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Comprehensive Annual Financial Report

For the Fiscal Year Ended

June 30, 2009

REPORT LAYOUT

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

INTERNET ACCESS

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

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

COVER Photographs:

Courtesy of the Montana Bureau of Mines and Geology
Montana Tech of The University of Montana

Seeley Swan Mountains from Rainy Lake, Flathead National Forest. Photo by John Patton.
Rainbow near Baker, Fallon County, Montana. Photo by Susan Vuke.
Former Anaconda Company's Mule Ranch, south of Anaconda, Montana. Photo by Edmond Deal.

State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2009

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State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2009

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INTRODUCTORY SECTION



DEPARTMENT OF ADMINISTRATION STATE ACCOUNTING DIVISION



BRIAN SCHWEITZER, GOVERNOR

MITCHELL BUILDING
HELENA, MT 59620-0102

STATE OF MONTANA

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(406) 444-3092

SABHRS Finance and Budget Bureau
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Treasury Unit
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Local Government
Services Bureau
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Helena, MT 59620-0547
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December 22, 2009

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

In accordance with Title 17, Chapter 2, Part 1, Montana Code Annotated (MCA), we are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the State of Montana for the fiscal year ended June 30, 2009. Responsibility for the accuracy of the data presented and the completeness and fairness of the presentation rests with the Department of Administration. To the best of our knowledge and belief, the enclosed data are accurate in all material respects, and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the State of Montana. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

DESCRIPTION OF THE CAFR

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

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

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

PROFILE OF THE GOVERNMENT

Montana became the 41st state when it was admitted to the Union in 1889, 25 years after the attainment of territorial status. With an area of 145,552 square miles, Montana is the nation's fourth largest state. With an estimated population of 957,861, it is also one of the nation's most sparsely populated states. It is a vast land: a land including rolling plains, the Northern Rocky Mountains, two national parks, wheat farms and cattle ranches, tribal lands, and extensive natural resources.

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

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

ECONOMIC CONDITION AND OUTLOOK

Montana's economic base remains concentrated in agriculture, mining, wood products and other manufacturing, nonresident travel, and government. Montana's economy entered a recession at the end of 2008 that continued through the first half of 2009. The recession in Montana has been mild in comparison to the rest of the US with the areas of nonresident travel, manufacturing (including forest products and construction) and agriculture most impacted. Only the mining and federal government sectors of the economy have not been significantly impacted. Growth in the federal government workforce and the estimated \$900 million in stimulus money helped stabilize the State's economy. Overall, Montana's economy grew an estimated 0.2% in calendar 2008 and will shrink by an estimated 0.6% in 2009. Montana personal and corporate income tax revenues declined in fiscal year 2009 as a result of the national economic downturn. This decline is expected to continue into fiscal year 2010. For a more in-depth analysis of the impact of this decline on the State's financial position, the reader should refer to management's discussion and analysis and the financial statements contained in the CAFR.

Montana's wheat yields increased in 2009, with production projected to reach 177.0 million bushels, compared to the 2008 production level of 164.7 million bushels. Winter wheat yields dropped to 89.5 million bushels, 5% lower than the 2008 level. Spring wheat yields reached 70.5 million bushels, up 18% from 2008. Durum production is estimated at 17.0 million bushels, up 57 percent from 2008. The decrease in winter wheat production was primarily due to the seeding of fewer acres combined with a slightly lower yield, down by 2 bushels an acre, in 2009. The increase in spring wheat was due to increased yields of 6 bushels per acre. Durum producers seeded less acreage and obtained 11 bushels more per acre than in 2008. Wheat prices have been lower in 2009, falling in the \$4.03 to \$6.60 per bushel range, reflecting the impacts of higher U.S. and worldwide production, combined with the global economic downturn.

Montana's other major agricultural commodities include oats, barley, and cattle. Oat production in Montana increased to an estimated 1.8 million bushels in 2009, representing a 17% increase from 2008 levels. Barley production is estimated at 40.3 million bushels, which is 7% higher than last year. Montana's cattle herd increased in 2008 to an estimated 2.6 million head. Montana ranks eleventh in the U.S. cattle and calf industry. Montana's 2007 receipts from cattle sales exceeded \$1.0 billion.

After improving during the first half of 2008, Montana's manufacturing sector declined during the second half of the year resulting in an overall decline for the year. Employment in this industry declined by approximately 2%, with 23,524 workers employed at the end of 2008. Employee earnings in the manufacturing industry remained at over \$1.1 billion in 2008. The manufacturing sector sales remained just under \$8 billion and still accounted for 20% of Montana's economic base. Through July 2009 the number of manufacturing jobs continued to decline, with a very slight increase of 100 and 400 jobs during August and September respectively.

As a result of the continued decline in the housing market, prices for lumber and other wood products were again lower in 2008. The price decreases, coupled with the unavailability of raw materials, has led to a continuing decline in production. With production around 450 million board feet for the year, the timber harvest was the lowest since 1946. Estimated total sales value of the State's primary wood and paper products in 2008 was \$710 million, down about \$270 million from 2007. The total wood products industry estimated employment of 9,070 workers for 2008 was lower than the estimated 2007 level of 9,700. Montana's estimated lumber production dropped from about 805 million board feet in 2007 to 710 million board feet in 2008. The first quarter of 2009 lumber production level was 93 million board feet, and represents a 90 million board feet decrease over the same period in 2008.

Nonresident travel to Montana in 2008 decreased an estimated 6.4% to approximately 10.1 million visitors. The visitor numbers for Yellowstone and Glacier national parks were down. Yellowstone Park decreased an estimated 2.7% from 3.1 million visitors to just over 3 million visitors. Glacier Park decreased an estimated 2.5% from 2.1 million visitors to just over 2 million visitors. Nonresident travelers contribute to the tax base by paying the lodging tax; excise taxes, such as those on gasoline; and indirectly, by supporting employment in industries that pay corporate taxes and whose workers

pay income, property, and other taxes. Estimated non-resident direct travel expenditures in Montana totaled \$3.0 billion in 2008. This represents a drop of \$0.1 billion. Although the drop in estimated direct expenditures was not significant, the estimated economic benefit of nonresident travel on Montana has dropped from \$4.3 billion for calendar year 2007 to \$3.5 billion for 2008. This represents an \$825 million decrease (19.14%). This is also significantly less than the initial estimate for calendar year 2008 of \$4.8 billion. Current estimates indicate that the travel industry will decrease by approximately 2% in 2009.

As of the end of calendar year 2008 an estimated 321 million barrels of proven oil reserves existed under Montana's land. In 2008, due to a decrease in crude oil and natural gas prices, the State saw a reduction in production and exploration activity, with estimated crude oil production for the state at 31.5 million barrels. This represents a 9.9% decrease from the 2007 production levels of 34.9 million barrels. The decline appears to be continuing in fiscal year 2009 with a 10.5% reduction in production through July of 2009 when compared to 2008 information for the same period.

Historically, mining has been a significant part of Montana's economy. While there is no published data on proven reserves for metals mining, Montana has produced copper, molybdenum, lead, zinc, palladium, gold, silver, nickel, chromate, and other metals. The State currently has four active metals mines producing primarily palladium, platinum, copper, molybdenum, gold, silver, lead, and zinc. These active mines employ approximately 2,500 employees. Lower mineral prices for minerals other than gold and silver, regulatory and siting issues, a shortage of experienced workers, unavailability of mining supplies, unavailability of venture capital, in addition to the high cost of the fuel and power required to extract these metals, has impacted the potential future development in metals mining within the State. Montana has eight non-metals mines producing garnets, talc and limestone/cement. These mines employ approximately 350 employees. Potential lower industrial metals/minerals prices into the future resulting from the recession could cause reductions in this sector of Montana's economy while continued high gold and silver prices may spur the development or reopening of additional mines.

Montana's total coal reserves were estimated at 119,067 million short tons with recoverable reserves of 74,810 million short tons in 2008. This represents 24% of the total, and 29% of the recoverable, reserves in the U.S. Of these reserves 925 million short tons of coal are at producing mine sites. During 2008, Montana's coal production increased to 47,786 thousand short tons, an increase of 3.2%. Although overall coal production was up in the previous two years, production though the first half of calendar year 2009 decreased by 1,309 short tons (6.2%). In a related issue, construction on the first new major power transmission line in Montana since the 1970s began during the fall of 2009. While this power transmission line is primarily intended for transmission of wind generated electricity, it will also be available to carry electricity generated from other sources, including coal.

MAJOR INITIATIVES

At the close of fiscal year 2009, the General Fund unreserved, undesignated fund balance decreased. This decrease was not to the level expected by the 60th legislature and leaves Montana in much better financial condition than almost all other states in the US. The limited impact of the recession on the General Fund resulted from higher than anticipated revenues combined with lower than budgeted expenditures. The American Recovery and Reinvestment Act (ARRA) Funding impact on the General Fund indirectly contributed to the lower expenditures in 2009 by increasing the federal Medicaid match. The revenue decreases encountered in fiscal year 2009 have continued into the first half of fiscal year 2010 and are projected to continue absent a national recovery from the recession.

The 61st Legislature approved a very conservative budget, authorizing agency spending only slightly above the 2009 actual spending level for the 2011 biennium. The budget authorized by the legislature did not include employee wage increases and implemented across the board increased vacancy savings of an additional 3%, bringing the total vacancy savings required to 7%. The additional \$884 million in ARRA funding authorized by the Legislature will primarily be spent in the 2011 biennium on activities including infrastructure, social assistance, unemployment and education. Included in the budget were energy conservation and efficiency investments that should decrease ongoing spending into the future.

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

FINANCIAL INFORMATION

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

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

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

General Fund Balance

The unreserved, undesignated fund balance of the General Fund decreased from \$433.6 million at June 30, 2008, to \$392.5 million at June 30, 2009. This represents a decrease of \$41.6 million (9.5%).

Cash Management

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

Unless otherwise provided by law, treasury cash is pooled for investment regardless of the fund from which it is deposited, and the pool investment earnings are credited to the General Fund. The board reported total investment income from investments under its management of \$345 million, a decrease of 27% from the \$475 million earned last year. The book value of board-managed investments increased by approximately \$644 million, or 5.1%, to \$11.9 billion at fiscal year-end 2009. The board publishes an annual audited report of all its investment activity. That report may be referenced for more in-depth investment information.

INDEPENDENT AUDIT

The financial statements contained in Montana's Comprehensive Annual Financial Report were audited in accordance with generally accepted auditing standards by the State's Legislative Audit Division. The Legislative Auditor is appointed by and reports to the Legislative Audit Committee. The Deputy Legislative Auditor issued an unqualified opinion on the State's financial statements for fiscal year 2009.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Montana for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008. This was the eighteenth year out of nineteen years that the State received this prestigious award. In the year of the SABHRS implementation the State did not participate in the review process due to the late issuance of the related report. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

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

ACKNOWLEDGEMENTS

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

Respectfully submitted,

/s/ Paul A Christofferson

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

"

/s/ Julie Feldman

Julie Feldman, Bureau Chief
State Accounting Bureau
Department of Administration

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Montana

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

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



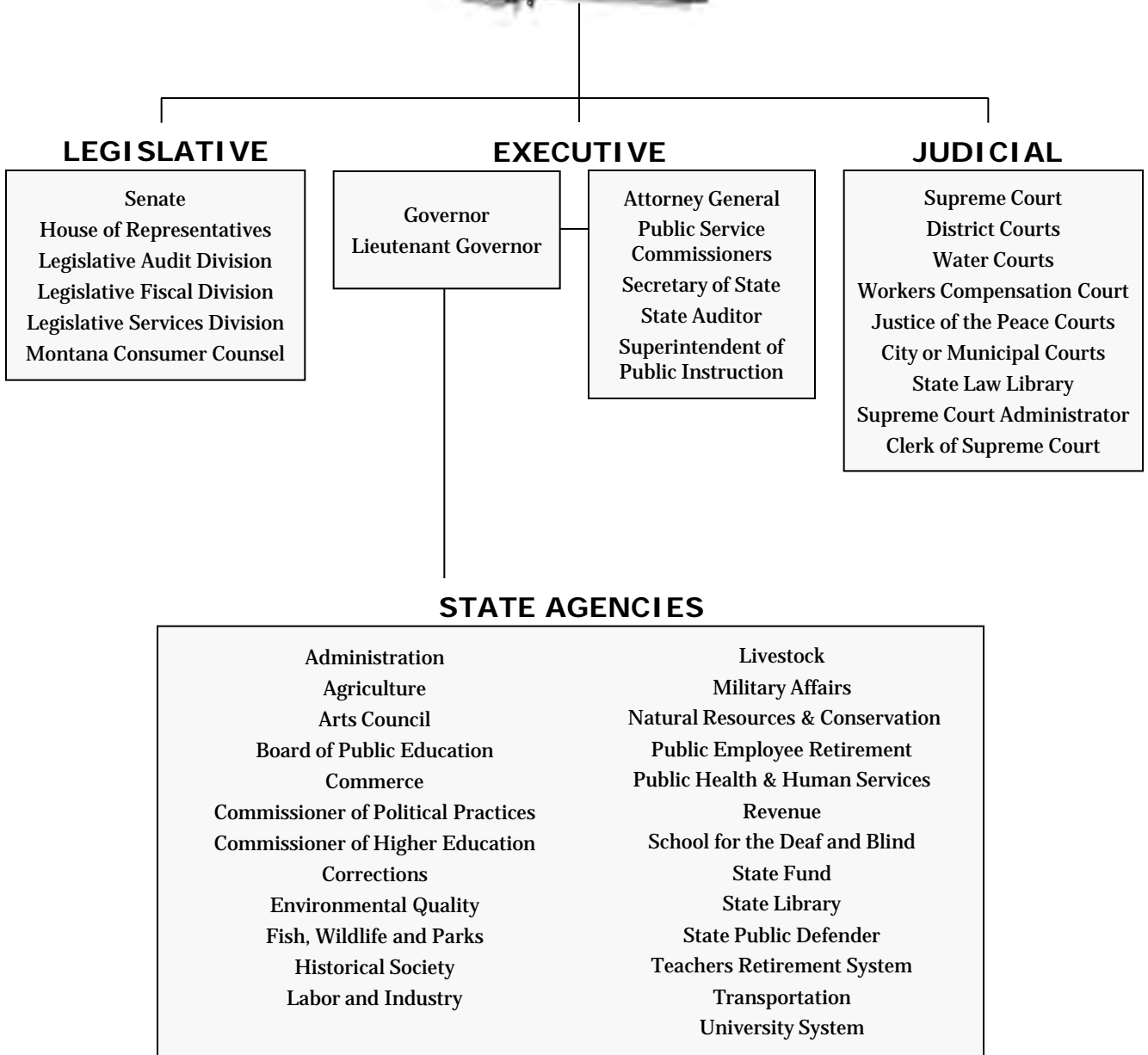
A handwritten signature in black ink, appearing to read "K. L. R.", is written above the title "President".

President

A handwritten signature in black ink, reading "Jeffrey R. Emer", is written above the title "Executive Director".

Executive Director

STATE OF MONTANA ORGANIZATION CHART



State of Montana
SELECTED STATE OFFICIALS

EXECUTIVE

Brian Schweitzer

Governor

John Bohlinger

Lieutenant Governor

JUDICIAL

Mike McGrath

Chief Justice

LEGISLATIVE

Robert Story

President of the Senate

Bob Bergren

Speaker of the House

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FINANCIAL SECTION



LEGISLATIVE AUDIT DIVISION

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
- 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 0.3, 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.

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<http://leg.mt.gov/audit>

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 listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the state of Montana's basic financial statements. The Combining Statements and Individual Fund Statements and Schedules listed in the table of contents are for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us 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 Board – 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. It is included in the Legislative Auditor's separately issued report (08-01B) on the State's basic financial statements.

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

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

December 22, 2009

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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, 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

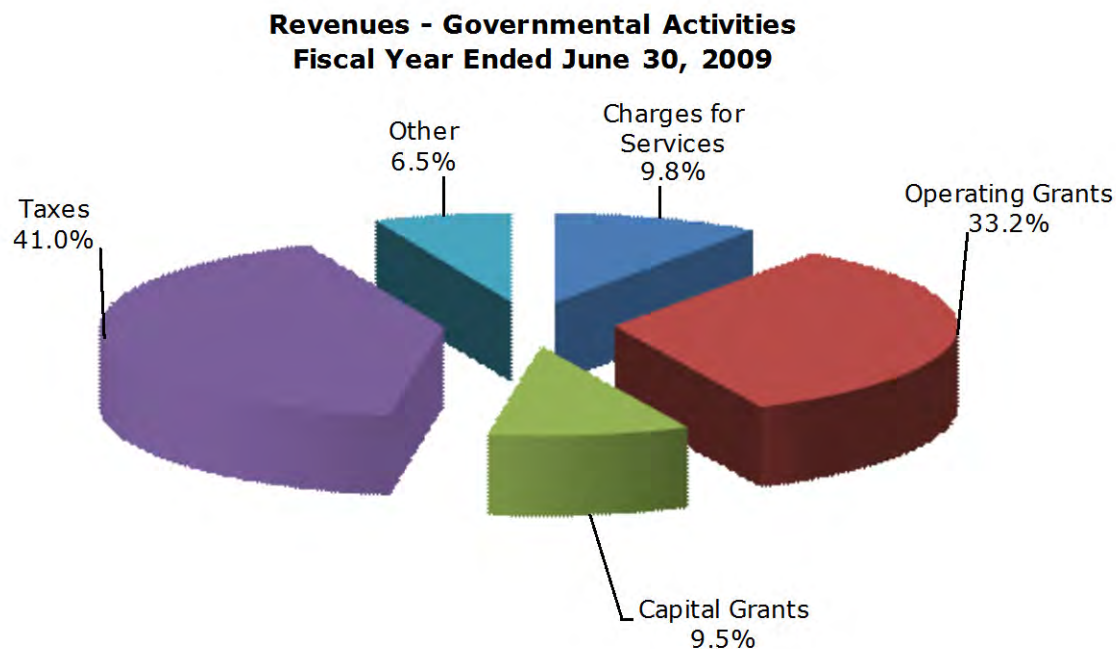
The following condensed financial information was derived from the government-wide Statement of Activities, and reflects how the State's net assets changed during the fiscal year:

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

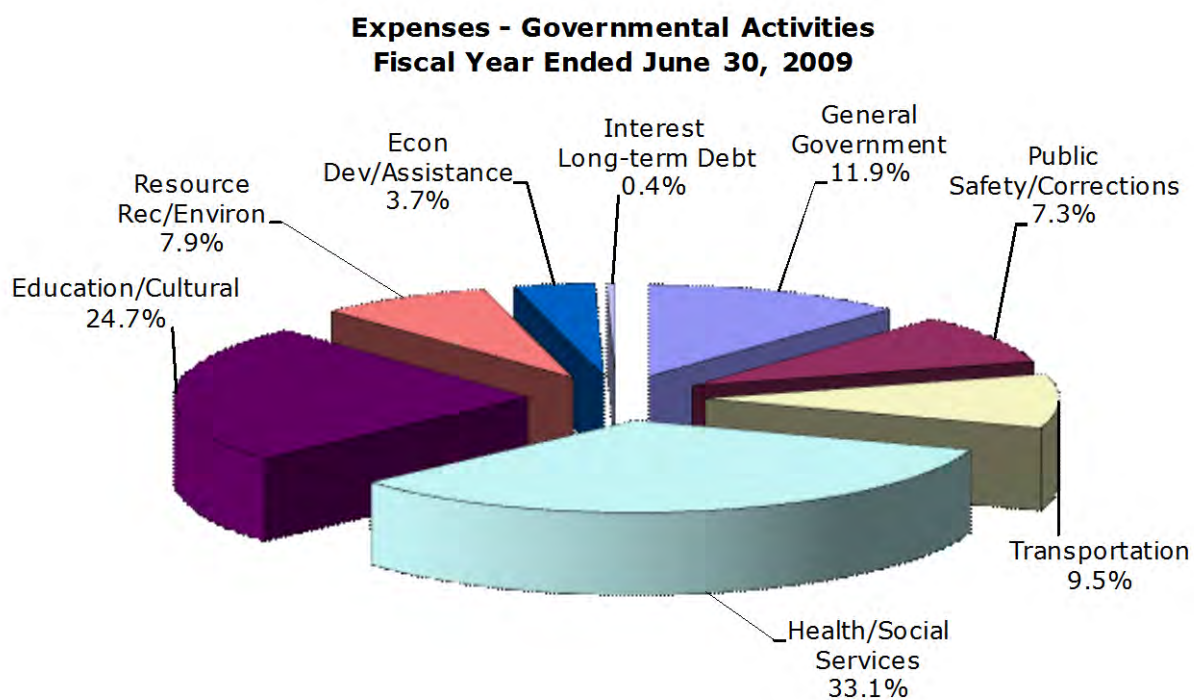
	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2009	2008	2009	2008	2009
Revenues:						
Program revenues						
Charges for services	\$ 584,098	\$ 483,032	\$300,952	\$278,877	\$ 885,050	\$ 761,909
Operating grants	1,493,944	1,635,769	63,524	118,058	1,557,468	1,753,827
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/envIRON	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:

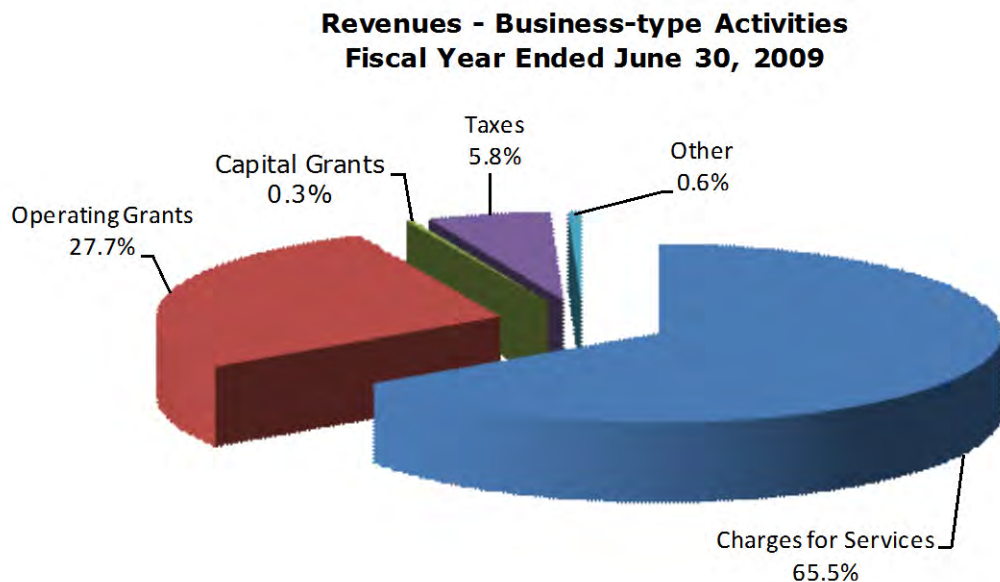


The following chart depicts expenses of the governmental activities for the fiscal year:

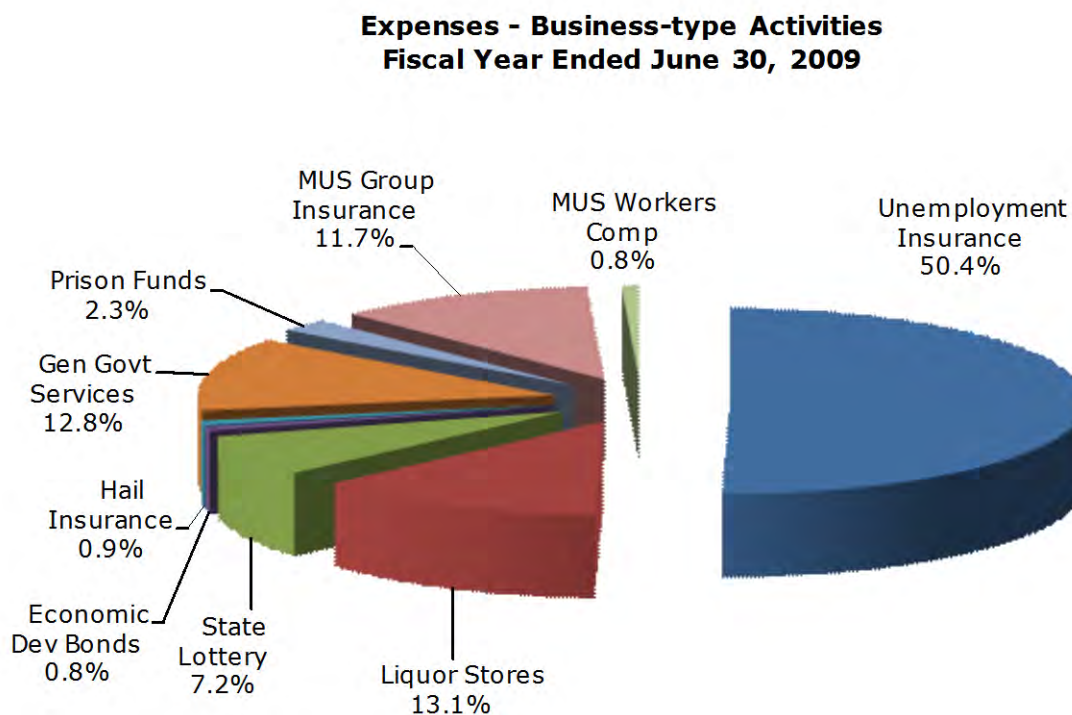


Business-type Activities

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 2009. 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	<u>\$4,874,212</u>	<u>100.0%</u>	<u>\$216,704</u>	<u>4.7%</u>

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	<u>\$4,666,966</u>	<u>100.0%</u>	<u>\$ 79,628</u>	<u>1.7%</u>

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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BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

JUNE 30, 2009

(amounts expressed in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
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			NET (EXPENSE) REVENUE	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS		
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

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

General Fund

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

State Special Revenue Fund

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

Federal Special Revenue Fund

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

Coal Severance Tax Fund

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

Land Grant Fund

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

Nonmajor Funds

Nonmajor governmental funds are presented, by fund type, beginning on page 140.

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2009

(amounts expressed in thousands)

	SPECIAL REVENUE			PERMANENT				
	GENERAL	STATE	FEDERAL	COAL		LAND GRANT	NONMAJOR	TOTAL
				SEVERANCE TAX				
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		<u>(241,333)</u>
Change in net assets of governmental activities		<u>\$ 351,825</u>

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

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PROPRIETARY FUND FINANCIAL STATEMENTS

Unemployment Insurance

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

Economic Development Bonds

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

Nonmajor Funds

Nonmajor enterprise funds are presented beginning on page 158.

Governmental Activities – Internal Service Funds

Internal service funds are used to account for operations that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. These funds are presented in more detail beginning on page 180.

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	
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

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FIDUCIARY FUND FINANCIAL STATEMENTS

Pension (and Other Employee Benefit) Trust Funds

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

Private-Purpose Trust Funds

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

Investment Trust Fund

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

Agency Funds

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

Individual funds are presented, by fund type, beginning on page 199.

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.

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COMPONENT UNIT FINANCIAL STATEMENTS

Housing Authority

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

Facility Finance Authority

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

Montana State Fund (New and Old Fund)

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

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 the Montana State Auditors' Office. The Association was reactivated in 1989 to operate 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.

Montana State University and University of Montana

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

COMBINING STATEMENT OF NET ASSETS

COMPONENT UNITS

JUNE 30, 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	<u>\$211,088</u>	<u>\$102,387</u>	<u>\$1,977</u>	<u>\$315,452</u>

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>	<u>AA</u>	<u>4.14</u>
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>	<u>AA</u>	<u>4.08</u>
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	<u>\$5,729</u>	<u>\$5,727</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	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			
	Economic Unemployment Insurance	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	\$ 3,553,591	\$562,020	\$ (327,776)	\$ 3,787,835

(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	\$8,733	\$4,567	\$(761)	\$ 12,539

(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

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%	For retired members who were hired prior to July, 1 1997 and who did not elect GABA, the minimum monthly benefit provided is equal to 2% times service credits multiplied by the current base compensation of a probationary highway patrol officer. Such benefits may not exceed 60% of the current base compensation of a probationary highway patrol officer and the increase may not exceed 5% of the current benefit.
			For non-GABA members who retired prior to July, 1 1991, and meet eligibility

			requirements, a lump sum payment will be made each year based on the increase in the Consumer price Index
JRS	3.1/3% per year of current salary or highest average compensation for the first 15 years of service credit and 1.785% per year of the current salary or highest average compensation for serve credit over 15 years	For retired members who became active members on and after July 1, 1997 and those who elected to be covered under this provision and who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to 3%	For retired members who were hired prior to July 1, 1997, and who did not elect GABA, the current salary of an active member in the same position is used to recalculate the monthly benefits
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
Incurring 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
Incurring 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><u>\$2,577</u></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	(1,018)
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		\$88,620

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
<u>Governmental activities</u>						
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
<u>Business-type activities</u>						
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	-	1,251	9,966	1,321	1	13
Pension Trust	-	-	-	33	-	-
Unemployment Insurance	-	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
Nonmajor Governmental Funds	2,643	21,699	-	25,304
State Special Revenue	9,708	-	-	22,260
Pension Trust	-	-	-	33
Unemployment Insurance	-	-	-	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	\$34,916	\$15

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.

REQUIRED SUPPLEMENTARY INFORMATION

**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

(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.

SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
 JUNE 30, 2009
(amounts expressed in thousands)

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
ASSETS				
Cash/cash equivalents	\$ 15,589	\$ 123,816	\$ 2,350	\$ 141,755
Receivables (net)	3,613	1,493	1,690	6,796
Interfund loan receivable	-	925	-	925
Due from other governments	-	303	-	303
Due from other funds	22	2,141	-	2,163
Equity in pooled investments	-	-	267,104	267,104
Long-term loans/notes receivable	28,925	-	-	28,925
Advances to other funds	3,237	-	-	3,237
Investments	1,514	6,977	7,257	15,748
Securities lending collateral	392	5,502	49,372	55,266
Total assets	<u>\$ 53,292</u>	<u>\$ 141,157</u>	<u>\$ 327,773</u>	<u>\$ 522,222</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	1	10,058	-	10,059
Due to other funds	27	301	2,096	2,424
Due to component units	-	14	-	14
Advances from other funds	21,607	-	-	21,607
Deferred revenue	375	306	-	681
Securities lending liability	392	5,502	49,372	55,266
Total liabilities	<u>22,402</u>	<u>16,181</u>	<u>51,468</u>	<u>90,051</u>
Fund balances:				
Reserved for:				
Encumbrances	-	771	-	771
Long-term loans/notes receivable	28,925	-	-	28,925
Advances to other funds	3,237	-	-	3,237
Debt service	3,233	-	-	3,233
Trust principal	-	-	276,305	276,305
Unreserved, designated	8,210	-	-	8,210
Unreserved, undesignated	(12,715)	124,205	-	111,490
Total fund balances	<u>30,890</u>	<u>124,976</u>	<u>276,305</u>	<u>432,171</u>
Total liabilities and fund balances	<u>\$ 53,292</u>	<u>\$ 141,157</u>	<u>\$ 327,773</u>	<u>\$ 522,222</u>

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

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
REVENUES				
Licenses/permits	\$ -	\$ -	\$ 414	\$ 414
Taxes:				
Natural resource	744	5,957	943	7,644
Other	-	1,977	-	1,977
Charges for services/fees/forfeits/settlements	63	598	15,009	15,670
Investment earnings	10,647	1,029	10,254	21,930
Securities lending income	23	131	748	902
Sale of documents/merchandise/property	3,192	-	16	3,208
Rentals/leases/royalties	-	-	114	114
Grants/contracts/donations	-	-	(1)	(1)
Other revenues	-	11	-	11
Total revenues	14,669	9,703	27,497	51,869
EXPENDITURES				
Current:				
General government	-	71	-	71
Public safety/corrections	-	1,872	-	1,872
Health/social services	9	1,538	-	1,547
Education/cultural	-	568	20	588
Resource/recreation/environment	77	(65)	-	12
Economic development/assistance	-	867	-	867
Debt service:				
Principal retirement	33,370	-	-	33,370
Interest/fiscal charges	18,278	-	-	18,278
Capital outlay	-	74,767	8	74,775
Securities lending	8	44	309	361
Total expenditures	51,742	79,662	337	131,741
Excess of revenue over (under) expenditures	(37,073)	(69,959)	27,160	(79,872)
OTHER FINANCING SOURCES (USES)				
General capital asset sale proceeds	-	-	-	-
Transfers in	40,639	110,490	1,291	152,420
Transfers out	(8,318)	(5,163)	(11,823)	(25,304)
Total other financing sources (uses)	32,321	105,327	(10,532)	127,116
Net change in fund balances	(4,752)	35,368	16,628	47,244
Fund balances - July 1 - as previously reported	35,651	89,608	259,678	384,937
Prior period adjustments	(9)	-	(1)	(10)
Fund balances - July 1 - as restated	35,642	89,608	259,677	384,927
Fund balances - June 30	\$ 30,890	\$ 124,976	\$ 276,305	\$ 432,171

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NONMAJOR DEBT SERVICE FUNDS

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

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

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

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

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

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

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

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

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

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

COMBINING BALANCE SHEET
 NONMAJOR DEBT SERVICE FUNDS
 JUNE 30, 2009
(amounts expressed in thousands)

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTEWATER DEVELOPMENT	WATER CONSERVATION
ASSETS				
Cash/cash equivalents	\$ 4,923	\$ 730	\$ 5,983	\$ -
Receivables (net)	449	2	3,161	1
Due from other funds	-	-	-	-
Long-term loans/notes receivable	8,662	-	20,240	23
Advances to other funds	3,237	-	-	-
Investments	383	-	84	-
Securities lending collateral	302	-	66	-
Total assets	<u>\$ 17,956</u>	<u>\$ 732</u>	<u>\$ 29,534</u>	<u>\$ 24</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	-	-	-	-
Due to other funds	-	-	27	-
Advances from other funds	-	-	21,607	-
Deferred revenue	49	-	325	1
Securities lending liability	302	-	66	-
Total liabilities	<u>351</u>	<u>-</u>	<u>22,025</u>	<u>1</u>
Fund balances:				
Reserved for:				
Long-term loans/notes receivable	8,662	-	20,240	23
Advances to other funds	3,237	-	-	-
Debt service	3,233	-	-	-
Unreserved, designated	2,473	732	-	-
Unreserved, undesignated	-	-	(12,731)	-
Total fund balances	<u>17,605</u>	<u>732</u>	<u>7,509</u>	<u>23</u>
Total liabilities and fund balances	<u>\$ 17,956</u>	<u>\$ 732</u>	<u>\$ 29,534</u>	<u>\$ 24</u>

HEALTH CARE	ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	TOTAL
\$ 3,260	\$ 421	\$ 272	\$ 15,589
-	-	-	3,613
-	22	-	22
-	-	-	28,925
-	-	-	3,237
1,017	30	-	1,514
-	24	-	392
<u>\$ 4,277</u>	<u>\$ 497</u>	<u>\$ 272</u>	<u>\$ 53,292</u>
-	1	-	1
-	-	-	27
-	-	-	21,607
-	-	-	375
-	24	-	392
-	25	-	22,402
-	-	-	28,925
-	-	-	3,237
-	-	-	3,233
4,281	452	272	8,210
(4)	20	-	(12,715)
<u>4,277</u>	<u>472</u>	<u>272</u>	<u>30,890</u>
<u>\$ 4,277</u>	<u>\$ 497</u>	<u>\$ 272</u>	<u>\$ 53,292</u>

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

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTEWATER DEVELOPMENT	WATER CONSERVATION
REVENUES				
Taxes:				
Natural resource	\$ -	\$ -	\$ 472	\$ -
Charges for services/fines/forfeits/settlements	-	-	(995)	-
Investment earnings	502	72	9,867	1
Securities lending income	11	9	3	-
Sale of documents/merchandise/property	3,192	-	-	-
Total revenues	3,705	81	9,347	1
EXPENDITURES				
Current:				
Health/social services	-	-	-	-
Resource/recreation/environment	72	-	-	3
Debt service:				
Principal retirement	3,725	11,920	3,800	-
Interest/fiscal charges	1,093	6,670	1,669	2
Securities lending	4	3	1	-
Total expenditures	4,894	18,593	5,470	5
Excess of revenue over (under) expenditures	(1,189)	(18,512)	3,877	(4)
OTHER FINANCING SOURCES (USES)				
Transfers in	650	18,497	145	-
Transfers out	(1,191)	-	(7,127)	-
Total other financing sources (uses)	(541)	18,497	(6,982)	-
Net change in fund balances	(1,730)	(15)	(3,105)	(4)
Fund balances - July 1 - as previously reported	19,335	747	10,623	27
Prior period adjustments	-	-	(9)	-
Fund balances - July 1 - as restated	19,335	747	10,614	27
Fund balances - June 30	\$ 17,605	\$ 732	\$ 7,509	\$ 23

HEALTH CARE	INFORMATION TECHNOLOGY	ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	HIGHWAY	TOTAL
\$ -	\$ -	\$ -	\$ 272	\$ -	\$ 744
-	-	1,058	-	-	63
203	-	2	-	-	10,647
-	-	-	-	-	23
-	-	-	-	-	3,192
203	-	1,060	272	-	14,669
9	-	-	-	-	9
-	-	1	1	-	77
1,600	2,320	675	260	9,070	33,370
1,344	140	256	194	6,910	18,278
-	-	-	-	-	8
2,953	2,460	932	455	15,980	51,742
(2,750)	(2,460)	128	(183)	(15,980)	(37,073)
2,705	2,460	19	183	15,980	40,639
-	-	-	-	-	(8,318)
2,705	2,460	19	183	15,980	32,321
(45)	-	147	-	-	(4,752)
4,322	-	325	272	-	35,651
-	-	-	-	-	(9)
4,322	-	325	272	-	35,642
\$ 4,277	\$ -	\$ 472	\$ 272	\$ -	\$ 30,890

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NONMAJOR CAPITAL PROJECTS FUNDS

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

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

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

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

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

COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECTS FUNDS
 JUNE 30, 2009
(amounts expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	FEDERAL/ PRIVATE CONSTRUCTION GRANTS	CAPITAL LAND GRANT	TOTAL
ASSETS					
Cash/cash equivalents	\$ 120,268	\$ 1,402	\$ -	\$ 2,146	\$ 123,816
Receivables (net)	1,493	-	-	-	1,493
Interfund loans receivable	925	-	-	-	925
Due from other governments	-	-	303	-	303
Due from other funds	1,934	207	-	-	2,141
Investments	6,975	2	-	-	6,977
Securities lending collateral	5,501	1	-	-	5,502
Total assets	<u>\$ 137,096</u>	<u>\$ 1,612</u>	<u>\$ 303</u>	<u>\$ 2,146</u>	<u>\$ 141,157</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	9,709	40	303	6	10,058
Due to other funds	300	1	-	-	301
Due to component units	14	-	-	-	14
Deferred Revenue	3	-	303	-	306
Securities lending liability	5,501	1	-	-	5,502
Total liabilities	<u>15,527</u>	<u>42</u>	<u>606</u>	<u>6</u>	<u>16,181</u>
Fund balances:					
Encumbrances	771	-	-	-	771
Unreserved	120,798	1,570	(303)	2,140	124,205
Total fund balances	<u>121,569</u>	<u>1,570</u>	<u>(303)</u>	<u>2,140</u>	<u>124,976</u>
Total liabilities and fund balances	<u>\$ 137,096</u>	<u>\$ 1,612</u>	<u>\$ 303</u>	<u>\$ 2,146</u>	<u>\$ 141,157</u>

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

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	FEDERAL/ PRIVATE CONSTRUCTION GRANTS	CAPITAL LAND GRANT	TOTAL
REVENUES					
Taxes:					
Natural Resource	\$ 5,957	\$ -	\$ -	\$ -	\$ 5,957
Other	1,977	-	-	-	1,977
Charges for services/fines/forfeits/settlements	598	-	-	-	598
Investment earnings	1,029	-	-	-	1,029
Securities lending income	131	-	-	-	131
Other revenues	11	-	-	-	11
Total revenues	9,703	-	-	-	9,703
EXPENDITURES					
Current:					
General government	-	71	-	-	71
Public safety/corrections	43	1,826	3	-	1,872
Health/social services	1,538	-	-	-	1,538
Educational/Cultural	568	-	-	-	568
Resource/recreation/environment	(65)	-	-	-	(65)
Economic development/assistance	867	-	-	-	867
Capital outlay	66,542	270	7,632	323	74,767
Securities lending	44	-	-	-	44
Total expenditures	69,537	2,167	7,635	323	79,662
Excess of revenue over (under) expenditures	(59,834)	(2,167)	(7,635)	(323)	(69,959)
OTHER FINANCING SOURCES (USES)					
Transfers in	101,150	930	7,332	1,078	110,490
Transfers out	(4,681)	-	-	(482)	(5,163)
Total other financing sources (uses)	96,469	930	7,332	596	105,327
Net change in fund balances	36,635	(1,237)	(303)	273	35,368
Fund balances - July 1 - as previously reported	84,934	2,807	-	1,867	89,608
Fund balances - June 30	\$ 121,569	\$ 1,570	\$ (303)	\$ 2,140	\$ 124,976

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NONMAJOR PERMANENT FUNDS

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

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

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

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

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

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

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

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

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

COMBINING BALANCE SHEET
 NONMAJOR PERMANENT FUNDS
 JUNE 30, 2009
 (amounts expressed in thousands)

	RESOURCE INDEMNITY	PARKS TRUST	CULTURAL TRUST	REAL PROPERTY TRUST	NOXIOUS WEED MANAGEMENT
ASSETS					
Cash/cash equivalents	\$ 444	\$ 127	\$ 204	\$ 619	\$ 599
Receivables (net)	550	245	128	71	64
Equity in pooled investments	100,492	18,782	10,458	12,886	8,372
Investments	40	11	14	56	1,354
Securities lending collateral	18,282	3,420	1,910	2,384	2,317
Total assets	\$ 119,808	\$ 22,585	\$ 12,714	\$ 16,016	\$ 12,706
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to other funds	1,011	86	107	58	314
Securities lending liability	18,282	3,420	1,910	2,384	2,317
Total liabilities	19,293	3,506	2,017	2,442	2,631
Fund balances:					
Reserved for:					
Trust principal	100,515	19,079	10,697	13,574	10,075
Total fund balances	100,515	19,079	10,697	13,574	10,075
Total liabilities and fund balances	\$ 119,808	\$ 22,585	\$ 12,714	\$ 16,016	\$ 12,706

HISTORICAL SOCIETY TRUSTS	DPHHS TRUSTS	TOBACCO SETTLEMENT INTEREST	ZORTMAN/ LANDUSKY WATER TREATMENT	TOTAL
\$ 112	\$ 142	\$ 90	\$ 13	\$ 2,350
3	51	578	-	1,690
1,001	9,332	105,781	-	267,104
7	13	8	5,754	7,257
135	1,705	19,218	1	49,372
\$ 1,258	\$ 11,243	\$ 125,675	\$ 5,768	\$ 327,773
-	-	520	-	2,096
135	1,705	19,218	1	49,372
135	1,705	19,738	1	51,468
1,123	9,538	105,937	5,767	276,305
1,123	9,538	105,937	5,767	276,305
\$ 1,258	\$ 11,243	\$ 125,675	\$ 5,768	\$ 327,773

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

	RESOURCE INDEMNITY	PARKS TRUST	CULTURAL TRUST	REAL PROPERTY TRUST	NOXIOUS WEED MANAGEMENT
REVENUES					
Licenses/permits	\$ -	\$ -	\$ -	\$ 414	\$ -
Taxes:					
Natural resource	-	630	313	-	-
Charges for services/fines/forfeits/settlements	-	-	-	-	-
Investment earnings	3,931	730	411	502	269
Securities lending income	276	51	29	35	39
Sale of documents/merchandise/property	-	-	-	16	-
Rentals/leases/royalties	-	-	-	114	-
Grants/contracts/donations	-	-	-	-	-
Total revenues	4,207	1,411	753	1,081	308
EXPENDITURES					
Current:					
Education/cultural	-	-	-	-	-
Capital outlay	-	-	-	-	-
Securities lending	113	21	12	14	18
Total expenditures	113	21	12	14	18
Excess of revenue over (under) expenditures	4,094	1,390	741	1,067	290
OTHER FINANCING SOURCES (USES)					
General capital asset sale proceeds	-	-	-	-	-
Transfers in	-	-	-	1	90
Transfers out	(5,197)	(851)	(535)	(583)	(314)
Total other financing sources (uses)	(5,197)	(851)	(535)	(582)	(224)
Net change in fund balances	(1,103)	539	206	485	66
Fund balances - July 1 - as previously reported	101,618	18,540	10,491	13,089	10,010
Prior period adjustments	-	-	-	-	(1)
Fund balances - July 1 - as restated	101,618	18,540	10,491	13,089	10,009
Fund balances - June 30	\$ 100,515	\$ 19,079	\$ 10,697	\$ 13,574	\$ 10,075

HISTORICAL SOCIETY TRUSTS	DPHHS TRUSTS	TOBACCO SETTLEMENT INTEREST	ZORTMAN/ LANDUSKY WATER TREATMENT	TOTAL
\$ -	\$ -	\$ -	\$ -	\$ 414
-	-	-	-	943
-	-	15,009	-	15,009
(175)	370	3,921	295	10,254
2	26	257	33	748
-	-	-	-	16
-	-	-	-	114
(1)	-	-	-	(1)
(174)	396	19,187	328	27,497
20	-	-	-	20
8	-	-	-	8
1	11	106	13	309
29	11	106	13	337
(203)	385	19,081	315	27,160
-	-	-	-	-
-	-	-	1,200	1,291
-	-	(4,343)	-	(11,823)
-	-	(4,343)	1,200	(10,532)
(203)	385	14,738	1,515	16,628
1,326	9,153	91,199	4,252	259,678
-	-	-	-	(1)
1,326	9,153	91,199	4,252	259,677
\$ 1,123	\$ 9,538	\$ 105,937	\$ 5,767	\$ 276,305

NONMAJOR ENTERPRISE FUNDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

COMBINING STATEMENT OF NET ASSETS
 NONMAJOR ENTERPRISE FUNDS
 JUNE 30, 2009
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
ASSETS				
Current assets:				
Cash/cash equivalents	\$ 5,932	\$ 11,467	\$ 1,846	\$ 2,085
Receivables (net)	16,853	3,297	1,345	260
Interfund loans receivable	-	-	-	-
Due from other governments	-	-	-	-
Due from other funds	3	-	1	206
Due from component units	2	-	-	4
Inventories	84	-	795	1,642
Securities lending collateral	-	772	110	-
Other current assets	20	1	429	16
Total current assets	22,894	15,537	4,526	4,213
Noncurrent assets:				
Advances to other funds	75	-	-	-
Long-term investments	-	978	139	-
Long-term notes/loans receivable	-	-	-	-
Other long-term assets	-	-	1,764	292
Capital assets:				
Land	-	-	-	690
Land improvements	-	-	-	731
Buildings/improvements	2,044	-	-	4,695
Equipment	477	-	545	3,950
Infrastructure	-	-	-	884
Construction in progress	-	-	-	78
Intangible assets	-	81	-	-
Other Depreciable Assets	-	-	-	3,191
Less accumulated depreciation	(1,729)	-	(311)	(6,159)
Total capital assets	792	81	234	8,060
Total noncurrent assets	867	1,059	2,137	8,352
Total assets	23,761	16,596	6,663	12,565

MUS GROUP INSURANCE		MUS WORKERS COMPENSATION		SUBSEQUENT INJURY		SECRETARY OF STATE BUSINESS SERVICES		HISTORICAL SOCIETY PUBLICATIONS		SURPLUS PROPERTY	
\$	33,335	\$	12,234	\$	146	\$	2,933	\$	92	\$	17
	1,202		8		121		21		6		11
	-		-		-		-		-		-
	-		-		-		4		-		-
	-		-		-		5		-		4
	2,374		382		70		1		-		4
	-		-		-		24		469		132
	2,345		816		96		196		-		-
	10		242		-		-		-		-
	39,266		13,682		433		3,184		567		168
	-		-		-		-		-		-
	2,973		1,034		111		249		-		-
	-		-		-		-		-		-
	-		-		-		-		-		-
	-		-		-		-		-		-
	-		-		-		-		-		-
	-		-		-		-		-		118
	-		-		-		438		11		148
	-		-		-		-		-		-
	-		-		-		75		-		-
	-		-		-		26		-		-
	-		-		-		-		-		-
	-		-		-		(248)		(10)		(180)
	-		-		-		291		1		86
	2,973		1,034		111		540		1		86
	42,239		14,716		544		3,724		568		254

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS - Continued

NONMAJOR ENTERPRISE FUNDS

JUNE 30, 2009

(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
ASSETS			
Current assets:			
Cash/cash equivalents	\$ 210	\$ 359	\$ 1,355
Receivables (net)	-	1	344
Interfund loans receivable	74	-	-
Due from other governments	-	-	-
Due from other funds	-	-	-
Due from component units	-	-	181
Inventories	-	-	-
Securities lending collateral	-	-	39
Other current assets	-	-	-
Total current assets	284	360	1,919
Noncurrent assets:			
Advances to other funds	-	-	-
Long-term investments	-	-	49
Long-term notes/loans receivable	-	-	-
Other long-term assets	-	-	-
Capital assets:			
Land	110	-	-
Land improvements	3,099	-	-
Buildings/improvements	487	-	-
Equipment	312	-	-
Infrastructure	-	-	-
Construction in progress	14	-	-
Intangible assets	-	-	-
Other Depreciable Assets	-	-	-
Less accumulated depreciation	(1,085)	-	-
Total capital assets	2,937	-	-
Total noncurrent assets	2,937	-	49
Total assets	3,221	360	1,968

HUD SECTION 8 HOUSING		OTHER ENTERPRISE FUNDS		TOTAL
\$	5,568	\$	1,070	\$ 78,649
	90		1	23,560
	-		-	74
	649		17	670
	-		355	574
	-		-	3,018
	-		119	3,265
	394		10	4,778
	45		-	763
	6,746		1,572	115,351
	-		-	75
	500		13	6,046
	1,123		-	1,123
	-		-	2,056
	-		-	800
	-		-	3,830
	-		-	7,344
	52		98	6,031
	-		-	884
	-		-	167
	13		8	128
	-		-	3,191
	(47)		(69)	(9,838)
	18		37	12,537
	1,641		50	21,837
	8,387		1,622	137,188

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS - Continued

NONMAJOR ENTERPRISE FUNDS

JUNE 30, 2009

(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 5,745	\$ 55	\$ 656	\$ 308
Lottery prizes payable	-	-	1,524	-
Interfund loans payable	-	-	-	-
Due to other governments	-	-	-	-
Due to other funds	15,246	79	2,536	137
Due to component units	-	-	-	3
Deferred revenue	1,178	3,325	254	42
Amounts held in custody for others	20	-	-	-
Securities lending liability	-	772	110	-
Estimated insurance claims	-	354	-	-
Compensated absences payable	157	17	115	127
Total current liabilities	22,346	4,602	5,195	617
Noncurrent liabilities:				
Lottery prizes payable	-	-	1,156	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	159	21	96	203
OPEB implicit rate subsidy	262	26	216	225
Total noncurrent liabilities	421	47	1,468	428
Total liabilities	22,767	4,649	6,663	1,045
NET ASSETS				
Invested in capital assets, net of related debt	793	81	234	8,060
Restricted for:				
Other purposes	-	11,866	-	-
Unrestricted	201	-	(234)	3,460
Total net assets	\$ 994	\$ 11,947	\$ -	\$ 11,520

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
\$ 3,725	\$ 59	\$ -	\$ 215	\$ 44	\$ 17
-	-	-	-	-	-
-	-	-	-	-	150
-	-	-	-	-	-
4	-	-	32	2	11
6	129	-	-	-	-
-	-	-	162	120	-
-	-	-	-	-	-
2,345	816	96	196	-	-
6,900	995	850	-	-	-
11	3	-	184	18	23
12,991	2,002	946	789	184	201
-	-	-	-	-	-
-	6,738	2,218	-	-	-
36	4	-	63	21	17
29	5	-	393	55	30
65	6,747	2,218	456	76	47
13,056	8,749	3,164	1,245	260	248
-	-	-	291	1	85
29,183	5,967	-	-	-	-
-	-	(2,620)	2,188	307	(79)
\$ 29,183	\$ 5,967	\$ (2,620)	\$ 2,479	\$ 308	\$ 6

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS - Continued

NONMAJOR ENTERPRISE FUNDS

JUNE 30, 2009

(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 57	\$ 14	\$ 169
Lottery prizes payable	-	-	-
Interfund loans payable	-	-	-
Due to other governments	-	-	-
Due to other funds	-	1	-
Due to component units	-	-	-
Deferred revenue	-	-	-
Amounts held in custody for others	-	-	-
Securities lending liability	-	-	39
Estimated insurance claims	-	-	-
Compensated absences payable	12	13	-
Total current liabilities	69	28	208
Noncurrent liabilities:			
Lottery prizes payable	-	-	-
Estimated insurance claims	-	-	-
Compensated absences payable	15	4	-
OPEB implicit rate subsidy	13	22	-
Total noncurrent liabilities	28	26	-
Total liabilities	97	54	208
NET ASSETS			
Invested in capital assets, net of related debt	2,937	-	-
Restricted for:			
Other purposes	187	-	1,760
Unrestricted	-	306	-
Total net assets	\$ 3,124	\$ 306	\$ 1,760

HUD SECTION 8 HOUSING		OTHER ENTERPRISE FUNDS		TOTAL
\$	108	\$	155	\$ 11,327
	-		-	1,524
	-		-	150
	53		-	53
	14		36	18,098
	-		-	138
	-		152	5,233
	-		-	20
	394		10	4,778
	-		-	9,099
	52		15	747
	621		368	51,167
	-		-	1,156
	-		-	8,956
	62		39	740
	119		55	1,450
	181		94	12,302
	802		462	63,469
	18		37	12,537
	7,567		1,123	57,653
	-		-	3,529
\$	7,585	\$	1,160	\$ 73,719

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 NONMAJOR ENTERPRISE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
Operating revenues:				
Charges for services	\$ 67,068	\$ -	\$ 43,840	\$ 6,620
Investment earnings	-	174	56	-
Securities lending income	-	22	5	-
Contributions/premiums	-	6,846	-	-
Grants/contracts/donations	-	-	-	-
Other operating revenues	187	14	11	-
Total operating revenues	67,255	7,056	43,912	6,620
Operating expenses:				
Personal services	2,672	342	1,831	2,567
Contractual services	286	119	5,702	141
Supplies/materials	57,781	3	1,538	2,934
Benefits/claims	138	600	112	114
Depreciation	98	-	45	368
Amortization	-	2	-	-
Utilities/rent	273	12	158	155
Communications	52	7	959	40
Travel	18	69	76	25
Repair/maintenance	51	1	104	464
Grants	-	-	-	-
Lottery prize payments	-	-	23,080	-
Securities lending expense	-	7	2	-
Dividend expense	-	2,913	-	-
Other operating expenses	49	12	175	424
Total operating expenses	61,418	4,087	33,782	7,232
Operating income (loss)	5,837	2,969	10,130	(612)
Nonoperating revenues (expenses):				
Tax revenues	24,821	-	-	-
Gain (loss) on sale of capital assets	(29)	-	(4)	-
Federal indirect cost recoveries	-	-	-	-
Increase (decrease) value of livestock	-	-	-	(3,451)
Total nonoperating revenues (expenses)	24,792	-	(4)	(3,451)
Income (loss) before contributions and transfers	30,629	2,969	10,126	(4,063)
Capital contributions	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(32,434)	(100)	(10,126)	(94)
Change in net assets	(1,805)	2,869	-	(4,157)
Total net assets - July 1 - as previously reported	2,785	9,078	-	12,226
Prior period adjustments	14	-	-	3,451
Total net assets - July 1 - as restated	2,799	9,078	-	15,677
Total net assets - June 30	\$ 994	\$ 11,947	\$ -	\$ 11,520

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
\$ -	\$ -	\$ -	\$ 4,352	\$ 722	\$ 415
559	168	(80)	48	-	-
71	22	4	6	-	-
52,147	5,003	608	-	-	-
-	-	-	-	-	-
453	-	1	20	24	-
53,230	5,193	533	4,426	746	415
312	84	-	3,119	373	237
4,234	519	-	1,321	66	13
24	-	-	97	316	371
49,468	2,974	365	207	28	15
-	-	-	41	-	10
-	-	-	140	-	-
10	7	-	236	-	24
10	1	-	208	29	7
12	2	-	23	7	1
5	-	-	22	5	4
-	-	-	5	-	-
-	-	-	-	-	-
24	-	2	2	-	-
-	-	-	-	-	-
925	88	-	52	5	7
55,024	3,675	367	5,473	829	689
(1,794)	1,518	166	(1,047)	(83)	(274)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(1,794)	1,518	166	(1,047)	(83)	(274)
-	-	-	-	-	321
-	-	-	-	51	-
-	-	(94)	-	-	-
(1,794)	1,518	72	(1,047)	(32)	47
30,977	4,449	(2,692)	3,522	339	(41)
-	-	-	4	1	-
30,977	4,449	(2,692)	3,526	340	(41)
\$ 29,183	\$ 5,967	\$ (2,620)	\$ 2,479	\$ 308	\$ 6

(Continued on Next Page)

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - Continued
 NONMAJOR ENTERPRISE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
Operating revenues:			
Charges for services	\$ 60	\$ 336	\$ 73
Investment earnings	-	-	9
Securities lending income	-	-	1
Contributions/premiums	-	-	13,132
Grants/contracts/donations	-	-	-
Other operating revenues	107	-	-
Total operating revenues	167	336	13,215
Operating expenses:			
Personal services	147	189	-
Contractual services	22	19	334
Supplies/materials	8	2	-
Benefits/claims	7	12	12,557
Depreciation	118	-	-
Amortization	-	-	-
Utilities/rent	37	28	-
Communications	5	7	-
Travel	4	-	-
Repair/maintenance	20	-	-
Grants	-	-	-
Lottery prize payments	-	-	-
Securities lending expense	-	-	-
Dividend expense	-	-	-
Other operating expenses	48	27	167
Total operating expenses	416	284	13,058
Operating income (loss)	(249)	52	157
Nonoperating revenues (expenses):			
Tax revenues	-	-	-
Gain (loss) on sale of capital assets	(1)	-	-
Federal indirect cost recoveries	(8)	-	-
Increase (decrease) value of livestock	-	-	-
Total nonoperating revenues (expenses)	(9)	-	-
Income (loss) before contributions and transfers	(258)	52	157
Capital contributions	1,024	-	-
Transfers in	13	-	-
Transfers out	-	-	-
Change in net assets	779	52	157
Total net assets - July 1 - as previously reported	2,345	254	1,603
Prior period adjustments	-	-	-
Total net assets - July 1 - as restated	2,345	254	1,603
Total net assets - June 30	\$ 3,124	\$ 306	\$ 1,760

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
\$ -	\$ 1,751	\$ 125,237
146	2	1,082
14	-	145
-	-	77,736
35,288	-	35,288
-	151	968
35,448	1,904	240,456
965	507	13,345
1,429	441	14,646
19	188	63,281
34,751	24	101,372
-	14	694
7	1	150
97	10	1,047
72	4	1,401
32	31	300
48	187	911
-	-	5
-	-	23,080
5	-	42
-	-	2,913
149	45	2,173
37,574	1,452	225,360
(2,126)	452	15,096
-	-	24,821
-	(14)	(48)
-	-	(8)
-	-	(3,451)
-	(14)	21,314
(2,126)	438	36,410
-	14	1,359
-	-	64
-	-	(42,848)
(2,126)	452	(5,015)
9,711	708	75,264
-	-	3,470
9,711	708	78,734
\$ 7,585	\$ 1,160	\$ 73,719

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from sales and services	\$ 66,766	\$ 6,777	\$ 43,981	\$ 6,957
Payments to suppliers for goods and services	(57,983)	(188)	(8,460)	(781)
Payments to employees	(2,690)	(332)	(1,831)	(2,564)
Grant receipts	-	-	-	-
Cash payments for claims	-	(3,707)	-	-
Cash payments for prizes	-	-	(23,526)	-
Other operating revenues	187	-	-	-
Other operating payments	-	(2,913)	-	-
Net cash provided by (used for) operating activities	6,280	(363)	10,164	3,612
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Collection of taxes	24,821	-	-	-
Transfers to other funds	(27,490)	(110)	(9,873)	-
Transfers from other funds	-	-	-	-
Proceeds from interfund loans/advances	-	(70)	-	-
Payments of interfund loans/advances	-	-	-	18
Payment of principal and interest on bonds and notes	-	-	-	(94)
Net cash provided by (used for) noncapital financing activities	(2,669)	(180)	(9,873)	(76)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(47)	(84)	(61)	(3,239)
Proceeds from sale of capital assets	-	-	4	-
Net cash used for capital and related financing activities	(47)	(84)	(57)	(3,239)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	-	-	1	-
Proceeds from sales or maturities of investments	-	222	(138)	-
Proceeds from securities lending transactions	-	22	-	-
Interest and dividends on investments	-	190	59	-
Payment of securities lending costs	-	(7)	-	-
Net cash provided by (used for) investing activities	-	427	(78)	-
Net increase (decrease) in cash and cash equivalents	3,564	(200)	156	297
Cash and cash equivalents, July 1	2,370	11,667	1,690	1,788
Cash and cash equivalents, June 30	\$ 5,934	\$ 11,467	\$ 1,846	\$ 2,085

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
50,479 \$	4,996 \$	516 \$	4,377 \$	710 \$	748
(5,378)	-	-	(2,056)	(468)	(428)
(304)	(81)	-	(3,178)	(383)	(234)
-	-	-	-	-	-
(47,746)	(1,568)	(857)	-	-	-
-	-	-	-	-	-
582	(188)	1	19	24	-
-	(278)	-	-	-	-
(2,367)	2,881	(340)	(838)	(117)	86
-	-	-	-	-	-
-	-	(78)	-	-	-
-	-	-	-	51	-
-	-	-	-	-	-
-	-	-	-	-	(75)
-	-	-	-	-	-
-	-	(78)	-	51	(75)
-	-	-	(72)	-	-
-	-	-	-	-	-
-	-	-	(72)	-	-
-	(194)	-	-	-	-
442	-	509	116	-	-
71	22	4	6	-	-
607	173	(71)	54	-	-
(24)	-	(2)	(2)	-	-
1,096	1	440	174	-	-
(1,271)	2,882	22	(736)	(66)	11
34,606	9,352	124	3,669	158	6
33,335 \$	12,234 \$	146 \$	2,933 \$	92	17

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
 NONMAJOR ENTERPRISE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from sales and services	\$ 58	\$ 335	\$ 13,158
Payments to suppliers for goods and services	(128)	(89)	(532)
Payments to employees	(134)	(203)	-
Grant receipts	-	-	-
Cash payments for claims	-	-	(12,427)
Cash payments for prizes	-	-	-
Other operating revenues	106	-	-
Other operating payments	-	-	-
Net cash provided by (used for) operating activities	(98)	43	199
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Collection of taxes	-	-	-
Transfers to other funds	-	-	-
Transfers from other funds	13	-	-
Proceeds from interfund loans/advances	6	-	-
Payments of interfund loans/advances	(35)	-	-
Payment of principal and interest on bonds and notes	-	-	-
Net cash provided by (used for) noncapital financing activities	(16)	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(24)	-	-
Proceeds from sale of capital assets	-	-	-
Net cash used for capital and related financing activities	(24)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	-	-	-
Proceeds from sales or maturities of investments	-	-	5
Proceeds from securities lending transactions	-	-	1
Interest and dividends on investments	-	-	10
Payment of securities lending costs	-	-	-
Net cash provided by (used for) investing activities	-	-	16
Net increase (decrease) in cash and cash equivalents	(138)	43	215
Cash and cash equivalents, July 1	348	316	1,140
Cash and cash equivalents, June 30	\$ 210	\$ 359	\$ 1,355

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
\$ -	\$ 1,325	\$ 201,183
(36,476)	(954)	(113,921)
(935)	(518)	(13,387)
35,326	-	35,326
-	-	(66,305)
-	-	(23,526)
-	152	883
-	-	(3,191)
(2,085)	5	17,062
-	-	24,821
-	-	(37,551)
-	14	78
-	-	(64)
-	-	(92)
-	-	(94)
-	14	(12,902)
-	(32)	(3,559)
-	-	4
-	(32)	(3,555)
(411)	(6)	(610)
-	-	1,156
-	-	126
75	3	1,100
(5)	5	(35)
(341)	2	1,737
(2,426)	(11)	2,342
7,994	1,081	76,309
\$ 5,568	\$ 1,070	\$ 78,651

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ 5,837	\$ 2,969	\$ 10,129	\$ (612)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	98	-	45	368
Amortization	-	2	-	-
Securities lending expense	-	7	2	-
Investment earnings	-	(190)	(56)	-
Securities lending income	-	(22)	(5)	-
Federal indirect cost recoveries	-	-	-	-
Change in assets and liabilities:				
Decr (incr) in accounts receivable	(294)	1,047	67	171
Decr (incr) in due from other funds	(3)	-	-	177
Decr (incr) in due from component units	-	-	-	-
Decr (incr) in due from other governments	-	-	-	-
Decr (incr) in inventories	(14)	-	605	3,572
Decr (incr) in other assets	76	(1)	(371)	(16)
Incr (decr) in accounts payable	396	36	44	40
Incr (decr) in lottery prizes payable	-	-	(445)	-
Incr (decr) in due to other funds	99	-	(25)	(213)
Incr (decr) in due to component units	-	-	-	-
Incr (decr) in due to other governments	-	-	-	-
Incr (decr) in deferred revenue	(6)	(1,111)	62	(20)
Incr (decr) in amounts held in custody for others	(60)	-	-	-
Incr (decr) in compensated absences payable	13	8	-	29
Incr (decr) in OPEB implicit rate subsidy	138	14	112	116
Incr (decr) in estimated claims	-	(3,122)	-	-
Net cash provided by (used for) operating activities	\$ 6,280	\$ (363)	\$ 10,164	\$ 3,612
Schedule of noncash transactions:				
Capital asset acquisitions from contributed capital	\$ -	\$ -	\$ -	\$ -
Amortization of bond issuance costs	\$ -	\$ -	\$ -	\$ -
Incr (decr) in fair value of investments	\$ -	\$ -	\$ -	\$ -
Total noncash transactions	\$ -	\$ -	\$ -	\$ -

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
(1,794) \$	1,518 \$	166 \$	(1,047) \$	(83) \$	(274)
-	-	-	41	-	10
-	-	-	140	-	-
24	-	2	2	-	-
(607)	(190)	71	(54)	-	-
(71)	-	(4)	(6)	-	-
-	-	-	-	-	-
(1,003)	-	(67)	14	1	13
-	-	-	10	-	9
(478)	(7)	(16)	3	-	(4)
-	-	-	-	-	-
-	-	-	(6)	(41)	331
(11)	7	-	7	-	-
1,152	42	-	(50)	1	(3)
-	-	-	-	-	-
4	129	-	(23)	(4)	(11)
(11)	-	-	-	-	(2)
-	-	-	-	-	-
-	-	-	(2)	(15)	-
-	-	-	-	-	-
13	2	-	(74)	(4)	2
15	2	-	207	28	15
400	1,378	(492)	-	-	-
(2,367) \$	2,881 \$	(340) \$	(838) \$	(117) \$	86
- \$	- \$	- \$	- \$	- \$	-
- \$	- \$	- \$	- \$	- \$	-
- \$	- \$	- \$	- \$	- \$	-
- \$	- \$	- \$	- \$	- \$	-

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
 NONMAJOR ENTERPRISE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ (249)	\$ 52	\$ 157
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:			
Depreciation	118	-	-
Amortization	-	-	-
Securities lending expense	-	-	-
Investment earnings	-	-	(10)
Securities lending income	-	-	(1)
Federal indirect cost recoveries	8	-	-
Change in assets and liabilities:			
Decr (incr) in accounts receivable	65	-	(17)
Decr (incr) in due from other funds	-	-	-
Decr (incr) in due from component units	-	-	(30)
Decr (incr) in due from other governments	-	-	-
Decr (incr) in inventories	-	-	-
Decr (incr) in other assets	-	-	-
Incr (decr) in accounts payable	(71)	(6)	100
Incr (decr) in lottery prizes payable	-	-	-
Incr (decr) in due to other funds	15	1	-
Incr (decr) in due to component units	-	-	-
Incr (decr) in due to other governments	-	-	-
Incr (decr) in deferred revenue	-	-	-
Incr (decr) in amounts held in custody for others	(2)	-	-
Incr (decr) in compensated absences payable	11	(16)	-
Incr (decr) in OPEB implicit rate subsidy	7	12	-
Incr (decr) in estimated claims	-	-	-
Net cash provided by (used for) operating activities	\$ (98)	\$ 43	\$ 199
Schedule of noncash transactions:			
Capital asset acquisitions from contributed capital	\$ -	\$ -	\$ -
Amortization of bond issuance costs	\$ -	\$ -	\$ -
Incr (decr) in fair value of investments	\$ -	\$ -	\$ -
Total noncash transactions	\$ -	\$ -	\$ -

	HUD SECTION 8 HOUSING		OTHER ENTERPRISE FUNDS		TOTAL
	\$	(2,126)	\$	452	\$ 15,095
	-		14		694
	7		1		150
	5		-		42
	(60)		(3)		(1,099)
	(14)		-		(123)
	-		-		8
	(18)		-		(21)
	1		(339)		(145)
	-		-		(532)
	27		-		27
	-		(3)		4,444
	(45)		-		(354)
	52		(66)		1,667
	-		-		(445)
	(7)		17		(18)
	-		-		(13)
	11		32		43
	-		(119)		(1,211)
	-		-		(62)
	22		(9)		(3)
	60		28		754
	-		-		(1,836)
	\$	(2,085)	\$	5	\$ 17,062
	\$	-	\$	-	\$ -
	\$	-	\$	-	\$ -
	\$	-	\$	-	\$ -
	\$	-	\$	-	\$ -

INTERNAL SERVICE FUNDS

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

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

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

Employee Group Benefits – This fund receives employee (excluding higher education units) withholdings and state contributions to the medical self-insurance plan. The State contracted with Blue Cross and Blue Shield of Montana to oversee the administrative functions of the program.

Information Technology Services – State agencies and private users are assessed a fee for their use of the State's phone system, centralized data processing, and systems design services provided by the Department of Administration.

Administration Insurance – In this fund, the Department of Administration accounts for the State's property self-insurance program (including liability, property, flood, etc.).

Administration Supply – This fund is used by the Department of Administration to account for intragovernmental sales of office supplies and paper products to state agencies.

Motor Pool – State employee transportation is provided by the Department of Transportation through a pool of vehicles. The cost of operating the Motor Pool is recovered through rental rates charged to user agencies based on the average operating costs per mile for each class of vehicle.

Print & Mail Services – Agencies are assessed a fee for duplicating, typesetting, forms design, and graphic arts services.

Buildings & Grounds – Rental proceeds from state agencies are used to pay maintenance, security, and landscaping costs for state-owned property.

Central Service Funds – This fund group consists of four funds, used by the Department of Administration, the Department of Labor and Industry, the Department of Commerce, and the Office of Public Instruction, for administrative services provided on a cost recovery basis to programs within the departments.

DEQ Indirect Cost Pool – This fund is used to account for funds collected as indirect costs from the operating units of the Department of Environmental Quality and to fund the department's indirect cost pool operations that provide services to the department.

Payroll Processing – This fund accounts for the payments received from state agencies for the costs associated with the processing of payroll warrants. This fund also implements and maintains the State's central human resource reporting system.

Warrant Processing – This fund accounts for the payments received from state agencies for the costs associated with the processing of all warrants other than payroll.

Investment Division – This fund accounts for costs associated with operations of the Board of Investments (BOI). BOI assists agencies in the investment of state funds. Costs of administering and accounting for each investment fund are allocated based on the dollar volume of investments held by user agencies.

Aircraft Operation – This fund is used by the Department of Natural Resources and Conservation to account for fees charged to users of state aircraft.

Justice Legal Services – The Attorney General's Office and the Department of Justice charge other state agencies a fee for legal assistance. The Department of Administration funds legal services with intradepartmental fees.

Personnel Training – This fund accounts for fees charged to state agencies for training state employees. The fees are used by the Department of Administration to pay instructors and purchase training materials.

Debt Collection – The debt collection component of this fund accounts for fees charged for the collection of bad debts.

Prison Industries – These operations provide training and employment for inmates, where the products produced are primarily sold to other state agencies.

SABHRS Finance and Budget Bureau – This fund implements and maintains the State's central accounting and budget software reporting system that is used by state agencies.

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

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2009
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
ASSETS					
Current assets:					
Cash/cash equivalents	\$ 12	\$ 7,176	\$ 19,393	\$ 3,303	\$ 22,548
Receivables (net)	12	26	7,009	51	15
Interfund loans receivable	-	-	-	-	-
Due from other funds	301	79	13	2,963	79
Due from component units	-	-	-	188	6
Inventories	-	1,521	-	-	-
Securities lending collateral	-	-	12,321	-	1,344
Other current assets	-	-	18	446	-
Total current assets	325	8,802	38,754	6,951	23,992
Noncurrent assets:					
Long-term investments	-	-	31,586	-	1,704
Capital assets:					
Land	-	-	-	-	-
Land improvements	-	-	-	-	-
Buildings/improvements	-	-	-	793	-
Equipment	11,306	135,181	-	43,875	-
Construction in progress	-	3,130	-	-	-
Intangible assets	13	-	40	-	153
Less accumulated depreciation	(4,710)	(74,636)	-	(40,297)	-
Total capital assets	6,609	63,675	40	4,371	153
Total noncurrent assets	6,609	63,675	31,626	4,371	1,857
Total assets	6,934	72,477	70,380	11,322	25,849
LIABILITIES					
Current liabilities:					
Accounts payable	174	2,164	3,778	4,985	929
Interfund loans payable	585	-	-	-	-
Due to other funds	2	-	8	268	111
Due to component units	-	-	-	-	8
Deferred revenue	-	-	1,064	91	-
Lease/installment purchase payable	-	-	-	259	-
Securities lending liability	-	-	12,321	-	1,344
Estimated insurance claims	-	-	11,876	-	5,651
Compensated absences payable	5	472	46	1,009	74
Total current liabilities	766	2,636	29,093	6,612	8,117
Noncurrent liabilities:					
Advances from other funds	-	-	-	-	-
Lease/installment purchase payable	-	-	-	460	-
Estimated insurance claims	-	-	1,775	-	9,305
Compensated absences payable	7	393	41	875	98
OPEB implicit rate subsidy	19	802	80	1,149	97
Total noncurrent liabilities	26	1,195	1,896	2,484	9,500
Total liabilities	792	3,831	30,989	9,096	17,617
NET ASSETS					
Invested in capital assets, net of related debt	6,609	63,675	40	4,370	153
Unrestricted	(467)	4,971	39,351	(2,144)	8,079
Total net assets	\$ 6,142	\$ 68,646	\$ 39,391	\$ 2,226	\$ 8,232

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
\$ 743	\$ 664	\$ 428	\$ 4,407	\$ 216	\$ 828	\$ 495	\$ 109
(1)	-	27	2	-	-	-	-
150	-	-	-	-	-	100	-
214	554	724	17	-	365	-	320
9	9	43	-	-	27	3	2
359	16	153	-	-	-	-	-
-	-	-	-	-	-	-	-
9	-	430	-	1	5	1	-
1,483	1,243	1,805	4,426	217	1,225	599	431
-	-	-	-	-	-	-	-
-	236	-	-	-	-	-	-
-	-	-	95	-	-	-	-
-	-	-	1,091	-	-	-	-
115	18,641	2,488	524	-	293	78	-
-	-	-	138	-	-	-	-
-	-	-	-	-	36	-	-
(102)	(8,497)	(1,214)	(267)	-	(135)	(25)	-
13	10,380	1,274	1,581	-	194	53	-
13	10,380	1,274	1,581	-	194	53	-
1,496	11,623	3,079	6,007	217	1,419	652	431
549	421	229	616	63	243	90	118
-	1,320	-	-	-	-	-	-
3	2,077	13	90	2	24	12	46
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	141	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
25	23	66	94	55	236	73	104
577	3,841	449	800	120	503	175	268
-	6,218	-	-	-	-	-	-
-	-	390	-	-	-	-	-
-	-	-	-	-	-	-	-
49	20	96	93	111	160	147	86
55	40	224	184	82	343	114	157
104	6,278	710	277	193	503	261	243
681	10,119	1,159	1,077	313	1,006	436	511
13	10,380	1,274	1,581	-	194	53	-
802	(8,876)	646	3,349	(96)	219	163	(80)
\$ 815	\$ 1,504	\$ 1,920	\$ 4,930	\$ (96)	\$ 413	\$ 216	\$ (80)

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS - Continued
INTERNAL SERVICE FUNDS
JUNE 30, 2009
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
ASSETS					
Current assets:					
Cash/cash equivalents	\$ 548	\$ 230	\$ 157	\$ 861	\$ 469
Receivables (net)	5	-	-	-	17
Interfund loans receivable	-	-	-	-	-
Due from other funds	533	1	82	27	55
Due from component units	3	-	19	46	-
Inventories	-	6	12	-	-
Securities lending collateral	-	-	-	-	-
Other current assets	26	3	-	84	-
Total current assets	1,115	240	270	1,018	541
Noncurrent assets:					
Long-term investments	-	-	-	-	-
Capital assets:					
Land	-	-	-	-	-
Land improvements	-	-	-	-	-
Buildings/improvements	-	-	-	-	-
Equipment	555	-	149	14	62
Construction in progress	-	-	-	-	-
Intangible assets	6	289	-	8	-
Less accumulated depreciation	(397)	-	(77)	(8)	(34)
Total capital assets	164	289	72	14	28
Total noncurrent assets	164	289	72	14	28
Total assets	1,279	529	342	1,032	569
LIABILITIES					
Current liabilities:					
Accounts payable	256	107	30	247	140
Interfund loans payable	-	-	-	-	-
Due to other funds	73	93	70	7	-
Due to component units	-	-	-	9	-
Deferred revenue	-	-	-	-	-
Lease/installment purchase payable	-	-	16	-	-
Securities lending liability	-	-	-	-	-
Estimated insurance claims	-	-	-	-	-
Compensated absences payable	289	101	10	129	59
Total current liabilities	618	301	126	392	199
Noncurrent liabilities:					
Advances from other funds	-	-	-	-	-
Lease/installment purchase payable	-	-	41	-	-
Estimated insurance claims	-	-	-	-	-
Compensated absences payable	203	39	8	251	47
OPEB implicit rate subsidy	351	165	40	175	77
Total noncurrent liabilities	554	204	89	426	124
Total liabilities	1,172	505	215	818	323
NET ASSETS					
Invested in capital assets, net of related debt	164	289	72	14	28
Unrestricted	(57)	(265)	55	200	218
Total net assets	\$ 107	\$ 24	\$ 127	\$ 214	\$ 246

JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
\$ 111	\$ 41	\$ 212	\$ 649	\$ 97	\$ 1,054	\$ 64,751
-	1	-	54	-	-	7,218
-	-	-	-	-	-	250
118	7	-	321	4	-	6,777
2	-	-	-	-	-	357
-	-	-	123	147	-	2,337
-	-	-	-	-	-	13,665
-	-	-	-	-	-	1,023
231	49	212	1,147	248	1,054	96,378
-	-	-	-	-	-	33,290
-	-	-	-	-	-	236
-	-	-	-	-	-	95
-	-	-	2,820	-	-	4,704
-	-	-	1,391	71	66	214,809
-	-	-	-	-	-	3,268
-	-	-	-	-	645	1,190
-	-	-	(1,593)	(58)	(59)	(132,109)
-	-	-	2,618	13	652	92,193
-	-	-	2,618	13	652	125,483
231	49	212	3,765	261	1,706	221,861
73	24	4	127	12	92	15,471
-	-	-	-	37	-	1,942
3	1	1	218	4	121	3,247
-	-	-	-	-	-	17
-	-	-	25	-	-	1,180
-	-	-	-	-	-	416
-	-	-	-	-	-	13,665
-	-	-	-	-	-	17,527
73	13	3	66	7	107	3,139
149	38	8	436	60	320	56,604
-	-	-	-	-	-	6,218
-	-	-	-	-	-	891
-	-	-	-	-	-	11,080
140	28	1	18	6	118	3,035
97	21	18	160	11	106	4,567
237	49	19	178	17	224	25,791
386	87	27	614	77	544	82,395
-	-	-	2,618	13	652	92,192
(155)	(38)	185	533	171	510	47,274
\$ (155)	\$ (38)	\$ 185	\$ 3,151	\$ 184	\$ 1,162	\$ 139,466

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
Operating revenues:					
Charges for services	\$ 2,959	\$ 27,875	\$ 72	\$ 37,836	\$ -
Investment earnings	-	-	2,069	-	404
Securities lending income	-	-	240	-	51
Securities lending expense	-	-	(114)	-	(17)
Contributions/premiums	-	-	100,760	-	12,351
Grants/contracts/donations	-	-	3,340	-	-
Other operating revenues	-	166	1,613	531	-
Total operating revenues	2,959	28,041	107,980	38,367	12,789
Operating expenses:					
Personal services	120	7,188	893	14,474	994
Contractual services	119	353	6,670	3,097	5,550
Supplies/materials	1,154	6,933	50	1,360	23
Benefits/claims	11	413	100,199	606	4,559
Depreciation	482	5,860	-	2,972	-
Amortization	7	-	38	-	46
Utilities/rent	34	115	77	9,185	70
Communications	4	9	59	6,851	14
Travel	9	14	14	144	16
Repair/maintenance	640	3,975	-	1,423	2
Interest expense	-	-	-	13	-
Other operating expenses	(1)	323	506	853	294
Total operating expenses	2,579	25,183	108,506	40,978	11,568
Operating income (loss)	380	2,858	(526)	(2,611)	1,221
Nonoperating revenues (expenses):					
Insurance proceeds	(33)	5	-	-	142
Gain (loss) on sale of capital assets	(97)	120	-	-	-
Federal indirect cost recoveries	-	-	-	-	-
Total nonoperating revenues (expenses)	(130)	125	-	-	142
Income (loss) before contributions and transfers	250	2,983	(526)	(2,611)	1,363
Capital contributions	-	702	-	-	-
Transfers in	114	-	33	250	875
Transfers out	-	-	-	(502)	(706)
Change in net assets	364	3,685	(493)	(2,863)	1,532
Total net assets - July 1 - as previously reported	5,778	64,964	39,884	5,089	6,699
Prior period adjustments	-	(3)	-	-	1
Total net assets - July 1 - as restated	5,778	64,961	39,884	5,089	6,700
Total net assets - June 30	\$ 6,142	\$ 68,646	39,391	\$ 2,226	\$ 8,232

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
\$ 5,022	\$ 5,960	\$ 11,361	\$ 11,237	\$ 975	\$ 3,160	\$ 25	\$ 1,013
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	6	-	9	-	-	1,311	14
5,022	5,966	11,361	11,246	975	3,160	1,336	1,027
382	336	1,379	1,562	907	3,222	1,248	1,486
43	314	108	2,942	41	831	16	379
4,374	1,624	4,727	192	15	160	50	70
27	20	114	95	43	177	59	83
1	2,491	312	47	-	29	14	-
-	-	-	-	-	13	2	-
104	81	230	2,653	32	216	93	243
17	2	3,852	25	15	42	37	98
-	-	2	2	7	36	31	10
7	326	458	615	2	24	14	20
-	273	-	-	-	-	-	-
25	54	70	157	12	240	22	32
4,980	5,521	11,252	8,290	1,074	4,990	1,586	2,421
42	445	109	2,956	(99)	(1,830)	(250)	(1,394)
-	29	-	-	-	-	-	-
-	(33)	(11)	8	-	(18)	-	-
-	-	-	-	-	1,702	246	1,022
-	(4)	(11)	8	-	1,684	246	1,022
42	441	98	2,964	(99)	(146)	(4)	(372)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	(227)	-	-	-	-
42	441	98	2,737	(99)	(146)	(4)	(372)
773	1,050	1,822	2,193	3	503	220	292
-	13	-	-	-	56	-	-
773	1,063	1,822	2,193	3	559	220	292
\$ 815	\$ 1,504	\$ 1,920	\$ 4,930	\$ (96)	\$ 413	\$ 216	\$ (80)

(Continued on Next Page)

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - Continued
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION	AIRCRAFT OPERATION
Operating revenues:					
Charges for services	\$ 3,851	\$ 3,223	\$ 1,032	\$ 4,714	\$ 893
Investment earnings	-	-	-	-	-
Securities lending income	-	-	-	-	-
Securities lending expense	-	-	-	-	-
Contributions/premiums	13	-	-	-	-
Grants/contracts/donations	-	-	-	-	-
Other operating revenues	11	-	-	-	1
Total operating revenues	3,875	3,223	1,032	4,714	894
Operating expenses:					
Personal services	3,857	1,635	222	2,431	884
Contractual services	624	1,071	202	1,125	33
Supplies/materials	128	47	38	25	412
Benefits/claims	187	83	20	87	42
Depreciation	67	-	23	1	2
Amortization	6	182	-	-	-
Utilities/rent	1,327	64	17	154	159
Communications	47	34	448	70	6
Travel	26	3	-	42	32
Repair/maintenance	68	352	35	2	267
Interest expense	-	-	12	-	-
Other operating expenses	83	66	17	352	11
Total operating expenses	6,420	3,537	1,034	4,289	1,848
Operating income (loss)	(2,545)	(314)	(2)	425	(954)
Nonoperating revenues (expenses):					
Insurance proceeds	-	-	-	-	-
Gain (loss) on sale of capital assets	-	-	-	-	-
Federal indirect cost recoveries	2,284	-	-	-	-
Total nonoperating revenues (expenses)	2,284	-	-	-	-
Income (loss) before contributions and transfers	(261)	(314)	(2)	425	(954)
Capital contributions	-	-	-	-	-
Transfers in	-	-	-	-	977
Transfers out	-	-	-	(725)	-
Change in net assets	(261)	(314)	(2)	(300)	23
Total net assets - July 1 - as previously reported	368	338	129	514	223
Prior period adjustments (Note 3)	-	-	-	-	-
Total net assets - July 1 - as restated	368	338	129	514	223
Total net assets - June 30	\$ 107	\$ 24	\$ 127	\$ 214	\$ 246

JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
\$ 1,302	\$ 344	\$ 54	\$ 3,887	\$ 163	\$ 3,974	\$ 130,932
-	-	-	-	-	-	2,473
-	-	-	-	-	-	291
-	-	-	-	-	-	(131)
-	-	-	-	-	-	113,124
-	-	-	-	-	-	3,340
-	-	-	-	-	-	3,662
1,302	344	54	3,887	163	3,974	253,691
1,089	219	85	1,169	155	1,181	47,118
119	44	8	35	8	1,658	25,390
12	39	1	2,581	101	28	24,144
49	11	12	83	6	56	107,042
-	-	-	219	7	-	12,527
-	-	-	-	-	207	501
62	31	2	129	5	29	15,112
15	5	5	2	1	8	11,666
7	17	-	4	1	8	425
4	1	-	43	18	336	8,632
-	-	-	-	-	-	298
8	5	2	16	3	103	3,253
1,365	372	115	4,281	305	3,614	256,108
(63)	(28)	(61)	(394)	(142)	360	(2,417)
-	-	-	-	-	-	143
-	-	-	-	(1)	-	(32)
-	-	-	-	131	-	5,385
-	-	-	-	130	-	5,496
(63)	(28)	(61)	(394)	(12)	360	3,079
-	-	-	-	-	-	702
-	-	-	-	-	-	2,249
-	-	-	(3)	-	-	(2,163)
(63)	(28)	(61)	(397)	(12)	360	3,867
(92)	(10)	246	3,549	196	802	135,533
-	-	-	(1)	-	-	66
(92)	(10)	246	3,548	196	802	135,599
\$ (155)	\$ (38)	\$ 185	\$ 3,151	\$ 184	\$ 1,162	\$ 139,466

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	\$ 2,921	\$ 28,142	\$ 103,557	\$ 38,190	\$ 12,351
Payments to suppliers for goods and services	(2,247)	(11,924)	(7,326)	(24,098)	(5,922)
Payments to employees	(120)	(7,186)	(857)	(14,316)	(972)
Grant receipts	-	-	3,340	-	-
Cash payments for claims	-	-	(95,960)	-	(5,726)
Other operating revenues	(33)	5	(3,287)	532	-
Net cash provided by (used for) operating activities	521	9,037	(533)	308	(269)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Payment of principal and interest on bonds and notes	-	-	-	(13)	-
Transfers to other funds	-	-	-	(502)	(706)
Transfers from other funds	114	-	33	250	875
Proceeds from interfund loans/advances	-	-	-	483	-
Payment of interfund loans/advances	95	-	-	-	-
Contributed capital transfers from other funds	-	702	-	-	-
Net cash provided by (used for) noncapital financing activities	209	702	33	218	169
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	143
Acquisition of capital assets	(792)	(6,068)	-	(609)	(75)
Proceeds from sale of capital assets	10	-	-	-	-
Net cash used for capital and related financing activities	(782)	(6,068)	-	(609)	68
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	-	(8,431)	-	164
Proceeds from securities lending transactions	-	-	249	-	51
Interest and dividends on investments	-	-	2,077	-	434
Payment of securities lending costs	-	-	(114)	-	(17)
Net cash provided by (used for) investing activities	-	-	(6,219)	-	632
Net increase (decrease) in cash and cash equivalents	(52)	3,671	(6,719)	(83)	600
Cash and cash equivalents, July 1	64	3,505	26,112	3,386	21,948
Cash and cash equivalents, June 30	\$ 12	\$ 7,176	\$ 19,393	\$ 3,303	\$ 22,548

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
\$ 5,078 (4,300) (390) - - -	\$ 5,939 (2,398) (334) - - 6	\$ 11,306 (9,423) (1,377) - - -	\$ 11,275 (6,445) (1,524) - - 9	\$ 975 (131) (870) - - -	\$ 3,126 (1,514) (3,235) 1,764 - -	\$ 25 (261) (1,210) 246 - 1,311	\$ 1,073 (912) (1,377) 1,002 - 14
388	3,213	506	3,315	(26)	141	111	(200)
-	(268)	-	-	-	-	-	-
-	-	-	(227)	-	-	-	-
-	-	-	-	-	-	-	-
75	2,328	-	-	-	-	-	-
-	(2,772)	-	-	-	-	-	-
-	29	-	-	-	-	-	-
75	(683)	-	(227)	-	-	-	-
-	-	-	-	-	-	-	-
-	(2,637)	(321)	(1,226)	-	(102)	-	-
-	357	1	-	-	-	-	-
-	(2,280)	(320)	(1,226)	-	(102)	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
463	250	186	1,862	(26)	39	111	(200)
280	414	242	2,545	242	789	384	309
\$ 743	\$ 664	\$ 428	\$ 4,407	\$ 216	\$ 828	\$ 495	\$ 109

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from sales and services	\$ 3,832	\$ 3,226	\$ 1,028	\$ 4,716
Payments to suppliers for goods and services	(2,345)	(1,666)	(723)	(1,788)
Payments to employees	(3,746)	(1,589)	(225)	(2,338)
Grant receipts	2,181	-	-	-
Cash payments for claims	-	-	-	-
Other operating revenues	11	-	-	-
Net cash provided by (used for) operating activities	(67)	(29)	80	590
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Payment of principal and interest on bonds and notes	-	-	(6)	-
Transfers to other funds	-	-	-	(725)
Transfers from other funds	-	-	-	-
Proceeds from interfund loans/advances	-	-	-	-
Payment of interfund loans/advances	-	-	-	-
Contributed capital transfers from other funds	-	-	-	-
Net cash provided by (used for) noncapital financing activities	-	-	(6)	(725)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from insurance	-	-	-	-
Acquisition of capital assets	(38)	-	(14)	(13)
Proceeds from sale of capital assets	-	-	-	-
Net cash used for capital and related financing activities	(38)	-	(14)	(13)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	-	-	-	-
Proceeds from securities lending transactions	-	-	-	-
Interest and dividends on investments	-	-	-	-
Payment of securities lending costs	-	-	-	-
Net cash provided by (used for) investing activities	-	-	-	-
Net increase (decrease) in cash and cash equivalents	(105)	(29)	60	(148)
Cash and cash equivalents, July 1	653	259	97	1,009
Cash and cash equivalents, June 30	\$ 548	\$ 230	\$ 157	\$ 861

AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
\$ 989	\$ 1,353	\$ 359	\$ 55	\$ 3,905	\$ 163	\$ 3,974	\$ 247,558
(895)	(223)	(138)	(19)	(2,573)	(177)	(2,057)	(89,505)
(860)	(1,091)	(209)	(94)	(1,173)	(149)	(1,322)	(46,564)
-	-	-	-	-	-	-	8,533
-	-	-	-	-	-	-	(101,686)
1	-	-	-	-	-	-	(1,431)
(765)	39	12	(58)	159	(163)	595	16,905
-	-	-	-	-	-	-	(287)
-	-	-	-	-	-	-	(2,160)
977	-	-	-	(3)	131	-	2,377
-	-	-	-	(18)	34	-	2,902
-	-	-	-	-	-	-	(2,677)
-	-	-	-	-	-	-	731
977	-	-	-	(21)	165	-	886
-	-	-	-	-	-	-	143
-	-	-	-	(116)	-	(77)	(12,088)
-	-	-	-	-	-	-	368
-	-	-	-	(116)	-	(77)	(11,577)
-	-	-	-	-	-	-	(8,267)
-	-	-	-	-	-	-	300
-	-	-	-	-	-	-	2,511
-	-	-	-	-	-	-	(131)
-	-	-	-	-	-	-	(5,587)
212	39	12	(58)	22	2	518	627
257	72	29	270	627	95	536	64,124
\$ 469	\$ 111	\$ 41	\$ 212	\$ 649	\$ 97	\$ 1,054	\$ 64,751

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ 380	\$ 2,858	\$ (526)	\$ (2,611)	\$ 1,221
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	482	5,860	-	2,972	-
Amortization	7	-	38	-	46
Interest expense	-	-	-	13	-
Securities lending expense	-	-	114	-	-
Investment earnings	-	-	(2,069)	-	(404)
Securities lending income	-	-	(240)	-	(51)
Federal indirect cost recoveries	-	-	-	-	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	-	142	(2,423)	13	30
Decr (incr) in due from other funds	(71)	(36)	56	527	(60)
Decr (incr) in due from component units	-	-	-	43	(6)
Decr (incr) in due from other governments	-	-	-	-	-
Decr (incr) in inventories	-	138	-	-	-
Decr (incr) in other assets	-	(3)	(2)	(382)	(7)
Incr (decr) in accounts payable	(287)	(302)	808	(1,071)	422
Incr (decr) in due to other funds	-	-	3	210	46
Incr (decr) in due to component units	-	(2)	-	(17)	(19)
Incr (decr) in deferred revenue	-	-	92	-	-
Incr (decr) in amounts held in custody for others	-	-	-	-	-
Incr (decr) in compensated absences payable	(1)	(31)	22	5	5
Incr (decr) in OPEB implicit rate subsidy	11	413	44	606	50
Incr (decr) in estimated claims	-	-	3,550	-	(1,542)
Net cash provided by (used for) operating activities	\$ 521	\$ 9,037	\$ (533)	\$ 308	\$ (269)
Schedule of noncash transactions:					
Capital contributions from other funds	\$ -	\$ 702	\$ -	\$ -	\$ -
Total noncash transactions	\$ -	\$ 702	\$ -	\$ -	\$ -

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
\$ 42	\$ 445	\$ 109	\$ 2,956	\$ (99)	\$ (1,830)	\$ (250)	\$ (1,394)
1	2,491	312	47	-	29	14	-
-	-	-	-	-	13	2	-
-	273	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	1,702	246	1,022
70	-	32	(2)	-	-	-	-
(15)	(15)	(72)	41	-	(1)	-	43
1	3	(27)	-	-	1	(1)	(1)
-	-	-	-	-	-	-	-
(55)	9	(16)	-	-	-	-	-
(1)	-	83	-	-	47	-	-
315	(30)	(30)	75	8	42	11	(1)
-	16	(1)	78	(1)	13	3	24
(2)	-	-	-	(1)	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
5	1	2	25	24	(52)	27	24
27	20	114	95	43	177	59	83
-	-	-	-	-	-	-	-
\$ 388	\$ 3,213	\$ 506	\$ 3,315	\$ (26)	\$ 141	\$ 111	\$ (200)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ (2,545)	\$ (314)	\$ (2)	\$ 425
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	67	-	23	1
Amortization	6	182	-	-
Interest expense	-	-	6	-
Securities lending expense	-	-	-	-
Investment earnings	-	-	-	-
Securities lending income	-	-	-	-
Federal indirect cost recoveries	2,284	-	-	-
Change in assets and liabilities:				
Decr (incr) in accounts receivable	(1)	-	-	-
Decr (incr) in due from other funds	(124)	1	(5)	10
Decr (incr) in due from component units	(1)	-	1	(8)
Decr (incr) in due from other governments	-	-	-	-
Decr (incr) in inventories	-	(6)	23	-
Decr (incr) in other assets	1	(3)	-	(49)
Incr (decr) in accounts payable	(2)	(13)	8	34
Incr (decr) in due to other funds	(11)	8	7	(2)
Incr (decr) in due to component units	-	-	-	9
Incr (decr) in deferred revenue	-	-	-	-
Incr (decr) in amounts held in custody for others	-	-	-	-
Incr (decr) in compensated absences payable	72	33	(1)	83
Incr (decr) in OPEB implicit rate subsidy	187	83	20	87
Incr (decr) in estimated claims	-	-	-	-
Net cash provided by (used for) operating activities	\$ (67)	\$ (29)	\$ 80	\$ 590
Schedule of noncash transactions:				
Capital contributions from other funds	\$ -	\$ -	\$ -	\$ -
Total noncash transactions	\$ -	\$ -	\$ -	\$ -

AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	SABHRS FINANCE & BUDGET BUREAU	TOTAL
\$ (954)	\$ (63)	\$ (28)	\$ (61)	\$ (394)	\$ (142)	\$ 360	\$ (2,417)
2	-	-	-	219	7	-	12,527
-	-	-	-	-	-	207	501
-	-	-	-	-	-	-	292
-	-	-	-	-	-	-	114
-	-	-	-	-	-	-	(2,473)
-	-	-	-	-	-	-	(291)
-	-	-	-	-	-	-	5,254
(17)	-	8	-	(10)	-	-	(2,158)
165	50	8	-	48	-	-	550
-	1	1	2	-	-	-	9
-	-	(1)	-	-	-	-	(1)
-	-	-	-	16	(33)	-	76
-	-	-	-	-	-	-	(316)
37	2	7	(11)	31	(11)	2	44
(53)	(15)	-	-	146	4	(16)	459
-	-	-	-	-	-	-	(32)
-	-	(2)	-	16	-	-	106
-	-	-	-	-	-	-	-
13	15	8	-	4	6	(14)	275
42	49	11	12	83	6	56	2,378
-	-	-	-	-	-	-	2,008
\$ (765)	\$ 39	\$ 12	\$ (58)	\$ 159	\$ (163)	\$ 595	\$ 16,905
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	702
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	702

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PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

These funds provide retirement, disability, death, and lump-sum payments to retirement system members. A brief description of each fund follows:

Public Employee Retirement System - Defined Benefit Retirement Plan – This fund provides retirement benefits to substantially all public employees not covered by another public system.

Municipal Police Officers Retirement System – This fund provides retirement benefits to all municipal police officers covered by the plan.

Firefighters Unified Retirement System – This fund provides retirement benefits for firefighters employed by first and second-class cities and other cities that wish to adopt the plan, and firefighters hired by the Montana Air National Guard.

Sheriffs Retirement System – This fund provides retirement benefits for sheriffs, detention officers, and State Department of Justice investigators.

Highway Patrol Officers Retirement System – This fund provides retirement benefits for all members of the Montana Highway Patrol.

Judges Retirement System – This fund provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge.

Game Wardens & Peace Officers Retirement System – This fund provides retirement benefits for all persons employed as game wardens, supervisory personnel, and state peace officers.

Volunteer Firefighters Compensation Act – This fund provides medical benefits and pension, disability, and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the State.

Public Employee Retirement System - Defined Contribution Retirement Plan – Members of the defined contribution retirement plan decide how to invest their contributions and a portion of their employer contributions in the available investment options.

Public Employee 457 Plan – All employees of the State, Montana University System, and contracting political subdivisions are eligible to participate in this plan. The 457 plan is a voluntary, tax-deferred retirement plan designed to supplement state service retirement, Social Security, and other retirement plans and savings.

Teachers Retirement System – This fund provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system.

Voluntary Employee Benefit Association – This fund provides members with individual health care expense trust accounts to pay the qualified health care expenses of members and their dependents and beneficiaries.

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS**

JUNE 30, 2009

(amounts expressed in thousands)

	PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)					
	PUBLIC EMPLOYEES DEFINED BENEFIT	MUNICIPAL POLICE	FIRE- FIGHTERS UNIFIED	SHERIFFS	HIGHWAY PATROL	JUDGES
ASSETS						
Cash/cash equivalents	\$ 29,892	\$ 928	\$ 1,273	\$ 2,438	\$ 779	\$ 918
Receivables (net):						
Accounts receivable	1,185	115	124	211	-	-
Interest	6,361	319	313	316	156	97
Due from primary government	24	10,186	9,831	-	-	-
Due from other PERB plans	361	-	-	-	-	-
Long-term notes/loans receivable	51	-	-	-	-	-
Total receivables	7,982	10,620	10,268	527	156	97
Investments at fair value:						
Equity in pooled investments	2,925,610	150,562	147,703	148,366	73,571	45,548
Other investments	35,611	83	115	215	70	83
Total investments	2,961,221	150,645	147,818	148,581	73,641	45,631
Securities lending collateral	276,933	14,324	14,085	14,255	7,023	4,390
Capital assets:						
Land	-	-	-	-	-	-
Buildings/improvements	-	-	-	-	-	-
Equipment	5	-	-	-	-	-
Accumulated depreciation	(5)	-	-	-	-	-
Intangible assets	331	3	3	4	3	3
Total capital assets	331	3	3	4	3	3
Other assets	-	-	-	-	-	-
Total assets	3,276,359	176,520	173,447	165,805	81,602	51,039
LIABILITIES						
Accounts payable	360	20	-	16	-	-
Due to primary government	66	-	-	-	-	-
Due to other PERB plans	123	71	61	83	29	8
Deferred revenue	102	59	3	-	-	-
Amount Held In Custody/Others	5	-	-	-	-	-
Securities lending liability	276,933	14,324	14,085	14,255	7,023	4,390
Compensated absences payable	269	-	-	-	-	-
OPEB implicit rate subsidy	142	4	3	4	1	-
Total liabilities	278,000	14,478	14,152	14,358	7,053	4,398
NET ASSETS						
Held in trust for pension benefits and other purposes	\$ 2,998,359	\$ 162,042	\$ 159,295	\$ 151,447	\$ 74,549	\$ 46,641

PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)								
GAME WARDENS/ PEACE OFFICERS	VOLUNTEER FIRE- FIGHTERS	PUBLIC EMPLOYEES DEFINED CONTRIBUTION	PUBLIC EMPLOYEES 457 PLAN	TEACHERS RETIREMENT SYSTEM	VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION	TOTAL		
\$ 1,519	\$ 1,575	\$ 2,516	\$ 713	\$ 25,486	\$ 1,532	\$	\$	69,569
-	-	25	-	14,319	27			16,006
128	41	2	-	4,841	-			12,574
-	-	-	-	3,405	-			23,446
-	-	123	-	-	-			484
-	-	-	-	-	-			51
128	41	150	-	22,565	27			52,561
60,170	18,732	-	-	2,222,770	-			5,793,032
137	142	43,223	278,885	31,003	803			390,370
60,307	18,874	43,223	278,885	2,253,773	803			6,183,402
5,816	1,893	162	50	210,085	-			549,016
-	-	-	-	35	-			35
-	-	-	-	158	-			158
-	-	-	-	64	-			69
-	-	-	-	(200)	-			(205)
3	1	8	5	216	-			580
3	1	8	5	273	-			637
-	-	-	-	-	-			-
67,773	22,384	46,059	279,653	2,512,182	2,362			6,855,185
20	-	328	238	187	2			1,171
-	-	3	1	17	-			87
54	52	2	1	-	-			484
-	-	-	3	-	-			167
-	-	-	-	3	-			8
5,816	1,893	162	50	210,085	-			549,016
-	-	24	18	174	1			486
3	3	16	12	97	-			285
5,893	1,948	535	323	210,563	3			551,704
\$ 61,880	\$ 20,436	\$ 45,524	\$ 279,330	\$ 2,301,619	\$ 2,359	\$	\$	6,303,481

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

	PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)					
	PUBLIC EMPLOYEES DEFINED BENEFIT	MUNICIPAL POLICE	FIRE- FIGHTERS UNIFIED	SHERIFFS	HIGHWAY PATROL	JUDGES
ADDITIONS						
Contributions/premiums:						
Employer	\$ 75,827	\$ 5,056	\$ 4,531	\$ 5,193	\$ 4,151	\$ 1,346
Employee	75,868	3,184	3,642	5,176	1,034	571
Other contributions	613	10,188	9,891	31	286	14
Net investment earnings:						
Investment earnings	(781,647)	(40,175)	(38,705)	(38,116)	(19,618)	(11,882)
Administrative investment expense	(17,758)	(897)	(878)	(870)	(440)	(271)
Securities lending income	5,641	294	287	288	144	89
Securities lending expense	(2,477)	(129)	(126)	(126)	(63)	(39)
Charges for services	-	-	-	-	-	-
Other additions	1	-	-	-	-	-
Total additions	(643,932)	(22,479)	(21,358)	(28,424)	(14,506)	(10,172)
DEDUCTIONS						
Benefits	196,472	15,010	13,988	7,860	7,128	1,972
Refunds	11,316	857	69	996	43	-
Administrative expenses:						
Personal services	1,591	2	-	-	-	-
Contractual services	754	22	35	28	19	8
Supplies/materials	62	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Amortization	94	1	1	1	1	1
Utilities/rent	186	-	-	-	-	-
Communications	160	-	-	-	-	-
Travel	32	-	-	-	-	-
Repair/maintenance	1	-	-	-	-	-
Other operating expenses	-	71	61	83	29	8
Local assistance	-	-	-	-	-	-
Transfers to ORP	174	-	-	-	-	-
Transfers to PERS-DCRP	1,043	-	-	-	-	-
Transfer Out	-	-	-	-	-	-
Total deductions	211,885	15,963	14,154	8,968	7,220	1,989
Change in net assets	(855,817)	(38,442)	(35,512)	(37,392)	(21,726)	(12,161)
Net assets - July 1 - as previously reported	3,854,176	200,484	194,807	188,839	96,275	58,802
Prior period adjustments	-	-	-	-	-	-
Net assets - July 1 - as restated	3,854,176	200,484	194,807	188,839	96,275	58,802
Net assets - June 30	\$ 2,998,359	\$ 162,042	\$ 159,295	\$ 151,447	\$ 74,549	\$ 46,641

PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)						
GAME WARDENS/ PEACE OFFICERS	VOLUNTEER FIRE- FIGHTERS	PUBLIC EMPLOYEES DEFINED CONTRIBUTION	PUBLIC EMPLOYEES 457 PLAN	TEACHERS RETIREMENT SYSTEM	VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION	TOTAL
\$ 3,292	\$ -	\$ 3,730	\$ 65	\$ 66,851	\$ 1,578	\$ 171,620
3,901	-	5,724	19,661	57,256	-	176,017
11	1,580	-	-	14,147	-	36,761
(14,855)	(5,211)	(6,803)	(25,878)	(601,886)	(523)	(1,585,299)
(343)	(114)	-	(567)	(13,563)	-	(35,701)
115	38	4	1	4,318	-	11,219
(50)	(17)	(1)	-	(1,897)	-	(4,925)
-	-	201	335	-	-	536
-	-	266	-	15	-	282
(7,929)	(3,724)	3,121	(6,383)	(474,759)	1,055	(1,229,490)
2,522	1,781	17	11,031	209,992	1,392	469,165
840	-	1,895	-	5,170	-	21,186
-	-	196	154	1,037	14	2,994
22	4	162	114	423	44	1,635
-	-	7	5	47	-	121
-	-	-	-	8	-	8
1	1	2	10	96	3	212
-	-	24	17	61	-	288
-	-	5	4	44	-	213
-	-	7	6	24	-	69
-	-	-	-	35	-	36
54	52	222	865	78	87	1,610
-	17	-	-	-	-	17
-	-	-	-	-	-	174
-	-	-	-	-	-	1,043
-	-	-	-	-	33	33
3,439	1,855	2,537	12,206	217,015	1,573	498,804
(11,368)	(5,579)	584	(18,589)	(691,774)	(518)	(1,728,294)
73,248	26,015	44,940	297,409	2,993,393	2,600	8,030,988
-	-	-	510	-	277	787
73,248	26,015	44,940	297,919	2,993,393	2,877	8,031,775
\$ 61,880	\$ 20,436	\$ 45,524	\$ 279,330	\$ 2,301,619	\$ 2,359	\$ 6,303,481

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PRIVATE-PURPOSE TRUST FUNDS

Private-purpose trust funds are used to account for assets held by the State in a trustee capacity, where both the trust principal and earnings benefit individuals, private organizations, or other governments. A brief description of each private-purpose trust fund follows:

College Savings Plan – This fund accounts for monies contributed towards a “qualified tuition program” under section 529 of the Internal Revenue Code of 1986, as amended. This plan is a voluntary college savings plan whose participants are both Montana residents and out-of-state individuals.

Escheated Property – This fund accounts for property that has reverted to the State due to the absence of legal claimants or heirs and is held in trust for distribution to these heirs when identified.

Plan Securities – This fund accounts for the unliquidated security bonds held on deposit from self-insured employers. These funds either revert to the employer at a later date or are cashed and assumed by the State to be used on the employee’s behalf.

Woodville Highway Replacement – This fund accounts for money paid to the Montana Department of Transportation by the Anaconda Company to provide the government of Butte-Silver Bow with traffic facilities. This money is held on deposit for the city/county government and is distributed to them at their request.

Moore-Sipple Connector – Money is held in trust to ensure the continued operation of the Moore-Sipple Connector. The balance in this fund reverts to the railroad company if the line is in operation until 2010. As the result of a court order, until this date is reached, the interest earnings on this money are provided to Central Montana Rail, Inc. for use in operating the railroad.

Environmental Reclamation – This fund accounts for environmental reclamation bonds held in trust to be either returned to the company upon successful reclamation of mining properties and related impacts or to be used by the State to complete the related reclamation process.

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUNDS
JUNE 30, 2009
(amounts expressed in thousands)

	COLLEGE SAVINGS PLAN	ESCHEATED PROPERTY	PLAN SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
ASSETS				
Cash/cash equivalents	\$ 124,966	\$ 1,207	\$ -	\$ 43
Receivables (net):				
Interest	-	2	-	-
Total receivables	-	2	-	-
Investments at fair value:				
Other investments	104,286	97	-	4
Total investments	104,286	97	-	4
Securities lending collateral	-	77	-	3
Other assets	-	-	16,535	-
Total assets	229,252	1,383	16,535	50
LIABILITIES				
Accounts payable	-	35	-	-
Securities lending liability	-	77	-	3
Total liabilities	-	112	-	3
NET ASSETS				
Held in trust for other purposes	\$ 229,252	\$ 1,271	\$ 16,535	\$ 47

MOORE- SIPPLE CONNECTOR	ENVIRONMENTAL RECLAMATION	TOTAL
\$ 219	\$ 18,537	\$ 144,972
-	9	11
-	9	11
20	1,600	106,007
20	1,600	106,007
16	1,262	1,358
-	2,794	19,329
255	24,202	271,677
1	2	38
16	1,262	1,358
17	1,264	1,396
\$ 238	\$ 22,938	\$ 270,281

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

	COLLEGE SAVINGS PLAN	ESCHEATED PROPERTY	PLAN SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
ADDITIONS				
Participant contributions	\$ 36,199	\$ -	\$ 5,894	\$ -
Net investment earnings:				
Investment earnings	(21,776)	17	-	-
Securities lending income	-	2	-	-
Securities lending expense	-	-	-	-
Other additions	-	2,553	-	-
Total additions	14,423	2,572	5,894	-
DEDUCTIONS				
Distributions	25,625	2,444	-	-
Administrative expenses:				
Grants	-	-	-	-
Contractual services	1,962	-	-	-
Total deductions	27,587	2,444	-	-
Change in net assets	(13,164)	128	5,894	-
Net assets - July 1 - as previously reported	242,416	1,143	10,641	47
Prior Period Adjustments	-	-	-	-
Net assets - July 1 - as restated	242,416	1,143	10,641	47
Net assets - June 30	\$ 229,252	\$ 1,271	\$ 16,535	\$ 47

MOORE- SIPPLE CONNECTOR	ENVIRONMENTAL RECLAMATION	TOTAL
\$ -	\$ -	\$ 42,093
4	174	(21,581)
-	10	12
-	(5)	(5)
-	16,387	18,940
4	16,566	39,459
-	2,834	30,903
6	-	6
-	-	1,962
6	2,834	32,871
(2)	13,732	6,588
240	7,031	261,518
-	2,175	2,175
240	9,206	263,693
\$ 238	\$ 22,938	\$ 270,281

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AGENCY FUNDS

Agency funds are used to account for assets held by the State as an agent for individuals, private organizations, and other governments. A brief description of each agency fund follows:

Performance Deposits – This fund accounts for deposits held by the State pending compliance with performance agreements.

Central Payroll – This fund accounts for the accumulation of state employee payroll and withholding by the Department of Administration, pending remittance to employees and other appropriate third parties.

Criminal Offender Restitution – Accounts for restitution payments received from prisoners and disbursed to their victims.

Custodial Accounts – This fund accounts for monies belonging to state institution residents, students of the School for the Deaf and Blind, and participants in the foster children and protective services programs. The fund also accounts for balances held by the Office of the Commissioner of Higher Education for remittance, on behalf of eligible employees of the Montana University System, to the TIAA-CREF (Teachers Insurance and Annuity Association-College Retirement Equities Fund) retirement fund. Department of Transportation employee union pension monies are held in this fund, awaiting remittance to the corresponding union. This fund also accounts for wages collected from employers on behalf of employee wage complaints filed under authority of the Montana Wages and Wage Protection Act.

Child Support Collections – This fund accounts for payments from parents under the Child Support Enforcement Program administered by the Department of Public Health and Human Services.

Uncleared Collections – This fund accounts for resources held pending distribution to other funds and local governments. The balances in this fund related to other fund types are distributed to those funds each fiscal year-end. Balances remaining relate to external parties.

Intergovernmental – This fund accounts for resources that flow through state agencies to federal and local governments.

Debt Collection – This fund accounts for amounts due to the State which have been written off as uncollectible by the receiving agency. The Department of Revenue continues to attempt to collect amounts owing for a period of time after they are deemed uncollectible by the receiving agency.

Milk Passthrough – This fund accounts for the distribution of the proceeds from the sale of pooled milk.

OPEB State – This fund accounts for the State's employee contributions received and premium payments made during the year for OPEB (Other Postemployment Benefits).

OPEB MUS – This fund accounts for the Montana University System's (MUS) employee contributions received and premium payments made during the year for OPEB (Other Postemployment Benefits).

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

AGENCY FUNDS

JUNE 30, 2009

(amounts amounts expressed in thousands)

	PERFORMANCE DEPOSITS	CENTRAL PAYROLL	CRIMINAL OFFENDER RESTITUTION	CUSTODIAL ACCOUNTS	CHILD SUPPORT COLLECTIONS
ASSETS					
Cash/cash equivalents	\$ 1,783	\$ 5,982	\$ 86	\$ 1,797	\$ 663
Due from other governments	-	-	-	-	-
Receivables (net):					
Accounts receivable	-	-	-	28	354
Interest receivable	-	-	-	1	-
Total receivables	-	-	-	29	354
Investments at fair value:					
Other investments	-	-	-	29	-
Total investments	-	-	-	29	-
Securities lending collateral	-	-	-	23	-
Other assets	13,299	-	-	-	-
Total assets	15,082	5,982	86	1,878	1,017
LIABILITIES					
Accounts payable	15	-	14	102	149
Amounts held in custody for others	15,067	5,982	72	1,753	868
Securities lending liability	-	-	-	23	-
Total liabilities	15,082	5,982	86	1,878	1,017
NET ASSETS					
Held in trust for pension benefits and other purposes	\$ -	\$ -	\$ -	\$ -	\$ -

UNCLEARED COLLECTIONS	INTER- GOVERNMENTAL	DEBT COLLECTION	MILK PASS- THROUGH	TOTAL
\$ 489	\$ 235	\$ 114	\$ 62	\$ 11,211
112	-	-	-	112
-	-	20	-	402
-	-	-	-	1
-	-	20	-	403
-	-	-	-	29
-	-	-	-	29
-	-	-	-	23
-	-	-	-	13,299
601	235	134	62	25,077
599	188	3	50	1,120
2	47	131	12	23,934
-	-	-	-	23
601	235	134	62	25,077
\$ -	\$ -	\$ -	\$ -	\$ -

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2008	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2009
PERFORMANCE DEPOSITS:				
ASSETS				
Cash/cash equivalents	\$ 2,029	\$ 96,715	\$ 96,961	\$ 1,783
Receivables (net)	-	16	16	-
Other assets	13,332	361	394	13,299
Total assets	\$ 15,361	\$ 97,092	\$ 97,371	\$ 15,082
LIABILITIES				
Accounts payable	\$ 17	\$ 2,230	\$ 2,232	\$ 15
Amounts held in custody for others	15,344	3,054	3,331	15,067
Total liabilities	\$ 15,361	\$ 5,284	\$ 5,563	\$ 15,082
CENTRAL PAYROLL:				
ASSETS				
Cash/cash equivalents	\$ 497	\$ 868,778	\$ 863,293	\$ 5,982
Receivables (net)	-	-	-	-
Total assets	\$ 497	\$ 868,778	\$ 863,293	\$ 5,982
LIABILITIES				
Accounts payable	\$ -	\$ 42,757	\$ 42,757	\$ -
Amounts held in custody for others	497	868,755	863,270	5,982
Total liabilities	\$ 497	\$ 911,512	\$ 906,027	\$ 5,982
CRIMINAL OFFENDER RESTITUTION:				
ASSETS				
Cash/cash equivalents	\$ 143	\$ 4,629	\$ 4,686	\$ 86
Total assets	\$ 143	\$ 4,629	\$ 4,686	\$ 86
LIABILITIES				
Accounts payable	\$ 21	2,528	2,535	14
Amounts held in custody for others	122	4,634	4,684	72
Total liabilities	\$ 143	\$ 7,162	\$ 7,219	\$ 86
CUSTODIAL ACCOUNTS:				
ASSETS				
Cash/cash equivalents	\$ 1,304	\$ 9,086	\$ 8,593	\$ 1,797
Receivables (net)	27	3	1	29
Investments	24	90	85	29
Securities lending collateral	12	46	35	23
Total assets	\$ 1,367	\$ 9,225	\$ 8,714	\$ 1,878
LIABILITIES				
Accounts payable	\$ 9	\$ 2,623	\$ 2,530	\$ 102
Amounts held in custody for others	1,346	11,140	10,733	1,753
Securities lending liability	12	46	35	23
Total liabilities	\$ 1,367	\$ 13,809	\$ 13,298	\$ 1,878

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FUND	BALANCE		ADDITIONS		DEDUCTIONS		BALANCE
	JUNE 30, 2008						JUNE 30, 2009
CHILD SUPPORT COLLECTIONS:							
ASSETS							
Cash/cash equivalents	\$	842	\$	84,883	\$	85,062	\$ 663
Receivables (net)		276		91		13	354
Total assets	\$	1,118	\$	84,974	\$	85,075	\$ 1,017
LIABILITIES							
Accounts payable	\$	238	\$	46,805	\$	46,894	\$ 149
Amounts held in custody for others		880		84,966		84,978	868
Total liabilities	\$	1,118	\$	131,771	\$	131,872	\$ 1,017
UNCLEARED COLLECTIONS:							
ASSETS							
Cash/cash equivalents	\$	233	\$	17,034,464	\$	17,034,208	\$ 489
Due from other governments	\$	-	\$	112	\$	-	\$ 112
Receivables (net)		-		193,706		193,706	-
Investments		-		-		-	-
Total assets	\$	233	\$	17,228,282	\$	17,227,914	\$ 601
LIABILITIES							
Accounts payable	\$	230	\$	3,070	\$	2,701	\$ 599
Amounts held in custody for others		3		11,799		11,800	2
Total liabilities	\$	233	\$	14,869	\$	14,501	\$ 601
INTERGOVERNMENTAL:							
ASSETS							
Cash/cash equivalents	\$	132	\$	2,518	\$	2,415	\$ 235
Receivables (net)		-	\$	9	\$	9	-
Total assets	\$	132	\$	2,527	\$	2,424	\$ 235
LIABILITIES							
Accounts payable	\$	87	\$	2,363	\$	2,262	\$ 188
Amounts held in custody for others		45		1,854		1,852	47
Total liabilities	\$	132	\$	4,217	\$	4,114	\$ 235
DEBT COLLECTION:							
ASSETS							
Cash/cash equivalents	\$	128	\$	4,190	\$	4,204	\$ 114
Receivables (net)		13		14		7	20
Total assets	\$	141	\$	4,204	\$	4,211	\$ 134
LIABILITIES							
Accounts payable	\$	1	\$	5,386	\$	5,384	\$ 3
Amounts held in custody for others		140		3,475		3,484	131
Total liabilities	\$	141	\$	8,861	\$	8,868	\$ 134

(Continued on Next Page)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - Continued

AGENCY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2008	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2009
MILK PASSTHROUGH:				
ASSETS				
Cash/cash equivalents	\$ 61	\$ 1,425	\$ 1,424	\$ 62
Total assets	\$ 61	\$ 1,425	\$ 1,424	\$ 62
LIABILITIES				
Accounts payable	\$ 50	\$ 1,423	\$ 1,423	\$ 50
Amounts held in custody for others	11	1,425	1,424	12
Total liabilities	\$ 61	\$ 2,848	\$ 2,847	\$ 62
OPEB STATE:				
ASSETS				
Cash/cash equivalents	\$ -	\$ 23,059	\$ 23,059	\$ -
Other assets	\$ -	\$ 23,059	\$ 23,059	\$ -
Total assets	\$ -	\$ 46,118	\$ 46,118	\$ -
OPEB MUS:				
Cash/cash equivalents	\$ -	\$ 10,592	\$ 10,592	\$ -
Other assets	\$ -	\$ 10,592	\$ 10,592	\$ -
Total assets	\$ -	\$ 21,184	\$ 21,184	\$ -
TOTAL - ALL AGENCY FUNDS				
ASSETS				
Cash/cash equivalents	\$ 5,369	\$ 18,140,339	\$ 18,134,497	\$ 11,211
Due from other governments	-	112	-	112
Receivables (net)	316	193,839	193,752	403
Investments	24	90	85	29
Securities lending collateral	12	46	35	23
Other assets	13,332	34,012	34,045	13,299
Total assets	\$ 19,053	\$ 18,368,438	\$ 18,362,414	\$ 25,077
LIABILITIES				
Accounts payable	\$ 653	\$ 109,185	\$ 108,718	\$ 1,120
Amounts held in custody for others	18,388	991,102	985,556	23,934
Securities lending liability	12	46	35	23
Total liabilities	\$ 19,053	\$ 1,100,333	\$ 1,094,309	\$ 25,077

STATISTICAL SECTION

The Statistical Section provides additional historical context and detail to aid in using the information in the financial statements, notes to the financial statements, and required supplementary information of the primary government of the State of Montana in understanding and assessing the State's overall financial health.

Financial Trends Information

These schedules present trend information to help understand how the State's financial performance and fiscal health have changed over time.

Schedule A-1 – Net Assets by Component	218
Schedule A-2 – Change in Net Assets.....	222
Schedule A-3 – Fund Balances, Governmental Funds	224
Schedule A-4 – Changes in Fund Balances, Governmental Funds.....	226

Revenue Capacity Information

These schedules contain information to help understand the State's capacity to raise revenues and the sources of those revenues.

Schedule B-1 – Personal Income by Industry	228
Schedule B-2 – Personal Income Tax Rates	229
Schedule B-3 – Personal Income Tax Filers and Liability by Income Level	230

Debt Capacity Information

These schedules present information to help understand and assess the State's level of outstanding debt and the State's ability to issue additional debt in the future.

Schedule C-1 – Ratios of Outstanding Debt by Type	231
Schedule C-2 – Pledged Revenue Coverage	232
Schedule C-3 – Ratios of General Bonded Debt Outstanding	238

Demographic and Economic Information

These schedules contain demographic and economic indicators to help understand the environment within which the State's financial activities take place.

Schedule D-1 – Demographic and Economic Statistics.....	239
Schedule D-2 – Principal Employers.....	240

Operating Information

These schedules provide operating data to help understand how the information in the State's financial report relates to the services it provides and the activities it performs.

Schedule E-1 – Full-Time Equivalent State Employees by Function/Program	242
Schedule E-2 – Operating Indicators by Function/Program.....	244
Schedule E-3 – Capital Asset Statistics by Function/Program.....	248

Sources: Unless otherwise noted, the information in the following schedules is derived from the State of Montana Comprehensive Annual Financial Report.

SCHEDULE A-1 – NET ASSETS BY COMPONENT

Last Eight Fiscal Years

(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
Governmental activities								
Invested in capital assets, net of related debt	\$ 814,026	\$2,049,489	\$2,250,177	\$2,528,808	\$2,842,708	\$3,115,260	\$3,262,932	\$3,526,294
Restricted	1,742,193	1,817,193	1,858,088	2,159,185	2,202,592	2,347,395	2,617,435	2,329,850
Unrestricted	140,044	177,161	222,829	404,724	647,182	675,752	595,019	589,815
Total governmental activities net assets	\$2,696,263	\$4,043,843	\$4,331,094	\$5,092,717	\$5,692,482	\$6,138,407	\$6,475,386	\$6,445,959
Business-type activities								
Invested in capital assets, net of related debt	\$ 12,496	\$ 9,084	\$ 8,925	\$ 9,670	\$ 8,703	\$ 8,698	\$ 8,733	\$ 12,539
Restricted	203,710	202,268	212,473	240,514	269,687	314,722	337,036	255,493
Unrestricted	17,223	19,251	14,909	16,672	18,539	11,761	11,234	6,996
Total business-type activities net assets	\$ 233,429	\$ 230,603	\$ 236,307	\$ 266,856	\$ 296,929	\$ 335,181	\$ 357,003	\$ 275,028
Primary government								
Invested in capital assets, net of related debt	\$ 826,522	\$2,058,573	\$2,259,102	\$2,538,478	\$2,851,411	\$3,123,958	\$3,271,665	\$3,538,833
Restricted	1,945,903	2,019,461	2,070,561	2,399,699	2,472,279	2,662,117	2,594,471	2,585,343
Unrestricted	157,267	196,412	237,738	421,396	665,721	687,513	606,253	596,811
Total primary government net assets	\$2,929,692	\$4,274,446	\$4,567,401	\$5,359,573	\$5,989,411	\$6,473,588	\$6,832,389	\$6,720,987

Source: *Statewide Accounting, Budgeting, and Human Resource System*Note: *The State did not begin reporting government-wide statements until it implemented GASB Statement 34 in fiscal year 2002.*

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SCHEDULE A-2 – CHANGE IN NET ASSETS

Last Eight Fiscal Years

(accrual basis of accounting, amounts expressed in thousands)

Expenses	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental activities:					
General government	\$ 248,089	\$ 280,740	\$ 285,781	\$ 305,819	\$ 525,981
Public safety/corrections	205,983	194,885	227,786	258,610	245,810
Transportation	169,282	286,181	400,034	281,074	216,942
Health/social services	1,086,012	1,023,893	1,109,045	1,182,281	1,270,056
Education/cultural	845,324	899,575	874,846	900,542	976,046
Resource/recreation/environment	108,642	234,848	258,057	197,539	142,460
Economic development/assistance	164,761	169,270	144,687	144,777	150,449
Interest on long-term debt	22,763	19,910	15,088	14,375	19,569
Total governmental activities expenses	2,850,856	3,109,302	3,315,324	3,285,017	3,547,313
Business-type activities:					
Unemployment Insurance	83,944	92,639	93,882	75,291	72,661
Liquor Stores	38,074	40,097	42,827	45,503	50,514
State Lottery	26,585	27,320	28,669	27,681	31,020
Economic Development Bonds	3,251	2,426	2,197	2,630	3,441
Hail Insurance	2,045	2,029	1,949	3,153	4,632
General Government Services	11,134	14,177	48,395	50,329	51,017
Prison Funds	5,444	4,515	4,244	5,268	5,356
MUS Group Insurance	34,594	35,906	39,690	40,524	52,139
MUS Workers Compensation	-	-	2,552	2,842	2,978
Total business-type activities expenses	205,071	219,109	264,405	253,221	273,758
Total primary government expenses	\$ 3,055,927	\$ 3,328,411	\$ 3,579,729	\$ 3,538,238	\$ 3,821,071
Program Revenues					
Governmental activities:					
Charges for services:					
General government	\$ 38,368	\$ 42,849	\$ 59,384	\$ 49,637	\$ 59,166
Public safety/corrections	122,840	124,901	159,397	146,746	150,787
Transportation	32,269	61,316	33,943	38,101	31,766
Health/social services	40,847	31,074	32,983	31,467	30,022
Education/cultural	69,242	69,228	28,922	30,499	107,096
Resource/recreation/environment	45,787	67,380	137,714	121,539	77,064
Economic development/assistance	15,261	17,835	22,102	25,995	31,866
Operating grants and contributions	1,080,374	1,170,703	1,271,515	1,391,026	1,371,109
Capital grants and contributions	280,489	308,021	290,045	319,434	305,345
Total governmental activities program revenues	1,725,477	1,893,757	2,034,005	2,154,444	2,164,221
Business-type activities:					
Charges for services:					
Unemployment Insurance	59,771	66,493	67,873	72,866	76,754
Liquor Stores	45,630	46,955	49,521	52,081	58,975
State Lottery	33,670	34,696	36,740	33,815	39,923
Economic Development Bonds	13	19	8	5	7
Hail Insurance	301	2,568	3,748	7,404	3,057
General Government Services	11,202	12,658	13,197	14,244	15,589
Prison Funds	5,583	4,371	5,140	5,233	5,717
MUS Group Insurance	33,601	38,743	42,252	47,739	54,164
MUS Workers Compensation	-	-	2,424	2,978	3,543
Operating grants and contributions	29,335	10,442	55,487	58,433	58,051
Capital grants and contributions	602	510	177	159	378
Total business-type activities program revenues	219,708	217,185	493,752	294,957	316,158
Total primary government program revenues	\$ 1,945,257	\$ 2,110,942	\$ 2,527,757	\$ 2,449,401	\$ 2,480,379

Fiscal Year		
2007	2008	2009
\$ 450,646	\$ 634,984	\$ 549,847
293,193	322,769	408,239
197,510	488,450	438,649
1,266,098	1,380,629	1,529,104
1,065,504	1,144,637	1,137,772
256,751	258,058	363,179
152,154	152,456	170,027
19,418	18,344	18,721
3,701,274	4,400,327	4,615,538
72,378	90,269	235,949
55,521	59,227	61,446
30,416	32,984	33,787
4,167	4,552	3,523
4,663	11,064	4,087
53,851	56,697	60,157
6,487	6,670	10,681
58,532	59,334	55,023
2,647	3,109	3,675
288,662	323,906	464,328
\$ 3,989,936	\$ 4,724,233	\$5,083,866

\$ 61,713	\$ 83,720	\$ 68,982
153,577	149,534	144,748
34,963	42,348	37,204
30,547	38,137	35,554
96,903	150,906	113,433
80,320	80,933	39,929
38,441	38,520	43,182
1,395,324	1,493,944	1,635,769
325,352	380,856	467,611
2,217,140	2,458,898	2,586,412

83,661	85,801	75,591
63,943	69,242	67,242
41,567	43,826	43,841
22	33	26
6,042	7,730	6,859
18,176	19,844	21,548
5,600	7,150	6,620
57,159	62,666	52,147
4,047	4,660	5,003
64,691	63,524	118,058
171	540	1,360
345,079	365,016	398,295
\$ 2,562,219	\$ 2,823,914	\$2,984,707

SCHEDULE A-2 – CHANGE IN NET ASSETS - Continued

Last Eight Fiscal Years

(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
Net (expense)/revenue					
Governmental activities	\$(1,125,379)	\$(1,215,545)	\$(1,281,319)	\$(1,130,573)	\$(1,383,092)
Business-type activities	14,637	(1,924)	229,347	41,736	42,400
Total primary government net expense	\$(1,110,742)	\$(1,217,469)	\$(1,051,972)	\$(1,088,837)	\$(1,340,692)
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes					
Property	\$ 167,488	\$ 170,803	\$ 164,505	\$ 186,229	\$ 194,617
Fuel	191,248	190,030	198,332	190,897	212,276
Natural resource	96,336	111,776	131,053	191,723	260,382
Individual income	525,647	540,926	619,043	729,459	760,981
Corporate income	69,176	44,394	69,685	101,834	153,574
Other	188,256	201,929	253,953	257,526	289,978
Unrestricted grants and contributions	-	-	-	-	4,158
Settlements	58,549	35,754	25,181	28,313	28,248
Unrestricted investment earnings	151,716	206,970	32,734	52,792	36,188
Gain on sale of capital assets	(7,532)	311	204	34	53
Miscellaneous	4,460	24,045	6,412	4,358	4,741
Transfers	26,756	32,366	30,812	29,871	34,802
Total governmental activities	1,472,100	1,559,844	1,531,914	1,773,036	1,979,998
Business-type activities:					
Taxes					
Other	12,907	13,650	14,621	15,624	17,317
Settlements	-	-	-	-	-
Unrestricted investment earnings	16,382	16,028	319	190	1,016
Gain on sale of capital assets	(3)	-	-	-	-
Miscellaneous	1,040	5,750	9,956	2,945	4,146
Transfers	(26,756)	(32,366)	(30,812)	(29,871)	(34,802)
Total business-type activities	3,570	3,062	(5,916)	(11,112)	(12,323)
Total primary government	1,475,670	1,562,906	1,525,998	1,761,924	1,967,675
Change in Net Assets					
Governmental activities	346,721	344,299	250,595	642,463	596,906
Business-type activities	18,207	1,138	223,431	30,624	30,077
Total primary government	\$ 364,928	\$ 345,437	\$ 474,026	\$ 673,087	\$ 626,983

Source: Statewide Accounting, Budgeting, and Human Resource System

Note: The State did not begin reporting government-wide statements until it implemented GASB Statement 34 in fiscal year 2002.

Fiscal Year		
2007	2008	2009
\$(1,484,134)	\$(1,941,429)	\$(2,029,126)
56,417	41,110	(70,033)
\$(1,427,717)	\$(1,900,319)	\$(2,099,159)

\$ 206,527	\$ 214,868	\$ 228,368
210,573	205,758	191,061
276,793	407,007	307,032
819,473	862,273	806,908
183,913	161,118	168,053
309,232	320,398	315,810
3,911	28	167
27,853	38,760	155,127
78,032	72,203	42,556
-	-	-
10,823	6,351	6,141
3,050	5,810	116,865
41,080	43,010	42,863
2,171,260	2,337,584	2,380,951

19,046	20,340	24,821
10	-	-
569	406	142
-	-	-
1,953	2,662	2,484
(41,080)	(43,010)	(42,863)
(19,502)	(19,602)	(15,416)
2,151,758	2,317,982	2,365,535

687,126	396,155	351,825
36,915	21,508	(85,449)
\$ 724,041	\$ 417,663	\$ 266,376

SCHEDULE A-3 – FUND BALANCES, GOVERNMENTAL FUNDS

Last Eight Fiscal Years

(modified accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
General Fund								
Reserved	\$ 7,927	\$ 8,056	\$ 8,903	\$ 10,118	\$ 11,533	\$ 20,498	\$ 28,221	\$ 25,991
Unreserved	81,316	43,065	132,873	289,675	408,580	549,158	433,580	392,526
Total general fund	\$ 89,243	\$ 51,121	\$ 141,776	\$ 299,793	\$ 420,113	\$ 569,656	\$ 461,801	\$ 418,517
All other governmental funds								
Reserved	\$1,512,978	\$1,650,265	\$2,199,647	\$2,421,876	\$2,431,304	\$2,529,131	\$2,766,497	\$3,016,151
Unreserved, reported in:								
Special revenue funds	437,188	501,679	(83,891)	(51,010)	(53,266)	(48,292)	(47,864)	(30,881)
Debt service funds	21,985	10,731	7,003	5,456	6,783	5,920	1,083	(4,505)
Capital project funds	13,487	16,935	10,661	8,721	47,272	37,735	87,895	124,205
Total all other governmental funds	\$1,985,638	\$2,179,610	\$2,133,420	\$2,385,043	\$2,432,093	\$2,524,494	\$2,807,611	\$3,104,970

Source: *Statewide Accounting, Budgeting, and Human Resource System*

Note: *Due to changes in the State's fund structure initiated when GASB Statement 34 was implemented, the fund balance information is available beginning in fiscal year 2002.*

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SCHEDULE A-4 – CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS

Last Eight Fiscal Years

(modified accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
Revenues					
Licenses/permits	\$ 202,490	\$ 210,611	\$ 240,612	\$ 245,244	\$ 259,073
Taxes	1,229,613	1,250,187	1,416,392	1,627,858	1,880,838
Charges for services/fines/forfeits/settlements	172,326	157,937	200,590	145,235	162,520
Investment earnings	145,984	204,406	49,363	143,937	62,977
Sale of documents/merchandise/property	15,571	13,104	31,687	22,655	21,412
Rentals/leases/royalties	24,438	28,324	22,868	43,723	63,318
Grants/contracts/donations	20,864	24,560	27,984	27,984	25,987
Federal	1,342,612	1,488,048	1,518,634	1,583,989	1,612,717
Other revenues	15,011	32,927	32,042	17,253	20,989
Total revenues	3,168,909	3,410,100	3,514,220	3,857,878	4,109,831
Expenditures					
General government	228,772	239,707	252,486	293,808	466,886
Public safety/corrections	189,507	189,302	208,593	238,929	254,381
Transportation	440,172	510,866	529,555	523,022	559,695
Health/social services	1,079,303	1,018,333	1,114,064	1,186,462	1,274,947
Education/cultural	861,034	894,591	898,988	905,150	976,446
Resource/recreation/environment	111,388	184,359	250,590	206,903	204,413
Economic development/assistance	163,895	168,007	144,381	146,306	151,020
Debt service:					
Principal retirement	36,758	39,002	25,217	27,203	32,546
Interest/fiscal charges	19,780	18,166	14,812	14,171	20,745
Capital outlay	65,056	63,073	60,310	70,851	69,505
Securities lending	3,936	1,734	1,784	4,905	7,663
Total expenditures	3,199,601	3,327,140	3,500,780	3,617,710	4,018,247
Excess of revenue over (under) expenditures	(30,692)	82,960	13,440	240,168	91,584
Other financing sources (uses)					
Loan proceeds	2,132	2,235	-	-	-
Bonds issued	1,785	31,360	5,790	135,380	37,050
Refunding bonds issued	33,605	44,385	20,235	30,070	-
Bond premium	(139)	1,655	478	8,106	2,178
Payment to refunding bond escrow agent	(34,756)	(44,408)	(20,214)	(31,018)	-
Inception of lease/installment contract	482	321	1,297	517	876
Insurance proceeds	-	-	-	-	327
General capital asset sale proceeds	310	312	270	169	164
Transfers in	321,362	231,890	239,638	273,651	292,130
Transfers out	(296,729)	200,605	(210,166)	(244,868)	(259,247)
Total other financing sources (uses)	28,052	67,145	37,328	172,007	73,478
Net change in fund balances	\$ (2,640)	\$ 150,105	\$ 50,678	\$ 412,175	\$ 165,062
Debt service as a percentage of noncapital expenditures	2.0%	1.8%	1.2%	1.3%	1.6%

Source: Statewide Accounting, Budgeting, and Human Resource System

Note: Due to changes in the State's fund structure initiated when GASB Statement 34 was implemented, the fund balance information is available beginning in fiscal year 2002.

Fiscal Year		
2007	2008	2009
\$ 285,890	\$ 283,755	\$ 283,423
2,009,620	2,162,928	2,005,327
160,571	188,518	255,068
171,047	165,165	114,857
20,460	19,711	15,271
51,442	65,176	73,080
25,362	27,825	28,919
1,586,206	1,713,478	1,953,376
17,280	30,952	144,890
4,327,878	4,657,508	4,874,211
401,331	545,661	428,723
284,777	311,094	335,877
575,157	360,383	311,838
1,267,854	1,372,335	1,526,287
1,050,239	1,137,548	1,136,056
247,090	300,207	238,834
152,442	149,057	168,778
33,103	33,767	34,199
19,080	18,931	19,079
95,834	351,111	464,378
5,261	7,244	2,917
4,132,168	4,587,338	4,666,966
195,710	70,170	207,245
-	-	-
-	59,490	-
16,740	-	-
946	828	-
(17,504)	-	-
49	874	615
115	1,681	886
10,946	6,497	5,960
306,867	413,286	391,661
(269,595)	(373,727)	(350,135)
48,564	108,929	48,987
\$ 244,274	\$ 179,099	\$ 256,232
1.4%	1.3%	1.2%

SCHEDULE B-1 – PERSONAL INCOME BY INDUSTRY

Last Ten Calendar Years

(amounts expressed in thousands)

	Calendar Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Farm Earnings	\$ 388,631	\$ 256,184	\$ 341,929	\$ 187,285	\$ 336,736	\$ 544,076	\$ 598,945	\$ 190,096	\$ 386,865	\$ 444,520
Agricultural/forestry, fishing, and other	169,212	184,627	178,029	181,184	199,008	201,726	198,427	210,748	212,900	216,124
Mining	329,912	468,252	428,493	407,463	424,207	527,824	601,174	735,437	721,754	784,946
Construction/utilities	1,125,654	1,153,519	1,319,781	1,337,890	1,503,342	1,649,645	1,850,637	2,070,597	2,220,393	1,957,875
Manufacturing	872,127	899,759	939,227	930,340	932,165	959,263	1,020,820	1,102,085	1,152,219	1,164,973
Transportation and public utilities	916,319	947,804	963,361	956,872	990,495	1,058,487	1,121,137	1,228,453	1,246,102	1,277,787
Wholesale trade	600,036	625,730	642,182	670,340	702,274	769,190	818,971	879,070	960,314	999,625
Retail trade	1,341,511	1,424,933	1,480,328	1,559,887	1,617,823	1,679,641	1,745,539	1,843,169	1,966,501	2,006,509
Finance, insurance, and real estate	766,962	900,752	1,362,462	1,282,357	1,244,805	1,429,520	1,518,863	1,544,182	1,465,108	1,446,166
Services	4,402,946	4,649,459	5,070,660	5,404,330	5,670,453	6,077,871	6,501,206	7,088,480	7,526,323	7,975,870
Federal, civilian	733,993	842,657	852,298	913,334	974,085	1,047,116	1,085,934	1,134,414	1,180,401	1,209,472
Military	252,554	261,551	279,992	334,884	393,289	421,133	452,182	456,908	465,426	487,131
State and local government	2,071,192	2,186,874	2,322,581	2,415,951	2,594,624	2,669,870	2,817,801	2,973,386	3,162,657	3,335,493
Other (1)	5,814,592	6,398,152	6,749,946	6,787,966	7,168,740	7,459,502	7,847,207	8,989,644	9,808,504	10,209,086
Total personal income	\$19,785,641	\$21,200,253	\$22,931,269	\$23,370,083	\$24,752,046	\$26,494,864	\$28,178,843	\$30,446,669	\$32,475,467	\$33,515,577
Average effective rate (2)	2.4%	2.4%	2.4%	2.2%	2.2%	2.3%	2.5%	2.5%	2.5%	2.6%

Sources: *Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce*
Montana Department of Revenue

Notes: *Numbers include revised state personal income estimates for 1969-2008 released on October 16, 2009.*

(1) *Includes dividends, interest, rental income, residence adjustment, government transfers to individuals, and deductions for social insurance*

(2) *The total direct rate for personal income is not available. Average effective rate equals personal income tax revenue (Schedule B-2) divided by personal income.*

SCHEDULE B-2 – PERSONAL INCOME TAX RATES

Last Ten Calendar Years

(amounts expressed in thousands)

	Calendar Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Personal income tax revenue (1)	\$483,032	\$516,262	\$556,015	\$517,568	\$535,831	\$605,348	\$712,281	\$768,912	\$827,095	\$866,638
Personal income	\$19,785,641	\$21,200,253	\$22,931,269	\$23,370,083	\$24,752,046	\$26,494,864	\$28,178,843	\$30,446,669	\$32,475,467	\$33,515,577
Average effective rate (2)	2.4%	2.4%	2.4%	2.2%	2.2%	2.3%	2.5%	2.5%	2.5%	2.6%

	Tax Rates on the Portion of Taxable Income in Ranges (3)									
Calendar Year 1999										
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%
Income Bracket	\$0-2	\$2-4	\$4-8	\$8-12.1	\$12.1-16.1	\$16.1-20.1	\$20.1-28.2	\$28.2-40.2	\$40.2-70.4	\$70.4 +
Calendar Year 2000										
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%
Income Bracket	\$0-2.1	\$2.1-4.2	\$4.2-8.3	\$8.3-12.5	\$12.5-16.7	\$16.7-20.8	\$20.8-29.2	\$29.2-41.7	\$41.7-73	\$73 +
Calendar Year 2001										
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%
Income Bracket	\$0-2.2	\$2.2-4.3	\$4.3-8.6	\$8.6-12.9	\$12.9-17.2	\$17.2-21.5	\$21.5-30.2	\$30.2-43.1	\$43.1-75.4	\$75.4 +
Calendar Year 2002										
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%
Income Bracket	\$0-2.2	\$2.2-4.4	\$4.4-8.7	\$8.7-13.1	\$13.1-17.4	\$17.4-21.8	\$21.8-30.5	\$30.5-43.5	\$43.5-76.2	\$76.2 +
Calendar Year 2003										
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%
Income Bracket	\$0-2.2	\$2.2-4.4	\$4.4-8.9	\$8.9-13.3	\$13.3-17.8	\$17.8-22.2	\$22.2-31.1	\$31.1-44.5	\$44.5-77.8	\$77.8 +
Calendar Year 2004										
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%
Income Bracket	\$0-2.3	\$2.3-4.6	\$4.6-9.2	\$9.2-13.8	\$13.8-18.4	\$18.4-22.9	\$22.9-32.1	\$32.1-45.9	\$45.9-80.3	\$80.3 +
Calendar Year 2005										
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%			
Income Bracket	\$0-2.3	\$2.3-4.1	\$4.1-6.2	\$6.2-8.4	\$8.4-10.8	\$10.8-13.9	\$13.9 +			
Calendar Year 2006										
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%			
Income Bracket	\$0-2.4	\$2.4-4.3	\$4.3-6.5	\$6.5-8.8	\$8.8-11.3	\$11.3-14.5	\$14.5 +			
Calendar Year 2007										
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%			
Income Bracket	\$0-2.5	\$2.5-4.4	\$4.4-6.6	\$6.6-9	\$9-11.6	\$11.6-14.9	\$14.9 +			
Calendar Year 2008										
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%			
Income Bracket	\$0-2.6	\$2.6-4.6	\$4.6-7	\$7-9.5	\$9.5-12.2	\$12.2-15.6	\$15.6 +			

Sources: Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce; Montana Department of Revenue

Notes: Numbers include revised state personal income estimates for 1969-2008 released on October 16, 2009.

(1) Personal income tax revenue is reported on a fiscal year basis.

(2) Average effective rate equals personal income tax revenue divided by personal income.

(3) Amounts shown are for single and married filing separate returns. For all other filing status returns, double the income amounts in the columns.

SCHEDULE B-3 – PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL

Latest Completed Calendar Year and Five Years Ago

Income Level	Calendar Year 2003				Calendar Year 2008			
	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$9,999 and under	87,426	22.78%	\$ 2,664,070	0.49%	81,807	18.94%	\$ 1,079,789	0.15%
\$10,000–\$19,999	76,467	19.93	15,135,659	2.81	74,099	17.16	10,221,372	1.38
\$20,000–\$44,999	110,054	28.69	80,702,564	14.99	120,594	27.93	81,083,359	10.93
\$45,000–\$69,999	59,142	15.41	107,002,820	19.88	68,255	15.80	113,905,206	15.36
\$70,000–\$109,999	34,366	8.96	114,451,043	21.28	55,197	12.78	168,126,503	22.67
\$110,000–\$174,999	10,144	2.64	64,476,229	11.98	20,507	4.75	114,004,835	15.37
\$175,000–\$499,999	5,269	1.37	81,861,743	15.21	9,588	2.22	123,645,444	16.67
\$500,000 and higher	856	.22	71,907,251	13.36	1,829	0.42	129,580,160	17.47
Total	383,724	100.00%	\$538,201,379	100.00%	431,876	100.00%	\$741,646,668	100.00%

Source: Montana Department of Revenue

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented above are intended to provide alternate information regarding the sources of the State's revenue.

SCHEDULE C-1 – RATIOS OF OUTSTANDING DEBT BY TYPE

Last Eight Fiscal Years

(amounts expressed in thousands, except per capita amount, in dollars)

	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
Governmental activities								
General obligation bonds	\$214,135	\$227,625	\$219,645	\$213,195	\$230,065	\$208,015	\$201,560	\$182,585
Special revenue bonds	100,337	85,070	76,368	192,775	181,770	171,080	204,365	189,970
Notes payable	23,203	21,299	12,807	12,439	12,099	11,755	11,411	11,065
Lease/installment purchase payable	3,652	3,286	2,332	2,705	2,459	1,057	1,421	2,680
Total governmental activities	\$341,327	\$337,280	\$311,152	\$421,114	\$426,393	\$391,907	\$418,757	\$386,300
Business-type activities								
Bonds/notes payable	\$ 13,914	\$ 10,376	\$ 7,942	\$ 5,168	\$ 3,936	\$ 3,107	\$ 1,853	\$ 1,180
Total business-type activities	\$ 13,914	\$ 10,376	\$ 7,942	\$ 5,168	\$ 3,936	\$ 3,107	\$ 1,853	\$ 1,180
Total primary government	\$355,421	\$347,656	\$319,094	\$426,282	\$430,329	\$395,014	\$420,610	\$387,480
Debt as a percentage of personal income (1)	1.5%	1.5%	1.3%	1.6%	1.5%	1.3%	1.3%	1.2%
Amount of debt per capita (2)	\$392	\$382	\$348	\$460	\$460	\$418	\$440	\$401

Source: Statewide Accounting, Budgeting, and Human Resource System

Notes: The schedule information is available beginning in fiscal year 2002, the year GASB Statement 34 was implemented. Details regarding the State's debt can be found in Note 11 of the financial statements.

(1) Debt as a percentage of personal income equals total debt divided by total personal income from Schedule B-1. Used calendar year 2008 personal income for fiscal year 2009 debt percentage calculation. Numbers revised for prior years due to personal income estimate revisions.

(2) Amount of debt per capita is calculated by dividing total debt by total population from Schedule D-1. Numbers revised for prior years due to population estimate revisions.

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE

Last Ten Fiscal Years

(amounts expressed in thousands)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Governmental Activities										
Renewable Resource Program Bond										
Revenue										
Loan repayment (principal and interest)	\$4,361	\$3,317	\$3,933	\$3,464	\$3,643	\$ 4,247	\$3,036	\$2,576	\$1,549	\$3,157
Northwestern Energy	2,747	2,269	2,026	2,535	2,348	2,623	2,800	3,057	2,498	3,189
STIP interest earnings	-	-	-	59	119	100	176	460	329	96
Debt service fund interest	-	-	-	72	53	131	877	528	472	414
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	\$7,108	\$5,586	\$5,959	\$6,130	\$6,163	\$7,101	\$6,889	\$6,621	\$4,848	\$6,856
Debt service										
Principal	\$3,805	\$2,910	\$3,205	\$4,040	\$4,535	\$10,515	\$4,630	\$3,095	\$3,485	\$3,725
Interest	\$3,225	\$3,030	\$1,714	\$1,975	\$1,919	\$ 1,719	\$1,476	\$1,357	\$1,253	\$1,093
Coverage (1)	1.0	0.9	1.2	1.0	1.0	0.6	1.1	1.5	1.0	1.4

	2000	2001	2002	2003	2004
Governmental Activities					
Transportation Refunding Bond					
Revenue					
Motor fuel taxes	\$ 178,938	\$ 174,299	\$ 180,600	\$ 181,758	\$ 188,754
Gross vehicle weight fees	33,935	31,555	26,425	25,339	26,308
Other	5,141	6,408	6,211	4,132	41,715
Less: Operating expenses	(226,147)	(212,237)	(202,624)	(199,193)	(281,286)
Net available revenue	\$ (8,133)	\$ 25	\$ 10,612	\$ 12,036	\$ (24,509)
Debt service					
Principal	\$ 11,355	\$ 11,885	\$ 12,470	\$ 13,095	\$ 3,705
Interest	\$ 2,315	\$,,,,,1,757	\$ 1,154	\$ 514	\$ 94
Coverage (1)	(0.6)	0.0	0.8	0.9	(6.5)

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued

Last Ten Fiscal Years

(amounts expressed in thousands)

	Fiscal Year				
	2005	2006	2007	2008	2009
Governmental Activities					
US Highway 93 GARVEES Bond (2)					
Revenue					
Federal Highway Administration	\$ 160,060	\$ 278,109	\$ 300,808	\$ 345,583	\$ 381,604
Less: Operating expenses	(159,846)	(266,232)	(288,930)	(333,705)	(365,624)
Net available revenue	\$ 214	\$ 11,877	\$ 11,878	\$ 11,878	\$ 15,980
Debt service					
Principal	-	\$ 4,960	\$ 6,130	\$ 6,375	\$ 9,070
Interest	\$ 214	\$ 6,917	\$ 5,747	\$ 5,503	\$ 6,910
Coverage (1)	1.0	1.0	1.0	1.0	1.0

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Governmental Activities										
Middle Creek Dam Project Note Payable										
Revenue										
Middle Creek Water Users Assoc loan payments	\$87	\$104	\$104	\$119	\$99	\$99	\$82	\$96	\$89	\$83
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	\$87	\$104	\$104	\$119	\$99	\$99	\$82	\$96	\$89	\$83
Debt service										
Principal	\$34	\$ 35	\$ 37	\$ 38	\$39	\$41	\$42	\$44	\$46	\$48
Interest	\$53	\$ 69	\$ 67	\$ 81	\$60	\$59	\$40	\$52	\$43	\$35
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued

Last Ten Fiscal Years

(amounts expressed in thousands)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Governmental Activities										
Tongue River Dam Project Note Payable										
Revenue										
Tongue River Water Users Assoc loan payments	\$128	\$128	\$128	\$128	\$128	\$128	\$128	\$128	\$128	\$128
Revenue from sale of electricity	162	162	162	162	162	162	162	162	162	162
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	\$290	\$290	\$290	\$290	\$290	\$290	\$290	\$290	\$290	\$290
Debt service										
Principal	\$290	\$290	\$290	\$290	\$290	\$290	\$290	\$290	\$290	\$290
Interest	-	-	-	-	-	-	-	-	-	-
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Governmental Activities										
Water Conservation Note Payable										
(Little Dry Project)										
Revenue										
Little Dry Water Users Assoc loan payments	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3
Debt service										
Principal	\$2	\$2	\$2	\$2	\$2	\$2	\$2	\$2	\$2	\$2
Interest	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued

Last Ten Fiscal Years

(amounts expressed in thousands)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Governmental Activities										
Water Conservation Note Payable										
(Petrolia Project)										
Revenue										
Petrolia Irrigation District loan payments	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3
Debt service										
Principal	\$1	\$1	\$1	\$2	\$2	\$2	\$2	\$2	\$2	\$2
Interest	\$2	\$2	\$2	\$1	\$1	\$1	\$1	\$1	\$1	\$1
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

	Fiscal Year				
	2005	2006	2007	2008	2009
Business-type Activities					
Economic Development Bonds					
(Municipal Finance Consolidation Irrigation Dist)					
Revenue					
Principal and interest repayments	\$284	\$512	\$71	\$45	\$47
Investment income	5	3	5	3	1
Less: Operating expenses	-	-	-	-	-
Net available revenue	\$289	\$515	\$76	\$48	\$48
Debt service					
Principal	\$325	\$450	\$40	\$45	\$45
Interest	\$ 81	\$ 30	\$31	\$28	\$25
Coverage (1)	0.7	1.1	1.1	0.7	0.7

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued

Last Ten Fiscal Years

(amounts expressed in thousands)

Business-type Activities	Fiscal Year				
	2005	2006	2007	2008	2009
Economic Development Bonds					
(Conservation Reserve Enhancement Program)					
Revenue					
Principal and interest repayments	\$2,135	\$1,765	\$2,173	\$ 926	\$989
Investment income	4	9	16	10	1
Less: Operating expenses	-	-	-	-	-
Net available revenue	<u>\$2,139</u>	<u>\$1,774</u>	<u>\$2,189</u>	<u>\$ 936</u>	<u>\$990</u>
Debt service					
Principal	\$1,937	\$1,475	\$1,924	\$1,208	\$628
Interest	\$ 263	\$ 201	\$ 216	\$ 107	\$101
Coverage (1)	1.0	1.1	1.0	0.7	1.4

Business-type Activities	Fiscal Year
	2005
Economic Development Bonds	
(Municipal Finance Consolidation Act Bonds)	
Revenue	
Principal and interest repayments	\$300
Investment income	-
Less: Operating expenses	-
Net available revenue	<u>\$300</u>
Debt service	
Principal	\$294
Interest	\$ 1
Coverage (1)	1.0

SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued

Last Ten Fiscal Years

(amounts expressed in thousands)

	Fiscal Year			
	2004	2005	2006	2007
Business-type Activities				
MUS Workers Compensation Bonds Payable				
Revenue				
Workers compensation premiums	\$ 2,424	\$ 2,978	\$ 3,543	\$ 4,047
Less: Operating expenses	(2,489)	(2,785)	(2,932)	(2,614)
Net available revenue	<u>\$ (65)</u>	<u>\$ 193</u>	<u>\$ 611</u>	<u>\$ 1,433</u>
Debt service				
Principal	\$ 395	\$ 395	\$ 410	\$ 430
Interest	\$ 48	\$ 46	\$ 34	\$ 22
Coverage (1)	(0.1)	0.4	1.4	3.2

Sources: *Montana Departments of Commerce (Board of Investments), Natural Resources and Conservation, Transportation Montana University System*

Note: (1) Coverage equals net available revenue divided by debt service.
 (2) In fiscal year 2008, the Montana Department of Transportation revised data for fiscal year 2005.

SCHEDULE C-3 – RATIOS OF GENERAL BONDED DEBT OUTSTANDING

Last Eight Fiscal Years

(amounts expressed in thousands, except per capita amount, in dollars)

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Funds	Total	Percentage of Personal Income (1)	Debt Per Capita (2)
2002	\$214,135	\$15,327	\$198,808	0.87%	\$219
2003	227,625	14,304	213,321	0.91%	234
2004	219,645	14,946	204,699	0.83%	223
2005	213,195	12,957	200,238	0.76%	216
2006	230,065	13,700	216,365	0.77%	231
2007	208,015	15,471	192,544	0.63%	204
2008	201,560	11,967	189,593	0.58%	198
2009	182,585	8,985	173,600	0.52%	179

Source: *Statewide Accounting, Budgeting, and Human Resource System*Notes: *The schedule information is available beginning in fiscal year 2002, the year GASB Statement 34 was implemented. Details regarding the State's debt can be found in Note 11 of the financial statements.**(1) Debt as a percentage of personal income equals total debt divided by total personal income from Schedule B-1.**Used calendar year 2008 personal income for fiscal year 2009 debt percentage calculation.**Numbers revised for prior years due to personal income estimate revisions.**(2) Debt per capita is calculated by dividing total debt by total population from Schedule D-1.**Numbers revised for prior years due to population estimate revisions.*

SCHEDULE D-1 – DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Calendar Years

	Calendar Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Population										
Montana (<i>in thousands</i>)	898	903	906	910	917	926	935	945	957	967
Percentage change	0.7%	0.6%	0.3%	0.4%	0.8%	1.0%	1.0%	1.1%	1.3%	1.0%
National (<i>in thousands</i>)	279,040	282,172	285,040	287,727	290,211	292,892	295,561	298,363	301,290	304,060
Percentage change	1.2%	1.1%	1.0%	0.9%	0.9%	0.9%	0.9%	0.9%	1.0%	0.9%
Total Personal Income										
Montana (<i>in millions</i>)	19,786	21,200	22,931	23,370	24,752	26,495	28,179	30,447	32,475	33,516
Percentage change	4.9%	7.1%	8.2%	1.9%	5.9%	7.0%	6.4%	8.0%	6.7%	3.2%
National (<i>in billions</i>)	7,906	8,555	8,879	9,055	9,369	9,929	10,477	11,257	11,880	12,226
Percentage change	6.6%	8.2%	3.8%	2.0%	3.5%	6.0%	5.5%	7.4%	5.5%	2.9%
Per Capita Personal Income										
Montana	22,045	23,470	25,315	25,685	27,000	28,613	30,141	32,204	33,948	34,644
Percentage change	4.3%	6.5%	7.9%	1.5%	5.1%	6.0%	5.3%	6.8%	5.4%	2.1%
National	28,333	30,318	31,149	31,470	32,284	33,899	35,447	37,728	39,430	40,208
Percentage change	5.4%	7.0%	2.7%	1.0%	2.6%	5.0%	4.6%	6.4%	4.5%	2.0%
Resident Civilian Labor Force and Employment										
Civilian labor force	464,782	469,083	470,262	466,787	469,119	476,441	481,206	495,832	502,364	505,562
Employed	440,063	446,742	449,175	445,739	448,805	457,162	463,501	479,664	485,444	483,110
Unemployed	24,719	22,341	21,087	21,048	20,314	19,279	17,705	16,168	16,920	22,452
Unemployment rate	5.3%	4.8%	4.5%	4.5%	4.3%	4.0%	3.7%	3.3%	3.4%	4.4%
Nonfarm Wage and Salary Workers (<i>in thousands</i>)										
Goods-producing industries										
Natural Resources and Mining	6.1	6.0	6.2	6.2	6.2	7.1	7.7	8.2	8.4	8.3
Construction	20.0	20.4	21.2	21.7	23.1	24.9	27.6	30.2	32.3	29.8
Durable goods	15.1	15.2	14.4	13.1	12.1	12.1	12.4	12.8	13.0	12.3
Nondurable goods	7.4	7.2	7.0	6.9	6.9	7.1	7.2	7.4	7.5	7.6
Subtotal goods-producing industries	48.6	48.8	48.8	47.9	48.3	51.2	54.9	58.6	61.2	58.0
Service-producing industries										
Transp, communications, and utilities	24.6	24.7	24.1	23.7	23.1	23.3	23.8	24.3	24.6	24.3
Trade	69.0	69.4	68.9	68.9	69.1	70.8	71.6	72.8	75.3	75.6
Finance, insurance, and real estate	18.1	18.5	18.8	19.3	20.3	21.1	21.4	22.0	21.8	21.9
Service	140.5	145.2	146.9	151.4	154.2	158.4	162.9	169.3	174.8	178.7
State and local government	69.3	70.6	70.7	71.1	72.0	72.9	72.7	72.1	73.9	74.1
Federal government	12.7	13.4	13.4	13.8	13.8	13.8	13.5	13.5	13.4	13.6
Subtotal service-producing industries	334.2	341.8	342.8	348.2	352.5	360.3	365.9	374.0	383.8	388.2
Total Nonfarm Wage and Salary Employment	382.8	390.6	391.6	396.1	400.8	411.5	420.8	432.6	445.0	446.2

Sources: Population Division, U.S. Census Bureau

Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce

Bureau of Labor Statistics, U.S. Department of Labor

Notes: Total personal income is comprised of earned income, dividends, interest and rents, and government transfer payments. Per capita income is calculated by dividing personal income by population; amounts may not be exact due to rounding.
Numbers for prior years revised due to releases of updated data.

SCHEDULE D-2 – PRINCIPAL EMPLOYERS

Current Calendar Year and Nine Calendar Years Ago

Employer	2000			2009		
	Employees (1)	Rank	Percentage of Total State Employment (2)	Employees (1)	Rank	Percentage of Total State Employment (2)
State of Montana	19,500–20,000	1	5.31%	21,500–22,000	1	5.26%
Federal Government	13,500-14,000	2	3.69	12,500-13,000	2	3.08
Wal-Mart	2,000-2500	3	0.60	4,500-5,000	3	1.15
Billings Clinic Health System	2,000-2,500	5	0.60	3,000-3,500	4	0.79
Town Pump	1,500-2,000	9	0.47	2,000–2,500	5	0.54
St. Vincent Hospital	1,500-2,000	8	0.47	2,000–2,500	6	0.54
Albertson's	2,000-2,500	4	0.60	2,000–2,500	7	0.54
Benefis Healthcare	1,500-2,000	6	0.47	1,500–2,000	8	0.42
Avitus Group				1,500-2,000	9	0.42
St. Patrick Hospital	1,000-1,500	10	0.34	1,500–2,000	10	0.42
Montana Power Company	1,500-2,000	7	0.47			
Total State Employment	372,141			413,426		

Sources: Montana Department of Labor
Bureau of Labor Statistics, U.S. Department of Labor

Notes:: (1) Number of employees based on March 2009 data.
(2) Percentage of total state employment based on the midpoints in the ranges given.

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SCHEDULE E-1 – FULL-TIME EQUIVALENT STATE EMPLOYEES BY FUNCTION/PROGRAM

Last Eight Fiscal Years

Function/Program	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental:					
General government	1,375	1,614	1,575	1,562	1,615
Public safety/corrections	1,925	1,937	1,930	1,955	2,048
Transportation	2,036	2,055	2,025	2,023	2,063
Health/social services	2,674	2,577	2,539	2,575	2,621
Education/cultural	416	429	402	407	428
Resource/recreation/environment	1,430	1,694	1,731	1,765	1,853
Economic development/assistance	912	884	925	952	965
Total governmental	10,768	11,190	11,127	11,239	11,593
Business-type:					
Liquor Stores	28	28	29	27	38
State Lottery	30	31	30	32	32
Economic Development Bonds	4	4	4	4	4
Hail Insurance	2	2	3	2	3
General Government Services	109	102	94	104	96
Prison Funds	38	35	31	32	34
MUS Group Insurance	3	3	3	2	3
MUS Workers Compensation	-	-	-	-	-
Total business-type	214	205	194	203	210
Fiduciary:					
Pension Trust	46	49	47	46	48
Total fiduciary	46	49	47	46	48
Component unit:					
Housing Authority	18	17	19	21	20
Facility Finance Authority	2	2	2	2	2
State Compensation Insurance (New Fund)	228	239	252	261	265
Montana State University	3,878	3,916	3,960	3,994	3,940
University of Montana	3,064	3,129	3,187	3,238	3,281
Total component unit	7,190	7,303	7,420	7,516	7,508
Total full-time equivalent employees	18,218	18,747	18,788	19,004	19,359

Source: Statewide Accounting, Budgeting, and Human Resource System

Note: The number of full-time equivalent employees is presented by functional/programmatic categories consistent with the level of expense detail required by GASB Statement 34. Thus, the employee information is available beginning in fiscal year 2002.

Fiscal Year		
2007	2008	2009
1,552	1,696	1,564
2,176	2,270	2,065
2,031	2,023	1,935
2,587	2,704	2,422
432	463	406
1,825	1,876	1,696
913	951	853
11,516	11,983	10,941

39	43	39
32	33	30
6	5	3
3	3	3
103	108	84
34	35	32
4	4	4
1	1	1
222	232	196

46	48	46
46	48	46

19	21	19
2	2	3
279	276	251
4,056	4,021	4,090
3,364	3,557	3,578
7,720	7,877	7,941
19,504	20,140	19,124

SCHEDULE E-2 – OPERATING INDICATORS BY FUNCTION/PROGRAM

Last Eight Fiscal Years

Function/Program	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental activities:					
General government					
Department of Revenue					
Electronically-filed income tax returns	140,034	168,231	195,880	224,653	236,200
Paper-filed income tax returns	290,009	265,998	243,247	200,102	203,100
Judiciary					
Supreme Court total filings (1)	798	860	882	738	760
District Court total filings (1)	33,443	37,456	38,579	38,619	42,000
Public safety/corrections					
Department of Corrections					
Incarcerated offenders	2,402	2,156	2,307	2,535	2,935
Supervised offenders	7,048	7,787	8,081	8,460	8,797
Department of Justice					
Driver's licenses issued	123,070	112,727	149,714	163,336	172,915
Vehicles registered (2)	1,117,152	1,153,352	1,262,990	972,849	1,550,713
Department of Military Affairs (Army Program Facilities Office)					
Work orders received	2,500	2,445	2,066	3,272	2,648
Work orders completed	1,950	2,102	1,555	2,843	2,349
Work orders unfunded or not completed	550	343	511	429	172
Transportation					
Department of Transportation					
Paved roads (miles)	18,980	18,998	19,017	19,020	19,050
Unpaved roads (miles)	51,717	51,641	51,624	51,623	55,281
Health/social services					
Department of Public Health and Human Services					
Senior citizens receiving personal long-term care assistance	2,856	2,707	2,801	2,808	2,869
Number of households provided with energy assistance	16,977	18,000	19,125	20,463	21,552
Education/cultural					
Office of Public Instruction					
K-12 public school enrollment	151,947	149,995	148,356	146,705	145,259
Public schools	877	866	859	852	840
Commissioner of Higher Education					
Total enrollment for Montana University System	28,795	29,184	29,520	29,122	29,181
Total enrollment for Colleges of Technology	3,295	3,489	3,663	3,641	3,910
Resource/recreation/environment					
Department of Natural Resources and Conservation					
Revenue generated on state trust lands (millions of dollars)	\$63.4	\$62.5	\$72.8	\$86.1	\$101.9
Oil production (millions of bbls)	16.05	18.1	19.9	20.9	36.2
Gas production (millions of mcf)	77.3	78.8	78.9	80.5	114.0
Department of Fish, Wildlife and Parks					
License and permit sales (3)	1,566,842	1,598,180	1,751,581	1,752,315	1,638,410
State park visitation (millions)	1.1	1.6	1.6	1.65	1.7

Fiscal Year		
2007	2008	2009
234,543	299,194	317,211
266,891	187,188	178,114
676	649	N/A
41,546	45,143	N/A
2,608	2,439	2,573
9,838	10,433	10,453
181,804	156,088	164,230
1,657,285	1,610,753	1,634,914
3,386	3,610	3,114
2,781	3,441	2,941
1,373	750	746
19,447	19,465	20,704
54,883	55,472	56,632
2,857	3,004	3,165
19,254	18,929	22,448
144,418	143,405	142,082
831	830	829
29,140	29,072	31,805
4,033	4,277	4,570
\$103.6	\$107.1	\$110.0
37.2	34.9	31.5
118.0	120.7	119.5
1,737,413	1,808,093	1,806,316
1.85	1.78	1.80

SCHEDULE E-2 – OPERATING INDICATORS BY FUNCTION/PROGRAM - Continued

Last Eight Fiscal Years

Function/Program	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental activities (continued):					
Resource/recreation/environment (continued)					
Department of Environmental Quality					
Environmental permit applications	3,819	5,047	5,192	6,245	8,044
Environmental violations	2,788	2,888	3,338	3,655	2,166
Economic development/assistance					
Department of Commerce (Community Development)					
Treasure State Endowment Project – applications	55	-	47	-	57
Treasure State Endowment Project – construction awards	-	40	-	40	N/A
Community Development Block Grant – public facility applications	8	13	10	14	11
Community Development Block Grant – public facility awards	8	12	7	8	7
Business-type activities:					
Unemployment Insurance					
Department of Labor					
Initial claims	58,821	60,300	56,743	50,216	46,697
Average weekly benefit (dollars)	\$185.67	\$195.43	\$200.93	\$209.37	\$202.67
Exhaustion rate (percent)	36.6%	36.4%	38.4%	32.7%	29.8%
Liquor Stores					
Department of Revenue					
Liquor licenses issued	2,210	2,157	2,233	2,262	2,267
Liquor cases distributed	463,881	490,153	513,885	535,635	578,111
State Lottery					
Department of Administration					
Total dollars in ticket sales (millions of dollars)	\$33.63	\$34.68	\$36.74	\$33.81	\$39.92
Transfer to the General Fund (millions of dollars)	\$7.47	\$7.45	\$8.11	\$7.2	\$9.11
General Government Services					
Department of Commerce (HUD Section 8)					
Applications reviewed – homebuyers assistance (dollars) (4) (5)	-	\$1,608,335	\$1,531,543	\$2,290,100	\$466,115
Grants awarded – homebuyers assistance (dollars) (4) (5)	-	\$1,608,335	\$1,531,543	\$1,547,323	\$466,115

N/A = not available

Sources: Governor's Office of Budget and Program Planning, Biennium Executive Budget
Montana Departments of Administration, Justice, Military Affairs, and Transportation
Montana Commissioner of Higher Education
Unemployment Insurance Data Summary, Employment & Training Administration, U.S. Department of Labor

Notes: (1) Operating indicators are reported on a calendar-year basis.
(2) Operating indicators for fiscal year 2007 revised in fiscal year 2008.
(3) Effective with fiscal year 2004, license and permit sales reported by license year.
(4) As of July 2006, an additional \$483,917 in remaining Community Housing Development Organization (CHDO) set-aside funds was available in the second 2006 application round (deadline: August 1).
(5) Effective with fiscal year 2007, reporting method revised to include both single and multiple family assistance..

Fiscal Year		
2007	2008	2009
8,222	9,104	9,308
3,271	4,586	4,069
-	65	-
56	-	66
17	17	20
8	10	8
47,147	49,530	85,760
\$225.00	\$241.44	\$259.38
32.1%	32.3%	49.2%
2,249	4,601	4,771
616,400	653,475	653,471
\$41.56	\$43.83	\$43.85
\$11.42	\$11.03	\$10.11
\$4,536,558	\$3,217,708	\$2,776,621
\$4,140,419	\$3,830,524	\$1,847,714

SCHEDULE E-3 – CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

Last Eight Fiscal Years

Function/Program	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Governmental activities:						
General government						
Department of Administration						
Buildings	50	47	47	48	48	47
Data processing equipment	762	825	866	861	916	997
Judiciary						
Vehicles	10	50	57	63	61	52
Public safety/corrections						
Department of Corrections						
Vehicles	413	418	269	288	297	280
Buildings	160	149	155	152	155	151
Department of Justice						
Vehicles	389	395	396	401	409	422
Laboratory/scientific equipment	192	158	164	168	166	251
Transportation						
Department of Transportation						
Vehicles	4,233	4,055	4,027	4,006	4,032	4,173
Buildings	720	763	852	751	729	718
Health/social services						
Department of Public Health and Human Services						
Vehicles	318	333	323	331	330	204
Buildings	137	134	135	129	127	127
Education/cultural						
Historical Society						
Buildings	311	707	15	14	3	2
Resource/recreation/environment						
Department of Natural Resources and Conservation						
Vehicles	810	853	766	925	672	760
Buildings	182	181	179	179	177	183
Department of Fish, Wildlife and Parks						
Vehicles	1,305	1,226	1,238	1,462	1,610	1,693
Buildings	1,287	743	761	742	816	763
Department of Environmental Quality						
Vehicles	52	60	60	60	59	66
Laboratory/scientific equipment	239	246	131	141	124	130
Economic development/assistance						
Department of Commerce						
Buildings	7	9	685	685	258	257
Business-type activities:						
State Lottery						
Department of Administration						
Vehicles	15	17	14	12	14	14
General government services						
Department of Administration						
Vehicles	21	24	14	13	14	13
Prison funds						
Department of Corrections						
Vehicles	40	40	42	45	48	48

Sources: Statewide Accounting, Budgeting, and Human Resource System

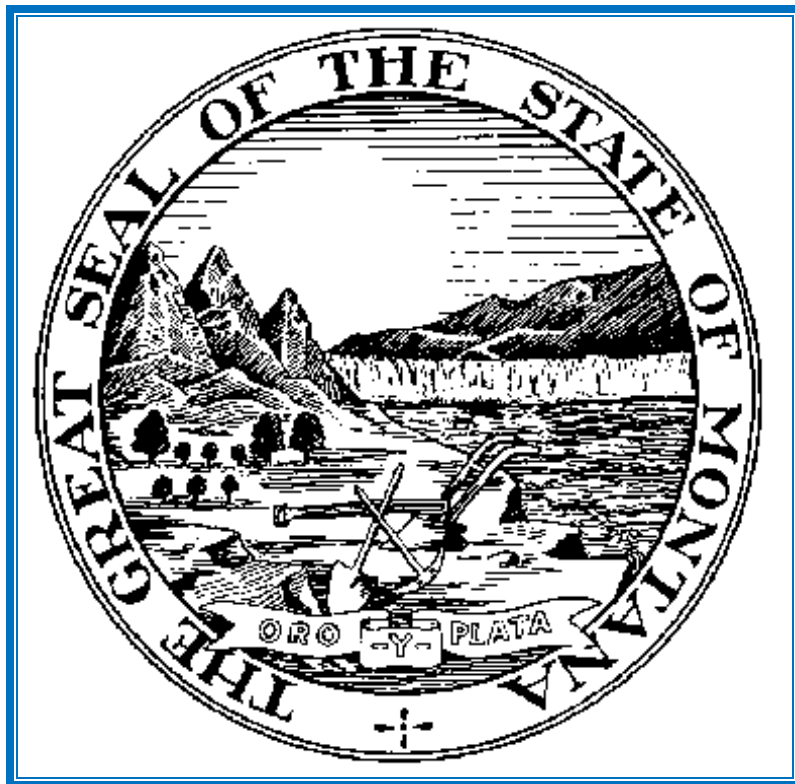
Vehicle Exposure and Commercial Property Schedules, Risk Management and Tort Defense Division

Department of Administration

Note: The schedule information is available beginning in fiscal year 2002, the year GASB Statement 34 was implemented.

Fiscal Years	
2008	2009
50	50
1,110	1,139
52	51
283	294
149	151
524	486
287	211
4,289	4,305
783	784
189	195
131	131
2	2
798	517
181	181
1,844	1,837
769	840
60	66
134	159
261	266
15	15
13	13
49	52

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