FMNP)	56,064
10.574	Team Nutrition Grants	217,111
10.576	Senior Farmers Market Nutrition Program	97,033
10.579	Child Nutrition Discretionary Grants Limited Availability	3,178
10.579	ARRA Child Nutrition Discretionary Grants Limited Availability	55,000
10.580	Food Stamp Program Outreach/Participation Program	60,451
10.582	Fresh Fruit and Vegetable Program	440,789
10.601	Market Access Program: From US Livestock Genetics	7,841
10.601	Market Access Program: From W US AG Trade Assoc.	1,532
10.652	Forestry Research	39,257
10.652	Forestry Research: From National Forest Foundat.	7,068
10.664	Cooperative Forestry Assistance	4,896,021
10.672	Rural Development, Forestry, and Communities	302,752

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2009

		AMOUNT
10.676	Forest Legacy Program	3,370,658
10.677	Forest Land Enhancement Program	39,687
10.700	National Agricultural Library	8,539
10.901	Resource Conservation and Development	50,000
10.901	Resource Conservation and Development: From Headwaters RC&D	5,000
10.901	Resource Conservation and Development: From Bitterroot RC&D	5,000
10.901	Resource Conservation and Development: From Northwest RC&D	5,000
10.902	Soil and Water Conservation	70,398
10.904	Watershed Protection and Flood Prevention	54,955
10.912	Environmental Quality Incentives Program	18,039
10.918	Ground and Surface Water Conservation E.Q Incentive Program: From Flint Creek Water Assoc	892,783
10.999	Miscellaneous Non-Major Grants	515,101
10.999	Miscellaneous Non-Major Grants: From Fort Belknap Council	41,803
TOTAL		\$51,532,645
CHILD NUTRITION CLUSTER		
10.553	School Breakfast Program	5,407,640
10.555	National School Lunch Program	20,042,291
10.556	Special Milk Program for Children	23,768
10.559	Summer Food Service Program for Children	862,382
TOTAL		\$26,336,081
EMERGENCY FOOD ASSISTANCE CLUSTER		
10.568	Emergency Food Assistance Program (Administrative Costs)	167,860
10.568	ARRA Emergency Food Assistance Program (Administrative Costs)	42,131
10.569	Emergency Food Assistance Program (Food Commodities)	1,446,081
TOTAL		\$1,656,072
SCHOOLS AND ROADS CLUSTER		
10.665	Schools and Roads: Grants to States	28,175,029
TOTAL		\$28,175,029
SNAP CLUSTER		
10.551	Supplemental Nutrition Assistance Program (SNAP)	113,010,838
10.551	ARRA Supplemental Nutrition Assistance Program (SNAP)	4,446,106
10.561	State Administrative Matching Grants for SNAP Program	10,495,954

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2009

		AMOUNT
10.561	ARRA State Administrative Matching Grants for SNAP Program	19,053
TOTAL		\$127,971,951
DEPARTMENT OF COMMERCE		
11.400	Geodetic Surveys and Services	12,786
11.417	Sea Grant Support	20,550
11.550	Public Telecommunication Facilities-Planning and Construction	1,057,481
11.550	Public Telecommunication Facilities-Planning and Construction: From Corp of Public Broadcast	187,781
11.555	Public Safety Interoperable Communications Grant Program	66,215
11.609	Measurement and Engineering Research and Standards	5,113
11.999	Miscellaneous Non-Major Grants	10,500
TOTAL		\$1,360,426
PUBLIC WORKS AND E.D. CLUSTER		
11.307	Economic Adjustment Assistance	20,561
TOTAL		\$20,561
DEPARTMENT OF DEFENSE		
12.112	Payments to States in Lieu of Real Estate Taxes	21,541
12.400	Military Construction National Guard	6,300,759
12.401	National Guard Military Operations and Maintenance Projects	21,742,720
12.404	National Guard Civilian Youth Opportunities	2,285,466
12.900	Language Grant Program: From Inst International Ed, Inc	1,367,767
12.901	Mathematical Sciences Grants Program	44,015
12.999	Miscellaneous Non-Major Grants	92,330
TOTAL		\$31,854,598
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
14.103	Interest Reduction Payments Rental and Cooperative Housing for Lower Income Families	3,125
14.169	Housing Counseling Assistance Program	378,330
14.231	Emergency Shelter Grants Program	389,686
14.235	Supportive Housing Program	62,223
14.238	Shelter Plus Care	80,896
14.239	Home Investment Partnerships Program	3,171,476

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2009

		AMOUNT
14.241	Housing Opportunities for Persons with AIDS	1,029,052
14.871	Section 8 Housing Choice Vouchers	17,497,297
TOTAL		\$22,612,085
 CDBG - STATE ADMIN. SMALL CITIES CLUSTER		
14.228	Community Development Block Grant/States Program	4,823,646
TOTAL		\$4,823,646
 SECTION 8 PROJECT-BASED CLUSTER		
14.195	Section 8 Housing Assistance Payments Program Special Allocations	18,387,729
14.856	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	1,692,637
TOTAL		\$20,080,366

DEPARTMENT OF THE INTERIOR

15.114	Indian Education: Higher Education Grant Program	7,330
15.224	Cultural Resource Management	33,886
15.225	Recreation Resource Management	45,707
15.228	Wildland Urban Interface Community and Rural Fire Assistance	581,333
15.231	Fish, Wildlife and Plant Conservation Resource Management	272,886
15.236	Environmental Quality and Protection Resource Management	1,504,546
15.238	Challenge Cost Share	5,314
15.250	Regulation Surface Coal Mining and Surface Effects of Underground Coal Mining	1,125,030
15.252	Abandoned Mine Land Reclamation (AMLR) Program	3,597,714
15.507	Water 2025	20,373
15.608	Fish and Wildlife Management Assistance	189,881
15.612	Endangered Species Section 6	123,644
15.615	Cooperative Endangered Species Conservation Fund	1,253,320
15.623	North American Wetlands Conservation Fund	(1)
15.631	National Fire Plan - Rural Fire Assistance	7,920
15.632	Conservation Grants Private Stewardship for Imperiled Species	25,294
15.633	Landowner Incentive	208,209
15.634	State Wildlife Grants	2,044,904
15.637	Migratory Bird Joint Ventures	30,366
15.647	Migratory Bird Conservation	140,757
15.805	Assistance to State Water Resources Research Institutes	252
15.808	U.S. Geological Survey-Research and Data Acquisition	24,180

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2009

		AMOUNT
15.814	National Geological and Geophysical Data Preservation Program	11,812
15.904	Historic Preservation Fund Grants-in-Aid	658,175
15.912	National Historic Landmark	12,651
15.914	National Register of Historic Places	12,778
15.916	Outdoor Recreation: Acquisition, Development and Planning	756,878
15.999	Miscellaneous Non-Major Grants	397,103
15.AA1	Preserve America	58,091
15.BBA	Recreation of Fish and Wildlife Enhancement Facilities	36,945
15.BCD	Milk River Field Grant	27,656
15.FFC	USFWS Gaging Stations	18,399
TOTAL		\$13,233,333
 FISH AND WILDLIFE CLUSTER		
15.605	Sport Fish Restoration	7,049,998
15.611	Wildlife Restoration	5,516,272
TOTAL		\$12,566,270
 DEPARTMENT OF JUSTICE		
16.001	Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis	3,310
16.523	Juvenile Accountability Incentive Block Grants	272,396
16.525	Grants to Reduce Violent Crimes Against Women on Campus	89,574
16.529	Education and Training to End Violence Against and Abuse of Women with Disabilities: From MT Col Against Do Vio	35,214
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	603,728
16.543	Missing Children Assistance: From City of Billings	18,309
16.548	Title V Delinquency Prevention	69,164
16.550	State Justice Statistics Program For Statistical Analysis Centers	66,354
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	75,375
16.575	Crime Victim Assistance	1,413,995
16.576	Crime Victim Compensation	273,269
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Prog	113,144
16.585	Drug Court Discretionary Grant Program	48,238
16.588	Violence Against Women Formula Grants	840,209
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	158,962
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	440,369

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2009

	AMOUNT
16.593 Residential Substance Abuse Treatment for State Prisoners	49,394
16.606 State Criminal Alien Assistance Program	28,581
16.607 Bulletproof Vest Partnership Program	3,195
16.609 Community Prosecution and Project Safe Neighborhoods	136,503
16.710 Public Safety Partnership and Community Policing Grants	521,839
16.727 Enforcing Underage Drinking Laws Program	353,473
16.735 Protecting Inmates and Safeguarding Communities Discretionary Grant Program	248,298
16.738 Edward Byrne Memorial Justice Assistance Grant Program	638,035
16.740 Statewide Automated Victim Information Notification (SAVIN) Program	655,571
16.742 Paul Coverdell Forensic Sciences Improvement Grant Program	85,292
16.744 Anti-Gang Initiative	106,181
16.999 Miscellaneous Non-Major Grants	383,900
TOTAL	\$7,731,872

DEPARTMENT OF LABOR

17.002 Labor Force Statistics	762,808
17.005 Compensation and Working Conditions Data	74,041
17.225 Unemployment Insurance	222,545,784
17.225 ARRA Unemployment Insurance	21,205,940
17.235 Senior Community Service Employment Program	620,309
17.245 Trade Adjustment Assistance-Workers	2,121,172
17.261 Employment and Training Administration Pilots, Demonstrations, and Research Projects	562,913
17.266 Work Incentive Grants	449,199
17.267 Incentive Grants - WIA Section 503	105,642
17.268 H-1B High Growth Job Training Grants	5,687,161
17.269 Community Based Job Training Grants	734,353
17.271 Work Opportunity Tax Credit Program (WOTC) & Welfare-to-Work Tax Credit (WtWTC)	71,792
17.273 Temporary Labor Certification for Foreign Workers	74,520
17.504 Consultation Agreements	438,264
17.600 Mine Health and Safety Grants	147,493
TOTAL	\$255,601,391

EMPLOYMENT SERVICES CLUSTER

17.207 Employment Service	5,441,530
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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2009

		AMOUNT
17.207	Employment Service: From ESC of North Carolina	3,909
17.801	Disabled Veterans Outreach Program (DVOP)	491,072
17.804	Local Veterans' Employment Representative Program	81,824
TOTAL		\$6,018,335
WIA CLUSTER		
17.258	WIA Adult Program	2,057,332
17.258	ARRA WIA Adult Program	135,020
17.259	WIA Youth Activities	2,235,377
17.259	ARRA WIA Youth Activities	235,604
17.260	WIA Dislocated Workers	2,448,629
17.260	ARRA WIA Dislocated Workers	209,323
TOTAL		\$7,321,285
DEPARTMENT OF STATE		
19.401	Educational Exchange - University Lecturers (Professors) and Research Scholars	(982)
19.401	Educational Exchange - University Lecturers (Professors) and Research Scholars: From World Learning	1,704
19.408	Educational Exchange - Teachers from Secondary and Postsecondary Levels: From Amer Cncl for Inter Ed	10,505
19.999	Miscellaneous Grants	36,620
19.999	Miscellaneous Grants: From Amer Cncl for Inter Ed	72,544
TOTAL		\$120,391
DEPARTMENT OF TRANSPORTATION		
20.106	Airport Improvement Program	668,440
20.218	National Motor Carrier Safety	2,123,033
20.231	Performance and Registration Information Systems Management	122,780
20.232	Commercial Driver License State Programs	1,344
20.233	Border Enforcement Grants	2,506,368
20.234	Safety Data Improvement Program	89,262
20.237	Commercial Vehicle Information Systems and Networks	50,000
20.240	Fuel Tax Evasion-Intergovernmental Enforcement Effort	93,671
20.505	Federal Transit Technical Studies Grant	446,561
20.509	Formula Grants for Other Than Urbanized Areas	6,671,799
20.515	State Planning and Research	90,207

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2009

		AMOUNT
20.607	Alcohol Open Container Requirements	165,650
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	(1,719)
20.614	National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants	75,978
20.700	Pipeline Safety	69,372
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	108,790
20.930	Payments for Small Community Air Service Development	30,498
20.999	Miscellaneous Non-Major Grants	25,442
TOTAL		\$13,337,476
FEDERAL TRANSIT CLUSTER		
20.500	Federal Transit Capital Improvement Grants	51,048
TOTAL		\$51,048
HIGHWAY PLAN. AND CONST. CLUSTER		
20.205	Highway Planning and Construction	379,897,280
20.205	ARRA Highway Planning and Construction	2,186,091
20.219	Recreational Trails Program	672,315
TOTAL		\$382,755,686
HIGHWAY SAFETY CLUSTER		
20.600	State and Community Highway Safety	1,614,027
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	2,245,513
20.602	Occupant Protection	440,511
20.605	Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	150,103
20.610	State Traffic Safety Information System Improvement Grants	494,454
20.611	Incentive Grant Program to Prohibit Racial Profiling	580,309
20.612	Incentive Grant Program to Increase Motorcyclist Safety	85,432
20.612	Incentive Grant Program to Increase Motorcyclist Safety: From Montana Dept of Transp	27,971
TOTAL		\$5,638,320
TRANSIT SERVICE PROGRAMS CLUSTER		
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	615,979
20.516	Job Access Reverse Commute	1,151,960
TOTAL		\$1,767,939

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2009

AMOUNT

DEPARTMENT OF TREASURY

21.999	Miscellaneous Non-Major Grants	344,041
		TOTAL \$344,041

EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

30.002	Employment Discrimination-State and Local Fair Employment Practices	206,731
		TOTAL \$206,731

GENERAL SERVICES ADMINISTRATION

39.003	Donation of Federal Surplus Personal Property	144,729
39.011	Election Reform Payments	244,263
		TOTAL \$388,992

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

43.001	Aerospace Education Services Program: From Yellow. Eco Research Ctr	4,402
43.002	Technology Transfer	5,493
43.002	Technology Transfer: From College of Charleston	19,800
		TOTAL \$29,695

NATIONAL ENDOWMENT FOR THE HUMANITIES

45.024	Promotion of the Arts-Grants to Organizations and Individuals	17,611
45.024	Promotion of the Arts-Grants to Organizations and Individuals: From Arts Midwest	20,000
45.025	Promotion of the Arts-Partnership Agreements	708,193
45.025	ARRA Promotion of the Arts-Partnership Agreements	796
45.129	Promotion of the Humanities-Federal/State Partnership	216
45.129	Promotion of the Humanities-Federal/State Partnership: From MT Comm of Humanit.	2,682
45.129	Promotion of the Humanities-Federal/State Partnership: From Humanities MT	13,691
45.149	Promotion of the Humanities Division of Preservation and Access	5,000
45.303	Conservation Project Support	2,987
45.310	State Library Program	1,044,666
45.313	Laura Bush 21st Century Librarian Program	157,755
		TOTAL \$1,973,597

State of Montana
Schedule of Expenditures of Federal Awards
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AMOUNT**NATIONAL SCIENCE FOUNDATION**

47.041	Engineering Grants	69,371
47.049	Mathematical and Physical Sciences	85,227
47.074	Biological Sciences	83,357
47.074	Biological Sciences: From Salish Kootenai College	10,000
47.075	Social, Behavioral, and Economic Sciences	107,074
47.076	Education and Human Resources	2,452,662
47.076	Education and Human Resources: From Salish Kootenai College	320,502
TOTAL		\$3,128,193

SMALL BUSINESS ADMINISTRATION

59.005	Internet-Based Technical Assistance	460,913
59.037	Small Business Development Center	574,739
TOTAL		\$1,035,652

DEPARTMENT OF VETERANS AFFAIRS

64.014	Veterans State Domiciliary Care	113,114
64.015	Veterans State Nursing Home Care	3,804,294
64.124	All-Volunteer Force Educational Assistance	147,714
64.203	State Cemetery Grants	1,650,030
TOTAL		\$5,715,152

ENVIRONMENTAL PROTECTION AGENCY

66.034	Surveys, Studies, Invest., Demonst and Special Purp Act Relating to the Clean Air Act	4,582
66.040	State Clean Diesel Grant Program	36,789
66.040	ARRA State Clean Diesel Program	3,483
66.202	Congressionally Mandated Projects	251,300
66.419	Water Pollution Control-State and Interstate Program Support	18,937
66.433	State Underground Water Source Protection	106,474
66.436	Surveys, Studies, Investigations & Demonstrations of the Clean Water Act	17,229
66.439	Targeted Watersheds Grants: From Trees Water and People	73,730
66.454	Water Quality Management Planning	100,002

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2009

	AMOUNT
66.458 Capitalization Grants For State Revolving Funds	9,278,037
66.458 ARRA Capitalization Grants For State Revolving Funds	25,517
66.460 Nonpoint Source Implementation Grants	2,635,796
66.461 Regional Wetland Program Development Grants	255,122
66.467 Wastewater Operator Training Grant Program (Technical Assistance)	15,860
66.468 Capitalization Grants for Drinking Water State Revolving Fund	8,033,002
66.468 ARRA Capitalization Grants for Drinking Water State Revolving Fund	126,070
66.471 State Grants to Reimburse Operators of Small Water Sys for Training Certification Costs	265,449
66.474 Water Protection Grants to the States	66,847
66.511 Office of Research and Development Consolidated Research/Training/Fellowships: From Amer. Assoc of Pesticide	861
66.514 Science To Achieve Results (STAR) Fellowship Program	28,211
66.605 Performance Partnership Grants	5,538,445
66.608 One Stop Reporting	295,045
66.708 Pollution Prevention Grants Program	5,556
66.717 Source Reduction Assistance	8,215
66.802 Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop.	4,042,061
66.804 State Underground Storage Tanks Program	321,007
66.805 Leaking Underground Storage Tank Trust Fund Program	1,025,608
66.809 Superfund State and Indian Tribe Core Program Cooperative Agreements	212,346
66.817 State and Tribal Response Program Grants	762,214
66.951 Environmental Education Grants	150
66.999 Miscellaneous Non-Major Grants	14,736
TOTAL	\$33,568,681

DEPARTMENT OF ENERGY

81.041 State Energy Program	313,982
81.041 ARRA State Energy Program	183
81.041 State Energy Program: From Washington State Univ.	42,327
81.042 Weatherization Assistance for Low-Income Persons	4,799,715
81.049 Office of Science Financial Assistance Program: From Inland NW Research All.	20,771
81.086 Conservation Research and Development	2,413,121
81.086 Conservation Research and Development: From Kootenai tribe of Idaho	54,898

State of Montana
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		AMOUNT
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training	67,251
TOTAL		\$7,712,248

DEPARTMENT OF EDUCATION

84.002	Adult Education - State Grant Program	1,364,655
84.010	Title I Grants To Local Education Agencies	41,817,594
84.011	Migrant Education - Basic State Grant Program	1,122,715
84.013	Title I Program for Neglected and Delinquent Children	102,223
84.016	Undergraduate International Studies and Foreign Language	19,306
84.017	International Research and Studies	148,245
84.048	Vocational Education - Basic Grants to States	5,140,017
84.048	Vocational Education - Basic Grants to States: From Flathead Valley C.C.	115
84.069	Leveraging Educational Assistance Partnership	189,516
84.083	Women's Educational Equity Act Program	24,437
84.116	Fund for the Improvement of Postsecondary Education	1,995,572
84.116	Fund for the Improvement of Postsecondary Education: From Iowa State Univ.	13,523
84.128	Rehabilitation Services-Service Projects	156,703
84.129	Rehabilitation Long-Term Training	141,116
84.133	National Institute on Disability and Rehabilitation Research	435,107
84.133	National Institute on Disability and Rehabilitation Research: From Oregon Health Sci Univ.	2,568
84.144	Migrant Education - Coordination Program(B)	225,268
84.169	Independent Living-State Grants	294,806
84.177	Rehabilitation Services-Independent Living Services for Older Individuals/Blind	298,051
84.185	Byrd Honors Scholarships	114,675
84.186	Safe and Drug-Free Schools and Communities - State Grants	1,372,234
84.187	Supported Employment Services for Individuals with Severe Disabilities	265,507
84.196	Education for Homeless Children and Youth	207,574
84.213	Even Start - State Educational Agencies	342,701
84.215	Fund for Improvement of Education	1,061,200
84.215	Fund for Improvement of Education: From Twin Bridges School	43,924
84.224	State Grants for Assistive Technology	601,997
84.224	State Grants for Assistive Technology: From Assist Tech Act Progs	18,197
84.243	Tech-Prep Education	444,692

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	AMOUNT
84.265 Rehabilitation Training-State Vocational Rehabilitation Unit In-Service	49,599
84.287 Twenty-First Century Community Learning Centers	4,783,670
84.293 Foreign Language Assistance	54,876
84.298 State Grants for Innovative Programs	222,824
84.299 Indian Education - Special Programs	606,396
84.318 Education Technology State Grants	1,203,668
84.323 Special Education - State Program Improvement Grants for Children with Disabilities	714,091
84.325 Special Education - Personnel Preparation to Improve Services and Results for Children	606,762
84.326 Special Education - Technical Assistance and Dissemination to Improve Services and Results	207,775
84.326 Special Education - Technical Assistance and Dissemination to Improve Services and Results: From CA State University	88,518
84.330 Advanced Placement Program	26,772
84.331 Grants to States for Incarcerated Youth Offenders	11,112
84.334 Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	2,829,474
84.335 Child Care Access Means Parents in School	52,754
84.336 Teacher Quality Enhancement Grants	555,389
84.357 Reading First State Grants	1,717,628
84.358 Rural Education	175,820
84.365 English Language Acquisition Grants	479,226
84.366 Mathematics and Science Partnerships	993,642
84.367 Improving Teacher Quality State Grants	13,191,205
84.367 Improving Teacher Quality State Grants: From MT Learning Center	6,204
84.368 Grants for Enhanced Assessment Instruments	889,058
84.369 Grants for State Assessments and Related Activities	4,662,984
84.373 Special Education -Technical Assistance on State Data Collection	306,052
84.377 School Improvement Grants	1,377,795
84.998 American Printing House for the Blind	3,104
84.999 Miscellaneous Non-Major Grants	122,043
84.999 Miscellaneous Non-Major Grants: From Univ of CA - Nat Writ Prj	77,138
84.999 Miscellaneous Non-Major Grants	42,868
84.999 Miscellaneous Non-Major Grants: From Flathead Valley C.C.	31,160
TOTAL	\$94,053,845

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AMOUNT**EARLY INTERVENTION SERVICES (IDEA) CLUSTER**

84.181	Special Education-Grants for Infants and Families with Disabilities	1,947,793
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	TOTAL	\$1,947,793
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SPECIAL EDUCATION CLUSTER

84.027	Special Education - Grants to States	34,491,117
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84.173	Special Education - Preschool Grants	1,143,959
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	TOTAL	\$35,635,076
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STUDENT FINANCIAL ASSISTANCE CLUSTER

84.007	Federal Supplemental Educational Opportunity Grants	1,733,319
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84.032	Federal Family Education Loans	2,079,541
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84.033	Federal Work - Study Program	2,278,138
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84.038	Federal Perkins Loan Program - Federal Capital Contributions	138,436
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84.063	Federal Pell Grant Program	34,609,785
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84.375	Academic Competitiveness Grants	748,982
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84.376	National Science and Mathematics Access to Retain Talent (SMART) Grants	689,250
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93.342	Health Professions Student Loans, Including Primary Care Loans	159
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93.364	Nursing Student Loan Program	4,592
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93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds	436,090
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	TOTAL	\$42,718,292
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TRIO CLUSTER

84.042	TRIO-Student Support Services	1,602,611
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84.044	TRIO-Talent Search	1,107,655
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84.047	TRIO-Upward Bound	2,064,998
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84.066	TRIO-Educational Opportunity Centers	513,582
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	TOTAL	\$5,288,846
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VOCATIONAL REHABILITATION CLUSTER

84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States	10,448,380
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	TOTAL	\$10,448,380
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NATIONAL ARCHIVES AND RECORDS ADMINISTRATION

89.003	National Historical Publications and Records Grants	8,990
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	TOTAL	\$8,990
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AMOUNT

ELECTION ASSISTANCE COMMISSION

90.401	Help America Vote Act Requirements Payments	728,312
90.402	Help America Vote Mock Election Program	19,255
TOTAL		\$747,567

DEPARTMENT OF HEALTH AND HUMAN SERVICES

93.003	Public Health and Social Services Emergency Fund	2,024,558
93.041	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention	32,890
93.042	Special Programs for the Aging-Title VII, Chapter 2-LongTerm Care Ombudsman Services	74,719
93.043	Special Programs for the Aging-Title III, Part D - DiseasePrevention/Health Promotion Serv	104,078
93.048	Special Programs for the Aging - Title IV and Title II Discretionary Projects	86,292
93.052	Nation Family Caregiver Support Program	733,664
93.064	Laboratory Training, Evaluation, and Quality Assurance Programs	199,012
93.104	Comprehensive Community Mental Health Services for Children with Ser Emoti Disturb (SED)	768,124
93.110	Maternal and Child Health Federal Consolidated Programs	247,478
93.110	Maternal and Child Health Federal Consolidated Programs: From Utah State University	7,992
93.116	Project Grant and Cooperative for Tuberculosis Control Program	184,028
93.127	Emergency Medical Services for Children	153,625
93.130	Primary Care Services-Resource Coordination and Development	156,777
93.150	Projects for Assistance in Transition from Homelessness (PATH)	299,290
93.157	Centers of Excellence	575
93.161	Health Program for Toxic Substances and Disease Registry	175,127
93.184	Disabilities Prevention	412,310
93.217	Family Planning Services	2,390,328
93.234	Traumatic Brain Injury-State Demonstration Grant Program	88,167
93.241	State Rural Hospital Flexibility Program	542,577
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	4,219,707
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	24,177
93.249	Public Health Training Centers Grant Program: From Univ. of Washington	14,025

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	AMOUNT
93.251 Universal Newborn Hearing Screening	148,355
93.262 Occupational Safety and Health Program	104,670
93.264 Nurse Faculty Loan Program (NFLP)	34,183
93.279 Drug Abuse Research Programs	27,274
93.283 Centers for Disease Control and Prevention-Investigations and Technical Assistance	13,059,461
93.307 Minority Health and Health Disparities Research	9,062,500
93.361 Nursing Research: From Wash. State Univ.	93,214
93.389 National Center for Research Resources	243,853
93.448 Food Safety and Security Monitoring Project	55,728
93.449 Ruminant Feed Ban Support Project	25,433
93.556 Promoting Safe and Stable Families	644,575
93.563 Child Support Enforcement	8,387,370
93.563 ARRA Child Support Enforcement	1,646,913
93.566 Refugee and Entrant Assistance-State Administered Programs	41,234
93.568 Low Income Home Energy Assistance	26,821,098
93.586 State Court Improvement Program	260,657
93.590 Community-Based Family Resource and Support Grants	202,183
93.597 Grants to States for Access and Visitation Programs	102,179
93.599 Chafee Education and Training Vouchers Program (ETV)	204,972
93.603 Adoption Incentive Payments	23,733
93.617 Voting Access for Individuals with Disabilities - Grants to States	100,000
93.618 Voting Access for Individuals with Disabilities-Grants for Protection and Advocacy Systems	26,916
93.630 Developmental Disabilities Basic Support and Advocacy Grants	725,646
93.630 Developmental Disabilities Basic Support and Advocacy Grants: From Mt Council on Dev. Dis.	98,610
93.631 Developmental Disabilities Projects of National Significance	53,606
93.632 University Centers for Excellence in Developmental Disabilities Education, Res, and Ser.	500,982
93.643 Children's Justice Grants to States	76,125
93.645 Child Welfare Service-State Grant	710,579
93.658 Foster Care Title IV-E	12,373,187
93.658 ARRA Foster Care Title IV-E	260,240
93.659 Adoption Assistance	7,143,139
93.659 ARRA Adoption Assistance	349,896

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	AMOUNT
93.667 Social Services Block Grant	8,375,729
93.669 Child Abuse and Neglect State Grants	80,407
93.671 Family Violence Prevention and Services/Grants for Battered Women's Shelters	717,247
93.674 Chafee Foster Care Independence Program	431,153
93.767 State Children's Insurance Program	30,242,951
93.768 Medicaid Infrastr, Grants To Support the Competitive Employ of People with Disabilities	489,896
93.789 Alternatives to Psychiatric Residential Treatment Facilities for Children	206,739
93.793 Medicaid Transformation Grants	781,540
93.913 Grants to States for Operation of Offices of Rural Health	150,071
93.917 HIV Care Formula Grants	827,125
93.919 Cooperative Agreements for State-Based Breast and Cervical Cancer Early Detection	1,459
93.938 Cooperative Agreements to Support School Health Programs	241,012
93.940 HIV Prevention Activities-Health Department Based	1,177,123
93.944 HIV/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	95,140
93.958 Block Grants for Community Mental Health Services	1,174,437
93.959 Block Grants for Prevention and Treatment of Substance Abuse	6,594,058
93.969 Geriatric Education Centers	350,631
93.970 Health Professions Recruitment Program for Indians	127,338
93.977 Preventive Health Services-Sexually Transmitted Diseases Control Grants	361,400
93.988 Cooperative Agreements for State-Based Diabetes Control Programs and Evaluations	565,406
93.991 Preventive Health and Health Services Block Grant	663,872
93.994 Maternal and Child Health Services Block Grant to the States	2,357,135
93.996 Bioterrorism Training and Curriculum Development Program: From St Vincent Health	63,353
93.999 Miscellaneous Non-Major Grants	58,860
TOTAL	\$152,682,113
AGING CLUSTER	
93.044 Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers	1,888,053
93.045 Special Programs for the Aging-Title III, Part C-Nutrition Services	2,934,520
93.053 Nutrition Services Incentive Program	1,169,760
TOTAL	\$5,992,333

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AMOUNT**CCDF CLUSTER**

93.575	Child Care and Development Block Grant	12,953,011
93.575	ARRA Child Care and Development Block Grant	155,660
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development	6,621,115
93.713	ARRA - Child Care and Development Block Grant	514,061
TOTAL		\$20,243,847

CSBG CLUSTER

93.569	Community Services Block Grant	3,242,464
93.710	ARRA - Community Services Block Grant	197,323
TOTAL		\$3,439,787

HEAD START CLUSTER

93.600	Head Start	120,966
TOTAL		\$120,966

IMMUNIZATION CLUSTER

93.268	Immunization Grant	7,689,890
TOTAL		\$7,689,890

MEDICAID CLUSTER

93.775	State Medicaid Fraud Control Units	508,200
93.777	State Survey and Certification of Health Care Providers and Suppliers	2,490,722
93.778	Medical Assistance Program	624,001,869
93.778	ARRA Medical Assistance Program	60,991,608
TOTAL		\$687,992,399

TANF CLUSTER

93.558	Temporary Assistance for Needy Families (TANF)	25,976,702
TOTAL		\$25,976,702

CORPORATION FOR NATIONAL & COMMUNITY SERVICE

94.003	State Commissions	145,134
94.004	Learn and Serve America-School and Community Based Programs	213,148
94.006	AmeriCorps	2,418,357
94.006	ARRA AmeriCorps	122,584
94.006	AmeriCorps: From Western Wash. Univ.	19,651
94.006	AmeriCorps: From Western Wash. Univ.	11,244

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	AMOUNT
94.006 AmeriCorps: From Various	3,438
94.007 Planning and Program Development Grants	106,296
94.007 Planning and Program Development Grants: From Denver Options	14,483
94.009 Training and Technical Assistance	95,372
94.013 Volunteers in Service to America	807,843
TOTAL	\$3,957,550

SOCIAL SECURITY ADMINISTRATION

96.007 Social Security Research and Demonstration	55,079
96.008 Social Security-Benefits Planning, Assistance, and Outreach Program	65,821
96.999 Miscellaneous Non-Major Grants: From Griffin - Hammis Assoc	23,641
TOTAL	\$144,541

DISABILITY INSURANCE/SSI CLUSTER

96.001 Social Security - Disability Insurance	6,609,984
TOTAL	\$6,609,984

HOMELAND SECURITY

97.001 Pilot Demonstration or Earmarked Projects	36,932
97.012 Boating Safety Financial Assistance	471,567
97.017 Pre-Disaster Mitigation (PDM) Competitive Grants	3,388,308
97.021 Hazardous Materials Assistance Program	9,433
97.023 Community Assistance Program State Support Services Element (CAP-SSSE)	110,548
97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	2,907,313
97.041 National Dam Safety Program	111,835
97.042 Emergency Management Performance Grants	1,759,418
97.043 State Fire Training Systems Grants	2,421
97.044 Assistance to Firefighters Grant	(230)
97.045 Cooperating Technical Partners	444,985
97.046 Fire Management Assistance Grant	69,224
97.070 Map Modernization Management Support	110,307
97.078 Buffer Zone Protection Plan (BZPP)	208,532
97.107 National Incident Management System (NIMS)	7,036
TOTAL	\$9,637,629

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AMOUNT

HOMELAND SECURITY CLUSTER

97.067	Homeland Security Grant Program	11,082,563
	TOTAL	\$11,082,563

OTHER FEDERAL

32.001	Communications Information and Assistance and Investigation of Complaints: From Corp of Public Broadcast	212,219
99.999	Other Federal	46,643
99.999	Other Federal: From Nat. Film Preservation	5,980
99.999	Other Federal: From Metro. College of Denver	10,000
	TOTAL	\$274,842

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

10.001	Agricultural Research-Basic and Applied Research	71,507
10.001	Agricultural Research-Basic and Applied Research: From Purdue University	7,363
10.025	Plant and Animal Disease, Pest Control, and Animal Care	417,046
10.200	Grants for Agricultural Research, Special Research Grants	1,883,485
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Washington	23,186
10.200	Grants for Agricultural Research, Special Research Grants: From Utah State University	71,786
10.200	Grants for Agricultural Research, Special Research Grants: From University of Idaho	76,496
10.200	Grants for Agricultural Research, Special Research Grants: From New Mexico State Univ.	187,213
10.200	Grants for Agricultural Research, Special Research Grants: From Oregon State Univ.	14,710
10.200	Grants for Agricultural Research, Special Research Grants: From S. Dakota State Univ.	3,980
10.200	Grants for Agricultural Research, Special Research Grants: From North Dakota State Univ.	337
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Calf. Davis	(345)
10.200	Grants for Agricultural Research, Special Research Grants: From Univ of Wisconsin	1,808
10.200	Grants for Agricultural Research, Special Research Grants: From Colorado State Univ.	7,895
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	2,668,960
10.206	Grants for Agricultural Research-Competitive Research Grants	1,572,194
10.206	Grants for Agricultural Research-Competitive Research Grants: From Colorado State Univ.	51,653
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of Calf. Davis	107,023
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of Minnesota	24,709
10.206	Grants for Agricultural Research-Competitive Research Grants: From Utah State University	93,208
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of Idaho	18,800
10.207	Animal Health and Disease Research	69,166
10.210	Food and Agriculture Sciences National Needs	45,000

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AMOUNT

10.212	Small Business Innovation Research: From MT Microbial Products	651
10.215	Sustainable Agriculture Research and Education	26,175
10.215	Sustainable Agriculture Research and Education: From Utah State University	129,734
10.215	Sustainable Agriculture Research and Education: From Univ. of Wyoming	9,879
10.217	Higher Education Challenge Grants	212,346
10.224	Fund for Rural America-Research, Education, and Extension Activities: From Fort Peck College	(11)
10.227	1994 Institutions Research Program: From Fort Peck College	4,303
10.227	1994 Institutions Research Program: From Salish Kootenai College	32,373
10.227	1994 Institutions Research Program: From Fort Belknap College	21,370
10.227	1994 Institutions Research Program: From Chief Dull Knife C.C.	596
10.250	Agricultural and Rural Economic Research	239,440
10.250	Agricultural and Rural Economic Research: From University of Arizona	29,657
10.250	Agricultural and Rural Economic Research: From Colorado State Univ.	13,065
10.303	Integrated Programs	339,364
10.303	Integrated Programs: From Colorado State Univ.	109,091
10.303	Integrated Programs: From Univ. of Calif. Davis	46,096
10.303	Integrated Programs: From Salish Kootenai College	10,554
10.304	Homeland Security - Agricultural: From Kansas State Univ.	43,616
10.305	International Science and Education Grants	52,200
10.352	Value-Added Producer Grants: From Iowa State Univ	24,447
10.352	Value-Added Producer Grants: From Kansas State Univ.	17,486
10.443	Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers: From Little Big Horn College	2,348
10.443	Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers: From Fort Peck College	1,679
10.455	Community Outreach and Assistance Partnership Program	19,700
10.455	Community Outreach and Assistance Partnership Program: From Fort Peck College	(2,497)
10.456	Rural Community Development Initiative	132,898
10.456	Rural Community Development Initiative: From Nat.Center for App Tech.	52,279
10.500	Cooperative Extension Service	598,176
10.500	Cooperative Extension Service: From Wash. State Univ.	7,312
10.500	Cooperative Extension Service: From Univ. of Wyoming	9,216

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10.500	Cooperative Extension Service: From Kansas State Univ.	84,613
10.500	Cooperative Extension Service: From North Carolina State U.	(585)
10.500	Cooperative Extension Service: From Univ. of Georgia	2,682
10.500	Cooperative Extension Service: From Auburn University	5,153
10.500	Cooperative Extension Service: From Univ. of Calf. Davis	17,007
10.579	Child Nutrition Discretionary Grants Limited Availability: From Fort Belknap Council	5,547
10.652	Forestry Research	3,582,456
10.652	Forestry Research: From National Forest Foundat.	35,000
10.652	Forestry Research: From Arthur Carhart	70,240
10.652	Forestry Research: From Nat. Fish & Wildlife	70,124
10.652	Forestry Research: From Nature Conservancy	2,735
10.652	Forestry Research: From SUNY Research Inst.	1,853
10.664	Cooperative Forestry Assistance	66,059
10.664	Cooperative Forestry Assistance: From University of Idaho	29,329
10.672	Rural Development, Forestry, and Communities	5,312
10.674	Forest Products Lab: Technology Marketing Unit: From MT Comm Dev. Corp.	53
10.680	Forest Health Protection	27,391
10.762	Solid Waste Management Grants	8,321
10.856	1890 Land Grant Institutions Rural Entrepreneurial Outreach Program: From Fort Peck College	36,809
10.859	Assistance to High Energy Cost Rural Communities: From Univ. of Nebraska	13
10.902	Soil and Water Conservation	30,045
10.912	Environmental Quality Incentives Program	87,754
10.960	Technical Agricultural Assistance	48,646
10.961	Scientific Cooperation and Research	76
10.999	Miscellaneous Non-Major Grants	105,983
TOTAL		\$13,923,339

DEPARTMENT OF COMMERCE

11.302	Economic Development Support for Planning Organizations	66,386
11.427	Fisheries Development & Utilization Research	40,177
11.431	Climate and Atmospheric Research	37,670
11.431	Climate and Atmospheric Research: From Anasphere Inc.	8,249

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		AMOUNT
11.437	Pacific Fisheries Data Program	(14)
11.440	Environmental Sciences, Applications, Data, and Education	9,934
11.463	Habitat Conservation: From Mississippi State Univ.	3,155
11.611	Manufacturing Extension Partnership	558,500
11.999	Miscellaneous Non-Major Grants	39,051
TOTAL		\$763,108
 DEPARTMENT OF DEFENSE		
12.002	Procurement Technical Assistance For Business Firms	4,352,269
12.002	Procurement Technical Assistance For Business Firms: From Juneau Econ Dev Cncl	47,701
12.106	Flood Control Projects	11,142
12.109	Protection, Clearing and Straightening Channels: From Aerdoyne Research Inc.	18,837
12.114	Collaborative Research and Development	1,677,308
12.114	Collaborative Research and Development: From DANTES -Ed Support	57,707
12.300	Basic and Applied Scientific Research	2,362,127
12.300	Basic and Applied Scientific Research: From Ligocyte Pharm	(171)
12.300	Basic and Applied Scientific Research: From Concurrent Tech. Inc.	1,142
12.300	Basic and Applied Scientific Research: From Aerdoyne Research Inc.	54
12.300	Basic and Applied Scientific Research: From Texas A&M Univ.	8,177
12.300	Basic and Applied Scientific Research: From Advanced Accoust. Conc.	227,071
12.300	Basic and Applied Scientific Research: From M&T Cp.	51,911
12.300	Basic and Applied Scientific Research: From Edison Welding	290,522
12.420	Military Medical Research and Development	135,233
12.420	Military Medical Research and Development: From US Army Med. Res Acq	162,716
12.431	Basic Scientific Research	950,624
12.630	Basic, Applied, and Advanced Research in Science and Engineering	327,556
12.630	Basic, Applied, and Advanced Research in Science and Engineering: From Advanced Accoust. Conc.	21,545
12.630	Basic, Applied, and Advanced Research in Science and Engineering: From Aerdoyne Research Inc.	29,999
12.800	Air Force Defense Research Sciences Program	782,993
12.800	Air Force Defense Research Sciences Program: From S. Dakota Sch of Mines	112,185
12.800	Air Force Defense Research Sciences Program: From Princeton University	37,537
12.800	Air Force Defense Research Sciences Program: From Universal Tech. Corp	40,940

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	AMOUNT
12.800 Air Force Defense Research Sciences Program: From GATR Technologies	13,526
12.800 Air Force Defense Research Sciences Program: From ALD Nanosolutions	35,253
12.800 Air Force Defense Research Sciences Program: From Universal Tech. Corp	125,575
12.800 Air Force Defense Research Sciences Program: From Bridger Photonics	5,809
12.800 Air Force Defense Research Sciences Program: From THY Enterprise. Inc.	6,459
12.910 Reseach and Technology Development	257,082
12.910 Reseach and Technology Development: From Missile Defense Sys.	579,883
12.910 Reseach and Technology Development: From Rutgers University	13,310
12.910 Reseach and Technology Development: From S2 CORP	16,193
12.910 Reseach and Technology Development: From Alutiiq Security	20,395
12.999 Miscellaneous Non-Major Grants: From Nat. Recon. Office	185,272
12.999 Miscellaneous Non-Major Grants: From Colorado State Univ.	87,434
12.999 Miscellaneous Non-Major Grants: From DPRA Inc	14,954
TOTAL	\$13,068,270

DEPARTMENT OF HOUSING & URBAN DEVELOPMENT

14.910 ARRA Healthy Homes Technical Studies Grants	16,855
TOTAL	\$16,855

DEPARTMENT OF THE INTERIOR

15.199 Tongue River Rehabilitation Grant: From Nez Perce Tribe	7,377
15.222 Cooperative Inspection Agreements with States and Tribes	326,696
15.224 Cultural Resource Management	852,260
15.230 Invasive and Noxious Plant Management	99,538
15.231 Fish, Wildlife and Plant Conservation Resource Management	340,116
15.231 Fish, Wildlife and Plant Conservation Resource Management: From Nat Fish & Wild. Found.	8,805
15.234 Secure Rural Schools and Community Self-Determination	13,705
15.238 Challenge Cost Share: From Washington State Univ.	9,498
15.252 Abandoned Mine Land Reclamation (AMLR) Program	2,858
15.517 Fish and Wildlife Coordination Act	19,313
15.524 Recreation Resources Management	4,767
15.608 Fish and Wildlife Management Assistance	84,610
15.608 Fish and Wildlife Management Assistance: From Washington State Univ.	6,636

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2009

		AMOUNT
15.608	Fish and Wildlife Management Assistance: From Nat Fish & Wild. Found.	23,805
15.611	Wildlife Restoration	44,261
15.615	Cooperative Endangered Species Conservation Fund	248,189
15.615	Cooperative Endangered Species Conservation Fund: From CA Fish and Game	49,194
15.634	State Wildlife Grants	5,293
15.642	Challenge Cost Share	30,000
15.699	USDI/Fish & Wildlife Service: From Nez Perce Tribe	34,527
15.805	Assistance to State Water Resources Research Institutes	102,246
15.807	Earthquake Hazards Reduction Program	59,131
15.808	ARRA U.S. Geological Survey-Research and Data Acquisition	2,192
15.808	U.S. Geological Survey-Research and Data Acquisition	595,677
15.808	U.S. Geological Survey-Research and Data Acquisition: From America View Inc.	41,311
15.809	National Spatial Data Infrastructure Competitive Cooperative Agreements Program	4,957
15.810	National Cooperative Geologic Mapping Program	176,526
15.811	Gap Analysis Program	186,722
15.812	Cooperative Research Units Program	304,578
15.899	USDI/Geological Survey	9,015
15.904	Historic Preservation Fund Grants-in-Aid	(79)
15.915	Technical Preservation Services	113,386
15.915	Technical Preservation Services: From University of Idaho	32,746
15.916	Outdoor Recreation: Acquisition, Development and Planning	119,151
15.921	Rivers, Trails and Conservation Assistance	44,577
15.921	Rivers, Trails and Conservation Assistance: From Univ. of Wyoming Res.. Ct	3,222
15.999	Miscellaneous Non-Major Grants	3,803,131
15.999	Miscellaneous Non-Major Grants: From Nat. Fish & Wildlife	10,068
15.AAL	Scientific Studies	44,959
15.BBT	Endangered Species Act	47,982
15.DAS	BLM Cooperative Agreement	8,255
TOTAL		\$7,921,201

DEPARTMENT OF JUSTICE

16.541	Part E - Developing, Testing and Demonstrating Promising New Programs	172,744
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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2009

		AMOUNT
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants: From Univ of Central Florida	11,666
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Prog	110,082
16.710	Public Safety Partnership and Community Policing Grants	2,611,139
TOTAL		\$2,905,631
DEPARTMENT OF LABOR		
17.268	H-1B High Growth Job Training Grants: From Fort Peck College	47,998
TOTAL		\$47,998
DEPARTMENT OF STATE		
19.500	Middle East Partnership Initiative (MEPI)	313,196
19.500	Middle East Partnership Initiative (MEPI): From IREX	149,104
TOTAL		\$462,300
DEPARTMENT OF TRANSPORTATION		
20.109	Air Transportation Centers of Excellence: From Aerdoyne Research Inc.	28,684
20.200	Federal Highway Administration	3,541,491
20.200	Federal Highway Administration: From Lois Berger Group Inc.	2,871
20.200	Federal Highway Administration: From Blaine County	(339)
20.200	Federal Highway Administration: From Nat. Acad. of Science	23,790
20.200	Federal Highway Administration: From Univ. of Iowa	3,500
20.205	Highway Planning and Construction: From Ctr for Native Ecosystems	4,209
20.514	Transit Planning and Research	17,135
20.600	State and Community Highway Safety	7,027
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants: From Univ. of Iowa	7,842
20.614	National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants: From Pac. Inst. for Research	40,711
20.704	RITA Hydrogen	653,720
20.762	Research Grants	1,567,175
TOTAL		\$5,897,816
GENERAL SERVICES ADMINISTRATION		
39.003	Donation of Federal Surplus Personal Property: From University of Alaska	87,696
TOTAL		\$87,696

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2009

AMOUNT**NATIONAL AERONAUTICS AND SPACE ADMINISTRATION**

43.001	Aerospace Education Services Program	3,140,957
43.001	Aerospace Education Services Program: From John Hopkins Univ.	22,621
43.001	Aerospace Education Services Program: From Univ. of Calif. Berkeley	44,575
43.001	Aerospace Education Services Program: From Lockheed Martin Corp.	317,578
43.001	Aerospace Education Services Program: From Southwest Research Ins.	8,407
43.001	Aerospace Education Services Program: From Smithsonian Astrophysical	313,257
43.001	Aerospace Education Services Program: From University of Illinois	19,542
43.001	Aerospace Education Services Program: From Portland State Univ.	5,410
43.001	Aerospace Education Services Program: From CA Institute of Tech	78,575
43.002	Technology Transfer	942,918
43.002	Technology Transfer: From Calif. State Univ. - M. B.	17,501
43.002	Technology Transfer: From Carnigie Institute	44,426
43.002	Technology Transfer: From Univ of North Dakota	30,737
43.002	Technology Transfer: From Jet Propulsion Lab	11,648
43.002	Technology Transfer: From Arizona State Univ.	13,910
43.002	Technology Transfer: From Smithsonian Astrophysical	20,511
43.002	Technology Transfer: From Advr Inc.	746
43.999	Miscellaneous Non-Major Grants	1,892,846
43.999	Miscellaneous Non-Major Grants: From SW Ressearch Inst.	53,125
43.999	Miscellaneous Non-Major Grants: From Univ. of Idaho	8,398
43.999	Miscellaneous Non-Major Grants: From Portland State Univ.	14,428
43.999	Miscellaneous Non-Major Grants: From Penn State University	29,312
43.999	Miscellaneous Non-Major Grants: From CA Institute of Tech	119,097
43.999	Miscellaneous Non-Major Grants: From Qualtech Systems	26,882

TOTAL **\$7,177,407**

NATIONAL ENDOWMENT FOR THE HUMANITIES

45.301	Museums for America	34,097
		TOTAL <u>\$34,097</u>

NATIONAL SCIENCE FOUNDATION

47.041	Engineering Grants	1,496,355
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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2009

	AMOUNT
47.041 Engineering Grants: From Univ. of Minnesota	2,848
47.041 Engineering Grants: From Resonon Inc	40,674
47.041 Engineering Grants: From Bridger Photonics	131,870
47.041 Engineering Grants: From Montana Molecular LLC	136
47.049 Mathematical and Physical Sciences	1,009,301
47.049 Mathematical and Physical Sciences: From Univ. of Calif San Cruz	63,217
47.050 Geosciences	1,921,062
47.050 Geosciences: From Global Enviro. Strategies	16,777
47.050 Geosciences: From Univ of Hawaii Monoa	40,967
47.050 Geosciences: From Consort of Hydrolic Sci	65,338
47.070 Computer and Information Science and Engineering	508,261
47.074 Biological Sciences	5,062,224
47.074 Biological Sciences: From Univ. of Calif. Berkeley	122,779
47.074 Biological Sciences: From Harvard University	5,526
47.074 Biological Sciences: From Wash. State Univ.	110,391
47.074 Biological Sciences: From Univ. of Nebraska Medical	12,211
47.074 Biological Sciences: From Duke University	35,257
47.074 Biological Sciences: From West Virginia University	46,226
47.075 Social, Behavioral, and Economic Sciences	826,996
47.076 Education and Human Resources	2,209,554
47.076 Education and Human Resources: From Nat. Sci Teaches Assoc.	293,890
47.076 Education and Human Resources: From Salish Kootenai College	270,323
47.076 Education and Human Resources: From Penn State University	77,107
47.078 Polar Programs	917,142
47.078 Polar Programs: From San Diego State Univ.	22,372
47.078 Polar Programs: From University of Nebraska	53,536
47.079 International Science and Engineering (OISE)	54,499
47.080 Office of Cyberinfrastructure	3,376,094
47.082 ARRA Trans-NSF Recovery Act Research Support	17,224
47.999 Miscellaneous Non-Major Grants: From Portland State University	225,061
TOTAL	\$19,035,218

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2009

AMOUNT

SMALL BUSINESS ADMINISTRATION

59.000	Small Business Administration-Technical Assistance Grant	113,419
59.006	Business Development Program	24,946
59.051	New Markets Venture Capital Program, Operational Assistance (OA) Grants	(1,076)
59.999	Miscellaneous Non-Major Grants	23,604
TOTAL		\$160,893

ENVIRONMENTAL PROTECTION AGENCY

66.034	Surveys, Studies, Invest., Demonst and Special Purp Act Relating to the Clean Air Act	309,365
66.034	Surveys, Studies, Invest., Demonst and Special Purp Act Relating to the Clean Air Act: From Health Effects Inst.	(9,445)
66.034	Surveys, Studies, Invest., Demonst and Special Purp Act Relating to the Clean Air Act: From Nez Perce Tribe	35,936
66.034	Surveys, Studies, Invest., Demonst and Special Purp Act Relating to the Clean Air Act: From Health Effects Inst.	231,117
66.419	Water Pollution Control-State and Interstate Program Support	61,750
66.460	Nonpoint Source Implementation Grants: From Sheridan Co Con Dist.	12,101
66.461	Regional Wetland Program Development Grants	33,866
66.461	Regional Wetland Program Development Grants: From NM Surface Water Qtly	59,949
66.463	Water Quality Cooperative Agreements: From Virginia Polytechnic	14,678
66.509	Science To Achieve Results (STAR) Research Program	143,234
66.512	Regional Environmental Monitoring and Assessment Program	27,882
66.513	Greater Research Opportunities (GRO) Fellowships For Undergraduate/Grad Environ Study	11,310
66.608	One Stop Reporting: From Pacific NW Pollution Cntr	515
66.708	Pollution Prevention Grants Program	217,047
66.709	Multi-Media Capacity Building Grants for States and Tribes	58,552
66.715	Lead Educational Outreach and Baseline Assessment of Tribal Children's Exposure: From Nat Ctr for Healthy Hous.	3,068
66.716	Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach	262,966
66.717	Source Reduction Assistance	16,000
66.802	Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop.: From Butte Silverbow	22,868
66.999	Miscellaneous Non-Major Grants: From American Water Works	14,439

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2009

		AMOUNT
66.999	Miscellaneous Non-Major Grants: From Ruby Valley Conserv. Dist.	32,501
TOTAL		\$1,559,699
DEPARTMENT OF ENERGY		
81.049	ARRA Office of Science Financial Assistance Program	350,288
81.049	Office of Science Financial Assistance Program	1,006,041
81.049	Office of Science Financial Assistance Program: From Michigan State Univ	1,395
81.049	Office of Science Financial Assistance Program: From Inland NW Research All.	94,551
81.049	Office of Science Financial Assistance Program: From Aerodyne Research Inc.	33
81.049	Office of Science Financial Assistance Program: From Univ of California	(3,222)
81.049	Office of Science Financial Assistance Program: From UT Battelle, LLC	4,990
81.049	Office of Science Financial Assistance Program: From Los Alamo Nat Security	158,365
81.057	University Coal Research	35
81.064	Office of Scientific and Technical Information: From Miami Univ. of Ohio	127,412
81.064	Office of Scientific and Technical Information: From Univ. of Oklahoma	(967)
81.079	Regional Biomass Energy Programs: From S. Dakota State Univ.	25,875
81.086	Conservation Research and Development: From Pacific State Marine	150,126
81.087	Renewable Energy Research and Development	751,668
81.087	Renewable Energy Research and Development: From Cons. for Plant Biotech.	24,460
81.087	Renewable Energy Research and Development: From Siemens Power Gen.Inc	51,329
81.087	Renewable Energy Research and Development: From Inland NW Research All.	18,101
81.089	Fossil Energy Research and Development	9,603,102
81.089	Fossil Energy Research and Development: From Virginia Polytechnics	61,902
81.089	Fossil Energy Research and Development: From Inland NW Research All.	16,472
81.104	Office of Environmental Cleanup and Acceleration	50,832
81.104	Office of Environmental Cleanup and Acceleration: From Mountain States Energy	(4,470)
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training: From West Virg. Univ. Res. Cor	(2,550)
81.121	Nuclear Energy Research, Development and Demonstration: From Idaho Nat. Eng EI	(201)
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	379,179
81.123	NNSA Minority Serving Institutions (MSI) Program: From Los Alamos Nat. Lab	8,987
81.999	Miscellaneous Non-Major Grants: From Inland NW Research All.	34,747
81.999	Miscellaneous Non-Major Grants: From SM Stroller Corp	2,185

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2009

AMOUNT

81.999	Miscellaneous Non-Major Grants: From Umatilla Tribe	75,863
81.999	Miscellaneous Non-Major Grants: From Battelle Energy	5,933
	TOTAL	\$12,992,461

DEPARTMENT OF EDUCATION

81.112	Stewardship Science Grant Program: From Oregon Fish & Wild.	8,956
84.016	Undergraduate International Studies and Foreign Language	43,027
84.017	International Research and Studies	170,367
84.031	Higher Education Institutional Aid: From Univ. of Calif. Berkeley	10,271
84.060	Indian Education Grants to Local Educational Agencies	58,735
84.116	Fund for the Improvement of Postsecondary Education	50,967
84.120	Minority Science and Engineering Improvement	41,666
84.133	National Institute on Disability and Rehabilitation Research	329,394
84.133	National Institute on Disability and Rehabilitation Research: From Oregon Health Sci Univ.	42,781
84.133	National Institute on Disability and Rehabilitation Research: From Univ. of Kansas	14,722
84.133	National Institute on Disability and Rehabilitation Research: From Portland State Univ.	52,670
84.133	National Institute on Disability and Rehabilitation Research: From Baylor College of Med.	23,964
84.215	Fund for Improvement of Education: From Bozeman School Dist.	137,290
84.299	Indian Education - Special Programs	1,030,452
84.324	Special Education-Research and Innovation to Improve Services and Results for Children: From Univ of CA - Riverside	10,682
84.350	Transition to Teaching	(103)
84.373	Special Education -Technical Assistance on State Data Collection: From Meeting The Challenge	36,054
84.378	College Access Challenge Grant Program	137,208
	TOTAL	\$2,199,103

DEPARTMENT OF HEALTH AND HUMAN SERVICES

93.051	New Demonstration Grants to States with Respect to Alzheimer's Disease	498
93.107	Model State-Supported Area Health Education Centers	601,609
93.113	Biological Response to Environmental Health Hazards	1,936,029
93.121	Oral Diseases and Disorders Research	45,831
93.136	Injury Prevention and Control Research and State and Community Based Programs	109,412

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2009

AMOUNT

93.155	Rural Health Research Centers	7,576
93.172	Human Genome Research: From Stanford Univ.	15,824
93.173	Research Related to Deafness and Communication Disorders	13,452
93.173	Research Related to Deafness and Communication Disorders: From Allegheny-Singer	(826)
93.178	Nursing Workforce Diversity	332,860
93.184	Disabilities Prevention	137,818
93.206	Human Health Studies Applied Research and Development	105,310
93.210	Tribal Self-Governance Program: IHS Compacts/Funding Agreements	188,911
93.213	Research and Training in Complementary and Alternative Medicine	879,529
93.226	Research on Healthcare Costs, Quality and Outcomes	113,439
93.231	Epidemiology Cooperative Agreements: From RMTEC	26,833
93.242	Mental Health Research Grants	644,742
93.242	Mental Health Research Grants: From Montana Molecular LLC	25,779
93.247	Advanced Education Nursing Grant Program	241,816
93.262	Occupational Safety and Health Program: From Univ. of Utah	12,761
93.276	Drug-Free Communities Support Program Grants: From Palo Alto Med Foundation	138
93.276	Drug-Free Communities Support Program Grants: From Wy Dept of Health	416,031
93.279	Drug Abuse Research Programs	337,471
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	128,997
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	538,024
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health: From Univ. of Washington	66,200
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health: From University of Illinois	82,032
93.296	State Partnership Grant Program to Improve Minority Health	144
93.301	Small Rural Hospital Improvement Grant Program	409,959
93.307	Minority Health and Health Disparities Research	1,930,540
93.307	Minority Health and Health Disparities Research: From Little Big Horn College	151,043
93.310	Trans-NIH Research Support: From Ateris Tech. LLC	127,729
93.358	Advanced Education Nursing Traineeships	30,265
93.359	Nurse Education, Practice and Retention Grants: From Univ. of Washington	24
93.361	Nursing Research	426,605

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2009

	AMOUNT
93.389 National Center for Research Resources	10,262,297
93.389 National Center for Research Resources: From ZDye Corp	328,735
93.389 National Center for Research Resources: From Resonon Inc	18,762
93.389 National Center for Research Resources: From Seattle Child. Res Inst.	9,636
93.393 Cancer Cause and Prevention Research	466,977
93.394 Cancer Detection and Diagnosis Research	3,860
93.395 Cancer Treatment Research	16,180
93.395 Cancer Treatment Research: From Vanderbilt University	90,557
93.395 Cancer Treatment Research: From Univ. of Calif San Diego	23,105
93.396 Cancer Biology Research	18,813
93.568 Low Income Home Energy Assistance: From Nat Ctr Appop Tech.	110,926
93.631 Developmental Disabilities Projects of National Significance	96,243
93.647 Social Services Research and Demonstration	(115)
93.701 ARRA Trans-NIH Recovery Act Research Support	94,128
93.779 Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	404,050
93.837 Heart and Vascular Diseases Research	120,477
93.838 Lung Diseases Research	778,799
93.838 Lung Diseases Research: From Univ. of Rochester	625
93.846 Arthritis, Musculoskeletal and Skin Diseases Research	27,742
93.847 Diabetes, Endocrinology and Metabolism Research	243,319
93.848 Digestive Diseases and Nutrition Research	65,432
93.853 Extramural Research Programs in the Neurosciences and Neurological Disorders	2,045,543
93.853 Extramural Research Programs in the Neurosciences and Neurological Disorders: From Yale University	176,983
93.855 Allergy, Immunology and Transplantation Research	3,433,456
93.855 Allergy, Immunology and Transplantation Research: From Univ. of Connecticut	31,991
93.856 Microbiology and Infectious Diseases Research	942,111
93.856 Microbiology and Infectious Diseases Research: From Colorado State Univ.	1,919,290
93.859 Biomedical Research and Research Training	3,782,675
93.859 Biomedical Research and Research Training: From Case Western Univ.	66,039
93.859 Biomedical Research and Research Training: From Ohio Universtiy	90,705
93.865 Child Health and Human Development Extramural Research: From Medical Coll. of Georgia	34,981

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2009

		AMOUNT
93.866	Aging Research	116,924
93.867	Vision Research: From Univ. of Rochester	59,357
93.879	Medical Library Assistance	5,204
93.970	Health Professions Recruitment Program for Indians	72,285
93.974	Family Planning Service Delivery Improvement Research Grants	150,158
93.999	Miscellaneous Non-Major Grants: From Aquila Technologies	141,388
93.999	Miscellaneous Non-Major Grants: From ORC Macro	361
TOTAL		\$36,334,404
 CORPORATION FOR NATIONAL & COMMUNITY SERVICE		
94.007	Planning and Program Development Grants: From Regis University	8,727
TOTAL		\$8,727
 HOMELAND SECURITY		
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants: From Butte Silver Bow	91,590
97.043	State Fire Training Systems Grants	27,170
97.086	Homeland Security Outreach, Education, and Technical Assistance	104,385
TOTAL		\$223,145
 UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT		
98.005	Institutional Capacity Building (ICB): From Univ of Hawaii Monoa	204,519
TOTAL		\$204,519
TOTAL RESEARCH AND DEVELOPMENT CLUSTER		\$125,023,887
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$2,328,397,559

STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Note 1. Basis of Accounting

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

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 2009, Montana distributed \$435,736 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed \$9,079,521 in commodities in fiscal year 2009. The value at June 30, 2009 of commodities stored at the state's warehouse is \$2,033,204 for which the state is liable in the event of loss. The state has insurance to cover this liability.

Federal Surplus Personal Property

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

Capitalization Grants for State Revolving Funds

The amount presented for the Capitalization Grants for Water Pollution Control State Revolving Fund (CFDA #66.458) represents federal contributions, plus the administrative costs expended as of June 30, 2009. The amount of loans outstanding as of June 30, 2009 in the Water Pollution Control Revolving Fund Program is \$160,155,627.

The amount presented for the Drinking Water State Revolving Fund Program (CFDA #66.468) represents federal contributions, plus administrative costs

expended as of June 30, 2009. The amount of loans outstanding for the program as of June 30, 2009 is \$93,985,172.

Special Economic Development and Adjustment Assistance Program

The amount presented for the Special Economic Development and Adjustment Assistance Program (CFDA #11.307) represents federal contributions, plus the administrative costs expended as of June 30, 2009. The amount of loans outstanding as of June 30, 2009 is \$395,712.

Temporary Assistance to Needy Families Loan Program

The Temporary Assistance to Needy Families (CFDA #93.558) contributes to a housing loan program. The amount of housing loans outstanding as of June 30, 2009 is \$618,038.

Federal Family Education Loans

The Montana Guaranteed Student Loan Program (MGSLP) guaranteed \$222,224,389 (net) in new loans for the Federal Family Education Loans (CFDA #84.032) program during fiscal year 2009. The outstanding loan balance (including principal, accrued interest and collection cost) of loans guaranteed in previous years for which the federal government has imposed continuing compliance requirement was \$46,207,314 at June 30, 2009. The dollar amount of Default Aversion Fees transferred from the Federal Fund to the Agency's Operating Fund during fiscal year 2009 was \$670,826. In addition, MGSLP received or accrued revenue from the U.S. Department of Education in fiscal year 2009 of \$16,455,053 for reinsurance to pay claims for loans due to death, disability, default and bankruptcy of the debtor.

Federal Perkins Loan Program – Federal Capital Contributions

The amount reported for the Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038) represents federal contributions, plus the administrative costs, plus interest expended as of June 30, 2009. The amount of loans outstanding as of June 30, 2009 is \$33,996,818.

Nursing Student Loan Program

The amount of loans outstanding for the Nursing Student Loan Program (CFDA # 93.364) as of June 30, 2009 is \$2,041,436.

Nursing Faculty Loan Program

The amount of loans outstanding for the Nursing Faculty Loan Program (CFDA # 93.264) as of June 30, 2009 is \$85,302.

Childhood Immunization Grants

The amount reported for the Childhood Immunization Grants (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 2009. The state used the CDC price list to calculate the value of doses received. During fiscal year 2009, Montana received 189,830 vaccine doses valued at \$6,624,371.

Tongue River –Northern Cheyenne Tribal Loan

The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe agreed to loan the State of Montana \$11,300,000 federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. No expenditures of tribal loan funds were incurred on project costs during FY 2009. The amount of the loan outstanding as of June 30, 2009 is \$8,402,564.

Middle Creek Dam Rehabilitation Project Loan

The Department of Natural Resources and Conservation and the U.S Department of the Interior, Bureau of Reclamation (BOR) entered into an agreement on September 21, 1990. The BOR agreed to loan the State of Montana "...a sum of money not to exceed the lesser of (1) \$3,023,925 plus reimbursable interest during construction or (2) the actual cost of the project including reimbursable interest during construction..." The total loan repayable is \$ 2,990,129 and interest during construction is \$281,857. The amount, as of June 30, 2009, of loan outstanding is \$2,432,943 and of interest during construction outstanding is \$207,275.

Note 2. Type A Federal Programs

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

Type A programs for the state of Montana are those which total federal awards expenditures equal or exceed \$13,286,423 for the biennial period.

Note 3. CFDA #

The CFDA # assigned for each federal program listed in the Schedule of Expenditures of Federal Awards was based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.999. The first two digits represent the federal agency, the third digit represents the division within the federal agency. Also see footnote 10.

Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes.

Note 4. Federal Excess Personal Property

The State of Montana receives Federal Excess Personal Property (FEPP). The title to this property remains with the federal agency. In accordance with General Services Administration guidelines, the amount presented in the FEPP is 23.3 percent of the original acquisition cost of the property. The following is a list of the FEPP received by the State of Montana.

<u>CFDA #</u>	<u>Program</u>	<u>FY 09 Amount</u>	<u>Inventory</u>
10.203	Payments to Ag. Exp. Station	\$31,925	\$170,486
10.500	Cooperative Extension Service	\$0	\$8,632
10.664	Cooperative Forestry Assistance	\$ 30,840	\$5,472,651
10.999	Agriculture Misc. Non. Major	\$0	\$160,738
12.999	Defense Misc. Non. Major	\$0	\$53,590
43.999	NASA Misc. Non. Major	\$0	\$664,050
47.999	NSF Misc. Non. Major	(\$22,587)	\$305,479

Note 5. Department of Defense (DOD) Firefighting Property (FFP)

The Department of Natural Resources (DNRC) receives DOD Firefighting Property. The title to this property is transferred to the DNRC. In accordance with OMB guidelines, the amounts are presented at fair market value at time of receipt by DNRC. This was determined to be 14% of the original acquisition cost of the property. The following is the value of FFP received by the State of Montana.

<u>CFDA #</u>	<u>Program</u>	<u>FY 09 Amount</u>	<u>Inventory</u>
12.999	DOD Firefighter Program	\$212,006	\$500,653

Note 6. Books for the Blind and Physically Handicapped:

The Montana State Library receives “talking book” machines, cassette books, accessories and magazines from the federal government under the Blind and Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2009, was \$1,097,640. The accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 7. Unemployment Benefits

The unemployment compensation system is a federal-state partnership. State unemployment insurance laws must conform to certain provisions of the federal law. Federal funds are expended for administrative costs. State unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund, and are used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards (SEFA).

The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for the Unemployment Insurance Program (CFDA #17.225), as well as a breakdown between administrative costs and benefit payments:

UI Administrative Costs	\$ 8,877,821
State UI Benefits	174,818,622
Federal UI Benefits	<u>59,436,947</u>
Total	\$ 243,133,390

Note 8. Subgrants to State Agencies

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

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

Note 9. Passthrough Awards to Non-State Entities

The following is a list of federal funds passed through from the state of Montana to non-state entities for fiscal year 2009.

<i>CFDA Number</i>	<i>Program Title</i>	<i>Amount Provided To Subrecipient</i>
10.163	Market Protection and Promotion	24,354
10.169	Specialty Crop Block Grant Program	55,727
10.200	Grants for Agricultural Research, Special Research Grants	620,991
10.206	Grants for Agricultural Research & Competitive Research Grants	301,638
10.210	Food and Agricultural Sciences National Needs Graduate Fellowship Grants	12,000
10.217	Higher Education Challenge Grants	111,593
10.250	Agricultural and Rural Economic Research	85,541
10.303	Integrated Programs	12,687
10.305	International Science and Education Grants	16,000
10.455	Community Outreach and Assistance Partnership Program	7,598
10.456	Partnership Agreements to Develop Non-Insurance Risk Management Tools for Producers (Farmers)	97,900
10.500	Cooperative Extension Service	165,962
10.550	Food Donation	3,138,902
10.553	Child and Adult Care Food Program	5,407,640
10.555	National School Lunch Program	20,042,291
10.556	Special Milk Program for Children	23,768
10.557	Special Supplemental Nutrition Program for WIC	3,551,144
10.558	Child and Adult Care Food Program	866,965
10.559	Summer Food Program for Children	816,493
10.561	State Administrative Matching Grants for Food Stamp Program	1,704,843
10.567	Food Distribution Program on Indian Reservations	1,635,646
10.568	ARRA Emergency Food Assistance Program (Administrative Costs)	18,386
10.568	Emergency Food Assistance Program (Administrative Costs)	54,170
10.572	WIC Farmers' Market Nutrition Program (FMNP)	97,033
10.579	ARRA Child Nutrition Discretionary Grants Limited Availability	55,000
10.582	Fresh Fruit and Vegetable Program	421,978
10.652	Forestry Research	50,415
10.664	Cooperative Forestry Assistance	3,241,650
10.665	Schools and Roads-Grants to States	28,175,029
10.672	Rural Development, Forestry, and Communities	234,042
10.677	Forest Land Enhancement Program	6,841
10.902	Soil and Water Conservation	40,000
11.555	Public Safety Interoperable Communications Grant Program	36,800
11.611	Manufacturing Extension Partnership	5,540
12.002	Procurement Technical Assistance For Business Firms	850,034
12.114	Collaborative Research and Development	163,445
12.300	Basic and Applied Scientific Research	284,662
12.420	Military Medical Research and Development	5,986
12.910	Research & Technology Development	16,878
14.228	Community Development Block Grant/State's Program	4,560,632
14.239	Home Investment Partnerships Program	2,692,340
15.224	Miscellaneous Non-Major Grants	74,610
15.228	Wildland Urban Interface Community and Rural Fire Assistance	531,439
15.811	Gap Analysis Program	5,083
15.904	Historic Preservation Fund Grants-In-Aid	89,401
15.916	Outdoor Recreation-Acquisition, Development and Planning	214,231
15.999	Miscellaneous Department of the Interior	166,842
16.523	Juvenile Accountability Incentive Block Grants	235,667
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	521,421
16.548	Title V Delinquency Prevention Program	46,398
16.575	Crime Victim Assistance	1,226,580
16.580	E. Byrne Memorial State and Local Law Enforcement Assistance Dis. Grants Prog	34,929
16.588	Violence Against Women Formula Grant	564,897
16.593	Residential Substance Abuse Treatment for State Prisoners	58,501
16.609	Community Prosecution and Project Safe Neighborhoods	65,000
16.727	Enforcing Underage Drinking Laws Program	594,048
16.738	Edward Byrne Memorial Justice Assistance Grant Program	385,184
16.744	Crime Victim Assistance	61,900
17.235	Senior Community Service Employment Program	607,728
17.258	ARRA Violence Against Women Formula Grants	43,670
17.258	Violence Against Women Formula Grants	842,665
17.259	ARRA Youth Activities	234,017
17.259	WIA Youth Activities	1,861,918
17.261	Employment and Training Administration Pilots, Demonstrations, and Research Projects	854,766
17.268	H-1B Job Training Grants	12,773
20.200	Enforcing Underage Drinking Laws Program	112,833
20.205	Highway Planning and Construction	36,299
20.219	Recreational Trails	643,026
20.500	Federal Transit - Capital Investment Grants	51,048
20.505	Federal Transit - Metropolitan Planning Grants	355,313
20.509	Formula Grants for Other Than Urbanized Areas	5,049,650
20.513	Capital Assistance Program for the Elderly and Persons with Disabilities	559,077
20.515	State Planning and Research	35,289
20.516	Job Access Reverse Commute	834,529

<i>CFDA Number</i>	<i>Program Title</i>	<i>Amount Provided To Subrecipient</i>
20.600	State and Community Highway Safety	471,952
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	581,013
20.602	Occupant Protection	171,811
20.607	Alcohol Open Container Requirements	3,075
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	12,521
20.611	Incentive Grant Program to Prohibit Racial Profiling	116,767
20.612	Incentive Grant Program to Increase Motorcyclist Safety	12,530
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	60,164
20.704	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	315,661
20.762	Research Grants	13,504
39.011	Election Reform Payments	156,070
43.001	Aerospace Education Services Program	224,412
43.002	Technology Transfer	52,460
43.999	Miscellaneous NASA	163,589
45.025	Promotion of the Arts-Partnership Agreements	393,565
45.310	State Library Program	13,100
47.041	Engineering Grants	3,330
47.050	Geosciences	434,524
47.074	Biological Sciences	516,490
47.075	Social, Behavioral, and Economic Sciences	42,112
47.076	Miscellaneous Non-Major Grants	464,237
47.078	Polar Programs	26,821
47.080	Office of Cyberinfrastructure	83,569
59.005	Internet-Based Technical Assistance	249,400
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to th	33,024
66.439	Targeted Watersheds Grants	21,558
66.512	Regional Environmental Monitoring and Assessment Program (REMAP) Research Projects	16,239
66.716	Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach	89,279
66.999	Miscellaneous Non Major	20,788
81.042	Weatherization Assistance for Low-Income Persons	(3,080)
81.049	Office of Science Financial Assistance Program	219,295
81.089	Fossil Energy Research and Development	2,655,868
81.122	Miscellaneous Non-Major Grants	111,993
84.002	Adult Education-State Grant Program	1,150,296
84.010	Title I Grants to Local Educational Agencies	40,414,795
84.011	Migrant Education-Basic State Grant Program	997,206
84.013	Title I Program for Neglected and Delinquent Children	102,223
84.017	International Research and Studies	10,000
84.027	Special Education - Grants to States	31,799,237
84.048	Vocational Education - Basic Grants to States	3,377,849
84.069	Leveraging Educational Assistance Partnership	148,645
84.128	Rehabilitation Services-Service Projects	10,000
84.133	National Institute on Disability and Rehabilitation Research	64,997
84.144	Migrant Education - Coordination Program	225,268
84.173	Special Education - Preschool Grants	1,143,959
84.186	Safe & Drug Free Schools and Communities - State Grants	1,321,768
84.196	Education for Homeless Children and Youth	154,433
84.213	Even Start - State Educational Agencies	327,300
84.215	Fund for the Improvement of Education	664,796
84.243	Tech-Prep Education	427,793
84.287	Twenty-First Century Community Learning Centers	4,530,584
84.293	Foreign Language Assistance	53,626
84.298	State Grants for Innovative Programs	143,157
84.318	Education Technology State Grants	1,120,314
84.323	Special Education-State Program Improvement Grants for Children with Disabilities	51,942
84.325	Special Education - Personnel Prep. to Improve Serv. & Results for Children with Disabilities	114,491
84.330	Advanced Placement Incentive Program	7,732
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	1,092,076
84.357	Reading First State Grants	1,094,690
84.358	Rural Education	154,352
84.365	English Language Acquisition Grants	362,461
84.366	Mathematics and Science Partnerships	945,239
84.367	Improving Teacher Quality State Grants	12,836,799
84.377	School Improvement Grants	1,336,991
84.999	Miscellaneous - Non Major	17,566
90.401	Help America Vote Act Requirements Payments	92,556
93.003	Public Health and Social Services Emergency Fund	1,320,269
93.041	Special Programs for the Aging -Title VII, Chapter 3: Prevention	32,890
93.042	Special Programs for the Aging -Title VII, Chapter 2: Long Term Care	74,719
93.043	Special Programs for the Aging - Title III, Part D: Disease Prevention	104,078
93.044	Special Programs for the Aging - Title III, Part B: Supportive Services	1,475,508
93.045	Special Programs for the Aging - Title III, Part C: Nutrition Services	2,636,372
93.048	Special Programs for the Aging - Title IV & and Title II - Discretionary Proj.	75,000
93.051	New Demonstration Grants to States with Respect to Alzheimer's Disease	498

<i>CFDA Number</i>	<i>Program Title</i>	<i>Amount Provided To Subrecipient</i>
93.052	Nation Family Caregiver Support Program	689,744
93.053	Nutrition Services Incentive Program	862,286
93.064	Laboratory Training, Evaluation, and Quality Assurance Programs	75,000
93.104	Comprehensive Community Mental Health Services for Children	522,220
93.107	Model State-Supported Area Health Education Centers	370,105
93.110	Maternal and Child Health Federal Consolidated Programs	140,295
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	25,281
93.126	Small Business Innovation Research	47,124
93.130	Primary Care Services Resource Coordination and Development	25,000
93.150	Projects for Assistance in Transition from Homelessness (PATH)	288,363
93.184	Disabilities Prevention	88,039
93.206	Human Health Studies_Applied Research and Development	483
93.217	Family Planning Services	1,837,227
93.226	Research on Healthcare Costs, Quality and Outcomes	8,000
93.241	State Rural Hospital Flexibility Program	514,934
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	2,434,185
93.268	Immunization Grants	260,450
93.276	Drug-Free Communities Support Program Grants	183,799
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	4,886,295
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	160,236
93.301	Small Rural Hospital Improvement Grants	389,473
93.307	Minority Health and Health Disparities Research	104,862
93.389	National Center for Research Resources	627,813
93.393	Cancer Cause and Prevention Research	187,510
93.556	Promoting Safe and Stable Families	408,942
93.558	Temporary Assistance for Needy Families (TANF)	1,468,091
93.566	Minority Health and Health Disparities Research	34,595
93.568	Low-Income Home Energy Assistance	972,254
93.569	Community Services Block Grant	31,131
93.575	Child Care and Development Block Grant	4,545,254
93.590	Community-Based Family Resource and Support Grants	174,686
93.597	Grants to States for Access and Visitation Programs	100,449
93.599	Chafee Education and Training Vouchers Program (ETV)	203,199
93.600	Head Start	114,723
93.617	Voting Access for Individuals with Disabilities-Grants to States	100,000
93.618	Voting Access for Individuals with Disabilities-Grants for Protection and Advocacy Systems	2,309
93.630	Developmental Disabilities Basic Support and Advocacy Grants	541,792
93.631	Developmental Disabilities Projects of National Significance	18,778
93.658	Foster Care Title IV-E	3,287,773
93.671	Family Violence Prevention and Services/Grants for Battered Women	707,869
93.674	Chafee Foster Care Independent Living	(86,859)
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	240,272
93.847	Diabetes, Endocrinology and Metabolism Research	138,820
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	9,654
93.855	Allergy, Immunology and Transplantation Research	464,554
93.859	Biomedical Research and Research Training	360,846
93.917	HIV Care Formula Grants	117,860
93.940	HIV Prevention Activities-Health Department Based	775,693
93.959	Block Grants for Prevention and Treatment of Substance Abuse	1,274,879
93.969	Geriatric Education Centers	21,408
93.974	Family Planning Service Delivery Improvement Research Grants	17,791
93.991	Preventive Health and Health Services Block Grant	337,077
93.994	Maternal and Child Health Services Block Grant to the States	1,214,072
94.004	Learn and Serve America - School and Community Based Program	103,722
94.006	ARRA Americorps	122,584
94.006	Americorps	2,409,813
94.007	Planning and Program Development Grants	590
96.007	Social Security Research and Demonstration	2,712
96.999	Miscellaneous Non-Major	5,000
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	3,344,643
97.021	Hazardous Materials Assistance Program	9,433
97.036	Public Assistance Grants	2,893,461
97.042	Emergency Management Performance Grants	933,347
97.046	Fire Management Assistance Grant	69,224
97.067	Homeland Security Grant Program	8,753,553
97.078	Buffer Zone Protection Plan (BZPP)	208,531
97.086	Homeland Security Outreach, Education, and Technical Assistance	3,397
97.107	National Incident Management System (NIMS)	25,806
97.999	Miscellaneous - Non Major	36,932
98.005	Institutional Support Assistance (ISA)	127,819
Total		267,860,595

Note 10. Federal Awards not having a CFDA Number

The following schedule contains contract or grant numbers associated with awards that did not have a CFDA number and were assigned a XX.999 number in the Schedule of Expenditures of Federal Awards. Not all XX.999 reported on the SEFA had a grant or contract number.

Schedule of Unknown Federal CFDA Numbers (XX.999)

Agency	State Agency	Contract or Grant Number	Amount
Peace Corp (08)			
	Univ. of Montana - Missoula	PC-07-8-051	392
	Univ. of Montana - Missoula	PC-08-8-152	9,557
Department of Agriculture (10)			
	Montana State - Bozeman	04-CS-11015600-018	17,945
	Montana State - Bozeman	MT 1601-A33	347,189
	Montana State - Bozeman	EFNEP 93-638	41,803
	Montana State - Bozeman	58-5434-3-307	-5,048
	Montana State - Bozeman	43-3AEM-4-80111	75,046
	Montana State - Bozeman	65-0325-06-023	7,268
	Montana State - Bozeman	2007-0079-001	14,533
	Justice	17PRMP610Z	46,494
	Justice	18PRMP610Z	31,115
	Justice	G09PRM0042A	4,504
Department of Commerce (11)			
	Univ. of Montana - Missoula	IPA #0809	15,796
	Univ. of Montana - Missoula	BCYA1323-7-02287	163
	Univ. of Montana - Missoula	RA134108SE4095	4,807
	Univ. of Montana - Missoula	YA1323-08-SE-0447	10,500
	Univ. of Montana - Missoula	OPAS	7,623
	Univ. of Montana - Missoula	IPA #0913	10,662
Department of Defense (12)			
	Montana State - Bozeman	NRO000-07-C-0105	-5,107
	Montana State - Bozeman	NRO 000-08-C-0158	88,472
	Montana State - Bozeman	N68335-08-C-0445	12,230
	Montana State - Bozeman	MDA# HQ0006-09-C-7082	24,735
	Montana State - Bozeman	NRO 000-08-C-0158	15,894
	Univ. of Montana - Missoula	DPRA-09-0003	14,954
	Univ. of Montana - Missoula	W911QY-08-P-0700	20,827
	Univ. of Montana - Missoula	W912HZ-08-2-0006	4,479
	Univ. of Montana - Missoula	W9128F-08-P-0201	17,568
	Univ. of Montana - Missoula	W9128F-09-M-H009	6,174
	Univ. of Montana - Missoula	G-2412-1	87,434
Department of the Interior (15)			
	Montana State - Bozeman	J1242067016	10,706
	Montana State - Bozeman	12	12,249
	Montana State - Bozeman	J1580080436/MSU-161/170	339
	Montana State - Bozeman	L08AC14336	6,793
	Montana State - Bozeman	J1571050527 MSU-21	306
	Montana State - Bozeman	L08AC13379	9,330
	Montana State - Bozeman	H1200040001 MSU-29	163
	Montana State - Bozeman	J1460050024 MSU-35	-1
	Montana State - Bozeman	06FC602143	72,651
	Montana State - Bozeman	98210-6-J009	110,447
	Montana State - Bozeman	06FC602128	17,621
	Montana State - Bozeman	601816J355	10,078
	Montana State - Bozeman	J1460060025 MSU-111	18,402

Schedule of Unknown Federal CFDA Numbers (XX.999)

Agency	State Agency	Contract or Grant Number	Amount
	Montana State - Bozeman	H1200040001 MSU-112	6,849
	Montana State - Bozeman	L08AC14286	5,298
	Montana State - Bozeman	L08AC14538	27,858
	Montana State - Bozeman	H8812-06-0502	15,859
	Montana State - Bozeman	J1242070017-MSU 124/141/168	29,644
	Montana State - Bozeman	H12000040001	-4
	Montana State - Bozeman	J1580070530	25,988
	Montana State - Bozeman	H1200040001/J1580070509	30,902
	Montana State - Bozeman	H1200040001/J2123077002	13,105
	Montana State - Bozeman	H120004001/J2120070118	90,304
	Montana State - Bozeman	MSU-136 TASK J1580070508	10,111
	Montana State - Bozeman	J1580080088	1,715
	Montana State - Bozeman	J1580080122 MSU-149	44,418
	Montana State - Bozeman	J1580080405	18,586
	Montana State - Bozeman	J1580080407	72,039
	Montana State - Bozeman	J1580080614	2,115
	Montana State - Bozeman	J1580080564	8,806
	Montana State - Bozeman	J21200900006 MSU-179	2,935
	Univ. of Montana - Missoula	J1580090381H1	3,361
	Univ. of Montana - Missoula	L08AC13592	1,559,729
	Univ. of Montana - Missoula	L08AC13029	11,121
	Univ. of Montana - Missoula	ESA04I010, T.O. ESA04I006	6,008
	Univ. of Montana - Missoula	ESA04I010, T.O. ESF04I014	30,870
	Univ. of Montana - Missoula	L08AC15011	9,551
	Univ. of Montana - Missoula	ESA0100009, T.O. 29	2,410
	Univ. of Montana - Missoula	L08AC14562, L09AC15312	21,699
	Univ. of Montana - Missoula	L07AC14747	11,033
	Univ. of Montana - Missoula	IPA #L07PX05432	13,246
	Univ. of Montana - Missoula	L08PX01586	16,945
	Univ. of Montana - Missoula	2007-0038-000	9,945
	Univ. of Montana - Missoula	NP 06-142	34,527
	Univ. of Montana - Missoula	04121HS015	1,015
	Univ. of Montana - Missoula	ORDER #621008M002	5,000
	Univ. of Montana - Missoula	P.O. 655218M046	3,000
	Univ. of Montana - Missoula	CA 1200-99-007, UMT-74	1,806
	Univ. of Montana - Missoula	CA 1200-99-007, UMT-76	-1
	Univ. of Montana - Missoula	CA 1200-99-007, UMT-82	17,160
	Univ. of Montana - Missoula	J1242049006, UMT-10	20,649
	Univ. of Montana - Missoula	J1242049005, UMT-11	-881
	Univ. of Montana - Missoula	J1435050009, UMT-16	3,427
	Univ. of Montana - Missoula	J1233040020, UMT-07	4,360
	Univ. of Montana - Missoula	J1242040901, UMT-09	-9
	Univ. of Montana - Missoula	J1379050028, UMT-20	334
	Univ. of Montana - Missoula	UAF 07-0057	123
	Univ. of Montana - Missoula	J1580050583, UMT-26	8,216
	Univ. of Montana - Missoula	J1233040020, UMT-27	2,019
	Univ. of Montana - Missoula	J1242057016, UMT-35	3,479

Schedule of Unknown Federal CFDA Numbers (XX.999)

Agency	State Agency	Contract or Grant Number	Amount
	Univ. of Montana - Missoula	J1571060508, UMT-89,102,104,32	5,759
	Univ. of Montana - Missoula	J8400060012, UMT-94	12,411
	Univ. of Montana - Missoula	J2360060020	6,349
	Univ. of Montana - Missoula	J1460060018, UMT-95	3,388
	Univ. of Montana - Missoula	J1242057016, UMT-98	10,995
	Univ. of Montana - Missoula	J2380050112, UMT-138	2,022
	Univ. of Montana - Missoula	J9476061201, UMT-107	653
	Univ. of Montana - Missoula	J2380060105, UMT-106	22
	Univ. of Montana - Missoula	H6490C217	6,613
	Univ. of Montana - Missoula	J1580060468, UMT-101	493
	Univ. of Montana - Missoula	J2303060026, UMT-113	42,858
	Univ. of Montana - Missoula	J1434060050, UMT-111	3,953
	Univ. of Montana - Missoula	J1242067022, UMT-116	721
	Univ. of Montana - Missoula	J1460070003, UMT-118	647
	Univ. of Montana - Missoula	J9836070003, UMT -117	13,768
	Univ. of Montana - Missoula	J1242077002, UMT-121	6,378
	Univ. of Montana - Missoula	J1435050094, UMT-128	1,367
	Univ. of Montana - Missoula	J1434070042, UMT-131	861
	Univ. of Montana - Missoula	J2380070139, UMT-133	24,597
	Univ. of Montana - Missoula	UMT-13, UMT-98	98,673
	Univ. of Montana - Missoula	J1434070045, UMT-136	274
	Univ. of Montana - Missoula	J6140070135, UMT-134	28,792
	Univ. of Montana - Missoula	J1242077019, UMT-143	2,070
	Univ. of Montana - Missoula	J1750070064, UMT-144	3,290
	Univ. of Montana - Missoula	J2303070096, UMT-145	25,624
	Univ. of Montana - Missoula	J1242070049, UMT-146	4,461
	Univ. of Montana - Missoula	J1242070068, UMT-151	10,471
	Univ. of Montana - Missoula	J1242077023, UMT-148	6,375
	Univ. of Montana - Missoula	J2380070209, UMT-149	-5,111
	Univ. of Montana - Missoula	J2310080035, UMT-153	118,976
	Univ. of Montana - Missoula	J2030080012, UMT-155	2,887
	Univ. of Montana - Missoula	J1242070058, UMT-150	7,243
	Univ. of Montana - Missoula	J1434080019, UMT-161	47,899
	Univ. of Montana - Missoula	J1434080019, UMT-160	144,559
	Univ. of Montana - Missoula	J6490080025, UMT-162, 174	140,688
	Univ. of Montana - Missoula	J1435080074, UMT-157	18,013
	Univ. of Montana - Missoula	J1580080264, UMT-164	33,902
	Univ. of Montana - Missoula	J1434080021, UMT-159	8,996
	Univ. of Montana - Missoula	J1434080036, UMT-165	22,508
	Univ. of Montana - Missoula	J8755080013, UMT-166	16,927
	Univ. of Montana - Missoula	J1571060508, UMT-156	19
	Univ. of Montana - Missoula	J1242087007, UMT-167	3,989
	Univ. of Montana - Missoula	J1434080044, UMT-169	84,607
	Univ. of Montana - Missoula	J1434080043, UMT-170	72,299
	Univ. of Montana - Missoula	L08AC14467	25,630
	Univ. of Montana - Missoula	J8136080054, UMT-168	21,320
	Univ. of Montana - Missoula	J1242087010, UMT-171	2,466

Schedule of Unknown Federal CFDA Numbers (XX.999)

Agency	State Agency	Contract or Grant Number	Amount
	Univ. of Montana - Missoula	J143308022, UMT-176	2,581
	Univ. of Montana - Missoula	J1580080549, UMT-180	617
	Univ. of Montana - Missoula	J1465085378, UMT-182	13,283
	Univ. of Montana - Missoula	J1242080019, UMT-184	1,295
	Univ. of Montana - Missoula	J1580080544, UMT-175	11,327
	Univ. of Montana - Missoula	J2310080001, UMT-183	85,942
	Univ. of Montana - Missoula	J1586080018, UMT-179	1,431
	Univ. of Montana - Missoula	J1434080054	26,562
	Univ. of Montana - Missoula	J2340080051	4,629
	Univ. of Montana - Missoula	J1434080088, UMT-190	5,875
	Univ. of Montana - Missoula	J2303080037, UMT-187	15,115
	Univ. of Montana - Missoula	J1212080053, UMT-191	3,150
	Univ. of Montana - Missoula	J1432050062, UMT-30	3,089
	Univ. of Montana - Missoula	J1580090083, UMT-193	1,741
	Univ. of Montana - Missoula	J2240090009, UMT-194	9,452
	Univ. of Montana - Missoula	J1434080053	19,677
	Univ. of Montana - Missoula	J1242097003, UMT-198	2,764
	DEQ	H1580060002	24,763
	Department of Revenue	0206CA25939	284,604
	DNRC	04FC601876	27,656
	DNRC	1448-60181-5-J170	18,399
	DNRC	H1580070001	33,758
Department of Justice (16)			
	Justice	MT056015Y	383,900
Department of State (19)			
	Univ. of Montana - Missoula	S-ECAAS-07-GR-150(SS)	39,635
	Univ. of Montana - Missoula	S-ECAAS-07-GR-150(SS)	32,909
	Univ. of Montana - Missoula	ST140008GR031	36,620
Department of Transportation (20)			
	Transportation	HFL-17/DTFH70-08-E-00014	25,442
Department of Treasury (21)			
	Commerce	161:95X1350	314,934
	Univ. of Montana - Missoula	FED08-023	5,980
National Aeronautics and Space Administration (43)			
	Montana State - Bozeman	NNA08CN85A	780,132
	Montana State - Bozeman	UND0014026	15,844
	Montana State - Bozeman	SUBAWARD NO. Z641403	935
	Montana State - Bozeman	NNA08CN85A	30,334
	Univ. of Montana - Missoula	NAG5-12540	-7,929
	Univ. of Montana - Missoula	NNG05GG13G	181,917
	Univ. of Montana - Missoula	NNG05GH13G	40,946
	Univ. of Montana - Missoula	NNX07AJ28G	188,625
	Univ. of Montana - Missoula	#1333806	20,362
	Univ. of Montana - Missoula	NNX08AG87A	265,173
	Univ. of Montana - Missoula	#1319876	91,029
	Univ. of Montana - Missoula	NNX08AP59G	69,121
	Univ. of Montana - Missoula	NNX08AQ63A	216,357

Schedule of Unknown Federal CFDA Numbers (XX.999)

Agency	State Agency	Contract or Grant Number	Amount
	Univ. of Montana - Missoula	499962Q	48,097
	Univ. of Montana - Missoula	ACK657-A	8,398
	Univ. of Montana - Missoula	1356497	5,028
	Univ. of Montana - Missoula	207CAD048	14,428
	Univ. of Montana - Missoula	3672-UM-NASA-J90G	29,312
	Univ. of Montana - Missoula	1350935	44,236
	Univ. of Montana - Missoula	1364345	27,217
	Univ. of Montana - Missoula	1368208	47,644
National Science Foundation (47)			
	Montana State - Bozeman	208FOU076	225,061
Small Business Administration (59)			
	Department of Commerce	SBAHQ-05-I-0056	23,604
Environmental Protection Agency (66)			
	Montana State - Bozeman	3110	3,268
	Montana State - Bozeman	X-83245801-1	11,171
	Univ. of Montana - Missoula	CD97874601	32,501
Department of Energy (81)			
	Montana State - Bozeman	TO 60-5004-101	10,670
	Montana State - Bozeman	TASK ORDER 60-5004-202	18,997
	Montana State - Bozeman	TASK ORDER 60-4004-506	2,772
	Montana State - Bozeman	60-5004-301	2,308
	Montana State - Bozeman	MSU-4101-090209	2,185
Department of Education (84)			
	OPI	ED-08-CO-0076	112,551
	OPI	ED-04-CO-0025/0010	8,832
	OPI	ED-03-CO-0045	660
Department of Public Health and Human Services (93)			
	Montana State - Bozeman	1R42EB6360-01	128,714
	Univ. of Montana - Missoula	35126-5S-728	361
	PHHS	5-D20-HP00007-09-00	14,025
	PHHS	HHSF223200640153P	40,554
	PHHS	211-2007-M-21881	15,251
Other Federal (99)			
	Univ. of Montana - Missoula	PO 2009-023	23,641
	Judiciary	SJI-08-T-003	26,000
	Judiciary	SJI-07-T-197	12,000

FY08 Financial Section

FY08 Financial Section

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LEGISLATIVE AUDIT DIVISION

B-1

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

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

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2008, which collectively comprise the state of Montana's basic financial statements and have issued our report thereon dated December 11, 2008. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Montana State Lottery, the Montana University System Self-Funded Workers' Compensation Program, the Montana State University component units, and the University of Montana component units, as described in our report on the state of Montana's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Montana State University component units and the University of Montana component units were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

1. The Department of Natural Resources and Conservation did not record \$41 million in receivables and deferred revenue at June 30, 2008, related to a legal settlement in accordance with generally accepted accounting principles, as required by state law. The department does not have adequate fiscal year-end procedures to address the financial ramifications from ongoing litigation at the end of each fiscal year. The basic financial statements have been corrected for this error.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the state of Montana's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information and use of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, and federal awarding agencies and pass-through

entities and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

December 11, 2008

LEGISLATIVE AUDIT DIVISION

B-5

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying 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, 2008, which collectively comprise the state's basic financial statements, as follows:

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

These financial statements are the responsibility of the state of Montana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery and the Montana University System Self-Funded Workers' Compensation Program, which represent 0.2, 0.0, and 3.0 percent, respectively, of the assets, net assets, and revenues of the aggregate remaining fund information. We also did not audit the financial statements of the Montana State University component units and University of Montana component units which represent 11.0, 31.4, and 4.3 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 Montana State Lottery, the Montana University System Self-Funded Workers' Compensation Program, and university component units, are based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have issued our report dated December 11, 2008, 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 read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

December 11, 2008

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana provides this *Management's Discussion and Analysis* of the State of Montana's Comprehensive Annual Financial Report (CAFR) for readers of the State's financial statements. This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2008. 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 2008 by \$6.8 billion (reported as net assets) compared with \$6.5 billion at the end of fiscal year 2007. Of this amount, \$606.3 million (reported as unrestricted net assets) may be used to meet the government's general obligations to citizens and creditors. Component units reported net assets of \$1,185.1 million compared with \$1,127.3 million at fiscal year end 2007.

Fund Highlights

As of the close of fiscal year 2008, the State's governmental funds reported combined ending fund balances of \$3.3 billion compared with \$3.1 billion at fiscal year 2007. Of this amount, \$474.7 million is available for spending at the government's discretion (reported as unreserved fund balance). The remaining amount of \$2.8 billion is restricted for specific purposes, such as education. At the end of the fiscal year, unreserved fund balance for the General Fund was \$433.6 million compared with \$549.2 million in fiscal year 2007, which is a decrease of \$115.6 million (21%).

The State's business-type activity funds reported net assets at the close of fiscal year 2008 in the amount of \$357 million compared with the fiscal year-end 2007 net assets of \$335.2 million. \$337 million of the business-type activity fund equity was restricted at fiscal year-end 2008, with \$8.7 million invested in capital assets, net of related debt, leaving an unrestricted balance of \$11.2 million. This represents a \$0.6 million (5.1%) decrease from the fiscal year-end 2007 business-type activity fund unrestricted net asset balance of \$11.8 million.

Long-term Debt

The State's total bonds and notes payable for governmental activities increased by \$26.7 million, from \$396 million in fiscal year 2007 to \$422.7 million (6.7%) in fiscal year 2008.

Business-type activities reported bonds and notes payable of \$1.9 million at fiscal year-end 2008. This represents a decrease of \$1.2 million (38.7%) over the fiscal year-end 2007 reported amount of \$3.1 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

Government-wide Financial Statements

The *government-wide financial statements* provide a broad view of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial

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

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

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

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

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

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

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

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

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

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

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

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

the State Special Revenue Fund, the Federal Special Revenue Fund, the Coal Severance Tax Fund, and the Land Grant Fund.

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position improved over the last fiscal year. This improvement was caused by stronger than expected statewide economic performance.

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 \$6.8 billion at the end of fiscal year 2008. Net assets of the governmental activities increased \$337 million (5.5%), and business-type activities had a \$21.8 million (6.5%) increase.

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	
	2007	2008	2007	2008	2007	2008
Current and other assets	\$3,830,490	\$4,320,143	\$466,063	\$495,962	\$4,296,563	\$4,816,105
Capital assets	3,402,036	3,553,591	8,698	8,733	3,410,734	3,562,324
Total assets	7,232,526	7,873,734	419,419	504,695	7,707,287	8,378,429
Long-term liabilities	415,944	461,857	10,212	10,857	426,156	472,714
Other liabilities	678,175	936,491	129,368	136,835	807,543	1,073,326
Total liabilities	1,094,119	1,398,348	139,580	147,692	1,233,205	1,546,040
Invested in capital assets, net of related debt	3,115,260	3,262,932	8,698	8,733	3,123,958	3,271,665
Restricted	2,347,395	2,617,435	314,722	337,036	2,662,117	2,954,471
Unrestricted	675,752	595,019	11,761	11,234	687,513	606,253
Total net assets	\$6,138,407	\$6,475,386	\$335,181	\$357,003	\$6,473,588	\$6,832,389

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:

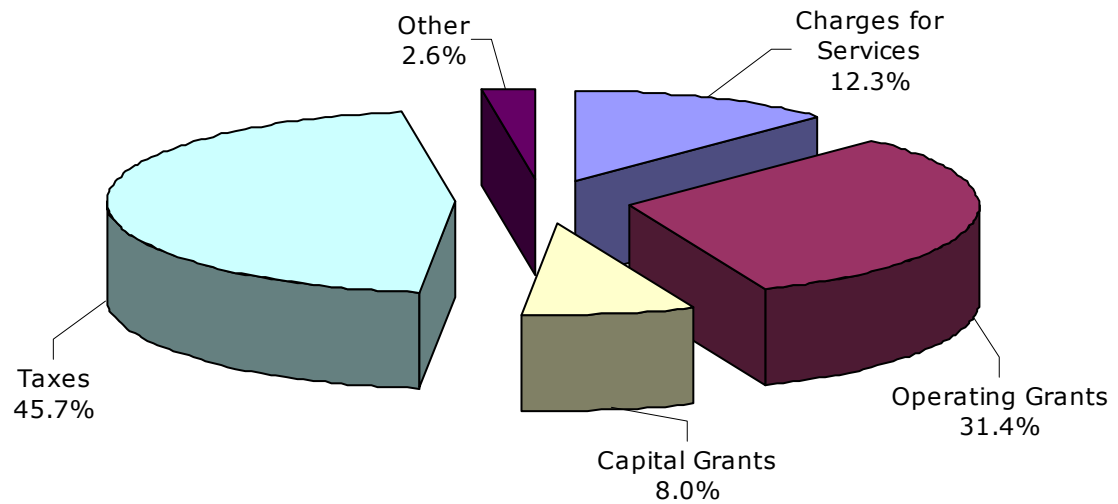
Changes in Net Assets
For Fiscal Year Ended June 30
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2008	2007	2008	2007	2008
Revenues:						
Program revenues						
Charges for services	\$ 487,767	\$ 584,098	\$257,729	\$300,952	\$ 745,496	\$ 885,050
Operating grants	1,371,109	1,493,944	58,051	63,524	1,429,160	1,557,468
Capital grants	305,345	380,856	378	540	305,723	381,396
General revenues						
Taxes	1,871,808	2,171,422	17,317	20,340	1,889,125	2,191,762
Other	73,388	123,152	5,162	3,068	78,550	126,220
Total revenues	4,109,417	4,753,472	338,637	388,424	4,448,054	5,141,896
Expenses:						
General government	525,981	634,984			525,981	634,984
Public safety/corrections	245,810	322,769			245,810	322,769
Transportation	216,942	488,450			216,942	488,450
Health/social services	1,270,056	1,380,629			1,270,056	1,380,629
Educational/cultural	976,046	1,144,637			976,046	1,144,637
Resource/rec/environ	142,460	258,058			142,460	258,058
Econ dev/assistance	150,449	152,456			150,449	152,456
Interest on long-term debt	19,569	18,344			19,569	18,344
Unemployment Insurance			72,661	90,269	72,661	90,269
Liquor Stores			50,514	59,227	50,514	59,227
State Lottery			31,020	32,984	31,020	32,984
Economic Dev Bonds			3,441	4,552	3,441	4,552
Hail Insurance			4,632	11,064	4,632	11,064
Gen Govt Services			51,017	56,697	51,017	56,697
Prison Funds			5,356	6,670	5,356	6,670
MUS Group Insurance			52,139	59,334	52,139	59,334
MUS Workers Comp			2,978	3,109	2,978	3,109
Total expenses	3,547,313	4,400,327	273,758	323,906	3,821,071	4,724,233
Increase (decrease) in net assets before transfers	562,104	353,145	64,879	64,518	626,983	417,663
Transfers	34,802	43,010	(34,802)	(43,010)	-	-
Change in net assets	596,906	396,155	30,077	21,508	626,983	417,663
Net assets, beg of year (restated)	5,095,576	6,079,231	266,852	335,495	5,362,428	6,414,726
Net assets, end of year	\$5,692,482	\$6,475,386	\$296,929	\$357,003	\$5,989,411	\$6,832,389

Governmental Activities

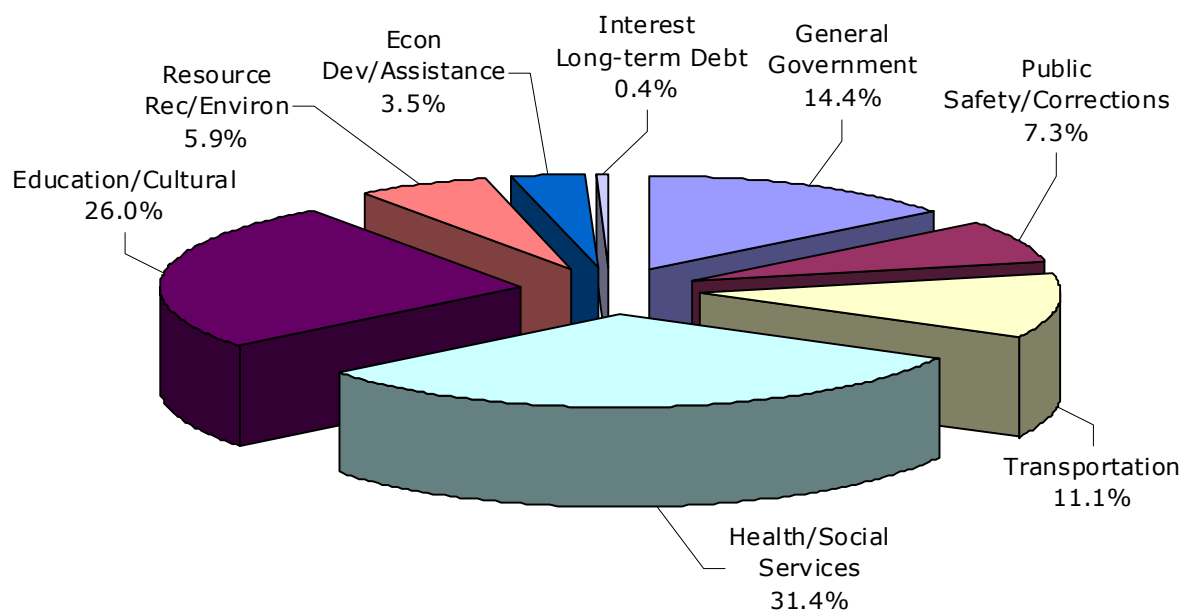
The following chart depicts revenues of the governmental activities for the fiscal year:

**Revenues - Governmental Activities
Fiscal Year Ended June 30, 2008**



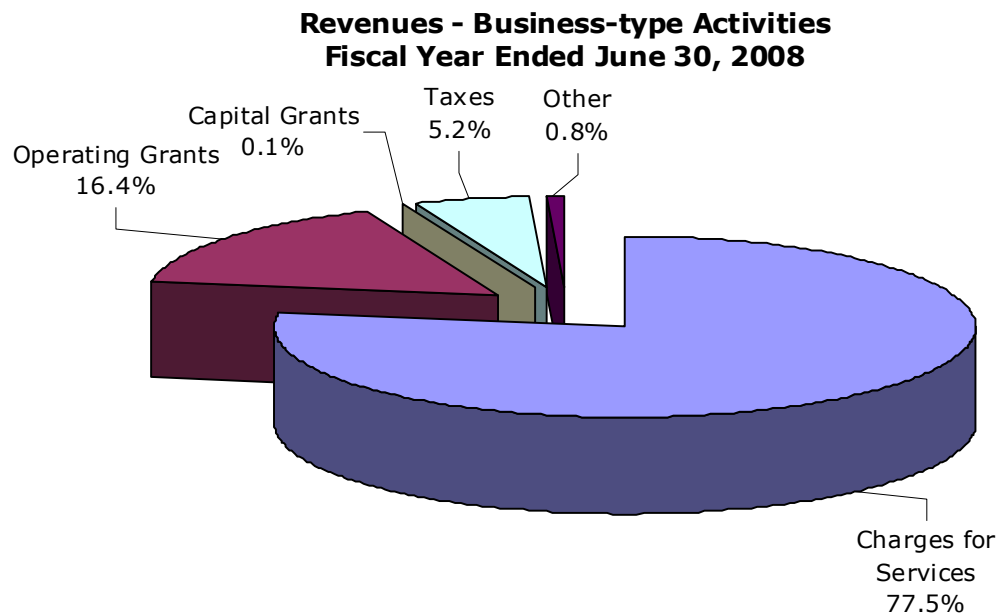
The following chart depicts expenses of the governmental activities for the fiscal year:

**Expenses - Governmental Activities
Fiscal Year Ended June 30, 2008**

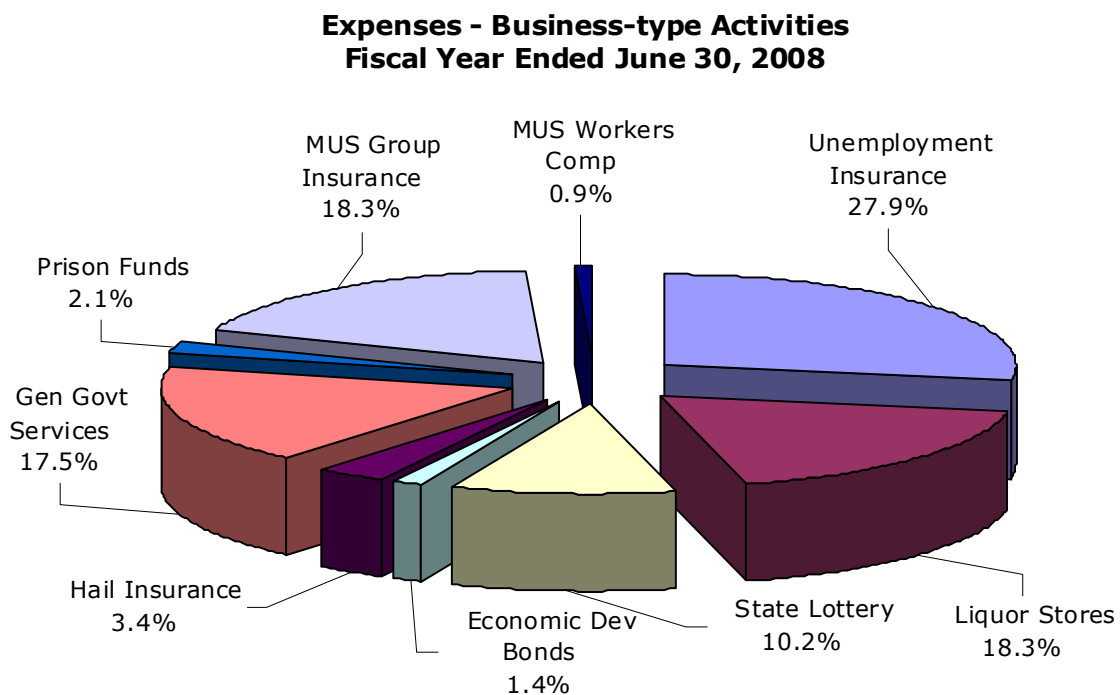


Business-type Activities

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 \$3.3 billion. Of this total amount, \$474.7 million (14.4%) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved because it is legally segregated for a specific future use, or is not available for new spending, as it has already been dedicated for various commitments. The analysis of these funds provides the explanation for the overall change in net assets at the government-wide level also since these represent the major operating funds of the state as a whole.

General Fund

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$433.6 million. This represents 91.3% of the 474.7 million unreserved governmental fund balance. The ending General Fund unreserved fund balance was \$243.3 million higher than the anticipated \$190.3 million estimated by the 60th Legislature. Unreserved fund balance decreased during the fiscal year by \$115.6 million, primarily because of increases in all expenditure categories. General Fund expenditures for fiscal year 2008 increased by \$245.3 million (15.1%). This was partially offset by revenue collections that were \$105.6 million more than anticipated. The increases in both expenditures and revenues are discussed in detail below.

Higher Revenues Than Anticipated – Total General Fund revenue was \$1,877.8 million for fiscal year 2008. This was \$105.6 million (6%) more than fiscal year 2007, and \$164.8 million (9.6%) higher than what was projected for fiscal year 2008. The increase in revenue from fiscal year 2007 to fiscal year 2008 was primarily a result of increased revenue from taxes, including individual income, property, and oil/natural gas production, and treasury cash account interest earnings. Within the tax category, individual income and property tax revenue increased \$23.7 and \$12.3 million, respectively. Continued economic growth within Montana contributed to this income and property tax growth. Higher than projected oil and gas prices, combined with higher mineral prices, led to increased production within the State resulting in natural resource taxes increasing by \$67.3 million (56.7%) in fiscal year 2008.

Total revenues for fiscal year 2008 were \$128.5 million, 7.3% over the official forecast. Individual income tax exceeded the revenue estimate by \$49.5 million (6.2%). Natural resource taxes exceeded the estimate by \$57.0 million (44.1%); and treasury cash account interest earning exceeded the estimate by \$10.4 million (46.2%).

General Fund Expenditure Budgets – General Fund expenditures were lower than appropriated by nearly \$80.3 million. The related reversions include the following:

- General Government – \$5.6 million in long-range building program funding for projects such as public safety radio and network expansion. These long-range building program appropriations are continued into future fiscal years. \$4.2 million in estimated property tax refund program payments were reverted.
- The Department of Health and Human Services reverted \$23.9 million of authority. Most of this unspent authority was due to lower than expected Medicaid costs.
- The Department of Corrections had unspent authority of \$11.7 million, most of which will be carried forward to fiscal year 2009.
- The Commissioner of Higher Education carried forward \$4.4 million in authority to fiscal year 2009.

General Fund Expenditures – General Fund expenditures increased by \$245.3 million (15.1%). The factors behind this increase are summarized below:

- A one-time property tax offset payment program of \$94.6 million occurred in fiscal year 2008. These payments were reported as expenditures, rather than revenue abatements because: the related collections related to multiple past fiscal years. The refunds were related to a mixture of state and local government property tax collections, and this was a one-time program (taxpayers normally are not eligible for a refund of any property taxes not paid in error).
- Operational costs increased by \$61.4 million (44.0%). A large part of this increase was caused by the costs of fighting fires in a very active 2007 (fiscal year 2008) season, combined with increased energy costs.
- Local assistance increased by \$64.6 million (8.6%). This includes increased payments to the local schools for K-12 funding of \$60.1 million (9.6%).
- Support to the university system increased by \$21.8 million (13.9%).

State Special Revenue Fund

At the end of the current fiscal year, the fund balance of the State Special Revenue Fund was \$1.2 billion. Fund balance increased during the fiscal year by \$193.6 million (19.7 %).

Natural resource taxes increased by \$63.5 million (48.8%). This increase resulted from increased oil, natural gas, copper, and other natural resource prices which, in turn, caused increased production of these minerals within the State generating the increased revenue. The \$29.6 million increase in rentals/leases and royalties relates to a change in accounting for a sale of future revenue streams, relating to natural resource leases, required by GASB Statement 48. Bond issuances in the amount of \$44.7 million represent a 100% increase in fiscal year 2008. The bonds will be offset by a related increase in state debt in the government-wide statements. Transfers in increased by \$40.7 million (26.4%) primarily as a result of an increase in mineral and timber royalty activity.

Expenditures within the State Special Revenue Fund increased by \$79.7 million (9.1%). Within the State Special Revenue Fund, expenditures primarily increased in the general government function, \$64.0 million (40.1%). This primarily was due to increased oil production tax distributions, \$51.9 million (53.0%), to the counties resulting from higher oil prices. Expenditures also increased significantly within the health/social services function. These increases include:

- Increased tobacco health and Medicaid initiative payments \$7.2 million (118.8%).
- An increase in statewide tobacco settlement payments of \$4.9 million (77.0%).
- Increases in activities funded by the Hospitalization Utilization fees of \$4.2 million (33.4%).
- An increase in tobacco settlement funds spent on the Children's Health Insurance Program and insurance activities funded with Montana comprehensive health association subsidies of \$2.7 millions (86.6%).

Transportation expenditures decreased by \$42.6 million (15.6%). \$13.5 million of this decrease and a corresponding capital outlay increase was primarily the result of a reporting change reclassifying part of the Department of Transportation expenditure activity as capital outlay. The remaining decrease primarily resulted from lower highway construction activities of \$20.6 million.

Federal Special Revenue Fund

Fund balance in the Federal Special Revenue Fund decreased by \$21.2 million (92.6%). This decrease resulted from an expenditure accrual relating to the costs of fighting fires in the very active 2007 (fiscal year 2008) season. The accrual was for 27.4 million, with \$26.6 million of the related revenue deferred because it would not be received within the 60 day availability period used by the state, under the modified accrual basis of accounting. This deferral is reflected in the government-wide statements because these are on a full accrual basis.

Revenues increased by \$108.0 million (7.0%) and expenditures increased by \$118.3 million (7.7%). Because most federal programs are expenditure-driven, a direct correlation normally exists between revenues and expenditures. Programs such as food stamps and certain higher education programs are allowed to carry assets in their federal entities, creating a normal overall positive fund balance for the fund as a whole.

Transportation expenditures decreased by \$172.4 million, and capital outlay increased by \$224.3 million, primarily as a result of a reporting change reclassifying the majority of the Department of Transportation expenditure activity as capital outlay.

Coal Severance Tax Permanent Fund

Reserved fund balance in the Coal Severance Tax Permanent Fund increased by \$28.4 million (3.7%). Coal taxes increased slightly due to increased coal production, while investment earnings decreased as a result of the impact of the national investment crisis.

Land Grant Permanent Fund

Reserved fund balance in the Land Grant Permanent Fund increased by \$10.2 million (2.3%). The \$15.8 million (31.4%) decrease in rentals, leases, and royalties relates to the change in accounting for a sale of future natural resource lease revenue stream owned by the Land Grant Permanent Fund, as discussed in the State Special Revenue Fund section. This accounting change also resulted in significant, offsetting decreases in transfers in and out.

Unemployment Insurance Enterprise Fund

Net assets restricted for unemployment compensation increased by \$15.5 million (5.9%). Unemployment premium collections increased by \$2.1 million (2.6%). Unemployment benefits paid increased by \$16.8 million. The large increase

in unemployment collections more than offset the increase in unemployment benefits paid, and contributed to the increase in net assets. This was reflective of an increase in Montana's unemployment rate, combined with an overall strong Montana economy.

Economic Development Bonds Enterprise Fund

Net assets decreased by \$49,000 in fiscal year 2008. The fund did not experience significant changes in operations during fiscal year 2008.

General Governmental Functions

Revenue sources for general governmental functions, which include the general, special revenue, debt service, capital projects, and permanent funds, increased 7.6% from fiscal year 2007 to fiscal year 2008. Revenues from various sources for fiscal year 2008, and the amount and percentage of increases and decreases in relation to prior year revenues are shown in the following table (amounts in thousands):

Revenue Source	Amount	2008 Percent of Total	Increase (Decrease) from 2007	Percent Increase (Decrease)
Licenses/permits	\$ 283,755	6.1%	\$ (2,135)	(0.7)%
Taxes	2,162,928	46.4	153,308	7.6
Chg srv/fines/forfeits/settle	188,518	4.0	27,947	17.4
Investment earnings	165,165	3.5	(5,882)	(3.4)
Securities lending income	8,879	0.2	3,540	66.3
Sales doc/merch/property	19,711	0.4	(749)	(3.7)
Rentals/leases/royalties	65,176	1.4	13,734	26.7
Contributions/premiums	17,181	0.4	7,941	85.9
Grants/contracts/donations	27,825	0.6	2,463	9.7
Federal	1,616,913	34.7	112,318	7.5
Federal indir cost recvy	96,565	2.1	14,954	18.3
Other revenues	4,892	0.2	2,191	81.1
Total revenues	\$4,657,508	100.0%	\$329,630	7.6%

Total expenditures for all governmental functions increased 11.0% from fiscal year 2007 to fiscal year 2008. Expenditures by function for fiscal year 2008, and the amount and percentage of increases or decreases in relation to the previous year amounts are depicted in the table below:

Expenditure Function	Amount (in thousands)	2008 Percent of Total	Increase (Decrease) from 2007	Percent Increase (Decrease)
General government	\$ 545,662	11.9%	\$ 144,331	36.0%
Public safety/corrections	311,094	6.8	26,317	9.2
Transportation	360,383	7.9	(214,774)	(37.3)
Health/social services	1,372,335	29.9	104,481	8.2
Education/cultural	1,137,548	24.8	87,309	8.3
Resource/recreation/environment	300,207	6.5	53,117	21.5
Economic development/assistance	149,056	3.2	(3,386)	(2.2)
Securities lending	7,244	0.2	1,983	37.7
Debt service	52,698	1.1	515	1.0
Capital outlay	351,111	7.7	255,277	266.4
Total expenditures	\$4,587,338	100.0%	\$ 455,170	11.0%

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, 2008, amounted to \$5.3 billion, net of accumulated depreciation of \$1.7 billion, leaving a net book value of \$3.6 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 5.9 % in terms of net book value. Most of the year's capital expenditures were for construction or reconstruction of roads and bridges. Additional information on the State's capital assets can be found in Note 5 of the notes to the financial statements.

Debt Administration

Montana receives excellent general obligation bond ratings from both Moody's Investor Service (Aa2), Standard and Poor's Corporation (AA) and Fitch Ratings (AA). The State received a bond rating upgrade from Standard and Poor's in 2008.

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

The State of Montana's general obligation debt decreased from \$208 million at June 30, 2007, to \$201.6 million at June 30, 2008.

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

	Amount <i>(in thousands)</i>	Percentage of Personal Income (1)	State Debt Per Capita (2)
General obligation debt	\$201,560	1.3%	\$440

(1) Personal income is for calendar year 2007.

(2) Based on estimated 2008 Montana population.

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

ECONOMIC CONDITION AND OUTLOOK

The unemployment rate for the State of Montana was 4.0% in the second quarter of 2008, which is an increase from the rate of 2.4% during the second quarter of 2007. As of October 2008, the State's rate has risen to 4.8%. This compares favorably with the U.S. rate of 6.5% but reflects a softening of Montana's economy resulting from the overall national investment crisis.

The 60th Legislative Session adjourned on April 27, 2007, with a projected general fund balance of \$190.3 million. During fiscal year 2008, Montana's economy remained strong with the General Fund balance, as of June 30, 2008, ending at the \$433.6 million level.

One of the state retirement systems, the Teachers Retirement System (TRS), is not actuarially sound, and has an unfunded actuarially accrued liability as of June 30, 2008. The actuarial condition of this plan is 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 is long-term in nature, and does not translate into an inability of this plan to meet their current obligations in the near future.

The other state retirement systems are actuarially sound as of fiscal year end 2008.

REQUESTS FOR INFORMATION

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

STATEMENT OF NET ASSETS

JUNE 30, 2008

(amounts expressed in thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS	
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL		
ASSETS					
Cash/cash equivalents (Note 3)	\$ 1,371,726	\$ 360,625	\$ 1,732,351	\$ 235,179	
Receivables (net)	475,300	37,535	512,835	103,517	
Due from primary government	-	-	-	4,573	
Due from other governments	194,169	780	194,949	23,921	
Due from component units	2,170	4,471	6,641	1,043	
Internal balances	(13,138)	13,138	-	-	
Inventories	27,430	7,388	34,818	4,680	
Advances to component units	8,640	8,261	16,901	-	
Long-term loans/notes receivable	267,459	35,261	302,720	936,421	
Equity in pooled investments (Note 3)	1,497,983	-	1,497,983	29,276	
Investments (Note 3)	340,260	21,268	361,528	1,486,465	
Securities lending collateral (Note 3)	134,691	3,503	138,194	153,102	
Deferred charges	3,947	1,420	5,367	8,774	
Capital assets (net) (Note 5)	3,553,591	8,733	3,562,324	631,974	
Other assets	9,506	2,312	11,818	49,063	
Total assets	7,873,734	504,695	8,378,429	3,667,988	
LIABILITIES					
Accounts payable	479,131	12,392	491,523	72,148	
Lottery prizes payable	-	3,126	3,126	-	
Due to primary government	-	-	-	6,641	
Due to other governments	95,684	41	95,725	159	
Due to component units	4,550	23	4,573	1,043	
Advances from primary government	-	-	-	16,901	
Deferred revenue	66,582	6,439	73,021	31,161	
Amounts held in custody for others	33,527	86	33,613	57,151	
Securities lending liability (Note 3)	134,691	3,503	138,194	153,102	
Other liabilities	1,944	-	1,944	8,833	
Short-term debt (Note 11)	-	98,045	98,045	-	
Long-term liabilities (Note 11):					
Due within one year	80,353	12,467	92,820	196,801	
Due in more than one year	461,857	10,857	472,714	1,921,708	
OPEB implicit rate subsidy	40,029	713	40,742	17,226	
Total liabilities	1,398,348	147,692	1,546,040	2,482,874	

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
NET ASSETS				
Invested in capital assets, net of related debt	\$ 3,262,932	\$ 8,733	\$ 3,271,665	\$ 360,095
Restricted for:				
Transportation	120,703	-	120,703	-
Fish, wildlife, and parks	82,622	-	82,622	-
Federal grants	17,111	-	17,111	-
Debt service/construction	61,571	-	61,571	12,095
Unemployment compensation	-	277,097	277,097	-
Funds held as permanent investments:				
Nonexpendable	1,475,013	-	1,475,013	225,103
Expendable	27,581	-	27,581	-
Housing authority	-	-	-	153,058
Resource/environment	738,306	-	738,306	-
Other purposes	94,528	59,939	154,467	137,565
Unrestricted	595,019	11,234	606,253	297,198
Total net assets	\$ 6,475,386	\$ 357,003	\$ 6,832,389	\$ 1,185,114

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

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

(amounts expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE
Primary government:					
Governmental activities:					
General government	\$ 634,984	\$ 83,720	\$ 85,572	\$ 2,044	\$ (463,648)
Public safety/corrections	322,769	149,534	59,103	1,248	(112,884)
Transportation	488,450	42,348	42,180	372,493	(31,429)
Health/social services	1,380,629	38,137	920,637	-	(421,855)
Education/cultural	1,144,637	150,906	150,363	725	(842,643)
Resource/recreation/environment	258,058	80,933	175,864	4,194	2,933
Economic development/assistance	152,456	38,520	60,225	152	(53,559)
Interest on long-term debt	18,344	-	-	-	(18,344)
Total governmental activities	4,400,327	584,098	1,493,944	380,856	(1,941,429)
Business-type activities:					
Unemployment Insurance	90,269	85,801	19,876	-	15,408
Liquor Stores	59,227	69,242	-	-	10,015
State Lottery	32,984	43,826	-	-	10,842
Economic Development Bonds	4,552	33	4,514	-	(5)
Hail Insurance	11,064	7,730	402	-	(2,932)
General Government Services	56,697	19,844	36,149	540	(164)
Prison Funds	6,670	7,150	-	-	480
MUS Group Insurance	59,334	62,666	2,239	-	5,571
MUS Workers Compensation	3,109	4,660	344	-	1,895
Total business-type activities	323,906	300,952	63,524	540	41,110
Total primary government	\$ 4,724,233	\$ 885,050	\$ 1,557,468	\$ 381,396	\$ (1,900,319)
Component units:					
Housing Authority	\$ 54,194	\$ 283	\$ 60,767	\$ -	\$ 6,856
Facility Finance Authority	376	444	137	-	205
State Compensation Insurance (New Fund)	247,793	231,034	-	-	(16,759)
State Compensation Insurance (Old Fund)	6,372	-	-	-	(6,372)
Montana Surplus Lines	792	723	-	-	(69)
Montana State University	438,557	175,418	140,999	20,721	(101,419)
University of Montana	352,249	157,310	125,951	10,817	(58,171)
Total component units	\$ 1,100,333	\$ 565,212	\$ 327,854	\$ 31,538	\$ (175,729)

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

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Changes in net assets:				
Net (expense) revenue	\$ (1,941,429)	\$ 41,110	\$ (1,900,319)	\$ (175,729)
General revenues:				
Taxes:				
Property	214,868	-	214,868	-
Fuel	205,758	-	205,758	-
Natural resource	407,007	-	407,007	-
Individual income	862,273	-	862,273	-
Corporate income	161,118	-	161,118	-
Other	320,398	20,340	340,738	-
Unrestricted grants and contributions	28	-	28	661
Settlements	38,760	-	38,760	-
Unrestricted investment earnings	72,203	406	72,609	42,615
Payment from State of Montana	-	-	-	178,100
Gain (loss) on sale of capital assets	6,351	-	6,351	(2)
Miscellaneous	5,810	2,662	8,472	5
Contributions to term and permanent endowments	-	-	-	13,535
Transfers	43,010	(43,010)	-	-
Total general revenues, contributions, and transfers	2,337,584	(19,602)	2,317,982	234,914
Change in net assets	396,155	21,508	417,663	59,185
Total net assets - July 1 - as previously reported	6,138,407	335,181	6,473,588	1,127,330
Prior period adjustments (Note 2)	(59,176)	314	(58,862)	(1,401)
Total net assets - July 1 - as restated	6,079,231	335,495	6,414,726	1,125,929
Total net assets - June 30	\$ 6,475,386	\$ 357,003	\$ 6,832,389	\$ 1,185,114

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2008

(amounts expressed in thousands)

	SPECIAL REVENUE			PERMANENT		NONMAJOR	TOTAL
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT		
ASSETS							
Cash/cash equivalents (Note 3)	\$ 445,810	\$ 663,309	\$ 49,735	\$ 35,171	\$ 7,045	\$ 106,532	\$ 1,307,602
Receivables (net) (Note 4)	226,133	171,491	11,721	8,974	45,752	6,107	470,178
Interfund loans receivable (Note 12)	23,121	44,570	-	-	-	-	67,691
Due from other governments	9,445	2,054	182,634	-	-	36	194,169
Due from other funds (Note 12)	68,524	11,303	1,441	-	-	1,433	82,701
Due from component units	306	914	107	82	-	450	1,859
Inventories	3,572	21,444	-	-	-	-	25,016
Equity in pooled investments (Note 3)	-	250,807	-	554,265	442,669	250,242	1,497,983
Long-term loans/notes receivable	156	238,989	353	-	-	27,961	267,459
Advances to other funds (Note 12)	2,644	16,661	-	3,112	-	2,816	25,233
Advances to component units	-	-	-	8,640	-	-	8,640
Investments (Note 3)	17,329	90,363	4,624	188,024	447	14,449	315,236
Securities lending collateral (Note 3)	-	41,898	917	33,796	25,847	18,457	120,915
Other assets	2,218	6,366	236	-	-	-	8,820
Total assets	\$ 799,258	\$ 1,560,169	\$ 251,768	\$ 832,064	\$ 521,760	\$ 428,483	\$ 4,393,502
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable (Note 4)	203,577	81,584	140,819	-	4,679	5,439	436,098
Interfund loans payable (Note 12)	-	2,599	64,452	-	-	-	67,051
Due to other governments	-	93,569	2,115	-	-	-	95,684
Due to other funds (Note 12)	9,874	55,215	4,543	5,518	-	3,409	78,559
Due to component units	23,393	1,810	1,562	-	-	25	26,790
Advances from other funds (Note 12)	-	22,628	1,566	-	-	15,820	40,014
Deferred revenue	78,680	71,092	33,937	-	40,957	396	225,062
Amounts held in custody for others	21,933	11,387	150	-	57	-	33,527
Securities lending liability (Note 3)	-	41,898	917	33,796	25,847	18,457	120,915
Other liabilities	-	390	-	-	-	-	390
Total liabilities	337,457	382,172	250,061	39,314	71,540	43,546	1,124,090
Fund balances:							
Reserved for:							
Encumbrances	19,240	19,012	515	-	-	1,713	40,480
Inventories	3,572	21,444	-	-	-	-	25,016
Long-term loans/notes receivable	156	238,989	353	-	-	27,961	267,459
Advances to other funds/component units	2,644	16,661	-	11,752	-	2,816	33,873
Special revenue (Note 14)	-	903,955	26,639	-	-	-	930,594
Debt service	-	-	-	-	-	3,791	3,791
Trust principal (Note 14)	10	-	-	780,998	450,220	259,678	1,490,906
Escheated property	2,599	-	-	-	-	-	2,599
Unreserved, designated, reported in nonmajor (Note 1):							
Debt service funds	-	-	-	-	-	8,532	8,532
Unreserved, undesignated	433,580	(22,064)	(25,800)	-	-	-	385,716
Unreserved, undesignated, reported in nonmajor:							
Debt service funds	-	-	-	-	-	(7,449)	(7,449)
Capital projects funds	-	-	-	-	-	87,895	87,895
Total fund balances	461,801	1,177,997	1,707	792,750	450,220	384,937	3,269,412
Total liabilities and fund balances	\$ 799,258	\$ 1,560,169	\$ 251,768	\$ 832,064	\$ 521,760	\$ 428,483	\$ 4,393,502

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

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2008

(amounts expressed in thousands)

Total fund balances for governmental funds \$ 3,269,412

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore not reported in the funds.

Land	433,876	
Land improvements	24,720	
Buildings/improvements	426,078	
Equipment	90,969	
Infrastructure	3,686,615	
Other capital assets	162,455	
Construction in progress	201,390	
Intangible assets	33,877	
Less accumulated depreciation	<u>(1,598,483)</u>	
Total capital assets		3,461,497

Certain revenues are earned, but not available and therefore deferred
in the funds. 159,554

Internal service funds are used by management to charge the costs of
certain activities, such as insurance and central computer services, to
individual funds. The assets and liabilities of the internal service funds
are included in the governmental activities in the statement of net assets. 135,533

Deferred issue costs are reported as current expenditures in the funds.
These costs are amortized over the life of the bonds and included
in governmental activities in the statement of net assets. 3,947

Long-term liabilities, including bonds payable, are not due and payable in the
current period and therefore are not reported in the funds.

Accrued interest	(5,610)	
Lease/installment purchase payable	(1,262)	
Bonds/notes payable (net)	(422,703)	
Compensated absences payable	(85,223)	
OPEB implicit rate subsidy	(37,841)	
Early retirement benefits payable	(44)	
Arbitrage rebate tax payable	(320)	
Other liabilities	<u>(1,554)</u>	
Total long-term liabilities		<u>(554,557)</u>

Net assets of governmental activities \$ 6,475,386

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**GOVERNMENTAL FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

(amounts expressed in thousands)

	SPECIAL REVENUE			PERMANENT		NONMAJOR	TOTAL
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT		
REVENUES							
Licenses/permits	\$ 126,303	\$ 156,606	\$ -	\$ -	\$ 439	\$ 407	\$ 283,755
Taxes:							
Natural resource	186,180	193,583	-	22,379	-	6,919	409,061
Individual income	852,093	-	-	-	-	-	852,093
Corporate income	161,199	-	-	-	-	-	161,199
Property	203,363	11,505	-	-	-	-	214,868
Fuel	-	205,745	-	-	-	11	205,756
Other (Note 1)	227,474	90,402	-	-	-	2,075	319,951
Charges for services/fines/forfeits/settlements	40,174	96,246	35,796	-	-	16,302	188,518
Investment earnings	32,938	35,277	985	42,823	27,753	25,389	165,165
Securities lending income	2,964	1,639	27	1,757	1,456	1,036	8,879
Sale of documents/merchandise/property	290	4,791	1	-	12,132	2,497	19,711
Rentals/leases/royalties	23	30,399	5	-	34,598	151	65,176
Contributions/premiums	-	17,181	-	-	-	-	17,181
Grants/contracts/donations	5,856	21,855	113	-	-	1	27,825
Federal	37,382	13,868	1,565,663	-	-	-	1,616,913
Federal indirect cost recoveries	107	43,592	52,866	-	-	-	96,565
Other revenues	1,411	3,130	250	-	-	101	4,892
Total revenues	1,877,757	925,819	1,655,706	66,959	76,378	54,889	4,657,508
EXPENDITURES							
Current:							
General government	308,787	220,798	15,911	-	-	166	545,662
Public safety/corrections	212,286	54,550	42,081	-	-	2,177	311,094
Transportation	457	227,557	132,369	-	-	-	360,383
Health/social services	353,658	111,231	907,054	-	-	392	1,372,335
Education/cultural	872,742	79,875	181,002	-	3,914	15	1,137,548
Resource/recreation/environment	79,109	132,888	88,112	-	-	98	300,207
Economic development/assistance	31,483	74,580	42,555	-	-	438	149,056
Debt service:							
Principal retirement	469	381	248	-	-	32,669	33,767
Interest/fiscal charges	170	1,442	18	-	-	17,301	18,931
Capital outlay	7,705	49,373	237,982	-	-	56,051	351,111
Securities lending	2,543	1,313	21	1,389	1,152	826	7,244
Total expenditures	1,869,409	953,988	1,647,353	1,389	5,066	110,133	4,587,338
Excess of revenue over (under) expenditures	8,348	(28,169)	8,353	65,570	71,312	(55,244)	70,170
OTHER FINANCING SOURCES (USES)							
Bonds issued	-	44,670	-	-	-	14,820	59,490
Bond premium	-	733	-	-	-	95	828
Inception of lease/installment contract	597	41	236	-	-	-	874
Insurance proceeds	-	1,681	-	-	-	-	1,681
General capital asset sale proceeds	3,531	183	-	-	2,782	1	6,497
Transfers in (Note 12)	75,467	195,259	1,691	648	147	140,075	413,287
Transfers out (Note 12)	(193,064)	(20,145)	(31,088)	(37,796)	(63,982)	(27,653)	(373,728)
Total other financing sources (uses)	(113,469)	222,422	(29,161)	(37,148)	(61,053)	127,338	108,929
Net change in fund balances	(105,121)	194,253	(20,808)	28,422	10,259	72,094	179,099
Fund balances - July 1 - as previously reported	569,656	984,438	22,923	764,328	440,002	312,804	3,094,151
Prior period adjustments (Note 2)	(1,273)	157	(408)	-	(41)	39	(1,526)
Fund balances - July 1 - as restated	568,383	984,595	22,515	764,328	439,961	312,843	3,092,625
Increase (decrease) in inventories	(1,461)	(851)	-	-	-	-	(2,312)
Fund balances - June 30	\$ 461,801	\$ 1,177,997	\$ 1,707	\$ 792,750	\$ 450,220	\$ 384,937	\$ 3,269,412

The notes to the financial statements are an 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**

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

(amounts expressed in thousands)

Net change in fund balances - total governmental funds \$ 179,099

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (Note 5)

Capital outlay	366,161	
Depreciation expense	(158,587)	
Excess of capital outlay over depreciation expense		207,574

In the statement of activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold. (4,270)

Donations of capital assets or transfers of capital assets to other funds affects net assets in the statement of activities, but these transactions do not appear in the governmental funds because they are not financial resources. 3,632

Inventories of governmental funds are recorded as expenditures when purchased. However, in the statement of activities, inventories are expensed when consumed. (2,312)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 77,755

Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. 4,698

The incurrence of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

The details of these differences is as follows:

Bond proceeds	(59,490)	
Bond premium	(828)	
Capital lease financing	(874)	
Principal retirement	33,767	
Issuance costs deferral	704	
Bond issuance costs amortization	(409)	
Bond discount amortization	(14)	
Bond premium amortization	1,284	
Total long-term debt proceeds/repayment		(25,860)

Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds. The details of these differences is as follows:

Accrued interest	(245)	
Compensated absences	(6,430)	
OPEB implicit rate subsidy	(37,841)	
Early retirement benefits	3	
Arbitrage rebate tax	43	
Other liabilities	309	
Total additional expenditures		(44,161)
Change in net assets of governmental activities		<u>\$ 396,155</u>

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

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

JUNE 30, 2008

(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)	\$ 275,086	\$ 9,230	\$ 76,309	\$ 360,625	\$ 64,124
Receivables (net) (Note 4)	3,397	10,658	23,480	37,535	5,069
Interfund loans receivable (Note 12)	-	-	159	159	808
Due from other governments	51	-	729	780	-
Due from other funds (Note 12)	-	4,133	465	4,598	7,326
Due from component units	127	1,857	2,487	4,471	363
Inventories	-	-	7,388	7,388	2,414
Short-term investments (Note 3)	-	9,908	-	9,908	-
Securities lending collateral (Note 3)	-	1	3,502	3,503	13,776
Other current assets	-	-	394	394	685
Total current assets	278,661	35,787	114,913	429,361	94,565
Noncurrent assets:					
Advances to other funds (Note 12)	-	21,578	75	21,653	-
Advances to component units	-	8,261	-	8,261	-
Long-term investments (Note 3)	-	3,923	7,437	11,360	25,024
Long-term notes/loans receivable	-	34,841	420	35,261	-
Deferred charges	-	1,420	-	1,420	-
Other long-term assets	-	-	1,918	1,918	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	2,343	2,343	95
Buildings/improvements	-	-	7,331	7,331	3,645
Equipment	-	6	5,823	5,829	207,391
Infrastructure	-	-	884	884	-
Construction in progress	-	-	567	567	6,436
Intangible assets	-	-	186	186	1,004
Less accumulated depreciation	-	(3)	(9,204)	(9,207)	(126,713)
Total capital assets	-	3	8,730	8,733	92,094
Total noncurrent assets	-	70,026	18,580	88,606	117,118
Total assets	278,661	105,813	133,493	517,967	211,683

STATEMENT OF NET ASSETS**PROPRIETARY FUNDS**

JUNE 30, 2008

(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)	\$ 1,564	\$ 1,162	\$ 9,666	\$ 12,392	\$ 15,133
Lottery prizes payable	-	-	2,031	2,031	-
Interfund loans payable (Note 12)	-	-	295	295	1,312
Due to other governments	-	-	41	41	-
Due to other funds (Note 12)	-	3	12,974	12,977	3,089
Due to component units	-	-	23	23	49
Deferred revenue	-	-	6,439	6,439	1,074
Lease/installment purchase payable (Note 10)	-	-	-	-	43
Short-term debt (Note 11)	-	98,045	-	98,045	-
Bonds/notes payable - net (Note 11)	-	417	-	417	-
Amounts held in custody for others	-	-	86	86	-
Securities lending liability (Note 3)	-	1	3,502	3,503	13,776
Estimated insurance claims (Note 8)	-	-	11,481	11,481	13,442
Compensated absences payable (Note 11)	-	12	532	544	2,195
Arbitrage rebate tax payable (Note 11)	-	25	-	25	-
Total current liabilities	1,564	99,665	47,070	148,299	50,113
Noncurrent liabilities:					
Lottery prizes payable	-	-	1,095	1,095	-
Advances from other funds (Note 12)	-	-	-	-	6,872
Lease/installment purchase payable (Note 10)	-	-	-	-	116
Bonds/notes payable - net (Note 11)	-	1,436	-	1,436	-
Estimated insurance claims (Note 8)	-	-	8,411	8,411	13,156
Compensated absences payable (Note 11)	-	41	955	996	3,705
Arbitrage rebate tax payable (Note 11)	-	14	-	14	-
OPEB implicit rate subsidy (Note 11)	-	15	698	713	2,188
Total noncurrent liabilities	-	1,506	11,159	12,665	26,037
Total liabilities	1,564	101,171	58,229	160,964	76,150
NET ASSETS					
Invested in capital assets, net of related debt	-	3	8,730	8,733	92,095
Restricted for:					
Unemployment Compensation	277,097	-	-	277,097	-
Other Purposes	-	3,133	56,805	59,938	-
Unrestricted	-	1,506	9,729	11,235	43,438
Total net assets	\$ 277,097	\$ 4,642	\$ 75,264	\$ 357,003	\$ 135,533

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, 2008

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
Operating revenues:					
Charges for services	\$ -	\$ 33	\$ 128,118	\$ 128,151	\$ 125,633
Investment earnings	13,284	1,044	2,881	17,209	2,950
Securities lending income	-	-	109	109	167
Financing income	-	3,426	-	3,426	-
Contributions/premiums	85,801	-	86,738	172,539	126,208
Grants/contracts/donations	6,592	-	36,581	43,173	1,563
Other operating revenues	1,007	-	1,922	2,929	2,818
Total operating revenues	106,684	4,503	256,349	367,536	259,339
Operating expenses:					
Personal services	-	297	12,701	12,998	44,232
Contractual services	-	32	12,611	12,643	22,899
Supplies/materials	-	5	60,805	60,810	26,714
Benefits/claims	90,333	15	111,904	202,252	117,114
Depreciation	-	-	625	625	12,121
Amortization	-	-	152	152	379
Utilities/rent	-	43	969	1,012	14,693
Communications	-	7	1,132	1,139	10,760
Travel	-	2	360	362	552
Repair/maintenance	-	-	748	748	9,594
Grants	-	-	1,309	1,309	-
Lottery prize payments	-	-	22,838	22,838	-
Interest expense	-	4,082	19	4,101	285
Securities lending expense	-	-	88	88	135
Arbitrage rebate tax	-	24	1	25	-
Dividend expense	-	-	793	793	-
Other operating expenses	(64)	45	1,960	1,941	3,326
Total operating expenses	90,269	4,552	229,015	323,836	262,804
Operating income (loss)	16,415	(49)	27,334	43,700	(3,465)
Nonoperating revenues (expenses):					
Tax revenues	-	-	20,340	20,340	-
Insurance proceeds	-	-	-	-	858
Gain (loss) on sale of capital assets	-	-	(10)	(10)	(101)
Federal indirect cost recoveries	-	-	8	8	4,889
Increase (decrease) value of livestock	-	-	(62)	(62)	-
Total nonoperating revenues (expenses)	-	-	20,276	20,276	5,646
Income (loss) before contributions and transfers	16,415	(49)	47,610	63,976	2,181
Capital contributions	-	-	540	540	2,726
Transfers in (Note 12)	-	-	109	109	3,453
Transfers out (Note 12)	(1,299)	-	(41,818)	(43,117)	(3,662)
Change in net assets	15,116	(49)	6,441	21,508	4,698
Total net assets - July 1 - as previously reported	261,618	4,691	68,872	335,181	129,356
Prior period adjustments (Note 2)	363	-	(49)	314	1,479
Total net assets - July 1 - as restated	261,981	4,691	68,823	335,495	130,835
Total net assets - June 30	\$ 277,097	\$ 4,642	\$ 75,264	\$ 357,003	\$ 135,533

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

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STATEMENT OF CASH FLOWS**PROPRIETARY FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	\$ 86,890	\$ 33	\$ 216,040	\$ 302,963	\$ 250,734
Payments to suppliers for goods and services	-	(142)	(121,026)	(121,168)	(81,722)
Payments to employees	-	(297)	(12,622)	(12,919)	(44,074)
Grant receipts	6,563	-	35,837	42,400	6,303
Grant payments	-	-	(1,305)	(1,305)	-
Cash payments for claims	(88,958)	-	(74,338)	(163,296)	(115,580)
Cash payments for prizes	-	-	(23,197)	(23,197)	-
Other operating revenues	(796)	-	1,778	982	2,542
Other operating payments	-	-	(830)	(830)	-
Net cash provided by (used for) operating activities	3,699	(406)	20,337	23,630	18,203
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	20,335	20,335	-
Transfers to other funds	(1,299)	-	(32,184)	(33,483)	(3,694)
Transfers from other funds	-	-	108	108	3,583
Proceeds from interfund loans/advances	-	-	(18)	(18)	1,752
Payments of interfund loans/advances	-	-	(18)	(18)	(3,635)
Payment of principal and interest on bonds and notes	-	(5,840)	(442)	(6,282)	(388)
Proceeds from issuance of bonds and notes	-	429	-	429	-
Payment of bond issuance costs	-	-	-	-	-
Contributed capital transfers to other funds	-	-	-	-	-
Contributed capital transfers from other funds	-	-	-	-	2,861
Net cash provided by (used for) noncapital financing activities	(1,299)	(5,411)	(12,219)	(18,929)	479
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	98
Acquisition of capital assets	-	(3)	(526)	(529)	(13,358)
Proceeds from sale of capital assets	-	-	1	1	651
Net cash used for capital and related financing activities	-	(3)	(525)	(528)	(12,609)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	(10,044)	(7,323)	(17,367)	(20,275)
Proceeds from sales or maturities of investments	-	1,076	1,655	2,731	-
Proceeds from securities lending transactions	-	-	94	94	159
Interest and dividends on investments	13,284	894	2,739	16,917	2,995
Payment of securities lending costs	-	-	(75)	(75)	(136)
Collections of principal and interest on loans	-	23,480	-	23,480	-
Cash payment for loans	-	(30,026)	-	(30,026)	-
Arbitrage rebate tax	-	(43)	-	(43)	-
Net cash provided by (used for) investing activities	13,284	(14,663)	(2,910)	(4,289)	(17,257)
Net increase (decrease) in cash and cash equivalents	15,684	(20,483)	4,683	(116)	(11,184)
Cash and cash equivalents, July 1	259,402	29,713	71,626	360,741	75,307
Cash and cash equivalents, June 30	\$ 275,086	\$ 9,230	\$ 76,309	\$ 360,625	\$ 64,123

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

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS	
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL		
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	\$ 16,415	\$ (49)	\$ 27,336	\$ 43,702	\$	(3,465)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:						
Depreciation	-	-	625	625		12,121
Amortization	-	-	161	161		379
Interest expense	-	4,082	13	4,095		277
Securities lending expense	-	-	84	84		135
Investment Earnings	(13,284)	(1,044)	(2,817)	(17,145)		(2,950)
Securities lending income	-	-	(103)	(103)		(167)
Financing income	-	(3,426)	-	(3,426)		-
Federal indirect cost recoveries	-	-	(8)	(8)		4,731
Arbitrage rebate tax	-	24	-	24		-
Change in assets and liabilities:						
Decr (incr) in accounts receivable	(662)	-	237	(425)		(108)
Decr (incr) in due from other funds	(127)	-	(57)	(184)		(1,582)
Decr (incr) in due from component units	(29)	-	(135)	(164)		62
Decr (incr) in due from other governments	-	-	88	88		7
Decr (incr) in inventories	-	-	299	299		96
Decr (incr) in other assets	-	(5)	(308)	(313)		(144)
Incr (decr) in accounts payable	1,132	(8)	415	1,539		6,929
Incr (decr) in lottery prizes payable	-	-	419	419		-
Incr (decr) in due to other funds	254	(3)	(10,959)	(10,708)		143
Incr (decr) in due to component units	-	-	19	19		(27)
Incr (decr) in due to other governments	-	-	60	60		-
Incr (decr) in deferred revenue	-	-	121	121		85
Incr (decr) in amounts held in custody for others	-	-	(504)	(504)		-
Incr (decr) in compensated absences payable	-	8	240	248		560
Incr (decr) in OPEB implicit rate subsidy	-	15	697	712		2,152
Incr (decr) in estimated claims	-	-	4,414	4,414		(1,031)
Net cash provided by (used for) operating activities	\$ 3,699	\$ (406)	\$ 20,337	\$ 23,630	\$	18,203
Schedule of noncash transactions:						
Capital asset acquisitions from contributed capital	\$ -	\$ -	\$ 214	\$ 214	\$	-
Capital contributions from other funds	\$ -	\$ -	\$ -	\$ -	\$	632
Amortization of bond issuance costs	\$ -	\$ -	\$ 9	\$ 9	\$	-
Incr (decr) in fair value of investments	\$ -	\$ (147)	\$ 21	\$ (126)	\$	-
Total noncash transactions	\$ -	\$ (147)	\$ 244	\$ 97	\$	632

STATEMENT OF FIDUCIARY NET ASSETS**FIDUCIARY FUNDS**

JUNE 30, 2008

(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)	\$ 90,202	\$ 128,553	\$ 454,080	\$ 5,369
Receivables (net):				
Accounts receivable	20,616	-	1,050	315
Interest	18,735	11	-	1
Due from primary government	22,289	-	-	-
Due from other PERB plans	483	-	-	-
Long-term loans/notes receivable	69	-	-	-
Total receivables	62,192	11	1,050	316
Investments at fair value:				
Equity in pooled investments (Note 3)	7,453,737	-	-	-
Other investments (Note 3)	425,619	119,286	46,671	24
Total investments	7,879,356	119,286	46,671	24
Securities lending collateral (Note 3)	466,002	107	21,941	12
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	158	-	-	-
Equipment	69	-	-	-
Accumulated depreciation	(198)	-	-	-
Intangible assets	572	-	-	-
Total capital assets	636	-	-	-
Other assets	854	13,678	-	13,332
Total assets	8,499,242	261,635	523,742	19,053
LIABILITIES				
Accounts payable	976	10	1,834	653
Due to primary government	53	-	-	-
Due to other PERB plans	483	-	-	-
Deferred revenue	162	-	-	-
Amounts held in custody for others	-	-	-	18,388
Securities lending liability (Note 3)	466,002	107	21,941	12
Compensated absences payable	439	-	-	-
OPEB implicit rate subsidy	139	-	-	-
Total liabilities	468,254	117	23,775	19,053
NET ASSETS				
Held in trust for pension benefits and other purposes	\$ 8,030,988	\$ 261,518	\$ 499,967	\$ -

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, 2008
 (amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE- PURPOSE TRUST FUNDS	INVESTMENT TRUST
ADDITIONS			
Contributions/premiums:			
Employer	\$ 166,939	\$ -	\$ -
Employee	172,417	-	-
Participant contributions	-	57,625	-
Other contributions	35,023	-	963,868
Net investment earnings:			
Investment earnings	(356,594)	5,415	27,778
Administrative investment expense	(40,010)	-	-
Securities lending income	24,502	-	901
Securities lending expense	(20,028)	-	(705)
Charges for services	632	-	-
Other additions	354	3,453	-
Total additions	(16,765)	66,493	991,842
DEDUCTIONS			
Benefits	439,769	-	-
Refunds	24,367	-	-
Distributions	-	22,085	1,416,434
Administrative expenses:			
Personal services	2,748	-	-
Contractual services	1,343	959	-
Supplies/materials	83	-	-
Depreciation	20	-	-
Amortization	194	-	-
Utilities/rent	282	-	-
Communications	157	-	-
Travel	66	-	-
Repair/maintenance	51	-	-
Grants	-	12	-
Other operating expenses	1,425	-	-
Local assistance	14	-	-
Transfers to ORP	250	-	-
Transfers to PERS-DCRP	1,077	-	-
Total deductions	471,846	23,056	1,416,434
Change in net assets	(488,611)	43,437	(424,592)
Net assets - July 1 - as previously reported	8,519,594	218,081	924,559
Prior period adjustments (Note 2)	5	-	-
Net assets - July 1 - as restated	8,519,599	218,081	924,559
Net assets - June 30	\$ 8,030,988	\$ 261,518	\$ 499,967

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

**COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS**

JUNE 30, 2008

(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)	\$ 4,878	\$ 2,290	\$ 23,286	\$ 12,383
Receivables (net)	25,710	342	29,421	269
Due from primary government	-	-	8	-
Due from other governments	10	-	-	-
Due from component units	-	-	615	112
Inventories	-	-	-	-
Long-term loans/notes receivable	902,715	520	-	-
Equity in pooled investments (Note 3)	-	-	-	-
Investments (Note 3)	163,701	232	952,604	19,925
Securities lending collateral (Note 3)	41	109	143,711	4,179
Deferred charges	8,774	-	-	-
Capital assets (net) (Note 5)	37	-	10,049	-
Other assets	255	-	38,168	-
Total assets	1,106,121	3,493	1,197,862	36,868
LIABILITIES				
Accounts payable	4,977	24	17,869	151
Due to primary government	9	6	1,387	-
Due to component units	-	-	112	615
Due to other governments	-	-	-	-
Advances from primary government	-	-	-	-
Deferred revenue	-	-	9,842	-
Amounts held in custody for others	-	-	44,889	-
Securities lending liability (Note 3)	41	109	143,711	4,179
Other liabilities	-	-	-	-
Long-term liabilities (Note 11):				
Due within one year	14,832	9	141,277	7,202
Due in more than one year	933,124	24	613,365	61,233
OPEB implicit rate subsidy	43	3	858	-
Total liabilities	953,026	175	973,310	73,380
NET ASSETS				
Invested in capital assets, net of related debt	37	-	10,049	-
Restricted for:				
Debt service/construction	-	-	-	-
Funds held as permanent investments:				
Nonexpendable	-	-	-	-
Housing authority	153,058	-	-	-
Other purposes	-	-	-	-
Unrestricted	-	3,318	214,503	(36,512)
Total net assets	\$ 153,095	\$ 3,318	\$ 224,552	\$ (36,512)

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

MONTANA SURPLUS LINES	MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
\$ 643	\$ 124,034	\$ 67,665	\$ 235,179
152	19,953	27,670	103,517
-	1,534	3,031	4,573
-	13,951	9,960	23,921
-	20	296	1,043
-	2,940	1,740	4,680
-	20,538	12,648	936,421
-	14,491	14,785	29,276
126	154,364	195,513	1,486,465
-	3,286	1,776	153,102
-	-	-	8,774
-	328,350	293,538	631,974
-	5,193	5,447	49,063
921	688,654	634,069	3,667,988
518	27,374	21,235	72,148
-	4,380	859	6,641
-	296	20	1,043
-	-	159	159
-	12,123	4,778	16,901
13	9,678	11,628	31,161
-	5,008	7,254	57,151
-	3,286	1,776	153,102
-	5,956	2,877	8,833
-	18,279	15,202	196,801
-	153,883	160,079	1,921,708
-	8,970	7,352	17,226
531	249,233	233,219	2,482,874
-	196,177	153,832	360,095
-	12,095	-	12,095
-	99,104	125,999	225,103
-	-	-	153,058
247	53,466	83,852	137,565
143	78,579	37,167	297,198
\$ 390	\$ 439,421	\$ 400,850	\$ 1,185,114

COMBINING STATEMENT OF ACTIVITIES**COMPONENT UNITS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

(amounts expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	MONTANA STATE FUND (NEW FUND)	MONTANA STATE FUND (OLD FUND)
EXPENSES	\$ 54,194	\$ 376	\$ 247,793	\$ 6,372
PROGRAM REVENUES:				
Charges for services	283	444	231,034	-
Operating grants and contributions	60,767	137	-	-
Capital grants and contributions	-	-	-	-
Total program revenues	61,050	581	231,034	-
Net (expenses) program revenues	6,856	205	(16,759)	(6,372)
GENERAL REVENUES:				
Unrestricted grants and contributions	-	-	-	-
Unrestricted investment earnings	-	-	39,702	2,494
Payment from State of Montana	-	-	-	-
Gain (loss) on sale of capital assets	-	-	-	-
Miscellaneous	1	-	4	-
Contributions to term and permanent endowments	-	-	-	-
Total general revenues and contributions	1	-	39,706	2,494
Change in net assets	6,857	205	22,947	(3,878)
Total net assets - July 1 - as previously reported	146,238	3,113	201,605	(32,634)
Prior period adjustments (Note 2)	-	-	-	-
Total net assets - July 1 - as restated	146,238	3,113	201,605	(32,634)
Total net assets - June 30	\$ 153,095	\$ 3,318	\$ 224,552	\$ (36,512)

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

MONTANA SURPLUS LINES	MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
\$ 792	\$ 438,557	\$ 352,249	\$ 1,100,333
723	175,418	157,310	565,212
-	140,999	125,951	327,854
-	20,721	10,817	31,538
723	337,138	294,078	924,604
(69)	(101,419)	(58,171)	(175,729)
-	661	-	661
11	5,711	(5,303)	42,615
-	102,954	75,146	178,100
-	90	(92)	(2)
-	-	-	5
-	6,659	6,876	13,535
11	116,075	76,627	234,914
(58)	14,656	18,456	59,185
448	425,315	383,245	1,127,330
-	(550)	(851)	(1,401)
448	424,765	382,394	1,125,929
\$ 390	\$ 439,421	\$ 400,850	\$ 1,185,114

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Discretely Presented Component Units

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

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

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

Montana State Fund (New and Old Fund) – The fund is a nonprofit, independent public corporation governed by a board appointed by the Governor. The fund provides workers compensation insurance. The fund consists of two separate entities: the New Fund and the Old Fund. 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. Administrative operations and budgets are reviewed by the Governor and the Legislature. The fund is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 5 South Last Chance Gulch, Helena, MT 59601.

Montana Surplus Lines – Montana Surplus Lines Agents Association is a legally separate entity appointed as an advisory organization by the Montana Insurance Commissioner, and primarily performs services as directed by the Commissioner, located within Montana State Auditor's Office. The Association operates the Montana State Insurance Commissioner's Surplus Lines stamping office. The Association regulates insurance companies that provide specialized insurance coverage, of an unusual or high risk nature, that is not provided by other insurance companies. The association is audited annually by Galusha, Higgins & Galusha, PC. The report is issued under separate cover, and is available at 840 Helena Avenue, Helena, MT 59601.

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

Northern, and the Montana State University College of Technology - Great Falls. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. The universities are audited annually by the State's Legislative Audit Division. The reports are issued under separate cover and are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 46 North Last Chance Gulch, PO Box 203201, 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's support of local public education systems is reported in the General Fund and the State Special Revenue Fund.

Fiduciary Fund Component Units

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

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

The Public Employees Retirement System (PERS) includes the Public Employees Defined Benefit Retirement Plan and the Public Employees Defined

Contribution Retirement Plan, and is funded from employer and employee contributions, investment earnings and contributions from state, county, and local governments. The PERS also accounts for the administrative costs, paid from investment earnings, of the plan. The Municipal Police Officers Retirement System is funded from member, state, and city contributions. The Game Wardens and Peace Officers Retirement System is funded by employer and employee contributions. The Sheriffs Retirement System is funded by member, state, and county contributions. The Judges Retirement System is funded by member and state contributions. The Highway Patrol Officers Retirement System is funded by member and state contributions. The Firefighters Unified Retirement System is funded by employer and employee contributions as well as a portion of insurance premium taxes collected by the State. The Volunteer Firefighters Compensation Act is funded by contributions of a percentage of fire insurance premium taxes collected. The State of Montana Deferred Compensation Program is funded from member and investment earnings; there are two employers, Great Falls Transit and the town of Whitehall, that contribute to the program.

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

B. Government-wide and Fund Financial Statements

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

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expense reported for the individual functions and activities.

Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

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

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

Government-wide, Proprietary, and Fiduciary Fund Financial Statements

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

Governmental Fund Financial Statements

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

claims and judgments are recorded only when payment is due.

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

Fund Financial Statements

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

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

Governmental Funds

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

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

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

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

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

Proprietary Funds

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

enterprise funds is users outside of the primary government.

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

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

Fiduciary Funds

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

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

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

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

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

to state institution residents and child support payments from parents.

Major Governmental Funds

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

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

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

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

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

Major Enterprise Funds

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

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

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

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

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

D. Proprietary Activity Accounting and Financial Reporting

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

E. Cash/Cash Equivalents

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. For 2008, certain investments in STIP were reclassified as long-term investments. (See Note 3).

F. Receivables

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

Pledged receivables are disclosed in Note 2C.

G. Inventories

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

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

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

H. Restricted Assets

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

I. Equity in Pooled Investments

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

J. Investments

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

K. Capital Assets

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

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

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

L. Deferred Revenue

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

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

M. Long-term Obligations

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

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

N. Capital Leases

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

O. Bond Discounts/Premiums/Issuance Costs

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

P. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 80 hours of sick or annual leave to a nonrefundable sick leave pool. Excess annual leave that is being forfeited can also be contributed, with no maximum contribution. Based on a review, the adjusted ending balance of the pool for June 30, 2007, was 2,561 hours. For fiscal year 2008, 1,349 sick leave hours, 63 annual leave hours, and 2,410 excess annual leave hours were contributed to the sick leave pool, and 2,608 hours were withdrawn, leaving a balance of 3,775 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. Advances to Other Funds

Noncurrent portions of long-term interfund receivables are reported as advances and are offset equally by a fund balance reserve account in the fund financial statements, which indicates that they do not constitute expendable available financial resources. The transaction is recognized by the receiving fund as advances from other funds.

R. Fund Balance/Net Assets

The State reserves those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for the future use of financial resources. The debt service funds designated fund balances represent management's desire to maintain fund balance for future debt service payments.

T. Other Taxes

On the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds, the revenue category "Other Taxes" in the General, State Special Revenue, and Nonmajor Governmental funds consists of the following taxes (in thousands):

	General Fund	State Special Revenue Fund	Nonmajor Governmental Funds	Total
Accommodations	\$ 12,876	\$17,744	\$ -	\$ 30,620
Agriculture sales	-	4,150	-	4,150
Cigarette/tobacco	40,671	50,942	2,075	93,688
Fire protection	-	3,155	-	3,155
Insurance premium	63,823	11	-	63,834
Livestock	-	3,689	-	3,689
Other taxes	24,563	7,156	-	31,719
Public Service Commission	-	3,541	-	3,541
Telephone license	22,408	-	-	22,408
Video gaming	63,133	14	-	63,147
Total other taxes	\$227,474	\$90,402	\$2,075	\$319,951

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 \$2,954,471, of which \$1,073,360 is restricted by enabling legislation.

S. Property Taxes

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

Personal property tax levies are set each August, and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

NOTE 2. OTHER ACCOUNTING ISSUES

A. New Accounting Guidance Implemented

For the year ended June 30, 2008, the State of Montana and its component units implemented the provisions of the Governmental Accounting Standards Board (GASB) Statements No. 43 and 45 – “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” and “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”, respectively. GASB No. 43 applies to a trustee or administrator of an other postemployment benefit (OPEB) plan. The State of Montana and the Office of the Commissioner of Higher Education both administer OPEB plans. Therefore, GASB No. 43 specifies how these plans are to be disclosed in the footnotes. GASB No. 45 establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial statements of state governmental employers. GASB No. 45 applies to the State of Montana, its component units, and the university system. The effects of applying these standards are disclosed in Note 7.

For the year ended June 30, 2008, the State of Montana implemented the provisions of the GASB Statement No. 48 – “Sales and Pledges of Receivables and Future Revenues, and Intra-Entity Transfers of Assets and Future Revenues”. GASB 48 establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. Future revenues do not include potential revenues from a source not in existence at the time of the transaction. GASB 48 also contains provisions that apply to certain situations in which a government does not receive resources but, nevertheless, pledges or commits future cash flows generated by collecting specific future revenues. In addition, this statement establishes accounting and financial reporting standards that apply to all intra-entity transfers of assets and future revenues. This statement does not apply to a government’s pledge of its “full faith and credit” as security for its own debt or the debt of a component unit. (See Note 2C.)

B. Prior Period Adjustments

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors from prior periods. No significant corrections were made for fiscal year 2008.

C. Pledged Receivables

During the year ended June 30, 2002, the common school mineral royalties’ income stream, which included oil, coal, gas, gravel, and metalliferous royalties over 30 years totaling approximately \$138.9 million, were sold to the Department of Natural Resources and Conservation (DNRC). The present value of the future revenues, at the date of sale, was estimated to be \$46.4 million. The Secretary of State reviewed the provisions of the transactions as specified in Senate Bill (SB) 495, and determined that a discount rate of 9.8% would represent the fair market value, since the amount of the royalties dedicated is fixed, and the risk is limited to variation in the timing of receipts.

As of June 30, 2008, \$37 million of the \$138.9 million is yet to be collected.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

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

Cash/cash equivalents	\$2,645,734
Equity in pooled investments	\$8,980,996
Investments	\$2,439,593

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

A. General

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

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

opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short-term, highly liquid investments, the individual fund investments in the STIP are reported as a cash equivalent.

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP will, and does, operate in a manner consistent with the SEC Rule 2a7. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. The portfolio is carried at amortized cost or book value. 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, 2008.

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

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

Common stock represents ownership units (shares) of a public corporation. Common stock owners are entitled to vote on director selection and other important matters, as well as receive dividends on their holdings. Equity index investments are investments in selected mutual funds whose equity portfolios match a broad

based index or composite. Preferred stock, as a class of stock, pays dividends at a specified rate and has preference in the payment of dividends and liquidation of assets. Preferred stock holders, ordinarily, do not have voting rights. Convertible securities are securities carrying the right to exchange, or "convert" the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer's common stock. ADRs are receipts issued by a U.S. depository bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depository bank. Equity derivatives "derive" their value from other equity instruments such as futures and options. An institutional commingled fund combines assets from several institutional investors that are blended or pooled together, to reduce management and administration costs. The investor buys shares in the fund.

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

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

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

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

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

Under the provisions of state statutes, the State has, via a Securities Lending Authorization Agreement, authorized the State's agent to lend the State's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the State receives a fee and the agent must initially receive collateral equal to 102% to 105% of the fair value of the loaned securities and maintain collateral equal to not less than 100% of the fair value of the loaned security. During the fiscal year, the State's agent loaned, on behalf of the State, certain securities held by the agent and received U.S. dollar and foreign currency cash, U.S. government securities, sovereign debt rated A or better, convertible bonds, and

irrevocable bank letters of credit as collateral. The State's agent does not have the ability to pledge or sell collateral securities unless the borrower defaults. The State retains all rights and risks of ownership during the loan period. At year-end, the BOI has no credit risk exposure to borrowers because the amount the BOI owes the borrowers exceeds the amount the borrowers owe the system.

B. Cash/Cash Equivalents

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

Table 1 - Cash Deposit Amounts
(in thousands)

	Carrying Amount
Cash held by State/State's agent	\$154,231
Uninsured and uncollateralized cash	2,052
Undeposited cash	658
Cash in U.S. Treasury	276,374
Cash in MSU component units	7,602
Cash in UM component units	13,214
Less: outstanding warrants	(55,389)
Total cash deposits	\$398,742

As of June 30, 2008, the carrying amount of deposits for component units was \$126,045,990, as included in Table 1.

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

Table 2 - Cash Equivalents
(in thousands)

	Fair Value	Credit Quality Rating	WAM in Months
Commercial paper	\$1,278,678	A1	0.94
Corporate fixed	179,972	A1+	1.60
Corporate variable-rate	79,998	A1+	3.27
Municipal variable-rate	149,353	NR	0.03
Money market	55,000	A1+	0.03
U.S. government indirect-backed	439,008	A1+	3.57
Repurchase agreement (1)	12,123	NR	NA
Government direct-indirect (2)	111,212	AAA	NA
Money market	61,891	NR	NA
Less: STIP included in pooled investment balance	(120,243)		
Total cash equivalents	<u>\$2,246,992</u>		<u>1.52</u>
Securities lending collateral investment pool	<u>\$ 101,755</u>		

(1) As of June 30, 2008, a repurchase agreement, per contract, was collateralized at 102% for \$12,368,170 by a Federal National Mortgage FNCI maturing September 1, 2018. This security carries a AAA credit quality rating.

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

As of June 30, 2008, local governments invested \$453,295,572 in STIP.

As of June 30, 2008, component units of the State of Montana had investments in cash equivalents with a book value and fair value of \$319,504,169.

Investment Risk Disclosures

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

Credit Risk

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

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

STIP investments are categorized above to disclose credit risk as of June 30, 2008. Credit risk reflects the security quality rating, by investment security type, as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated by the NRSRO.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2008, all STIP securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board’s custodial bank, State Street Bank, or the State’s name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a

single issuer. The STIP had concentration of credit risk exposure to the Federal Home Loan Bank of 6.86%, Federal National Mortgage Association (Fannie Mae) of 7.55 % and the Federal Home Loan Mortgage Corp. (Freddie Mac) of 5.71% as of June 30, 2008.

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 months or years, weighted to reflect the dollar size of individual investments within an investment type.

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 & Poors and Aaa by Moody's. As of June 30, 2008, these issues carried a D rating by Standard & Poors. On November 20, 2007, an insolvency event was declared by Axon Finance USA. Orion Financial Funding 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 SIV securities are currently undergoing restructuring while the underlying securities in the vehicle generate cash. At this time, there is no certain date for completion of the restructuring, which will likely include the creation of new securities to replace the original securities.

Of the \$5,687,990 interest receivable total as of June 30, 2008, \$2,729,889 is attributable to the above securities for interest accrued to their respective maturity dates. While payment of the Orion Finance USA interest receivable of \$903,922 remains unknown as of November 21, 2008, BOI received payment of \$1,825,967 on the Axon Financial Funding interest receivable on November 14, 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 Bond Pool (TFBP), 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	\$2,949,751	\$2,965,611
TFBP:		
Corporate bonds (rated)	755,582	747,119
Corporate bonds (unrated)	8,032	5,391
Municipal government bonds (rated)	1,120	1,126
Municipal government bonds (unrated)	1,508	1,508
U.S. government direct-backed	109,800	113,103
U.S. government indirect-backed	622,625	632,681
STIP	40,865	40,865
STIP Structured Investment Vehicle	4,153	4,153
RFBP:		
Corporate bonds (rated)	1,011,467	996,726
Corporate bonds (unrated)	17,127	13,016
U.S. government direct-backed	123,947	127,133
U.S. government indirect-backed	770,923	783,061
STIP	65,030	65,030
STIP Structured Investment Vehicle	6,735	6,735
MTIP:		
International stock pool	132,310	1,437,641
MPEP:		
Private equity pool	640,012	744,099
MTRP:		
Real estate pool	315,976	325,725
STIP	3,124	3,124
STIP Structured Investment Vehicle	337	337
Total pooled investments	7,580,424	9,014,184
Pool adjustments (net)	(33,188)	(33,188)
Total equity in pooled investments	<u>\$7,547,236</u>	<u>\$8,980,996</u>

At June 30, 2008, the carrying and fair value of the underlying securities on loan was \$545,100,993 and \$1,699,688,269, respectively. The collateral provided for the securities on loan totaled \$1,196,806,513.

As of June 30, 2008, component units of the State of Montana had equity in pooled investments with a book value of \$5,039,349,945 and a fair value of \$7,483,013,574, 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 pool fixed-income instruments have credit risk as measured by major credit rating services. This risk is that the issuer of a fixed-income security may default in making timely principal and interest payments. The Board of Investment's policy requires pool fixed-income investments, at the time of purchase, to be rated an investment grade as defined by Moody's

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

Custodial Credit Risk

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

Concentration of Credit Risk

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

Although the RFBP investment policy does not address concentration of credit risk, the TFBP investment policy states: "with the exception of U.S. government/agency securities, additional purchases will not be made in a credit if the credit risk exceeds 2 percent of the portfolio at the time of purchase". The RFBP had concentration of credit risk exposure to the Federal National Mortgage Association (Fannie Mae) of 9.62% as of June 30, 2008, while the TFBP had concentration of credit risk exposure to the same issuer of 12.96% as of June 30, 2008. The RFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp. (Freddie Mac) of 23.01% as of June 30, 2008, while the TFBP had concentration of credit risk exposure to the same issuer of 22.79% as of June 30, 2008. As of June 30, 2008, MDEP had no single issue investments that exceeded 5% of its portfolio.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In

accordance with GASB Statement 40, the board has selected the effective duration method to disclose interest rate risk. This information, as provided by the custodial bank, is "An option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is calculated as the average percentage change in a bond's value (price plus accrued interest) under shifts of the Treasury curve plus/minus 100 basis points. The effective duration method incorporates the effect of the embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-throughs, CMOs, and ARMs)."

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

As reported in the U.S. government agency category, the RFBP portfolio held REMIC securities totaling \$249,844 at amortized cost as of June 30, 2008, while the TFBP portfolio held REMIC securities totaling \$46,806 at amortized cost. REMICs (Real Estate Mortgage Investment Conduits) are pass-through vehicles for multiclass mortgage-backed securities. These securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages.

The Bond Pools and AOF portfolio fixed income securities pay a fixed rate of interest until maturity while the variable rate (floating rate) securities pay a variable rate of interest until maturity. As of June 30, 2008, these portfolios held six variable rate issues. These securities float with LIBOR (London Interbank Offered Rate).

As of June 30, 2008, the Bond Pools and AOF portfolio held five Collateralized Debt Obligations (CDO). A CDO is security backed by a pool of bonds, loans, and other assets. CDOs do not specialize in one type of debt, but are often non-mortgage loans or bonds. These CDO positions, totaling \$135 million par, are categorized as rated corporate debt in the three portfolios.

Legal Risk

As of June 30, 2008, 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, 2008, as required for applicable pools. 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). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

TFBP
Credit Quality Rating and Effective Duration as of June 30, 2008
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate bonds (rated)	\$ 747,119	A+	4.39
Corporate bonds (unrated)	5,391	NR	5.58
Municipal government bonds (rated)	1,126	AA	7.92
Municipal government bonds (unrated)	1,508	NR	4.94
U.S. government direct-backed	113,103	AAA	6.72
U.S. government indirect-backed	632,681	AAA	4.60
STIP	45,018	NR	NA
Total fixed-income investments	<u>\$1,545,946</u>	AA	4.66
Securities lending collateral investment pool	<u>\$ 86,356</u>	NR	NA

RFBP
Credit Quality Rating and Effective Duration as of June 30, 2008
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate bonds (rated)	\$ 996,726	A	4.77
Corporate bonds (unrated)	13,016	NR	6.43
U.S. government direct-backed	127,133	AAA	5.23
U.S. government indirect-backed	783,062	AAA	4.33
STIP	71,764	NR	NA
Total fixed-income investments	<u>\$1,991,701</u>	AA	4.63
Securities lending collateral investment pool	<u>\$ 100,299</u>	NR	NA

Foreign Currency Risk

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

MPEP and MTRP Investments by Foreign Currency
(in thousands)

Currency	Fund Manager Name	2008	
		Carrying Value	Fair Value
EURO	Terra Firma Fund III	\$12,173	\$13,311
EURO	Carlyle Europe Real Estate Partners III	6,344	6,093
Total MPEP and MTRP		<u>\$18,517</u>	<u>\$19,404</u>

The U.S. dollar balances of the MTIP cash and investments are disclosed by currency in the following table.

MTIP
Cash by Currency
(in thousands)

Cash	2008	
	Carrying Amount	Fair Value
Australian Dollar	\$ 389	\$ 393
Brazilian Real	18	19
Canadian Dollar	730	732
Danish Krone	64	67
Hong Kong Dollar	1,279	1,280
Indonesian Rupiah	1	1
Euro	2,530	2,566
Israeli Shekel	18	18
Japanese Yen	1,815	1,830
South Korean Won	9	9
Malaysian Ringgit	13	13
Mexican Peso	70	70
New Zealand Dollar	7	7
Norwegian Krone	496	503
Philippine Peso	1	1
Singapore Dollar	471	475
Swedish Krona	863	883
Swiss Franc	47	49
New Taiwan Dollar	74	74
Thailand Baht	6	6
UK British Pound	464	469
US Dollar	4	4
Total cash	<u>\$9,369</u>	<u>\$9,469</u>

The U.S. dollar balances of the MTIP equities by currency are presented in the following table.

MTIP
Equities by Currency
(in thousands)

Cash	2008	
	Carrying Amount	Fair Value
Australian Dollar	\$ 35,668	\$ 47,035
Brazilian Real	6,284	6,966
Canadian Dollar	41,841	49,716
Czech Koruna	419	770
Danish Krone	8,648	12,176
Euro	304,810	300,349
Hong Kong Dollar	44,312	44,072
Indonesian Rupiah	1,463	1,404
Israeli Shekel	1,323	1,973
Japanese Yen	175,133	168,175
South Korean Won	17,699	18,270
Malaysian Ringgit	1,922	1,857
Mexican Peso	5,723	5,915
New Zealand Dollar	344	245
Norwegian Krone	10,467	13,131
Philippine Peso	1,108	1,100
Polish Zloty	925	997
Singapore Dollar	11,685	13,422
South African Rand	4,467	4,658
Swedish Krona	9,727	8,781
Swiss Franc	40,894	42,438
New Taiwan Dollar	8,326	8,560
Thailand Baht	2,096	2,083
Turkish Lira	1,404	1,745
UK British Pound	135,919	129,715
Total equity	<u>\$872,607</u>	<u>\$885,553</u>

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	69.13%
PERA (Public Employee Retirement Administration)	15.25
Board of Housing	7.88
College Savings Plan	5.66
Montana State University/University of Montana	1.08
Other (1)	1.00
Total	<u>100.00%</u>

- (1) Other consists of the Commissioner of Higher Education, the Department of Administration, the Department of Natural Resources and Conservation, the Department of Public Health and Human Services, the Montana State Auditor's Office, and the Department of Revenue.

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

Table 4 – Investments
(in thousands)

	Carrying Amount	Fair Value
Primary government		
Corporate (rated) (1)	\$ 24,802	\$ 24,449
U.S. govt direct/indirect (rated) (1)	50,656	52,536
U.S. govt mortgage-backed (rated) (1)	1,481	1,517
Govt securities	24,706	25,060
STIP/SIV investments	118,542	118,542
MUS Workers Compensation	100	103
Other equities	194,385	194,464
Total	\$ 414,672	\$ 416,671
Component units/fiduciary funds		
Corporate (rated) (1)	\$ 490,300	\$ 475,348
U.S. govt direct/indirect (rated) (1)	360,750	369,310
U.S. govt mortgage-backed (rated) (1)	776	794
Govt securities	188,470	187,005
Other equities	68,525	87,569
Deferred compensation	279,892	296,903
Defined contribution	39,746	42,751
College Savings Plan	119,057	119,057
VEBA	976	896
Investments of MSU component units	142,031	142,031
Investments of UM component units	162,394	162,394
Real estate	16,965	17,282
Mortgages	112,759	111,348
STIP/SIV investments	10,234	10,234
Total	\$1,992,875	\$2,022,922
Total investments	\$2,407,547	\$2,439,593
Securities lending collateral investment pool	\$ 189,348	\$ 189,348

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

All Other Funds - Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2008
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate (1)	\$ 499,797	A	3.68
U.S. government direct-backed (1)	63,655	AAA	5.56
U.S. government indirect-backed (1)	524,207	AAA	3.03
Total	\$1,087,659	AA	3.06

(1) These rated securities are reported on both Table 2 – Cash Equivalents and Table 4 – Investments.

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

Investment Risk Disclosures

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

Credit Risk

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

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a

transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2008, all the fixed-income and other equity securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board's custodial bank, State Street Bank. The Equity Index, Real Estate, Mortgage and Loan investments are registered in the name of the Montana Board of Investments. State Street and US Bank repurchase agreements were purchased in the State of Montana Board of Investments name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. With the exception of one fund, the 20 remaining BOI investment policy statements for various state agencies do not address concentration of credit risk. One fund requires credit risk to be limited to 3 % in any one name except AAA rated issues will be limited to 6%. Investments issued or explicitly guaranteed by the U.S. government and investments by various state agencies are excluded from the concentration of credit risk requirement. As of June 30, 2008, Montana had concentration of credit risk exposure to Federal National Mortgage Association of 6.03%.

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. The All Other Funds' investment policies do not formally address interest rate risk. In accordance with GASB Statement 40, the board has selected the effective duration method to disclose interest rate risk.

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE

A disaggregation of the net receivables and accounts payable (by fund type) as of June 30, 2008, follows (amounts in thousands):

A. Receivables

Receivables	Governmental Funds					
	General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental
Licenses and permits	\$ 1,322	\$ 7,226	\$ -	\$ -	\$ -	\$ -
Taxes	219,688	84,004	-	5,190	-	1,430
Charges for services/ fines/forfeitures	1,969	30,372	1,317	-	40,956	-
Investment income	1,309	5,843	41	3,784	4,796	4,101
Contributions/premiums	10	122	-	-	-	-
Other	6,710	52,938	11,476	-	-	576
Total receivables	231,008	180,505	12,834	8,974	45,752	6,107
Less: allowance for doubtful accounts	(4,875)	(9,104)	(1,113)	-	-	-
Receivables, net	\$226,133	\$171,491	\$11,721	\$8,974	\$45,752	\$6,107

Receivables	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Charges for services	\$ -	\$ -	\$17,660	\$ 471
Investment income	-	10,658	8	262
Contributions/premiums	8,131	-	5,683	4,217
Other	-	-	129	119
Total receivables	8,131	10,658	23,480	5,069
Less: allowance for doubtful accounts	(4,734)	-	-	-
Receivables, net	\$ 3,397	\$10,658	\$23,480	\$5,069

B. Payables

Payables	Governmental Funds					
	General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental
Tax refunds	\$120,060	\$ -	\$ -	\$-	\$ -	\$ -
Vendors/individuals	64,534	62,078	133,385	-	-	4,789
Payroll	18,711	17,933	6,476	-	-	52
Accrued interest	-	475	-	-	4,679	544
Other	272	1,098	958	-	-	54
Total	\$203,577	\$81,584	\$140,819	\$-	\$4,679	\$5,439

Payables	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Vendors/individuals	\$1,564	\$ -	\$8,855	\$12,346
Payroll	-	15	811	2,786
Accrued interest	-	1,147	-	1
Total	\$1,564	\$1,162	\$9,666	\$15,133

A. Primary Government

Changes in capital asset balances for the fiscal year ended June 30, 2008, are reflected in the following table (in thousands):

Primary Government

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 416,428	\$ 18,533	\$ (850)	\$ 434,111
Construction work in progress	353,738	27,906	(173,817)	207,827
Other	151,928	4,183	(5)	156,106
Total capital assets, not being depreciated	922,094	50,622	(174,672)	798,044
Capital assets, being depreciated				
Infrastructure	3,509,995	544,897	(368,277)	3,686,615
Land improvements	21,642	3,767	(594)	24,815
Buildings/improvements	394,557	36,770	(1,603)	429,724
Equipment	281,198	25,747	(8,586)	298,359
Other	7,864	2,430	(3,944)	6,350
Total capital assets, being depreciated	4,215,256	613,611	(383,004)	4,445,863
Less: accumulated depreciation for:				
Infrastructure	(1,399,514)	(138,588)	221,799	(1,316,303)
Land improvements	(4,161)	(1,119)	95	(5,185)
Buildings/improvements	(181,597)	(30,949)	1,229	(211,317)
Equipment	(175,907)	(19,835)	7,087	(188,655)
Other	(3,604)	(225)	93	(3,736)
Total accumulated depreciation	(1,764,783)	(190,716)	230,303	(1,725,196)
Total capital assets, being depreciated, net	2,450,473	422,895	(152,701)	2,720,667
Intangible assets	29,467	20,864	(15,451)	34,880
Governmental activity capital assets, net	\$ 3,402,034	\$ 494,381	\$(342,824)	\$ 3,553,591

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

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	459	108	-	567
Total capital assets, not being depreciated	1,259	108	-	1,367
Capital assets, being depreciated				
Infrastructure	884	-	-	884
Land improvements	2,343	-	-	2,343
Buildings/improvements	7,316	15	-	7,331
Equipment	5,286	639	(94)	5,831
Total capital assets, being depreciated	15,829	654	(94)	16,389
Less: accumulated depreciation for:				
Infrastructure	(539)	(17)	-	(556)
Land improvements	(345)	(107)	-	(452)
Buildings/improvements	(4,158)	(199)	-	(4,357)
Equipment	(3,623)	(305)	84	(3,844)
Total accumulated depreciation	(8,665)	(628)	84	(9,209)
Total capital assets, being depreciated, net	7,164	26	(10)	7,180
Intangible assets	275	62	(151)	186
Business-type activity capital assets, net	\$ 8,698	\$ 196	\$ (161)	\$ 8,733

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

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

	Amount
General government	\$ 4,779
Public safety/corrections	6,429
Transportation (including depreciation of the highway system maintained by the State)	107,593
Health/social services	1,967
Education/cultural	19,985
Resource/recreation/environment (including depreciation of the State's dams).	17,210
Economic development/assistance	624
Depreciation and amortization on capital assets held by the State's internal service funds is charged to the various functions based on their usage of the assets.	12,123
Total depreciation expense – governmental activities	<u>\$170,710</u>

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

	Amount
Liquor Stores	\$ 95
State Lottery	43
General Government Services	164
Prison Funds	323
Total depreciation expense – business-type activities	<u>\$625</u>

B. Discretely Presented Component Units

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

Discretely Presented Component Units

	Montana State University (MSU)	University of Montana (UM)	Other	Total
Capital assets, not being depreciated				
Land	\$ 6,934	\$ 7,533	\$ 1,139	\$ 15,606
Construction work in progress	12,409	47,187	4,377	63,973
Capitalized collections	7,924	16,531	-	24,455
Livestock for educational purposes	3,042	-	-	3,042
Total capital assets, not being depreciated	30,309	71,251	5,516	107,076
Capital assets, being depreciated				
Infrastructure	33,321	-	-	33,321
Land improvements	15,097	12,753	-	27,850
Buildings/improvements	397,317	372,364	-	769,681
Equipment	109,090	53,249	4,878	167,217
Other	60,783	52,233	-	113,016
Total capital assets, being depreciated	615,608	490,599	4,878	1,111,085
Less: accumulated depreciation	(329,736)	(272,963)	(3,478)	(606,177)
Total capital assets, being depreciated, net	285,872	217,636	1,400	504,908
Intangible assets	1,322	299	3,170	4,791
Capital assets (net) of MSU component units	10,847	-	-	10,847
Capital assets (net) of UM component units	-	4,352	-	4,352
Discretely presented component units				
Total capital assets, net	\$ 328,350	\$ 293,538	\$10,086	\$ 631,974

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 (PERS-DBRP), Municipal Police Officers Retirement System (MPORS), Firefighters Unified Retirement System (FURS), Sheriffs Retirement System (SRS), Highway Patrol Officers Retirement System (HPORS), Judges Retirement System (JRS), Game Wardens and Peace Officers Retirement System (GWPORS), 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 457 – Deferred Compensation Plan. The PERB prepares a publicly issued comprehensive annual financial report that includes financial statements and required supplementary information for PERS-DBRP, MPORS, FURS, SRS, HPORS, JRS, GWPORS, VFCA, as well as the two defined contribution plans, PERS-DCRP and 457 plans. Separately issued financial statements can be obtained at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131.

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

The Teachers Retirement System (TRS) is a discretely presented component unit of the State of Montana and administered by the Teachers Retirement Board. The plan prepares a publicly issued financial report that includes financial statements and required supplementary information for TRS. Separately issued financial statements can be obtained at 1500 Sixth Avenue, PO Box the 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 normal-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 HPORS and JRS by employer type at June 30, 2008, follows:

Employers	HPORS	JRS
State agencies	1	1
Total	1	1

HPORS – Highway Patrol Officers Retirement System – HPORS is a single-employer defined benefit pension plan, established in 1971 and governed by Title 19, Chapters 2 & 6 of the Montana Code Annotated (MCA), provides retirement benefits for all members of the Montana Highway Patrol, including supervisory personnel. Members 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 benefit and the recipient's age. This lump-sum payment is funded by the General Fund at the request of the PERB. The average payment in September 2008 was \$2,596. This enhancement is limited to non-GABA (Guaranteed Annual Benefit Adjustment) members.

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 MCA, provides retirement benefits for all Montana judges of district courts, justices of the Supreme Court, and the Chief Water Judge.

For the funded status, and funding progress of the HPORS and JRS, plans refer to the Required Supplementary information on page B-111.

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

A summary of government employers participating in PERS-DBRP, MPORS, FURS, SRS, GWPORS, and TRS by employer type at June 30, 2008, follows:

Employers	PERS-DBRP	MPORS	FURS	SRS	GWPORS	TRS
State agencies	34		1	1	4	8
Counties	55			56		
Cities/towns	96	27	18			
Colleges/universities	5				3	5
School districts	239					355
Other	99					
Total	528	27	19	57	7	368

PERS-DBRP – Public Employees Retirement System - Defined Benefit Retirement Plan – PERS is a defined benefit cost sharing, multiple-employer public retirement system established in 1945 and governed by Title 19, Chapters 2 & 3 of the MCA, provides retirement benefits to substantially all public employees 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. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will be amortized over the next 24.8 years. This amortization period does not reflect the sunset provision for the additional contributions under Title 19, Chapter 3, Part 316, MCA. Without the additional contributions effective July 1, 2007 and July 1, 2009, the amortization period for the unfunded actuarial liability would be 29 years.

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, 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 plan for the duration of the member's DROP period. During the participation in the DROP, all mandatory contributions continue to be made to the retirement plan. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the DROP account until the end of the DROP participation 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, the participant will again accrue membership service, and 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 and other cities that adopt the plan, and to firefighters hired by the Montana Air National Guard on or after October 1, 2001.

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

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

experience emerging as assumed, the unfunded actuarial liability will be amortized over the next 16.3 years. This amortization period does not reflect the sunset provision for the additional contributions under Title 19, Chapter 3, Part 316, MCA, or the guaranteed annual benefit adjustment. Without the additional contributions effective July 1, 2007 and July 1, 2009, the amortization period for the unfunded actuarial liability would be 26.6 years.

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.

VFCA – Volunteer Firefighters Compensation Act – This compensation program, established in 1965 and governed by Title 19, Chapters 2 and 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 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, 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 be amortized over the next 31.3 years. The 2007 Legislature appropriated an additional \$50 million; and increased the State's General Fund contribution rate from 0.11 to 2.11%, and the university system's supplemental contribution rate from 4.04 to 4.72%, effective July 1, 2007. The plan's actuary has determined that as of July 1, 2008, the current employer contribution rate of 7.47% plus the General Fund contribution of 2.11% of members' salaries is sufficient to meet the actuarial cost. The unfunded actuarial accrued liability of \$794.6 million is included in the retirement plan's financial statements in the schedule of funding progress.

D. Public Employee Defined Contribution Retirement Plans

A summary of government employers participating in the PERS-DCRP and 457 plans by employer type at June 30, 2008 follows:

Employers	PERS-DCRP	457
State agencies	28	1
Counties	42	2
Cities/towns	42	3
Colleges/universities	4	6
School districts	86	2
Other	31	3
Total	233	17

PERS-DCRP – Public Employees Retirement System - Defined Contribution Retirement Plan – This plan is a multiple-employer plan created by the 1999 Legislature and is governed by Title 19, Chapters 2 & 3 of the MCA. The plan began receiving contributions on July 1, 2002.

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 will decide how to invest their contributions and a portion of their employer contributions among the offered investment options. The remaining portion of employer contributions will be used to maintain funding of the defined benefit plan, to provide disability benefits, and to fund an employee education program. The employer and employee plan contributions as of June 30, 2008, were \$3,254,857 and \$5,117,841, respectively.

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

The 457 plan is a voluntary, supplemental retirement savings plan. Assets of the 457 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 and must meet IRC-specified criteria. Participant rights are fully vested in

their accounts at the time of deposit. The employer and employee plan contributions as of June 30, 2008, were \$70,485 and \$19,107,055, 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 5.64% of salary, for a total of 12.67% of salary contributed to the ORP (refer to the following table).

	TIAA-CREF <i>(in thousands)</i>
Covered payroll	\$177,416
Total payroll	337,443
Employer contributions	\$ 10,003
Percent of covered payroll	5.64%
Employee contributions	\$ 12,469
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. The retirement plans have no investments with a single issuer whose fair value equals 5% or more of the retirement plans net assets available for benefits.

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), allowing state and university system employees, eligible for a service retirement, 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. As of June 30,

2008, 183 employees have taken advantage of the provision.

The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received, including interest, during fiscal

year 2008 were \$2,729. June 30, 2008, outstanding balances were \$29,151.

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		
	HPORS	JRS
Contributions (in thousands)		
Employer	\$3,949	\$1,315
Employee	1,082	385
License and registration fees	290	
Actuarial valuation date	6/30/2008	6/30/2008
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining amortization period	17.4 years	Currently, the surplus is not expected to be exhausted (1)
Asset valuation method	4-year smoothed market	4-year smoothed market
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases	4.25%	4.25%
(includes inflation factor)	3.25%	3.25%
Merit	0%-7.3%	None
Benefit adjustments		
GABA	3% after 1 year	3% after 1 year
Non-GABA	2% per year of service, not to exceed 5%, for probationary officer's base pay	Biennial increase to salary of active member in like position

(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 2008**

Plan	Member	Employer	State
PERS-DBRP	6.9% [19-3-315, MCA]	7.035% State & University 6.935% 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] 0.235% School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]
MPORS	5.8% - hired on or before 6/30/1975 & not electing GABA [19-9-710(a), MCA] 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]	9.825% [19-7-404, MCA]	
HPORS	9.0% - hired prior to 7/1/1997 & not electing GABA 9.05% - hired after 6/30/1997 & members electing GABA [19-6-402, MCA]	26.15% [19-6-404(1), MCA] 10.18% of salaries - paid from the General Fund [19-6-404(2), MCA]	
JRS	7.0% [19-5-402, MCA]	25.81% [19-5-404, MCA]	
GWPORS	10.56% [19-8-502, MCA]	9.0% [19-8-504, MCA]	
VFCA			5.0% of fire insurance premiums - paid from the General Fund [19-17-301, MCA]
PERS-DCRP	6.9% [19-3-315, MCA]	7.035% State & University 6.935% Local Governments 6.8% School Districts (K-12) [19-3-316, MCA]	0.1% Local Government payroll - paid from the General Fund 0.235% School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]
TRS	7.15% [19-20-602, MCA]	9.47% State & University [19-20-605, MCA]	0.11% of members' salaries [19-20-604, MCA] 2% 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						
HPORS (1) 6/30/2008	101,505	134,683	33,183	75.36%	10,866	305.38%
JRS (1) 6/30/2008	62,040	39,435	(22,605)	157.32%	5,096	(443.58%)
Multiple Employer Systems						
PERS-DBRP 6/30/2008	4,065,307	4,504,743	439,436	90.25%	955,113	46.01%
MPORS 6/30/2008	212,312	327,556	115,244	64.82%	32,181	358.11%
FURS 6/30/2008	206,127	287,218	81,091	71.77%	29,158	278.11%
SRS 6/30/2008	199,453	204,549	5,096	97.51%	47,196	10.80%
GWPORS 6/30/2008	77,511	83,449	5,938	92.88%	32,365	18.35%
TRS 7/1/2008	3,159,100	4,110,800	794,600	79.90%	689,500	115.20%
Nonemployer Contributor						
VFCA 6/30/2008	27,544	32,735	5,191	84.14%	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					
HPORS	2006	2,862	101.50%	277	100.00%
	2007	3,581	101.48%	285	100.00%
	2008	3,948	100.03%	290	100.00%
JRS	2006	113	1,089.03%		
	2007	(230)	(542.23%)		
	2008	(274)	(479.47%)		
Multiple Employer Systems					
PERS-DBRP	2006	69,312	91.54%	443	100.00%
	2007	60,253	110.41%	446	100.00%
	2008	65,425	110.42%	378	100.00%
MPORS	2006	3,983	101.30%	8,119	100.77%
	2007	4,258	100.58%	8,679	100.00%
	2008	4,637	111.19%	9,452	100.00%
FURS	2006	3,291	101.14%	7,473	100.80%
	2007	3,482	101.09%	7,908	100.63%
	2008	4,187	106.68%	9,568	100.63%
SRS	2006	3,897	90.42%		
	2007	4,176	105.04%		
	2008	4,444	108.78%		
GWPORS	2006	2,337	102.34%		
	2007	2,218	118.94%		
	2008	2,541	117.23%		
TRS	2006	158,962 (1)	223.00%		
	2007	112,664 (2)	130.00%		
	2008	81,423	100.00%		
Nonemployer Contributor					
VFCA	2006			1,610	100.00%
	2007			1,661	100.00%
	2008			1,562	100.00%

(1) Annual required contribution amount includes a \$100 million one-time contribution made by the State in fiscal year 2006.

(2) Annual required contribution amount includes a \$50 million one-time contribution made by the State in fiscal year 2007.

Summary of Eligibility and Benefits

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
PERS-DBRP	Highest average compensation during any consecutive 36 months	Service retirement: 30 years, any age; Age 60, 5 years of service; or Age 65, regardless of service Early retirement, actuarially reduced: Age 50, 5 years of service; or Any age, 25 years of service	5 years membership service
MPORS	Hired prior to 7/1/1977 – average monthly compensation of final year of service; hired after 6/30/1977 – final average compensation (FAC) for last consecutive 36 months	20 years, regardless of age; 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 after 6/30/1981 and those electing GABA – highest average compensation (HAC) during any consecutive 36 months	20 years, regardless of age; age 50, 5 years of service	5 years membership service
SRS	Highest average compensation during any consecutive 36 months	20 years membership service, regardless of age; age 50, 5 years of service, actuarially reduced	5 years membership service
HPORS	Highest average compensation during any consecutive 36 months	20 years of service, regardless of age; 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 after 6/30/1997 or electing GABA prior to 1/1/1988 or 12/1/2005 – HAC during any consecutive 36 months (relates directly to monthly benefit formula)	Age 60, 5 years of membership service; any age with 5 years of membership service – involuntary termination, actuarially reduced	5 years membership service
GWPORS	Highest average compensation during any consecutive 36 months	Age 50, 20 years of membership service; age 55, 5 years of membership service	5 years membership service
VFCA		Age 55, 20 years of credited service (full benefit); age 60, 10 years of service (partial benefit). As of 4/25/2005 (Senate Bill 197), members may retire with greater than 20 years of service, but not more than 30 years of service.	10 years of service credit
PERS-DCRP		Termination of service	Immediate for participant's contributions and attributable income; 5 years for employer's contributions to individual accounts and attributable income
TRS	Final average compensation during any consecutive 36 months	Age 60, 5 years of service, or any age with at least 25 years of service. Vested employees may retire at or after age 50 and receive reduced benefits.	5 years of membership service

Summary of Eligibility and Benefits *(continued)*

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
PERS-DBRP	Less than 25 years of membership service: 1.785% of HAC per year of service credit; 25 years of service or more: 2% of HAC per year of service credit	After the member has completed 12 full months of retirement, the member's benefit increases each January by a maximum of 3% for members hired before 7/1/2007, 1.5% for members hired on or after 7/1/2007, inclusive of all other adjustments to the member's benefit.	
MPORS	2.5% of FAC per year of service credit	Hired after 6/1/1997, 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 7/1/1997 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 officer in the city that the member was last employed.
FURS	Members hired prior to 7/1/1981 and not electing GABA are entitled to the greater of: 2.5% of HAC per year of service credit; or (1) if less than 20 years of service, 2% of HMC for each year of service; or (2) if more than 20 years of service, 50% of the member's HMC plus 2% of the member's HMC for each year of service credit over 20 years. Members hired after 6/30/1981 and those electing GABA receive 2.5% of HAC per year of service credit.	Hired after 6/1/1997, 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 7/1/1997 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 firefighter employed by the city that last employed the member (provided the member has at least 10 years of service credit).
SRS	2.5% of HAC per year of service credit	After the member has completed 12 full months of retirement, the member's benefit increases each January by a maximum of 3% for members hired before July 1, 2007, 1.5% for members hired on or after July 1, 2007, inclusive of other adjustments to the member's benefit.	
HPORS	2.5% of HAC per year of service	Hired after 7/1/1997, 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 other adjustments to the member's benefit.	Hired prior to 7/1/1997 - monthly benefits for non-GABA members are increased each July when they fall below a statutorily guaranteed minimum. Any annual increase is limited to 5% over the current benefit and may not exceed 60% of the current base salary of a probationary officer.
JRS	3.333% of current salary (non-GABA) or HAC (GABA) per year of service for the first 15 years, plus 1.785% per year for each year after 15 years	Hired after 7/1/1997, 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.	Hired prior to 7/1/1997 - current salary of an active member is used in the calculation of the monthly benefit each time the Legislature increases salaries for active judges.
GWPORS	2.5% of HAC per year of service credit	After the member has completed 12 full months of retirement, the member's benefit increases each January by a maximum of 3% for members hired before July 1, 2007, 1.5% for members hired on or after July 1, 2007, inclusive of other adjustments to the member's benefit.	
VFCA	\$7.50 per year of credited service, maximum \$225; if greater than 20 years of service (but not more than 30 years), maximum \$225		
PERS-DCRP	Dependent upon individual account balance. Various payout options available, including taxable lump sums, periodic payments per participant direction, and IRS permitted rollovers.		
TRS	1.6667% of average final compensation (AFC) per year of service	A guaranteed annual benefit adjustment (GABA) of 1.5% is payable each January if the retiree has received at least 36 monthly retirement benefit payments prior to January 1 of the year in which the adjustment is to be made.	

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General

The State of Montana and the Montana University System (MUS) provide optional postemployment health care benefits in accordance with MCA 2-18-704 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 MCA 2-18-704, 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 Employee 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 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 – MT Tech (UM-MT Tech), Office of Commission 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 with regards to 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, 2008.

The number of state participants as of December 31, 2007, the effective date of the annual OPEB valuation, follows:

State Plan Participants

Enrollment	State	Facility Finance Authority	Housing Authority	PERS	Montana State Fund (New Fund)	TRS	Total
Active employees	11,852	1	14	31	278	15	12,191
Retired employees, spouses, and surviving spouses (1)	3,271						3,271
Total	15,123	1	14	31	278	15	15,462

- (1) Due to the inability to determine, without considerable effort, the last place an employee worked before retiring, all retirees are listed as State; however, 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, 2008, the effective date of the annual OPEB valuation, 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	507	2,815	124	200	105	72	2,222	384	176	298	6,903
Retired employees, spouses, and surviving spouses	200	1,025	28	108	21	30	753	142	92	70	2,469
Total	707	3,840	152	308	126	102	2,975	526	268	368	9,372

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.

The State plan's administratively established retiree medical premiums vary between \$160 and \$776 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$31.00 and \$53.20, 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 \$210 and \$673 per month and are revised annually. The plan provides different coinsurance amounts depending on whether members use preferred, non-preferred, or other hospitals. After an annual \$600 deductible for most non-Medicare-eligible retirees, the MUS plan reimburses 75% for the first \$1,250 in medical claims and 100% thereafter. After a \$400 deductible for Medicare-eligible retirees, the plan reimburses 75% for the first \$1,250 in medical claims and 100% thereafter. There is an optional \$1,500 deductible plan available to retirees with a reduced

premium. After the \$1,500 annual deductible, the plan pays 75% of the first \$2,500 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2008, 1,516 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 \$41.551 million is 7.99% of annual covered payroll. The State's annual covered payroll is \$519.969 million. The current MUS' ARC of \$17.332 million is 4.96% of annual covered payroll. The MUS' annual covered payroll is \$349.259 million.

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

The following table presents the OPEB cost for the year, the amount contributed, and changes in the OPEB plan for fiscal year 2008 (dollar amounts in thousands):

Annual OPEB Cost

	State	MUS
Annual required contribution/OPEB cost	\$41,551	\$17,332
Contributions made	-	-
Increase in net OPEB obligation	41,551	17,332
Net OPEB obligation – beginning of year	-	-
Net OPEB obligation – end of year	\$41,551	\$17,332

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

Contribution Ratio

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State	6/30/2008	\$41,551	0%	\$41,551
MUS	6/30/2008	\$17,332	0%	\$17,332

F. Actuarial Methods and Assumptions

As of December 31, 2007, the State's actuarially accrued liability (AAL) for benefits was \$449.321 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$449.321 million, and the ratio of the UAAL to the covered payroll was 86.41%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the December 31, 2007, actuarial valuation, the projected unit credit funding method was used for the State. The actuarial assumptions included a 4.25% discount rate and a 3.00% payroll growth rate. The projected annual healthcare cost trend rate is 7.00% for medical and 13.30% for prescription drugs, initially. Prescription drugs are reduced by decrements to a rate of 5.00% after eight years. Medical costs increase to 8.00% for the next three years. Then, these costs are reduced by decrements to a rate of 5.00% after five additional years.

As of June 30, 2008, the MUS actuarially accrued liability (AAL) for benefits was \$182.597 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$182.597 million, and the ratio of the UAAL to the covered payroll was 52.28%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the June 30, 2008, actuarial valuation, the projected unit credit funding method was used for MUS. The actuarial assumptions included a 4.25% discount rate and a 3.00% payroll growth rate. The projected annual healthcare cost trend rate is 7.00% for medical and

13.30% for prescription drugs, initially. Prescription drugs are reduced by decrements to a rate of 5.00% after eight years. Medical costs increase to 8.00% for the next three years. Then, these costs are reduced by decrements to a rate of 5.00% after five additional 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.

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	\$5,579	\$1,994
After Medicare eligibility	2,211	1,815
Actuarial valuation date	1/1/2007	
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	3.00%	
Participation		
Future retirees	47%	
Future eligible spouses	60%	
Marital status at retirement	71.80%	

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	\$5,671	\$1,515
After Medicare eligibility	2,961	1,186
Actuarial valuation date	7/1/2007	
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	3.00%	
Participation		
Future retirees	45%	
Future eligible spouses	59%	
Marital status at retirement	59.00%	

NOTE 8. RISK MANAGEMENT

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

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 2,269 policies during the 2008 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 \$3,474,608 based on estimated claims through June 30, 2008. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Montana University System (MUS) Group Benefits Plan – This plan was authorized by the Board of Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term disability, accidental death and dismemberment, long-term care, and vision insurance. Allegiance Benefit Plan Management is the claims administrator for the self-insured indemnity plan and a managed care plan. New West Health Services, Blue Cross/Blue Shield of Montana, and Peak administer claims for the three other managed care plans. Star Point 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 Mercer Consultants and estimated to be \$6,500,000 as of June 30, 2008, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Montana University System (MUS) Workers Compensation Program – This fund was formed to provide self-insured workers compensation coverage for employees of the Montana University System. The Montana University System Board of Regents provides workers compensation coverage under Compensation Plan Number One (Title 39, Chapter 71, Part 2101, MCA). The program is self-insured for workers compensation claims to a maximum of \$500,000 per each occurrence. Losses in excess of \$500,000 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 2008, the program ceded \$220,378 in premiums to reinsurers.

Premium rates for all participating employees are based on rates established by the MUS Workers Compensation Program Committee. 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 \$6,357,000 for estimated claims at June 30, 2008. 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 workers, certified as disabled at the time of hiring, who are subsequently injured on the job and entitled to benefits under the Workers Compensation or Occupational Disease Act at the time of 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 by the two-year limitation, and employers may experience an insurance premium reduction. Therefore, 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 calendar year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis (case-by-case) of each injured person with a certified disability. As of June 30, 2008, the amount of this liability was estimated to be \$3,560,310. Since each insurer is responsible for its own claim liabilities, the pool is acting as a claims service and there is no transfer or pooling of risk.

(5) State Fund (New Fund) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund is a self-supporting, competitive State fund, and functions as the insurer of last resort. At June 30, 2008, approximately 27,947 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 Tillinghast-Towers Perrin, as of June 30, 2008, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2008, \$752,253,300 of unpaid claims and claim adjustment expenses were presented at face value. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis, and all liability of the New Fund is terminated.

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. New Fund acquisition costs are capitalized and amortized ratably over the subsequent year. The amount of capitalized acquisition costs for the fiscal year ended June 30, 2008, was \$5,091,054. For the fiscal year ended June 30, 2008, \$3,874,087 of acquisition costs was amortized.

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

For the fiscal year ended June 30, 2008, 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. The excess of loss contracts provide coverage of \$95 million for fiscal year 2008. During fiscal year 2008, the New Fund retained the first \$5 million for the first layer of reinsurance coverage. Individual, per person coverage was provided up to \$5 million per any one individual loss for fiscal year 2008.

The term of the current aggregate stop loss contract was July 1, 2005 through June 30, 2008. The contract provides coverage based on the New Fund's premium levels at a maximum of \$33.8 million per year and a minimum of \$28.5 million, but in aggregate not to exceed 80.0% of the sum of the annual limits for all contract years. In the event reinsurers are unable to meet their obligations, under either the excess of loss contracts or the aggregate stop loss contract, the New Fund would remain liable for all losses, as the reinsurance agreements do not discharge the New Fund from its primary liability to the policyholders.

Premium revenue was reduced by premiums paid for reinsurance coverage of \$14.7 million in fiscal year 2008.

Estimated claim reserves were reduced by \$14 million for fiscal year 2008 for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excessive loss reinsurance contract. In fiscal year 2008, estimated claim reserves were reduced by an additional \$10.8 million for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due the aggregate stop loss contract.

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

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2008, 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, 2008, \$86,732,627 of unpaid claims and claim adjustment expenses was reported at a net present value of \$68,434,910, discounted at a 4.5% rate.

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

	<u>Primary Government</u>				<u>MUS Workers Compensation Program</u>	
	<u>Hail Insurance</u>		<u>MUS Group Benefits</u>		<u>2008</u>	<u>2007</u>
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>		
Unpaid claims and claim adjustment expenses at beginning of year	\$ 519	\$ 94	\$ 6,250	\$ 6,250	\$ 5,503	\$ 4,538
Incurred claims and claim adjustment expenses:						
provision for insured events of the current year	5,435	1,206	54,564	54,158	2,693	2,600
Increase (decrease) in provision for Insured events of prior years	4,259	381	-	-	(181)	(499)
Total incurred claims and claim adjustment expenses	9,694	1,587	54,564	54,158	2,512	2,101
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(1,960)	(687)	(54,314)	(54,158)	(433)	(368)
Claims and claim adjustment expenses attributable to insured events of prior years	(4,778)	(475)	-	-	(1,225)	(768)
Total payments	(6,738)	(1,162)	(54,314)	(54,158)	(1,658)	(1,136)
Total unpaid claims and claim adjustment expenses at end of year	\$ 3,475	\$ 519	\$ 6,500	\$ 6,250	\$ 6,357	\$ 5,503

	<u>Component Units</u>			
	<u>Montana State Fund (New Fund)</u>		<u>Montana State Fund (Old Fund)</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Unpaid claims and claim adjustments expenses at beginning of year	\$ 679,209	\$ 590,688	\$ 98,233	\$ 97,769
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	195,325	189,203	-	-
Increase (decrease) in provision for insured events of prior years	17,612	34,046	(212)	11,209
Total incurred claims and claim adjustment expenses	212,937	223,249	(212)	11,209
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(35,773)	(38,677)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(104,120)	(96,051)	(11,288)	(10,745)
Total payments	(139,893)	(134,728)	(11,288)	(10,745)
Total unpaid claims and claim adjustment expenses at end of year	\$ 752,253	\$ 679,209	\$ 86,733	\$ 98,233

(8) Risk Management Trend Information – The following tables only present risk management trend information for the State Fund (New Fund) and the MUS Workers Compensation Insurance. Both funds have a three to five-year development cycle contemplated by GASB Statement 10. The State Fund (Old Fund) does not charge a premium for its services. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five-year development cycle. The MUS Group Benefits Fund pays claims within the calendar year, and the plan limits the timing for submission of claims; therefore, it has no three to five-year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The tables illustrate how the earned revenues (net of reinsurance) of the funds and their investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the funds as of the end of the fiscal year (in thousands). Section 3

shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

	MUS Workers Compensation Program				
	2004	2005	2006	2007	2008
1. Premiums and investment revenue					
Earned	\$2,425	\$3,048	\$3,709	\$4,392	\$4,997
Ceded	(151)	(197)	(199)	(238)	(220)
Net earned	\$2,274	\$2,851	\$3,510	\$4,154	\$4,777
2. Unallocated expenses including overhead	\$ 228	\$ 280	\$ 264	\$ 259	\$ 387
3. Estimated losses and expenses end of accident year					
Incurred	\$2,174	\$2,366	\$2,453	\$2,600	\$2,693
Ceded	-	-	-	-	-
Net incurred	\$2,174	\$2,366	\$2,453	\$2,600	\$2,693
4. Net paid (cumulative) as of:					
End of policy year	\$ 552	\$ 382	\$ 391	\$ 367	\$ -
One year later	1,020	1,002	910	933	
Two years later	1,124	1,228	1,254		
Three years later	1,148	1,526			
Four years later	1,165				
5. Re-estimated ceded losses and expenses	\$ -	\$ -	\$ -	\$ -	\$ -
6. Re-estimated net incurred losses and expense:					
End of policy year	\$2,174	\$2,366	\$2,453	\$2,600	\$2,693
One year later	2,174	2,565	2,267	2,600	
Two years later	2,037	2,459	2,267		
Three years later	1,830	2,459			
Four years later	1,830				
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	\$ (344)	\$ 93	\$ (186)	\$ -	\$ -

	1999	2000	2001	2002	State Fund (New Fund)				2006	2007	2008
1. Premiums and investment revenue											
Earned	\$91,931	\$94,199	\$111,632	\$118,964	\$156,240	\$163,906	\$221,679	\$240,860	\$276,876	\$256,096	
Ceded	260	855	2,952	(465)	5,654	6,563	6,788	13,618	14,856	14,676	
Net earned	\$91,671	\$93,344	\$108,680	\$119,429	\$150,586	\$157,343	\$214,891	\$227,242	\$262,020	\$241,420	
2. Unallocated expenses including overhead	\$18,729	\$21,759	\$26,389	\$28,988	\$31,817	\$38,013	\$39,627	\$41,332	\$43,488	\$50,697	
3. Estimated losses and expenses end of accident year	\$64,645	\$65,957	\$68,267	\$81,560	\$110,153	\$120,705	\$134,290	\$155,057	\$170,652	\$177,100	
Incurred	-	-	-	-	-	-	-	-	-	-	
Ceded	-	-	-	-	-	-	-	-	-	-	
Net incurred	\$64,645	\$65,957	\$68,267	\$81,560	\$110,153	\$120,705	\$134,290	\$155,057	\$170,652	\$177,100	
4. Net paid (cumulative) as of:											
End of policy year	\$13,723	\$13,177	\$14,140	\$16,693	\$22,982	\$26,123	\$25,721	\$30,977	\$32,708	\$31,002	
One year later	29,976	29,218	32,888	38,185	48,861	50,888	57,239	66,063	67,928		
Two years later	39,298	37,555	45,218	52,359	63,773	66,140	72,229	84,014			
Three years later	45,748	43,649	55,248	60,029	72,957	74,697	82,647				
Four years later	49,984	48,322	61,846	64,922	79,060	80,233					
Five years later	54,212	52,027	66,031	68,343	84,340						
Six years later	56,974	54,473	69,553	71,566							
Seven years later	59,935	57,077	72,367								
Eight years later	62,158	59,228									
Nine years later	64,339										
5. Re-estimated ceded losses and expenses	\$-	\$-	\$-	\$-	\$8,600	\$2,183	\$-	\$-	\$-	\$-	
6. Re-estimated net incurred losses and expense:											
End of policy year	\$64,645	\$65,957	\$68,267	\$81,560	\$110,153	\$120,705	\$134,290	\$155,057	\$170,652	\$177,100	
One year later	64,348	66,421	71,094	86,799	110,532	112,609	136,235	157,711	171,783		
Two years later	66,660	66,662	81,053	91,241	112,443	124,413	138,447	163,433			
Three years later	69,345	70,302	88,157	94,615	117,245	127,827	144,484				
Four years later	72,435	72,492	92,329	99,755	115,414	129,051					
Five years later	73,710	73,423	95,727	100,925	119,976						
Six years later	75,537	76,048	98,124	105,651							
Seven years later	78,046	77,930	102,847								
Eight years later	80,116	80,680									
Nine years later	84,880										
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	\$20,235	\$14,723	\$34,580	\$24,091	\$9,823	\$8,346	\$10,194	\$8,376	\$1,131	\$-	

B. Entities Other Than Pools

(1) Employee Group Benefits – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracts with Blue Cross/Blue Shield, PEAK, New West, and CVS Caremark for administration of its self-insured plans. Premiums are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments, and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2008, 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 \$10,100,000 based on a formula provided by Actuaries Northwest, a consulting actuarial firm, of which \$8,787,000 is estimated to be paid in fiscal year 2009.

(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 \$250,000 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 \$250,000 of value, with state agencies paying the first \$1,000. Commercial property insurance protects approximately \$3.9 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of \$250,000 for earthquake and \$250,000 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 Tillinghast-Towers Perrin Company, and issued for the accident period July 1, 1998 through June 30, 2008, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2008, estimated claims liability was \$16,498,123.

(3) Changes in Claims Liabilities for the Past Two Years – These funds establish liabilities for both reported and incurred, but not reported, claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	Group Employees Benefits		Administration Insurance	
	2008	2007	2008	2007
Amount of claims liabilities at the beginning of each fiscal year	\$ 12,508	\$ 12,517	\$15,121	\$16,216
Incurred claims:				
Provision for insured events of the current year	101,540	90,932	6,271	5,539
Increases (decreases) in provision for insured events of prior years	(2,408)	(9)	5,869	(635)
Total incurred claims	99,132	90,923	12,140	4,904
Payments:				
Claims attributable to insured events of the current year	(88,340)	(77,292)	(1,462)	(653)
Claims attributable to insured events of prior years	(13,200)	(13,640)	(9,301)	(5,346)
Total payments	(101,540)	(90,932)	(10,763)	(5,999)
Total claims liability at end of each fiscal year	\$ 10,100	\$ 12,508	\$16,498	\$15,121

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

At June 30, 2008, the Department of Transportation had contractual commitments of approximately \$189.9 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. Capital Construction

At June 30, 2008, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$42.6 million for capital projects construction. The primary government will fund \$23.3 million of these projects, with the remaining \$19.3 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, 2008, the BOI had committed, but not yet purchased, \$26,138,839 in loans from Montana lenders. In addition to the above commitments, lenders had reserved \$7,474,356 for loans as of June 30, 2008.

The BOI makes reservations to fund mortgages from the Public Employees and Teachers retirement funds. As of June 30, 2008, the BOI had mortgage reservations/commitments totaling \$394,947.

D. Proprietary Fund Commitments

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

	<u>Amount</u>
<u>Enterprise funds</u>	
Secretary of State Business Services	\$ 54
Liquor Warehouse	41
HUD Section 8 Housing	2
State Lottery	1
Subtotal-Enterprise funds	<u>\$ 98</u>
<u>Internal service funds</u>	
Highway Equipment	\$ 809
Information Technology Services	227
Buildings & Grounds	127
FWP Equipment	97
Motor Pool	89
Administration Insurance	52
Administration Supply	30
Administration Central Services	26
Labor Central Services	23
DEQ Indirect Cost Pool	6
SABHRS Finance & Budget Bureau	5
Commerce Central Services	4
Print & Mail Services	1
Subtotal-Internal service funds	<u>\$1,496</u>
Total	<u>\$1,594</u>

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, 2008, were as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units		
	Governmental Activities	Montana State University	University of Montana	Total
2009	\$ 546	\$25	\$293	\$318
2010	455	9	232	241
2011	262	-	118	118
2012	288	-	73	73
Thereafter	10	-	17	17
Total minimum pmts	1,561	34	733	767
Less: interest	(140)	(3)	(96)	(99)
Present value of minimum payments	<u>\$1,421</u>	<u>\$31</u>	<u>\$637</u>	<u>\$668</u>

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2008 totaled \$17,083,000. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
2009	\$16,092	\$ 2,619
2010	12,852	2,647
2011	11,562	2,022
2012	9,041	1,867
2013	7,440	1,810
2014-2018	25,632	9,103
2019-2023	8,892	1,013
Thereafter	1,259	-
Total future rental payments	<u>\$92,770</u>	<u>\$21,081</u>

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

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-term Debt

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

The State issued two bond anticipation notes and two revenue anticipation notes during fiscal year 2008 pertaining to drinking water and water pollution control. The bond and revenue anticipation notes were issued to match Environmental Protection Agency capitalization grants. The proceeds were used to loan funds to local governments, to construct and rehabilitate drinking water and wastewater systems. The following schedule summarizes the activity for the year ended June 30, 2008 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
BANs				
Drinking Water	\$-	\$500	\$500	\$ -
Water Pollution Control	-	500	500	-
RANs				
Drinking Water	-	800	150	650
Water Pollution Control	-	400	400	-

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, 2008, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2008
1994	7,500	\$ 6,685
1995	7,500	6,875
1997	10,000	9,520
1998	12,500	12,110
2000	15,000	14,750
2003	15,000	14,735
2004	18,500	18,370
2007	15,000	15,000
Total		<u>\$98,045</u>

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2008 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	\$98,460	\$-	\$415	\$98,045

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, 2008, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments		Balance June 30, 2008
				Fiscal Year 2009	In Year of Maturity (2)	
General obligation bonds						
Wastewater Treatment Works						
Revolving Fund (3)	1998A	\$ 3,510	3.75-5.15	\$ 915	225 (2016)	\$ 2,295
Long-Range Bldg Program	1998B	34,545	4.2-5.1	1,690	1,765 (2010)	3,455
Long-Range Bldg Program Refunding	1998D	14,855	4.4-5.0	1,290	1,720 (2015)	10,450
Long-Range Bldg Program	1999C	16,990	4.0-5.0	785	785 (2009)	785
Drinking Water Revolving Fund (3)	1998F	3,065	3.6-4.85	150	230 (2019)	2,050
Drinking Water Revolving Fund (3)	2000A	2,990	4.25-5.6	125	240 (2021)	2,270
Water Pollution Control Revolving						
Fund (3)	2000B	3,325	4.25-5.6	135	270 (2021)	2,530
Long-Range Bldg Program	2000C	17,195	5.0-5.55	720	800 (2011)	2,280
Long-Range Bldg Program	2001B	11,430	4.1-5.75	470	830 (2021)	8,175
Information Technology	2001C	1,600	3.85-4.2	170	185 (2011)	530
Energy Conservation Program (5)	2001D	1,250	3.85-4.2	130	145 (2011)	415
Renewable Resource Program (4)	2001E	1,040	5.2-6.8	440	80 (2013)	730
Drinking Water Revolving Fund (3)	2001G	3,190	4.0-5.0	135	235 (2022)	2,500
Water Pollution Control Revolving						
Fund (3)	2001H	2,690	4.0-5.0	115	200 (2022)	2,100
Long-Range Bldg Program	2002B	10,475	3.35-4.7	460	730 (2023)	8,420
Hard Rock Mining Reclamation	2002C	2,500	3.5-4.7	95	200 (2023)	2,095
Long-Range Bldg Program Refunding	2002D	15,805	2.5-3.7	1,410	1,685 (2014)	9,230
Long-Range Bldg Program	2003A	9,730	2.37-4.0	425	655 (2024)	8,195
Energy Conservation Program (5)	2003B	1,250	2.0-3.0	120	145 (2014)	795
Renewable Resource Program						
Refunding (4)	2003C	1,970	1.45-5.25	60	90 (2019)	805
Water Pollution Control Revolving						
Fund (3)	2003D	2,730	2.0-3.1	165	190 (2014)	1,065
Drinking Water Revolving Fund (3)	2003E	1,675	2.0-3.1	100	115 (2014)	645
Long-Range Bldg Program Refunding	2003G	26,610	2.0-5.0	2,075	2,310 (2017)	18,500
Information Technology Refunding	2003H	8,725	2.0-4.0	2,150	2,225 (2010)	4,375
Water Pollution Control Revolving						
Fund (3)	2004A	2,665	2.0-3.8	155	185 (2015)	1,185
Long-Range Bldg Program	2004B	3,125	3.0-4.75	165	170 (2025)	2,670
Long-Range Bldg Program Refunding	2005A	14,945	3.0-5.25	420	1,205 (2019)	14,875
Long-Range Bldg Program	2005B	1,670	3.25-4.3	65	120 (2026)	1,565
Energy Conservation Program (5)	2005C	2,500	3.25-4.0	235	290 (2016)	2,075
CERCLA Program (6)	2005D	2,000	3.25-4.3	75	140 (2026)	1,870
Drinking Water Revolving Fund (3)	2005F	3,875	4.0-4.75	210	350 (2021)	3,515
Water Pollution Control Revolving						
Fund (3)	2005G	2,110	4.0-4.75	115	190 (2021)	1,910
Long-Range Bldg Program Refunding	2005H	10,055	3.0-5.0	45	1,300 (2020)	9,845
Long-Range Bldg Program	2006A	31,350	4.0-5.0	1,315	1,930 (2027)	30,360
Energy Conservation Program (5)	2006B	3,750	4.0-6.0	190	330 (2022)	3,600
CERCLA Program (6)	2006C	1,000	4.0	90	120 (2017)	925
Renewable Resource Program (4)	2006D	950	5.6-6.0	45	90 (2022)	915
Long-Range Bldg Program Refunding	2007A	16,740	4.25-5.0	-	2,465 (2018)	16,740
Long-Range Bldg Program	2007D	11,720	4.375-4.75	380	3,865 (2028)	11,720
Long-Range Bldg Program	2008D	3,100	3.375-4.35	205	220 (2028)	3,100
Total general obligation bonds		\$365,980		\$18,040		\$201,560
Special revenue bonds						
State Hospital Project (7)	1997	\$ 25,915	4.0-5.05	\$ 965	1,820 (2022)	\$ 18,910
Renewable Resource Program (8)	1997A	1,205	6.0-7.3	115	115 (2009)	115
Renewable Resource Program (8)	1997B	2,660	3.75-5.37	130	210 (2018)	1,670

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments		Balance June 30, 2008
				Fiscal Year 2009	In Year of Maturity (2)	
Renewable Resource Program (8)	2001A	420	3.65-5.59	20	30 (2021)	315
Renewable Resource Program (8)	2001B	1,750	5.2-7.1	70	150 (2021)	1,370
Renewable Resource Program Refunding (8)	2001C	12,155	2.55-4.3	655	790 (2013)	3,605
Broadwater Power Proj Refunding (8)	2001D	21,450	2.25-4.7	1,240	1,795 (2018)	14,885
Renewable Resource Program (8)	2001E	885	2.1-4.85	35	65 (2022)	685
Renewable Resource Program (8)	2001F	900	3.3-6.2	35	75 (2022)	725
Developmental Center Project Refunding (7)	2003	11,510	3.0-5.0	635	970 (2019)	8,665
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	120	215 (2024)	2,550
Renewable Resource Program Refunding (8)	2004A	5,070	2.15-2.95	500	500 (2009)	500
Renewable Resource Program (8)	2004B	430	4.45-5.45	25	40 (2020)	370
U.S. Highway 93 GARVEES (9)	2005	122,795	3.65-5.19	6,685	11,315 (2020)	105,330
U.S. Highway 93 GARVEES (9)	2008	44,670	3.5-5.0	2,385	3,925 (2023)	44,670
Total special revenue bonds		<u>\$254,815</u>		<u>\$13,615</u>		<u>\$204,365</u>
Notes payable						
Water Conservation (Little Dry Project) (10)		\$ 50	5.0	\$ 2	1 (2012)	\$ 9
Water Conservation (Petrolia Project) (10)		50	5.0	2	2 (2016)	19
Middle Creek Dam Project (11)		3,272	8.125	53	208 (2034)	2,691
Tongue River Dam Project (12)		11,300	-	290	290 (2038)	8,692
Total notes payable		<u>\$ 14,672</u>		<u>\$ 347</u>		<u>\$ 11,411</u>
Subtotal governmental activities, before deferred balances						417,336
Deferred amount on refunding						(4,149)
Unamortized discount						(119)
Unamortized premium						9,635
Total governmental activities		<u>\$635,467</u>		<u>\$32,002</u>		<u>\$422,703</u>
Business-type Activities						
Bonds/notes payable						
Economic Development Bonds (13)						
Municipal Finance Consolidation Act Bonds (Irrigation Program) (14)	1988	\$ 4,976	6.60-7.75	\$ 45	70 (2014)	\$ 345
Conservation Reserve Enhancement Program (CRP Bonds) (15)		1,508	6.0-7.50	372	98 (2014)	1,508
Total bonds/notes payable		<u>6,484</u>		<u>417</u>		<u>1,853</u>
Total business-type activities		<u>\$ 6,484</u>		<u>\$ 417</u>		<u>\$ 1,853</u>

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

(2) Year of maturity refers to fiscal year.

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

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

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

(6) The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42 United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA Bonds are secured additionally by a pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event cost recovery payments are insufficient.

- (7) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana Developmental Center Project and the Montana State Hospital Project.
- (8) Issued by the Department of Natural Resources and Conservation and backed by a pledge of coal severance taxes and project revenues.
- (9) The U.S. Highway 93 GARVEES (Grant Anticipation Revenue Vehicles) Bonds were issued for the purpose of improving a 44.8-mile stretch of U.S. Highway 93. Repayment of the bonds is secured by a pledge of certain federal aid revenues.
- (10) Loans obtained from Farmers Home Administration for the purpose of acquiring an irrigation (pumping) system for water distribution in the vicinity of Sidney, Montana (Little Dry Project) and to rehabilitate the Petrolia Reservoir and Canal in the vicinity of Winnett, Montana (Petrolia Project). A portion of the revenues generated by the facilities is pledged for repayment of the loans. In the fiscal year 2004 CAFR, the Little Dry Project Loan was incorrectly listed as a special revenue bond and the Petrolia Project Loan was incorrectly excluded from the long-term debt reported.
- (11) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes \$215,850 of interest owed.
- (12) Northern Cheyenne Tribe loan to the Montana Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.
- (13) Economic Development Bonds & Municipal Finance Consolidation Act Bonds – This program is directed by the Board of Investments, which is attached to the Department of Commerce for administrative purposes. The program assists Montana's small businesses and local governments in obtaining low-cost financing.
- (14) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds, and the interest thereon, are payable solely from the collection of a special tax or assessment, which is a lien against real property in the Irrigation District. The Irrigation Bonds are limited obligations of the Board of Investments, due to an irrevocable pledge to lend money for deposit by the trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein, on any payment date. The indenture does not permit the issuance of additional bonds.
- (15) The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Bond Pool.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2008, were as follows (in thousands):

Governmental Activities

Year Ended June 30	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 18,040	\$ 8,151	\$ 13,615	\$ 9,353	\$ 347	\$ 44
2010	17,415	7,745	13,400	8,903	349	43
2011	15,355	7,071	14,030	8,324	351	42
2012	15,650	6,451	14,645	7,701	352	41
2013	16,275	5,807	15,310	7,051	353	40
2014-2018	72,130	18,615	83,385	24,345	1,841	181
2019-2023	32,860	6,384	49,765	5,456	1,931	145
2024-2028	13,835	1,638	215	4	2,043	102
2029-2033	-	-	-	-	2,188	49
2034-2038	-	-	-	-	1,656	2
Total	\$201,560	\$61,862	\$204,365	\$71,137	\$11,411	\$689

Business-type Activities

Year Ended June 30	Economic Development Bonds	
	Principal	Interest
2009	\$ 417	\$125
2010	347	96
2011	307	73
2012	329	52
2013	285	29
2014-2018	168	9
Total	\$1,853	\$384

Debt service requirements of discretely presented component units at June 30, 2008, were as follows (in thousands):

Year Ended June 30	Housing Authority		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 14,230	\$ 46,649	\$ 3,518	\$ 6,425	\$ 5,675	\$ 6,896
2010	15,255	46,044	3,759	6,492	5,813	6,678
2011	15,885	45,384	3,711	6,466	5,642	6,440
2012	16,585	44,677	3,849	6,427	5,876	6,223
2013	17,980	43,924	5,777	4,570	6,135	5,958
2014-2018	107,739	205,802	32,100	18,998	34,690	25,302
2019-2023	141,355	176,080	32,920	11,090	44,060	15,546
2024-2028	191,540	134,532	12,815	6,098	26,620	4,483
2029-2033	219,075	81,142	12,330	3,311	8,190	927
2034-2038	176,165	27,320	7,310	467	-	-
2039-2043	20,450	2,444	-	-	-	-
2044-2048	970	35	-	-	-	-
Total	\$937,229	\$854,033	\$118,089	\$70,344	\$142,701	\$78,453

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2008, 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	\$208,015	\$ 14,820	\$ 21,275	\$201,560	\$18,040	\$183,520
Special revenue bonds	171,080	44,670	11,385	204,365	13,615	190,750
Notes payable	11,755	-	344	11,411	347	11,064
	390,850	59,490	33,004	417,336	32,002	385,334
Deferred amount on refunding	(4,840)	691	-	(4,149)	-	(4,149)
Unamortized discount	(133)	14	-	(119)	-	(119)
Unamortized premium	10,090	829	1,284	9,635	-	9,635
Total bonds/notes payable	395,967	61,024	34,288	422,703	32,002	390,701
Other liabilities						
Lease/installment purchase payable	1,057	1,068	704	1,421	475	946
Compensated absences payable (1)	84,131	41,417	34,424	91,124	34,428	56,696
Early retirement benefits payable (1)	48	247	251	44	5	39
Arbitrage rebate tax payable (1)	363	254	297	320	1	319
Estimated insurance claims (1)	27,629	111,272	112,303	26,598	13,442	13,156
OPEB implicit rate subsidy (2)	-	40,029	-	40,029	-	40,029
Total other liabilities	113,228	194,287	147,979	159,536	48,351	111,185
Total governmental activities						
Long-term liabilities	\$509,195	\$255,311	\$182,267	\$582,239	\$80,353	\$501,886
Business-type activities						
Bonds/notes payable						
Economic Development Bonds	\$ 2,677	\$ -	\$ 824	\$ 1,853	\$ 417	\$ 1,436
MUS Workers Compensation	430	-	430	-	-	-
Total bonds/notes payable	3,107	-	1,254	1,853	417	1,436
Other liabilities						
Compensated absences payable	1,299	789	548	1,540	544	996
Arbitrage rebate tax payable	59	84	104	39	25	14
Estimated insurance claims	15,478	67,125	62,711	19,892	11,481	8,411
OPEB implicit rate subsidy (2)	-	713	-	713	-	713
Total other liabilities	16,836	68,711	63,363	22,184	12,050	10,134
Total business-type activities						
Long-term liabilities	\$ 19,943	\$ 68,711	\$ 64,617	\$ 24,037	\$12,467	\$ 11,570

- (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, 2008, 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	\$ 914,854	\$108,577	\$ 76,520	\$ 946,911	\$ 14,230	\$ 932,681
Montana State University (MSU)	127,486	17,958	21,784	123,660	4,983	118,677
University of Montana (UM)	146,052	500	6,076	140,476	5,675	134,801
Total bonds/notes payable (1)	1,188,392	127,035	104,380	1,211,047	24,888	1,186,159
Other liabilities						
Lease/installment purch pay	490	425	247	668	265	403
Compensated absences pay	48,826	23,782	22,399	50,209	23,338	26,871
Arbitrage rebate tax payable	1,197	-	320	877	544	333
Estimated insurance claims	754,272	212,937	146,521	820,688	147,247	673,441
Due to federal government	31,392	394	-	31,786	-	31,786
Other	2,095	-	-	2,095	-	2,095
OPEB implicit rate subsidy (2)	-	17,226	-	17,226	-	17,226
Total other liabilities	838,272	254,764	169,487	923,549	171,394	752,155
	<u>\$2,026,664</u>	<u>\$381,799</u>	<u>\$273,867</u>	<u>\$2,134,596</u>	<u>\$196,282</u>	<u>\$1,938,314</u>
Long-term liabilities of MSU component units					92	519
Long-term liabilities of UM component units					427	101
Total discretely presented component units						
Long-term liabilities					<u>\$196,801</u>	<u>\$1,938,934</u>

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

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

F. Refunded and Early Retired Debt

Primary Government

Pre-payments

During fiscal year 2008, the Department of Natural Resources and Conservation (DNRC) used current available resources to make the following pre-payments on outstanding bonds: \$200,000 of special revenue Series 2004A and \$1,055,000 of general obligation Series 2004A.

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, 2008, \$66,440,000 of bonds outstanding was considered defeased.

Universities

Defeased Debt Outstanding

Montana State University and the University of Montana have 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, 2008, \$1,535,000 and \$49,029,871 of bonds outstanding were considered defeased for Montana State University and the University of Montana, respectively.

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, 2008, industrial revenue bonds outstanding aggregated \$189.2 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, 2008, QZAB debt outstanding aggregated \$7.2 million.

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

Beginning Farm Loan Program

The Montana Department of Agriculture is authorized to request issuance of bonds by the BOI to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2008, was as follows: Hershberger Project – issued \$129,412, outstanding \$109,601; Young Project – issued \$223,300, outstanding \$198,125.

Discretely Presented Component Units

Facility Finance Authority (FFA)

The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2008, revenue bonds outstanding aggregated \$880.6 million, and notes payable outstanding aggregated \$10.5 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)

The 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, 2008, bonds outstanding aggregated \$8,985,264.

H. Derivative Transactions Related to Long-term Debt

Interest Rate Exchange Agreements

In March 2005, Montana State University (MSU) entered into a forward-starting interest rate swap agreement (“swaption”) with Deutsche Bank AG (“DBAG”). The notional amount of the swap as of June 30, 2008, was \$25,250,000, and equaled MSU’s Revenue Bonds Series J 2005 bond principal outstanding. The instrument was intended to synthetically fix the Series J 2005 bonds issued July 21, 2005, from a variable rate to an intended rate of 3.953%.

DBAG has the option to unwind the swap in 2016, exposing MSU to rollover risk for the Series J bonds’ remaining term. If the swaption is not exercised in 2016, the swap terminates in November, 2035, at which time the Series J 2005 bonds mature.

At June 30, 2008, the negative fair value of the swap was (\$1,608,366). Such value was provided to MSU by an independent valuation firm, and is calculated using mid-market levels as of the close of business on June 30.

In August 2005, the University of Montana (UM) entered into a forward SWAP agreement (“swaption”) with Wachovia Bank, NA (“counterparty”) to hedge the interest rate risk associated with the potential future issuance of variable-rate revenue bonds. The swaption gives the counterparty the right to require that UM execute a floating-to-fixed swap in May 2010, based on a notional amount of \$47,000,000. Should the counterparty exercise its option, UM would expect to issue Series K 2010 taxable, variable-rate bonds at the \$47,000,000 notional amount of the swap. The intention of UM in entering into the swaption was to refund its outstanding Series F 1999 Revenue Bonds and lower the cost of its borrowing.

The counterparty has the right to exercise the swap on May 15, 2010, the call date of the Series F 1999 Revenue Bonds. If the swaption is exercised, it will also become effective on May 15, 2010. Under terms of the swap, UM will pay the counterparty a fixed rate substantially equal to the fixed rate on the refunded bonds, and receive a variable payment based on the one-month LIBOR rate, plus 30 basis points.

Once the refunded Series F 1999 Revenue Bonds escrow matures in 2019, the floating-rate Series K 2010 Parity Bonds will be converted to tax-exempt bonds, and the swap will convert to tax-exempt rates as well. Should the option to enter the swap not be exercised by the counterparty, UM would not be required to repay the swaption purchase price.

At June 30, 2008, the swaption has a negative fair value of (\$2,309,206). If the option is exercised and variable-rate Series K 2010 Parity Bonds are not issued by the UM, the Series F 1999 Revenue Bonds would not be refunded, and UM would make net swap payments as required by the terms of the swap.

Constant Maturity Swap

In July 2006, MSU entered into a forward-starting basis swap agreement ("constant maturity swap") with Morgan Stanley Capital Services, Inc. ("Morgan Stanley"). The agreement took effect November 15, 2007, at a notional amount of \$25,250,000, decreasing to \$1,550,000 by November 15, 2034, at which time the instrument expires.

At June 30, 2008, the negative fair value of the constant maturity swap was (\$65,445). Such value was provided to the university by an independent valuation firm, and was calculated using mid-market levels as of the close of business on June 30.

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 includes 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, 2008, consisted of the following (in thousands):

	Due To Other Funds					
	Coal Severance Tax Permanent	Economic Development Bonds	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds
Due From Other Funds						
Economic Development Bonds	\$ -	\$ -	\$ -	\$ -	\$2,327	\$ -
Federal Special Revenue	-	-	-	109	14	10
General Fund	5,443	1	318	-	142	12,664
Internal Service Funds	34	2	1,426	3,144	521	188
Nonmajor Enterprise Funds	-	-	6	346	65	-
Nonmajor Governmental Funds	-	-	198	1,091	-	-
State Special Revenue	41	-	2,595	5,184	20	112
Total	\$5,518	\$3	\$4,543	\$9,874	\$3,089	\$12,974

	Nonmajor Governmental Funds	State Special Revenue	Total
Due From Other Funds (continued)			
Economic Development Bonds	\$ 6	\$ 1,800	\$ 4,133
Federal Special Revenue	-	1,308	1,441
General Fund	37	49,919	68,524
Internal Service Funds	15	1,996	7,326
Nonmajor Enterprise Funds	-	48	465
Nonmajor Governmental Funds	-	144	1,433
State Special Revenue	3,351	-	11,303
Total	\$3,409	\$55,215	\$94,625

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, 2008, consisted of the following (in thousands):

	Interfund Loans Payable				Total
	Federal Special Revenue	Internal Service Funds	Nonmajor Enterprise Funds	State Special Revenue	
Interfund Loans Receivable					
General Fund	\$19,664	\$ 801	\$ 70	\$2,586	\$23,121
Internal Service Funds	570	-	225	13	808
Nonmajor Enterprise Funds	141	18	-	-	159
State Special Revenue	44,077	493	-	-	44,570
Total	\$64,452	\$1,312	\$295	\$2,599	\$68,658

C. Advances To/From Other Funds

Advances to/from other funds represents 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 includes 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, 2008, consisted of the following (in thousands):

	Advances from Other Funds				Total
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue	
Advances to Other Funds					
Coal Severance Tax Permanent	\$ -	\$ -	\$ -	\$ 3,112	\$ 3,112
Economic Development Bonds	-	4,228	650	16,700	21,578
General Fund	-	2,644	-	-	2,644
Nonmajor Enterprise Funds	75	-	-	-	75
Nonmajor Governmental Funds	-	-	-	2,816	2,816
State Special Revenue	1,491	-	15,170	-	16,661
Total	\$1,566	\$6,872	\$15,820	\$22,628	\$46,886

Additional detail for certain advance balances at June 30, 2008, follows (in thousands):

Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program		Advances from the Coal Severance Tax Permanent Fund	
Department	Balance	Department	Balance
Natural Resources and Conservation	\$ 650	Justice	\$3,112
Environmental Quality	1,299	Total	\$3,112
Justice	15,401		
Transportation	4,228		
Total	\$21,578		

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, 2008, consisted of the following (in thousands):

	Transfers In					
	Coal Severance Tax Permanent	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant Permanent	Nonmajor Enterprise Funds
Transfers Out						
Coal Severance Tax Permanent	\$ -	\$ -	\$28,855	\$ -	\$ -	\$ -
Federal Special Revenue	-	-	1,865	17	-	-
General Fund	-	7	-	634	146	51
Internal Service Funds (1)	-	-	4	-	-	-
Land Grant Permanent	-	-	-	-	-	-
Nonmajor Enterprise Funds	-	1	36,545	-	-	-
Nonmajor Governmental Funds	365	-	1,567	-	-	-
State Special Revenue	283	384	6,631	2,802	1	58
Unemployment Insurance	-	1,299	-	-	-	-
Total	\$648	\$1,691	\$75,467	\$3,453	\$147	\$109

	Nonmajor Governmental Funds	State Special Revenue	Total
Transfers Out (continued)			
Coal Severance Tax Permanent	\$ 237	\$ 8,704	\$ 37,796
Federal Special Revenue	16,822	12,384	31,088
General Fund	109,290	82,936	193,064
Internal Service Funds (1)	-	-	4
Land Grant Permanent	982	63,000	63,982
Nonmajor Enterprise Funds	-	5,272	41,818
Nonmajor Governmental Funds	2,758	22,963	27,653
State Special Revenue	9,986	-	20,145
Unemployment Insurance	-	-	1,299
Total	\$140,075	\$195,259	\$416,849

- (1) Total transfers-out for internal service funds on the financial statements is reported as \$3,661,480. The difference of \$3,657,739 between the amount reported above of \$3,541 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 capital contribution, and the receiving fund type recorded the net book value of the capital asset as a transfer-out.

NOTE 13. FUND DEFICITS

The following funds have a deficit fund balance/net assets position at June 30, 2008, (in thousands):

Fund Type/Fund	Deficit
<u>Enterprise funds</u>	
Subsequent Injury	\$(2,692)
Surplus Property	\$ (41)
<u>Internal service funds</u>	
Justice Legal Services	\$ (92)
Personnel Training	\$ (10)

NOTE 14. RESERVED FUND BALANCES

Special Revenue Funds – The State and Federal Special Revenue Funds reserved fund balances are for the following purposes (in thousands):

Fund Type/Purpose	Amount
<u>State Special Revenue funds</u>	
General Government	\$ 39,841
Public Safety/Corrections	197,095
Transportation	115,706
Health/Social Services	67,127
Education/Cultural	23,784
Resource/Recreation/Environment	410,210
Economic Development/Assistance	50,192
Total state special revenue funds	<u>\$903,955</u>
<u>Federal Special Revenue funds</u>	
General Government	\$ 3,375
Public Safety/Corrections	790
Health/Social Services	3,022
Education/Cultural	18,797
Resource/Recreation/Environment	323
Economic Development/Assistance	332
Total federal special revenue funds	<u>\$26,639</u>

Coal Severance Tax Permanent Trust Fund – The reserve for trust principal is comprised of the following (in thousands):

Purpose	Amount
Big Sky Economic Development Fund	\$ 36,824
Coal Severance Tax Bond Fund	9,348
Treasure State Endowment Fund	169,805
Treasure State Endowment Regional Water System Fund	43,249
Coal Severance Tax Permanent Fund	520,534
Coal Severance Tax Income Fund	1,238
Total	<u>\$780,998</u>

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents (Regents), an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation and by the Student Assistance Foundation of Montana (SAF) and subsidiaries. The Regents and MHESAC have three common board members. Approximately 76.88% of the Regents' outstanding loan volume, \$1,479,231,629, is held by either MHESAC or SAF and subsidiaries. During fiscal year 2000, MHESAC undertook a reorganization under which its operating staff and assets were transferred to the Student Assistance Foundation of Montana, and MHESAC entered into agreements with SAF to provide management and loan servicing to MHESAC. The Board of Regents and SAF have three common board members. The Office of Commissioner of Higher Education (OCHE) paid SAF during fiscal year 2008 for its share of various costs, such as personnel costs for employees of SAF who performed services that were of direct benefit to the State, equipment leases, computer maintenance costs, utilities, and other shared operating expenses. The total amount of these expenses for fiscal year 2008 amounted to \$425,267. Additionally, the Montana Guaranteed Student Loan Program (MSGSLP) paid \$124,926 to SAF for leased space in the building MSGSLP occupies with SAF at 2500 Broadway, Helena, MT 59601.

A staff member in the Department of Administration, Health Care and Benefits Division, serves as a Director of the Montana Association of Health Care Purchasers for no remuneration. The Department pays this association \$1 per member per year to maintain its membership as well as a monthly fee of \$3 on behalf of each employee who participates in a managed care plan. These fees are payment for data analysis, actuarial analysis, and consulting services performed by association staff on behalf of member employers.

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. 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 court has granted that motion. The State has appealed the order to the Montana Supreme Court, where the appeal remains pending. 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 2003 payment, 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 discussed above. 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.

In September 2002, a coalition of school districts, teachers, and parents filed an action, Columbia Falls Elementary School District v. State of Montana, No. BDV-2002-528 (Mont. 1st Jud. Dist. Lewis & Clark County), that alleges that Montana's system for funding public education violates the requirements of the Montana Constitution. The complaint seeks a declaratory judgment that the system violates the Montana Constitution and declaratory and injunctive relief compelling the State to (1) study and determine the components of free quality public elementary and secondary education and the costs of delivering such education; (2) implement a funding system based on educationally relevant factors; (3) fully fund and equitably distribute the State's share of the costs of public elementary and secondary education; (4) include a cost adjustment factoring the funding system; and (5) establish a mechanism for monitoring and adjusting the funding system and an award of attorney's fees. The court denied the State's motion for summary judgment.

The district court sat for the trial in this case from January 20, 2004 through February 4, 2004. Both parties submitted witness, exhibits, and cross-examined witnesses. On April 15, 2004, the court entered its order holding the school funding system unconstitutional. The State appealed the judgment, and the plaintiffs cross-appealed certain aspects of the judgment as well. The Supreme Court heard oral argument on the appeal and cross-appeal on October 20, 2004, and the Montana Supreme Court issued an order that the school funding system violates the Montana Constitution, and upheld the District order that the State had until October 2005 to address this issue. In February 2008, the plaintiffs filed a motion seeking further relief under the 2004 judgment. The Court held a five-day hearing on the motion in October 2008. The motion remains pending in the district court. On December 9, 2008, a preliminary decision was issued in Helena District Court in favor of the State. The decision said public schools aren't entitled to any "supplementary relief" from the State. Significant additional expenditures on K-12 education may be required in future years, and further litigation in this case or future new lawsuits are possible regarding school funding.

Beginning in February 2001, the Montana Department of Fish, Wildlife and Parks became the defendant in a number of lawsuits challenging the constitutionality and enforcement of Initiative Measure 143, which banned the issuance of new licenses for game farms in Montana, prohibiting the transfer of existing licenses, and prohibited game farm licenses from allowing the shooting of game farm animals on a game farm for a fee or other remuneration. Most of these cases sought declaratory and injunctive relief, but several cases are now pending in which game farmers have alleged that I-143 takes their property without just compensation in violation of the state and federal constitutions, and in which they seek damages from the State for the alleged uncompensated taking. The State believes valid defenses exist to the claims asserted in these cases. One of the cases, Spoklie v. State of Montana, U.S. District Ct., D. Mont. Docket No. CV-02-102-GF-SHE, has been dismissed in its entirety, and the dismissal has now been affirmed by the Ninth Circuit of Appeals. In a second case, Kafka v. Montana Department of Fish Wildlife, and Parks, Hill County Docket No. DV-02-059, the state district court has denied the taking claim and entered final judgment in favor of the State. In Buhlmann et al. v. State of Montana et al., Lewis and Clark Docket No. DV-2002-555, the court has entered judgment in favor of the State on the taking claims, and appeal has been taken to the Montana Supreme Court. Both the Kafka and Buhlman decisions are on appeal before the Montana Supreme Court. Royal Tine Ranch v. State, Flathead County Docket No. DV-02-606C, is submitted on cross-motions for summary judgment. Wallace v. State of Montana, Ravalli County Docket No. 02-254, has been dismissed without prejudice, and

the Bowman v. Montana Fish, Wildlife and Parks, Fergus County Docket No. DV-2002-02, case has been dismissed without prejudice for failure to prosecute. Spoklie v. Montana Department of Fish, Wildlife and Parks, Sheridan County Docket No. 11013, and Mesaros v. Department of Fish, Wildlife and Parks, Cascade County Docket No. BDV 03-0119, are in varying stages of pretrial preparation. Based on the courts' treatment of the cases thus far, in the opinion of counsel, good defenses exist to all of these claims, although adverse decisions remain possible. The amount of loss cannot be estimated at this time.

In Montana Association for Disability Services, Inc., et al., v. Schweitzer, et al., filed in Montana First Judicial District Court, Lewis and Clark County, Cause No. BDV 2002 558, a class-action lawsuit was filed on the part of individually-named developmentally disabled persons and the Montana Association for Independent Disability Services, Inc., (MAIDS) a consortium of community-based private facilities serving the developmentally disabled population. The plaintiffs allege that the named defendants, Brian Schweitzer, Joan Miles, and Joe Mathews, in their official capacities, "configure" the wage and benefit structure of employees at community-based facilities serving developmentally disabled persons at a level that is lower than the level established at Eastmont and MDC. It is alleged this causes employees to leave the community-based facilities at a higher rate, thereby jeopardizing the quality and quantity of the services provided in the community-based facilities. This allegedly has the effect of precluding individuals with developmental disabilities from living in the community in the least restrictive, most independent circumstances possible. The wage configuration by the defendants allegedly constitutes a violation of statutes concerning the objective of placing developmentally disabled individuals in independent living situations, the establishment of uniform reimbursement rates equivalent to Medicaid covered services, the right to enjoy life, liberty, safety, health, and happiness (Article II, Section 3, Montana Constitution), to dignity and equal protection (Article II, Section 4, Montana Constitution), and of the requirement of Article XII, Section 3 that the State and Legislature provide assistance to those in need. The plaintiffs seek declaratory and injunctive relief concerning the proper establishment of reimbursement rates, attorney's fees, and costs. The court entered an order on March 30, 2004, granting the Motion for Class Certification. The parties have entered into a Class Action Settlement Agreement. Signatures of the named plaintiffs are being obtained, after which the settlement agreement will be presented to the court for its approval. It is anticipated that a court hearing will be necessary to allow input into the decision whether the settlement agreement is fair and acceptable to the class plaintiffs. Under the terms of the settlement, there will be no monetary damages and no attorney fees will be awarded.

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. The state defendants do not feel that the material facts in the case have been sufficiently developed to permit a determination of the likelihood of 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 also not determinable at this time.

Lori Brenneman v. Gallatin County, Ron Carlstrom, Todd Kessner, Cynde Hertzog, and Does 1-10, Eighteenth Judicial District, Gallatin County, Cause No. DV 05-358, involves the plaintiff’s claims of disability discrimination, gender discrimination, wrongful discharge, and retaliation. The State is providing a defense for Carlstrom and Kessner. The plaintiff seeks compensatory and exemplary damages, costs, and attorney fees. The case is set for trial in February, 2009. The state defendants do not feel that the material facts in the case have been sufficiently developed to permit a determination of the likelihood of success on the merits. In addition, the fiscal impact on the State, should the plaintiff prevail, and the amount of any potential award of attorney fees and costs, is also not determinable at this time.

In Satterlee v. Lumberman’s Mutual Casualty Company et al., WCC No. 2003-840, was filed before the Workers Compensation Court on July 18, 2003. The *Satterlee, Zenahlik & Foster vs. Lumberman’s Mutual Casualty Company and Montana State Fund* case challenges the constitutionality of state statute, (Section 39-71-710. MCA) passed by the Montana Legislature in 1981. That statute authorizes termination of permanent total disability benefits and rehabilitation benefits when a claimant receives or becomes eligible to receive full Social Security retirement benefits or an alternative to that plan. Should the statute be found unconstitutional as applied to permanent total benefits, *Satterlee, et al.* request payment of permanent total disability lifetime benefits. In addition, the petition requests certification of this case as a class action or the establishment of a common fund for similarly situated claimants. Petitioners filed a motion and brief for summary judgment on the constitutional issue. The Worker’s Compensation Court provided an opportunity for any workers’ compensation insurer to intervene until June 6, 2005. The Worker’s Compensation Court rendered

its decision on December 12, 2005, holding that MCA, Section 39-71-710, is constitutional as applied to PTB benefits. *Satterlee, et al.* appealed to the Montana Supreme Court on December 11, 2007. Montana’s Supreme Court issued an order dismissing *Satterlee, et al.* without prejudice as two constitutional issues remained for ruling by the lower court (Rule 54(b)). MSF prevailed on the additional issues (section 39-71-710, MCA does not violate *Satterlee, et al.*’s due process rights or discriminate based on age) before the Worker’s Compensation Court. On July 1, 2008 *Satterlee, et al.* again appealed to the Montana Supreme Court. Should Section 39-71-710, MCA ultimately be held unconstitutional as applied to permanent total disability payments by the Montana Supreme Court, and also be found to apply retroactively, the cost has been estimated for non-settled claims arising on or after July 1, 1990 through December 22, 2004 at \$135 to \$186 million. The estimated cost of retroactively applying the decision to the Old Fund, for non-settled permanent total disability claims that occurred before July 1, 1990 is \$93 million to \$116 million. Actual cost impact is unknown. The potential for liability for MSF and the state of Montana is reasonably possible, but following the second Worker’s Compensation Court decision in MSF’s favor, the probability or liability for MSF and the state of Montana is reduced.

Working Rx, Inc., v. Montana State Fund, Ed Heinrich, (Chairman of the Board of Directors of the Montana State Fund), Laurence Hubbard (President of the Montana State Fund), National Medical Health Card Systems, Inc, and John Does 1-20. This complaint was served in September 2006, but has since been dismissed to provide for the presentation of the claim to the Department of Administration as required in Title 2, Chapter 9, Section 301, MCA. Whether Montana State Fund has any responsibility to Working Rx for payment of pharmacy claims is the basis of the claim. Montana State Fund does not have sufficient information to determine potential liability or cost impact.

Martin Heth, Jr. vs. Montana State Fund, WCC No. 2006-1758, was decided by the Worker’s Compensation Court on April 25, 2008. The Worker’s Compensation Court decision included the following summary: “Petitioner was in a single vehicle accident involving the septic pumper truck he drove for his employer. Petitioner’s blood alcohol content (BAC) tested at .0874 shortly after the accident and beer cans were found in and around the truck. Respondent argued that is not liable for Petitioner’s workers’ compensation claim because alcohol was the major contributing cause of the accident. Petitioner argued that alcohol was not the major contributing cause of the accident, and in any event, his employer knew that he drank alcohol while performing his job and therefore he is not barred from recovery under Section 39-71-407(4), MCA.” The Worker’s Compensation Court then held: “Although the

respondent proved that alcohol was the major contributing cause of the accident, Petitioner proved that his employer knew he used alcohol while performing his job duties. Therefore, petitioner is eligible for workers' compensation benefits." Montana State Fund appealed the Worker's Compensation Court decision to the Montana Supreme Court on June 13, 2008, and among other grounds asserts an improper interpretation of "employer knowledge" exception by the Worker's Compensation Court. MSF believes there is a basis for the reversal of the Worker's Compensation Court decision in the favor of MSF. The potential for the Supreme Court to affirm the lower court decision against MSF is probable. The estimated cost of the case, should the Supreme Court affirm the lower court decision, is over \$1,000,000 with estimates to \$2,800,000. However, actual cost would depend on an evaluation of all available information at that time.

Quick vs. Montana State Fund, WCC No. 2006-1788, was decided by the Worker's Compensation Court on June 4, 2008. Quick was injured on June 15, 1984, and is a case in the "Old Fund". Quick requested retroactive and future domiciliary care benefits, a higher rate of pay for domiciliary care provided by Quick's wife, a 20% penalty, attorney's fees, and costs. Quick argued Montana State Fund (MSF) was on notice of domiciliary care since the 1984 accident. MSF argued that it did not have notice that domiciliary care was needed until receipt of a medical opinion on February 1, 2007, stating that domiciliary care was needed. Prior to the trial MSF conceded that Quick required 24 hour domiciliary care and began paying the rate of \$7.50 per hour, effective February 1, 2007. The Worker's Compensation Court held Quick is not entitled to retroactive domiciliary care prior to February 1, 2007. The court also held the rate of \$7.50 per hour was unreasonable as the evidence establishes that Quick's care needs to be by a person with RN skills. The court found \$20.00 per hour to be a reasonable rate of pay. The court awarded a 20% penalty on the difference of \$7.50 per hour and the \$20 per hour ordered by the court on June 4, 2008. Quick appealed to the Montana Supreme Court on July 1, 2008, and MSF filed a cross-appeal on the penalty on July 15, 2008. It is remote that the Supreme Court will find additional liability for the state of Montana (this is an "Old Fund" claim) by reversing the lower court decision denying the retroactive domiciliary care. It is reasonably possible that liability will be affirmed for the penalty awarded by the lower court. The cost of this case, should the Montana Supreme Court reverse the lower court

decision and award retroactive domiciliary care prior to February 1, 2007 is estimated at \$1.9 million. Attorney fees would be an additional 40% of the retroactive award.

Coles, Individually and as Personal Representatives 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, that the employer-policyholder was at fault in causing the death of its employee, and that the State Fund's policy provides indemnity, the damages to be awarded may be substantial. 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.

B. Federal Contingencies

USDA Commodities – In fiscal year 2008, the State distributed \$8,170,792 in commodities. The value of the commodities stored in the State's warehouses was \$2,173,511 at June 30, 2008, for which the State is liable in the event of loss.

C. Miscellaneous Contingencies

Loan Guarantees – As of June 30, 2008, the Board of Investments (BOI) had provided loan guarantees from the Coal Severance Tax Permanent Trust Fund to the Economic Development Bonds Enterprise Fund and the Facility Finance Authority, (a component unit of the State of Montana), totaling \$182,393,408. The BOI's exposure to bond issues of the Economic Development Bonds Enterprise Fund was \$98,390,000, while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority was \$84,003,408.

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, 2008, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	State Special Revenue	Permanent Trust	Debt Service	Capital Projects
Coal severance	\$3,557	\$1,110	\$6,891	\$126	\$1,593
Corporation tax	30,601	-	-	-	-
Total	\$34,158	\$1,110	\$6,891	\$126	\$1,593

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed to the General Fund.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2008. The corporations have appealed the decision. As of June 30, 2008, these include \$3,468,231 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, 2008. As of June 30, 2008, these include \$6,899,098 of protested property taxes recorded in the General Fund and \$7,849,129 recorded in the State Special Revenue Fund.

NOTE 17. SUBSEQUENT EVENTS

Bond/Loan Issues

In August 2008, the State of Montana received \$16 million from a litigation settlement for which the State filed a lawsuit against Atlantic Richfield Company (ARCO) and ASARCO for damage to natural resources at the Upper Blackfoot River site.

On September 11, 2008, the State of Montana Board of Housing issued \$31 million Single Family Program Bonds, Series 2008A. The bonds will mature on June 1, 2010 through December 1, 2039, with interest rates from 2.55% to 5.50%. Bond proceeds will be used to purchase single family mortgage loans for the Board's Homeownership Program. The 2008A bond series is not a debt of the State, and the State is not liable for the bonds. Neither the State's faith or credit or taxing power is pledged to the payment of bond principal or interest.

On September 19, 2008, the State of Montana issued a \$700,000 General Obligation Bond Revenue Anticipation Note, Series 2008F. This obligation is authorized pursuant to the Montana Waste Water Treatment Revolving Act, Montana Code Annotated, Title 75, Chapter 5, Part 1122.

On October 17, 2008, the State of Montana issued \$2,150,000 General Obligation Renewable Resource Program Bonds, Series 2008E. This obligation is authorized pursuant to the Montana Code Annotated, Title 85, Chapter 1, Part 6.

On October 28, 2008, the State of Montana received \$168 million from a litigation settlement for which the State filed a lawsuit against ARCO for damage to natural resources at the Clark Fork River Site.

Investment Related Issues

On July 1, 2008, the Board of Investments enhanced an additional \$30 million in Montana Facility Finance Authority bonds.

The Federal National Mortgage Association and Federal Home Loan Mortgage Corp. were put into conservatorship on September 7, 2008.

On September 14, 2008, Lehman Brothers filed for Chapter 11 bankruptcy. The Bond Pool and All Other Funds (AOF), as included in Note 3D, portfolios held a \$15 million position in Lehman Brothers Holdings, Inc., 2.778%, 05/25/2010. The AOF portfolio includes a \$5 million position in Lehman Brothers Holdings, Inc., 5%, 01/14/2011. As of September 30, 2008, the book value of these bond positions was written down to 80% of par. On October 30, 2008, the book value of these bonds was further written down to 65% of par.

On September 16, 2008, the U.S. Government acquired 80% of AIG stock and extended \$85 billion in financing to the company. The loan will be repaid by the sale of AIG assets. The loan is collateralized by all the company's assets, valued at \$1.05 trillion as of June 30, 2008. The two STIP AIG securities matured on July 21, 2008 and July 30, 2008, respectively.

On September 26, 2008, Washington Mutual filed for Chapter 11 bankruptcy. The bonds are now in default following the seizure of the bank by the Office of Thrift

Supervision on September 25, 2008. The Bond Pool and AOF portfolios held a \$20 million position in Washington Mutual, Inc. 4.2%, 01/15/2010. On September 26, 2008, the Board sold \$10 million par, at a price of \$38, with an October 1, 2008 settlement date. This sale generated a loss of \$6.2 million. As of September 30, 2008, the book value of the remaining \$10 million bond position was written down to 85% of par. On October 20, 2008, the remaining \$10 million position was sold for a realized loss of \$1,684,700.

On October 30, 2008, the book value of the Galena CDO bonds was written down to 70% of par. The Bond Pool and AOF portfolios hold a \$25 million position in this security.

While payment of the Orion Finance USA interest receivable of \$903,922 remains unknown as of November 21, 2008, the State of Montana Board of Investments received payment of \$1,825,967 on the Axon Financial Funding interest receivable on November 14, 2008. In addition to the above interest receivable payment, the State of Montana Board of Investments received payment of \$10,000,933 in principal and \$1,390,471 in interest compensation in excess of the accrued interest receivable from Axon Financial Funding. The November 14, 2008, Axon Financial Funding payment totaled \$13,217,371.

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 plans shall be funded on an actuarially sound basis. As of June 30, 2008, the Teachers Retirement System (TRS) was not in compliance. Detailed information for the retirement plan can be found in Note 6.

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BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008
 (amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Licenses/permits	\$ 146,697	\$ 146,697	\$ 128,834	\$ (17,863)
Taxes:				
Natural resource	129,151	129,151	184,114	54,963
Individual income	802,566	802,566	764,134	(38,432)
Corporate income	161,271	161,271	155,881	(5,390)
Property	198,117	198,117	205,044	6,927
Fuel	-	-	-	-
Other	220,890	220,890	227,968	7,078
Charges for services/fines/forfeits/settlements	35,450	35,450	36,022	572
Investment earnings	22,460	22,460	32,938	10,478
Sale of documents/merchandise/property	380	380	289	(91)
Rentals/leases/royalties	2	2	1	(1)
Contributions/premiums	-	-	17	17
Grants/contracts/donations	1,949	1,949	3,691	1,742
Federal	32,161	32,161	36,739	4,578
Federal indirect cost recoveries	128	128	93	(35)
Other revenues	-	-	(80)	(80)
Total revenues	1,751,222	1,751,222	1,775,685	24,463
EXPENDITURES				
Current:				
General government	327,113	327,332	307,759	19,573
Public safety/corrections	229,710	230,841	212,977	17,864
Transportation (Note RS-1)	3,372	3,364	453	2,911
Health/social services	381,859	379,197	356,988	22,209
Education/cultural	881,761	883,764	873,676	10,088
Resource/recreation/environment	83,213	81,544	78,515	3,029
Economic development/assistance	37,317	37,342	36,374	968
Debt service:				
Principal retirement	757	849	469	380
Interest/fiscal charges	186	186	170	16
Capital outlay (Note RS-1)	9,014	11,251	7,986	3,265
Total expenditures	1,954,302	1,955,670	1,875,367	80,303
Excess of revenue over (under) expenditures	(203,080)	(204,448)	(99,682)	104,766
OTHER FINANCING SOURCES (USES)				
Loans issued	-	-	-	-
Bonds issued	-	-	-	-
Bond premium	-	-	-	-
Insurance proceeds	3,122	3,122	1,408	(1,714)
General capital asset sale proceeds	44	44	28	(16)
Transfers in	79,781	79,781	59,660	(20,121)
Transfers out	(29,008)	(31,359)	(27,182)	4,177
Total other financing sources (uses)	53,939	51,588	33,914	(17,674)
Net change in fund balances (Budgetary basis)	(149,141)	(152,860)	(65,768)	87,092
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	2,964	2,964
2. Securities lending costs	-	-	(2,543)	(2,543)
3. Inception of lease/installment contract	-	-	597	597
4. Adjust expenditures for encumbrances	-	-	8,956	8,956
5. Adjustments for nonbudgeted activity	-	-	(49,327)	(49,327)
Net change in fund balances (GAAP basis)	(149,141)	(152,860)	(105,121)	47,739
Unreserved fund balances - July 1	549,158	549,158	549,158	-
Prior period adjustments	-	-	(1,273)	(1,273)
Decrease (increase):				
Encumbrances reserve	-	-	(8,911)	(8,911)
Long-term loans/notes receivable reserve	-	-	42	42
Advances to other funds reserve	-	-	1,306	1,306
Special revenue reserve	-	-	-	-
Trust principal	-	-	(10)	(10)
Escheated property reserve	-	-	(1,611)	(1,611)
Unreserved fund balances - June 30	\$ 400,017	\$ 396,298	\$ 433,580	\$ 37,282

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
\$ 178,199	\$ 178,199	\$ 157,695	\$ (20,504)	\$ -	\$ -	\$ -	\$ -
188,405	188,405	190,578	2,173	-	-	-	-
-	-	-	-	-	-	(5)	(5)
-	-	-	-	-	-	-	-
12,981	12,981	13,336	355	-	-	-	-
215,408	215,408	205,778	(9,630)	-	-	-	-
84,025	84,025	91,046	7,021	1	1	-	(1)
97,812	97,812	92,081	(5,731)	47,694	47,694	35,792	(11,902)
16,632	16,632	14,610	(2,022)	2,975	2,975	985	(1,990)
4,417	4,417	4,600	183	-	-	-	-
2,545	2,545	30,318	27,773	5	5	5	-
16,960	16,960	17,011	51	-	-	-	-
24,211	24,211	16,243	(7,968)	108	108	86	(22)
21,527	21,527	13,654	(7,873)	1,556,851	1,556,851	1,472,485	(84,366)
35,663	35,663	43,678	8,015	54,858	54,858	52,809	(2,049)
-	-	8	8	-	-	-	-
898,785	898,785	890,636	(8,149)	1,662,492	1,662,492	1,562,157	(100,335)
238,370	239,392	221,066	18,326	21,908	23,000	15,962	7,038
53,451	53,966	48,002	5,964	77,379	101,082	42,919	58,163
310,335	334,148	250,769	83,379	305,299	365,749	302,836	62,913
132,677	133,064	109,997	23,067	1,017,974	1,033,758	911,244	122,514
95,730	96,979	79,459	17,520	215,442	227,769	180,966	46,803
172,152	184,114	120,592	63,522	101,911	138,437	90,644	47,793
106,073	111,478	67,420	44,058	98,185	88,947	54,067	34,880
4,145	4,044	382	3,662	262	329	248	81
1,302	1,302	1,302	-	18	18	18	-
71,742	64,122	23,366	40,756	57,895	69,125	28,095	41,030
1,185,977	1,222,609	922,355	300,254	1,896,273	2,048,214	1,626,999	421,215
(287,192)	(323,824)	(31,719)	292,105	(233,781)	(385,722)	(64,842)	320,880
1,000	1,000	-	(1,000)	-	-	-	-
26,000	26,000	44,670	18,670	-	-	-	-
-	-	733	733	-	-	-	-
7,606	7,606	4,298	(3,308)	245	245	234	(11)
162	162	172	10	-	-	-	-
247,050	247,050	215,093	(31,957)	9,521	9,521	7,622	(1,899)
(16,734)	(20,214)	1,453	21,667	(62,441)	(89,686)	(22,712)	66,974
265,084	261,604	266,419	4,815	(52,675)	(79,920)	(14,856)	65,064
(22,108)	(62,220)	234,700	296,920	(286,456)	(465,642)	(79,698)	385,944
-	-	1,639	1,639	-	-	27	27
-	-	(1,313)	(1,313)	-	-	(21)	(21)
-	-	41	41	-	-	236	236
-	-	(6,222)	(6,222)	-	-	8,817	8,817
-	-	(34,592)	(34,592)	-	-	49,831	49,831
(22,108)	(62,220)	194,253	256,473	(286,456)	(465,642)	(20,808)	444,834
(42,437)	(42,437)	(42,437)	-	(5,855)	(5,855)	(5,855)	-
-	-	157	157	-	-	(408)	(408)
-	-	(1,026)	(1,026)	-	-	(250)	(250)
-	-	(17,018)	(17,018)	-	-	32	32
-	-	(1,222)	(1,222)	-	-	-	-
-	-	(154,771)	(154,771)	-	-	1,489	1,489
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
\$ (64,545)	\$ (104,657)	\$ (22,064)	\$ 82,593	\$ (292,311)	\$ (471,497)	\$ (25,800)	\$ 445,697

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 2008, reverted governmental fund appropriations were as follows: General Fund - \$51.6 million, State Special Revenue Fund - \$135.1 million, and Federal Special Revenue Fund - \$298.9 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.).

Due to large nonbudgeted expenditure transactions recorded in fiscal year 2008 by the Department of Transportation in the State Special and Federal Special Revenue Funds (transportation and capital outlay functions), there are significant differences between the Budgetary Comparison Schedule and the Statement of Revenues, Expenditures, and Changes in Fund Balances. Expenditure amounts of \$18,580,485 and \$191,263,923 were moved from the transportation to the capital outlay function in the State Special and Federal Special Revenue Funds, respectively.

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						
HPORS						
6/30/2006	87,189	112,002	24,813	77.85%	7,878	314.97%
6/30/2007	95,758	128,306	32,548	74.63%	9,858	330.17%
6/30/2008	101,500	134,683	33,183	75.36%	10,866	305.38%
JRS						
6/30/2006	51,808	37,159	(14,649)	139.42%	4,762	(307.62%)
6/30/2007	57,778	36,863	(20,915)	156.74%	4,841	(432.04%)
6/30/2008	62,040	39,435	(22,605)	157.32%	5,096	(443.58%)
Multiple Employer Systems						
PERS-DBRP						
6/30/2006	3,459,084	3,919,313	460,229	88.26%	880,708	52.26%
6/30/2007	3,825,234	4,201,251	376,017	91.05%	907,424	41.44%
6/30/2008	4,065,307	4,504,743	439,436	90.25%	955,113	46.01%
MPORS						
6/30/2006	175,919	291,099	115,180	60.43%	27,644	416.65%
6/30/2007	198,310	310,423	112,113	63.88%	29,547	379.44%
6/30/2008	212,312	327,556	115,244	64.82%	32,181	358.11%
FURS						
6/30/2006	167,343	255,513	88,170	65.49%	22,917	384.74%
6/30/2007	188,545	269,399	80,854	69.99%	24,250	333.42%
6/30/2008	206,127	287,218	81,091	71.77%	29,158	278.11%
SRS						
6/30/2006	163,003	171,841	8,838	94.86%	34,242	25.81%
6/30/2007	183,894	189,036	5,142	97.28%	43,611	11.79%
6/30/2008	199,453	204,549	5,096	97.51%	47,196	10.80%
GWPORS						
6/30/2006	58,813	64,183	5,370	91.63%	25,846	20.78%
6/30/2007	68,755	72,992	4,237	94.20%	28,799	14.71%
6/30/2008	77,511	83,449	5,938	92.88%	32,365	18.35%
TRS (1)						
7/1/2006	2,745,800	3,733,600	863,100	76.10%	636,000	135.70%
7/1/2007	3,006,200	3,928,500	768,900	79.60%	664,100	115.80%
7/1/2008	3,159,100	4,110,800	794,600	79.90%	689,500	115.20%
Nonemployer Contributor						
VFCA						
6/30/2006	23,238	31,883	8,645	72.89%	N/A	N/A
6/30/2007	25,862	31,599	5,737	81.84%	N/A	N/A
6/30/2008	27,544	32,735	5,191	84.14%	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%
MUS Agent Multiple Employer Plan						
7/1/2007	-	182,597	182,597	0.00%	349,259	52.28%

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

State of Montana
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AMOUNT

PEACE CORPS

08.999	Miscellaneous Non-Major Grants	8,996
	TOTAL	\$8,996

DEPARTMENT OF AGRICULTURE

10.001	Agricultural Research-Basic and Applied Research	3,055
10.025	Plant and Animal Disease, Pest Control, and Animal Care	1,129,615
10.028	Wildlife Services	106,857
10.069	Conservation Reserve Program	53,270
10.072	Wetlands Reserve Program	16,915
10.162	Inspection Grading and Standardization	95,123
10.163	Market Protection and Promotion	323,614
10.169	Specialty Crop Block Grant Program	54,625
10.225	Community Food Projects: From Msla Food Bank	9,037
10.450	Crop Insurance: From Fort Peck C.C.	1,143
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	521,671
10.479	Food Safety Cooperative Agreements	164,943
10.500	Cooperative Extension Service	3,586,049
10.500	Cooperative Extension Service: From Unif of Minesota	36,358
10.550	Food Donation	3,474,036
10.557	Special Supplemental Nutrition Program for Women, Infants, & Children	14,261,372
10.558	Child and Adult Care Food Program	9,280,180
10.560	State Administrative Expenses for Child Nutrition	876,381
10.565	Commodity Supplemental Food Program	1,990,837
10.567	Food Distribution Program on Indian Reservations	3,480,939
10.572	WIC Farmers' Market Nutrition Program (FMNP)	94,222
10.574	Team Nutrition Grants	181,136
10.579	Child Nutrition Discretionary Grants Limited Availability	86,396
10.580	Food Stamp Program Outreach/Participation Program	30,674
10.601	Market Access Program: From West US Ag Trade Assoc.	15,277
10.652	Forestry Research	97,444
10.664	Cooperative Forestry Assistance	5,049,491
10.670	National Forest Dependent Rural Communities	532
10.672	Rural Development, Forestry, and Communities	515,202

State of Montana
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		AMOUNT
10.676	Forest Legacy Program	3,469,618
10.677	Forest Land Enhancement Program	59,900
10.901	Resource Conservation and Development	50,000
10.902	Soil and Water Conservation	61,881
10.904	Watershed Protection and Flood Prevention	61,270
10.912	Environmental Quality Incentives Program	23,257
10.999	Miscellaneous Non-Major Grants	244,057
10.999	Miscellaneous Non-Major Grants: From Fort Belknap C.C.	38,703
TOTAL		\$49,545,080
 CHILD NUTRITION CLUSTER		
10.553	School Breakfast Program	4,976,970
10.555	National School Lunch Program	18,851,393
10.556	Special Milk Program for Children	26,198
10.559	Summer Food Service Program for Children	775,276
TOTAL		\$24,629,837
 EMERGENCY FOOD ASSISTANCE CLUSTER		
10.568	Emergency Food Assistance Program (Administrative Costs)	180,672
10.569	Emergency Food Assistance Program (Food Commodities)	799,791
TOTAL		\$980,463
 FOOD STAMP CLUSTER		
10.551	Food Stamps	93,242,739
10.561	State Administrative Matching Grants for Food Stamp Program	9,596,459
TOTAL		\$102,839,198
 SCHOOLS AND ROADS CLUSTER		
10.665	Schools and Roads: Grants to States	13,027,514
10.666	Schools and Roads - Grants to Counties	9,488
TOTAL		\$13,037,002
 DEPARTMENT OF COMMERCE		
11.417	Sea Grant Support	12,987
11.550	Public Telecommunication Facilities-Planning and Construction	18,966
11.555	Public Safety Interoperable Communications Grant Program	186

State of Montana
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		AMOUNT
11.609	Measurement and Engineering Research and Standards	2,226
	TOTAL	\$34,365
PUBLIC WORKS AND E.D. CLUSTER		
11.307	Economic Adjustment Assistance	17,810
	TOTAL	\$17,810
DEPARTMENT OF DEFENSE		
12.112	Payments to States in Lieu of Real Estate Taxes	33,200
12.400	Military Construction National Guard	2,485,431
12.401	National Guard Military Operations and Maintenance Projects	18,133,583
12.404	National Guard Civilian Youth Opportunities	2,346,715
12.900	Language Grant Program: From Inst Internation Ed, Inc	137,884
12.901	Mathematical Sciences Grants Program	3,429
12.999	Miscellaneous Non-Major Grants	418,490
	TOTAL	\$23,558,732
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
14.103	Interest Reduction Payments Rental and Cooperative Housing for Lower Income Families	234,382
14.169	Housing Counseling Assistance Program	169,894
14.228	Community Development Block Grant/States Program	10,965,388
14.231	Emergency Shelter Grants Program	420,706
14.235	Supportive Housing Program	66,980
14.238	Shelter Plus Care	34,698
14.239	Home Investment Partnerships Program	5,548,929
14.241	Housing Opportunities for Persons with AIDS	916,506
14.246	Community Development Block Grants/Economic Development Initiative	26,021
14.871	Section 8 Housing Choice Vouchers	17,864,432
	TOTAL	\$36,247,936
SECTION 8 PROJECT-BASED CLUSTER		
14.195	Section 8 Housing Assistance Payments Program Special Allocations	17,850,480
14.856	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	0
	TOTAL	\$17,850,480

State of Montana
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AMOUNT**DEPARTMENT OF THE INTERIOR**

15.114	Indian Education: Higher Education Grant Program	14,858
15.224	Cultural Resource Management	34,181
15.225	Recreation Resource Management	41,503
15.228	Wildland Urban Interface Community and Rural Fire Assistance	110,611
15.230	Invasive and Noxious Plant Management	31,756
15.231	Fish, Wildlife and Plant Conservation Resource Management	269,172
15.238	Challenge Cost Share	9,968
15.250	Regulation Surface Coal Mining and Surface Effects of Underground Coal Mining	958,024
15.252	Abandoned Mine Land Reclamation (AMLR) Program	4,488,897
15.427	Federal Oil and Gas Royalty Management	194,180
15.507	Water 2025	11,901
15.608	Fish and Wildlife Management Assistance	333,082
15.615	Cooperative Endangered Species Conservation Fund	5,749,367
15.623	North American Wetlands Conservation Fund	66,255
15.631	National Fire Plan - Rural Fire Assistance	14,762
15.632	Conservation Grants Private Stewardship for Imperiled Species	76,139
15.633	Landowner Incentive	272,244
15.634	State Wildlife Grants	1,005,582
15.637	Migratory Bird Joint Ventures	37,808
15.647	Migratory Bird Conservation	87,546
15.805	Assistance to State Water Resources Research Institutes	9,105
15.808	U.S. Geological Survey-Research and Data Acquisition	15,011
15.904	Historic Preservation Fund Grants-in-Aid	713,738
15.912	National Historic Landmark	27,012
15.914	National Register of Historic Places	17,230
15.916	Outdoor Recreation: Acquisition, Development and Planning	516,753
15.929	Save America's Treasures	103,515
15.999	Miscellaneous Non-Major Grants	838,339
15.BBA	Recreation of Fish and Wildlife Enhancement Facilities	25,198
15.DAK	Wildlife Management: From Nat. Fish & Wild Found.	3,558
15.FFC	USFWS Gaging Stations	53,385

TOTAL **\$16,130,680**

State of Montana
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For the Fiscal Year Ending June 30, 2008

AMOUNT**FISH AND WILDLIFE CLUSTER**

15.605	Sport Fish Restoration	8,961,284
15.611	Wildlife Restoration	5,639,477
TOTAL		\$14,600,761

DEPARTMENT OF JUSTICE

16.001	Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis	25,271
16.523	Juvenile Accountability Incentive Block Grants	288,568
16.525	Grants to Reduce Violent Crimes Against Women on Campus	63,658
16.529	Education and Training to End Violence Against and Abuse of Women with Disabilities: From MT Coal. Agnst Dom. Viol.	34,847
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	677,548
16.543	Missing Children Assistance: From City of Billings	25,233
16.548	Title V Delinquency Prevention	53,770
16.550	State Justice Statistics Program For Statistical Analysis Centers	62,723
16.554	National Criminal History Improvement Program (NCHIP)	359,865
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	154,987
16.575	Crime Victim Assistance	1,557,948
16.576	Crime Victim Compensation	344,793
16.579	Byrne Formula Grant Program	34,884
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Prog	267,362
16.588	Violence Against Women Formula Grants	988,514
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	423,624
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	122,318
16.593	Residential Substance Abuse Treatment for State Prisoners	59,248
16.606	State Criminal Alien Assistance Program	30,763
16.607	Bulletproof Vest Partnership Program	8,045
16.609	Community Prosecution and Project Safe Neighborhoods	95,795
16.710	Public Safety Partnership and Community Policing Grants	632,897
16.727	Enforcing Underage Drinking Laws Program	916,270
16.735	Protecting Inmates and Safeguarding Communities Discretionary Grant Program	137,464
16.738	Edward Byrne Memorial Justice Assistance Grant Program	1,386,312
16.740	Statewide Automated Victim Information Notification (SAVIN) Program	126,761
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	91,015

State of Montana
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	AMOUNT
16.744 Anti-Gang Initiative	8,672
16.999 Miscellaneous Non-Major Grants	399,051
TOTAL	\$9,378,206

DEPARTMENT OF LABOR

17.002 Labor Force Statistics	676,245
17.005 Compensation and Working Conditions Data	71,334
17.225 Unemployment Insurance	99,426,372
17.235 Senior Community Service Employment Program	594,530
17.245 Trade Adjustment Assistance-Workers	1,468,813
17.261 Employment and Training Administration Pilots, Demonstrations, and Research Projects	763,597
17.267 Incentive Grants - WIA Section 503	73
17.268 H-1B High Growth Job Training Grants	3,486,503
17.269 Community Based Job Training Grants	172,433
17.271 Work Opportunity Tax Credit Program (WOTC) & Welfare-to-Work Tax Credit (WtWTC)	85,957
17.273 Temporary Labor Certification for Foreign Workers	17,205
17.504 Consultation Agreements	418,049
17.600 Mine Health and Safety Grants	122,477
TOTAL	\$107,303,588

EMPLOYMENT SERVICES CLUSTER

17.207 Employment Service	4,725,241
17.207 Employment Service: From North Carolina	6,161
17.801 Disabled Veterans Outreach Program (DVOP)	469,495
17.804 Local Veterans' Employment Representative Program	69,013
TOTAL	\$5,269,910

WORKFORCE INVESTMENT ACT CLUSTER

17.258 WIA Adult Program	2,241,081
17.259 WIA Youth Activities	2,699,777
17.260 WIA Dislocated Workers	2,146,267
TOTAL	\$7,087,125

State of Montana
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AMOUNT

DEPARTMENT OF STATE

19.401	Educational Exchange - University Lecturers (Professors) and Research Scholars	44,698
19.401	Educational Exchange - University Lecturers (Professors) and Research Scholars: From World Learning	44,817
19.408	Educational Exchange - Teachers from Secondary and Postsecondary Levels: From Am Council - Intern. Ed.	96,869
19.424	Educational Partnerships Program	32,251
19.430	International Education Training and Research: From Georgetown Univ.	86,985
TOTAL		\$305,620

DEPARTMENT OF TRANSPORTATION

20.106	Airport Improvement Program	780,154
20.218	National Motor Carrier Safety	1,683,546
20.219	Recreational Trails Program	1,132,812
20.232	Commercial Driver License State Programs	363,463
20.233	Border Enforcement Grants	824,487
20.234	Safety Data Improvement Program	69,649
20.240	Fuel Tax Evasion-Intergovernmental Enforcement Effort	99,485
20.505	Federal Transit Technical Studies Grant	677,714
20.509	Formula Grants for Other Than Urbanized Areas	4,766,923
20.514	Transit Planning and Research	7,656
20.515	State Planning and Research	7,338
20.607	Alcohol Open Container Requirements	5,841,734
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	103,385
20.614	National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants	80,711
20.700	Pipeline Safety	26,703
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	66,733
20.999	Miscellaneous Non-Major Grants	8,787
TOTAL		\$16,541,280

FEDERAL TRANSIT CLUSTER

20.500	Federal Transit Capital Improvement Grants	1,862,874
TOTAL		\$1,862,874

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AMOUNT

HIGHWAY PLAN. AND CONST. CLUSTER

20.205	Highway Planning and Construction	344,897,635
TOTAL		\$344,897,635

HIGHWAY SAFETY CLUSTER

20.600	State and Community Highway Safety	1,526,779
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	930,341
20.602	Occupant Protection	607,379
20.604	Safety Incentive Grants for Use of Seatbelts	69,994
20.605	Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	26,062
20.610	State Traffic Safety Information System Improvement Grants	98,657
20.611	Incentive Grant Program to Prohibit Racial Profiling	55,608
20.612	Incentive Grant Program to Increase Motorcyclist Safety	138,841
TOTAL		\$3,453,661

TRANSIT SERVICES CLUSTER

20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	35,903
20.516	Job Access Reverse Commute	430,351
TOTAL		\$466,254

DEPARTMENT OF TREASURY

21.999	Miscellaneous Non-Major Grants	153,785
TOTAL		\$153,785

OFFICE OF PERSONNEL MANAGEMENT

27.001	Federal Civil Service Employment: From Council of Ed Advisors	91
TOTAL		\$91

EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

30.002	Employment Discrimination-State and Local Fair Employment Practices	142,186
TOTAL		\$142,186

GENERAL SERVICES ADMINISTRATION

39.003	Donation of Federal Surplus Personal Property	81,891
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State of Montana
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		AMOUNT
39.011	Election Reform Payments	(704,713)
TOTAL		(622,822)
 NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.001	Aerospace Education Services Program	2,823
43.001	Aerospace Education Services Program: From Yellowstone Ecol. Center	6,773
43.002	Technology Transfer	18,093
43.999	Miscellaneous Non-Major Grants	(642)
TOTAL		\$27,047
 NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES		
45.024	Promotion of the Arts-Grants to Organizations and Individuals	41,712
45.025	Promotion of the Arts-Partnership Agreements	634,396
45.129	Promotion of the Humanities-Federal/State Partnership	20,376
45.149	Promotion of the Humanities Division of Preservation and Access	4,905
45.167	Promotion of the Humanities-Ext the Reach Grants to Presidentially-Design Minority Inst.	(750)
45.310	State Library Program	925,386
45.313	Laura Bush 21st Century Librarian Program	163,644
TOTAL		\$1,789,669
 NATIONAL SCIENCE FOUNDATION		
47.049	Mathematical and Physical Sciences	88,546
47.074	Biological Sciences	70,324
47.075	Social, Behavioral, and Economic Sciences	88,482
47.076	Education and Human Resources	2,508,653
47.076	Education and Human Resources: From Salish Kootenai C.C.	222,407
47.999	Miscellaneous Non-Major Grants	1,198
TOTAL		\$2,979,610
 SMALL BUSINESS ADMINISTRATION		
59.005	Internet-Based Technical Assistance	155,912
59.037	Small Business Development Center	358,944
59.037	Small Business Development Center: From TechRanch	(31)

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	AMOUNT
59.999 Miscellaneous Non-Major Grants	27,526
TOTAL	\$542,351

DEPARTMENT OF VETERANS AFFAIRS

64.010 Veterans Nursing Home Care	13,556
64.014 Veterans State Domiciliary Care	98,249
64.015 Veterans State Nursing Home Care	3,985,055
64.124 All-Volunteer Force Educational Assistance	138,932
64.203 State Cemetery Grants	2,285,714
TOTAL	\$6,521,506

ENVIRONMENTAL PROTECTION AGENCY

66.419 Water Pollution Control-State and Interstate Program Support	110,680
66.433 State Underground Water Source Protection	78,676
66.436 Surveys, Studies, Investigations & Demonstrations of the Clean Water Act	16,497
66.454 Water Quality Management Planning	99,862
66.458 Capitalization Grants For State Revolving Funds	4,714,856
66.460 Nonpoint Source Implementation Grants	2,735,327
66.461 Regional Wetland Program Development Grants	153,277
66.467 Wastewater Operator Training Grant Program (Technical Assistance)	17,905
66.468 Capitalization Grants for Drinking Water State Revolving Fund	8,067,057
66.471 State Grants to Reimburse Operators of Small Water Sys for Training Certification Costs	265,664
66.474 Water Protection Grants to the States	54,599
66.514 Science To Achieve Results (STAR) Fellowship Program	44,764
66.605 Performance Partnership Grants	5,174,588
66.608 One Stop Reporting	470,397
66.708 Pollution Prevention Grants Program	6,422
66.716 Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach	48,097
66.717 Source Reduction Assistance	35,450
66.802 Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop.	7,562,277
66.804 State Underground Storage Tanks Program	137,759
66.805 Leaking Underground Storage Tank Trust Fund Program	918,714
66.809 Superfund State and Indian Tribe Core Program Cooperative Agreements	164,894

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	AMOUNT
66.814 Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements: From Colorado State University	(5,161)
66.817 State and Tribal Response Program Grants	959,029
66.951 Environmental Education Grants	10,523
66.999 Miscellaneous Non-Major Grants	17,553
66.999 Miscellaneous Non-Major Grants: From Eastern Research Group	28,732
TOTAL	\$31,888,438

DEPARTMENT OF ENERGY

81.041 State Energy Program	327,012
81.041 State Energy Program: From Washington State University	10,702
81.042 Weatherization Assistance for Low-Income Persons	2,546,399
81.049 Office of Science Financial Assistance Program: From Inland NW Research All.	281,101
81.086 Conservation Research and Development	2,508,208
81.104 Office of Environmental Cleanup and Acceleration: From Mountain States Energy	39,569
81.117 Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training	39,361
81.119 State Energy Program Special Projects	14,502
TOTAL	\$5,766,854

DEPARTMENT OF EDUCATION

84.002 Adult Education - State Grant Program	1,361,681
84.010 Title I Grants To Local Education Agencies	37,214,695
84.011 Migrant Education - Basic State Grant Program	849,749
84.013 Title I Program for Neglected and Delinquent Children	91,361
84.016 Undergraduate International Studies and Foreign Language	42,572
84.017 International Research and Studies	68,557
84.048 Vocational Education - Basic Grants to States	5,000,091
84.048 Vocational Education - Basic Grants to States: From Flathead Valley Community	27,274
84.069 Leveraging Educational Assistance Partnership	193,306
84.083 Women's Educational Equity Act Program	98,727
84.116 Fund for the Improvement of Postsecondary Education	206,062
84.116 Fund for the Improvement of Postsecondary Education: From Iowa State Univ.	2,245
84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States	11,543,692
84.128 Rehabilitation Services-Service Projects	102,896

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		AMOUNT
84.129	Rehabilitation Long-Term Training	199,456
84.133	National Institute on Disability and Rehabilitation Research: From Brain Injury Associatio	7,151
84.133	National Institute on Disability and Rehabilitation Research: From Oregon Health Sci Univ.	17,921
84.144	Migrant Education - Coordination Program(B)	173,655
84.169	Independent Living-State Grants	287,796
84.177	Rehabilitation Services-Independent Living Services for Older Individuals/Blind	250,026
84.181	Special Education-Grants for Infants and Families with Disabilities	2,245,103
84.184	Safe and Drug-Free Schools and Communities - National Programs	775
84.185	Byrd Honors Scholarships	104,917
84.186	Safe and Drug-Free Schools and Communities - State Grants	1,545,094
84.187	Supported Employment Services for Individuals with Severe Disabilities	308,351
84.196	Education for Homeless Children and Youth	205,434
84.213	Even Start - State Educational Agencies	504,941
84.215	Fund for Improvement of Education	1,138,980
84.215	Fund for Improvement of Education: From Twin Bridges Schools	151,312
84.224	State Grants for Assistive Technology	321,935
84.243	Tech-Prep Education	365,331
84.256	Freely Associated States - Education Grant Program: From Univ. of Ca. Int Writ Prj	200
84.265	Rehabilitation Training-State Vocational Rehabilitation Unit In-Service	48,661
84.287	Twenty-First Century Community Learning Centers	4,612,608
84.293	Foreign Language Assistance	119,650
84.298	State Grants for Innovative Programs	486,408
84.298	State Grants for Innovative Programs: From Univ. of Ca. Int Writ Prj	79,520
84.299	Indian Education - Special Programs	728,016
84.318	Education Technology State Grants	1,493,304
84.323	Special Education - State Program Improvement Grants for Children with Disabilities	871,165
84.324	Special Education-Research and Innovation to Improve Services and Results for Children	6,671
84.324	Special Education-Research and Innovation to Improve Services and Results for Children: From Ca. State Univ.- North.	(194)
84.325	Special Education - Personnel Preparation to Improve Services and Results for Children	599,171
84.326	Special Education - Technical Assistance and Dissemination to Improve Services and Results	366,754

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	AMOUNT
84.330 Advanced Placement Program	250,200
84.331 Grants to States for Incarcerated Youth Offenders	88,385
84.332 Comprehensive School Reform Demonstration	448,116
84.334 Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	2,513,614
84.335 Child Care Access Means Parents in School	54,057
84.336 Teacher Quality Enhancement Grants	294,462
84.357 Reading First State Grants	2,435,619
84.358 Rural Education	177,333
84.364 Literacy through School Libraries	51,511
84.365 English Language Acquisition Grants	445,866
84.366 Mathematics and Science Partnerships	773,055
84.367 Improving Teacher Quality State Grants	13,058,582
84.367 Improving Teacher Quality State Grants: From MT Learning Center	5,459
84.368 Grants for Enhanced Assessment Instruments	862,669
84.369 Grants for State Assessments and Related Activities	5,060,358
84.373 Special Education -Technical Assistance on State Data Collection	292,533
84.998 American Printing House for the Blind	5,509
84.999 Miscellaneous Non-Major Grants	170,842
84.999 Miscellaneous Non-Major Grants: From Flathead Valley Community	18,339
TOTAL	\$101,049,529
SPECIAL EDUCATION CLUSTER	
84.027 Special Education - Grants to States	35,718,483
84.173 Special Education - Preschool Grants	1,220,208
TOTAL	\$36,938,691
STUDENT FINANCIAL ASSISTANCE CLUSTER	
84.007 Federal Supplemental Educational Opportunity Grants	1,682,522
84.032 Federal Family Education Loans	2,142,069
84.033 Federal Work - Study Program	2,248,504
84.038 Federal Perkins Loan Program - Federal Capital Contributions	275,900
84.063 Federal Pell Grant Program	30,750,702
84.375 Literacy through School Libraries	694,463
84.376 National Science and Mathematics Access to Retain Talent (SMART) Grants	946,265
93.364 Nursing Student Loan Program	(1,601)
93.925 Scholarships for Health Professions Students from Disadvantaged Backgrounds	414,884

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		AMOUNT
		TOTAL
		\$39,153,708
TRIO CLUSTER		
84.042	TRIO-Student Support Services	1,504,843
84.044	TRIO-Talent Search	1,015,473
84.047	TRIO-Upward Bound	1,875,255
84.066	TRIO-Educational Opportunity Centers	606,201
		TOTAL
		\$5,001,772
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION		
89.003	National Historical Publications and Records Grants	9,728
		TOTAL
		\$9,728
ELECTION ASSISTANCE COMMISSION		
90.401	Help America Vote Act Requirements Payments	1,788,414
		TOTAL
		\$1,788,414
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.003	Public Health and Social Services Emergency Fund	2,620,143
93.041	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention	10,796
93.042	Special Programs for the Aging-Title VII, Chapter 2-LongTerm Care Ombudsman Services	76,618
93.043	Special Programs for the Aging-Title III, Part D - DiseasePrevention/Health Promotion Serv	104,078
93.048	Special Programs for the Aging - Title IV and Title II Discretionary Projects	322,021
93.052	Nation Family Caregiver Support Program	779,900
93.053	Nutrition Services Incentive Program	1,004,219
93.064	Laboratory Training, Evaluation, and Quality Assurance Programs	197,508
93.104	Comprehensive Community Mental Health Services for Children with Ser Emotl Disturb (SED)	671,897
93.110	Maternal and Child Health Federal Consolidated Programs	284,908
93.116	Project Grant and Cooperative for Tuberculosis Control Program	127,491
93.127	Emergency Medical Services for Children	122,585
93.130	Primary Care Services-Resource Coordination and Development	214,145
93.150	Projects for Assistance in Transition from Homelessness (PATH)	294,803
93.157	Centers of Excellence	7,173
93.161	Health Program for Toxic Substances and Disease Registrv	352,166

State of Montana
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	AMOUNT
93.184 Disabilities Prevention	369,424
93.217 Family Planning Services	2,185,962
93.234 Traumatic Brain Injury-State Demonstration Grant Program	126,663
93.235 Abstinence Education	(288)
93.241 State Rural Hospital Flexibility Program	560,857
93.243 Substance Abuse and Mental Health Services-Projects of Regional and National Significance	3,807,601
93.251 Universal Newborn Hearing Screening	257,567
93.259 Rural Access to Emergency Devices Grant	158,480
93.268 Immunization Grant	7,218,801
93.279 Drug Abuse Research Programs	43,440
93.283 Centers for Disease Control and Prevention-Investigations and Technical Assistance	12,426,273
93.307 Minority Health and Health Disparities Research	8,750,000
93.361 Nursing Research: From University of Washington	(889)
93.361 Nursing Research: From Washington State Univ.	81,720
93.389 National Center for Research Resources	669,285
93.448 Food Safety and Security Monitoring Project	44,001
93.556 Promoting Safe and Stable Families	1,137,753
93.558 Temporary Assistance for Needy Families (TANF)	26,219,375
93.563 Child Support Enforcement	8,712,587
93.566 Refugee and Entrant Assistance-State Administered Programs	144,502
93.568 Low Income Home Energy Assistance	15,319,927
93.569 Community Services Block Grant	3,275,793
93.586 State Court Improvement Program	172,923
93.590 Community-Based Family Resource and Support Grants	204,064
93.597 Grants to States for Access and Visitation Programs	107,779
93.599 Chafee Education and Training Vouchers Program (ETV)	200,450
93.600 Head Start	134,451
93.603 Adoption Incentive Payments	111,876
93.617 Voting Access for Individuals with Disabilities - Grants to States	75,000
93.618 Voting Access for Individuals with Disabilities-Grants for Protection and Advocacy Systems	85,558
93.630 Developmental Disabilities Basic Support and Advocacy Grants	725,646
93.631 Developmental Disabilities Projects of National Significance	69,670

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	AMOUNT
93.632 University Centers for Excellence in Developmental Disabilities Education, Res, and Ser.	495,616
93.643 Children's Justice Grants to States	108,069
93.645 Child Welfare Service-State Grant	581,924
93.658 Foster Care Title IV-E	11,258,542
93.659 Adoption Assistance	6,721,231
93.667 Social Services Block Grant	7,830,680
93.669 Child Abuse and Neglect State Grants	76,438
93.671 Family Violence Prevention and Services/Grants for Battered Women's Shelters	780,810
93.674 Chafee Foster Care Independence Program	542,798
93.767 State Children's Insurance Program	25,232,095
93.768 Medicaid Infrastr, Grants To Support the Competitive Employ of People with Disabilities	404,292
93.778 Medical Assistance Program	3,905,695
93.789 Alternatives to Psychiatric Residential Treatment Facilities for Children	74,615
93.793 Medicaid Transformation Grants	740,817
93.822 Health Careers Opportunities Program	20,995
93.913 Grants to States for Operation of Offices of Rural Health	175,607
93.917 HIV Care Formula Grants	858,161
93.919 Cooperative Agreements for State-Based Breast and Cervical Cancer Early Detection	13,541
93.928 Special Projects of National Significance	64,966
93.938 Cooperative Agreements to Support School Health Programs	263,018
93.940 HIV Prevention Activities-Health Department Based	1,257,889
93.944 HIV/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	37,103
93.945 Assistance Program for Chronic Disease Prevention	(3,310)
93.958 Block Grants for Community Mental Health Services	1,248,012
93.959 Block Grants for Prevention and Treatment of Substance Abuse	7,053,270
93.969 Geriatric Education Centers	243,189
93.970 Health Professions Recruitment Program for Indians	211,355
93.977 Preventive Health Services-Sexually Transmitted Diseases Control Grants	277,259
93.988 Cooperative Agreements for State-Based Diabetes Control Programs and Evaluations	578,617
93.991 Preventive Health and Health Services Block Grant	580,497
93.994 Maternal and Child Health Services Block Grant to the States	2,686,538
93.996 Bioterrorism Training and Curriculum Development Program: From St Vincent Healt	178,150

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		AMOUNT
93.999	Miscellaneous Non-Major Grants	81,737
93.999	Miscellaneous Non-Major Grants: From Univ. of Washington	20,157
	TOTAL	\$175,187,075
AGING CLUSTER		
93.044	Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers	1,836,537
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services	2,970,913
	TOTAL	\$4,807,450
CHILD CARE CLUSTER		
93.575	Child Care and Development Block Grant	12,082,555
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development	7,330,689
	TOTAL	\$19,413,244
MEDICAID CLUSTER		
93.775	State Medicaid Fraud Control Units	437,446
93.777	State Survey and Certification of Health Care Providers and Suppliers	2,584,145
93.778	Medical Assistance Program	564,830,101
	TOTAL	\$567,851,692
CORPORATION FOR NATIONAL & COMMUNITY SERVICE		
94.003	State Commissions	131,267
94.004	Learn and Serve America-School and Community Based Programs	275,274
94.006	AmeriCorps	2,155,787
94.006	AmeriCorps: From UCAN Serve Training Groun	2,502
94.006	AmeriCorps: From West. Wash Univ.	14,434
94.007	Planning and Program Development Grants	69,381
94.007	Planning and Program Development Grants: From Denver Options Inc.	70,892
94.009	Training and Technical Assistance	125,656
94.013	Volunteers in Service to America	732,421
	TOTAL	\$3,577,614
SOCIAL SECURITY ADMINISTRATION		
96.007	Social Security Research and Demonstration	124,851
96.008	Social Security-Benefits Planning, Assistance, and Outreach Program	88,406
	TOTAL	\$213,257

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DISABILITY INSURANCE/SSI CLUSTER

96.001	Social Security - Disability Insurance	6,014,979
	TOTAL	\$6,014,979

HOMELAND SECURITY

97.005	State and Local Homeland Security Training Program	(1,148)
97.012	Boating Safety Financial Assistance	451,686
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	689,575
97.021	Hazardous Materials Assistance Program	10,567
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	95,309
97.039	Hazard Mitigation Grant	127,566
97.041	National Dam Safety Program	92,768
97.042	Emergency Management Performance Grants	1,705,611
97.043	State Fire Training Systems Grants	21,986
97.044	Assistance to Firefighters Grant	112,606
97.045	Cooperating Technical Partners	795,940
97.046	Fire Management Assistance Grant	19,725,549
97.070	Map Modernization Management Support	87,090
97.078	Buffer Zone Protection Plan (BZPP)	172,397
97.107	National Incident Management System (NIMS)	20,167
	TOTAL	\$24,107,669

HOMELAND SECURITY CLUSTER

97.067	Homeland Security Grant Program	9,173,121
	TOTAL	\$9,173,121

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

98.001	USAID Foreign Assistance for Programs Overseas: From Assoc. Liaison Office	477
	TOTAL	\$477

OTHER FEDERAL

99.999	Other Federal	55,447
99.999	Other Federal: From Pacific Power and Light	2,096
99.999	Other Federal: From Corp for Public Broadcast	17,760

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		AMOUNT
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99.999	Other Federal: From Nat. Film Preserv. Found.	3,750
<i>TOTAL</i>		<u>\$79,053</u>

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AMOUNT

RESEARCH AND DEVELOPMENT CLUSTER**DEPARTMENT OF AGRICULTURE**

10.001	Agricultural Research-Basic and Applied Research	136,483
10.025	Plant and Animal Disease, Pest Control, and Animal Care	441,193
10.062	Water Bank Program	40,081
10.200	Grants for Agricultural Research, Special Research Grants	2,265,524
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Idaho	85,958
10.200	Grants for Agricultural Research, Special Research Grants: From Oregon State Univ.	17,678
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Calif. Davis	18,317
10.200	Grants for Agricultural Research, Special Research Grants: From University of Washington	20,602
10.200	Grants for Agricultural Research, Special Research Grants: From North Dakota State Univ.	36,700
10.200	Grants for Agricultural Research, Special Research Grants: From SD School of Mines	101,444
10.200	Grants for Agricultural Research, Special Research Grants: From Utah State Univ.	181,744
10.200	Grants for Agricultural Research, Special Research Grants: From New Mexico State Univ.	365,011
10.200	Grants for Agricultural Research, Special Research Grants: From Colorado State Univ.	5,492
10.202	Cooperative Forestry Research: From Univ. of Tennessee	(12)
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	3,492,723
10.206	Grants for Agricultural Research-Competitive Research Grants	1,144,223
10.206	Grants for Agricultural Research-Competitive Research Grants: From Colorado State Univ.	20,560
10.206	Grants for Agricultural Research-Competitive Research Grants: From Utah State Univ.	120,849
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of Minnesota	67,823
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of Calif. Davis	97,557
10.207	Animal Health and Disease Research	51,306
10.210	Food and Agriculture Sciences National Needs	18,000
10.212	Small Business Innovation Research: From Mont Microbial Products	19,446
10.215	Sustainable Agriculture Research and Education	91,240
10.215	Sustainable Agriculture Research and Education: From Univ. of Wyoming	35

State of Montana
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	AMOUNT
10.215 Sustainable Agriculture Research and Education: From Utah State Univ.	39,245
10.217 Higher Education Challenge Grants	128,460
10.217 Higher Education Challenge Grants: From Univ. of Nebraska	13,505
10.227 1994 Institutions Research Program: From Fort Belknap C.C.	8,958
10.227 1994 Institutions Research Program: From Salish Kootenai C.C.	16,346
10.227 1994 Institutions Research Program: From Dull Knife College	12,833
10.227 1994 Institutions Research Program: From Fort Peck C.C.	23,521
10.250 Agricultural and Rural Economic Research	372,180
10.250 Agricultural and Rural Economic Research: From Univ of Arizona	28,666
10.303 Integrated Programs	340,810
10.303 Integrated Programs: From Salish Kootenai C.C.	4,764
10.303 Integrated Programs: From Univ. of Calif. Davis	44,463
10.303 Integrated Programs: From Colorado State Univ.	107,479
10.304 Homeland Security - Agricultural: From Kansas State Univ.	12,552
10.305 International Science and Education Grants	20,073
10.352 Value-Added Producer Grants: From Agricultural Marketing	11,515
10.352 Value-Added Producer Grants: From Iowa State Univ.	44,096
10.443 Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	37,473
10.443 Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers: From Little Big Horn C.C.	27,634
10.455 Community Outreach and Assistance Partnership Program	54,006
10.456 Rural Community Development Initiative	135,324
10.457 Commodity Partnerships for Risk Management Education	25
10.500 Cooperative Extension Service	39,719
10.500 Cooperative Extension Service: From Univ. of Georgia	4,393
10.500 Cooperative Extension Service: From Colorado State Univ.	11,316
10.500 Cooperative Extension Service: From North Carolina State U.	13,235
10.500 Cooperative Extension Service: From Univ. of Wyoming	15,620
10.500 Cooperative Extension Service: From Washington State Univ.	29,148
10.500 Cooperative Extension Service: From Kansas State Univ.	45,274
10.567 Food Distribution Program on Indian Reservations: From Fort Peck C.C.	10,975
10.652 Forestry Research	3,187,589
10.652 Forestry Research: From Utah State Univ.	19,222

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	AMOUNT
10.652 Forestry Research: From A. Carhart	79,462
10.652 Forestry Research: From Nat. Fish & Wild. Found.	40,303
10.664 Cooperative Forestry Assistance	106,111
10.664 Cooperative Forestry Assistance: From Univ. of Idaho	16,596
10.672 Rural Development, Forestry, and Communities	18,235
10.672 Rural Development, Forestry, and Communities: From Univ. of Idaho	4,203
10.678 Forest Stewardship Program	(44)
10.680 Forest Health Protection	19,869
10.762 Solid Waste Management Grants	58,130
10.856 1890 Land Grant Institutions Rural Entrepreneurial Outreach Program: From Fort Peck C.C.	599
10.902 Soil and Water Conservation	7,798
10.912 Environmental Quality Incentives Program	93,398
10.961 Scientific Cooperation and Research	332
10.999 Miscellaneous Non-Major Grants	296,571
10.999 Miscellaneous Non-Major Grants: From Nat. Fish & Wild Found.	46,588
TOTAL	\$14,488,547

DEPARTMENT OF COMMERCE

11.302 Economic Development Support for Planning Organizations: From Great Northern Devl.	15,061
11.303 Economic Development-Technical Assistance	19,810
11.427 Fisheries Development & Utilization Research	46,762
11.431 Climate and Atmospheric Research	13,075
11.437 Pacific Fisheries Data Program	19,028
11.439 Marine Mammal Data Program	4,365
11.439 Marine Mammal Data Program: From Marine Mammal Comm.	5,102
11.440 Environmental Sciences, Applications, Data, and Education	5,733
11.609 Measurement and Engineering Research and Standards	4,124
11.611 Manufacturing Extension Partnership	511,883
11.999 Miscellaneous Non-Major Grants	34,528
TOTAL	\$679,471

DEPARTMENT OF DEFENSE

12.002 Procurement Technical Assistance For Business Firms	4,198,683
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		AMOUNT
12.002	Procurement Technical Assistance For Business Firms: From Juneau Econ Dev. Council	185,501
12.106	Flood Control Projects	47,590
12.114	Collaborative Research and Development	1,129,472
12.300	Basic and Applied Scientific Research	2,329,311
12.300	Basic and Applied Scientific Research: From Aerodyne Research Inc	13,221
12.300	Basic and Applied Scientific Research: From S2 Corp	14,558
12.300	Basic and Applied Scientific Research: From Texas AM Univ.	17,872
12.300	Basic and Applied Scientific Research: From Ligocyte Pharm	44,678
12.300	Basic and Applied Scientific Research: From Adv. Accoustic Concepts	158,067
12.300	Basic and Applied Scientific Research: From Conncurrent Tech	210,555
12.420	Military Medical Research and Development	555,933
12.420	Military Medical Research and Development: From Medical Res Acq. Act.	591,041
12.431	Basic Scientific Research	1,122,719
12.630	Basic, Applied, and Advanced Research in Science and Engineering	191,660
12.630	Basic, Applied, and Advanced Research in Science and Engineering: From Adv. Accoustic Concepts	3,999
12.630	Basic, Applied, and Advanced Research in Science and Engineering: From ERC Inc.	16,210
12.630	Basic, Applied, and Advanced Research in Science and Engineering: From Alameda Applied	39,935
12.800	Air Force Defense Research Sciences Program	2,103,113
12.800	Air Force Defense Research Sciences Program: From Aerodyne Research Inc	(389)
12.800	Air Force Defense Research Sciences Program: From Resonon Inc	2,998
12.800	Air Force Defense Research Sciences Program: From Edward Air Force Base	4,111
12.800	Air Force Defense Research Sciences Program: From GATR Technology	9,101
12.800	Air Force Defense Research Sciences Program: From ALD NanoSolutions Inc	30,751
12.800	Air Force Defense Research Sciences Program: From SD School of Mines	81,605
12.800	Air Force Defense Research Sciences Program: From Universal Tech. Corp	105,270
12.800	Air Force Defense Research Sciences Program: From Princeton Univ.	185,738
12.800	Air Force Defense Research Sciences Program: From THY Enterprise Inc.	16,733
12.910	Reseach and Technology Development: From S2 Corp	559,937
12.999	Miscellaneous Non-Major Grants	9,859
12.999	Miscellaneous Non-Major Grants: From Northrup Grumman	57,186

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12.999	Miscellaneous Non-Major Grants: From MicroSat Sys	668,447
12.999	Miscellaneous Non-Major Grants: From Bridger Photonics	31,528
12.999	Miscellaneous Non-Major Grants: From Nat. Reconnaissance Office	277,517
TOTAL		\$15,014,510

DEPARTMENT OF THE INTERIOR

15.034	Agriculture on Indian Lands	2,225
15.222	Cooperative Inspection Agreements with States and Tribes	291,876
15.224	Cultural Resource Management	1,020,970
15.230	Invasive and Noxious Plant Management	113,685
15.231	Fish, Wildlife and Plant Conservation Resource Management	282,784
15.231	Fish, Wildlife and Plant Conservation Resource Management: From Nat. Fish & Wild. Found.	7,134
15.252	Abandoned Mine Land Reclamation (AMLR) Program	16,545
15.504	Water Reclamation and Reuse Program	5,292
15.517	Fish and Wildlife Coordination Act	4,548
15.608	Fish and Wildlife Management Assistance	124,989
15.608	Fish and Wildlife Management Assistance: From Nat. Fish & Wild. Found.	11,828
15.611	Wildlife Restoration	54,672
15.615	Cooperative Endangered Species Conservation Fund	122,007
15.615	Cooperative Endangered Species Conservation Fund: From Nature Conservancy	4,160
15.634	State Wildlife Grants	6,814
15.805	Assistance to State Water Resources Research Institutes	73,970
15.807	Earthquake Hazards Reduction Program	39,385
15.808	U.S. Geological Survey-Research and Data Acquisition	827,703
15.808	U.S. Geological Survey-Research and Data Acquisition: From America View Inc	60,119
15.808	U.S. Geological Survey-Research and Data Acquisition: From Auburn University	1,614
15.809	National Spatial Data Infrastructure Competitive Cooperative Agreements Program	12,744
15.810	National Cooperative Geologic Mapping Program	155,000
15.811	Gap Analysis Program	241,278
15.812	Cooperative Research Units Program	735,820
15.899	USDI/Geological Survey	9,108
15.904	Historic Preservation Fund Grants-in-Aid	60,011

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	AMOUNT
15.915 Technical Preservation Services	173,845
15.916 Outdoor Recreation: Acquisition, Development and Planning	41,692
15.921 Rivers, Trails and Conservation Assistance	20,410
15.923 National Center for Preservation Technology and Training	6,579
15.999 Miscellaneous Non-Major Grants	3,638,035
15.999 Miscellaneous Non-Major Grants: From Nat. Fish & Wild. Found.	106,836
15.999 Miscellaneous Non-Major Grants: From Univ. of Wyoming	4,271
15.AAL Scientific Studies	27,379
15.BBT Endangered Species Act	59,057
15.DAS BLM Cooperative Agreement	29,480
TOTAL	\$8,393,865

DEPARTMENT OF JUSTICE

16.541 Part E - Developing, Testing and Demonstrating Promising New Programs	28,191
16.580 Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Prog	42,599
16.710 Public Safety Partnership and Community Policing Grants	467,594
TOTAL	\$538,384

DEPARTMENT OF LABOR

17.268 H-1B High Growth Job Training Grants: From Fort Peck C.C.	30,227
TOTAL	\$30,227

DEPARTMENT OF STATE

19.500 Middle East Partnership Initiative (MEPI)	295,577
TOTAL	\$295,577

DEPARTMENT OF TRANSPORTATION

20.106 Airport Improvement Program: From Bert Mooney Airport Autho	16,135
20.109 Air Transportation Centers of Excellence: From Aerodyne Research Inc	76,921
20.200 Federal Highway Administration	3,002,865
20.200 Federal Highway Administration: From Blaine County	38,830
20.200 Federal Highway Administration: From Louis Berger Group	48,855
20.200 Federal Highway Administration: From Nat. Accad. of Sciences	83,580
20.205 Highway Planning and Construction	7,596
20.205 Highway Planning and Construction: From Utah State Univ.	16,210

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		AMOUNT
20.215	Highway Training and Education: From Bedford Research	11,183
20.600	State and Community Highway Safety	129,117
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants: From Univ. of Iowa	24,506
20.704	RITA Hydrogen	588,539
20.762	Research Grants	396,662
20.999	Miscellaneous Non-Major Grants	12,717
TOTAL		\$4,453,716
 GENERAL SERVICES ADMINISTRATION		
39.003	Donation of Federal Surplus Personal Property: From Univ. of Alaska	1,230
TOTAL		\$1,230
 NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.001	Aerospace Education Services Program	4,702,083
43.001	Aerospace Education Services Program: From Univ of Idaho	1,917
43.001	Aerospace Education Services Program: From Univ. of Colorado	5,510
43.001	Aerospace Education Services Program: From John Hopkins Univ.	19,873
43.001	Aerospace Education Services Program: From Southwest Res. Inst.	26,904
43.001	Aerospace Education Services Program: From Univ. of California	49,724
43.001	Aerospace Education Services Program: From Goodard Space Flight Ctr	65,155
43.001	Aerospace Education Services Program: From Smithsonian	232,291
43.001	Aerospace Education Services Program: From Lockheed Martin	404,264
43.001	Aerospace Education Services Program: From Portland State Univ.	11,821
43.001	Aerospace Education Services Program: From Univ. of Missouri	43,109
43.001	Aerospace Education Services Program: From Auburn University	97,027
43.001	Aerospace Education Services Program: From NASA Jet Propulsion	12,487
43.002	Technology Transfer	812,210
43.002	Technology Transfer: From Univ. of North Dakota	67,062
43.002	Technology Transfer: From Carnegie Institution	69,739
43.999	Miscellaneous Non-Major Grants	852,790
43.999	Miscellaneous Non-Major Grants: From Colorado State Univ.	1,972
43.999	Miscellaneous Non-Major Grants: From SW Research Inst.	83,802
43.999	Miscellaneous Non-Major Grants: From Univ. of Idaho	55,310

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		AMOUNT
43.999	Miscellaneous Non-Major Grants: From Portland State Univ.	48,085
43.999	Miscellaneous Non-Major Grants: From Qualitech Systems	97,388
TOTAL		\$7,760,523
 NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES		
45.301	Museums for America	72,946
TOTAL		\$72,946
 NATIONAL SCIENCE FOUNDATION		
47.041	Engineering Grants	975,561
47.041	Engineering Grants: From Unif of Minesota	1,141
47.041	Engineering Grants: From Resonon Inc	47,347
47.041	Engineering Grants: From Montana Molecular LLC	88,333
47.041	Engineering Grants: From Bridger Photonics	127,105
47.041	Engineering Grants: From Purity Systems	(286)
47.049	Mathematical and Physical Sciences	980,599
47.049	Mathematical and Physical Sciences: From Nat. Optical Astronomy	(4,926)
47.049	Mathematical and Physical Sciences: From North Carolina State U.	26,300
47.049	Mathematical and Physical Sciences: From Univ. of Calf. Santa Cruz	98,265
47.049	Mathematical and Physical Sciences: From Univ. of Missouri	392
47.050	Geosciences	1,922,138
47.050	Geosciences: From Global Invir. Strategies	8,406
47.050	Geosciences: From Consort. of Hydrolic Sci.	99,334
47.070	Computer and Information Science and Engineering	441,156
47.074	Biological Sciences	5,688,677
47.074	Biological Sciences: From Univ. of Calf. Davis	266
47.074	Biological Sciences: From Idaho State Univ.	3,364
47.074	Biological Sciences: From Univ. of Idaho	3,845
47.074	Biological Sciences: From Harvard University	19,130
47.074	Biological Sciences: From Washington State Univ.	44,349
47.074	Biological Sciences: From Univ. of California	170,958
47.074	Biological Sciences: From Duke University	270,613
47.075	Social, Behavioral, and Economic Sciences	605,334
47.075	Social, Behavioral, and Economic Sciences: From National Research Council	4,000

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47.075	Social, Behavioral, and Economic Sciences: From US Civilian Research	2,587
47.076	Education and Human Resources	2,903,050
47.076	Education and Human Resources: From Penn State	79,262
47.076	Education and Human Resources: From Salish Kootenai C.C.	254,908
47.076	Education and Human Resources: From Nat. Science Teachers A.	342,328
47.078	Polar Programs	1,377,788
47.078	Polar Programs: From San Diego St Univ.	167,527
47.078	Polar Programs: From University of Nebraska	130,340
47.079	International Science and Engineering (OISE)	55,673
47.079	International Science and Engineering (OISE): From Univ. of Ca. Int Writ Prj	908
47.080	Office of Cyberinfrastructure	1,178,379
47.999	Miscellaneous Non-Major Grants: From Portland State Univ.	146,082
47.999	Miscellaneous Non-Major Grants: From Inc. Research Institution	37,513
TOTAL		\$18,297,746

SMALL BUSINESS ADMINISTRATION

59.000	Small Business Administration-Technical Assistance Grant	190,120
59.051	New Markets Venture Capital Program, Operational Assistance (OA) Grants	387,599
TOTAL		\$577,719

ENVIRONMENTAL PROTECTION AGENCY

66.112	Surveys, Studies, Investigations, Training, Demonstrations, and Special Purpose Grants	(1,281)
66.419	Water Pollution Control-State and Interstate Program Support	92,333
66.458	Capitalization Grants For State Revolving Funds: From Flathead Basin Comm.	2,316
66.460	Nonpoint Source Implementation Grants: From Sheridan County Conserv.	7,816
66.461	Regional Wetland Program Development Grants	12,711
66.461	Regional Wetland Program Development Grants: From NM Surface Water Qlty	38,418
66.463	Water Quality Cooperative Agreements: From Virginia Polytechnics	35,338
66.500	Environmental Protection: Consolidated Research	5,270
66.500	Environmental Protection: Consolidated Research: From Colorado State University	100,381
66.509	Science To Achieve Results (STAR) Research Program	91,958
66.513	Greater Research Opportunities (GRO) Fellowships For Undergraduate/Grad Environ Study	16,367
66.606	Surveys, Studies, Investigations and Special Purpose Grants	451,475

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2008

	AMOUNT
66.608 One Stop Reporting: From Pac. NW Pollution Ctr.	15,080
66.708 Pollution Prevention Grants Program	171,048
66.709 Multi-Media Capacity Building Grants for States and Tribes	8,065
66.716 Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach	5,168
66.717 Source Reduction Assistance	672
66.999 Miscellaneous Non-Major Grants	137,094
66.999 Miscellaneous Non-Major Grants: From American Water Works As	225,954
66.999 Miscellaneous Non-Major Grants: From Nez Perce Tribe	38,771
TOTAL	\$1,454,954

DEPARTMENT OF ENERGY

81.049 Office of Science Financial Assistance Program	962,995
81.049 Office of Science Financial Assistance Program: From Inland NW Research All.	110,661
81.049 Office of Science Financial Assistance Program: From Lawrence Berkley Lab	79,883
81.049 Office of Science Financial Assistance Program: From Aerodyne Research Inc	87,864
81.049 Office of Science Financial Assistance Program: From Michigan State	152,642
81.049 Office of Science Financial Assistance Program: From Univ. of Calif.	41,090
81.049 Office of Science Financial Assistance Program: From UT Battelle, LLC	5,718
81.049 Office of Science Financial Assistance Program: From University of Wyoming	90
81.057 University Coal Research	14,400
81.064 Office of Scientific and Technical Information: From Idaho Nat. Lab	5,877
81.064 Office of Scientific and Technical Information: From Miami Univ. of Ohio	45,036
81.064 Office of Scientific and Technical Information: From Univ. of Oklahoma	50,921
81.079 Regional Biomass Energy Programs	12,301
81.086 Conservation Research and Development: From Pacific State Marine	135,683
81.087 Renewable Energy Research and Development	1,127,598
81.087 Renewable Energy Research and Development: From Battelle Energy	57,196
81.087 Renewable Energy Research and Development: From SiemensPower Gen.	19,113
81.087 Renewable Energy Research and Development: From Nat. Renewable Enrg. Lab	21,083
81.087 Renewable Energy Research and Development: From Sandia Corp	22,776
81.087 Renewable Energy Research and Development: From Consortium for Plant Bio	31,542
81.087 Renewable Energy Research and Development: From Pac. NW Lab	1,637,445

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2008

AMOUNT

81.087	Renewable Energy Research and Development: From Inland NW Research All.	16,547
81.089	Fossil Energy Research and Development	4,092,916
81.089	Fossil Energy Research and Development: From Inland NW Research All.	(8,068)
81.089	Fossil Energy Research and Development: From Sandia Corp	180,461
81.089	Fossil Energy Research and Development: From Virginia Polytechnic Inst	109,015
81.104	Office of Environmental Cleanup and Acceleration	107,117
81.104	Office of Environmental Cleanup and Acceleration: From Oak Ridge Nat. Lab	25,937
81.104	Office of Environmental Cleanup and Acceleration: From Mountain States Energy	83,408
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training: From W. Virginia Univ Res Corp	47,269
81.119	State Energy Program Special Projects	22,137
81.121	Nuclear Energy Research, Development and Demonstration: From Idaho Nat. Lab	5,891
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	644,938
81.123	NNSA Minority Serving Institutions (MSI) Program: From Los Alamos Nat. Lab	27,095
81.999	Miscellaneous Non-Major Grants: From Inland NW Research All.	39,390
81.999	Miscellaneous Non-Major Grants: From Colorado School of Mines	73,792
81.999	Miscellaneous Non-Major Grants: From Los Alamos National Labor	19,776
	TOTAL	\$10,109,535

DEPARTMENT OF EDUCATION

81.112	Stewardship Science Grant Program: From Oregon Dept Fish & Prks	6,969
84.017	International Research and Studies	837
84.060	Indian Education Grants to Local Educational Agencies	310,412
84.116	Fund for the Improvement of Postsecondary Education	18,359
84.120	Minority Science and Engineering Improvement	37,049
84.133	National Institute on Disability and Rehabilitation Research	515,812
84.133	National Institute on Disability and Rehabilitation Research: From Oregon Health Sci Univ.	88,985
84.133	National Institute on Disability and Rehabilitation Research: From Univ. of Kansas	20,006
84.133	National Institute on Disability and Rehabilitation Research: From Univ. of Illinois	38,022
84.133	National Institute on Disability and Rehabilitation Research: From Portland State Univ.	28,004
84.215	Fund for Improvement of Education: From Bozeman Schools	159,010
84.298	State Grants for Innovative Programs	705,438
84.324	Special Education-Research and Innovation to Improve Services and Results for Ch	43,934

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2008

	AMOUNT
84.350 Transition to Teaching	202,728
84.373 Special Education -Technical Assistance on State Data Collection: From Meeting the Chall.	42,089
TOTAL	\$2,217,654

DEPARTMENT OF HEALTH AND HUMAN SERVICES

93.051 New Demonstration Grants to States with Respect to Alzheimer's Disease	387,408
93.107 Model State-Supported Area Health Education Centers	276,331
93.113 Biological Response to Environmental Health Hazards	1,806,376
93.121 Oral Diseases and Disorders Research	16,553
93.121 Oral Diseases and Disorders Research: From Ohio State Univ.	5,680
93.136 Injury Prevention and Control Research and State and Community Based Programs	168,268
93.155 Rural Health Research Centers	47,558
93.172 Human Genome Research: From Stanford Univ.	97,255
93.173 Research Related to Deafness and Communication Disorders	155,238
93.173 Research Related to Deafness and Communication Disorders: From Allegheny-Singer	103,011
93.173 Research Related to Deafness and Communication Disorders: From James Madison Univ.	7,343
93.178 Nursing Workforce Diversity	263,297
93.184 Disabilities Prevention	299,079
93.187 Undergraduate Scholarship Program for Indiv. from Disabled Backgrounds: From Univ. of Wash Sch of Med.	(6,510)
93.210 Tribal Self-Governance Program: IHS Compacts/Funding Agreements	198,543
93.213 Research and Training in Complementary and Alternative Medicine	244,889
93.226 Research on Healthcare Costs, Quality and Outcomes	188,299
93.231 Epidemiology Cooperative Agreements: From RMTEC	31,316
93.242 Mental Health Research Grants	356,946
93.242 Mental Health Research Grants: From Montana Molecular LLC	9,535
93.247 Advanced Education Nursing Grant Program: From Oregon Health Sci Univ.	224,095
93.276 Drug-Free Communities Support Program Grants: From Palo Alto Med. Found.	2,978
93.276 Drug-Free Communities Support Program Grants: From Inst. for Public Stratgys	6,360
93.276 Drug-Free Communities Support Program Grants: From Wyoming Dept of Health	246,861
93.279 Drug Abuse Research Programs	256,784
93.283 Centers for Disease Control and Prevention-Investigations and Technical Assistance	234

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2008

AMOUNT

93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	545,076
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health: From Scripps Inst.	(4,655)
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health: From Univ. of Illinois	78,501
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health: From University of Washington	109,838
93.296	State Partnership Grant Program to Improve Minority Health	1,424
93.301	Small Rural Hospital Improvement Grant Program	409,565
93.307	Minority Health and Health Disparities Research	760,221
93.307	Minority Health and Health Disparities Research: From Little Big Horn C.C.	71,117
93.310	Trans-NIH Research Support: From Ateris Tech, LLC	260,133
93.358	Advanced Education Nursing Traineeships	32,082
93.361	Nursing Research	505,372
93.361	Nursing Research: From Univ. of Iowa	(60)
93.389	National Center for Research Resources	9,686,275
93.389	National Center for Research Resources: From ZDye Corp	21,892
93.393	Cancer Cause and Prevention Research	508,870
93.394	Cancer Detection and Diagnosis Research	19,323
93.395	Cancer Treatment Research	55,940
93.395	Cancer Treatment Research: From Vanderbilt Univ.	97,864
93.396	Cancer Biology Research	134,349
93.568	Low Income Home Energy Assistance: From National Center for Appro	5,807
93.647	Social Services Research and Demonstration	29,936
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	529,962
93.837	Heart and Vascular Diseases Research	7,650
93.838	Lung Diseases Research	834,062
93.838	Lung Diseases Research: From Univ. of Rochester	170,161
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	229,896
93.847	Diabetes, Endocrinology and Metabolism Research	378,852
93.848	Digestive Diseases and Nutrition Research	70,197
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	1,920,435
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders: From Yale University	39,484

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2008

		AMOUNT
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders: From Univ. of Calif.	9,824
93.855	Allergy, Immunology and Transplantation Research	3,718,296
93.855	Allergy, Immunology and Transplantation Research: From Univ. of N Carolina	18,596
93.856	Microbiology and Infectious Diseases Research	1,649,606
93.856	Microbiology and Infectious Diseases Research: From Colorado State Univ.	1,738,561
93.859	Biomedical Research and Research Training	3,596,098
93.859	Biomedical Research and Research Training: From Case Western	63,114
93.859	Biomedical Research and Research Training: From Ohio State Univ.	64,632
93.865	Child Health and Human Development Extramural Research: From Medical Coll. of Georgia	38,006
93.866	Aging Research	36,813
93.867	Vision Research	(51)
93.879	Medical Library Assistance	10,565
93.974	Family Planning Service Delivery Improvement Research Grants	91,301
93.999	Miscellaneous Non-Major Grants	18,967
93.999	Miscellaneous Non-Major Grants: From Rocky Mt Ctr for Bio Def.	17,868
93.999	Miscellaneous Non-Major Grants: From Aguila Technologies	135,969
TOTAL		\$34,111,461
 HOMELAND SECURITY		
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants: From Butte Silver Bow	27,483
97.086	Homeland Security Outreach, Education, and Technical Assistance	199,463
TOTAL		\$226,946
 UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT		
98.002	Cooperative Development Program (CDP)	17,541
98.005	Institutional Capacity Building (ICB): From Univ. of Hawaii Manoa	307,580
TOTAL		\$325,121
TOTAL RESEARCH AND DEVELOPMENT CLUSTER		\$119,050,132
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$1,958,653,813

STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Note 1. Basis of Accounting

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

Food Distribution Program

The amount reported for Food Distribution programs (CFDA #10.550, #10.567, #10.569, #10.570 and #10.565) 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 2008, Montana distributed \$451,969 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed \$7,718,823 in commodities in fiscal year 2008. The value at June 30, 2008 of commodities stored at the state's warehouse is \$2,173,510 for which the state is liable in the event of loss. The state has insurance to cover this liability.

Federal Surplus Personal Property

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

Capitalization Grants for State Revolving Funds

The amount presented for the Capitalization Grants for Water Pollution Control State Revolving Fund (CFDA #66.458) represents federal contributions, plus the administrative costs expended as of June 30, 2008. The amount of loans outstanding as of June 30, 2008 in the Water Pollution Control Revolving Fund Program is \$144,511,963.

The amount presented for the Drinking Water State Revolving Fund Program (CFDA #66.468) represents federal contributions, plus administrative costs

expended as of June 30, 2008. The amount of loans outstanding for the program as of June 30, 2008 is \$89,969,216.

Special Economic Development and Adjustment Assistance Program

The amount presented for the Special Economic Development and Adjustment Assistance Program (CFDA #11.307) represents federal contributions, plus the administrative costs expended as of June 30, 2008. The amount of loans outstanding as of June 30, 2008 is \$353,015.

Temporary Assistance to Needy Families Loan Program

The Temporary Assistance to Needy Families (CFDA #93.558) contributes to a housing loan program. The amount of housing loans outstanding as of June 30, 2008 is \$671,826.

Federal Family Education Loans

The Montana Guaranteed Student Loan Program (MGSLP) guaranteed \$190,997,707 (net) in new loans for the Federal Family Education Loans (CFDA #84.032) program during fiscal year 2008. The outstanding loan balance (including principal, accrued interest and collection cost) of loans guaranteed in previous years for which the federal government has imposed continuing compliance requirement was \$46,303,116 at June 30, 2008. The dollar amount of Default Aversion Fees transferred from the Federal Fund to the Agency's Operating Fund during fiscal year 2008 was \$831,558. In addition, MGSLP received or accrued revenue from the U.S. Department of Education in fiscal year 2008 of \$18,040,262 for reinsurance to pay claims for loans due to death, disability, default and bankruptcy of the debtor.

Federal Perkins Loan Program – Federal Capital Contributions

The amount reported for the Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038) represents federal contributions, plus the administrative costs, plus interest expended as of June 30, 2008. The amount of loans outstanding as of June 30, 2008 is \$32,848,769.

Nursing Student Loan Program

The amount of loans outstanding for the Nursing Student Loan Program (CFDA #93.364) as of June 30, 2008 is \$1,632,442.

Nursing Faculty Loan Program

The amount of loans outstanding for the Nursing Student Loan Program (CFDA #93.264) as of June 30, 2008 is \$68,841.

Childhood Immunization Grants

The amount reported for the Childhood Immunization Grants (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 2008. The state used the CDC price list to calculate the value of doses received. During fiscal year 2008, Montana received 175,922 vaccine doses valued at \$6,072,521.

Tongue River –Northern Cheyenne Tribal Loan

The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe agreed to loan the State of Montana \$11,300,000 federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. No expenditures of tribal loan funds were incurred on project costs during FY 2008. The amount of the loan outstanding as of June 30, 2008 is \$8,692,308.

Middle Creek Dam Rehabilitation Project Loan

The Department of Natural Resources and Conservation and the U.S Department of the Interior, Bureau of Reclamation (BOR) entered into an agreement on September 21, 1990. The BOR agreed to loan the State of Montana "...a sum of money not to exceed the lesser of (1) \$3,023,925 plus reimbursable interest during construction or (2) the actual cost of the project including reimbursable interest during construction..." The total loan repayable is \$ 2,990,129 and interest during construction is \$ 281,857. The amount, as of June 30, 2008, of loan outstanding is \$2,480,516 and of interest during construction outstanding is \$210,997.

Note 2. Type A Federal Programs

The State of Montana issues a biennial single audit report. The Single Audit report for the two fiscal years ended June 30, 2009 will be issued by March 31, 2010.

The Type A program threshold will be determined based on actual expenditures incurred during the two fiscal years ended June 30, 2009. The type A program threshold is estimated to be \$11,672,457 for the biennial period.

Note 3. CFDA #

The CFDA # assigned for each federal program listed in the Schedule of Expenditures of Federal Awards was based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.999. The first two digits represent the federal agency, the third digit represents the division within the federal agency. Also see footnote 10.

Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes.

Note 4. Federal Excess Personal Property

The State of Montana receives Federal Excess Personal Property (FEPP). The title to this property remains with the federal agency. In accordance with General Services Administration guidelines, the amount presented in the FEPP is 23.3 percent of the original acquisition cost of the property. The following is a list of the FEPP received by the State of Montana.

<u>CFDA # Program</u>	<u>FY 08 Amount</u>	<u>Inventory</u>
10.203 Payments to Ag. Exp. Station	\$31,925	\$170,485
10.500 Cooperative Extension Service	\$0	\$8,632
10.664 Cooperative Forestry Assistance	\$ 30,840	\$5,472,651
10.999 Agriculture Misc. Non. Major	\$0	\$160,738
12.999 Defense Misc. Non. Major	\$0	\$53,590
43.999 NASA Misc. Non. Major	\$0	\$664,050
47.999 NSF Misc. Non. Major	(\$27,124)	\$328,067

Note 5. Department of Defense (DOD) Firefighting Property (FFP)

The Department of Natural Resources (DNRC) receives DOD Firefighting Property. The title to this property is transferred to the DNRC. In accordance with OMB guidelines, the amounts are presented at fair market value at time of receipt by DNRC. This was determined to be 14% of the original acquisition cost of the property. The following is the value of FFP received by the State of Montana.

<u>CFDA # Program</u>	<u>FY 08 Amount</u>	<u>Inventory</u>
12.999 DOD Firefighter Program	\$51,378	\$108,468

Note 6. Books for the Blind and Physically Handicapped:

The Montana State Library receives "talking book" machines, cassette books, accessories and magazines from the federal government under the Blind and Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2008, was \$1,826,462. The accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 7. Unemployment Benefits

The unemployment compensation system is a federal-state partnership. State unemployment insurance laws must conform to certain provisions of the federal law. Federal funds are expended for administrative costs. State unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund, and are used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards (SEFA).

The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for the Unemployment Insurance Program (CFDA #17.225), as well as a breakdown between administrative costs and benefit payments:

UI Administrative Costs	\$ 9,255,999
State UI Benefits	83,733,579
Federal UI Benefits	<u>6,663,624</u>
Total	\$99,653,202

Note 8. Subgrants to State Agencies

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

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

Note 9. Passthrough Awards to Non-State Entities

The following is a list of federal funds passed through from the state of Montana to non-state entities for fiscal year 2008.

CFDA Number	Program Title	Amount Provided To Subrecipient
10.200	Grants for Agricultural Research, Special Research Grants	979,579
10.217	Higher Education Challenge Grants	34,079
10.250	Agricultural and Rural Economic Research	36,857
10.455	Community Outreach and Assistance Partnership Program	8,174
10.456	Partnership Agreements to Develop Non-Insurance Risk Management Tools for Producers (Farmers)	75,900
10.500	Cooperative Extension Service	16,101
10.550	Food Donation	3,474,036
10.553	School Breakfast Program	4,976,970
10.555	National School Lunch Program	18,825,069
10.556	Special Milk Program for Children	26,198
10.557	Special Supplemental Nutrition Program for WIC	3,021,363
10.558	Child and Adult Care Food Program	867,711
10.559	Summer Food Program for Children	737,696
10.561	Child and Adult Care Food Program	1,257,864
10.567	Food Distribution Program on Indian Reservations	1,202,682
10.568	Emergency Food Assistance Program (Administrative Costs)	50,000
10.572	WIC Farmers' Market Nutrition Program (FMNP)	42,643
10.574	Team Nutrition Grants	4,000
10.652	Forestry Research	73,143
10.664	Cooperative Forestry Assistance	2,956,906
10.665	Schools and Roads-Grants to States	13,027,514
10.670	National Forest-Dependent Rural Communities	532
10.672	Rural Development, Forestry, and Communities	477,741
10.677	Forest Land Enhancement Program	49,548
10.902	Soil and Water Conservation	51,599
12.002	Procurement Technical Assistance For Business Firms	746,228
12.114	Collaborative Research and Development	280,176
12.300	Basic and Applied Scientific Research	263,792
12.420	Military Medical Research and Development	67,284
12.999	Defense - Miscellaneous	62,026
14.228	Community Development Block Grant/State's Program	10,657,999
14.239	Home Investment Partnerships Program	5,036,196
14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehab	102,749
14.871	Section 8 Housing Choice Vouchers	1,202,647
15.224	Cultural Resource Management	99,169
15.228	Wildland Urban Interface Community and Rural Fire Assistance	53,147
15.231	Fish, Wildlife and Plant Conservation Resource Management	19,250
15.810	National Cooperative Geologic Mapping Program	2,400
15.904	Historic Preservation Fund Grants-In-Aid	77,000
15.916	Outdoor Recreation-Acquisition, Development and Planning	353,408
15.929	Miscellaneous Non-Major Grants	71,457
15.999	Miscellaneous Department of the Interior	203,293
16.523	Juvenile Accountability Incentive Block Grants	279,893
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	485,168
16.548	Title V Delinquency Prevention Program	34,791
16.575	Crime Victim Assistance	1,473,467
16.580	E. Byrne Memorial State and Local Law Enforcement Assistance Dis. Grants Prog	86,458
16.588	Violence Against Women Formula Grant	579,334
16.593	Residential Substance Abuse Treatment for State Prisoners	54,562
16.727	Enforcing Underage Drinking Laws Program	726,420
16.738	Edward Byrne Memorial Justice Assistance Grant Program	917,096
17.235	Senior Community Service Employment Program	800,689
17.258	WIA Adult Program	979,561
17.259	WIA Youth Activities	2,194,582
17.260	WIA Dislocated Workers	191,742
17.261	Employment and Training Administration Pilots, Demonstrations, and Research Projects	464,755
20.106	Crime Victim Assistance	16,136
20.200	Federal-Aid Highways-Emergency Relief	142,597
20.205	Violence Against Women Formula Grants	33,040
20.219	Recreational Trails	1,056,744
20.500	Federal Transit - Capital Investment Grants	1,625,176
20.505	Federal Transit - Metropolitan Planning Grants	475,300
20.509	Enforcing Underage Drinking Laws Program	4,101,245
20.513	Capital Assistance Program for the Elderly and Persons with Disabilities	28,459
20.516	Job Access Reverse Commute	356,151
20.600	State and Community Highway Safety	769,135
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	338,071
20.602	Occupant Protection	92,252
20.607	Alcohol Open Container Requirements	92,404
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	103,830

CFDA Number	Program Title	Amount Provided To Subrecipient
20.611	Incentive Grant Program to Prohibit Racial Profiling	38,557
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	55,226
20.704	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	289,573
39.011	Election Reform Payments	254,037
43.001	Aerospace Education Services Program	190,042
43.002	Technology Transfer	11,735
43.999	Miscellaneous NASA	(195,955)
45.025	Promotion of the Arts-Partnership Agreements	369,338
45.310	State Library Program	44,962
47.041	Engineering Grants	9,374
47.050	Geosciences	327,996
47.074	Biological Sciences	726,251
47.075	Social, Behavioral, and Economic Sciences	33,313
47.076	Education and Human Resources	658,704
59.005	Internet-Based Technical Assistance	30,000
59.037	Small Business Development Center	381,236
66.716	Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach	2,108
66.999	Miscellaneous Non Major	35,180
81.049	Office of Science Financial Assistance Program	112,794
81.057	University Coal Research	12,745
81.087	Renewable Energy Research and Development	7,132
81.089	Miscellaneous Non-Major Grants	2,094,688
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	379,823
84.002	Adult Education-State Grant Program	1,154,331
84.010	Title I Grants to Local Educational Agencies	36,108,289
84.011	Migrant Education-Basic State Grant Program	731,755
84.013	Title I Program for Neglected and Delinquent Children	91,361
84.027	Special Education - Grants to States	33,872,496
84.048	Vocational Education - Basic Grants to States	3,275,505
84.069	Leveraging Educational Assistance Partnership	151,004
84.128	Rehabilitation Services-Service Projects	10,000
84.133	National Institute on Disability and Rehabilitation Research	64,431
84.144	Migrant Education - Coordination Program	173,655
84.173	Miscellaneous Non-Major Grants	1,220,208
84.186	Safe & Drug Free Schools and Communities - State Grants	1,403,876
84.196	Education for Homeless Children and Youth	164,530
84.213	Even Start - State Educational Agencies	490,424
84.215	Fund for the Improvement of Education	690,339
84.243	Tech-Prep Education	331,210
84.287	Twenty-First Century Community Learning Centers	4,328,338
84.293	Foreign Language Assistance	118,444
84.298	State Grants for Innovative Programs	408,829
84.318	Education Technology State Grants	1,393,980
84.323	Special Education-State Program Improvement Grants for Children with Disabilities	171,174
84.324	Special Education-Research and Innovation to Improve Services and Results for Children with Disabilities:	601
84.325	Special Education - Personnel Prep. to Improve Serv. & Results for Children with Disabilities	136,908
84.330	Advanced Placement Incentive Program	96,221
84.332	Comprehensive School Reform Demonstration	441,244
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	800,140
84.350	Transition to Teaching	15,000
84.357	Reading First State Grants	1,794,564
84.358	Rural Education	136,859
84.365	English Language Acquisition Grants	318,973
84.366	Mathematics and Science Partnerships	728,911
84.367	Improving Teacher Quality State Grants	12,699,988
84.999	Miscellaneous - Non Major	28,264
90.401	Help America Vote Act Requirements Payments	118,148
93.003	Public Health and Social Services Emergency Fund	1,945,644
93.041	Special Programs for the Aging -Title VII, Chapter 3: Prevention	10,796
93.042	Special Programs for the Aging -Title VII, Chapter 2: Long Term Care	76,618
93.043	Special Programs for the Aging - Title III, Part D: Disease Prevention	1,565,816
93.045	Special Programs for the Aging - Title III, Part C: Nutrition Services	2,654,125
93.048	Special Programs for the Aging - Title IV & and Title II - Discretionary Proj.	305,361
93.051	New Demonstration Grants to States with Respect to Alzheimer's Disease	299,608
93.064	Laboratory Training, Evaluation, and Quality Assurance Programs	75,000
93.104	Comprehensive Community Mental Health Services for Children	476,081
93.107	Model State-Supported Area Health Education Centers	172,373
93.110	Maternal and Child Health Federal Consolidated Programs	147,649
93.113	Biological Response to Environmental Health Hazards	5,557
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	24,705

CFDA Number	Program Title	Amount Provided To Subrecipient
93.126	Small Business Innovation Research	102,759
93.130	Primary Care Services Resource Coordination and Development	99,000
93.150	Projects for Assistance in Transition from Homelessness (PATH)	1,484,475
93.155	Rural Health Research Centers	18,197
93.184	Disabilities Prevention	30,445
93.217	Family Planning Services	1,636,896
93.226	Research on Healthcare Costs, Quality and Outcomes	40,000
93.235	Abstinence Education	(1,563)
93.241	State Rural Hospital Flexibility Program	550,379
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	1,907,187
93.259	Rural Access to Emergency Devices Grant	37,700
93.268	Immunization Grants	163,189
93.276	Drug-Free Communities Support Program Grants	92,247
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	5,444,734
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	151,155
93.301	Small Rural Hospital Improvement Grants	389,098
93.307	Minority Health and Health Disparities Research	39,805
93.389	National Center for Research Resources	969,095
93.393	Cancer Cause and Prevention Research	222,387
93.556	Promoting Safe and Stable Families	931,944
93.558	Temporary Assistance for Needy Families (TANF)	1,580,886
93.568	Low-Income Home Energy Assistance	700,154
93.569	Community Services Block Grant	730,895
93.575	Child Care and Development Block Grant	3,981,693
93.597	Grants to States for Access and Visitation Programs	105,914
93.599	Chafee Education and Training Vouchers Program (ETV)	197,710
93.600	Head Start	119,606
93.617	Voting Access for Individuals with Disabilities-Grants to States	75,000
93.618	Voting Access for Individuals with Disabilities-Grants for Protection and Advocacy Systems	4,759
93.630	Developmental Disabilities Basic Support and Advocacy Grants	730,380
93.631	Developmental Disabilities Projects of National Significance	1,203
93.658	Minority Health and Health Disparities Research	2,250,118
93.674	Chafee Foster Care Independent Living	539,858
93.778	Medical Assistance Program	35,964
93.822	Health Careers Opportunities Program	24,158
93.847	Diabetes, Endocrinology and Metabolism Research	124,951
93.855	Allergy, Immunology and Transplantation Research	1,060,094
93.856	Microbiology and Infectious Diseases Research	10,398
93.859	Biomedical Research and Research Training	397,577
93.913	Grants to States for Operation of Offices of Rural Health	18,519
93.917	HIV Care Formula Grants	133,964
93.940	HIV Prevention Activities-Health Department Based	800,689
93.959	Block Grants for Prevention and Treatment of Substance Abuse	2,097,401
93.969	Geriatric Education Centers	18,604
93.974	Family Planning Service Delivery Improvement Research Grants	26,022
93.991	Preventive Health and Health Services Block Grant	289,572
93.994	Maternal and Child Health Services Block Grant to the States	1,493,601
94.004	Learn and Serve America - School and Community Based Program	119,015
94.006	Americorps	2,278,229
96.007	Social Security Research and Demonstration	8,288
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	624,388
97.021	Hazardous Materials Assistance Program	9,289
97.039	Hazard Mitigation Grant	125,376
97.042	Emergency Management Performance Grants	960,100
97.046	Fire Management Assistance Grant	387,493
97.067	Homeland Security Grant Program	7,889,157
97.078	Buffer Zone Protection Plan (BZPP)	172,397
97.107	National Incident Management System (NIMS)	20,167
98.002	Cooperative Development Program (CDP)	5,800
98.005	Institutional Support Assistance (ISA)	148,701
99.999	Miscellaneous - Non Major	2,000
Total		251,978,592

Note 10. Federal Awards not having a CFDA Number

The following schedule contains contract or grant numbers associated with awards that did not have a CFDA number and were assigned a XX.999 number in the Schedule of Expenditures of Federal Awards. Not all XX.999 reported on the SEFA had a grant or contract number.

Schedule of Unknown Federal CFDA Numbers (XX.999)

Federal Agency	State Agency	Contract or Grant Number	Amount
Peace Corp (08)			
	Univ. of Montana - Missoula	PC-06-8-110	115
	Univ. of Montana - Missoula	PC-07-8-051	8,881
Department of Agriculture (10)			
	Montana State - Bozeman	04-CS-11015600-018	18,948
	Montana State - Bozeman	MT 1601-A33	3,721
	Montana State - Bozeman	EFNEP 93-638	38,703
	Montana State - Bozeman	43-3AEM-4-80111	65,721
	Montana State - Bozeman	05-CS-11010804-018	-4
	Montana State - Bozeman	06-CS-11041404-036	4,522
	Montana State - Bozeman	65-0325-05-0002	18,947
	Montana State - Bozeman	65-0325-06-023	19,816
	Montana State - Bozeman	58-5434-3-307	181,833
	Montana State - Bozeman	2007-0079-001	46,588
	Montana State - Bozeman	2008-34397-19471	5,737
	UM - Western - Dillon	AG-82X9-T-066106	66,360
	UM MT Tech - Butte	65-0325-4-104	40,081
	UM MT Tech - Butte	06-CA-11244225-277	19,869
Department of Commerce (11)			
	Univ. of Montana - Missoula	IPA #0809	9,768
	Univ. of Montana - Missoula	BCYA1323-7-02287	24,760
Department of Defense (12)			
	Univ. of Montana - Missoula	G-2412-1	56,416
	Montana State - Bozeman	21759NUB6A	770
	Montana State - Bozeman	07M-025	12,465
	Montana State - Bozeman	NRO 000-08-C-0158	31,528
	Montana State - Bozeman	NRO000-07-C-0105	277,517
	Montana State - Bozeman	08NE237	9,859
	UM MT Tech - Butte	N00014-00-1-0625	-85
	UM MT Tech - Butte	S69028	655,982
Department of the Interior (15)			
	Univ. of Montana - Missoula	ESA07B002	29,402
	Univ. of Montana - Missoula	ESA04I010, T.O. 1	1,103,120
	Univ. of Montana - Missoula	ESA04I010, T.O. ESF01I002	107,301
	Univ. of Montana - Missoula	ESA04I010, T.O. ESF04I012	6,360
	Univ. of Montana - Missoula	2005-0292-000	1
	Univ. of Montana - Missoula	ESA04I010, T.O. ESA04I006	41,206
	Univ. of Montana - Missoula	ESA04I010, T.O. ESF04I006	-6,107
	Univ. of Montana - Missoula	ESA04I010, T.O. ESF04I014	46,482
	Univ. of Montana - Missoula	ESA06L012	37,577
	Univ. of Montana - Missoula	ESA0100009, T.O. 16	6,365
	Univ. of Montana - Missoula	ESA0100009, T.O. 26	-8,119
	Univ. of Montana - Missoula	ESA0100009, T.O. 30	11,588
	Univ. of Montana - Missoula	ESA0100009, T.O. 14	-12,523
	Univ. of Montana - Missoula	ESA0100009, T.O. 29	29,289
	Univ. of Montana - Missoula	ESA0100009, T.O. 24	-3,387
	Univ. of Montana - Missoula	ESA06I135	53,870
	Univ. of Montana - Missoula	ESA07H008	10,880
	Univ. of Montana - Missoula	ESF04I012	8,392
	Univ. of Montana - Missoula	ESA01000009, T.O. 22	26,127
	Univ. of Montana - Missoula	IPA #PAP074048	36,476
	Univ. of Montana - Missoula	TCM070065	16,285
	Univ. of Montana - Missoula	2007-0038-000	1,000
	Univ. of Montana - Missoula	NP 06-142	57,493
	Univ. of Montana - Missoula	P.O. 613207M144	39
	Univ. of Montana - Missoula	122007G003	5,334
	Univ. of Montana - Missoula	ORDER #655217M031	958
	Univ. of Montana - Missoula	E-5-R-17	15,613
	Univ. of Montana - Missoula	98210-5-G054	15,515
	Univ. of Montana - Missoula	04121HS015	9,108
	Univ. of Montana - Missoula	G008-07-W0973	389
	Univ. of Montana - Missoula	CA 1200-99-007, UMT-76	4,844
	Univ. of Montana - Missoula	CA 1200-99-007, UMT-82	15,926
	Univ. of Montana - Missoula	J1242049006, UMT-10	23,521
	Univ. of Montana - Missoula	J1242049005, UMT-11	4,218

Schedule of Unknown Federal CFDA Numbers (XX.999)

Federal Agency	State Agency	Contract or Grant Number	Amount
	Univ. of Montana - Missoula	J1435050009, UMT-16	95,836
	Univ. of Montana - Missoula	J1435050094, UMT-17	-148
	Univ. of Montana - Missoula	J1233040020, UMT-07	14,245
	Univ. of Montana - Missoula	J1242040901, UMT-09	1,154
	Univ. of Montana - Missoula	H6490C217, FY05-173	8,458
	Univ. of Montana - Missoula	UAF 07-0057	48,342
	Univ. of Montana - Missoula	J1580050583, UMT-26	20,378
	Univ. of Montana - Missoula	CA 1200-99-007, UMT-76	3,966
	Univ. of Montana - Missoula	J1233040020, UMT-27	513
	Univ. of Montana - Missoula	H1200040001, UMT-33	116
	Univ. of Montana - Missoula	H1200040001, UMT-34	-18
	Univ. of Montana - Missoula	J1242057016, UMT-35	1,893
	Univ. of Montana - Missoula	J1571060508, UMT-89,102,104,32	56,109
	Univ. of Montana - Missoula	CA 1200-99-007, UMT-76	-11
	Univ. of Montana - Missoula	J1434060017, UMT 92	3,421
	Univ. of Montana - Missoula	J8750050210, UMT-90	41,807
	Univ. of Montana - Missoula	CA 1200-99-007, UMT-76	249
	Univ. of Montana - Missoula	J1242050071, UMT-37	155
	Univ. of Montana - Missoula	J8400060012, UMT-94	14,968
	Univ. of Montana - Missoula	J1264050029, UMT-32	2,449
	Univ. of Montana - Missoula	H1200040001, UMT-13	7,143
	Univ. of Montana - Missoula	H1200040001, UMT-97	1,299
	Univ. of Montana - Missoula	J2360060020	3,296
	Univ. of Montana - Missoula	J1435050094, UMT-96	148
	Univ. of Montana - Missoula	H1200040001, UMT-99	13,005
	Univ. of Montana - Missoula	J1460060018, UMT-95	-56
	Univ. of Montana - Missoula	J2119040107, UMT-13	-10
	Univ. of Montana - Missoula	J1242057016, UMT-98	365
	Univ. of Montana - Missoula	J2380050112, UMT-138	48,774
	Univ. of Montana - Missoula	J9476061201, UMT-107	1,397
	Univ. of Montana - Missoula	J2380060105, UMT-106	6,735
	Univ. of Montana - Missoula	J8136060155, UMT-108	13,718
	Univ. of Montana - Missoula	H1200040001, UMT-109	495
	Univ. of Montana - Missoula	H6490C217	22,462
	Univ. of Montana - Missoula	J1580060468, UMT-101	3,351
	Univ. of Montana - Missoula	J2303060026, UMT-113	18,669
	Univ. of Montana - Missoula	J1434060050, UMT-111	5,927
	Univ. of Montana - Missoula	J1242067022, UMT-116	14,279
	Univ. of Montana - Missoula	J1580060583, UMT-105	808
	Univ. of Montana - Missoula	J1460070003, UMT-118	29,317
	Univ. of Montana - Missoula	J9836070003, UMT -117	13,407
	Univ. of Montana - Missoula	J1242077002, UMT-121	8,366
	Univ. of Montana - Missoula	J9504070009, UMT-119	8,871
	Univ. of Montana - Missoula	J1434070029, UMT-125	17,677
	Univ. of Montana - Missoula	J1434070027, UMT-124	3,279
	Univ. of Montana - Missoula	H1200040001, UMT-13	2,164
	Univ. of Montana - Missoula	CA1200-99-007	6,503
	Univ. of Montana - Missoula	J1242077008, UMT-127	1,939
	Univ. of Montana - Missoula	J1580070324, UMT-129	13,937
	Univ. of Montana - Missoula	J1434060050, UMT-111	1,925
	Univ. of Montana - Missoula	J1435050094, UMT-128	46,669
	Univ. of Montana - Missoula	J1434070042, UMT-131	3,243
	Univ. of Montana - Missoula	J2380070139, UMT-133	4,992
	Univ. of Montana - Missoula	UMT-13, UMT-98	84,217
	Univ. of Montana - Missoula	J1434070045, UMT-136	44,726
	Univ. of Montana - Missoula	J6140070135, UMT-134	58,046
	Univ. of Montana - Missoula	J1750070064, UMT-144	35,809
	Univ. of Montana - Missoula	J2303070096, UMT-145	2,016
	Univ. of Montana - Missoula	J1242070049, UMT-146	3,166
	Univ. of Montana - Missoula	J1434060050, UMT-147	3,202
	Univ. of Montana - Missoula	J1242070068, UMT-151	3,518
	Univ. of Montana - Missoula	J9504070031, UMT-141	4,979
	Univ. of Montana - Missoula	J1242077023, UMT-148	53
	Univ. of Montana - Missoula	J2380070209, UMT-149	55,110
	Univ. of Montana - Missoula	J2310080035, UMT-153	72,222

Schedule of Unknown Federal CFDA Numbers (XX.999)

Federal Agency	State Agency	Contract or Grant Number	Amount
	Univ. of Montana - Missoula	J2030080012, UMT-155	12,892
	Univ. of Montana - Missoula	J1242070058, UMT-150	2,734
	Univ. of Montana - Missoula	J1434080019, UMT-161	358
	Univ. of Montana - Missoula	J1434080019, UMT-160	33
	Univ. of Montana - Missoula	J6490080025, UMT-162, 174	24,185
	Univ. of Montana - Missoula	J1435080074, UMT-157	2,286
	Univ. of Montana - Missoula	J1580080264, UMT-164	7,930
	Univ. of Montana - Missoula	J1434080021, UMT-159	10,800
	Univ. of Montana - Missoula	J1434080036, UMT-165	3,188
	Univ. of Montana - Missoula	J8755080013, UMT-166	6,099
	Univ. of Montana - Missoula	DOINPS44152MTU	4,271
	Montana State - Bozeman	H1200040001 MSU-103	2,670
	Montana State - Bozeman	J1242067016	3,931
	Montana State - Bozeman	H1200040007/J9471071042 MSU-12	16,326
	Montana State - Bozeman	PO# 101816M461	-76
	Montana State - Bozeman	H1200040001 / MSU-106	1,726
	Montana State - Bozeman	J1242070017-MSU 124	1,925
	Montana State - Bozeman	05FG602009	2,083
	Montana State - Bozeman	MSU-136 TASK J1580070508	2,108
	Montana State - Bozeman	J2120060114 MSU-109	3,082
	Montana State - Bozeman	H1200040001 MSU-112	3,645
	Montana State - Bozeman	ESF04Z001 ESA04Z027	5,605
	Montana State - Bozeman	H1200040001 J1580050288	6,000
	Montana State - Bozeman	H1200040001 MSU-93	6,765
	Montana State - Bozeman	J1460050024 MSU-35	7,029
	Montana State - Bozeman	H1200040001 MSU-29	8,699
	Montana State - Bozeman	J1580070323/MSU-123	10,900
	Montana State - Bozeman	H1200040001/J1242070020MSU-128	11,748
	Montana State - Bozeman	H8812-06-0502	11,813
	Montana State - Bozeman	ESA04DD31 TASK ORDER 2	13,416
	Montana State - Bozeman	H1200040001/J2123077002	13,756
	Montana State - Bozeman	H12000040001	13,762
	Montana State - Bozeman	ESA04Y026/TO ESF04Y001	14,407
	Montana State - Bozeman	J1580080088	16,299
	Montana State - Bozeman	98210-4-G829-001	17,619
	Montana State - Bozeman	H120004001/J2120070118	21,252
	Montana State - Bozeman	601816J355	24,249
	Montana State - Bozeman	J1571050527 MSU-21	30,119
	Montana State - Bozeman	J1460060025 MSU-111	31,026
	Montana State - Bozeman	J1580080122	43,682
	Montana State - Bozeman	H1200040001/J1580070509	43,822
	Montana State - Bozeman	06FC602128	46,443
	Montana State - Bozeman	06FC602143	56,808
	Montana State - Bozeman	98210-6-J009	432,693
	DEQ	15.ESA06I009	196,398
	DEQ	15.NPS-H1580060002	38,268
	DEQ	15.ESA06BB28	454,758
	DEQ	15.ESA07A001	50,000
	DNRC	CA158001002	29,472
	DNRC	04FC601876	20,110
	UM MT Tech - Butte	R132006A183	1,167
	UM MT Tech - Butte	H1580070001	75,575
	UM MT Tech - Butte	H1580070001	30,561
Department of Justice (16)			
	Montana State - Bozeman	DOJ/AntiTrust IPA Hanssen	123,394
Department of Transportation (20)			
	Montana State - Bozeman	DTRS98-G-0014	12,717
Department of Treasury (21)			
	Department of Commerce	PL110-161:95X1350	112,359
National Aeronautics and Space Administration (43)			
	Univ. of Montana - Missoula	NAG5-12540	264,413
	Univ. of Montana - Missoula	NNG04GJ45G	88,363
	Univ. of Montana - Missoula	NNG04GJ44G	138,192
	Univ. of Montana - Missoula	NNG04HZ19C	37,569
	Univ. of Montana - Missoula	NNG05GG13G	-120,431

Schedule of Unknown Federal CFDA Numbers (XX.999)

Federal Agency	State Agency	Contract or Grant Number	Amount
	Univ. of Montana - Missoula	NNG05GH13G	74,491
	Univ. of Montana - Missoula	NNJ05HF04G	-642
	Univ. of Montana - Missoula	NNZ07AJ28G	71,975
	Univ. of Montana - Missoula	#1333806	9,427
	Univ. of Montana - Missoula	NNX08AG87A	46,870
	Univ. of Montana - Missoula	#1319876	5,126
	Univ. of Montana - Missoula	G-1949-2	1,972
	Univ. of Montana - Missoula	499962Q	83,802
	Univ. of Montana - Missoula	ACK657-A	55,310
	Univ. of Montana - Missoula	207CAD048	48,085
	Montana State - Bozeman	NNA08CN85A	236,795
	UM MT Tech - Butte	NNA06AA64C	97,388
National Foundation of the Arts and the Humanities (45)			
	Montana Historical Society	EE-50078-04	-750
National Science Foundation (47)			
	Montana State - Bozeman	DGE-0540247	1,198
	Montana State - Bozeman	208FOU076	24,955
	Montana State - Bozeman	PO RF01016861	121,127
	UM MT Tech - Butte	EAR-0350030	37,513
Small Business Administration (59)			
	Department of Commerce	SBAHQ-05-I-0056	27,526
Environmental Protection Agency (66)			
	Univ. of Montana - Missoula	507042	99,706
	Montana State - Bozeman	3110	11,522
	Montana State - Bozeman	X-83245801-1	125,825
	DEQ	66.R82834401	5,256
	DEQ	66.PM99879302	451,475
	UM MT Tech - Butte	203074-2	7,816
	UM MT Tech - Butte	R829400-01-0	14
	UM MT Tech - Butte	R82951501	100,381
	UM MT Tech - Butte	EP-C-05-059, TO 38	28,732
Department of Energy (81)			
	Montana State - Bozeman	TO 60-5004-101	28,382
	Montana State - Bozeman	TASK ORDER 60-5004-202	11,007
	UM MT Tech - Butte	DE-FC26-05NT15549	27,331
	UM MT Tech - Butte	W-7405-ENG-36	19,776
	UM MT Tech - Butte	DE-FC26-05NT15549	46,461
Department of Education (84)			
	OPI	ED-03-CO-0045	122,674
	OPI	ED-04-CO-0025/0010	48,168
	UM MT Tech - Butte	TP 2008-2010	18,339
Department of Public Health and Human Services (93)			
	Univ. of Montana - Missoula	5 F32-ES013048-03	5,534
	Univ. of Montana - Missoula	5 F32 ES013044-02	-7,146
	Univ. of Montana - Missoula	35126-5S-728	2,269
	Montana State - Bozeman	G-4733-13	17,868
	Montana State - Bozeman	1R42EB6360-01	133,700
	DPPHS	460729.000	20,157
	DPPHS	HHSF22300640153P	58,040
	DPPHS	211-2007-M-21881	2,485
	Department of Agriculture	HHSF223200840203P	22,824
	UM MT Tech - Butte	200-2006-M-18653	18,967
	UM MT Tech - Butte	0.000	234
	UM MT Tech - Butte	0.000	-628
Homeland Security (97)			
	UM MT Tech - Butte	PDMC-08-MT-2007	27,483
Other Federal (99)			
	Judiciary	99-SJI-07-T-197	18,000
	Univ. of Montana - Missoula	FED07-021	3,750

Auditor’s Report & Findings

Auditor's Report & Findings

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LEGISLATIVE AUDIT DIVISION

C-1

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

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

The Legislative Audit Committee
of the Montana State Legislature:

Compliance

We have audited the compliance of the state of Montana with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the two fiscal years ended June 30, 2009. The state of Montana's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the state of Montana's management. Our responsibility is to express an opinion on the state of Montana's compliance based on our audit.

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

As described in Findings 2-9 and 2-11 in the accompanying schedule of findings and questioned costs, the state of Montana did not comply with requirements regarding Subrecipient Monitoring and Cash Management that are applicable to its Homeland Security Grant Program (CFDA #97.067). Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

As described in findings 2-16, 2-17, and 2-18 in the accompanying schedule of findings and questioned costs, the state of Montana did not comply with requirements regarding Reporting and Special Tests and Provisions that are applicable to its Section 8 Housing Choice Vouchers Program (CDFA #14.871).

Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

As described in finding 2-21 in the accompanying schedule of findings and questioned costs, the state of Montana did not comply with requirements regarding Subrecipient Monitoring that are applicable to its Workforce Investment Act Cluster (CFDA #17.258, 17.259, and 17.260). Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

As described in Findings 2-24 and 2-25 in the accompanying schedule of findings and questioned costs, the state of Montana did not comply with requirements regarding Cash Management and Special Tests and Provisions that are applicable to its Unemployment Insurance (CFDA #17.225). Compliance with such requirements is necessary, in our opinion, for the state of Montana to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraphs, the state of Montana complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the two fiscal years ended June 30, 2009. However, the results of our auditing procedures also disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs, Section III, findings: 2-1, 2-4, 2-5, 2-7, 2-10, 2-19, 2-20, 2-22, 2-23, 2-26, 2-27, 2-28, 2-29, 2-30, 2-31, 2-32, 2-33, 2-34, 2-35, 2-37, 2-38, 2-39, and 2-40.

Internal Control Over Compliance

The management of the state of Montana is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the state of Montana's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the state of Montana's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal

program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs to be significant deficiencies: 2-2, 2-3, 2-6, 2-7, 2-8, 2-9, 2-11, 2-12, 2-13, 2-14, 2-15, 2-22, 2-23, 2-24, 2-25, 2-27, 2-28, 2-29, 2-31, 2-32, 2-33, 2-34, 2-35, and 2-36.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider findings 2-2, 2-9, 2-11, 2-24, 2-25, 2-27, and 2-32 to be material weaknesses.

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

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

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

December 22, 2009

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2009

Section I – Summary of Auditor’s Results

Basic Financial Statements

For Each of the Two Fiscal Years Ended June 30, 2009

	<u>2008</u>	<u>2009</u>
Type of Auditor’s report issued:	Unqualified	Unqualified
Internal control over financial reporting:		
• Material weakness identified?	No	No
• Significant deficiencies identified that are not considered to be a material weakness?	Yes	No
Noncompliance material to the financial statements noted?	No	Yes

Federal Awards

For the Two Fiscal Years Ended June 30, 2009

	<u>2008 and 2009</u>
Internal control over major programs:	
• Material weakness identified?	Yes
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Type of auditor’s report issued on compliance for major programs:	Unqualified for all major programs except for the Homeland Security Cluster, Section 8 Housing Choice Vouchers Program, Workforce Investment Act Cluster, and Unemployment Insurance
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.551 & 10.561	Food Stamp/SNAP Cluster
10.553, 10.555, 10.556, & 10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants & Children
10.558	Child and Adult Care Food Program
10.665 & 10.666	Schools & Roads Cluster
12.401	National Guard Military Operations & Maintenance Projects
14.195, 14.182, 14.856, & 14.249	Section 8 Project-Based Cluster
14.228 & 14.255	Community Development Block Grant/State Program

Section I – Summary of Auditor’s Results

Identification of major programs (continued):

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.871	Section 8 Housing Choice Vouchers
15.605 & 15.611	Fish & Wildlife Cluster
17.225	Unemployment Insurance
17.258, 17.259, & 17.260	Workforce Investment Act Cluster
20.205, 20.219, & 23.003	Highway Planning and Construction Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
84.007, 84.032, 84.033, 84.038, 84.063, 84.268, 84.375, 84.376, 93.342, 93.364 & 93.925	Student Financial Assistance Cluster
84.010, & 84.389	Title I Grants to Local Educational Agencies
84.027, 84.173, 84.391, & 84.392	Special Education Cluster
84.032	Federal Family Education Loans (Guaranty Agency)
84.126 & 84.390	Rehabilitation Services-Vocational Rehabilitation Grants to States
84.367	Improving Teacher Quality State Grants
93.268 & 93.712	Immunization Grants
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance
93.558, 93.714, & 93.716	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.568	Low Income Home Energy Assistance
93.575, 93.596, & 93.713	Child Care Cluster
93.658	Foster Care Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.767	State Children’s Insurance Program
93.775, 93.776, 93.777, & 93.778	Medicaid Cluster
93.959	Block Grants for Prevention and Treatment of Substance Abuse
97.004 & 97.067	Homeland Security Cluster
97.046	Fire Management Assistance Grant
Various	Research and Development Cluster
Dollar threshold used to distinguish between Type A and Type B programs:	\$ 13,286,423
Auditee qualified as low-risk auditee?	No

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2009

Section II – Financial Statement Findings

Finding 1-1: Various Federal Agencies
CFDA # Various

Criteria: Section 17-1-102(4), MCA, states, in part, all state agencies shall input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable, in accordance with generally accepted accounting principles. The Department of Administration establishes state accounting policy to implement this law. State accounting policy 2-1120.10 requires that revenues be recognized when they meet all four of the following criteria: the revenue is realizable, the revenue is measurable, the revenue has been earned, and the revenue is available. If the revenue is not available at fiscal year end, the revenue amounts should be recorded as deferred revenue for the fund financial statements, and for governmental activities, revenue should be recorded. State accounting policy 2-0250.00 discusses internal controls, and state agencies are responsible for implementing internal control procedures to ensure all transactions necessary for compliance with generally accepted accounting principles (GAAP) are recorded in the state accounting system before fiscal year-end. Additionally, agencies should develop appropriate internal control procedures based upon their business processes.

Condition: The state of Montana has been involved with a lawsuit regarding power company use of navigable waterways in the production of hydroelectric power. The lawsuit alleged the power companies owed the Common School Trust beneficiaries compensation for the use of navigable waterways owned by the Common School Trust. The Department of Natural Resources and Conservation (department) administers the Common School Trust. A judgment in favor of the state was delivered in June 2008 and a power company was ordered to pay \$41 million to the state for back rent. The department did not record transactions on the state's accounting records for this revenue settlement as required by state law and policy.

Questioned Costs: No questioned costs were identified.

Context: This is the first time navigable waterways have been deemed part of Common School Trust land. Prior to October 2007, there were no leases for use of the navigable waterways. The revenues generated for the Common School Trust benefit K-12 grade schools in Montana.

Effect: Land Grant Fund assets and liabilities are each understated by \$41 million on the state's accounting records at June 30, 2008, and revenue is understated by \$41 million for Governmental Activities for the fiscal year ended June 30, 2008.

Cause: Department personnel indicated they anticipate the court decision will be appealed; therefore the revenue settlement amount was not recorded. The department does not have controls in place to consider the potential financial ramifications from ongoing litigation as part of the department's year-end procedures.

Recommendation: We recommend the Department of Natural Resources and Conservation implement procedures to ensure the financial results of litigation are considered during the fiscal year-end process in accordance with state law and policy.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2009

Section II – Financial Statement Findings

Finding 1-2: Various Federal Agencies
CFDA # Various

Criteria: Article VIII, Section 15, of the Montana Constitution requires public retirement systems to be funded on an actuarially sound basis. The Teachers' Retirement Board (board) policy sets a maximum amortization period of 30 years for the employer and employee contributions and investment earnings to fund current employees' future benefits, and pay the unfunded actuarial accrued liability.

Condition: The Teachers' Retirement System was not actuarially sound in fiscal years 2007-08 and 2008-09. The July 1, 2008 actuarial valuation determined the employer contribution rate would need to increase by .17 percent starting July 1, 2009, to maintain an amortization of the unfunded actuarial accrued liability over a 30-year period. The actuarial valuation dated July 1, 2009, determined the employer contribution rate would need to increase by 7.54 percent starting July 1, 2012, to maintain an amortization of the unfunded actuarial accrued liability over a 30-year period.

Questioned Costs: No questioned costs identified.

Context: The unfunded actuarial accrued liability has grown from \$757.8 million at July 1, 2004, to \$1.4 billion at July 1, 2009. Of the last seven valuations, the system has been actuarially sound one year.

Effect: The retirement system is not actuarially sound which is not in compliance with the Montana Constitution.

Cause: The actuary attributed the growth in the unfunded liability of the system through the July 1, 2009 valuation date to investment returns below the actuarial investment return assumption of 8.00 percent for 2000-2004 and 7.75 percent for 2005-2009. Out of the last 10 years, investment returns have been below the assumption in six years. In the most recent valuation as of July 1, 2009, the investment returns were approximately 28 percent less than assumed.

Recommendation: We recommend the Teachers' Retirement System take necessary measures to ensure the system is funded on an actuarially sound basis, as required by the State of Montana Constitution and board policy.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2009

Section II – Financial Statement Findings

Finding 1-3: Various Federal Agencies
CFDA # Various

Criteria: Article VIII, Section 15, of the Montana Constitution requires public retirement systems to be funded on an actuarially sound basis. The Public Employees' Retirement System – Defined Benefit Retirement Plan (PERS-DBRP), Sheriffs' Retirement System (SRS), and Game Wardens' and Peace Officers' Retirement System (GWPORS) are not actuarially sound.

Condition: The board obtained an actuarial valuation of the PERS-DBRP, SRS, and GWPORS as of July 1, 2009. The results of the actuarial valuation show these systems are not funded on an actuarially sound basis. PERS-DBRP has an unfunded actuarial accrued liability of \$790,607,038 and does not amortize. SRS has an unfunded actuarial accrued liability of \$23,202,994 and does not amortize. GWPORS has an unfunded actuarial accrued liability of \$10,978,462 and does not amortize.

Questioned Costs: No questioned costs identified.

Context: The Public Employees Retirement Administration has eight defined benefit retirement systems and three are not actuarially sound. These three systems were also actuarially unsound in fiscal years 2003-04, 2004-05, and 2005-06.

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

Cause: The actuary attributed the growth in the unfunded liability of the system through the July 1, 2009, valuation date to investment returns below the actuarial investment return assumption of 8.00 percent.

Recommendation: We recommend the Public Employees' Retirement Board seek legislation to restore the actuarial soundness of the Public Employees' Retirement System – Defined Benefit Retirement Plan, Sheriffs' Retirement System, and Game Wardens' and Peace Officers' Retirement System as required by the Montana Constitution.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2009

Section III – Federal Award Findings and Questioned Costs

Finding 2-1: Various Federal Agencies
CFDA # Various
Grant # Various

Criteria: Federal regulations, 2 CFR 225.20, Appendix A, Section (C)(3a) require the Department of Administration (department) to charge costs to each cost objective of a Statewide Cost Allocation Plan in accordance with the relative benefits received.

Condition: The department billed central service costs to agencies at the lower of the amount estimated in its fiscal year budget or the amount in the approved Statewide Cost Allocation Plan.

Questioned Costs: We estimate costs billed to agencies based on percentages of the allocation amount greater than the lowest percentage billed to any agency exceeded \$10,000 in fiscal year 2007-08.

Context: The amount billed to agencies by the department varied from 4.98 to 100 percent in fiscal year 2007-08.

Effect: The department did not bill central service costs to various state agencies in accordance with the relative benefits received as required by federal regulations.

Cause: The decision to bill central service costs at the lower of plan or budget caused the relationship between cost and benefit established by the approved plan to not be reflected in the actual amounts paid by the agencies.

Recommendation: We recommend the Department of Administration charge the approved statewide cost allocation plan costs to state agencies and bill state agencies in proportion to the costs allocated in the plan.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2009

Section III – Federal Award Findings and Questioned Costs

Finding 2-2: U.S. Environmental Protection Agency
 CFDA #66.458, Capitalization Grants for Clean Water Revolving Funds
 Grant #CS300001-05, CS300001-06, CS300001-07
 CFDA #66.468, Capitalization Grants for Drinking Water Revolving Funds
 Grant #FS998850-05, FS998850-06, FS998850-07

Criteria: Federal regulations, 40 CFR 31.20(a)(1), require the Department of Environmental Quality (department) to establish fiscal control and accounting procedures sufficient to permit preparation of financial statements.

Condition: An audit of the program financial statements for the fiscal year ending June 30, 2007 disclosed material weaknesses in the internal control over financial reporting. The audit report further noted the Water Pollution Control State Revolving Fund's fund balances were not properly recorded on the primary accounting records or properly reported on the financial statements. Numerous other material financial statement compilation and classification errors were also identified. The audit of the program financial statements for the fiscal year ended June 30, 2008, also disclosed a material weakness in internal control over financial reporting due to numerous material note compilation errors.

Questioned Costs: No questioned costs were identified.

Context: Several errors were identified on the financial statements and notes, some occurred in both years. Staff turnover and the lack of internal control documentation contributed to these errors.

Effect: The program financial statements and notes for the fiscal year ending June 30, 2007, required adjustment. Internal controls are not in place to prevent similar errors in the notes from occurring in subsequent years.

Cause: The program financial statements are prepared by another state agency without any oversight from the department. Additionally, in January 2007, there was staff turnover in the position responsible for preparing the financial statements and detailed internal control documentation specific to the financial statement preparation process was not available.

Recommendation: We recommend the Department of Environmental Quality establish and document control procedures appropriate to prevent, or detect and correct on a timely basis, material misstatements occurring on the accounting records and in the preparation of the Drinking Water and Water Pollution Control State Revolving Fund Loan Programs financial statements.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2009

Section III – Federal Award Findings and Questioned Costs

Finding 2-3: U.S. Department of Homeland Security

CFDA #97.046, Fire Management Assistance Grant

Grant #2718-FM-MT

Grant #2721-FM-MT

Grant #2723-FM-MT

Criteria: Federal regulations, 2 CFR 180.305 and 2 CFR 1532.220, prohibit the Department of Natural Resources and Conservation (department) from contracting with parties that are suspended or debarred from participating in federal programs. Office of Management and Budget (OMB) Circular A-133, Subpart C, paragraph .300(b), also requires the department to maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Condition: The department administers the Fire Management Assistance grant from the federal Department of Homeland Security. Prior to each fire season, the department contracts with vendors to provide services for the upcoming fire season. During the solicitation process, the department represents that they verify the vendors are not suspended or debarred from receiving federal funds. However, the department does not retain documentation of the verification.

Questioned Costs: No questioned costs were identified.

Context: In fiscal year 2007-08, the department approved a total of 78 contracts that could be used during the fire season and had the potential to be paid for with federal grant funds.

Effect: The department can not demonstrate compliance with federal suspension and debarment requirements, increasing the risk of awarding federal funds to a suspended or debarred party.

Cause: The department did not know it should retain documentation to demonstrate compliance with the federal requirement.

Recommendation: We recommend the Department of Natural Resources and Conservation document compliance with federal requirements that prohibit contracting with suspended and debarred parties.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2009

Section III – Federal Award Findings and Questioned Costs

Finding 2-4: U.S. Department of Homeland Security
CFDA #97.046, Fire Management Assistance Grant
Grant #2718-FM-MT

Criteria: The March 2008 Compliance Supplement, page 3-I-1, asserts, “States, and governmental subrecipients of States, shall use the same State policies and procedures used for procurements from non-Federal funds.” The fiscal year 2007-2009 Procurement Delegation Agreement between the Department of Natural Resources and Conservation (department) and the Montana Department of Administration (DOA) specifies the department may use either an invitation for bids or request for proposals to purchase supplies and/or services with a total contract value between \$25,001 and \$100,000. Any purchases with a total contract value over \$100,000 must be forwarded to the Montana State Procurement Bureau for processing.

The National Wildfire Coordinating Group Interagency Incident Business Management Handbook (NWCG Handbook), Chapter 20, Section 28, Subsection 1, states, in part, “The rates included herein are the standard set rates payable for the equipment listed. Do not negotiate prices from the set rate except in exceptional cases. These exceptional cases shall be approved and documented by the authorized procurement official.” Per Chapter 20, Section 28, Subsection 26 of the NWCG Handbook the amount allowed for All Terrain Vehicles (ATVs) ranges from \$45 to \$55 per day, which also encompasses Utility Vehicles (UTVs).

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

Condition: The department is responsible for wildfire suppression for state and private property. In August 2007, a department employee executed a 6-week lease agreement for a single ATV for \$7,350 for use in fire fighting activities. The department used the lease agreement already executed as the basis for leasing 13 additional ATVs, 14 UTVs, and 10 trailers for fire activities. Total lease payments for the equipment were \$252,925. Therefore, the lease payments exceeded \$100,000 and a formal bid process was required. The department also charged lease costs to fire codes for days when the equipment was not assigned to a fire although the department has specific policies and required documentation in place which should ensure this does not happen.

Questioned Costs: In fiscal year 2007-08, we question costs of \$42,260 for unallowed charges for fire equipment to CFDA #97.046 and \$27,203 to the 2005 Cooperative Fire Management Agreement # FS-05-FI-11015600-014.

Context: Of the \$252,925 paid for the leased equipment, the department paid approximately \$109,033 in excess of rates allowed by the NWCG Handbook and an additional \$79,635 for days when the equipment was not assigned to a specific fire. Of this, \$69,463 was paid with federal dollars.

Effect: The department is not in compliance with federal allowable cost requirements, resulting in unallowable costs.

Cause: Department administration represented they were unaware of the agreement entered into by field office employees until the bills started coming in.

Recommendation: We recommend the Department of Natural Resources and Conservation ensure procurement policies and procedures are applied to equipment transactions for fire activities.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2009

Section III – Federal Award Findings and Questioned Costs

Finding 2-5: U.S. Department of Agriculture (USDA)
 CFDA #10.025, Plant and Animal Disease, Pest Control, and Animal Care
 Grant # 05-8572-0585-CA, 06-8572-0585-CA, 07-8572-0585-CA,
 08-8572-0585-CA, 08-8572-0810-CA, 09-8572-1065-CA

CFDA #10.163, Market Protection and Promotion
 Grant # 12-25-A-4431, 12-25-A-4612, 12-25-A-4734, 12-25-A-4740,
 12-25-A-4832, 12-25-A-4871, 12-25-A-5032, 12-25-A-5056

U.S. Environmental Protection Agency
 CFDA #66.605, Performance Partnership Grants
 Grant # BG-98853704-9, BG-98853707-7

U.S. Department of Health and Human Services
 CFDA #93.449, Ruminant Feed Ban Support Project
 Grant #HHSF223200840203P

Criteria: Federal regulations, 2 CFR 225, Appendix E (B)(6) describe a fixed rate as “an indirect cost rate which has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual, allowable costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.”

Condition: The Department of Agriculture (department) submitted indirect cost rate proposals that did not include a carry forward amount from excess prior period collections as required by federal regulations. The most recent indirect cost rate proposal submitted during fiscal year 2008-09, did not include approximately \$217,000 in excess collections from previous periods.

Questioned Costs: We question approximately \$217,000 in excess collections in fiscal year 2008-09 that should have been included in the rate setting process to reduce the indirect cost rate. The table on the following page shows the amount of questioned costs for each federal program and grant listed above.

<u>CFDA#</u>	<u>GRANT #</u>	<u>QUESTIONED COSTS</u>
10.025	06-8572-0810-CA	\$ 1,517
10.025	07-8572-0810-CA	\$ 2,555
10.025	08-8572-0810-CA	\$ 319
10.025	05-8572-0585-CA	\$ 6,854
10.025	06-8572-0585-CA	\$ 6,576
10.025	07-8572-0585-CA	\$ 6,708
10.025	08-8572-0585-CA	\$ 5,537
10.025	07-8572-1065-CA	\$ 180
10.025	08-8572-1065-CA	\$ 1,580
10.025	09-8572-1065-CA	\$ 475
10.025	09-8572-1065-CA	\$ 455
10.163	12-25-A-4871	\$ 9,485
10.163	12-25-A-5032	\$ 14,728
10.163	12-25-A-4431	\$ 20,862
10.163	12-25-A-4734	\$ 17,853
10.163	12-25-A-4871	\$ 8,786
10.163	12-25-A-4612	\$ 3,649
10.163	12-25-A-4612	\$ 545
10.163	12-25-A-4740	\$ 2,912
10.163	12-25-A-4832	\$ 2,918
10.163	12-25-A-5056	\$ 3,084
10.163	12-25-A-4740	\$ 485
10.163	12-25-A-4832	\$ 409
66.605	BG-98853704-9	\$ 20,234
66.605	BG-98853707-7	\$ 76,682
93.449	HHSF223200840203P	<u>\$ 1,640</u>
		\$ 217,028

Context: The excess collections have been accumulating since fiscal year 2002.

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

Cause: Department management stated they were not aware they were responsible for including the carry forward amount in its proposals. Prior to fiscal year 2003, the cognizant agent provided for the carry forward adjustment to the rate proposals.

Recommendation: We recommend the Department of Agriculture include carry forward amounts in its indirect cost rate proposals as required by federal regulation.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2009

Section III – Federal Award Findings and Questioned Costs

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

CFDA #12.401, National Guard Military Operations and Maintenance Projects
Grant # W9124V-04-2-1007, W9124V-04-2-1002

Criteria: OMB Circular A-133, Subpart C, Section .300(b) states the auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. Federal regulations, NGR 5-1, paragraphs 10-10(c) and (d) require the department to submit a final accounting of all funding and disbursements for the fiscal year under an agreement within 90 days after the end of the federal fiscal year or upon termination. Any unliquidated claims or undisbursed obligations that remain 90 days after the close of the fiscal year, shall be listed along with a projected timetable for their liquidation and disbursement to the United States Property and Fiscal Officer (USPFO) no later than December 31st. The USPFO shall then set an appropriate new timetable for the department to submit their final accounting or choose to not extend the timetable. If costs incurred in the fiscal year are not disclosed within 90 days of the end of the federal fiscal year, they are not eligible for reimbursement.

Condition: The Department of Military Affairs (department) submitted a list of unliquidated obligations to the USPFO. The USPFO approved all requested obligations except for five amounting to \$18,336. Department personnel did not realize the USPFO did not approve all obligations and liquidated \$17,378 of the unapproved obligations in fiscal year 2008-09.

Questioned Costs: We question \$17,378 of liquidated unapproved obligations in fiscal year 2008-09.

Context: The department requested approval to liquidate obligations amounting to \$4,566,168. The federal government approved \$4,547,832 of these unliquidated obligations.

Effect: The department is not in compliance with federal regulations which resulted in unallowable costs.

Cause: In the past, the USPFO sent a letter stating the submitted unliquidated obligations were approved without sending any supporting documentation on specific obligations. The most recent approval from USPFO specifically listed the obligations that were approved and department personnel did not review the approval or note that five of the requested obligations were not approved.

Recommendation: We recommend the Department of Military Affairs establish procedures to ensure it only liquidates approved obligations in accordance with federal regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-7: U.S. Department of Homeland Security
 CFDA #97.004, 97.067, Homeland Security Cluster
 Grant # 2005-GE-T5-0042
 2006-GE-T6-0062
 2007-GE-T7-0011

Criteria: OMB Circular A-133, Subpart C, Section .300(b) requires the Department of Military Affairs (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Additionally, the General Compliance Supplement on page 3-I-1 states that States, and governmental subrecipients of States, shall use the same state policies and procedures used for procurements from non-federal funds.

Condition: In fiscal year 2007-08, we identified four instances where department controls were not followed. These include:

- ♦ Project management invoices were not approved by a project director,
- ♦ \$4,654 of costs were paid without meeting the documentation requirements,
- ♦ Documentation could not be provided to demonstrate state procurement policies were followed for a \$10,000 contract,
- ♦ \$18,202 in payments were not supported by documentation demonstrating state purchasing policies were followed and the invoices were not approved by an eligible project director.

In fiscal year 2008-09 we identified an additional instance where the department entered into a contract for \$29,925 and could not provide documentation to demonstrate it followed state procurement policy.

Questioned Costs: We question \$28,202 in costs charged to the Homeland Security Cluster in fiscal year 2007-08. We question \$29,925 in costs charged to the Homeland Security Cluster in fiscal year 2008-09.

Context: There is a systematic problem related to the controls over procurement as some of the invoices and contracts we reviewed did not have adequate support to demonstrate procurement procedures were followed.

Effect: The department is not in compliance with federal award requirements, resulting in unallowable costs.

Cause: The following are the causes for each of the five items listed under condition:

- ♦ Project management invoices were not approved by a project director, because project management only provides project updates to the project directors on a monthly basis,
- ♦ \$4,654 of costs were paid without meeting the documentation requirements because information was received and accepted even though it did not meet its established documentation requirements,
- ♦ A bid process was completed; however, documentation could not be located to demonstrate state procurement policies were followed for the \$10,000 contract,
- ♦ \$18,202 in payments were not supported by documentation demonstrating state purchasing policies were followed and the invoices were not approved by an eligible project director because department personnel were directed to pay the invoices since they were allowable costs.

In fiscal year 2008-09, department personnel informed the contracts office the contract was for training. The contracts office awarded the contract in accordance with state policy for a training contract; however, we determined the nature of the contract was not for training.

Recommendation: We recommend the Department of Military Affairs follow established controls to ensure all Homeland Security costs are allowable.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-8: U.S. Department of Homeland Security
CFDA #97.004, 97.067, Homeland Security Cluster
Grant # 2005-GE-T5-0042
2006-GE-T6-0062
2007-GE-T7-0011

Criteria: OMB Circular A-133, Subpart, C, Section .300(b) requires the Department of Military Affairs (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs.

Condition: The individual approving time for two employees charging time to the Homeland Security grant does not direct their work and does not work with the Homeland Security grant. The department does not have any other procedures to verify the time charged to the Homeland Security grant was actually spent performing work on the grant.

Questioned Costs: No questioned costs were identified.

Context: The department spent approximately \$100,000 on salaries for three individuals.

Effect: The department is not in compliance with federal award requirements requiring adequate controls over time and effort.

Cause: The staff approving the time cards relies on the employees to be honest and accurate with their time.

Recommendation: We recommend the Department of Military Affairs establish effective time approval controls for the Homeland Security grant to ensure all salaries charged to the grant are allowable.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-9: U.S. Department of Homeland Security
CFDA #97.004, 97.067, Homeland Security Cluster
Grant # 2005-GE-T5-0042
2006-GE-T6-0062
2007-GE-T7-0011

Criteria: OMB Circular A-133, Subpart D, Section .400(d)(5) requires pass through entities to issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure the subrecipient takes appropriate and timely corrective action.

Condition: In fiscal year 2007-08, the Department of Military Affairs (department) received notification of seven audit findings in subrecipient audit reports. The department did not issue management decisions or require corrective action on five of the audit findings within the required timeframe and granted \$400,000 to one subrecipient that had an audit finding. Additionally, the department's subrecipient monitoring tracking spreadsheet lists only 78 of the department's 84 subrecipients. In fiscal year 2008-09, the department failed to monitor any of its homeland security grant sub recipients; therefore no subrecipient audit findings were even considered.

Questioned Costs: No questioned costs were identified.

Context: The department subgrants 95 percent of the Homeland Security funds to 84 subrecipients. The department received notification of four findings in three audit reports.

Effect: The department is not in compliance with federal subrecipient monitoring requirements.

Cause: The monitoring specialist position was filled for only part of the audit period ending June 30, 2008. The position was again vacant as of May 2008.

Recommendation: We recommend the Department of Military Affairs implement effective subrecipient monitoring controls to ensure its subrecipients comply with the federal requirements.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-10: U.S. Department of Homeland Security
CFDA #97.004, 97.067, Homeland Security Cluster
Grant # 2005-GE-T5-0042
2006-GE-T6-0062
2007-GE-T7-0011

Criteria: The March 2008 OMB Circular A-133 Compliance Supplement, page 4-97.067-5, requires states to obligate funds for subgrants within 60 days after the date of the grant award.

Condition: The Department of Military Affairs (department) did not obligate funds within 60 days after the date of the grant award.

Questioned Costs: No questioned costs were identified.

Context: The department did not obligate any funds within 60 days of receiving the award. As of June 2008, the majority of the funds, \$5.5 million, had yet to be obligated. 18 percent of the funds were obligated approximately 300 days after receiving the award.

Effect: The department is not in compliance with federal obligation requirements.

Cause: The department did not communicate the award terms to the Homeland Security subrecipients. Additionally, the majority of funds are subgranted to a new entity made up of all the local subrecipients and this entity did not exist until May of 2008.

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

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Section III – Federal Award Findings and Questioned Costs

Finding 2-11: U.S. Department of Homeland Security
CFDA #97.004, 97.067, Homeland Security Cluster
Grant # 2005-GE-T5-0042
2006-GE-T6-0062
2007-GE-T7-0011

Criteria: OMB Circular A-133, Subpart C, Section .300(b) requires the Department of Military Affairs (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Additionally, the March 2008 OMB Circular A-133 Compliance Supplement, page 4-97.067-4, allows grantees to draw down funds up to 120 days prior to expenditure/disbursement, but requires grantees to place the funds drawn down in an interest-bearing account, and then the interest earned must be submitted to the U.S. Treasury.

Condition: During fiscal year 2007-08, the department had an average daily cash balance of \$97,000 and did not invest any of these funds drawn in advance of the expenditures.

Questioned Costs: No questioned costs were identified.

Context: The department made draws totaling \$8,948,059 in fiscal year 2007-08. We reviewed the cash balance for five out of 12 months.

Effect: The department is not in compliance with federal cash management requirements.

Cause: Personnel stated cash was ordered when expenditures were sent to the division processing the invoices. While cash requests are processed on a daily basis, invoices are processed on a first come, first serve basis. Personnel did not invest the cash received in advance of payments going out as they expected the payments would process within a few days.

Recommendation: We recommend the Department of Military Affairs implement effective controls to ensure it complies with Homeland Security cash management requirements.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-12: Various Federal Agencies

CFDA # Various, Research & Development Cluster

Grant # Various

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

Condition: The university did not follow its internal control procedures for complying with the period of availability, cash management, and reporting federal assertions in fiscal year 2007-08 and 2008-09.

Questioned Costs: No questioned costs were identified.

Context: Of 22 grant files tested, eight contained exceptions.

Effect: Noncompliance with university internal controls limits the university's ability to prevent, or detect and correct, material noncompliance with federal regulations in a timely manner.

Cause: University personnel indicated they are in the process of automating their billing processes, which they believe will help achieve efficiencies in the future. Additionally, periodic review of grant file documentation would allow the university to ensure controls are operating as intended.

Recommendation: We recommend The University of Montana ensure Office of Research and Sponsored Programs internal control procedures are operating as intended through periodic review of grant file documentation.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-13: U.S. Department of Education

CFDA # 84.063, 84.007, 84.033, 84.375, 84.376, Student Financial Assistance Cluster

Grant # P063P071770 (84.063)

P063P081770 (84.063)

P007A072428 (84.007)

P007A082428 (84.007)

P033A072428 (84.033)

P033A082428 (84.033)

P375A071770 (84.375)

P375A081770 (84.375)

P376S071770 (84.376)

P376S081770 (84.376)

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

Federal regulations, 34 CFR 74.22(a) states payment methods shall minimize the time elapsing between the transfer of funds from the United States Treasury and the issuance or redemption of checks, warrants, or payment by other means by the recipients.

Condition: Cash management controls are not properly designed to ensure compliance with federal cash management regulations and state law. We noted one instance where a cash draw was not done in a timely manner following the disbursement of financial aid for the spring semester resulting in an over \$30 million negative cash balance. Additionally, we noted an instance where a cash draw for approximately \$128,000 was made when the cash balance was already a positive \$136,000.

Questioned Costs: No questioned costs were identified.

Context: Until university personnel implemented new control procedures in March 2009, this was a systematic problem.

Effect: Noncompliance with federal regulations.

Cause: At the time of our audit, one employee was assigned responsibility for Student Financial Aid cash draws. The employee's cash draws were not reviewed by others for compliance with federal regulations or state law.

Recommendation: We recommend The University of Montana ensure compliance with federal cash management requirements.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-14: U.S. Department of Agriculture (USDA)

CFDA #10.553, 10.555, 10.556, 10.559, Child Nutrition Cluster
Grant # 3MT300306

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Office of Public Instruction (OPI) to maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. Page 4-10.553-9 of the March 2008 compliance supplement states that in order for an individual to be eligible to receive free milk for a summer milk only program, the individual must be eligible to receive free lunch. Page 4-10.553-15 also requires OPI to prepare a final Child Nutrition report including only actual participation data.

Condition: Eligibility for free milk under the School Nutrition Program is limited to children of households meeting the income eligibility criteria for free meals. The reimbursement rate for free milk is higher than the reimbursement rate for paid milk. In fiscal year 2007-08, we noted one entity that received the higher milk reimbursement rate in error.

Additionally, OPI is required to send a report to the USDA showing the number of meals served under the National School Lunch Program and School Breakfast Program, and half-pints of milk served under the Special Milk Program. Schools provide the numbers to OPI via an OPI computer system on a monthly basis. The USDA report is automatically generated by the computer system. During the audit, we found reported numbers on the system did not match what was shown on the USDA reports in four out of 12 months tested. Based on OPI records, we could not determine what the meal and milk counts should be.

OPI's controls did not detect or prevent the errors noted above in either case.

Questioned Costs: We question costs of \$364.61 in fiscal year 2007-08.

Context: We reviewed seven entities receiving milk at the higher reimbursement level and noted one received the higher rate in error. We reviewed 12 months of reports and noted four were not supported.

Effect: An entity was reimbursed \$364.61 more than they should have been. Additionally, amounts of meal and milk distributions reported by OPI to the USDA are not accurate which could result in over or under commodity assistance.

Cause: An internal computer coding malfunction allowed the eligibility error for a higher milk reimbursement rate to occur. OPI personnel could not determine the reason for the differences on the reports and the controls established for reporting did not allow them to detect the differences. OPI contacted the computer vendor, and the vendor asserted three of the four months in question were reported properly on the USDA report.

Recommendation: We recommend the Office of Public Instruction:

- A. Strengthen internal controls over Special Milk Program eligibility and the federal report for the School Nutrition Program.
- B. Maintain documentation supporting meal and milk counts reported to the federal government for the School Nutrition Program.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-15: U. S. Department Health and Human Services
CFDA # Various
Grant # Various

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Public Health and Human Services (department) to maintain internal controls over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Per the Cash Management Improvement Act Agreement between the State of Montana and the Secretary of the Treasury CMIA 6.1.1 and 6.1.2, the State shall request Federal funds in accordance with appropriate cut-off times to ensure funds will be received and credited to a State account by times specified by funding techniques. The Public Health and Human Services Fiscal Services Division General Ledger policy further states, the general ledger supervisor will review all draws for compliance with Cash Management Improvement Act (CMIA) or common rule cash principles, daily, for their staff.

Condition: Fiscal staff initiating daily cash draws utilizes a daily cash sheet and a CMIA reconciliation worksheet to ensure compliance with CMIA provisions. In our review of the worksheets, we identified instances where the daily cash draw and reconciliation worksheets did not contain evidence of supervisory review.

Questioned Costs: No questioned costs identified.

Context: Of 32 daily cash sheets reviewed for evidence of supervisory review, we identified 10 in March 2008 and 16 in March 2009 which did not contain evidence of supervisory review. In the same time period, we also reviewed three programs' CMIA reconciliation worksheets of which four, two in each month, had not been reviewed by the supervisor.

Effect: Non-compliance with federal regulations.

Cause: Department management stated high employee turnover and vacant positions within the Fiscal Operations Bureau contributed to the internal control deficiencies. When turnover occurs, supervisors absorb vacant position responsibilities and train new staff in bureau operations. The additional responsibilities impaired supervisors from complying with internal control policies implemented by the department.

Recommendation: We recommend the Department of Public Health and Human Services enhance and enforce its internal controls to ensure compliance with federal cash management requirements.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-16: U.S. Department of Housing and Urban Development (HUD)
CFDA# 14.871, Section 8 Housing Choice Vouchers
Grant # Not applicable

Criteria: Federal regulations, 24 CFR 985.101, requires a Public Housing Agency (PHA) to submit a Section 8 Management Assessment Program (SEMAP) report certification form within 60 calendar days after the end of its fiscal year. Failure to do so will result in an overall performance rating of “troubled” and the PHA will be subject to the requirements at section 985.107 of title 24 of the CFRs; including on-site monitoring by HUD and the inability to use the administrative fee reserves.

Condition: The SEMAP report deadline was August 29, 2008. The Department of Commerce (department) attempted to electronically submit the report on September 1, 2008, but access was not available. On September 10, 2008, a paper copy of the report was submitted.

Questioned Costs: No questioned costs were identified.

Context: This is an isolated incident.

Effect: The department is labeled a “troubled” agency. A second late submission could result in a loss of funding.

Cause: Per department personnel there are various reasons for the late submission including turnover, vacant positions, special projects, and belief the report was due September 30, 2008.

Recommendation: We recommend the Department of Commerce submit the Section 8 Management Assessment Program report within 60 days after fiscal year-end, as required by federal regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-17: U.S. Department of Housing and Urban Development (HUD)
CFDA# 14.871, Section 8 Housing Choice Vouchers
Grant # Not applicable

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

Federal regulations 24 CFR 982.517(a) require the Department of Commerce (department) to maintain a utility allowance schedule for all tenant-paid utilities (except telephone), for the cost of tenant-supplied refrigerators and ranges, and for other tenant-paid housing services.

Condition: The department generally receives new fair market rent and utility rate data around the middle of October. These rates are effective on November 1st. We found that housing assistance calculations performed in October or November, prior to inputting the new fair market and utility rates, had an increased risk of being calculated with incorrect rates from the previous fiscal year.

Questioned Costs: No questioned costs were identified.

Context: A total of six errors were found out of the 52 transactions reviewed. Of the six calculation errors, three errors resulted in an incorrect payment being paid from the program. The prior audit identified eight errors out of a sample of 81 transactions. This indicates there is a systematic problem.

Effect: Incorrect housing assistance payments were made. The accumulation of errors could result in a material affect on housing assistance payment calculations and on the vouchers program as a whole.

Cause: Per department personnel, staff turnover and the late receipt of updated utility and fair market rent data are the reasons for the errors.

Recommendation: We recommend the Department of Commerce implement procedures to recalculate housing assistance payments when the initial calculation includes fair market rent or utility rates from the previous year.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-18: U.S. Department of Housing and Urban Development (HUD)
CFDA# 14.871, Section 8 Housing Choice Vouchers
Grant # Not applicable

Criteria: Federal regulations, 24 CFR Section 982.405, require a Public Housing Agency (PHA) to conduct supervisory quality control Housing Quality Standards (HQS) inspections. The Department of Commerce (department) has an administrative plan approved by the federal government that requires a comprehensive evaluation of 5 percent of the local field agent leased units.

Condition: The department's Section 8 Vouchers staff either did not perform the re-inspections or could not provide documentation to support the number of re-inspections completed to meet their 5 percent requirement; re-inspections conducted by the department's Section 8 Vouchers staff were short by 122 in fiscal year 2007-08 and 26 short in fiscal year 2008-09. However, the department was able to demonstrate that the re-inspection requirement was met by relying on inspections conducted by another housing program.

Questioned Costs: No questioned costs were identified.

Context: There is no control documentation process in place to ensure compliance with the 5 percent policy; therefore this is a systematic problem.

Effect: By not achieving the full 5 percent re-inspections requirement during field agent office visits, there is less assurance that field agents are performing their job correctly. Additionally, the department is not in compliance with its administrative plan approved by the federal government and these issues can lead to the federal government withholding of funds in the future.

Cause: Per department personnel there has been substantial employee turnover which resulted in a shortage of contract managers to perform the re-inspections.

Recommendation: We recommend the Department of Commerce enhance controls to ensure the required number of housing quality control re-inspections are conducted annually at each field agent office, as required by federal regulations and the department's administrative plan.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-19: U.S. Department of Housing and Urban Development (HUD)
CFDA #14.195, Section 8 Housing Assistance Payments Program Special Allocations
Grant # Not applicable

Criteria: Federal regulations, 24 CFR Sections 880.611, 881.601, 882.411, 882.808(f), 883.701, 884.106, 886.109, and 886.309, allow special claims for vacancy losses, unpaid rent, and tenant damages on eligible units.

Condition: The Department of Commerce (department) does not ensure special claims are paid in compliance with federal requirements. We found the contract manager's decision to accept, accept with adjustment, or deny special claims for vacancy losses, unpaid rent, and tenant damages in the Project Based Section 8 program was not supported or consistent with federal guidelines for three of six claims tested.

Questioned Costs: In total, we question costs of \$826 for fiscal years 2007-08 and 2008-09.

Context: The department received 79 requests for special claim payments between 7/1/07 and 6/22/09. The department paid \$91,929 for 72 special claims and denied seven claims totaling at least \$4,725.

Effect: The department overpaid claims totaling \$826. The department may have denied valid claims.

Cause: Per department personnel human error and a lack of controls to review decisions made by program managers caused the errors.

Recommendation: We recommend the Department of Commerce enhance internal controls to include a review of special claims approved by program managers to ensure proper and complete payment of special claims as required by federal regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-20: U.S. Department of Education

CFDA #84.038, Federal Perkins Loan Program - Federal Capital Contributions
Grant # Not Applicable

Criteria: Federal regulations, 34 CFR 674.8(b), lists the permissible uses of Perkins Loan Funds. Providing loans or advances to other funds is not listed as an allowable use. Federal regulations 34 CFR 668.163(c) states an institution must maintain the Fund described in section 674.8(a) of title 34 in an interest-bearing bank account or investment account consisting predominately of low-risk, income-producing securities, such as obligations issued or guaranteed by the United States.

Condition: MSU–Northern advanced \$109,177 from its Perkins Loan Fund to its Plant Fund during fiscal years 2007-08 and 2008-09, which is not a permissible use of funds.

Questioned Costs: We question costs of \$8,836 in total for fiscal years 2007-08 and 2008-09 for Perkins Loan # 002426.

Context: The loan was an isolated incident to a financially strapped plant fund and was in effect for two years.

Effect: MSU-Northern did not comply with federal regulations on allowable uses of Perkins Funds and did comply with the requirement to invest cash balances of the Perkins Fund.

Cause: The plant fund had a cash need and the Perkins Loan Fund had available cash.

Recommendation: We recommend the university:

- A. Limit disbursements of Perkins Loan Funds at MSU–Northern to allowable purposes listed in federal regulations
- B. Reimburse \$8,837 of lost interest earnings to the Perkins Loan Fund at MSU–Northern.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-21: U.S. Department of Labor

CFDA #17.258, 17.259, and 17.260 Workforce Investment Act Cluster

CFDA #17.258A, 17.259A, and 17.260A ARRA Workforce Investment Act Cluster

Grant #AA14686QY, AA14686RK, AA14686RI, AA14686SS, AA14686SU,
 AA15490UT, AA15490VE, AA15490VC, AA15409WL,
 AA15490WN, AA16039XW, AA16039YG, AA16039YE, AA160392D,
 DW AA16039ZM, AA171322F, AA171322L, AA171322J, AA171324A,
 AA171323Y

Criteria: OMB Circular A-133, Subpart D Section .400(d)(1) requires a pass-through entity to identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of the federal agency. If this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

Condition: The Department of Labor and Industry (department) does not provide the CFDA numbers or Federal Grant Award numbers, to the recipients of funds they subgrant.

Questioned Costs: No questioned costs were identified.

Context: This is a systematic issue that affects all Workforce Investment Act grants.

Effect: This is non-compliance with federal regulations which could result in subrecipients using the incorrect CFDA number or not complying with all applicable federal requirements. Additionally, if a subrecipient is spending federal funds and not aware of it, it could result in an incorrect determination of whether a federal single audit is needed or not.

Cause: Per department personnel, the department does not provide the federal grant award number because they did not believe it had any relevance to the subrecipients. Additionally, neither the department's subrecipients nor the CFDA numbers have changed over the last few years so they did not believe it was necessary to continue citing the CFDA number.

Recommendation: We recommend the Department of Labor and Industry provide its Workforce Investment Act subrecipients with the federal grant award and the Catalog of Federal Domestic Assistance number in accordance with federal regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-22: Various Federal Agencies

CFDA # Various

Grant # Various

Criteria: OMB Circular A-133, Subpart C, Section .300(b) requires the Department of Labor and Industry (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Federal regulations, 29 CFR 97.36, require the state to follow the same policies and procedures it uses for procurements from its non-federal funds. Section 2-18-511, MCA requires the submission of a detailed schedule of travel expenditures. Department policy requires receipts to be submitted for purchases. Section 2-18-501(6), MCA and state policy MOMS 1-0300.15 require documentation of actual costs of reasonable transportation and other business expenses, while keeping travel costs as low as possible. Additionally, state policy MOM 1-0330.00 requires the submission of original hotel receipts.

Condition: The department did not follow state or department procurement laws or policies as noted below:

- Travel claims were processed for five individuals who did not submit a travel voucher.
- Four credit card transactions were paid without a receipt.
- A travel claim was paid with no documentation the mode of travel was the most cost effective for the department.
- A lodging expense was paid from a copy of a receipt rather than the original.

Questioned Costs: We question costs of \$6,150 and believe likely questioned costs exceed \$10,000 for fiscal years 2007-08 and 2008-09. These include:

<u>CFDA#</u>	<u>Grant #</u>	<u>Amount</u>
17.266	WI160850760A30	\$128
17.273	ES157070655	\$1,628
Various	Various	\$4,393

Context: The department has over 800 employees and paid approximately \$975,000 in federal funds either directly or indirectly for travel costs in fiscal year 2007-08 and 2008-09.

Effect: Non-compliance with state and federal regulations which resulted in unallowable costs charged to federal programs.

Cause: Department personnel said the transactions should not have processed without the proper documentation.

Recommendation: We recommend the Department of Labor and Industry follow its internal control procedures over processing travel and credit card expenditures to ensure compliance with state and federal laws and regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-23: Various Federal Agencies

CFDA # Various

Grant # Various

Criteria: OMB Circular A-133, Subpart C, Section .300(b) require the Department of Labor and Industry (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Federal regulations, 2 CFR 225, Appendix E, states if a grantee agency's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished by classifying the grantee agency's total costs for the base period as either direct or indirect, and dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base.

The distribution base may be total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc.), direct salaries and wages, or another base which results in an equitable distribution.

Condition: The department calculates its indirect cost rate by dividing total indirect costs by total salaries and benefits. In fiscal year 2008-09, approximately \$600,000 of salaries were excluded from the baseline resulting in an overstated rate of .11 percent. This equates to charging \$20,424 more in indirect costs to federal programs than was allowed.

Questioned Costs: We question fiscal year 2008-09 costs of \$20,424 resulting in non-compliance with allowable cost requirements.

Context: This was an isolated instance. The rate is calculated each fiscal year and an error was only found in one fiscal year.

Effect: The department charged federal programs \$20,242 more than it should have.

Cause: The department experienced turnover in both the position that calculates the rate and the position that reviews the rate. Additionally, the salaries that were omitted were from a bureau that had undergone a structure change.

Recommendation: We recommend the Department of Labor and Industry establish internal control procedures to ensure it properly calculates its indirect cost rate in accordance with federal regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-24: U.S. Department of Labor

CFDA #17.225 Unemployment Insurance (UI)

CFDA #17.225A ARRA Unemployment Insurance

Grant # not applicable

Criteria: Federal regulations, 20 CFR Section 602.11(d) require a state law that contains a provision requiring the establishment and maintenance of a quality control (QC) program. Federal regulations, 20 CFR 602.21 lists the standard methods and procedures for the QC program.

Condition: The Department of Labor and Industry (department) operates a Benefits Accuracy Measurement (BAM) program to meet the QC requirements and assess the accuracy of UI benefit payments and denied claims. The BAM unit is required to draw a weekly sample of payments and denied claims. The department did not complete BAM audits of paid and denied claims from the end of January through the end of the audit period.

Questioned Costs: No questioned costs were identified.

Context: Out of the 24 month audit period, the BAM unit was not sampling claims for five months. During these five months, there was a higher volume of claims due to a higher unemployment rate. Total benefits paid in fiscal year 2007-08 was approximately \$90 million. Benefit payments increased to \$234 million in fiscal year 2008-09.

Effect: The department is not in compliance with federal regulations related to quality control.

Cause: In order to address a significant increase in UI claims activity and workload between 2007 and 2008, the department redirected their BAM personnel to assist in processing claims in a timely manner. The department sought a federal waiver from the BAM requirement for January through March 2009, but only received a partial waiver reducing the number of paid claims the department had to audit for 2009.

Recommendation: We recommend the Department of Labor and Industry follow its established controls and operate a Benefits Accuracy Measurement program in accordance with federal regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-25: U.S. Department of Labor

CFDA #17.225 Unemployment Insurance

CFDA #17.225A ARRA Unemployment Insurance

Grant # not applicable

Criteria: OMB Circular A-133, Subpart C, Section .300(b) requires the Department of Labor and Industry (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Federal regulations, 31 CFR part 205.11 (c) require a state to not draw down funds from its account in the Unemployment Trust Fund (UTF) or from a federal account in the UTF in advance of actual immediate cash needs for any purpose including maintaining a compensating balance.

Condition: The department receives money from the federal government and then transfers cash from the Unemployment Insurance (UI) trust fund to its benefit account to pay its UI benefits claims. In fiscal year 2007-08, department personnel determined the benefit account had approximately \$6.6 million of excess cash. The department identified recovery of overpayments and voided warrants as the reason for \$4.8 million of the excess and transferred that cash back to the UI trust fund. The reason(s) for the remaining \$1.8 million of excess cash on hand in its benefit account is still unknown.

Questioned Costs: No questioned costs were identified.

Context: During fiscal years 2007-08 and 2008-09, the department deposited \$1,000,239, and \$991,199, respectively, of refunds and voids into its benefit account.

Effect: The department has excess cash in its benefit account resulting in non-compliance with federal regulations.

Cause: When the department's computer system for processing benefit payments was created, procedures for other than normal benefit payments were considered, but not implemented.

Recommendation: We recommend the Department of Labor and Industry:

- A. Return the excess cash in the Unemployment Insurance benefit account to its rightful owners.
- B. Implement controls to ensure it minimizes its federal cash balances in compliance with federal regulations.

State of Montana
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Section III – Federal Award Findings and Questioned Costs

Finding 2-26: Various Federal Agencies

CFDA #Various

Grant # Various

Criteria: Federal regulations, 2 CFR 225, Appendix B (8)(h), state personal services must be based on documented payrolls. When an employee works on more than one federal grant or both federal and non-federal activities, documentation supporting the amount charged to each activity must be maintained.

Condition: During the audit period, the Department of Labor and Industry (department) charged personal service costs to federal programs for three employees who were loaned to other state agencies or transitioning to new jobs. The personal services costs charged to specific federal programs are not supported by documentation indicating time was actually spent or allocable to the grants.

Questioned Costs: Questioned costs are likely greater than \$10,000. Specific costs identified include \$160 in fiscal years 2007-08 for CFDA #17.504 and 17.600 and grant # CS16675CS8, E9F7-0981, MS17059M80, and MS16011M70, \$480 in fiscal years 2007-08 for CFDA # 17.225 for which grant numbers are not applicable, and \$6,913 in fiscal year 2007-08 to 26 CFDA numbers and over 50 grant numbers.

Context: This is more than an isolated incident as we found several different situations where unallowable personal services were charged due to the loans or charging of personnel time. Department procedures require individuals who work on more than one project to charge their time spent on each project accordingly. We identified three instances where the department management circumvented the established controls and paid personal services in violation of state and federal laws and regulations.

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

Cause: There were various causes for the errors including a lack of centralized services involvement, job transitions within the department and a job transition to another state agency. Additionally, department procedures require individuals who work on more than one project to charge their time spent on each project accordingly. Department management circumvented these established controls and paid personal services in violation of state and federal laws and regulations.

Recommendation: We recommend the Department of Labor and Industry follow its established controls to ensure its employees' salaries and benefits are charged to programs in accordance with state and federal laws and regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-27: U. S. Department of Health and Human Services
 CFDA #93.568, Low Income Energy Assistance
 Grant # G-08B1MTLIEA
 G-09B1MTLIEA
 U. S. Department of Energy
 CFDA #81.042, Weatherization Assistance for Low-Income Persons
 Grant # DE-FG26-03R830004
 DE-EE0000073
 Northwestern Energy - 400622

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Public Health and Human Services (department) to maintain internal control over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Federal regulation, 45 CFR 96.85, outlines income eligibility requirements for low income energy assistance. Federal regulation, 10 CFR 440.22(a)(3), grants the state authority to provide weatherization assistance to low-income persons deemed eligible under the Low Income Energy Assistance Program (LIEAP).

Condition: The department contracts with ten Human Resource Development Councils (HRDC) and one Area Agency on Aging throughout the state to administer the services funded by the LIEAP and Weatherization programs. Instances were identified for LIEAP and Weatherization recipients being determined eligible for benefits when in fact they were not eligible, and one recipient determined ineligible when in fact they were eligible. The department's monitoring procedures failed to identify any of these errors.

Questioned Costs: We question costs in fiscal years 2007-08 and 2008-09 of \$3,439 charged to CFDA #93.568, Low Income Energy Assistance and \$8,553 of costs charged to CFDA #81.042, Weatherization Assistance for Low-Income Persons. We believe questioned costs have the potential to exceed \$10,000.

Context: Of 34 files tested at one HRDC, five recipients were identified as receiving benefits whose income exceeded limits for eligibility based on federal regulations. Of the five recipients discussed, two had received weatherization benefits in addition to energy assistance. We also tested an additional 18 files at the same HRDC where the applicants were deemed ineligible for LIEAP benefits. Of the 18 tested, we found one applicant deemed ineligible which was in fact eligible based on federal guidelines.

The department disbursed approximately \$4.6 million in LIEAP and Weatherization benefits during the audit period.

Effect: Non-compliance with federal regulations related to eligibility which resulted in unallowable costs.

Cause: Department personnel stated the identified errors were due to applying income guidelines inconsistently and failure to properly verify applicant income.

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

- A. Implement procedures to ensure federal Low Income Energy Assistance Program and Weatherization Program eligibility guidelines are applied consistently.
- B. Enhance monitoring control tests to identify eligibility errors in the Low Income Energy Assistance Program and Weatherization Program.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2-28: U. S. Department of Education

CFDA #84.126, Rehabilitation Services – Vocational Rehabilitation Grants to States
Grant # H126A080038
H126A090038

Criteria: Federal law, 29 USC 722 (a)(6), states the State Vocational Rehabilitation Agency must determine whether an individual is eligible for services within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services. Federal regulation, 34 CFR 361.45, states services provided will be in accordance with the provisions of the agreed upon Individualized Plan for Employment (IPE). In addition, per federal regulation, 34 CFR 80.36(a), when procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds.

Condition: Instances were identified where the vocational rehabilitation counselors failed to comply with federal regulations related to timeliness of eligibility determination; assessment of financial need; and payments for services incurred. These included four cases where the eligibility determination exceeded 60 days, one case where the financial need of the recipient was not assessed, one case where the counselor authorized payment of services to a recipient that was not identified in the IPE, two cases where benefits were paid to recipients based upon insufficient documentation, and one case where a van was purchased and not processed through the Department of Public Health and Human Service's (department) procurement office.

Questioned Costs: We question costs in fiscal years 2007-08 and 2008-09 of \$8,700 for rehabilitation payments made to recipients and \$19,176 of costs for the purchase of a van.

Context: The department made expenditures related to the Vocational Rehabilitation Program of \$11.5 million in fiscal year 2007-08 and \$10.4 million in fiscal year 2008-09.

Effect: Non-compliance with federal regulations which resulted in unallowable costs.

Cause: Department of Public Health and Human Services management stated there is reliance on Vocational Rehabilitation counselors to effectively administer authorization of payments and ensure expenditures are for allowable services. Management attributed the stated errors to counselor oversight.

Recommendation: We recommend the Department of Public Health and Human Services develop and implement procedures to ensure the Vocational Rehabilitation counselors comply with federal regulations and state law when processing the recipient's application and benefits.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-29: U. S. Department of Agriculture (USDA)

CFDA #10.551, Supplemental Nutrition Assistance Program (SNAP)

CFDA #10.551A, ARRA Supplemental Nutrition Assistance Program (SNAP)

Grant # not applicable

U.S. Department of Public Health and Human Services

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

Grant # 0802MTTANF

0902MTTANF

Criteria: Per federal regulation, 45 CFR 205.55(a)(1), the state agency will request through the Income Eligibility Verification System (IEVS), wage information from the State Wage Information Collection Agency (SWICA) for all applicants at the first opportunity following receipt of the application and for all recipients on a quarterly basis. The Public Health and Human Services TANF and SNAP policy manuals, sections TANF 103-4 and SNAP 103-5, state at application and redetermination or when a change is reported, the agency must query all applicable and available computer systems such as SEARCHS (child support), MISTICS (wages and unemployment), SOLQ (social security), property search, etc., to establish the accuracy of statements on the application, redetermination or report change.

Condition: The Department of Public and Human Services (department) personnel advised us of a case under investigation because of unreported income by the recipient involving overpayments of TANF and SNAP benefits. At the time a household member was added to the case and during a subsequent redetermination of benefits, the eligibility case manager did not perform quarterly income verification procedures required by federal regulations and department policy.

The department has implemented a monthly match through the National Directory of New Hire (NDNH) database which contains employment and wage information from employers throughout the United States who are required to report new hire information. Department management said the NDNH match revealed a person in the recipient's household earning wages the recipient did not report. Federal guidelines allow the use of an alternative wage verification process provided permission is obtained. However, they did not have documentation of that permission.

Questioned Costs: We question costs of \$12,681 in TANF benefits and \$12,891 in SNAP benefits paid over the two fiscal years ending June 30, 2009.

Context: Of 28 files tested, we noted one exception which the recipient of TANF and SNAP benefits income exceeded the allowable income threshold.

Effect: Non-compliance with federal regulations and department policy, resulting in unallowable costs.

Cause: Department management stated case workers did not automatically perform a MISTICS wage search on a quarterly basis. In addition, department management noted they were operating under the assumption they had permission to use NDNH as an alternative.

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

- A. Monitor compliance with established policy to ensure income verifications are performed
- B. Obtain a waiver for alternative income verification procedures or perform the income verification procedures as required by the Temporary Assistance to Needy Families and Supplemental Nutrition Assistance Program regulations.

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Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2-30: U. S. Department of Health and Human Services

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

Grant # 0802MTTANF

0902MTTANF

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Public Health and Human Services (department) to maintain internal controls over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Federal regulation, 45 CFR 264.1(a)(1), states no state may use any of its Federal TANF funds to provide assistance to a family that includes an adult head-of-household or a spouse of the head-of-household who has received federal assistance for a total of five years (60 months).

Condition: If information shows an applicant resided in another state, department procedures require inquiry of that state to determine if the applicant received any TANF assistance and to record those benefit months on the records to ensure the 60-month limit is not exceeded. Department policy requires case workers to provide information on a specified form to the central office in Helena. We noted an instance where the case worker properly reported out-of-state benefits but the central office failed to record these benefits on the state's records to prevent overpayment. If the months do not get recorded on the state's records, they will not be counted against the 60-month limit.

Questioned Costs: No questioned costs identified.

Context: Of 11 files reviewed, we found one instance where out-of-state benefit months were not recorded on the department's records.

Effect: Although all benefits paid in the identified case were allowable, there is risk an applicant could receive more benefits than allowed if the months of out-of-state benefit payments are not recorded.

Cause: Department management stated the required form was submitted by the county Offices of Public Assistance (OPA) but three months of out-of-state benefits did not get recorded. Department personnel said the information got misplaced, was not recorded, and the completed form was not returned to the OPA.

Recommendation: We recommend the Department of Public Health and Human Services enforce current procedures to ensure all out-of-state benefits for Temporary Assistance to Needy Families are properly recorded on the department's records as required by federal regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-31: U. S. Department of Agriculture

CDFA #10.557, Special Supplemental Nutrition Program for Women, Infants, and
Children (WIC)

Grant # 20081W100643

20091W100643

Criteria: Federal regulations, 7 CFR 246.19(b), state the State agency shall establish an ongoing management evaluation system which includes at least the monitoring of local agency operations, the review of local agency financial and participation reports, the development of corrective action plans to resolve program deficiencies, the monitoring of the implementation of corrective action plans, and on-site visits. The results of such actions shall be documented. Federal regulation, 7 CFR 246.3(c), requires each State agency desiring to administer the program to annually submit a State Plan and enter into a written agreement with the Department of Agriculture for administration of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program in the jurisdiction of the State agency. The Montana State Plan & Policy Manual, Chapter 3-17 (V), within 60 days after a visit, a written report of the State WIC Agency's findings and recommendations are sent to the Local Health Officer/County Commissioners and the Local WIC program CPA and/or Program Manager; within 60 days after receipt of the monitoring findings, the local WIC program shall respond in writing, with a plan of action stating how and when corrections, revisions or compliance have been or will be accomplished.

Condition: Based on testing conducted of the WIC on-site monitoring reviews, we identified instances where not all monitoring reviews were completed in accordance with the state plan. Documentation in the file was incomplete and personnel did not complete the entire monitoring worksheet. Of eight monitoring visits documentation reviewed, five from fiscal year 2007-08 and three from fiscal year 2008-09, we identified documentation deficiencies related to local agency financial reports (one exception), financial management system review (three exceptions), nutrition education review (six exceptions), improper tracking of monitoring visits (five exceptions), and failure to submit corrective action plans (four exceptions).

In order to comply with the state plan 60-day reporting and response requirement, WIC personnel created a tracking spreadsheet. Testing identified instances where the Department of Public Health and Human Services (department) did not properly track monitoring visits and did not submit corrective action plans in accordance with the state plan.

Questioned Costs: No questioned costs identified.

Context: There are 27 local agencies encompassing 91 clinics. We reviewed eight monitoring visits that included five from the 2008 schedule and three from the 2009 schedule.

Effect: Insufficient documentation of on-site monitoring reviews increases the risk of noncompliance with monitoring regulations and in the event of employee turnover, WIC loses even the person recollection of what might have occurred during any particular review. In addition, not clearly assigning responsibility for tracking spreadsheets can result in ineffective use of the tracking spreadsheet and increase the likelihood that the local agency monitoring visits are not completed or resolved in accordance with federal regulations. This can lead to increased likelihood of continued noncompliance with WIC regulations on the part of the local agencies and, therefore, the department.

Cause: One member of the monitoring team has been with the WIC unit for approximately two years, and when hired, did not receive any training as to how the monitoring visits were to be done and documented. Monitoring team personnel also indicated they had not been specifically assigned the responsibility for periodically reviewing the tracking worksheet.

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

- A. Provide Women, Infants, and Children program staff training to ensure they complete and document local agency monitoring reviews in accordance with the Women, Infants, and Children federal regulations.
- B. Assign responsibility for updating the Women, Infants, and Children program tracking spreadsheet to ensure local agency monitoring reviews are completed, communicated, and resolved in the timeframes established in the Women, Infants, and Children program state plan.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-32: U. S. Department of Health and Human Services

CFDA #93.767, State Children's Health Insurance Program (SCHIP)

Grant # 0805MT5021

0905MT5021

Criteria: Per federal law, 42 USC 1397aa(b), a state is not eligible for payment unless the state has submitted to the Secretary a plan that sets forth how the state intends to use provided funds to provide child health assistance to needy children. Federal law, 42 USC 1397bb(3)(a), further states the plan shall include a description of procedures to be used to ensure through both intake and follow-up screening, that only targeted low-income children are furnished child health assistance under the state child health plan.

Condition: In the SCHIP state plan, the Department of Public Health and Human Services (department) agreed to perform Quality Assurance Reviews (QAR) on up to 10 percent of the applications to ensure families are within the SCHIP income guidelines. We noted the department did not utilize the QAR process as required by the state plan. Specifically, the department did not conduct QARs on any of the 4,270 applicants from July 2007 through October 2007 and on any of the 8,201 applicants from November 2008 through June 2009. When the QARs were completed for the months in the audit period, the department averaged a 12.6 percent ineligibility rate. Additionally, we identified an instance where a recipient was improperly determined eligible to receive SCHIP benefits.

Questioned Costs: We question costs in fiscal year 2008-09 of \$3,894 in paid medical claims with the potential for costs to exceed \$10,000.

Context: The department's average yearly cost per enrolled member was \$1,133. In addition, we reviewed 45 case files of families determined eligible for SCHIP by department eligibility technicians. Of the 45 cases reviewed, one family was found to be ineligible because the family's income exceeded the SCHIP income threshold.

Effect: Non-compliance with federal regulations related to eligibility and unallowable costs.

Cause: Turnover in Quality Assurance auditing staff resulted in a back log of QARs. Department management stated beginning September 2009 the application process will include income verification at the time of application. Department management also stated the eligibility technician who entered the application into the computer system overlooked one the of the applicant's income.

Recommendation: We recommend the Department of Public Health and Human Services develop and implement procedures to limit enrollment in the State Children's Health Insurance Program to families who meet income requirements of the state plan and federal regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-33: U.S. Department of Agriculture (USDA)

CFDA #10.557, Special Supplemental Nutrition Program for Women, Infants and
Children (WIC)

Grant # 20081W100643

20091W100643

Criteria: Federal regulations, 7 CFR 246.12(j), require the state to design and implement a system for monitoring its vendors for compliance with program requirements. The state must perform routine monitoring visits on a minimum of five percent of the vendors each fiscal year and must annually conduct compliance investigations on five percent of the vendors identified as high risk. The state plan requires the compliance investigations to be done quarterly. The approved USDA state plan is more stringent and has the force of federal regulation. Therefore, evaluations should be completed quarterly as stated in the state plan rather than annually as stated in the federal regulations.

Condition: WIC unit personnel selected 10 percent of the vendors to monitor, however, the vendors selected did not include the highest risk vendors identified as required. In fiscal year 2007-08 and 2008-09, 12 and 14, respectively, of the highest risk vendors were not subjected to any kind of review. Of the vendors reviewed, not all received the appropriate type of monitoring visit or compliance investigation, as required by the state plan. Additionally, the reviews were done annually, which does not meet the quarterly requirement stated in the state plan.

Questioned Costs: No questioned costs were identified.

Context: There are approximately 220 WIC vendors and the Department of Public Health and Human Services (department) is required to perform compliance buys or monitoring on 10 percent or 22 of them.

Effect: Non-compliance with federal regulations and the state plan increases the risk of undetected errors and noncompliance by the high-risk vendors. Additionally, there is a greater risk of undetected misuse or abuse of the WIC benefits.

Cause: WIC personnel could not explain why the vendors selected for compliance investigations or monitoring visits had been selected or why the high-risk criteria outlined in the state plan had not all been considered. Further, WIC personnel could not explain why monitoring visits that had not been completed were marked as having been completed.

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

- A. Develop procedures to incorporate the requirements of the State Plan when identifying high-risk vendors and document the decisions made with respect to the vendors selected for each type of monitoring.
- B. Monitor the progress of compliance investigations and monitoring visits as intended.
- C. Provide training in the provisions of the state plan to Women, Infants, and Children program personnel to provide assurance of compliance with its provisions.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-34: U.S. Department of Agriculture (USDA)

CFDA #10.557, Special Supplemental Nutrition Program for Women, Infants and
Children (WIC)
Grant # 20081W100643
20091W100643

Criteria: Federal regulations, 7 CFR 246.12(q), state the State agency must account for the disposition of all food instruments and cash-value vouchers as either issued or voided, and as either redeemed or unredeemed. Redeemed food instruments and cash-value vouchers must be identified as validly issued, lost, stolen, expired, duplicate, or not matching valid enrollment and issuance records. This process must be performed within 120 days of the first valid date for participant use of the food instrument.

Condition: The WIC computer system programming does not allow for monitoring final disposition of some food instruments within 120 days of their first valid use dates.

Questioned Costs: No questioned costs were identified.

Context: The state issues over 60,000 food instruments each month. In one month we estimated approximately 7.5 percent were not likely to have final disposition within 120-days.

Effect: Non-compliance with federal regulations and delaying the food instruments final dispositions may hinder calculations of statistics related to recipients, usage, error rates, etc.

Cause: WIC personnel stated the WIC system is programmed to run a disposition/expiration process the 1st of each month, which causes food instruments that reach 120 days between runs to be left hanging until the next run. Those food instruments final dispositions are determined, then, within 150 days which was the requirement prior to March 27, 2007.

Recommendation: We recommend the Department of Public Health and Human Services implement procedures to comply with Women, Infant, and Children regulations concerning final disposition of food instruments.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-35: U. S. Department of Health and Human Services
CFDA #93.659, Adoption Assistance (Title IV-E)
CFDA #93.659A, ARRA Adoption Assistance (Title IV-E)
Grant # 0801MT1407
0901MT1407

Criteria: Per 42 USC 673 (c), a child shall not be considered a child with special needs unless the State has determined that the child cannot or should not be returned to the home of his parents; and effort has been made to place the child with appropriate adoptive parents without providing adoption assistance.

Condition: We noted three instances where documentation was inadequate to demonstrate the child was difficult to place. We sampled 20 files and noted all 20 files were missing documentation showing the department's efforts used to place the child without providing an adoption subsidy.

Questioned Costs: We question costs in fiscal years 2007-08 and 2008-09 of \$63,003 for Title IV subsidy payments made to adoptive families for special needs children which did not have proper documentation.

Context: Of 20 files reviewed, three did not have adequate documentation identifying the specific factors that made the child difficult to place, and none of the 20 files had documentation showing the Department of Public Health and Human Services' (department) efforts used to place the child without providing adoption subsidy.

Effect: Non-compliance with federal regulations resulting in questioned costs.

Cause: Department management stated there is no reason why the documentation determining the child's specific needs was not present in the files.

Recommendation: We recommend the Department of Public Health and Human Services develop and implement procedures to ensure adequate documentation related to the determination of children having special needs and providing adoption without subsidy is included in each adoption case file in accordance with federal adoption program regulations.

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Section III – Federal Award Findings and Questioned Costs

Finding 2-36: U. S. Department of Health and Human Services

CFDA #93.575 Child Care and Development Block Grant

CFDA #93.575A ARRA Child Care and Development Block Grant

CFDA #93.596 Child Care Mandatory and Matching Funds of the Child Care and
Development Fund

Grant # G-0801MTCCDF

G-0901MTCCDF

CFDA #93.775 State Medicaid Fraud Control Units

CFDA #93.776 Hurricane Katrina Relief

CFDA #93.777 State Survey and Certification of Health Care Providers and Suppliers

CFDA #93.778 Medical Assistance Program (Medicaid; Title XIX)

CFDA #93.778A ARRA Medical Assistance Program (Medicaid; Title XIX)

Grant # 0805MT5028

0905MT5028

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Public Health and Human Services (department) to maintain internal controls over federal programs that provide reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Federal regulation, 45 CFR 92.41(b)(4), states when reports are required on a quarterly or semiannual basis, they will be due 30 days after the end of each quarter. When required on an annual basis, they will be due 90 days after the grant year. Final reports will be due 90 days after the expiration or termination of the grant support.

Condition: The Fiscal Operations Bureau is responsible for the accurate preparation and timely submission of various federal program reports. During our review of internal controls over federal reporting, we identified instances where the department's submitted reports did not contain supervisory review, reported expenditures were not accurate, or reports were submitted late. Specifically, during the December 31, 2008, reporting period, the department transposed fiscal year 2008 expenditures with fiscal year 2009 expenditures. Federal reported amounts on a December 31, 2008, and March 31, 2009 federal report included program accruals in error. These errors resulted in an overstatement on the two reports of actual expenditures by \$536,742 and \$856,757, respectively.

Questioned Costs: No questioned costs identified.

Context: Of 17 reports reviewed for the quarters ending December 31, 2008, and March 31, 2009, we identified four instances where the reports did not contain evidence of supervisory review and three instances where the department did not accurately report federal expenditures.

In addition, for the federal reports submitted during the audit period, we identified six reports which were submitted late by the department. Of these, four were quarterly reports submitted between 11 days and 103 days late, and two were final reports which were submitted 114 days and 180 days late.

Effect: Non-compliance with federal regulations related to reporting.

Cause: Department management stated high employee turnover and vacant positions within the Fiscal Operations Bureau contributed to the internal control deficiencies and errors. When turnover occurs, supervisors absorb vacant position responsibilities and train new staff in bureau operations. The additional responsibilities impaired supervisors from complying with internal control policies implemented by the department. The complexity of some program reports has led the bureau to request extensions to ensure accuracy of reported data. However, the department has not received requested extensions due to federal grantor agencies policy requirements.

Recommendation: We recommend the Department of Public Health and Human Services enhance and enforce its internal controls to ensure compliance with federal reporting requirements.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2009

Section III – Federal Award Findings and Questioned Costs

Finding 2-37: U.S. Department of Health and Humans Services

CFDA # Various

CFDA #93.778 Medical Assistance Program,

CFDA #93.069 Public Health Emergency Preparedness, Various

Grant # 5U90TP816832-08

05-090508MT5048

Various

Criteria: Federal regulations, 2 CFR 225 Appendix B(16), state settlements resulting from violations, actual or alleged, are unallowable except when incurred as a result of compliance with specific provisions of a federal award or written instructions by the awarding agency authorizing in advance such payments.

Condition: When the Department of Public Health and Human Services (department) personnel find it necessary to terminate an employee, a payment may be offered to the employee to avoid future potential litigation. For the two fiscal years ended June 30, 2009, the department paid a total of \$149,250 to nine terminated employees for the purpose of preventing future potential litigation. Of this, we estimate \$65,802 was improperly charged to federal programs.

Questioned Costs: We question costs of \$65,802. Of these, \$10,000 was in fiscal year 2007-08 to CFDA #93.069 and grant #5U90TP816832-08 and \$11,250 was in fiscal year 2008-09 to CFDA #93.778 and grant #05-090508MT5048. The remaining \$44,552 was allocated in fiscal years 2007-08 and 2008-09 to various federal programs through a cost allocation process.

Context: During fiscal year 2007-08 and 2008-09, the department paid nine settlements, of which seven used federal funds to pay a portion of the settlement. The total amount of settlements paid was \$149,250 of which \$65,802 was charged to federal funds.

Effect: The department is not in compliance with federal regulations which resulted in unallowable costs.

Cause: Department personnel stated the department thought the payments were allowable since they were not mass payments as described in federal regulations regarding severance pay.

Recommendation: We recommend the Department of Public Health and Human Services comply with federal regulations and charge settlement expenditures to nonfederal funds.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2009

Section III – Federal Award Findings and Questioned Costs

Finding 2-38: U.S. Department of Health and Human Services
CFDA #93.575 and 93.596, Child Care Cluster
Grant # G 0801MTCCDF

Criteria: Federal regulations, 2 CFR 225, Appendix B (5), state bad debts, whether actual or estimated, arising from uncollectible accounts and other claims are unallowable.

Condition: In fiscal year 2007-08, the Department of Public Health and Human Services (department) charged bad debt expenditures amounting to \$59,727 to the Child Care Cluster. The bad debt expenditures were overpayments of child care services in prior years.

Questioned Costs: We question costs of \$59,727 in fiscal year 2007-08.

Context: Total program expenditures in fiscal year 2007-08 were \$19,413,184 of which we found \$59,727 were for unallowable costs.

Effect: The department is not in compliance with federal regulations which resulted in unallowable costs.

Cause: Department personnel said the error occurred while converting account receivable balances from one accounting subsystem to another. As part of the conversion, the receivables were deemed uncollectable and the expenditure was charged to the federal program in error.

Recommendation: We recommend the Department of Public Health and Human Services charge only allowable costs to the Child Care Cluster in accordance with federal regulations.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2009

Section III – Federal Award Findings and Questioned Costs

Finding 2-39: U.S. Department of Health and Human Services

CFDA #93.775, 93.776, 93.777, and 93.778, Medicaid Cluster

Grant # 0805MT5028

0905MT5028

Criteria: Federal regulations, 42 CFR 447.253(f), require the Medicaid agency to provide for the filing of uniform cost reports by each participating provider. Administrative Rules of Montana, 37.86.2803 (3) states all hospitals reimbursed under this rule must file a cost report with the Montana Medicare intermediary and the department on or before the last day of the fifth calendar month following the close of the period covered by the report. If a fiscal period ends on a day other than the last day of the month, cost reports are due 150 days after the last day of the cost reporting period.

Condition: Cost reports required from participating providers were not submitted timely.

Questioned Costs: No questioned costs were identified.

Context: Out of 60 providers who submitted cost reports to the Department of Public Health and Human Services (department), 35 were submitted late. The reports ranged from one day to 188 days late.

Effect: The department did not comply with federal and state regulations.

Cause: Department staff responsible for provider cost report oversight stated the late submission of cost reports as an on-going issue.

Recommendation: We recommend the Department of Public Health and Human Services enforce the timely submission of required cost reports in compliance with federal and state regulations.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2009

Section III – Federal Award Findings and Questioned Costs

Finding 2-40: U.S. Department of Health and Human Services
CFDA #93.775, 93.776, 93.777, and 93.778, Medicaid Cluster
Grant # 0805MT5028
0905MT5028

Criteria: Federal regulations, 45 CFR 95.621, require those receiving funds for Medical Assistance (Medicaid) to perform periodic risk analysis of their Automatic Data Processing (ADP) systems. Additionally, it requires those recipients to perform ADP system security reviews at least biennially.

Condition: The Department of Public Health and Human Services (department) has not conducted system security reviews.

Questioned Costs: No questioned costs were identified.

Context: This was also a prior audit recommendation that has not yet been implemented.

Effect: The department did not comply with federal regulations. A lack of reviews increases the risk the department is not adequately identifying potential risks related to Medicaid ADP Systems.

Cause: Per department personnel, they are developing a document outlining roles and responsibilities intended to address the federal requirements and it is undergoing review and approval by management. Department personnel are also developing a Risk Assessment Toolkit to be used when conducting system risk assessments.

Recommendation: We recommend the Department of Public Health and Human Services comply with the Medicaid federal regulations requiring biennial system security reviews.

Corrective Action Plan

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Corrective Action Plan..... D-1

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #1-1	Various	This procedure has been added to fiscal year-end requirements and discussions between Fiscal Bureau and Legal will occur each June at the Department of Natural Resources and Conservation.	Patricia Schiltz, Fiscal Bureau Chief, DNRC	Completed
Finding #1-2	Various	The Teachers Retirement System (TRS) Board will make recommendations to the Governor, the SAVA Committee, and the Legislature to ensure the system is actuarially funded	David Senn, Executive Director, Teachers Retirement Division	7/1/2011
Finding #1-3	Various	The Public Employees Retirement Board (PERB) is actively working with a Legislative interim committee to prepare legislation for the 2011 Legislative session. The PERB has directed its actuary to prepare studies of some possible design changes. With this information the PERB will make recommendations to the Legislature to restore the funding of the three retirement systems.	Roxanne Minnehan, Executive Director, Public Employee Retirement Administration	2011 Legislative Session
Finding #2-1	Various	The Department of Administration (DOA) does not concur that the method used resulted in a questioned cost. Since the method used was approved by our federal negotiator and did not result in overbilling of the federal government, there should not be a related questioned cost. Beginning in FY 2010, the department will bill agencies the amounts approved in the Statewide Cost Allocation Plan.	Patricia McNamee, Financial Manager, DOA	Completed October 2009
Finding #2-2	66.458, 66.468	The Department of Natural Resources and Conservation (DNRC) jointly manages the State Revolving Programs with the Dept. of Environmental Quality (DEQ). The two agencies have included two extra reviews of the financial statements to detect and correct any misstatements.	Patricia Schiltz, Fiscal Bureau Chief & Dean Rude, Chief Financial Officer, DEQ	Completed

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2009**

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-3	97.046	The DNRC currently verifies contractors are not listed as suspended or debarred, however, had not documented the process. The Procurement and Contracting Bureau has instigated a signature check-off documenting the process.	Jeff Williams, Procurement and Contracting Bureau Chief, DNRC	Completed
Finding #2-4	97.046	The Department is restructuring fire finance and procurement business processes. This will ensure procurement policies and procedures are applied to equipment transactions for fire suppression.	Sue Clark, Forestry Business Management Bureau Chief; and Ted Mead, Fire and Aviation Bureau Chief, DNRC	Completed
Finding #2-5	10.025, 10.163, 66.605, 93.449	The Department of Agriculture has subsequently recalculated all proposals from FY2002 to present. The department will include the carry forward amounts, with guidance from the cognizant agency, in its next proposal. Documentation will be created and maintained so that future indirect cost proposals will continue to be calculated in accordance with federal regulations.	Libbi Lovshin, Administrator, Central Services Division	6/30/2010
Finding #2-6	12.401	Procedures for tracking unliquidated obligations have been changed to ensure obligations are properly reported and liquidated. Questioned costs have been reviewed and approved by the USPFO.	Karen Revious, Central Services Administrator, Military Affairs	Completed

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-7	97.004, 97.067	<p>The Deputy Administrator oversees all procurement requests to ensure established procedures are followed. Changes have been made to ensure established controls are in effect for charging allowable costs.</p> <p>For example, Homeland Security project invoices are processed by a grants technician prior to being signed off by the appropriate program manager. Invoices are not reimbursed without the required supporting documentation. All contracts for services or procurement on behalf of the Division are vetted through the Department Contracting Officer and if approved by them, they are approved and signed by the Division Deputy Administrator.</p>	Steve Knecht, DES Deputy Administrator, Military Affairs	Completed
Finding #2-8	97.004, 97.067	Establishment of Employee Time Verification Directive, dated May 5, 2009.	Ken Mesch, DES Administrator, Military Affairs	Completed
Finding #2-9	97.004, 97.067	Monitoring program policies and procedures updated and completed monitoring visits in December 2009. The Jan-June 2010 schedule is completed.	Julia Fenwick, DES Grant Program Manager	Completed
Finding #2-10	97.004, 97.067	Grant award and draft award letters sent to sub-recipients within obligation period. Increase the level of grant staff to ensure timely completion of grant requirements.	Julia Fenwick, DES Grant Program Manager, Military Affairs	Completed
Finding #2-11	97.004, 97.067	Cash management procedures are in place. Coordination with Centralized Services Division to ensure timely drawdowns and payments.	Dick Nelson, DES Budget Analyst, Military Affairs	Completed

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-12	Various	The University of Montana will refine the file documentation process.	J. Fredenberg, Director of Office of Research and Sponsored Programs	Fall 2009
Finding #2-13	84.063, 84.007, 84.033, 84.375, 84.376	1) Refine cash management monitoring process to ensure daily review of cash by sub-fund. 2) Review and refine cash management monitoring to include all UM campuses.	M. Pullium, Director Business Services, UM	1) February 2009 2) August 2009
Finding #2-14	10.553, 10.555, 10.556, 10.559	The Office of Public Instruction is working with the software contractor for the School Nutrition Program to correct the internal computer coding malfunction that caused a higher milk reimbursement rate to occur. The software fix will correct the problem of schools with milk pricing programs no free option and non-pricing programs to not be able to claim the higher free rate. The software company will also provide documentation to support the correction made. There are approximately 17 entities that participate in the special milk program during the school year and five programs during the summer months. A total of \$26,198 was reimbursed to the participating entities in fiscal year 2008.	Christine Emerson, Director of School Nutrition Programs	1/31/2010
Finding #2-15	Various	The Business and Financial Services Division is in the process of developing desk manuals for every position in the division. These desk manuals will include monitoring and verification procedures to facilitate timely error detection. In addition to desk manuals training plans for each position are being reviewed and updated. The completion of these desk manuals and strengthening of the divisions training programs will allow the division to more quickly respond to staff shortages and maintain quality work products.	Marie Matthews, Business and Financial Services Administrator	3/31/2010
Finding #2-16	14.871	The Department of Commerce submitted the SEMAP within 60 days of fiscal year end and is now a high performer.	Maureen Martin, Bureau Chief	Completed

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-17	14.871	Department of Commerce has implemented quality assurance reviews to try to ensure the current rates are being used in the rent calculations.	Maureen Martin, Bureau Chief	Completed
Finding #2-18	14.871	Department of Commerce has implemented quality assurance reviews to ensure the required re-inspections are completed.	Maureen Martin, Bureau Chief	Completed
Finding #2-19	14.195	Department of Commerce will enhance internal controls to ensure correct payment of special claims.	Maureen Martin, Bureau Chief	Completed
Finding #2-20	84.038	MSU-Northern is currently using Perkins Loan funds only as allowable by Federal regulations and has discontinued the practice of using the fund's available balance to record inter-entity loans. MSU-Northern transferred \$8,837 to the Perkins Loan fund to replace calculated lost interest earnings.	Sue Ost, Director of Business Services, MSU-Northern	Completed
Finding #2-21	Various	The Statewide Workforce Programs and Oversight Bureau will ensure the WIA sub-recipients are provided with the federal grant award number and the Catalog of Federal Domestic Assistance (CFDA) number. We will start to include this information in the contracts we have with the sub-recipients. This process will begin with the PY10 contracts which begins July 1, 2010.	Michelle Marsh, Fiscal Officer	7/1/2010
Finding #2-22	Various	The Department has reviewed the internal control procedures for processing travel and credit card expenditures with our staff, stressing the importance of following such procedures. The department has also focused efforts on outreach to staff who travel and/or use credit cards, in order to reemphasize the policies and procedures.	Kim Moog, Chief, Fiscal Support Bureau	6/30/2010

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2009**

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-23	Various	The Department has established internal control procedures to ensure it properly calculates its indirect cost rate in accordance with federal regulations.	Kim Moog, Chief, Fiscal Support Bureau	Completed
Finding #2-24	17.225, 17.225A	Benefits Accuracy Measurement staff resumed BAM reviews on October 1, 2009	Nancy Jones, Chief, Program Support Bureau	10/1/2009
Finding #2-25	17.225, 17.225A	A complete benefit reconciliation needs to be completed. Changes to the refund/CMIA process will be implemented.	Nancy Jones, Chief, Program Support Bureau	6/30/2010 2/28/2010
Finding #2-26	Various	The Department is in the process of analyzing the salaries and benefits of the employees in question, and making the necessary journal entries to move improperly coded expenditures. The Department will follow DOA recommendations on employee exchanges and loans with the addition of requiring the loan document be filed with the Centralized Services Division Fiscal Support Bureau.	Kim Moog, Chief, Fiscal Support Bureau	6/30/2010
Finding #2-27	93.568, 81.042	All erroneous benefits were promptly repaid by the Human Resource Development Council (HRDC) from non-federal resources and credited to the federal programs. The Human and Community Services Division (HCSD) has reinforced the importance of consistent eligibility determination calculations with the specific HRDC and its case manager. In addition, the HRDC has increased monitoring activities to include 100% review of this manager's cases before submittal and the HCSD has increased reviews of applicants falling just within or outside the eligibility guidelines statewide.	Marie Matthews, Business and Financial Services Administrator	Completed

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2009**

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-28	84.126	The questioned costs will be corrected and the expenditures moved to the general fund. Disability Services Division Management has identified two corrective actions to improve the future accuracy of case files; increased training and risk based case reviews. Procedural weaknesses identified during the audit will be re-addressed in the upcoming Vocational Rehabilitation (VR) section state-wide application and eligibility process training. In addition to providing case manager training in November 2009 the VR section will target weaknesses during upcoming case reviews. The VR section performs two significant case review functions: 1) an internal team case review process each fall and 2) ongoing supervisory review. VR management revises the case review instrument each year and the upcoming annual review will give more weight to areas identified during the audit.	Marie Matthews, Business and Financial Services Administrator	1/31/2010
Finding #2-29	10.551, 93.558	The Human and Community Services Division will utilize the supervisory case review and quality assurance processes to ensure income verifications are performed. The department has been unable to receive an exception to allow the use of the National Directory of New Hire (NDNH) in place of Montana Integrated System for Improved Customer Service (MISTICS) therefore the department will implement automated access to the MISTICS system by March 31, 2010. The department will continue gathering the necessary information via the NDNH until the automated MISTICS quarterly match and reporting process is completed.	Marie Matthews, Business and Financial Services Administrator	3/31/2010
Finding #2-30	93.558	The Human and Community Services Division will provide refresher training to both the office of public assistance and central office staff regarding the importance of accurate documentation and review this established procedure by January 31, 2010. Ongoing monitoring of this and all other eligibility determination procedures will occur during supervisory case reviews and quality assurance processes.	Marie Matthews, Business and Financial Services Administrator	1/31/2010
Finding #2-31	10.557	The Public Health and Safety Division will provide training to staff regarding complete documentation and filing requirements for monitoring visit reports. This training will be provided in time for the next round of monitoring visits. The responsibility for communicating, tracking and completion of follow up reporting of monitoring visits has been assigned to a WIC Prevention Specialist.	Marie Matthews, Business and Financial Services Administrator	2/28/2010

**STATE OF MONTANA
CORRECTIVE ACTION PLAN
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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-32	93.767	Montana Children Health Insurance Plan (CHIP) discontinued the self-declaration of income policy and implemented new income verification procedures for the Healthy Montana Kids (HMK) coverage group (formerly CHIP). For enrollment on or after October 1, 2009, the program requires income verification prior to enrollment of eligible children in the HMK coverage group.	Marie Matthews, Business and Financial Services Administrator	Completed
Finding #2-33	10.557	The Public Health and Safety Division (PHSD) has and will continue to provide additional training to staff to ensure they understand the procedures and the criteria for identifying high-risk vendors. In the future staff will document all decisions regarding compliance buys and monitoring visits for high risk vendors and all compliance buys, monitoring visits, letters and follow up will be tracked and monitored by the Retailer Services Coordinator. All compliance buys and monitoring visits were completed and appropriately documented in federal fiscal year 2009.	Marie Matthews, Business and Financial Services Administrator	Completed
Finding #2-34	10.557	The Public Health and Safety Division is implementing a new WIC management system (M-SPIRIT). This more robust system will automate a timely voucher disposition process by auto expiring all benefit checks during the nightly process on the day they are due to expire. M-SPIRIT will be piloted in December of 2009 and rolled out in all other sites by January 31, 2010.	Marie Matthews, Business and Financial Services Administrator	1/31/2010
Finding #2-35	93.659, 93.659A	The adoption subsidy negotiation procedures as well as the case files in question are being reviewed by the Child and Family Services Division. The procedure and documentation standards will be strengthened as necessary to facilitate understanding and assurance over this federal requirement.	Marie Matthews, Business and Financial Services Administrator	3/31/2010
Finding #2-36	Various	The Business and Financial Services Division is in the process of developing desk manuals for every position in the division. These desk manuals will include monitoring and verification procedures to facilitate timely error detection. In addition to desk manuals training plans for each position are being reviewed and updated. The completion of these desk manuals and strengthening of the divisions training programs will allow the division to more quickly respond to staff shortages and maintain quality work products.	Marie Matthews, Business and Financial Services Administrator	3/31/2010

**STATE OF MONTANA
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FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2009**

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-37	93.778, 93.069	The department has drafted a policy clarifying that all settlements must be paid by non-federal funds. All settlements identified during the audit have been corrected and the costs moved to the general fund.	Marie Matthews, Business and Financial Services Administrator	Completed
Finding #2-38	93.575, 93.596	The Business and Financial Services Division has clarified procedures to indicate that bad debt expenditures must not be paid by federal funds. All bad debt costs identified during the audit have been corrected and the costs moved to the general fund.	Marie Matthews, Business and Financial Services Administrator	Completed
Finding #2-39	93.775, 93.776, 93.777, 93.778	The Health Resources Division will pursue a change to the Administrative Rules of Montana to better align the required timeframes with the business processes for Medicaid and Medicare.	Marie Matthews, Business and Financial Services Administrator	6/30/2010
Finding #2-40	93.775, 93.776, 93.777, 93.778	The Department understands the importance of a strong security plan. As such the Technology Services Division now has a designated Security Officer and newly hired Security Business Analyst. The division completed a risk assessment of the first major Medicaid system in September of this year. The three additional Medicaid system assessments will be completed by March of 2010 and the division will implement a process to ensure all required assessments are completed on a biennial basis.	Marie Matthews, Business and Financial Services Administrator	3/31/2010

Summary Schedule of Prior Audit Findings

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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
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CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
VARIOUS FEDERAL AGENCIES							
Various	Various Federal Agencies	2-52	No review of SWCAP done by personnel.		1	04-05	The Department of Administration (DOA) no longer has a contractor for the SWCAP. The DOA prepares the SWCAP.
Various	Various Federal Agencies	1-1	Actuarial Soundness of the Teachers Retirement System (TRS).		2	06-07	With the passage of HB 63 the TRS was at 31.3 years for FY 2008 to amortize the unfunded liability. However it no longer amortizes at the end of FY 2009 because of significant market losses.
Various	Various Federal Agencies	1-2	Actuarial Soundness of the Public Employees Retirement Systems.		2	06-07	With the passage of HB 131 the years to amortize at FY 2008 6/30/2008 were as follows: Public Employees (PERS) 24.8 yrs; Sheriffs (SRS) 16.3 yrs ; Game Wardens & Peace Officers (GWPORS) 13 yrs. With the market losses of FY2009 the amortization period at 6/30/2009 again fell to the point of does not amortize for PERS, SRS and GWPORS. The Montana Public Employees Retirement Administration (MPERA) and a legislative committee (SAVA) are exploring plan design changes to help the funding of the plans. MPERA will introduce legislation in the next legislative session.
Various	Various Federal Agencies	1-3	Internal controls related to asset management.		1	06-07	
Various	Various Federal Agencies	1-4	Reconciliation of treasury cash.		1	06-07	
Various	Various Federal Agencies	2-4	Federal share of volume discount rebates.	\$32,597	1	06-07	
Various	Various Federal Agencies	2-5	Submitting the SWCAP untimely.		1	06-07	
Various	Various Federal Agencies	2-7	Worker's compensation discounts accounting.	\$54,691	1	06-07	
Various	Various Federal Agencies	2-10	Benefits plan not maintaining reserves on an actuarially sound basis.	Exceeds \$10,000	1	06-07	

Category of Corrective Action Taken:

1 Finding has been fully corrected. 2 Finding has not been corrected or is partially corrected. 3 Corrective action taken is significantly different than reported.

**STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2009**

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
Various	Various Federal Agencies	2-18	Excess leave balances.	\$57,777	1	06-07	
Various	Various Federal Agencies	2-21	Excess leave balances.	\$22,933	1	06-07	
Various	Various Federal Agencies	2-35	University internal controls over grants not working.	\$6,168	2	06-07	
Various	Various Federal Agencies	2-40	Demonstration that rates are based on sound actuarial principles.	Exceeds \$10,000	1	06-07	
Various	Various Federal Agencies	2-41	Federal funds for VEBA program startup costs.	\$65,038	1	06-07	
Various	Various Federal Agencies	2-48	Excess leave balances.	Exceeds \$10,000	1	06-07	
Various	Various Federal Agencies	2-49	Not forfeiting exempt compensatory time.	Exceeds \$10,000	1	06-07	
Various	U.S. DEPARTMENT OF AGRICULTURE Plant and Animal Disease , Pest Control, and Animal Care 10.025, Inspection Grading and Standardization 10.162, Cooperative Agreements with States for Intrastate Meat and Poultry Inspection 10.475, and State Domestic Preparedness Equipment Support Program 97.004	2-53	All 3 current procedures used by the Department to recover direct and indirect personal service costs were not in compliance with fed regulations.	\$418,636	1	04-05	The Department of Livestock charges time directly for all personal services and the only time that is allocated between funds is for the Meat & Poultry Inspection Program that has a 50/50 split with the general and federal fund per cooperative agreement with FSIS.
10.025	Plant & Animal Disease, Pest Control & Animal Care	2-12	Charges for actual time spent on federal programs being unsupported.	\$182,729	1	06-07	

Category of Corrective Action Taken:

1 Finding has been fully corrected. 2 Finding has not been corrected or is partially corrected. 3 Corrective action taken is significantly different than reported.

**STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2009**

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
10.557	Special Supplemental Nutrition Programs for Women, Infants, and Children (WIC)	2-14	Not actively monitoring local agencies that administer WIC funds.		1	02-03	
10.551, 93.558, 93.563	Food Stamps, Temporary Assistance for Needy Families, Child Support Enforcement	2-13	Inadequate migration procedures for EBT system.		2	06-07	The Department of Public Health and Human Services (DPHHS) is pursuing funding to upgrading Montana Access from Oracle 8i to Oracle 10g. The new version of Oracle will allow the department to monitor changes to the program code; by requiring individuals to log on with unique administrator level accounts and provide audit logs of system changes. The projected completion date for upgrading the software is December 31, 2009.
10.551, 93.558, 93.563	Food Stamps, Temporary Assistance for Needy Families, Child Support Enforcement	2-14	Excessive staff access to EBT system.		1	06-07	The EBT Developer role grants select, insert, update and delete rights to all of the Montana Access database tables. This role was revoked in the Montana Access production data for all contractor accounts, as per audit recommendation. Contract staffs have retained access to job specific roles necessary to complete their development operational duties required under the contract; such as EBT help desk role, FNS update role, and process rule role and EBT system administration. The corrective action was completed by December of 2008.
10.551, 93.558, 93.563	Food Stamps, Temporary Assistance for Needy Families, Child Support Enforcement	2-15	Replacement procedures for lost/stolen Montana Access cards are insufficient.		2	06-07	The DHHS has reviewed it's existing card replacement process with FNS representatives and feel comfortable that the process is balanced between operating control and client access. To improve our ability to determine if employees or contractors are committing fraud we have requested the reinstatement of a duplicate address report to help identify inappropriate activities.
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	2-14	Number of required sites visits were not completed and reports were not completed.		2	04-05	
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	2-15	No tracking of local agency corrective action plans.		1	04-05	
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	2-16	No investigation or assessment of risk on non-compliance vendors.		2	04-05	

Category of Corrective Action Taken:

1 Finding has been fully corrected. 2 Finding has not been corrected or is partially corrected. 3 Corrective action taken is significantly different than reported.

**STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2009**

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	2-17	Eligibility determination not based on federal regulations.	Exceeds \$10,000	1	06-07	
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	2-28	Noncompliance for conducting timely monitoring reviews for local agencies.		2	06-07	The DPHHS Public Health and Safety Division will provide training to staff regarding complete documentation and filing requirements for monitoring visit reports. This training will be provided in time for the next round of monitoring visits.
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	2-30	Consideration and assessment of high-risk vendors, and documentation of compliance investigations.		2	06-07	
U.S. DEPARTMENT OF DEFENSE							
12.400, 12.401	Military Construction, National Guard, National Guard Military Operations & Maintenance	2-1	Compliance with competitive bidding requirements.	\$99,870	1	06-07	
12.400, 12.401	Military Construction, National Guard, National Guard Military Operations & Maintenance	2-3	Contractor certification not obtained.		1	06-07	
12.401	National Guard Military Operations and Maintenance Projects	2-43	Payments on expired contract.	\$1,503,269	1	06-07	
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT							
14.228, 14.239	Community Development Block Grants/State's Programs, Home Investment Partnership Program	2-36	Suspension and debarment verifications.		1	06-07	
14.239	HOME Investment Partnerships Program	2-31	Did not ensure subgrantees are not debarred/suspended from participating in federal programs.		1	04-05	

Category of Corrective Action Taken:

1 Finding has been fully corrected. 2 Finding has not been corrected or is partially corrected. 3 Corrective action taken is significantly different than reported.

STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2009

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
14.856	Lower Income Housing Assistance Program - Section 8 moderate Rehabilitation	2-38	Housing Assistance Payment Formula incorrect.		1	06-07	
14.871	Section 8 Housing Choice Vouchers	2-37	Field agent calculation errors not corrected.		2	06-07	
Various	U.S. DEPARTMENT OF INTERIOR Fish & Wildlife Cluster, 15.605, 15.611	2-47	Review for suspended and debarred parties is inadequate. Should require vendors to verify certification.		1	04-05	
15.611	Fish & Wildlife Cluster	2-49	Invoices to vendors violated contract terms.	Could exceed \$10,000	1	04-05	
15.808, 10.676	US Geological Survey, Research & Data Collection, Forest Legacy Program	2-11	Did not follow contract terms applicable to payments for some services.	\$29,044	1	06-07	
Various	U.S. DEPARTMENT OF LABOR Public Safety Partnership and Community Policing Grants 16.710, Minimum Penalties for Repeat Offenders for Driving While Intoxicated 20.608	2-5	Vouchers for travel reimbursement were completed incorrectly.	\$11,962	1	04-05	
17.225	Unemployment Insurance	2-44	Internal controls related to Unemployment Insurance Tax custody and recordkeeping of funds.		1	06-07	

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**STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2009**

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
17.225	Unemployment Insurance	2-46	Incorrect unemployment insurance rate charged.		1	06-07	
Various	Unemployment insurance, Employment Services Cluster, Workforce Investment Act Cluster	2-45	Certification to verify vendor is not suspended or dabarred was not obtained.		1	06-07	
17.258, 17.261	WIA Adult Program, WIA Pilots, Demonstrations, and Research Projects	2-39	Received federal funds not yet entitled to receive or excess cash.		1	06-07	
Various	Workforce Investment Act Cluster, WIA Pilots, Demonstrations, and Research Projects	2-47	Noncomplinance with cash management requirements.		1	06-07	
U.S. DEPARTMENT OF TRANSPORTATION							
20.205, 20.600	Highway Planning and Construction, State & Community Highway Safety	2-25	Fund revenues not commensurate with costs.	\$1,084,000	1	06-07	
20.205	Highway Planning and Construction	2-26	Use of federal share of income from rent, lease, and sale of excess property.	\$1,000,000	1	06-07	
20.205	Highway Planning and Construction	2-27	Noncompliance with timing requirements for federal reimbursements.		1	06-07	
20.205	Highway Planning and Construction	2-39	Compliance with CMIA Act.		1	04-05	

U.S. ENVIRONMENTAL PROTECTION AGENCY

Category of Corrective Action Taken:

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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2009

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
66.458, 66.468	Capitalization Grants for Clean Water State Revolving Funds	2-6	Prevent contracting with suspended or debarred parties.		1	06-07	
90.401	ELECTION ASSISTANCE COMMISSION Help America Vote Act Requirements Payments	2-8	Noncompliance with competitive bid process.	\$78,910	1	06-07	
93.283	U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES Centers for Disease Control and Prevention - Investigations and Technical Assistance	2-34	Duplicate expenditures recorded.	\$10,664	1	06-07	
93.558	Temporary Assistance for Needy Families	2-19	TANF eligibility and benefit determination errors.	Exceeds \$10,000	1	06-07	
93.617	Voting Access for Individuals with Disabilities	2-9	Noncompliance with federal allowable cost requirements.	\$68,000	1	06-07	
93.658, 93.659	Foster Care -Title IV-E, Adoption Assistance	2-31	Payment corrections and rate adjustment documentation.	\$31	1	06-07	
93.659	Adoption Assistance	2-29	Inadequate documentation to identify a child as difficult to place.		2	06-07	The adoption subsidy negotiation procedures as well as the case files in question are being reviewed by the DPHHS Child and Family Services Division. The procedure and documentation standards will be strengthened as necessary to facilitate understanding and assurance over this federal requirement.
93.659	Adoption Assistance	2-32	Court ruling for TitleIV-E benefits eligibility.	\$7,550	1	06-07	
93.778	Medical Assistance Program	2-16	No periodic risk analyses or biennial system security reviews.		2	06-07	The DPHHS understands the importance of a strong security plan. As such the Technology Services Division now has a designated Security Officer and newly hired Security Business Analyst. The division completed a risk assessment of the first major Medicaid system in September of this year. The three additional Medicaid system assessments will be completed by March of 2010 and the division will implement a process to ensure all required assessments are completed on a biennial basis.

Category of Corrective Action Taken:

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**STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2009**

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
93.778	Medical Assistance Program	2-20	Medicaid drug utilization data not submitted within 60 days.		1	06-07	
93.778	Medical Assistance Program	2-22	Drug utilization data is not provided to manufacturers within 60 days.		1	04-05	
93.778	Medical Assistance Program	2-22	Third party coverage reporting procedures.		1	06-07	
93.778	Medical Assistance Program	2-23	Medicare & Medicaid dual eligibility recognition.		1	06-07	
93.778	Medical Assistance Program	2-24	Suspension of Medicaid coverage for individuals turning 65 who do not apply for Medicare.		1	06-07	
93.959	Block Grants for Prevention and Treatment of Substance Abuse	2-33	Tuberculosis expenditures charges not supported.	\$23,110	1	06-07	
97.004, 97.067	U.S. HOMELAND SECURITY Homeland Security Cluster	2-42	Not in compliance with federal subrecipient monitoring.	\$40,000	2	06-07	The individual hired to conduct the subrecipient monitoring resigned at Military Affairs. A new person has not yet been hired and the duties have not been assigned to an existing employee.
97.067, 97.004	Homeland Security Cluster	2-2	Unallowable costs charged to grant.	Exceeds \$10,000	2	06-07	

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